



**VOZROZHDENIE
BANK**

THE BANK THAT IS ALWAYS WITH YOU

Resilient core profitability



**Conference Call
May 27, 2015**

Q1 2015 highlights

Weak macro with financial markets calming down puts local businesses and individuals at risk...

- FX and financial markets stabilisation, key rate down from **17%** to **14%**, but bank rates remain too high for borrowers
- Accelerating inflation of **16.9% YoY**
- GDP contraction of **1.9% YoY** with basic sector output shrink of **2.3% YoY**. Retail sales dropped **6.7% YoY**, investments - **6% YoY**

...so we maintain conservative balance sheet with all eyes on credit quality...

- Liquid assets slightly down to **22%** amid market stabilisation, CBR funding fully repaid
- Basel III Total CAR improved to **12.2%** with threshold of **10%**, Tier 1 CAR – to **10.5%** with threshold of **5%**
- Loan portfolio down **1.1% QoQ** to **RUB168.4 bln** influenced by elevating risks for corporates (**-0.7% QoQ**) and by high rates for retail (**-2.1% QoQ**)
- Customer funds slightly down **2.7%** to **RUB169.5 bln** but retail deposits up **3.7% YoY**

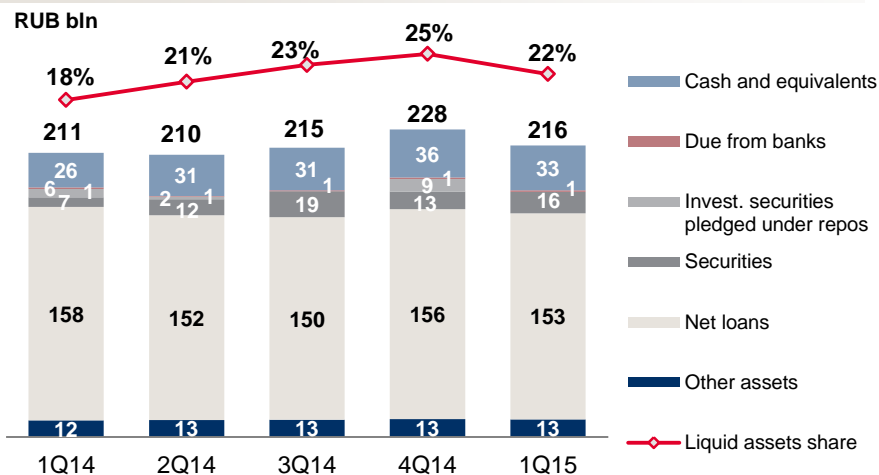
...continuing to extract benefit from high interest rate environment

- NIM improved to **4.6%** due to effective repricing of the corporate loan book to offset a spike in funding costs
- Weak net F&C income fully offset by solid trading gains on securities and FX
- Operating revenues up **7.7% QoQ** with **34%** share of non-interest income
- Elevated cost of risk at **3.3%** to provision for new NPLs detected in late 2014-2015
- Net profit of RUB 40 mln versus RUB 26 mln loss in Q4 2014

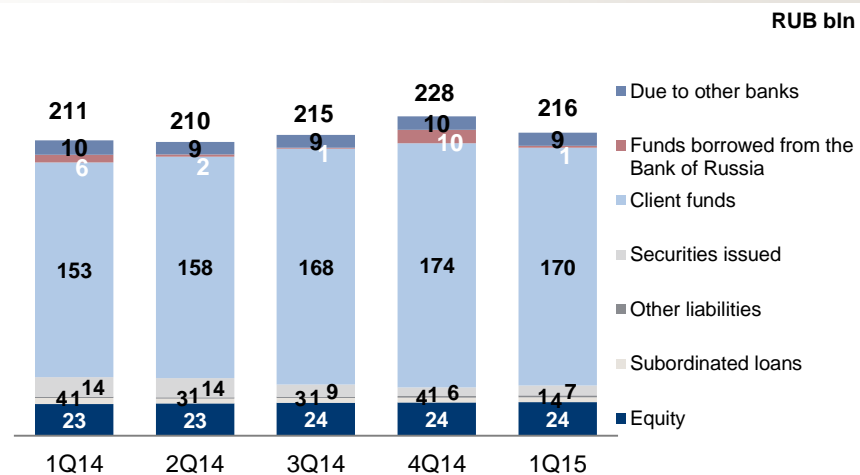


Assets and liabilities

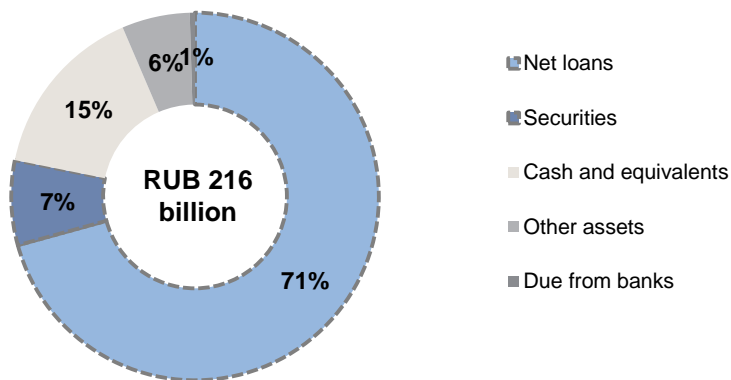
Still strong and liquid balance sheet



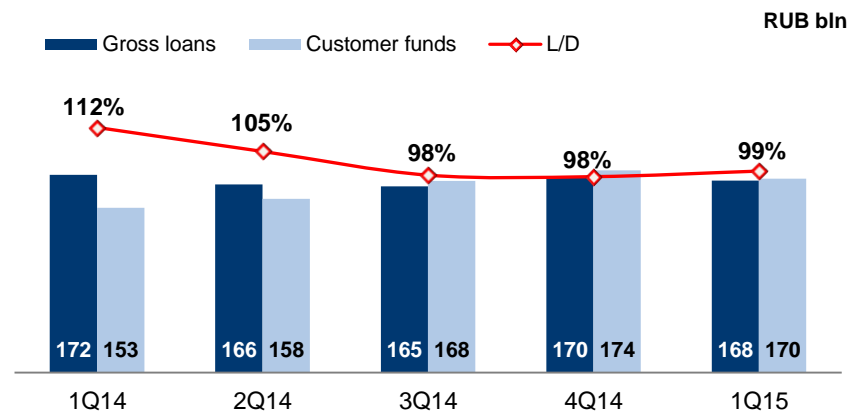
The CBR funding was repaid due to stabilisation of macro



Stable share of IEA at 78%

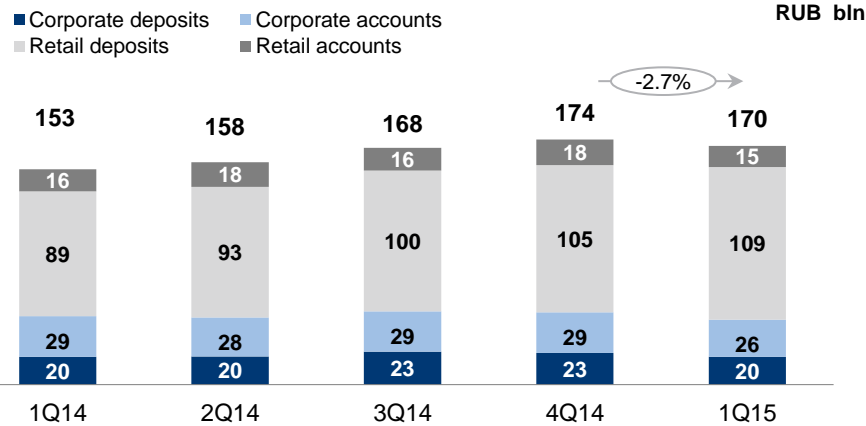


L/D ratio within targeted range

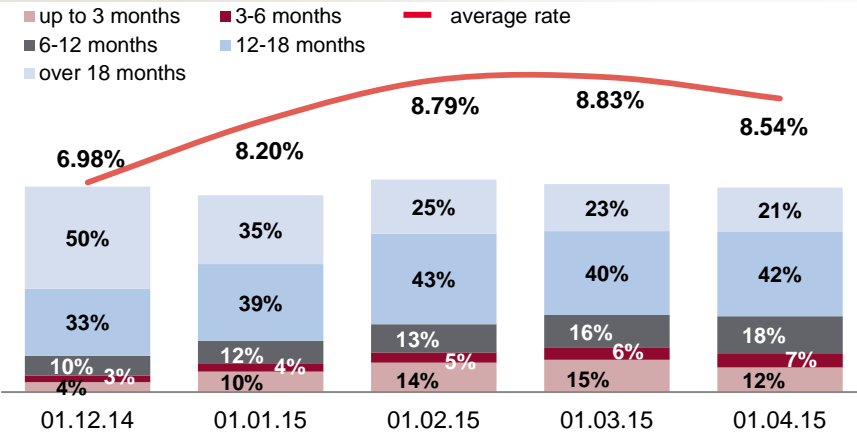


Customer funds

Expanding share of retail funds

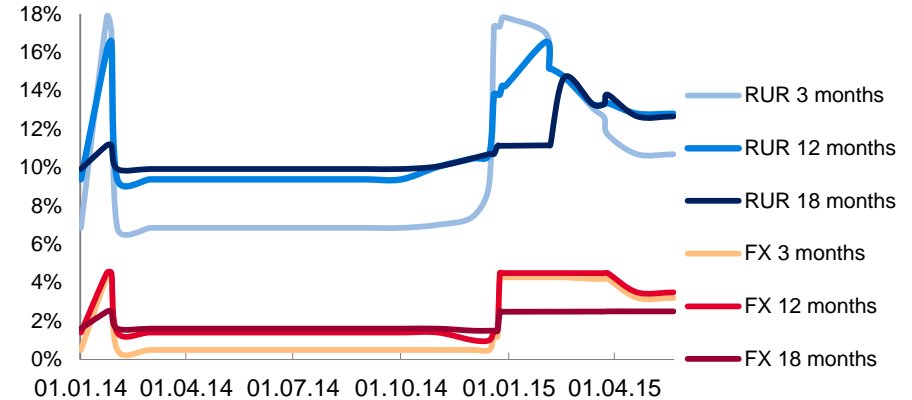


Expiring expensive deposits bring retail funding costs down*



*Based on RAS

Dynamics of effective rates on retail deposits in 2014-2015

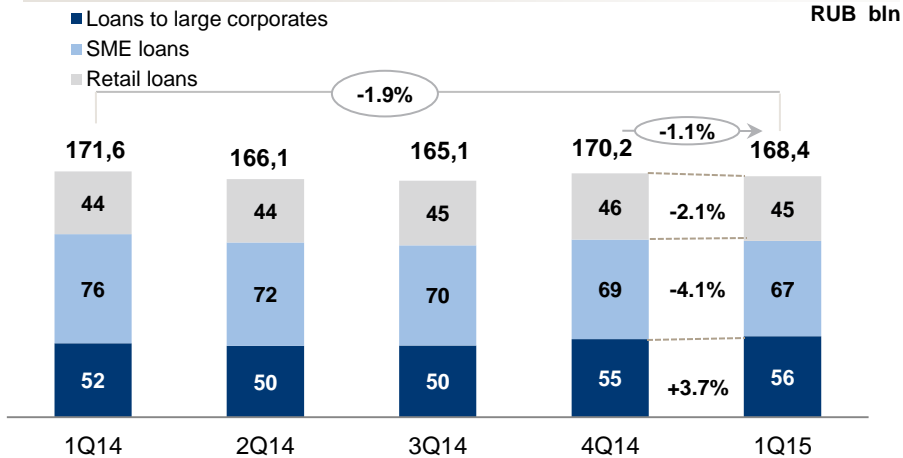


Key points

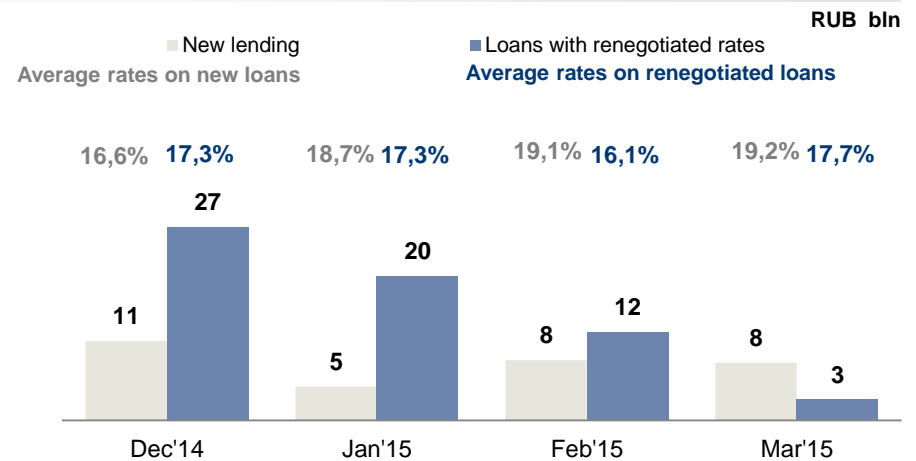
- Amid fragile loan demand in Q1 2015, the bank focused on less expensive retail funding (versus corporate), which expanded by 0,5% YtD
- Retail deposits attracted in December 2014 at higher rates expired in Q1 2015, gradually bringing funding costs down
- Thanks to effective management of the rates, the share of Ruble-denominated deposits added 2.9 pps QoQ to 68.8% as of April 1, 2015

Loan portfolio

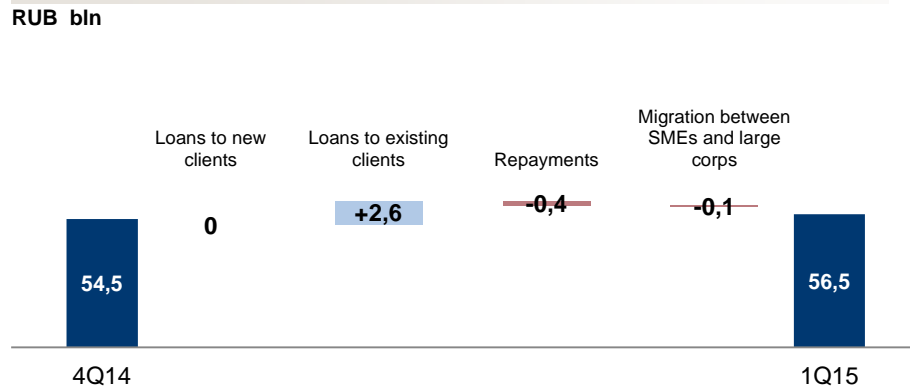
Total loans slightly down on higher risks



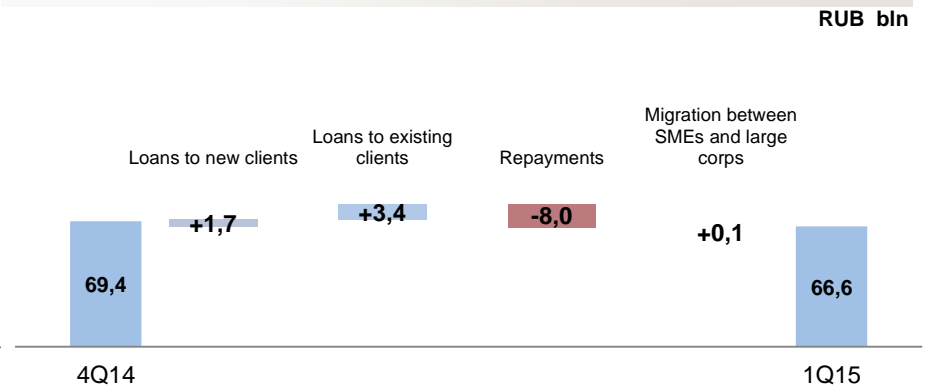
Active repricing of the corporate portfolio



Large corporates grew on lending to more reliable existing clients

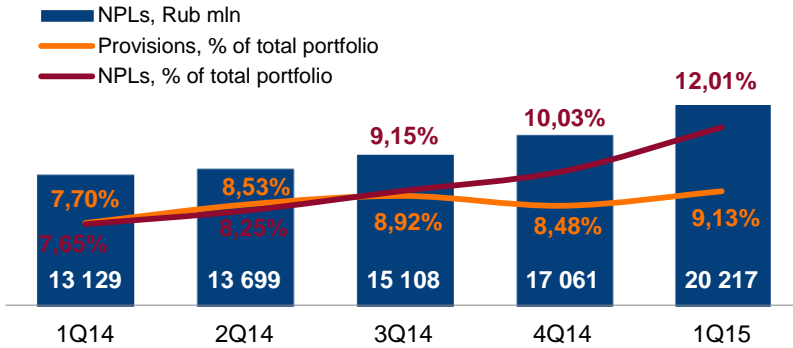


SMEs dropped due to high portfolio turnover



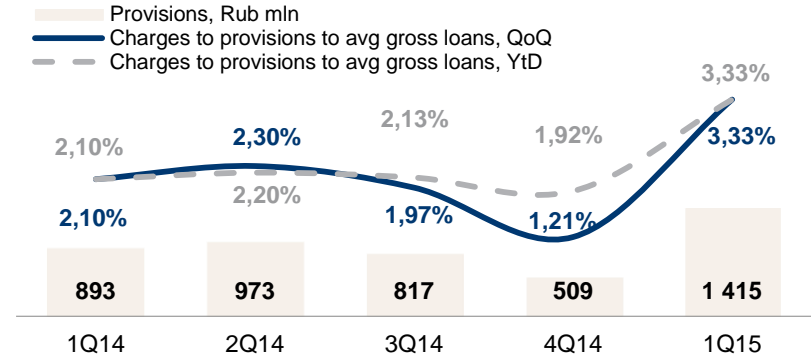
Credit quality management

NPLs dynamics*



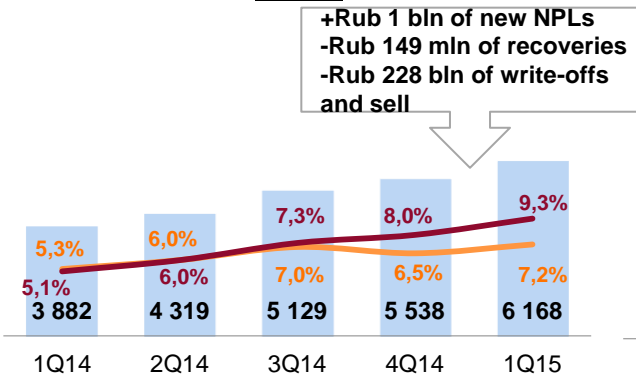
* NPL includes the whole principal of loans at least one day overdue either on principal or interest as well as not overdue loans with signs of impairment

Heavy provisioning on higher NPLs

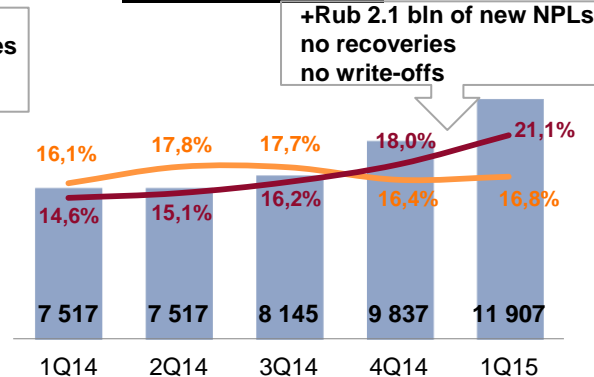


NPLs categorization

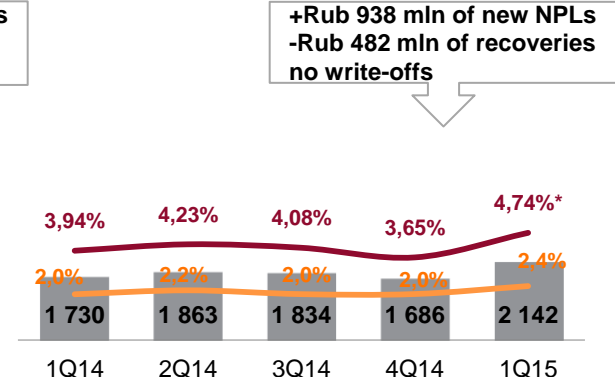
SMEs



Large corporates



Retail



*2,4% of which is overdue less than 30 days

Credit quality

As of April 1, 2015	RUB mln					
	Large corporates	SMEs	Mortgages	Other retail	Total	
Gross loans, including	56,541	66,581	31,370	13,864	168,356	Provisions to NPLs Ratio 76%
Current loans	78.9%	90.7%	96.5%	92.4%	88.0%	
Past-due but not impaired, including	-	0.7%	2.6%	2.1%	0.9%	Provisions to 90 days+ NPLs 107.7%
Less than 90 days	-	0.7%	2.6%	2.1%	0.9%	
Over 90 days	-	-	-	-	-	
Impaired, including	21.1%	8.6%	0.9%	5.5%	11.1%	
Less than 90 days	5.9%	1.4%	0.2%	0.8%	2.6%	Rescheduled Loans 6.6%
Over 90 days	15.2%	7.2%	0.7%	4.7%	8.5%	
Total NPLs	21.1%	9.3%	3.5%	7.6%	12.0%	
Provisions	-16.8%	-7.2%	-1.1%	-5.2%	-9.1%	
Net Loans	47,058	61,772	31,019	13,137	152,986	

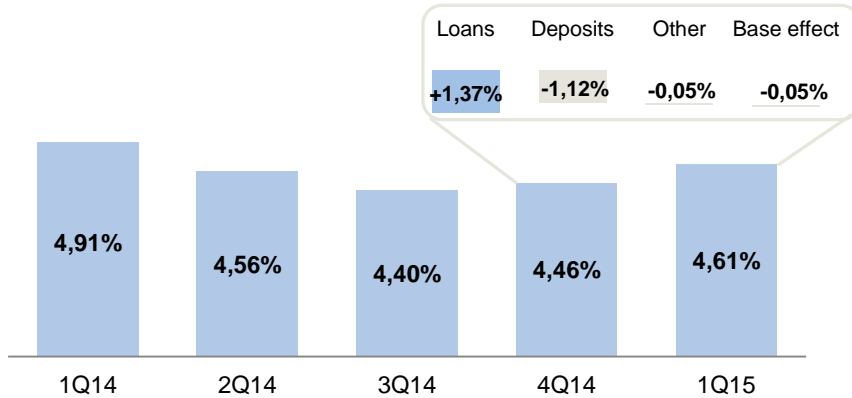
NPL - the whole amount of loans with principal overdue for more than 1 day as well as loans with any delay in interest payments.

P'n'L summary

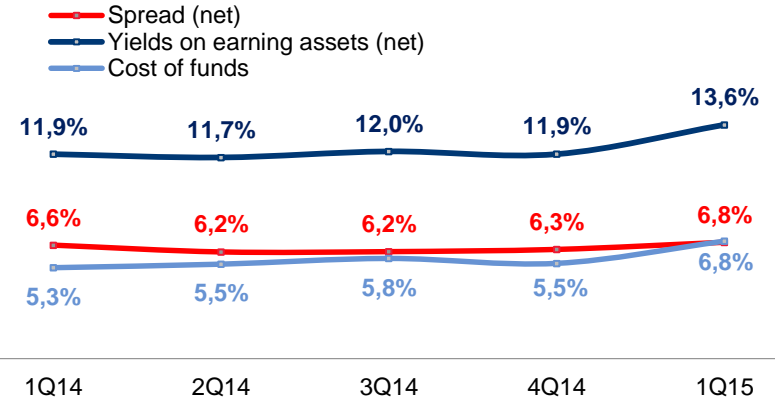
	RUB mln				
	1Q15	4Q14	QoQ	1Q14	YoY
Interest income	5,918	5,182	+14.2%	5,063	+16.9%
Interest expense	(3,356)	(2,715)	+23.6%	(2,472)	+35.8%
Fee and commission income	1,074	1,292	-16.9%	1,101	-2.5%
Fee and commission expense	(187)	(218)	-14.2%	(185)	+1.1%
Other operating income	446	75	X5.9	138	X3.2
Total operating income b.p.	3,895	3,616	+7.7%	3,645	+6.9%
Operating expenses	(2,414)	(2,820)	-14.4%	(2,187)	+10.4%
Provisions for loan impairment	(1,415)	(509)	+178%	(893)	+58.5%
Provisions for impairment of other assets	(19)	(257)	-92.6%	(9)	+111%
Provisions for credit related commitments	-	(92)	-	-	-
Taxation	(7)	36	-	(128)	-94.5%
Net profit	40	(26)	-	428	-90.7%

Deriving advantage from high interest rate environment

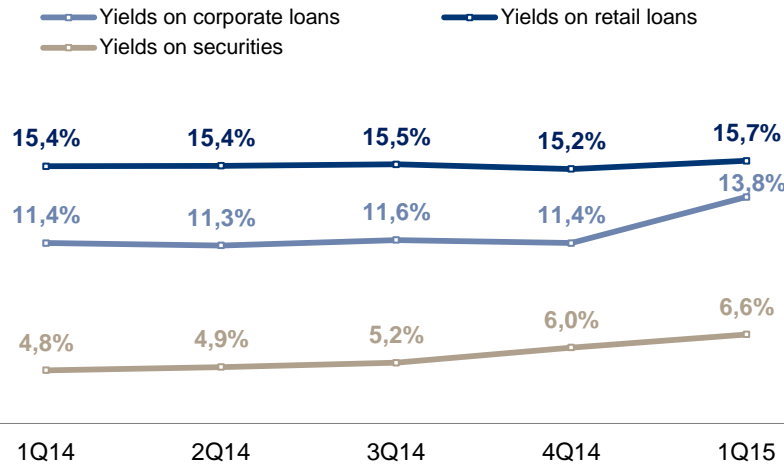
NIM improved amid effective balance sheet management



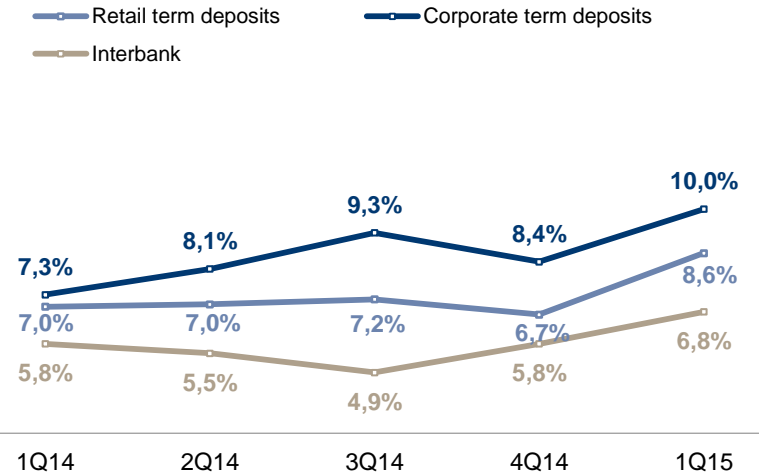
Solid net interest spread



Repricing of the corporate book...

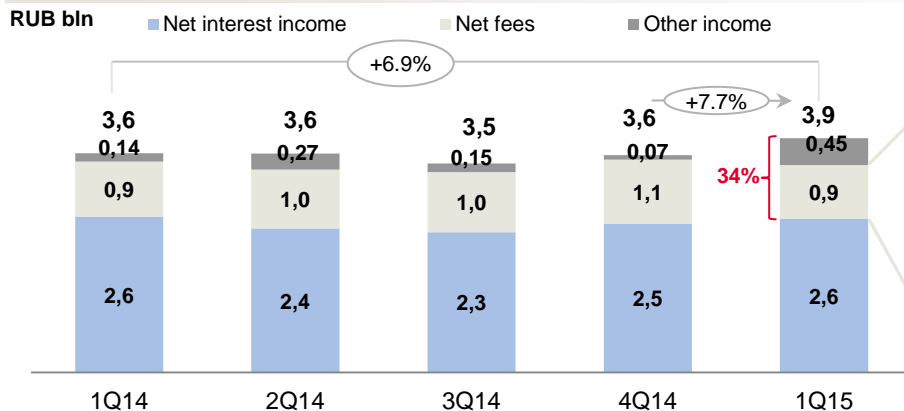


...offsets higher funding rates

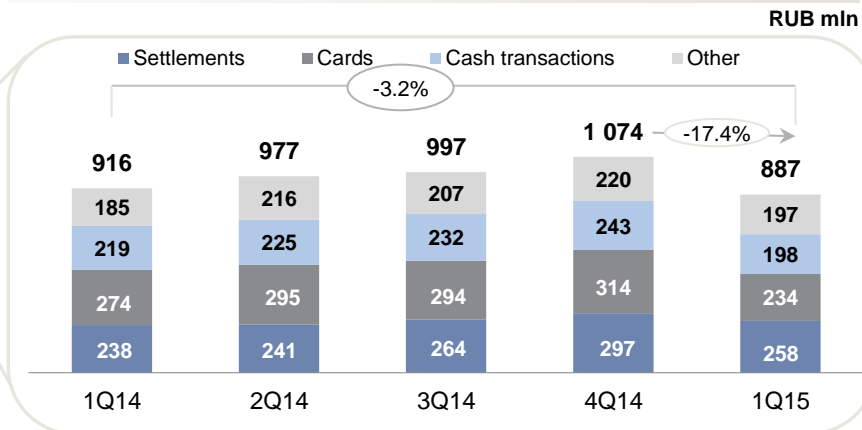


Improvement on pre-provisioning level

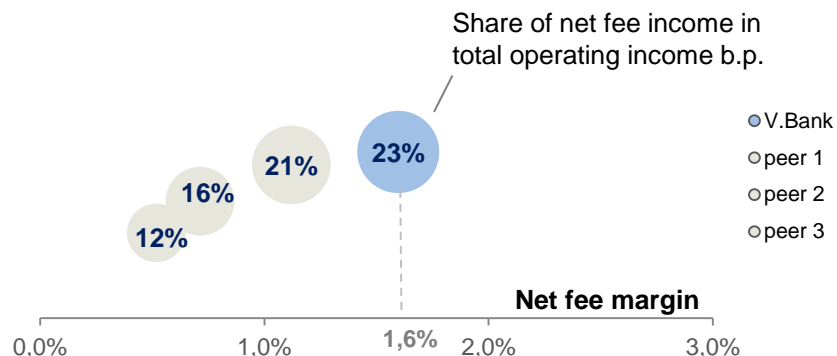
Operating revenues supported by strong trading...



...with fees seasonally weaker...



...though remaining solid among peers



* V.Bank's data as of 1Q'15; Peer1, Peer2, Peer 3 - FY2014 IFRS Statements

Key points

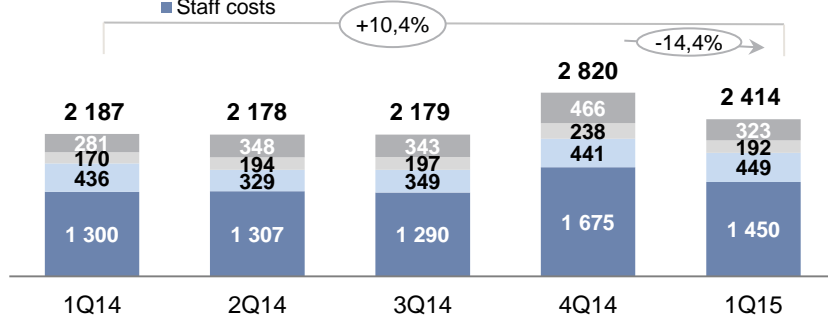
- FX revenues rebounded amid turbulent market
- Expanded gains from bonds purchased in the trough in December 2014
- Fee income seasonally weak constrained by low customer engagement due to high risks
- Fees from settlements grew by **7.6% YoY** supported by launching new products in 2014
- V.Bank maintains historically strong position on fees versus peers that grow from a lower base

Seasonally lower costs, but YoY growth driven by Ruble depreciation and inflation

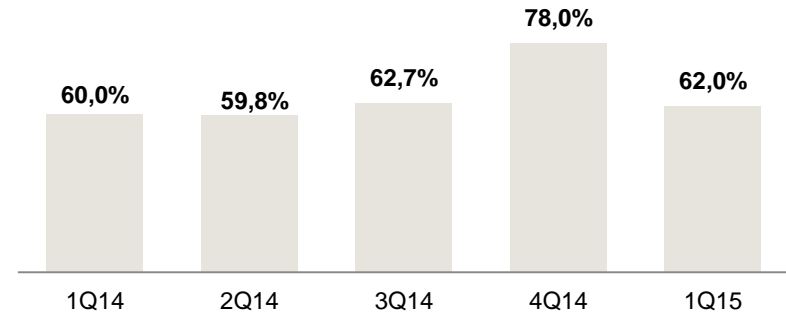
Operating costs structure

RUB mln

- Rent and costs relating to premises and depreciation
- Taxes other than income tax and contributions
- Administrative and other expenses
- Staff costs



Cost-to-Income ratio



Operating model optimisation project

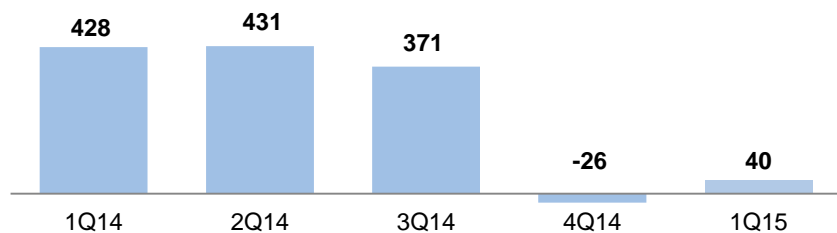
Name of the project	Project status
Centralised processing of tax authorities' decisions	Completed in 2014
Automation of factoring transactions	Completed in 2014
Automation of requests processing from the Federal bailiff service	For online - completed in 2014, for hard copy – plan 2015
Automation of clients' orders from remote channels	Completed in 2014
Centralisation of cash-in-transit planning	Completed in 2014
Centralisation of information security administration	In line with schedule in 2014
Centralisation of work with large borrowers	In line with schedule in 2014
Centralisation of opening and closing accounts, centralisation of handling client profiles	Completed in 2014 in the Moscow Region. Plan for whole bank- 2015
Implementation of a One-Stop technology for servicing individuals in the bank's offices	Completed in 2014 in the Moscow Region. Plan for whole bank- 2015
Centralisation of salary accounting, HR records keeping	Completed in 2014 in the Moscow Region
Centralised control over AML/FT	Completed in 2014 in the Moscow Region

Name of the project	Project status
Centralised control over FX payments	Pilot completed in 2014. Plan - 2015
Processing customer inquiries received by remote channels	Pilot completed in 2014. Plan - 2015
Centralised processing of incoming payments to bank cards and re-issue of bank cards	Plan - 2015
Change of the method of work under payroll card programmes	Pilot planned for 2015
Centralised opening of deposit accounts and support for customer's deposit agreements	Pilot planned for 2015
Centralised support for cash-in-transit settlements with the use of customs cards	Pilot planned for 2015
Centralised opening of accounts for settlements with the use of customs cards	for Pilot planned for 2015
Centralised register of overdue payments	Pilot planned for 2015
Electronic profiles of corporate clients	Project is to be completed in 2015
CRM credit process	Pilot project is in pipeline. The bank is planning to replicate the technology in all branches in 2015

Profits & capital

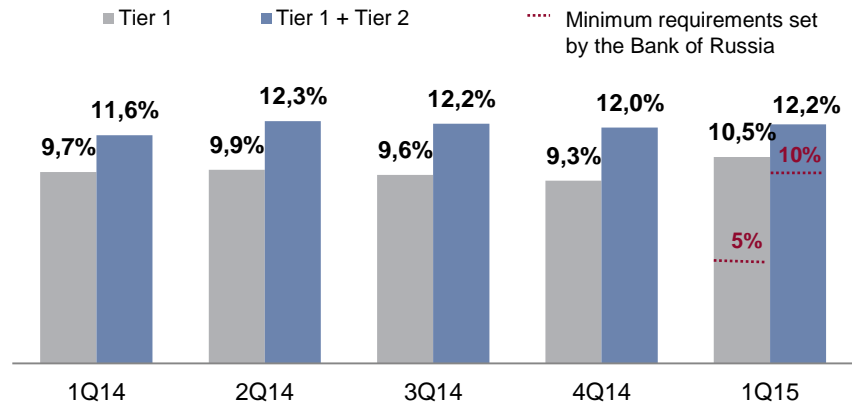
Net income pressed by high provisions

RUB bln



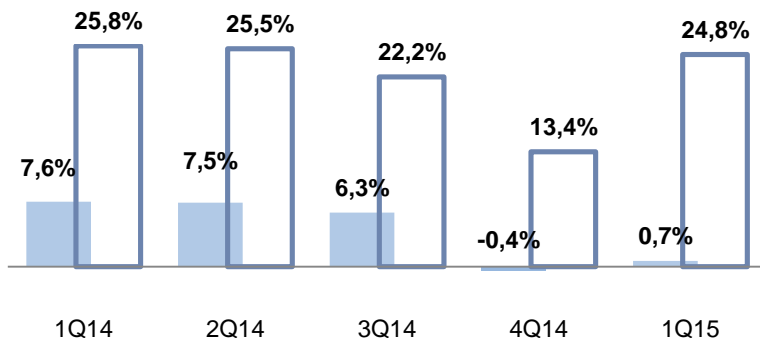
Capital position enhanced

RUB mln



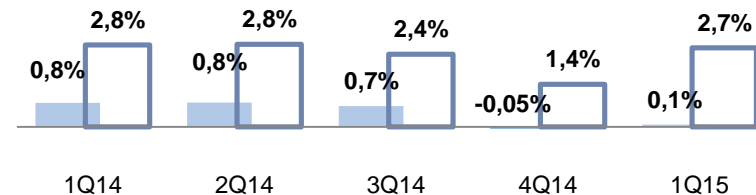
Return on equity

■ ROE ■ Profit before provisions and taxes to capital



Return on assets

■ ROA ■ Profit before provisions and taxes to assets



Key takeaways

- **NIM improved versus sector due to effective balance sheet management**
- **Snatch opportunities on FX and bonds markets to enhance revenues**
- **Conservative provisioning amid risky environment**
- **Capital position protected**



Questions and answers



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