



# Vozrozhdenie Bank

Flash  
Note

**HOLD**

**Upside: 8%**  
**Target Price: \$70.8<sup>1</sup>**

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## Stock data

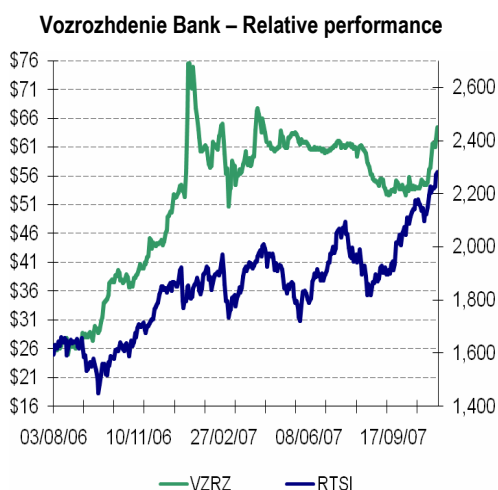
Ticker	VZRZ, VZRZP	M.Cap, \$ mn	1,424
Shares Ords	23,748,694	Free float	40%
Shares Prefs	1,294,505	Free float, \$ mn	576
Bid Ords, \$	63.44	Offer Ords, \$	65.87
Bid Pref, \$	34.33	Offer Prefs, \$	36.23

## Market performance

		1 month	6 months
Absolute	Ords	19.5%	0.9%
Relative to RTSI	Ords	12.4%	-17.5%
Price range, \$			
High	Ords	65.3	65.3
Low	Ords	53.8	52.7

## Financials, 2007E

Assets, \$ mn	4554.7	ROE	19.5
Book value, \$ mn	455.56	P/E	25.5
Net income, \$ mn	64.5	P/BV	3.4



Source: RTS, Sovlink

## Strong 9M07 results

- On November 8, Vozrozhdenie Bank reported its 9M07 IFRS results. In comparison to 9M06, net income almost doubled (98%) to 1,216 mn roubles (\$48.7 mn), which exceeded the consensus forecast of \$44.5 mn and its ROE rose to about 20%, versus 19.1% in 9M06. (A ROE of 20-25% is the bank's mid-term target.)
- The bank's asset growth rate slowed to 8.1% in 3Q07/2Q07, (which is typical for the Russian banking sector as a whole) as a consequence of the global credit crunch and the lower liquidity levels in Russia. The bank's loan portfolio growth also became noticeably slower (8.7%). However, despite the difficult market conditions, the bank managed to substantially increase its retail loan portfolio by 20.8% q-o-q, and 69.6% YTD. It also increased the proportion of retail loans in its loan portfolio from 16.5% at the beginning of the year to 19%.
- Despite deteriorating conditions on global capital markets, the bank managed to raise a 2-year syndicated loan amounting to \$53 mn on better terms than in March 2007 (6M Libor + 1.2 p.p. vs 6M Libor + 1.8 p.p.). Initially, in August, the bank had planned to borrow more – up to \$100 mn; however, it decided to raise a smaller amount at a lower cost. The bank's funding costs haven't increased since 3Q06. At the same time, the bank's asset yield has remained very high because of the high proportion of profitable retail and SME loans. As a result, the bank has managed to maintain its extremely high interest spread (7.2% - 9M07, 6.9% - 3Q07).
- Net interest income increased by 66% in comparison to 9M06. Net fee & commission income grew by 33% due to the expansion of its banking operations. Operating income increased by 56%, whilst the proportion of non-interest income of 43% (which is typical for the bank) protects the bank's income in case of a decline in its interest margins.
- The substantial improvement in the bank's Cost/Income ratio is another key positive feature. The bank managed to reduce this ratio to 62.7% from 68.6% in 9M06 and 72.3% in 2006. In 3Q07 the Cost/Income ratio improved to 58.3%, which is better than the bank's mid-term target of 60-62%.
- The bank has very low exposure to capital markets as 85% of its liabilities are related to customer accounts, and no portion of its market debt matures until the end of the year. This is especially advantageous for the bank, taking into account the uncertainty prevalent in global capital markets.
- We interpret Vozrozhdenie's 9M07 IFRS results positively – particularly, when taking into account the liquidity problems of the Russian banking sector in 3Q07. In our opinion, the market has already incorporated these results in the bank's share price, which has risen by over 18% over the past two weeks and has reached our 2007-end target price. Although the bank's share price has met our year-end target price of **\$64.7** per ordinary share, we estimate a fair price of **\$70.8** in **12 months'** time, giving potential upside of **8%** from the current closing market price of \$65.3. We therefore lower our BUY recommendation to **Hold** on its ordinary shares (as our year-end target price has been met).

<sup>1</sup> \*12 month target price

**SOVLINK**

YOUR FIRST CALL – FOR THE SECOND TIER

November 9, 2007

**Table 1 – Balance sheet summary, mn RUR**

	As of 01.10.2007	As of 01.01.2007	Changes in 9M07 – YTD, %	Changes in 1Q07/4Q06 – q-o-q	Changes in 2Q07/1Q07 – q-o-q	Changes in 3Q07/2Q07 – q-o-q
Assets	100,277	73,426	36.6%	11.1%	13.7%	8.1%
Loans to customers (gross)	79,836	54,380	46.8%	16.1%	16.3%	8.7%
As a % of assets	77%	71%				
Retail loans	15,234	8,982	69.6%	12.7%	24.6%	20.8%
As a % of loan portfolio	19.0%	16.5%				
SME loans	48,688	34,353	41.7%	20.0%	8.3%	9.1%
As a % of loan portfolio	61.0%	63.2%				
Retail deposits	44,909	37,785	18.9%	3.2%	8.3%	6.4%
As a % of customer accounts	59.20%	62.3%				
Shareholders' capital	11,202	5,509	103.3%	5.0%	83.4%	5.1%

*Source: Company data, SOVLINK estimates***Table 2 – Income statement summary, mn RUR**

	9M07	9M06	9M07 / 9M06	3Q07	3Q06	3Q07/3Q06
Interest income	6,901	4,380	58%	2,551	1,634	56%
Interest expenses	-2,996	-2,028	48%	-1,100	-719	53%
Net interest income	3,905	2,352	66%	1,451	915	59%
Net fee & commission income	2,060	1,546	33%	769	559	38%
Operation income	5,562	3,555	56%	2,103	1,304	61%
Operation expenses	-3,962	-2,761	43%	-1,390	-976	42%
PBT	1,600	794	102%	713	328	117%
Net income	1,216	615	98%	542	273	99%

*Source: Company data, SOVLINK estimates***Table 3 – Ratio analysis, %**

	9M07	9M06	3Q07	3Q06
Asset yield	12.3%	13.4%	12.1%	13.7%
Funding costs	-5.1%	-5.2%	-5.2%	-5.2%
Net interest spread	7.2%	8.1%	6.9%	8.5%
ROE	19.8%	19.1%	19.8%	24.4%
ROA	1.9%	1.5%	2.2%	1.8%
Cost/Income	62.7%	68.6%	58.4%	61.9%

*Source: Company data, SOVLINK estimates*



## STOCK RATING POLICY

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<b>STRONG BUY:</b>	Upside over 25%; confidence level – high / upside over 100%; confidence level - low
<b>BUY:</b>	Upside between 15 and 25%; confidence level – high / upside between 25% and 100%; confidence level – low
<b>HOLD:</b>	Upside of less than 15%; confidence level – high / upside of less than 25%; confidence level – low
<b>SELL:</b>	Target price at or below current price levels

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