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SBER.MZ - Full Year 2015 Sberbank Rossii PAO Earnings Call (IFRS)

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OVERVIEW:

Co. reported 2015 net profits of close to RUB223b.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by; and welcome to the Sberbank full-year 2015 IFRS results call. 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 Tuesday, March 15, 2016.

I would now like to hand the conference over to Anastasia Belyanina. Please go ahead, ma'am.

Anastasia Belyanina - *Sberbank Rossii OAO - MD, Head of IR*

Hello, everybody. Thank you for being with us on our results call, dedicated to the results of 2015. We have our senior management team with us, headed by our CFO, Alexander Morozov; Head of Risk Management Alexander Vedyakhin; and we also have the team of specialists from macro department, Head of our Macro Think Tank, Julia Tseplyaeva.

So we will start the presentation and -- as usual, and then move on straight away to Q&A, to address the questions that you -- I'm sure, you have. Thank you. Alexander, over to you.



Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Good afternoon, ladies and gentlemen. Good time of the day.

First of all, I'd like to thank you, all of you, for being with us today in our regular conference call, and for being with us full year round, year 2015. I'm proud to present to you our full-year 2015 results.

So first of all, I'd like to show you some of thoughts -- some of highlights of the previous year.

It was a second challenging year in row for us. Very volatile commodities prices, and structural problems and geopolitical issues, so around Russian. Inside the Russian economy itself is the GDP contraction: around 4 percentage points, and average inflation rate running at over 15%; and same time investments and consumption declining. So it was quite tough year for us, and quite unpredictable.

When we started the year, so more than 12 months ago, it was very, very unclear for us what to expect. For the first year in a row, over eight years, when we start the year without approved budget.

Despite all these difficulties, we close the year with quite affordable and decent, I would even say, result and with the net profit close to 20 -- RUB223 billion.

With a strong fourth quarter, we were able to compress the year-on-year profitability gap to just about 23 percentage points, which was -- which [considered] as almost unachievable beginning of the year. I'd like to remind that you that first quarter year 2015, with GAAP, amounted to 60%. So we ended up year with just a slightly above 20%.

So our return on equity reached more than 10%, 10.2 percentage points, to be precise, per annum. So double-digit, which is not bad at all for the year 2015.

So what was the main factors contributing to this profit resilience? First of all, as we pointed out a number of times, with recovery of our net interest income. It was driven primarily by Bank's ability to substitute expensive Central Bank funding with retail and corporate stable deposits.

I'd like to say, within year 2015, we grew substantially, so corporate deposits were up by 24%, and retail by 29%. During the year, domestic market share in retail deposits reached 46%; and in corporate deposits a new record for us, 25%, and continued to grow this year.

Second point I'd like to underline, that's our net fee and commission income. We increased by 19.2% in year 2015, in line with our guidance and were driven primarily by banking card and settlement business.

Third point, very important, cost-to-income ratio. It was stable year to year, practically stable: 43.6% versus 43.4% on a Group level, despite high ruble devaluation; and despite the fact that noticeable part of our expense were originated outside to the Russian business, and on the background of very high inflation in Russia. So we believe it was not a bad result at all.

If you look at standalone basis, Russian business only, so we substantially reduced our cost-to-income ratio, and so continued to suppress it further down.

Asset quality, a last but not least point. It's [made] one of our key focus, if not the number one now. As you well know, we tightened our retail underwriting standards in the year 2014, and year 2015 we benefited out of this prudent policy. We could see a substantial improvement in our performance, especially in the fourth quarter.

We continued to be quite selective on corporate side as well. So together with measure resulted in average due past loans at levels significantly below the market average.

If we look at our major operating achievements here 2015, we were in [enumerated] last time, but nevertheless I'd like to repeat it once again.

First of all, the completion of our IT system centralization to a single uniform core banking platform, which could help us substantially to simplify internal management process, as well as allow us to build up a more customer-centric business model. We're just at the very beginning of [that way], but it's very important milestone achieved.



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Second point, [reorganization] of the Bank's regional network. Again, it's not the end; it's beginning of the process. But nevertheless, we reduce the number of our territorial banks by two in Russia, and we started reduction of our administrative layers. Altogether, it will lead to further compression of our cost to income and further efficiency increase.

Third point, we built up and, the [fact] reorganized -- or we built up a so-called block technology and service block, which means serious transformation of our head office, and IT and operational functions. Was just the beginning of the full operational transformation of the whole business of Sberbank, aiming at the end of the day a higher performance, higher agility of our business banking model and a lower cost basis.

Fourth point, increasing of the digital e-banking and footprint. We increased amount, so number of our online customers to around 25 million customers, which is already something.

[Heading to] that, I'd like to take [about] -- before we go to our full-year forecast and spend two minutes of your time on our Sberbank's estimate what we promised a year ago and where we are.

If you look at page number 2 of our presentation, you may find out that according to all the metrics, we are in line. Just one, the last one, Core Tier 1 ratio, capital adequacy ratio, which we promised in our guidance above 9%. We ended up the year with 8.9%, which was due to substantial devaluation of Russian ruble in the fourth quarter, but it's roughly 9%.

[Heading to that], I'd like to reiterate once again that we deliver our promises.

Thank you very much for that. I'd like now to open session of Q&A, questions and answers. This conference call is attended now also by CFO (sic) of the Bank, President of the Bank, Herman Gref. You have an opportunity to ask three questions. Please session, please continue to be open.

QUESTION AND ANSWER

Operator

(Operator Instructions). Alex Kantarovich, JPMorgan.

Alex Kantarovich - JPMorgan - Analyst

Mr. Gref, Mr. Morozov, seems like you finish the year on a positive note. But looking forward, I'd like to know what we should expect about the operating cost dynamic for 2016. My concern specifically is that in Q4, there was a substantial jump, 32% quarter on quarter in operating costs. Whether you can keep costs under control for 2016. That would be my first question.

My second question is on the Bank dividends. On the one hand, it seems like the government wants to get 25% payout commitment from state-controlled companies. On the other hand, your capital adequacy has declined. How do we square this to realities? Thank you.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Hello, Alex, thank you very much for your question, it's Herman Gref.

Two questions, the first one about the operation cost. You say that it was a big jump in fourth quarter. Last year, it was a traditional situation.

Normally, we are allocating our spending to the fourth -- to the last quarter of the year. This year, we promised you that our loan -- our cost to income ratio will be around 40%. I think that we have a good chance it will stay in the same position. We have this goal in our operational cost this year. I think that we will do it this year.

If we speak about the dividends, 20%, it's our promise and we will provide this 20% to our Directors' Board. I think the last decision by the Directors' Board will be in April this year and after that we can comment it. But our proposal will be 20%.



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Alex Kantarovich - JPMorgan - Analyst

Okay. Thank you, loud and clear on dividends. On operating costs, can I just clarify that I heard you correctly. You said cost to income ratio around 40%?

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Yes.

Alex Kantarovich - JPMorgan - Analyst

Okay. Yes, thank you. That would be quite an improvement of 4 percentage points, yes?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

I'll further comment it in a further session; I'll give more flavor on that if necessary.

Alex Kantarovich - JPMorgan - Analyst

Okay. Thank you.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Next question, please.

Operator

Jason Hurwitz, VTB Capital.

Jason Hurwitz - VTB Capital - Analyst

I have also a question relating to your net interest margins. If you could give us some color as to the timing of when you see the margins peaking. If you see them peaking at all in 2016 or stabilizing, or will it be continually rising throughout the year, as it did last year?

Also, if we look more in detail within that, we are seeing a high competition for corporate borrowers and how you see the dynamics of pressure on corporate lending rates as a result of that, versus potential cuts in the key rate or in other funding cost declines; where you see the dynamics of that working out in terms of the NIM improvement for this year? Thanks very much.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

I think that I can combine the answer on these two questions together. Our forecast for the next two quarters, that our net interest margin will be growing and it means that the liability costs will go down and the asset [scores], the credit, will stay maybe a little bit less than now, but the rates will be on the same level.

It means that in average, we will have much better net interest margin than last year and we can see it during next six months. It will be the first reason for increasing our result this year, if you think about net profits.

Jason Hurwitz - VTB Capital - Analyst



So do you think then the peak for net interest margin will be somewhere around second or third quarter?

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Yes.

Jason Hurwitz - VTB Capital - Analyst

Okay, thanks very much.

Operator

Mikhail Shlemov, UBS.

Mikhail Shlemov - UBS - Analyst

I have a little bit of a big picture question about international strategy and overall international exposure of Sberbank. If I look at the regional breakdown, just like Russia especially, in the first two months of the year, has been already moving out of the woods with you delivering somewhere around 15% in the first couple of months.

But looking, for example, at [each] subsidiary, which is obviously the most successful, it's delivered the ROE of around 11% last year. Looking basically elsewhere, Ukraine was a big issue, but hopefully has been cleared out and the rest of this year is exposure basically. Belarus and Kazakhstan are also facing a number of headwinds, which Russia has been already going through.

So the question is how do you think about the international strategy going forward? Should we expect some optimization of a presence, whatever it would be, exits from the smaller Central and Eastern European countries which you have already advertised and on which you are exiting? And should we expect some risk-weighted assets reduction in the other countries? Thank you.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Mikhail, thank you very much for your question. You're 100% right. You have repeated our permissions in October last year and we don't change our international strategy and we will do all our promises.

Mikhail Shlemov - UBS - Analyst

But it's like -- Mr. Gref, specifically talking about Turkey, again, it seems like a little bit of a trade-off, because in Russia, you're still able to generate a high ROE versus which you can do in Turkey and probably in the station, when the capital looks [curve], it also becomes the question on effective capital management between the two countries. So what's your, basically, big picture thinking about those two?

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

If you speak about our business in Turkey, we have one of the highest ROE in the country and we're very satisfied with our business in Turkey.

But if you speak -- if you look at the future, I think we have a good potential to transform our business model in Turkey and, two, we can speak about increasing our ROE in two years [positive]. Now, we work very hard with our Turkish partners for increasing their capacities on risk management control and the risk management competence and to move in the digital strategy.



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I think that we have good opportunities to reduce our costs in the Turkish Bank. They have a very good digital team. Last year, they provide to the market a lot of innovative products and, frankly speaking, I think that Turkish Bank is the most innovative bank in our Group and we have good opportunities in this market.

If the geopolitical situation between Russia and Turkey will be more or less stable, I think that we can have a good result in the Turkish market.

Mikhail Shlemov - UBS - Analyst

That's great. Thanks very much. Since you just touched a little bit about the improving efficiency of the Turkish subsidiary and also moving the ROEs there, perhaps you can give us some medium-targets where you want the Turkish business to be in terms of ROE and the cost income ratio perhaps closing. To what extent they can close the gap versus the Russian one?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Now, we are discussing our results of year 2015 and not the guidance for this year and the next year. So it's not a strategy meeting, so I'd like to -- awfully sorry for that, but to focus primarily on questions related to our past performance year 2015. I appreciate it very much.

I'd like to remind that after the session of Q&As with Mr. Gref we'll have most of the time for more detailed discussion on number of specific topics on finance. So I'd like to invite you for more strategic questions to be asked now, using that opportunity. Thank you.

Mikhail Shlemov - UBS - Analyst

Thank you. That's clear.

Operator

Olga Veselova, BofA Merrill Lynch.

Olga Veselova - BofA Merrill Lynch - Analyst

Gentlemen, I have several questions. My first question is about credit risks. Particularly, I'm interested in cost of risk in retail segment. It was pretty low in the fourth quarter, 50 bps, and I would like to hear your thoughts how sustainable you think it is.

I have spoken to your IR team and they argue that there were no one-offs, so could you please tell me what was driving this cost of risk at such a low level and what were the reasons behind?

Also, while we're on the topic of loan portfolio quality, also I wanted to ask you a little bit more detail about red zone of your renegotiated loan portfolio. It has been growing steadily and it is now 25% of your loan portfolio -- renegotiated loan portfolio structure. What exactly these loans are? They're not NPLs. Are they showing any signs of potential impairment? Are they more than 1 day overdue? So what these are?

These are my first questions about loan portfolio quality. I will ask other questions afterwards.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

If you do not mind, I will answer in very much details both your questions a little bit later on. The CRO of the Group, Mr. Vedyakhin, will address it. But now, I'd like to ask to focus on questions to CEO of the Bank on strategic topics, which may be covered exclusively by the CEO of the Bank.

Both topics related, so financial performance and risk matters and quality of our assets, we'll address on a later stage of that conference call. Thank you very much for the understanding.



Olga Veselova - BofA Merrill Lynch - Analyst

Sure. Thank you for this. Then my bigger picture question would be about the costs. I saw the growth of headcount in the fourth quarter. Could you please tell us your thoughts about the cost management going forward? What areas still need investment? And if you could maybe quantify these investments for us; that would be very useful. Thank you.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

About your big picture question, about our costs. I said that to have a guidance -- get the guidance to the end of the year, to foresee our cost income ratio, 40% and I think it doesn't matter what kind of positions we will reduce and how we can manage it.

I think for you it's more important that we will deliver this result. I don't want to speak about special position, what kind of costs I will reduce during this year and what kind of investment that I will increase.

Generally, I think that we have a 10% possibility to deliver this around 40% year. It's much better than the previous year and I can guarantee you that we will deliver all our programs, very important programs to transform [entire] Bank to the new technological platform. It will be not easy for us, but I think that we can do it.

Olga Veselova - BofA Merrill Lynch - Analyst

Fine. Thank you.

Operator

Kalim Aziz, Duet Asset Management.

Kalim Aziz - Duet Asset Management - Analyst

First of all, I must apologize on behalf of myself and everybody else we must say congratulations; it was a fantastic set of results and very well done to all of you at the management team of Sberbank. Thank you very much for delivering what you have delivered.

My comment is that on the Russian side you have done a fantastic job and it seems to be that things are looking very well. Turkey also looks like you have a handle on things.

I just wanted to get a little bit better picture about your operations in Ukraine. Should we start to consider it to be a non-issue from the fact that it's a very small part of your business and areas like the latest acquisition that you did in Western Europe?

So could you please, very briefly, let us know that are these assets outside Turkey and Russia worth providing any focus on from the investor community point of view?

And from your point of view as well, are you trying to run it in a very, very cautious manner or should we just look at it at all? That's the first question.

The second question I would like to ask is that how do you see different oil price scenario and the impact of different oil price scenario on the current dynamics of the system as a whole and how would it impact you?

For example, instead of \$35 oil price that you have assumed for the year with 250 to 300 basis point cost of risk, if you were to assume a \$45 average oil price for the year, what would these costs of risk number look like? Those are the two questions. Thank you very much.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

I'll take your second question, more specific one about sensitivity analysis.



So as we mentioned that in our conference call when we provided you with the guidance for year 2015, the conference call we arranged in January, if we have higher average oil prices during the year, we may expect noticeably low 200s level basis points cost of risk. But, as of now, what we can see of the market is fully in line with our expectations earlier made.

So as of now, we have no reasons, no arguments, to amend our forecast, our guidance for this year. We reserve the right to return to that point when we present our results for the first quarter in late May, so two months from now. But as of now, it's too early to speak about that. Potential for some improvement exists if we have high oil prices.

Turning back to your first question with regard to Ukraine. I'd like to remind you that a portion of Ukraine assets in our total assets is 0.4 percentage points, so it's very, very small. The biggest part of it we've already provisioned.

So as of now, we see no necessity to create -- to expect additional serious impact from that side on our balance sheet or either on our bottom line this year.

Some additional provisions will be definitely created, but do not expect high impact compared to the previous year.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

And it was a question about our European business. I said that we will move in our European business to the digital model. We don't want to expand our business in Europe before we change our technological platform in Europe and before we can try to implement the new digital business model in Europe.

After that, I think it will not -- this year maybe -- to the end of this year we will start with a new business model in Europe. But maybe during the next year we can decide how -- what kind of risk appetite and what kind of return we can have in Europe. Maybe in 2018 we can look at the perspective -- the Sberbank perspective in the European market.

To end of this year and during 2017, I think that we will reduce our branches in Europe, our subsidiaries. We will invest our efforts in producing the new business model and the new technological platform; it's the main goal for European business.

Kalim Aziz - Duet Asset Management - Analyst

Thank you very much, sir.

Operator

Alan Webborn, Societe Generale.

Alan Webborn - Societe Generale - Analyst

Could I ask you a --perhaps a slightly more philosophical question to the CEO. Would you actually like to grow faster in terms of loan growth? You've had a very good performance in terms of risk cost across 2015 and yet you're presenting a target that suggests that the risk costs will deteriorate in 2016 rather than improve, and that's not really what the trend seems to be showing.

And yet, certainly on the corporate side, and arguably on retail, you're being quite timid, in terms of the sort of loan growth that you think Sberbank can achieve, despite clearly many banks in Russia being in a much worse financial condition than Sberbank.

So, I wonder, and I appreciate fully that Mr. Morozov has an asset quality first and foremost view of the world, and I think investors will have applauded him for that over the last 12 months. But does Mr. Gref feel that we could actually see a Sberbank growing faster and taking more opportunity of a period in which it can price risk very, very effectively? Or does he feel his CFO remains correct in terms of still very much safety first, don't grow the balance sheet, the risks in Russia are too difficult?

So, I'd be interested to hear his view on how he's looking to manage the Bank over the next year or so.



And perhaps, also, to comment, it's a small thing but in the guidance that you gave at the beginning of the year, you were forecasting or guiding towards a low to mid-teens ROE. And I see in today's outlook you are suggesting a low teens ROE. Does that at all signify increasing caution as to the outlook for this year? Thank you very much.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Thank you very much for your question -- for your philosophical question. I will be very short in my not-philosophical answer.

It isn't a choice for us between asset quality and speed of growth. We don't want to grow and to take more risks during this very difficult period of time. We would like to stay in the same position and we will say in this very difficult period of time that safety first and we will be very careful on the risk-taking side and we will -- the first goal for us, this is the net profit.

I don't feel some pressure from any side in my business that somebody can push me to take more risks. I think that we have enough risk in our balance sheet and we don't have risk appetite for taking more risk.

Don't worry, please. We will be stable on the position, which our CFO declared.

Alan Webborn - Societe Generale - Analyst

And in terms of the guidance, should we interpret there being a little bit more caution?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

As I have already mentioned, we are not going to change or amend our guidance for the full year today. We are just in the mid of March, so not yet even the end of the first quarter. Let's sit, wait for the further development.

Provided we have some positive development, at least not worsening of the situation of around Russia and inside Russian macroeconomic, so we may return back to our guidance and address it in more details and maybe amend something for better, but no earlier than our conference call related to the presentation of first quarter results, so late May.

Alan Webborn - Societe Generale - Analyst

Okay. But you, actually, have changed it slightly, because your ROE target was low to mid and now it's low teens, so you have changed it since January.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

No, we made the same, low to mid-teens, was a technical mistake, so it will be amended.

Alan Webborn - Societe Generale - Analyst

Okay, thank you very much.

Operator

Andrzej Nowaczek, HSBC.

Andrzej Nowaczek - HSBC - Analyst



Am I right that you went on a fact-finding mission to the Silicon Valley recently? I'm just curious; that's what I've heard. If you have, then what are your findings and are you now more concerned about fintechs or less?

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

I think it's -- I don't have a concern about fintech companies. I think that I'm concerned more about the big players, like the Amazon and Google, who have a lot of their own resources to play on the -- on our financial industries.

What I can say that we come back -- it was a very important trip for us to understand that our plans for the Sberbank transformation, which we created last year, is ambitious enough and safe enough. It's a balance between two different things. We must move very fast to the new business model, which we call, Agile, but we save our core business for making profit during this very difficult period of time, during our way to the new model.

What I can say after the visit, that the same program has 100% largest companies in the American market. We had a meeting with the largest American banks and they have very similar programs and they have very similar [talks]. They have visited different companies from the different industries, like [Alcor] and they have good conversations with CISCO; Boeing; HP; with the old corporations, maybe not so old like Sberbank, but in Silicon Valley the old people call them old corporations.

All these corporations have the same problems. And I think it was very important for us for improving our understanding, what kind of alternatives for Sberbank we have.

We understand that we don't have many alternatives. We have only one way and to do it very fast. We will go to the way to be one of the best technological companies in financial business and we will be one of the five, maybe six world largest organizations, which will start with this transformation in the next two/three years.

I think that we were 100% right with our presentation to you in October 2015. It was the right time and I hope that now we have more understanding what kind of difficulties we can find on this way and what kind of opportunities we can use. We have found the right partners in Silicon Valley for helping us to do this transformation.

Today, we had a -- we made a big presentation to all our management team with the results of this trip. I think that now we are emotionally 100% prepared for this transformation.

We understand that it will be not easy for the management team, because we have conversations with our partners, who were started two years ago or one year ago and normally the -- what they explain to us, they lost around 30% of the management team during this way.

I think that my responsibility is to work very hard with my people, because I don't want to have the same result. I don't want to lose 30% of my top management team and my management team during the first year.

But I think that now I'm more optimistic, if we speak about our capabilities, about our capacities to be successful on this transformation.

Andrzej Nowaczek - HSBC - Analyst

That's very interesting. Thank you so much.

Operator

Hadrien de Belle, KBW.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

The last question to CEO of the Bank, please.



Hadrien de Belle - KBW - Analyst

I've got two question. One is on your capital. Are you considering using the available hybrid capital that is available for you? That's my first question.

And the second one is medium term, how high on your agenda is the branch network optimization? That's my two questions. Thank you.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

Thank you very much for your questions. If you speak about our Tier 1 capital now we have a very constructive conversation with our central bank to include our subordinated loan to our Tier 1 capital. Now, I can't predict the result of this conversation, but I think that we have a good chance, because the Russian law was changed during the last six months and, now, we have a chance to start with the new round of discussions.

I think that in a few months we can explain the results of this conversation with the central bank.

About your second question, I think it's not convenient for me to comment it, because you can understand that it is a very sensitive political issue, because it's connected with the reducing amount of people during the crisis and it will be a lot of highlights after my comment.

But I can say it's certain that our cost to income ratio, which is a very good measure for our cost management, will be delivered around 40%. We will include in this complex of different steps a lot of good things for our business, but it will be not so easy to comment it openly.

Let me stay on the same -- on this position and excuse me for not opening more details about it.

Hadrien de Belle - KBW - Analyst

Okay. Thank you.

Herman Gref - Sberbank Rossii OAO - CEO & Chairman of the Executive Board

And thank you very much for your questions and thank you very much for supporting us and for very constructive pushing us in the right way. We are very thankful to you, because we need to have very good trainers in our game, because it's a big game and we will be very successful on that if -- we need good partners and a good coach. Thank you very much.

Operator

Olga Veselova, BofA Merrill Lynch.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Yes please go ahead. We are turning back to our normal Q&A session, so we have a delayed question not answered from Bank of America Merrill Lynch. If I am not mistaken you are going to repeat it, so about credit quality, correct?

Olga Veselova - BofA Merrill Lynch - Analyst

My first question is about cost of risk in retail segment. So it was 50 bps in the fourth quarter. What were the drivers behind this low level of cost of risk? If you could help us to understand and how sustainable the reasons behind this cost of risk will be in the next quarters?

Also, the other question about asset quality, is about the red zone in renegotiated loans. What exactly this loans are? If you could help us to understand. Thank you.



Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Head of Risk Management, Alexander Vedyakhin will answer your questions.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Thank you very much; that's very good questions. So about retail loans and the quality of these loans I can say that, as you very well know, we have started our risk measures for retail portfolio in the end of 2014 and in the beginning 2015. Actually, in the end of 2015, we were seeing those results and that's absolutely correct that cost of risk for retail portfolio has decreased.

How substantial it is, a good question actually. Taking into account some deterioration on the market that we can see, I mean on the Russian market first of all, that -- I can say that we can't promise the same good results for 2016 as we had for the last quarter 2015.

About -- and I can add that actually we are not expecting significant deterioration on the retail portfolio, don't get me wrong please. The quality is still good, and the NPL ratio is stable as far as we can see. But still we, and myself as Chief of Risk Management, would like to be on the conservative side and say that we can estimate some issues and in the quality of retail portfolio, but not significant.

About red zone --

Olga Veselova - BofA Merrill Lynch - Analyst

I'm sorry, can we just stay here for a second. If I can ask what cost of risk do you charge on new retail loans, in mortgages and in unsecured consumer lending? And then we will move to the red zone.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

So let's say -- so we have internal discussion about what includes -- for the period then we can declare.

Now, we can say that above 1% now we can see. So that's above the last quarter 2015, but still far better than the system.

Olga Veselova - BofA Merrill Lynch - Analyst

It's average blended above 1% for all retail loans, correct?

Anastasia Belyanina - Sberbank Rossii OAO - MD, Head of IR

New.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

New, new [and used].

Olga Veselova - BofA Merrill Lynch - Analyst

New, yes I mean mortgages and unsecured.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer



Exactly.

Anastasia Belyanina - *Sberbank Rossii OAO - MD, Head of IR*

And credit cards.

Alexander Vedyakhin - *Sberbank Rossii OAO - Chief Risk Officer*

And credit cards, so all-in-all.

Olga Veselova - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Alexander Vedyakhin - *Sberbank Rossii OAO - Chief Risk Officer*

And about red zone, and by the way as you can see for the first time we make this declaration about our loan portfolio quality, and for renegotiated loans.

And that -- what you asked us to prepare and what we have done, yes the red zone is 25% that's correct, and that's really understandable for the current situation on the Russian market.

What does it mean a red zone? A red zone means three -- it should be one of three significant criterion. First of all, the overdue between 30 to 90 days; the second when collateral is lost or, for example, there is a big deterioration cash flow of a client, more than 50% duration cash flow.

So taking into account the situation on the Russian market, you can see that this is -- that this part, the red part is increasing. But I can't say that conversion from a red zone to black zone is high. For example, you can see that we have in previous quarter, I mean third quarter, 20% in red zone and 7% in black zone. Despite of increasing red zone to 25%, black zone increased only for 1.7%, so there we are trying to manage it and we are managing it.

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

And I'd like to add a couple of words to it, and Alexander has said. We have to take into account also foreign exchange components in the zones. In the fourth quarter a further devaluation of Russian ruble accounted for some growth of our black and red zones. So just the same amount -- notional amount in those, but high margin Russian rubles.

So that's one of the major reasons of the growth of -- for red and black zones in fourth quarter last year.

Alexander Vedyakhin - *Sberbank Rossii OAO - Chief Risk Officer*

Exactly, thank you very much Alexander.

Olga Veselova - *BofA Merrill Lynch - Analyst*

Thank you. My last question will be on understanding your net interest margin trend. Could you help us -- could you remind us the average maturity of your corporate loans and retail deposits, if possible?

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*



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Okay, we have a blended basis. On corporate side, we -- in Russian rubles all our deposits are of short-term nature. But, at the same time, we have very stable current accounts and settlement accounts, and the balances on that type of accounts are growing permanently. So we can see it as some percentage of it as our core deposits.

In the other terms, we have (inaudible) quite stable, and medium to longer-term corporate deposits from a number of customers, so exceeding a 12 months' horizon up to three or four years' maturity.

On the retail side, the situation is different one. Yes, we have short term, we have medium-term deposits. But I would say on the blended basis, its average duration is somewhere around 18 to 24 months on the retail side.

But again, please take into account -- please take into account our blend basic. We have also quite big chunk of savings accounts, current accounts.

What's important for you is that our structure of interest rate gap, interest rate gap grows substantially, we reduced it substantially over the last 12 months and we seriously reduced our exposure on that type of risk.

As is out, today, we are clearly benefitting out of (technical difficulty) for the (technical difficulty) market. We expect, as it was already mentioned by Mr. Gref earlier during the conference call, that the cost of our liabilities will continue to go down, and that will be the major driver behind the further extension for our net interest margin.

We have very good bargaining power on corporate deposits as well, taking into account consolidation processes, which are going on in the Russian banking market.

Altogether, I'd like to reiterate that we expect further gradual expansion of our margin and a further stabilization of the margin later on this year.

I hope we have answered your question.

Olga Veselova - BofA Merrill Lynch - Analyst

Thank you.

Operator

Mikhail Shlemov, UBS.

Mikhail Shlemov - UBS - Analyst

Going into a little bit of a more technical question. I was looking at your effective tax rate, which seems like it was heavily impacted in 2015 by losses outside of Russia, specifically in the Ukraine, and the underlying inability basically to recognize a deferred tax asset.

But what should we expect for 2016? Should we see the tax rate normalizing towards let's say normal 20%, or we should see something else, and what are the drivers of that? Thank you.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Okay, what [they] should take into account when we look at our elevated the effective tax rate in year 2015?

I would say, first of all, three main factors: the specifics of the Group consolidation accounting, the first factor; the fact that several of our subsidiaries were a deferred tax asset, which cannot be created like Ukraine; and the third reason in year 2015, the tax rate may still be a little elevated. But I would say that low to mid-20s% would be a reasonable assumption. I would not expect rate to return back to 20%, but mid-20%-s might be expected.

Again, the major reason behind it, loss-making subsidiaries in a number of countries of our presence, first of all, Ukraine and then Eastern Europe.



Mikhail Shlemov - *UBS - Analyst*

Okay that's clear. So probably 2017 is where we can see the normalization to the real low 20s% basically?

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

Year 2016, yes, low 20%-s, so I think it's reasonable. But this year, it will be a little bit elevated but not to the level like we saw previous year.

Mikhail Shlemov - *UBS - Analyst*

Okay, that's clear. Thank you very much.

Operator

Yulia di Mambro, Barclays.

Yulia di Mambro - *Barclays - Analyst*

My first question is on asset quality. So if I look at your NPL ratio and also all past due and impaired loans, it looks like they declined in the quarter; NPL ratio declined by 40 basis points to 5%.

What was the driver behind that? Is that decline one-off in nature? Maybe there was an NPL sale or a write-off or is there some sort of change in the general trend? And what is your expectation for asset quality for 2016? That's my first question.

My second question is on capital. So your Tier 1 ratio came in slightly below your guidance at 8.9%. Also, if I look at your last reported N1.2 ratio at 7.2%, it's quite a bit below the more than 8% guidance that you've given for the full-year 2016.

I just wanted to see if you are still sticking by your guidance for the full year. What sort of levers can you pull to get your N1.2 ratio up to the desired 8% this year?

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

The first question will be addressed by Alexander Vedyakhin and then I will follow with comments on capital. Alexander, please?

Alexander Vedyakhin - *Sberbank Rossii OAO - Chief Risk Officer*

So we have some factors that led us to have the situation with NPL ratio you mentioned.

First of all, as I mentioned before, this is improvements in the retail scoring and retail credit risk approaches that helped us on one side; I'm including the risk policy. On other side, yes, we made some write-offs. That's normal for the end of the year and it helped us as well. That's really the short answer.

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

With regard to capital, yes, we believe we can deliver our promises again with regard to capital.

First of all, we continue to build up capital for organic capital creation. Secondly, we optimized our risk-weighted assets. We started with work the previous year; we continued this year as well. And third, we cannot exclude some changes from the regulatory perspective.



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First of all, AIRB approach implementation since July 1. But, by the way, this AIRB approach implementation is not yet in our current forecasts. So if and when it is implemented and we got permission to go on with it, we immediately amend our capital forecast upward.

So, again, organic capital creation, our main driver behind our capital build up and capital adequacy ratio build up and risk-weighted assets optimization. That's the second reason.

And by the way, answering one of the previous questions guiding our average duration, we checked it twice. I gave you immediate answer about the duration of our deposits and we checked the average duration of our loans on the corporate side. So our effective average duration of our loans to corporates is 28 months now. So I hope we answered your questions, we can go on.

Yulia di Mambro - Barclays - Analyst

Thanks. Can I just have one quick follow-up question? I've just seen some headlines on Bloomberg quoting Mr. Gref saying that you've asked CBR for an additional subordinated loan. Could you clarify that because that wasn't my understanding of what Mr. Gref said earlier?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

No, that's a misunderstanding of our colleagues from Bloomberg. Mr. Gref specifically mentioned that we may consider an option to convert our existing subordinated loan from the Russian Central Bank in the amount of RUB500 billion from lower Tier 2 to additional Tier 1.

So it may be a result of the dialog now we opened with the Russian Central Bank again, which became possible after Russian -- some amendments in the Russian legal environment, allowing us to attract loans without contractual maturities, so de facto perpetuals.

So when we [attracted] our sub-capital, perpetuals were not allowed by Russian legislation. Now, we have that option, so it gives us grounds to return back to the question now how to treat what's already taken sub-capital. Potentially, later on this year, we may return to the topic.

If and when it is reclassified from existing sub-capital to additional Tier 1 capital -- additional pick up for Tier 1, so implication will be around 200 basis points for Tier 1 capital.

But taking into account that discussions have been just started, so we are not at the final stage yet, we do not include it into our forecast today. We'll return back to that topic and we'll comment it in detail as soon as we have more substance and do not expect us to return earlier than our next conference call in May.

Thanks.

Yulia di Mambro - Barclays - Analyst

Thank you.

Operator

Olga Naydenova, BCS.

Olga Naydenova - BCS Capital - Analyst

Congratulations on good results. I have a question about your liquidity management. Your recent results show just under 92% loan-to-deposit ratio and deposits continue to inflow. What is your thinking about our liquidity position? And any guidance or any understanding where we will see these ratios going forward?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO



It's sometimes, especially in turbulent times, it's nice to have an issue with liquidity. So it's a much better position than, let's say, a position when we have a deficit of liquidity, an LDR ratio above 100%.

So, first of all, I'd like to say that as of now the structure of our assets and liabilities is a fund that we are earning on every part of our abilities. Every part of our abilities is just bringing us a positive margin on the liability side. It's very, very important. So we do not, I repeat.

Secondly, we reduced our excessive liquidity in physical form, so in cash, noticeably by times since the previous year. This year it contributed additional some bps to the margin. If you look at our cash and cash items, we reduced noticeably since the previous year, since December 2014.

Third, with regard the loan-to-deposit ratio, yes, it's about now 90/92 percentage points. I would not expect a further reduction of our loan-to-deposit ratio to, let's say, level 80%. It will be too expensive for us.

At the same time, I would not expect us to return back immediately to 100% or even 95%. So I think we should expect to see an LDR around the level where we are today.

On the one hand, we have inflow of additional customers and additional liabilities -- good quality liabilities. On the other side, we are in a position of cherry picking for good credit. I think the situation will be more or less stable with liquidity this year. And we'll focus on the price of our liabilities.

So we -- do not expect us to continue to build up our market share, for the sake of the market share, in terms of retail deposits. We will focus on the margin, because margin is the main component of our revenues, and our revenues that's a way for our capital build up.

So, first of all, create quality; second, profitability; and should not consider market share as a target.

Olga Naydenova - BCS Capital - Analyst

Okay, thank you very much for that. I also have a follow-up question regarding asset quality and restructured loans, which I think fourth quarter you had -- in fourth quarter you had great progress.

But I also noticed a meaningful reduction in the renegotiated loans on this specialized zone. Could you please comment on how this happens and does this mean an improvement of this book's quality? Or how does it work, generally?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Thank you very much for your question. Yes, there is some changes in the structure of restructured loans -- sorry for this wording -- in the structure of renegotiated loans.

Yes, actually, from my understanding, nothing special. We have some big [fires] in the restructuring that we have made that shifted the restructuring portfolio to some different mixtures, so to say, and now we have, for example, metallurgy 46%; construction 17%; and so far and so on.

I mean that -- but it doesn't mean change of the trend, at least from my understanding.

Olga Naydenova - BCS Capital - Analyst

Okay, thank you so much. My last question is also on credit quality. You seem to have much slowed down your NPL formation. Can we generally say that fourth quarter did not have any meaningful one-offs that supported that number? Or this is a -- basically, were there any positive one-offs on the asset quality?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Actually, I can say, as I mentioned before, that good quality of -- good asset quality in the fourth quarter of 2015 has two reasons.



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First reason is prudent risk -- credit risk policy in the end of 2014 and beginning 2015, on the one hand. And on another hand, we made some write-offs in the end of 2015. This is actually usual. This is practice -- normal practice, business as usual on the Russian markets.

But mainly we made these write-offs for retail credits. Mainly, this is unsecured loans, credit cards. Then we made everything what we could make after court cases, after we made our collections and so on.

So when we understand and when we have decision of the court that it's impossible to take anything from a client, we are making it a write-off. That's what we have done in the fourth quarter of 2015 for retail loans.

Olga Naydenova - BCS Capital - Analyst

Okay, thank you very much. And if I may, one more question about fees income growth. My understanding is it is slowing down. Are you comfortable with your fees income growth right now, and any guidance you can provide for 2016?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

We posted quite noticeable growth of our fees and commission year 2015, close to 20%, fully in line with our expectations and our guidance made earlier. As for this year, we do not guide it specifically at a higher level, so we believe that we'll be able to provide at level high teens, as indicated in our guidance page. The main drivers behind the fees and commission growth will be more or less the same.

But specifically, I'd like to stress that still we have a number of products what we underpenetrate the market. Specifically, foreign exchange-related separations, where our market share is just by times lower than our market share, in terms of total assets, or just a credit or a deposit exposure. So we have trade finance separations where we would like to increase our market share. That's on the corporate side, though.

On retail side, taking into account the growing number of customers using our distant channels and our applications, we have stated growth of our fees and commissions on card separation on acquiring businesses, and so on.

So it's difficult to expect us to post year after year 20% or 20% plus fees and commission growth rates. But, nevertheless, high teens still we believe is quite a decent result, which might be achieved this year as well.

Olga Naydenova - BCS Capital - Analyst

Thank you, that's all from me. Thank you so much.

Operator

Ivan Kachkovski, Deutsche Bank.

Ivan Kachkovski - Deutsche Bank - Analyst

I have a specific question on corporate loans quality, actually. So, yes, we see that NPL ratio declined in a large part due to write-offs, which are seasonal, which are nothing probably particularly surprising. But if we actually exclude the effect of write-off, we would still see that corporate NPLs actually increased just barely during the fourth quarter, almost like around in error.

So while cost of risk is down in the quarter, mostly due to retail cost of risk decline and corporate cost of risk remains high, actually, NPL formation in corporate loans was very impressive. It was very non-existent for the quarter.



I wonder if you could elaborate on some color behind these dynamics, because, in any case, new NPLs arise every time. So if we had no increase in corporate NPLs over the quarter, that means that some of the pre-existing NPLs have returned to performance or something else happened to them, so what could that be?

And do you see this quarter as the beginning of a trend of improving asset quality in corporate lending or that might be just a one-off, or maybe a seasonal effect or something like that? That's my first question. Thank you.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Okay. Good question. Thank you very much for deep diving in our results, and thank you very much for appreciation of our results.

Yes, the figures are, for sure, correct and the story behind it is prudent risk management on one side. On another side, we made some restructuring for some big loans and some NPLs became restructured, but not overdue loans.

Unfortunately, I can't mention any name, but I can say that in the fourth quarter, for example, we have solved our problem with an aviation company. Colleagues are smiling on me, saying it's wise not to say any name.

Okay, so we have solved a problem with an aviation company and with a mining company outside of Russia, a metallurgical company outside of Russia. So because of those actions with NPL, so our NPL ratio became better.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

It's very hard to see whether it was the bottom and now it's beginning of new trend. So let's sit and wait a couple of quarters. We'll come back to our guidance with regard to cost of risk in May.

We repeat it for a second or third time, now it's a little bit too early to change our full-year guidance. The situation is developing in quite unpredictable manner and after the -- I keeping my fingers crossed, situation developing in a way not what's bad for us, we are in line with our expectations, in some way even slightly better than we could expect let's say a couple of months ago.

But, again, it's too early to change anything in our guidance, which we formulated just two months ago. Potential for improvement exists.

Ivan Kachkovski - Deutsche Bank - Analyst

Okay. Thanks very much. Can I just follow up this with a question still on the existing, on the current guidance on the cost of risk of 250 to 300 basis points?

So in general, that's the guidance which comes from the rather bearish outlook for the oil price and for GDP, of course, which is understandable. But like, given what just happened with the corporate asset quality and retail asset quality as well in the fourth quarter when macro was not really any better than what we expect -- what you expect in your current base case for 2016 and still was pretty good.

So if you still look at your base case in this current scenario for 250, 300 basis points cost of risk, where does most of the pressure come from? In corporates, you -- and correct me if I'm wrong -- you continue to focus on larger corporates understandably and you've spoken a lot of times about that. In retail, we still see continued rebalancing towards mortgages versus consumables, so where does most of the pressure come from?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Okay, good question, actually. As risk and financing are always on the conservative side, so to say, I fully agreed with Alexander saying that it's really too early to change our estimation for the 2016 in positive or in negative way.

Answering your question, actually, any impact from macroeconomic, we can't see immediately. There is always a tail we have between a macroeconomic worsening and worsening in credit portfolio, unfortunately. This tail is a little bit longer for retail and a little bit shorter for corporate loans.



Because of this, unfortunately, I can say that let's wait and see for the development of the situation retail side. We still keep our fingers crossed and we have really strong risk policy in retail.

For corporate, we have really pressure on some areas in the economy. First of all, this is construction and this is a problem for the whole, I can say, banking sector and economy.

Second, and really near, over -- next to construction, is the real estate, shopping centers and so on. This is difficult and, actually, commerce, I mean, all supermarkets and so on, is also under our deep monitoring.

But on the another hand, we have some positive developments. For example, agriculture is doing really well, because of some bans on imports we have, product imports first of all. For some other industries, we are also in the green zone.

What will be balanced between the red zone and between -- okay, red zone's difficult zone, zones where we should pay our attention and green zones, that's really growing or feeling good, so let's see. It's really too early to predict.

Ivan Kachkovski - Deutsche Bank - Analyst

Thanks very much.

Operator

Gabor Kemeny, Autonomous Research.

Gabor Kemeny - Autonomous Research - Analyst

Firstly, on the ROE guidance please. So you guide a low-teen ROE but you were already at 12.5% in Q4 and slightly above 10% for the full-year 2015 even though your margins were relatively low and provisioning was elevated and you had a high tax rate.

So I wonder why would you not expect a significant improvement if your margins improved and your tax rate comes down, and you don't see major issues around credit quality? That would be my first question.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

Okay. With regards to ROE, on the presentation published on our site, where you see a technical mistake of appear as low teens ROE, now it already should be corrected to low to mid-teens.

If you insist, we may say even further. Now, probably it will be high end of this range, so mid-teens, okay, but I do not want to amend formally our guidance now. We have potential to improve it formally and we turn back to a topic in May. I repeat it for just the third or fourth time during the conference call.

So thank you very much for the attention to our ROE. I'm pretty sure that if you put all the numbers into your presentation, into your models, if you put into the model, and mentioned by the CEO of the Bank, a very radical number, 40% cost to income ratio and extrapolate a little bit the development of our net interest margin, you may come up to the number of more or less range of realistic return on equity.

But please keep in mind our [conservative] approach. We insist on that now and we prefer to deliver always our promises, like we did this previous year.

But if and when we amend our guidance, it means that we have near to 100% certainty that we can deliver it. As of now, we have some open topics and something to be further clarified in the next couple of months before we can amend it formally.

But again, we have some potential for improvements, for some potential for amendments for a while that we have not new black swans on geopolitical situation and provided our Russian macroeconomic situation will support that move into positive area. Thank you for understanding at current stage.



Gabor Kemeny - Autonomous Research - Analyst

Sure. It is all clear now. My other question is on asset quality. I understand that you want to be cautious at the start of the year and you don't want to change your full-year provisioning guidance at this stage. But maybe based on what you see today, is there a chance that you may stay below the 2.5%, the low end of the provisioning range in just the first half of the year, based on what you see right now?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Thank you very much. I think we should say it together, I mean in one voice, that we will -- unfortunately, we can't change our estimation for 2016 nor in positive, nor in a negative way.

I would be happy to say, yes, the quality will be better and we're doing our best to have it, but this is really too early. As Alexander mentioned about geopolitical environment and black swans, let's see. We are doing our best, really.

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

We know what you know to read between the lines. We know that you are quite proficient in the schematics and in modeling. So if you put together all the statements mentioned or not mentioned by which might be reading between the lines, you may easily come up to any numbers you want to see. But do not ask us and do not insist us now to confirm those numbers. It's a little bit too early.

We do not know what will be further development in Ukraine. We do not know what else might happen in the Middle East. We do not know what will be the outcome with the sanction regime. We do not know a number of other topics. But, first of all, we do not know where oil prices and commodity prices will be, because it depends on the perspective of China development and nobody knows what may happen there in the middle of the year or the second half of the year.

So again, too many uncertainties around us and we prefer to be on a cautious, on a safe side. But what is really important is that under any conditions, under any scenarios, we calculated a number of scenarios, we'll continue to build up our capital and improve our capital adequacy ratio for organic way. It's very, very important.

We are going to deliver our promises, so under any scenario, to be above 9% core Tier 1 capital adequacy ratio for Sberbank Group by the yearend. So no matter what happens with oil.

Gabor Kemeny - Autonomous Research - Analyst

Thank you. Actually, I wanted to ask on capital. You mentioned a potential conversion of the central bank's sub-debt into AT1. Is there any possibility to convert these funds into core Tier 1 without dilution or is it not possible at all?

Alexander Morozov - Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO

No, but if and when we convert our sub-capital to the additional Tier 1 capital, it will be just additional Tier 1 not core equity. So it's impossible to convert into core equity and so we'd not consider that option.

Again, we just do not consider this possibility as already agreed and almost done, okay. This is one of the options we consider and we may proceed with later on this year, but don't consider it as our promise to do that. But anyway, it will be additional Tier 1 not core Tier 1.

Gabor Kemeny - Autonomous Research - Analyst

All clear. Thank you.

Operator

Jason Hurwitz, VTB Capital.

Jason Hurwitz - VTB Capital - Analyst

One follow-up question relating to the restructured loan portfolio. You provide for the top 100 borrowers, the breakdown of the restructured -- or renegotiated portfolio. Could you give us an estimation, or even a precise figure ideally, of how much of the total renegotiated loans this applies to?

In other words, loans that are not in the top 100 borrowers. You gave the percentage but you didn't give the amount that is also related to non-Russian accounting standard loans, so that we could use this number in estimating more specifically your various levels of loan quality. That would be great.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Thank you very much. Actually, we made especially 100 that makes 80% or 80% or 70%, because of actually normal distribution. It means that in the rest of the distribution of this loan, we have approximately the same distribution. We can say this is the whole picture for the whole portfolio. You can see it like this.

Jason Hurwitz - VTB Capital - Analyst

Including the non-Russian part of the portfolio, yes?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

No. This is only for Russia. This is only for Russia.

Jason Hurwitz - VTB Capital - Analyst

That's my question though, is about how much --?

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

This is only for Russia.

Jason Hurwitz - VTB Capital - Analyst

Right. So, for the Group exactly, how high would the percentage be for the Group instead of this 83% that we see in fourth quarter.

Alexander Vedyakhin - Sberbank Rossii OAO - Chief Risk Officer

Let me take this question in May, because actually as you see, this is our first time we declared these figures. We will try to figure it out in May.

The issue is that principals of restructures -- of restructuring and -- I mean criterion for restructuring in every country are different. Because of this, sometimes it could be no April to April comparison. But thank you for the question; we will try to answer it on the next conference call.

Jason Hurwitz - VTB Capital - Analyst



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Okay. Thanks very much.

Alexander Vedyakhin - *Sberbank Rossii OAO - Chief Risk Officer*

Thank you.

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

It seems there are no further questions unanswered. Thank you very much then for your attention. Thank you for being us today this conference call. Thank you for your patience.

Sorry, more questions?

Operator

No, sorry, there are no further questions.

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

Okay, thank you to our direct audience. Now, we speak to the conference call with journalists and conference call in Russian language. Thank you very much.

Anastasia Belyanina - *Sberbank Rossii OAO - MD, Head of IR*

Thank you, guys.

Operator

(Operator Instructions). Natalia Berezina, [URALSIB].

Natalia Berezina - *URALSIB - Analyst*

(interpreted) I'd like to ask a question to Mr. Morozov. The transfer of the Tier 1 capital -- the transfer to Tier 1 capital, why do you need that because it is already higher than the regulation requirement? Why would you need that? Thank you.

Alexander Morozov - *Sberbank Rossii OAO - Deputy Chairman of the Executive Board, CFO*

(interpreted). Well the reclassification of RUB500 billion from the subordinated to the Tier 2 to Tier 1 will increase the quality of the capital. But it will not affect the adequacy ratio. But the quality will be improved and this is an important parameter as well.

Yes, today and in the future, without this conversion, without this reclassification, we will meet all the requirements for Sberbank that are set by the Russian regulator.

I hope I did answer your question.

Natalia Berezina - *URALSIB - Analyst*

(interpreted) Yes. Thank you.



Operator

(Inaudible) [Newspaper].

Unidentified Participant

(interpreted) I have the following question regarding the table where you disclose the information about your revenues. There is an increase of revenues related to the exchange transactions. It is level of around RUB83.1 billion, so that was basically a tenfold increase. Can you please explain what you account for in this new and to what this [tenfold] growth is related to?

Unidentified Company Representative

(interpreted) Well, it's not that it is related to the trade transactions, but it is the revaluation of the exchange component of our provisions, so we are reflecting these provisions here. Obviously, last year our markets worked better.

I would like to underline that the major growth is explained by the translation game, so to speak. This is not the exchange revaluation of the trade character, but it is related to the creation of provisions for the foreign exchange -- for the foreign currency provisions. The share of the trade transactions is less than 5%.

Unidentified Participant

(interpreted) Yes, but however there was a tenfold increase because in terms of the provisions we had a devaluation of around, of the level of around 30% this year. Why did you have this big growth of these provisions? Were these provisions growing by themselves organically?

Unidentified Company Representative

(interpreted) Well, no, as for the foreign exchange and trade transactions I have already talked about that. We will obviously continue to increase our share of the exchange operations.

For our retail and corporate customers, we think that our share in this transactions is much lower than that of the financial accrediting and compared with the financial system.

We still think that the amount of the customer transactions related to foreign exchange they are the transactions that are made by order of -- based on the order from our customers. We will need to recapitalize and to increase our share in our business.

Unidentified Participant

(interpreted) But do you have a kind of an understanding of where are you going to go forward?

Unidentified Company Representative

(interpreted) Well the amount of these transactions you know is related to manufacturers. There is a major volatility on the market. So this is the main perhaps, the defining factor.

But as for the share of our revenues, I would like to say that, yes, obviously we will need to make sure that in all of the quasi-commission revenues this share should be at least not less than our share in the risk related transactions.

Operator



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(Operator Instructions). [Atalena Metojina], RIA Novosti.

Atalena Metojina - RIA Novosti - Media

(interpreted) Alexander can you please expand on negotiations with [Meteo]. What were the results and what Meteo paid Sberbank in the first quarter based on the agreed terms?

Unidentified Company Representative

(interpreted) Well, I would be really happy to give you the answer to this question, but this -- we will be in breach in our agreement. Our financial results -- our conference calls related to our financial results are not to -- used to discuss these kind of issues.

We will have a separate session for these. Maxim Poletaev, or Oleg Ganeev, or Mr. Gref will maybe answer these questions, because these are the commercial loans-related questions.

So please abide by these rules. Okay? Thank you.

But another question)

Unidentified Participant

(interpreted) In AvtoVAZ the head of the company has changed, so will Sberbank meet the new management team of AvtoVAZ, because -- well, AvtoVAZ is one of the major customers of Sberbank.

I do have another question about the indebtedness.

Unidentified Company Representative

(interpreted) Well, yes, I understand that this issue is related to our results of 2015. However, this link is very vague. We are meeting with all of our customers in all of the formats and we support the dialog on the level required.

So we respect this company and our approach will not change.

Unidentified Participant

(interpreted) Okay, thank you so much. Thank you once again.

Unidentified Company Representative

(interpreted) Thank you for the questions. If you have questions related to our IFRS report for our 2015 results, we will be very happy to answer them.

If there are no questions we will say thank you and thank you for your attention. Thank you for your questions and thank you for putting forward a challenging, but very exciting and interesting questions.

And thank you for making sure that we move in the right direction. Thank you so on.

Unidentified Company Representative



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(interpreted) Dear colleagues as I understand this is it. There are no more questions pending. If you have any questions, then perhaps you will -- you might forward them to our Investor Relations service or our media service and they will be answering these questions off line.

Thank you, this is it. Thank you, we adjourn this teleconference meeting. Thank you, you can now disconnect. This is the end of the meeting. Thank you.

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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