

Conference Transcription

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Speakers: Vladimir Chubar, Eric de Beauchamp, Elena Finashina

Operator:

Good day, and welcome to the Credit Bank of Moscow First Half 2017 Financial Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Elena. Please go ahead.

Elena Finashina:

Thank you very much. Good afternoon, ladies and gentlemen. Welcome to the half-year 2017 financial and business results call of Credit Bank of Moscow. CBM's management and IR team are happy to host this call for you. So today's speakers are Vladimir Chubar, CEO of the Bank, and Eric de Beauchamp, Senior Vice President.

Structure of our presentation today is very similar to what some of you are already used to. So, Vladimir will present key financials and business highlights of the first half this year, followed by Eric who will speak in detail about financial performance of the Bank for the reporting period. You are also very welcome to participate in the Q&A session after the presentation. So now, I turn it over to the first speaker. Vladimir, please go ahead.

Vladimir Chubar:

Thank you, Elena. Good afternoon, ladies and gentlemen. It's my pleasure to share with you solid financial results and strong business fundamentals of Credit Bank of Moscow for the first six months of 2017.

Starting from a traditional macro review, I would only say a few words regarding general background in which we have been recently operating.

Growth of the Russian economy is still on track, having shown outstanding results in the second quarter comparing with the four previous years' track record. Such trend supports our loan portfolio growth dynamics and makes us optimistic about further economic development. Certainly, growth momentum might be somewhat affected by introduction of new sanctions by the US. Meantime, the real effect of fresh restrictions is still to be evaluated going forward.

Now, let's move to a discussion of CBM's financial highlights on slide number 2. In the first half of 2017, the Bank demonstrated improvement of key quality metrics and further expansion of business in line with our strategy. Profit doubled comparing with the similar period of the last year reaching RUB 10 billion. Net interest income reached RUB 20.7 billion having shown modest growth over the last half year's results.

Net fee and commission income keeps on showing solid growth matching our strategy to focus on fee products for our customers. Half-year results showed a climb of roughly 30% versus previous year's six-month period.

Margins slightly decreased, affected by higher buffer of liquid assets on the balance sheet in the reporting period. Net interest margin on average risk-weighted assets was at the level of 4.3%. Net interest margin made 2.9%. Return on average equity is maintained at high teens level for the second consecutive quarter reaching 18.5%. Apart from strong income-generating capability, CBM traditionally shows high operating efficiency. Anticipated growth of the cost-to-income ratio was immaterial arriving at 29.2%.

Gross loans to customers increased by 14.1% for the reporting period as a result of active corporate loan generation focusing on high quality borrowers. Asset quality fundamentals evidenced improvement of the loan book risk profile. NPL ratio decreased to 1.9% from the year start while cost of risk slumped from 4.6% to 2.1%.

The beginning of this year offered very good opportunities for the Bank in terms of capital increases and optimization of its structure, which was

reflected in significant capital ratio strengthening through the reporting period. Tier I capital ratio reached 14.3% following the debut perpetual Eurobonds placement in May and income capitalization, while total Basel III capital adequacy ratio increased up to 21.8% supported also by Tier II Eurobond placement in April.

Now, I suggest moving to the next slide for business highlights review. The left-hand graph evidences that the key loan book catalyst in the first half of 2017 was corporate loans, which expanded by 17.3% and reached RUB 664 billion. Retail loans decreased insignificantly by 4%, which reflects still cautious approach of the Bank to retail business expansion and therefore, careful client selection. As a result of such diverse trends in the loan book segment, share of corporate loans increased to 87% of total loan book.

Sectoral strategy remains unchanged with the key industries being oil and chemicals, financial, property rental and construction, auto sector, and food and farm products, as per the pie chart on this slide. The loan book is reasonably fragmented, keeping each sector exposure below 25% of total loans. As for the retail business, our key products still include cash loans and mortgages, making 74% and 22% of total retail loans respectively.

Now, I would like to pass the floor to Eric who will dwell on the Bank's financial results. Eric, please go ahead.

Eric de Beauchamp:

Thank you, Vladimir. Good afternoon, ladies and gentlemen. Let's turn to slide number four with a detailed overview of the Bank's income and expenses dynamics.

On the left bottom diagram, we see that operating income was supported by the significant increase of the net fee and commission income, which now represents roughly 24% of the total operating income and grew by 29% year-on-year to reach RUB 6.9 billion, resulting from the Bank's effective strategy of developing its commission revenues.

Other net income decreased on a year-on-year basis down to

RUB 1.1 billion. One of the main reasons for decrease was represented by expenses from early redemption of the subordinated Eurobond due in 2018.

On the upper right diagram, operating expenses showed a 28% increase year-on-year. The growth mainly came from salary expenses which was mostly linked with payment of annual bonuses for the year 2016. The cost-to-income ratio remained at a relatively low level of 29.2%.

The net interest margin remains under pressure, as the Bank is still maintaining a significant part of its assets in low risk, highly liquid instruments. The calculation of the net interest income as a percentage of the average risk-weighted assets shows a 4.3% ratio, which is in line with the Russian market standard for universal Banks operating mainly on the corporate loan segment.

Now, I suggest turning to slide number five with a breakdown of total assets. Total assets at the end of June 2017 were mainly represented by the loan portfolio with a 45% share showing an increase of 15% in comparison to December 2016, and by liquid assets with a 52% share including cash and cash equivalents due from credit institutions and the securities portfolio.

Total assets mostly remained at the level of the end of 2016 but with a change of composition with an increase of the share of the net loan portfolio from 40% to 45% of the assets while the relative share of liquid assets decreased from 58% to 52% of the assets. The loan portfolio growth is mainly attributable to the increased contribution of larger corporates from less risky segments like oil and chemicals.

One of the main instruments of liquidity management are repo transactions which amounted RUB 580 billion and are backed by high quality securities that are included in the CBR Lombard list. The coverage of repo deals by collateral is maintained at a comfortable level of 122%. Additional unused liquidity sources available from the CBR amounted to RUB 323 billion as of the end of June 2017.

Now, let's move to slide number six on the loan portfolio quality. As

described in the upper left diagram, the loan portfolio coverage by impairment allowance was quite stable since the beginning of 2017 and slightly decreased to 5.6% as of the end of June as a factor of loan portfolio increasing from RUB 684 to RUB 761 billion coupled with a stable loan provision level.

The impairment allowance provides a coverage of NPL of 303% which is shown on the upper-right diagram. This ratio increased significantly after the Bank restructured two corporate loans during the fourth quarter of 2016. Loan quality metrics are steadily improving from the beginning of 2016 with NPL ratio amounting to 1.9% as of the end of June 2017.

The cost of risk decreased to 2.1%, confirming the downward trend observed since the second half of the year 2016. The related party lending is still low and stabilized at the level of 3.4% of the total gross loan book.

Now, I suggest to turn to slide 7 with more details on corporate and retail portfolio metrics. On the backdrop of corporate loan book growth on the left, qualitative indicators keep showing a positive trend in the reporting period. The NPL ratio continued to decrease down to the 1% level. The NPL coverage ratio of the corporate loan book increased significantly, up to 536%.

As described in the bottom left diagram, the cost of risk significantly decreased from 4.3% as of the end of 2016, down to 1.6% at the end of June 2017. The retail loan book NPL ratio remained stable at 7.7% on the backdrop of loan portfolio reduction to RUB 97 billion. The cost of risk showed a decreasing trend reaching 5.1% to be compared with 6.5% as of the end of last year.

The next slide, number 8, illustrates the funding structure of the Bank. Total liabilities slightly declined by 2% during the first half of 2017 to RUB 1.4 trillion as of the end of June 2017. Corporate deposits grew by 20% to RUB 530 billion. At the same time, retail deposits increased by 10% to RUB 275 billion at the end of June 2017.

Deposits by credit institutions, including deposits by CBR, declined

during the reporting period and reduced their share in total liabilities from 43% at the end of last year to 34% at the end of June 2017. Repo transactions including repo with CBR comprised 84% of total deposits by credit institutions. Securities provided as collateral under reverse repo amounted to RUB 468 billion and the value of these securities comprised 116% of the underlying value of such deals.

Bonds issued increased by RUB 4 billion to RUB 141 billion mostly due to the foreign exchange revaluation effects. Bonds repayment schedule is comfortable for the Bank with the bulk of international debts due from the year 2020.

Now, let's proceed to the final slide, number nine, on the Bank's capital. The AT1 perpetual subordinated Eurobond issued in May 2017 for an amount of \$700 million was included in the Bank's Tier I capital under both Russian accounting standards and IFRS. As a result, the IFRS Basel III total capital adequacy ratio increased up to 21.8% and the Tier I ratio rose to 14.3%. Under Russian accounting standards, the N1.0 ratio peaked to 17.5%; the N1.1 ratio slightly reduced to 6.8%; and the N1.2 increased up to 10.2%.

So these were the main highlights of the Bank's financial and business results for the first half of 2017. Thank you very much for your attention. And now, let's proceed to the Q&A session.

Operator:

Thank you. If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *1 to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

And we'll take our first question from Tolu Alamutu with Exotix Capital.

Tolo Alamutu:

Good afternoon and thank you for the call. I just have two questions please. The first is on capital. I realise that obviously, the AT1 issue helped boost the Tier I ratio but I just wanted to get an update on your SPO, if you are able to give that and where we could see your core Tier I ratio by the end of the

year, please, if that SPO is successful.

And the second question is about asset quality. Obviously, the cost of risk has improved quite a lot in the period but do you think that that reduction is sustainable and where could we see the cost of risk for the full year? Thank you.

Vladimir Chubar:

Hello, thank you very much. Thank you very much for the question. In terms of SPO, we gave this comment some days ago and I can tell once again that it's still on our radar that's like this. We plan to do so but at the same time, we are still not very comfortable with the current market. So, the decision will be made if the markets will be good. I think that maybe this quarter, maybe next quarter, we really don't know. In terms of our will to do so, so we like to do this transaction and it was potentially announced.

In terms of your question about what will be the effect of this transaction to our N1.1 ratio, I will ask my colleagues now to tell me if it's possible. What is the expected N1.1 ratio in the end of the year if there will be...

Elena Shved:

In the case of?

Vladimir Chubar:

In the case if SPO will happen.

Elena Shved:

It will be 7.5%.

Vladimir Chubar:

Around 7.5 including potential growth

Operator:

And we'll take our next question from Olga Veselova with Bank of America.

Olga Veselova:

Thank you. I have two questions. Eric and Vladimir, thank you very much for the presentation. My first question is on your interBank funding. The question is really beyond the second quarter IFRS results, if you don't mind. We noticed a spike of interBank funding by over RUB 150 billion in July under Russian accounting standards, do you mind sharing with us the reason for the spike and how did your interBank operations develop in August month-to-date? So this is my first question.

My second question is...

Vladimir Chubar:

Olga, can I interrupt because I think I'd rather just answer one-by-one because otherwise, I would forget the other one. Okay, look. So in terms of your question about the seventh month of this year so July, it was commented somehow in the media by me also that yeah, there was an increase but there was an increase also on both sides. So we had some transactions came to us from the market in terms of lending from outside in the form of repo. And after we found funding for this in the market, we decided to take them on the balance sheet. So that was the reason for this increase.

In terms of August, I can tell you that there's nothing significant now in August in terms of the growth of the funding on the interBank. In terms of how sustainable or not, I can tell you that the majority of the funding were taken from the interBank market. It's quite sustainable and let's say stable – not sustainable, it's not correct word – stable. So, we have a limit from a number of the local Banks and local companies. So, we don't see any potential problems with their financing. If there will be potentially some issues with the, let's say, refinancing of the transactions from the asset side, of course, we can just stop the lending so – and that's why we will have no issues with this. But we are comfortable we are here.

Olga Veselova:

Okay. Thank you for this, Vladimir. My second question is about new regulation introduced by the central Bank in July regarding the credit rating requirements the Banks incorporate. And the question has really two sub questions, two angles. One is on funding. Did you see any in flow of funds from Banks with non-sufficient ACRA rating? And second is on provisioning. Did you have to add provisions on corporate loans which were not rated by ACRA and Expert RA from July?

Vladimir Chubar:

Thank you for the questions. In terms of inflow of deposits, yes, we saw an inflow of money coming from the corporate customers in July. Unfortunately, I cannot tell you honestly because – in terms of from which Banks this money came to us, because there was no finally so, if it's wrong, the Bank which will suffer because of rating downgrade or not sufficient rating or not, we don't know.

But we can just really try to predict that maybe yes, some of this money which came to us, the reason was very simple because some Banks lost their possibility to take this money.

In terms of provisions, it was really not material at all in terms of the ratings. Maybe about half a billion roubles, not more.

Olga Veselova: Thank you very much.

Vladimir Chubar: Yeah, thank you.

Operator: And again, if you'd like to ask a question, please signal by pressing *1. And we'll take our next question from Alan Webborn with Société Générale.

Alan Webborn: Hi, it's Alan Webborn at Soc Gen. Thanks for the call. Clearly, you've had a very active first half. I know you mentioned an amount of repo business that you were doing in the second quarter. I think that was 580 billion I heard, if you could confirm that? You also confirmed in 1Q that you felt that the corporate book would go at about 10% to 15% this year. You're clearly running ahead of that and I think in comments you made a week or so ago, you suggested that activity that pushing down the N1.1 ratio and inflating the corporate book would become smaller after the end of the first half. But what do you feel about the activity that you've been seeing recently versus what you've been saying about where you thought your corporate book was growing for the full year? That would be helpful if you could review that, some – that guidance. That was my first question.

Vladimir Chubar: Okay, that's also – thank you very much, hello, for the questions. And I will answer the first one. In terms of the growth of the loan book, I can tell you that of course, as I said, even in the first sentence in my speech in the very beginning of this call, we have seen now that we're a bit more positive in terms of the growth than it was in the beginning of this year. I also commented on it.

In terms of the reason for this, I can tell you that the biggest part of the growth was some kind of sustainable business but at the same time in the very end of first half of this year, we saw a good demand for the short-term lending

from our, let's say, blue chip corporate customers, and some amount, let's say about RUB 30 - RUB 35 billion, we gave to the customers on a like short-term basis. And a big part of this money now repaid so that's why you can just correct the growth using this figure, that was – it was short term.

And at the same time, it's relations and I can tell you that – I'm really happy to see that very often we are the first Bank where our clients, good clients, are coming and asking for their short-term money, let's say treasury money, treasury lending. Of course, the rates are not super high when we're talking about these customers or about these tenders. But at the same time, it's very good for the relations.

In terms of the end of the year, I think we can add some percentage points to our projections. When we said let's say 10% to 15%, maybe now we can say that it will be more close to 15% in terms of the growth of our loan book in this year. Of course, for us it's quite material if we will have SPO or not, if the market will be favourable for us or not. So that's why of course we will be careful and first of all capital and second of course, the growth of the Bank, the growth of the balance sheet.

Alan Webborn:

Okay, that's helpful. I think you made some comments about margin being a little bit under pressure because of this short-term funding. How do you feel about the second half of the year? Should it be progressing given what's happened to interest rates in terms of your margin?

Vladimir Chubar:

My expectation that it will be stable comparing to the first half results. So, we don't see potentially why it should go lower. Of course, as I commented on when Olga asked me the question about July of this year and that transactions were made using the interbank funding, and also given the money on a short-term basis using the repo operations, these transactions are not very marginal, honestly speaking. That's why it can be some pressure but at the same time, what I also want you to see that since this quarter or from the previous quarter, we also started to provide you with the information using some kind of more fair approach to calculate net interest margin for our Bank using net

interest income based on ARWA, average risk-weighted assets, because in our case it's much more transparent to say this.

A majority of other Banks' figures are the same, almost the same, sometimes even lower if we're talking about RWA approach. So, there was really a slight decrease from 4.4% in the end of 2016 to 4.3% in the first and second quarter 2017. So that's why I think that it will be and should be kind of stable.

Alan Webborn:

Okay, that's helpful. Could you talk a little bit about the progression in costs? It looks as if, for example, there's a degree of investment going on in the cash handling business. I mean, we understand that your business is developing but could you give us a view of the bonus payments, I think you've highlighted what the bonus had quite an impact on the second quarter personnel costs. But could you talk a little bit about where the areas are that you're investing in? Is what we saw in Q2 is a relatively high level of efficiency or a relatively low level of efficiency for you? How should we think about the business development? We can see how it is in the top line. How do you feel things are going in terms of operating expenses?

Vladimir Chubar:

Yeah, thank you for the question. It's also the area we also like to talk about. So, you're absolutely right saying that second quarter normally it's a period when we are paying bonuses. And also in addition, there were some investments we made in buying the new cars. So, we made a decision to change part of the fleet in terms of our cash handling business. That's why there was some pressure.

And once again, we don't expect that our full year CTI will be more than 27%, because normally in a third and fourth quarter we are a bit more profitable in terms of core business comparing to the second quarter. And we are expecting less cost because tax payments in Russia are based on the salary of employees. It's kind of progressive. So the biggest part of the taxes, the Banks and every company in Russia paying starting from the first quarter to second quarter and after this, of course if the salary higher than some level, the level of

the expenses, so expenses in the form of taxes are lower and lower. So that's why there will be some correction until the end of this year.

And also, we are not expecting some big costs until the end of the year because last year was very active in terms of opening new branches in Moscow and Moscow region. For this year, we're almost done in Moscow so we don't see any potential increase of the physical branches in Moscow. And when we're talking about Moscow suburb, I think that also will be not material in terms of expenses. So, answer is about 27% for the full year

Alan Webborn:

Okay, that's super. The thing that stands out so much in Q2 was the low corporate cost of risk. Is it possible to give us a view of where you think that's going? I mean, did you benefit from particular one-offs in the second quarter or is that what you think is of asset quality given the fact that you're still growing?

Vladimir Chubar:

You know, we expect that cost of risk until the end of the year will be higher than you saw in the second quarter. It's a trend, so it's nothing in terms of one-off. It's a trend we see now in the portfolio. And of course, we are growing that's why base of loans is higher. But at the same time, the quality of new lending is quite good so that's why we're not expecting it should be some pressure on cost of risk for the new generation.

Alan Webborn:

That's very helpful. Thank you very much.

Vladimir Chubar:

Thank you.

Operator:

And we'll take our next question, Marina Davies with Pioneer Investments.

Marina Davies:

Hello, everyone. Thank you very much for the call. I wanted to go back to the question about the regulatory capital ratios and just wanted to get a little bit more information. For example, if SPO does not materialise, where the N1.1 is going to be by the end of the year? And overall, what measures can you take if that still doesn't materialise because it is just reducing?

And then I wanted to ask about the influence of the new bonds you attracted in dollars at quite high rates especially the AT1. Where can you park

nowadays dollars attracted at above 9%? Yeah, so that's it.

Vladimir Chubar:

Yes. Hello, thank you for the question. I will start from the second one about the expensive dollars. Of course, there is nothing in Russia where we can invest and give some money with these rates. So that's why of course, it's much more capital and honestly speaking, currently it's – I can tell you that it's really – it was really a couple of the deals for us in the second quarter of this year because of course I think all of you are in line with the kind of a little turbulence which is now in Russian Banking sector from last week. And of course for us, it's quite a comfortable position in terms of let's say capital buffers we have.

In terms of your question about potential SPO if it will not happen, if I understand correctly your question, what can be the measures. Of course, first of all, we said it also in the last call that potentially in October, we will include RAS profit in the first level of the capital, in the base capital because once again, I want to say to everybody that in Russia, you can include your profit for some periods of the year only after you will audit it. So that's why we are not making an audit of Russian account standards profit every quarter. That's why current profit is not included. So we want to make it in October. So after October, you will see some extra addition to the base capital.

In terms of other measures, as I said before that if there will be no SPO and the market will be not good and we will decide not to proceed, of course we will be less active in terms of lending and maybe even less active in terms of the guarantee business because currently we were quite active in terms of making guarantees for our good customers. And the potential is also a good point for the core selling. But if there will be a decision not to proceed with SPO, of course, we can decrease our activity and it will make less pressure on the N1.1 ratio which is lower than maybe you want to see.

Marina Davies:

Do you have any internal target where you want to keep it?

Vladimir Chubar:

Yeah, of course. So, it seems to me I told this last time, so 7%. It's not minimum level but let's say minimum comfortable level. Of course, if we see that potentially we can do some measures and we can increase it to 7%, we can

even go to 6.5%. And it only will depend on the business projections or maybe some short lending as it was in the end of second quarter as I said when we lent some short money to our good customers.

So currently, we have 6.8% which is – I can't tell you that it's not comfortable for us. So in terms of the business we are making and the level of risk in the business we are making, we are quite comfortable. But of course, our target is to make it seven plus.

Marina Davies: So after you have capitalised the profit, you'll capitalise the first half profit, right when the results are audited in the...

Vladimir Chubar: No, nine months, nine months, for the nine months.

Marina Davies: Nine months right away, okay.

Vladimir Chubar: Yes.

Marina Davies: And where is this going to be? Okay, you can't say because – okay, okay, fair enough.

Vladimir Chubar: Yeah, of course, yeah.

Marina Davies: All right, thank you.

Vladimir Chubar: Yes, thank you very much.

Operator: And just as another reminder, that is *1 to ask a question. And we'll take our next question from Ian Centis with Invesco.

Ian Centis: Yeah, hello. Can I just ask – can you remind me: the trigger in the AT1 bond is to be compared to your N1.1 ratio rather than the IFRS CET1 ratio, is that correct?

Vladimir Chubar: Could you please repeat the question because we actually don't hear you?

Ian Centis: Right, the AT1 sort of trigger.

Vladimir Chubar: Yeah.

Ian Centis: So the AT1 has a trigger of five and an eighth percent. Is the

comparison for that the RAS N1.1 ratio or the IFRS CET1 ratio?

Vladimir Chubar: It's Russian standards, which is now 6.8

Ian Centis: Okay. And so but your CET1 ratio under IFRS is about 10% if I remember correctly from this morning.

Vladimir Chubar: Yeah.

Ian Centis: So is the difference between the two mainly attributable to the fact that you have not recognised profit under RAS yet or is it something...

Vladimir Chubar: Not only this one. First of all, yeah, first of all this one. Second is it is a different regulation because you also – as you know that in terms of provision and policies etc., etc., it's a different regulation. And that's why it can be some difference and in general to the fact. So that's why of course sometimes people are asking us about this, why it's different, but first of all it's a profit and second is different provisions, which is of course also effect the profit but before from the last years, yeah.

Ian Centis: Okay, all right, okay. And the last one is I remember the time or I seem to remember that at the time you launched your AT1 and you were saying that you were planning to do a capital raising later on in the year, you were estimating that you would be doing something like RUB 13 billion of capital raising, which would lift the CET1 ratio – actually, I can't remember now whether it was the CET1 ratio or the N1.1 ratio by 1.2 percentage points. Was that not correct? Because your colleague earlier said that in the event that you do the SPO, the N1.1 would rise to about 7.5%?

Vladimir Chubar: Yeah, it was me, yeah. It's actually correct. The amount you remember is correct. It's RUB 13 billion. So we think that maybe a misunderstanding came because I said – I also said that this figure is including the – some kind of growth of the Bank. So, it's not just only effect of only SPO without any changes in terms of our balance sheet.

Ian Centis: Oh I see. So okay, but now the balance sheet...

Vladimir Chubar: That's why I did it.

Ian Centis: Right. So, because the balance sheet has grown, the new estimate would be only to add 0.7% for the N1.1 as opposed to one point

Vladimir Chubar: Yeah, because there will be some growth, yeah.

Ian Centis: Yeah.

Vladimir Chubar: There will be some growth until the end of this year. And it's our projection including all the information we have.

Ian Centis: Okay. So, the last thing, the 7.5% projection, does that include the profit, the RAS profit that you will be able to add after the audit or not?

Vladimir Chubar: No, it was not included. When we count it after the question, yeah, it was not included. We don't know what will be the profit in terms of Russian standards in nine months, that's why we don't like to comment this.

Ian Centis: No, no, I understand. Unless you make a loss, it will be something above 7.5%.

Vladimir Chubar: Yeah, yeah

Ian Centis: Okay, great. Thank you very much

Vladimir Chubar: Thank you.

Operator: And we'll take our next question from Farangiz Rahimova with Emso Asset Management.

Farangiz Rahimova: Hello. Thank you very much. I have two questions. So I'm sorry if you answered this one but I might have missed it. What was the reason why your RWAs reduced despite the growth in assets and loans? And secondly, the Bank has announced I think it was last week that you bought back some of the I think senior bonds. Could you comment on the amount and what is the aim? Like are you trying to cancel them or are you going to hold them and potentially sell them again? Thanks.

Vladimir Chubar:

Yeah, thank you very much. Hello. I will start also from the second question. Actually, I cannot tell you the amount because I really don't know. It was not material. Let's say it's double digit in million but it's low double digit, like maybe \$10, \$20 million not more. We don't like to cancel it because of course potentially we can sell them later and because the amount is not material. I was asked by the journalist if we are going to make a buyback, kind of material buyback. I think no because of course I think that currently, the level we like to see somebody to sell us is of course not the same as people like to sell. That's why we are not sure that all this process will bring us some material amount. Last week, we just decided to support our senior bonds and also had some investments in our risk and a good ratio.

And the first question was, please remind me about the first question.

Farangiz Rahimova:

On RWAs, they came down slightly and I was wondering what was the reason? I mean which segments of the loan book are you refocusing so that consuming less risk weighted assets?

Vladimir Chubar:

No, we see now in our IFRS, it will just be little, little decrease, like less than RUB 20 billion. So, we can't tell you that it's kind of a material decrease in terms of RWA.

Farangiz Rahimova:

So yes, the decrease was on the background of increase in assets and increase in loans, that's why I was wondering is it kind of an effort to streamline the capital, i.e., kind of grow into the areas which are not as RWA-consuming or capital-consuming?

Vladimir Chubar:

Actually, we don't have an answer right now. I think we have your email. We will come back to you, okay, because –

Farangiz Rahimova:

All right, thanks.

Vladimir Chubar:

We didn't expect some questions like this. Yeah, thanks so much. Thank you, sorry.

Farangiz Rahimova:

So actually, can I clarify one thing? Hello?

Vladimir Chubar: Of course, yes.

Farangiz Rahimova: Yes. So there was a previous question with regards to how you're deploying the borrowed funds which are quite expensive over 9% and I'm not sure I got the answer. So do you mind just clarifying where exactly are you deploying this so that it doesn't have a negative carry for you or...?

Vladimir Chubar: No, look, of course, as the cash came with a rate let's say 9%, of course it's a negative carry. But we are looking at this borrowing not – first of all, not as cash. We borrowed from the market. We are looking at it first of all as capital. We are borrowing from the market. And if we are taking in mind what is the cost effect which now into making all these calculations, of course, it's a positive carry because, if we just exclude the price of the capital from this, let's say, 9%, it will have some not material but profit. So it's kind of our management approach how to see if it's a positive or a negative. But in terms of just the pure, let's say, accounting, of course it's a negative.

Farangiz Rahimova: Okay, thank you

Vladimir Chubar: Thank you.

Operator: And we'll take our next question from Ruslan Gadeev with Raiffeisen Bank

Ruslan Gadeev: Yeah, hello. Thank you very much for the presentation. Basically, based on your Russian GAAP accounts of July, I would like to ask if you could tell us what are the fluctuations you observed in August. Is there any significant outflows/inflows especially on the customer deposit side? And if you also could share this information, did you use the central Bank REPO line in August?

Vladimir Chubar: Hello. Thank you for the questions. In terms of August, nothing material at all. In terms of outflows of the customers' deposits, it's also nothing. So we see even inflow – last week, there were some turbulence on Wednesday and Thursday. But it's really not material. There was much more calls to our contact centre, people asking some information but that's all.

And in terms of your second question...

Ruslan Gadeev

Yeah, it's about the central Bank REPO line please, if you could...

Vladimir Chubar:

Yeah, we didn't use, no. No really, we are full of liquidity. Currently, we are net lenders that's why no. We don't see why we should do it

Ruslan Gadeev:

Thank you.

Vladimir Chubar

Yeah, thank you.

Ruslan Gadeev:

Thank you very much.

Vladimir Chubar:

Thank you.

Operator:

And we'll take our next question from Mikhail Galkin with Goldman Sachs.

Mikhail Galkin:

Hi. I have a question and obviously, thank you for this call. A question about the systemically important Bank status which you currently don't have but who knows maybe central Bank revises the list and includes you at some point. Any thoughts on this? Do you expect to be included? Do you see any benefits? Or on the contrary, I think I guess central Bank applies slightly elevated capital ratio criteria to those Banks so maybe there's downside as well. If you could take that one and I have one small follow-up. Thank you.

Vladimir Chubar:

Yeah. Yeah, thank you. Thank you for the question. Hello. You know, actually, it's one of the frequently asked questions about this SIFI status. So currently now, we have not this status. But at the same time, there is certainly open method how we can calculate this. The reason actually why we are not in this list, as was said by our colleagues, that we are not covering many regions in Russia.

At the same time, my personal view, and I shared this many times with the investors, that we are not pushing it. So if there'll be a decision from central Bank that we will be included in this list, of course, yes, okay. We'll say fine. But if not, not.

So in terms of advantages or disadvantages, of course, there is some big advantage that it's a kind of status which is providing you with higher level of

trust from the local investors, also I think from the international investors who is investing in the Bank. But you're certainly right, at the same time, it's providing you with more responsibility in terms of buffers.

So I can tell you, this comparison for me is like if the rain will start, I will just take an umbrella and just I cannot say anything to the weather. So if there will be a decision from CBR, we will accept it and we will just start to work in a new reality that we are a SIFI Bank, that's all.

Mikhail Galkin:

All right. And just to follow up on this corporate audits, I'm a little bit confused. So when was the last time you audited the profit for N1.1 and hence, which profit will be included? I was thinking you're going to include only the third quarter in October but it sounds like you're going to include the whole nine months in October.

Vladimir Chubar:

The last time we did audit in terms of Russian standards was the 2016 full year results. That's all. So in October, we are going to make an audit for a nine-month profit. So nine months will be included.

Mikhail Galkin:

Makes sense. Okay, thank you very much.

Vladimir Chubar:

Thank you for the questions. Bye.

Operator:

And just as a final reminder, if you would like to ask a question, that is *1. And we'll take our next question from Yulia di Mambro with Federated Investors.

Yulia di Mambro:

Hi, thank you very much for the presentation. I just have a few follow-up questions. So firstly on your classification as a SIB, is it scheduled for you that the CBR does every year or could you please explain the process a little bit and when do you expect the CBR to decide whether you would be classified as a SIB or not? That's my first question.

Vladimir Chubar:

Could you please repeat it because I didn't get the idea.

Yulia di Mambro:

So in terms of classification as a systemically important institution, how frequently does the CBR review that list and have they done that already or last

year?

Vladimir Chubar:

No. It seems to – it's also kind of official information. It seems to be in autumn so we expect that – normally they are making this revise in autumn every year. So now it's August so maybe in the next couple of months it can be done. Last year, it was the same. So they said that they are not going to change the list.

Yulia di Mambro:

Okay, thanks. Just briefly on what you've been doing in July and August in terms of the extra deposit inflows that you've seen, what sort of assets did you invest these deposits in? Is it kind of more short-term regular repos or is this something a bit longer term? So if say the situation with some of the other Banks were destabilised, could these deposits leave and how easy would it be for you to unwind the request of funding assets?

Vladimir Chubar:

Yeah. It would have a difference. So nothing – let's say there's no concentration in some areas in terms of tenors. So actually, there was inflow of deposits a bit more than RUB 50 billion. So the amount is not really super material for the Bank. Some of this money came to the lending – to the corporate customers. Money we attracted in let's say July was much more long-term money, long-term deposits. Some of them came to short-term lending, some of them to long-term lending.

And just commenting on your question in terms of some other Banks', let's say, liquidity. So we are protecting our liquidity position via many different instruments including of course quite a huge amount of the bonds, Eurobonds on the balance sheet or off balance which we just took before by using the repo operations. So that's why we are let's say quite sure that any turbulence in the market will be covered by our liquidity buffer.

Yulia di Mambro:

Okay, perfect. And just my final question is on your Russian accounting standards profit year-to-date. So let's say to 1st August, if you were to include that in your capital ratios, what would be the benefit of that to your N1.1 ratio?

Vladimir Chubar:

If we include, it will be I think just 0.3 I think something like this or 0.4.

But you're asking about 1st August, I think 0.55 something like this just like I'm counting it in my mind if we just use the profit on seven months.

Yulia di Mambro: Perfect. That's great. Thank you very much.

Vladimir Chubar: Thank you.

Operator: And there are no further questions in the queue at this time.

Elena Finashina: Thank you very much for being with Credit Bank of Moscow on this call today. Our IR team will be happy to follow up with any clarifications if they are required. So thank you again and wish you a very nice end of the day.

Vladimir Chubar: Thank you very much.

Eric de Beauchamp: Thank you. Bye-bye.

Operator: Again, this concludes today's conference. Thank you for your participation. You may now disconnect.