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CONFERENCE CALL PARTICIPANTS

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Irina Gorscheva *Russia Today - Media*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to Sberbank full year 2014 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.

A live webcast is available and you can find the link on sberbank.ru. (Operator Instructions). I must advise you that this conference is being recorded today, on Thursday March 26, 2015.

I would now like to hand the conference over to Mr. Alexander Morozov. Please go ahead.

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

Hello, ladies and gentlemen and just before, I'd like to thank you for being with us today on our regular conference call. We are going to discuss our full year results of year 2014 for Group of Sberbank and our views for the current year.

As usual, I'll start with summarizing our 2014 financial results. We completed the last year with net profit after tax of RUB290 billion, and return on equity slightly below 15%. That's more or less in line with expectations and with our promises, subject to some deterioration of external market conditions which nobody could expect a year ago. But we did our best, and I hope that the published results did not disappoint you.

Sberbank of Russia demonstrated a relatively strong 37.5% growth of the total loan portfolio, and more than [40%] growth of retail. I have to say that on the retail side, first of all, we are proud of developments on our mortgage market, where our market share increased to above 50%. And if we speak about the new origination, it's above 60%. Our whole new origination mortgage market, actually, was the result of Sberbank's activity with our core market and we will continue to develop it.

On the corporate side, what's [interesting] was we could seriously improve our market share in terms of corporate deposits by more than 5 percentage points during one year, from 17% to 22%. And by doing so, we seriously diversified our funding base, so being financed primarily by retail deposits. And our market share raised more than 50% in ruble [savings], and more than 30% of those savings are private individuals.

By the way, our market share in savings also in dollars increased during the year by more than 2 percentage points. So it means that we started to successfully penetrate the market share of high net worth individuals. We will continue to do that this year. And you may expect, by the way, a further increase of our market share in dollar-dominated retail savings.

So that's all about market shares. It's important to say, and repeat maybe again, but for us the only market share which is essential, which makes a difference, that's the market share net profit after tax.

And to that context, you may notice we further improved our [EBITA] position. You'll see it from all the reports that we published, but I expect we'll be slightly better than even we could expect one year ago, in that direction.

Asset quality; market [quality-wise] was quite challenging and asset quality was one of the prime focus, if not the prime for the management during last year and as well as today. We continue to [actually allocate] provisions during the full year 2014 and we continue to preserve that conservative approach in the year 2015.

Now, I have to say that last year we implemented -- we started to use, better to say, a risk-adjusted [on] capital approach as a measure, as one of our key metrics to evaluate our performance and to evaluate the performance of our corporate portfolio and corporate business in general.

Efficiency; we promised to reduce our cost to income ratio and to ensure positive jaws. We did it, and our cost to income ratio at the yearend was noticeably better than the year before.

We delivered, despite the very difficult environment today we are working in, we have everything to remain it is very low. It's at a level at the low 40% and (inaudible) [later on]. Looking forward, we believe that this year we have a chance to [preserve it] at current level and looking forward to try to further reduce it to below 40%, so even slightly below that within the next couple of years.

International market; international business was largely driven by quite decent results shown by DenizBank first of all. DenizBank did really good job last year in all the dimensions, all the aspects of their activities and their development. And same time, it was recognized as the most innovative bank in Turkey.

Our Eastern European situations were practically near to break even in year 2014 and on a stand-alone basis [we're above here].

Now one of the achievements year 2014 was successful launch of online business in Germany. Belorussia and Kazakhstan we continued to deliver decent results, and the only difficult case last year was our subsidiary in Ukraine.

That's more or less how we developed last year. But year is over and we have to look forward. Today if you look at our forecast for year 2015, I'd like to say a couple of thoughts about that, and start with some market analysis. So what we expect from this year, and how we built up our assumptions.

The average price for oil which we put in our model is \$50 per barrel average during the year. Russian GDP, we expect unfortunately negative, negative development, so some decline up to 4%, maybe 5%.

Just in the last few weeks, there was some more optimistic views appeared in the air about the GDP growth in Russia this year. I'd like to be mistaken and say we'd like see it minus 2% or minus 3%. But as of now, again, we put into our model more conservative approach, minus 4%, minus 5% GDP growth this year.

This conservative approach is [flattish] in our expectations as regards to the development of the whole banking sector, which we forecast to grow in nominal terms single digit. Hence, the Bank will continue to grow in line with the market, so no faster than the market, and as well as the developments, a single-digit growth might be expected from the Bank this year.

[Efforts] will be made as previous year on quality of our assets, and we are not going to sacrifice our quality, and we're not going to buy market share, not at all. We would rather focus in terms of priorities first of all quality, second liquidity, and third, last but not least, net interest margin and overall profitability.

As for net interest margin dynamic, last year we ended up with quite decent level 5.6%. Beginning of the year was obviously at 2015, was quite challenging, quite difficult. Looking forward, I would say that some one year time horizon we expect gradual recovery of our net interest margin from January level.

[The dynamic] quarter on quarter will be volatile, but the ratio in the [following] first quarter would be the most difficult as our net interest margin was seriously under pressure from expensive cost of funding, and excessive cash, physical cash, which was on our balance sheets the beginning of the year as a result of some turbulence in December.

Gradually, towards the yearend, we're expecting to sell assets to partially re-price our cost of funds to be less expensive, and we will continue to substitute more expensive money from Russian Central Bank by traditional funding from corporate and retail. And gradually, we expect that, on a quarterly basis, our net interest margin to recover on a quarterly basis. On an annual basis, definitely we expect some moderate decline versus the previous year 2014; that's inevitable.

But nevertheless, looking forward, looking forward to year 2016/2017, we are a little bit more optimistic and we believe that we have no reasons now to amend our five years forecast, and our expectations with regard to our strategy delivery.

And net interest margin being key component in our profitability is a very important parameter which we forecast, not only for the coming year, but also for the year 2016 as well. So we are a bit more optimistic about that.

Cost of risk; as I already mentioned, we would prefer to be on the conservative side and south of this guidance of 3%, 3.5%, subject to more or less stable market environments. As of where we are today without serious deterioration in geopolitical situation, we believe it is quite relevant and realistic guidance.

I'd like to be on the safe side as usual, and to turn to that guidance when we complete the [quarters]. So in August, when we present our results for two quarters 2015, we'll definitely comment specifically our cost of risk full year. So 3%/3.5% is our best understanding, as of now, as of today.

Our capital position remains at sufficient levels and we do not expect any deterioration of our capital adequacy ratio during the year. So capital adequacy ratio, total capital adequacy ratio at the end of the year, we expect at well above 12%.

And Tier 1 capital ratio we expect to be around 9%, maybe slightly less, maybe slightly more; that's why we indicate in our guidance above 8.8%. So our best estimate around 9% today.

There were a number of questions related to our subordinated capital from Russian Central Bank. I'd like to say that we completed our transaction and it will be reflected in our first quarter results, so we see it will be reflected as just the subordinated capital Tier 2.

What the terms and conditions of [that money], I think that we will hold it for [15] years and interest rates will be kept at 6.5%, at least until the year [2018] where [base] rate may be negotiated subject to medium- and long-term inflation expectations.

[Basically], as I mentioned above, we do not have on the agenda any plans for new equity issuance, any additional capital formation, market cap formation, so we will continue to build up our capital and support our capital adequacy ratio by organic growth. And we will specifically work with a level of our risk-weighted assets this year.

On balance, we believe we have enough ammunition now to focus to support the capital adequacy ratio, at least at the current level.

To summarize, we are going to deliver a decent profitability in 2015, decent taking into account what the growing (inaudible), taking into account macroeconomic environments, taking into account the Ukrainian situation and all this uncertainty around there. Nevertheless, we expect to be profitable in every reporting period, and we are going to be self-sufficient in terms of capital and funding.

We will utilize all the necessary instruments available for asset risk management, asset liability management, cost control and so on, to protect the interest of our shareholders, to protect our capital and to preserve your trust for our name.

Having said that, I'd like to, once again, thank you for being with us and I'm ready to start to answer your questions. Thank you very much.

QUESTION AND ANSWER

Operator

(Operator Instructions). Mikhail Shlemov, UBS.

Mikhail Shlemov - UBS - Analyst

A couple of question on my side, and I would like to start with the net interest margin. You have mentioned that you expect the margin to be down on a full-year basis in 2015 obviously, although quite a big volatility throughout 2015. Perhaps could you elaborate what's the sensitivity of your net interest margin to the change in the key rate, especially given the still high share of the Central Bank funding and the efforts which you have been doing to replace that via the corporate and the retail deposits?

And the second question will be coming on the capital side. If you could please elaborate a little bit, how are you going to treat this recently converted sub-debt? Would it be accounted in your Tier 1 ratio and whatever this 9% target in terms of a Tier 1 which you gave us, does encompass this?

And the second part of this has been also the talk in the media that the Central Bank is willing to provide you an additional sub-debt to the tune of RUB600 billion. Is this something which you still have on the agenda and what could be the potential terms for that? Thank you.

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

Okay, thank you very much for your questions. I'll try to be concise. Sensitivity to about [300] basis points reduction of prevailing interest rate on the market, and will definitely depend on the key rate of Russian Central Bank, is roughly RUB35 billion net profit additionally. So that's the sensitivity. You may recalculate it in terms of net interest margin, but in absolute terms that's around RUB35 billion to be added from every 100 basis points interest rate reduction.

As for our capital liquidity ratio, we reflect the subordinated capital from the Russian Central Bank as Tier 2, not Tier 1. We have an option to convert it into Tier 1 liquidity ratio and, in that case, our Tier 1 ratio will be higher by 1.2 percentage points. We have adoption potential in our pocket, but whether to use or not we'll decide later on this year, subject to some additional conditions from the Russian Central Bank.

As of now, we are not planning to use any additional, source of funds, source of capital from the Russian Central Bank. Yes, we have available roughly RUB600 billion as additional new subordinated capital available for us by law, but we do not put it into our plan and it is not included into our forecasts. So 9% Tier 1 capital ratio and 12% total capital ratio does not take it into account.

Mikhail Shlemov - UBS - Analyst

Alexander, thank you very much for this. If I may follow up on capital, you mention the option to convert into the Tier 1. Into what instrument you would be converting, whatever, would it be perpetual debt, perhaps shares, VTB style or something else?

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

That's for the discussion with the Russian Central Bank, but in case we decide to do it, it will be treated as additional Tier 1 perpetual.

Mikhail Shlemov - UBS - Analyst

Okay, got it. Thank you very much.

Operator

Alex Kantarovich, JPMorgan.

Alex Kantarovich - JPMorgan - Analyst

My question is on capital adequacy. The decline in Q4 was more than I had expected and I'd like to understand how the recovery would be happening. Specifically, you mentioned working on risk-weighted asset optimization and can you please share the mechanism with us? Thank you.

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

Okay. First of all, you should understand that fourth quarter serious reduction of our capital adequacy ratio was due to the unexpected and very sharp devaluation of the Russian ruble against the American dollar. As a result, our assets nominated in American dollars, in terms of risk-weighted assets, increased suddenly and very seriously.

Yes, we are looking at possibilities to reduce our risk-weighted assets, subject to implementation of advanced calculations. That's the approach of calculation of our risk-weighted assets subject to permission from the Russian Central Bank to do that. We have a couple of specific points where we have good arguments for a discussion. I don't want to go too much into details but, to cut a long story short, that's all about advanced approach assumed by Basel III.

Alex Kantarovich - JPMorgan - Analyst

Alexander, thank you. And your target of 9%, does it count this risk-weighted asset optimization, or it would come in addition to all other measures?

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

No. That 12%, that's just our conservative view on that. Even when we apply an advanced approach, so Basel III in general but Basel II as it gets risk-weighted asset calculation, that will be on top of the indicated levels of our capital adequacy ratio.

Alex Kantarovich - JPMorgan - Analyst

Okay, that's great. Thank you. And my second question is on net interest margin. Clearly, if one looks at your 2015 guidance, a moderate decline versus 2014, that would imply perhaps a net interest margin around 5%. My question is if this would be achievable on a yearly basis, or 5% is the run rate achievable by the yearend?

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

Okay. That's a good question. I can confess that we discussed in December and it was discussed again just a week ago, whether we are ready to confirm our intentions and ambitions of our strategy, which we [approved] just a year ago about our ambitions to double our profits, which was based on some assumptions [we'd get] to margin as well.

I would say we have no reasons now to discuss this in details. Besides, we have no reasons to change our strategy and our ambition. And, based on that, on the medium-term perspective you may expect us to return to normalized profitability.

So this year, I don't want to give you exact number but I have indicated that, quarter to quarter, based on a number of reasons, seasonality, re-pricing of assets, some other additional factors and measures undertaken now by us, by management, we expect recovery.

And in the fourth quarter year 2015, we expect our margin to be very comparable with the margin fourth quarter year 2014. So it will be at least very comparable.

I turn back to our assumptions with regard to net interest margin. When we have at least for one quarter and better the two quarter result because everything at the end of the day depends on our quality of our assets, because the other side of re-pricing of our assets, [that's] asset quality. And we don't want to sacrifice asset quality (inaudible). So we have to find a proper balance between re-pricing of our assets and create quality.

That's why, again, I mentioned in terms of priorities for us, priority number one, create quality of assets. Number two, liquidity to preserve at decent and maybe a little bit excessive level; taking into account uncertainties, it will cost us some margin definitely. And number three, net interest margin.

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In terms of our revenue composition, do not expect any serious change from what you could see last year. So above 70%, 72% net interest income and above [30%] fees and commission income [is clear]. That's how it's achieved.

I hope I have answered the question. If not, please specify.

Alex Kantarovich - JPMorgan - Analyst

No, Alexander, thanks. I think I gathered. And my last question is also in conjunction with your capital position for the questions on dividends. Clearly, 2014 earnings were okay, but we are in 2015 and there is pressure on capital adequacy. And, given what Mr. Gref has said, shall we assume that there won't be much of a payment on 2014 earnings in terms of dividend?

And after that, if you can perhaps remind us of the key points of the dividend policy, normalized dividend policy?

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

As for normalized dividend policy, we indicated in our strategy and we have no reasons to change it. Normalized, we see possibility to pay 20%, potentially more if growth rate of (inaudible) decelerates gradually.

But as for year 2014 and year 2015 a lot, if not everything, will depend on current situation in this market and our Tier 1 capital adequacy ratio. We have to support our Tier 1 capital adequacy ratio. That's why I would not expect a record level of dividends this year and next year as well.

Alex Kantarovich - JPMorgan - Analyst

Okay. Clear on that, Alexander. Thank you very much.

Operator

Olga Veselova, Bank of America.

Olga Veselova - BofA Merrill Lynch - Analyst

I have a couple of questions. One question is optimization work with risk-weighted assets. If I understood correctly, your optimization is about usage of advanced approach, which means that this will be applied to the capital adequacy ratios under local standards, not under the published IFRS. Is this right? And do you have any other plans in mind how to optimize the risk-weighted assets?

As a part of this question I would ask, do you have any views on potential disposal of assets, maybe not this year, maybe even not next year but in the long run? And I'm not talking about small assets like Hungary; I'm more talking about bigger assets like Kazakhstan or Turkey. Could you share your thoughts about this? This is my first question.

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

We considered all our different options as for optimization of our risk-weighted assets, starting from the easy and in advance like all (inaudible) activities and all [branch] (inaudible) commitments and [utilized and used]. And any help with disposal of some assets.

What's important for us to be a good shareholder at every point of time, so we should not kill the value of the assets we possess. It is very, very important. So basically, that assumption we restructure our strategy.

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And of now, we have nothing to add to already known and discussed information about possibility to restructure, to optimize some of our assets in Eastern Europe. Nothing to add on top of that. Further developments may depend, and will depend, on further development of situation first of all in geopolitics. But we have not any specific plans as of now. That's quite clear.

As for [the best] approach we are in close cooperation and in constant dialog with Russian Central Bank. There are a number of initiatives related to that. Part of those initiatives may be accepted and implemented faster; some of them will take a little bit longer time. But anyway, our guidance, which we published today, does not take it into account, so guidance is rather conservative and all amendments will be on top of that.

Olga Veselova - BofA Merrill Lynch - Analyst

That's very clear. Thank you. My second question, I have three questions, my second question is about cost of risk. Could you share with us you cost of risk for the last year, excluding one-offs? I appreciate you gave us your number excluding the ruble impact, but there were other one-offs, like Ukraine, Mechel or [Mostovik]. Maybe you could give us the clean cost of risk for the last year and for the fourth quarter.

And also, as a part of this question, when you guide 3% to 3.5% cost of risk for this year, is it correct to assume that this outlook does not include any one-offs, for example from ruble appreciation or from Mechel provisioning?

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

Good question. First of all, I'm not going now to comment first quarter; it's a little bit too early to do that. But as for the previous year, 2014, I can say that out of [233] basis points cost of risk, roughly 30/35 basic (sic) points, that's cost of risk related to Ukrainian situation in all different forms. Around 30 basic points, that's one-off of Mechel, and for roughly 10 basic points, that's Mostovik.

Plus we have to take into account effect of ruble devaluation, which assumes additional provisioning in Russian rubles for dollar-denominated loans and assets. That's roughly 50 basic points. If you sum up together all these numbers, so it's roughly [1.2%, 1.25%], something like that. Normalized cost of risk, in that case we have 110 basic points, which is split or less equally between retail, normal activities, and corporate, something like that.

Olga Veselova - BofA Merrill Lynch - Analyst

That's excellent. Thank you so much. My last question is about Ukraine. Could you give us an update what is the level of provisions to gross loans for the -- or gross exposure for the end of the year, and what is your exposure to the Ukraine for the end of the year, in ruble terms?

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

Okay. We continue to increase our provisions related to Ukraine. We have something like [18%] provisions to total of portfolio in our daughter bank, and we are going to increase it. What we have in our daughter bank corresponds perfectly to our non-performing loans, which is approximately 15%, 16%, something like that. So we have slightly more than that.

Non-performing loans [1%] plus. On headquarter, we have something like slightly less than 40%, I would say, slightly less than 40%. We are going to further increase it and we continue to do it this year, 2015. You'll see it in the first quarter result as well.

Olga Veselova - BofA Merrill Lynch - Analyst

So it's less than 40% for the end of the year. Thank you so --

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

Having said that, I can say that in some specific cases, we created for [100%] provisions, that's quite clear, on cases on some one-offs, where we expect difficulties with recovery. But mention numbers, that [corresponds] to the whole portfolio, definitely.

Olga Veselova - BofA Merrill Lynch - Analyst

That's very clear. Thank you very much, Alexander.

Operator

Alan Webborn, Societe Generale.

Alan Webborn - Societe Generale - Analyst

Given your very useful detail that you've given in terms of the 2014 break-up of the provision charge, when you've been looking at establishing this conservative 3% to 3.5% for 2015, what was your thought process in terms of taking a normalized 110 basis points and coming up with 300, 350 basis points.

What was the feeling in terms of the trend there? Are you expecting to see a similar deterioration retail and corporate? How do you feel the retail portfolio is performing versus the corporate? That would be useful to understand, just to see where you got from an underlying normal 110 basis points to what you're guiding for 2015. That would be helpful.

Then also, in the retail market are you active in all areas? Are there areas that you are being much less in favor of? You're saying that you're going to maintain market share because you're looking to grow your loans at the same level as the market, both, I guess, in retail and corporate.

Then what is it that you're doing that is protecting profitability, when clearly, there's a deterioration in asset quality going on in the marketplace. I just wondered at what point you give up market share because the quality of the assets isn't good enough, and this is being reflected in where you're focusing the business. Thank you.

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

(inaudible) and we are ready to sacrifice market share for quality of our assets. That's quite clear. That's why we do not target assets [size] market share; it's all for [the share]. We expect that we will develop more or less in line with the market, but we do not specifically target it. That's our expectations.

As for the structure of our asset growth, structurally it will be slightly different to what we could see last year and what might be seen this year. One detail, as I already mentioned, we'll continue to focus on mortgage. And mortgage market will be continue to be the major driver of our retail portfolio, with consumer loans declining, car loans stable, and credit cards developing, but at slow pace.

On corporate side, we are now in a position to make cherry picking, accepting cream of the cream customers who previously had an ability to raise money from international markets, first of all it's about energy sector. And we are going to increase our market share in some specific segments. But it's not a target for itself because, at the end of the day, again, quality and profitability, this is what is important for us.

Yes, we try to be conservative. At the same time, we don't know what to expect from tomorrow. Clearly, 13 months ago, nobody could expect Ukraine and all this situation which raised after February 26, 2013.

We don't know what to expect from tomorrow. That's why, on top of our normalized cost of risk, we add additional charge, which relates to, again, Ukrainian situation. We'll continue to increase our provisions there, clearly. We are not very much optimistic about the development in that part of the world, unfortunately.

We don't know what to expect from foreign exchange currency rate. If we see some appreciation of Russian ruble, which happens [this week], with cost of risk indication might turn to be rather conservative. In fact, we will see better result [one] indicated in our guidance today.

At the same time, if oil drops further down to, let's say, \$30, \$35, which could not be excluded, well, we may have to create additional provisions because of further devaluation of Russian ruble. Russian economy still depends on oil price, you know that.

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We tried to put in our guidance relatively conservative assumptions, and I specifically addressed them at the beginning of our conversation. Whether we have at the end of the year possibility to review this and be a less conservative on risk provisioning side, we will see.

Alan Webborn - Societe Generale - Analyst

That's really helpful. Thank you.

Operator

Jason Hurwitz, VTB Capital.

Jason Hurwitz - VTB Capital - Analyst

Just a further follow-up on the capital line. Or in particular, when we look at the comprehensive income statement, the fourth quarter appears to have been rather rough when we look at that particular line item. And in particular, for the full year, you have a line that is referred to as other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of tax. Do you see that line item affecting your P&L in the coming year, and has that influenced your guidance in any way?

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

This is realization of our available for sale portfolio and this is volatile item. But beginning of this year showed positive revaluation since the beginning of the year, and the real benefit of it you'll see it in the first quarter this year.

So taking into account that average duration of our available for sale portfolio is slightly above 2 years, 2.2, 2.4 years, so I expect gradually that number will recover. But again, that's mark to market.

Jason Hurwitz - VTB Capital - Analyst

Okay. A separate question relating to your margins again. We saw a number of banks have particularly low deposit yields in the fourth quarter last year, due to cancelation of existing deposits by borrowers which allowed you to write back the accrued interest and save some money on your end. That, obviously, is something that was more of a one-off effect because of the turmoil on the fourth quarter. So how much do you think that boosted your net interest income in the fourth quarter and, therefore, in any way that would help us to adjust our assumptions for yields into 2015? Thanks.

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

We saw the similar effect in our December results so in [full] fourth quarter. But this effect was practically fully offset by higher funding costs and because of high interest rate payable on corporate deposits in December and full fourth quarter. So looking forward, I would say those two effects they mitigate each other.

Jason Hurwitz - VTB Capital - Analyst

The number for retail deposit expense actually went down q-on-q; I understand that other effects were in there, into the NIM. But when we narrow it down to this particular item on the retail deposits in particular, it's helpful for us to break down the yield a little bit further rather than just look at simple interest income. So is there any way you could quantify the amount of this effect in the fourth quarter?

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

It's difficult to quantify it in exact numbers, but on qualitative side of the analysis, we can notice that proportion of hard currency denominated, first of dollars [and euro], deposits increased substantially; I can say that roughly by 50% versus December of 2013.

So in December 2013 we had slightly above 20%, 22-something-% to the best of my mind, 22% deposits nominated in dollars, of retail deposits and [with] year 2014 that was roughly 33%, 34% already. So growth by 50%. What seriously affected overall structure and interest expense, especially taking into account that our base currency is Russian ruble and alongside is devaluation of Russian ruble, our interest expense for deposits made and those [grew up].

Jason Hurwitz - VTB Capital - Analyst

Okay. Thanks very much.

Operator

Igor Gerasimov, Goldman Sachs.

Igor Gerasimov - Goldman Sachs - Analyst

I have one question on the asset quality. When do you currently expect cost of risk to peak, in which quarter, or you believe that your provisioning could be distributed evenly across the quarters?

And the second question is, on which sectors do you believe will be affected most by the asset quality deterioration? Thanks.

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

It's a little bit too early to comment it. We have to wait until the results of the first quarter. I don't think we'll be able to amend our vision as for cost of risk and to allocate it more properly before we have at least two completed quarters. Our expectation, based on the previous experience has been of year 2008 and 2009, that we'll see full picture only after two quarters. So in the [first] quarter, it will be quite clear somewhere in July/August when we have our conference call.

The same time, we do not expect serious deterioration in any specific quarters so it will be more or less evenly split; that's our best understanding as of now. But again, give us a chance later on, let's comment when we have at least full first quarter.

Too many parameters influence our cost of risk today and we need to give it more time to operate. That's why we put in our forecast, our guidance, maybe a little bit conservative guidance. But we took into account experience of year 2008 and 2009 when the worst quarter was the fourth quarter of year 2009, but [was all right] in terms of cost of risk.

Through indices we had to look at, we have to say that [risk-wise] differs substantially from what we saw in 2008 and 2009. Actually, our prime focus is on commercial real estate and construction related, so that's on transport industry and big infrastructure projects. Same time, agricultural business is relatively in better shape and machinery and everything related. So defense industry is a much, much better shape than it used to be, 2008, 2009, for quite [a few years].

And naturally for mining, definitely (inaudible) with some exceptions, like Mechel, but this is an exception.

Igor Gerasimov - Goldman Sachs - Analyst

Very clear. Thank you very much.

Operator

Maria Semikhatova, Citibank.

Maria Semikhatova - Citi - Analyst

Several questions from my side. First, on the asset quality, we've seen that renegotiated loans increased quite rapidly over the quarter. Maybe you could provide more details, what sectors was driving that, whether you've seen a deterioration in financial standing of borrowers, or there were different drivers for this increase?

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

Okay, so out of RUB561 billion renegotiated loan posted in our fourth quarter, roughly RUB230 billion, RUB250 billion that's revaluation of our dollar-denominated loans. So that's like that. And I would say, out of the remaining amounts, something like RUB320 billion, RUB330 billion, which is more or less normalized versus the third quarter, and second quarter 2014. I would say 80%, that's good restructuring and just the 20%, that's really restructuring of bad loans.

Good restructuring, that's where we see no real deterioration of [great] quality. But for some technical reasons, sometimes related, so to the, I would say, timing of the realization of some projects, where we have to postpone final maturity. But we have no necessity to amend the structured current payments, and create quality loans (inaudible). That's 80% of all related restructuring.

So altogether, I can say that, despite the big number, we feel ourself relatively okay and safe, with regard to renegotiated loans in the fourth quarter.

Maria Semikhatova - Citi - Analyst

Do I understand correctly that this 80% of good restructuring mostly involved extension of the credit line?

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

Yes, correct.

Maria Semikhatova - Citi - Analyst

Okay. And maybe while we are talking about asset quality, I do understand that provisioning methodologies are quite different under Russian accounting standards, and IFRS. But we've seen that they've been highly correlated over the last seven quarters.

At the same time, in the fourth quarter of last year, risk loss under Russian accounting standards was slightly below 5%. Just maybe you can give us more detail what factors (multiple speakers) significant difference. Okay, that was --

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

Mechel, the biggest difference is in Mechel. There are some other one-off cases, but Mechel is the biggest one.

We created 100% provisions at the Russian accounting standards, and 60% under IFRS. So let's say under IFRS, we use the approach that we create provisions around in the amounts of discount on the secondary debt market.

And on the Russian accounting standards, we applied just a regulatory approach, and been created for any sort of actions. And you know we went to court, basically against Mechel, so being ready for any outcome, we created much more conservative 100% provisions.

Maria Semikhatova - Citi - Analyst

Very clear. Thank you.

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

[Both] 100%.

Maria Semikhatova - Citi - Analyst

And just maybe last question on your fee growth, I see that you expect quite rapid growth in fees this year. Just maybe you could elaborate whether you see this as an optimistic target; do you see any competitive or maybe regulatory risks to this forecast? And what would be driving this nice growth in fees?

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

Fees and commission that's very good source of income, risk free. And we put (inaudible) some accelerated developments of transactional banking, with medium and small businesses first of all, and to [get banking] as well.

Small business generates, and medium sized business, regional business generates huge and growing flow of fees and commissions. We continue to develop products for our customers, which can see it as convenient and useful, and continue to develop our transactional banking. This is trend which was indicated and promised in our strategy, and we are going to deliver and to develop it.

Maria Semikhatova - Citi - Analyst

But do you see any pricing pressure from other players? I would assume other banks will be trying to -- okay.

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

No, we offer the best pricing on the market, and frankly speaking, it's difficult to compete with us because of our economy and scale.

Maria Semikhatova - Citi - Analyst

Thank you. That's it from me.

Operator

(inaudible), UBS.

Unidentified Participant

I have a couple of questions. Could you please indicate what will be driving your loan growth -- what segments will be driving your loan growth for this year?

Also, you mentioned quite rapid loan growth in the retail segment, and how much of that do you expect to be reflected -- by how much do you expect your NPLs to increase as a result of that?

And could you please also comment on the expected level of provisions related to Ukraine, for this year? Thank you.

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

I don't want to specifically comment target provision level for Ukraine. Everything will depend on further development of the situation there. Nobody knows what to expect, but as of now, our [strength] is to continue it. We'll address it during the next conference call, or [every] conference call we may give you an additional update of our actual provisioning level. As of now, that's virtually everything I can say about Ukrainian situation.

As for the source the growth on assets, on retail and corporate, retail. As already mentioned, mortgage market, our market share in new origination exceeds now 65%. Our average duration of this mortgage portfolio is slightly above 5 years, 5.5 years, so it's quite good, and quality is improving. It may be seen out of numbers. So that will definitely drive development of our retail portfolio this year.

As for corporate, we expect some incidents of foreign exchange revaluation, in case of ruble devaluation, definitely [referred]. But nevertheless, it will be anyway, single-digit growth, not very big one. I do not see real potential for sales growth of our corporate portfolio this year because of lack of good quality demand for loans.

Definitely, we will participate in refinancing of good quality borrowers to help them to pay their external debts maturing this year. And that's what I called a cherry-picking process so I am more than happy to provide my a] decent price for the borrower, for us, for our shareholders, for energy sector company, like telecoms and some others. But looking [internally], I would say that good quality demand on corporate side is not very strong for new loans.

Unidentified Participant

Thank you.

Operator

Olga Naydenova, BCS.

Olga Naydenova - BCS Financial Group - Analyst

I have a question, basically, about what drove your loan growth in fourth quarter. I see services sector as picking up substantially in your loan portfolio and delivering around 30% of total or gross loan growth. What kind of services are they and why they were so [important].

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

It's a bit misleading number because we include in the services holding companies of multi-business, industrial and industrial groups [configuration]. So it's holding companies, financial services.

Olga Naydenova - BCS Financial Group - Analyst

Okay. Thank you.

Operator

Mikhail Shlemov, UBS.

Mikhail Shlemov - UBS - Analyst

Actually a question a little bit on the cost on the headcount. When browsing through your presentation, I noticed that Sberbank stand-alone headcount seemed to have increased by more than 7,000 people in the Q4, which looks a little bit weird. Could you please comment on that? And equally important, if you could touch a little bit on the costs in 2015; what are your plans in terms of optimization on the cost side [what happen to the] headcount range and so on. Thank you.

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

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Consolidation of Russian banking industry is on the way, and we have [turned around the] challenge to provide Russian citizens with additional services here and there in all the signs of our presence. We've [waded through] the queues formed by new customers willing to transfer their accounts and their savings into Sberbank, first of all retail sites, and we had to address it.

We have our internal quality standards, so 90% of our customers should not wait more than 10 minutes' waiting time in queues so we had to add additional people on front office. First of all, retail (inaudible) and, say, it relates to the process of consolidation of Russian banking.

Looking forward, I can say that we approved special program for cost cutting for this year, so something like minus 15% of CapEx and OpEx. And that's why, despite the fact that ruble seriously devaluated and we have serious pressure on cost side, we [expect that] and will do what is necessary to preserve our total cost to income ratio at [our assumed] level.

Mikhail Shlemov - UBS - Analyst

Alexander, thank you very much for this. But a 15% cut in CapEx and OpEx, that's on what terms? Because it seems like it looks a bit too much, or it didn't translate into your basically, let's say, flattish jaws target for this year. Because if the cut would be that deep, I would assume that just like the jaws [would] be strongly positive, no?

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

Not exactly, because we have number of contracts which are dollar denominated, first of all, with providers of services from abroad, like Bloomberg, like Reuter, like all IT services, their contracts are denominated in American dollars. We negotiate a number of our lease agreements, rental agreements, where we used, as a financial currency, American dollars as well. So on balance, we reduce what's possible but the cost to income ratio, [we present if they] keep stable.

What's also important to take into account that the cost of income ratio of our daughter banks, including relatively big subsidiary in Turkey, Eastern Europe and all the Kazak countries, cost income ratio there is noticeably higher versus what we have in Russia in our base market. As is out of substantial ruble devaluation, their ROE, their inputs of high cost to income ratio of our daughter subsidiary banks plays a negative role, unfortunately for us.

We are looking, together with the management of our daughter banks, what might be done to improve it, to reduce cost to income ratio on their side as well and certainly, that will support our bottom line.

Mikhail Shlemov - UBS - Analyst

Okay. That's very helpful. Thank you.

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

I'd like to, if I may, on Russian stand-alone business, we should clearly expect positive jaws this year on the Russian stand-alone business. I think it helps you.

Mikhail Shlemov - UBS - Analyst

Thank you.

Operator

[Marc Lien, Lazard].

Marc Lien - Lazard Capital Markets - Analyst

Alexander, thanks for walking us through your assumptions for 2015 and making comparisons to the last crisis. But the last time, consumption was not hit that badly and the consumption's now down single digit, 5% thereabouts. Could you comment on the state of the consumer, given your intention to grow your mortgage book as well as the retail loans?

And also, could you comment on the competition for retail deposits? I think at one stage you were losing -- well, your retail deposit growth was lagging the market. Could you comment on competition for retail deposits? Is it getting better, worse, at this point in time?

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

Okay. Consumption mode is changing. Russian consumers, they buy more local products and services. Everybody spent less abroad and spent much more in Russia. It has a positive effect on Russian producers and Russian service industry as well. Russian agriculture business is in much better condition than, let's say, five years ago, and [investment] property is absolutely okay.

Mortgage, and real estate, industrial real estate, they can see it is good value for money, and has new assets, so a very good alternative to just cash or bank deposits. And, altogether, situation looks on retail side, is not so bad.

Definitely, a lot depends on further development of unemployment rate and further dynamic of that. But we should take into account that again, state is supporting key industries and key sustaining companies, and unemployment today is still very low in Russia.

And lastly, we have to take into account substantial drop in [peer] lending, consumer finance. We've never been an active participant in this market, so it will not affect us but it will affect other players.

As a result of, again, already mentioned consolidation of Russian banking industry, we face it now with an element of [lighter] quality and that's why our market share in ruble denominated deposits and separate dollar denominated deposits is growing. We expect that [this standard] will continue with the full year.

As a result, our bargaining power on the market gives us a chance to try to use it to keep our interest expense under control. We aren't going to buy the market share, but we are going to pay additional money. But we are going to persuade customers to more actively work with Sberbank by offering them better quality products.

I can conceive that our mobile solutions are widely recognized as the best in class and the best in Russia today. We have a steadily growing number of online customers, mobile, Internet banking and all that sorts of products. And this growth is accelerating because our customers, they are very much satisfied with the technical solutions we provide them with, and so are becoming an active agent, selling our products to their neighbors, to their family members.

So we expect that this year, we may see a serious increase in our digital channel customers and mobile banking and Internet banking. That's also growing [well]. I hope I have answered your question; if not, please specify it additionally. I'm more than happy to give additional details.

Marc Lien - Lazard Capital Markets - Analyst

Thank you very much. Thanks.

Operator

Gabor Kemeny, Autonomous Research.

Gabor Kemeny - Autonomous Research - Analyst

I have a couple of follow-up questions. The first one, can you give us some color what was the increase in the headcount in Q4? Was this mostly related to seasonality? And what increase would you expect over the course of this year?

And my second question is on capital. If you decided to convert some of the sub-debt into AT1 capital, then under what conditions could that be converted into common equity? I would appreciate some clarification on this.

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

Okay, our staff increase year 2014 was 10% (inaudible) increase on the retail side, front office retail staff. As I have said, that was due to higher demand for our retail services, so that's it; that's very clear. This year, we expect staff reductions, not staff increase.

As for capital, we don't want to dilute our shareholders' capital. That's our priority. We do not plan it. We calculate the different scenarios, including pessimistic scenario and the assumption of oil \$35 and ruble below [70] and still we believe that we will not dilute our shareholders.

We have an option to take an additional capital from the Russian Central Bank, but this is an option, and whether to use or not in terms of additional subordinated capital or conversion of existing subordinated capital into additional Tier 1. We'll consider it only if and when we're faced with additional unexpected pressure on our capital adequacy ratio.

As for equity, we do not consider, as of now, any option, any [rates] so dilute shareholders.

Gabor Kemeny - Autonomous Research - Analyst

That's very helpful, just a quick follow-up on this. So if you did convert the sub-debt into AT1, is there a [constellation], any external conditions, which may require you to convert this into common equity?

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

Okay, understood; I've got your question. So if and when we decide to convert our subordinated capital already attracted from Russian Central Bank, that's RUB500 billion, into additional Tier 1, according to Basel III requirements, we have to incorporate into this additional agreement cash outflows, so minimal capital adequacy ratio, Tier 1 capital adequacy ratio, core Tier 1, upon which we would have to convert additional Tier 1 into either equity capital or just put it in our profit and loss. That's currently required by Basel III.

And this threshold to be [returned] by Russian Central Bank as of now, it is 5.5% of Tier 1 core equity tier ratio. That's one of the reasons why we are hesitating to convert existing subordinated capital into additional Tier 1. And that's why we are in the process of our further discussions with the Russian Central Bank, because even potentially we'd like to avoid the possibility, sometime in the future, even the very distant future, to dilute shareholders.

Gabor Kemeny - Autonomous Research - Analyst

Okay. That's clear now. Thanks very much.

Operator

[Victoria Cherevach, Credit Suisse].

Hugo Swann - Credit Suisse - Analyst

It's actually Hugo Swann. I had a quick question around corporate deposit costs, which we've seen going up across (multiple speakers)

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

About what, sorry?

Hugo Swann - Credit Suisse - Analyst

Corporate deposit costs. I wonder whether you could give us a bit more guidance as to what's happened over Q1, particularly where we've seen in your Russian accounting standards really very little recovery in the NII, despite a significant reduction in your use of the Central Bank repo and also some rate cuts. So any update on that would be very helpful. Thank you.

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

In the second half of December, we faced this (inaudible) from Russian domestic market because of unexpected very high devaluation of Russian ruble and very high interest rates on the interbank market. As you know, it's a serious hike of key rates. So we attracted, to be on the safe side, additional corporate deposits at relatively high rates. But all those deposits already matured in January, beginning of February.

So on top of that, we created additional cash, physical cash, reserves just in case we faced additional unexpected demands from our retail customers for cash. And a really huge amount of money for the end of the year, and for [loan collection] in the holidays, which also affected our net interest margin in January, first of all; to a less extent in February.

Gradually, this situation has normalized. Definitely, interest rate payable on corporate deposits are now higher than what we had to pay, let's say, a year ago. But we should keep in mind that corporate deposits are particularly then of very short nature, very short dated, and they have limited effect on medium- and long-term net interest margins.

Hugo Swann - Credit Suisse - Analyst

That's very clear. Thank you very much.

Operator

Andrey Mikhailov, Otkritie.

Andrey Mikhailov - Otkritie - Analyst

I have a very specific question on trading operations in Q4. In particular, there seems to have been a [RUB15 billion] loss on operations of precious metals. And the question is, were there any particular transactions that caused it? And if yes, are they expected to have further impacts on the financials this year?

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

If you just look at page 7, our consolidated statement of profit and loss, you're correct, you're right. That's in the line net losses/gains arising from operations of precious metals minus RUB18.8 billion. But, at the same time, you should take into account that swap transactions or [import] transactions with precious metals on the other side of the American dollar, they are reflected in three different lines.

So net gains arising from trading in foreign currencies, that's plus RUB8.1 billion. And net gains arising from operations is [other] derivatives, so that's second of the derivatives, plus RUB27 billion. On balance, we have plus RUB8.1 billion minus RUB18.8 billion and plus RUB27 billion. So altogether that's something like RUB17 billion net positive result. So you should consider it together.

Andrey Mikhailov - Otkritie - Analyst

All right. That's very clear. Thank you very much.

Operator

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(Operator Instructions).

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

I'd like to thank all the investors and analysts who attended our conference update. Thank you for your [patience] and for your trust and for following our story. You know that our investor relations they are always open to specifically address your additional questions on just a one-to-one basis.

And before I say finally goodbye, I'd like to specifically address one topic, which I expected to be asked but I don't know why nobody asked me about that. It's about international business, about our loss reflected in our profit and loss on international business.

We need to look at page 71 and you look at composition. You may find out that our net result from other countries is minus [RUB51.3 million]. But, at the same time, if you look at the details provided in our statement, you find out that this is the result of our derivatives operations made in foreign markets.

So what's going on there? We have contracts with Russian customers and with Russian counterparts on the one side and with western counterparts, leading institutional players, on the other side. And on derivatives, different sort including just plain vanilla swaps, repos and so on. That's reflected in Russian business and hedging transaction is reflected on our international subsidiaries. So this is why we have that result.

If you just bring them together the result is clearly positive, and it is very clear out of our reporting. But optically, it creates an effect which may lead you to wrong conclusion that our international business is loss making.

(inaudible) I have to say that we are very proud of our development of our subsidiary DenizBank in Turkey. We are very satisfied with development of our business in Kazakhstan and Belorussia. And we have clear good signs of positive developments in Eastern Europe. The only really difficult market for us is Ukraine in all the locations of our presence.

So if you have other specific questions about that topic, please don't hesitate to contact our investor relations and he'll provide you with more details on the subject. Thank you.

Operator

As there are no more questions on the English line, we are now going to answer questions for journalists on the Russian line. One moment, please.

Operator

(interpreted) And now we're continuing our session of questions and answers for journalists in the Russian language. (Operator Instructions). [Andrey] (inaudible).

Unidentified Participant

(interpreted) My question relates to a clarification on Ukraine. Could you say how much provisioning has there been in 2014? And what are the overall financial result for the Ukrainian business in 2014? Thank you.

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

(interpreted) I will tell you, put this way, approximately RUB50 billion in total; these provisions created on the Russian side, on the Ukrainian side, for our Ukrainian exposure. About RUB50 billion, these are our provisions. Does this answer questions your question?

Unidentified Participant

(interpreted) Yes, thank you.

Operator

(interpreted) Ekaterina Belkina, Interfax.

Ekaterina Belkina - Interfax - Media

(interpreted) I would like to specify on your cost cuts. Could you specify what is the overall cost cutting without going into details or composition of breakups, or any specific data on your staff reduction costs? And staff reductions, you said that you will be cutting your headcount; how much would that be in terms of percentage?

And I would like to also ask you if you could give information on your foreign subsidiaries?

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

(interpreted) As I've said, the only zone of heightened danger is Ukraine today, but on a stand-alone basis they finished this year quite well. And based on the situation where they have to operate, their management continues to do what is required of them in these circumstances to support capital adequacy and their business. In that respect, we can only say a huge thank you to them for what they're doing. And what goes on there is the result of actions of foreign forces, external forces, and we are doing everything we have to do, we here, and the management in the Ukraine.

As to cost cutting, we're cutting them by about 10% to 15% on different items; it relates to operating costs and capital expenditure. Some of the items will go up because, as I said, some our contracts are denominated in foreign currencies with, for example, with Reuters, Bloomberg, IT services, a great number of contracts denominated in foreign currencies. And if you cut dollar denominated costs, in rubles we will get absolute growth because the ruble has devaluated much more. And if you compare it by currencies, we want to deliver it on all items.

If you look at only ruble amounts, the total reduction would be less and plus, we will have more impact from our costs on our foreign subsidiary side. Because of that, the entire cost to income will remain at the level of last year and it will be very difficult to improve it.

As to headcount, we are not setting ourselves a target to specifically reduce headcount. Our target is to maintain adequate headcount for the current business, for our business requirements, the customer requirements, and sometimes we will have to add more staff. We don't want to see a situation where we make a mistake, and we are about -- we're after raising efficiency, better efficiency, and cutting headcount is not the same.

Sometimes these things are very different. What I said in the first part, we do not expect growth in headcount in our Russian business. Perhaps it will go down, but I never said that we are planning any significant headcount reductions. It will all depend on our business load and business opportunities this year, but our efficiency will go up and there is no doubt about it. And we will be keeping our costs under tight control.

Hopefully, this answers your question. Thank you.

Operator

(interpreted) (inaudible), Reuters.

Unidentified Participant

(interpreted) My question is, I would like to specify a couple of points, what you mentioned on international business, RUB63 billion, is it the total financial loss for the international business? Is it your book profit, or is it your operating profit?

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

(interpreted) No. RUB51 billion, not RUB61 billion. Yes, it RUB51 billion. This is an item which is shown on page 71 of our disclosure, segment analysis, which is in item, other countries. If you look at these other countries, we will see that this is driven by two items; net income and loss from trading in foreign currencies, and on derivatives.

Actually, two legs of the same instrument, balance sheet and not balance sheet, and in total, this gives us this negative value. And this negative value is because Russian customers and incomes are booked on the Russian business, and the hedging part is booked on our foreign entities, foreign companies.

This was done so as we can deliver better protection for our deals, and based on the prevailing international (inaudible). And this minus RUB51.3 billion is not in any way related to our business in Turkey, Belarus or Kazakhstan, or other countries of our presence. As I said, everywhere where we are present we are making profit or our result is zero.

Unidentified Participant

(interpreted) What about Hungary?

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

(interpreted) We're now talking generally of Eastern Europe.

Unidentified Participant

(interpreted) Can you comment on Hungary?

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

(interpreted) It makes no sense to talk on Hungary because we are not disclosing any specific result on Hungary.

Unidentified Participant

(interpreted) All right. My second question is on the trigger for writing off or converting debt to shares when you -- related to your subordinated loan of 5.5% you said that this is one of the reasons why you are being so cautious about this. There are two options as far as I understand. One is writing it off; the other one is converting debt to shares. Why are you concerned or embarrassed about it?

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

(interpreted) I would not like to run too far here. We are in a constructive dialog with the Central Bank, who are major shareholders, and we've decided to include this capital in the subordinated level capital and we are quite happy with it.

We don't think that the capital adequacy we're having today, and our ability to earn capital in an organic way, we believe that this is quite sufficient, given the recent developments.

If it goes worse, no-one knows what happens tomorrow, we have different options, including those that I have discussed during my conference call. And it is not the only one to support our capital, be it Tier 1 or Tier 2 capital, without dilution, without diluting our shareholders. We've got options like that, they are still in our pocket. This relates not only to putting [it] additional Tier 1 perpetual, but it is also relates to raising another subordinate loan.

Unidentified Participant

(interpreted) But as to triggers, you're concerned about converting debt to shares, because it will dilute your shareholders.

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

(interpreted) We are quite meticulous on this point, and on wordings in agreements that may potentially lead to, perhaps in the distant future, affect the structure of our equity capital.

Unidentified Participant

(interpreted) Thank you.

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

(interpreted) And using this opportunity, [Exana], related to your first question, I would like to ask all participants, those who are Russian mass media representatives, so that they alert all the headlines on the loss-making of our international business. This is contrary to the truth, and placing in (inaudible) in prime news, such headlines as [Sberbank] suffers a loss of RUB51 billion. This is not the truth.

If you adjust your headings, or headlines, if anything which or from comments was unclear about them, we can additionally, in an online/offline mode, provide more comments. Please contact our press service with Alexander Baziyan, and if anything is unclear, we will clarify that. It is very important for us that all information is clear and not misleading.

Unidentified Participant

(interpreted) Thank you very much.

Operator

(interpreted) [Gulnara Bashitova, RIA Novosti].

Gulnara Bashitova - RIA Novosti - Media

(interpreted) We relied on your statements, and we will provide clarification for our managers.

My questions, you have said that you will expect -- in 2015 you are looking forward to a positive profit, but this based on an optimistic scenario of developments. What happens if oil price goes down to \$30 or \$35 per barrel, will you be profitable this year? And when will you see, in a midterm perspective, that net profit dynamics becomes positive? This is my first question, so far.

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

(interpreted) Well, I am not Nostradamus, to give you any forecasts on how world is going to develop. We are relying on our best understanding, and the information that we have in hand today. We've got our base scenario on which we establish our forecasts.

Please note that we do not give any figures on the size of our profits this year. We are only giving qualitative evaluations, or assessments, saying that everything we do in terms of raising efficiency, or more rationalize the streamlined approach to assets and liability management, or risk management, or asset quality management, these actions, within the base scenario, should lead to positives results on each reporting date, including the results for the year, of course.

But in terms of if there is a dramatic deterioration in the world, and if new developments occur, we will get back to our forecast. And based on new drivers, we will be giving further comments, and we will be changing our forecasts. We have given you our best understanding, our best assumptions.

Gulnara Bashitova - RIA Novosti - Media

(interpreted) You cannot say that, in case of any dramatic developments there will be a loss? You are not saying that?

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

(interpreted) It all depends on the nature of these new developments that may happen. Well, a new day will bring a new [food]. We want to be optimistic today, or at least be cautious, cautiously optimistic, as to further developments of the situation. I hope this answers your question.

Gulnara Bashitova - RIA Novosti - Media

(interpreted) Thank you very much. And as to your forecasts on the banking sector development for 2015 lending growth for retail and for corporates, are there any expectations? And will be up to the market, or above the market, in terms of lending?

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

(interpreted) If you look at our presentation, which is available on our website, on page 26 it says that there will be a growth in lending, and in retail and corporate deposit taking.

As to the market, and as to Sberbank, in terms of figures, we would be somewhere around the -- up to the market. We will be better than the market in terms of mortgage, but this will be offset by a reduction in our share in other segments, such as consumer lending.

We are not the riskiest player here in consumer lending. This portfolio is very short. And with a sharp reduction in demand today, in consumer lending, repayments are higher than new issuances. In that respect, growth in retail will be based on growth in mortgage.

Gulnara Bashitova - RIA Novosti - Media

(interpreted) Thank you. And on your bond program for RUB50 billion, 34 issues have been registered by the Central Bank, as far as I understand. Do you plan to start with your placements this year?

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

(interpreted) Well, practically every year we register a new program. And you're asking us about it every year. Our tactics and strategy is that we are always creating opportunities. And later on, we either use them or not, depending on how the market develops. We have registered that program, yes, but whether we're going to have any new issuances within that program, it depends on the market situation.

So far, no, if you're talking of today or the next quarter, we don't have any plans on that. And we are not planning to do anything of the sort on the market.

Gulnara Bashitova - RIA Novosti - Media

(interpreted) Thank you very much. That's all from me.

Unidentified Participant

(interpreted) (inaudible). The question was asked by Gulnara and I would like to pick up on the topic of forecasting. Does Sberbank have, besides the optimistic scenario for the Russian economy and the banking sector, looking similar to the Central Bank's and the Ministry for Accounting developments, generally a pessimistic forecast?

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

(interpreted) Well, I'd say we have a strongly optimistic forecast. The forecast is predicated on the management doing everything in their power. Given the prospects for the situation unfolding, we are aiming to perform well. We have never ever promised and we do not intend to promise a high level of returns this year.

Marginal profit is not an optimistic scenario at all, if you're talking about Sberbank. Yes, we certainly look at the carefully basic scenario where we will be marginally profitable. I'm stressing the point of marginal profitability. We're not talking boost, bumper profits.

But we have, yes, considered other scenarios, a much worse scenario, a pessimistic scenario, but I would not like to say those things aloud because they assume the power of self-fulfilling prophecy; read [Pianovski] and read everybody else to that effect. I would not like to say these things aloud. I want to pronounce the good things only. If it's not okay right now, then it's not the end.

Unidentified Participant

(interpreted) So Sberbank is superstitious, okay.

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

(interpreted) Well, please don't generalize, if you would. Maybe you have grounds to say that the CFO of Sberbank is partially superstitious but not otherwise, not Sberbank at large.

Unidentified Participant

(interpreted) Okay, Alexander (inaudible), thank you. And my last question, does Sberbank envisage to make changes to the underwriting policy, specifically on the retail side?

And given your pronouncements about focusing on quality of client service and asset service, do you intend to change approval rates for loan applications in various segments of the retail business?

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

(interpreted) I'm not really clear whether I'm correctly understanding your question. Maybe we were less than clear in our previous communications.

For many years, on a quarterly or even monthly or even daily basis, our risk management team have been analyzing client behavior. They've been tweaking their risk management models. They've been improving our understanding of client behaviors, and they have been changing the parameters, the set of inputs, for the approval process, approvals for the retail clients.

And this process has been ongoing for a long time; there has not been anything new. We change our approval parameters based on the market sentiment, and based on the knowledge base accrued year after year, on the possible client behaviors under different circumstances.

Unidentified Participant

(interpreted) Yes, that's understandable but then these are very general things. Besides generalities, do you have any more specific clarities?

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

(interpreted) Do you know at least one bank that revealed its parameters about approval rates, approval tactics?

Unidentified Participant

(interpreted) Yes, I do know of such a bank and it's [One Bank].

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

(interpreted) Well, maybe I've missed something but I would not like to give you a clear indication of our approval rates. We obviously approve less than we used to in the past couple of years, in 2013 and 2012. But we do not reveal the specific number.

Unidentified Participant

(interpreted) Okay. Thank you, Alexander (inaudible).

Operator

(interpreted) [Tatiana Chibasova, Interfax].

Tatiana Chibasova - Interfax - Media

(interpreted) I've got a question with regard to your results upon talking to your analysts. Could you repeat your projection for the profits? You mentioned the factoring in of the key rate.

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

(interpreted) Well, we didn't say that exactly; we didn't mention that. We said that 100 basis points decrease in the key rate over the annual horizon, which is important, decreases our increase expense and increases our net interest income by about RUB35 billion, given the stability constants of other parameters, other things being constant.

Tatiana Chibasova - Interfax - Media

(interpreted) What other parameters are factored in here as well?

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

(interpreted) Term structures; obviously, the short-term money and long-term money come at different rates. The optionalities affect the prices. The inclusion of the liquidity and the interest rate risks all are factored in. But other things being equal, if there's a parallel shift of 100 basis points, or 1%, the net effect, annualized, as of today will be around RUB35 billion.

Tatiana Chibasova - Interfax - Media

(interpreted) Okay. And one more question. After the talk with the analysts, you mentioned one-off effects on the cost of risk, Mostovik and Mechel, you priced them at 1 or 2 percentage points. You may have answered this already; how much will this affect you in 2015, this estimation of 3.5 percentage points that you gave for the current year?

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

MARCH 26, 2015 / 02:00PM GMT, SBER.MZ - Full Year 2014 Sberbank Rossii OAO Earnings Call (IFRS)

(interpreted) Well, we didn't really break down the 3.5 percentage points of cost of risk for this year. We can't give you any such information.

We can revisit this issue, the cost of risk and the provision expense after two quarters of this year, when we've got a clearer picture. As of today, we can't really give you specifics. Right now, we gave you extrapolation of the current model and try to be conservative.

Tatiana Chibasova - Interfax - Media

(interpreted) One last question on the non-core assets. Does Sberbank intend to dispose of some of those assets this year? You mentioned that in February, you'd concluded the agreement on selling off Polyana. Sberbank probably has some other assets like this, problem assets; do you intend anything like that?

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

(interpreted) Well, the short answer is yes.

Tatiana Chibasova - Interfax - Media

(interpreted) Can you name any specific assets you intend to dispose of?

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

(interpreted) Getting the non-core assets is sometimes the consequence of working actively to protect the Bank's interests, and that relates to working with problem borrowers. So as we move forward, some new assets may emerge.

Based on the past experience, yes we are considering to rationalize the existing assets on the balance sheet, non-core assets, real estate assets, we are looking at disposing of them. That's not the first year we have been doing this. We are doing this on an ongoing basis, and this year will be no exception. Our strategy will not give us anything new for this year. We'll be doing same things as earlier, perhaps more efficiently.

Tatiana Chibasova - Interfax - Media

(interpreted) In Krasnaya Polyana, will that be cash or will that be an asset swap?

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

(interpreted) Krasnaya Polyana deal will be revisited a little later, separately. As of today, all the information that we were able to voice publicly, we have been making available. All things down the line, we will be able to reveal as the deal closes.

Operator

(interpreted) [Irina Gorscheva, Russia Today].

Irina Gorscheva - Russia Today - Media

(interpreted) My question relates to Mechel. What is Mechel's outstanding debt at the moment? Was it non-performing debt? Was it overall indebtedness? Is it inactive contact with the managers of the Bank? And how much more provisioning will Mechel require, going forward, this year?

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

MARCH 26, 2015 / 02:00PM GMT, SBER.MZ - Full Year 2014 Sberbank Rossii OAO Earnings Call (IFRS)

(interpreted) As part of this conference call on the results of 2014, we are trying not to give any additional details by client, except for reiterating the details that have already been revealed with respect of those clients. So I can only say that our approach to provisioning, based on the Russian standards, is predicated upon the requirements of the Russian regulator, the Central Bank of the Russian Federation. And we provision in strict compliance with the quality and the size of such problem assets.

As for the international accounting standards, provisioning is a bit different because we approach provisioning in the amount of haircut that the secondary market will require for unsecured debt of the respective borrower. Basically, what will be the haircut of publicly traded bonds or other FI instruments, will be traded on the open market. And if they are traded at 1%, they were traded at around 40%, so we provisioned it around [60%]. That's our approach to Mechel.

As for the overall amount, then some comments were made earlier in the interview of the Chief Executive Officer. Some things were said and there's nothing I can add to that.

Since this is the last question, I'd like to use the opportunity to say one thing that we have concerned. The practice of reviewing the approval rate, and I talked to my colleagues from risk management on the back of the crisis, and the Q4 we cut our approval rate by about 15 percentage points versus the levels we had.

I'm talking about the retail lending only. We're not talking about mortgages. We're not talking about car loans, and credit cards are excluded. The payroll schemes are excluded. That's only cash loans to retail customers, and the accrual rate at this time is rather low. Let's say it's very low. It's 15% lower than it was, on average, in Q2 and Q3 last year.

Irina Gorscheva - Russia Today - Media

(interpreted) One more question, if I may? Is the idea still alive to create the options program for the management -- for the management team?

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

(interpreted) Yes, the idea is very much alive.

Irina Gorscheva - Russia Today - Media

(interpreted) Yes, the idea is alive but the details, when will it be adopted?

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

(interpreted) Well, it's certainly not the issue to be covered in this conference call, dedicated to the 2014 results. In Q1, we have not received any information, any specifics on this topic. If anything comes up, we will revisit the issue on the general press conference, say after the AGM meeting in a couple of months.

Irina Gorscheva - Russia Today - Media

(interpreted) Thank you very much.

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

(interpreted) Well, thanks all round. Have a good night.

Operator

(interpreted) Ladies and gentlemen, with this, we conclude this conference call. Thank you for attending, you can disconnect now.

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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