



CONCORDE CAPITAL

Ukraine / Fixed income

Finance & Credit Bank

Eurobond restructuring does not add value

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Finance & Credit Bank announced its proposal to restructure its USD 100 mln Eurobonds due January 25, 2010 this week. The bank is offering to extend the maturity by four years, a marginal coupon increase from 10.375% to 10.5% and 5% cash payment upfront. Given the owners' lack of support and the bank's weak financials, we deem restructured F&C Eurobonds, with implied YTM of ~23.7% s.a., as an unattractive investment opportunity.

Security

| | |
|-------------------------|---------------|
| FICBUA 10 3/8 | |
| ISIN | XS0275465879 |
| Price (16/12/2009, mid) | 68 |
| YTM (16/12/2009, mid) | 483.60% |
| Maturity date | Jan. 25, 2010 |
| Type | Bullet |
| Amt. outstanding | USD 100 mln |
| Coupon | 10.375% |
| Frequency | Semiannual |

Restructuring offer

| | |
|----------------------|---------------|
| Maturity date | Jan. 25, 2014 |
| Cash upfront payment | 5% |
| Type | Bullet |
| Amt. outstanding | USD 95 mln |
| Coupon | 10.5% |
| Frequency | Semiannual |

5-year extension accompanied by 5% cash upfront payment

This week Finance & Credit Bank announced it was offering holders of its USD 100 mln Eurobonds to extend the notes' maturity out four years, increase the coupon marginally from 10.375% to 10.5% and a 5% cash principal payment upfront. These terms are close to the preliminary offer revealed in July; back then F&C proposed a 3-year prolongation without upfront cash. The bank said it was planning to complete the restructuring by the end of January 2010.

F&C's liquidity position looks worrisome

Finance & Credit had USD 134 mln in cash as of end-3Q09, vs. USD 825 mln (or 41%) in liabilities subject to restructuring/prolongation. In addition to its Eurobonds, F&C is also working now to restructure USD 70 mln in syndicated debt that matured in March 2009, and other external debts worth ~USD 30 mln. Another at least 31% of liabilities (USD 625 mln) are loans due to the NBU (incl. a USD 305 mln stabilization loan), which, most likely, will also need to be restructured/prolonged.

F&C's liquidity problems are aggravated by deposit outflows: in 2Q09-3Q09 the bank lost 33.2% of its corporate deposits and 17.4% of its retail deposits vs. average inflows across the system of +2.3% and +5.6%, respectively.

No strong support from owners

As of end-3Q09, F&C's book equity to assets ratio stood at 12.2%, in line with the average for other large banks. However, we deem F&C's capital artificially inflated because of lower than average accumulated provisions (7.1% vs. 12.4% of all assets, according to UAS), while F&C's NPLs are not below the system average (~20-22% of all loans), we estimate. Accounting for additional provisions, F&C's Equity/Assets ratio drops below the sector average (7.6% vs. 11.6%).

With its liquidity problems and need for additional capital, F&C has not yet received any capital injections from its owners, nor agreed to be recapitalized by the government (the owners were ready to give away a 50%+1 stake in the bank but the government insisted on 75%+1).

Only in September 2009 F&C's owners decided to increase bank's capital by UAH 400 mln (USD 50 mln) or 20%. It is not clear though whether owners will actually inject capital into the bank, because the results of an additional share issue, for which subscription ended December 11, have yet to be released. The bank's owners backed a 36% share capital increase in September 2008, but reneged and the charter fund has sat pat at UAH 2 bln up until now.

Restructured F&C Eurobonds do not look attractive to us

The current price of F&C's Eurobonds of 68% of par implies a YTM of 23.7% s.a. for the restructured notes. In our view, YTM premium of 0.5-3 p.p. against FUJB's and Privat's notes does not compensate for worse financial conditions of F&C given currently inverted Ukrainian yield curves.

Recent Ukrainian Banks' Eurobond Restructurings

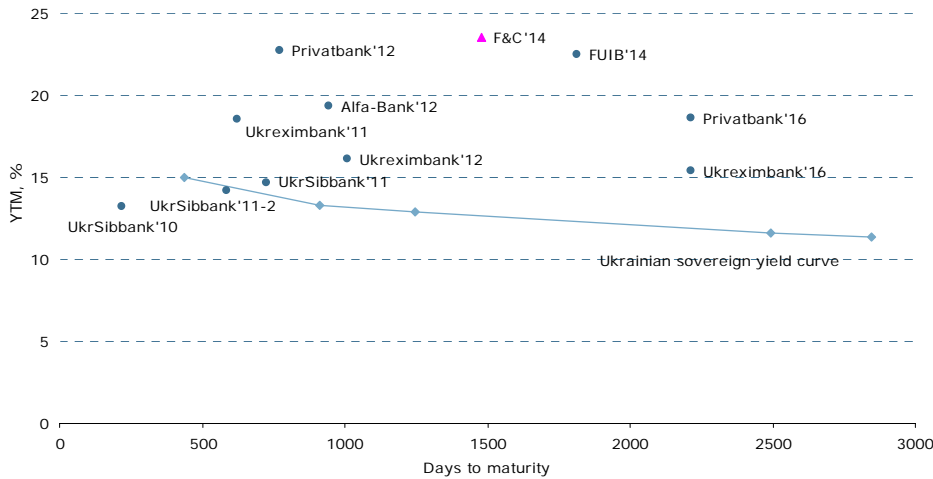
| Company | Restructuring initiation | Prolongation (years) | Upfront cash payment | New coupon rate, change from | Sinkability of new bonds | Additional notes |
|-----------------------------|--------------------------|----------------------|----------------------|-----------------------------------|--|---|
| Alfa-Bank | July 2009 | 3 | 15%-27% | 13% (quart), from 12% (s.a.) | Principal repayment starting second year | n/a |
| FUIB | December 2009 | 5 | 8% | 11% (quart), from 9.75% (s.a.) | None | Pledge by owners to increase share capital and prolong loans from the NBU |
| Finance & Credit | December 2009 | 4 | 5% | 10.5% (s.a.), from 10.375% (s.a.) | None | n/a |

Source: Company data

FLASH NOTE

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Ukraine Eurobond yield map, as of December 16, 2009


Source: Bloomberg, Concorde Capital

Financial statements, UAS

| | 2008 | | 1H09 | | 9M09 | |
|-------------------------------|----------------|----------------|----------------|---------------|----------------|----------------|
| | USD mln | % of Assets | USD mln | % of Assets | USD mln | % of Assets |
| Balance sheet | | | | | | |
| Cash&Cash equivalents | 174.5 | 7.3% | 194.9 | 8.5% | 133.9 | 5.8% |
| Due from banks | 84.3 | 3.5% | 49.7 | 2.2% | 73.4 | 3.2% |
| Loans to clients | 2,001.1 | 83.6% | 2,030.9 | 88.1% | 1,990.3 | 86.4% |
| Loans loss provision | -70.9 | -3.0% | -133.7 | -5.8% | -141.7 | -6.2% |
| Other | 205.8 | 8.6% | 163.6 | 7.1% | 247.4 | 10.7% |
| Total assets | 2,394.7 | 100.0% | 2,305.3 | 100.0% | 2,303.3 | 100.0% |
| Due to banks and bonds issued | 689.8 | 28.8% | 1,051.7 | 45.6% | 1,066.8 | 46.3% |
| Corporate deposits | 483.8 | 20.2% | 261.8 | 11.4% | 197.4 | 8.6% |
| Retail deposits | 857.0 | 35.8% | 586.5 | 25.4% | 546.9 | 23.7% |
| Subordinated debt | 13.0 | 0.5% | 13.1 | 0.6% | 20.5 | 0.9% |
| Other | 29.6 | 1.2% | 92.2 | 4.0% | 189.8 | 8.2% |
| Total liabilities | 2,073.1 | 86.6% | 2,005.3 | 87.0% | 2,021.3 | 87.8% |
| Share capital | 259.7 | 10.8% | 262.1 | 11.4% | 249.7 | 10.8% |
| Retained earnings | 59.9 | 2.5% | 35.9 | 1.6% | 30.5 | 1.3% |
| Other | 2.0 | 0.1% | 2.0 | 0.1% | 1.7 | 0.1% |
| Total equity | 321.6 | 13.4% | 300.0 | 13.0% | 281.9 | 12.2% |
| | 2007 | 2008 | | | 9M08 | 9M09 |
| Income statement | USD mln | USD mln | | | USD mln | USD mln |
| Net interest income | 64.30 | 93.50 | | | 66.59 | 71.45 |
| Net fee income | 57.62 | 71.99 | | | 57.21 | 26.07 |
| SG&A | -89.39 | -132.85 | | | -83.48 | -58.43 |
| Provisions accumulation | -34.33 | -63.36 | | | -33.72 | -61.30 |
| Other, net | 57.16 | 57.69 | | | 23.68 | -6.08 |
| Net income | 55.36 | 26.97 | | | 30.29 | -28.28 |

Source: Finance & Credit Bank, National Bank of Ukraine, Concorde Capital calculations

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