



# Latest banking headlines

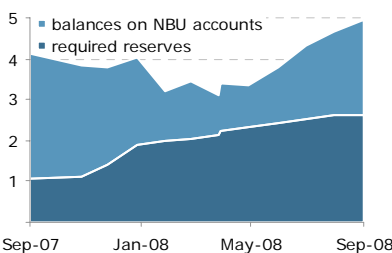
## NBU pushes ahead with stabilization initiatives

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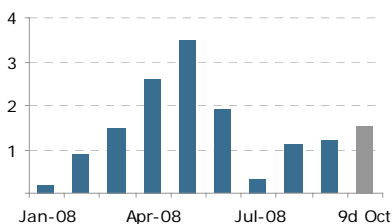
- The National Bank imposed a six-month ban on the early withdrawal of terms deposits from Ukrainian banks and restricted lending as of today; further steps are expected
- We recently interviewed a number of local bankers about recent developments in Ukraine's banking system. Our notes:
  - The current crisis is one of confidence, not fundamentals
  - Prominvestbank's woes were rooted in raider attacks
  - Large banks will be able to weather the situation, smaller banks can face difficulties

Balances on NBU accounts, USD bln



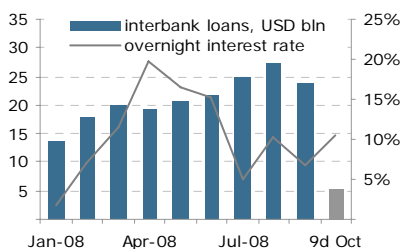
Source: NBU

NBU refinancing volume, USD bln



Source: NBU

Interbank lending & interest rate



Source: NBU

Sector's key figures, USD bln

	2006	2007	9M08
Assets	67.3	118.7	159.1
Loans	48.6	85.2	115.0
Deposits	36.6	63.0	69.1
Equity	8.4	13.8	19.0
Net income	0.8	1.3	1.6

Source: NBU

### NBU puts moratorium on early withdrawal of term deposits

The National Bank of Ukraine issued a decree effective today that put a six-month ban on early withdrawals on term-deposits accounts at commercial banks and restricted banks' asset operations; securities transactions and interbank lending will not be effected (see Appendix 1 for details of the decree). The decree followed the NBU's move to refinance 23 Ukrainian banks, granting roughly USD 650 mln in loans, last Wednesday.

We view the NBU's recent intervention steps as necessary to counteract heightened worries about the banking system's stability. The NBU took similar steps during the Orange Revolution in 2004, when there was a massive run on deposits (see Appendix 2).

### More steps will follow

We see additional measures being imposed in the short-term. On October 10, the National Bank, Ministry of Finance, Ministry of Economy and leading commercial banks agreed to set up a commission to coordinate efforts to stabilize the financial system; the group will meet every few days. The next expected move – raising the guarantee on deposit accounts held by local banks fourfold to UAH 200 ths (USD ~40 ths).

### Bankers' views

On Friday, we met with a number of local bankers (Bank Forum, Citibank, etc) to swap views on the fresh concerns about Ukrainian banks. Our notes:

- The main concern is distrust among sector players and the population, following the series of global bank collapses and the turbulence surrounding local Prominvestbank (#6 by assets in Ukraine). As a result of these factors, foreign debt markets have effectively closed, interbank lending has become more limited, and the population has begun withdrawing money from deposit accounts (in October, over USD 3 bln has been pulled out of Ukrainian banks, according to the NBU).

Meanwhile, contrary to the market's mood, excessive liquidity in the sector has in fact been improving; the funds held by commercial banks on correspondent accounts with the NBU above the required level doubled since March 2008 to USD 2.3 bln as of today.

- Both Prominvestbank and NBU representatives said they believe rumors about Prominvestbank's durability originated with corporate raiders. The bankers we talked to described it as healthy financially prior to the panic. Last week the NBU installed an acting chief, and extended it a record high USD 1 bln credit line.
- The common view of those we talked was that most banks will be able to weather the current situation. Bankers we talked to said that smaller tier-4 banks (109 banks with assets below USD 300 mln) are at risk, but they noted that their influence on the system is limited; tier-4 banks account for only 8% of total sector assets. In case of extreme difficulties, these banks are widely viewed as takeover targets.

## Appendix 1: Key points of the NBU's decree

Below are our notes from the NBU's October 11 decree #319:

- Six-month ban on the early withdrawal of term deposit accounts will go into effect October 13 (today). As of September 1, 2008 the banks had ~USD 50 bln of term accounts, or 37% of total liabilities.
- Restrictions on asset operations: all banks are required to maintain assets at the bank's level of assets as of October 13. This limit does not affect transactions involving state securities, NBU's deposit certificates, and interbank lending.
- Real estate was added to the list of accepted collateral by the NBU for refinancing commercial banks. As of July 1, 2008, banks had USD 6 bln worth of real estate on their books.
- Banks' required reserve on short-term (under 183 calendar days) foreign borrowing was abolished. Previously, the requirement was 20%.

## Appendix 2: NBU measures during the Orange Revolution

Below are some of the measures the NBU took concerning banks during the Orange Revolution, with decree #576 (November 30, 2004):

- Ban on the early withdrawal of term deposit accounts.
- Restrictions on asset operations: all banks are required to limit asset operations at the level as of November 30. This limit did not affect transactions involving state securities, NBU's deposit certificates, and interbank lending.
- Cash withdrawals by companies was limited to UAH 80 ths, not including the amount needed to pay salaries and other social obligations
- Cash withdrawals from ATM machines by individuals were restricted to UAH 1,500 per day

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