



**NOMOS
BANK**

Conference Transcription

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Nomos Bank 1H
2013 results**

CONFERENCE DETAILS

Conference Date: August 21, 2013

Conference Time: 18:00 Moscow Time

Chairperson: Sergey Kovtun (Russia)

Operator: Ladies and gentlemen, welcome to NOMOS Bank 1H 2013 financial results conference call. I now hand over to Sergey Kovtun, the Deputy CFO at NOMOS Bank. Sir, you may begin.

Sergey Kovtun: Good afternoon, dear colleagues, good morning to some of you who are from the United States. We are happy to present our first half-year results for the year 2013. I would suggest beginning with the first slide.

On this slide you could find the summary of our key financial results for the first half of the year. During the first half of the year, NOMOS Bank earned around 6.1 billion in net income with annualised return on equity of 12.9%, compared with the 18% for the year 2012. We will touch upon the reasons for the decrease in this position later.

In first half of the year, total assets of the Group increased by almost 9%, outperforming the market average of around 7%, and reached RUB 977 billion.

The net loan portfolio increased also higher than the market average around 19%. All the segments performed extremely well. During 1H2013 the corporate loan book grew faster than the SME and retail, and this was in line with our new strategy when NOMOS Bank itself would concentrate on corporate lending, and retail and SME loans would be transferred to Bank Otkritie. It should be mentioned that this transition will be done very cautiously in order not to ruin the business.

Net interest income increased by almost 21% year-to-year and by 5.2% quarter-on-quarter. Net interest margin is stable around 4.4% and this is a kind of pride for the Group.

Net fees and commissions' income increased by 16.5% year on year; the growth is primarily coming from the settlements and documentary operations in the corporate and retail segments.

The only negative which happened in the second quarter of this year and which I think affected all Russian banks, was a trading loss in the securities portfolio.

Fortunately for us this was not a realised loss, this was just mark-to-market revaluation, and frankly speaking, these losses had been partially recovered as of today, so we can say that around 40% of the losses, which occurred in the second quarter of 2013, were recovered during 1.5 months of the third quarter. We hope that by the year end we will get positive trading result.

The risk costs were stable at around 1%. The quality of loan portfolio also remains stable; NPLs share was 2.2% compared with 2.1% for the first quarter of 2013.

Customer deposits increased impressively by 17.6%. The Group's capital adequacy ratio, Tier 1, is 10.2% and the total capital adequacy ratio is 15.5%.

The second slide is the operating performance of the Group. You could see that we have very good results in terms of revenue. If we assume there were no losses in trading book; we would have had significant increase in revenue.

Operating expenses are our pride. As you can see, annualised operating expenses for the first half of 2013 remained at the same level as for of the year 2012, with 0.5% year on year growth. I would say we are fighting to decrease our operating expenses. We are in the process of implementation new technology in IT segment. On top of this, we are implementing Lean technology in order to optimize our business processes in different areas. This fact gave us an opportunity to decrease costs to average assets ratio to 2.3% compared to 2.9% in 2012.

As I mentioned before, cost of risk was stable, profitability was lower mostly due to unrealized losses of securities portfolio.

On the next slide you could find corporate business performance results. I will not pay very much attention to this slide. The profitability results of this segment are positive and stable. RORAC (return on risk-allocated capital) was around 18% for the first half of 2013. Net fee and commission income of this segment increased and, as I've said before, the primary driver of this increase was settlement and documentary operations.

On the next slide, you could find the results of the retail business. The profitability results were positive and stable, RORAC of around 20%. You could also see positive increase in net fee and commission income, primarily due to cash and settlement operations.

The next slide relates to the small business segment. Again, I will cover only profitability result - this is the most profitable segment for the Group with RORAC around 30%, we had around 48% in 2012, but this was primarily due to one-offs recovery of provisions. If you normalise this effect, the return on risk-allocated capital will be at 35% or so, so very stable, very good results.

Net interest income is the next slide. We see a kind of pressure on net interest margin. Due to the market competition on the asset side, banks cannot just increase rates independently without paying attention to the

market; the customer could easily move to another bank, so this is very competitive and very price sensitive market.

On the other side, the funding is getting more and more expensive. As a result, net interest margin for the first half of the year decreased to 4.4% compared to almost 5% in 2012. For the time being, we could say that net interest margin will stabilise in the third and fourth quarter of the year. We do not expect any decrease in net interest margin if there is no dramatic change in the market conditions.

The next slide relates to our funding base, for those who are at our call not for the first time, you will see that the funding base is very stable and diversified. For the first half of 2013 we have very comfortable LTD ratio at the level of 126%, this is within our range defined for the Group which is from 115% to 135%, so now we are just in the middle.

In terms of bonds and subordinated debt repayment schedule, nothing has changed from the previous presentation. Eurobond issue of around RUB 12 billion will be repaid in October this year. This is not a significant amount of funds; we could easily repay it from our liquidity position with no effect on the day-to-day operations. As positive trend the share of the long term customer account with the contractual maturity from 1 to 5 years has increased from 7% in 2012 to 17% in the first half of this year. This fact has strengthened our balance sheet position and overall remains very positive for the Group.

The next slide is devoted to the quality of assets. The share of NPL was 2.1% in the first quarter and 2.2% in the first half of this year. The cost of risk as I mentioned before was stable at 1%. We have very good and conservative NPL coverage ratio which was much above 100% in the first half of this year. In terms of NPLs dynamic by segment, no particular peaks, everything was consistent with the previous periods.

I would not pay very much attention to the diversification of our loan portfolio; nothing has changed from the year 2012 and the first quarter of this year. The share of loans issued to related parties has decreased in the first half of this year. We had 5.9% in the first half of this year and around 6.4% in the first quarter of 2013.

The next slide is devoted to the capital adequacy. We have very good results, which are in line with our expectations and plans for this year. As a result Tier 1 capital adequacy ratio was 10.2%, total capital adequacy ratio was 16.5%.

That's it for the presentation, so we can move to the Q&A session. Please, go ahead.

Operator: Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding until we have the first question. We have a question from Emmy Al-Ghabra, UBS. Please go ahead.

Emmy Al-Ghabra: Good evening. My question was on any international debt issuance plans you may have in the next year or so, and if so, would they be issuances, which might boost your capitalisation?

Sergey Kovtun: We are not planning any subordinated debt issuance for the next year. Definitely, we will prefer to be present in the international markets in order to maintain the visibility of NOMOS Bank as a borrower. In this case we are targeting one issue per year, but this is very much dependent on the market situation of course, in particular on the pricing terms.

For the time being we are not planning any concrete deal or plan in terms of any kind of debt/capital instruments, including hybrid instruments.

Emmy Al-Ghabra: Okay, thank you very much.

Operator: We have a question from Andrey Pavlov, Sberbank. Please go ahead.

Andrey Pavlov: Thanks for the presentation. I have got a couple of questions, they are related. First, could you give please some kind of an update on your strategy of integration, particularly in terms of consolidation of the Otkritie Bank? What will be the timing of this? Whether any plans have changed or not? A related question is on your primary issuance that you are planning to place, 19.5% shares. Would all this capital go into the consolidation of Otkritie Bank, or there are some other uses of this capital, and would there be any public component in this issuance, as it is kind of open subscription, or it will be most likely allocated to your existing shareholders, mainly Financial Corporation Otkritie. Thanks.

Sergey Kovtun: The situation with the integration of Bank Otkritie has not changed. As it was announced before, we are planning to consolidate Bank Otkritie under the umbrella of NOMOS Bank. It will be either the end of this year or the very beginning of the next year.

In terms of the primary issuance, which was announced, I would say that this conference call devotes to first half 2013 financial results. So this question is out of this topic, but I would say that the proceeds will go for the further development of the Bank.

Andrey Pavlov: Okay, thank you.

Operator: We have a question from Olga Veselova, Merrill Lynch. Please go ahead.

Olga Veselova: Thank you. My question was exactly about this point, which you just make about the use of proceeds from the SPO for the development. I thought that the bank also said this in the press release about the SPO, so what does it mean for the development of the bank. Does it mean for growth of loan volumes or anything else?

My second question also about this is, maybe you can help me to understand why do you make it public issuance, not closed subscription? Is there any legal requirement to make it public given the bank is open joint company, or not. Any color on this, thank you very much.

Sergey Kovtun: I would very kindly ask you to concentrate on the questions, which are directly related to the financial performance of NOMOS Bank. All other questions, I would kindly ask you to send to our, either PR or IR Team and you will get the answer. Again, the subject of this conference call is not the public issuance, which was announced but the results for the first half of the year. Thank you.

Operator: We have a question from Dmitry Poliakov, Sberbank. Sir, please go ahead with your question.

Dmitry Poliakov: My question actually somewhat relates to your financial question, because, Fitch when they downgraded the bank, they mentioned in the press release as one of their concerns that the volumes of related party lending has been growing. Could you please comment which transactions they are talking about, and generally, what was your trend in related party lending, because obviously, you changed the key shareholders, and probably the old ones ceased to be the related parties of the bank, and the new ones became the related parties. What was the overall trend in related party transactions? Thank you.

Sergey Kovtun: Thank you very much for the question. I will start answering from the question in terms of the related party exposure, which is represented in our financial statements.

As I've mentioned before, we have a decrease in our related party lending, from 6.4% for the first quarter of the year to 5.9% for the first half of the year. As NOMOS Bank, we are always paying very cautious attention to this ratio, as we are pretty much aware that investors, analysts, and rating agencies are paying very much attention to this parameter.

In terms of related parties definition. We have the very strict and concise definition of the related parties, which is stipulated in the International Financial Reporting Standards, so the definition is quite simple; either the person or entity should have a share in your capital, starting from 20% to 50%, or either they should have the significant control and power in order to influence the decision making process in the bank. Under this definition we disclose exposures to related parties in the financial statements. Our

independent auditors review and audit this exposure so they approve the amounts stipulated in our financial statements.

The rating agencies have – I would say – a kind of not formal and for me not clear definition of the related parties, so I cannot comment on how they define for themselves this parameter. We always have a kind of negotiation and talks on this topic. Taking into account the recent report which has been published. The rating agency has been very independent, so they publish what they think about it. If you have any questions concerning the definition of the related party lending under terms of the rating agencies please go ahead and ask in particular Fitch.

Dmitry Poliakov: Okay, thank you, and may I also ask you about your subordinated bond, because you recently placed, I think, if memory serves me, 400 million with maturity in year '20. What kind of instrument is that, because it looks like a private placement or something like that? Could you please comment on what was done?

Sergey Kovtun: Actually yes, two subordinated debts were issued during last year. The first one was – if I am not mistaken – in April, 2012 and the second one was in December, 2012. The April one was the public instrument. The one issued in December was kind of private placement, but we performed necessary procedures in order to provide the possibility for our private investors to place it on a public market. This year we had subordinated debt issue as a private placement; this was in the beginning of the summer. No hybrid instruments actually, this was a pure subordinated debt.

Dmitry Poliakov: Okay, that is very helpful, thank you.

Sergey Kovtun: Dear colleagues, as we can see there are no more questions for NOMOS Bank team, so thank you very much for your participation, for the interest you have shown into NOMOS Bank. If you have any questions concerning the financial results or other, please address them to our PR and IR Teams, we will be happy to answer them. Thank you very much, see you next time for the third quarter results press conference.

Operator: Ladies and gentlemen, this concludes the conference call, thank you all for your participation. You may now disconnect.

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