CREDIT BANK OF MOSCOW delivers strong IFRS results for 1Q 2014

Key results

- CREDIT BANK OF MOSCOW's 1Q 2014 IFRS net income increased by 10.0% on 1Q 2013 to RUB 1,919 mln (USD 53.8 mln)
- Assets grew 2.1% reaching RUB 463,604 mln (USD 12,990.8 mln)
- The gross loan portfolio increased by 4.8% in 1Q 2014 to RUB 333,254 mln (USD 9,338.2 mln)
- Non-performing loans (loans overdue more than 90 days) were up to 1.6% in 1Q 2014 versus 1.3% as at year end 2013 due to growth of retail business share in the loan portfolio
- Operational efficiency is demonstrated by 14.9% return on equity and 1.7% return on assets
- The cost-to-income ratio decreased to 33.0% at the end of 1Q 2014 from 34.8% in a similar period of the previous year
- Equity increased by 3.5% in 1Q 2014 to RUB 52,443 mln (USD 1,469.5 mln)
- Total capital according to Basel III standards grew by 2.4% in 1Q 2014 to RUB 72,739 mln (USD 2,038.3 mln), with a capital adequacy ratio of 15.2% and Tier I ratio of 10.7%

"The first quarter of 2014 was very successful for CREDIT BANK OF MOSCOW, maintaining high asset quality together with delivering strong results, especially against slowdown in economic growth and uncertainty in the market. It is worth emphasizing that our focus on risk management is a foundation of sustainable growth of the business", said Chief Financial Officer Eric de Beauchamp.

Key highlights

Balance sheet	**1Q 2014, RUB mln**	**2013YE, RUB mln**	**change, %**
Assets	463,604	454,202	2.1
Liabilities	411,161	403,544	1.9
Equity	52,443	50,658	3.5
Capital (Basel III)	72,739	71,064	2.4
Gross loan portfolio	333,254	317,860	4.8
NPL	5,195	4,194	23.9
Key ratios, %			
Basel III capital adequacy ratio (CAR)	15.2	14.8	
90+ NPL ratio (before provisions)	1.6	1.3	
NPL coverage ratio	194.0	212.6	
Loan-loss provisions / Gross loans	3.0	2.8	
Net loans / deposits	115.3	112.4	

Income statement	**3m 2014, RUB mln**	**3m 2013, RUB mln**	**change, %**
Net interest income (before provisions)	4,959	3,606	37.5
Fee and commission income	1,914	1,240	54.3
Net income	1,919	1,745	10.0
Key ratios, %			
Net interest margin (NIM)	4.8	5.1	
Cost-to-income (CTI)	33.0	34.8	
Return on equity (ROAE)	14.9	17.4	
Return on assets (ROAA)	1.7	2.2	

Analysis of financial results

CREDIT BANK OF MOSCOW reported net income for 1Q 2014 of RUB 1.9 bln, an increase of 10.0% compared to 1Q 2013 net income of RUB 1.7 bln. Return on equity (**ROAE**) was 14.9%, and return on assets (**ROAA**) – 1.7%, showing a slight decrease compared with the same period of the previous year.

Net interest income increased by 37.5% to RUB 5.0 bln, primarily due to growth of highly-profitable assets on the balance sheet, the retail loan portfolio in particular. **Net interest margin** was at the level of 4.8%, marginally lower than at year end 2013, as a result of the Bank's conservative liquidity policy against the backdrop of volatile macro-economic environment.

Fee and commission income increased by 54.3% compared to 1Q 2013, reaching RUB 1.9 bln, of which 24.2% is attributable to providing loan insurance contracts (an increase of 55.7% compared to 1Q 2013), 20.4% – to clearing commissions (an increase of 82.5%), 17.6% – to plastic card fees (an increase of 204.4%), and 16.4% – to cash handling fees (an increase of 17.5%).

The increase in plastic card fees for 1Q 2014 resulted mostly from significant credit card portfolio growth by more than three times to RUB 4.2 bln on a year-on-year basis. According to research by the portal Banki.ru, the Bank's credit card loan portfolio demonstrated the fastest growth dynamics among financial institutions with total credit card loans exceeding RUB 1 bln.

In 1Q 2014, **operating income** (before provisions) increased by 22.6% to RUB 6.4 bln. with a relatively modest growth in **operating expenses** (before other provisions) of 16.1% to RUB 2.1 bln. The superior growth rate of income versus expenses is yet one more proof of the effectiveness of the Bank's growth strategy. As a result, the cost-to-income (CTI) ratio reached 33.0%, down from 34.8% for the 1Q 2013, which is an excellent performance in the Russian banking sector as a whole.

The gross loan portfolio grew by 4.8% and reached RUB 333.3 bln at the end of 1Q 2014. The corporate loan portfolio grew by 2.7% to RUB 226.0 bln, and the retail loan portfolio by 9.6% to RUB 107.2 bln. The total loan portfolio net of provisions, representing 69.7% of total assets, increased by 4.6% in 1Q 2014 and reached RUB 323.2 bln at the end of the quarter. The slower loan portfolio growth was primarily a result of the Bank's conservative approach to risk in the deteriorating economic environment.

The Bank continued to implement its strategy of steadily increasing the share of retail loans in the loan portfolio. At the end of 1Q 2014 retail loans comprised 32.2% of total loans, up from 30.8% at the end of 2013. Loan portfolio quality was maintained at a good level due to a balanced approach to risk assessment. The share of non-performing loans (90+ NPL) was 1.6%, this having increased due to the planned acceleration of growth of the retail loan portfolio with a relatively higher risk level.

NPL coverage ratio reached 194.0%, which is high in the Russian banking sector average. The decrease in 1Q 2014 was primarily driven by the transition by the Bank to a new risk assessment methodology in accordance with Basel standards as well as global best practices.

Customer accounts and deposits increased by 1.9% in the 1Q 2014 up to RUB 280.2 bln, amounting to 68.2% share of total liabilities. The slight increase in the growth in customer deposits is related to the Bank's loss-making liquidity as at the end of 2013 as well as to the scheduled raising of a syndicated loan in 1Q 2014. The net loans to deposits ratio did not change significantly in the quarter, with an increase from 112.4% at the end of 2013 to 115.3% at the end of 1Q 2014.

Capital markets activity

In February 2014 CREDIT BANK OF MOSCOW repaid in full a RUB 3 bln domestic bond issue with a maturity of 3 years and annual coupon rate of 9.5%.

In March 2014 CREDIT BANK OF MOSCOW signed a syndicated loan facility agreement in the total amount of up to USD 500 mln with a pool of lenders from across Europe, North America and Asia. The USD/EUR facility has tenors of

364 days and 18 months, and carries interest rates of LIBOR/EURIBOR + 1.75% p.a. (364-day tenor) and LIBOR/EURIBOR + 1.95% p.a. (18-month tenor). It is worth mentioning that this loan facility is the largest syndicated loan in the history of the Bank's presence in the syndicated loans market and was at lower rates and longer maturities.

Total capital calculated in accordance with Basel III standards increased by 2.4% in 1Q 2014 reaching RUB 72.7 bln, and the capital adequacy ratio stood at 15.2% compared to 14.8% at the end of 2013. Tier 1 capital ratio increased to 10.7% from 10.2% in the reporting period.

Infrastructure development

At the end of 1Q 2014, CREDIT BANK OF MOSCOW's branch network comprised 61 offices and 27 operational cash desks in Moscow and the Moscow Region. CREDIT BANK OF MOSCOW's branch network was recognised as the most efficient in the Russian banking sector in 2013 by Renaissance Credit.

The Bank's ATM network increased for the reporting period from 710 to 715 machines, payment terminal network – from 5,200 to 5,450 devices.

The Bank continues to increase the number of credit and debit cards issued: in 1Q 2014 this increased by 7% to 1,267,725 cards from 1,190,103 at the end of 2013.

Ratings

At the end of 1Q 2014 the international credit ratings of CREDIT BANK OF MOSCOW were maintained at:

- Fitch Ratings – Issuer Default Rating of "BB", Short-Term IDR of "B", Viability Rating of "bb", Support Rating of "5", National Long-Term Rating of "AA- (rus)", stable outlook;
- Moody's – long-term global & local currency deposit rating of "B1/NP", financial strength rating of "E+", long-term national scale credit rating at of "A1.ru", stable outlook;
- Standard & Poor's – Long-term credit rating of "BB-", Short-term credit rating of "B" , Russia national scale rating of "ruAA-", stable outlook.

Awards

In 1Q 2014 the Bank was recognized for its achievements in 2013 by the leading industry experts. CREDIT BANK OF MOSCOW was named "Bank of the Year 2013" by the leading Russian banking information portal Banki.ru. The Bank's flagship United Card also took the award for credit card of the year. CREDIT BANK OF MOSCOW's USD 500 mln subordinated Tier II Eurobond issue due 2018 was named best financial institution bond at the EMEA Finance Achievement Awards 2013 and was also awarded highly commended CEE deal of the year 2013 by Euromoney magazine.

Enquiries

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For reference

CREDIT BANK OF MOSCOW (CBM) is one of the leading privately owned universal banks in Russia, and focuses on providing banking products and services to corporate customers and individuals in Moscow and the Moscow Region. CBM's corporate banking business is primarily focused on retail and wholesale trading corporate customers, enabling CBM to capitalize on the fast-growing Russian consumer market. CBM's rapidly growing retail business is focused on consumer loans to high quality retail customers, with a particular emphasis on cross-sales of retail products to the employees and clients of its corporate customers.

CBM offers a comprehensive range of banking services, including lending, deposit-taking, cash handling, international settlements, trade finance, guarantees and other products. By leveraging its leading cash handling service and payment terminal network, the Bank is able to monitor the cash flows and payment histories of its customers as well as, in the case of many of its retail customers, their employers, which ensures strong portfolio performance and asset quality.

According to INTERFAX-100, as at 1 April 2014, CBM is one of the top five privately owned Russian banks, measured by total assets. The Bank is currently rated BB- with a Stable outlook by S&P; B1 with a Stable outlook by Moody's; and BB with a Stable outlook by Fitch.

CBM was founded in 1992 and acquired by Mr. Roman Avdeev in 1994. Mr. Avdeev beneficially owns 85% of CBM's shares. The European Bank for Reconstruction and Development, International Finance Corporation (IFC) and RBOF Holding Company I, Ltd. (100% owned by the IFC Russian Bank Capitalization Fund belonging to the same group of companies as the IFC) hold 15% of CBM's shares and are represented on CBM's Supervisory Board alongside five independent non-executive directors.

For more information, please visit http://mkb.ru/en/.