

Bank Vozrozhdenie reported net income of Rub 581 million in 2010

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Today Bank Vozrozhdenie reported FY2010 IFRS results with key items as follows:

- Net income amounted to Rub 581 million (USD 19 million).
- Assets grew by 14% and amounted to Rub 166 billion (USD 5.5 billion).
- Operating income reached Rub 8.0 billion (USD 264 million).
- Return on average equity (ROE) – 3.5%.

“Over 2010 banks have been recovering their business after the crisis. Generally banking system managed to address these challenges, though recovery rates might have been better. Competition landscape has changed significantly – pressure from state-owned banks was felt throughout the whole year, private banks had to operate on low margins. Despite different weight category we successfully navigated through competitive pressure and even expanded our share on core markets” - noted Dmitry Orlov, Chairman of the Management Board. “We managed to earn a bit more than had promised – Rub 581 million and expect serious profit growth in 2011. In the end it remains to overcome the aftershocks of the crisis – we carefully monitor asset quality while still keeping high level of provisioning. Supporting a client is our goal at the moment, if he feels better he will start to redeem his debts and we will commence thinking of provisions recovery. Now we are more focused on business development – new technologies implementation and optimization of costs” – added Mr. Orlov.

Assets grew by 14% to Rub 166 billion (USD 5.5 billion) over 2010 owing to inflow of new customer accounts (Rub 17.2 billion). The bank allocated raised funds in loan portfolio which increased by 22% (Rub 19 billion) to Rub 104 billion. At the yearend loan portfolio accounted for 63% of total assets, up from 59% a year ago. The bulk of loan book growth fell on 4th quarter (10% QoQ) since additional liquidity in economy resulted from seasonal increase in federal budget expenditures stimulated credit activity of the clients. Customer accounts have remained the core source of funding, accounting for 87% of total liabilities or Rub 130 billion, up by 15% YoY. Current accounts representing almost interest-free source of funding accounted for 35% of total customer funds. Thus due to surpassed loan growth over 2010 loan to deposit ratio grew by 476 bp and accounted for 88.4%. Liquid assets structure has changed in favor of profit earning assets – trading securities increased by 25% (Rub 2.4 billion) to Rub 12.2 billion while cash and equivalents declined by 6% (Rub -2.0 billion) to Rub 32 billion. All in all despite instability of economic recovery the bank managed to fulfill financial plan for 2010 by total assets.

Shareholders' equity increased by 3.5% to Rub 16.9 billion (\$553 million). Tier1 capital adequacy ratio accounted was 12.8% while total capital adequacy ratio stood at 15.2%, exceeding ratios required by regulatory guidelines for a credit institution. The decline from the previous year (CAR down 3.8%, Tier 1 down 2.7%) resulted from risk-weighted assets growth due to expansion of the loan book as well as securities portfolio.

Loan portfolio before provisions grew by 22% YoY (Rub 20.6 billion) compared to the previous year. Although loan book growth was uneven over the year, the bank managed

to increase loan portfolio before provisions in 4th quarter by 10% QoQ on the back of swelled liquidity in economy. Net loan growth by 22% YoY substantially surpassed banking sector growth of 12.6%. It's also worth mentioning that the bank has managed to expand market share in lending to the clients of Moscow region, key region of our presence, with loan portfolio having grown there by 43% YoY. That was twice higher than 20% sector growth of lending to entities and individuals in Moscow region. Portfolio expansion was mainly driven by corporate loans which grew by 22% YoY vs 12.1% of sector growth according to CBR. Corporate lending accounted for 85.6% of the total loan portfolio with 52% of total loans being issued to the small and medium enterprises. Loan book remained diversified by economic sectors – the largest share of loans was granted to trade and manufacturing sectors (of 24% each). Retail loan book grew by 18% YoY owing to expansion of mortgage (24%) and consumer (26%) lending. By the yearend mortgages accounted for 59% of total retail loans.

Securities portfolio totaled Rub 14.2 billion (\$467 million), up 29% YoY. As a result of market drop in the beginning of second quarter of 2010 the bank boosted securities portfolio of the most reliable issuers with insignificant credit risk, having increased total securities to Rub 18.4 billion. Over the following quarters the bank has steadily reduced the securities investments partially selling securities acquired in Q2. By the year end trade securities portfolio mainly consisted of investment-grade securities with short-duration. Most of them were fixed-income securities of Russian federal and regional government bodies and companies with quasi-sovereign risk. The breakdown of the securities portfolio at yearend was as follows: 46.3% - Federal and Regional Government's bonds and Eurobonds, 32.3% - Central Bank of Russia bonds and 18.3% - corporate bonds and Eurobonds.

NPLs ratio increased by 59 bp over the year to 10.5% (Rub 12.1 billion). However the bank's NPL ratio picked at 11.1% in Q1 2010. Under IFRS the bank applies very conservative approach to the definition of NPLs recording as non-performing loan the whole principal of the loan more than one day past due either on principal or interest. Impaired loans, on which some potential losses are possible, were 9.8% of the total loan portfolio. Total NPLs are almost totally covered by provisions for loan losses, which amounted to Rub 11.2 billion by the end of the year. Total coverage ratio accounted for 93%, while for loans past due for more than 30 days it was 130% and 132% for more than 90 days past due. Total charges to provisions over year (cost of risk) accounted for 1.8% of average loan book or Rub 1.9 billion.

Net interest income declined by 34% as compared to the previous year and amounted to Rub 5.5 billion. Interest income was affected by drop in yields for loans coupled with tightening of competition on the back of lending stagnation for the most part of 2010. Amid sharp plunge of lending rates the bank's efforts were focused on reduction of funding cost, which was trimmed by 103 bp by the end of the year and accounted for 6.1% in comparison with 7.1% a year ago. Thus due to steady expiration of the most expensive deposits during Q4 the cost of funding came down by 79 bp from 6% in Q3 to 5.21% at the end of Q4. As a result net effect for NIM was positive. It rose from 3.3% in Q3 to 3.5% in Q4 and accounted for 3.6% of total average assets by the end of the year. Interest spread has also expanded from 5.6% in Q3 to 5.8% in Q4 and stood at 6.3% for the full year.

Non-interest income

Net fee income has been gradually growing over 2010 and totaled Rub 3.9 billion, up 5.5% as compared with the previous year, owing to growth of fees and commissions from settlements (up 13.6%) and transactions with banking cards (up 17.8%). Net fee income accounted for 89% of total non-interest income. The share of non-interest income in total operating income at 45% traditionally remained one of the highest among Russian banks.

Operating expenses

Operating expenses grew by 14% in comparison with previous year and amounted to Rub 7.2 billion. Due to seasonal hike in personnel expenses in Q4 associated with annual bonuses, total growth of personnel expenses was 15.2%. Personnel expenses contributed 56% to total costs, up from 54% a year ago. The bank took several measures to restrain growth of administrative expenses which contracted by 1.3% over the year. Total cost to income before provisions ratio accounted for 72.5%.

Profit

Profit before taxation in Q4 rose by 33% as compared with Q3 and amounted to Rub 238 million due to significantly lower charges to provisions as a result of lower NPLs growth rates. Thus over year net profit has been steadily growing quarter by quarter that allowed the bank to accomplish 2010 financial year with net profit of Rub 581 million. Effective tax rate for 2010 was 20%.