Bank Vozrozhdenie reports H1 2010 IFRS profit of 218 million rubles, up +25% qoq.

August 18, 2010

Bank Vozrozhdenie (VZRZ) published its H1 2010 IFRS results with key items as follows:

- Net Income: Rub 218 million ($7 million), 25% up QoQ
- Operating income: Rub 1800 million (5% increase in Q2 compared to Q1)
- Assets: Rub 147 billion (up 7% from the previous year)
- Cost to income ratio before provisions: 66.7%
- Return on Equity (ROE): 2.7% for H1 2010 (50 bps up QoQ)

"Second quarter of 2010 was a period when gradual recovery of domestic economy, driven by expanded consumption and stronger investments on the background of low interest rates, brought the resumption of demand for loans both from business and individuals. We are pleased with our loan portfolio dynamics in the second quarter as we managed to outpace the banking sector on the whole and increase our market share in Moscow oblast, our key region, in spite of challenging competition landscape." – said Tatiana Gavrilkina, Deputy Chairwoman of the Management Board, "In order to mitigate negative impact of declined loan yields on NIM we have been focusing on optimization of funding costs and managed to reduce our interest expenses in Q2 by 5% having raised Rub 5.6 billion of new retail funding. Furthermore we rebalanced our asset mix in favor of interest earning assets while keeping both high liquidity and strong CAR with 30% of balance sheet in the form of liquid assets and 17.2% CAR as of the end of the quarter." – added Mrs. Gavrilkina.

Total assets rose by 7% yoy to Rub 147 billion ($4.7 billion) on the back of ongoing growth of individual deposits, which rose by 34% yoy to Rub 77.3 billion and comprised 65% of total customer funds as of 30.06.10. Focusing on reduction of funding costs the bank applied selective approach to prolongation of more expensive corporate term deposits which contracted by 27% qoq to Rub 15.5 billion while balances of corporate current accounts remained stable at Rub 23.2 billion vs 24.5 billion in Q1. Reduction of the total corporate funds was offset by 8% increase in retail funding (5.6 billion per quarter) mainly driven by 16% expansion of balances on the debit cards accounts. As a result customer funds remained the main source of the bank's funding (90% of total liabilities) and amounted to Rub 118 bln (22.8% up yoy) with almost interest free current accounts accounting for 32% of them. During Q2 the bank managed to change its asset mix having raised loan portfolio 7.5% qoq and caught the opportunity to acquire securities of the reliable issuers (securities up 65.6% qoq) while the markets had fallen. Although this reallocation was made mainly at the expense of cash (-24.1% qoq) and interbank loans (-95.5% qoq), the share of liquid assets remained healthy 30% reflecting strong liquidity position of the bank. Loan-to-deposit ratio as of the end of the quarter grew to 87% from 80% a quarter ago due to resumption of demand for loans from the customers in Q2.

Shareholders' equity increased by 0.4% to Rub 16.5 billion ($527 million) as of June 30, 2010, compared to Rub 16.4 billion ($502 million) as of March 31, 2009. Capital adequacy ratio reached 17.2%, the Tier1 ratio - 14.1%. The decline from the previous quarter (CAR down 1.0%, Tier 1 down 0.9%) is the result of the quarterly increase of the risk weight assets due to expansion of lending and increase in securities portfolio. Both numbers are significantly higher than those required by regulatory guidelines for a credit institution. The bank's equity to assets ratio was 11.2% in the second quarter of 2010.

Loan portfolio before provisions demonstrated robust growth of 7.4% (Rub 7.0 billion) in Q2 2010 and reached 102.5 billion pointing to the pick-up in loan demand on the back of lower rates environment and improved borrower's confidence in economy recovery. Net loans increased by 7,5% compared to 4.7% of the sector growth. Lending growth was mainly driven by corporate loans which grew by 7.8% qoq in the second quarter vs 4.9% of sector growth according to CBR. Despite challenging competition landscape the bank managed to strengthen its market position in Moscow oblast, historically key region of presence, with loans to customers from Moscow oblast having grown by 15.0% qoq. The sector breakdown of the corporate loan book has traditionally corresponded the banking sector diversification with main concentration in trade and manufacturing sectors (23% each). Retail lending has also accelerated and 5.1% increase qoq of net retail loans outpaced the sector which grew only by 3.8%. Higher yield consumer loans before provisions were up 14.7% qoq while mortgages grew by 3.1%. Thus corporate lending accounted for 86% of the total loan portfolio with 54% of total loans being issued to the small and medium enterprises. The structure of the retail loan book remained unchanged during the quarter with mortgages accounting for 55% of the retail loans.

Securities portfolio totaled Rub 18.4 billion ($590 million) as of June 30, 2010, up 65.6% qoq. Investor's concerns over problems with European public sector caused the fall of financial markets in the beginning of Q2 that allowed the bank to gain fixed-income securities of the most reliable issuers with insignificant credit risk. As of the end of the quarter the bank's trading portfolio consisted entirely of investment grade short duration securities, the majority of which are Russian sovereign or quasi-sovereign risks. The breakdown of the securities portfolio as of June 30, 2010 is 42% Central Bank of Russia bonds, 28% corporate bonds and Eurobonds and 30% Federal and Regional Government's bonds and Eurobonds.

NPLs ratio improved from 11.1% in Q1 to 10.6% of gross loan portfolio in Q2 that is the first decline since the beginning of the crisis in the fall of 2008. NPLs past-due less than 30 days contracted by Rub 0.4 billion qoq and accounted for 22% of total past-due and impaired loans at the end of the second quarter. Total NPLs amounted to Rub 10.8 billion in comparison with Rub 10.6 as of 01.04.2010. Charges to provisions for loan losses amounted to 0.7 billion per quarter compared with 1.2 billion a year ago. Total provisions amounted to Rub 10.7 billion representing 10.4% of total loans. Given the decline in less than 30 days overdue loans the coverage ratio of the provisions to total non-performing loans improved to 99% from 95% a quarter ago. Coverage ratio for more than 30 days NPLs was 128% and 135% for more than 90 days NPLs.

Net Interest Income amounted to Rub 1.4 billion for the second quarter of 2010 compared with Rub 1.5 billion in Q1. General fall of interest rates for new lending and expiring maturity of the loans issued with higher rates was partially offset by robust pick-up in new lending. Thus the second quarter 2010 NIM on average total assets was 26 basis points lower than in Q1 at 3.74% vs 4.0% as of March 31, 2010. Ongoing re-pricing of the individual and corporate term deposits in order to reduce funding costs led to 5% decline of interest expenses in the second quarter compared to Q1 while total interest bearing liabilities remained flat. Thus average cost of interest bearing liabilities declined by 330 bps to 6.4% in comparison with 6.7% in Q1 and interest spread accounted for 6.5%.

Total non-interest income grew by solid 23% (Rub 202 million) in Q2 to Rub 1 088 million compared to 886 in Q1 due to the higher fees for settlement transactions of the customers (up 27% qoq) as well as commissions for payroll services (up 14% qoq). Non-interest income accounted for strong 44% of the total operating income before provisions in the second quarter of 2010 compared with 38% in the first quarter that is traditionally one of the highest shares in the Russian banking sector.

Operating expenses grew by 10% from the previous quarter to Rub 1,7 billion. Despite short-term profitability pressure the bank's management has decided to keep its capacity (stuff, infrastructure etc) anticipating further improvements in overall economic situation and surpassing lending growth in Q2 is the first result of this approach. Although operating income for the second quarter rose by 5% from the Q1 the growth of operating expenses accounted was 10% qoq mainly driven by conducted advertising campaign and IT investments in banking technologies. Thus cost to income ratio before provisions amounted to 68.1% versus 65.3% a quarter ago.

Net Income for reporting period amounted to Rub 218 million, down 66% in comparison with H1 2009. Effective tax rate for H1 2010 declined to 29% from 48% in Q1 due to recognition of deferred tax assets related to the interest income on NPLs. Thus there were income tax expenses for H1 2010 amounted to Rub 91 million.