

# VAB Bank Eurobonds

## Reasonable restructuring offer

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**VAB Bank offered holders of its USD 125 mln Eurobonds to extend the maturity out 4-years, pay 10% cash upfront payment and increase the coupon to 10.5% from 10.125%. Given changes in VAB's ownership, smaller debt burden than its peers, we believe its spread of ~8.2 pp over the sovereign yield curve has the potential to narrow 1-1.5 pp in the nearest months.**

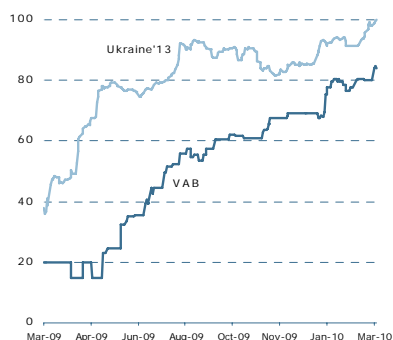
### Security

VABANK 10 1/8	
ISIN	XS0303241615
Price (10 Mar 2010, mid)	84.00
YTM (10 Mar 2010, mid)	86.47%
Maturity date	Jun. 14, 2010
Type	Bullet
Amount	USD 125 mln
Coupon	10.125%
Frequency	Semiannual

### Restructuring offer

Maturity date	Jun. 14, 2014
Cash upfront	10%
Amount	USD 112.5 mln
Coupon	10.5%
Frequency	Quarterly

### Bond prices, % of par, mid-market



Source: Bloomberg

### VAB offers 10% cash sweep, 4-year extension

Last Friday VAB Bank offered holders of its USD 125 mln Notes due on June 14, 2010 to extend the maturity out four years, pay 10% cash upfront (to investors who support the deal before March 19) and increase the coupon from 10.125% (semiannual) to 10.5% (quarterly). We expect the offer to be approved by noteholders at a March 22 meeting (the consent of 75% of the votes cast is required for this).

These terms are somewhat more favorable than those offered by FUIB and Finance and Credit (F&C) banks in December: they offered smaller cash sweeps (8% and 5%, respectively), but comparable prolongation periods (5 and 4 years) and coupon increases (to 11% and 10.5%). VAB's offer also looks reasonable given improved risk perception since end-2009: Ukraine's CDS dropped from above 1,200 bps to below 800 bps as of March 10.

### Owners' support, deposits inflow may extend for 2010

VAB's major shareholder, Netherlands-based private equity fund Kardan N.V., announced in January it would increase its stake to 98% by buying out local shareholder Sergey Maksimov's 35% stake for EUR 24 mln in 2010. We expect Kardan to continue developing VAB and for full ownership to give it more flexibility.

Last year VAB increased its charter fund by UAH 150 bln (USD 18.8 bln, 38%), and attracted a UAH 350 bln (USD 43.6 bln) tier-II capital subordinated loan. VAB's CAR rose from 12% as of end-2008 to 18.5% as of end-2009.

In January, VAB's retail deposits increased by 1.9% vs. the system average of +0.2%, continuing the trend from 4Q09, when its retail deposits rose 14.4%, vs. the system average of +4.5%.

### Debt burden smaller compared to peers

As of end-2009, VAB's outstanding debt securities, interbank borrowing (incl. from the NBU) and other liabilities constituted 40% of its assets, smaller than FUIB (49%) and F&C (52%). Furthermore, in December, VAB rolled over UAH 1 bln (USD 125 bln) in loans from the NBU for another year.

### Debt burden of banks, 2009E

	VAB	FUIB	F&C
Debt burden (% of Assets)*	40%	49%	52%
Incl. loans from NBU (% of Assets)	15%	12%	26%
Cash (% of Assets)	10%	15%	8%
USD mln	84	306	194
CAR (NBU rules)	18.51%	19.05%	12.32%

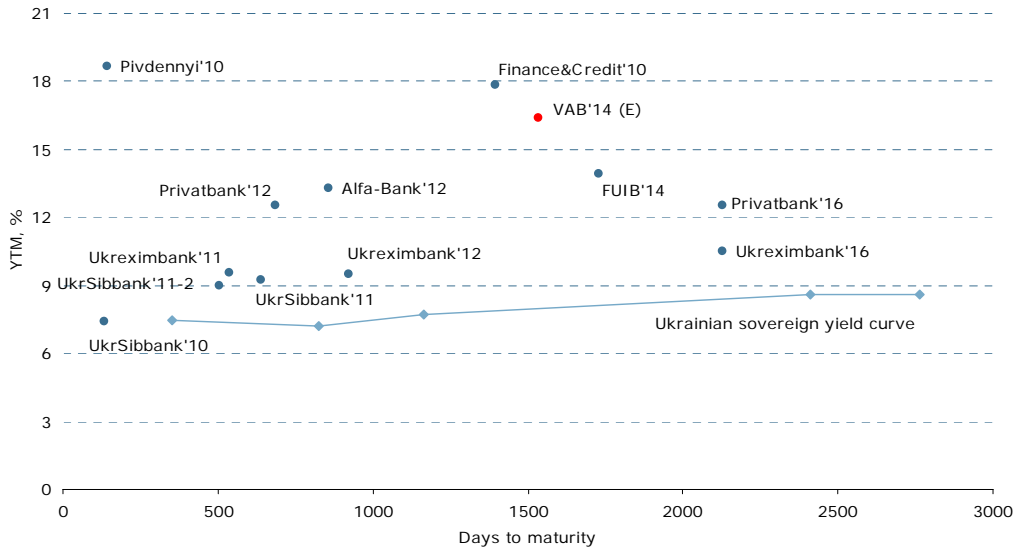
\*(Due to banks+Due to NBU+Debt securities issued+Other liabilities)/Assets

### VAB's restructured Eurobonds YTM of 16.4% could decline further

VAB's Eurobonds price of 84.75% of par implies a YTM of ~16.4% (semiannual) for the restructured Notes, a ~8.2 pp spread over the sovereign yield curve (vs. FUIB's spread of 5.8 pp). Given the changes in VAB's ownership, smaller debt burden than its peers, we believe its spread has the potential to narrow 1-1.5 pp in the nearest months.

### Recent Ukrainian bank Eurobond restructurings

Company	Restructuring Initiation	Prolongation (years)	Cash upfront payment	New coupon rate, change from	Sinkability of new bonds	Additional
Alfa-Bank	July 2009	3	15%-27%	13% (quarterly), from 12% (s.a.)	Principal repayment starting second year	n/a
FUIB	December 2009	5	8%	11% (quarterly), from 9.75% (s.a.)	None	Owners pledged to up share capital and extend NBU loans
Finance & Credit	December 2009	4	5%	10.5% (s.a.), from 10.375% (s.a.)	None	n/a
VAB Bank	March 2010	4	10%	10.5% (quarterly), from 10.125% (s.a.)	None	n/a

**Ukraine Eurobond yield map, as of March 10, 2010**


Source: Bloomberg, Concorde Capital

**Financial statements, IFRS**
**Balance sheet summary, USD mln**

	2007	2008	2009E
Cash & Equivalents	199	88	84
Due from Banks	1	2	2
Loans	911	808	765
Less Provisions	(18)	(50)	(104)
Other Assets	117	80	106
<b>Total Assets</b>	<b>1,211</b>	<b>928</b>	<b>853</b>
Due To Banks	174	162	208
Clients' Deposits	738	503	377
Debt Securities Issued	153	133	125
Other Liabilities	2	7	8
Subordinated Debt	20	20	65
<b>Total Liabilities</b>	<b>1,088</b>	<b>825</b>	<b>783</b>
Share Capital	128	109	134
Retained Earnings	(4)	28	(15)
Other Equity	(1)	(34)	(49)
<b>Total Equity</b>	<b>123</b>	<b>103</b>	<b>70</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,211</b>	<b>928</b>	<b>853</b>

**Income statement summary, USD mln**

	2007	2008	2009E
Net Interest Income	37.0	76.6	65.1
Provisions Change	(4.8)	(50.2)	(54.3)
<b>NII After Provisions</b>	<b>32.3</b>	<b>26.3</b>	<b>10.8</b>
Net Fees Income	15.9	19.5	14.0
SG&A	(59.8)	(82.7)	(66.2)
Other Income/(Expense)	14.3	24.0	5.0
<b>EBT</b>	<b>2.7</b>	<b>(12.9)</b>	<b>(36.4)</b>
Taxes	(0.9)	1.3	0.0
<b>Net Income</b>	<b>1.8</b>	<b>(11.5)</b>	<b>(36.4)</b>

**Selected Ratios**

	2007	2008	2009E
Loans loss provisions/Total loans	2.0%	6.1%	13.6%
Loans/Deposits	124%	161%	203%
Interest Rate Margin		8.9%	8.3%
Cost/Income		86.1%	83.6%
Cost/Avg Assets		7.5%	6.8%
Pre-provision RoA		3.5%	1.9%
RoA		-1.1%	-4.1%
RoE		-10.2%	-42.0%

Source: VAB Bank, NBU, Concorde Capital calculations

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