

**VTB-Severo-Zapad (PCBS) – The terms of the offer****Analyst: Olga Belenkaya**

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Today, VTB 24 (the retail subsidiary of VTB) announced the terms of its offer to minority shareholders of VTB-Severo-Zapad (formerly PSB). It implies a buyout price of RUR 41.72 per share and a swap ratio of 361 VTB shares for 1 PSB share. Shareholders are allowed to divide their portfolio and swap/sell it in parts. The offer is valid from November 15 to December 14. Shareholders should register their contracts at the offices of VTB Severo-Zapad: depository fees will be waived on these transactions.

The terms of the offer terms are quite similar to the previous scheme for the proposed merger of VTB and VTB Severo-Zapad, which was postponed in early September because the adverse global market conditions could have encouraged VTB's creditors to exercise their rights to demand the early redemption of its liabilities (including Eurobonds) in case of a reorganisation.

VTB owns 75% of VTB Severo-Zapad, and the remaining 25% belongs to minority shareholders.

VTB Severo-Zapad's market price fall from RUR 42 to 41.6 per share after the offer was published. In our opinion, the VTB group could consolidate 95% of VTB Severo-Zapad. In such cases, Russian law grants the majority shareholder the right to buy out the remaining shareholders. Therefore, in our opinion, minority shareholders should accept the bank's offer. VTB's strategy implies that VTB Severo-Zapad will focus on corporate business, whilst its retail business will be transferred to VTB 24.

At the present moment, a buyout is preferable to a (1:361) swap. The swap would become more attractive if VTB's price exceeded RUR 0.116. We note that VTB's share price performance has been weak, as it has fallen by 16% in comparison to its IPO price. The negative attitude of global investors towards the banking sector, in the wake of the credit crunch and problems facing foreign banks is part of the reason that VTB's shares have fallen in value. (VTB is the only Russian bank, whose GDRs are actively traded on the LSE.) At the same time, in our opinion, VTB's shares are currently oversold. Its 3Q07 IFRS accounts, which will be published at the end of the year, may drive the bank's share price higher.

15.11.2007	Market price, RUR	Market price ratio	Swap ratio	Implied PSB price (assuming a swap ratio of 1:361), RUR.	Upside (swap)	The buy-out price (RUR)	Upside (buy-out)	Minimal VTB price reasonable for swap, RUR
VTB Severo-Zapad (PSB)	41.6	365.23	361	41.12	-1.2%	41.72	0.3%	0.116
VTB	0.1139							

Source: MICEX, SOVLINK estimates

VTB's representatives say that VTB shares for the swap will be bought on the market: whereas, according to their former merger plans, the bank had planned to issue additional shares for the swap.

In our opinion, the opportunity of being able to partially convert their shares is an advantage for shareholders. The final choice will depend on the following factors (besides the price at which the shares are trading at the time). Firstly, their risk tolerance – the lower it is, a correspondingly larger part of their portfolio should be sold. Secondly, the tax considerations – if the shareholder decides to sell his shares to VTB 24, he receives a capital gains tax charge, but in case of a swap, there is no tax charge and the expenses for the acquisition of VTB Severo-Zapad's shares will be taken into account when the converted VTB shares are sold). Last but not least – the planned buy-back of VTB's shares may support their price in the near-term. However, we think the effect will be modest due to the small amount involved in the buy-out relative to VTB's market capitalisation – in order to exchange 25% of VTB Severo-Zapad, the VTB group must buy about 2% of VTB's share capital.



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