



CONCORDE CAPITAL

Ukraine / Fixed income

Alfa Bank

NBU restrictions faulted for technical default

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Today Alfa Bank Ukraine *de facto* recognized technical default on its USD 100 mln Eurobonds due on May 4, 2009. The bank cited its inability to purchase sufficient US dollars on time. Looking forward, we believe Alfa will default on the early redemption of its '11 USD 250 mln Eurobond issue puttable this August. This will effectively turn the 3-month note into a 2.3 year security, with YTM of some 28%, half as much as the YTM's on similar issues of comparable banks, which implies massive price adjustment.

Security

Alfa Bank Ukraine'09
ISIN XS0360836380
Moody's Ba3

Security

Alfa Bank Ukraine'09
ISIN XS0279930449
Moody's Ba3

Security

Alfa Bank Ukraine'10
ISIN XS0311816234
Moody's Ba3

Security

Alfa Bank Ukraine'11
ISIN XS0379139529
Moody's Ba3
S&P CCC+

- Alfa Bank recognized in a letter to Eurobond holders that it missed the deadline to repay its USD 100 mln Eurobonds due May 4.

- The bank explained the technical default by its inability to purchase US dollars in the amount required for making scheduled payment, due to:

- Lack of supply of US dollars on the Ukraine interbank market
- New restrictions by the NBU in relation to F/X trading on the interbank market

Note:

According to NBU regulations, banks can only purchase foreign currency for the repayment of the principal amount with a portion of loan proceeds sold on the interbank market. At the same time, many banks have not been selling loan proceeds, or have not kept required evidence of such sales.

- According to the official letter from the bank, it is "taking active steps" to ensure the collection of sufficient US dollars to comply with repayment obligations within five business days. We believe the bank will comply with its obligation this time (with likely delays in repayment of up to 10 days).
- Yet, we expect a similar technical default on Alfa's USD 345 mln issue due in December with the same justification.
- All the more, the bank is likely to default on the early redemption of its '11 USD 250 mln Eurobond issue with a put option in August. In this case, Alfa will probably refer to another NBU restriction: the NBU bans F/X purchases under obligations which have not become due, and obligations under put options are not considered due.
- We do not rule out that in light of the rationale Alfa is using to delay the repayment on its currently due notes, the bank will seek to restructure all of its outstanding financial obligations already this year.
- The Alfa case shows that Ukrainian banks have reasonable excuse for technical defaults: compliance with NBU F/X rules. We expect more Ukrainian banks with nearing Eurobond maturity dates to use the same rationale to postpone debt repayments.

Issuer	Price	YTM, %	Amt outst, USD mln	Coupon, %	Maturity date	Put date
Alfa Bank Ukraine '09	n/a	n/a	100	9.75	05/04/09	
Alfa Bank Ukraine '09	70.0	93.3	345	9.75	12/22/09	
Alfa Bank Ukraine '10	58.0	63.7	450	9.25	07/26/10	
Alfa Bank Ukraine '11	77.0	27.7	250	12.00	08/11/11	08/11/09

Source: Bloomberg; cbonds; Concorde Capital

FLASH NOTE

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Financial statements, UAH

	2007	2008	1Q09
ASSETS			
Cash & balances with NBU	386,888	935,142	1,740,345
Due from banks	2,659,515	4,037,691	2,376,174
Gross loan portfolio	11,598,645	28,037,193	28,075,320
<i>Corporate</i>	8,127,146	19,808,703	20,503,538
<i>Retail</i>	3,471,499	8,228,490	7,571,782
Provision for loan impairment	419,183	2,216,975	2,924,378
Loan portfolio, net	11,179,462	25,820,218	25,150,942
Securities portfolio	372,118	377,830	341,578
Fixed & intangible assets	309,244	401,342	396,948
Accrued incomes	90,663	466,233	
Deferred tax assets	24,855	20,857	24,445
Other assets	55,021	250,785	
Total assets	15,077,766	32,310,096	30,387,100
LIABILITIES			
Due to banks	6,345,890	8,144,736	7,816,905
Customer accounts	5,245,943	19,148,005	9,909,992
<i>Corporate</i>	4,774,557	17,096,769	8,252,375
<i>Retail</i>	471,386	2,051,236	1,657,617
Debt securities issued	963,790	370,612	259,688
Accrued expenses	128,594	541,263	n/a
Deferred tax liabilities	41,169	42,932	47,928
Other liabilities	793,249	754,670	n/a
Total liabilities	13,518,636	29,002,219	27,216,636
EQUITY			
Share capital	1,370,000	2,976,565	2,976,565
Treasury stock	0	0	0
Emission differences	6	6	6
Banking reserves	23,471	67,518	65,184
Revaluation reserves	121,605	105,525	128,801
Retained earnings	44,047	158,262	-92
Total equity	1,559,129	3,307,877	3,170,464
Total liabilities & equity	15,077,766	32,310,096	30,387,100
<i>Capital adequacy ratio</i>	12.58%	13.88%	15.96%
Income Statement			
	2007	2008	1Q09
Interest income	1,158,651	3,031,549	1,292,708
Interest expense	(651,097)	(1,766,842)	(896,504)
Net interest income	507,554	1,264,707	396,204
Fee & commission income	299,180	622,982	139,992
Fee & commission expense	(9,482)	(53,967)	(44,757)
Net fee & commission income	289,698	569,014	95,235
Trading income	43,983	749,802	334,238
Other income	34,000	151,042	152,991
Net non-interest income	367,681	1,469,858	582,464
Total revenues	875,235	2,734,565	978,668
General administrative expense	(104,979)	(244,920)	n/a
Staff cost	(234,933)	(455,372)	n/a
Other expense	(75,762)	(227,045)	n/a
Operating expenses	(415,674)	(927,337)	n/a
Operating income	459,561	1,807,228	741,640
Provision for loan losses & other	(384,119)	(1,605,096)	(897,985)
Profit before tax	75,442	202,131	(156,345)
Income tax expense	(31,395)	(43,869)	(5,098)
Net income	44,047	158,262	(161,443)

Source: National Bank of Ukraine

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