

Vozrozhdenie Bank reports FY 2009 IFRS Profit of 1,217 million rubles

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Vozrozhdenie Bank (VZRZ) published its FY 2009 IFRS results with key items as follows:

- Net Income: RUB 1,217 million (\$40 million)
- Cost to income ratio before provisions: 48.7% down from 2008 average of 52.7%
- Assets: RUB 146 billion (\$4.8 billion), 3.1% increase during the year
- Operating profit before provisions up 5.8% (RUB 6.6 bln) compared with FY 2008
- Return on Equity (ROE): 7.8%

“In 2009 we successfully overcame all economic challenges and achieved positive results in each quarter of the year. Deterioration in environment caused serious business adjustment as demand for loans contracted significantly and prudent risk management required a more cautious lending policy - charges to provisions increased heavily” – said Dmitry Orlov, Chairman of the Bank Management Board. “As a result the Bank managed to build up its capital adequacy to comfortable level of 19% and easily handled the situation with liquidity which appeared under stress in the banking system in the first half of the year. As particular attention was paid to liabilities management, as a result the bank ensured significant inflows of both individual and corporate deposits which allowed to payback external funding sources including CBR funds. By the year end share of customer funds in liabilities increased to 90% returning the liabilities structure to the historical average for the bank.”

Assets grew by 7.9% during the 4th quarter to RUB 146 billion (\$4.8 billion) mostly on the back of expansion of liquid assets which amounted to 35.4% of the balance sheet. As a result bank feels no pressure from liquidity sufficiency maintaining loan to deposit ratio at the comfortable 83.7% level. Customer accounts remained the core source of bank's funding base given that overwhelming part of the CBR funds were repaid during the year and substituted by inflow of customer funds. Shortage of quality borrowers affected the pace of the loan portfolio growth which grew by 0,5% only during the 4th quarter 2009. All in all bank managed to fulfill its financial plan for 2009 by total assets and increase it by 3.1% YoY despite the deteriorated environment during the year.

Equity rose by 8.1% since December 31, 2008 to RUB 16.3 billion (\$538 million). The core tier 1 capital adequacy ratio remained on a comfortable level of 15.5% with total capital adequacy reflecting strong Bank's capital position of 19.0% substantially exceeded the minimum required threshold of 11%.

Gross loans to customers slightly decreased (4.7% YoY) responding to transformation of management's focus from rapid growth to maintaining credit quality as well as overall drop in business environment. The situation has changed in Q4 when bank managed to increase loan portfolio by 1.1% QoQ with the core growth support coming from corporate loans side. Traditional hike in budget spending at year end couldn't help but affected total loan growth in Q4 making it somewhat slower as the liquidity obtained by the customers allowed them to redeem their debt burden. All in all

corporate lending programs accounted for 85.1% of total loan portfolio with the 50.8% share of total loans issued to the small and medium enterprises. Distribution across economy sectors remained wide-spread with most of loans issued to the clients operating in trade and manufacturing sectors (21.3% and 20.6% respectively). The structure of the retail loan book has not experienced any significant change with mortgages accounting for 56.1% of the retail loans.

Loan portfolio quality has stabilized in Q4 with insignificant growth in new NPLs during the quarter of 0.6%. The pace of loan book deterioration slowed down by 67.7% in comparison with Q3 dynamic (0.5 billion in Q4 versus 1.7 billion in Q3) implying that the worst is clearly behind. By the year end NPLs, which included whole amount of the loans with more than 1 day overdue principal and/or interests equaled to 9.9% (Rub 9.36 billion) of the total loan book and were fully covered by provisions for loan impairment which accounted for 10.0% (Rub 9.43 billion) of the loan book as of December 31, 2009. The impaired loans, on which some loss of principal is expected, reached 9.0% of the total loan portfolio. During Q4 charges to provisions almost halved compared with Q3 results in line with new NPLs and amounted to 0.6 billion. Total cost of risk for the full year accounted for 5.0% of average loan portfolio which is 4.8 billion providing prudent and responsible risk policy with coverage ratio above 100%.

Net Interest Income decreased by 2.2% to Rub 8.3 billion compared with the previous year as slower inflation and record low CBR refinancing rate as well as tightened market competition brought pressure on bank's margins. During the second half of the year rates decreased on both loans and deposits with a slight contraction effect on net interest margin (6.0% of total average assets for FY2009 and 5.4% for Q4). Bank's efforts closer to the year end were aimed to reduce funding costs which were 6.7% in Q4 compared with 7.1% in Q3. Yield on assets due to the mentioned factors also lowered to 16.0% from 16.8% quarter before but at year end the bank managed to increase interest spread for FY2009 to 9.6% from 9.1% a year ago. For the near-term margins are expected to be slightly lower as pressure on lending interest rates would probably continue at least in 1H 2010.

Non-interest income

Net fees and commissions were gradually growing quarter by quarter (4.5% in Q4) but due to the overall deep drop of economic activity fell by 9.7% YoY primarily due to declines in transactions of the customers. In Q4 2009 net fees and commissions accounted for 83.4% of the net non-interest income exceeding average 79.9% for FY 2009. The bank managed to maintain one of the highest share of non-interest revenues among Russian peers at the level of 35.9% for FY 2009 of the operating income before provisions.

Operating expenses

Despite the seasonal hike in staff costs in Q4 resulting from bonuses paid total staff costs were down RUB 705 million (-17.2%) for the FY 2009 compared with 2008 results. Cost to income ratio before provisions amounted to 48.7% versus 52.7% a year ago reflecting visible results of the cost reduction program implemented by the management team during the crisis year.

Pre-tax Income

Bank Vozrozhdenie managed to achieve operating profit of RUB 547 mln in 4Q which allowed the bank to finish the year 2009 with RUB 1,919 million of operating profit for FY2009 (down 53.2% YoY). In Q4 operating income rebounded by 62.3% QoQ and amounted to RUB 547 million due to lower charges to provisions on the back of slower NPLs formation. At the same time decline of interest income was offset by increase in non-interest revenues in Q4 resulting in FY net income of RUB 1,217 million (\$40 million) which is 61.2% lower than during 2008. Effective tax rate continued to be under the influence of expectations regarding deferred tax asset on the part of interest income on NPLs and reached 37% for the FY 2009.