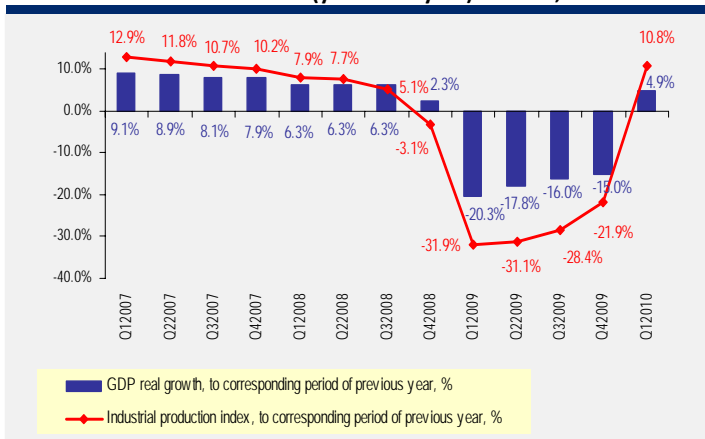


Monthly / Consumer Banking Snapshot

May 2010

The Ukrainian economy, and Ukrainian consumers, endured a horrific 2009, GDP plummeted and industrial production slumped. Consumers responded by reducing purchases, being reluctant to use more credit and more cautious with regard to their level of expenses in relation to their current income and savings.

Chart 1: Real GDP (year-over-year) Growth Rate, %, Industrial Production Index (year-over-year) Growth, %



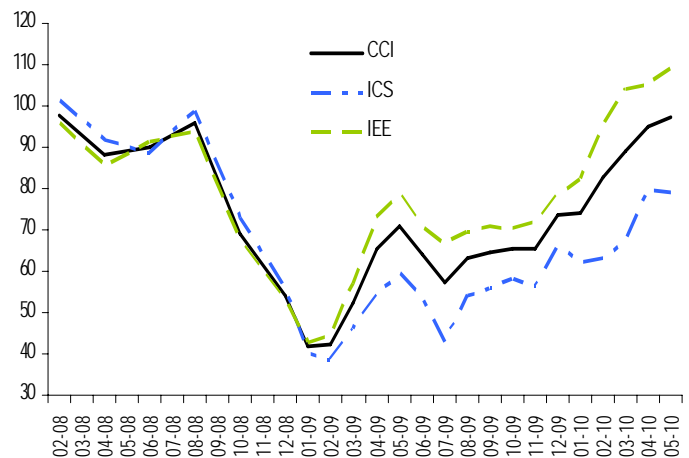
Source: State Statistics Committee of Ukraine

Signs of a stabilizing economy are now emerging, as evidenced in the moderating level of GDP decline in the fourth quarter of 2009, and the return to growth in the first quarter of 2010. That stability is reflected in improving consumer sentiment. However, this rise in consumers' moods is not supported by a comparable increase in their disposable income.

According to GfK Ukraine, its Consumer Confidence Index (CCI) continued to grow in May 2010, rising 2.3 points to 97.1, with only 2.9 points to reach the threshold of optimism. Optimistic economic expectations were the main driver of the improvement in the consumer mood among Ukrainians.

However, despite slight growth in the assessment of improved personal financial standing, most Ukrainian consumers remain reluctant to part with their savings, as was demonstrated by contraction in their propensity to consume. This could indicate that the wave of optimism tied to the arrival of a new government has begun to die down and that the CCI will begin to stabilize again at a lower level.

Consumer confidence improved largely due to continuing growth in the Index of Economic Expectations (IEE), which rose 4.1pp to 108.9. Meanwhile, assessments of the current situation (ICS) contracted by 0.5pp to 79.3, largely because of a decline in the propensity to consume.



CCI- Consumer Confidence Index; ICS – Index of the Current Situation; IEE – Index of Economic Expectations.

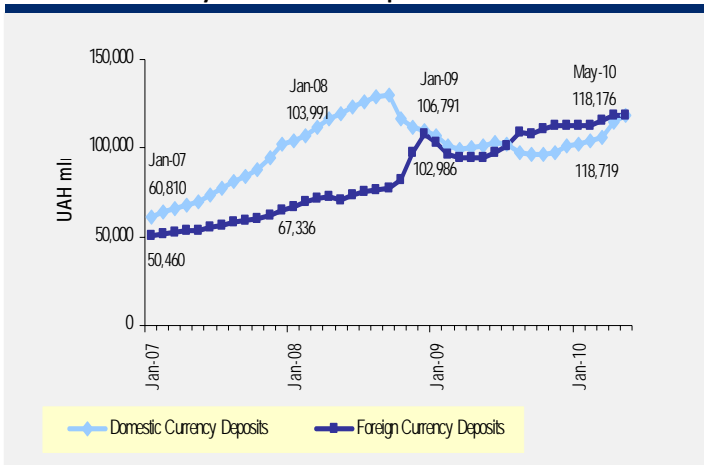
Source: GfK Ukraine, International Center for Policy Studies

Recovering optimism is also evident in bank deposit data, where both domestic and foreign deposits of households increased in the first five months of 2010. Foreign deposits rose to UAH 118.176 billion at May 31, 2010.

Encouragingly, domestically denominated deposits rose to UAH 118.719 billion, exceeding foreign denominated deposits for the first time since August 2009.

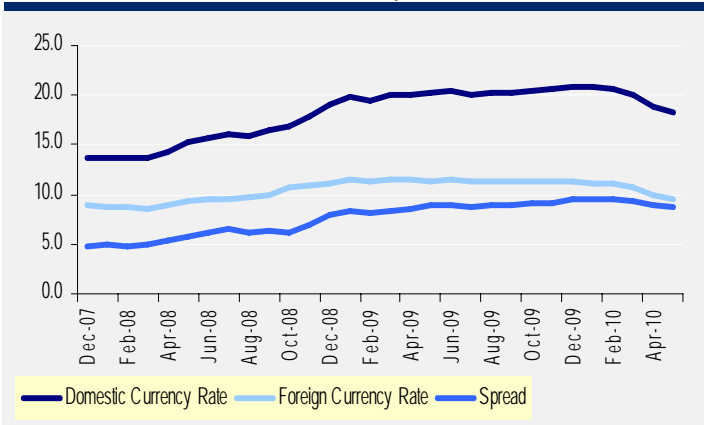
The relative stability of the hryvnia since the beginning of 2010 seems to have inspired growing confidence in the currency, as reflected both in the volume changes and the narrowing interest rate spread between the currencies.

Chart 2: Foreign Currency Denominated Deposits and Domestic Currency Denominated Deposits of Households



Source: National Bank of Ukraine

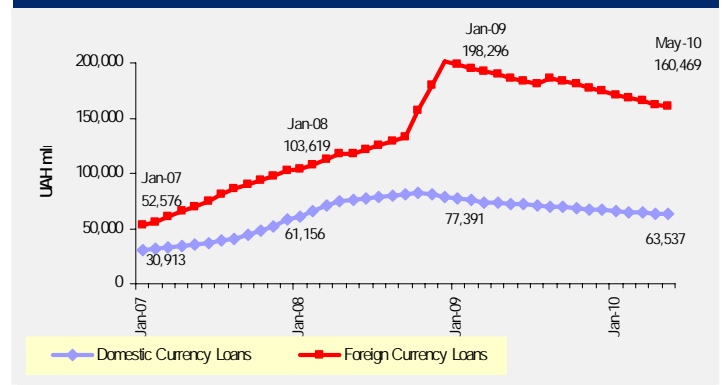
Chart 3: Deposit Rate Spreads: Domestic Currency - Foreign Currency



Source: National Bank of Ukraine

In spite of this improvement in consumer optimism, the growth of credit is still prospective rather than apparent. Loan volumes to households continue to contract from the highs of January 2009.

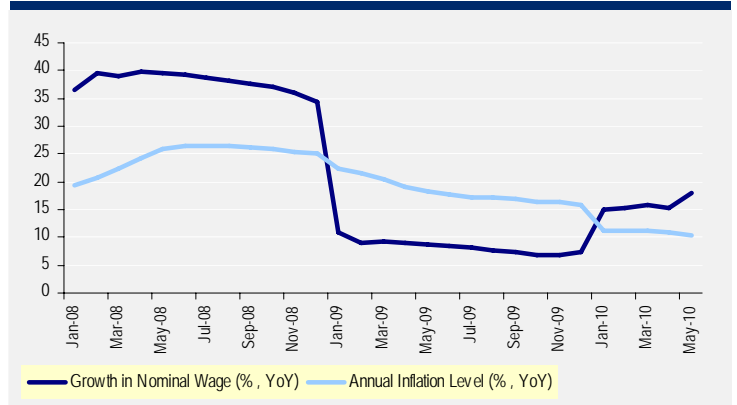
Chart 4: Foreign Currency Denominated Loans and Domestic Currency Loans to Households



Source: National Bank of Ukraine

Recent official statistics show that starting from January 2010 the growth in nominal wage has outpaced the inflation level. However, as stated by ING Bank's research department in its 31 May 2010 Financial Markets Snapshot, the positive wage data does not indicate the start of a recovery in the economy but rather shows some seasonal trends and the low base of comparison from last year.

Chart 5: Wage Growth Exceeds Inflation YTD



Source: State Statistics Committee of Ukraine / ING Bank

About the FINREP Consumer Banking Snapshot

The FINREP Consumer Banking Snapshot is a monthly covering issues related to the Ukrainian financial sector. For more information about FINREP, its projects or this or any other publication of FINREP please visit the project website at <http://www.finrep.kiev.ua/> or contact the project via e-mail at office@finrep.kiev.ua