



CONCORDE CAPITAL

Ukraine / Fixed income

**Alfa Bank**

**Eurobond restructuring launched**

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**Yesterday Alfa Bank Ukraine sent its Eurobond holders an offer to restructure the existing notes. A day before, Bloomberg reported that the bank hired HSBC and UBS as joint dealer managers in an upcoming liability management transaction. The news comes as a confirmation of our surmise expressed in our May 5 note that Alfa will most likely be seeking to restructure its outstanding debts. We expect a downward pressure on the prices of 2009 notes and 2011 notes putable this August to mount following the restructuring announcement, and recommend to decrease exposure to the securities.**

**The summary of the restructuring offer is as follows:**

Security

Alfa Bank Ukraine'09  
ISIN XS0279930449  
Moody's B3

Security

Alfa Bank Ukraine'10  
ISIN XS0311816234  
Moody's B3

Security

Alfa Bank Ukraine'11  
ISIN XS0379139529  
Moody's B3  
S&P CCC+

- Alfa proposes to pay upfront 27% of the face value of 2009 notes and 15% of the face value of 2010 notes and exchange the remaining portion of principal for new notes, if bond holders accept the exchange offer before July 14. If the offer is accepted after July 14 but before the offer expiration date on July 21, the existing notes will be replaced with the new ones without any upfront cash payment. The bank also wants to insert a call option for the two issues with the right to replace them with new notes if note holders do not opt for the exchange by the aforementioned deadlines.
- With regard to the 2011 issue, Alfa proposes to remove put option, like we expected in our May 5 note, and instead embed a call option. The bank offers a 27% cash payment and exchange of the rest of the principal for new notes if the offer is accepted before July 14, and 10% cash payment and exchange of the remaining principal for new bonds after that date, subject to a call option exercise.
- Note holder meeting for 2011 bonds is scheduled for July 16, and note holder meeting for 2009 and 2010 issues is on July 23. New notes offered for the exchange would have a 13% coupon payable quarterly and mature in August 2012. For their redemption, Alfa proposes an amortization schedule with equal quarterly instalments starting one year after the first coupon payment up until 2012.

**Our view on the restructuring:**

- Alfa's financial standing is worrisome enough to afford repaying USD 595 mln this year in 2009 note redemption and 2011 note put exercise. Specifically, in 1Q09 the bank reported net loss of UAH 161.4 mln (~USD 21 mln), its cash and due from banks combined totaled UAH 4,116 mln (~USD 535 mln) as of the end of 1Q09 vs. combined due to banks and customer accounts of UAH 17,729 mln (~USD 2302 mln) on the liabilities side. At the same time, the lender's provision for bad loans was in the vicinity of 10%, which we believe to be a significantly underestimated figure likely to raise to as high as 20-22% by the yearend and nearly zero equity account.
- With the publicized restructuring proposal Alfa is putting its bond holders under a severe time pressure in decision making. We believe the bank is in a position to insist on its restructuring terms blaming the hardships Ukraine's whole banking sector is undergoing. Additionally, investors' bet on the support of the bank's Russian parent should be seriously questioned, as there is a clear underestimation by the market of the decay in the Russian banking system, in our view. We expect a downward adjustment for prices of Alfa's 2009 notes and 2011 notes putable this August, both issues currently having triple digit yields.

Issuer	Price	YTM/YTP, %	Amnt outst, USD mln	Coupon, %	Maturity date	Put date
Alfa Bank Ukraine '09	72.0	95.5	345	9.75	12/22/09	
Alfa Bank Ukraine '10	69.0	50.1	450	9.25	07/26/10	
Alfa Bank Ukraine '11	80.0	24.7/232.1	250	12.00	08/11/11	08/11/09

Source: Bloomberg; CBonds; Concorde Capital

FLASH NOTE

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## Financial statements, UAH ths

	2007	2008	1Q09
<b>ASSETS</b>			
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
- Corporate	8,127,146	19,808,703	20,503,538
- Retail	3,471,499	8,228,490	7,571,782
Provision for loan impairment	419,183	2,216,975	2,924,378
<b>Loan portfolio, net</b>	<b>11,179,462</b>	<b>25,820,218</b>	<b>25,150,942</b>
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	
<b>Total assets</b>	<b>15,077,766</b>	<b>32,310,096</b>	<b>30,387,100</b>
<b>LIABILITIES</b>			
Due to banks	6,345,890	8,144,736	7,816,905
<b>Customer accounts</b>	<b>5,245,943</b>	<b>19,148,005</b>	<b>9,909,992</b>
- Corporate	4,774,557	17,096,769	8,252,375
- Retail	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
<b>Total liabilities</b>	<b>13,518,636</b>	<b>29,002,219</b>	<b>27,216,636</b>
<b>EQUITY</b>			
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
<b>Total equity</b>	<b>1,559,129</b>	<b>3,307,877</b>	<b>3,170,464</b>
<b>Total liabilities &amp; equity</b>	<b>15,077,766</b>	<b>32,310,096</b>	<b>30,387,100</b>
<i>Capital adequacy ratio</i>	<i>12.58%</i>	<i>13.88%</i>	<i>15.96%</i>
<b>Income Statement</b>			
	2007	2008	1Q09
Interest income	1,158,651	3,031,549	1,292,708
Interest expense	(651,097)	(1,766,842)	(896,504)
<b>Net interest income</b>	<b>507,554</b>	<b>1,264,707</b>	<b>396,204</b>
Fee & commission income	299,180	622,982	139,992
Fee & commission expense	(9,482)	(53,967)	(44,757)
<b>Net fee &amp; commission income</b>	<b>289,698</b>	<b>569,014</b>	<b>95,235</b>
Trading income	43,983	749,802	334,238
Other income	34,000	151,042	152,991
<b>Net non-interest income</b>	<b>367,681</b>	<b>1,469,858</b>	<b>582,464</b>
<b>Total revenues</b>	<b>875,235</b>	<b>2,734,565</b>	<b>978,668</b>
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
<b>Operating income</b>	<b>459,561</b>	<b>1,807,228</b>	<b>741,640</b>
Provision for loan losses & other	(384,119)	(1,605,096)	(897,985)
<b>Profit before tax</b>	<b>75,442</b>	<b>202,131</b>	<b>(156,345)</b>
Income tax expense	(31,395)	(43,869)	(5,098)
<b>Net income</b>	<b>44,047</b>	<b>158,262</b>	<b>(161,443)</b>

Source: National Bank of Ukraine

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