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SBER.MZ - Nine Months 2015 Sberbank Rossii PAO Earnings Call (IFRS)

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**OVERVIEW:**

Co. reported 3Q15 net profit of RUB65.1b.

## NOVEMBER 25, 2015 / 02:00PM GMT, SBER.MZ - Nine Months 2015 Sberbank Rossii PAO Earnings Call (IFRS)

### CORPORATE PARTICIPANTS

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### CONFERENCE CALL PARTICIPANTS

**Alex Kantarovich** *JPMorgan - Analyst*

**Mikhail Shlemov** *UBS - Analyst*

**Yavuz Uzay** *BofA Merrill Lynch - Analyst*

**Dmitry Trembovolsky** *Goldman Sachs - Analyst*

**Cristina Marzea** *Barclays Capital - Analyst*

**Alan Webborn** *Societe Generale - Analyst*

**Jason Hurwitz** *VTB Capital - Analyst*

**Olga Naydenova** *BCS Capital - Analyst*

**Ekaterina Belkina** *Interfax - Media*

**Etia Novarnova** *Vedomosti - Media*

**Ruma Rowasiv** *Russia Today - Media*

**Michael Teagan** *Bank.RU - Media*

### PRESENTATION

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#### Operator

Ladies and gentlemen, thank you for standing by and welcome to Sberbank Group's 3Q 2015 IFRS results call hosted by Alexander Morozov, Chief Financial Officer and Deputy Chairman of the Board, and Anastasia Belyanina, Managing Director, Head of Investor Relations. Live webcast is available and you can find the link on Sberbank.com.

(Operator Instructions) I must advise you that this conference is being recorded today on Wednesday, November 25, 2015. I would now like to have the conference over to Mr. Alexander Morozov. Please go ahead.

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#### Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO

Good afternoon, or good evening, or good time of the day, ladies and gentlemen. I am proud to present to you our achievement and our results for the first quarter of this year Grupo Sberbank prepared in line with International Financial Reporting Standards.

First of all, I would like to underline that our profit for the third quarter a little bit increased our own expectations, but fully in line with our initial plans. As (inaudible) note, that is slightly better than consensus opinion. So net profit increased to RUB65.1 billion and third quarter became the strongest quarterly earnings result this year.

This result was dominated since -- was achieved because of further extension, I would say minimalization, of our net interest margin, which continued to improve to 4.7% in third quarter, up by 43 basis points relative to the second quarter. And was mainly driven by asset repricing and improving funding mix.

I would like to say that (technical difficulty) share from Russian Central Bank reduced further and actually it (inaudible) [down to] RUB1 billion as of September last day, or just above 4% of our total liability. It came down more than 13% the beginning of the year so we will continue to further reduce our dependency on Russian Central Bank funding. And as for the margin, as we previously discussed with you, we expect further memorization of the margin within the next couple of quarters.

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We experienced a strong inflow of deposits during the quarter. Retail deposits were up by 9.1% and corporate by 26%. What is even more important that is our current accounts increased by 16%, and that was very positive for our margin. So our margin, which is quite strong now, is mostly due to liability side margin.

On asset side, we continue to be as conservative as possible and focus is made on our mortgage and overall retail lending. So mortgage and credit card portfolio continued to grow up 9.5% and 7.4%, respectively, year-to-date. And I have to say the third quarter was the first quarter this year when the total retail portfolio demonstrated a growth; in real terms up by 2.7%.

By the way, we started to see some pick up in unsecured consumer lending in the third quarter and we'd like to hope that this trend will continue in the fourth quarter due to seasonality. Our corporate loan portfolio was up by 9.1% quarter-to-quarter basis in the third quarter, but it's important to underline that it was again the first quarter when the growth was in real terms. And we are in positive territory now.

We are not going to change our outlook as for our growth expectation full-year out. I think that we will be within our previously mentioned guidance both on retail and corporate side.

We continue to be conservative on our provisioning. Cost of risk reached 2.8% in third quarter 2015. And serious impact on our cost of risk was due to foreign exchange devaluation of Russian ruble and respective necessity to create additional provisions for our dollar-denominated loan portfolio.

Very important to say that we continue to improve our efficiency, operating efficiency, and third quarter was not an exception. Cost-to-income ratio posted in the third quarter was 39.5%, which is noticeably better to the beginning of the year and, by -- in any terms, it's quite good result. Fourth quarter, seasonally we have some bigger cost sides and cost charge related to our annual payments (inaudible), but nevertheless we will be definitely minus our guidance, maybe slightly better.

In terms of guidance revision, overall we maintain our outlook for year 2015 and I think that very high single-digit return on equity is absolutely achievable. Whether it will be very high single-digit or just double digit, it's too early to say but we will be somewhere in this area; around 9%, 10% return on equity full-year out.

As you know, we have finished our budget process for the next year and it is now early to start to describe our forecast and economics for the year 2016, but nevertheless I would like to touch some trends.

We see loan portfolio growth next year within single digit, both on corporate and retail. Net interest margin would continue to demonstrate recovery; as I already mentioned earlier, at least through the next couple of quarters. We hope that cost of risk will continue to stabilize and we expect gradual improvement quarter after quarter. And we will continue to focus on operating efficiency so further cost income improvements full year to be expected.

Overall, that seems to be all I wanted to say at beginning of our conversation, and having said that I would like to invite you to start Q&A session. Thank you very much for your attention.

### QUESTION AND ANSWER

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#### Operator

(Operator Instructions) Alex Kantarovich, JPMorgan.

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#### Alex Kantarovich - JPMorgan - Analyst

Thank you. Alexander, Anastasia, thanks for this call; seems like set of good results. My question is on operating costs, if you can share with us any timing of salary adjustments for headcount. That's my first question.

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#### Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO

So we are now still deciding whether, and to what extent, make an adjustment to our compensation policy. Definitely we should expect some growth in our expense line related to compensation benefits next year versus the current year because of a number of factors. Among them, noticeably high expected overall earnings in the interim. So this year we seriously reduced overall compensation on all levels starting from the board members and the presidents, even on [mass] position.

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Next year, provided we turn back to our normal profitability -- normal in terms for Sberbank, our normality which have been seen before the crisis -- we should expect some growth in compensation and benefits. But, nevertheless, overall cost-to-income ratio continues to go down. It will be compensated by high earnings and economies that shift on other areas apart from compensation benefits.

I don't want to mention now more details about exact date and strategy in regards to the change in compensation benefits next year. We are still deciding, but it will be approved in the middle of December and by that date, by that time we will have more clarity on that.

But I think something like -- it won't be single digit; it will be double-digit growth in terms of percentage. Whether it will be 12%, 15%, it's too early to say, but the magnitude is something in this area. Maybe slightly higher, maybe slightly less.

We should understand that this year it will be also supported by our efforts to reduce our headcount. This year it was difficult to reduce staff because we faced with a growth of customer base and serious inflow of new customers from all around with flight to quality. And we had to increase our front office staff in order to combat this growing demand since [province] (inaudible) in our office. But, nevertheless, we undertake serious efforts to increase [STP] ratio and we have more and more customers in our distant channels, so gradually even our frontline staff number we will be able to reduce it.

So all together, please expect us to increase our compensation benefit expense next year, but cost-to-income ratio, nevertheless, will continue to go down.

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**Alex Kantarovich - JPMorgan - Analyst**

So you mean in 2016 cost-to-income will continue to increase from this year, is this correct?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Cost-to-income will go down, so will be better than this year.

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**Alex Kantarovich - JPMorgan - Analyst**

Okay, okay, great. And if we can please discuss outlook for provisions, specifically, if you were to guess, when do you see peak in NPLs for Sberbank?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

We do not know any specific big cases, size of Mechel or something like that, that sort of magnitude. At the same time, we should be worried about construction, definitely commercial real estate, and retailers, so we should be worried about that. But, overall, we expect that we have already touched the button and we expect further improvement of our cost of risk. Gradually, quarter after quarter, it won't be just (inaudible). It will be gradually and conservatively going down.

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**Alex Kantarovich - JPMorgan - Analyst**

Alexander, presumably this will be accompanied by a rebuilding of your provisioning coverage. Is this correct?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, it may be expected gradually. As for our provisioning, we should take into account that serious impact on our coverage ratio. So reduction from 1.17 to 1.1 was due to just three, four cases. Two of which are already restructured and it was good restructuring. One of them was [UTair].

And if we exclude these two cases, our restructure was completed in the fourth quarter but already done. In terms of coverage, about 4 percentage, about 4 basis points, sorry. And if you take into account two other cases, including Mechel and one Ukrainian case where we also expect some positive results as a result of our very long conversations with our counterparts where we also expect some recovery and as a result improvement with the [full] coverage ratio.

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**Alex Kantarovich - JPMorgan - Analyst**

Okay. Alexander, thank you very much for your answers.

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**Operator**

Mikhail Shlemov, UBS.

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**Mikhail Shlemov - UBS - Analyst**

Good evening, Alexander and Anastasia. Thank you very much for the call. Just like to continue on the topic on the asset quality which Alex touched upon. If you could provide us some details in terms of renegotiated portfolio where you have seen an increase by 2 percentage points in Q3. I think at the last call you have provided us disclosure about what proportion of renegotiated loans have signs of impairment or depreciate; if you could update us on those numbers.

The second question would be coming on the net interest margin side. Obviously, the coverage we have seen over the last couple of quarters has been quite spectacular and, if I remember correctly, you're guiding the margin to reach -- to climb above 5% in the Q4. Do you still stand on that level?

And am I right in interpreting your comments on the couple of quarters of NIM recovery that most likely are going to see the NIM peak somewhere in the Q1 next year? Thank you.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Okay, I'll start with restructuring portfolios. Yes, restructuring portfolio increased by now RUB574 billion, but out of which RUB193 billion that's the effect of foreign exchange, the devaluation of Russian ruble, so RUB193 billion. Around RUB145, roughly, was oil and gas project finance. Very good restructuring increases without any quality deterioration, just a loan extension, and additional upsides on the bank side.

And construction, where we also have quality of care, quality of outlook around RUB60 billion. So if we combine all together, RUB193 billion foreign exchange, RUB145 billion and gas, and RUB60 billion commercial real estate/construction is the biggest part of the restructuring portfolio. So we are not very much worried about it.

And biggest part of that will be -- biggest part is segment restructuring. If you look at our zone, which we call so-called black and red zone mentioned in our previous call, at the middle of the year we had red and black zone around 30% of our restructured portfolio; now we have 31%. So roughly the same.

As for the margin, yes, margin is improving and will continue to improve further. We should take into account from the annualized margin loan-to-deposit ratio as well, which is below 100%. It is below 100% because we have some excess of liquidity, both on the liability side, so short-term money currently counts. This money results [into actual] maturities on asset sides as well, replace the excess of liquidity over short term, and [systematically] it will dilute the margin.

But, nevertheless, if we deduct that excess of liquidity and normalize it to, let's say, loan-to-deposit ratio 100%, you may see some noticeable margin pickup improvements versus what we have today. But even with that level of loan-to-deposit ratio and that level of dollar excess of liquidity, we expect further expansion of margin in line with our previous expectations, plus or minus, more or less.

And what effect it will be extended for at least first and most probably second quarter of the next year.

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**Mikhail Shlemov - UBS - Analyst**

Thank you, that's very helpful. If I may follow up a little bit on the margin, trying to put the monetary policy into the equation as well. Given that your share of Central Bank funding keeps on declining and I would assume we will see the same trend in the Q4, especially given that, as you rightfully noticed, (inaudible) is below 100. Is it right to assume that the sensitivity to the rate cuts would be rather less positive or even a negative a bit on the margin side, especially into the second half of next year?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Further cuts will be positive for us. We reduced, as I have already mentioned, our dependency on money from Central Bank from RUB3.5 trillion, so roughly RUB1 trillion all together money from Russian Central Bank from (inaudible) finance all together. And further reduction might be expected.

But, nevertheless, in case of further reduction of the key rate, which we expect, we will have positive effect on our rough numbers in our margin. Not as dramatic as might be beginning of the year, but still quite noticeable. I do not expect a reduction to zero money taken from Central Bank. It is economically not necessary and counterproductive, but some further reduction to be expected, yes.

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**Mikhail Shlemov - UBS - Analyst**

Okay, that's very helpful. Thank you.

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**Operator**

Yavuz Uzay, BofA.

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**Yavuz Uzay - BofA Merrill Lynch - Analyst**

Thank you very much for the presentation and two of my questions have been answered. Can you just elaborate a little bit more on capital? In 2016 you said you expect single-digit loan growth in both retail and corporate. I assume loan-to-deposit ratio to stay at similar levels, so asset growth will be similar level as well.

What kind of capital ratio would you be targeting by the end of 2016? And should we expect a return to 20% dividend payout starting from end of this year? Thank you very much.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

I'll start with the dividend policy. It is easier to say yes from my point of view. We expect return to our normal unit policy, 20%, right next year for the result of year 2015.

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**Yavuz Uzay - BofA Merrill Lynch - Analyst**

2015, one-five?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

2015, one-five, yes. So it may be expected definitely decision to be taken by a structured body to be further discussed on Board of Directors and then approved by animal shareholders meeting, but nevertheless from my point of view, from point of (inaudible) of this bank, I think we have a very high chance to see dividends at 20%.

But just secondly, as for the capital, we have a number of factors affecting our capital ratio. Interest rate environments primarily, because (inaudible) of our available-for-sale portfolio, which is quite big. The biggest part of our portfolio. Performance of our Russian [guaranteed] securities, and alongside with expected further key rate cuts, we may expect some positive revaluation of our IFRS portfolio and support of our total capital ratio.

We expect serious support for capital from our current earnings, which are growing, and (inaudible) to be continued. We expect some additional positive impact from implementation of [our approach] and for our capital calculation and Basel II, especially for mortgages and standardized loans. And full effect up to 100 basis points.

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**Yavuz Uzay - BofA Merrill Lynch - Analyst**

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Up to 100?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Up to 100. So to be -- it depends on a number of factors. I would say it's somewhere between 60 and 100, somewhere in that range.

It depends on number of some parameters to be used within a calculated value and exchange rate at the time and so on and so on. But, nevertheless, in a year [or two]. Plus, full effect will be seen not immediately, but spread expect over a couple of years. But the effect for the year 2016, I would say minimum 60, maximum 100 basis points that effect on year 2016.

All together, trend-wise capital adequacy ratio should go up and we will improve it organically with different scenarios, but on the other hand the fact which seriously impacted in a negative way was devaluation of Russian ruble. We should also keep it in mind, taking into account that roughly 40% of our corporate-grade portfolio, growth wise.

Rubles were (inaudible) not only Russia, but in hard currencies and currencies different from Russian ruble. And in the case of Russian ruble devaluation, it affects quite seriously our capital adequacy ratio. What has happened has happened in the third quarter.

To cut long story short, we continue to have in mind a return to core equity run ratio above 10%, and whether it will be achievable within the next year or it will take even longer time depends mostly on market economic situation in Russia. First of all, on foreign exchange rate of Russian ruble.

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**Yavuz Uzay - BofA Merrill Lynch - Analyst**

Okay, thank you. And one follow-up question on the cost of risk asset quality. From third quarter into next year, before you close the year would you want to cautiously provision for some loans or should we expect some temporary increase in cost of risk in fourth quarter?

Or should we expect cost of risk to start declining from third quarter in fourth quarter as well? Because I think 2016 will be much lower than 2015 anyway. But should we expect a decline starting from third quarter into fourth quarter as well?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

As of now, I do not know anything in our books which might be -- which might seriously affect negative way our cost of risk in the fourth quarter. But at the same time, nobody knows what to expect from tomorrow, from Ukraine, Ukrainian situation (inaudible) from [middle] situation.

So that's why we decided -- after quite extended internal discussion, we decided to remain unchanged our full-year outlook as for cost of risk. But at the same time I believe that we have very good chance to beat now our forecast and our guidance, so to be better. What we indicated in our semiannual guidance.

I would answer (multiple speakers).

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**Yavuz Uzay - BofA Merrill Lynch - Analyst**

Your official 2015 full-year guidance remains below 300 bps cost of risk?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, yes. And I do not expect, unless something new in that happens, the deterioration of the cost of risk in the fourth quarter versus the third quarter. So more or less. As a trend-wise, I would expect further stabilization and gradual reduction, definitely.

On the stabilization. I mean gradual reduction slowly, conservatively, but it will be continuing to year 2016, definitely.

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**Yavuz Uzay** - *BofA Merrill Lynch - Analyst*

Okay. Then would you think that exceeding 15% ROE in 2016 is well within reach, in 2016?

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

I don't want to anticipate our discussion. Beginning of the next year, when we have an analyst day, the date will be further announced, so in January will presents our full-year forecast. But understanding [plateau] of your half-year models, if you put all the numbers together, you see the range and, yes, I'm smiling. I think that you have number -- a lot of reasons and arguments to expect us to show slightly better results from this year.

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**Yavuz Uzay** - *BofA Merrill Lynch - Analyst*

Thank you very much.

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

Please try to understand my position now. We want to be on the conservative side and as much conservative as possible, and that's why we do not target and we do not comment formally our bottom line. But I specifically commented practically every main factors and drivers.

So further focus on efficiency and we will continue to focus on it day after day, cost-to-income ratio and all the components of it. Further minimalization in terms of Sberbank of our margin, which means further recovery and -- further minimalization it means further reduction gradual of our cost of risk, all in line with our messages which we launched on our capital day in London.

So combining all these factors together you may calculate the range of our ROE for the next year. But please turn to [the F] with our more precise guidance beginning of the year when we have approved business plan.

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**Yavuz Uzay** - *BofA Merrill Lynch - Analyst*

Thank you very much. That's very good, thank you very much.

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**Operator**

Dmitry Trembovolsky, Goldman Sachs.

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**Dmitry Trembovolsky** - *Goldman Sachs - Analyst*

Thanks for the call. I have just a couple of questions. I think most of the important questions and big ones were cleared by you in a very good way.

One is just a technical question, which I was -- some people asked me to give to you. The higher tax rate in the third quarter is mostly due to losses in Ukraine; could you just confirm that please?

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

Not only Ukraine. Yes, it's true, but not only Ukraine, also some (technical difficulty) including, but not limited to, Eastern Europe. But [is actually slight]. We have some losses in some of our jurisdictions, so those losses are not included in our earning base and tax base in Russia. That's why we have a tax rate quite high.

I wouldn't worry about this problem, as we -- but we have limited tools to move it, so we don't want to play with (inaudible) nowadays at all, never.



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**Dmitry Trembovolsky** - *Goldman Sachs - Analyst*

How should we think about this going forward, Alexander? Because I guess Ukraine is not only loss-making in third quarter, but could probably continue being loss-making. I'm not sure about Sberbank Europe.

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

I think that situation will be gradually recovered over the next year. So we should expect return to more normal for us effective tax rate, low 20%.

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**Dmitry Trembovolsky** - *Goldman Sachs - Analyst*

Okay. So we should normalize it over time, but that would take a few quarters, right?

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

We should normalize it over time, but probably not this year. This year full-year answer effective tax rate may be noticeably higher unfortunately because, first of all, of Ukraine.

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**Dmitry Trembovolsky** - *Goldman Sachs - Analyst*

Okay, that's clear. Can you also -- so that will be my second question. Could you just tell me for the third quarter what was the contribution of DenizBank and Sberbank Europe, if possible, to your consolidated P&L?

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

If Turkish DenizBank still posting quite decent results in terms of return on equity, three quarters 11.2% versus Sberbank group 9.4%, so it's very accretive for us and quite positive. And in terms of net profits, it's something like RUB18 billion in our reporting currency.

And as for Sberbank Europe, we are posting some small losses. It's not big, it's just a couple of dozens of millions of euros, but nevertheless its loss-making as of now. It's quite difficult to earn money on the interest rate environment for the banking industry in Europe, which is slightly above zero. When you have to -- this actually builds up from scratch the banking platform.

But in terms of our group, our expenses in Eastern Europe are [deductible], so they do not affect seriously our overall results. Just a couple of dozens of millions of euros negative results for nine months of this year. But we have a chance to post around zero results full year or slightly negative.

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**Dmitry Trembovolsky** - *Goldman Sachs - Analyst*

Okay, that's clear. Can I just ask you -- so I remember a couple of years ago there was a pretty big overhaul in Sberbank Europe. You hired new guys; I think one of them was actually in Asia or something like that. The whole management team has been changed and you put quite high expectations on these new guys.

And I think that guidance back then was that Sberbank Europe would get back to breakeven and maybe to small profit in a couple of years. Could you give me an outline on what has -- has anything changed? Are you satisfied with the results? What's next for this business?

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

It's difficult to be profitable in Eastern Europe nowadays for all of us. I, frankly speaking, know not too many examples of profitable banking. Nowadays in Eastern Europe, because of Hungary; because of other countries and their very specific banking regulations and taxes; and practically very low interest rates, interest rate environment and interest rate margin.

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I would like to remind you that we added (inaudible) last year, 2013 and 2014, with marginal profit, so we were in green zone and it was for three consecutive years. This year we will be maybe slightly negative, maybe around zero; it's not yet certain.

For us, it was important to have a footprint in Europe, but -- and we are ready to sit and wait a little bit. At the same time, some restructuring of our activities, of our business, of our business model to be expected. And so we are on the way.

We are looking at different options, different opportunities, but it's important for us to preserve our footprint in Europe.

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**Dmitry Trembovolsky - Goldman Sachs - Analyst**

Okay. So exiting this business is not -- is out of the question at the moment?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

I have already commented and we addressed that topic on our capital day in London as well, so nothing new since that time.

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**Dmitry Trembovolsky - Goldman Sachs - Analyst**

Okay. All right, thank you very much. That's it.

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**Operator**

Cristina Marzea, Barclays.

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**Cristina Marzea - Barclays Capital - Analyst**

Good afternoon. Thank you very much for the conference call and the great details. I had three areas I would like to explore. Firstly, on the funding. Could you remind us what international repayments are coming due in 2016?

And then just looking at your great results on the deposit growth this quarter, I guess part of that is the FX, but then we have also noticed a big increase in deposits from your largest customers. I just wanted to understand is this just something temporary where you are preparing for some repayments, or is this a new strategy where you were encouraging your biggest customers to bring more deposits?

If I may, I would take then the follow-up question separately.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

So year 2016 we have to repay huge amount, really big for us, \$1.1 billion all together, okay?

We actually do not compete for corporate deposits, as well for retail deposits, on the local markets. We are benefiting from flight to quality and it gives us some additional bargaining power. So definitely we do not overpay, rather we increase diversification of our liability side.

I can say that the most important for us is money without contractual maturities, so settlement accounts and cash management accounts. We are focusing on that on corporate business, because it seriously improved my overall liability side and overall margin. We will continue to do so.

So for us, settlement business, trading business in Russia, settlement business, cash management business is becoming one of our top priorities and strategic priorities. As for biggest depositors, yes, we have some big depositors in our liability side, but we continue to reduce quarter after quarter their concentration.

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**Cristina Marzea - Barclays Capital - Analyst**

Right, that's great. And then perhaps I will ask the following two questions together.

First of all, just some numbers on your Turkish exposure, if you could just remind us on the equity and the funding to your local subsidiary. And then separately just on provisioning, just going back through the year. If I recollect, the market after the first-quarter numbers were hopeful that provisioning in the first quarter at around 250 may be the peak and would be gradually coming down afterwards.

And in reality things continued to just modestly deteriorate and we were looking at some 290 in 3Q; hopeful this is the peak in provisioning. Just looking back, what do you think happened that turned out to be worse? And where would the risks be that the gradual improvement we are expecting for 2016 may be derailed?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

For the exchange rate ruble devaluation, first of all, we say if we look at the composition of our cost of risk growth we see growth on corporate side and the cost adjusted of hard-currency-denominated loans. So that is a fact of foreign exchange ruble devaluation simply.

We have to create provisions [for] Russian rubles according to Russian banking law, even for loans made in American dollars, so in case of ruble devaluation we have to add additional provisions. So that's as simple as that.

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**Cristina Marzea - Barclays Capital - Analyst**

Is there any way you could be hedging this? Would there be any --? Because obviously when you take the provision for an FX loan, at that time the provisioning is worth a certain amount in FX. Is there some how you can mitigate the impact, rather than with every devaluation you have to top-up your provisioning?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

It is fully hedged, so it doesn't have an impact on our profit loss, but it has an effect on our provisions. So you see high cost of risk, but at the same time, the other side of the model is reflected as positive foreign-exchange relation reflected in our foreign exchange results.

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**Cristina Marzea - Barclays Capital - Analyst**

Right, okay. So this is just different lines; provision is increasing but then there is the trading line is offsetting this. And then separately if you would have a devaluation, the opposite impact would be lower provisioning because you would be releasing, but then a negative offsetting impact on the trading line?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, correct. As for our investments into the DenizBank, equity of DenizBank today is RUB168 billion in our reporting currency, RUB168 billion.

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**Cristina Marzea - Barclays Capital - Analyst**

And the funding to your subsidiary?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Loan-to-deposit ratio for our Turkish subsidiary is slightly below 100% now.

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**Cristina Marzea - Barclays Capital - Analyst**

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Right. I have memories, but this could have been just you funding the capital increase, but in my mind I have something like \$1.1 billion or \$1.4 billion of funding to the subsidiary. But I think the numbers may be a little bit out of date. Would you mind confirming those? Maybe -- we can also take it offline, that's okay.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, definitely. We have [several netted] loans given to our Turkish subsidiary, and as for sub loans, we gave RUB109.8 billion. So it's --.

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**Cristina Marzea - Barclays Capital - Analyst**

RUB109 billion?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, RUB109 billion, roughly.

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**Cristina Marzea - Barclays Capital - Analyst**

That's great, thank you so much.

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**Operator**

Alan Webborn, Societe Generale.

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**Alan Webborn - Societe Generale - Analyst**

Good afternoon, thanks for the call. Looking at your presentation on page 9 and page 10, certainly in terms of both loans to individuals and corporate loans, your loan yields went up between Q2 and Q3. And I sort of wondered whether you could just explain a little bit more the dynamics.

You did mention, I think in your introductory remarks, that you were seeing some uptick in unsecured lending and I wondered whether it was the mix or --. Just to understand why loan yields are still going up.

Given what has been happening to sort of bond yields in Russia recently, do you think that's going to turn around? Is Q3 the peak of loan yields? It would be interesting to understand your view on that.

And then looking at the sort of average deposit costs, clearly you've been managing that particularly well and especially on the current account side, but why are individual term deposits continuing to rise when arguably people are throwing money at you and you say that you don't have to be price sensitive? So why is that happening? And, again, are we likely to see an end to that after Q3? Was that also the peak? So that would be useful, thank you.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

I would like to start with yields. For us, our first priority that's quality. And as a result, we are trying to provide our customers, both on corporate and retail sides, with the best and sometimes cheapest financial solutions in exchange for best possible, best available collateral and legal structure.

And so it means that we are increasing our margin, first of all, on liability side, and on asset side, our margin is relatively stable. Mix of our portfolios is also changing in favor for more secure portfolios, more secure customers, and more secure products.

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On the retail side, that's mortgage where we are the dominant player and our consumer loans portfolio continues to reduce, continues to shrink. In terms of proportion in our overall retail portfolio, I expected that trend to be continued, so mortgage is dominated. And definitely interest rates on mortgages are somehow lower than that on consumer loan.

Mentioned by me at the beginning some new trends, some [regulation] of some demand on unsecured consumer loans receipt. But it's far from what we had three years ago. And even today taking into account these maturities and scheduled maturities on our old unsecured loan portfolio, we work hard just to prevent further reduction of unsecured consumer loans.

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**Alan Webborn - Societe Generale - Analyst**

So why did the loan yields go up for individuals between Q2 and Q3? They went up from 14.6 to 15.1 and I'm just curious to see why that was.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Because we have very good mortgage portfolio and mortgage portfolio interest rates and mortgage depends on rates on the market as well. So new origination and new portfolios generated a slightly higher rate than used to be before the crisis. Effect is very gradual and cannot be seen very fast, but is sustainable.

Plus unsecured consumer loans, which a little bit (inaudible), as I already mentioned, in the third and the fourth quarter. So fourth quarter we should expect continuation of that trend slightly.

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**Alan Webborn - Societe Generale - Analyst**

Okay. And on the corporate side?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

On the corporate side, again still a fact of our repricing which we made at the beginning of the year and new loans originated at rates higher than before the crisis. So anyway, gradually, rates are going slightly up on average portfolio.

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**Alan Webborn - Societe Generale - Analyst**

Okay. And then last bit was to explain why individual term deposits are going up?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Because same thing. All deposits with original maturities, let's say two years, three years, 18 months, are maturing and many are placed again with the bank at high rates, when rates prevailing before the crisis. So it's quite clear to us.

We have a number of accounts with an option to increase the initial amount at the initial interest rate. So effect of that accounts not that big, but now is less than it is.

We also have our marketing campaign beginning of the year with effect of maturity, effective duration of campaign deposits six months which are maturing now, but they were quite extensive. So all together I would not expect further increase of the interest rate payable on retail deposits on liability side. I think that starting from the fourth quarter or beginning of the next year we should expect gradual reduction of our cost of funds of retail money first of all.

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**Alan Webborn - Societe Generale - Analyst**

Super, that's very helpful. Thanks for going through that.

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

By the way, all the trends and all these parameters and drivers were included into our internal model and our bottom line is our initial expectation. So we definitely take into account our maturity profiles and customer behavior when we built up our assumptions as for the margin trends. All these drivers are within our models and within our guidance.

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**Alan Webborn** - *Societe Generale - Analyst*

Thank you.

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**Operator**

Jason Hurwitz, VTB Capital.

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**Jason Hurwitz** - *VTB Capital - Analyst*

Good afternoon. Just a couple of follow-up questions on Turkey. Could you please specify the amount of subordinated debt and equity following the October 2015 capital increase that you did on the equity side?

And also, could you provide the amount of goodwill that you still have from the initial purchase of the Turkish bank? Thanks.

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**Anastasia Belyanina** - *Sberbank Rossii PAO - Head, IR & Managing Director*

Jason, hi; it's Anastasia. Could you repeat your question, please?

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**Jason Hurwitz** - *VTB Capital - Analyst*

Following the October 2015 equity capital increase at DenizBank, could you please tell us how much subordinated debt that the bank owes to you, and also the amount of equity? I mean, it could just be the third-quarter amount plus whatever capital increase went in.

Then the second part of the question is: how much goodwill do you have remaining on the Sberbank consolidated balance sheet from the purchase of DenizBank? Thanks.

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

We do not comment any events happens in the fourth quarter. We will comment when we present our results for the fourth quarter.

As for the goodwill, we have just -- it's around zero, a small number practically. Give me a little bit more time; I will talk to that question later on during our conference call. We are checking actually number as for the goodwill, and I will respond to your question slightly afterward.

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**Jason Hurwitz** - *VTB Capital - Analyst*

Okay, very good. Regarding the capital increase, if I understood correctly, there was a TRY1.1 trillion increase in the capital of the bank in October 2015. I think this is factual information or -- just trying to make sure that I got it right.

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**Alexander Morozov** - *Sberbank Rossii PAO - Deputy Chairman & CFO*

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Jason, sorry, we missed your question. Could you repeat once again? Sorry.

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**Jason Hurwitz - VTB Capital - Analyst**

No problem. I'm just trying to confirm, because it looks to us that there was a TRY1.1 trillion -- or excuse me, billion lira capital increase at DenizBank during October this year.

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**Anastasia Belyanina - Sberbank Rossii PAO - Head, IR & Managing Director**

Jason, this increase, half of it was the new money that were invested by the bank and the second half was the recapitalization of funds of the subsidiary.

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**Jason Hurwitz - VTB Capital - Analyst**

Recapitalization of funds? Meaning it was a -- was that a conversion of subdebt?

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**Anastasia Belyanina - Sberbank Rossii PAO - Head, IR & Managing Director**

Meaning retained earnings.

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**Jason Hurwitz - VTB Capital - Analyst**

Ah, okay, understood.

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**Operator**

Olga Naydenova, BCS.

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**Olga Naydenova - BCS Capital - Analyst**

Hello. Thank you very much for a very detailed call. I would like to just return for a little bit on the issue of specialized loans to legal entities. They've contributed the largest of the restructured loans, but also the provisioning levels on this segment have gone down substantially. It's now the lowest provisioned segment at 54% compared to -- well, like 80% throughout many quarters in the previous years.

Why did you decide to reduce provisioning rates on NPLs in this segment? And could we expect -- could you comment on this line, please?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

That's project finance spend on the one hand since we have the same [kind] with projects, some good collateral. So the result, we had a chance to use our coverage.

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**Olga Naydenova - BCS Capital - Analyst**

You do not expect an increase in coverage or extra provisions from those specific exposures you already have?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

No. As for the time being, I do not expect it. Gradually, our coverage ratio will be higher, may start to go up again; but not immediately.

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**Olga Naydenova - BCS Capital - Analyst**

You mean that these projects are well collateralized? Or why don't you think --?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

Yes, yes.

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**Olga Naydenova - BCS Capital - Analyst**

Okay, thank you.

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**Operator**

At this time we will now take questions from the Russian speaker line. Thank you.

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**Unidentified Participant**

(interpreted) Hello, Alexander; hello, colleagues. My congratulations with the very good results. I would love to ask you to give more details on your guidance for 2016, the overview in terms of growth of corporate loan portfolio; and please clarify the question on \$1 billion external repayment on your wholesale debt? Many thanks.

---

**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) We're not changing our forecast. At this very moment I don't have any further comment. We are not targeting 2016 at the moment. It's too early to talk about it. We will come back to this issue after we finalize our plans somewhere about mid of January. Many thanks.

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**Operator**

Ekaterina Belkina, Interfax.

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**Ekaterina Belkina - Interfax - Media**

(interpreted) My question is that the new option plan program is not going to affect results of the Bank. Could you please clarify what percentage from your net profit will be the bonus? If you cannot provide the estimate numbers, please give guidance for the Transaero.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) All our comments on Trans we have already provided. We will not provide any more comments at the moment. We are not commenting this; it's too early to comment now, so let's finish this year.

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**Anastasia Belyanina - Sberbank Rossii PAO - Head, IR & Managing Director**

Thank you.



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**Ekaterina Belkina - Interfax - Media**

(interpreted) Thank you a lot.

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**Operator**

[Etia Novarnova], [Vedomosti].

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**Etia Novarnova - Vedomosti - Media**

(interpreted) Good evening, everybody, Alexander good afternoon, good evening. My question is about the effective tax rate. It was fairly high with you in the third quarter, and in October it was almost negative. What tax rate do you expect for the fourth quarter?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) Good afternoon. We're not ready to say on that for the fourth quarter, because there are lossmaking businesses -- for example, Ukraine and other jurisdictions -- where there is loss on financial results and our effective tax rate is higher than 20%, which means that in the fourth quarter, it is going to be higher than that. I think so, yes.

But the question is -- it will depend on a number of factors and how we close the year on the currency exchange rates and the losses that we're making there. They do not reduce our tax base in Russia, and that's why we get a higher tax rate. This is just in Greece -- and putting it in a nutshell.

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**Etia Novarnova - Vedomosti - Media**

(interpreted) You said that DenizBank's financial results. You mentioned it in rubles, and when you were talking about Sberbank Europe if you translate Sberbank Europe results into rubles, is that several billion rubles of loss? Or is it (inaudible) in a different area?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) No, this is not a big number. This isn't a double-digit number. This is not a double digit, no, no, no. It is a one-digit number. It might be less than zero, but it's not really horrifying as that.

This year a lot of banks in Eastern Europe are showing very difficult results. When the rate is close to zero and your interest margin is under pressure, competition is high, and there is pressure from the regulator -- and it is growing -- and they have to meet compliance requirements as well, and in that connection their financial results are not very impressive. This is characteristic of the banks in the Eastern Europe in general, and we are not an exception here. We are in the trend.

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**Etia Novarnova - Vedomosti - Media**

(interpreted) Thank you very much.

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**Operator**

[Ruma Rowasiv], Russia Today.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) Hello. Good afternoon. Can you hear me? Hello?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) Yes, yes, yes, please go ahead.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) Alexander, good afternoon. Thank you for your presentation. My question is related to the incident with the Russian air fighter.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) Sorry, we do not comment any political issues, and we do not give any comments in relation and around the Russian air fighter. Please understand us properly.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) So you will not say how it will affect Sberbank's business?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) We greatly hope that there will be informed decisions made on that. But we don't give any comments.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) Okay. My other question is that Sberbank has kept up its risk level on Ukraine at 0.4% of consolidated assets. For nine months it was the same.

Why is it staying the same? You don't see any deterioration in the Ukrainian situation or with the Ukrainian borrowers?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) Well, the point is that Ukrainian business is not growing, and a great number of loans in Ukraine were issued in foreign currency. And even if the portfolio is reduced, then through currency revaluation it remains flat, approximately in that way.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) One more question is that, experts said today that Sberbank is seeing the chances of getting net profit even higher than Mr. Gref forecast. Mr. Gref said that it would be less 30% compared to 2014. What are your comments that your profit is not going -- is going to be higher than Mr. Greg's forecast?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) I am not an expert. I am just financial director at Sberbank. Ask an expert.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) But as the financial director at Sberbank?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) Well, I said that we do not give any guidance on the results of this year. How can you forecast when you see a situation changing every time so dramatically? You are seeing new black swans on a daily basis that make a tremendous impact on your business parameters, your exchange rates, your rates. And unpredictability is so high that you cannot really make your plans.

We are only talking of trends, something that we [can] really influence on. That's what we are talking about. And what the outcome would be in a situation like it is today, do what you're supposed to do, do what you must, and be what may.

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**Ruma Rowasiv - Russia Today - Media**

(interpreted) I see. Thank you very much.

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**Operator**

[Michael Teagan], Bank.RU

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**Michael Teagan - Bank.RU - Media**

(interpreted) Good afternoon, Alexander. If you could specify, does Sberbank hope -- when you calculate your average rate for the next year, what figures are we talking about?

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) The working documents -- we are talking of our business plan, are we not?

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**Michael Teagan - Bank.RU - Media**

(interpreted) Yes, yes.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) We hope to improve it.

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**Michael Teagan - Bank.RU - Media**

(interpreted) Well, I know, that is why I am asking you about your working vision.

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**Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO**

(interpreted) We're trying to hide that because it's going to change. And we will discuss our plans and figures at the Analyst Day somewhere in mid-January after the New Year holidays.

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**Michael Teagan - Bank.RU - Media**

(interpreted) Okay, thank you.

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### Operator

Ladies and gentlemen, there are no questions and we are closing our session and we're closing our call. We thank everyone. You can disconnect now.

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### Alexander Morozov - Sberbank Rossii PAO - Deputy Chairman & CFO

(interpreted) A huge thank you to everyone for your attention to our results. We hope that we have not disappointed you, and we will do our best so that we as a team do what we are supposed to do in the situation that we're in, and so that we can meet your expectations. Thank you, everyone. Good evening.

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### Operator

Thank you for your participation. You can now disconnect.

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### Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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