



Conference Transcription

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CONFERENCE DETAILS

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ACT Operator

Ladies and gentlemen, welcome to the Nomos Bank 2011 Result Conference on the 27 March 2012. Throughout today's recorded presentation all participants will be in a listen only mode. After the presentation there will be an opportunity to ask question. If any participant has difficulty hearing the presentation, please press *0 on your telephone for operator assistance.

I will now hand the conference over to Jean-Pascal Duvieusart. Please go ahead, sir.

Marianna Naumenko

Good afternoon, everybody. My name is Marianna Naumenko. I am the Head of Investor Relations Department in Nomos Bank since December 2011. We are here together with Jean-Pascal Duvieusart, our Head of Strategy and Sergey Kovtun, our Deputy CFO. Welcome to the results presentation and I now pass the word to Jean-Pascal.

Jean-Pascal Duvieusart

Good afternoon, everybody. A good morning for people from the US. Since this is not the first time we are doing this event I assume that most of you are pretty familiar about Russia and Nomos Bank and therefore I would propose that we skip the first four pages of the presentation and go directly to the page number five which talks about the messages regarding 2011 and then on the next page I will talk about the performance in the fourth quarter of 2011.

I think regarding 2011 despite a difficult market environment in the third and fourth quarter Nomos Bank has delivered a strong performance with 18.2% return on equity, if we do not have to incur the IPO cost it would have been 18.5% return on equity, and a loan growth of 32% last year. Earnings per share for 2011 amounts to RUB 111 on a per GDR basis, at the exchange rate as of end of last year it amounts to \$1.7.

We are very happy with the growth of our loan book last year. The corporate loan book grew by 29%, retail grew by 59% to RUB 58 billion and small business grew by 56% to about just under RUB 30 billion. The relative growth rate per segment is in line with our strategy of growing in all of our segments with a faster growth in retail and small businesses. The bank has witnessed a strong core revenue generation with a 37% increase in net interests received. NIM slightly improved to 5.5% and net fee and commission increasing by 57% from just under RUB 4 billion to just over RUB 6 billion last year.

In Q3 some of you might remember we had a mark-to-market loss on our fixed income and security portfolio of about RUB 2.9 billion. As indicated already in the Q3 announced results we largely reversed the that loss in Q4 as basically the markets recovered and spreads on Russian bonds went down. For the entire year the loss on security amounts to RUB616 million.

The diversified funding strategy of Nomos Bank paid off, backward for the whole year, allowing the bank to maintain a fairly stable and relatively low funding cost with total cost of funding amount to 5.9% of our total liabilities down from 7.1% a year ago. As of end of last year the loan to deposit ratio of the bank stood at 117% which is in line with our mid term guidance between 110% and 120%. In 2011 customer deposit contributed to 65% of the total funding and grew by 22%.

As far as the integration with BKM is concerned I think overall we are very satisfied with the results we achieved in 2011. The financial and operational integration is moving as

planned. The systems and risk management of course are fully coordinated and centralised. On the revenue front we have been capturing a fair amount of revenue synergies coming from price harmonisation, best practice sharing in terms of cash loans, credit insurance, offering group limits for corporate clients, transferring of factoring technology from Nomos to BKM. All of that has delivered substantial bottom line input in 2011.

IT platform of BKM is gradually being harmonized with the one of Nomos Bank. We have already installed the credit conveyor of Nomos to BKM for retail clients, we have introduced also CRM approach for corporate clients from Nomos to BKM. We are looking at further integration in the next two years as per plan. And then last year in December we have launched a joint call centre for the entire group which is based in Nizhny Novgorod trying to benefit from economies of scale in this back office related operations.

Last year OPEX grew by 35% for the full year which is due to lending growth and IPO related events. As you can see our OPEX growth has been in line with our growth in customer business. Risk cost for the whole year amounts to 0.9%, which is in line with our guidance. Overall Nomos Bank has a very comfortable coverage ratio slightly above 200%. From a capital position I am very happy to report that we have increased our core tier 1 last year, it now amounts to 12%, total capital ratio amounts to 16.2%.

Regarding Q4, I think Q4 we would describe as being a very positive quarter in a very difficult context. The annualised return on equity amounts to 27.9% driven by a very strong operational performance, and I will talk about that later, and a recovery on the market leading to RUB1.8 billion of securities capital gain. We witnessed very strong growth in retail and small business lending which respectively amounting to 11.1% and 12% quarter-on-quarter which compensated the decrease we saw in corporate lending. This is in line with the guidance given in September during the Q2 result announcements and in line with the Bank's strategy. As you remember, in September last year the Bank officially declared itself being very cautious ahead of the upcoming quarter. We are by now what we call constructively optimistic rather than being cautious.

We also witnessed a very strong deposit growth of just under 10% quarter-on-quarter in the fourth quarter leading to reduction of the loan to deposit ratio of 130% to 117%. Interbank funding amounted to RUB106.6 billion at the end of last year, i.e. just under 20% of total liabilities with, and this is worth mentioning, an increase in duration of our interbank funding from 220 days as of end of September to 344 days as of the end of last year, which means our interbank funding is not at all short-term funding, its roughly funding with one year average duration. CBR and MinFin funding amounted to RUB16 billion at the end of last year. As of today we have no funding neither from CBR nor from MinFin. Both of these facts should make you feel very comfortable about our ability to generate sufficient liquidity to fund the growth of our assets.

In Q4 we have witnessed a very robust operational performance. We have net income growth from RUB7.2 billion to RUB7.9 billion which is just under 10% quarter-on-quarter growth. Increase in fee and commission from RUB1.6 billion to RUB1.8 billion which is purely organic growth, so +12%. And just under 20% growth in operational expense driven by increase in staff, due to bonus and hiring of just under 500 new staff, charity and various advertisement to support the end of year season and also an increase in the tax.

Integration of BKM is progressing well with specific for this quarter the opening of the call centre in Nizhniy Novgorod and the introduction of a credit conveyor in BKM as well as the roll out of the insurance product. Risk provisions for the quarter amount to RUB1.4 billion leading to an overall risk cost for the year 0.9%. For those of you that are eager to annualise quarterly numbers this would give us a quarterly risk cost of 1.2% for the fourth quarter but again we have seen that type of variation in previous

quarters. Core Tier 1 capital adequacy ratio increased to 12%. These are the key messages. Let us now go now briefly through some additional facts to substantiate these statements and then will open the floor for Q&A.

Next page talks about our track record of growing faster than the market. You see here on the top part of the slide the growth rate by segments with 30% growth in incorporate for the full year and a decline of 6% in the fourth quarter. Retail grew by 60% overall for the year, 11% for the quarter. And small business grew by 56% and 12% over the last quarter.

Customer account has grown across all the segments with different cycles reflecting different priorities and different market dynamics. On the corporate side we have grown deposit by 45% and in fourth quarter we grew by 22%. Retail grew overall for the year by 9% and 4.5% growth in last quarter. And small business which is still a very, very current account rich segment grew by 10% for the full year with a 30% growth in the fourth quarter. I would like to point out in this page that in retail segment the key element of our strategy and driver of increased profitability was to grow the current account part of the business, faster than term deposit and that has been implemented successfully.

Regarding the operating performance of the Bank on page eight, I think few points that I would like to mention on this page, if you go to the top right corner labelled operating expenses. I you see that now we have a cost to average assets that basically hasn't moved compared to last year at 2.9%. Our cost income ratio went up slightly but this is driven by on one hand the IPO and on second hand the less than planned performance of our fixed income portfolio. If it had not been the case we would have shown a better cost income ratio performance.

Risk cost at 0.9% is below what we had last year. And as a percentage of total assets the risk cost amounts to 0.6%. In terms of profitability, the net profit increase from RUB10 billion to RUB12 billion over the last 12 months. Return on equity amount of 18.5% excluding IPO expenses. If we hadn't incurred any loss in fixed income, we would have generated in 2011 a profitability of 19.2%. As far as the fourth quarter is concerned we have generated a return on equity just under 28%.

As far as the NIM is concerned we have in the fourth quarter witnessed an expansion of our net interest margin which was given the way our interest rates are matched, and where it is expected as soon as we have an increase in the cost of funding on the liabilities side we basically put it back on the assets side very quickly to make sure we keep a high level of profitability. Q4 for us was a quarter of being stayed focussed on the profitability and making sure that we basically grow like mad and this was what we have done. As you can see our net interest income grew on a quarter to quarter basis by just under 10% and for the whole year grew by 37%.

Average rates on loan in the fourth quarter went up from 11.3% to 12.3% driven by a very strong performance on the corporate side and on the retail side. Small business went down a bit but this is more due to the two year to three year average duration of our small business loans basically what you witness right now is the downward trend that was initiated in the third quarter and you will see a reversal of that trend in the coming quarters. The average rate on customer accounts went up slightly reflecting the market condition that we have all witnessed.

Regarding fees and commission on page ten as you can see in each of our segments and for the first time this year we have decided to give you more detail about the composition of our fee and commission both by product and by segment to improve the transparency of our accounts. You can see that in every segment, we have witnessed very strong growth in fees and commission. In retail where the growth amounts to

77%, there is obviously a one-off support due to the acquisition of Rapida, which is a payment provider. But even if you are to exclude that you would still see tremendous growth in retail which is organic growth of our fee and commission. The fee and commission composition has changed slightly over last four months but not meaningfully with about 35% being cash operations, 28% being payment and settlement, a lot of fees coming from documentary operations, foreign exchange operations and operations with precious metals.

As far as the business mix of the bank is concerned, the strength of the operational and financial performance delivered in last year is driven by the healthy mix of business that the bank has. The slide on page 11 has been presented many times so let me just focus may be on the key points. One is, I would like to point out for the corporate banking and small business banking the stability and the strength of return on equity with corporate banking showing a 23% return on equity, small business banking still showing a very healthy margin or profitability level of 35%.

Retail banking has been increasing its profitability significantly this year driven by a) an increase in lending activity which is higher margin activity, b) a dramatic increase we just talked about in the fee and commission and c) rationalisation and optimisation of our network: making sure that we increase the productivity of our network and adjust the starting level to the business that we see. In the fourth quarter, retail has obviously also benefited from the increase in rates that we witness on the market, since we don't pay meaningful interest rate on our current accounts and therefore we fully benefit from the increase in interest rate.

Investment banking which was showing a lousy performance at the end of Q3 by the year end demonstrated a fairly healthy performance, which basically is a testimony of its ability to recover, just not to quote somebody else but it's not that we have been basically good - it's just that we've stayed in that market and the markets have recovered, and therefore we have generated a decent performance in that segment.

We now pass the word to Marianna that will take us through the following slides.

Marianna Naumenko

Thank you, JP. On page 12, we are looking at our capital adequacy and risk weighted asset dynamics. We improved the tier 1 capital ratio to 12% in 2011. This happened first of all in line with the increase of our equity base after a successful completion of IPO and also including the stable profitability results which the Bank showed in 2012.

If we move to page 13, there is the summary of our funding structure. In 2011 the Bank continued to diversify the funding structure. The share of customer accounts increased in 2011 to 65% of total liabilities. And among customer accounts one-third is current account balances, which the Bank is gradually increasing, so you will see there was increasing tendency till September. As of December this amount slightly declined but we continue to focus on increasing the current accounts share.

Our second component of the funding structure is interbank. The average duration of interbank funding increased to 344 days, so we consider interbank funding as a stable source and generally cost effective for the Bank.

The third component of the funding is bonds. As you can see the Bank has no significant bonds repayment in 2012. Speaking about loans to deposit ratio, you can see as JP already mentioned that loans to deposits ratio decreased as of year end to 117%.

Let's move to the asset quality slide on page 14. The Bank demonstrated strong declining trend in NPL ratio, which amounted to 2% as of year end.

The cost of risk ratio amounted to 0.9% with significant decrease comparing to 2010 pro forma results. The LLP ratio was conservative at of 212%. We are introducing the new part of our presentation to improve the transparency. We are showing the NPL share by segments this time, and you can see that the share of NPL in all segments declined compared to 2010 results.

On page 15 you can see our loan portfolio structure, which is pretty well diversified in all segments. In retail segment we have pretty significant share of consumer finance which amounted of 46%. And we are working on increasing this share in 2012. We are reporting the reduced exposure to related parties loans and deposits, as you can see also on the slide. This year the related party lending amounted to 5.5% and the share of related party deposits amounted to 17.8%, which is about RUB30 billion as of December 2011.

Let's move on and on page 16 we are showing the key results of our integration with BKM. As JP already mentioned, we have very positive results in integrating financial system including common budgeting and reporting processes, centralised control and auditing standards implemented, so basically the Bank has access to funding market centralised to optimise cost of funding. We have pretty good results in centralisation of risk management function. The Bank enjoyed revenue synergies in each segment, and we are moving OK with IT and operations integration which is apparently important. We have very good results.

Let me pass the word to JP, he will continue.

Jean-Pascal Duvieusart

I would like to finish this presentation part of the session by reiterating our guidance for the year. In terms of growth we are planning 20% average growth for the year, exceeding the market growth. As I said before I think we are constructively optimistic, many things have cleared out in Russia over the last three months. However the European crisis is not over yet and this has negative spill over in Russia. We are planning for a cost income ratio of around 45%, return on average equity of 20% and we intend to keep our core tier 1 ratio above 10.5%.

Thank you very much for your attention. I will now open the door to questions.

ACT Operator

Thank you, sir. If any participant would like to ask a question, please press *1 on your telephone. To cancel this request, please press *2. Your questions will be polled in the order they are received and there will be a short pause while participants register for a question.

Thank you. Your first question comes from Alex Kantarovich from JP Morgan. Please go ahead.

Alex Kantarovich – JP Morgan

JP thanks for the presentation. Several questions from me. You mentioned relative stability of NIM to the interest rate environment. Can you give us some colour on maturities for assets and liabilities? And what sort of NIM can you expect for the current year, please? That's my first question.

Jean-Pascal Duvieusart

We are expecting for the year the same NIM.

Alex Kantarovich – JP Morgan

The same as in Q4 or the same as in 2011?

Jean-Pascal Duvieusart

The same as in 2011 that's the current expectation and starting from a better base but we are expecting the same as in 2011. In Q4 the expanded NIM was a bit driven by the tight liquidity condition on the market. We had enough funding and therefore it allowed us to re-price it without having to get into a new pricing war on the deposit side. But now the market has witnessed what we would call it as being a sea change in the rate spread, and therefore we don't expect the same tension to happen all the time. Do you have anything specific you want me to speak about or?

Alex Kantarovich – JP Morgan

No. If we can get a sense of let's say average maturity of your loan book that would be good.

Jean-Pascal Duvieusart

I think the loan book average maturities are around three years, or slightly under three years. The corporate book has a lot of loans which are repriced on a yearly basis and that forms the dominating part of our loan book. On the retail side you have maturities, which are longer than that. The average maturity of our consumer loan is three years. The mortgage brokerage is in excess of five years and small business lending is two to three years lending activity.

Alex Kantarovich – JP Morgan

Clear on that. And another question is on your provisioning. Clearly NPL coverage of 213% as you reported looks a bit high and I am just curious if this change is going forward?

Jean-Pascal Duvieusart

Here let me go back and sorry if I am a bit long in my answer, let's speak about the principle on how we manage provisions, how we manage NPL and then what does that give us in terms of NPL coverage ratio. Because the only thing we do not manage in the bank is the NPL coverage ratio. What we basically do is we try to get NPLs down as much as we can by managing them for activity. And then we do provisioning based on conservative historical numbers, which are based on the evolution of our gross loan book. And the biggest part of our provisioning is set not against NPL but against the portion of the loan book, which is in good standing.

Right now referring to IFRS accounts, you can see by product and by segment and by standing of a loan, the quality of the loan, the degree of provisioning we do, we basically putting aside about 2% of our standard loans as provision. We are building as part of the transition to Basel II much more refined models to basically allow us to see how much provision we really need to take to be sufficiently provisioned through the cycle. Because obviously when everything goes fine you need very little and when things go worse, risk cost can go up to 1.5% or 2% fairly quickly. We are doing this and I will be getting more data.



We are likely to reduce the provisioning level that we will put through the P&L on a quarterly basis. But we want to be cautious and not basically run ahead of ourselves. It is not impossible that we end up having some excess provisions, but I don't want to commit to a reserve at this point in time before we have sufficient statistical base to know how much we can release.

Alex Kantarovich – JP Morgan

OK, clear on that. And my last question is on the **acquisition** of BKM if you can give us any colour, any sort of development on that front?

Jean-Pascal Duvieusart

I am surprised that this was not the first question, Alex. Look I will repeat and stick to the story which is that we are obviously interested in the acquisition of the second half of BKM at the right price, and also we would like to do it at a moment, when it is going to be easier for us to issue stock. Right now given the fact that the integration is fully progressing on one hand, and the implementation of central depository and the release of the cap on GDR programme is not planned before the end of this year on the other hand. I think once these two things have been done, we will be in a much more position to issue the stock that we need to be able to fund the acquisition without having a too low core tier 1 capital adequacy ratio.

My hunch is that these two condition would be met in the next 12 months and in the next 12 months we should do that acquisition. I want to reiterate the fact that the second part of the acquisition is financial i.e. we have full control of the bank, strategically the bank "does seem to be the property of the shareholders of Nomos", the bank has nowhere else to go, we are fully controlling it, we are managing it, we are integrating it. What is important for the shareholder of Nomos Bank is that we do a good transaction and that is what we are working on.

Alex Kantarovich – JP Morgan

OK. Thank you very much.

ACT Operator

Thank you. Our next question comes from Jason Hurwitz from Alfa Bank. Please go ahead.

Jason Hurwitz – Alfa Bank

Good afternoon, JP. I would like to start out with just a question about your subordinated debt. What are your issuance plans for this year and where do you see your N1 ratio headed?

Jean-Pascal Duvieusart

OK. First of all we are finishing the year with 11.3% N1 ratio. It gives us, I was speaking through this morning, we are selling at N1 level. And based on all of discussions we have with CBR and our Russian accounting standards accounts we don't foresee a tightness on the N1 level, that's first point. And therefore we mention N1 always as close as possible to 11%. Secondly in terms of issuance of sub debt yes, we are planning to issue sub debt in the course of this year.

Jason Hurwitz – Alfa Bank

No specifics to be provided?.

Jean-Pascal Duvieusart

No specific amount in mind yet. I have to state that's for Nomos Bank something we will look at fairly casually, because given the fact we have PPF and ICT as shareholders, if push comes to shove, we are very likely to use the windows.

Jason Hurwitz – Alfa Bank

I am not sure if it is your line or my line that is breaking up a lot, but I guess I got most of that. One other question relating to the accruals, I see you had a very good quarter in terms of a negative accrual in the fourth quarter. Was this attributable to some of the project loans just being repaid? And do you expect lower accrual levels than you had let us say for year 2011 going forward?

Jean-Pascal Duvieusart

To make sure I understand, are you referring to the difference between the accrued net interest and the cash net interest?

Jason Hurwitz – Alfa Bank

Correct.

Jean-Pascal Duvieusart

Here again this has been something that analysts have asked a question like over and over again, quarter-by-quarter trying to understand if there was anything to see in these numbers. These numbers are not managed, we are basically accruing account in net interest margin on a very conservative way, not accruing things on things which we should not accrue. And then making sure we collect proper agreement.

In the third quarter of the last year the gap was a bit higher than usual because we had witnessed a significant interest in corporate lending in the last month of the quarter and interest rates were paid on a quarterly basis. By now we have a different evolution which is driven by a set of loans that have monies on them on an individual basis. But overall these things even out on a quarter-by-quarter basis. There is really very little for me in the difference between cash and accrued net interest income.

Jason Hurwitz – Alfa Bank

That is fair enough, no more questions. Thank you.

ACT Operator

Our next question comes from Bob Kommers from Deutsche Bank. Please go ahead.

Bob Kommers – Deutsche Bank

Hi, thanks for the presentation. I have a question regarding the capital, you had a core tier 1 now at 12%, the target is a minimum of 10.5%. I was just wondering whether you would be considering completing the buy out of the minorities in BKM without coming to the market?



Jean-Pascal Duvieusart

It is one of the option but we will need to see when that would happen and what would be our capital level once the transaction has happened, but it is clearly one of the options. And then between the option where we raise everything and option where we raise just part of it, and the option where there is nothing you have all of the intermediary steps which are there. I think to go back to the fundamental principle of Nomos Bank is that we want to make sure we are creating value for the shareholder and therefore we do not basically add capital ahead of our understandable and foreseeable needs.

Bob Kommers – Deutsche Bank

Yes, OK. Related to that, it looked like the operating performance at BKM was extremely strong in the fourth quarter and I just wondered where that was underlying profitability or whether that was related to the allocation of maybe recovery on the trading losses at BKM rather than at Nomos Bank?

Jean-Pascal Duvieusart

I think it is a good question we are getting which is what is the underlying performance of BKM, how the asset is performing, how happy are we with that brand and how much of the synergies are we seeing flowing through the P&L of the Nomos Bank. I think when we bought BKM it had a thing in 2010 return on equity of 15% including a very strong performance in that year of their fixed income book. In 2011 we have a 17% return on equity before the loss on the securities portfolio. Overall the Bank is doing very well and improving its performance. We are very happy with it, it is a very good acquisition, developing very nicely and having a very positive impact.

You will see, I mean BKM is publishing its IFRS accounts right away as we speak at the same time. They are downloadable on their website and you will see a very strong performance in most of the sectors. Obviously they are developing their retail and small business franchise, which is the bulk of the customer base, very well and demonstrated a very strong increase in fees and commission, so we are very happy.

Bob Kommers – Deutsche Bank

Given that usually with investments and acquisitions the costs are running ahead of revenues, would you expect in 2012 that return on equity of BKM to move ahead of 20% so get above the levels of Nomos Bank?

Jean-Pascal Duvieusart

No, we are expecting something around 18%.

Bob Kommers – Deutsche Bank

All right, thank you. And my last question is regarding your operating –

Jean-Pascal Duvieusart

Sorry to interrupt. Somebody fairly cynical was telling me: "but what is really the interest of Nomos Bank of having the profitability of BKM go too quickly too high?" - there is some truth in that question.

Bob Kommers – Deutsche Bank

Yes, I understand. And lastly on the operating costs, and maybe it is a detail that I am asking. But I just wondered indeed that the 35% increase in costs that you had in 2011 clearly as you pointed out may be due to the loan growth and some IPO costs. I just wondered whether there were also significant one-off costs related to the BKM acquisition and how big were they broadly? And is that something that could be non-recurring maybe in 2012 and therefore you would expect maybe OPEXs to increase by only 15% in 2012?

Jean-Pascal Duvieusart

No. Bob I think there are two parts to your question. What is one-off versus what is recurring in 2011. The true one-off is around RUB215 million or so which is the IPO cost. The rest I have to say is recurring and it is investment in developing the business. Next year we plan something slightly below that. But on the other hand I have to say that as the Bank is moving from predominately corporate and expanding its business in small and retail segments we do face structurally an increase in costs which is compensated by the revenues to some extent. But you cannot ask us as a Bank to basically move from a pure corporate bank which runs at a cost income ratio of 30%-35% into a small business and retail bank doing transaction for customers having current accounts, having ATMs, collecting small deposits and run that business with same 35% cost income ratio. That does not work so.

There is a bit of a growth higher than we could see, but it is also a reflection of almost 60% growth we have in lending in retail and small business. Our lending portfolio on the small business side has an average size depending on the product between RUB3-5 million. To issue RUB60 billion of these loans you need a factory with a lot of people, you need automation, you need new systems. That's why I would like to be reluctantly conservative as we start 2012.

Also I would like to say one more thing, which is in our cost, - we have also purchasing price allocation adjustment, which is depreciated. This adjustment refers to the acquisition of BKM and to some extent also to the acquisition of Rapida. That is amounting to about RUB500 million of roubles and that would be there still for couple of more years. It is basically the depreciation of the customer base which has been put on a balance sheet that are higher price than what we paid for. The high price is accounting value and that is depreciating. Now it is basically driving some cost increase in 2011 and would still be there in 2012 and after until it is fully depreciated.

Bob Kommers – Deutsche Bank

OK. Thanks a lot. Thank you.

ACT Operator

Thank you. Our next question comes from Kathleen Middlemiss from UBS. Please go ahead.

Kathleen Middlemiss – UBS

Good day and thank you. The line was breaking up a bit so forgive me if I ask this again. But you did comment on subordinated debts but what about senior debts in the euro bond market, are there any plans for that issuance in 2012?

Jean-Pascal Duvieusart

We have been issuing senior debt in the rouble market and trying to do that again. We will see how the markets evolve.

Kathleen Middlemiss – UBS

For the rouble markets what are you going to plan on issuing during 2012?

Jean-Pascal Duvieusart

We have registered RUB20 billion of debt, so we can basically use any window when it opens. Let me go back one step which is our funding strategy for 2012, not on a month by month basis, it is not a quarterly basis but overall is to keep this in diversified funding base as the one we have right now. We have about 65% of our funding coming from deposits, 65% maybe 70% depending on the relative price of different source of funding. And therefore we will grow also our debt issue both in rouble and euro bond market. You have to know that euro bonds for us are slightly more expensive because we need to swap back most of the funds into rouble. The rouble bond market also is less sensitive than the euro bond market in terms of being on off.

Kathleen Middlemiss – UBS

OK. Thank you.

ACT Operator

Thank you. Our next questions comes from Simon Nellis from Citigroup. Please go ahead.

Simon Nellis – Citi Group

Hi JP. Actually most of my questions have been asked. I might just ask, can you hear me?

Jean-Pascal Duvieusart

Yes, we can.

Simon Nellis – Citi Group

I might just ask about the loan books split a bit. I mean you saw a very strong growth in consumer lending. Is that occurring at Nomos or is it occurring at BKM? And how are you managing credit risk there, I think you have had some problems in the past; how are you doing business differently?

Jean-Pascal Duvieusart

The loan book is growing both in Nomos and in BKM basically through cross-selling, through Bank at work and through street acquisitions. We had some problems with street customers in January, February and March, but otherwise I have to say so far this year all the vintage analysis we saw and we also discussed in the risk committee yesterday show very strong performance on the consumer cash loan, on collateralized retail cash loan in both banks. In Q4 we increased our consumer loans share to 46% as at December 2011 from 38% at the beginning of the year, as we basically transfer our cross-selling and cash loan capabilities from Nomos to BKM.

We are managing risks centrally, we have automated credit conveyor system now in place which allows us to basically offer good customer service and good credit control. And we are monitoring and see the performance of the loan book by branch, by segment by sales person to make sure we are able to capture any problem, capture any trends which would deviate from the expected numbers very quickly. It is a very profitable activity for the Bank. We are issuing loans at roughly 18%, it can go up to above 20% and our risk cost right now is below 2%. Take whatever cost of funding and whatever OpEx we are OK.

Simon Nellis – Citi Group

Right, OK. That's very helpful. And maybe just one another question on the loans under reverse repo. I noticed that the exposure has gone up over the quarter. Can you just elaborate why you are happy to do that business?

Jean-Pascal Duvieusart

Let me take here a bit of a stand going against common wisdom. The reverse repo lending at Nomos Bank is recourse based lending, which means you do this with a high-quality credit review process to first quality borrowers, We are not doing reverse repo lending based on whatever paper, lending money to bad people. We have a very strict credit review process for reverse repo lending. Then in addition to basically shaping the quality of the credit customer we are having a recourse to a liquid stock which we can sell at our own discretion if the customer is not repaying the debt. Fundamentally in our reverse repo loan book we are in a better position from a risk management perspective than what you would have and expect in most of the lending activity of the banks in Russia. Because we end up having a liquid collateral which is legally at our own disposal and which we can sell if the lender does not basically repay and fulfil its own obligation. As a result so far this is an activity where there is no risk cost.

Simon Nellis – Citi Group

Yes. And what is the average margin on that book, has it changed?

Jean-Pascal Duvieusart

The average hair cut or the average margin?

Simon Nellis – Citi Group

The margin, the hair cut I can find from the financials.

Jean-Pascal Duvieusart

We will post the average margin on the website if you want.

Simon Nellis – Citi Group

OK.

Jean-Pascal Duvieusart

Well, it is a question we had before, It is a profitable business, it is a very good way to basically to use the whatever excess liquidity we have at any point and enhance the profitability of the bank at times, where issuing long-term loans is more difficult.

Simon Nellis – Citi Group

Yes. I guess I was just wondering if the margin has changed, have it gone up or down relative to where it was before?

Jean-Pascal Duvieusart

Let me stay factual and –

Simon Nellis – Citi Group

OK. Thanks very much.

Jean-Pascal Duvieusart

Yes.

ACT Operator

Thank you. Our next question comes from Svetlana Kovalskaya from Renaissance Capital. Please go ahead.

Svetlana Kovalskaya – Renaissance Capital

Hi JP.

Jean-Pascal Duvieusart

Hi.

Svetlana Kovalskaya – Renaissance Capital

Couple of questions. First of all as we are now already at the end of Q1 2012, could you give us some update on how Nomos Bank can stand year-to-date in terms of loan growth, deposit growth, on an absolute basis or relative to the sector?

Jean-Pascal Duvieusart

Look I think if the bank has been dropping, no I cannot give you right now the year-to-date results officially announced, Svetlana. I think overall we are doing as per plan, we are reiterating our guidance for the full year with 20% loan growth if the market continues to develop as it does right now. We witnessed a much better situation on the funding front than we saw in Q4 last year and the Bank has now a very, very comfortable position to basically grow our business. I witnessed good performance on retail and small business, while January, February in corporate is always slow and had proven to be slow again. These are the key points I can tell you.

Svetlana Kovalskaya – Renaissance Capital

OK, thank you. And then my next question on your fee income. I don't think you mentioned so far what is your expectation for 2012. 2011 was extremely strong in terms of fee income growth and I am just wondering how significant a slow down would you expect them in 2012? Can we see another year I would say more than 20% fee income growth year-on-year?

Jean-Pascal Duvieusart

I think here again, I would like to go back to the principle of our guidance, the guidance we have given so far as per recommended by our lawyer, which is we are still guiding the level of ROE at 20% and the loan growth, without any specific guidance on a line-by-line item. However I think planning at 20% growth in the net fee income for this year is conservative.

Svetlana Kovalskaya – Renaissance Capital

OK, thank you very much. And then just a quick technical question on your provisions. As you mentioned that in Q4 your cost of risk was somewhat higher, your provisional charge was somewhat higher than in the previous three quarters. Well, this quarter it just stayed stable or even improved. I was just wondering why was that increase in the provisioning charge in Q4?

Jean-Pascal Duvieusart

Yes, I think here again these things are highly volatile on a quarter-for-quarter basis, when we look at the overall risk cost for the year 2011, on a quarter-by-quarter basis the actual risk basically went from 0.6% in Q1 to 1% in Q2 to 0.8% in Q3 to 1.2% in Q4, as you can see variation of 0.4% on annualised quarterly risk cost is very easy. I mean it can happen and does happen, it is more of an issue of small numbers. Overall we have not witnessed any deterioration in the quality of our loan book which would make us to revisit our guidance that our risk cost for the year would be below 1% again.

Svetlana Kovalskaya – Renaissance Capital

OK. Just to make it clear, so did I get you correct that you generally expect your provisions to be lower in 2012 on a quarterly basis than in 2011?

Jean-Pascal Duvieusart

No. I think we are still guiding for risk cost below 1% but not significantly below what we had in 2011.

Svetlana Kovalskaya – Renaissance Capital

I see, thank you very much. That's it from me.

Jean-Pascal Duvieusart

Welcome.

ACT Operator

Thank you. Our next question come from Mikhail Shlemov from VTB Capital. Please go ahead.

Mikhail Shlemov – VTB Capital

Hi, JP. A couple of questions from me please. I would like to get some colour on the decline of the corporate loan book in the fourth quarter. It was something just like a little bit of a new emerging trend Sberbank was aggressively expanding their market share in this particular segment and if you would see this continuing or it was more driven by one-offs?



Jean-Pascal Duvieusart

Sorry, repeat again your question. So, your question is if we think that the decline for –

Mikhail Shlemov – VTB Capital

In the corporate loan book, the corporate loan book has declined by 6% in the fourth quarter, I just wondered if it was one-off specific repayment or some changes to your underwriting policy or more aggressive competition from say State Banks which had happened?

Jean-Pascal Duvieusart

No. I think we have to go back to September last year when we did Q2 presentation where we explicitly said, at that point in time we had a very, very strong growth in lending activity in corporate and that by the way triggered lot of questions from you. And at that point in time we said look as Q4 is unfolding and we are by now in September, so we are very cautious. And it was basically tidying our underwriting principle and focus our lending capabilities on higher margin segments until we get more visibility on how the macro situation will evolve in Russia. This is what we did, so we have increased our rates substantially and you can see that already by the way in our average rate on the corporate segments for Q4 which is a testimony of us tightening the rates. And that has led obviously to a margin of decline of our corporate book in the quarter. We don't expect that to proceed like this for the few next quarters and so far the euro is not showing a similar trend.

Mikhail Shlemov – VTB Capital

OK. That sounds quite helpful.

Jean-Pascal Duvieusart

Sorry, Mikhail, you have to go back to our strategies over the mid-term grow faster in small business and retail than in corporate, which basically means when you have a quarter like Q4 which is a choppy quarter by Russian standards, we basically are focusing our lending ability on higher margin segments. It is a question of capital allocation.

Mikhail Shlemov – VTB Capital

OK, that is clear. And my second question is actually on the customer accounts growth again in the fourth quarter. When I was reconciling this with the related parties exposure on my numbers it seems like 50% of an inflow was coming from related parties balances, any colour that you could share on that would be very helpful?

Jean-Pascal Duvieusart

There is obviously also some related party inflow but it is one part of it on the corporate side and not on any of the other segments. I think we have been and we are aggressively using the opportunities we have so basically captured not only lending profitability under related parties loans or deposits.

Mikhail Shlemov – VTB Capital

OK. But these deposits have stayed, so can we basically model that loan to deposit ratio around 120% just like in the middle of your range at some sort of sustainable level which we could expect to be stable throughout 2012.

Jean-Pascal Duvieusart

Let me give you a go back, we have always said our funding strategy is around 120% loan to deposit ratio, a bit below or a bit above depending on the quarter. I think what is very important is that we don't at any point in time do something which basically reduces profitability excessively, so that is why in Q3 we were cautious before going back into increasing our deposit rate for retail which is the most expensive source of funding. And we will basically forward our efforts on corporates and getting long cheap interbank money. Now as the rates on the retail side are getting more into a reasonable rates we would basically push back on the retail deposit and collect more deposit in that segment.

Mikhail Shlemov – VTB Capital

Excellent. Thank you very much JP, that's helpful.

ACT Operator

Thank you. Our next question comes from Rustam Botashev from Unicredit. Please go ahead.

Rustam Botashev – Unicredit

I would like to have a sort of follow up question on your corporate loan book. You said you increased the rates on your corporate book in the first quarter and that triggered decline in the total book, is it correct, did I get you correctly?

Jean-Pascal Duvieusart

Sorry, can you repeat. The line is pretty bad.

Rustam Botashev – Unicredit

Sure. Do I understand you correctly, you increased the interest rates on all the loans outstanding in your corporate book and that triggered a decline in the book in the fourth quarter?

Jean-Pascal Duvieusart

We have increased the interest rates, we are tightening the underwriting criteria and will be more selective in whom we gave the loans to, that indeed some of it triggered a reduction in our corporate book for Q4.

Rustam Botashev – Unicredit

Did you do it for all the existing loans or just for the new loans under it?

Jean-Pascal Duvieusart

We did it for all the loans that came up for re-pricing.

Rustam Botashev – Unicredit

OK, I see. Another question I have in terms of your capital guidance, tier 1 guidance for this year not less than 10.5%, you have 12% right now. You are talking about ROE of 20% that loan growth of 20%, why do you think your tier ratio might decline?

Jean-Pascal Duvieusart

No. I think the guidance on the core tier 1 is not a plan, it is a minimum. Should loan growth accelerates we are comfortable dropping our core tier 1 to 11%. I think the key point we wanted to convey is that we have enough capital to basically grow at 20% or to grow faster if the market basically makes it possible.

Rustam Botashev – Unicredit

OK, clear on that. The last question on BKM, I think five days ago news hit the wires that the regional government wants to sale the stake within 2012 and you said that ideally for you it would be next year given all the reasons that you have mentioned. Can you elaborate on this. If the government is really keen to sell it this year, will you bid for this or you will let it go?

Jean-Pascal Duvieusart

First of all let me set back, the bank has nowhere to go than here. OK, so the local government cannot sell it without us saying that we will bid because there are very few people that are interested in buying 44% stake in a bank in Siberia when you have 50% controlling shareholder which is integrating the bank. I think we have to be realistic about the chances of that anything happens without us being deeply involved in it. What we have said is that we are interesting in doing at the right price, at the right time and I think we are working on that. It is personally a very good news that the local government is now saying they want to sell, probably will get them at the right price level.

Rustam Botashev – Unicredit

OK. That's it from me. Thank you.

ACT Operator

Thank you. Our next question comes from Olga Veselova from Merrill Lynch. Please go ahead.

Olga Veselova – Merrill Lynch

Good afternoon. My first question is about capital, the question is actually about capital under Russian accounting standards. Sorry the line was a little bit bad when you discussed that. The Capital Adequacy N1 11.3%, do you feel comfortable with this relatively low level? And what pressure on this capital adequacy you would expect in the first half of this year from recent changes in the legislation? This is my first question.

Jean-Pascal Duvieusart

OK. Two points, 11.3% is not low, it is more than needed, what we need to do is 11%, so 11.3% is sufficient. You have to understand that N1 is not a good measure of our economic ability to support the growth of business, it is a purely regulatory matter which we need to manage and we have managed and we will manage on a quarterly basis. We have a clear goal to get above 11% but not more than what we need to because it is an expensive thing to do if we get too much of it. We are totally comfortable with our 11.3% and we would keep managing the growth of the business and having an N1 which is going to be above 11%. But there is no benefit in getting it to 12% or 13% especially that there are many, many ways in the Russian economic standards you can create the capital.

Point number two, regarding the expected change in the new regulation, the so called increased coefficient for risk in Russia. We have fully incorporated that in our budget and are working with the clients that are basically generating and hence increased reserve requirements so that they restructure their loans in due times so that the bank does not hit inappropriately by these loans. If the clients don't comply to the new regulation then they will pay more because the bank will have to put aside more equities for the loan, so it will become a pricing discussion. The process I have to say is mired with a lot of time to manage the transition therefore it gives the time both to the bank and to the client, the time to manage the transition properly.

Olga Veselova – Merrill Lynch

Clear. And do you have an estimate, what portion of your loan book, loans provided to clients who do not comply with the new regulation?

Jean-Pascal Duvieusart

It is marginal.

Olga Veselova – Merrill Lynch

Marginal, I see.

Jean-Pascal Duvieusart

It is marginal and by the time the new regulation will come in place which is as of 1 July it will be totally marginal.

Olga Veselova – Merrill Lynch

All right. Net-net you would not expect material effect on your N1 norm due to this change?

Jean-Pascal Duvieusart

No.

Olga Veselova – Merrill Lynch

No, all right. That is clear, thank you. My second question is about decline of corporate loan portfolio in the fourth quarter again. I appreciate that you target SME loan and retail loans more, could you tell us what would be the structure of loan portfolio you would target let's say by end of this year or next year?

Jean-Pascal Duvieusart

We said that our mid-term strategy was to have a retail and small business portfolio representing around 25% of our loan book. We are now at just under 20% coming up from 17% last year. I think having that type of change over time like a 3% to 4% increase in the portion of our loan book represented by small business and retail is what I think is expectable.

Olga Veselova – Merrill Lynch

This year or longer-term?

Jean-Pascal Duvieusart

No, 3% to 4% by a year. Almost 70% of our loan book is corporate and it is possible to rebalance the portfolio very fast and in addition to that we like our corporate activities, it's a very good business.

Olga Veselova – Merrill Lynch

Right, very good. My third question is about potential capital raising. Did I understand you correctly that before you see progress on changes that the GDR programmes, the legislation on GDR caps you would not want to raise new capital, is this correct?

Jean-Pascal Duvieusart

Either GDR or the Central Depository being implemented successfully to the satisfaction of our international investors.

Olga Veselova – Merrill Lynch

Right either or, that is very clear. Thank you. And my last question is about yields on loans. I think the increase of loan yields in the first quarter was really very impressive, almost 70 basis points quarter-on-quarter. If you could tell us by how much in total you have increased interest rates on retails loans and corporate loans since end of third quarter and when were the latest increases?

Jean-Pascal Duvieusart

You want to know the rates we are charging.

Olga Veselova – Merrill Lynch

No. I am asking by – I understand that it's a wide range but if you could tell us by how much you have increased interest rates by percentage points, by 2 percentage points since the end of third quarter.

Jean-Pascal Duvieusart

If you go to page nine you have segment by segment what has been the average yield increase.

Olga Veselova – Merrill Lynch

That is yields, I mean new rates.

Jean-Pascal Duvieusart

The new rates went up in the fourth quarter in November, December in corporate between 150 to 250 basis points higher compared to before the summer. I mean they have gone up massively. In retail we have cancelled all the lower rates products for the month of November and December. You can easily have rates going up by 2% or 3% for same quality of clients.

Olga Veselova – Merrill Lynch

That is clear. Thank you very much.



Jean-Pascal Duvieusart

We have time for one more question then we have to run.

ACT Operator

Our last question comes from Olga Budovnits from UBP. Please go ahead.

Olga Budovnits – UBP

Hello. I have a couple of questions. First of all a follow up on the reverse repo. Can you tell me as the majority of them are secured by shares how often do you calculate fair value of collateral? And did you have to exercise any margin calls in the second half of 2011 and how smoothly this went?

Jean-Pascal Duvieusart

On the fair value of collateral it is a quarterly review. But depending on where the share price moves, compared to certain banks, or you compute it on a daily basis and then as long as you are within some range, no adjustment being done.. Yes obviously we have done margin call when things went down in the beginning of the fourth quarter and of the third quarter otherwise we would not have been able to maintain our hair cuts.

Olga Budovnits – UBP

And you didn't have to let go any of the borrowers or take collateral instead of just like –

Jean-Pascal Duvieusart

No. One question is compared to 2008 and compared to 1998 the crisis we had last year was a crisis on the financial market that has not generated any meaningful deterioration of the credit quality of our portfolio. We have not witnessed any of these things. And my constructive view on the future based on what I saw so far is that we would not have that.

Olga Budovnits – UBP

Let's hope for this. My second question is, I was reading **Fitch** report which they issued in November 2011 and they mentioned that you have a significant exposure to Belarus and the Belarusian banks. Can you comment how significant this exposure is relative to your capital for example if this is loans, or bonds or both? And if you have any problems in servicing this exposure?

Jean-Pascal Duvieusart

Regarding the exact amount of exposure to Belarus I will come back to you. It is by the end of year not as significant as that, not in absolute term nor in percent of our capital. We haven't witnessed any servicing problem from any of this exposure. You have to understand that we are doing this in a very selective way and specifically and it is not usually there is always a part of overall relationship we have with creditors where we have at least similar amount of liabilities sitting on our balance sheet and are basically a collateral to the asset we have with the counter party. The credit risk is secured by deposits either in cash or in gold on our account. And as a result we have not seen any servicing issue in our Belarusian exposure.

Olga Budovnits – UBP

It was only like back-to-back transactions favourable to customers?

Jean-Pascal Duvieusart

It was back-to-back transaction, it was a fundamental way for some Belarusian people to monetise gold deposits they have which they don't want to sell.

Olga Budovnits – UBP

Because basically they do not have any subsidiary or representative in Belarus so your acquaintance with Belarusian risk and probably; I was a bit surprised that you have this report basically.

Jean-Pascal Duvieusart

Yes. Our acquaintance with Belarusian risk is supported by the fact that we have not had any credit risks ever materialised in the relationship.

Olga Budovnits – UBP

You were not affected by the fact that Belarus did not have access to foreign currency?

Jean-Pascal Duvieusart

No. It was like some of the transaction is also trade finance transaction where you are dealing with a daughter company of the VTB or daughter company of Sberbank. The fundamental risk you are having is Sberbank or VTB.

Olga Budovnits – UBP

My last question is also regarding this Fitch ratings report. Basically they were saying that you understate your revenues? In light of this, were you transparent enough in your disclosure?

Jean-Pascal Duvieusart

I will leave it up to Fitch to say whatever they want about us under-declaring or under-reporting whatever. I cannot subscribe to that statement every single second. Our accounts are fully audited, fully reviewed. We went through the substantial due diligence as part of the IPO. After that no, it once says that they think that X is a friend of Y and therefore this is related party lending, it is Fitch responsibility, it's not ours.

Olga Budovnits – UBP

Yes. But basically all the rating agencies they work on the information provided by the management. It was based on the information. I don't think that they just Google it, right?

Jean-Pascal Duvieusart

Let me totally disagree with that statement. We have provided them the portfolio breakdown and after that if they want to say something else it is up to their responsibility. And by the way I don't think they said we under report, they have another wording, they would never go and say we are under-reporting.

Olga Budovnits – UBP

No. It is just that what I saw there

Jean-Pascal Duvieusart

The key thing from the Fitch report is that they have increased our ratings. I think that is the key thing to exercise.

Olga Budovnits – UBP

Well this was all from my side. Thank you.

Jean-Pascal Duvieusart

OK. Thank you very much for the time to all of the participants in the phone call. we unfortunately have to stop here because we have to take a plane to go to London and do a further meeting with various investors. We will be hitting the road this week in London, next week in Europe and after the week of Easter we will go to the US as part of our efforts to extend the performance of the Bank and how we are doing and our belief regarding its future development. Thank you very much for your time and your questions.

ACT Operator

Thank you. This does conclude the Nomos Bank 2011 Results conference. Thank you for your participation. You may now disconnect.

END OF CONFERENCE