CREDIT BANK OF MOSCOW

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Conference Time: 18:00 Moscow Time
Speakers: Vladimir Chubar, Reinhard Stary, Elena Finashina

Operator: Ladies and gentlemen, welcome to the Credit Bank of Moscow Nine-Month 2013 financial and business results conference call held on Monday, 23rd of December, 2013.

Throughout today's conference, all participants will be in a listen-only mode. After the conference, there will be an opportunity to ask questions. If any of the participants have difficulties hearing the presentation, please press the star, followed by the zero, on your telephone for operator assistance.

I will now hand the conference over to Mr. Reinhard Stary. Please, go ahead, sir.

Reinhard Stary: Good afternoon, ladies and gentlemen, it is my pleasure to announce CBM’s strong results for the nine-month period ended 30 September 2013. Today’s speakers are: Vladimir Chubar, our Chief Executive Officer, myself, Reinhard Stary, responsible for strategic and organizational development and Investor Relations, and also Elena Finashina, Director of International Business Division in charge of Investor Relations, who joined us for the call, while our CFO, Eric de Beauchamp is on vacation.

I would like to start our results announcement with some introductory comments, along with the first two slides on **Overview and Key Developments**, while Elena will continue with comments on the business overview and Vladimir – with our financial performance discussion.

We are a 21-year-old private commercial bank with a strong presence in Moscow and Moscow region, which is by far the largest market in Russia. We provide a full range of banking services to corporate and retail customers. It is our strategic ambition to be regarded as a leading commercial bank in the region, with top-level capacities of international business support via trade finance operations. Key metrics of our intended leading positions are customer satisfaction and recognition of the Bank as an important and trusted partner, solid performance ensuring commitment of the shareholders and investors and excellent reputation in the market enabling successful operations and implementation of our strategic plans.

We demonstrated solid growth this year, and strengthened our positions among top 20 banks in Russia, becoming already number 14 in terms of assets by the end of the third quarter, which was also noted by international rating agencies. We were happy to merit positive rating actions from

Standard & Poor's and Fitch Ratings in October and November respectively, the rationale for which was better-than-peers' asset quality, profitability and capitalization together with the growing systemic importance of our Bank.

Let us proceed further with the Bank's key developments and financial highlights presented on **slide number 5:**

- Net profit grew noticeably as compared with the previous year, and exceeded RUB 5.5 billion. It is worth pointing out that the share of so-called risk-free income in total operating income, consisting of fees and commissions, increased significantly, which is a positive trend towards diversification of income sources, especially given general margins pressure in the Russian retail banking market. Our earnings growth enabled to maintain high profitability ratios: a return on equity above 17%, return on assets above 2% and net interest margin of 5%.

- Total assets increased by almost 30% compared with the year-end 2012 primarily due to an expanded gross loan portfolio, with the growth making 45% for the nine-month period, outpacing the Russian banking sector average of 14%, according to CBR's statistics. Meanwhile we maintain a low level of non-performing loans which is an indicator of high quality of our loan book. I should mention here, that retail lending made a large contribution to such an unprecedented growth. This is in line with our strategic goals. As we announced earlier, our target for the year-end is a 30% share of retail segment loans in our gross loan portfolio.

- Sizing up the development of retail segment, CREDIT BANK OF MOSCOW achieved success not only on the asset side, but also on the liabilities side. Deposits by individuals still constitute a large portion of total customer accounts, demonstrating 20% growth in the nine-month period of 2013. According to Russian banks' rankings in terms of retail deposits, CREDIT BANK OF MOSCOW holds 13th position, which makes us one of the systemically important banks in Russia.

- This year CREDIT BANK OF MOSCOW was an active player in debt capital markets, both domestic and international. As shown on the slide, there were several remarkable transactions in the first half of 2013. In addition, subsequently to the reporting date, the Bank placed 2 domestic bond issues totaling RUB 10 billion.

- An important capital transaction was also accomplished in the third quarter of 2013. CREDIT BANK OF MOSCOW placed its additional share issue among its beneficial shareholders, which allowed the Bank to strengthen the structure of its Tier I capital. Total volume of investments in the course of the additional share issue exceeded RUB 7.5 billion, partly composed of proceeds from subordinated loans conversion. Regular capital injections from the shareholders are a very positive sign for our existing as well as prospective investors, giving evidence that beneficial owners are fully supportive of our strategy and the course of business.

- As it was mentioned earlier, CREDIT BANK OF MOSCOW's credit ratings recently were upgraded by two international rating agencies. These rating actions are likely to have a positive influence on the Bank's profile amongst investors and will support implementation of the Bank's funding plan, including on the international capital markets.

I would now like to hand over to Elena Finashina, who will present our business developments. Over to you, Elena.

Elena Finashina: Thank you, Reinhard. Good afternoon, ladies and gentlemen. I relish the chance to announce our strong results for the first nine months of 2013, which we managed to achieve not only thanks to our team effort and dedicated target-oriented approach, but also valued support of our partners and customers and appreciated competition from our peers tirelessly driving us upwards.

Presenting the next couple of slides, I will make a few comments on our core businesses development.

Slide 7 gives an overview of corporate banking business.

- It is still our core business in terms of the share in total assets and in total revenues, representing 72% of gross loan portfolio and 48% of total customer accounts as of 30 September. Nevertheless, as also mentioned before, in the mid-term we target a balanced composition of our loan book in terms of corporate and retail business.

- Corporate loan portfolio is well diversified by economic sectors, which is a good tool to mitigate credit risks in times of macroeconomic volatility. Our largest exposures are to such industries as electronics, appliances and computers, food and farm products, and residential and commercial construction and development.

- Term deposits prevail in the corporate customer accounts with a share of 81%, having increased from 70% as at the year-end 2012.

- The number of our corporate customers is increasing, having reached over 27 thousand by 30 September. The largest part of our corporate customers are retailers and commercial trade companies, represented in a majority of economic sectors. Having an excellent reputation in the market and being one of the largest, but also one of the fastest and most flexible Russian banks, we also serve top-tier strategically important customers, including large state-owned companies, which enables us to increase business volumes, diversify our loan exposures and compete with state-owned and large private banks.

- CREDIT BANK OF MOSCOW has a strong foothold in short-term lending, which ensures high turnover of credit resources and makes us more flexible in managing our businesses.

- One of our key strengths is the leading position in cash handling services in Moscow, Moscow region and in Russia, which allows us to maintain a stable and expanding corporate franchise and to have a good insight into our borrowers' cash flows. Our cash-handling franchise is also represented by large Russian banks, evidencing our excellent performance and leading positions in this segment.

Let's now move to **slide 8**, which contains information on our retail banking.

- First of all, it's important to highlight our strategic focus on retail lending. Current share of this business is around 28%, targeted to grow up to 30% of total gross loans by the year-end 2013, and over time to grow approximately to 50% of total gross loans.

- Target segments in retail lending for us are consumer loans, mortgage loans and plastic cards, and we see significant potential for us to sustainably grow in these sectors, even being present only in Moscow and Moscow region.

- Retail deposits are steadily increasing, driven by the reputational factors as well as favorable interest rates offered to our clients. Retail deposits serve as a stable source of funding for us and form significant part of our liabilities with the increase by 19% reached from the year start.

- Our branch network comprises 60 offices and 19 operational cash desks in Moscow and the Moscow region. At the end of the third quarter this year, we had more than 700 ATMs and 4,700 payment terminals, the latter one exceeding already 5,000 as of the current date. We continue to cooperate with top Russian banks expanding our payment devices network. For example, we entered into a strategic cooperation with Alfa-Bank on the integrated and combined use of our payment device networks for our customers, which is unique for the Russian market of financial services. We have an aspiration to be as close and convenient to the clients as possible, therefore, our offices are open extended hours 7 days a week, we offer access to banking services via Internet bank system and payment terminals 24 hours, 7 days a week. Also, we aim at saving clients' time by enabling wide product range access in 1 visit to a branch.

Now I would like to turn the floor over to Vladimir Chubar, who will comment on financial results of the Bank for the reporting period.

Vladimir Chubar: Thank you, Elena. Good afternoon, ladies and gentlemen.

After the general overview of our business development, I would like to elaborate more on financial results of the Bank in the first nine months of this year.

Let's turn to **slide 10** and start our financial performance review from income and expenses dynamics.

- Operating income growth is outstripping expenses growth, shored by significant increase in fee and commission income and largely expanded interest income.

- Net fee and commission income, which is the second largest driver for the operating income growth, showed a 76% rise to RUB 4.6 billion. The major sources of fee and commission income are insurance contracts on retail loans, cash handling services, settlement operations, as well as commissions on issued guarantees and letters of credit. Insurance contracts processing fees, the key driver for significant rise of fee and commission income, have increased almost fourfold in comparison with the nine-month period of 2012, which can be explained by active penetration into retail business, and which is to demonstrate further growth as the Bank goes more into retail according to our strategy.

- Return on assets and return on equity are maintained at above-the-average levels versus aggregate banking sector, while net interest margin driven by an increase in the volume of lending operations, especially retail ones, stands at a healthy level of 5%.

- The Bank's operational efficiency is again at a high level and outpaces our key competitors, with the cost to income ratio having shown superior improvement for the first 3 quarters of 2013 to reach 33% versus 40.5% for 2012.

Now let me move to **slide 11** and comment on our developments in terms of the asset structure, which remains relatively stable with 72% represented by the loan portfolio. Assets have shown a 30% growth from the year start, which is well above the market average. Both retail and corporate loan dynamics contributed to significant assets growth, with the retail part of the book developing impressively faster than the corporate one.

Loan portfolio quality, which is presented on **slide 12**, demonstrates strong metrics with the share of loans that are overdue more than 90 days and the loan portfolio maintaining at a healthy level of 1.2% as at the end of third quarter of 2013.

- NPLs in the corporate segment are far smaller than in retail standing at 0.14%, backed up by our expertise in this core segment, niche concentration and specialty products ensuring remarkable risk mitigation.

- Retail loans are considered riskier assets, especially given our focus on general purpose consumer loans and credit cards, and NPLs in retail book are much higher than in the corporate segment, namely, 3.8% as at the third quarter end. Nevertheless, the effect of retail NPLs on total NPLs is not material due to their lower share in the total book. It is worth mentioning that retail NPLs still stand below the market average and show descending dynamics versus previous periods.

- In the first three quarters of 2013 cost of risk remained well below 3% with the 3-quarter result fixed at 2.4%. The Bank is well positioned versus competitors in terms of its cost of risk.

- Loss provision ratio reached 2.7%, which is, on one hand, a result of the Bank heading towards retail book share increase in the total loan book and, on the other hand, stems from conservative approach to provisioning. A cautious approach to provisioning levels ensures additional comfort over potential risks for investors of the Bank, rating agencies and the auditors.

The following slide - **number 13**- shows the funding structure of the Bank.

- The major part of funding comes from retail deposits, as highlighted before (which were RUB 128 billion or roughly 40% of liabilities) and corporate deposits (which, together with retail deposits, make 70% of liabilities).

- Deposits by corporate customers increased during the first 3 quarters of 2013 by 44% partly due to the fact that new large customers, including state-owned companies, placed funds on deposit. Term corporate deposits increased faster than current accounts, opening good opportunities for the Bank in terms of active incentivisation of additional current deposits and, thus, potentially achieving faster deposits growth in the future.

- Promissory notes and bonds account for over RUB 74 billion, or roughly 21% of liabilities. In the first 3 quarters of this year CREDIT BANK OF MOSCOW closed several successful transactions in the capital markets, including subordinated and senior domestic bonds and Eurobond issues. These borrowings serve as a stable long-term funding source for the Bank, and evidence recognition of the Bank by local and international investors.

Before moving to the Bank's capital developments, I would like to draw your attention to **slide 14**, with concentration risk levels.

- At the end of the first 3 quarters of 2013 our 10 and 20 largest credit exposures accounted for 15% and 25% of the portfolio respectively, remaining rather stable over all periods of the Bank's operations. Our 10 and 20 largest deposits represented 25% and 32% of the deposit portfolio respectively. The growth of concentrations on the liabilities side, as already mentioned, was due to the top tier customers attracted by the Bank, which is a positive point in the long term and evidence of our Bank expanding its market presence and strategic importance.

- Volume of related party loans in the Bank is insignificant and accounted for 1.3% of the Bank's equity versus a 1.1% level at the end of 2012.

Now let's move to **slide 15** on the Bank's capital.

- The Bank's capitalization level is very strong, which is evidenced by total IFRS Basel I capital adequacy ratio being 18%, as at 3Q 2013.

- The principal development of the third quarter was a successful completion of the additional share issue, as mentioned by Reinhard before. This transaction resulted in the structural strengthening of our Tier I capital.

- Prior to the mentioned Tier I capital transaction the Tier II capital base was supported by domestic subordinated bond issue, proceeds of which were reflected in the capital in March 2013, as well as Eurobond issue, included in the Tier II capital in May 2013.

- Net income earned by the Bank in the first 3 quarters of 2013 was capitalized in full in line with the Bank's dividend policy.

Having said that, I would like to conclude that the nine-month period ended 30 September 2013 was a real success for the Bank and evidences continuation of our tangible, sustainable and efficient growth story.

Thank you for your attention, especially on the threshold of the Christmas and New Year holidays. On this occasion, we would like to wish you and your families happiness, wellbeing, good health, new remarkable achievements and certainly success in business.

Now I suggest moving to the questions and answers session. Thank you.

Operator: Thank you, sir. Please note that this conference call is focused on announcement of 2013 first 9 months financial and business results of Credit Bank of Moscow. Therefore, you are kindly requested to keep strictly to the announced topic during the Q&A session, as otherwise the Bank reserves the right not to make any comments.

If any participant would like to ask a question, please, press the star, followed by the one, on your telephone. If you wish to cancel this request, please, press the star, followed by the two. There will be a short pause while participants register for a question.

Thank you. Our first question comes from Olga Belenkaya from Sovlink. Please, go ahead with your question.

Olga Belenkaya: Hello. Thank you for the presentation. Could you, please, clarify a few questions?

The first question is related to your IPO plans and the information that in January you are going to approve additional share issue. What is the need for it now, as you say that the capitalization of the Bank is already relatively high enough? It's my first question.

Reinhard Stary: I would like to take up this question. As we have always said in the past, CREDIT BANK OF MOSCOW regularly considers a range of financing alternatives to support our strong growth and our future development, which may include an IPO. No decision to proceed with a particular transaction has been made at this time.

Olga Belenkaya: Okay. Then the other question about the dynamic of customer deposits in November and December. What is the situation now, taking into account some turbulence in the sector of banking deposits? Could you give some comments on it?

Vladimir Chubar: Yes, of course. This is Vladimir Chubar.

Actually, it was disclosed in November in CBR review as you saw we have plus RUB 4 billion of private deposits. In terms of this month we see a little bit higher volatility on the clients' accounts, but, at the same time, we have higher volatility on the inflow—as well as on the outflow of the deposits. So, the situation is quite stable, as you see, at least at the moment.

Olga Belenkaya: And concerning the retail deposits, what approximate share of them is guaranteed by the agency?

Vladimir Chubar: Average deposit, as per now, is RUB 452 thousand. It was just three days ago we counted. That's the average.

Olga Belenkaya: It's the whole sum. And which part of them is below the guaranteed sum of RUB 700 thousand?

Vladimir Chubar: We have some deposits which are higher than the guaranty level of Russian deposit insurance agency, but it's not significant.

Olga Belenkaya: Not significant. Okay.

And the final question is about the quality of corporate loans. According to the page 19 of the financial statement on September 30, 2013, there is some deterioration in the provisioning of overdue loans, with long maturities (from 90 days, half a year). They are covered by provisions at about 35%, while at the beginning of the year, the coverage was much higher, and, in my opinion, more adequate.

Could you give some comments on it?

Vladimir Chubar: We need more clarity. Are you talking about the retail book or corporate book?

Olga Belenkaya: Corporate book.

Vladimir Chubar: So, wait, please, a second. If we talk about the corporate book, okay.

Olga Belenkaya: Page 19.

Vladimir Chubar: My page 21, but we found it. Can you please repeat the question, because I was on 19 page, and it was not about the corporate book, so I need more clarity?

Olga Belenkaya: Okay. For overdue loans (91-180 days) impairment to gross loans as percent of the gross loans is 35.1%, for overdue loans more than 181 to 360 days, the coverage of provisions is 35.3%, while at the beginning of the year, it was something about 80%-90%. What happened?

Vladimir Chubar: The big part of this is leasing operations, and we changed, actually, in this quarter, we changed the policy in terms of using the collateral in leasing operations. And, yeah, for my memory, it was one of the main reasons why it is lower now, because before it was just like a group provisioning without using the collateral, in this case. Now we did this in the third quarter, actually.

The result wasn't high in terms of the impact on the income statement, actually.

Olga Belenkaya: So, they were collateralized, you mean? That's why not so much provision increase needed?

Vladimir Chubar: Yeah, that's the reason. We didn't take the collateral into account before when we were counting the provisions for the leasing operations. And after they started to be more significant in the loan book, of course, we looked at it more carefully and decided that it is over-provisioned.

Olga Belenkaya: Okay, thank you.

Vladimir Chubar: Thank you.

Operator: Thank you. Once again, if you would like to ask a question, please, press the star, followed by the one, on your telephone. If you wish to cancel this request, please, press the star, followed by the two.

Thank you. We have a question from Mikhail Shlemov from UBS. Please, go ahead, sir.

Mikhail Shlemov: Good evening. I just wanted to follow up on Olga's question on the impact of recent turbulence on the local banking market. Given that the Master Bank was quite a big player in the Moscow region, what kind of impact do you see on your business? Do you see some redistribution of market share to your credit, and in what products, if it is? And do you see more competition coming from the state banks? Thank you.

Vladimir Chubar: Actually, we see a little bit different situation. So, we see the inflow of the clients, especially in terms of the product which we deliver (the cash-handling business), and because some banks, which were also not small players on this market just lost their licenses during the last two months. That's why we see the inflow.

The same we see with the other operations, I mean, acquiring operations, POS terminals etc. Also, we see good inflow from our existing clients and new clients in terms of opening accounts during the last month.

And I do not expect, really, that the state-owned banks will be more active or they can take some market share from the private banks.

Mikhail Shlemov: Yeah, great. Thank you very much, Vladimir.

Vladimir Chubar: Thank you.

Operator: Thank you. Once again, as a reminder, if you would like to ask a question, please, press the star, followed by the one, on your telephone. To cancel this request, please, press the star, followed by the two.

Thank you, sir. We appear to have no further questions at this time. Please, continue with any further points you wish to make.

I do apologize. We have had a follow up question from Olga Veselova from Bank of America/Merrill Lynch. Please, go ahead.

Olga Veselova: Thank you. I had a small question. According to RAS data, you had a nice inflow of corporate accounts in November. Is this right? And were there any one-offs last month? Thank you.

Vladimir Chubar: Could we, please, just clarity the question? You mean November in terms of corporate accounts?

Olga Veselova: Yeah, corporate accounts. I see there was inflow of corporate accounts, month-on-month in November, according to Russian Accounting Standards data. It's not IFRS which we discuss now.

Vladimir Chubar: Yeah. Yeah. Yeah.

Olga Veselova: So, maybe you can give us a quick color on that?

Vladimir Chubar: There are just several new clients that we attracted. Actually, I just want to comment on it. So, the corporate deposits base is really growing year to year, month to month. Just comparing two years ago, we were very weak in terms of corporate deposits, because the main client base in the corporate business was the retailers, and normally they have only working capital (short money), and, of course, it wasn't a good idea just to expect that they can place big deposits.

But as the Bank is growing, and the ratings, and our market share, we started to be more interested in the big state-owned companies, blue chips, actually. As we mentioned in our speech before, we're normally attracting new clients every month.

And, as for November, there were very good inflows from several companies in terms of current accounts, actually. So, we started to work with them. So, we see a really good inflow of new clients.

Olga Veselova: Thank you, Vladimir.

Operator: Thank you. We have no further questions. Please continue with your closing comments.

Thank you, ladies and gentlemen. This concludes today's CREDIT BANK OF MOSCOW third quarter 2013 financial and business results conference call. Thanks for your participation. You may now disconnect.

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