Conference Transcription

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CONFERENCE DETAILS

Conference Date:	29 May 2012
Conference Time:	16:00 Moscow Time
Speakers:	Jean-Pascal Duvieusart Marianna Naumenko

ACT Operator

Ladies and gentlemen, welcome to NOMOS Bank First Quarter 2012 Results Presentation. Throughout today's presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. 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 JP. Please go ahead.

Jean-Pascal Duvieusart

Hello, everybody. This is Jean-Pascal Duvieusart from NOMOS I am here with Marianna Naumenko. We are going to start the presentation for the first quarter 2012 results. The presentation, which we are using you can either download from our site, or you can go and connect to the cyber presentation which was included in the invitation we sent around.

I will directly jump to the second page of the presentation to give you the key messages about the first quarter 2012. Overall I think we had a good profitability number in what was by any measure a fairly complex quarter characterised by volatility and by the presidential elections in Russia. Overall, despite that, NOMOS delivered a strong performance with annualised return on equity of 20.1% in line with our guidance. Net profit per GDR increased by 18.5% year-on-year to USD 0.6 in the first quarter 2012. That was in terms of profitability.

In terms of customer loan, they grew slightly by 0.5% during the first quarter. Adjusting for movement in exchange rate, the net customer loan portfolio would have increased by 3% with strong growth in retail and corporate segments, which are very important. To go one level of detail deeper, retail loans grew by 6.6% quarter-on-quarter to just under RUB 62 billion, so very strong performance especially on the cash loan side. Corporate loans grew 2.2% quarter-on-quarter to RUB 328 billion. Small business loan grew by just under 2% quarter-on-quarter to RUB 30 billion and repo loans went down by 23% quarter-on-quarter to RUB 30 billion, a reduction that I think would be welcomed by some of you.

The net interest income increased just under 20% year-on-year to RUB 7.3 billion but showed a slight decline quarter-on-quarter driven by an increasing cost of funding to 6.4%. Net interest margin was at 5.1% which is in line with what was witnessed in the first quarter of last year where we ended up the year with a 5.5% net interest margin for the full year.

Net fees and commissions increased 47.7% year-on-year to straight RUB 1.7 billion. The growth is primarily coming from the Corporate and Retail segments. The evolution of fees and commissions on the small business side is fully in line with the seasonal aspect of that business. We can talk more about that in the coming pages.

Trading gains were strong. We basically did very well on foreign exchange, very well on precious metals which are customer driven business. We also did well on the fixed income basically completing the recovery of the losses which were incurred from mark to market revaluation in the third quarter of last year. We generated about RUB 900 million of fixed income trading gain in the first quarter of this year.

Operating costs fell – I think it's an important point – 6.3% quarter-on-quarter to RUB 4.6 billion and the cost income ratio stood at 43% in line with guidance. I have to say that we are working very hard to increase the efficiency of the Bank. And in addition to many of the initiatives we talked about regarding synergy, integration of BKM, we are also doing a lot of work to restructure the branch network and reduce decentralized back office work. We will talk more about that later because we think it's an important driver of our future operating performance.

Risk cost was stable at 0.8% in line with our previous performance. The NPL coverage ratio fell from 212% to 164% reflecting migration of two loans that were not non-performing but were already provisioned in the fourth quarter of last year into the NPL category in first quarter 2012. This migration had no impact on the quarterly profitability of the Bank as the loans were already provisioned. We have always said, by the way, that the NPL coverage ratio is something which could fluctuate quarter-on-quarter, since the two elements of this ratio are not managed one in relationship to the other but independently.

From a funding perspective, the funding structure of NOMOS remains stable with deposits representing 65% of our total liabilities and interbank just under 20%. Bonds, promissory notes are at around 11%. As of end of Q1 2012 the Group's loan to deposit ratio stood at 118% in line with our guidance and the position we had at the end of last year.

The Bank has an extremely strong capital adequacy ratio with the core tier 1 CAR of 12.8% and total capital adequacy ratio of 16.7%. This is excluding the impact of the new subordinated debt, which was issued in the second quarter 2012, and which we expect would increase the capital base (as being subordinate debt) from July 2012. We are negotiating this with the Central Bank of Russia.

Net-net, if I can express myself that way, net profit attributable to NOMOS shareholders increased by 26% year-on-year to RUB 3.2 billion. Net profit per GDR increased by 18.5%.

Let me now take you through some more details. I am going to page three. Here as you can see the overall revenue composition has slightly changed reflecting the increase in trading income in line with what we had in 2010. So 2011 in our book is the year of except rather than the year of the rule. Revenue per asset stood at 6.4% which is higher than last year. Operating expenses stood at 2.8% of average asset which is a reduction compared to what we had last year with a cost income ratio of 43% in line with our guidance. Cost of risk is in line with our guidance at 0.6% of average assets. And then from a profitability perspective, the Bank has a very strong annualized return on equity of 20.1% without any caveat, footnote or whatsoever to be mentioned. The return on average asset stands at 2.4% which is in line with the performance we had in 2010.

Let me dive in one level deeper and give you more colour on the performance in each of the segments. Corporate business: from a loan perspective we had a subdued growth or small growth but still a growth factor, which for the first quarter in Russia is a good performance, especially if you add to this the presidential election. Adjusting for foreign exchange difference, the growth stands at just under 3%. Deposits were stable, which is very good. From a profitability perspective, if we are to annualize the quarterly result, we would have a return on capital of the corporate segment standing at 21.7%. Worth mentioning is the very strong dynamics of the fees and commission, which have maintained themselves at a very high level in the first quarter. Also we would like to point out the very strong development of the documentary operations, which is becoming a hallmark of our franchise.

Retail is continuing on its successful trajectory. The loan portfolio has been growing at 6.6% on a quarterly basis which is a very strong growth result. As you will see later, the growth was especially strong in cash loans which are the high margin product and one of the key element of the Bank's strategy to strengthen our position, our profitability and fully leverage our branch network. The deposit base has been stable growing at 2.1%. The result of the increase in loan and the development of fees and commission has led to a very strong profitability number for retail. While a year ago retail was barely breaking even and generating single digit return on equity, we have by now a very strong retail franchise, which is really fulfilling its double mission of providing a significant deposit base to fund the corporate banking activity at attractive cost and fully covering its cost of equity. We have now in retail a return on capital of around 24%, which we feel as being a very strong performance. Fees and commissions were obviously a driver of that profitability and increased on an annualized basis by nearly 20% in the first quarter.

Small business had a slightly more complex quarter, but I would like to say that we believe that this is in line with our budget and we believe that this is a fundament by seasonality. This is a segment where you have a lot of trading and wholesaling activities, which were obviously fundamentally affected by the two weeks extended Christmas break which we have every January in Russia. For you to get an idea of what I am saying is fees and commission for example for that segment in the first quarter amounted roughly to what we had in the second quarter last year. On a seasonally adjusted basis we are basically doing better than last year in that segment.

The small business loan portfolio was stable, growing at just under 2%. Deposit went down marginally, driven by the reduced number of working days in the first quarter, which affected that segment of business more than others. From a profitability perspective, we are still standing at a very comfortable return on equity of around 34% for that segment. Overall we feel very good about small business segment and are comfortable and confident that we will achieve our targets for the year.

I will now pass the word to Marianna, who will take us through some of the other items of the presentation.

Marianna Naumenko

Let me take you to next page, page seven. The Group earned RUB 7.3 billion of net interest income in first quarter 2012. Our net interest income was stable in first quarter and showed almost 18.4% growth compared to first quarter 2011 result. Our net interest margin declined to 5.1%, since cost of funding went up in an environment where demand for loans was not so strong. Our net interest margin in first quarter was in line with first quarter 2011 results. Average rates on loans to customers slightly increased as well as average rates on customer accounts, which stipulated overall cost of funding increase to 6.4% in first quarter 2012.

Let's move on to next page. The capital adequacy ratio was strong: tier 1 improved to 12.8% in first quarter 2012. Our total capital adequacy stood at 16.7%. The key component of the capital adequacy ratio improvement was very strong profitability result and stable amount of risk weighted assets.

Our funding structure is summarised on page nine. The funding position remains stable and well diversified. 64.5% are customer accounts, 17.8% are interbank funding and 11% are debt securities issued. In the composition of customer accounts, 25.8% are current accounts (approximately RUB 98 billion), which is sticky and cheap money for the Group. Bonds and subordinated debt repayment schedule is pretty diversified, so we have no significant repayments in 2012.

In the end of April 2012 NOMOS Group successfully issued subordinated Eurobonds in the volume of RUB 500 million for seven years at 10%. There were over 120 orders, nearly twice oversubscribed with 75% allocation to investors outside Russia. This is the third subordinated bond issue for NOMOS. As of the end of first quarter 2012 there were no outstanding deposits from the Ministry of Finance and CBR funding amounted to RUB 6.5 billion.

Let's move on to page ten. The non-performing loan's share amounted to 2.5% in the end of first quarter 2012, so it went up a bit due to migration of two loans to NPLs category. There was no direct impact on P&L since the loans were adequately provisioned in the end of 2011. Cost of risk was at 0.8% in line with NOMOS Group experience. Coverage for NPLs went down to 164% and our loan loss provision ratio declined, since we had written off RUB 2 billion of bad debt in first quarter 2012.

Let's move on to our loan portfolio structure. Our portfolio remains pretty well diversified. In corporate segment, the majority of loans are coming from manufacturing and wholesale trades with also significant share of non-residential construction and operations with real estate. In small business the majority of loans are coming from wholesale trade and retail trade. In retail portfolio, we are pleased to report that our consumer loans are increasing as well as their share in retail portfolio. As of end of first quarter 2012 it is 49%. This is a high margin segment for us, cash loans, so very important segment for the Group's development. We report a reduced exposure to related parties, which stood at 5.6% of total gross loans. Top ten loans are covering 16% of the loan portfolio. In the first quarter 2012, we significantly reduced the reverse repo portfolio. It went down from RUB 46 billion in 2011 to RUB 36.7 billion in first quarter 2012.

Let me pass the word to JP. He will continue with operating efficiency.

Jean-Pascal Duvieusart

The last slide of the presentation is supposed to give you a bit of a highlight of what we are doing on some of our operation restructuring efforts. The first thing the Bank has been doing is transformation of the fairly complex legal structure that we had inherited from the past. The key point there is to transform filiales into operating offices, therefore reducing the need for accountants and specific reporting to CBR. So far 28 filiales have been transformed and by first quarter next year we will be done with the transformation of the filiales and have a much more reduced and streamlined structure of our network.

Also we have been opening over the last 15 months a fair number of branches and closing underperforming branches, which are predominantly branches we got from some of the banks that we took over from the Federal Deposit Insurance Scheme. The commercial results of the new branches are very encouraging and are showing that we have a concept and a process for branch opening and branch launching which is working properly.

In addition to that we have launched as already mentioned in December 2011 our joint call centre for the entire Group. So far we have 123 employees in the call centre. Three departments are located there fundamentally focusing on sub-collection, telephone verification for underwriting purposes and client service, product sales via inbound and outbound call centres, client satisfaction survey and that kind of thing. The call centre also is obviously operating for all of the banking units of the Group. It's located in Nizhny Novgorod. It is covering entire Russia. We plan to roll out the functionalities of the centre in the months to come. As you can see, there is a good pick up of customer from the customer side as the number of calls coming into the call centre is increasing significantly on a month-by-month basis, reaching 50,000 by end of March 2012.

What about guidance? I assume the question is in the mind of many people. First, I have to say that if I knew the result of the Greek election I would be more comfortable doing guidance. It is true to say and fair to say that the volatility which we currently are witnessing in Europe and by the way also in China is having ripple effect on the Russian banking market and the Russian economy making bullish, secured and more complex doing forecast in all honesty. This being said, we so far have no reason to change our guidance in terms of customer loan growth for the whole year. The performance in the first quarter is in line with what we have seen so far and should the economy stay on a positive course we are still confident about our ability to deliver. Cost income ratio of 45% is totally in line with our performance so far and shouldn't be difficult for us to reach. Return on average equity of 20% is also in line with what we have achieved so far. And we are way above our minimum stated core tier 1 ratio of 10.5%.

I would propose to open it up for questions now.

ACT Operator

Thank you, sir. If anybody 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. Our first question comes from Sam Goodacre from Morgan Stanley. Please go ahead.

Sam Goodacre – Morgan Stanley

Hi, JP and Marianna. I'm Sam here from Morgan Stanley. Just a couple of questions from me. First, when we look at your fee and cost growth in the first quarter, can you perhaps help us think going forward in terms of the fact that we saw 50% year-on-year fee growth and 26% cost growth? Is that sort of indicative of where that could be going at the full year basis or would we perhaps be looking at the annualized numbers you present in your presentation?

The second question actually is then on asset quality from me because I realised that the re-measurement on cash flows out of the BKM deal do actually sort of contribute a positive number to that cost risk, so how much more re-measurement can still be done.

And then the final question actually from me is just on capital and if you could provide some more colour on the decline in market RWAs we saw and sort of along those lines really? Thank very much.

Jean-Pascal Duvieusart

OK, let's take the question in the order you gave them. Fee and commission increase of 50% to 60% last year is probably excessive as a guidance for this year because they were obviously driven by very strong operating performance but also by the acquisition of the payment processor Rapida - Company which contributed to a portion of the growth we had in the retail segment last year. Now annualising the first quarter results is a very conservative estimate given the fact that the first quarter is a very special quarter in Russia with easily 15 business days less than in the other quarters because of the January and March days off. Between the two you have the two extremes. I would not recommend you or advise you that – I think you can shoot for more than the annualized numbers that we have given you here for this year's number in terms of growth.

Regarding the gain on cash re-measurements, the short story because we already went in a lot of detail about that year ago in a couple of the calls - the way to look at this is you have to add the line gain in re-measurement of cash flows and provision for impairment losses on interest bearing assets. You have to add these two things because they are two aspects of one thing which is called risk cost. This is all due to the accounting treatment of the merger with the acquisition of Khanty-Mansiysk. If you just add these two things together, that gives you the risk cost. And you should not try to estimate what portion of the risk cost will be a provision, what portion of the risk cost will be a gain because these are two sides of the same coin. Looking at the sum of the two – we have been guiding for less than 1% as risk cost, which will be less than 1% for the sum of the two lines in our first quarter IFRS statements.

Can you specify the third question, please, because you raised issue about asset quality, but you didn't specify your question. I want to be sure I am addressing it head on.

Sam Goodacre – Morgan Stanley

Yes, that was – thanks, JP. The last one actually was on the RWAs. The reduction we saw in the RWAs amount is driven by market risk in the first quarter, but then also I suppose, we could be thinking about the RWAs growth at a full year basis, whether it would be in line with something like lending or if you can give any colour on that. Thank you.

Jean-Pascal Duvieusart

The risk weighted assets will grow in line with the asset base of the Bank which is obviously primarily driven by the growth in customer loans. We are not expecting to grow our portfolio of fixed income compared to the level where it is. At the level where it is, it is providing the Bank with the right cushion of liquidity which we need going forward.

Sam Goodacre – Morgan Stanley

OK, that's great. Thank you very much.

ACT Operator

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

Jason Hurwitz – Alfa Bank

Good afternoon, JP, quick two questions. First, if you could please discuss your outlook for loan yield in the context of the changing mix of your loan portfolio. The second question – would you say that the Bank's risk appetite has changed? I am noting the drop in the equities that you are holding. And what other measures might you point to in order to show what kind of a shift in risk appetite you might have or might not?

Jean-Pascal Duvieusart

OK. Let's take the first question. If you go to page seven of the presentation, here we are seeing positive influence and evolution of our loan yield in small business which is the result of fluctuations in pricing during the last six months. Yes, the first quarter subdued demand for corporate loan which obviously is a bit hampering the ability of the Bank to price up as quickly as we wish and as strongly as we basically managed in Q4 last year. But we assume the small decline in average rate on corporate loans in first quarter 2012 to be temporary and so far have not taken any decision to basically lower our pricing for corporate loans. I just want to say here that the Bank will put profitability ahead of growth in this market, as we have done all the time by the way. We are confident that what we need to do is to create additional capital through having a profitable loan book.

Jason Hurwitz – Alfa Bank

Sorry I was just going to add what would be the impact of the change in the – well, no longer having as much of the repo loans in the book?

Jean-Pascal Duvieusart

No, not meaningful. The reason for which we pointed out the fact that the repo loans declined by RUB 10 billion in the first quarter 2012 is because we wanted to show that the underlying business segments have been doing pretty well. Overall the performance might show, but we are very comfortable with keeping repo book maybe at RUB 30 billion, RUB 40 billion or RUB 50 billion because so far that has been a very profitable and very well performing book for the Bank. The repo book - in terms of profitability- is roughly at the same level of profitability as the other loans. It is just a different structure of our lending activity.

Now risk appetite, you have mentioned a very good question which is in – we are learning from the crisis, and in the third quarter last year, as you all remember, we had a marked to market loss because of our fixed income portfolio, but also we incurred a meaningful loss on our equity portfolio. We had at that point in time a RUB 3 billion equity portfolio. Having discussed with a few of you, we at the Bank came to the conclusion that it made no sense for our investors to have that portfolio of Russian equities on our balance sheet and therefore took the decision to sell them. We sold the vast majority of it already in December last year and the remaining stake was sold during the first quarter of this year. The Bank has now taken a decision not to carry equities on our balance sheet any more. That will reduce the volatility of our trading gains because obviously that segment of our portfolio was way more volatile than the fixed income part of our portfolio. As a result you may expect reduced volatility compared to what you had last year in terms of trading gains.

Jason Hurwitz – Alfa Bank

Are there any other areas where you are reducing risk appetite or is that the primary?

Jean-Pascal Duvieusart

That's the primary. We are growing and doing everything we can to grow retail and small business faster than corporate. It is likely that as we grow especially the cash flow inside of our retail business, we will enter into higher margin business which is also I think less volatile in terms of risk cost than what you can see in some of the other segments.

Jason Hurwitz – Alfa Bank

OK, thanks very much. I have no further questions.

ACT Operator

Thank you. Our next question comes from Bob Kommers from Deutsche Bank. Please go ahead with your question.

Bob Kommers – Deutsche Bank

Hi! I have a question about - in which other ways the volatility in Europe is impacting the Russian banking sector and NOMOS? You mentioned that you have reduced the market risk exposure, so lower trading losses than last year. I was just wondering what you see how the uncertainty in capital market is affecting the funding costs, the liquidity situation, and as it stands now how you see the margin trend for the rest of the year?

Jean-Pascal Duvieusart

You want a short answer?

Bob Kommers – Deutsche Bank

No, I want a long answer actually.

Jean-Pascal Duvieusart

OK. I see the current uncertainty in the capital market affecting probably negatively the Russian banking market with liquidity being less sure and probably cost of liquidity and cost of funding going up and entrepreneurs being slightly more cautious about investing. The good thing is that all the presidential elections' uncertainties now are removed but you remain with an economic environment which is by any measure more challenging than what it was a year ago in terms of oil price, liquidity and Southern Europe credit worthiness. I mean that's the macro environment in which we are living.

What are we NOMOS doing faced in that environment? I think we are having two attitudes. One is we stayed focused on profitability. If it means we have reduced growth for quarter-to-quarter, that's OK. We just don't want to go into too low level margin lending activities and we are keeping very strong on that level. And despite that we think that our core operating segments have show a very good performance. We are obviously getting cost out of the Bank by increasing the efficiencies, centralising back office, introducing the same IT platform overall between Khanty-Mansiysk and NOMOS. That's what I call the bread and butter to make sure we increase the profitability or maintain a strong profitability.

In addition to that, we are having a very cautious approach to liquidity management. We are having a liquidity buffer and by that I mean something in excess of the cash of the RUB 20-30 billion. We have about RUB 20 billion in cash and RUB 10 billion in Nostro accounts. In excess of that and in excess of what is our credit limit, we are basically holding between RUB 37 billion and RUB 40 billion of high liquids CBR approved fixed income bonds, predominantly short-term fixed income bonds which are basically ensuring us that we will be able to access liquidity at any point in time or at least never be taken at the throat should anything go wrong in the market and therefore had the time to, I would say, manage any negative situation that may occur.

I want to say that this strategy has always been the strategy of the Group. And as a result we never had to use significantly the facilities offered by the Ministry of Finance or the CBR. The deposits received from the Ministry of Finance are more expensive deposit money you can go after. I think at the end of the first quarter we had something like RUB 6 billion of that amount of money on our balance sheet which is very small. It's on page nine of the presentation. And we have seen so far no deterioration in our position.

To make a long story short, yes, the environment is not easy. As a result we stay extremely focused on profitability making sure we keep our underwriting criteria very tight, so good projects with good collateral and to people that have good payment habits. We are making sure we are getting as much as we can in terms of productivity improvement out of the system.

And point number three, we are maintaining very conservative to liquidity management.

Bob Kommers – Deutsche Bank

All right. To take the last point first, so you have about just – I just want to make sure I get the numbers – almost RUB 35 billion to RUB 40 billion in short-term government bonds that can be repo'ed?

Jean-Pascal Duvieusart

Yes.

Bob Kommers – Deutsche Bank

OK. Does that mean that you have no intention to increase deposit rates? You feel this is sufficient also given that the growth is probably going to be relatively subdued in this and the next quarter?

Jean-Pascal Duvieusart

Look, as long as we keep our loan to deposit ratio where it is, we see no reason to basically increase our cost of funding. We have enough funding – we have all the funding we need to disburse loans. We are not liquidity constraint from a growth prospective.

Bob Kommers – Deutsche Bank

Regarding the one – as it stands though – you mentioned that companies are just a bit more cautious when investing, which means that the growth is slower but it is probably also affecting the lending rate. As it stands right now, what would you expect to be the net interest margin for the full year? Is that being still closer to the 5.5% of last year or would you now be more cautious and say it's probably going to be closer to the first quarter level?

Jean-Pascal Duvieusart

No, I think it would be above the first quarter level, may be it will be 5.5%, 5.4%, 5.6%. It is very, very difficult to predict. Things can move fairly quickly in Russia. We have seen many times when a significant portion of the cumulative growth for the year came in the third and the fourth quarter. It is still a market which is very seasonal and there is lots of - at the end of the day we still have an expected GDP growth depending on who you talk to between 3.5% and 4%. It's still an environment that will generate a demand for loans.

Bob Kommers – Deutsche Bank

OK. Regarding the impact on asset quality of this a bit more weaker market, you see any concerns, or you really consider the two loans and the increase in the NPL ratio in the first quarter as a one-off?

Jean-Pascal Duvieusart

Look, the two loans that were provisioned last year, so to some extent as far as we are concerned they just went down the metrics of loan quality. We are not surprised. Obviously we wish they haven't but that's where they are. One is in the shipbuilding sector, the other one is in the real estate sector. They are not even like in the same sector. One is in manufacturing broadly defined, the other one is real estate and that's where we are. So far we haven't seen any substantial or meaningful deterioration in the asset quality but obviously we remain vigilant.

Before somebody raise the questions, we had been publishing for the last four quarters regularly asset quality information by segment, by type of product including provision. And despite I don't know how many 150 if not more meetings with investors, analysts, I have never got any single question about that thing. This time we didn't publish it and we have got three emails asking, why have you stopped publishing it. So I hereby commit it will be back in the next report with the June results and we will stick to it so there is no more misunderstanding on that front.

Bob Kommers – Deutsche Bank

OK. Last question regarding capital and BKM. Your tier 1 capital ratio now is 12.8%. After the sub-debts have being recognised by the Central Bank the total capital adequacy ratio will improve. It seems like you have good capital growth for particularly the slow growth over the next quarters. Is that making it now increasingly likely that you can complete the buyout of the BKM minorities without doing a capital increase? Is that now becoming more the base case scenario for that transaction?

Jean-Pascal Duvieusart

We always said we would also need capital to do it but obviously it is creating some buffer where no part of it could be done based on the capital we have, but not the full acquisition. Here we are going into subtleties of Russian regulatory capital, which is not obeying the same rule as the Basel capital requirements. But we are obviously optimising this as much as possible to reduce capital raising requirements as much as possible. We understand that there is a lot of appetite for more and that would increase the free float but we don't want to dilute the current shareholders more than needed.

Bob Kommers – Deutsche Bank

OK. Thank you very much.

Jean-Pascal Duvieusart

You are welcome.

ACT Operator

Thank you. Our next question comes from David Nangle from Renaissance Capital. Please go ahead.

David Nangle – Renaissance Capital

Yes, thanks. Dave Nangle from RenCap. Hey, JP, Marianna. Can we just drove a little bit more into the margin side of things. I heard your comments about still guiding for towards 5.5% NIM this year. But just given what we are seeing in Q1, I suppose first in the cost of funding and then into the asset margin, that cost of funding uptake was quite notable. What's behind that? What are you seeing in Q2 and what makes you comfortable that it won't go any higher from here? Or is the NIM aspect a function of re-pricing on the asset side, so we are going to see both higher cost of funding and higher asset margin towards the rest of the year? Just some colour on that, what you are seeing in Q2 and what gives you confidence of the 5.4%, 5.5% NIM for this year.

Jean-Pascal Duvieusart

Look, long story short, we see no reduction in cost of funding in Q2. We see slight increase but we also slightly increased the asset yields and we are following it up on a regular basis. Also I want to say that before we all jump to our guns, first quarter NIM last year was 5.2%. OK, we had 5.1% this year. Last year we started at 5.2%, we ended the year at 5.7%. I am talking about quarterly NIM numbers and a full year NIM at 5.5% last year. Traditionally the first quarter is a deposit rich, low demand for loans quarter, which basically is not conducive of a high NIM margin. As bullish as I was six months ago on the fact that we would have easily 5.5% NIM in 2012, no, it's going to be more of a fight. But we don't feel that so far we have no pricing power on the lending side also.

David Nangle – Renaissance Capital

OK, that's great. What you are saying is cost of funding is moving into a higher cost of funding environment and you guys given what we've seen in Q1 are going to have to keep on paying up for the funding at the new say higher levels and at a competitive effect but what you are seeing on the asset side is the ability to keep on re-pricing up and there is going to be a gap within that before you get the benefits?

Jean-Pascal Duvieusart

Yes, there is a time gap in these things obviously.

David Nangle – Renaissance Capital

OK. I suppose not to question your guidance but Q2 you would expect to see that NIM would pick up.

Jean-Pascal Duvieusart

David, as much as I like RenCap we've never done quarterly guidance. I am not going to go into that because then I am going to transform these quarterly calls into justifying why I haven't not given you exactly the right quarterly number. We go for through the cycle of guidance.

David Nangle – Renaissance Capital

No, that's very fair. I just want to get to the heart of it. That's clear. Thanks very much.

Jean-Pascal Duvieusart

You are welcome.

ACT Operator

Thank you. Our question comes from Svetlana Aslanova from VTB Capital. Please go ahead.

Svetlana Aslanova – VTB Capital

Yes, thank you very much and thank you very much for the presentation. I have one follow-up question on margins. Do you expect any decline in the share of term deposits in the coming quarters because as far as I understood again seasonally this share increased in the first quarter?

Jean-Pascal Duvieusart

No, we don't assume a meaningful change in the composition of our customer accounts going forward. People have been investing some of their bonus and that's why the share of term deposit has been increasing in first quarter 2012. But we don't assume a meaningful change. If anything the fact that the small business will be more active would lead to a higher proportion of current accounts. So marginally around this level might be 26%, 27% for current account.

Svetlana Aslanova – VTB Capital

OK, thank you.

Jean-Pascal Duvieusart

You are welcome, Svetlana.

Svetlana Aslanova – VTB Capital

And another question on cost of risk. Given these two loans that resurfaced in the first quarter, do you expect any further increase in NPLs? Do you see some other loans that might become NPLs in the near future and do you reiterate your guidance for cost of risk at about 1%?

Jean-Pascal Duvieusart

We do reiterate our guidance for risk cost below 1%. Let's not forget one thing that we still have a coverage ratio of our NPLs of 164% and this is pre-collateral. This is a level which is extremely high. We have always said that our NPL ratio would go down depending on how some loans might migrate down the matrix. We have been explaining why we are comfortable with that approach. We are still provisioning the vast proportion – vast majority of our risk provisions are created against our loans in good standing and we will keep up that practice which we think is conservative and good. We are not changing our guidance for risk cost for the full year less than 1%. We don't see – as far as we can see - any single large loan like the two ones that just migrated that could basically migrate down in the next quarter and therefore we do not expect material changes in our NPL ratio.

Svetlana Aslanova – VTB Capital

OK, thank you very much.

ACT Operator

Thank you. Your next question comes from Dmitry Trembovolsky from Goldman Sachs. Please go ahead.

Dmitry Trembovolsky – Goldman Sachs

Yes, hi, guys. Thank you all for the presentation and we especially welcome the transparency commitment and I will be sending the transcript of this call to some of your competitors.

Now on to my questions, one of them is just a follow-up on the capital situation. I think your market risk weight assets went down by around RUB 13 billion. I understand that some of this is related to the decrease in the equity portfolio. Was there anything else in particular which kind of contributed to such substantial decrease in the risk weight?

Jean-Pascal Duvieusart

Look, we can try to get you more detail in the IFRS account. It must be linked but I am going here into conjunction. It must be linked to the composition of our portfolio having different mix of interbank, government bond, corporate bond and that type of thing that may have an impact on our risk weighted assets.

If you want we can get more information about this, we have been giving already a fair amount of provisional – debt securities went down compared to end of last year from RUB 70 billion to RUB 68 billion. Equity securities went down from RUB 1.8 billion to RUB 56 million. This is already having a meaningful impact. And then for the rest we would need to go into a live computation of percentage of the composition of our portfolio by type of assets which I can't do but we are happy to do and send it to you if you want.

Dmitry Trembovolsky – Goldman Sachs

It's fine. If Marianna can just follow-up with us, that will be fine. The other one is I just want to ask you on the second quarter, obviously markets were not that much supportive. You have almost zero equity right now but you still have a bond portfolio and the spreads were not really tightening. Would you guide us for any losses or lower revenue side in the trading for the second quarter?

Jean-Pascal Duvieusart

OK, as of today the Bank is incurring a slight loss on fixed income trading for the second quarter. But given the volatility you see we might very well incur a profit by the end of the quarter. It's very volatile, but it's a small loss OK. We still have foreign exchange and precious metals also which are up in the current volatility. Customers are demanding a lot of these services and that's allowing us to book some additional profit.

Dmitry Trembovolsky – Goldman Sachs

OK, so there is a loss in fixed income but there is actually profit in currency and gold, right?

Jean-Pascal Duvieusart

Yes.

Dmitry Trembovolsky – Goldman Sachs

OK, and there is obviously no comparison with third quarters still? I mean we shouldn't be looking at this for a comparison, right? I mean in third quarter 2011 when you had RUB 3 billion –

Jean-Pascal Duvieusart

Let me be very clear. The answer to that question is no. There is no comparison to third quarter last year for two reasons. The turbulence we are seeing in the market right now is not that bad. And secondly we are starting the quarter with a securities portfolio which is significantly less risky. We incurred a substantial loss on our Russian equities in the third quarter last year and we don't have it anymore. That's basically removing the base for such a loss.

Dmitry Trembovolsky – Goldman Sachs

Thank you very much. That's it from me.

ACT Operator

Thank you. If you do wish to ask a question, please press *1 on your telephone.

The next question comes from Alex Kantorovich from JP Morgan. Please go ahead.

Alex Kantorovich – JP Morgan

Hello, JP. Sorry I missed the beginning of Q&A so I apologies if someone else posted this question. In net interest margin I noticed that if I calculate it correctly that assets yield or yield on interest bearing assets declined which is a bit surprising given the general environment. I am just curious as to why?

Jean-Pascal Duvieusart

Substantial increase in interbank which is low yielding asset compared to last quarter.

Alex Kantorovich – JP Morgan

And I presume this is temporary.

Jean-Pascal Duvieusart

As soon as we have enough demand to basically shift the money from that line of the balance sheet to the next line of the balance sheet, the answer is yes. That's what we are doing. And by the way this answers the question why are we not increasing the rates on the deposits - is because we currently have enough funding. So the question is not to find additional funding. The question is to basically in a very methodical way with a strong focus on risk and in line with our risk appetite to grow our loan book, which is what we are doing week after week.

Alex Kantorovich – JP Morgan

Right. And yet you reiterate the full year guidance of loan growth 20%, if I am not mistaken?

Jean-Pascal Duvieusart

You have been in Russia long enough, Alex, to know that you can very easily grow your loan book by 20% in the last two quarters even in one quarter. That's one of the feature of the market. We have within 1% and 2% market share in this segment, so depending on the segment. It's not like if we want to grow at 20% in one quarter you need to take 100% of the cost for the market as far as we are concerned. We haven't reached yet that size where we would destabilise the entire market. We can still do them from a market equilibrium perspective.

Alex Kantorovich – JP Morgan

I fully understand. Thanks, JP.

Jean-Pascal Duvieusart

You are welcome.

ACT Operator

Thank you. Our final question is a follow-up from Jason Hurwitz from Alfa Bank. Please go ahead.

Jason Hurwitz – Alfa Bank

Hello again, JP. I was wondering if you had any comment or if you could comment on shifts or potential shifts in the shareholder structure. We noted there was a press release about shifts in the PPF shareholders, which could impact on NOMOS. If you have any comment on that, it would be great.

Jean-Pascal Duvieusart

Yes, I have some comments. Let me address it. I was wondering if anyone would raise this question. The shift in the ownership structure of PPF is just that Jiri, who was a 5% shareholder in PPF, is moving his ownership directly in some of the assets of PPF, which are assets that he is predominantly involved in, which is Home Credit. And in the future he might also have a stake in – we have an investment in Piraeus Bank believe it or not and potentially also we have Air Bank in the Czech Republic. That's what is going to happen. As a result the 94% shareholder in PPF would be the 99 point something percent shareholder in NOMOS. I don't think it would change the picture for NOMOS. We are still significantly involved in working together and in a very collaborative way with ICT. We are involved in developing NOMOS and NOMOS is still benefiting from the support it can get from its two strategic shareholders and fully benefiting from the balance sheet of both of these shareholders.

Jason Hurwitz – Alfa Bank

Is there any chance that PPF would drop below a blocking stake?

Jean-Pascal Duvieusart

There is no such plan.

Jason Hurwitz – Alfa Bank

OK, no further questions. Thanks.

ACT Operator

Thank you. I apologise. Our last question now comes from Vladimir Savov from Otkritie. Please go ahead.

Vladimir Savov - Otkritie

Good afternoon, JP and Marianna. On the focus on operating efficiency, clearly this is very positive but can you be a bit more specific in terms of targets, headcount reductions if possible or monetary gains, savings gains and over what period do you expect to get those? Thank you.

Jean-Pascal Duvieusart

Whenever you close a filiale, you are talking about reducing the number of accountants depending on the size of the filiale. That's just one of the benefits. Second benefit you have is you have no streamline reporting. In terms of – once you have done this, also it's much easier to basically centralise back office and we are in the process of building our centralised back office on the east side and the west side.

The efficiency gain per se in terms of headcount reduction as far as NOMOS is concerned is not the way we look at it, because we are through the cycle still going very quickly. It's about avoiding recruitment of people. It is a very important compared to for example Sberbank situation, which was just massively overstaffed. We have a pretty decent productivity. And even if you were to compare our Bank and the cost base of our Bank compared to other banks of similar size, you would see that. Especially for a federal bank, we have already a pretty high level of efficiency. These are all measures that we are taking to make sure that we are sustaining at our below 45% cost income ratio despite the fact that we are growing our retail and small business franchise.

Vladimir Savov - Otkritie

Thank you. That's clear.

ACT Operator

Thank you. There appear to be no further questions at this time. Please continue with any points you wish to raise.

Jean-Pascal Duvieusart

OK, look, thank you very much for listening to and attending this presentation. We had 72 participants, which showed a great interest. We will go in London and in Europe later this week for non-deal road show, where we will meet some of you. If there is any question that you have, please reach out to the IR department of NOMOS, and we will be happy to provide you with additional information you may need. Thank you very much. Have a good end of the day.

ACT Operator

Thank you. This concludes NOMOS Bank First Quarter 2012 Results. Thank you for your participation. You may now disconnect.

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