

Russian Debt Market Overview

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Fixed Income Research

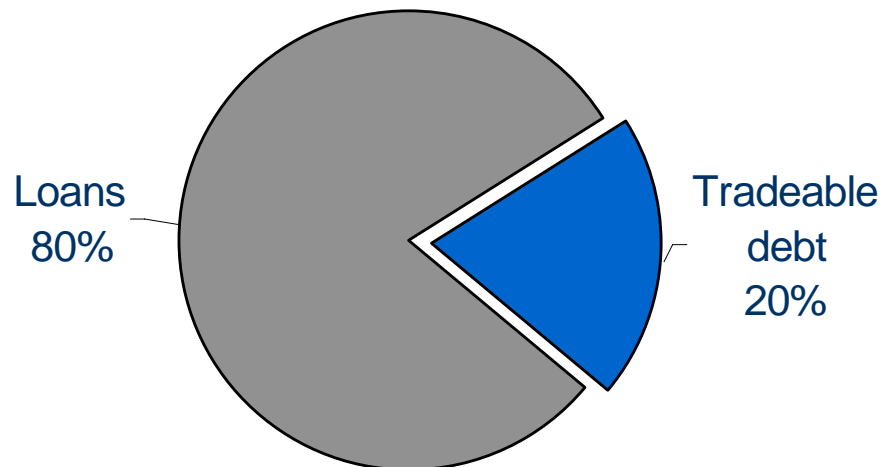
MDM Bank

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KEY COMPONENTS:

1. Eurobonds – \$126bn
2. Ruble bonds – \$100bn
3. Loans issued by locally registered financial institutions – \$640bn
4. Loans issued by foreign financial institutions to local companies – around \$200bn

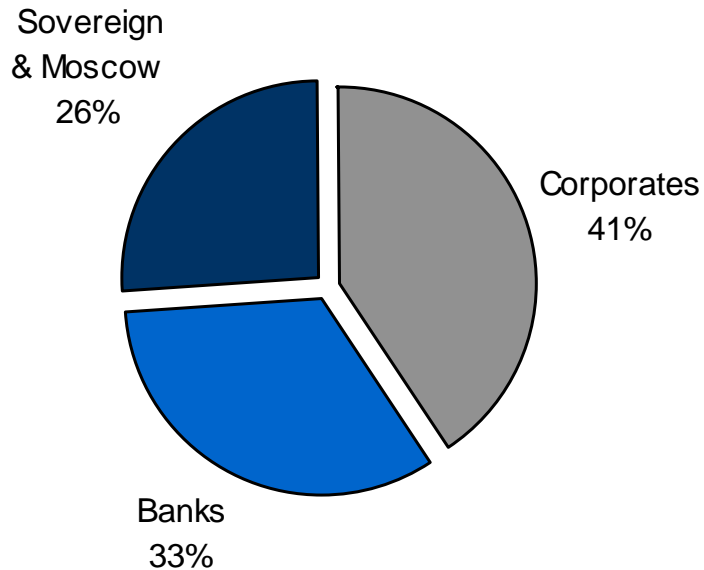
Approx. structure



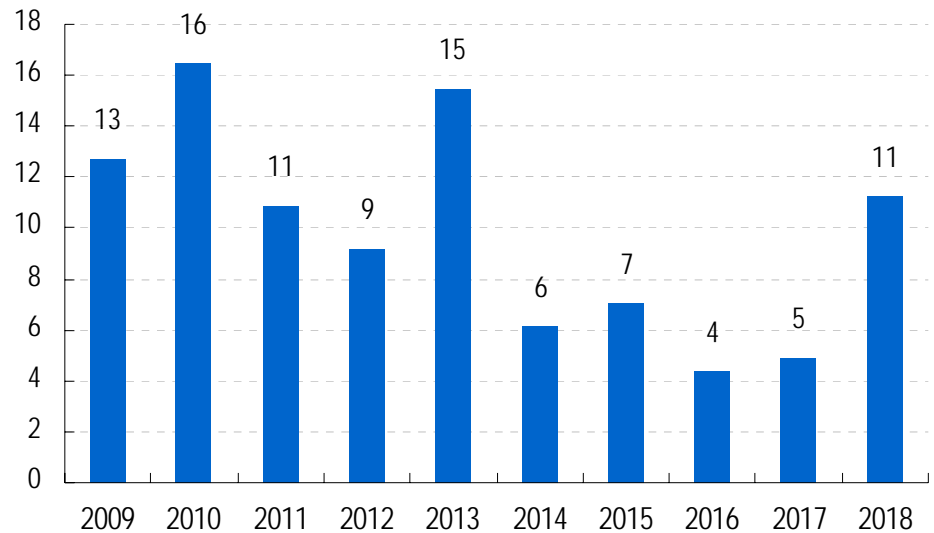
EUROBONDS

- ❑ 241 issues with a total volume of \$126bn
- ❑ Average size \$500m, ex sovereign \$400m
- ❑ Top issuers: Gazprom (\$23bn) and VTB (\$11bn)
- ❑ Lowest yielding: Gazprom (6%-12%)
- ❑ Trading is usually “over-the-counter”
- ❑ Highest yielding: TRUST Bank (200%), Rolf Group (150%)
- ❑ Defaults to date: Marta, RTM, FLC, Nutritek InLada, SSK
- ❑ “Forced” restructuring: Mirax
- ❑ Last issuance: August 2008 (Probusinessbank)
- ❑ Gazprom on the road now with a small CHF deal

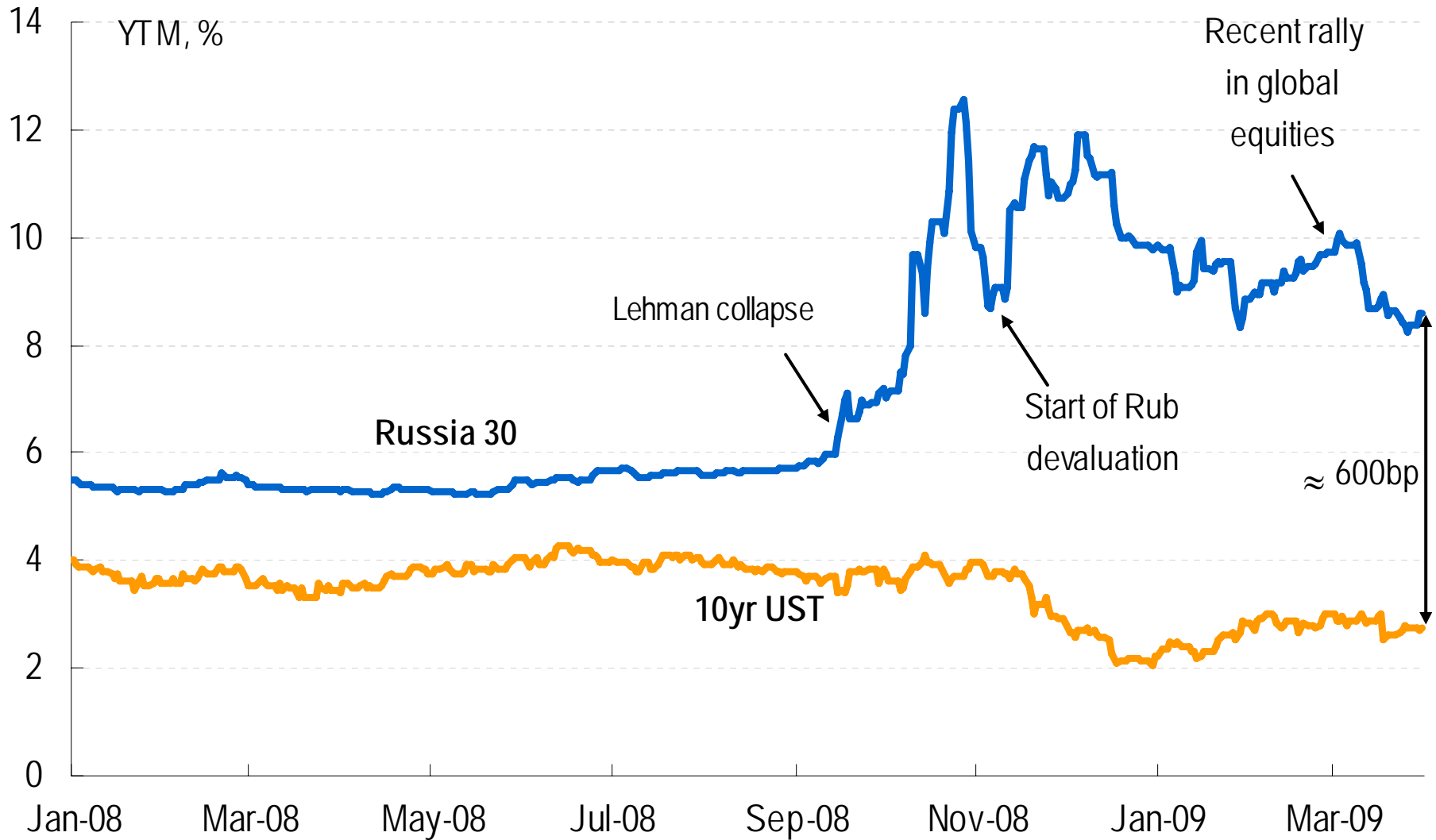
Sector breakdown by volume



Russian Eurobonds: aggregate maturity



EUROBOND YIELDS: WHERE ARE WE NOW?

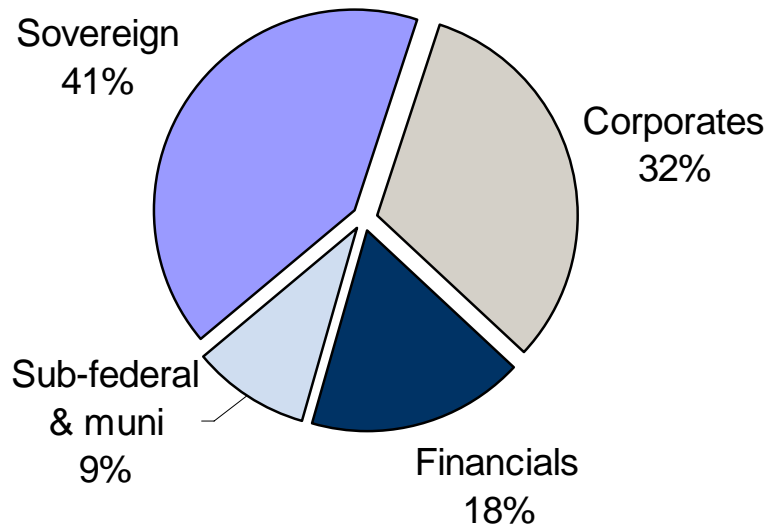


RUBLE BONDS

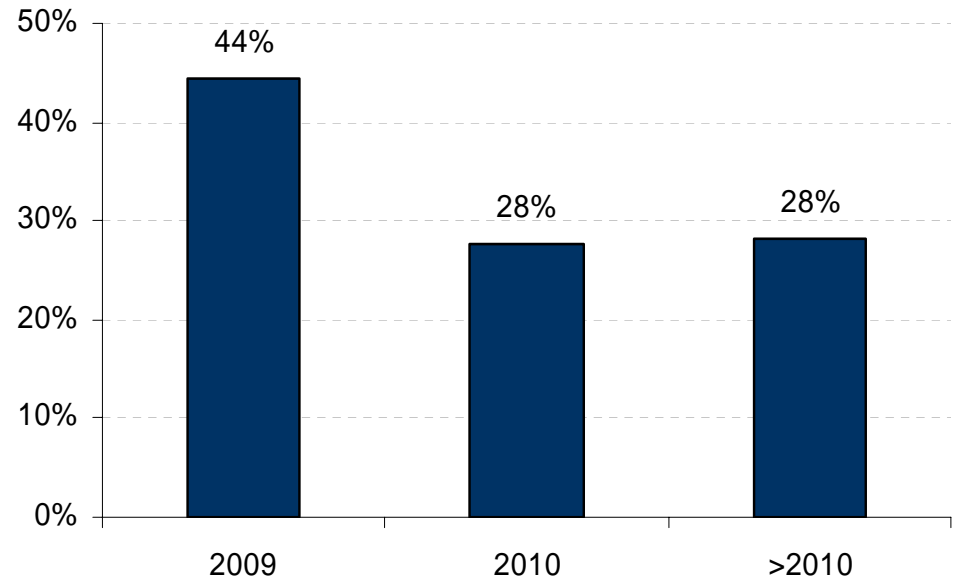
- ❑ 705 issues with a total of almost \$100bn
- ❑ Average size \$140m
- ❑ Top issuers: Russian Rail and Mosoblast (\$3bn each)
- ❑ “Floor” for yields – CBR’s overnight repo rate (12%)
- ❑ Trading volumes are low; everything goes via MICEX

- ❑ Defaults to date: 63 affecting RUB93bn of debt
- ❑ Outrageous defaults: Mosoblast’s subsidiary MOIA
- ❑ Issuance: plenty of “technical” issues aimed at CBR repo. Almost no “real” deals

Sector breakdown by volume



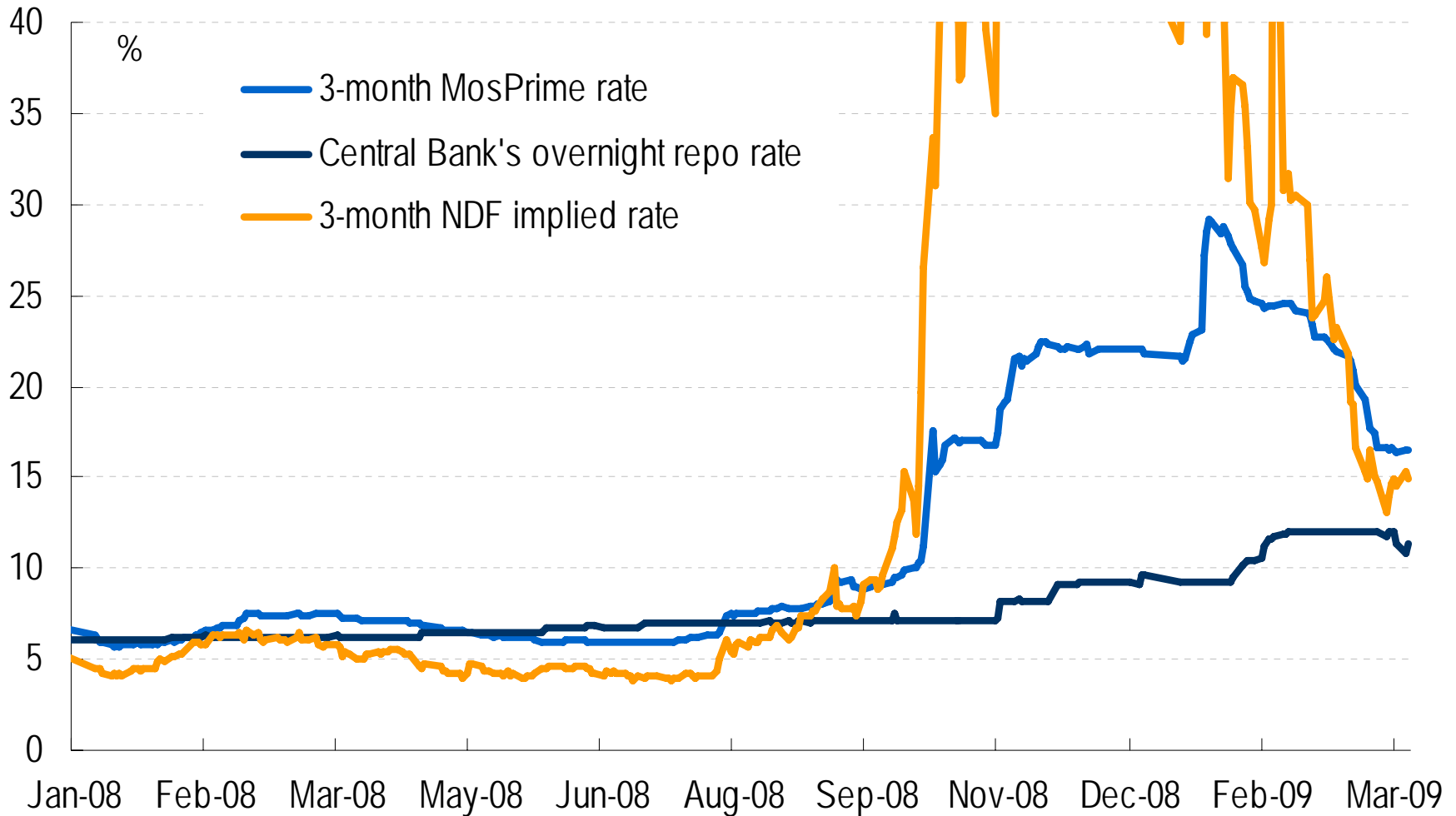
Ruble bonds: maturity profile



WEAKNESSES OF RUBLE BONDS

- No covenants
- Awkward disclosure requirements
- No T+N trading, hence almost no short trading – the entire market is long
- Corporate bonds are not tradable quite a few days after placement and during coupon payouts
- Agreements on restructuring are only possible when ALL bondholders vote unilaterally

LOCAL RATES ARE LARGELY A FUNCTION OF A VIEW ON RUBLE



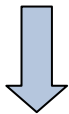
DEBT RESTRUCTURING IN FASHION

Stage 1 (2002-2007):

- no defaults
- debt capital is a commodity



Reputation is a valuable asset



Issuers perceive bond debt as a very senior one and try everything to avoid defaults

Stage 2 (2008-Now):

- plenty of defaults and restructurings
- debt capital is not available



Issuers no longer have respect to creditors



Issuers behave opportunistically. They reduce disclosure/communication, conduct quiet buybacks, force into restructurings etc.

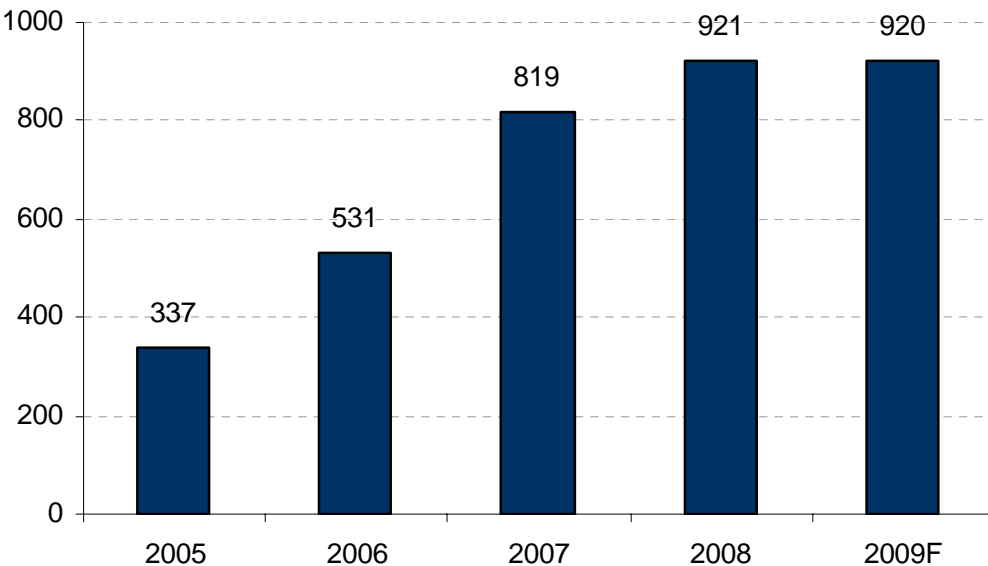
OUTLOOK FOR THE RUSSIAN BOND MARKET

- The market will continue to shrink as maturities will exceed new issuance
- New deals will be limited to top tier names and/or “private” transactions
- Many more defaults and restructurings
- Ruble yields will eventually come down – economy cannot live long when they start from 12%. Question is at which level of RUB?

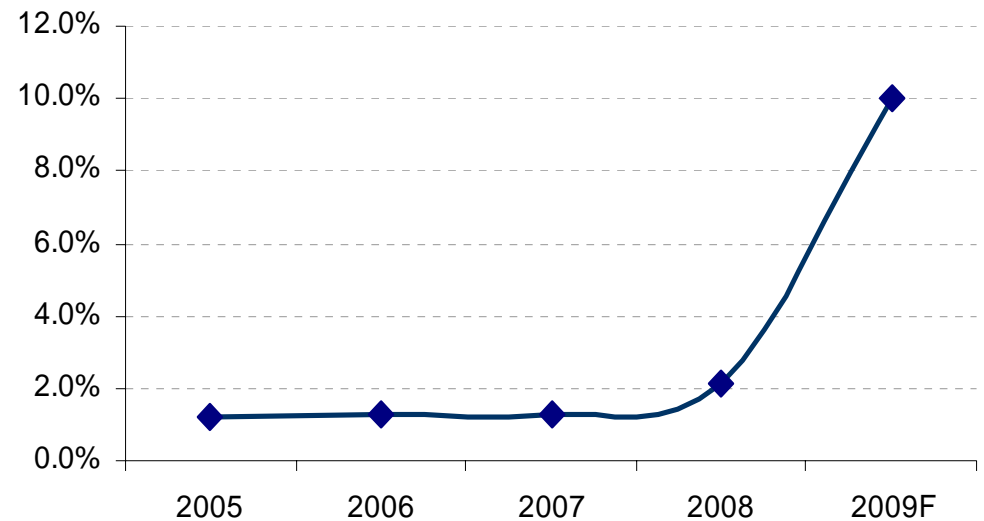
BIG PICTURE VIEW ON THE RUSSIAN BANKING SYSTEM

- ❑ Rising NPLs, weakening profitability, eroding capital, negative rating actions
- ❑ Benign approach from the regulators on the supervision, prudential and refinancing fronts
- ❑ Banks will be creative in accounting efforts and stay busy looking for capital
- ❑ Banks will be aggressive in trying to strengthen the deposit base (Loans/Deposits ratio > 180%)
- ❑ Consolidation activity will further increase (legislation has been improved here)
- ❑ ASV will take care of the majority of the falling banks

Banks' aggregate assets, USD bn



Average NPLs



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