

September 11, 2009

Research Update:

**Russia-Based Bank Vozrozhdenie
Long-Term Rating Lowered To 'B+'
On Deteriorating Asset Quality;
Outlook Stable**

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Russia-Based Bank Vozrozhdenie Long-Term Rating Lowered To 'B+' On Deteriorating Asset Quality; Outlook Stable

Overview

- Bank Vozrozhdenie's asset quality is deteriorating in the continuing economic slowdown in Russia.
- We are lowering the long-term rating on Bank Vozrozhdenie to 'B+' and removing it from CreditWatch negative.
- The outlook is stable because we believe it should be adequately resilient to the difficult environment over the medium term to maintain a 'B+' long-term rating.

Rating Action

On Sept. 11, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit rating on Russia-based Bank Vozrozhdenie to 'B+' from 'BB-' and the Russia national scale rating to 'ruA+' from 'ruAA-'. These ratings were removed from CreditWatch, where they were placed with negative implications on June 17, 2009. The 'B' short-term counterparty credit rating was affirmed. The outlook is stable.

Rationale

The downgrade primarily reflects deteriorating asset quality for Bank Vozrozhdenie, and the entire Russian banking industry, owing to the continuing economic slowdown in Russia. This has already had, and will continue to have a significant impact on the bank's financial performance, in our view.

The ratings on Bank Vozrozhdenie broadly reflect the increasing systemwide risks in Russia due to the economic recession and deteriorating operating environment. The ratings also take into account the moderately high single-party concentrations in the bank's loan book, and its confidence-sensitive funding base. These risks are mitigated by the bank's adequate capitalization, limited debt repayment burden, and relatively low market risk appetite.

With total assets of \$4.4 billion on June 30, 2009, Vozrozhdenie ranks among Russia's 30 largest banks by assets. It has a small market share of about 1% in the highly fragmented banking system, where the large state-owned banks dominate. Following share capital offerings in 2006 and 2007, Vozrozhdenie is now owned by a relatively diverse base of domestic and international investors, with the bank's CEO, Mr. Dmitry Orlov, being the largest shareholder with a 31% stake. The ratings reflect the bank's stand-alone credit profile and do not include any uplift for extraordinary

external support either from the owners or the government.

Although Vozrozhdenie aims to maintain a defensive position in the currently tough market and economic environment in Russia, asset quality is likely to continue to deteriorate further as the financial crisis spreads through the economy and affects the creditworthiness of SMEs, corporates, and individuals.

The bank's credit metrics have substantially deteriorated since December 2008 due to the tight credit and liquidity conditions, although slightly less so than most peers. For the six months ended June 30, 2009, nonperforming loans have increased to 7.3%, from 3.4% at year-end 2008. If we include restructured loans, total loans under stress would be about 15.7% of total lending.

In response to the stressed market environment and deteriorating asset quality, the bank has implemented a number of measures to mitigate credit risk and formed a reasonable liquidity cushion against potential deposit volatility, with cash and cash equivalents representing 26% of the bank's total assets. In our opinion, Vozrozhdenie's funding profile is more balanced than that of many local peers due to its relatively low dependence on wholesale funding and borrowings, representing about 6% of total liabilities.

Rising provisioning needs will undermine profitability through 2009 and 2010, only partly mitigated by good margins in SME lending and fees related to payments and foreign exchange. We assume profits will mainly be used for building new provisions. We believe, however, that the bank's capitalization is satisfactory for the current rating, with adjusted total equity to adjusted assets at 11.4% on June 30, 2009.

Outlook

The stable outlook reflects our expectation that the bank's loss absorption capacity will be maintained in the currently difficult operating environment and will be sufficient to mitigate further asset quality deterioration in the medium term. Because Vozrozhdenie is likely to reduce underwriting of new loans in 2009, we do not expect its core capitalization to weaken materially despite significant pressures on asset quality.

We would consider a positive rating action if the bank's asset quality and financial performance improved significantly, and if liquidity and capitalization was satisfactory. However, we see limited ratings upside until the Russian financial market and economy stabilize. Negative pressure on the ratings could come from significantly falling capitalization, worsening lending concentrations, or a deterioration of the quality of the loan portfolio and earnings structure.

Related Research

- Assumptions: Credit Stress Testing Financial Institutions In The Russian Federation, June 17, 2009
- High Credit Losses Likely To Trigger Recapitalization Of Russian Banks, on June 17, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Bank Vozrozhdenie		
Counterparty Credit Rating	B+/Stable/B	BB-/Watch Neg/B
Russia national scale rating	ruA+	ruAA-/Watch Neg

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