Bond Market Insight

Sovereign debt: Challenges postponed for a while

INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

Sector
Sovereign

Credit ratings by Moody's/S&P/Fitch
Caa1/B-/B-

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RESEARCH INSIGHT

The high yields of Ukrainian sovereign debt reflect Ukraine's macroeconomic conditions, where the deficit issue has been swelling growing concern for years. Although this debt offers comparatively high interest rates versus that of other emerging and developed countries, the risks inherent in these wide spreads and high interest rates could worsen at any time, and there is the potential Ukraine's government to be denied access to the Eurobond market.

The last two years were the most problematic of the last ten years in the case of debt repayments and attracting new borrowings. In 2012, significant risks were connected with the US$2.0bn VTB loan repayment in June. In 2013, the same risks arose again with the redemption of the US$1.0bn Eurobond (UKRAIN 7.65% '13). In both cases, prior to the redemptions, the market for Ukraine's sovereign Eurobonds experienced high price volatility, a significant widening of spreads over US Treasuries, and higher yields.

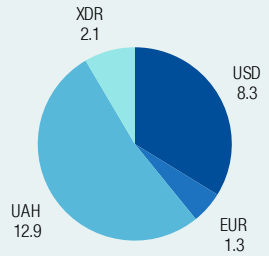
Despite these challenges, the Ukrainian government ultimately resolved these problems and successfully refinanced the redemptions via various means, including refinancing with FX-denominated domestic bonds and repackaging half of the VTB loan into a Eurobond,.

In hindsight, these problematic periods, namely at the beginning of 2012 and 2013, signaled greater problems with government debt. Last year, after access to the Eurobond market was closed to Ukraine, only the new agreements with Russia which included the receipt US$3.0bn of financing allowed Ukraine to end the year fulfilling all or most of scheduled repayments and expenditures. New external financing this year will also come from Russia, which offered US$15.0bn in financing to Ukraine, but this is only a temporary fix.

As of now, Ukraine's government will have to repay about UAH110bn in 2014 and UAH115bn in 2015. These volumes include only repayments of currently issued debt and are set to increase due to new offerings scheduled this year and thereafter, with the same logic applying to government guaranteed debt.

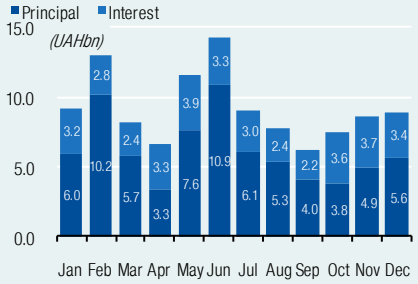
The large debt burden, which increases every year, combined with the significant volume of guaranteed debt, could result in a new debt restructuring (especially of external debt) and the dawn of an ice age in external financing when markets could be tightly closed to new Ukrainian Eurobond issues. This could happen in a few years when the Russian financing comes due.

Currency structure of debt repayments, 2014, UAHbn



Sources: Ministry of Finance of Ukraine, ICU.

Debt principal and interest repayments, 2014, UAHbn Domestic and external debt



Sources: Ministry of Finance of Ukraine, ICU.

Sovereign debt payback in 2014 (UAHbn)
Volumes include principal and interest payments

Month	Domestic	External	Total
January	6.65	2.46	9.11
February	6.94	6.04	12.98
March	5.53	2.62	8.15
April	4.88	1.78	6.66
May	4.83	6.71	11.53
June	3.63	10.58	14.21
July	6.61	2.46	9.06
August	3.39	4.33	7.73
September	4.40	1.81	6.22
October	5.28	2.13	7.41
November	6.91	1.68	8.58
December	6.91	2.02	8.93
Total	**65.96**	**44.61**	**110.57**

Sources: Ministry of Finance of Ukraine, ICU.

Research team

Taras Kotovych
Kiev, +38 044 2200120 ext. 244
taras.kotovych@icu.ua

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Sovereign risk premium

Risks that Ukraine will not repay its debt on time, or in the full amount, usually created some value in new borrowing and secondary market prices. However, as these are not the only risks are by no means unique to Ukraine, they also depend on the global economic situation. The possibility for Ukraine to issue new Eurobonds or attract financing from other sources strictly depends on the cost of borrowing for the US, the availability of liquidity at the market, etc. Moreover, any increase in US Treasury YTMs immediately increases Ukrainian risks because the value of risks immediately rise, reflecting a lower possibility of borrowing new funds.

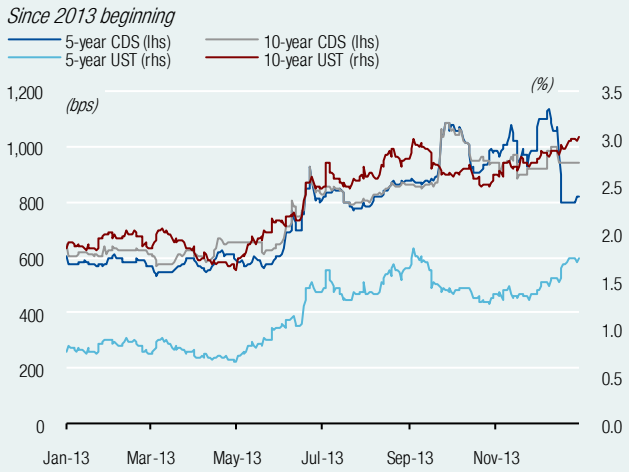
A positive beginning of 2013 resulted in many issuances at normal interest rates

2013 was a year of significant changes in the market conditions for Ukrainian Eurobonds due to many events.

The beginning of the year was quite upbeat and it provided the Ukrainian government, quasi-sovereigns and some corporates with opportunities to issue new Eurobonds or convert older bonds into new issues.

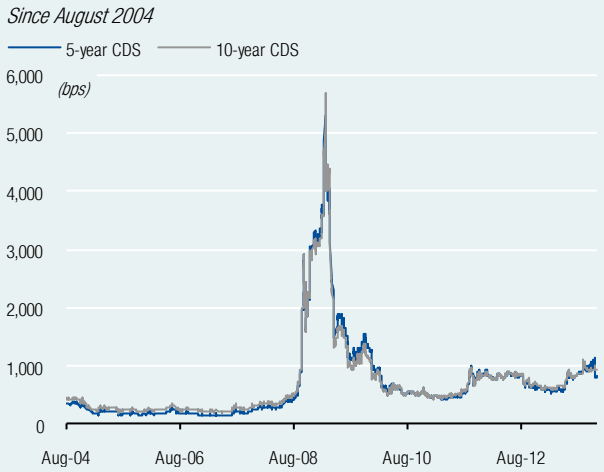
These issues occurred when the Ukrainian sovereign risk premium was at about 600bp (see the charts below), which remained stable during the first quarter. Ukraine issued UKRAIN 7.8% '22 at 7.625% with a spread to the 10-year US Treasury of 567bp at the beginning of February when the 10-year CDS was at 637bp. Later in April, they issued a new 10-year bond with a 7.50% coupon.

Chart 1. Ukrainian CDS and YTMs of US Treasuries



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. Ukrainian 5-year and 10-year CDS



Source: Bloomberg, Investment Capital Ukraine LLC.

Ukrainian risks rose with YTMs of US Treasuries, only sometimes reacting to local news

However, negative sentiment caused the risk premium to increase. Increased anticipations of the US's QE tapering caused conditions to worsen since late April and escalated in May. The left-hand chart above shows that with the increase in YTMs of US Treasuries, the risks of problems arising in Ukraine tightly reflected yield movements. This correlation was based on increasing YTMs of US Treasuries which immediately increased yields for Ukrainian Eurobonds as they usually depend on benchmark yields. Only this autumn, the relationship between the Ukrainian CDS and YTMs of US Treasuries diverged and was based more on the downgrade of Ukrainian ratings and newly arranged financing with Russia achieved at the end of 2013.

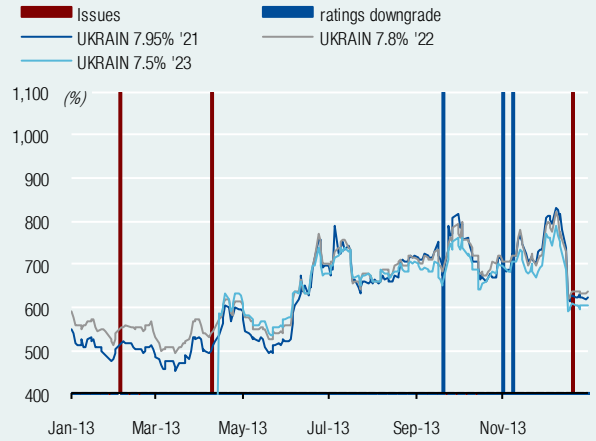
Last September, Moody's downgraded Ukraine's sovereign rating and Ukrainian Eurobonds from B3 to Caa1 in response to Naftogaz's potential inability to fulfill a coupon payment on its Eurobonds. Last October, Russian Gazprom publicly announced that Naftogaz broke its obligations on gas payments and later, at the beginning of November, S&P downgraded Ukraine, less significantly than Moody's, from B to B-. Fitch also followed this trend and downgraded Ukraine to B- from B. All these ratings were issued with a negative outlook for multiple reasons.

Moody's decision caused a sell-off of Ukrainian Eurobonds

When Moody's announced its downgrade, many investors began to sell Ukrainian Eurobonds following accordance with their internal restrictions to not hold bonds with ratings of C or lower. The sell-off on the Eurobond market resulted in YTMs of Ukrainian Eurobonds jumping above 10.0%, particularly at the short end of the yield curve. Spreads also significantly widened and the CDS rose (see the charts below). A similar situation also occurred after S&P and Fitch downgraded Ukraine to B- at the beginning of November. However, after new financing from Russia was agreed upon, and before the new Eurobonds were issued, spreads and YTMs slightly declined but remained too high for the market.

Chart 3. Spreads to benchmark and main events

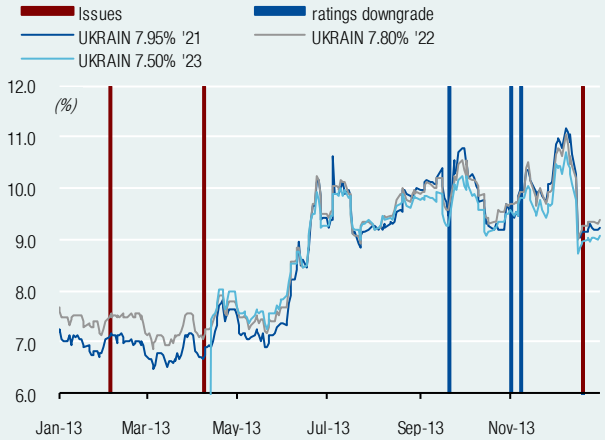
Spreads, bonds issues and ratings downgrades



Source: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. YTMs of Ukrainian Eurobonds and events

YTM, bonds issues and ratings downgrades



Source: Bloomberg, Investment Capital Ukraine LLC.

The current situation, with a lack of financing, low FX reserves, and an unwillingness to implement the IMF's provisions, could increase risks further, especially due to the unstable political situation and increasing debt burden. New financing from the Russian Federation will only postpone higher risks, which remain elevated in light of the current evaluation of risks.

The impact of new borrowings on FX reserves was insignificant

The second important issue is the availability of FX for repayments, inflows of FX to Ukraine, and FX needs. During 2013, FX reserves significantly declined. Considering only debt repayments and new borrowings last year, Ukraine repaid US$4.96bn in foreign debt repayments while it received only US$5.25bn in new borrowings (including the recent US$3.0bn Eurobond issue).

The decline in FX reserves had a significant impact on risks rising

The negative impact of the FX reserves' decline is depicted in the charts below. The decline in nominal reserves (see the left-hand chart below) and their coverage of imports (see the right-hand chart below) reflects the CDS increase. Per the charts below, as FX reserves started to increase at the beginning of 2010, supported by a decline in the 5-year CDS that began at the end of 2009, the decline in FX reserves in August 2011 caused an increase in risks that began in September 2011. However, the nominal value of FX does not show the real situation when the Ukrainian economy had a significant volume of imports. The right-

hand chart below shows that not only did the real volume of FX have an impact, but also the coverage of imports did as well. We can see that risks rise when coverage of imports declines.

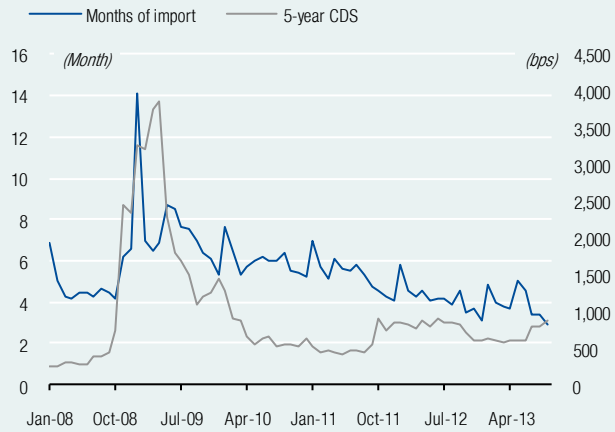
Chart 5. FX reserves and 5-year CDS

FX reserves in US$bn, last five years

Source: Bloomberg, State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

Chart 6. FX reserves in months of import and 5-year CDS dynamic

Reserves in months of import, actual data



Source: Bloomberg, State Statistics Committee of Ukraine, Investment Capital Ukraine LLC.

Reserves fell significantly when the CDS increased to about 1,000bp

Decreasing FX reserves that began in August 2011 continued for two years with some periods of stabilization or slight increase. However, during this period, reserves declined from US$35.21bn to US$20.63 last October, while import reserves (in months) fell twice from six months in July 2011 to three months in October 2013. This decline resulted in a CDS increase to about 800bp in 2011 and to above 1,000bp in October and November 2013, especially due to the rating agencies that included these problems in their evaluation and decreased the sovereign ratings as described above.

Large debt repayments, the lack of external financing from capital markets, and declining FX reserves in nominal value and in months of imports caused risks to rise further.

Russian support had a positive impact last year…

However, new agreements with Russia signed in mid-December improved the situation, decreasing the country's risks significantly. The decline in gas prices in 1Q14 and US$15bn in new financing, of which US$3bn was provided immediately, decreased the pressure on FX reserves, thus lowering the risks of debt repayments going forward.

…resulted in a slight decline in CDS and spreads tightening

Although Ukraine received US$3.0bn of the US$15.0bn promised financing in December 2013, US$0.75bn was allocated to a syndicated loan repayment on December 27, a few days after the Russian money arrived. The new gas price is effective only for 1Q14 as of January 1, 2014. As a result, spreads to the benchmark tightened in a few days to 600-800bp and the 5-year CDS declined to about 800bp, causing YTMs to decline below 10%, but mostly remained above 9.0%. 2014 began with new steps of improvement, and YTMs declined to about 6.5-8.5% range.

However, these improvements are temporary and markets will not provide financing due to high risks

These improvements are temporary and Ukraine's risks remain high. Spreads are significantly wider than they were a year ago, and due to the increase in US Treasuries on the QE tapering and positive statistics, YTMs of Ukrainian Eurobonds remain high. As we mentioned above, YTMs linger above 9.0% and for Ukraine this level provides market issuances at about a 10.0% coupon rate, which is too high. The main source for the MoF in 2014 will be the domestic market and Eurobonds issued for Russia, similar to the recent issue.

Borrowings in 2013: All ways to borrow

Last year was quite difficult with debt refinancing and fulfilling all requirements of the state budget. The Eurobond market was open for Ukraine only a few months at the beginning of this year, and became tightly closed after the ratings downgrade. The domestic bond market was significantly supported by the NBU under its domestic QE by issuing repos, loans or purchasing bonds in its portfolio. But despite all of these challenges, all debt repayments were made on time in full, with no delays, etc. The US$0.75bn syndicated loan from Russian banks achieved in September, along with the US$3.00bn of Russian financing at the end of December, had a significant impact on allowing Ukraine's MoF to meet its financing needs.

The MoF attracted necessary financing from the bond markets…

According to state budget, the MoF had to borrow UAH148.80bn from the bond market, including issues for share capital increases of UAH14.7bn. The MoF had to receive UAH41.12bn of external financing and UAH107.68bn of funds from domestic sources.

…and issued bonds for share capital increase

The MoF issued all planned bonds for share capital increases, including UAH14.7bn of bonds for Naftogaz, a Ukrainian Danube shipping company, State-owned Oschadbank, and the Agrarian Fund. The MoF received UAH134.1bn this year, including UAH92.98bn from the domestic bond market.

The MoF attracted US$3.0bn of financing during 11M13…

External borrowings in February and April provided the state budget with US$2.25bn, when the MoF tapped UKRAIN 7.80% ’22 for US$1.00bn at 7.625% and UKRAIN 7.5% ’23 for US$1.25bn. However, these borrowing covered a bit more than half of the needed funds from abroad, and the Cabinet of Ministers of Ukraine adopted the resolution to receive a US$0.75bn loan in August. This loan was received in September from two Russian banks, Sberbank CIB and VTB Capital LLC. The loan was issued at an interest rate of 6.5% and a fee of US$3.75m, or 0.5% of the loan. Later, at the beginning of December, the Cabinet of Ministers of Ukraine increased the interest rate to 9.5% following changes in market conditions, but later repaid this loan using funds from the new Eurobond issue.

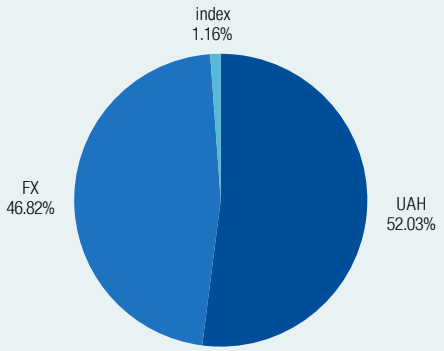
…and at the end of the year, issued a new US3.0bn Eurobond

As mentioned above, in mid-December of 2013, the Ukrainian President agreed to US$15.00bn in financing from the Russian Federation on 20 December 2013, and Ukraine issued a new US$3.00bn Eurobond with a 2-year maturity at a coupon rate of 5.0%, significantly below-market (UKRAIN 6.875% '15 was quoted at 8.35% the same day).

But the largest volume of financing was provided by the domestic bond market

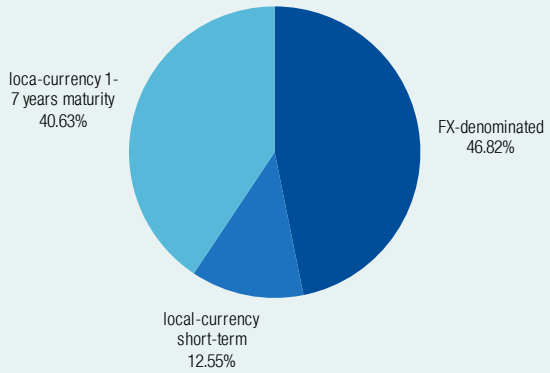
However, the domestic market was the most active. The MoF held auctions every week, sometimes twice per week, and also tried to launch new issues of short-term bonds on Wednesdays but cancelled attempts after one auction and moved these offerings to Tuesdays, the regular day for auctions. UAH39.58bn, or 45.54%, of financing was attracted in FX, mostly in US dollars, and a small part in Euros (EUR0.66bn, or less than 1% of received financing). FX-denominated bonds were mostly sold with 2-year and 3-year maturities, and also a large portion was sold with put options which were not exercised in 2013. However, local currency borrowings had a large range of maturities, from 21 days to 10 years, where bonds with maturities of less than one year amounted to UAH11.87bn or 12.55% of total domestic financing, UAH8.47bn of which were redeemed through the end of the last year.

Chart 7. Currency structure of domestic borrowings



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Currency and terms structure of borrowings



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

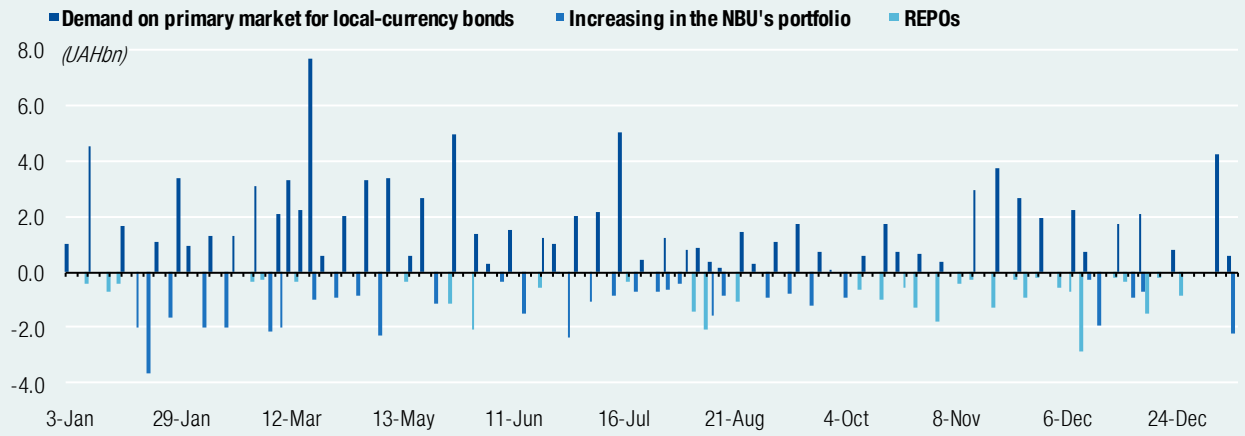
Significant part of financing was supported by the NBU

These borrowings were significantly supported by the NBU by issuing loans, repos, and also via bond purchases. During 2013, the NBU purchased UAH42.76bn of government bonds, increased its portfolio UAH41.49bn to UAH147.05bn on 31 December 2013. At the end of the year, the NBU held 59.37% of total government bonds outstanding. We can assume that at least UAH42.76bn of domestic financing was provided by the NBU, but this volume could also include part or all of the UAH14.7bn in bonds issued for share capital increases if all NBU supported demand at the primary market was UAH28.06bn or greater.

Repos also were important in the NBU support of the bond market as the NBU issued UAH33.99bn of repos last year. The chart below shows two sides of the market –bonds purchased by the NBU and bonds issued at the primary market.

Chart 9. The NBU's support of the primary market in 2014 via the bond market

Inflows from the NBU in negative to increase visibility of the chart



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Support was via bond purchases and repo issuances

During 2013, the NBU issued repos with government bonds of UAH33.99bn, of which UAH18.44bn was issued during 4Q13 when the NBU significantly decreased its government bond purchases and took a hiatus from purchasing bonds, instead supporting demand via repos. Government bonds were used by the NBU as collateral for funds issued for banks. The chart above shows the large volumes of repos which could be used for primary auction support. We can assume that about UAH40bn of bonds purchased at primary auctions were immediately purchased by the NBU, half via direct purchase, and half using bonds as collateral for repos.

Debt financing also covered part of not received proceeds from the privatization of state property

Finally, the MoF issued US$6.0bn of external debt and UAH109.30bn of domestic debt, resulting in total borrowings about UAH157.3bn, which is close to budget figures, where we have UAH148.80bn of new borrowings. However, according to the Budget Code, the MoF could replace one source of financing with another, and because privatization proceeds were not included in the budget (as UAH10.9bn were scheduled, but during 9M13 it received only UAH0.92bn), the MoF had the right to increase its market borrowings.

And the main part of new borrowings was used for principal repayments

A large part of the borrowings was used for debt repayments totaling UAH115.17bn. of which UAH82.42bn was repaid in principal repayments, UAH32.75bn in interest repayments, and the rest of the funds were used to cover other budget needs as budget revenues were low last year. We expect a similar situation this year, as the MoF included in its budget bill draft UAH151.90bn of borrowings, with only UAH95.48bn of principal repayments.

Debt repayments in 2014: Refinancing necessary

Although the volume of principal debt repayments this year slightly less than what was repaid last year, the original 3-month loan from Russian banks was not scheduled, similar to zero-coupon domestic bonds. The same situation could occur this year, as the MoF could issue a lot of short-term bonds maturing this year, repay some bonds with put options, or issue and repay short-term loans which are not known now. Currently, UAH110.60bn of debt repayments is scheduled, including UAH73.44bn in principal repayments. This volume is larger than scheduled repayments at the beginning of last year, when the MoF had UAH95.75bn of debt repayments scheduled, including UAH67.45bn of principal repayments, but repaid about UAH12.0bn more.

2014 could be easier due to the promised financing from Russia

2014 is not the most difficult year for the debt side of the budget, because currently only UAH2.41bn more debt repayments are scheduled than were repaid last year, and principal repayments are lower than last year. This year should be easier due to the US$15.0bn in offered financing from Russia, US$3.0bn of which has already been received at the end of 2013. As a result, the schedule described below is quite normal and most likely not problematic for the MoF.

The volume of repayments scheduled for the year are not final and could increase significantly

The table below shows the current situation for debt repayments over the next five years and also over the last two years, with actual figures of repaid debt at market exchange rates used for FX-denominated repayments. From this table, we could see that the largest debt pressure is scheduled for next year, and these figures are not final because new local currency bonds with maturity next year will be issued along with new issues of longer term domestic bonds and Eurobonds which will include coupon payments next year. Last year, interest repayments rose UAH3.67bn and principal repayments significantly rose due to the issuance of zero-coupon domestic bonds and the repayment of the loan from Russian banks.

Table 1. Government debt repayments 2012-2018 (UAHbn)

	2012	2013	2014	2015	2016	2017	2018
Total volume of debt repayments							
All debt repayments	90.44	108.20	110.61	115.08	81.90	100.73	76.57
Principal repayments	65.75	76.18	73.44	82.63	54.07	76.63	60.59
Interest repayments	24.66	31.97	37.16	32.45	27.84	24.11	15.98
Domestic debt repayments							
Total volume	53.58	66.12	65.96	57.03	49.82	58.15	66.70
Principal repayments	35.88	43.62	40.02	35.08	30.84	42.04	56.27
Interest repayments	17.70	22.50	25.94	21.95	18.99	16.11	10.43
External repayments							
Total volume	36.86	42.07	44.64	58.05	32.08	42.58	9.87
Principal repayments	29.87	32.56	33.42	47.55	23.23	34.59	4.32
Interest repayments	6.96	9.47	11.22	10.50	8.86	8.00	5.55

Notes: Debt repayments calculated according to the conditions of borrowings, currently issued and repaid. Calculation does not include possible issues which are planned for this year or following years, but which conditions are not available now for calculations.

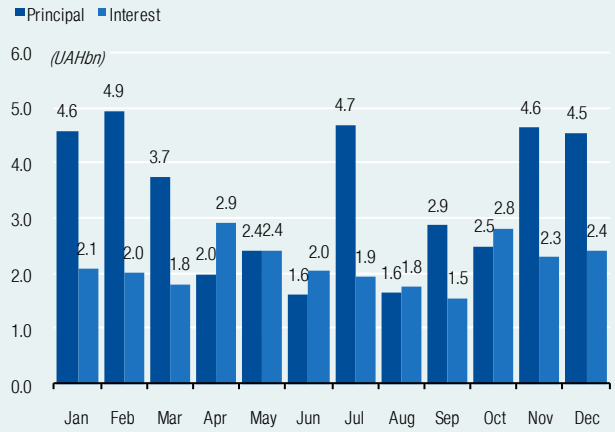
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

This year will have large domestic repayments exceeding UAH6.6bn

2014 will have more domestic debt repayments, with the largest debt burden scheduled for a couple of months will exceed UAH6.6bn (see the left-hand chart below), where principal repayments will be in the range of UAH4.5bn-UAH4.9bn. The monthly volume of domestic interest repayments will not exceed UAH3.0bn.

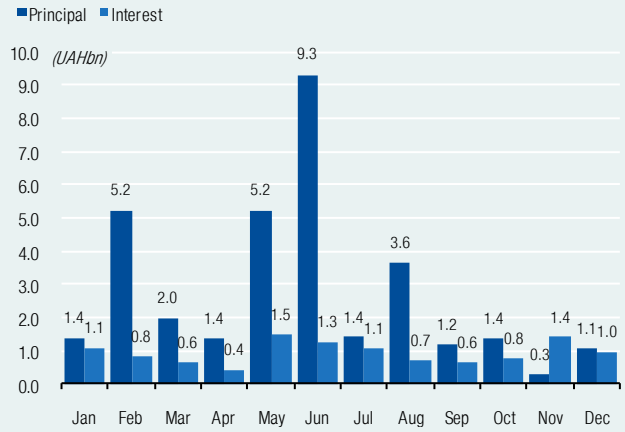
Chart 10. Domestic debt repayments for 2014 (UAHbn)

Interest and principal repayments for FX-denominated debt calculated using market exchange rate at the beginning of the year



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 11. External debt repayments for 2014 (UAHbn)



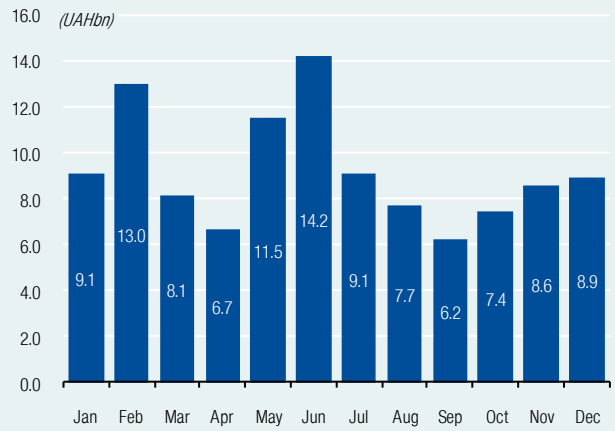
Source: Bloomberg, Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

But external debt repayments usually form peaks in the schedule

At the same time, external debt repayments will create larger peaks and higher pressure, as scheduled in February, May, June and August (see the right-hand chart above). These repayments are scheduled per agreements with the IMF. One repayment scheduled for June is the UKRAIN 7.95% '14 US$1.0bn redemption, which was issued in August 2012 due to the repackaging of half of the VTB loan received in 2010. The largest pressure on the budget will be in 1H14, particularly in February, May, and the largest in June (see the left-hand chart below). May and June will require the largest needs in FX, when the MoF will repay the regular payment to the IMF on loans received in the state budget and the principal repayment on Eurobonds.

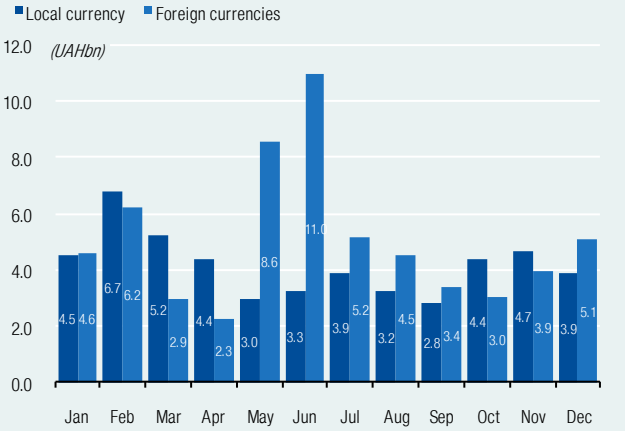
Chart 12. Debt repayments scheduled for 2014 (UAHbn)

interest and principal repayments for FX-denominated debt calculated using market exchange rate at the beginning of the year



Source: Bloomberg, Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 13. Currency structure of debt repayments (UAHbn)



Source: Bloomberg, Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

External repayments are less frequent but large

While external debt is easy to understand, including the redemption of only one Eurobond in June and last few large repayments to the IMF (in 4Q14 and later debt repayments to the IMF will be insignificant), domestic debt repayments are more frequent, making the main picture of the debt burden this year. More than two-thirds of external debt repayments will be quarterly repayments of IMF loans and UKRAIN 7.95% '14, included in the table below. The rest of the repayments are lower and together during the year will be about US$1.2bn.

Table 2. Main external debt repayments

Date	Type of debt (creditor)	Principal repayment	Currency	Redemption volume in US dollars
07 February 2014	IMF loan	265,625,000.00	XDR	408,355,937.50
12 February 2014	IMF loan	125,000,000.00	XDR	192,167,500.00
07 May 2014	IMF loan	265,625,000.00	XDR	408,355,937.50
12 May 2014	IMF loan	125,000,000.00	XDR	192,167,500.00
04 June 2014	UKRAIN 7.95% '14	1,000,000,000.00	USD	1,000,000,000.00
07 August 2014	IMF loan	265,625,000.00	XDR	408,355,937.50
Total	x	x	x	2,609,402,812.50

Notes: volumes in XDR calculated using US$ /XDR market exchange rate at the beginning of 2014
Sources: Bloomberg, Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

The MoF will repay this year mostly ordinary bonds and FX-denominated bonds

The table below shows the general structure of domestic debt repayments, where the main part of funds will be repaid in local currency, along with USD-indexed and FX-denominated bonds issued at primary auctions. This part will amount to UAH42.95bn, or 65.12% of total domestic debt repayments, and will include UAH28.93bn of principal repayments, the share of which in domestic principal repayments will be 63.91%. From these repayments, UAH16.02bn of funds will be repaid in US dollars and Euros, and UAH4.49bn will be repaid on USD-indexed bonds which will also depend on the US$/UAH exchange rate. UAH19.41bn will be repaid on bonds issued for the share capital increases of state-owned banks and companies as well as for debt restructuring held by the NBU.

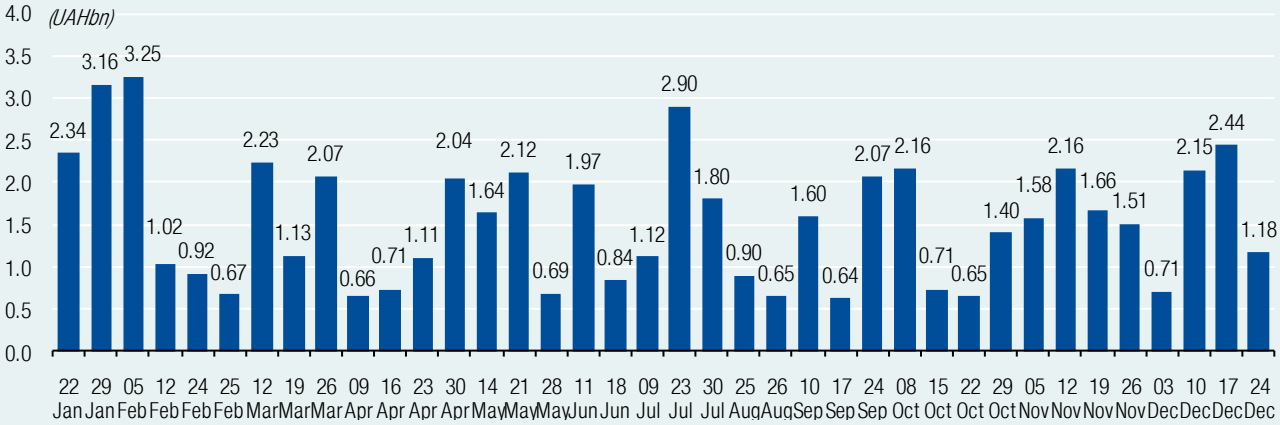
Table 3. Structure of domestic debt repayments (UAH)

Types of bonds	Total volume	including principal	interest
Ordinary bonds	22,442,084,172.20	13,270,130,526.00	9,171,953,646.20
Recap bonds for state-owned banks	5,102,892,050.00	0.00	5,102,892,050.00
Recap bonds for Naftogaz	8,278,702,910.00	3,000,000,000.00	5,278,702,910.00
Recap bonds for state-owned enterprises	840,029,000.00	0.00	840,029,000.00
NBU	5,184,387,263.75	4,794,809,000.00	389,578,263.75
VAT bonds	3,603,573,925.25	3,287,182,600.00	316,391,325.25
USD-indexed bonds	4,488,345,675.00	3,358,410,155.00	1,129,935,520.00
USD-denominated bonds	15,310,373,898.75	11,629,713,973.20	3,680,659,925.55
EUR-denominated bonds	708,387,216.00	675,942,000.00	32,445,216.00
Total	65,958,776,110.95	40,016,188,254.20	25,942,587,856.75

Notes: FX
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 14. Main dates and volumes of domestic debt repayments (UAHbn)

Includes principal and interest repayments above UAH500m that day



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Table 4. Schedule of domestic bonds repayments amounted to above UAH0.5bn and scheduled for 2014 (UAH)

Redemption date	ISIN	Total volume	Principal	Interest	Bond type
22 January 2014	UA4000178412	1,815,395,600.00	1,809,949,413.20	5,446,186.80	US$-denominated
29 January 2014	UA4000108823	2,853,369,250.00	2,704,988,750.00	148,380,500.00	Ordinary bonds
05 February 2014	UA4000134936	2,950,982,500.00	2,745,100,000.00	205,882,500.00	Ordinary bonds
12 February 2014	UA4000178479	550,000,000.00	544,863,000.00	5,137,000.00	Ordinary bonds
24 February 2014	UA4000082622	921,840,903.00	830,487,300.00	91,353,603.00	VAT-bonds
25 February 2014	UA4000083059	669,861,135.00	603,478,500.00	66,382,635.00	VAT-bonds
12 March 2014	UA4000137277	1,881,250,000.00	1,750,000,000.00	131,250,000.00	Ordinary bonds
26 March 2014	UA4000115117	1,606,968,750.00	1,525,000,000.00	81,968,750.00	Ordinary bonds
30 April 2014	UA4000118871	1,510,151,777.50	1,437,350,000.00	72,801,777.50	Ordinary bonds
14 May 2014	UA4000051403	1,078,000,000.00	1,000,000,000.00	78,000,000.00	Ordinary bonds
21 May 2014	UA4000140362	1,472,356,127.04	1,407,606,240.00	64,749,887.04	US$-denominated
11 June 2014	UA4000063200	1,676,184,613.75	1,598,269,000.00	77,915,613.75	NBU
09 July 2014	UA4000123863	789,976,000.00	752,000,000.00	37,976,000.00	Ordinary bonds
23 July 2014	UA4000157135	2,519,099,016.00	2,422,560,000.00	96,539,016.00	US$-denominated
30 July 2014	UA4000136436	1,572,375,000.00	1,500,000,000.00	72,375,000.00	Recapitalisation bonds
25 August 2014	UA4000082622	899,002,502.25	830,487,300.00	68,515,202.25	VAT-bonds
26 August 2014	UA4000083059	653,265,476.25	603,478,500.00	49,786,976.25	VAT-bonds
10 September 2014	UA4000158794	1,295,173,500.00	1,248,360,000.00	46,813,500.00	US$-denominated
24 September 2014	UA4000129100	1,676,171,000.00	1,610,000,000.00	66,171,000.00	US$-indexed
08 October 2014	UA4000136451	1,573,125,000.00	1,500,000,000.00	73,125,000.00	Recapitalisation bonds
29 October 2014	UA4000174247	692,164,608.00	675,942,000.00	16,222,608.00	EUR-denominated bonds
05 November 2014	UA4000130603	1,249,424,265.00	1,198,410,155.00	51,014,110.00	US$-indexed
12 November 2014	UA4000063218	1,676,185,662.50	1,598,270,000.00	77,915,662.50	NBU
19 November 2014	UA4000149231	1,047,854,932.99	1,006,005,120.00	41,849,812.99	US$-denominated
26 November 2014	UA4000173058	855,930,000.00	824,000,000.00	31,930,000.00	US$-denominated
10 December 2014	UA4000177133	1,927,047,600.00	1,854,000,000.00	73,047,600.00	US$-denominated
17 December 2014	UA4000063226	1,676,185,662.50	1,598,270,000.00	77,915,662.50	NBU
24 December 2014	UA4000171649	851,426,376.50	817,696,400.00	33,729,976.50	US$-denominated
Total	x	39,940,767,258.28	37,996,571,678.20	1,944,195,580.08	x

Notes: NBU – local currency bonds issued according to the budget law for 2009 for restructuring of NBU's loans in FX issued for Ukrainian government in 1994-1996; USD-indexed bonds – bonds with principal, which will be indexed before repayment by index of UAH/USD exchange rate changing since bond was sold; FX repayments are calculated using market exchange rates at the beginning of 2014

Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Large domestic repayments are scheduled for the beginning of the year

A more detailed schedule of domestic repayments is included in the chart and table above and shows that the largest debt burden is scheduled for the beginning of the year, when on 29 January and 5 February the MoF will have to repay UAH3.16bn and UAH3.25bn, respectively, and a few days after these repayments, US$0.60bn of IMF loans principal repayments must be repaid. So, the beginning of the year is quite challenging for repayments, especially due to the lack of a ratified budget bill for this year, and Ukrainian law permits the borrowing of funds only for debt repayments. As a result, the MoF had to create fund reserves for the beginning of the year at the end of December, when significant borrowings occurred.

FX domestic repayments are significantly lower than in local currency…

From the list of bonds included in the table above, only UAH12.48bn will be repaid in FX (the total volume of FX-denominated debt repayments currently scheduled for this year is UAH16.02bn), while other large repayments will be made in local currency. Of three debt repayments amounting to above UAH2.0bn, only one will be in US dollars, while two (this month) will be repaid in hryvnia.

…but this does not include bonds in FX with put options

However, this schedule does not include FX-denominated bonds with put options issued last year in large volumes and possibly held by non-residents. The MoF issued US$1.17bn of these bonds last year, all of which could be submitted for redemption any time, thus increasing pressure on the state budget.

The MoF has scheduled large borrowings which should cover all debt repayments this year

According to the draft of the budget bill for 2014, the MoF is going to repay all this debt using new borrowings, while UAH151.90bn of new borrowings and UAH95.48bn of principal repayments are included in the draft, budget expenditures also include UAH44.86bn for debt servicing and compensation of deposits from the Soviet Union period (UAH6.0bn). There is also the possibility of a replacement of low proceeds from privatizations by new borrowings. Proceeds from the privatization of state property are forecast by the MoF at UAH17.0bn.

Budget financing 2014: Domestic bonds and Russian funds

The MoF has forecast UAH95.48bn in repayments. To cover these repayments, and possibly interest repayments, the MoF had scheduled new borrowings of UAH151.90bn. But due to inopportune conditions in the Eurobond market and low liquidity in the domestic bond market, the MoF most likely will make some new borrowings from Russia and use NBU support in the domestic bond market.

2/3 of financing could be covered by Russian funds offered to Ukraine last year

New Eurobonds, which Ukraine started to issue last year in December under new agreements with Russia, could cover the main MoF needs in funds this year. So far, of the US$15.0bn in promised financing, only US$3.0bn of funds was received. This year, the MoF could use this source to cover about UAH96.0bn of budget financing of the UAH151.90bn mentioned in the draft of the state budget.

Until the new budget bill is adopted, the MoF will cover repayments using reserves or domestic borrowings

As we described the debt repayment schedule on p.11, the MoF must repay UAH6.0bn of principal in January, so only this volume of funds could be borrowed during the same period. This amount is insufficient to issue Eurobonds, but the MoF is likely prepared for this. At the end of December, using NBU support under domestic QE, the MoF attracted UAH4.83bn of domestic financing in addition to receiving funds from Russia a week earlier.

A new "Russian Eurobond" will be issued no earlier than the end of January

Due to this problematic period for borrowing, we anticipate the the debut "Russian Eurobond" will be issued no earlier than the end of January to receive funds at the beginning of February, prior to debt repayments to the IMF. The second Russian Eurobond will be issued this May, prior to the second portion of debt repayments to the IMF this year and also before the UKRAIN 7.95% '14 redemption.

The MoF will issue bonds to support Naftogas in its debt repayment

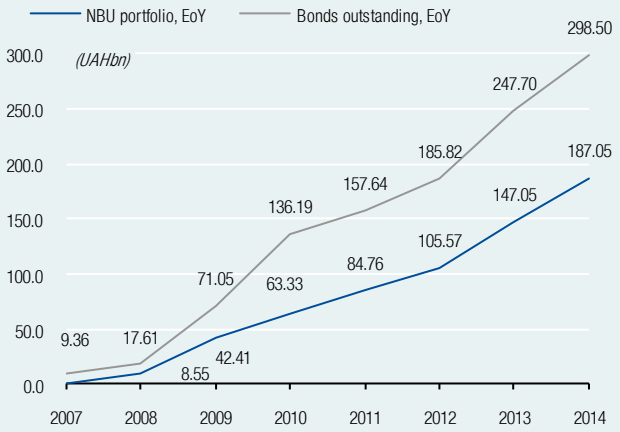
Also, regarding significant issues of domestic bonds included in the UAH151.90bn of financing, Naftogaz and the Ukrainian Bank of Reconstruction and Development will need UAH14.87bn and UAH5.0bn, respectively. While the bank's issue could be made any time, the Naftogaz issue should be finalised prior to its Eurobond redemption scheduled at the end of September 2014 to allow the company to purchase FX for its repayments.

We anticipate that the NBU will continue to support banks in significant bond purchases this year

The domestic bond market will have to provide the MoF with about UAH95.05bn of financing, very similar to the volume of domestic financing raised last year. However, as we mentioned above, domestic borrowings were significantly supported by the NBU, so we anticipate that the NBU will keep its share of domestic bond holdings at about 60.0%, with the outstanding portfolio increasing about UAH40.0bn along with issuances of repos and loans to domestic banks (see the left-hand chart below). The NBU will purchase bonds issued to the Ukrainian Bank of Reconstruction and Development, with some of the bonds sold to banks at primary auctions, and possibly with some of the bonds issued for the Naftogaz share-capital increase. However, we do not anticipate that non-residents will continue to sharply increase their portfolios as they did at the end of last year, and their share will decline to about 4.0-4.5%. Banks will also increase their portfolio using funds received under domestic QE.

Chart 15. Bonds outstanding and the NBU portfolio

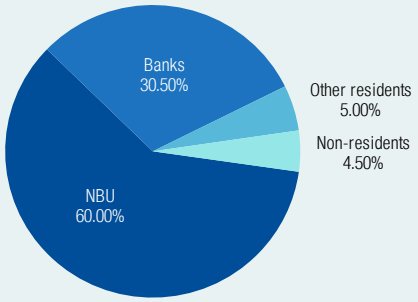
Figures for the end of 2014 are our assumption



Source: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 16. Possible bondholder's structure in 2014

Our assumption



Source: Investment Capital Ukraine LLC.

Real market demand will be not very different from last year, and will be seen for short-term zero-coupon bonds and FX-denominated bonds before and after large domestic repayments in FX. Long-term bonds will be purchased mostly by banks to sell them to the NBU to receive refinancing loans or repos using these bonds as the collateral.

Guarantees: Postponed debt

Evaluating Ukraine's debt burden takes into account state debt, including all borrowings received for the budget and those which have to be repaid by the government. But a significant segment of Ukrainian debt is also issued by quasi-sovereign institutions, repayments of which are guaranteed by the government and should be repaid from the state budget if the issuer does not repay it. This debt now amounts to approximately UAH100bn, or nearly 18% of the total debt outstanding, most of which is denominated in FX and must be repaid abroad. Thus, the current UAH450.31bn in sovereign public debt could rise to UAH550.22bn at any time when potential problems with repayments arise.

Risks of guaranteeing debt are high due to the recent Naftogaz problems

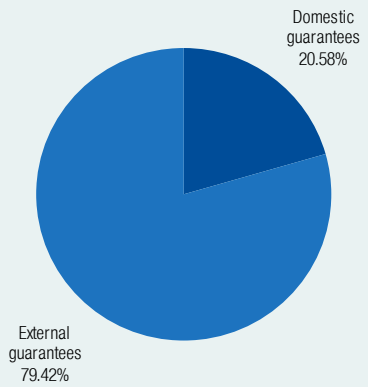
As of the end of October 2013, guaranteed debt amounted to UAH99.91bn (US$12.50bn), or 18.16% of the total debt held by the Ukrainian government, which could become direct debt at any time. Last year's potential default by Naftogaz on its Eurobond when its funds were committed at the payment agent account supports this premise; payments on the NAFTO 9.5% '14 bond were guaranteed by the government and could have been repaid from the state budget if Naftogaz had not found the resources to solve the problem a few days before the deadline.

Guarantees are issued mostly for FX borrowings

Currently, the structure of the state guarantees is as follows: guarantees for domestic borrowing amount to UAH20.57bn (US$2.57bn), while guarantees to foreign creditors amount to UAH79.34bn (US$9.23bn) The current structure is shown in the left-hand chart below).

Chart 17. Structure of guaranteed debt as of 31 October 2013

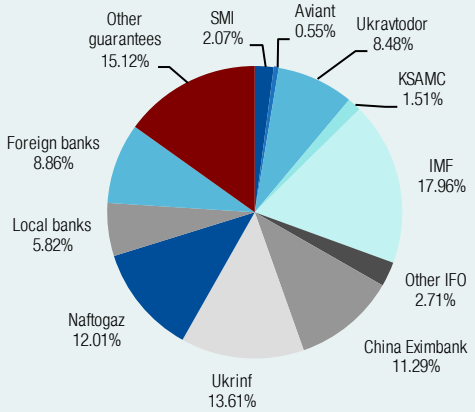
Guarantees issued for domestic and external borrowings



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 18. Main borrowers or creditors as of 31 October 2013

Names of borrowers or creditors requested and received guarantees



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Domestic guarantees are issued mostly for quasi-sovereign bonds, while external guarantees are made on loans and Eurobonds

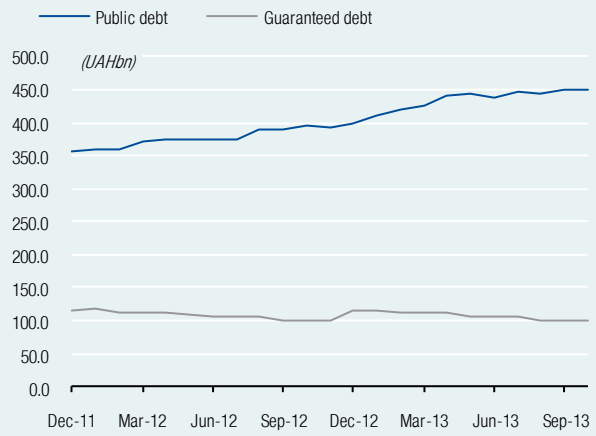
A more detailed structure of guarantees is depicted in the right-hand chart above, where we can see that UAH13.39bn, or more than 50% of domestic guarantees, are guarantees on bond issues made by state-owned companies or government institutions such as state mortgage issuers and Ukravtodor. The total volume of guarantees issued to foreign creditors was UAH79.34bn (US$9.93bn) as follows: (1) UAH19.07bn of guarantees for external borrowings were issued to the NBU via IMF loans; (2) UAH11.99bn were guarantees on Chinese loans received in 2012 for agri-sector development, (3) UAH14.45bn in guaranteed repayments on UKRINF Eurobonds; and (4) UAH12.75bn for the NAFTO 9.5% '14.

The volume of guaranteed debt is stable, but its share of total debt has slightly declined

Despite many Ukrainian government decisions on issuing guarantees, the dynamics of guaranteed debt are not critical. During the last two years, the total volume of guaranteed debt was quite stable, at slightly above UAH100bn, and its share of total government debt was about 20-25%, slightly down from 24.49% seen at the beginning of 2012 to 18.16% at the end of October 2013. However, this decline in the share of guaranteed debt of the total debt was the result of an increase in the government's direct debt during this period, from UAH357bn to UAH450bn, on the same dates as mentioned above. For more details, please see the charts below.

Chart 19. Dynamic of government debt (UAHbn)

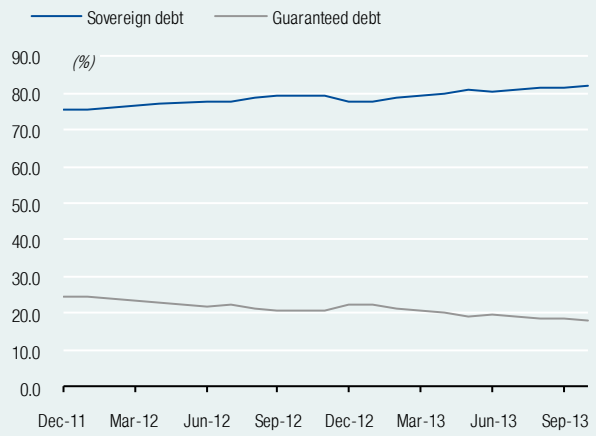
2012-10M13



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Chart 20. Share of government debt (%)

2012-10M13



Source: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

While one debt was repaid over the last two years, three new guarantees were issued

Also, during this period, part of the government's guaranteed debt was redeemed by borrowers without support from the MoF, i.e., the NBU's IMF loan repayments of which the volume of this debt declined to UAH19.07bn from UAH58.82bn at the end of 2011. However, new guarantees were issued in the amount of UAH11.99bn for Chinese Eximbank, UAH4.40bn for UKRINF, and UAH7.20bn for Ukravtodor.

Guarantee cases are unpredictable and could be made any time, for any scheduled payment…

Despite several redemptions, the government of Ukraine issued new guarantees but did not decrease the total amount of this particular debt, which is substantially riskier than if the MoF were to directly issue debt, due to unforeseen, negative macroeconomic events that resulted in possible new cases of guarantees.

… but the largest risks are in potential cross-defaults on other debt or guarantees

MoF data do not include the maturities of guaranteed debt, but this is not very important for the MoF, as guarantee cases could take place at any time for any regular payment by a debt issuer. As in the case of the recent Naftogaz payment, if the company is going into default, its debt, guaranteed by the government, could be called to be repaid, and the guarantor, which is the government represented by the MoF, would have to repay this debt, and as a result of this repayment, a possible cross-default could take place for other debt issues, direct or guaranteed. But, the most pertinent part of analyzing this risk could be in examining the periods during which the largest risks to these guarantee cases and subsequent guarantees could take place.

UAH3.91bn of domestic guarantees are up for redemption this year, and UAH4.73bn in 2015

According MoF data, and comparing it with other public information, we can assume the period when the guarantee cases will most likely happen. Guarantees on domestic bond issues by KSAMC[1], SMI[2], SP Antonov,[3] and Ukravtodor[4] currently amount to UAH13.39bn, including UAH3.91bn that matures this year and UAH4.73bn in 2015.

FX guarantees will be larger than domestic guarantees next year

However, we are assessing only domestic debt above, and, according to our assumption, UAH15.97bn has to be repaid by the NBU to the IMF this year, and UAH12.75bn has to be repaid by Naftogaz for its Eurobond redemption. It is important to note, however, these figures do not represent the final debt burden for next year, due to the lack of available public information.

Economic problems could give rise to guarantee cases

As a result, taking into account the large volumes of principal repayments scheduled for next year which could carry risks of guarantee cases, if economic problems continue, sovereign debt could rise significantly, causing new problems with debt repayments.

UAH50.0bn in new guarantees could be issued this year

But despite a lot of problems and risks with guaranteed debt, the Ukrainian government is going to issue UAH50.0bn in new guarantees this year, or possibly increase the total volume of guaranteed debt to about UAH150.0bn, or 50%. These guarantees could be issued on paper or via adopted resolutions on the guarantees, while state-owned enterprises may not issue debt and the real increase in this part of Ukrainian debt could rise less significantly. Also, this year some guaranteed loans should be redeemed, as mentioned above, and increase in total volume of guaranteed debt could be insignificant.

[1] Kharkiv State Aircraft Manufacturing Company

[2] State Mortgage Institution

[3] ANTONOV Serial Plant / Branch of ANTONOV Company

[4] State Road Administration “Ukravtodor”

Conclusions

The large debt burden, significant debt repayments and debt refinancing put forth many challenges for the Ukrainian government and economy. This year is only one of number of years when Ukraine will be under a significant debt burden, but from year to year the situation may worsen.

The debt burden could significantly rise this year, causing financing needs to increase

Ukraine must repay UAH110.58bn of debt principal and interest this year, about UAH5.0bn more next year, a bit less in 2017, and UAH81.89bn and UAH76.55bn in 2016 and 2018, respectively. However, these figures do not include all debt which will be issued this year and later, and its redemption or servicing will follow in these years. As last year's repayments rose UAH17.75bn from 2012 and this year's repayments are now up UAH2.38bn larger from last year and will rise during the year, next years' debt burden should also increase. 2016 will follow the new Russian financing Eurobond redemption issued (if the new issues also have a 2-year maturity).

Covering repayments with new borrowings will also increase the future debt burden

At the same time, higher debt repayments, usually covered by new borrowings, increase the debt burden further. This situation could cause debt markets to close or significantly increase the cost of new borrowings, making Ukraine unable to refinance its debt and be forced to restructure.

As this is not a problem over the short-term because of the US$15.0bn in financing from Russia, the challenge is refinancing the debt when it matures.

As most domestic debt is still in the NBU portfolio, a significant share of this debt will not create problems or needs for restructuring as long as the NBU can tap the debt markets and has sources to purchase new debt.

Ukraine's short-term liquidity risk declined as a result of the Russian funds, but significant problems could arise in a few years

Worsening market conditions, declining FX reserves, and increasing the debt burden with no real economic improvement will reduce the demand for Ukrainian debt. Furthermore, this could catalyze a premature sell-off, causing a new wave of debt restructuring similar to the one that occurred in 1999-2000. A debt restructuring will close the bond markets for Ukraine for a least a few years until Ukraine's economic situation improves.

Appendices: Thematic charts & tables

The following pages contain the details charted and tabled data for the appropriate sections in this report.

History of sovereign borrowings 2004-14: Volumes

Table 5. Ukraine government borrowings: all currencies and instruments (UAHm)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	1,035	1,056	0	0	308	176	1,167	2,805	402	11,950	1,151
February	133	1,087	0	0	77	1,404	5,665	14,972	5,969	17,288	…
March	3,381	246	0	0	4	1,503	13,199	9,665	16,760	14,320	…
April	179	3,740	0	0	0	3,574	4,426	8,781	5,244	18,740	…
May	101	14	0	0	11	12,016	2,803	2,187	7,275	8,187	…
June	804	379	0	3,306	37	5,108	18,979	18,994	13,669	5,918	…
July	998	631	0	1,337	191	33,608	12,221	592	16,943	11,573	…
August	3,037	0	0	110	138	10,193	20,750	97	11,511	2,415	…
September	101	0	3,175	378	501	1,266	18,413	165	7,240	14,766	…
October	0	3,608	280	150	279	4,621	2,705	5,597	4,961	3,096	…
November	0	0	5,864	4,309	7,030	6,931	8,001	5,399	16,665	9,965	…
December	215	0	1,834	37	16,687	18,784	14,750	6,324	390	40,732	…
Total	**9,983**	**10,761**	**11,153**	**9,628**	**25,263**	**99,183**	**123,078**	**75,580**	**107,029**	**158,950**	**1,151**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 6. Ukraine government borrowings: domestic market, all currencies (UAHm)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	1,035	1,056	0	0	308	176	1,167	2,805	402	11,950	1,151
February	133	1,087	0	0	77	1,404	5,665	14,972	5,969	17,288	…
March	3,381	246	0	0	4	1,503	13,199	9,665	16,760	14,320	…
April	179	3,740	0	0	0	3,574	4,426	8,781	5,244	18,740	…
May	101	14	0	0	11	12,016	2,803	2,187	7,275	8,187	…
June	804	379	0	3,306	37	5,108	18,979	18,994	13,669	5,918	…
July	998	631	0	1,337	191	33,608	12,221	592	16,943	11,573	…
August	3,037	0	0	110	138	10,193	20,750	97	11,511	2,415	…
September	101	0	3,175	378	501	1,266	18,413	165	7,240	14,766	…
October	0	3,608	280	150	279	4,621	2,705	5,597	4,961	3,096	…
November	0	0	5,864	4,309	7,030	6,931	8,001	5,399	16,665	9,965	…
December	215	0	1,834	37	16,687	18,784	14,750	6,324	390	40,732	…
Total	**9,983**	**10,761**	**11,153**	**9,628**	**25,263**	**99,183**	**123,078**	**75,580**	**107,029**	**158,950**	**1,151**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 7. Ukraine government borrowings: external market, all currencies (US$m)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…
February	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0	0.0	1,000.0	…
March	600.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…
April	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,250.0	…
May	0.0	0.0	0.0	0.0	0.0	1,423.1	0.0	0.0	0.0	0.0	…
June	0.0	0.0	0.0	500.0	0.0	0.0	2,000.0	1,250.0	0.0	0.0	…
July	0.0	0.0	0.0	0.0	0.0	3,293.0	1,007.2	0.0	2,000.0	0.0	…
August	500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	0.0	…
September	0.0	0.0	611.8	0.0	0.0	0.0	2,000.0	0.0	600.0	750.0	…
October	0.0	721.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…
November	0.0	0.0	1,000.0	700.0	0.0	0.0	0.0	0.0	1,250.0	0.0	…
December	0.0	0.0	297.2	0.0	0.0	0.0	1,599.7	0.0	0.0	3,000.0	…
Total	**1,100.0**	**721.6**	**1,909.0**	**1,200.0**	**0.0**	**4,716.1**	**6,606.8**	**2,750.0**	**4,850.0**	**6,000.0**	**0.0**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 8. Ukraine government borrowings: via domestic market and in local currency (UAHm)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	1,034.7	1,056.5	0.0	0.0	307.7	176.4	1,166.8	2,805.4	386.6	4,403.3	1,150.7
February	132.9	1,086.6	0.0	0.0	77.3	1,403.9	5,665.3	3,032.2	3,738.1	3,710.5	…
March	180.2	245.6	0.0	0.0	3.7	1,502.8	13,199.5	9,665.1	12,519.4	7,418.8	…
April	178.7	3,740.3	0.0	0.0	0.0	3,573.9	4,425.6	8,781.4	3,848.8	8,570.4	…
May	101.1	14.0	0.0	0.0	10.6	773.4	2,802.6	2,187.4	2,760.0	3,248.3	…
June	803.7	379.0	0.0	801.2	37.2	5,107.6	3,124.9	8,998.5	5,670.9	4,337.6	…
July	997.9	631.4	0.0	1,337.1	191.0	7,955.5	4,254.2	591.9	600.0	9,141.4	…
August	384.6	0.0	0.0	110.5	137.7	10,192.7	20,749.7	97.1	1,072.8	899.1	…
September	100.6	0.0	110.2	378.2	501.5	1,265.6	2,552.5	165.5	2,354.6	7,750.1	…
October	0.0	0.0	280.0	150.0	279.5	4,621.0	2,704.8	5,596.9	4,147.6	3,096.2	…
November	0.0	0.0	854.4	808.7	7,029.8	6,931.3	8,001.1	5,399.0	5,849.1	3,219.9	…
December	215.4	0.0	347.9	37.1	16,687.4	18,783.7	2,003.0	3,014.4	0.0	9,425.3	…
Total	**4,129.8**	**7,153.4**	**1,592.6**	**3,622.8**	**25,263.4**	**62,287.8**	**70,650.1**	**50,334.9**	**42,947.9**	**65,221.0**	**1,150.7**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 9. Ukraine government borrowings: via domestic market and in foreign currencies (US$m)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	929.7	0.0
February	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	277.7	667.5	…
March	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	528.2	847.8	…
April	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	173.7	0.0	…
May	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	558.7	607.2	…
June	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	990.3	193.9	…
July	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.2	298.4	…
August	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	285.8	186.7	…
September	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	107.6	…
October	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	…
November	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	74.1	821.5	…
December	0.0	0.0	0.0	0.0	0.0	0.0	0.0	412.9	48.2	803.2	…
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**412.9**	**3,060.7**	**5,463.4**	**0.0**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 10. Ukraine government borrowings: via domestic market and in local currency USD-indexed securities (UAHm)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	557.3	0.0
February	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	…
March	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	704.0	60.0	…
April	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	470.4	0.0	…
May	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	900.2	0.0	…
June	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.1	0.0	…
July	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	600.0	0.0	…
August	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.7	0.0	…
September	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	526.4	0.0	…
October	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4,642.2	329.0	0.0	…
November	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,399.0	583.1	477.0	…
December	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,124.1	0.0	0.0	…
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**7,165.4**	**4,413.8**	**1,094.3**	**0.0**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 11. Share of government domestic borrowings made via FX-hedged bonds[1] (% total domestic borrowings)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	67.8%	0.0%
February	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	37.4%	59.4%	…
March	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	29.5%	48.6%	…
April	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	35.6%	0.0%	…
May	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	74.4%	60.3%	…
June	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	59.2%	26.7%	…
July	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	21.0%	…
August	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	74.3%	62.8%	…
September	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	22.4%	10.2%	…
October	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	82.9%	23.0%	0.0%	…
November	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.9%	18.4%	72.5%	…
December	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	70.1%	100.0%	41.2%	…
Total	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**19.5%**	**43.0%**	**41.6%**	**0.0%**

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; [1] USD- and EUR-denominated bonds and USD-indexed bonds; [2] average for January-August. Sources: Bloomberg, Investment Capital Ukraine LLC.

History of sovereign Eurobonds 2004-14: Yields & premiums

Table 12. Average CDS on Ukraine's sovereign 5-year debt (basis points, monthly averages**)**

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	N/A	236	181	153	267	3,189	980	464	867	581	725
February	N/A	189	184	142	283	3,460	942	464	812	590	…
March	N/A	195	177	151	299	4,294	701	447	783	559	…
April	N/A	221	175	151	269	3,151	573	425	825	588	…
May	N/A	211	195	135	280	1,757	612	442	821	583	…
June	N/A	213	237	132	334	1,845	629	460	859	752	…
July	N/A	190	229	158	394	1,635	575	470	837	810	…
August	356	172	173	214	424	1,185	527	525	820	838	…
September	343	175	180	191	567	1,175	547	674	698	922	…
October	364	183	181	182	1,830	1,218	515	837	666	988	…
November	326	166	166	224	1,923	1,436	528	821	638	990	…
December	301	157	159	239	2,925	1,325	529	838	624	963	…
Total	**338**	**192**	**187**	**173**	**816**	**2,139**	**638**	**572**	**771**	**764**	**725***

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; * year-to-date volume. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 13. Yield-to-maturity[1] or cost of borrowings for Ukraine government on the USD Eurobond market (% per annum)

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
February	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**7.9%**	N/A	**7.6%[2]**	…
March	**6.9%**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
April	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**7.5%**	…
May	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
June	N/A	N/A	N/A	**6.4%**	N/A	N/A	N/A	**6.2%**	N/A	N/A	…
July	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**9.2%**	N/A	…
August	**7.2%**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**8.0%**	**8.2%[3]**	…
September	N/A	N/A	N/A	N/A	N/A	N/A	**7.3%**	N/A	**7.8%**	N/A	…
October	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
November	N/A	N/A	**6.6%**	**6.7%**	N/A	N/A	N/A	N/A	**7.8%**	N/A	…
December	N/A	N/A	N/A	N/A	N/A	N/A	**6.7%**	N/A	N/A	**5.0%**	…

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; [1] simple yield-to-maturity; [2] 7.625% simple yield or 7.770% effective yield; [3] s. Sources: Bloomberg, Investment Capital Ukraine LLC.

Table 14. Risk premium[1] between Ukraine's sovereign USD Eurobond yield and US Treasury yield (basis points, monthly averages**)**

Period	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
February	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**454**	N/A	**580**	…
March	**422**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
April	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**576**	…
May	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
June	N/A	N/A	N/A	**146**	N/A	N/A	N/A	**478**	N/A	N/A	…
July	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**884**	N/A	…
August	**390**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**786**	N/A	…
September	N/A	N/A	N/A	N/A	N/A	N/A	**540**	N/A	**734**	**781**	…
October	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	…
November	N/A	N/A	**209**	**272**	N/A	N/A	N/A	N/A	**630**	N/A	…
December	N/A	N/A	N/A	N/A	N/A	N/A	**621**	N/A	N/A	**211**	…

Note: data as of 21 January1 2014; N/A – data is not available; … no data for a future period; [1] spread between effective yield-to-maturity of Ukraine's sovereign Eurobond placement, which is calculated by ICU, and average monthly yield of US Treasury of similar maturity as reported by Bloomberg. Sources: Bloomberg, Investment Capital Ukraine LLC.

Disclosures

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INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

Office 44, 11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

CHAIRMAN OF THE BOARD OF DIRECTORS

Valeria Gontareva
valeria.gontareva@icu.ua

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Volodymyr Demchyshyn, Director
volodymyr.demchyshyn@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Vlad Sinani, Director,
Strategy and Corporate Development
vlad.sinani@icu.ua

Julia Pecheritsa,
Ukraine and CIS International Sales
julia.pecheritsa@icu.ua

Yevgeniya Gryshchenko,
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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