Conference Transcription

Date of conference : June 28, 2013
Conference title : Nomos Bank – Nomos Bank 1Q 2013 results

CONFERENCE DETAILS

Conference Date:	June 28, 2013
Conference Time:	17:00 Moscow Time
Chairperson:	Sergey Kovtun (Russia)

Operator: Welcome to the Nomos Bank first quarter 2013 results, held on the 28th of June, 2013. Throughout today's presentation, all participants will be in listen only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation, please press the *, followed by the 0 on your telephone for operator assistance.

I will now hand the conference over to Sergey Kovtun. Please go ahead.

Sergey Kovtun: Good evening, everybody. If we have participants from North America, good morning to you guys.

We had very good positive results for the first quarter of 2013. Net income amounted to RUB4.4 billion, which is 8% higher year on year. Return on equity stood at stable level, comparable with 2012 results, at 18%.

The growth of total assets of the Group was higher than the market average almost by 5 times. Total assets grew by 3.3%, while the market average growth was only 0.7%.

Group’s loan portfolio increased even more, by 7.7%. Positive results showed all core business segments. Corporate loans grew by 7.5%, Retail by 6.2%, and Small Businesses loans grew by 6.9%.

As you can see, this is not very common trend, when the corporate segment grew faster than the two other segments, but we think this is the peculiarities of this particular quarter.

The Group’s customer deposits increased by 11.3%. Term deposits were up by 13.9%. The share of interbank funding declined to 21.5% of total funding.

Total operating income increased by 13.2% year on year. Net interest income increased by 20% year on year. Net fee and commission increased by 15.9%. And as always, we are paying pretty much attention to this source of income, as all banks, I think. This is a stable source of income for us.

Operating costs fell by 16.5% quarter on quarter, and our cost/income ratio improved, compared with the last year, to 45.8%.

Risk cost declined, driven by conservative risk management and a well-diversified loan portfolio, and very stable asset quality. NLP coverage ratio remains at a very comfortable and one of the highest for the Russian market level, and stood at 167.7%.

The capital adequacy ratio for Tier 1 stood at 10.6%. Total capital adequacy was 16.0%. I would like to remind you that for ourselves, we are setting limits for Tier 1 capital adequacy ratio at around 10% - 10.5%, so we are within these limits.

On the next slide you could see the operating performance of the Group. Revenue composition is more or less stable, with the majority fell to the net interest income. The share of net fee and commission income in total revenue was also stable and comprised 17%, 16% from year to year.

On the next slide you could see the performance of the corporate business. So, as I mentioned before, the corporate loan book grew by 7.5%. This is a good growth for this particular segment. For ourselves, we are setting a target of 20% loan growth for 2013. So if we look at the 7.5% loan growth, we could conclude that we are in line with target which was set for the year.

Deposit portfolio also showed the positive trend, with the increase of 18.2%. Profitability results are stable. Net fee and commission income generated by this segment of the Group is also stable.

On the next slide you could see the performance of the Retail business. The loan portfolio grew by 6.2% compared with the year end 2012. Profitability results are also stable in comparison with the year 2011, and slightly declined on annualized basis from the year 2012. That's primarily due to the fact that the first quarter of the year is more or less historically flat for the Russian banking sector, taking into account a very long period of the New Year holidays. So this will improve by the year-end for sure.

Fee and commission income increased, so this is a very good sign, that we are increasing the share of wallet of our customers.

On the next slide, you could see the performance of the Small Businesses. The loan portfolio dynamic is also positive; with almost 7% increase. We have very good profitability results for this segment. You can see that RORAC for the year 2011 was 35.5% and for this year it was also 35.3% on annualized basis.

For the year 2012, you can see the peak in the performance of the Small Business segment. The RORAC reached 48%, but this was primarily due to the recovery of provisions on some loans. If we eliminated this effect, the RORAC would have been stable at the level of 35%.

On the next slide, we will talk about the net interest income and cost of funding. As you can see on the left the net interest income increased by 12.1% on annualized basis. The net interest margin slightly declined, to 4.4% - this was primarily affected by the higher costs of term funding reflecting the overall market situation. For us, it was reflected in the increased interest rates on corporate and retail deposits.

One more comment on the increased funding costs. The share of long-term funding in corporate segment increased and this, together with the overall market situation, also contributes to the increased funding costs.

Next slide, we will talk about the diversified the funding base. So as we mentioned during the previous calls, we are not targeting a very low loan to deposit ratio, as we do believe that the funds of the -- for example, the Retail customers, are not as stable as in Western countries. So we are targeting a kind of diversification of the funding base, as you can see on the slide 7.

Nevertheless, we increased the share of the customer funds. This increased to 62.9%. That gives us an opportunity to decrease the loan to deposit ratio to almost 121%. For us, the comfortable loan to deposit range is from 115% to 135%.

Again, the volume of customer accounts increased comparing with the beginning of the year by 11%. This we have already discussed.

Also on this slide, you can see the bonds and subordinated debt repayment schedule. This year, we should repay around RUB16.7 billion. This is actually not a significant amount for the Group. We could repay it easily now with the liquidity caution we have at the moment.

Also on this slide, you can see the maturity composition of the customer accounts, and you can observe that the share of the long-term funds in our customer portfolio has increased.

On the next slide, we'll talk about the quality of the assets. Traditionally, we deliver very positive, I would say, high quality results in this aspect. Non-performing loans stays stable at around 2.1% of the loan book. NPL coverage is also very comfortable, with the level of 167%. The portion of renegotiated loans is stable, below 1%.

NPLs by segment are more or less stable, with the very slight increase in Corporates and Retail business segments - all these loans were observed by the Group before they became NPLs so that the necessary provisions were created before the loans became impaired. These loans had no effect on our P&L for this quarter, as the provision had been created before.

On the next slide, we will talk about diversification of our loan book. As you can see, we have a pretty much diversified loan book for Corporate and Small Businesses. And this diversification is pretty much stable comparing with 2012 and 2011.

The composition of the Retail segment is also stable, with the majority of loans being consumer loans. The share of car loans is only 4%. We are not providing such type of loans for almost a year. This is just the amortization of the old car loan portfolio.

On the next slide, we will talk about the capital adequacy ratio. Actually, we already talked about it at the very beginning of our presentation.

So the total capital adequacy ratio is 16%. Tier 1 ratio is 10.6%. This is pretty comfortable and stable level for the Group.

So, for the presentation, that's all. Thank you very much for your attention, and we are ready for your questions.

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

We have the first question from Olga Veselova from Bank of America Merrill Lynch. Please go ahead.

Olga Veselova: Good evening. I have a couple of questions. One is, could you update us on how the process of the deal with Otkritie is going? When do you expect it to be finalized? And do you think there will be any buyout offer for holders of common shares in Russia?

And my second question would be about interest rates. Have you started to cut interest rates on corporate loans? And if yes, could you tell us by how much, on average? Which actions do you see from your competitors, including from state banks on this side? Thank you.

Sergey Kovtun: Thank you very much for the questions. I will start to answer from the second one.

State-owned banks always have the opportunity to grant loans at the lower rates than the commercial banks. This is just due to the fact that they have cheaper source of funding. They also have better ratings. So they can attract funds from, for example, international capital markets, at more favorable conditions.

So we are working with the clients, which are, I would say, a little bit below than the blue chips. And of course, we have a kind of competition in this segment with the state owned banks also, but this competition is not so severe, I would say. So we are comfortable with that.

If you look at our slide on the net interest margin, you will see that the interest rates on corporate loans are more or less stable. So we are not decreasing rates for the corporate borrowers.

So, that's the answer to the second question.

Olga Veselova: Let -- sorry, before we progress to the first question, may I ask, in this segment, in mid-sized corporate clients, do you see stronger competition or weaker competition from the state banks, if possible?

Sergey Kovtun: We see competition from the state-owned banks only in this segment, because we are not competing with them for the blue chips companies. But this competition is not severe. If you look at our figures, we managed to increase our loan book by 7% during the first quarter 2013. So this is not a problem.

In relation to the first question, we are right now discussing the first quarter results and are not discussing the deal with Otkritie, and do not comment on that during this call. If you are interested in this information, we could set up another call or discuss it by e-mail.

Olga Veselova: All right, fair enough. Thank you.

Operator: Once again, if you would like to ask a question, please press the *, followed by the 1 on your telephone. To cancel this request, please press the *, followed by the 2. Thank you.

The next question comes from Andrey Pavlov from Sberbank. Thank you.

Andrey Pavlov: Hello, Sergey. Thanks for the presentation. I've got a small question. Do you possibly have any plans of a capital issue anytime soon, probably connected to the deal with Otkritie Corporation, or consolidating Otkritie Bank? Thank you.

Sergey Kovtun: Thank you for the question. Unfortunately, at the moment, I cannot comment on this topic. Again, we are discussing the results of the first quarter 2013. This topic is behind that. So again, we have certain plans, but this is a separate topic. If you are interested in that, please email to our IR team, and we will respond to you.

Andrey Pavlov: Okay, thank you.

Operator: Once again, if you would like to ask a question, please press the *, followed by the 1 on your telephone. To cancel this request, please press the *, followed by the 2. There will be a short pause while we wait for participants to register their requests. Thank you.

The next question comes from Grenna Trattivar from Sberbank Asset Management. Thank you.

Grenna Trattivar: Hello. Congratulations on good results. Just one more question about costs. You showed very good dynamics and cost to income ratio decreased. How sustainable is the dynamics, and what do you do to decrease your cost growth?

Sergey Kovtun: Thank you very much for your question. Yes, we are paying pretty much attention to our operational costs.

I would say that this quarter was pretty good in terms of costs saving because we cut several types of costs. This is one of the reasons why the cost/income ratio was pretty slow.

The second reason is that we have scheduled several projects for the coming quarters, so called an allocation of costs to the future periods. I would say that for the year, we will deliver the cost/income ratio which will be very closer to last year cost/income ratio. In any case, it will be lower than 50%.

Grenna Trattivar: Thank you.

Sergey Kovtun: Thank you.

Operator: Once again, if you would like to ask a question, please press the *, followed by the 1 on your telephone. To cancel this request, please press the *, followed by the 2. Once again, if you would like to ask a question, please press the *, followed by the 1 on your phone. To cancel this request, please press the *, followed by the 2. There will be a short pause while we wait to see if there are questions. Thank you. Once again, if you would like to ask a question, please press the *, followed by the 1 on your phone. To cancel this request, please press the *, followed by the 2. There will be a short pause while we wait for the requests. Thank you.

Sergey Kovtun: Dear colleagues, thank you very much for your interest and questions. We could assume that the Q&A session is over. If you have any additional questions, please do not hesitate to contact our IR team. We'll be happy to answer them.

Looking forward to hear you in several of months, when we will present first half 2013 results.

END OF CONFERENCE