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Conference Transcription

Date of conference: June 5, 2013

Conference title: CREDIT BANK OF MOSCOW: Q1 2013 FINANCIAL & BUSINESS RESULTS

Conference Time: 17:00 Moscow Time

Speakers: Vladimir Chubar, Reinhard Stary, Eric de Beauchamp

Operator: Ladies and gentlemen, welcome to the Credit Bank of Moscow first quarter 2013 financial and business results, held on the 5th of June, 2013. Throughout today's conference, all participants are in a listen only mode. After the conference, there will be an opportunity to ask questions.

If any of the participants have difficulties hearing the presentation, please press the *, followed by the 0 on your telephone, for operator assistance.

I would now like to hand the conference over to the speakers of the Credit Bank of Moscow. Please go ahead.

Reinhard Stary: Good afternoon, ladies and gentlemen, and good morning to our participants in the US, and good evening to those in Asia.

I am Reinhard Stary, and I joined the Bank a couple of weeks ago as Strategic Advisor to the Chairman of the Management Board, with specific responsibilities for strategic and organizational development and investor relations. With me are Vladimir Chubar, our Chairman, and Eric de Beauchamp, our new Chief Financial Officer, who joined our Company most recently.

Before I will hand over to Vladimir, please allow me to make some further introductory comments along this slide number 3. While most of you are probably already familiar with our Company, just a brief overview.

We are a 20 year old commercial bank, with strong presence operating in Moscow and Moscow region, providing a full range of banking services to corporate clients and retail customers. It is our strategic ambition to be regarded as the leading commercial bank in the region, with international reach in the area of trade finance.

And when I say leading, this does not necessarily refer to pure size. It rather refers to our ambition and strategy to be highly regarded by our customers for excellent products and services, by our employees to be the preferred employer of their choice, and by our shareholders and bondholders for outstanding performance, and creating shareholder value.

The continued successful execution of this strategy is reflected in the solid KPIs displayed on this slide, mainly our growing asset base, our balance and growing loan portfolio, and the strong net income margin and return on equity on which my colleagues will comment in further detail.

It's now my pleasure to turn the floor to Vladimir, who will talk about the key developments of this year, followed by Eric, who will guide you through our recent financial performance. Thereafter, we will be happy to take your questions.

Over to you, Vladimir.

Vladimir Chubar: Thank you, Reinhard. Good afternoon, ladies and gentlemen. Let me turn to the fifth slide of our presentation, and comment on the key highlights of the

Bank's performance for the first quarter of this year, as well as some subsequent events which we deem important to mention.

Our net income for the first quarter reached RUB1.7 billion, exceeding the result of the first quarter of last year by 43%. Our gross loan portfolio, which is the main driver of the asset growth, increased by 13.7%, and reached RUB234 billion.

Comparing to the aggregate banking sector loan book dynamics and the first quarter this year, our Bank is traditionally outpacing the average growth, which is 2.1%.

Total assets showed a 4% increase in the period concerned, which is in line with our overall strategy of keeping to a comparatively moderate asset growth going forward, comparing to the previous years' dynamics. Just to give you an insight into the Russian banking industry development in terms of its growth, we would like to let you know that we are ahead of the average growth, which is roughly 0.7%.

Efficiency of our operations is very sound, evidenced not only by high return on equity, which is 17.4%, and return on assets, 2.2%, but also by healthy net interest margin, stably maintained at 5.1%.

Historically, being a Bank with a high portion of corporate loans, we have recently announced our plans of going more into retail segment, which is evidenced by a comparatively higher share of retail book in our loan portfolio, comparing to traditional level. During the first quarter of this year, gross loans to individuals grew by 6.7%, and reached almost RUB54 billion.

Share of retail loans remained over 20% of the loan book, namely, 23%. At the same time, retail deposits grew by 9.6% to RUB117 billion, bringing the Bank to the 14th position in the ranking of Russian banks by retail deposits.

We would also like to share with you our success in the capital markets during the period concerned, both domestic and international ones. In February this year, we closed the first largest debt transaction raising transaction in our history. This record transaction was our 5-year senior Eurobond issue for the amount of $500 million.

It's important to mention that following three months from this transaction, we also successfully placed our subordinated Eurobond issue for the same benchmark amount, which was, in fact, the first ever subordinated Eurobond issued under the Bank of Russia's new Basel III based requirements.

In May this year, proceeds from this issue were included in Tier 2 capital of the Bank, which will ensure even stronger capitalization of the Bank as per first half year 2013 IFRS.

In terms of domestic capital markets, the Bank also sold its domestic subordinated bonds issued for the total amount of RUB2 billion, which was already reflected in Tier 2 capital in the presented financials.

In the first quarter, S&P revised our rating outlook from stable to positive. As part of significant subsequent events, we would also like to mention upgrade of our national scale rating by Moody's, followed by confirmation of the international scale rating at the same time. We trust that these positive events differently outlines the successful development of the Bank and its reinforced positions in the market.

Let's now move to slide number 7, which opens our business overview discussion.

Share of the corporate banking in our lending business makes 77% as of the quarter end, proving significance of this segment in our operations. The number of clients in corporate segment exceeded 26,000 entities. Cooperating with the leading retailers still remains the priority for us, successfully complemented by partnership with the blue chip companies both on the assets and liabilities side.

In the first quarter of this year, gross loans to corporate clients increased by 16%, and exceeded RUB180 billion, while deposits from corporate clients decreased in volume, which will be further commented in the course of our presentation.

You can see that our corporate loan portfolio is well diversified by industries, with 17% coming from the consumer electronic industry, 12% from food and farm production, and 9% from residential and commercial construction. As for corporate deposits, 70% of these are term deposits.

As previously mentioned, retail business is becoming increasingly important for the Bank, and our strategy for this year is to increase share of retail loans in the portfolio to 30%, and we are now moving to slide number 8 to discuss retail banking.

We provide banking services to more than half a million individuals, through 76 offices in Moscow and Moscow region, and remote channels such as mobile and Internet banking. The Bank is one of the leaders in terms of payment terminal networks in Russia, which after certain optimization comprised 4,300 devices, as at end May 2013.

The Bank's gross retail portfolio outpaced the sector and delivered 7% growth in the first quarter, versus average growth of the Russian banking sector of roughly 5%.

Our target market segment is consumer loans and credit cards, which is reflected in the increasing share of this product type in our retail loan book. Namely, share of consumer loans now makes 60% of retail book, versus 57% as of the end of 2012, while mortgage and car loans now equally share the rest part of the retail portfolio.

We are now the 14th largest bank in Russia in terms of our retail deposits. The volume increased by 10% for the first quarter of this year, and reached RUB117 billion.

These are the main business development highlights, and now I would like to turn the floor over to our new CFO, Eric de Beauchamp, who will present financial results of the Bank for the first three months of this year.

Thank you.

Eric de Beauchamp: Thank you, Vladimir. I'm ready to present strong financial results of Credit Bank of Moscow for the first quarter of 2013, and elaborate on the most material trends.

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

The Bank is keeping its operational efficiency at impressive level, with a cost/income ratio having shown pronounced improvement in the first quarter of 2013, and arriving at a 34.8% versus 40.5% at the year end.

Return on assets and return on equity, as mentioned by my colleagues, are continuously retained above the average level versus aggregate banking sector, while net interest margin, driven by increase in the volume of lending operation, stands at a healthy 5.1%.

Net fee and commission income, which is the second largest driver for the operating income growth, showed a 60% rise to RUB1.1 billion. The major sources of fee and commission income are insurance contracts processing, cash collection and delivery services to our clients in other banks, as well as guarantees and letter of credit.

Aiming to proactively develop this particular source of income, we expect to show further strong results in the future.

The main drivers for cost growth are salaries and administrative expenses. In the first quarter of 2013, salaries and employment benefits increased by 30% versus first quarter of the previous year, due to increased headcount combined with salary adjustments to the market.

Apart from that, several senior related appointments to both executive and non-executive positions took place in the course of the previous year, which also has impact on the upward trend of this line item.

Now let me move to slide 11, and look at the asset structure. It remains more stable, with more than 70% relating to our loan portfolio. Asset growth is slowing down, showing moderate 4% growth from the year start, although it's still higher than the market average.

The loan portfolio quality, which is presented on slide 12, demonstrates strong metrics in the share of loans that are overdue more than 90 days in the portfolio, dropping to 0.9% from 1% during the first quarter of this year. NPLs in the corporate segment are even smaller, and stand at 0.1% as of the reporting date, i.e., falling from the preceding 0.2%.

Retail loans are considered riskier assets. NPLs by retail products are much higher than in the corporate segment, namely, 4.2% as of the quarter end.

Nevertheless, the effect of retail NPLs on total NPLs is not material, due to their lower share of the total book.

In the first quarter of 2013, an upward trend is observed for the cost of risk being 2.6%, and loss provision ratio being 2.5%, which is the result that the Bank heading towards retail book share increase of the total loan book.

Active penetration into retail segment being a part of the Bank's strategy entails higher risks. Therefore, the Bank keeps the more conservative policy, in order to ensure additional comfort over a potential risk.

The following slide, number 13, represents the funding structure of the Bank.

The major part of funding is coming from retail deposits, which were RUB117 billion, or 40% of liabilities, and corporate deposits, which coupled with retail deposits, make 70% of liabilities.

Retail deposits represent steadily growing and stable part of the Bank's funding, with the average retail deposit term equaling roughly two years.

Deposits by corporate customers decreased during the first quarter by 19% as a consequence of the Bank's increased borrowing in the favorable capital markets, as well as comparative seasonality of this line item.

Promissory notes and bonds account for, over, RUB56 billion, or roughly 20% of liabilities. In the first quarter, Credit Bank of Moscow realized a couple of successful transactions in the open market, which are domestic subordinated bond issue, as well as a senior Eurobond.

These borrowings serve as a stable long-term funding source for the Bank, and partially repays funds raised from corporate clients.

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

At the end of the first quarter of 2013, our 10 and 20 largest exposures accounted for 18% and 28% of the portfolio respectively, while our 10 and 20 largest deposits represented 17% and 20% of the deposit portfolio respectively. Short-term loans traditionally prevail in the loan portfolio, which is evidenced by the bottom left graph on slide 14.

More than 60% of loans mature within 12 months, and 22% are repayable in the period from one to three years.

Volume of related party loans in the Bank is insignificant, and accounted for 0.3% of the Bank's equity, versus a 1.1% level at the end of 2012.

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

The Bank's capitalization level is very strong, which is evidenced by total capital equity ratio being 15.4 at the quarter end. Tier 2 capital base was supported by a domestic subordinated bond issue, proceeds of which were reflected in the capital in March 2013.

Net income earned by the Bank in the first quarter of 2013 was capitalized in full, in line with the Bank's dividend policy. Subordinated Eurobond issue included in the Tier 2 capital of the Bank in May 2013, will further reinforce the capital base, and will ensure ample N1 ratio

These were the key highlights supporting development of the Bank's balance sheet and profit and loss statement in the first three months of 2013. Thank you for your attention. Now we suggest moving to the question and answer session.

Operator: Yes, certainly. As any of the participants would like to ask a question, you may now press the *, followed by the 1 on your telephone, and if you wish to cancel the request, please press the *, followed by the 2. Your questions will be polled in the order they are received, and there will be a short pause whilst participants register for a question.

Once again, if any of the participants would like to ask a question, you may now press the *, followed by the 1 on your telephone, and if you wish to cancel the request, please press the *, followed by the 2.

Thank you. And the first question comes from Elena Kim, from BFG Securities. Please go ahead.

Elena Kim: Hello. Thank you for your presentation. I have two questions. The first one, concerning your corporate loan portfolio growth in first quarter 2013, we see that your results are well above the market average. Should we expect similar growth in the next quarters?

Vladimir Chubar: Yes, thank you for your question, Elena. You know, in the fourth quarter of last year, growth of corporate loan book slowed down a little, due to several factors. And while in the first quarter of this year, we managed to increase the volume of disbursement in -- for this segment, which was also supported by additional liquidity from the Eurobond issue.

About some expectation, unfortunately, now we are in lock up period for some comments for the future growth, because of the last Eurobond transaction, which will be ended by 24th of June.

Anyway, after this time, you can ask all these questions very easy, write to my e-mail these questions, we will answer them without any problems.

Elena Kim: Oh, okay, I see. And the second question, about retail lending, who is your target group in retail lending? Maybe could you please give some kind of picture of your typical retail client?

Vladimir Chubar: You know, we have a large share of clients coming from our corporate customers. About 80% of retail loans is so-called Group 1 and 2, as we divide them internally. And we also have minimized credit risk to cautious client verification.

And of course, you know that we want to continue the same share of our loan book -- I mean, same as it was before. And the same idea as it was before. No changes.

Elena Kim: Thank you. Thank you very much. I think that's all from my side. Thank you.

Operator: Thank you. If anybody else would like to ask a question, you may now press the *, followed by the 1 on your telephone. And if you wish to cancel the request, please press the *, followed by the 2.

Thank you. And the next question comes from Maxim, from the Russian Standard Bank. Please go ahead.

Maxim Timoshenko: Hello. Thank you very much for the presentation. The question is, why Moscow and Moscow region is all the regions you are focusing on? Thank you.

Vladimir Chubar: Thank you, Maxim, for your question. It is a part of the strategy of the Bank, which was approved last year, and also, it was checked this year, because we see the Moscow and Moscow region as one of the most promising regions in Russia. And actually, we counted the average GDP share of Moscow and Moscow region and total Russian GDP at about 25%, above quarter. And also, what we understood last year, all Russian GDP -- all -- sorry, all Moscow and Moscow region GDP is almost 70%, more than 70% of for example, GDP of Poland. It was also the part of our presentation all the time.

And actually, because of this, we decided that this region can be our focus. There is no other plans to increase our activity in some other regions. And we see, of course, that there is a competition in this region, and of course, we feel it every day.

But actually, you know that it's very good, when you feel your competitors every day. In this case, of course, you keep yourself in a very good shape every day. That's why.

And also, we see that we can work with a lot of clients using some remote channels, using some other channels without any problems. For example, about corporate clients, we did this for the last three, four years. In our portfolio, there are some borrowers from some other regions. Of course, some of them -- a lot of them, actually, they have some financial blocks in Moscow, they're based on Moscow. Of course, it's much more easier to communicate. But also, their main business is outside Moscow region.

If you talk about the retail business, of course, it’s the same idea. Now we have the idea that we can also work with some clients in some other regions without any problems.

Also, I can tell you that we just were chosen by one of our retail clients as a partner for their POS terminals network -- I mean, like acquire network. And they're based in all regions of Russia, and we found a way how we can work with them for all the regions they represented.

I means, that current positions of, how to say, just --

Maxim Timoshenko: Thank you very much.

Vladimir Chubar: It's a reason to communicate with all the clients in all of Russia without any problems.

Maxim Timoshenko: Oh, okay. Okay. Thanks very much, Vlad.

Operator: All right, there seem to be no further questions at present time. Please go ahead with any other topics you wish to raise.

Vladimir Chubar: Yes, I think if there is no other question, we can close the conference call. Thank you very much for your attention, and I hope we will hear you in three months.

Actually, you know what, it's very important also to say, we forgot to mention this, about our current ratios, current figures for by new requirements of Central Bank, I mean, the new Basel III requirements. I think all of you you know that now there is like trial period for this new regulation.

And I can tell you that the current ratios we have as of end of May. So-called N1.1 is 6.95%. So-called N1.2 is 7.57%. And so-called N1.0, is more than 15%.

Actually, you know that there is a special regulation in Russia, you can add to your base capital only audited profit, only audited income. And in case we assume that the 5 month income is audited by Russian accounting standards, the ratios look a bit differently. Of course, they would be higher. And 1.1 will be more than 7.5%, and N1.2 will be almost 8.2%. And of course, N1.0, will be the same, more than 15%.

Yes, I think it's very important for the holders of our subordinated bond, because there is a special trigger for this.

Yes, thank you very much.

Operator: Thank you. Ladies and gentlemen, this does conclude the Credit Bank of Moscow first quarter 2013 financial and business results. Thank you for your participation. You may now disconnect.

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