CREDIT BANK OF MOSCOW

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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 Full Year 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! We are happy to welcome you today to the announcement of full year 2017 financial results call of Credit Bank of Moscow. Thank you for following our performance. Our traditional speakers today will be CEO of the Bank Vladimir Chubar, who will start the discussion from a brief highlight of the key financial and business results of the previous year, and Eric de Beauchamp, senior vice president of CBM who will present in detail the financial performance of the Bank. Our presentation will be followed by a traditional Q & A session. You're welcome to jump in with any questions. Now I turn the floor over to our first speaker. Vladimir, please, go ahead.

Vladimir Chubar: - Thank you, Elena.

- Good afternoon, ladies and gentlemen. Thank you for joining us today at CREDIT BANK OF MOSCOW full year 2017 financial results announcement. Last year was full of challenges for the banking sector, on one hand, and also great opportunities for the strongest market players, on the other hand. CBM traditionally manages to take advantage of the market even during turbulent periods and last year was not an exception: we grew our balance sheet, we improved risk metrics, we acquired status of a systemically important bank, we significantly strengthened our capital, we gained leadership in the international markets among Russian banks.

- All this was achieved against volatile macro background putting banking sector under pressure of both internal and external factors: decreasing interest rates and tightening competition constraining margins, large-scale enforcement in the banking system provoking nervosity, sanctions and compliance issues bringing in uncertainty, sluggish economy growth challenging active diversified development. Our financial results serve as evidence of our success in addressing all the mentioned issues and we are happy to report today on strong development of the Bank!
- I suggest that we start from **slide number 2**.
- Profit increased by almost 2 times comparing to full year 2016 and reached 20.7 billion roubles following business expansion and risk metrics improvement.
- Profit growth is also supported by traditionally excellent operating efficiency with cost to income ratio of 26.8%.
- Net interest income as well as net fee and commission income have demonstrated growth of over 12% each, with fee income gaining more weight in the operating result of the Bank in line with our strategy.
- Net interest margin has improved in the last quarter of 2017, with the full year result of 2.9% remaining slightly below the 2016 ratio in the context of higher liquidity buffer in the assets and downward trend in the interest rates.
- Net interest margin on average risk weighted assets has marginally increased to 4.5%, being relatively stable during 2017.
- Return on average equity reached 17.8% being consistently at high teens level during last year.
- Loans to customers increased by 22.8% from the end of 2016, and this growth comes from the corporate loan book with focus on larger corporates.
- NPL ratio is stable at 2.4% with the cost of risk having decreased to 2.5% from 4.6% for full year 2016. General portfolio risk metrics keep on improving in line with the general market trends with only one name from industrial construction sector having visible effect on the NPL ratio in the last quarter of the last year.
- Strong capital position was supported by quite a few capital raising exercises

last year, including Tier 1 and Tier 2 instruments: Tier 1 ratio increased to 15.0% from 9.4% following 14 bln roubles SPO on MICEX in October last year and also 700 mln Dollars perpetual Eurobonds placement in May; total capital adequacy ratio of 23.4% is now one of the strongest in the market following receipt of 22 bln roubles subordinated deposits from corporate customers and placement of 600 mln Dollars Tier 2 Eurobonds in April 2017.

Now let's move to the **next slide** for the business update.

- Growth of the corporate loan portfolio was almost 30% last year bringing its book value to 731 billion roubles.
- Our lower risk appetites in retail business are evidenced by a 13% decrease in the retail loan book last year.
- Composition of the loan book in terms of the business lines has changed during 2017 in favour of higher weight of corporate business, which now makes roughly 90% of total loans. Such explicit migration is totally in line with our strategy and reflects our focus on top-quality large corporate clients.
- Sector breakdown of corporate loans also evidences our priorities in terms of focus on larger corporates from less risky segments: oil production, trading and refineries dominate in the loan book with 25% and 18% weights, respectively. Other large contributors are residential construction making 8% of loans, automotive sector making 7%, property rental and food and farm standing at 6% each.
- In retail business our priorities remain unchanged with cash loans and mortgages forming 72% and 23% of total retail loans, respectively.
- Our product mix and capabilities to serve individual needs of our clients, especially large ones, have significantly improved with development of the investment banking business on the platform of CBM starting from the second half of 2017. With the new experienced team headed by my deputy Oleg Borunov we expect this new business line to become a new growth driver, both in terms of business volumes and profitability, and to bring substantial synergies to our corporate and retail business.

- Now I am pleased to pass the floor to Eric for a more detailed financial results review. Eric, please go ahead.

Eric de Beauchamp:

- Thank you, Vladimir. Good afternoon, ladies and gentlemen. I would like to draw your attention to slide number 4 with a detailed overview of the Bank's income and expenses that showed positive dynamics in the year 2017.
- As you can see on the top-left diagram, operating income increased by 6% y-o-y generally reflecting an expansion of lending business volumes. The increase was coupled with positive changes in operating income structure – the input of "net interest" and "fee and commission income" increased from 88 to 93% y-o-y, which is very representative, especially at the backdrop of increased competition in the banking sector and reduction of interest rates. Decreasing deposit rates provided support to the "net interest income", as the maturity of deposit base is shorter than maturity of loans.
- In the amount of "other net operating income" two significant "one-off" deals are accounted. The first one is early redemption of the subordinated Eurobond due in 2018, which had a negative impact on the operating income. The second one, is a profit generated by the sale in December 2017 of our subsidiary "CBM Ireland Leasing Limited" (an SPV which was established for operating leasing of aircrafts).
- On the Left bottom diagram, we see that the "net-fee-and-commission income" increased by 12% y-o-y, retaining its share in total operating income. Increased competition made the expansion of fee-and-commission income more challenging for the bank. The increase is mainly due to brokerage income from our "Investment Banking" business-line which was launched in 2017.
- As you can see on the upper right diagram, operating expenses increased slightly by 12% y-o-y. The growth is mainly due to employees remuneration, that increased to 9.5 bn RUB, due to payment of annual bonuses - in comparison, in 2016 the Bank did not pay bonuses- and the establishment of Investment Banking division, that implied attraction of new qualified

headcounts from the market. Sound operating income, coupled with low administrative expenses enabled the Bank to maintain the cost-to-income ratio at a low level of 26.8%.

- The “net-interest-margin” trend is presented on the bottom-right diagram. The net interest margin remains under pressure, as, firstly, the Bank is still maintaining a significant part of its assets in low-risk-highly-liquid instruments and, secondly, increased competition on the market put pressure on interest rates. As you can see, during the reporting period the NIM decreased from 3.3 to 2.9%. Meanwhile, the calculation of the net-interest-income, as a percentage of the average-risk-weighted-assets shows a 4.5% level, which is stable and in line with the market average.

Now, I suggest turning to **slide number 5** with a breakdown of total assets.

- In the reporting period, total assets grew by 20%. In absolute terms, the net loan book showed an increase of 23% in comparison to December 2016, and liquid assets, including “cash and cash equivalents”, “due from credit institutions” and the “securities portfolio”, grew by 21%. The loan portfolio growth was mainly driven by the increased contribution of larger corporates from the “oil and chemicals” segment.
- One of the main instruments of liquidity management are REPO transactions, which amounted to 802 billion rubles 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 level of 115%. Additional unused liquidity sources amounted to 419 billion rubles as of 1st of March 2018.

Now, let’s move to **slide number 6** on the loan portfolio quality. The portfolio risk metrics showed positive dynamics on a y-o-y basis, with some fluctuations within the year, that does not affect the improving trend.

As described in the upper left diagram, the loan portfolio coverage-by-impairment-allowance increased to 6.1%, while gross loan portfolio stabilized at the level of 819 billion RUB.

- As shown on the upper-right diagram, during the 4th quarter of 2017, the loan loss provision grew from 44 bn RUB to 50 bn RUB. Loan portfolio quality keeps improving except for 3 big corporates that drove the increase of loan loss provisions. The first customer is an industrial-and-infrastructure-construction-company which was shown in “impaired not overdue” bucket as at the end of 2016, and moved to the NPL category in 2017; secondly, the increase of “impaired not overdue” loans category was mainly due to one corporate customer operating on the pharmaceutical industry. Finally the deterioration of financial situation of a company operating in the car industry, leaded to its exposure moving from the “impaired not overdue” to the 30-days-overdue category during the last quarter of 2017. The bank still closely monitoring these three companies.
- The bottom-left diagram shows y-o-y decrease of CoR, from 4.6% at the end of 2016 to 2.5% at the end of 2017, with flat NPL ratio.
- The bottom-right diagram depicts the level of related-party-lending, that is low and stabilized at a level of 2.8% of the total gross loan book.
- Now, I suggest turning to **slide 7** with more details on corporate and retail portfolio risk metrics. Corporate gross loan book increased from 566 to 731 bn RUB as of YE2016 and YE2017 respectively. The quality of the loan portfolio keeps improving, that is confirmed by CoR level decrease to 2.3% and provision charge that comprised 14.9 bn RUB compared to 22.6 bn RUB in 2016. The increase of NPL ratio and connected LLP ratios deterioration is attributable to separate corporate customers as mentioned earlier.
- On the right, the retail loan book NPL demonstrates a continuing downward trend and decreased to 5.6% at the end 2017 on the backdrop of controlled loan portfolio reduction to 88 billion RUB. The cost-of-risk also decreased notably to 3.9% to be compared with 6.5% as of the end of last year, as a result of improvement of retail loan book quality.
- The next slide, number 8, illustrates the funding structure of the Bank. Total liabilities increased by 17% to 1.7 trillion RUB. The deposit base, which accounts for 55% of the liabilities, showed positive dynamics in the reporting

period. Corporate deposits grew by 48% to 651 billion RUB. At the same time, retail deposits increased by 17% to 291 billion RUB.

- Deposits by credit institutions were mainly represented by REPO transactions, while securities provided as collateral under REPO amounted to 631 billion RUB and the value of these securities comprised 118% of the underlying value of such deals.
- Bonds repayment schedule is comfortable for the Bank, with the bulk of international debt due after the year 2020. The maturity schedule is now even more favorable after the placement of 500 million USD senior eurobond in the beginning of February 2018. This new issuance with 5.5% coupon rate became the lowest in the Bank's entire Eurobond market history and among all 5-year Eurobonds issued by Russian privately-owned banks.
- Now, let's proceed to the final **slide, number 9**, on the Bank's capital. The year 2017 was very active for the bank in terms of capital raising, with significant transactions closed this year. During the 4th quarter of 2017, the Bank realized an SPO on the Moscow stock-exchange, and attracted subordinated deposits from corporate customers. As a result, the bank closed the year with comfortable capital position, allowing to fulfil the new capital buffers applicable to the systemically important banks from the January 2018, and to ensure further business growth.
- It is also worth mentioning that the "8.7% N1.1 capital adequacy ratio" as at 1st of March, does not include Russian profit for the 4th quarter of 2017, which will be reflected in the Common Equity Tier 1 Capital after the completion of audit of Russian accounting figures.

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

<u>Operator:</u>

- Thank you very much, sir. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit one on your telephone. Please ensure that your 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 star two. Again, please press star one to ask a question. We will pause for just a moment to allow everyone to signal. We will now take our first question from Yulia Di Mambro from Federated. Please go ahead. Your line is open.

Yuliya Di Mambro: - Hi, Vladimir. Hi, Eric. Thank you very much for the presentation. I have a few questions, please. First, on your asset quality. Would you be able to give us a little bit more detail on those three exposures that you mentioned during your presentation? What sort of level of provision coverage have you now built up and what's the outlook for 2018? And generally, what sort of cost of risk do you expect for 2018? That's my first question. My second question is on your liquidity.

Vladimir Chubar: - No, can I – sorry, because it's better to – just to answer one by one because when you finish with the second, you forget the first one.

Yulia Di Mambro: - Sure.

Vladimir Chubar: - So, the first question was more about our forecast in terms of asset quality. So, currently, we are expecting 2018 will be in line with last year in terms of cost of risk. We are expecting in the level of 2% to maybe a bit more than 2%. But it will depend much more on the general situation in the Russian economy and the situation with the, say, sanctions, all these topics which really now, I'd say, discussing by other people in Russia and also abroad. So, in terms of the coverage of the provisions for the loan portfolio, we are also expecting to keep it on the same level. So, we are not in a position to cover it more because we feel the current level is comfortable for the bank to cover potential risks. And also, I didn't hear your question about the, let's say, NPLs and what were the reason to increase of NPLs in the last quarter, but also I was asked this question by another investor. They are just one company and we are now in a very deep process just to solve this issue, and I think that with the next, maybe, few weeks these troubles will be covered and this company will pay or sell or something like this. So, it's not a big problem for the bank.

Yulia Di Mambro: - Understood. Thank you. And then, just on the pharmaceuticals exposures that you mentioned, which is now impaired but not past due, what's your outlook for that exposure? And then for the third one, which I missed, which industry was the third exposure in, the one that's now past due by 30 days?

Vladimir Chubar: - Construction, infrastructure construction for the third one.

Éric de Beauchamp: - The third is a – it's a car –

Vladimir Chubar: - It's a car dealer which are discussed now in media every day.

Yulia Di Mambro: - And what sort of resolution do you expect for the pharma one and the car dealer?

Vladimir Chubar: - Now, the car dealer actually, I think that's – the situation now is not under our control. It's much more under control of another big Russian bank which has much higher exposure and we're just trying to do something now with this company. So, we feel that current provision level which we formed in the last quarter of last year is covering our losses.

- In terms of pharmaceutical company, I think you're familiar with this situation because it was highlighted in information you can receive from rating agencies who is covering us. And also, we had to make the high provision with this company on the last quarter. We are not expecting that potentially it can be much, much higher but also we are not in a position to overestimate or underestimate the potential influence which this loan can have on our balance sheet. So, now we are trying to understand what is the best way to work with this company. Also, you maybe read the information that CBM had some pressure on the company, so they changed the management. So, of course, it's not because CBM but maybe it's because we asked the shareholders many questions about their future of the company, about the potential of the company. So, that's why they made the decision to change the management. But at the same time, we're also not in a position to say that it's just a loss for the bank because companies are doing better than last year. So, I mean, in 2017 we saw some improvements. And your further question about liquidity you said?

Yulia Di Mambro: - Yes. Thanks very much for that. So, just on your liquidity, I've seen headlines that you've recently raised $400 million syndicated loan and I just wanted to understand the purpose of doing that because it looks to me like you still have a lot of liquidity and that, if anything, it's actually increased in Q4 if we look at your cash balance. So, if you could share a bit more on that syndicated loan and what you will use the proceeds for and what was the cost and the term of that loan.

Vladimir Chubar: - Yes, thank you for the question. There are many reasons why we decided to continue our cooperation in terms of syndications with international banks. First of all, of course, we want to be usual suspect, usual participant in this market and we want just all the banks who decided to participate to cover us, to look at our risk and just no to forget about us. In terms of business reason, you're absolutely right that the bank has a lot of cash on hand but it's also important to mention the big part of the cash we have. It's a short-term money we have from our customers. And, of course, if we are talking about the syndication, it's much more stable funding for us. Also, we should not forget about the foreign exchange – about the foreign currencies in our balance sheet, in our liability side. I think you are also familiar with the fact that we have some assets which has US dollars or euros as a currency. And, of course, to fund this assets for us is better to raise dollars or euros and not to make swap operations which can have extra pressure in the capital or which can bring some extra expenses to the bank. In terms of the price we pay for this, we cannot disclose this because this information is not public. It's the part of our agreement and this deal is not public, part of the agreement with the participants. But as I said, the price is lower than it was ever before.

Éric de Beauchamp: - It's worth mentioning that, so we have like a syndicate but at the same time in March we repaid for the legacy syndicate which was maturing in March that we attracted one year ago for $500 million. In terms of debt money, we have minus 500 and plus 400 million.

Yulia Di Mambro: - Understood. Thank you. And out of your cash on the balance sheet, what percentage of that is held in foreign currency?

Vladimir Chubar: - We don't have this actually now with us. I think we can just come back to you and say this because it's not in our hands.

Yulia Di Mambro: - Great. Thank you. And just one final question for me. So, you mentioned that your Russian accounting standards, capital ratios don't include key for profit yet. How much is that going to add to the ratios?

Vladimir Chubar: - We are expecting it add about 40, 50 b.p.

Yulia Di Mambro: - Great. Thanks very much.

Vladimir Chubar: - Thank you.

Operator: - Thank you very much. We will now take our next question from Alvin Chew from Trend Capital. Please go ahead. Your line is open.

Alvin Chew: - Hi, Vladimir. Hi, Eric. I just want to get clarification so that I know I understand it completely. So, for the three problem loans, the first one is to an industrial construction company. And this company has already defaulted and you have classified it as an NPL. Have you made a specific provision for this? And then for the other two situations, the pharmaceutical company and the infrastructure construction company, have they defaulted or they are just 30 – they are 30 days past due, right? So, have you made – again, the question is, what are you doing on that front and have you made specific provisions for these two companies?

Vladimir Chubar: - All right, yeah –

Alvin Chew: - And then, yeah, my next question is on net interest margin. But, yeah, please address this question first.

Vladimir Chubar: - Yeah, yeah. Hello, Alvin. Look, I'll answer your question once again just to make some clarification. These three borrowers from different segments. The first one is infrastructural construction. So, this company was in impaired loans and it came to the NPLs. In terms of provisions, we see now that the current provisions are fair and so the provisions we made on the year end are fair and the bank will not have much for losses.

The second one is a car dealer. So, maybe this is kind of the misunderstanding. The car dealer which is suffering now and which lost all the contracts with car producers and maybe you saw the information that CBM and some other banks decided to go to the court with this company. So, also, we had some provisions, some specific provisions, they are quite high and we also thinking that these provisions are covering our potential losses.

And the last one is the pharmaceutical company, the ticket is quite big and also there is a specific provision. So, this company is not in a list of the, let's say, usual provisions. And, as I said, potentially the bank may increase the provisions in this company this year and potentially it can be one of the main, let's say, sources for the provisions this year. But it's still a bit uncertain because it will depend on the situation, on the financial situation with this company which we'll see – which we will see on half year 2018. So, it's quite important for us what will be the trend in this company.

Alvin Chew: - So, for the latest two cases of pharmaceutical and a car dealer, they're still impaired but they're not been reclassified as NPLs or they've already been reclassified?

Vladimir Chubar: - The car dealer is NPL?

Elina Finashina: - Yeah.

Vladimir Chubar: - Is in NPL list and – impaired.

Elena Finashina: - Yes, impaired.

Vladimir Chubar: - The car dealer – the car dealer is impaired lease but I think on the first quarter, it will be already NPL. But when we are talking about the pharmaceutical company, it's just impaired but not overdue, and we're not expecting this company will be overdue, the loans of this company will be overdue.

Alvin Chew: - And sorry, Vladimir, so for these three companies, specific provisions have been made or just general?

Vladimir Chubar: - Specific. For all these three companies, the provisions are specific. Yes.

Alvin Chew: - Okay. Okay. And then for the first –

Vladimir Chubar: - It's on the individual –

Alvin Chew: - – company –

Vladimir Chubar: - It's on the individual basis.

Alvin Chew: - Okay. All right. Individual. Okay. And for the first one, the infrastructure construction company, what are you doing? I mean, you mentioned just now that you are working with the company and they could be filled of something. Are you reprofiling their – rescheduling their repayments or are you looking to sell, you know, the security or the collateral? What are you doing on that front?

Vladimir Chubar: You know, the question is that we are now working on the situation can be the day they repay the loan with some discount or it can be their – the sale of this loan also with some discount. But anyway You know, the question is that we are now working on the situation can be the day they repay the loan with some discount or it can be their – the sale of this loan also with some discount. But anyway, the discount is covered by the provisions we already made; so, we're not expecting some extra pressure from this loan on our capital. , the discount is covered by the provisions we already made; so, we're not expecting some extra pressure from this loan on our capital.

Alvin Chew: - Okay. All right. And for the pharmaceutical company, what are you doing on that front? You're discussing with the company. Again, the reschedule of the payments or what are you doing?

Vladimir Chubar: - No, the situation is that the company had quite aggressive and active – and investments they made during the last three or four years and due to the fact the Russian economy just faced some issues and there was a decrease of the activity from the – from the consumer demand, the company also faced some issues. And now we had no rescheduling, so now the loans we have for the company are paying on time. But also, we have to bear in mind the fact that without our, let's say, support, the company potentially can have some troubles. So, their operational model is quite simple, so they are just buying the medicine and selling them; but at the same time, currently, company, as I said, they made many investments and not all of these investments gave them success. At the same time, I just wanted to mention that you should not forget that 15% in this pharmaceutical company, 15% shareholder is Walgreens Boots Alliance, and of course, they know what is the situation with the company and also they are a bit part of the discussion what can be the future of the company.

Alvin Chew: - And this one has already been classified as impaired or NPL sort of –

Vladimir Chubar: - It's impaired. Yeah, actually in the – yeah. In the last quarter of last year, it was

Alvin Chew: - Right.

Vladimir Chubar: - Right, already impaired. Yes, correct. Actually, that's the only reason why impaired loans was increased.

Alvin Chew: - All right. And my second question relates to the net interest margin. Obviously, your net interest margin has trended down and it's because of the focus on repos. Now going to this year, and given by the fact that, you know, Russian interest rates are low, how do you intend to actually, generate high – in other words, interest margin or you expect the interest margin to be at this level so – or decline further?

Vladimir Chubar: - We're expecting it to be stable on the current levels or maybe with slight decrease, it will depend of course on the – how fast and rapid will the Central Bank in terms of decreasing of the key rate. So, if it will be the level which now is, let's say, market consensus, of course, in this case, we're expecting the margin will be stable with a slight decrease. If CBR will be more aggressive, which we are not expecting, of course, it can be more – it can have more pressure on the margin. But it will be of course the situation which all the markets, all the banking system will face.

Alvin Chew: - I'm thinking you can actually ramp up your corporate lending or I mean, as in, like, corporate loans to actually, you know, raise your net interest margin or you're not looking to do that, right?

Vladimir Chubar: - You know, in – when I'm talking about the corporate lending, of course, it's a two sides of one coin, you know, because on one hand, of course, there's a higher margin than, for example, in some other businesses potentially and it's – it looks like it's more predictable but at the same time, as I said before many times, the competition is quite high. And in many, many borrowers, absolutely in the position that after every decrease of the key rate, they started the process of making an auction with all the banks they have as lenders and try to get the best price. So, maybe two years ago, it was only preference of bigger,

bigger tickets. But now even medium companies also start to do it and trying to manage the cost of funds and using the high competition on the banking sector.

Alvin Chew: - All right. All right. Thank you, Vladimir. Thank you, Eric.

Vladimir Chubar: - Thank you very much.

Éric de Beauchamp: - Thank you.

Operator: - Thank you very much. As a reminder, to ask a question at this time, please press *1. We will now take our next question from Alan Webborn from Societe Generale. Please go ahead. Your line is open.

Alan Webborn: - Hi. Thanks for the call. Can you just talk us through the sort of the 4Q performance on the sort of line by line basis. And clearly your net interest income jumped quite nicely in Q4 and the sort of loan balances seem to be relatively the stable or actually down a little bit from what I can see. And so, can you just talk us through the dynamics of Q4 in relation to the net interest income? And it looks a little bit as if the margin might have gone up a bit in Q4. And I guess that was probably the cost of funding coming down. Can you just talk us through the dynamics of that?

- I think you talked about a one-off gain in Q4 from sale of your Irish leasing business. Am I right that that payment in other income, and if so, how much was that? That would be helpful.

- Two other questions, about the sort of 2% plus cost of risk in 2018 include the likely switch of the positions for your pharma company exposure or not. And clearly after, I think, your corporate loan growth in 2017 was, if anything, a little bit higher than you were targeting. And are you able to give us some indication about, you know, what, sort of, you know, balance sheet loan growth you think is possible for the 2018? Are there any constraints other than competition, just to give us an idea of a very strong year in 2017 where you think might be able to go? And also, do you feel that the shrinkage of the retail book is finished or, you know, will be on a sort of sector basis that the demand of retail lending is clearly picking up? I think you sort of mentioned something on that in the past, but clearly, balances are still falling. So, something on that thoughts would be very helpful. Thank you.

Vladimir Chubar: - Thank you for the question. I will start with a couple of last questions and after this, I will give it forward to Eric. So, in terms of the forecast for this year in the terms of the growth of the corporate book, we're expecting, let's say high single digit growth. So, I think the 10% is potentially achievable but with the current, first of all, competition and also what we saw in the first quarter, which already almost finished and will finish in couple of days, so that there is no some fantastic results which we can share with you. So, the growth will be much slower than you saw in 2017. In terms of the retail ending, I just want to tell you that in a few weeks – actually on next week, we have strategic session, internal strategic session about the retail business, about the forecast about the future. And actually, the key idea of this session is just to also to answer the question you just asked me. So, we are in a position just to reverse it or not because maybe you remember about one year ago I thought that it's the time to do it but it's the time to reverse the situation and start to lend more actively in terms of the retail segment, retail business, but business was not ready and it was their choice and their decision to concentrate more on the fee income products, and commission products than just to pure lending. And we really – my position now just is that they were more right and more correct because the result which was showed by the retail segment last year was very good and the quality of the retail book is really better than we expected. So, the answer will be soon. I think on the next call, of course, we will be happy to share it with you and we'll be happy to share with you the strategic – the pillars of the strategic ideas which we have in the retail book – in the retail segment.

Alan Webborn: - Okay. Thank you.

Vladimir Chubar: - The first question was about –

Éric de Beauchamp: - Yeah. We're getting the first quarter for this year If you look at the bottom line from the net profit is weaker than during the previous quarters. So, let's say among the positive items what I mentioned, so we still have the good dynamics of commission income. If you look at, say, other quarters. And for us, it's really a priority to continue to increase the path of fee and commission income in the total operating income. So, this is safer for the next year also targets. We have, let's say, – let's say putting pressure on the bottom line is definitely additional cost of fee. If you look at the fourth quarter, we had additional provisions, mostly due to the fact, – in fact, there's two to three customers we mentioned, let's say before, it's not the trends of let's say quality devaluation. Overall, Vladimir mentioning, so, we took provision for this year. So, we estimate that the coverage is okay and we – that the impacts, at least of two out of three customers from the 18 should be really limited. On retail, we saw that we had – we see that's a real improvement of quality, and the cost of fee also decreased. So, in the negative cost of fees. And also the expenses as we mentioned especially on the salary and containment cost. We let's say which we have paid last year we have not paid two years before in 2016, plus increasing headcount on the investment making division. So, now if you look at the splits of fee and commission income, you see that the brokerage operation is growing, let's say, for this year and it's – we anticipate that let's say the investment making division will be one of the main contributor of the fee and commission income in the future.

- So, I mean, this is for the first quarter. On top of this, you'll see which is also not standard the slight decrease of the corporate loan book, let's say, from the end of September till the end of December. It was the stagnation which is due to the fact that we have, let's say, credit coming to maturity in December. And it also put pressure on the interest income.

Alan Webborn: - Okay. But in your – from what I can see, your interest income was obviously up quite nicely in Q4 and if I got something wrong. So, what was driving that sort of sequentially? Maybe something you know –

Éric de Beauchamp: - I mean, we –

Alan Webborn: - – funding cost?

Éric de Beauchamp: - As I mentioned, the fund of cost is definitely in the context of CBR decreasing the key rates. Let's say the deposits repricing is faster than the credit repricing and we really benefit from this.

Alan Webborn: - Okay. So, on a stagnating loan book, maybe the net interest income trend was mainly from lower funding cost in Q4?

Éric de Beauchamp: - Exactly. You're right. Yes.

Alan Webborn: - Okay. And are you able to tell me how much the one-off gain was and what was in – was it other income?

Éric de Beauchamp: - Yes. So, you can see it on the other income expenses. I mean, at the end of December, we sold the SPV, through which we were owning and giving to leasing six aircrafts. So, in terms of impact on the P&L, it was roughly plus one billion rouble.

Alan Webborn: - Okay. That was actually helpful.

Éric de Beauchamp: - Generated by this seller

Alan Webborn: - Okay. And the last thing which slightly the the 2% risk cost for 2018, do they include attempt to further position to the pharma company that you alluded to earlier or is it before that?

Vladimir Chubar: - Yeah. As I said, as I said, the potential provision which we should make for this company if we should make it for the company for the loan, yes, they include – I also said that one of the drivers why it will be not – almost no decrease of the cost of risk in 2018 comparing to 2017.

Alan Webborn: - Okay. That's very helpful. Thank you. Thank you very much.

Vladimir Chubar: - Okay.

Operator: - Thank you. We will now take our next question from Henrique Morato from Aberdeen Standard Investments. Please go ahead, your line is open.

Henrique Morato: - Hello, good afternoon. Just a follow-up question on the retail side but more on the funding side. Just conceptually, not just talking about the results, but what is your view on, you know, potentially increasing the share retail deposits in your funding mix? And potentially also tying that with an increase on the effort side. My point is that just trying to understand how you see retail versus corporate in the sense that, you know, corporate has been great for you guys but I think this quarter shows that when things go wrong, results can be a bit lumpy on the NPL front and also the funding side gets a bit concentrated. So, what are your thoughts on potentially diversifying the funding mix as well as the effort side? That would be interesting to hear that from you. And then I have another question. Thank you.

Vladimir Chubar: - Good evening or good afternoon. Thank you. So, look, answering your question about the retail, I just want to repeat what I said. In terms of the strategy of retail and what you want to see from the retail, I think I really prefer to share this with you in the next call where if somebody wants to talk about this maybe in a month or in a bilateral call because it will just really depend on the brainstorm we have in a couple of weeks and the results of the –

Henrique Morato: - Okay.

Vladimir Chubar: - – brainstorm. So, that's number one. Number two –

Henrique Morato: - Okay.

Vladimir Chubar: - – in terms of the funding – of course the funding from the retail side, it's – currently it's – it became really the same in terms of price as, for example, the corporate book because it was really different time. And in last year, some months we have – we had corporate more expensive, some months we had retail more expensive. So, – but now, currently, they almost equal. But at the same time, as we also said that – as we also saw that the retail really more stable than corporate. And, of course, when there was quite turbulent time last year in September-October, the retail book was, let's say, more stable and we spent really less time to talk to the customers about the stability of the bank. In terms of combination of retail and the corporate deposits, I think that there will be no big change because retail deposits, they are much more – it's not so easy to adjust to decide to increase it rapidly and do it because it's a big volume of the customers. And if after you make a decision, you should just wait for two, three months until the people will start to be more active with your bank. So, it's more – so, it's less –

- So, you understood I hope. And if we're talking about the corporate, of course, it's much easier just to be active, let's say, in this market and it's much more about the rate. So, if we just want to be more active in this market, you can just provide a bit higher price like 10 b.p. for example to the corporate customers and they will come to you. They are very cynical and very, let's say –

Éric de Beauchamp: - Pragmatic.

Vladimir Chubar: - Pragmatic, yes.

Henrique Morato: - Yes, okay. No, that's fine. That's fine. Thanks for that and we can talk about retail in general later. And then just a final question. Sorry, probably if you had this question many times before. But on the subordinated deposits that you got from corporate clients last quarter, the terms of these subordinated deposits are similar to the Tier 2 bonds, the 10-year deposits?

Vladimir Chubar: - No, they are – the deposits we raised last quarter, they have term four to nine years, so, it's much longer than –

Henrique Morato: - Four to nine.

Vladimir Chubar: - Yeah, four to nine.

Henrique Morato: - Okay.

Vladimir Chubar: - Actually, yeah, this information was published over, if you just, you will find it in the internet.

Henrique Morato: - Yeah, okay.

Vladimir Chubar: - Or we can send you the link and you can find all the terms like tenure, like the rates, etc., etc., so, it's easy.

Henrique Morato: - Okay, thank you very much.

Vladimir Chubar: - And we've just – yeah, it's partly parceled to all other subordinated, due to subordinated debts.

Henrique Morato: - Perfect. Great. Thank you.

Operator: - Thank you. We will now take our next question from Nick Dimitrov from Morgan Stanley. Please go ahead. Your line is open.

Nick Dimitrov: - Hi there. I just want to check on a couple of things. So, the first one is if we look at the N11 capital ratio under Russian Accounting Standards as of 1st February, it's 8.7%. You did say that it's going to increase by roughly 40 to 50 basis points if we incorporate the profits in Q4 2017. Is it fair to assume that the bank will not upstream any profits as dividends to the holding company?

Vladimir Chubar: - Hi. So, look, we are not expecting that potentially it will be dividends. But, of course, I want to mention that it will be the decision and recommendation from the supervisory board to the shareholders. But if you ask about my voice which will be on the supervisory board, I will not recommend of course to pay dividends to the shareholders because for the bank now it's much more important to keep the figures, of course, especially N11 on a higher level than the minimum level which we have from 1st January next year. And, of course, that in this case it will be absolutely not pragmatic and not wise to – if we just pay dividends to the shareholders.

Nick Dimitrov: - So, hypothetically, the 40 to 50 basis points could be lower if the board decides to upstream some of the profits as dividends, right?

Vladimir Chubar: - Of course, look, just let's count. So, 8.7 as you said, correct. So, let's just imagine 12% is 9.2. Of course, we can talk about this with the board. But I'm not sure if I can just share this with you because it's really in terms of corporate governance not correct to ask me the questions like this now in March. But my gut feeling that, of course –

Nick Dimitrov: - Okay.

Vladimir Chubar: - – it will be, let's say, not pragmatic, as I said, to pay dividends to the shareholders especially –

Nick Dimitrov: - Right.

Vladimir Chubar: - – in this situation when there is some changes in the regulation from 1st January, the certain, the minimum level will be 8% and just 1% –

Nick Dimitrov: - Right.

Vladimir Chubar: - – it's not such a big buffer, yeah.

Nick Dimitrov: - Got it. And a kind of separate note. So, the Russian press talked about, I believe it was $25 billion – no – not dollar – rouble loan to O1 properties that. It got moved from the banks to the holding company. Can you walk us through the rationale for the transaction and how the actual transaction was structured from an accounting point of view and how the holding company funded potentially the acquisition of that loan?

Vladimir Chubar: - Look, of course, there is – there was some information in the media and actually there was an interview of our majority shareholder Mr Avdeev who also confirmed this.

Nick Dimitrov: - Yes

Vladimir Chubar: - So, look, just once again, there was a loan. The loan was sold to the holding company. The bank didn't give any rouble to the holding company to fund this transaction. The rationale was – I just can say once again what Roman Avdeev said that in terms of the next – in terms of the all the procedures which the holding want to have with this loan, of course, it's much better to have this loan not on the balance sheet of the bank because these procedures can really –

Nick Dimitrov: - Right.

Vladimir Chubar: - – raise the provisions, both on the RAS and IFRS which, of course, not good for the bank. And that's why the shareholders, the majority shareholders decided to support, let's say, to support the bank in this way and just to protect the bank from some extra provisions on the way to getting this loan back.

Nick Dimitrov: - Okay, okay. So, to make sure that there wasn't any funding from – the bank didn't fund the holding company for the acquisition of that loan. And my last question is going to be on your risky assets exposure, and when I say risky assets, I refer to the way that the rating agencies describe them. It was kind of a cause for one of your downgrades recently. And I know that you have an ambitious plan to kind of, you know, bring those down to bring them, if I remember correctly, below 100 billion rouble. Can you give us an update where you are? If I remember correctly that the pharma company was one of those risky exposures.

Vladimir Chubar: - I think it's not also quite fair now to say something about this currently because I think that rating agencies can have some and other opinions so they can classify some other assets as risky. So, I think that it's much better to talk about this on a bilateral level because – not to, let's say, share this with the big public –

Nick Dimitrov: - Right, right.

Vladimir Chubar: - – area. But at the same time, I just want to say some words about this anyway. So, of course, we are working on this, and you're absolutely right that, for example, pharma company was in this list and still in this list but at the same time, the loan we just spoke about, 25 billion, it was also, seems to me in this, yeah, it was in this list. So, we can say that, somehow, it's going down. And a number of other loans were also repaid. Actually, I think that there will be a chance for us to talk again to agencies, especially to the agency you just spoke about, and just to move their eyes to the situation. It's just – if the situation will be better and what we see now is better, so we just really improved. And maybe just ask them to estimate again the potential losses which they think the bank can have in the future, and maybe they will change their opinion and do some positive steps. But just, you know, once again, I want to underline, that's all in their hands and in their minds so we just can give them more deep information. We can give them some new information because time is going, so maybe they will have some other view.

Nick Dimitrov: - Perfect. Understood. Thank you very much, guys.

Operator: - Thank you very much. We will now take our next question from Denis Poryvay from Raiffeisen Bank. Please go ahead. Your line is open.

Denis Poryvay: - Hello. Thanks for the presentation. My question relates to the – your exposure to non-banking financial institutions nominated in roubles and in the amount of 729 billion Roubles as of end of period year. Now, this is the same exposure, more the same exposure, same size we saw a year before. So, it looks like you are rolling some credit to the financial institutions which is not rated – which is not banked. And these financial institutions as we see from your IFRS, on page 82, is ready to take these funds at a rate much above market level. It's about 10.7%, but as market level was at that time 8.1%. And my question is, what are the collateral you are taking against this loan? And why are you rolling this obvious exposure and not show if there's a credit and why it's not – you are not using National Clearing Centre as intermediator for this exposure to limit your credit risk? And my second question is about your liability.

Vladimir Chubar: - Number one, in terms of your question about this exposure. So, since we've answered this question a couple of times before. So, if you are talking about this borrowers, this is repo transactions which – collateral in size is the BBB - or higher rated instruments. And, I mean, by the international rating agencies.

And if we are talking about the risk profiles for this, risk profile is covered by the collateral but not much more often by the collateral but not by the quality of the borrower, this is number one.

- Number two, in terms of the National Clearing Centre, you're absolutely right that when you said that, of course the prices are higher and if you are talking about the NCC in this case, of course, the prices can be lower and this is number one. Number two, as you know, National Clearing Centre is quite profitable organization, but why it's profitable because they have quite big fees which they are taking for every transaction. And that's why, of course, there is another rationale why it's much efficient to work on the bilateral basis.

Denis Poryvay: - Okay, yeah. So, you don't see any credit risk and in this respect if you counterparty with financial institutions defaulted – defaults on this debt, you will receive this collateral and you will be able to sell this collateral and get cash without any price movements.

Vladimir Chubar: - Of course, because all the transactions we have they are making with all their rules which we have in Russia, when you're making a deal on the Moscow Exchange, so that's why you know this, I think, and I hope you know all these rules, they are protecting both sides, so the lenders and the borrowers. So, we are not expecting that, let's say, we have some risk in terms of not getting this collateral in case if our borower will fail.

Denis Poryvay: - And why is your financial counterparty is not taking this money from National Clearing Centre where this money would be cheaper? They are not efficient or another reason that –

Vladimir Chubar: - I think it's not about the question about their efficiency. It's much more the question about the limits, because you know that NCC also have their limits and they're not in a position to give this kind of amount maybe to these borrowers, maybe this is the reason.

Denis Poryvay: - My second question relates to your liability, say, you had dollar debt to banks, an amount 260 billion in rouble equivalent. And I see from IFRS that you swap this debt into roubles. So, would you – and you are rolling this facility. Would you please explain – elaborate on the counterparties for this swap and what is the reason to take on dollars to then swap them into roubles? It's in my view just not too efficient.

Vladimir Chubar: - You know, it really depends on the situation. Sometimes it's really more efficient to do something like this because some of the counterparties they have extra dollars which they can really give on a cheaper price if we are just trying to get the roubles from the same counterparties. If you are talking about the swap counterparties, this the full range of the international banks, so usual suspects, and I think it's not very correct to say their names but just all the banks from three top.

Denis Poryvay: - What I see from your Russian Accounting Standards –

Vladimir Chubar: - Yeah.

Denis Poryvay: - You take dollars from local banks and then you swap these dollars to these foreign counterparties into roubles, is it correct?

Vladimir Chubar: - If we are talking about this, yes, of course, they also can do it.

Denis Poryvay: - Ah, so you take roubles from your foreign counterparties, okay.

Vladimir Chubar: - Maybe, maybe. If you ask me some kind of a particular question, I think that we can answer to you these questions, let's say, more direct because otherwise I think that it's better just to look more deeply in your question.

Denis Poryvay: - Okay, okay. Thank you.

Vladimir Chubar: - Thank you as well.

Operator: - Thank you. We will now take our last question from Marina Davief from Amundi. Please go ahead. Your line is open.

Marina Davief: - Hello, gentlemen, and thank you very much for the call. Just a quick question. On the N11, you are saying that your assets, your lending is going to grow about 10% or around that in 2018. So, how would that reflect in N11? Are your risk-weighted assets going to grow at the same pace? And what else do you plan to do to improve your N11?

Vladimir Chubar: - Good afternoon, Marina. Answering your question, I want to say that just first of all, the current level of N11, it's, let's say, comfortable for the management. So, we are not thinking that with the extra profits from the fourth quarter, it looks like it's – it should be, let's say, more stronger because we also should think about our shareholders and we also should think about the money they have from the bank, even without the dividends but just in the form of the ROE they see. In terms of your question, we think that, let's say, 10%, as you said, this is the growth of our loan book, but if you're asking about RWA, yeah, I think it will be also the same level because we do not see it will be lower or higher. In terms of profitability of the bank in 2018, we also think that the profit of the bank and ROE of the bank should be and will be in line with the ROE of last year. So, just taking all this parts in one basket, we can just say that the profitability of the bank will be higher than the growth of the bank.

Marina Davief: - And this is going to be true in the Russian accounting terms itself because this is where you capitalise your profit, right?

Vladimir Chubar: - Yeah, of course. If we are talking about the Russian Accounting Standards it's – as well I expected that profitability will be in line with last year.

Marina Davief: - And so, the buffer, when you reach, say, 9.2, this is kind of the right buffer which you think you want to have?

Vladimir Chubar: - Now, it seems to me I answered this question many times on a bilateral basis to many investors. So, we think that 8.5%, this is the level which is, let's say, comfortable for the management of the bank. That's why we want to keep it on this level. Even if it will be close to 8%, we think that on a different, let's say, situation, see if there is some business activity, short-term business activity and we see that it can be – it will be profitable, of course, in this case, it can be 8.25, for example. But if we're talking about this year, we're not talking about 2019. Of course, after the minimal level will be 8%, we think that – so, 8.5% is the standard we're comfortable.

Marina Davief: - Thank you.

Vladimir Chubar: - Thank you as well.

Operator: - Thank you very much. This will conclude today's question-and-answer session. If you have further questions, please contact your host via email to ask further questions. Again, please send an email to your host to ask your further questions. I would now turn – would like to turn the call back to you, sir.

Vladimir Chubar: - We want to say thanks to everybody who was on this call with us today.

Thanks for listening. Thanks for the questions. And, of course, once again, we want to repeat that if somebody has some extra questions or want to discuss something later, of course, we will be happy to talk about this and to answer to your questions and hear you in three months on our first quarter financial result, or even, maybe, yeah, in two months, yes, two months, it will be one quarter review, first quarter review. Once again, thanks to everybody and have a good rest of the day.

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