Standard Bank

CreditResearch

Flash Note

June 4th 2008 **CIS**

Orient Express Bank

Robust 2007 results — and all eyes now on URSA

Foreign & local currency	Moody's
Senior unsecured	B3
Outlook	Positive

- On May 30th, **Orient Express Bank (OEB) reported its non-consolidated 2007 financial statements in accordance with IFRS**. Per management, the consolidation of the Bank's SPV (Orient Express Finance Limited — OEFL) will not alter the headline numbers (refer to Section 2). The consolidated figures will be published by the end of June 2008.

- OEB's **activities during 2007 and in early 2008 have resulted in a larger, more visible banking franchise with greater funding independence and increased variety and availability of financing and capital**. While we continue to expect the bank to proceed along the path towards being acquired by URSA Bank (URSA), we are confident that the developing business and franchise would also support independent development.

- Highlights of the end-2007 position and 2007 results include:
  - **Robust asset growth** of 184% y/y in US-dollar terms (165% y/y in rouble-terms), to $1,029m at December 31st 2007. Most of the growth was in loans, which finished the year 249% higher, at $749m, despite sales of $325m to URSA during 2007;
  - **More diversified funding**. Liability funding comprised deposits (55% of total), international debt (31% of total) and domestic debt (7%);
  - **Comfortable capital adequacy**. Total CAR was 16.8% at the end of 2007 and was supplemented by a $90m increase in February 2008;
  - **Strong performance**. ROA was 7% and ROE was 58.2% in 2007. Operating income rose 79% relative to 2006, and was dominated by net interest income, income from loan sales (to URSA) and fees and commissions. Costs doubled as substantial network expansion was undertaken in 2007, and, consequently, net income rose by only 42% to $49m; and
  - **Reasonable asset quality**. Loans with payments > 1-day overdue (NPLs) totaled 9.7% of loans. NPLs were 53% covered by provisions.

- OEB's above-market growth and performance, and increased focuses on lending, funding diversification and network development are key features of 2007. We continue to expect good results from OEB in 2008, provided that URSA supports the bank either by purchasing it, or by providing bridge funding if the Eurobond (which constitutes about 20% of total funding) is put in July.

We believe that holders of OrientEx'09 (rouble-denominated Eurobond) are in a win-win situation as returns will be generous whether URSA buys OEB or not, and we rate it ATTRACTIVE. We initiate our call on OrientEx'10 (rouble-denominated domestic bond) with a BUY recommendation due to its compelling yield.

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1 Recent events

OEB is a small niche bank with a consumer lending focus, and during 2007 made remarkable progress in terms of size, brand recognition, market penetration and investor visibility. Events and measures highlighting this progress include:

- **Moving up in the Russian Bank rankings** — At December 31st 2007, OEB was ranked the 88th-largest Russian bank by assets, relative to 111th at June 30th 2007 and 148th at the end of 2006 per Interfax. At the end of March 2008 it had risen again in the rankings, to 84th place. At March 31st 2008 Interfax ranked OEB as the 24th-largest retail lender in Russia, up from 41st place at the beginning of 2007, and RBC ratings credit OEB with the 11th-highest volume of retail loans originated during 2007.

- **Raising its profile with international investors** — In June 2007, Orient Express Finance Limited (OEFL, OEB's financing SPV) attracted a $43m subordinated loan (yielding 11% for 5 years) and in July 2007, issued RUB5.4bn ($210m) 9.875% rouble-denominated senior unsecured loan participation notes (LPNs) due in July 2009. The terms of the senior unsecured notes include two put options as follows:

  – If, within one year (i.e. by July 2008), there has been no positive Board decision that OEB will be acquired by URSA Bank, investors may put the bond at par; and

  – If, within 18 months (i.e. by January 2009), there has been a positive Board decision that URSA Bank will acquire OEB but the CBR has not granted approval for this purchase, investors may put the bond at par.

  There has been much debate among investors as to whether the purchase of OEB by URSA will be announced before the first put option (discussed above) expires, particularly since the management teams of URSA and OEB have not made any definitive statements regarding the purchase of OEB by URSA. However, we do not believe that the "radio silence" being maintained by the management teams indicates that the purchase is no longer desirable. In fact, **we see evidence that the deal will be announced shortly** — as discussed below.

  Of note are the discrepancies between forecasts for URSA Bank's growth put forward by URSA management and those mentioned by Igor Kim (the largest shareholder in both banks). In an interview earlier in the year, **Mr. Kim gave 2008 asset projections for URSA which were larger than those estimated by URSA management by approximately the size of OEB's end-2007 asset base**. While not hard evidence of a merger, to us this signals the main shareholder's intention to effect a deal during 2008.

  In addition, in his interview Mr. Kim reiterated his intended continued involvement in his banking empire (including "Banking Alliance" members URSA, OEB, Etalon Bank, Southern Region Bank, and Rostpromstroybank which he owns together with business partners) plus some other financial assets.

- **Becoming more independent from a funding point of view** — In 2006 and (to a lesser extent) in 2007, OEB sold loan sales to URSA Bank as one means of funding balance sheet growth. Loan sales totaled $272m in 2006, $325m in 2007 and although a framework agreement for the sale of RUB600m (about $25m) was in place for Q1:08, management indicated that the economics are no longer very appealing to OEB or URSA, and in the absence of an urgent need for funding by OEB, no loan sales are expected in 2008. In addition to the diminished likelihood of OEB relying on loan sales to URSA to fund its growth, the bank has also introduced some smart strategies to accelerate deposit gathering. OEB has opened four branches in cash-rich Moscow and is using these branches to offer deposits at attractive rates not often available to over-banked Muscovites. These branches do not issue loans, and funding is then used to finance high-yielding lending activities in OEB's traditional markets in Eastern Siberia and the Far East.

- **Strengthening its capital base** — In late February 2008, OEB increased its Tier I capital by just over $90 million, by issuing 1,680,000 new common shares with a par value of RUR 100. The shares were sold at RUR 1,309.53 each to the Bank's existing shareholders. After the share issue, there was a change in the shareholding structure, with Mr. Kim increasing his stake from 29% to 40%, while Messrs Bekarev and Taranov as well as other shareholders reduced their holdings by about 40%. The new share issuance has been registered with the CBR. Following the share issue, Mr. Sergey Vlasov, the Bank's CEO, mentioned that the success of the equity issue reflected the shareholders' commitment to supporting the Bank's rapid growth, and that being ranked within in the top 60 Russian banks in the foreseeable future was an achievable goal.

OEB's activities during 2007 and in early 2008 have resulted in a larger, more visible banking franchise with diminished dependence on URSA bank for funding, and increased availability of additional sources (external debt and deposits) to fund growth. The Bank also has an enlarged capital base which will support its business development. While we continue to expect the bank to be acquired by URSA, we are confident that the developing business and franchise would also support independent development.

2 2007 financial overview

Financial statement re-classifications — The financial statements released by OEB have not consolidated OEFL (the bank's funding SPV). Therefore, instead of being shown as debt securities in issue (which in substance they are), the bank's LPNs and subordinated debt issue are shown as loans from OEFL to OEB.

In order to adjust the classification of the loans from OEFL to reflect their economic substance and to pre-empt how we expect them it to be represented in the consolidated financial statements, we have shown the loans from OEFL as debt securities in issue. We do not expect any additional material re-classifications to be made in the consolidated accounts.

OEB management confirmed that the consolidation of the SPV will not alter the headline numbers, but result in a few re-classifications (which we expect will be those adjustments we have made and described above).

Financial statement translation — Note that unless indicated otherwise, all figures are presented in US dollars and growth rates and financial ratios are calculated based on US-dollar denominated underlying data. We have translated the bank's financial statements, which are originally presented in Russian roubles, into US dollars using respective period-end exchange rates.

OEB's financial statements show strong growth across all balance sheet and income statement categories, including substantial across-the-board growth in the second half of 2007, when many Russian banks showed limited dynamism. Having evaluated OEB's financial results for the six-months ended June 30th 2007, it is also clear that the bank's profitability picked up in the second half (i.e. full-year 2007 result s show higher above- and below-the-line profitability than annualised H1:07 figures (see Table 2 in Appendix 1). Another interesting point is that OEB does not appear to have suffered an absolute decline in its cash balances in the latter part of 2007.

In this overview, we focus on the bank's cash position, loan portfolio composition and performance, capital and funding positions, and profitability.

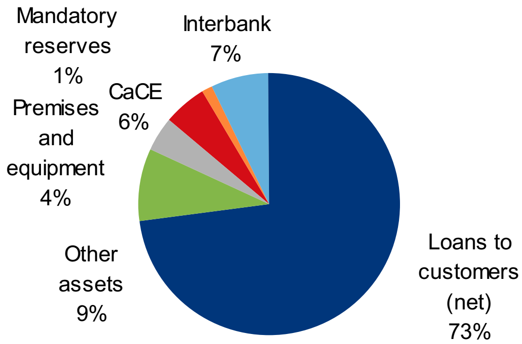
2.1 Asset structure and quality

OEB's assets grew 184% to $1,029m in 2007 — growth about three times faster than the average for the Russian banking market. Asset structure changed markedly during the year, as the bank grew, matured, and began to reach a more optimal asset allocation level. Most notable was the increase in the proportion of net loans to customers, which rose from 57% of total asset at the end of 2006 to 73% of assets by the end of 2007.

Other major movements included a 4% decline in interbank balances to 7% of assets, and a 6% relative decline in the "other assets" category. At the end of 2006, other assets totaled 15.4% of the balance sheet and the largest portion of this balance was a service fee asset — essentially deferred profits on sales of loans by OEB to URSA. In 2007, the total volume of loans sales to URSA was similar to the 2006 levels in absolute terms, but a relatively lower proportion of the bank's originated loans. Consequently, in 2007, the relative size of the bank's service fee asset fell, such that other assets now comprise 9% of total assets (Figure 1).

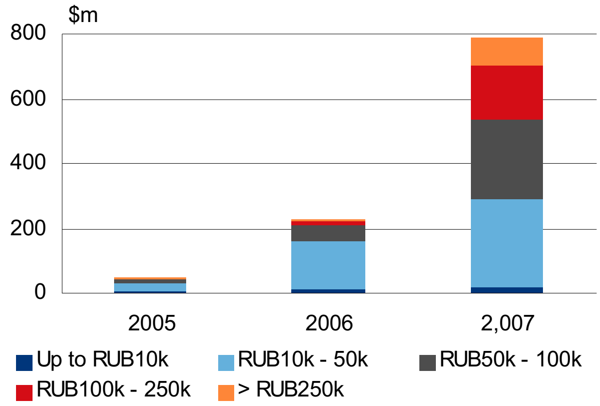
While cash and cash equivalents (CaCE) declined from 7.7% to 5.6% of total assets between the ends of 2006 and 2007, they remained at a solid levels and did not show the marked declines seen in some other CIS banks. CaCE grew 106% y/y in absolute terms to $57.1m at December 31st 2007 relative to a level of $55.7m at June 30th 2007. We note that OEB received a sizeable cash injection (around $200m) from the issue of their LPNs in July 2007, shortly before the credit markets closed for the remained of the year. The most substantial driver of OEB's asset growth during 2006 has been growth in the loan portfolio (Figure 2).

Figure 1: Asset structure (December 31st 2007)



Source: Financial statements

Figure 2: Loan portfolio structure (December 31st 2007)



Source: Financial statements

Loan portfolio

Portfolio growth and volume — Gross loans to customers rose 246% or $561m during 2007 vs. a 60% growth in total loans and 68% growth in retail loans in the Russian lending market over the same period. OEB's loan origination volumes far exceed the impressive year-end balance sheet figure, as:

- OEB's loans are short-term (50% of loans at end-2007 had remaining contractual maturities of < 1 year); and
- $325m in loans were sold to URSA during the year. As mentioned in Section 1, this practice is becoming less beneficial for buyer and seller, and minimal loan sales are expected in 2008.

Portfolio structure — At the end of 2007, 99% of OEB's $789m gross loan portfolio is to retail customers. In addition, per the financial statements the value of collateral taken to secure the portfolio amounted to around $155m, illustrating that the majority of OEB's lending is unsecured. However, it is possible to stratify OEB's loan portfolio by size.

Figure 2 illustrates that values of loans in the RUB100,000 – RUB250,000 ($4,075 – $ 10,200) and above RUB250,000 ($10,200) ranges has increased in 2007. Average loan size has increased to $1,750 at the end of 2007 from $1,040 at the end of 2006, and the proportion of loans exceeding $20,000 has fallen from 40.4% of the portfolio to 35.4% between the ends of 2006 and 2007, indicating that portfolio diversification is high. This is further supported by OEB's ratio of top-10 loans as a proportion of total loans, which has fallen from 1.9% at December 31st 2006 to 1.2% at the end of 2007.

Loan quality — The bank managed to trim its NPL level by almost 3% between December 31st 2006 and 2007. NPLs (conservatively defined as loans where interest or principal are more than 1 day overdue) reached 9.7% at end-2007 vs. 11% at June 30th 2007 and 12.8% at end-2006. We see the bank's reduction of its NPLs as extremely positive, and highlight that no write-offs of loans were taken in the 2007 financial statements, implying high recovery rates on NPLs.

The loan loss provision (LLP) was 5.1% of gross loans at end-2007, down from its 2006 level of 6.0%. As NPLs have fallen faster than the LLP, NPL coverage has increased from 47% to 53% over this period. As a large proportion of NPLs based on a "1-day overdue" definition are usually of a technical nature, we consider this coverage ratio appropriate.

2.2 Liability and capital funding

Liability funding

In 2007 OEB's liabilities grew slightly faster than its assets, and the composition of funding changed fundamentally with the issue of two debt securities — OEB's RUB5.4bn LPN issue, and its $43m subordinated issue. Deposit growth was buoyant at 121%, partly encouraged by the opening of OEB's deposit-taking branches in cash-rich Moscow (refer to Section 1) but fell from 71.4% to 52.5% of the bank's liability funding over the course of 2007. In contrast, debt securities rose from 9.6% to 31.7% of liability funding as the bank accessed the external markets, and 4.6% in subordinated debt added additional funding and capital flexibility.

We expect the bank to continue to be able to attract retail deposit funding since its current strategy of lending in the regions and attracting funding (on which high deposit rates are paid) in Moscow is both affordable and yielding results. We do not expect OEB to issue additional debt securities, given current market conditions, and the ongoing uncertainty over whether the bank will be purchased by URSA imminently, or not. Puts on OEB's current debt could be triggered (a) if URSA does not announce its acquisition of OEB by the end of June or (b) if (subsequently) the CBR does not approve the deal by January 2009.

In any event, OEB has substantially lengthened and diversified its funding base during 2007 whilst becoming less dependent on loan sales to fund growth in origination, which are both positive from a credit point of view.

Capital

During 2007, OEB increased its Tier 1 capital base 92% from $57.7m to $110.9m entirely as a result of internal capital generation. If one adds the $43m in subordinated debt, total capital increased by 168% to $153.9m. However, as capital growth did not keep pace with asset growth, the bank's Tier 1 capital and total capital ratios fell from 18.9% and 18.9% to 12.2% and 16.8% respectively. Consequently, on a total capital basis, the bank remained well-capitalized at the end of 2007. In February 2008, a Tier 1 capital issue of $90m (refer to Section 1 for details) was completed and is sufficient to support substantial future growth.

2.3 Financial performance

OEB performed well during 2007, with net income rising 42% to $49m, relative to $34.6m earned in 2006. Noting the 184% growth in assets, this income growth seems disappointing, but the result needs to be seen I the context of the business realities it reflects. During 2007, OEB has come of age in a number of ways by:

- **Increasing its distribution network substantially** — which has placed upward pressure on costs;
- **Reducing the quantum of loan sales to URSA**, which is a sign that OEB is more independent in its funding — but which has had the result of reducing some "front-loaded" profit which was a feature of the IFRS accounting methodology for loan sales;
- **Increasing its long-term funding base** by issuing LPNs and subordinated debt — which has improved funding stability but increased funding costs; and
- **Reducing the proportion of fee and commission income** earned on retail lending, which signals that OEB has heeded the warning shots from the consumer protection agency (Rospatrebnadzor) and the CBR, and is reducing or has cancelled non-transparent commissions related to its lending products.

A category-by-category analysis of the income statement is instructive:

- Pre-provision net interest income rose 231%, in line with OEB's loans growth, and 315% after provision to $90.2m. Slower provision growth reflects the good recovery rates OEB appears to achieve on its non-performing loans. The bank managed to keep its net interest margin at a very generous 15.3% — in line with the 2006 level.
- While fee and commission income and other non-interest income (mainly profits on loan sales) rose in absolute terms relative to 2006, they grew only 56% and 20% respectively — far below the asset growth levels. These lower growth rates are to be expected, as pressure from consumer protection groups made it prudent for banks to cancel some of their commissions during 2007, and absolute levels of loans sales were similar to those in 2006, so income in relations to these sales could not be expected to show buoyant growth.
- Operating expenditure grew 116% during 2007, mainly as a result of increased volumes of operations and the expansion of the bank's distribution network. Cost-to-income rose from 45.8% in 2006 to 53.9% in 2007, but remains at a modest level relative to retail-only peers; a rising C/I ratio at this stage in the bank's development is no cause for alarm.

The combined effect of the abovementioned factors yielded modest bottom line growth, but very respectable performance ratios. OEB posted ROA of 7.0% and ROE of 58.2% for 2007. These are lower than the 15.4% and 87.8% posted in 2006, but reflect the maturing nature of OEB's business, reduced reliance on loans sales for funding, and the increased costs of diversifying both the funding structure and network.

OEB's above-market growth and performance, and increased focuses on lending, funding diversification and network development are key features of its 2007 results. In spite of extremely high growth rates (which would have been even higher had OEB not used loans sales to URSA as a method of funding itself), the bank's financial position is characterised by a sensible structure with 6% in cash balances, diversified loan portfolio with declining NPLs and adequate provisioning, more diversified funding than a year ago, and strong capitalization. 2007 performance was robust mainly due to growth in interest income keeping pace with loan growth, and there being no evidence of spread compression. We continue to expect good results from OEB in 2008, provided that URSA supports the bank either by purchasing it, or by providing bridge funding if the Eurobond (which was more than 20% of the balance sheet at end-2007) is put in July.

3 Bond performance

OEB's rouble-denominated LPN issue (OrientEx'09), which closed in early July 2007, was one of the last bonds to be placed before markets closed to primary issuers. While this did not bode well for performance during 2007 (OrientEx'09 traded as low as 93 in the least liquid period towards the end of 2007), it served OEB well as the bank raised more than $200m in funding in the international markets at a coupon of 9.875%, right before markets closed to primary issuance.

When we initiated our call on OrientEx'09's with a BUY recommendation in February 2008, the bonds were trading at 96.25 and yielding 13.33% to maturity (in July 2009). We believed that a purchase announcement by URSA would lead to substantial spread tightening, and that if the acquisition by URSA did not happen, high yields and the embedded put option adequately compensated for OEB's stand-alone credit risk. **Since our BUY recommendation was made, OEB's yield to maturity has tightened by 422 bps and the bonds are now trading at an ask price of 98.5**.

OUR VIEW: OEB's credit profile continues to evolve positively (increasing funding independence, strong growth without margin squeeze, a strengthened capital base and positive outlook from Moody's are key indicators). The fact that the March 2008 put option on OEB's RUB1.5bn domestic issue (OrientEx'10) was not exercised also highlights confidence in the credit, although investors were well rewarded for keeping their bonds — the coupon stepped-up 365 bps, to 13.95%.

We find OEB's longer-term credit story compelling, but the fact that OrinetEx'09's are puttable at par on July 3rd 2008 if URSA has not taken a board decision to purchase OEB, **the acquisition is the key factor driving bond OrientEx'09 at present**. Due to substantial price appreciation since we rated the bonds BUY, and the **win-win situation in which OEB bondholders now find themselves, we change our recommendation on this bond from BUY to ATTRACTIVE:**

- **If URSA does not announce an acquisition of OEB before July 3rd, investors have a choice to put the bond** and earn an annualised total return of at least 20% from current levels. Alternatively, they can lock in the current yield to maturity of 11.38%, which is fair given the stand-alone credit metrics of OEB; and
- **If URSA announces the purchase of OEB, OEB risk will become URSA risk** (URSA is rated B/Ba3) and the credit profile of the combined entity should benefit from increased size and expanded franchise and reach. Spread compression of up to 160bps could be expected within six months.

For the first time, we rate OEB's domestic bond due 03/10 (OrientEx'10) with a put at par in 03/09 at BUY. OrientEx'10 has a substantial yield pick-up over OrientEx'09, and would also benefit from spread compression if URSA buys OEB. The smaller size of this issue would, however, result in it having lower liquidity than OrientEx'09. Table 1 summarises our recommedations on OEB's outstanding senior bonds.

Table 1: Bond specifics and performance data

	Recommendations[1]									Rating		
Issue	Current	Previous	Date of change	Currency	Issue size (m)	Put date	Price	Yield	Mod Dur	Fitch	Moody's	S&P
OrientEx'09	ATTRACTIVE	BUY	05-Jun-08	RUB	5,400	03-jul-08	98.50	11.38	0/99	n/a	B3	n/a
OrientEx'10	BUY	n/a	n/a	RUB	1,500	18-03-09	100.70	13.30	0.67	n/a	B3	n/a

Sources: Bloomberg (prices as of April 8th 2008); Standard CIB Research

Note:

1. *Definitions of our recommendation are located on the last page of this report.*

We believe that holders of OrientEx'09 are in a win-win situation as returns will be generous whether URSA buys OEB or not, and we rate it ATTRACTIVE. We initiate our call on OrientEx'10 with a BUY recommendation due to its compelling yield.

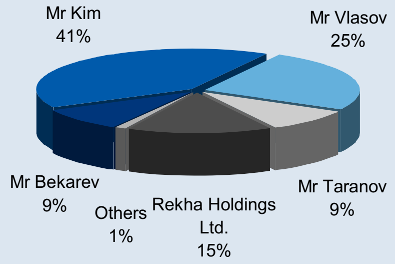
S&P	n/a	Moody's	B3/Positive	Fitch	n/a

Orient Express Bank (OEB), also known as "Vostochny" or Eastern Express, was the 11th-largest retail loan originator in Russia in 2007, per RBC Ratings. The bank focuses on niche regional markets (Russian Far East and Eastern Siberia), where it offers (mainly) un-secured cash and point-of-sale loans. Its offices in the more developed regions (Central and North-West districts) were established to provide deposit funding. OEB plans to expand its regional market share, and has introduced new products such as auto loans, plastic cards and loans to SMEs.

OEB and URSA Bank have common controlling shareholders, and OEB is expected to be merged with URSA within the next nine months. The main competitive advantage of the bank is its location in regions where major Russian/international banks do not have strong positions. OEB appears to have been successful in creating a viable credit risk management model, which enables it to maintain reasonable loan quality. One of the largest challenges is changes in the regulatory environment, particularly the effect of consumer protectionism on product yields and bank profitability.

Website: www.express-bank.ru **Bloomberg ticker**: VOSEXP

Ownership structure (current)

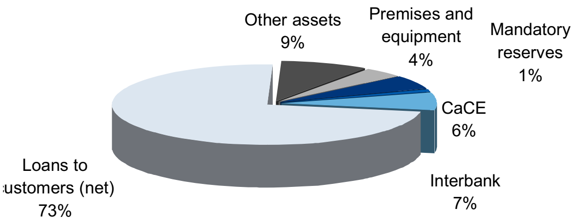


Note: Beneficial owner of Rekha Holdings Ltd. is Renaissance Capital Partners

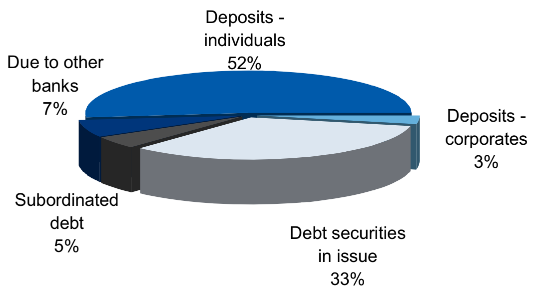
Strengths:
+ Niche product/regional focus
+ Strong profitability
+ Supportive shareholders and close relationship with URSA (which may aquire the bank)

Challenges:
- Small size
- Regulatory/loan quality risks in consumer lending
- Intensifying competition in regions

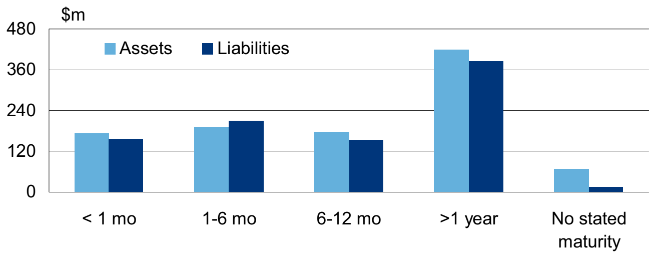
Asset structure (at 31-Dec-07)



Liability/funding structure (at 31-Dec-07)



Contractual maturity of assets and liabilities (at 31-Dec-07)



$m	2005	2006	2007		2005	2006	2007
Income statement				**Ratios**			
Net interest income	(0.6)	15.6	64.6	NPLs/Gross loans	3.2%	12.8%	9.7%
Charge to LLP	(1.7)	(11.6)	(25.5)	LLP/NPLs	120.3%	46.9%	52.7%
Non-interest income	24.5	81.1	108.7				
Operating expenses	(8.5)	(49.6)	(107.3)	CaCE/Assets	15.8%	7.7%	5.6%
Net income	11.2	34.6	49.0	Loans/Deposits	95.2%	107.0%	159.9%
Balance sheet				NIM	3.1%	15.7%	15.3%
Cash & equivalents (CaCE)	13.5	27.8	57.1	ROA	22.6%	15.4%	7.0%
Securities	0.0	0.0	0.8	ROE	98.9%	87.8%	58.2%
Loans to customers (net)	46.4	214.3	748.7	Efficiency	33.1%	45.8%	53.9%
Loan-loss provision (LLP)	(1.9)	(13.7)	(40.2)				
Non-performing loans (NPLs)	1.5	29.1	76.2	Total CAR	27.1%	18.9%	16.8%
Total assets	85.5	362.7	1 028.6	Equity/assets	24.7%	15.9%	10.8%
Deposits	34.7	217.9	481.9				
Debt securities	3.2	29.3	290.6	**Other data**			
Total debt	3.2	29.3	332.8	Branches & offices	5	202	285
Total liabilities	64.4	305.0	917.8	No. of employees	1299	3124	4952
Total equity	21.1	57.7	110.9	Rank (Russian banks, by assets)	337	148	84

Sources: Standard CIB Research; Company reports; Interfax; RBC ratings

Notes: NPLs = overdue >1 day.

Appendix 1: Summary of financial indicators

OEB's original rouble-denominated income statements and balance sheets have been **converted to US dollars** at the respective period-end rates.

Table 1: Extracts from consolidated income statements

$m	2005	2006	2007	H1:07[1]	05/06 % ch	06/07 % ch
Interest income	4.4	43.4	150.8	109.3	*884%*	*248%*
Interest expense	(3.3)	(16.2)	(60.7)	(39.8)	*394%*	*275%*
Net interest income prior to loan loss provision (LLP)	1.1	27.2	90.2	69.5	*2,300%*	*231%*
Charge to LLP	(1.7)	(11.6)	(25.5)	(15.7)	*565%*	*119%*
Net interest income (NII)	**(0.6)**	**15.6**	**64.6**	**53.8**	***n/a***	***315%***
Net gains/(losses) from financial assets	0.0	0.0	(0.0)	0.7	*0%*	*(9109%)*
Net gains/(losses) from dealing in foreign currencies	0.2	0.5	0.9	-	*105%*	*70%*
Net fee and commission income	6.9	28.7	44.9	32.7	*318%*	*56%*
Other non-interest revenue	17.4	51.9	62.3	19.4	*198%*	*20%*
Non-interest revenue (NIR)	**24.5**	**81.1**	**108.7**	**52.8**	***231%***	***34%***
Total operating income	**23.9**	**96.7**	**173.4**	**106.6**	***305%***	***79%***
Operating expenditure	(8.5)	(49.6)	(107.3)	(76.8)	*485%*	*116%*
Net operating income	**15.4**	**47.1**	**66.1**	**29.8**	***206%***	***40%***
Taxation	(4.2)	(12.5)	(17.1)	(7.9)	*199%*	*37%*
Net income	**11.2**	**34.6**	**49.0**	**21.9**	***209%***	***42%***

Sources: Financial statements; Standard CIB Research

Note 1: Income statement items have been annualised (by multiplying H1:07 income statement line items by 2).

Table 2: Extracts from consolidated balance sheets

$m	2005	2006	2007	H1:07	05/06 % ch	06/07 % ch
Cash and cash equivalents (CaCE)	13.5	27.8	57.1	55.7	*106%*	*106%*
Loans and advances to banks (net)	0.0	40.2	73.2	24.5	*n/a*	*82%*
Loans to customers (gross)	48.3	228.0	788.8	446.9	*372%*	*246%*
Less: LLP	(1.9)	(13.7)	(40.2)	(21.8)	*636%*	*194%*
Loans to customers (net)	46.4	214.3	748.7	425.1	*362%*	*249%*
Total assets	**85.5**	**362.7**	**1,028.6**	**608.6**	***324%***	***184%***
Due to other banks	16.0	32.8	57.3	61.5	*105%*	*74%*
Deposits and current accounts	34.7	217.9	481.9	315.0	*527%*	*121%*
Debt securities in issue	3.2	29.3	290.6	91.1	*811%*	*892%*
Subordinated debt	-	-	42.2	42.3	*n/a*	*n/a*
Total liabilities	**64.4**	**305.0**	**917.8**	**538.8**	***374%***	***201%***
Total equity	**21.1**	**57.7**	**110.9**	**69.8**	***173%***	***92%***

Sources: Financial statements; Standard CIB Research

Table 3: Selected financial ratios

%	2005	2006	2007	H1:07[1]	05/06 % ch	06/07 % ch
Asset quality						
NPLs/gross loans to customers[2]	3.2%	12.8%	9.7%	11.0%	*300%*	*(24%)*
LLP/gross loans to customers	3.8%	6.0%	5.1%	4.9%	*56%*	*(15%)*
LLP/total assets	2.2%	3.8%	3.9%	3.6%	*74%*	*4%*
Charge to LLP/average gross loans to customers	6.1%	8.4%	5.0%	4.6%	*39%*	*(40%)*
Profitability and efficiency						
Return on average equity (ROE)	98.9%	87.8%	58.2%	34.1%	*(11%)*	*(34%)*
Return on average assets (ROA)	22.6%	15.4%	7.0%	4.5%	*(32%)*	*(54%)*
Net interest margin (NIM) – on average earning assets	3.1%	15.7%	15.3%	17.2%	*400%*	*(2%)*
NIR to total income	95.6%	74.9%	54.7%	43.2%	*(22%)*	*(27%)*
Cost-to-income (C/I)	33.1%	45.8%	53.9%	62.8%	*38%*	*18%*
Effective tax rate	27.2%	26.5%	25.9%	26.5%	*(2%)*	*(2%)*
Funding and liquidity						
CaCE/total liabilities	20.9%	9.1%	6.2%	10.3%	*(57%)*	*(32%)*
Loans and advances/deposits	95.2%	107.0%	159.9%	125.1%	*12%*	*49%*
Deposits/total assets	59.4%	69.1%	52.4%	61.9%	*16%*	*(24%)*
Capital adequacy						
Tier 1 qualifying capital/RWA	27.1%	18.9%	12.2%	13.0%	*(30%)*	*(35%)*
Total qualifying capital/RWA	27.1%	18.9%	16.8%	20.9%	*(30%)*	*(11%)*
Equity/assets	24.7%	15.9%	10.8%	11.5%	*(36%)*	*(32%)*
Related parties & concentrations						
Related party to total assets	4.7%	1.3%	0.2%	0.6%	*(73%)*	*(84%)*
Related party to gross loans	1.3%	1.4%	0.0%	0.7%	*9%*	*(100%)*
Related party to total liabilities	18.3%	4.5%	2.9%	8.3%	*(75%)*	*(37%)*
Related party to total income	61.5%	47.2%	25.7%	26.8%	*(23%)*	*(46%)*
Concentration risk (top 10 as a % of total deposits)	18.8%	15.6%	8.5%	10.8%	*(17%)*	*(46%)*
Concentration risk (top 10 as a % of gross loans)	5.9%	1.9%	1.2%	2.3%	*(68%)*	*(39%)*

Sources: Financial statements; Management accounts; Management; Standard CIB Research

Notes:

1. *Income statement items have been annualised (by multiplying H1:07 income statement line items by 2). Ratios have been calculated using underlying rouble-denominated data.*
2. *NPLs are defined as all outstanding payments and related loans, which are more than one day overdue.*

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