SOVLINK
YOUR FIRST CALL – FOR THE SECOND TIER

August 10, 2007

Vozrozhdenie

Flash Note

Positive 1H07 results

Analyst: Olga Belenkaya
belenkayao@sovlink.ru

Stock data

Ticker	VZRZ, VZRZP	M.Cap, $ mn	1,454
Shares Ords	23,748,694	Free Float, %	40%
Shares Prefs	1,294,505	Free Float, $ mn	576
Bid Ords, $	60.25	Offer Ords, $	62.00
Bid Prefs, $	30.00	Offer Prefs, $	47.00

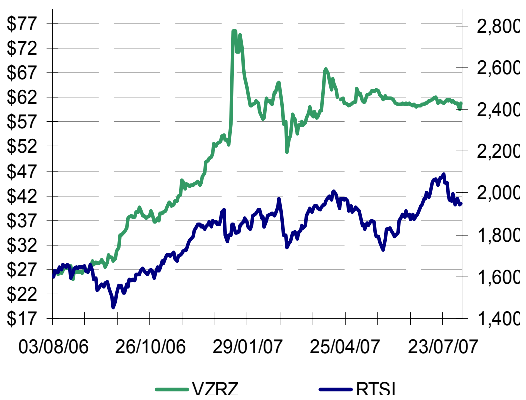
Market performance

		1 month	6 months
Absolute	Ords	-0.1%	2.9%
Relative to RTSI	Ords	1.0%	1.1%
Price range, $			
High	Ords	61.6	75.4
Low	Ords	59.5	50.8

Financials, 2007E

Assets, $ mn	4554.7	ROE	19.5
Book Value, $ mn	455.56	P/E	23.1
Net income, $ mn	64.5	P/BV	3.3

VZRZ – Relative performance



Source: RTS, MICEX

• On August 9, Vozrozhdenie Bank reported its 1H07 IFRS results. In comparison to 1H06, net income almost doubled (97%) to 674 mn roubles ($26.1 mn), which slightly exceeded the consensus ($24.5 mn) and ROE rose to 20.1%, versus the 2006 average of 19.1% and 19.5% in 1H06. We note that the bank's long-term ROE target is 20-25%.

• The bank's higher profitability is based on the rapid growth in net interest income (71%) – due to an increased proportion of interest-earning assets – as well as the growth in stable fee and commission income (31%). As a result, the bank's operational income increased by 54% while 43% of operational income consisted of non-interest income.

• We also highlight the high growth rates of the bank's assets (26% YTD and 62% y-o-y) and its loan portfolio. As a consequence, loans as a % of total assets increased to 77% from 71% on Jan 01, 2007. The significant increase in equity capital (to $413 mn) as a result of the SPO in May helped the bank expand its credit portfolio more sharply.

• According to its loan portfolio structure, the bank continues to focus on retail loans (17% (versus 16.5% at the beginning of the year) and SME credits (60.8% against 63.2% as on Jan 01). These types of loans are currently the most profitable in Russia. Consequently, the bank enjoys high asset yield (about 12%) and its net interest spread is also very attractive (6.9%) – although it is lower than 1H06 (8.4%).

• The bank's retail loans have increased by 40% YTD and more than doubled from July 01, 2006 (+117%). Mortgages account for almost half of all household credits (49%) and have grown the fastest (+48% YTD, +164% - y-o-y).

• The substantial improvement in the bank's efficiency indicator (costs/income) has also played a crucial role. The bank managed to lower this ratio to 65.3% from the abnormally high (72.9% in 1H06, 72.3% – average for 2006). The bank's target range for the costs/income ratio is 60-65%. Growth in operational expenses slowed from 50% in 1Q07 to 39% in 2Q07 which boosted PBT (+90%).

• The bank plans to issue rouble bonds amounting to at least $3 bn in the domestic market this year and wants to avoid foreign borrowings because of the high costs involved and market volatility. The bank does not plan any additional SPOs during the year.

• We interpret Vozrozhdenie's 1H07 IFRS results positively (and close to market expectations). The bank has demonstrated sustainable growth, low credit exposure, moderate increase in profitability and improved its cost efficiency.

Tel.: +7 495 967 1300
Fax: +7 495 967 1311

Table1 –Balance sheet summary, mn roubles

	On 01.07.2007	On 01.04.2007	On 01.07.2007	Change 1H07 – YTD	Change 1H07 – y-o-y	Change 1Q07 – q-o-q	Change 2Q07 – q-o-q
Assets Loans (gross)	92,806	81,596	73,426	26.4%	62.1%	11.1%	13.7%
As a % of assets Retail loans	73,454	63,158	54,380	35.1%	78.6%	16.1%	16.3%
As a % of loans	71%	75%	77%	-	-	-	-
SME loans	12,614	10,126	8,982	40.4%	117.0%	12.7%	24.6%
As a % of loans	16.5%	16.0%	17.2%	-	-	-	-
Retail deposits	44,628	41,217	34,353	29.9%	58.8%	20.0%	8.3%
As a % of customer accounts	63.2%	65.3%	60.8%	-	-	-	-
Shareholders' equity	42,200	38,980	37,785	11.7%	39.0%	3.2%	8.3%
Assets	62.3%	62.1%	60.8%	-	-	-	-
Loans (gross)	5,509	5,784	10,660	93.5%	194.9%	5.0%	83.4%

Source: Company data, Sovlink estimates

Table 2 – Income statement summary, mn roubles

	1H07	1H06	1H07 vs 1H06	1Q07	1Q06	1Q07 vs. 1Q06	2Q07	2Q06	2Q07 vs. 2Q06
Interest income	4,350	2,746	58.4%	1,994	1,253	59.1%	2,356	1,493	57.8%
Interest expenses	-1,896	-1,309	44.8%	-882	-640	37.8%	-1,014	-669	51.6%
Net interest income	2,454	1,437	70.8%	1,112	614	81.1%	1,342	823	63.1%
Net fee and commission income	1,976	1,240	59.4%	878	512	71.5%	1,098	728	50.8%
Operating income	1,291	987	30.8%	601	444	35.4%	690	543	27.1%
Operating expenses	3,459	2,251	53.7%	1,569	1,012	55.0%	1,890	1,239	52.5%
PBT	-2,572	-1,785	44.1%	-1,194	-795	50.2%	-1,378	-990	39.2%
Net income	887	466	90.3%	375	217	72.8%	512	249	105.6%
Interest income	674	342	97.1%	275	166	65.7%	399	176	126.7%

Source: Company data, Sovlink estimates

Table 3 -– Ratio analysis, %

	2007H1	2006H1	2007Q1	2006Q1
Asset yield	12.0%	13.7%	12.0%	12.7%
Funding costs	-5.1%	-5.3%	-4.9%	-4.9%
Net interest spread	6.9%	8.4%	7.1%	7.8%
ROE	20.5%	19.9%	19.5%	19.8%
ROA	1.7%	1.3%	1.4%	1.3%
Cost/Income	65.3%	72.9%	66.2%	71.4%

Source: Company data, Sovlink estimates

Tel.: +7 495 967 1300
Fax: +7 495 967 1311

STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

SOVLINK LLC
Tel.: +7 495 967 1300
Fax: +7 495 967 1311

Kremlin Embankment 1, building 2,
Moscow 119019, Russia
www.sovlink.ru
research@sovlink.ru