

## **Vozrozhdenie Bank reports 9M 2009 IFRS Profit of 842 million rubles.**

**Moscow, November 25, 2009.** Vozrozhdenie Bank (VZRZ) published its Q3 2009 IFRS results with key figures as follows:

- Net Income: RUB 842 million (\$28 million)
- Cost to income ratio before provisions: 44.2% down from 2008 average of 52.7%
- Assets: RUB 135 billion (\$4.5 billion), slight decline during the last quarter
- Operating income before provisions up 6.8% (RUB 9.9 billion) versus 9M 2008
- Return on Equity for 9M 2009 equaled to 7.2% influenced by provision charges

“In 2009 we focused on efficiency and conservative credit policy in order to maintain acceptable credit risk level on the loan book. Q3 financial results are in line with our projections without any significant surprises that prove the bank’s ability to manage the size of the business in very challenging economic conditions. Corporate loan portfolio was substantially affected by the recession. Some reduction of the loan book was caused by aspiration of some of corporate clients to decrease debt burden on their businesses.” – said Dmitry Orlov, the Chairman of the Bank’s Management Board. “In terms of funding the bank protected its positions on market of individual deposits during the third quarter and enjoyed strong individual deposits inflow. We managed to achieve solid results by developing long-term relationships with our clients, maintaining tight cost control and reliable risk management.”

**Assets** decreased by 2% to RUB 135.0 billion (\$4.5 billion) compared to 9M 2008 mainly driven by decline in the loan book. Loan to deposit ratio as at 30.09.2009 improved to 99%, a decrease by 290 basis points from the end of June reflecting sound inflow of individual deposits (up by 15% since the beginning of the year 2009). The bank financed about 70% of the total assets by customer accounts (-1.5% Q-o-Q) that remained the core source of the bank’s funding. The Bank continued to keep a sound liquidity cushion on its balance sheet (30% of the assets) as economic conditions and outlook improvements remained fragile.

**Equity** rose by 5.7% since December 31, 2008 to RUB 15.9 billion (\$529 million). The Bank maintained a healthy capital position with its CAR at a comfortable level of 18.6% that is well above the 11% minimum with Tier 1 capital adequacy ratio of 14.9%.

**Gross loans** to customers reduced by 4.3% compared with Q209 and by 5.8% compared with December 2008 and totaled RUB 93.6 billion with the following breakdown: 83% of commercial loans and 17% of retail ones. Notwithstanding the bank’s willingness to lend to creditworthy customers and availability of the relevant resources the demand from the core clients, SMEs, remained subdued. Small and medium enterprises accounted for 53% of the gross commercial loan book. The bank’s loans to corporate clients are well diversified in terms of sectors (the largest single sector exposure is 25% to trade companies and almost the same portion is manufacturing). The structure of the retail loan book has not experienced any essential changes with mortgages accounted for slightly more than half of the retail loans.

**Loan portfolio quality** deteriorated in Q3 2009 at a lower pace compared to the first half of 2009 with NPLs rising by RUB 1.7 billion Q-o-Q to RUB 8.8 billion which equaled to 9.4% of the loan book as of the end of September. The Bank applies a very conservative approach in the NPLs definition according IFRS with recording as non-performing loan the whole principal of the loan more than one day past due either on principal or interest. The impaired loans, on which some loss of principal is expected, reached 8.5% of the total loan portfolio. Total charges to provisions for loan impairment for 9M 2009 amounted to RUB 4.2 billion including 1.3 billion added to provisions in Q3 2009. As of September 30, 2009 total provisions amounted to 8.9 billion rubles or 9.5% of

the total loan portfolio. The bank followed its policy to keep the coverage ratio above 1 which as of the end of September was equal to 100.5%.

**Net Interest Income** for 9M 2009 exceeded the result of the same period of the previous year by 8,9% but fell by 0.6% comparing to the results of Q209 due to growing pressure on loan yields. Net interest margin in 3Q09 remained unchanged at 6.0% and for 9M 2009 equaled to 6.2% of average assets. Cost of funding stabilized at 7.2% while yield on average earning assets due to above-mentioned factors lowered to 15.5%. That allowed the bank to keep appropriate level of interest spread at 8.6% for 9M 2009.

**Non-interest income** rose by 3% comparing to 9M 2008 notwithstanding the overall economic slowdown and totaled RUB 3.5 billion. For 9M 2009 net fees and commissions brought 79% of the total non-interest income. The bank managed to keep the share of net fees and commissions at the level of 35.2% of the total operating income.

**Operating expenses** for 9M 2009 reduced by 13% to RUB 4.4 billion comparing to RUB 5 billion for the same period of the previous year. Staff costs were down by RUB 689 million (-22%) to RUB 2.4 billion for 9M 2009 compared to the same period of 2008, reflecting the cost saving measures taken by the management during the year. The bank managed to reduce staff costs by 5% as well as administrative costs by another 5% over Q309. Cost to income ratio before provisions amounted to 44.2% versus 53.9% for the 9M 2008 in line with the bank long-term guidelines of 40-50%.

**Pre-tax income** of RUB 1.372 billion for 9M 2009 went 58% down comparing to 9M 2008. With stable operating income and reduced costs it was hit primarily by ongoing significant charges to provisions for loan impairment. Profit after tax for the reported period amounted to RUB 842 million (\$20.5 million). 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 for 9M 2009 39%.

*The Bank's full IFRS report is available at:*

*[http://www.vbank.ru/en/reports/statements\\_2/ifrs\\_interim\\_2/](http://www.vbank.ru/en/reports/statements_2/ifrs_interim_2/)*