

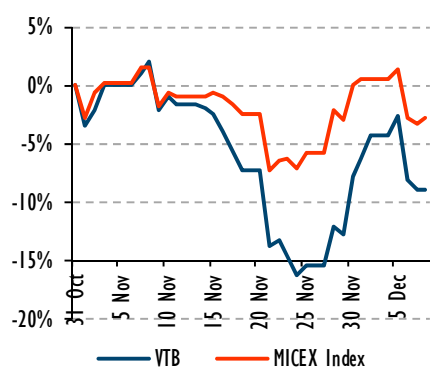
VTB 3Q11 results: humble top line vs. strong earnings



VTB	HOLD		
Ticker	VTBR RX		
Free float	25%		
Share price*, RUB	0.07		
TP 2011, RUB	0.089		
Upside	33%		
	2010	2011E	2012E
ROE, %	11.0	15.0	14.8
ROA, %	1.4	2.0	2.0
EPS, py6	0.6	0.9	1.0
BVPS, py6	5.3	6.1	7.0
P/BV	1.26	1.10	0.96
TP/	1.68	1.46	1.28
P/E	12.0	7.8	6.9
TP/E	16.0	10.4	9.2

* closing price as of December 8, 2011

VTB shares performance vs. MICEX Index



Source: Bloomberg

Net income beats estimates on variable staff expenses. The net income of VTB in 3Q11 of RUB 19 bln considerably exceeded our and consensus estimates (RUB 13.4 bln and RUB 15.9 bln respectively). The key reasons for that were a surprising drop in opex by as much as 30% QoQ on a decrease in the variable part of wages (particularly, IB performance bonuses that have been accruing over the year).

Unimpressive top line. VTB NII before LLP generally matched our estimates and consensus, while OI before LLP lagged behind expectations by 5-6% on weak NF&C income (-14% QoQ and 22% less than we had expected) and other non-interest income. Particularly, trading losses from financial instruments and currency operations (RUB 26 bln) were much wider than expected and were just partly offset by gains from associates (BoM LLP write-back) and FX revaluations (RUB 12 bln combined).

Skyrocketing growth: a mixture of organic, currency and M&A. In 3Q11, VTB assets, net loans, and deposits grew by respective 34%, 38%, and 35% QoQ and 69%, 64%, 93% YoY, which appeared to be possible due to BoM consolidation (plus 20-22 pps of QoQ growth), impressive organic growth (plus 10 pps), and 15% ruble devaluation (plus 5-6 pps). The corporate and the retail gross loans portfolio rose by respective 37% and 25% QoQ.

Organic NIM strengthens. The nominal NIM shrank to 4.5% in 3Q11 from 4.8% in 2Q11 due to the late consolidation of BoM, while organic NIM ticked upwards to 4.9%, which can be considered as a strong point. We point out the decreased average yield on liabilities (4.2% in 3Q11 vs. 4.3% in 2Q11), while the average yield on assets remained unchanged (8.9%).

LLP charge less than expected. Quality improves. LLP charge was lower than we and the general market had expected (RUB 8 bln vs. RUB 9.6-9.8 bln). The organic cost of risk decreased to 1.0% from 1.2% in 2Q11. The NPL/LLP ratios improved dramatically (5.9%/6.5% vs. 7.7%/8.6% in 2Q11) due to BoM consolidation, but organic figures were impressive as well (6.9%/7.7%).

Tier 1 ratio under pressure. Tier 1 ratio dropped from 12% in 2Q11 to 9.2% in 3Q11 (VTB's guidance was 10%) on BoM consolidation and bottom-line plunge. VTB expects it to rise to 10% for the entire 2011 on flat performance of RWA in 4Q11.

Management's comments fairly mixed: optimistic growth guidance but low NIM expectations...

- ▶ VTB expects its 2012 NIM to stand at 4.5% (our forecast is 4.9%);
- ▶ The net income in 2012, according to the bank, should be no less than in 2011 (VTB reiterated its NI target for 2011 at RUB 100 bln);
- ▶ The corporate and retail loans portfolio growth in 2012 is expected at respective 13% and 20% under the basic scenario (GDP up 4% YoY, CPI up 7%, oil at around \$100/bbl) and 8-10% (for total loans) under the stress scenario (our forecast is 11%/14%);
- ▶ The volume of MinFin deposits in the liabilities of VTB is set to be reduced from RUB 600 bln in 3Q11 to RUB 300 bln by the end of 2011.

...and so are the actual results. We view the bank's results as mixed. The strongest point that we note is great opex control, (which underlines the outright success of VTB in staff expenses management) allowing to achieve fairly decent bottom line performance in 3Q11. The rapid organic growth can also be viewed positively. However, we note that the NI figures could have easily been much worse if there had not been BoM LLP write-back in 3Q11 (allowing the latter to raise its NI from nearly 0 as of 6M11 to RUB 12 bln in 9M11). Furthermore, worse than expected trading losses (without any clear guidance of recovery chances in 4Q11), relatively humble top line, and cautious guidance on the 2012 NIM (in the current circumstances, VTB will focus on less risky lower-margin loans) offset the positive points.



VTB: 3Q11 IFRS results, RUB bln

	3Q11	2Q11	3Q10	3Q11E*	3Q11E**	A/E*	A/E**	9M11	9M10	YoY
P&L										
NII before LLP charge	54.0	49.1	43.1	53.6	54.1	1%	0%	149.1	129.5	15%
Net F&C income	8.5	9.9	6.0	10.9	—	-22%	—	26.4	17.8	48%
Other non-interest income	-4.7	19.7	5.9	-4.0	—	—	—	33.8	11.4	196%
OI before LLP charge	57.8	78.7	55.0	60.5	61.7	-5%	-6%	209.3	158.7	32%
LLP charge	-8.0	-9.6	-13.1	-9.6	-9.8	-17%	-18%	-25.3	-40.3	-37%
OPEX	-23.5	-34.3	-24.1	-34.3	-31.8	-31%	-26%	-91.7	-69.1	33%
NI	19.0	27.5	13.7	13.4	15.9	42%	19%	72.6	38.8	87%
Balance sheet										
Assets	6,337	4,720	3,753	5,803	—	9%	—	6,337	3,753	69%
Loans	4,139	2,997	2,528	3,760	3,797	10%	9%	4,139	2,528	64%
Deposits	3,551	2,635	1,839	3,428	—	4%	—	3,551	1,839	93%
Key ratios**										
ROAE	13.0%	19.1%	10.3%	9.2%	—	—	—	16.8%	9.9%	—
ROAA	1.4% (1.5%)	2.4%	1.5%	1.0%	—	—	—	1.8% (2.0%)	1.4%	—
CIR	40.7%	43.6%	43.8%	56.7%	—	—	—	43.8%	43.5%	—
LLP	6.5% (7.7%)	8.6%	9.6%	7.5%	—	—	—	6.5% (7.7%)	9.6%	—
NPL	5.9% (6.9%)	7.7%	9.5%	6.2%	—	—	—	5.9% (6.9%)	9.5%	—
NIM	4.5% (4.9%)	4.8%	5.0%	4.7%	—	—	—	4.3% (4.6%)	5.1%	—
CoR	0.8% (1.0%)	1.2%	1.9%	1.0%	—	—	—	0.9% (1.1%)	2.0%	—

Source: company, Gazprombank estimates

*Gazprombank forecast

**Reuters consensus

***Ratios net of BoM consolidation in brackets

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