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# Strong operating performance under pressure of conservative provisioning



Conference Call  
August 25, 2015

# Q2 2015 highlights

**In shrinking macro and dropping interest rates environment...**

- Financial markets stabilisation, key rate down to **11.5%**
- Ruble appreciation of **5%** to **RUB/USD 55.5**
- Still high inflation of **15.3% YoY**
- GDP contraction of **4.4% YoY** with basic sector output shrink of **6.1% YoY**. Retail sales dropped **9.4% YoY** investments - **6% YoY**

**...we effectively manage the balance sheet but the need for high provisioning persists...**

- Liquid assets up to **24%** with more incentive to play on interbank market
- Loan portfolio down **3% QoQ** to **RUB163.5 bln** on cut of large exposures (**-12.8% QoQ**) but targeted SMEs and retail were up by **+2.1%** and **2.0%** respectively **QoQ**
- Customer funds stable at **RUB 169.4 bln** with growth in retail accounts (**+9.9% QoQ**) offsetting corporate deposits outflow (**-13.4% QoQ**)
- NPLs down by **41 bps to 11.6%** on **RUB 2.7 bln** write-off with coverage up to **79,5%** for 1 day+ and **112.3%** for 90 days+

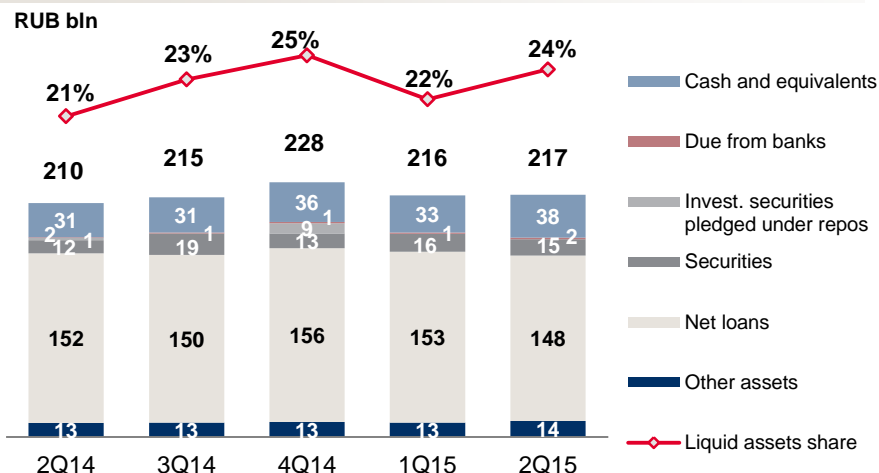
**...putting pressure on the bottom-line amid strong operating revenues**

- Continued improvement of NIM (**+17 bps QoQ**) to **4.8%** due to gradual downward repricing of the corporate loan book from heightened levels to offset funding costs
- F&C up **8.2% QoQ** on new products launched and fees optimisation
- Costs down **5.7% QoQ** supported by personnel cut bringing C/I to **58.1%**
- Operating profit b.p. up **10.9% QoQ**
- Elevated cost of risk at **6.1%** to provision for new NPLs continuing to emerge this year
- Net loss of **RUB 609 mln** versus **RUB 40 mln** profit in Q1 2015

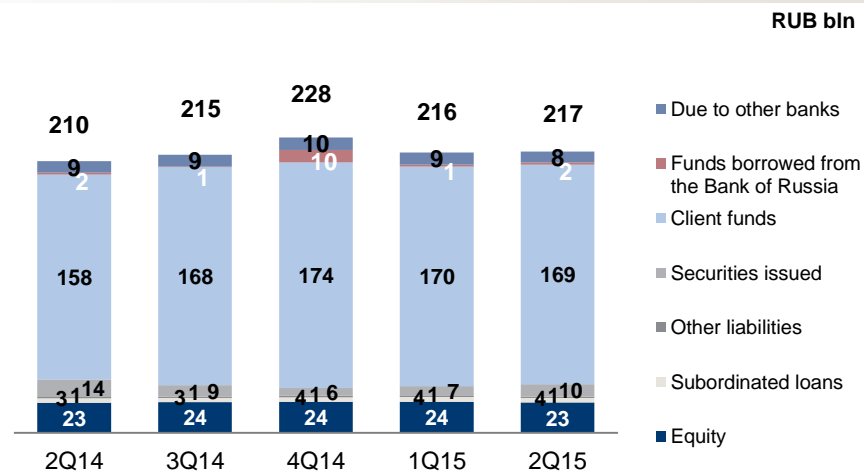


# Assets and liabilities

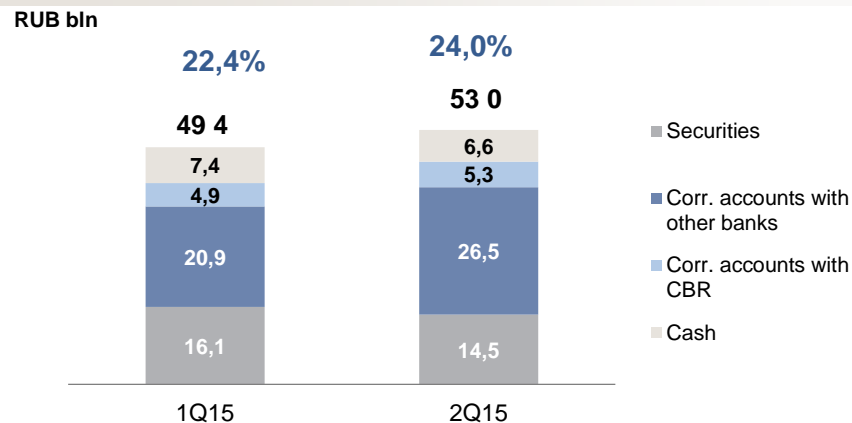
## Stable balance sheet size



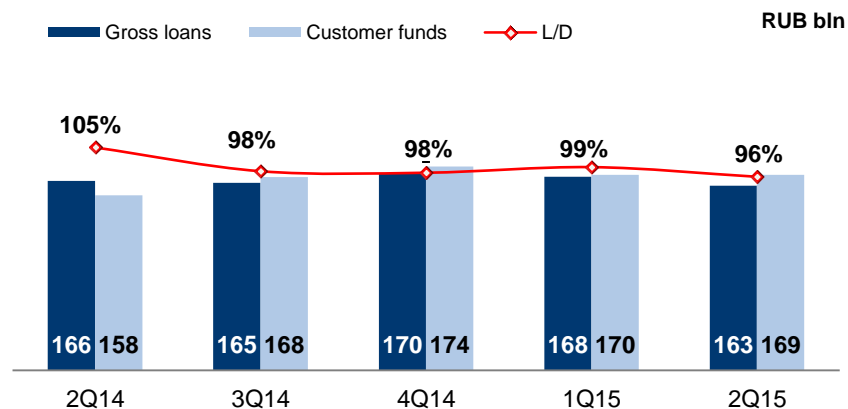
## Resistant funding structure



## Preferring liquid instruments generating good yields

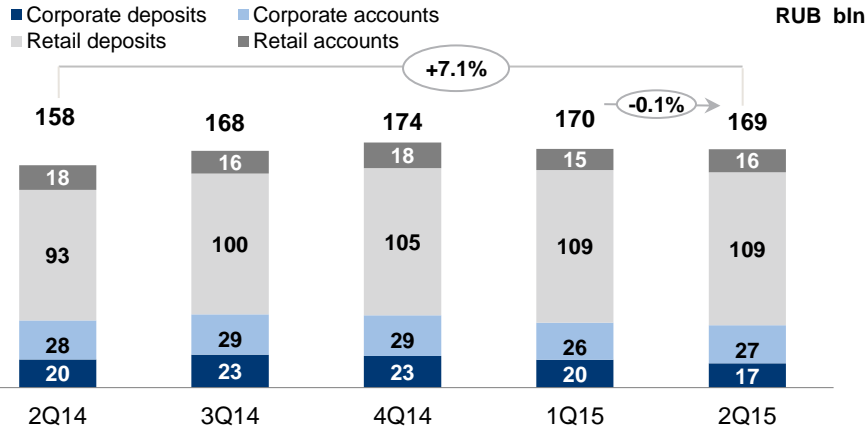


## Lower L/D remains within targeted range

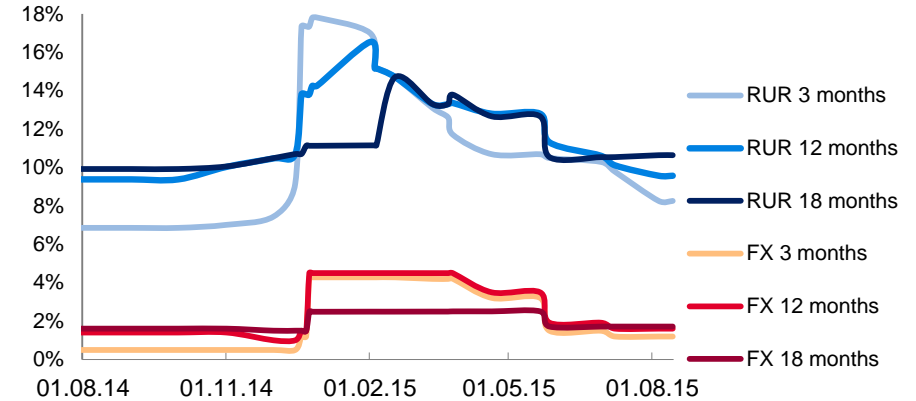


# Customer funds

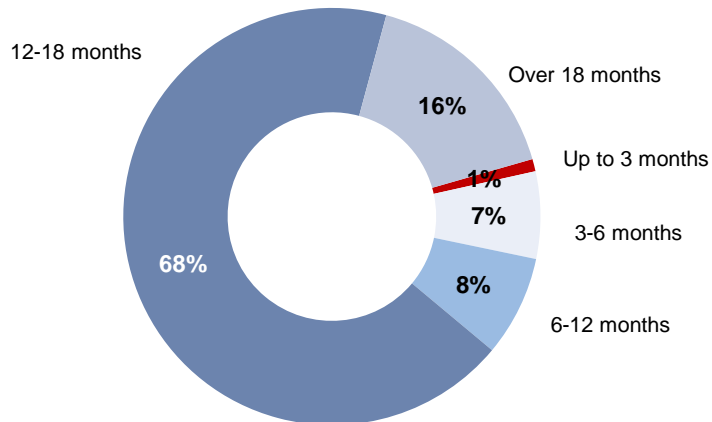
## Expanding share of retail funds



## Dynamics of effective rates on retail deposits in 2014-2015

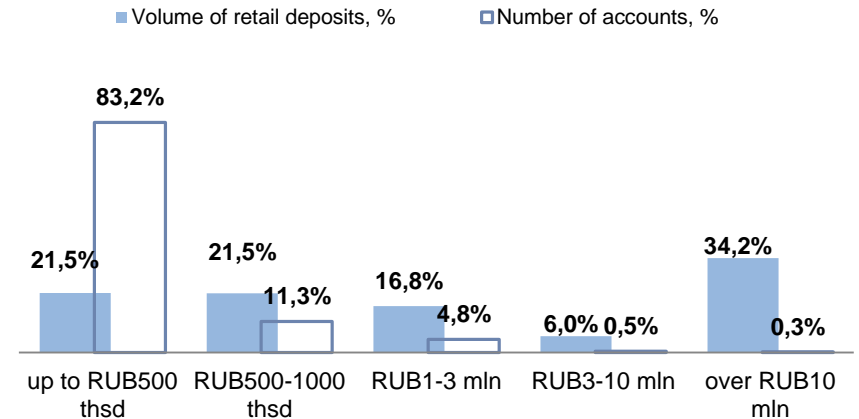


## Focused on long-term retail deposits\*



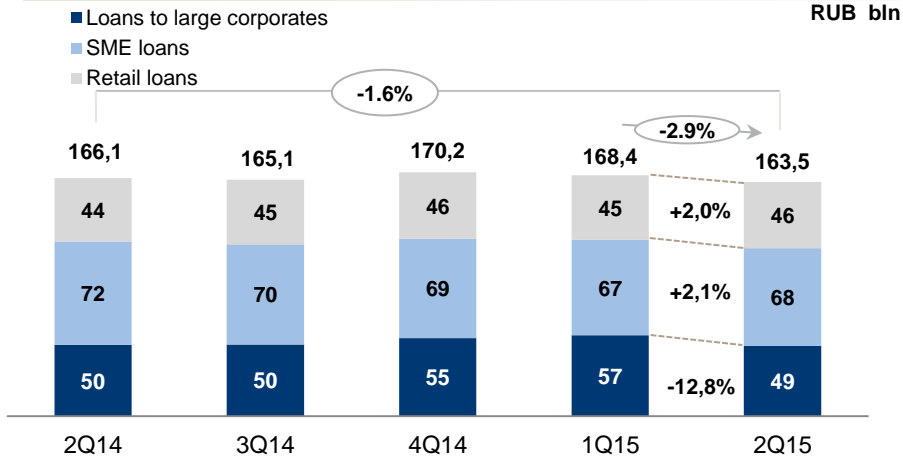
\*Contractual maturity structure of retail deposits based on management accounting data

## Well-diversified deposit base

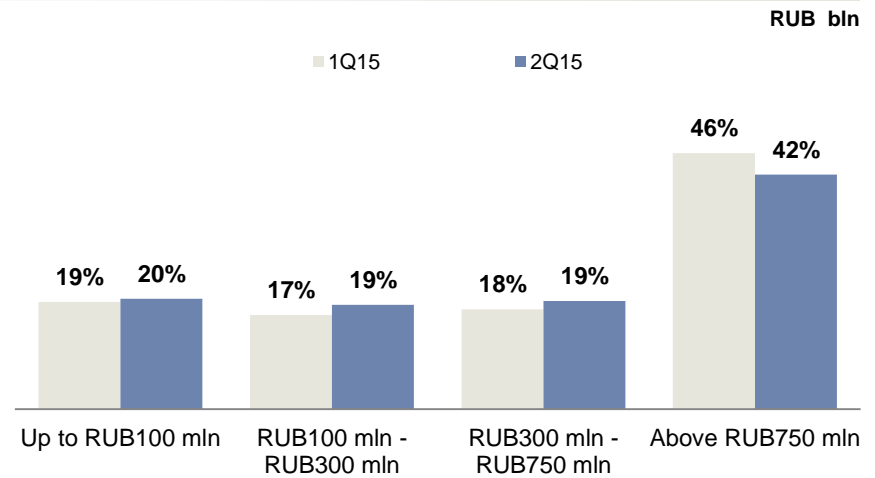


# Loan portfolio

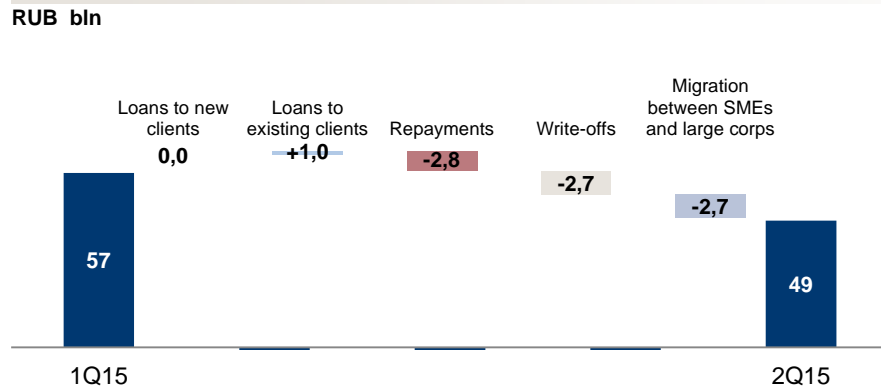
## Corporate loans down on conservative risk management



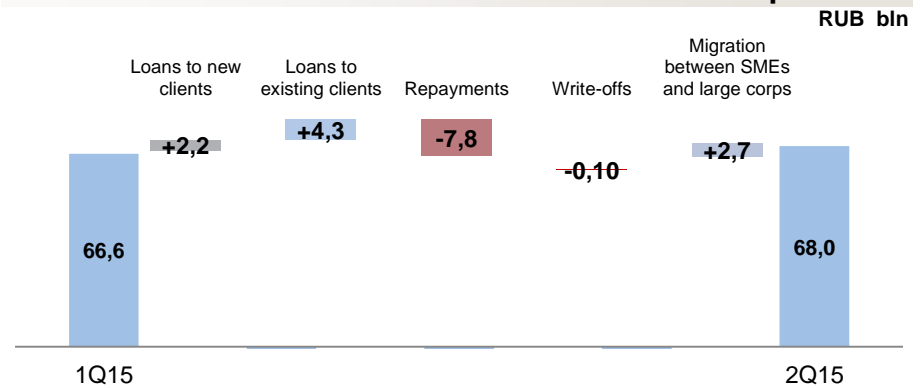
## Improved granularity – corporate loans distribution by size



## Large corporates on decline due to repayments and one-offs...

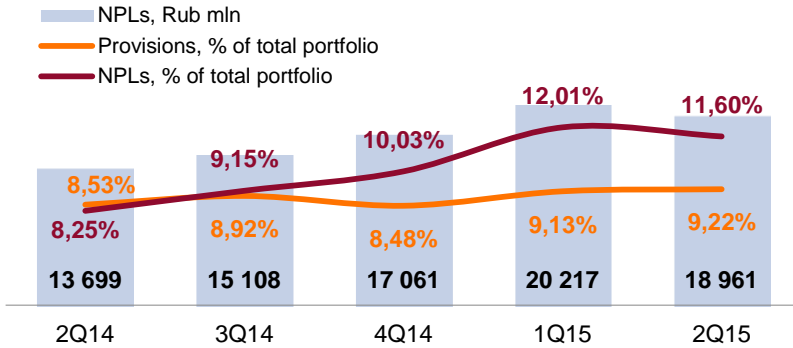


## ...while SMEs up on more active lending and cut of exposures



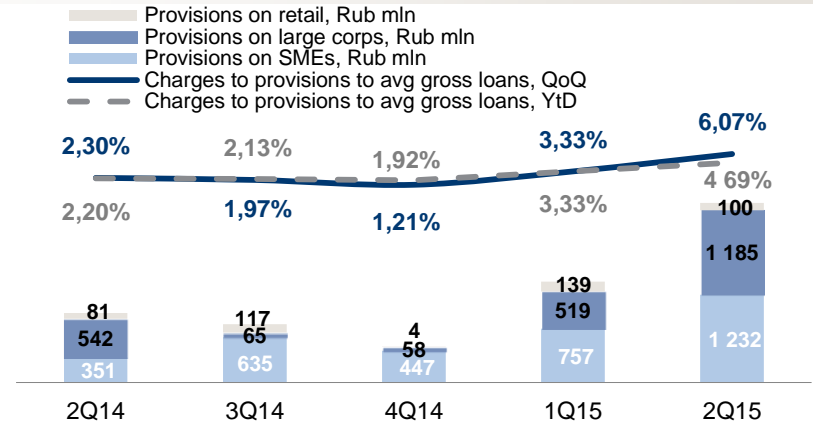
# Credit quality management

## NPLs dynamics\*



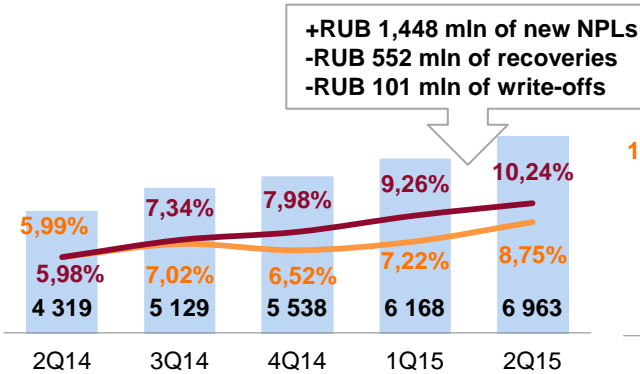
\* NPL includes the whole principal of loans at least one day overdue either on principal or interest as well as not overdue loans with signs of impairment

## Heavy provisioning on corps to improve coverage



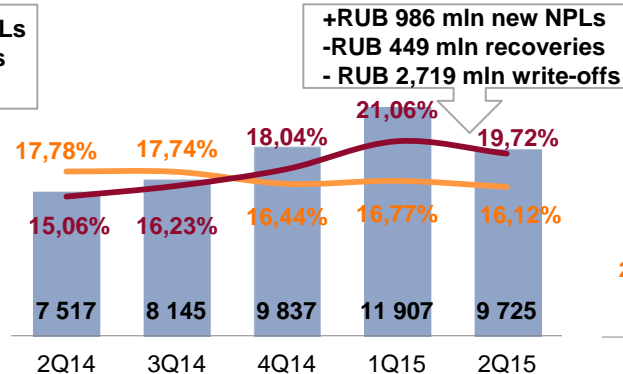
## NPLs categorisation

### SMEs



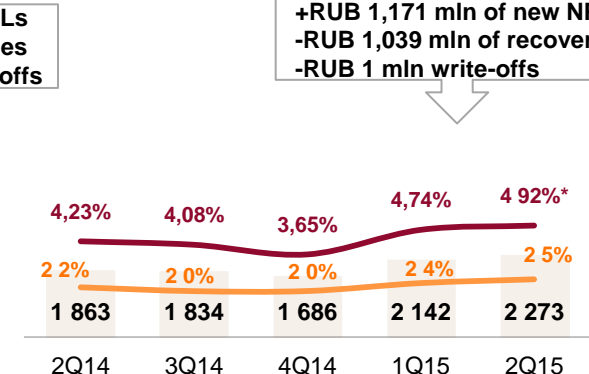
+RUB 1,448 mln of new NPLs  
-RUB 552 mln of recoveries  
-RUB 101 mln of write-offs

### Large corporates



+RUB 986 mln new NPLs  
-RUB 449 mln recoveries  
- RUB 2,719 mln write-offs

### Retail



+RUB 1,171 mln of new NPLs  
-RUB 1,039 mln of recoveries  
-RUB 1 mln write-offs

\*2.7% of which is overdue less than 30 days

# Credit quality

	RUB mln					
As of July 1, 2015	Large corporates	SMEs	Mortgages	Other retail	Total	
<b>Gross loans</b> including	<b>49,303</b>	<b>67,995</b>	<b>31,544</b>	<b>14,617</b>	<b>163,459</b>	Provisions to NPLs Ratio
Current loans	80.3%	89.8%	96.8%	91.4%	88.4%	<b>79.5%</b>
Past-due but not impaired including	-	0.8%	1.9%	2.9%	1.0%	
Less than 90 days	-	0.8%	1.9%	2.9%	1.0%	
Over 90 days	-	-	-	-	-	
Impaired including	19.7%	9.4%	1.3%	5.7%	10.6%	Provisions to 90 days+ NPLs
Less than 90 days	6.0%	1.1%	0.3%	0.8%	2.4%	<b>112.3%</b>
Over 90 days	13.7%	8.3%	1.0%	4.9%	8.2%	
<b>Total NPLs</b>	<b>19.7%</b>	<b>10.2%</b>	<b>3.2%</b>	<b>8.6%</b>	<b>11.6%</b>	
<b>Provisions</b>	<b>-16.1%</b>	<b>-8.7%</b>	<b>-1.2%</b>	<b>-5.5%</b>	<b>-9.2%</b>	Rescheduled Loans
<b>Net Loans</b>	<b>41,354</b>	<b>62,046</b>	<b>31,176</b>	<b>13,808</b>	<b>148,384</b>	<b>8.6%</b>

**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

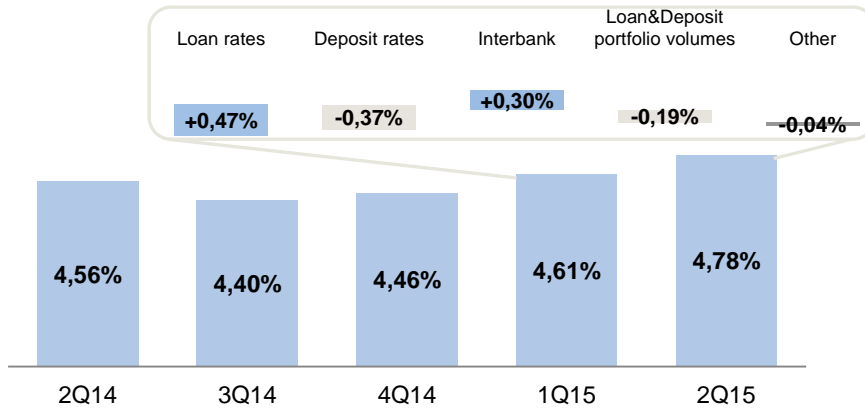
RUB mln

	2Q15	1Q15	QoQ	1H15	1H14	YoY
Interest income	6,080	5,918	+2.7%	11,998	10,012	+19.8%
Interest expense	(3,491)	(3,356)	+4.0%	(6,847)	(5,026)	+36.2%
Fee and commission income	1,124	1,074	+4.7%	2,198	2,250	-2.3%
Fee and commission expense	(164)	(187)	-12.3%	(351)	(357)	-1.7%
Other operating income	370	446	-17.0%	816	408	+100%
Total operating income b.p.	3,919	3,895	+0.6%	7,814	7,287	+7.2%
Operating expenses	(2,276)	(2,414)	-5.7%	(4,690)	(4,365)	+7.4%
Provisions for loan impairment	(2,517)	(1,415)	+77.9%	(3,932)	(1,866)	+110.7%
Provisions for impairment of other assets	(16)	(19)	-15.8%	(35)	37	-
Provisions for credit related commitments	92	-	-	92	-	-
Taxation	189	(7)	-	182	(234)	-
<b>Net profit</b>	<b>(609)</b>	<b>40</b>	<b>-</b>	<b>(569)</b>	<b>859</b>	<b>-</b>

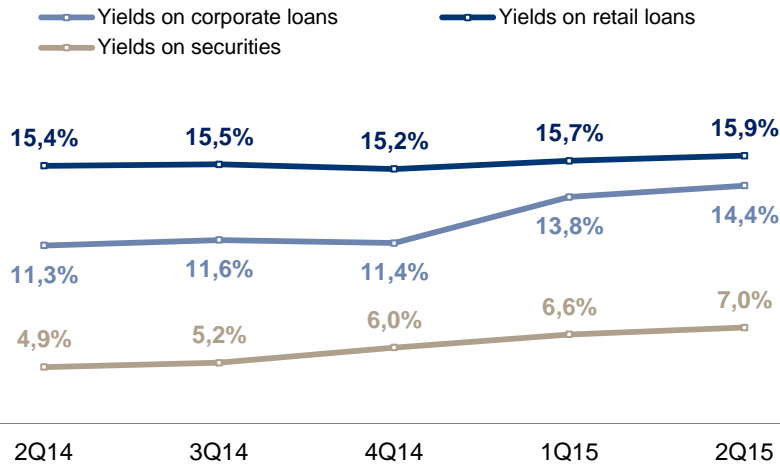


# Sustainable support of NIM

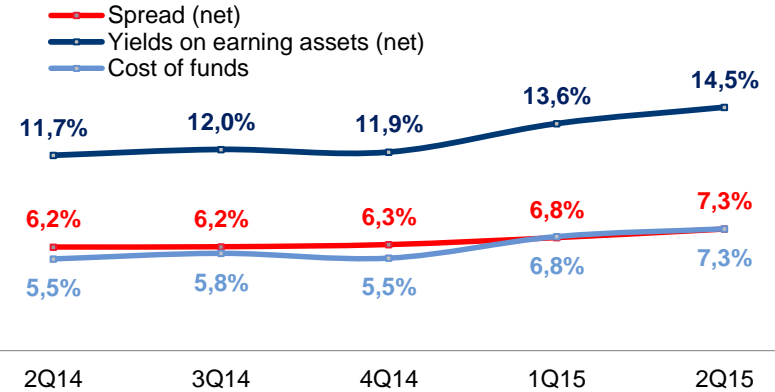
## NIM improved amid effective balance sheet management



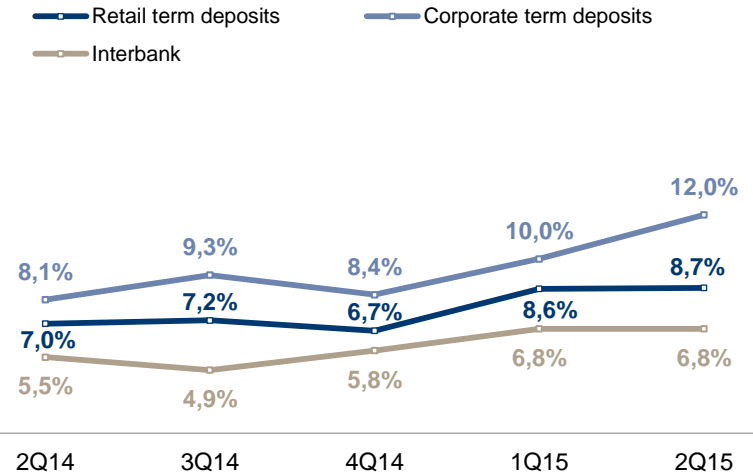
## Good yields across the assets...



## Solid net interest spread

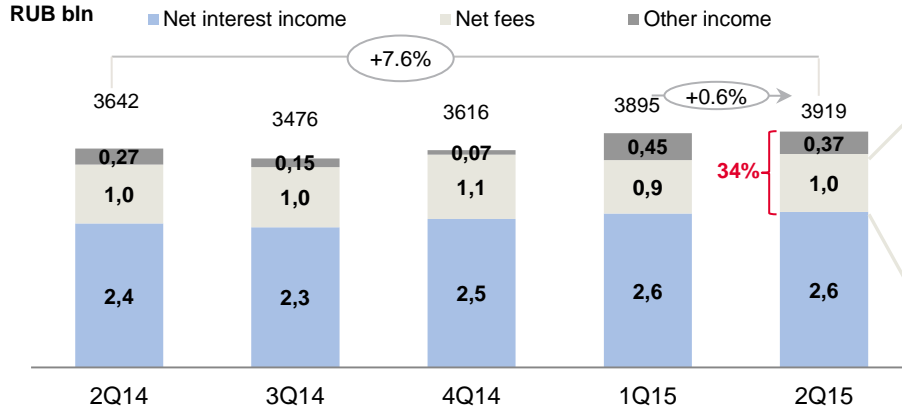


## ...offset higher funding rates

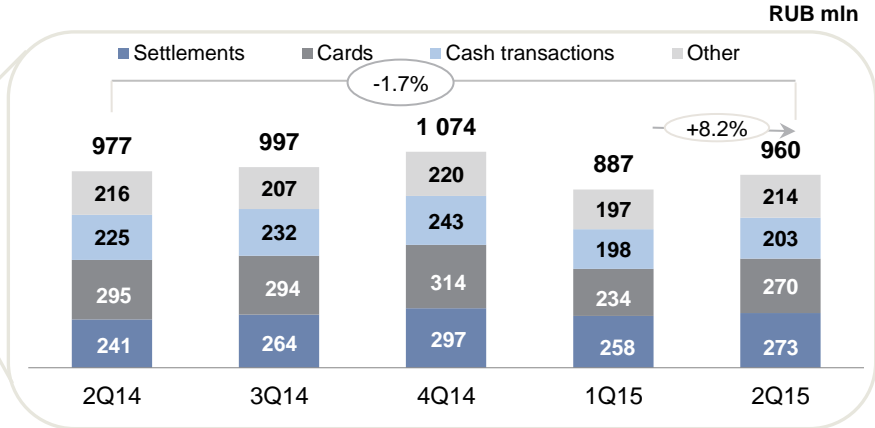


# Seasonally higher fees amid new products development

## Operating revenues up...

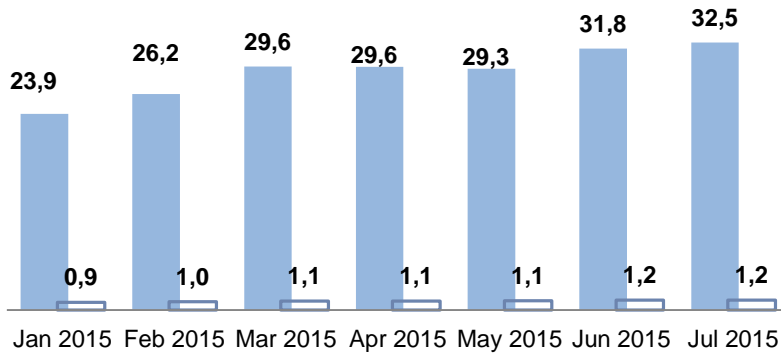


## ...supported by fees

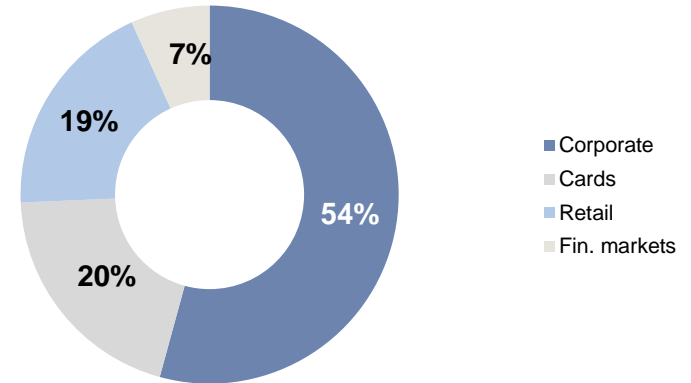


## Improved efficiency of remote channels amid launch of new product lines

- Income from Client Bank system and cash operations, RUB mln
- Income per account, RUB thsd

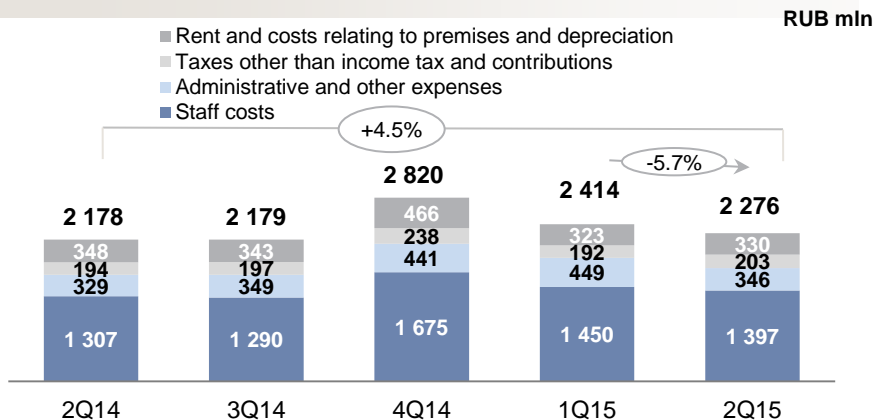


## Non-interest revenue segmentation

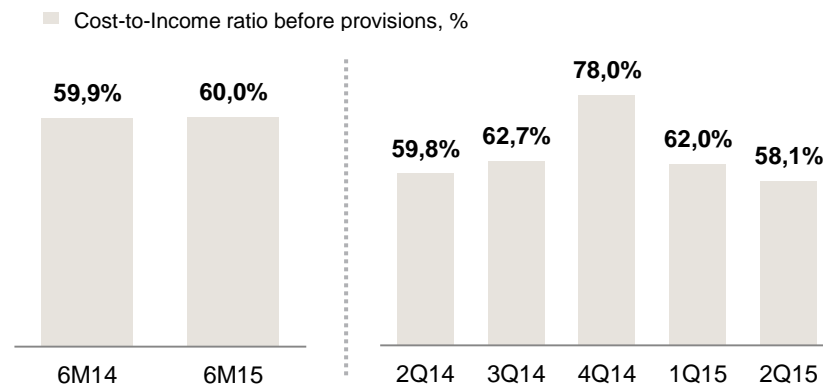


# Strict cost control

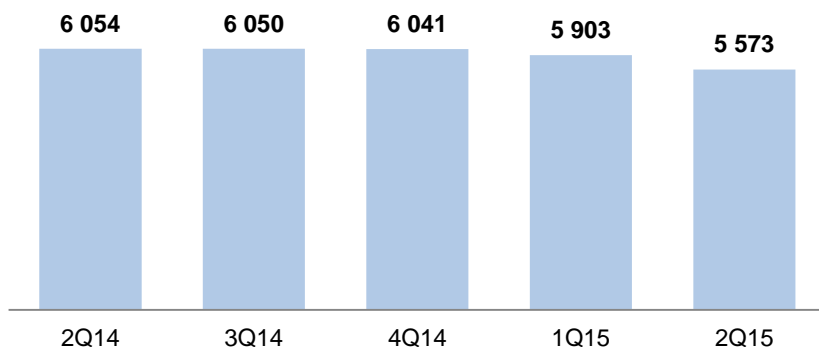
## Operating costs structure



## Cost-to-Income ratio



## Staff number on decline

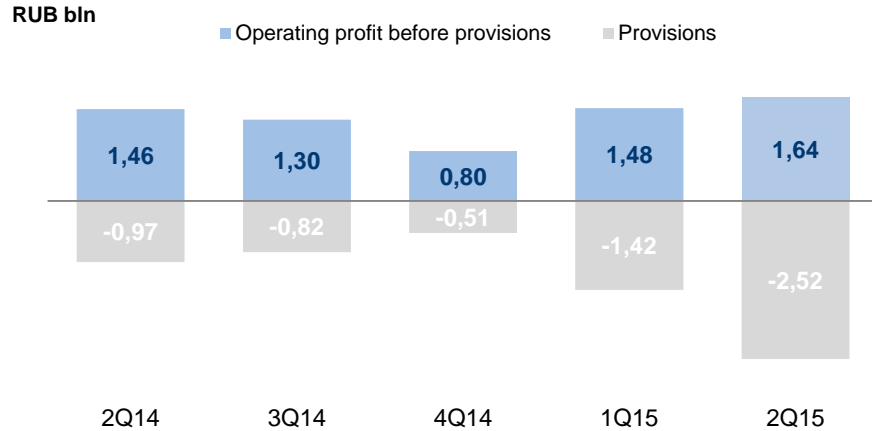


## Key points

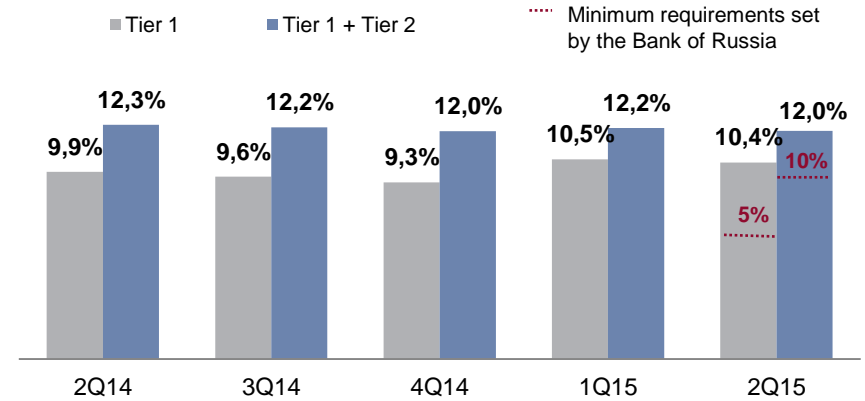
- Growth on YoY basis on the back of high inflation and ruble devaluation
- Q1 costs inflated by compensation packages to employees and high IT investments to the infrastructure
- First fruits of optimisation project and personnel cut in Q2. Average staff number down by 7.7% YtD.

# Profits & capital

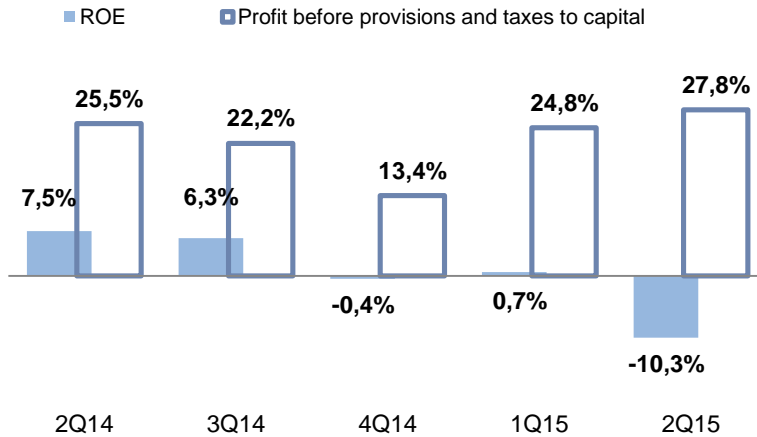
## Improvement of operating profit offset by high provisions



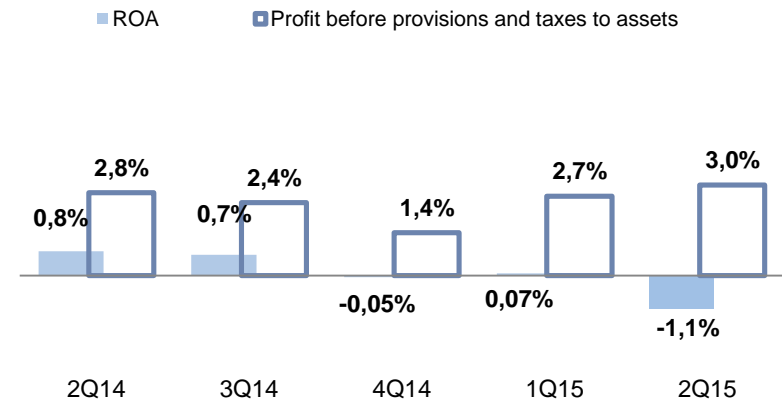
## Capital position remains comfortable



## Return on equity



## Return on assets



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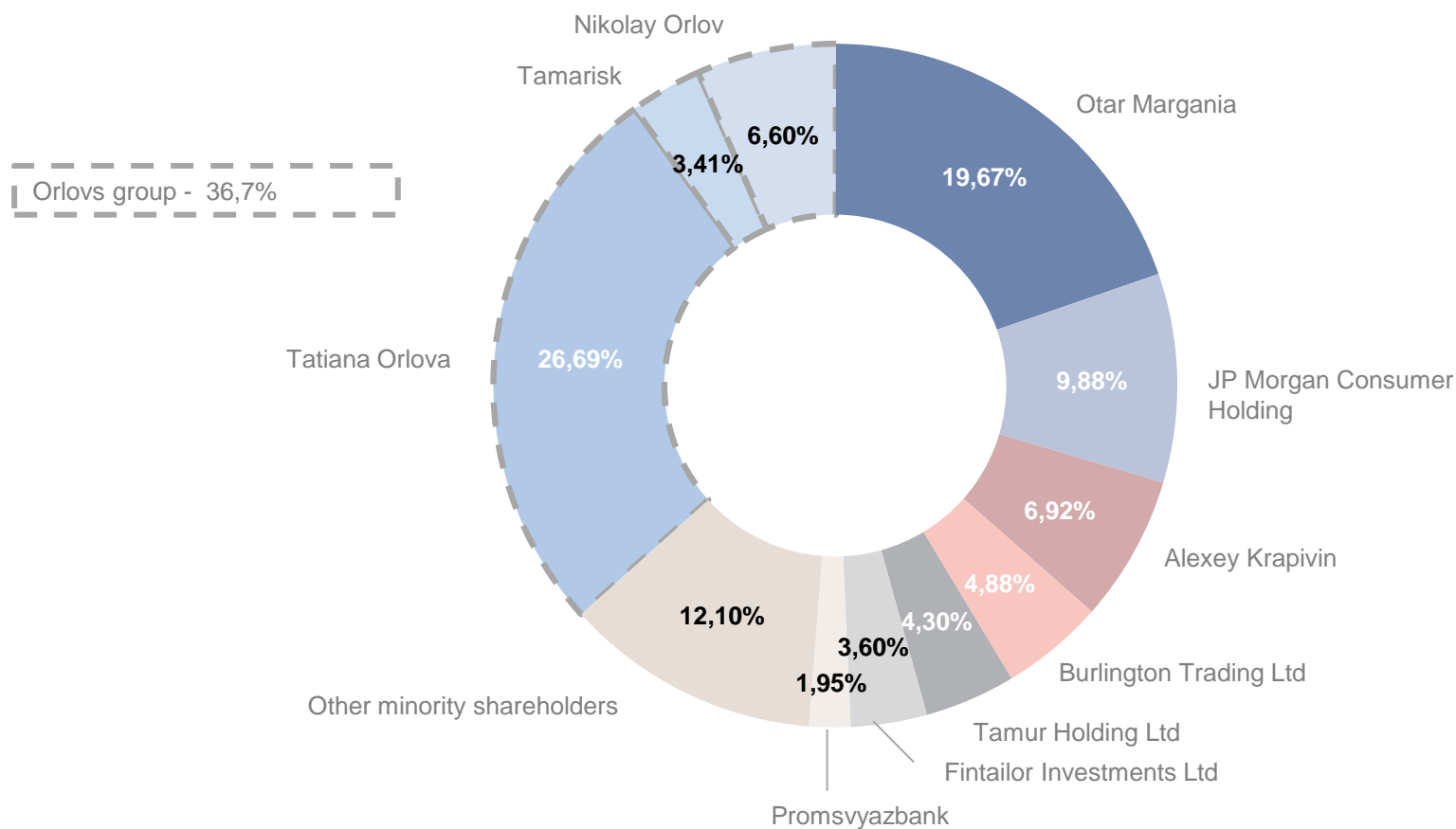
# Key takeaways

- **Improvement on operating level thanks to effective balance sheet management and client-oriented approach**
- **First fruits of optimisation in personnel cut and improvement of C/I**
- **Heavy provisioning on worsening credit quality made the bottom-line negative**
- **Capital position remains comfortable**



# Shareholder structure as of July 31, 2015

(stake in voting shares)



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# Questions and answers



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- the Bank's anticipated capital expenditures and plans relating to expansion of the Bank's network and development of the new services;
- the Bank's expectations as to its position on the financial market and plans on development of the market segments within which the Bank operates;
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- risks related to Russian legislation, regulation and taxation;
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