VOZROZHDENIE BANK

THE BANK THAT IS ALWAYS WITH YOU

# Q1 2010 IFRS Results
# Transition period: thorny road out of crisis

**Conference Call**
**May 18, 2010**

# Agenda

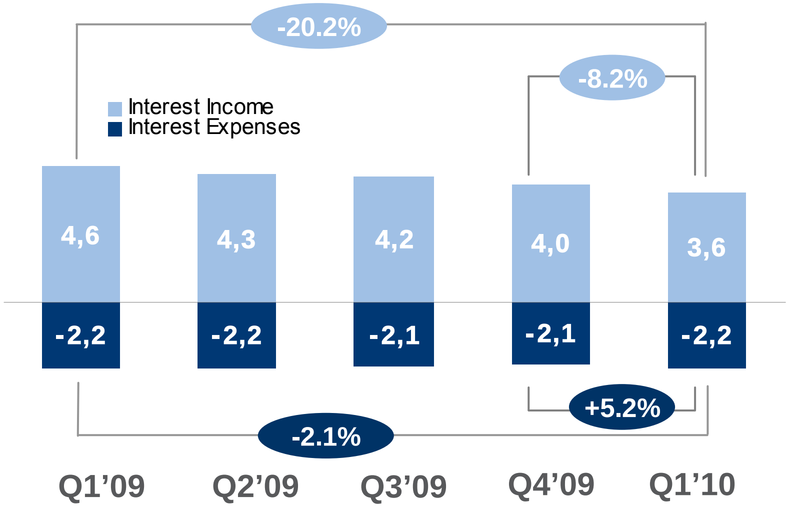
- Highlights of financial results
- Credit quality
- Recent developments

# 2010 Financial highlights

| | Q1 2010 | Q1 2009 | Change Y-o-Y |
|---|---|---|---|
| Total Deposits, of them | 119,256 | 90,062 | +32.4% |
| *Retail deposits* | 71,717 | 54,499 | +31.5% |
| Net Loans | 85,387 | 93,027 | -8.2% |
| Loans to Deposits ratio | 80.0% | 110.4% | -30.4 p.p. |
| Net Profit | 97 | 386 | -74.9% |
| Total Operating Income b.p. | 2,344 | 3,617 | -35.2% |
| Total Operating Costs, of them | - 1,531 | - 1,390 | +10.1% |
| *Personnel expenses* | -871 | -814 | +7.0% |
| Cost to Income ratio | 65.3% | 38.4% | 26.9 p.p. |
| Capital Adequacy | 18.2% | 15.0% | |

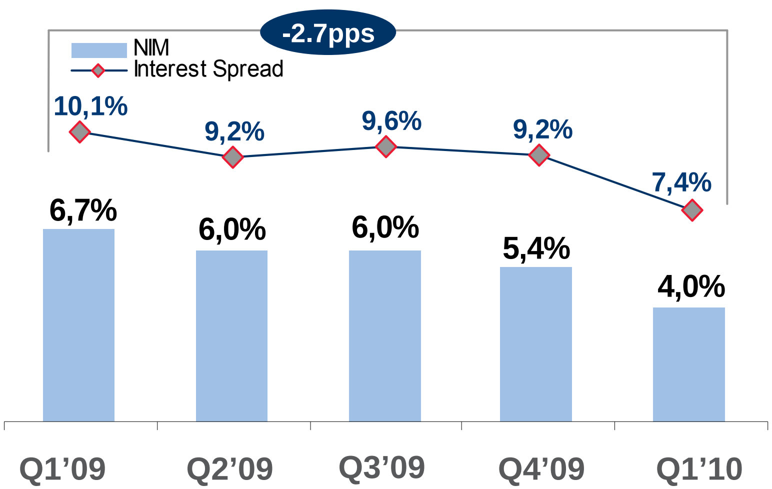
# High level of interest spread despite some drop in yields

Interest Income and Interest Expenses, RUB bln




- Stagnation of the loan portfolio and reduction of yields on earning assets due to the impact of the falling rates environment resulted in lower interest income (-8.2%) during the quarter.
- Despite several reductions of deposit rates made by the bank in Q1 ongoing inflow of deposits resulted in 5.2% increase in interest expenses

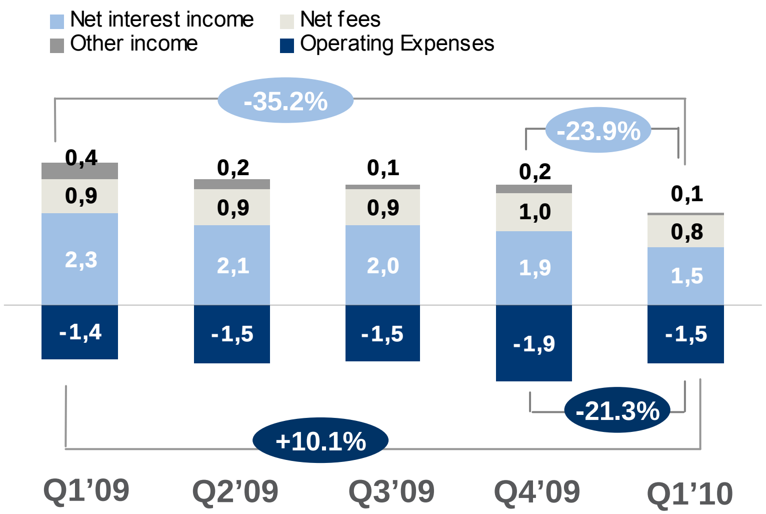
NIM and Spread evolution




- NIM reduced by 140 bps from 5.4% to 4.0% q-o-q as a result of significant decline in interest rates for loans coupled with the slower re-pricing of the bank's liabilities.
- Interest spread contracted only by 180 bps to 7,4% as a result of decline in yields on earning assets driven by challenging market environment.

# Sacrifice of short-term income but keep the infrastructure for further growth

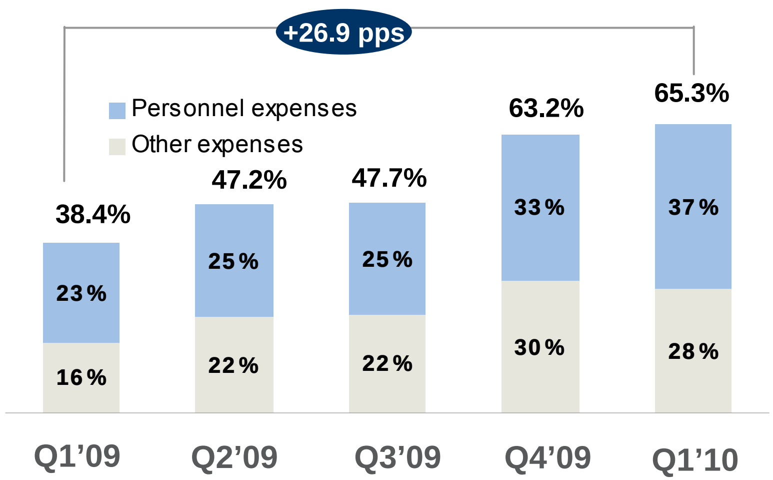
Operating Income and Expenses, RUB bln




- Operating income structure remained quite healthy with fee income comprises 38% of total operating income before provisions despite seasonally-driven decline in revenues due to the more than 10 holiday in Q1 2010.

- Operating expenses reduced by 21.3% q-o-q primarily due to the lower personnel expenses and particularly bonuses which were not paid in Q1 2010 unlike the last quarter of the previous year.

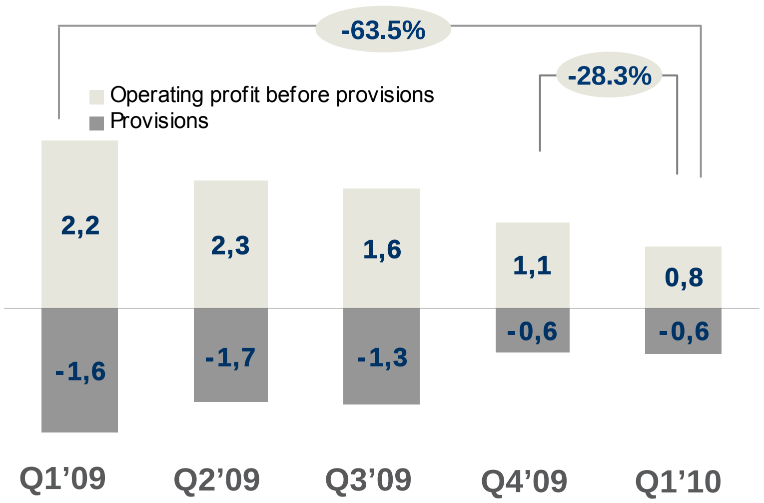
Cost to Income before provisions,%




- The bank's management made a strategic decision to maintain the infrastructure and the stuff level anticipating further business development regardless some short-term negative impact on profitability. As a result cost-to-income ratio increased by 2.1% q-o-q.

# Consecutive policy of conservative provisioning

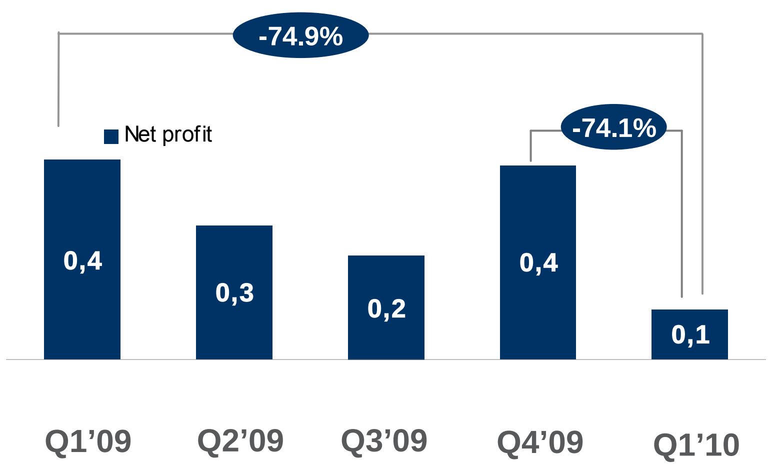
Operating profit and provisions, RUB bln




- The bank maintained provisioning on the healthy level with cost of risk amounted to 0.6 bln during the quarter. This allowed to cover NPLs with overdue more than 30 days by provisions at the level of 130%

- Operating profit affected by lower revenues and charges to provisions contracted by 28.3% q-o-q

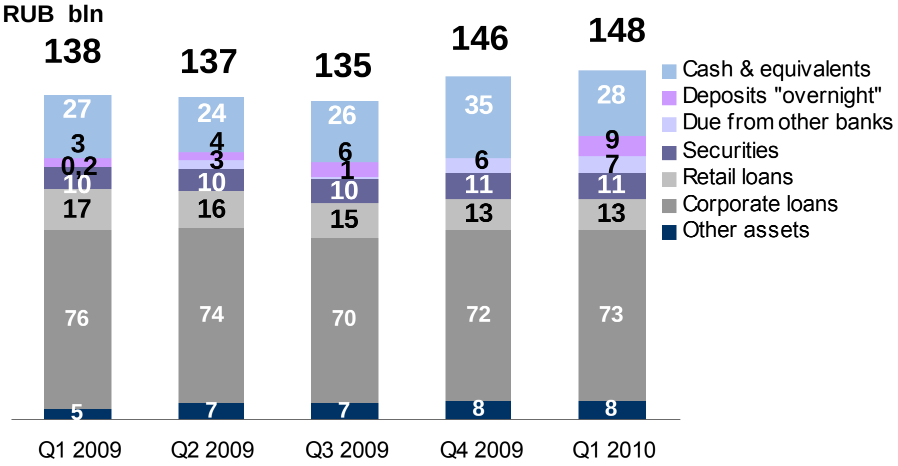
Net profit, RUB bln



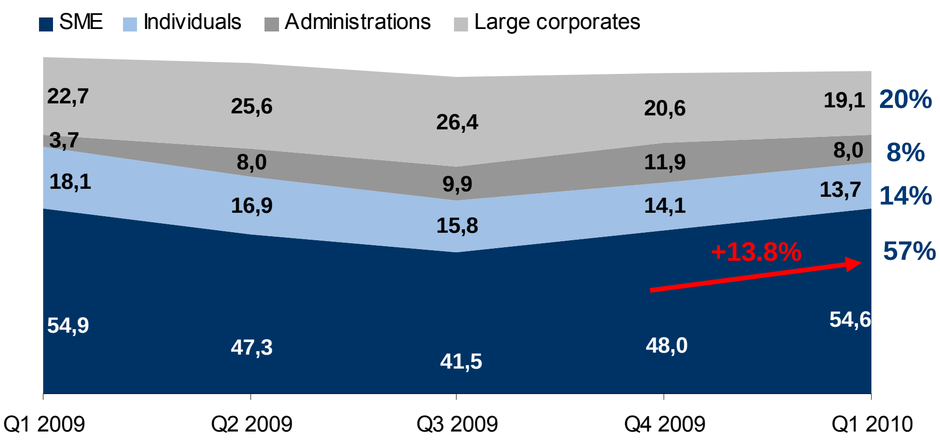

- Lower operating income for the first quarter coupled with higher than nominal effective tax rate at the 48% level resulted in net income decline by 74.1% compared to previous quarter

# Assets: Back to traditional portfolio structure

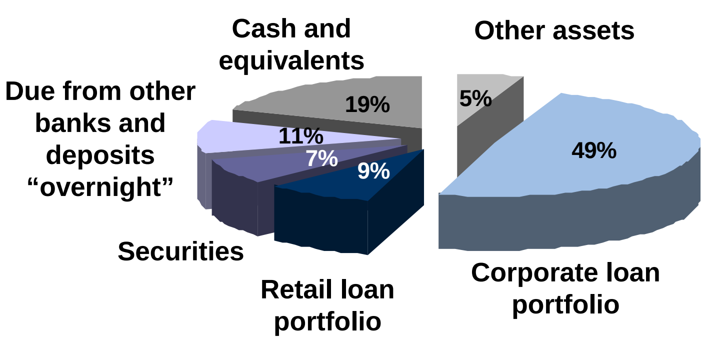
## Flat loan portfolio is in line with sector but…



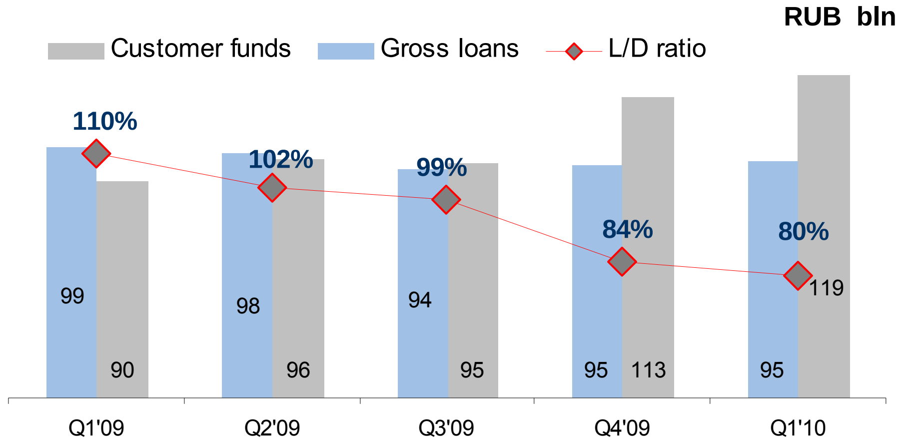

## …robust growth of lending to SMEs




## Composition of Assets




## Strengthened liquidity position

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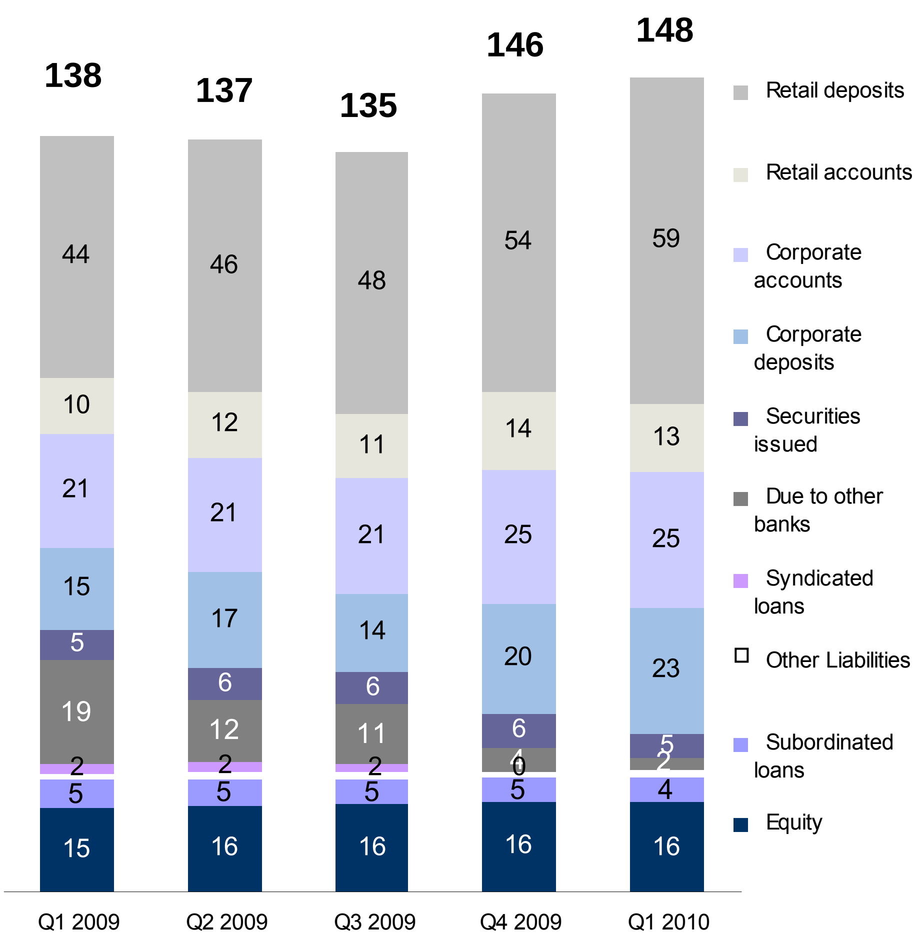
# Liabilities: Continued efforts to optimize funding costs

## Solid share of interest-free funds at 26% level

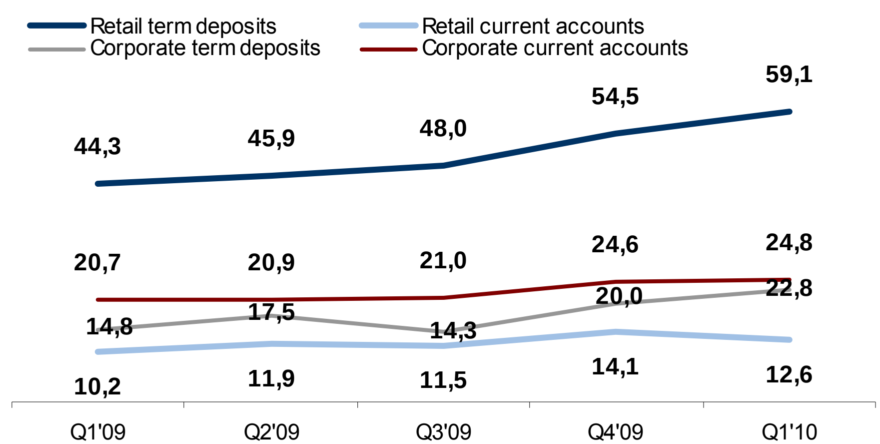
RUB bln




## Low leveraged balance sheet

| | Q1 2009 | Q4 2009 | Q1 2010 | q-o-q |
|---|---|---|---|---|
| Customer deposits | 65% | 78% | 80% | +2% |
| Borrowings | 24% | 11% | 9% | -2% |
| Equity | 11% | 11% | 11% | - |
| Leverage | 7.0x | 6.9x | 6.9x | - |
| Borrowings to Liabilities | 0,25 | 0,13 | 0,10 | -0.3 |

## Deposit inflow despite regardless rate reduction

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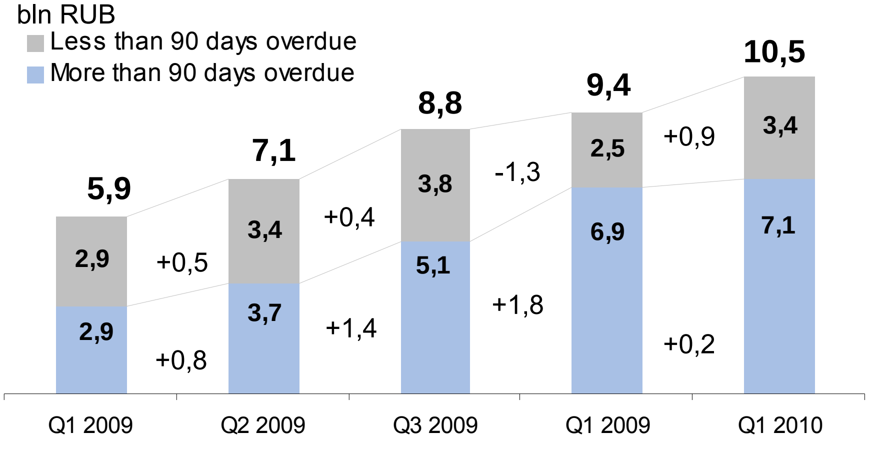
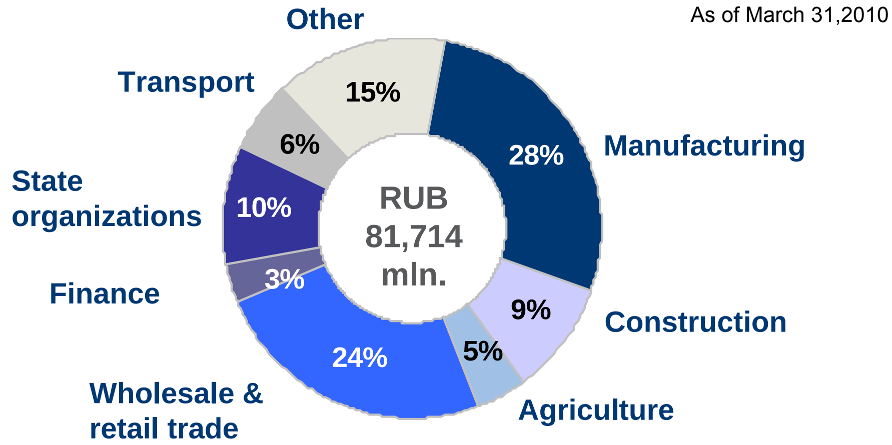
# Credit quality management

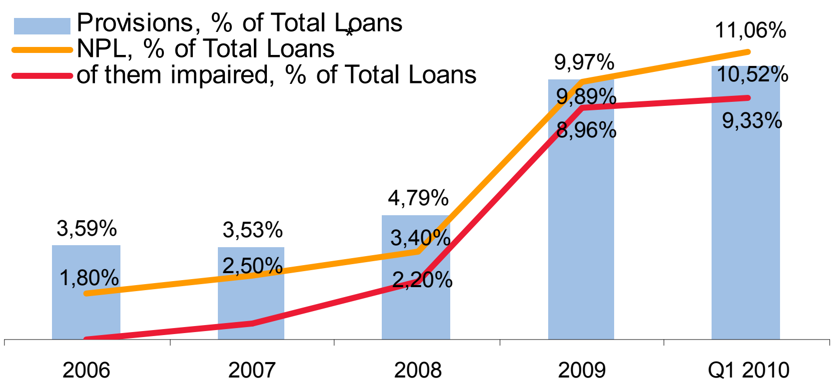
## NPLs development




## Diversification by industry

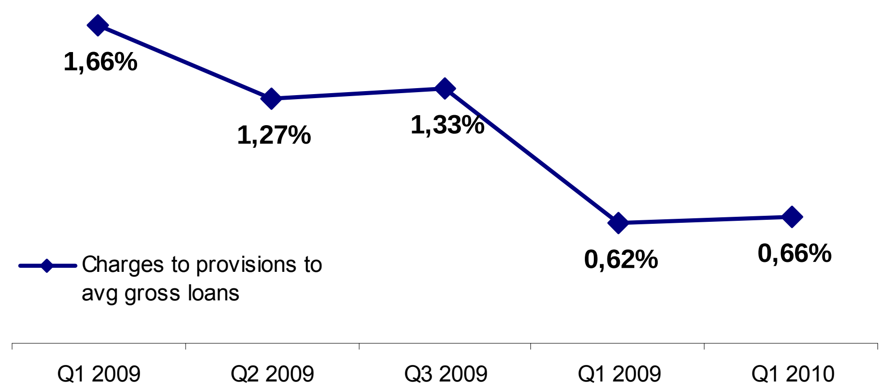



## NPL Coverage ratio




* NPL includes the whole principal of loans at least one day overdue either on principal or interest

## Cost of risk



# Credit quality

| as of 31.03.2010 | Large corporate | SMEs | Mortgages | Other retail | Total | % of total loans |
|---|---|---|---|---|---|---|
| **Gross loans,** including | 20,855 | 60,859 | 7,638 | 6,075 | 95,427 | 100.0% |
| Current loans | 20,005 | 52,433 | 6,986 | 5,448 | 84,872 | 88.94% |
| Past-due but not impaired, of them | 0 | 1,066 | 458 | 132 | 1,656 | 1.73% |
| Less than 90 days | - | 1,066 | 334 | 132 | 1,532 | 1.61% |
| Over 90 days | - | - | 124 | - | 124 | 0.12% |
| Impaired, of them | 850 | 7,360 | 194 | 495 | 8,899 | 9.33% |
| Less than 90 days | - | 1,888 | - | 16 | 1,904 | 2.00% |
| Over 90 days | 850 | 5,472 | 194 | 479 | 6,995 | 7.33% |
| **Total NPLs** | 850 | 8,426 | 652 | 627 | 10,555 | 11.06% |
| **Provisions** | - 1,530 | - 7,472 | - 456 | - 582 | -10,040 | 10.52% |
| **Net Loans** | 19,325 | 53,387 | 7,182 | 5,493 | 85,387 | - |

Provisions to NPLs Ratio

95%

Provisions to 90 days+ NPLs

141%

Rescheduled Loans

4.2%

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

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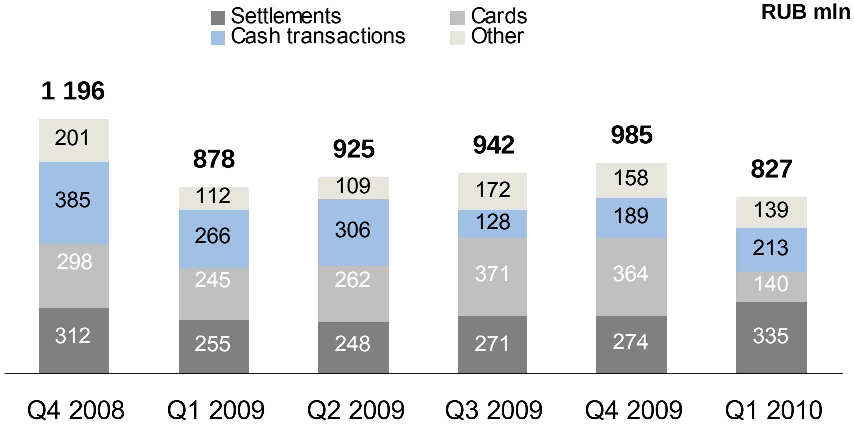
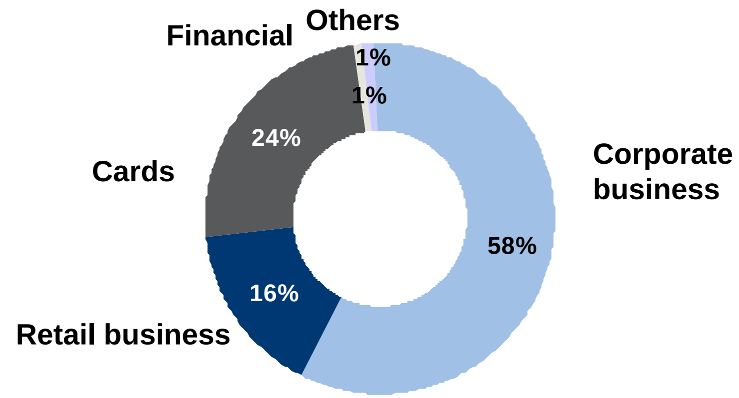
# Fee income generation

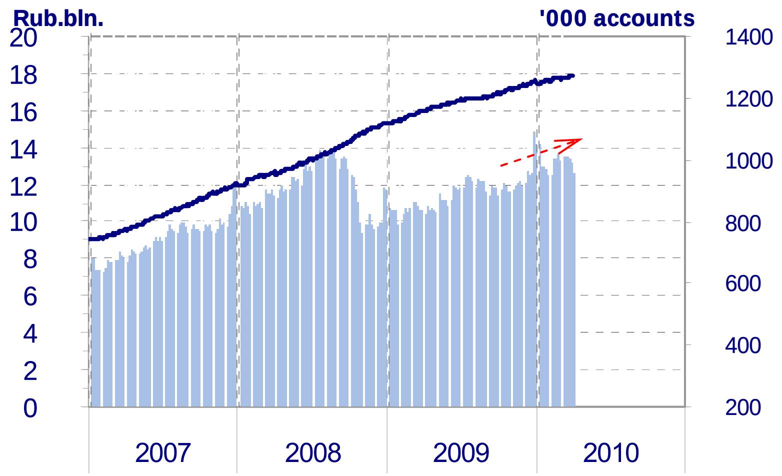
## Net fee income distribution




## Fee income breakdown by segments




## Growth of card balances is the source of additional fees




## Key points

**As of the end of 1st quarter 38% of operating income falls on fees and commissions. Despite some seasonal drop due to holidays in Russia growth of the debit cards balances strengthened fee generation capacity**

**Servicing daily client's transaction like settlements, money transfer, payments, cash collections is the base for long-term relations with customers. Fee generating products are well diversified across internal businesses and type of banking products**

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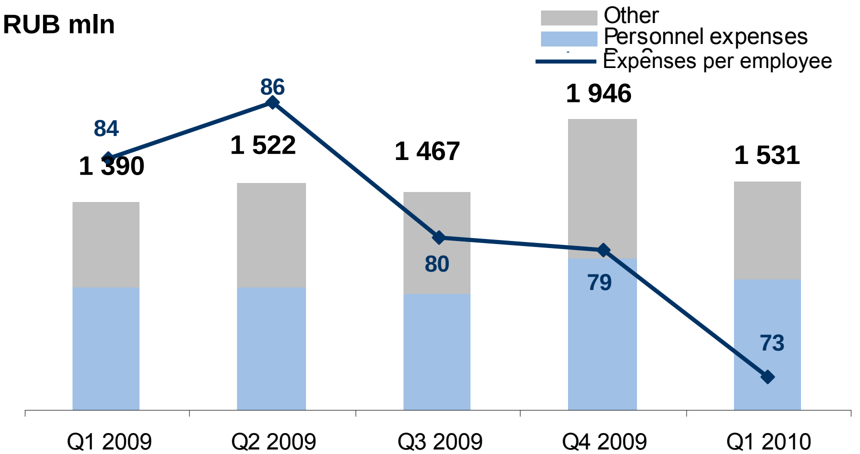
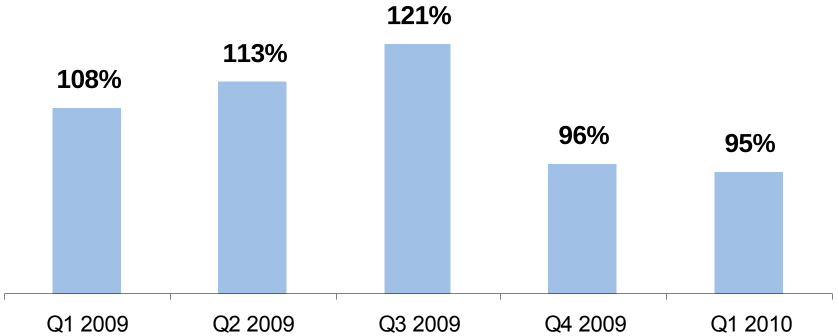
# Strategic approach to cost management

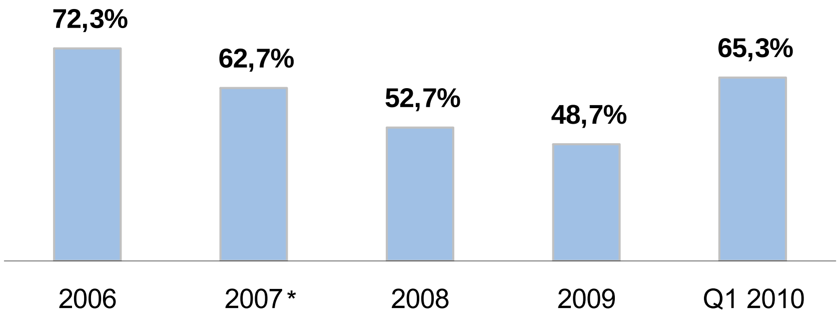
## Expenses per employee reduction




## …while personnel expenses are almost covered by earned fees & commissions




## C/I ratio




*2006 - less extraordinary items

## Costs summary

**Despite rising needs to resist pricing competition the management made a strategic decision – to keep infrastructure (personal and branches) expecting business growth in foreseeable future**

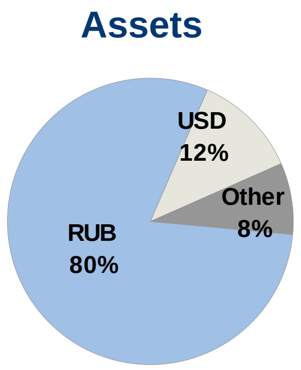
**Thus expenses grew by 10% y-o-y resulted from 7% increase in personnel expenses and 12% growth in fixed-assets related expenses**

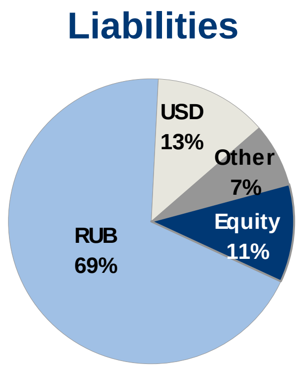
**Cost to Income ratio increased by 166 bps q-o-q mostly due to the income compression**

# Currency and gap management, capital adequacy

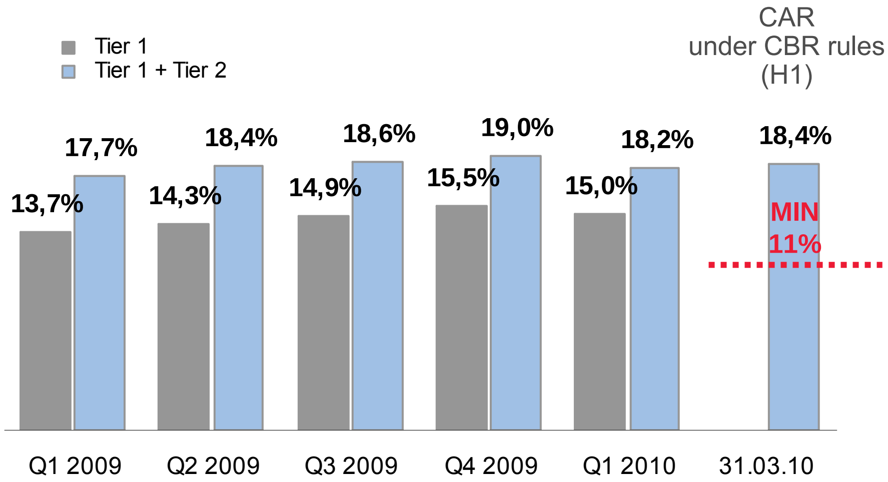
## No mismatches on the balance-sheet

*as of 01.04.2010

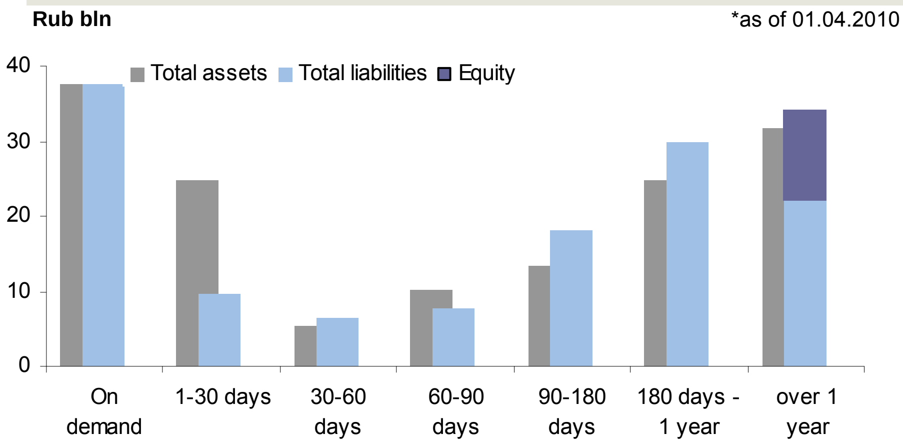



## Strong capital position




## Maturity gap




## Key points

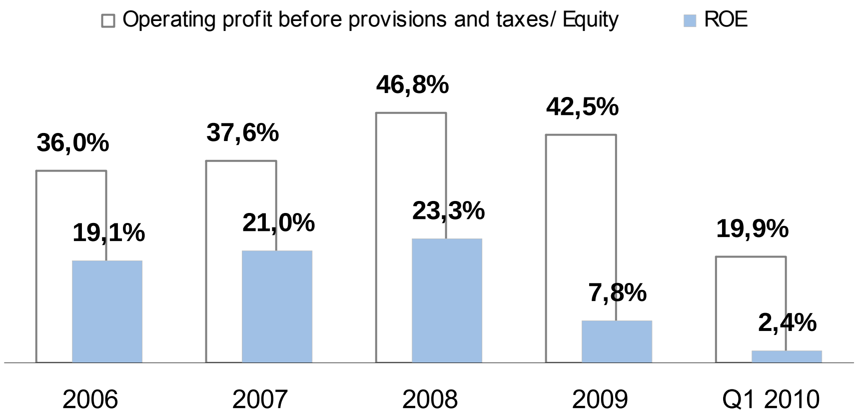
The bank sticks to policy of having no mismatches on the balance sheet in terms of currency risk with a growing share of Rub-no

Total CAR of 18,2% with Tier 1 capital adequacy ratio 15,0% makes comfortable conditions for future asset growth.

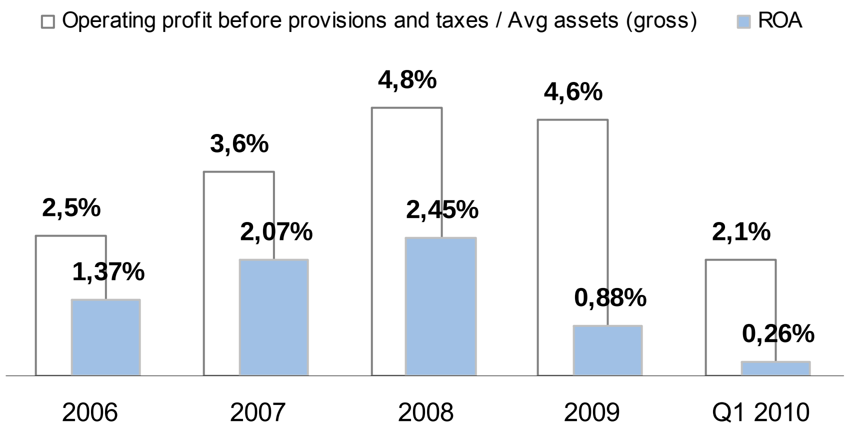
The largest gap (1-30 days) is 15,1 bln (57% of cumulative maturity gap).

# Earnings generation capability

## ROE, %

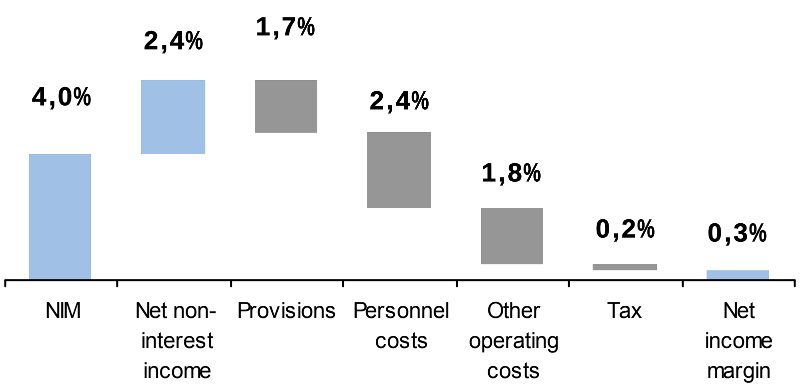



## ROA, %




## Value generation

* % of average assets




## Key points

**The bank faces short-term pressure from the challenging environment but has high growth potential with its strong capital and liquidity position.**

**Reliable risk management in the crisis environment provides high risk absorption capacity with 90 days+ coverage of 141% supporting steadily asset quality recovery.**

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# Questions and answers

**Sergey Klinkov**
Head of IR
+7 495 620 90 71
S.Klinkov@voz.ru

**Andrey Shalimov**
Member of the Management Board
Head of Treasury
A.Shalimov@voz.ru

investor@voz.ru

http://www.vbank.ru/en/investors

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