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## Vozrozhdenie Bank reports Q1 2010 IFRS profit of 97 million rubles

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Vozrozhdenie Bank (VZRZ) published its Q1 2010 IFRS results with key items as follows:

- Net Income: Rub 97 million (\$3 million)
- Cost to income ratio before provisions: 65.3% (2.1 percentage points increase during the quarter)
- Assets: Rub 148 billion (up 7% from the previous year)
- Operating profit before provisions: Rub 813 million (down 28% compared with the previous quarter)
- Return on Equity (ROE): 2.4%

“First quarter of 2010 was rather difficult for the bank. Despite signs of improvement in certain economic indicators, the economy and the banking industry still face substantial challenges.” - said Tatiana Gavrilkina, Deputy Chairwoman of the Bank Management Board. “Loan demand hasn’t rebounded and is expected to be depressed for the foreseeable future as creditworthy businesses and individuals will likely remain reluctant to borrow until there is clear and consistent improvement in economic conditions. Continued drop of interest rates still put pressure on the margin and we focused our efforts on rebalancing liabilities structure to reduce funding costs in order to mitigate negative impact on the margins. In March we fully repaid bonds (Rub 3 billion) issued in 2007 while ongoing inflow of individual funds (+Rub 3,2 billion per quarter) should substitute those raised during the crisis and mitigate fall of interest rates for loans. We remain confident in our strong liquidity (liquid assets account for 32% of the balance sheet) and capital positions (CAR ratio – 18.2%) and we are optimistic that the loan portfolio will improve with the economy recover.

**Assets increased** by 2% during the quarter and reached Rub 148 billion (\$5 billion) on the back of growth in all deposit categories, most notably retail term deposits which increased by Rub 4.7 billion or 8.6%. As a result the bank consecutively substitutes deposits raised during the crisis by the new lower-cost core deposit inflow to reduce funding costs. Due to a tight loan demand which remained weak during the quarter loan portfolio has remained almost flat (up Rub 0.8 billion, 1% q-o-q) and the bank has maintained liquidity on the balance sheet at higher level than in previous periods. The excessive liquidity was partially used to redeem bank’s debts raised on the capital markets such as bonds issue (Rub 3 billion) which was fully repaid in March as well as placed in the interbank market in the form of overnight deposits (Rub 8,75 bln). All in all the bank managed to issue nearly Rub 5 billion of new loans to corporate borrowers during the quarter, however, loan growth was offset by early loan redemption by the big client at the very end of the quarter. Thus loan-to-deposit ratio as of the end of the quarter at the level of 80% reflected the bank’s strong ability to boost loan portfolio as soon as demand is back on the market on the part of high-grade borrowers.

**Shareholders equity** increased by 6% to Rub 16.4 billion (\$558 million) as of March 31, 2010, compared to Rub 15.4 billion (\$454 million) as of March 31, 2009. The core tier 1 capital adequacy ratio remained on a comfortable level of 15.0% while total capital adequacy ratio of 18.2% reflects sound capital position of the bank. Each of these ratios significantly exceeds the regulatory guidelines for a credit institution. The bank’s equity to assets ratio was 11.0% in the first quarter of 2010.

**Loan portfolio before provisions** has stagnated in Q1 2010 (+1% from the previous quarter, Rub 95.4 billion) due to the moderate loan demand from high-quality borrowers against the background of excessive liquidity in the economy. In the face of general falling interest rates many borrowers endeavour to refinance their loans or reduce their debt burden and take “wait and see” position expecting further decline in interest rates. Thus loan growth in the first quarter was offset by early redemptions, most notably repayment by the large customer at the end of the quarter. Although loan portfolio of SME, core bank’s clientele, demonstrated a robust increase (+14% compared with the previous quarter), it was offset by the decline in loans to large customers (-8%), administrations (-32%), individuals (-3%). Thus

corporate lending accounted for 86% of the total loan portfolio with 57% of total loans being issued to the small and medium enterprises. The major part of the corporate loan book is traditionally concentrated in manufacturing and trade sectors (24% and 21% respectively). The structure of the retail loan book remained unchanged during the quarter with mortgages accounting for 56% of the retail loans.

The bank's **Securities** portfolio both trading and investment totaled Rub 11 billion (\$379 million) as of March 31, 2010. The bank's trading portfolio consisted entirely of investment grade securities, the majority of which are Russian sovereign or quasi-sovereign risks, primarily of short-duration securities. The breakdown of the securities portfolio as of March 31, 2010 is 43% Central Bank of Russia bonds, 48% corporate bonds and Eurobonds and 9% Federal and Regional Government's bonds and Eurobonds.

**Loan portfolio quality** deteriorated insignificantly during the quarter and NPLs amounted to Rub 10.6 billion in comparison with Rub 9.4 as of 01.01.2010 (11.1% vs 9.9% of gross loan portfolio). The main increase (Rub 1.0 billion) in overdue loans was observed in category of past-due but not impaired loans with overdue less than 30 days, so called technical overdue, while total impaired loans increased only by Rub 0.4 billion. Thus approximately 27% of all past-due and impaired loans at the end of the first quarter were past due for less than 30 days. The additional allowances for loan losses were Rub 0.6 billion during the first quarter 2010 compared with 1.6 billion a year ago. Total provisions amounted to Rub 10 billion representing 10.5% of total loans. Given the increase in past-due loans with delinquency shorter than a month the ratio of the loan losses provisions to total non-performing loans was 95% while more than 30 days NPLs coverage ratio was 130% and more than 90 days NPLs coverage ratio was 141%.

**Net Interest Income** amounted to Rub 1.5 billion for the first quarter of 2010 compared with Rub 2.3 billion for the same period of the previous year due to general falling of interest rates. In addition, some borrowers continue to experience financial difficulty as a result of the lag effect of the economic downturn. Thus the first quarter 2010 negative effect on interest margin was 140 basis points q-o-q and the net interest margin was 4.0% vs 5.4% as of the beginning of the year primarily due to rate compression. Average cost of interest bearing liabilities has remained flat compared with the prior quarter at 6.7% as the efforts to reduce funding costs by lowering deposit rates were partially offset by redemption of relatively low-cost bond issue. During the first quarter the bank kept re-pricing both sides of the balance sheet to maintain acceptable margin. Interest spread declined by 187 bps compared with previous quarter but still remained at the strong level of 7.4%.

**Total non-interest income** decreased by Rub 396 million to Rub 886 million (-31% y-o-y) in the first quarter of 2010 versus the first quarter of 2009 principally due to the reduction in gains from trading in foreign currencies as well as securities resulted from less volatile environment. Non-interest income accounted for 38% of total operating income before provisions in the first quarter of 2010 compared with 35% in the year-ago quarter.

**Operating expenses** declined by 21% from the previous quarter to Rub 1.5 billion primarily due to reduction in personnel expenses (-15%) as employee bonuses were paid at the end of the previous year. Despite facing short-term challenges at present the bank management has decided to keep its infrastructure and employee level anticipating further improvements in the environment and overall economic situation. Thus cost to income ratio before provisions amounted to 65.3% versus 38.4% a year ago primarily due to lower income.

**Pre-tax Income** reached Rub 188 million (down 68% from previous year) and the total net profit was Rub 97 million (down 75% compared to the previous year). 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 48% in the first quarter of 2010. Income tax expenses during the three months of 2010 were Rub 91 million.