CREDIT BANK OF MOSCOW

CREDIT BANK OF MOSCOW (public joint-stock company)

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Conference Transcription
Date of conference: March 29, 2016
Conference Time: 17:00 Moscow Time

Conference title: CREDIT BANK OF MOSCOW FY2015 FINANCIAL & BUSINESS RESULTS

Speakers: Vladimir Chubar, Eric de Beauchamp, Sergey Lukyanov

Operator: Good day, ladies and gentlemen, and welcome to the Credit Bank of Moscow Full Year 2015 Financial and Business Results Conference. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr Sergey Lukyanov. Please go ahead, sir.

Sergey Lukyanov: Thank you very much, Alex. Ladies and gentlemen, my name is Sergey Lukyanov. I am Head of Investor Relations for Credit Bank of Moscow. I am happy to present our speakers for today's webcast and conference call on Credit Bank of Moscow 2015 financial and business results. Here with me are Vladimir Chubar, CEO, and Eric de Beauchamp, Senior Vice President. Vladimir Chubar will open today's call with a brief outline of landmark events of 2015 and recent trends in the corporate and retail business of the Bank. Afterwards, Eric de Beauchamp will proceed with a detailed analysis of financial results. All your questions and comments are very welcome after the presentation when we open the Q&A session.

Now I would like to turn the floor over to Vladimir.

Vladimir Chubar: Thank you, Sergey. Dear ladies and gentlemen, let's start with a brief introduction of the Bank's results on slide number 4. In 2015, the Bank showed good financial results, delivering acceptable incomes and high operational efficiency. The net income amounted to RUB 1.5 billion, which is lower than in the previous years but still a good performance on the backdrop of worsening macro environment and significant increase of loan impairment provisions. The net interest margin shrank in comparison with 2014 at a 3.9% level; at the same time, it demonstrated an increasing trend in the last quarter of 2015. The cost to income ratio historically distinguished Credit Bank of Moscow from the peer group and in 2015, the Bank showed a record low level of 26.4%.

Last year was a very fruitful year for Credit Bank of Moscow with a number of notable transactions in different areas of business. Going public on the Moscow Exchange is the most important event in the course of the year and a milestone step forward for the Bank. Within two transactions closed in June and in December, additionally issued shares of the Bank were acquired by new shareholders, mainly represented by Russian financial and insurance companies. As a result, equity stakes owned by original shareholders including Concern Rossium (LLC), controlled by Roman Avdeev, and international financial institutions, such as: IFC and EBRD, were diluted from 100% to 66% in total. The new shareholders currently own 34% of the capital of the Bank and the free float according to the Moscow Exchange constitutes 16% of the Bank's share capital. Along with that, the Bank strengthened its market presence in the cash-handling business with the acquisition of Inkakhran from Rosbank. The deal allowed Credit Bank of Moscow to reinforce its leading position on this market, as well as gave an access to new corporate customers.

Let's now move to slide number 5 on corporate business. Corporate banking business was a key driver for the Bank's development in 2015 and will remain a key activity for further growth in 2016. The loan and deposit portfolios grew disproportionately in 2015 due to a significant inflow of funds from corporate customers in the second half of 2015 on one side, and selective growth of loan portfolio with a focus on quality of borrowers on the other side. The corporate loan portfolio growth of 92% since year end 2014 was based on enlarged credit facilities to existing high-quality customers of the Bank as well as new lending to Tier 1 names from different sectors of the economy. The Bank managed to maintain a good diversification by industries, which is another valuable advantage from a risk management perspective. The main priority for the Bank is and will remain a high-quality growth in corporate segment.

Let's now move to the retail banking business overview on slide number 6. Due to more drastic lending standards and the drop of demand in retail lending, the retail loan portfolio decreased by 7% on year-on-year basis. At the same time, one of our target segments, mortgage lending, showed a 10% increase during the year, increasing its share in the gross loan book up to 18%. Meanwhile, the Bank continued to steadily expand its customer base. The deposit portfolio grew by 23% in the last year. Retail banking business's key priorities are to establish an efficient branch network in Moscow and Moscow region together with the further development of alternative change management of distribution.

Now I suggest moving further, Eric will provide details on the Bank's financial results. Eric, please.

Eric de Beauchamp: Thank you, Vladimir, and good afternoon, ladies and gentlemen. I would like to draw your attention on the slide number 8 and start with a brief overview of income and expenses dynamics. Operating income rose by 39% on year-to-year to RUB 39.2 billion, enhanced by the growth of all its components – net interest income, fee and commission income, and other income. The net interest income increased by 13%; that was mostly driven by the interest income on securities portfolio and repo deals. Net fee and commission income moved up by 5%, mostly due to cash-handling and other cash operations growth, while income from insurance contracts downturned, resulting from struggle in the new retail loans origination. The other income growth was mainly due to foreign exchange gains and positive revaluation of securities portfolio.

The operating expenses increased overall by 17%. The growth was only 2% on salaries and administrative expenses, which demonstrates a very efficient cost management. The growth of the item ‘other expenses’ came from the creation of additional provisions on credit guarantees. The cost to income ratio steadily improved, reaching a 26.4% low record level for the year 2015. The net interest margin was reduced to 3.9% in 2015.

Now I suggest to turn to the slide number 9 and review the Bank’s asset structure. In the reporting period, the Bank managed to roughly double its asset size up to RUB 1.2 trillion, becoming the eleventh largest bank in Russia by the size of assets. Turbulent markets and macroeconomic uncertainty restrained the Bank’s risk appetite and resulted in the increase of the share of lower-risk assets such as liquid bonds and Eurobonds with high credit ratings and in-demand assets mainly consisting of reverse repo backed by highly liquid securities included in the Central Bank’s Lombard list. Net corporate loans almost doubled, reaching RUB 482 billion. The growth was driven by increased lending volumes to existing customers and loans to high-quality new corporates from different sectors. Net retail loans dropped by 8% to RUB 111 billion, which was a result of the Bank’s strategy to mitigate the risk on the retail lending activities as well as shrink of loan demand on the market.

Now let’s turn to slide number 10, which provides key loan portfolio metrics. In 2015, NPLs grew up to RUB 32 billion, mostly driven by the corporate sector, while retail NPLs remained almost flat through the reporting period. The Bank faced a sharp increase of NPLs starting from the second quarter of 2015 due to several significant corporate exposures. The NPL coverage by provisions was maintained at a market standard level of 114% as at the end of 2015. The cost of risk moved up from 3.3% at the end of 2014 to 5.4% at the end of 2015, reflecting the worsening of asset quality on the market. Worth being mentioned here that the level of write-offs was stable and still accounting for 1% of the gross loan portfolio in the reporting period.

More details on the loan portfolio quality are provided on slide number 11. The corporate loan portfolio doubled during the year 2015, reaching a level of RUB 510 billion. In parallel, the NPL ratio increased from 0.4% to 4.5%, which was explained by deterioration of financial standing of a few large borrowers due to complex macroeconomic situations. The cost of risk increased as well on the corporate side from 2% to 5.8%, and the NPL coverage ratio was maintained at a level of 121%.

The Bank’s retail gross loan book shrank by 7% to RUB 120 billion as a result of a complex macroeconomic situation and more strict rules, covering rules applied to customers. NPL ratio increased from 6.3% to 7.9%, while NPL coverage ratio remained constant at 96%. Almost half of growth in retail NPLs came from mortgage loans which are fully covered by collateral, with a loan to value of 43% at the end of 2015.

Moving on to the next slide, number 12, I suggest to focus on the funding structure. The Bank’s funding base structure changed significantly in 2015 due to the inflow of corporate deposits during the second half of 2015. Corporate deposits increased four times, up to RUB 698 billion. Retail deposits grew up by 23% to RUB 201 billion. The share of customer deposits went up to 81% in total liabilities at the end of 2015. Attracted deposits from corporate customers were almost fully denominated in US dollars. The debt repayment schedule is comfortable for the Bank with the major portion of debt maturing in 2018.

Now we come to the final slide, number 13, which describes the Bank's capital position. The IPO and SPO realised on the Moscow Stock Exchange in 2015 with a raise of RUB 30 billion new capital were the main drivers for the increase of Tier 1 capital. Tier 2 capital increased significantly as a result of two milestone deals. The first one was a RUB 20.2 billion subordinated loan received from the Deposit Insurance Agency in June in the form of OFZ. Beside this, the Bank attracted a subordinated loan from one of its corporate customers totalling USD 300 million in December 2015. The Bank maintained one of the highest capital adequacy ratios among peers, with IFRS total capital adequacy ratio of 16.5%. Russian Accounting Standards ratio as of the 1 March 2016 comprised N1.0 of 14.7% and N1.1 and N1.2 ratio at 7.7%.

These were the main highlights of the Bank's financial and business results for the year 2015. Thank you very much for your attention. Now let's proceed to the Q&A session.

Operator: Thank you. If you would like to ask a question over the telephone at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Once again, that's'*1 to ask a question. And we have an opening question from Yulia di Mambro of Barclays. Please go ahead, your line is open.

Yulia di Mambro: Hi, thank you very much for the presentation. I have three questions please, one on asset quality, one on capital and one on liquidity. On asset quality, my question is on trend, on the current trend in asset quality. What are you seeing at the moment and what are your expectations for cost of risk for 2016? You have a fairly high exposure to the construction and property rental sectors. Are you concerned about these sectors at all and what proportion of the lending is in dollars rather than roubles in that segment? That's my first question.

Vladimir Chubar: Okay, thank you very much. So, we will start one by one. In terms of our, let's say, feelings about currently, what we see now in the loan book and what trends we see, I can tell you that the last news about first of all – not first of all but just the retail segment, just yesterday we discussed this internally with my deputy who is responsible for it. So he said that maybe we see now kind of a bottom in terms of the NPLs and in terms of the problem loans generation from old portfolio in the retail segment. Maybe it's just a feeling; maybe it's really bottomed. We will see, I think, in maybe two, three, four months. But it's more good news than bad news.

In terms of the corporate business, just one by one, first of all about the construction. So we have of course these loans. I can tell you that the majority of these loans are in a good shape so the quality of these loans are good. Some of them we have in US dollars but the majority is in Russian roubles. So almost all of this exposure we have is in Moscow and Moscow region. Mostly it's a residential construction so there is more demand from final consumers still in Moscow region for such loans – for such construction – so people are still buying apartments, flats. And the majority, the big majority of it we have in economy segment, so there is no premium or business construction.

Other parts of the portfolio except construction and development, and except the loans we have already in NPLs, we see that – we are not waiting for some big surprises this year. So we hope it will be like this. The biggest case last year in terms of the NPLs and the provisions was Transaero, as you know. It was a very public story in August, September, October last year. I can tell you that we already made 100% our level of provisions on this loan, so in 2016 we are not expecting some extra provisions from Transaero. I think I answered your question.

Yulia di Mambro: Yes, that's great. Thank you very much. My second question is on capital. So, you saw very strong asset growth in 2015 which meant that even though you raised capital in the market, it didn't quite offset the increase in assets. So, your capital ratios did trend down. What are your growth ambitions for 2016 and where do you expect your capital ratios to end the year at? Do you expect them to be at a broadly similar level or lower than where they currently are?

Vladimir Chubar: First of all, currently management is very comfortable with the levels of capital adequacy ratios we have now but at the same time, I think you know that shareholders, they like to see more usage of the capital. Of course, we can still have some assets increased without some extra pressure to the capital and to the ratios. I think that you can see some potential decrease of the ratios, of the capital adequacy ratios, till the end of the current year. We expect that we will still grow a bit faster than the market; the market we expect this year will be about 15%. This is our internal expectations. We like to be a bit faster. Of course, as we said in the presentation just some minutes ago, we like to see the growth more on the quality side, so the risk management is key still and – but of course I think that the same jump as we did last year you will not see this year because the base is much higher, so I think once again doubling the assets is not our target for this year. At the same time, I can tell you that some part of the assets last year – so some parts of the increase in the assets last year – was without pressure on the capital because we have like some repo transactions with very good Russian bonds without pressure on the capital. So I think something like this.

Yulia di Mambro: Great, thank you very much and my final question is on liquidity. So as you've already mentioned in the presentation, your deposit growth exceeded loan growth quite significantly again in Q4 and your loan to deposit ratio is now actually sub-80%, and I can see from your balance sheet that some of that was used to repay CBR funding and reduce interbank funding, but what are your plans for this excess liquidity going forward? And in particular, do you have any plans to buy back any of your Eurobonds and in particular the Tier 2 bonds which are still trading below par?

Vladimir Chubar: Currently we do not have a decision like this. Actually, very popular questions, people ask me these questions. So even for Tier 2 or senior, we don't have plans to make a buyback. And the reason is very simple: it's still capital and the capital is the key for the development of the Bank. And the price maybe is good so maybe it's a good time to make a buyback, but all the profits we can have after this buyback just is not the same as the business we can grow, we can develop using this capital. This is very simple. So for us, it's not the key to make kind of the buyback.

Yulia di Mambro: Great, so you will just use your excess liquidity to grow your lending book in that case?

Vladimir Chubar: Yes. Yes. But actually you know that now, currently, the liquidity position of the Bank is quite balanced so we have some extra liquidity but it's more the cushion than just the liquidity we like to use for some extra increasing of the business. But at the same time, I can tell you that you are absolutely right, we repaid all the – almost all the CBR funding so we still can use this source of funds if we need it actually. So me personally, I am quite comfortable currently with the liquidity position of the Bank and with some alternative channels we can use to take some extra liquidity from the market or from CBR or from the customers.

Yulia di Mambro: Great, thanks very much.

Vladimir Chubar: Thank you.

Operator: As a reminder, to ask a question, please press *1 on your telephone keypad. Our next question comes from the line of Olga Veselova of Bank of America Merrill Lynch. Please go ahead, your line is open.

Olga Veselova: Thank you. My first question is about your subordinated debt in dollars. Could you tell us the price of this sub debt?

Vladimir Chubar: This sub debt was taken from our customer so we cannot disclose this price. So we even didn't do this in our IFRS. So it's kind of part of the client relations. But the price is quite reasonable I can tell you, so I like it.

Olga Veselova: Okay. My other question is your capital which you received from the Deposit Insurance Agency in format of OFZ. From the top of my head, there was a condition that once banks received this capital from the Deposit Insurance Agency, they need to grow loan portfolio by something like 1% per month in selected industries. So which industries are these for you and are you growing these portfolios by this amount every month?

Vladimir Chubar: So we are in line with all the requirements of DIA. We even grow faster than they are asking to do it. So I see absolutely no problems in what DIA is asking to do, and just be in line with all the obligations we take on the Bank.

In terms of actually, in terms of the DIA requirements, they made, as far as I remember, they made some changes and if before, we need to grow just 1% every month, now it just should be 1% from the very beginning, so every month but from the very beginning of the program just a cumulative growth, you know. So which is a bit easier for the banks because you can just not only think about it every month – did you make this growth like 1% one month to another month, but just be sure that you are growing just like a cumulative growth of 1% every month.

Olga Veselova: Ah, so in other words in 12 months from the beginning, you need to have 12% higher –

Vladimir Chubar: More than 12%, but –

Olga Veselova: Okay.

Vladimir Chubar: And you can make this 12% by not every month 1% growth, but you can make for example one month 2% growth and next month you could just make 0% growth.

Olga Veselova: That's clear. One of the issues I have here is that other companies, including the biggest banks, are telling us that there is a lack of high-quality demand at the market. So if you do not see constraints for growth, where do you find demand? Where do you find high-quality demand for your loans? And it's more a qualitative type of question than quantitative if you could comment on that.

Vladimir Chubar: Yes, yes, I have heard this. I have heard these concerns from the big guys but at the same time, I can tell you they are big guys. They have big balance sheets and they have a big limit to one borrower. So that's why we are feeling ourselves much more comfortable because we are not looking and we are not seeking for the loans and for the limits like RUB 100 billion, hundreds of billions of roubles. We just seeking for, you know, less amounts and less exposures. That's why for us it's first of all much easier. But in general, I can say that I agree with this concern about borrowers who will repay the loan for sure. So all the time, there are concerns, there is discussion, there is a strong position of the risk management and it's not so obvious like maybe two, three years ago that this borrower is good, this borrower is bad. There are more grey tones now and the level of analysis, I can tell you honestly, is much, much higher and much more deep than it was two years ago – we are trying to use some extra information about the borrowers, we are trying to gain this, we are trying to take this information from different sources, etc., etc.

And also I can tell you that level of cooperation between the banks, of course, mostly between the private banks, is higher than it was maybe two, three years ago because we are – we see that – we are working with the same customers. And sometime in the past customers used the fact that private banks were more competitors, big competitors, than partners or just friends, and now, I can tell you, it changed. We really are exchanging of the information.

Olga Veselova: Okay, that's useful. My last question would be about consumer lending segment. I realise that now it's not a priority for you any more but maybe you can tell us what approval ratios you do have now, because you still provide loans in this segment. And also, when do you think the seasoning of old portfolios will be over? In other words, what's the average maturity of your consumer loans now?

Vladimir Chubar: Yes, so if I understand your question, the first part of your question clearly that it means the approval rate from all the incoming applications. How much?

Eric de Beauchamp: In fact, on the main acquisition channel that we have, less risky population, so which are the corporate customers and existing customers of the bank, we have an approval rate which is close to 50%, between 40% and 50%. Then on the most risky population, which are, I would say, the "street" customers, we drastically reduced the approval rate of [those people] and now it's closer to 10%.

Olga Veselova: So 10% for people from the street?

Eric de Beauchamp: Exactly, so which come to the office and apply for a credit.

Olga Veselova: Thank you. On maturity of your consumer loans, this you think seasoning of old portfolio is over or not yet?

Vladimir Chubar: As I said, that was one of the first questions about this, so just yesterday Alexey Kosyakov told me that maybe we can see something like almost seasoning of this old portfolio. Of course it’s a good fact, and maybe it’s a good, that feeling too, that we feel it and we see it, but I don’t like to be so optimistic in this way. So we hope it can be just like maybe summer of this year and we also hope that the portfolio we started to originate from, for example, the beginning of last year will be with a much better quality than the old portfolio. But it’s all the time like this, you're all the time hoping that the new portfolio will be better and something is happening in the country or in economy, etc., etc. and once again you see some issues, some problems but it’s life.

Olga Veselova: Okay, thank you.

Vladimir Chubar: Thank you.

Operator: As a final reminder, if you would like to ask a question, please press *1 on your telephone keypad. Our next question comes from the line of Elena Kolchina of Renaissance Capital. Please go ahead, your line is open.

Elena Kolchina: Good afternoon. I have a question about your corporate deposits. You received a number of large corporate deposits last year so my question is what is the weight of the largest deposits to total deposits? And also, what is the term of these deposits and do you think that they are sustainable, because I am worried that if this money is taken, so how these funds you think will be replaced?

Vladimir Chubar: Yes, that’s one by one, so first of all in terms of the weight of the biggest deposits, colleagues can help me.

Yes, so I think it's about 15%, maybe 20% if you are saying about the biggest deposits if I am correct. Yes, just maybe we can just now start to answer another question that's about the tenors, terms, and how they are sustainable. So first of all, tenors, absolutely different tenors, there is – you have a lot of deposits you just, if you're asking just about the biggest deposits or just all the deposits because we have overnight deposits, we have deposits for two years, five years, we have one year, three months, etc., different. But average is close to nine months currently. We are comfortable in terms of the liquidity position, as I said just some minutes ago, so we can – even if there will be some outflow of these deposits from the Bank, we can without any problems repay them using some funding from the CBR and just maybe taking some money from the market, etc., etc. The majority of the deposits are without the calling possibilities so they cannot be taken from the Bank before the tenor, before the contractual date. So, but I absolutely agree with the concerns I've heard from a number of investors and a number of analysts about the growth of the deposits and about some concentration we have from a number of the big depositors. We absolutely understand all these risks. We are monitoring them, we are working with them and as I said, just the key here is the liquidity position of the Bank and not trying to play some games with the market using these deposits.

Elena Kolchina: Quite large concentration really.

Vladimir Chubar: Yes, agree but this is the top companies with a good risk position, so they've opened limits – they've started to work with the Bank. There are a number of the reasons why. As I said previously, just in the last call, there is one of the reasons is that we are a good bank, big bank with a good rating. Actually we are number two by the ratings, by international ratings agencies, among the private banks and just yesterday there was some news flow that the government wants to make some limitation of the banks who can have an approval to take deposits from government companies, so we are among this list of the banks, etc., etc. And we are not a sanctioned bank, which is also one very important thing.

Elena Kolchina: Okay, thank you very much.

Vladimir Chubar: Thank you.

Operator: Our next question comes from the line of Greg Pálffy of Pala Assets. Please go ahead, your line is open.

Greg Pálffy: Thanks for the presentation. Two questions. Can you just repeat how much have been the provisions in the fourth quarter if you take out this one-off Transaero-related provision? And second question is kind of a small one just on the Admin [expenses]. According to my calculations, it's RUB 1.8 billion from the RUB 900 in the previous two quarters. Can you just explain what happened in the fourth quarter for that cost item to double? Thanks.

Vladimir Chubar: So Transaero was about half in the last quarter of all the provisions we made and the second question I didn't understand to be honest.

Greg Pálffy: Yes, it's the admin line, just wondering, I think it was RUB 1.8 billion…

Vladimir Chubar: So you mean administrative expenses?

Greg Pálffy: Exactly. I'm just wondering what would be the cause of that. Is it just acquiring of the bank?

Vladimir Chubar: Yes, it's Inkakhran. The only reason is Inkakhran because we started to consolidate the Inkakhran and of course it's very expensive business in terms of the costs and that's why there was a big increase.

Greg Pálffy: Okay, and what was the price to book value paid for this bank from Rosbank?

Vladimir Chubar: It’s also kind of information we cannot disclose because of our contracts with Rosbank.

Greg Pálffy: Okay, and just regarding 2016, how do you see provisions? Would they kind of be normal levels, I mean even lower levels in the second and third quarter?

Vladimir Chubar: No, the problem is – yes, the problem is that there is a very high level of uncertainty still in Russian economy, in Russian banking system. We like to be conservative, that’s why the majority of operational profit we, let’s say, send to the provisions in our budget. But of course it’s a more conservative approach and we see it now currently after almost first quarter was – will end in a couple of days. So we hope that we can show the better results than in the last year but everything of course will depend on the provision level. There is a number of the borrowers, we more likely would like to increase the provisions on these guys but now we are monitoring them, we are trying to just increase in some borrowers, we are trying to increase our position in terms of the collateral, in some borrowers we try to sell collateral, etc., etc. so just something like this. I think the majority of the operational income will come to the provisions, of the operational profit, will come to the provisions.

Greg Pálffy: Okay, and just going back to the growth, I mean given the roughly zero or –1% GDP growth in Russia, how do you manage to get that growth in the loan book that will not go sour? Can you just repeat that because I couldn’t hear?

Vladimir Chubar: Yes, yes.

Greg Pálffy: I didn’t…

Vladimir Chubar: Now first of all, what we are thinking here, so first of all, we have an inflation, official inflation and real inflation, etc., etc. so let's say 10-15%. So with this number, the banking system should just be increased naturally. This is number one. Number two, in terms of our current competitive position, we still feel ourselves as not a very big bank so we still feel that we can be competitive, we can just let's say fight with other banks for the good borrowers using different opportunities for it. So the price competition is the number one opportunity. Second, decision making process opportunity and other. So we think that still increase the market share for us is still manageable. We are not top three bank in Russia when if they are talking about the market share just like, just something which is not very easy.

Greg Pálffy: Okay, okay.

Vladimir Chubar: For us, we still see a bit room for development in this way, so in terms of the market share, and of course as I said in the very beginning of my speech now, it's also in the level of inflation in Russia.

Greg Pálffy: Okay, thank you very much.

Vladimir Chubar: Thank you.

Operator: Our next question comes from the line of Nick Dimitrov of Morgan Stanley. Please go ahead, your line is open.

Nick Dimitrov: Hi guys, I have a couple of questions and the first one is with regard to net interest margin, whether we're going to see a continuation of the normalization of net interest margin in 2016, if you can provide some guidance, and also cost of risk and NPLs. I understand that the – you know, the operating environment continues to be very volatile and challenging but nonetheless when you guys are budgeting on your side, like what kind of numbers do you use? That's going to be my first question.

Vladimir Chubar: So in terms of the net interest margin, we once again hope that it can be more than 4% but all the time, the key question is the risk management, is the risk profile of customers. We can even make 5% but after this we will start to fight with the borrowers to get our money back. So a conservative approach has shown us that something like 3.5%, 3.8%, 3.9% maybe up to 4% is manageable but at the same time, this level of net interest margin for us is much comfortable because we can predict cost of risk a bit better. But at the same time, I can tell you that last quarter of last year was 3.9% if I'm right. Yes, so why not? Maybe we will see something like 4+ in the very beginning of this year, in first quarter, because we still have in the deposit base some deposits with the rates which are higher than the current market rate and so they will be replaced by the less expensive deposits.

And I didn't understand the second part of your question.

Nick Dimitrov: I'm sorry, yes, if you can give us some color in terms of cost of risk for 2016. It's related to another question that was asked earlier.

Vladimir Chubar: Yes, so you know, I can tell you some very – the figures but they are not like from the budget, maybe something like from my mind. So we tried to make something like up to 3.5% on corporate side and 6.5% maybe 7% on the retail side. I think that currently it's more like, something like real for this year. But at the same time, to be honest – yes, to be honest, I see now some loans which are more provisioned than what we see now, like current situation with the borrowers, in the loans from the last year when we made some high provisions level and maybe we will try to find a way to decrease the provisions this year with these borrowers.

Nick Dimitrov: Okay, okay. I just want to make sure that I get the numbers correctly. You said 3.5% for corporate and then –

Vladimir Chubar: The corporate, yes. Then 6.5 –

Nick Dimitrov: Then 6.5% or 7% for retail.

Vladimir Chubar: Yes.

Nick Dimitrov: Okay, and another question, I was trying to figure out the logic for taking the USD 300 million subordinated loan from one of your clients. When I look at your total capital, it does look fairly decent. However, the quality though is not the best, right, because 50% of it is comprised of subordinated capital rather than – and the rest is core equity. Usually that makes this more in favour of core equity. So how do you guys think about capital going forward?

Vladimir Chubar: So we don't have any plans currently both for Tier 1 and for Tier 2 capital except just the profit, we hope the profit which will be this year, so my expectation that it will be enough for the growth. I absolutely agree with you that the current structure of the capital is not the best but at the same time, I can tell you honestly that the Tier 2 capital we took from the clients, from the market, from [there] last year has quite a good price in terms of the pricing. But just currently, I just can repeat we don't have any plans to do it. But if it will be some good offers in the market, some good windows like it was last year, why not? But my personal feelings now that more likely we don't see any activity in Tier 1 capital over the next six, seven, nine months.

Nick Dimitrov: Okay, got it and my last question is going to be restructured or renegotiated loans. Can you provide some colour what they are as a percentage of total loans? And what…

Vladimir Chubar: Give me a second.

Nick Dimitrov: What industries are the drivers of those renegotiated loans?

Vladimir Chubar: Now it's about 2%.

Nick Dimitrov: 2%, okay.

Vladimir Chubar: Yes, yes, we have the figure but in terms of the industries, we just need to see. I have your email; I can get them to send you this.

Nick Dimitrov: Okay, thanks, sounds good and can I ask just one more question, sorry? So you guys doubled the balance sheet year over year with no acquisitions, right, although there were a lot of rumours that you might engage in some acquisition with Uralsib and stuff like that. Is the M&A issue off the table or you're kind of still looking at the market? I'm just trying to put things in perspective considering where your capital ratios are.

Vladimir Chubar: Yes, yes, look, the people who met me just before, I think you also, we met with you some two or three times, so you know that I am not a big fan of not organic growth of the Bank because together with the bank and the assets and the clients, you can just also buy kind of some problems of this company, I mean the bank. So personally, it's all the time the big issue for the people trying to sell something to me like it's a good idea actually, the bankers come quite regularly just trying to sell something in Russia. But it's all the time, my first answer is no, no and no, but after this, they are trying to find some ways why it can be yes. But you know, currently also we are not thinking about any assets in Russia we can buy. We bought Inkakhran and I was a big fan of this transaction, I think maybe I told about this also to you and to other investors two, three years ago. So we did it and I can tell you honestly that it was a good transaction and we are now working with it, with this asset, with this new asset. But in terms of the banks, I think more no than yes. But at the same time, as we are saying to all the people, we are more – we like to see the opportunities. If there is an opportunity and the price is reasonable and the asset is predictable for us, why not. Why not?

Nick Dimitrov: Okay, got it. Thank you.

Vladimir Chubar: Thank you too.

Operator: As we have no further questions, I would like to turn the call back to the speakers for any additional or closing remarks.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.