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# Bank Vozrozhdenie (VZRZ)

## 2Q10 IFRS results preview

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**Bank Vozrozhdenie will publish its 2Q10 IFRS results on 18 August. We expect further decline of net interest margin on the back of lower interest rates and relatively expensive funding. This together with loan loss provisions and higher operating expenses will determine y-o-y decline in bottom-line to RUR215 mn over 1H10. Comments on reprising of liabilities, loan portfolio quality and earnings forecast will be in focus during the conference call with the bank's management scheduled on the same day at 5 pm Moscow time.**

**Loan portfolio to grow in 2Q10.** We expect total loan portfolio to grow by 3.2% q-o-q in 2Q10. According to the previous guideline from the management, loan portfolio was expected to grow by RUR3-5 bn in 2Q10. This growth will be partly offset by provisioning.

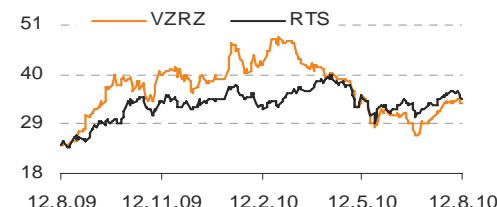
**NIM compressed in 2Q10, improvement is likely to be achieved in 2H10.** Lower yield on new loans was explained by declining interest rates and high competition on the market determined weaker NIM (decline by 20 bps) as reprising of deposits is going slower.

**The highest cost-to-income ratio in the universe.** We expect operating costs to grow by 10% q-o-q in 2Q10 that determined cost-to-income ratio at 66% over 1H2010 that is the highest ratio in the banking names traded on the market. Higher efficiency in 2H10 will help to improve cost-to-income ratio, but wide retail branch network and growing competition in the key segments of the bank's business will put pressure on the bank performance.

**Loan portfolio quality and earnings forecast to be in focus.** We expect provisions to amount to 10.8% of the total loans as of the end of 2Q10, while coverage ratio will be close to 100%. The bank continues creating reserves taking into account existing risks. Earlier the bank's management forecasted net earnings in 2010 at RUR500 mn, and we think that this number may be revised up backed by assets and liabilities reprising and growing demand for loans.

| Vozrozhdenie Bank | VZRZ         | VZRZP        |
|-------------------|--------------|--------------|
| Price, \$         | <b>33.46</b> | <b>11.59</b> |
| Recommendation    | <b>BUY</b>   | <b>BUY</b>   |
| Target, \$        | <b>45.90</b> | <b>17.20</b> |
| Upside            | <b>37%</b>   | <b>48%</b>   |
| MC, \$ mn         | 810          |              |
|                   | 2009         | 2010E        |
| P/E               | 25.6         | 23.5         |
| P/BV              | 1.5          | 1.4          |
|                   |              | 2011E        |
|                   |              | 7.6          |
|                   |              | 1.2          |

Source: MICEX, TKB Capital estimates



Source: MICEX, RTS, TKB Capital estimates

| IFRS, RUR mn                   | 2Q10E          | 1Q10    | Change q-o-q | 2Q09    | Change y-o-y | 1H10E          | 1H09    | Change y-o-y |
|--------------------------------|----------------|---------|--------------|---------|--------------|----------------|---------|--------------|
| Assets                         | <b>148 217</b> | 148 217 | 0%           | 137 014 | 8%           | <b>148 217</b> | 137 014 | 8%           |
| Net loans                      | <b>87 867</b>  | 85 387  | 3%           | 90 177  | -3%          | <b>87 867</b>  | 90 177  | -3%          |
| Equity capital                 | <b>16 542</b>  | 16 385  | 1%           | 15 705  | 5%           | <b>16 542</b>  | 15 705  | 5%           |
| Net interest income            | <b>1 402</b>   | 1 458   | -4%          | 2 052   | -32%         | <b>2 860</b>   | 4 387   | -35%         |
| Provisions for loan impairment | <b>(575)</b>   | (625)   | -8%          | (1 249) | -54%         | <b>(1 200)</b> | (2 895) | -59%         |
| Net commission income          | <b>949</b>     | 827     | 15%          | 925     | 3%           | <b>1 776</b>   | 1 803   | -1%          |
| Operating income               | <b>1 961</b>   | 1 719   | 14%          | 1 976   | -1%          | <b>3 680</b>   | 3 947   | -7%          |
| Operating expenses             | <b>(1 684)</b> | (1 531) | 10%          | (1 522) | 11%          | <b>(3 215)</b> | (2 912) | 10%          |
| Net income (loss)              | <b>118</b>     | 97      | 21%          | 256     | -54%         | <b>215</b>     | 642     | -67%         |

Source: Company data, TKB Capital estimates

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