



Ukrainian banks

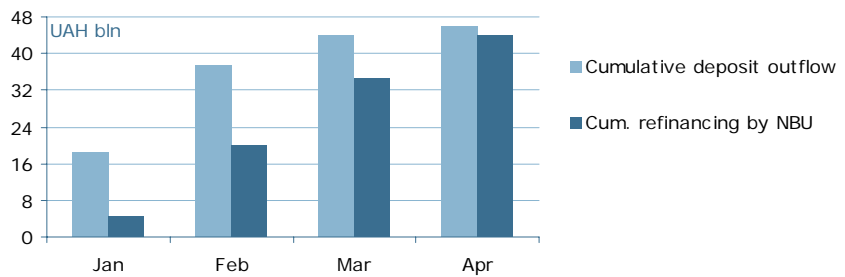
NPLs are the main concern

May 21, 2009

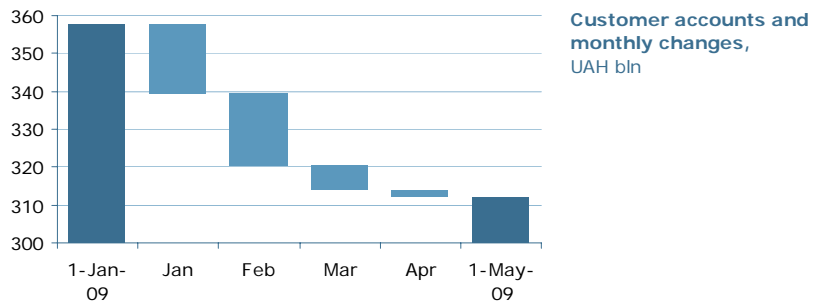
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The National Bank of Ukraine released aggregate 4M09 results for Ukrainian banks this week. Deposit outflow and lending nearly halted their declines in April, with some categories actually going positive. We now see the NBU's refinancing measures fully compensating for deposit outflows. Aggregate NPL provisions continued to grow sharply last month. Short-term assets and liabilities were nearly equal, indicative of high liquidity risk, exacerbated by further growth in NPLs.

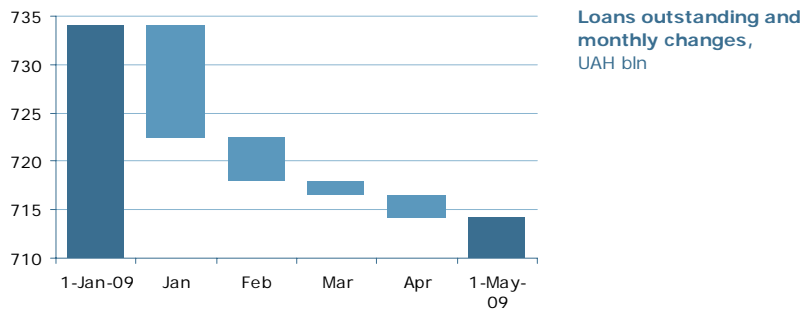
Deposit outflow over 4M09 was fully offset by NBU refinancing, which salvaged sector liquidity



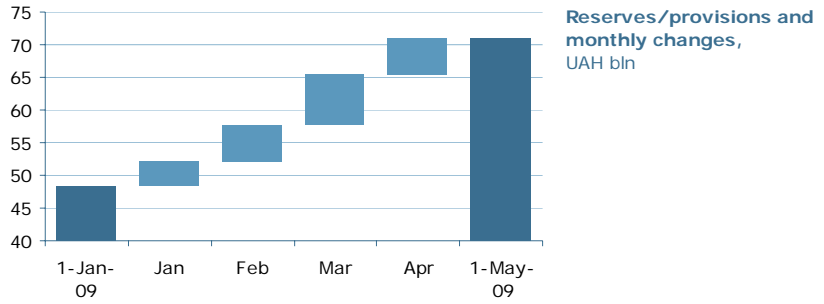
The deposit outflow slowed to UAH 1.7 bln in April. Retail deposits increased UAH 1.1 mln *mom* (for the first time in 2009)



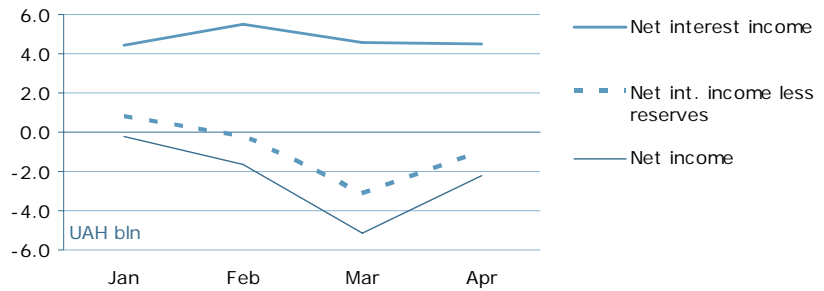
Lending shrank faster *mom*, due to accelerated retail collections; corporate loans grew UAH 1.3 mln *mom* (first time in 2009)



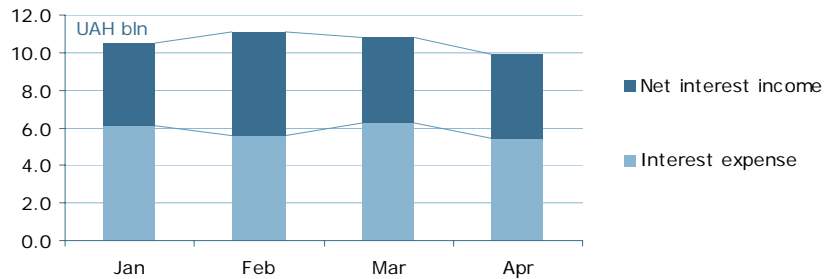
Growth in loss provisions remained high in April, implying increasing reported NPLs



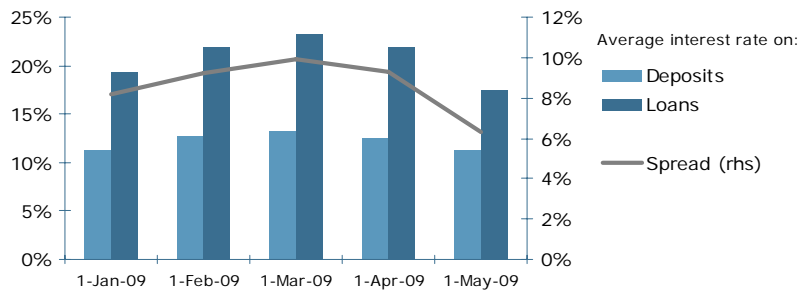
Reserves/provisions continue to put downside pressure on the sector's bottom line



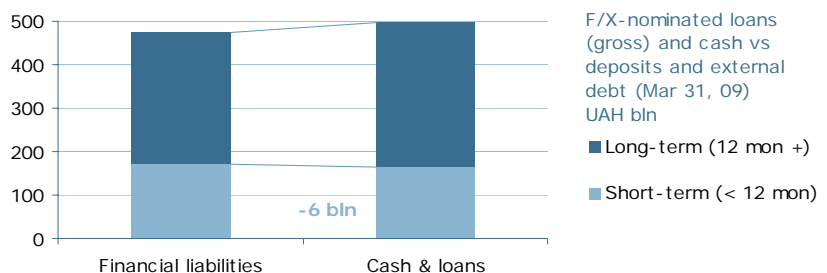
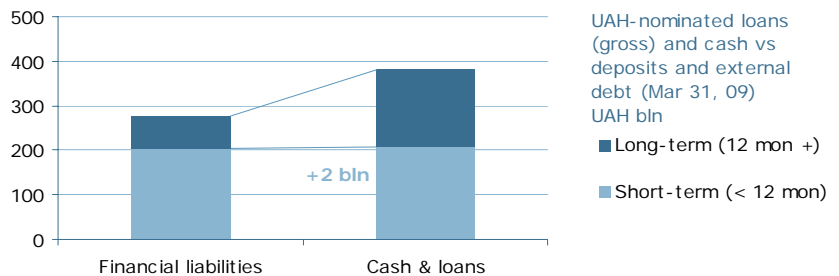
Decrease in the interest rate spread negatively impacted net interest income in March & April



A further decrease in net interest income is expected in coming months, putting more downward pressure on top and bottom lines



Despite nearly balanced banks' ST loans (not deducted for bad loan provisions) and borrowings, accumulated UAH 63 bln in NPL provisions prompted liquidity problems this year. This suggests the need for debt restructuring and new capital injections



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