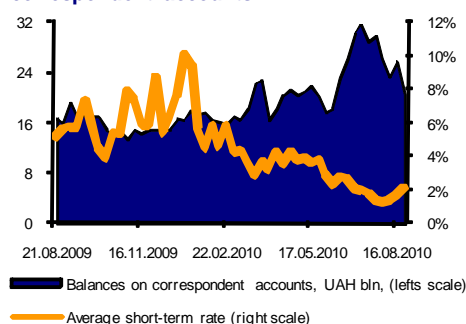


UKRAINIAN FIXED INCOME WEEKLY

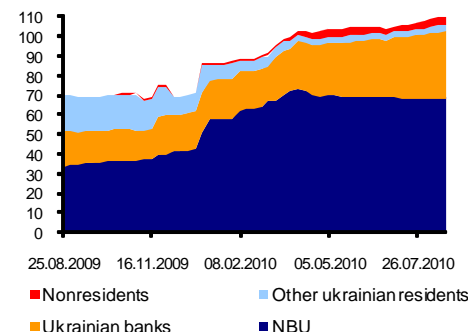
Artem Kost, kost@ufc-capital.com

September 1, 2010

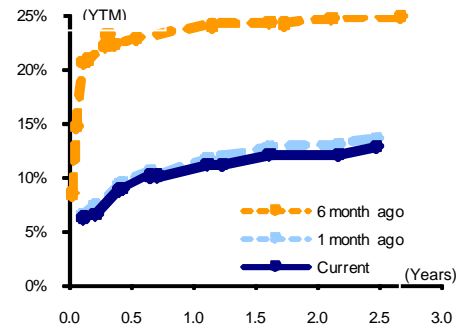
Interbank rates and liquidity on banks correspondent accounts



OVDPs holders. UAH bln



Sovereign yield curve shift



Liquidity

In the last two weeks of August, there have been indications that the liquidity on the interbank market is being squeezed. This process was reinforced by the Ministry of Finance's announcement regarding the VAT bonds issue, driving banks to reallocate their free funds from the interbank to a new segment of special OVDPs. **We confirm our forecast that the appearance of VAT bonds on the market will cause a significant drop in liquidity on the interbank market since many market players have accumulated funds specifically for the purchase of VAT bonds.**

A powerful sign at the beginning of this week to the effect that the liquidity outflow has already begun were the dynamics of commercial banks' balances in NBU correspondent accounts, which declined to reach their 2-month minimum, at 18.5 bln hryvnia. Just one month ago, this indicator was close to 30 bln hryvnia.

Another factor evidencing the tightening of liquidity is a surge in short-term rates, which reflect the willingness of commercial banks to lend to each other. Two of the three fundamental rates have risen – the overnight rate grew by 0.12 p.p. and the 2-week rate by even more (0.22 p.p.) The average short-term rate calculated by the NBU demonstrated robust growth by gaining 0.4 p.p.

Outlook: We think that the short-term rates on the interbank market will continue to grow over the next week since the new VAT bond tranches should absorb about 10 bln hryvnia of free banking liquidity. At the same time, financial institutions will prefer to invest in OVDPs instead of moving to restore commercial lending activity.

Major indicators

| | 30.08 | 16.08 | Change. |
|-----------|----------|----------|------------|
| Overnight | 0.73% | 0.61% | +0.12 p.p. |
| 1-week | 0.92% | 0.95% | -0.03 p.p. |
| 2-week | 1.88% | 1.66% | +0.22 p.p. |
| UAH/USD | 7.88700 | 7.89000 | -0.04% |
| UAH/EUR | 10.02674 | 10.09841 | -0.71% |
| UAH/RUR | 0.25693 | 0.25937 | -0.94% |

UFC fixed-income benchmarks

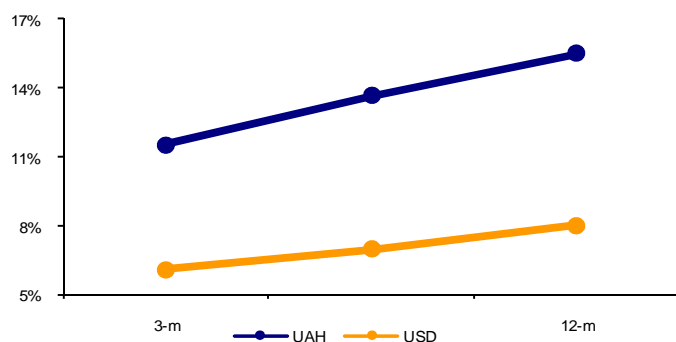
| | 31.08 | 18.08 | Change |
|-----------------|-------|-------|-----------|
| Corporate bonds | 14.8% | 14.8% | 0.0 p.p. |
| Municipal bonds | 17.2% | 17.2% | 0.0 p.p. |
| UFC UAH depo | 13.6% | 13.8% | -0.2 p.p. |
| UFC USD depo | 7.0% | 7.1% | -0.1 p.p. |

Bonds calendar: 02.09.2010-08.09.2010

| Coupon payment | | |
|-----------------------|--------|--------------------------------|
| 04.09.10 | UKRAIN | Ukraine, 2011 |
| 06.09.10 | OMGBE | Megabank , 1-E |
| 06.09.10 | CODSHD | Dniproshyna, 1-D |
| 06.09.10 | OFNINB | Bank Financial Initiative, 1-B |
| 06.09.10 | OMGBE | Megabank , 1-E |
| 07.09.10 | COKPBF | Kreditprombank, 1-F |
| 07.09.10 | - | Spetsbudmontazh, 1-C |
| 08.09.10 | EXIMUK | Ukreximbank, 2012 |
| 08.09.10 | OFLGB | Financial leasing group, 1-B |
| 08.09.10 | - | Alfa-Bank, 1-C |
| 08.09.10 | 66880 | Ukraine, 04.09.2013 |
| Redemption/put option | | |
| 07.09.10 | - | Spetsbudmontazh, 1-C |

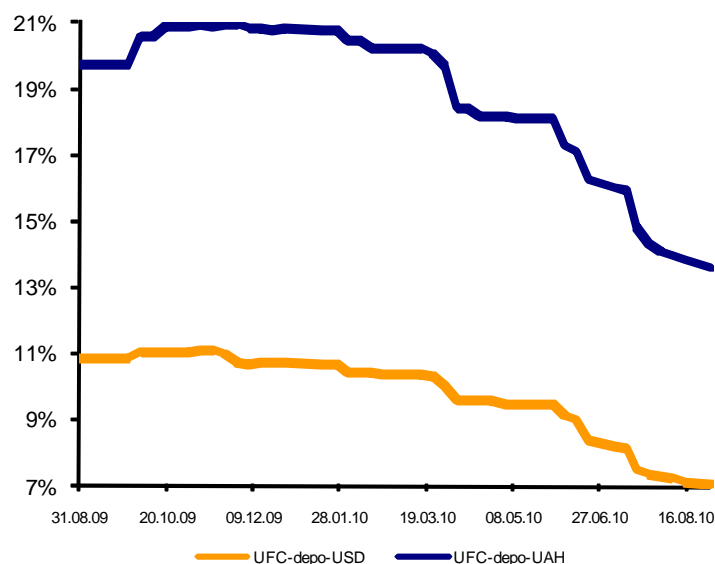
Depo rates

UAH depo/USD depo yield curve



The depo rates policy of Ukrainian banks is not flexible enough to reflect the latest changes in liquidity dynamics, which is the reason that the trend seen for our depo indices remained unchanged last week. The UFC-depo-UAH and UFC-depo-USD indices declined by 0.1 p.p. and 0.2 p.p. respectively. **However, we expect that the latest trends on the interbank market will be a determining factor to stop depo rates' decline over the next few weeks.**

UAH depo/USD depo rates dynamics



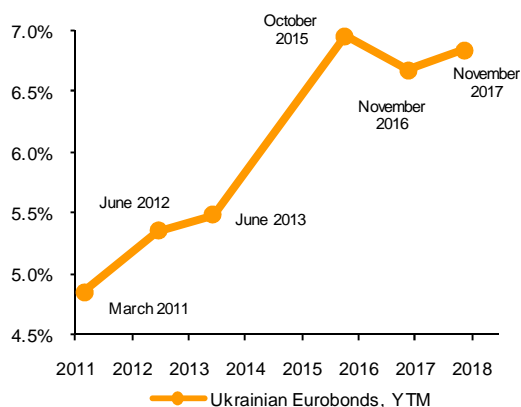
| Ukrainian bonds market: (16.08.2010-27.08.2010) | | | | |
|--|--|--------|-----------------|--------|
| PFTS Ticker | Issuer | Coupon | Volume, UAH mln | YTM |
| 60289 | Ukraine, 15.09.2010 | - | 199.75 | 7.0% |
| 681□1 | Ukraine, 22.09.2010 | - | 199.27 | 4.3% |
| 66880 | Ukraine, 04.09.2013 | 12.5% | 160.64 | 15.1% |
| 75501 | Ukraine, 20.04.2011 | - | 150.20 | 57.2% |
| 61725 | Ukraine, 17.11.2010 | - | 125.98 | 7.6% |
| 63648 | Ukraine, 26.01.2011 | - | 96.45 | 9.5% |
| 76780 | Ukraine, 27.07.2011 | - | 91.06 | 11.1% |
| 64018 | Ukraine, 20.02.2013 | 20.0% | 59.87 | 13.4% |
| 63309 | Ukraine, 13.10.2010 | - | 49.66 | 7.0% |
| 62012 | Ukraine, 23.11.2011 | 20.0% | 37.08 | 19.1% |
| 65429 | Ukraine, 27.03.2013 | 14.5% | 36.48 | 17.0% |
| 53912 | Ukraine, 11.04.2012 | 15.7% | 32.99 | 17.4% |
| 65403 | Ukraine, 20.10.2010 | - | 29.75 | 6.3% |
| 65411 | Ukraine, 12.01.2011 | - | 18.94 | 16.2% |
| 65965 | Ukraine, 16.02.2011 | - | 9.57 | 10.1% |
| 81202 | Ukraine, 07.08.2013* (EURO-2012 SP issue) | 12.0% | 8.04 | 13.0% |
| IPOGLD | Galychyna, 1-D | 15.0% | 8.02 | - |
| IPVENA | Vena, 1-A | 20.0% | 0.78 | - |
| OBHFZ | Borshchahivskiy Chemical- Pharmaceutical Plant, 1-A | 27.6% | 0.52 | - |
| OOMAVA | Omega-avtopostavka, 1-A | 25.0% | 0.42 | 24.6% |
| OOMAVB | Omega-avtopostavka, 1-B | 25.0% | 0.40 | 23.8% |
| OBROKA | Brokbusinessbank, 1-A | 16.0% | 0.15 | 18.1% |
| OBROKB | Brokbusinessbank, 1-B | 13.0% | 0.15 | - |
| OBSSTA | Bank Business Standard, 1-A | 18.0% | 0.12 | - |
| OVDDB | Vesta-Dnipro, 1-B | 19.0% | 0.10 | 30.1% |
| OBXRF | Khreschatik Bank, 1-F | 18.0% | 0.07 | 104.2% |

Government bonds

Activity in the Ukrainian sovereign Eurobonds segment has been low for a number of reasons. Among them is the wait-and-see attitude of investors who consider the rally in emerging countries' debt markets to be over. **We think that the VAT bonds issue is also a factor contributing to inactivity on the Eurobonds market since many non-resident investors are considering this investment opportunity.**

The implied rate of hryvnia depreciation based upon the 1-year NDF data (UAH/USD) is about 6%, making the purchase of VAT bonds at the YTM of 15% a good deal. This is the reason why there is a good chance that this segment will attract more attention than sovereign Eurobonds in the short run.

Ukrainian Eurobonds yield curve



VAT bonds

The long-awaited issue of the subsequent VAT bonds tranches finally took place at the end of the previous and at the beginning of this week. On August 27, 2010, MinFin reported that it had issued the second VAT bonds tranche. The volume of this tranche was UAH 2.05 bln and the registry included 217 VAT-paying companies. On August 30, the Ministry of Finance issued the third tranche in the amount of 8.3 bln hryvnia. The bonds were issued to 117 enterprises with the biggest VAT refund claims.

On August 31, the Ministry issued the fourth tranche of the VAT bonds in the amount of 6.04 bln hryvnia.

As a result of the issuance of all four tranches, the total volume of VAT bonds comes to 16.4 bln hryvnia, which corresponds to the government's preliminary estimates. Thus, the entire VAT bonds issue has effectively been completed. However, we do not rule out the possibility that, after some revision of the register, MinFin may implement additional tranches for an insignificant amount.

In our opinion, despite the current strong demand from market participants, such a quick issue of VAT bonds, amounting to UAH 16.4 bln within the past three working days, will increase the discount on these bonds from the current 20% to 25% and possibly higher.

OVDP placement

Despite the substantial volume of the second and third tranches of the VAT bonds, which were made prior to the OVDP placement on Tuesday, market participants' activity had dropped insignificantly. The volume of funds raised amounted to 1.06 bln hryvnia, which is only 13% less than a week earlier.

Traditionally, the main demand at such placements has been short bonds. This time around, nine bids for 850 mln hryvnia were submitted for the series maturing in February 2011, with six of them satisfied for 742 mln hryvnia. The placement yield was 9%.

The OVDPs maturing in August 2011 attracted ten bids for 179 mln hryvnia. The Ministry of Finance satisfied only four bids at the lowest yields (11%), for a total placement of 68 mln hryvnia.

The three-year special "football" OVDPs, which are used by banks for covering mandatory reserves, attracted three bids for 250 mln hryvnia at an effective yield of 12%. At the same time, the government failed to place any regular three-year OVDPs.

| Ukrainian bonds rating (internal methodology*) | | |
|--|--------|----------------|
| Corporate | | |
| Agromat, 1 B | OAGMTB | ufcBB |
| Amstor, 1-E | OAMSE | ufcCCC |
| Bogdan, 1-B | OLUAZB | ufcBB |
| Galychina, 1-C | OGLCHC | ufcB |
| Galnaftogaz, 1-E | ONGGE | ufcBBB |
| Donetskstal, 1-A | CODSTA | ufcBB |
| Kirovogradoblenergo, 1-A | OKIONA | ufcB |
| Konti, 1-B | OKKOB | ufcB |
| MAUP, 1-A | OMAUPA | ufcB |
| Sevastopolenergo, 2-A | OSENA2 | ufcB |
| Sumykhimprom, 1-A | OSUMHA | ufcCC |
| Favorit, 1-B | COFRAB | under revision |
| HARP Trading, 1-B | OHRPTB | ufcBB |
| Khlibprom, 1-D | OHLPD | ufcB |
| Financial | | |
| Alfa Bank, 1-F | OALFF | ufcBBB- |
| Khreschatik Bank, 1-E | OBXRE | ufcBBB |
| Dongorbank, 3-C | ODGBC2 | ufcB |
| Imexbank, 1-A | OIMEXA | ufcBB |
| Kreditprombank, 1-F | COKPBF | ufcCC |
| FUIB, 1-A | COPUMB | ufcA |
| Raiffeisen Bank Aval, 1-B | OBVLB | ufcA |
| Rodovid Bank, 1-C | ORODBC | ufcCC |
| Ukrgazbank, 1-A | OUGZBA | ufcCCC |
| Ukrsotsbank, 1-D | OUSCD | ufcA |
| Forum, 1-C | OPRXBC | ufcBBB |

*- Follow the link below to get to the internal methodology of UFC Capital for corporate bonds rating:
http://www.ufc-capital.com/en/analysis/bonds_rate.htm

Outlook: Overall, the first three tranches of VAT bonds has not caused a significant drop in activity at the latest OVDP placement. Nevertheless, after the fourth tranche comes onto the secondary market, we expect that activity in the primary market will wane.

Secondary fixed income market

The worst period for the corporate segment of the Ukrainian fixed income market seems to be in the past. Since the beginning of 2010, the economy is showing signs of recovery, creating favorable conditions for issuers to meet their financial liabilities. The wave of corporate defaults and restructurings waned at the end of 2009 and the resumption of primary placements provided a strong reason to speak about the normalization of situation in the market. Despite this, at the beginning of this week, the Drogobych Chisel Plant defaulted by failing to redeem its hryvnia-denominated 1-B series bonds on the maturity date. **We do not expect this announcement to signify the start of a second wave of defaults on the Ukrainian debt market since it seems to be specific case and not a systematic one.**

At the same time, Bank Business Standard is going to place its new 1-B series bonds. The expected volume of the issue is quite significant, at 100 mln hryvnia. In our opinion, this volume is problematic to be completely placed among market participants.

In the corporate Eurobonds segment, MHP reported on its 2Q2010 net income, which surged by 31% compared to 1Q2010. This news had a positive influence on the quotations of MHP bonds, which increased slightly, though there wasn't real demand growth due to the overall inactivity in the market.

Outlook: We expect activity on the secondary Eurobonds market to improve since the beginning of September. However, in the short run, the focus of many investors will still be on VAT bonds and the possible placement of new sovereign Eurobonds.

Eurobonds

| Issuer | bid | ask | Yield (bid) | Yield (offer) | Coupon | Z-Spread* (bid/offer) | Volume, mln | Currency | Maturity |
|---------------------------|--------|--------|-------------|---------------|---------|-----------------------|-------------|----------|------------|
| Ukraine, 2011 | 100.50 | 101.00 | 5.86% | 4.85% | 6.875% | 534/ 484 | 600 | USD | 04.03.2011 |
| Ukraine, 2012 | 101.25 | 101.75 | 5.65% | 5.36% | 6.385% | 492/ 463 | 500 | USD | 26.06.2012 |
| Ukraine, 2013 | 105.00 | 105.50 | 5.67% | 5.48% | 7.650% | 474/ 455 | 1 000 | USD | 11.06.2013 |
| Ukraine, 2015 | 91.00 | 91.50 | 7.08% | 6.95% | 4.950% | 533/ 520 | 600 | EUR | 13.10.2015 |
| Ukraine, 2016 | 99.00 | 99.50 | 6.78% | 6.68% | 6.580% | 485/ 475 | 1 000 | USD | 21.11.2016 |
| Ukraine, 2017 | 99.00 | 99.50 | 6.93% | 6.84% | 6.750% | 480/ 471 | 700 | USD | 14.11.2017 |
| IUD, 2010 | 20.00 | 40.00 | - | - | 9.250% | N/A | 150 | USD | 23.09.2010 |
| Azovstal, 2011 | 100.00 | 100.50 | 9.22% | 8.16% | 9.125% | 861/ 702 | 175 | USD | 28.02.2011 |
| Kyiv, 2011 | 99.00 | 100.25 | 9.83% | 8.30% | 8.625% | 907/ 754 | 200 | USD | 15.07.2011 |
| UkrSibbank, 2011 | 101.50 | 102.25 | 7.52% | 6.68% | 9.250% | 672/ 588 | 250 | USD | 04.08.2011 |
| Ukreximbank, 2011 | 100.50 | 101.00 | 7.13% | 6.61% | 7.650% | 626/ 575 | 500 | USD | 07.09.2011 |
| UkrSibbank, 2011 | 100.50 | 101.00 | 7.33% | 6.92% | 7.750% | 651/ 611 | 500 | USD | 21.12.2011 |
| Privatbank, 2012 | 97.50 | 98.25 | 9.91% | 9.33% | 8.000% | 912/ 853 | 500 | USD | 06.02.2012 |
| Alfa Bank (Ukraine), 2012 | 101.00 | 101.50 | 12.38% | 12.08% | 13.000% | 1135/1057 | 841 | USD | 30.07.2012 |
| Ukreximbank, 2012 | 99.00 | 99.50 | 7.32% | 7.06% | 6.800% | 660/ 633 | 250 | USD | 04.10.2012 |
| Kyiv, 2012 | 96.75 | 97.50 | 9.89% | 9.51% | 8.250% | 913/ 874 | 250 | USD | 26.11.2012 |
| Finance and Credit, 2014 | 82.50 | 86.00 | 17.54% | 15.99% | 10.500% | 1642/1487 | 100 | USD | 25.01.2014 |
| VAB Bank, 2014 | 73.00 | 76.50 | 21.21% | 19.55% | 10.500% | 1979/1818 | 125 | USD | 14.06.2014 |
| Naftogaz of Ukraine, 2014 | 109.50 | 110.00 | 6.79% | 6.66% | 9.500% | 544/ 538 | 1 595 | USD | 30.09.2014 |
| PUMB, 2014 | 91.00 | 93.50 | 13.82% | 13.00% | 11.000% | 1240/1158 | 275 | USD | 31.12.2014 |
| Ukreximbank, 2015 | 103.00 | 103.50 | 7.59% | 7.47% | 8.375% | 608/ 596 | 500 | USD | 27.04.2015 |
| DTEK, 2015 | 100.75 | 101.50 | 9.29% | 9.09% | 9.500% | 779/ 759 | 500 | USD | 28.04.2015 |
| MHP, 2015 | 102.00 | 102.75 | 9.70% | 9.50% | 10.250% | 821/ 801 | 585 | USD | 29.04.2015 |
| Metinvest, 2015 | 103.50 | 104.50 | 9.31% | 9.05% | 10.250% | 774/ 754 | 500 | USD | 20.05.2015 |
| Kyiv, 2015 | 90.00 | 91.00 | 10.55% | 10.28% | 8.000% | 890/ 863 | 250 | USD | 06.11.2015 |
| Privatbank, 2016 | 93.25 | 94.75 | 10.40% | 10.02% | 8.750% | 2557/2150 | 150 | USD | 09.02.2016 |
| Ukreximbank, 2016 | 95.50 | 97.25 | 9.48% | 9.05% | 8.400% | 777/ 734 | 125 | USD | 09.02.2016 |

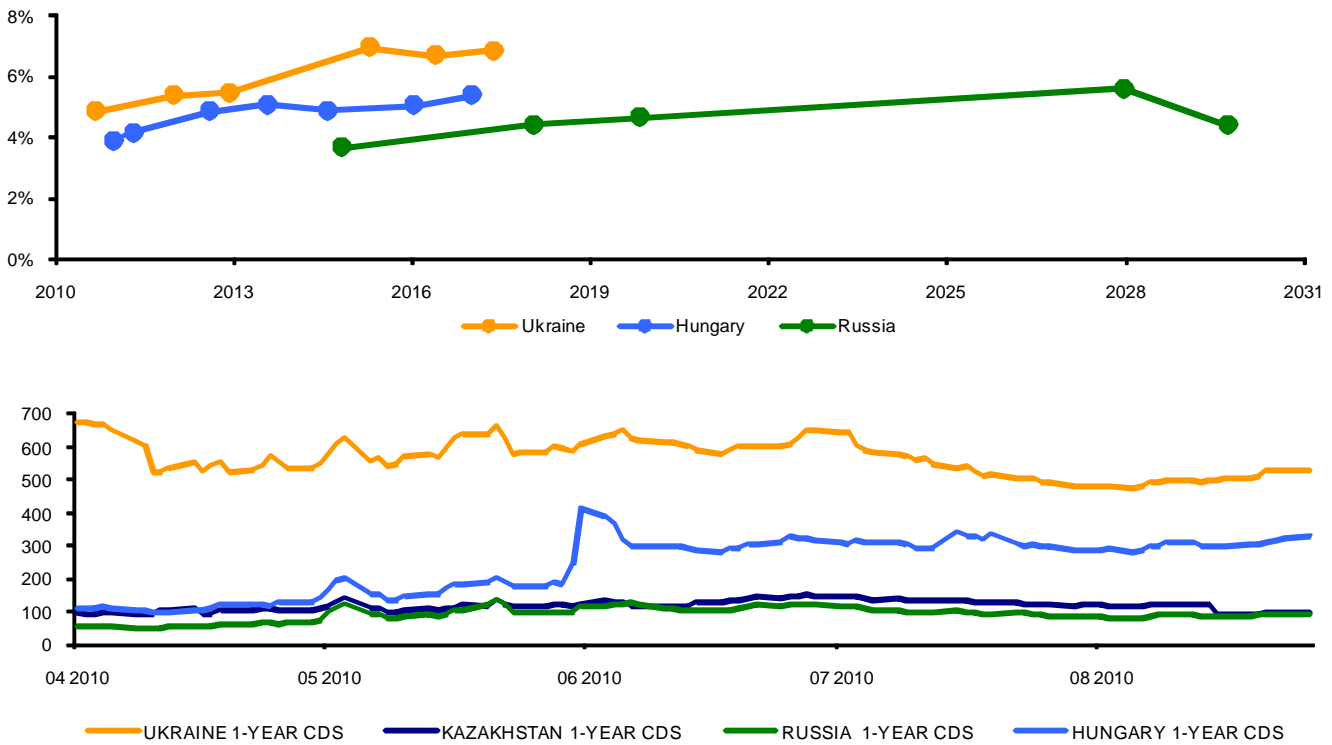
* – Z-spread over US state bonds

OVDPs

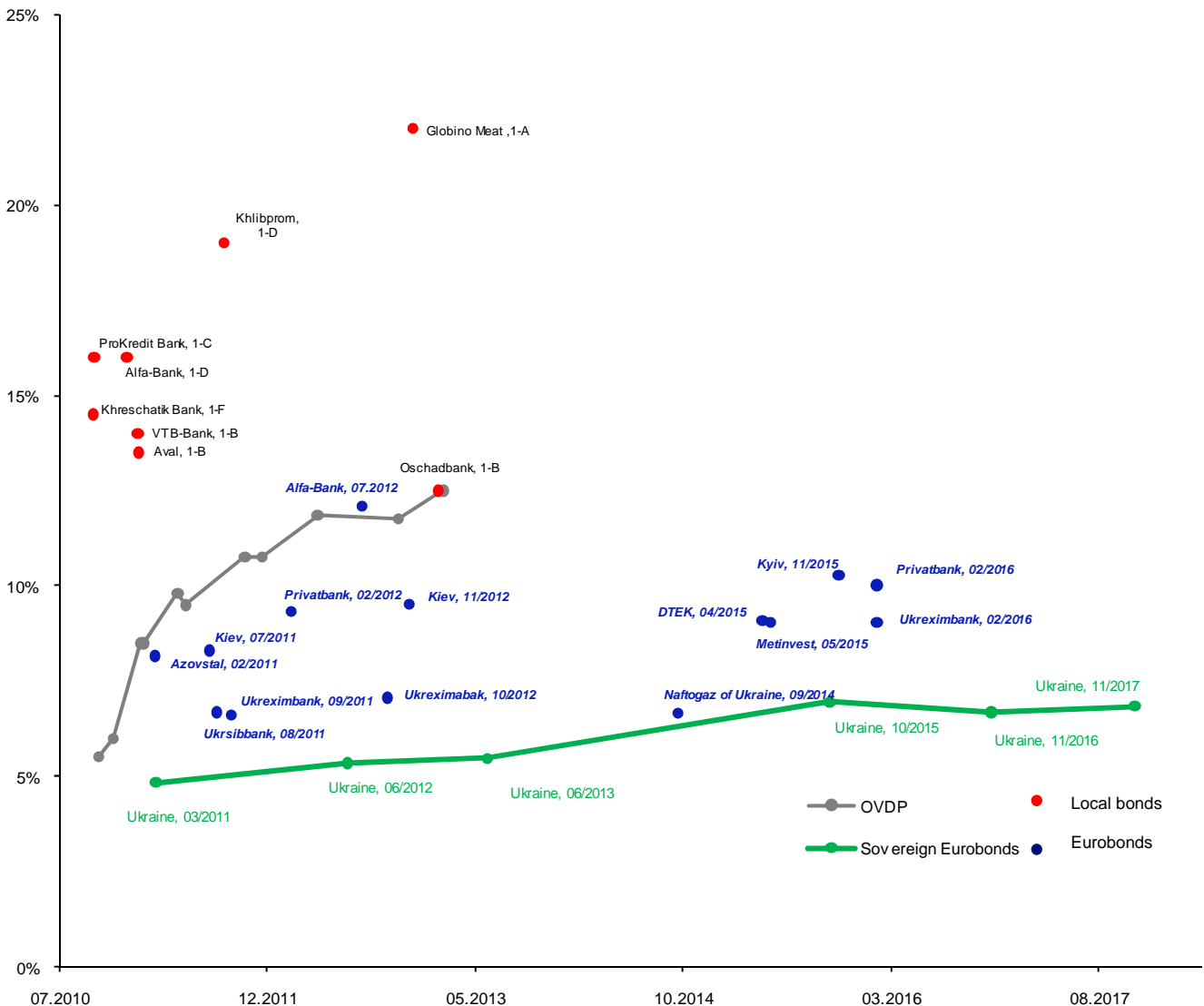
| Issuer, ticker | bid | ask | Yield (bid) | Yield (offer) | Coupon | Mature |
|-----------------|----------|----------|-------------|---------------|--------|------------|
| Ukraine, 63309* | 991.63 | 993.41 | 7.00% | 5.50% | - | 13.10.2010 |
| Ukraine, 61725* | 985.08 | 987.18 | 7.00% | 6.00% | - | 17.11.2010 |
| Ukraine, 63648* | 963.61 | 966.46 | 9.25% | 8.50% | - | 26.01.2011 |
| Ukraine, 74173* | 960.98 | 964.94 | 9.50% | 8.50% | - | 02.02.2011 |
| Ukraine, 54456 | 1 128.53 | 1 132.94 | 10.50% | 9.80% | 20.00% | 27.04.2011 |
| Ukraine, 66526* | 928.62 | 936.39 | 10.75% | 9.50% | - | 18.05.2011 |
| Ukraine, 61089 | 1 238.84 | 1 246.44 | 11.45% | 10.75% | 25.14% | 12.10.2011 |
| Ukraine, 62012 | 1 151.64 | 1 160.29 | 11.50% | 10.75% | 20.00% | 23.11.2011 |
| Ukraine, 53912 | 1 114.22 | 1 119.87 | 12.25% | 11.85% | 15.70% | 11.04.2012 |
| Ukraine, 61451 | 1 211.09 | 1 225.70 | 12.50% | 11.75% | 20.00% | 31.10.2012 |
| Ukraine, 64018 | 1 246.08 | 1 262.54 | 13.25% | 12.50% | 20.00% | 20.02.2013 |

Note: For issues marked * simple yields are specified, while for the rest issues – effective yields

Sovereign Eurobonds yield curves and CDS dynamics



OVDPs yield curve and effective YTM of Ukrainian hryvnia-denominated bonds vs. Eurobonds





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