Transcription for VOZROZHDENIE BANK

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Presentation

Operator
Ladies and gentlemen, welcome to Vozrozhdenie Bank Full Year 2014 Earnings conference call. I now hand over to Ms Elena Mironova. Madam, please go ahead.

Elena Mironova
Thank you. Dear ladies and gentlemen, welcome to our Full Year 2014 IFRS Results webcast and conference call. As usual, a detailed discussion of the results is in the press release and reporting that is available in the Investor Relations section of our website at vbank.ru. I will speak briefly about the key developments of the quarter and of the year, and then we will move to the Q&A session with Andrey Shalimov, Deputy Chairman of the Management Board.

It was not an easy year for us. As you know, our founder, key shareholder and Chairman of the Board of Directors, Dmitry Orlov, has passed away. That is a terrible loss for all of us. The macroeconomic environment looked very volatile, especially in the second half of the year, and the key risks in the system actually materialised, with the dropping oil price; the sharp Ruble devaluation that stimulated the inflation pace. The Central Bank hiked the key rate in December – that launched the vast repricing process across the system and almost froze the new-lending.

In such environments we prefer to focus on accumulating liquidity cushion.
On slide 3 you can see that the share of liquid assets in the balance sheet grew to 25%. It was also supported by short-term bonds– on drop of the securities market and mounting yields, we have increased our investments in short-term high-quality securities. To be protected from possible funds outflow during the New Year holidays, we have raised RUB 8 billion from the Bank of Russia under the REPO transactions. I should say that our fears did not materialise, and in February all that indebtedness was fully repaid.

We have enjoyed strong inflow of customer funds during most part of the year, after quite a volatile start. Retail deposits that comprise 60% of the funding base rose by 20% YoY and that is well above the sector growth, though we were quite conservative on increasing the rates. As you can see from the upper right chart, the rates on deposits were flat during most part of the year and on the FX there were even some cuts in December, but then after the 17th the market rates rocketed so we had to follow suit. In this situation the key for us was not to take a lot of expensive funding.

The highest rates were introduced for short-term 3-months deposits, for us not bear this heavy burden during the whole 2015. Now, at the start of 2015, we see that the situation is rolling back. The rates on the product line are turning back to the normalized level and now more attractive rates are introduced for longer-term funding. FX re-pricing effect was, of course, quite sensitive in the dynamics of the retail and corporate funds but it was not the core. We saw also the increase of the Ruble funding and for us that is one of the most important results.

We did not compete aggressively for expensive corporate deposits. As you know, in the fourth quarter, the rates were just unbelievably high, so on the YoY basis we saw some contraction of the corporate funding.

Now on the loan portfolio. The quarterly growth of corporates was driven mostly by the revaluation of the FX part, as you see from the bottom graphs. Starting from summer, we have converted a significant pool of FX loans into Rubles to mitigate the currency risks, so now the share of FX in the corporate portfolio is just 14%. Retail lending is predominantly Ruble-denominated, so we don't see any risks here.

For the full year, the main driver of growth was retail lending, more-or-less evenly distributed between the mortgages and consumer loans.
Now we are not willing to widen the loan portfolio as, in the current environment, we see the credit risks as quite high. Here we are moving to the NPL dynamics - one of our key concerns for next year. We saw a number of new NPLs in medium business and large corporates. Most part of them

came from restructured loans – we warned you that this portfolio is at highest risk. Now the share of rescheduled loans is down from 6.9% to 5.5%.

As you know, our approach is quite conservative. We prefer to record questionable exposures as NPLs in advance when we see the first signs of impairment. Now it is a little bit hard to judge what would be the provisioning level needed for these new loans as the situation is different for all of them and we'll need some time to see how the situation will develop. The workout process of old NPLs is continuing, and in this quarter we have written off and sold loans on more than RUB1.6 bln in the SME portfolio.

On the cost of risk dynamic, the fourth quarter is always volatile here because the movements in the portfolio may be quite sensitive but for the full year it stood at 1.9% that is close to the target of 2% that we discussed. What would be the outlook for 2015, we will see going forward.

A few words on the risk management; on the FX, our net position is at zero. The foreign currency funding comes primarily from deposits and were allocate it to securities, where now spreads are becoming quite attractive, and loans to exporters, but we remain overliquid on FX.

The capital position (one of the core things for us) is still strong, with the high share of Tier 1. Total capital adequacy ratio was 12% for 2014, and we did not use options for easing of capital pressure, suggested by the Central Bank. It included accounting of FX risk-weighted assets on the exchange rate as of 1st October 2014, or excluding the revaluation effect of securities. As the securities portfolio is of a high quality, its re-pricing made less than 1% of the total value. So we decided not to apply all those measures. What you see here is a very fair assessment of our capital ratio.

Now to the P&L – what we see on our profits and losses here. Q4 positive dynamics of interest income was offset by elevated costs and this quarter we have charged RUB 257 mln during this annual re-pricing of non-core assets. There was a kind of one-off on provisioning on credit-related commitments. On the guarantee issued by the bank it made RUB 92 mln and we are still not sure that we will have to pay on it, but we decided to make provisions in advance.

Just a bit more details on the key lines – the main target for us was to protect our net interest margin and in 2014 it reached 4.6%, above the 4.5% that we had expected, and in the fourth quarter the trend was also positive. Interest income was supported by gains from the securities (mostly it is coupon income). Expensive deposits have not filtered through the P&L. In the middle of December we saw some early withdrawals. People wanted to convert to shorter-term deposits on higher rates and that was to the benefit of our interest expenses. As I said, we also were cautious on raising corporate funding so the funding costs were down 30 basis points QoQ.

As we discussed, we also started to re-price our loan portfolio on higher rates, especially on the corporate side. Maybe it is still not so visible in the yields but, as you can see from the bottom right table (here we show the effective rates on the key instruments as of 31st December 2014, compared to the previous year), the most pronounced growth comes from the securities portfolio and corporate deposits that are short-term and re-price and turn over quicker. There were also increases of around 2% on corporate loans and retail deposits, while the rate for the retail loans remained stable at around 15%. Our agreements on mortgages and consumer lending do not imply such easy changing of the rates. From what we see here, we could expect some pressure on the margin in the near term amid loan portfolio stagnation and expansion of the deposit base. What we are dwelling on now is limiting some possible contraction of our net interest margins through control of the funding costs.

Now, a few words on fees – our second-largest revenue source – we have put a lot of effort to reverse the negative YoY trend in fees and commissions, and see already the third consecutive quarter of growth. In corporate business we saw improvements in cross-sales ratio. It increased across all of the client segments, driven by tailored sets of cash and settlement services for SMEs and export companies that we introduced last year, and more convenient cash collection that is kind of our know-how, and the development of remote banking services.

In 2014 we have launched the new mobile and internet bank for retail customers and we are glad to know it has got the market's recognition. We were ranked among the top 3 best banks on remote services. On a YoY basis we saw some stagnation of balances on card accounts that confirm our perception that real disposable income is not actually growing, but in the fourth quarter the seasonally high business activities supported the results.

Now, on costs, our cost-to-income ratio was deteriorating in the fourth quarter, driven by a hike in operating costs by 29%. It's pure seasonality on deferred costs on bonuses and other administration expenses related to premises that are normally paid at the end of the year. If it is not always quite clear what would be the size of these costs we cannot evenly record them across the first three quarters.

On a YoY basis growth was quite moderate at 7%, mostly driven by staff expenses and investments in IT, in connection with our cost optimisation project. That is a temporary factor, we had to hire new people to the head office to manage all those projects. Some functions are already taken from the branches to the centre. As you can see from the bottom right graph, while in the branches the salaries were flat, the weight of the head office is getting north.

So, in general, operating income is stable but higher costs and too-conservative provisioning led us to the negative territory in the fourth quarter.

To sum up, what is gaining importance for us in the current environment is a strong balance sheet and sustainable positioning. On the risk management we remain conservative, we have managed to accumulate a thick liquidity cushion and maintain adequate capital adequacy. Going forward, we will focus on the credit risk management and sufficient provisioning. From the business aspect, the net interest margin was slightly above plan for the year and in the coming quarters its support would be one of the main goals for us, as well as maintaining positive trends in fees and commissions. So it is not easy times coming, but they are quite manageable and it is within our power to get the benefit from the current situation in the long-term perspective.

That is all with the presentation and key developments. Now, let's move to the Q&A session with Andrey Shalimov.

Question and Answer Session

Operator

[Operator instructions]

We have a question from Jason Hurwitz, VTB Capital.

Jason Hurwitz
Good afternoon, Andrey. A couple of questions, the first relating to the potential for subordinated debt from state sources – do you expect to apply for this type of support and, if so, could you give us any indicators as to how much subordinated debt and at what price, if possible?

The second question relates to your margin or, even more specifically, to your deposit yields. We saw other banks (and you) also posting what looks like some one-off gains on accruals from deposits that were cut off early, and if you could give us an indicator of what you think will happen to deposit yields in the first quarter because it is obviously a little bit tricky for us to understand how to gauge the amount of this factor in the fourth quarter to try to see where we are headed into this year. That will be great, thanks.

Andrey Shalimov
Good day, Jason. Thank you for your questions. Talking about the participation in the state-sponsored program, it is a very topical thing but no decision yet – I suppose we could make up our mind in April. The key question now is what we could see on the asset side, whether we could maintain this required credit book growth and what could be the risks associated with that. We took some pause and we actually believe that in April with annual financials of most of customers in hands and visible of dynamics of their cash flows and revenues, and we could reliably access the prospects for 2015 and maybe slightly beyond.

This assessment of the prospects of the credit market and the credit book is a decisive factor for our participation. If we were to take this chance, the involvement could be sizable. Maybe not the full amount but it makes sense at least in half as there are a lot of limitations on the bank's activity, and to be subject to those limitations in exchange for a relatively small amount does not make sense. The reflection on the usefulness of this increase and our growth potential – that is the key. We think that by the end of April we could decide on that.

Talking about individual deposits and the rates on them – we had no luxury of, say, Sberbank not to change rates at all in December and we had to react to that, but our rates were nowhere near to the rates of big private banks. The decision was to limit the scope of those rates by a 3-month horizon, and we felt some burden of interest expenses for some time. Actually, now it's the decisive time since it's exactly 3 months from mid-December (from the date of re-pricing) and now it's expiration of most part of maturities of those expensive individual deposits.

The key now is to lengthen this structure and to make it cheaper. We have already taken two rounds of rate cuts on individual deposits this year and actually from tomorrow it's another one, third cut on individual rates. So that is the key for us since in the corporate deposits' market we were not active at all. Indeed, when the biggest state bank appeared too aggressive in December to chase some deposits. We had to increase the rates but on a counted number of deposits, so in this field the hit was not so much for us.

The result for the margin – of course it is only the start of the year, but it was nowhere near like the big state bank's loss on its margin. I suppose 0.2-0.3 pps – that was the shave from our margin in January/February. The key target now is to be firmly above 4% – it is very hard to achieve 4.5% exactly for 2015 but, nonetheless, to be somewhere between 4% and 4.5% – that is quite an achievable target.

Jason Hurwitz
Would you say that the first quarter is likely to be the lowest quarter in terms of the NIM dynamics?

Andrey Shalimov
It is not warranted, since indeed that was an interest rate shock across economy. We were surprised by almost universal acceptance by the borrowers of the rate increases. But now of course it is time to renegotiate – to start renegotiating it lower. It is a two-way dynamic and that depends on the balance sheet management skills. There are good prospects to maintain the margin, but there is a need for serious efforts to achieve it. We hope that was the low, but let's see what could happen. The situation is very volatile and a lot depends on Central Bank policy, both in Rubles and in currency rates in Russia, but there are good prospects.

Jason Hurwitz
Good, thanks very much.

Alex Kantarovich
Thank you. Andrey, my question is on provisions. If I look at your supplement data it seems like provision for loan impairment in Q4 actually declined from 9 months and, at the same time, coverage – it seems like coverage of NPLs also decreased. It almost sounds like you did not provision enough in Q4, if you could comment on this and then, following up on the same topic, what sort of cost-of-risk do you envision in 2015? Thank you.

Andrey Shalimov
Thank you, Alex. That is the key question, the portfolio quality. As usual, we were very quick to register potential problems and the decision was taken to register as NPLs all doubtful things. They moved from restructured mainly – the nature and the quality of those loans is different. Some were provisioned in the fourth quarter, some of them not. I expect the dynamic could be different in the first quarter too since, as I mentioned, we need at least one quarter of observation of borrowers' behavior and changing their financials in stressed conditions.

Since we are to have their annual financials in two weeks, in a week we could assess their revenues and cash flows to make a more precise assessment of the risks. We need to replenish some provisions but not the whole amount or those loans would appear NPLs well overdue, indeed. Our policy for years was to be provisioned with some excessive amount, exactly for such a type of situation. We need time to react in a proper way. We could expect some loans could go back to standard, but of course a significant portion could stay in NPLs.

We expect, of course, serious provisioning this year, above 2014 level. So expectation is above 2%, but how far above 2% is still not pretty much clear. It looks like, in this financials, we spotted most parts of the problems that surfaced until this moment, but of course it is not warranted. Further development could be negative for other borrowers. Nonetheless it is better to be quick to capture those potential things. Moving down to this overdue schedule, period-by-period, we need to increase provisions, and then first quarter and second quarter will show serious figures on provisioning.

For the second half of the year we try to be more optimistic, indeed, but it depends of course on a number of factors. What we are seeing now is that a lot of people have already adjusted to new conditions and, if rates were to go down further, a lot of people could function in quite a good way. There was no serious number of casualties of devaluation in our customer base. Most people were afraid of increased Ruble rates so, with the removal of this factor, I suppose we could see some better performance on the book in the second half of the year.

Actually, as we discussed with you in summer last year, that was a current account crisis which morphed into financial crisis and then economic crisis. With those part of economy pretty remote from this currency or foreign trade-related activity, maybe it is not so much damaged. So provided a more smooth and thoughtful response from authorities, we could expect a better second half of the year than the first half.

Alex Kantarovich
Clear, thank you, Andrey. My second question is on operating costs. To be honest, the jump in Q4 was a bit surprising - even though we do expect seasonality it was a very sharp increase. If we compare 2015, your expectations against the base of 2014, what sort of operating cost inflation should we aim for? Thank you.

Andrey Shalimov
In this aspect there is one consideration we need to take into account. In those conditions at the end of the year the decision was taken to pay bonuses almost in the same size as the year before to boost morale. Since it was a tough period for the bank, not due to these financial dislocations but mainly due to the death of the Chairman, etc, it was quite a different situation for us from a psychological point of view and we needed to withstand a number of unwelcomed events. That was, I suppose, the right decision, but the situation this year is quite different. Now people understand clearly that the situation changed and all need to accept cost reduction policy – outright cost reduction policy.

Of course there are some layers of wages expense cutting. The wages in HQ are already cut by 10%, so the effect should be visible across the year. The same steps should be taken in branches in nearest months and then we could see some fruits of this optimisation process across this year. It’s a more volatile situation with other overheads, especially tied to IT spending, since the effect of devaluation should be quite visible this year, but there is some room for improvement too, streamlining, say, equipment across the branch network; lightening computer networks, etc. That is quite an obvious decision to be taken to decrease the cost base.

We see some good room for improvement on the cost side and there is quite a visible tie between those costs and results achieved by business lines and branches. People react in the proper way, and indeed rewarding them for a very difficult past year was pretty much the right thing. Now they feel that they need to work much more efficiently to get reward this year. The level of productivity they expressed last year is not sufficient to warrant the same level of payout, so the focus now is clearly on cost-cutting.

Alex Kantarovich

Andrey, thank you very much - clear.

Maria Semikhatova
Thank you for the presentation. I have a couple of questions and maybe first of all it would be useful to hear your views on your fee income development this year. We have seen some pressure last year, for obvious reasons, but it would be interesting to know how you see this in 2015.

Andrey Shalimov
In 2014 the core moment was at the turn of the year. At the turn of 2013 to 2014 we lost some number of significant customers, and the target was to substitute them with the greater number of smaller customers. It took some time, but the results became visible in the second half of 2014 – in the third and fourth quarter. Now we could see the same tendency so there are some grounds to expect improvement on the fee income side. Of course, some volatility in exchange market could add additional earnings so we plan to boost fee income for 2015.

Maria Semikhatova
I see. Thank you. In terms of your NPL formation in the fourth quarter, you mentioned that the majority was coming from the restructured portfolio – maybe you can comment on the remaining 5.5% of renegotiated book. How concentrated is this part of your book, and what is your current coverage on this portfolio?

Andrey Shalimov
The concentration is not significant in that restructuring. It was a pretty tough review, whether to put them in NPL or in restructured loans. Of course, we cannot guarantee that there would be no further fallouts, but indeed we spent more than two months with PriceWaterhouse checking those portfolios. We tried to check if they would fall off in the first months of the year. Unfortunately, January is not so business-friendly, it's indeed lazy month in the year, so maybe a little bit limited period to make the judgement. Nonetheless it was a thorough check. Talking about the provisioning on restructured loans, I suppose, 11% is the average level of provisions.

Maria Semikhatova
I see. Thank you. Maybe, because you have better visibility on SME segment, you could share with us some metrics on leverage and debt servicing capacity of SMEs, because there is the general understanding that they are more vulnerable to economic downturn.

Andrey Shalimov

Judging by our customers we can't say so; actually, we see some increase in NPLs in the SME segment, but it is not something pretty much catastrophic. If you look at industry breakdown, you could see that trade, the sector mostly exposed to this devaluation and maybe a sharper increase in working capital, was on some decline in our portfolio recently. I cannot say that we cut some exposures but, nonetheless, there was no tremendous increase recently.

Those SMEs involved in production thrive in these conditions since they are much more competitive now. As I said, the remoteness of this foreign trade dependence of those customers is a big plus for us. As we keep most parts of the business in Rubles – not in Moscow City but in the regions – the effect of collateral damage is not so visible. Ruble prices of many assets remain within our assumptions of how they could fluctuate in case of distress. Some people with insufficient collateral, especially some inventories, could be under big question. But due to the policy of recent years – two rounds of tightening of lending conditions –the decrease in the share of such customers was pretty significant. We expect the rise in NPLs - maybe by 10-15% or maybe by 12% to 20% of NPLs in this segment – but it is nowhere near something catastrophic.

Maria Semikhatova
I see. Thank you so much.

Maria Vasilenko
Hello. Thank you very much for your presentation. Actually, most of my questions have been already asked at some point, but I would like to clarify several things and the first is on the cost side. As you said, you will implement the cost reduction this year and you said that the IT part is the most volatile but, all in all, what is the percentage of foreign exchange denominated costs in your total operating costs and how do you expect it to change over the year? This is my first question.

My second question is on your guidance of loan book and deposits growth. Earlier today you estimated the growth of 4-5% of the loan book and also on the deposit side, while in the fourth quarter you saw the outflow of Ruble deposits as well as foreign exchange denominated deposits and, as we can see, the effect of the growth was rather revaluation. What would be your strategy in enhancing deposit growth and do you see any developments in the first quarter? Thank you.

Andrey Shalimov
Thank you. Most of the costs associated with exchange rate influence – they're in IT budget or in costs associated with plastic card business, so this segment could be around 15% of the total cost base. That is potentially the size of the cost at risk, but of course we have some bargaining power too. A lot of people could sell their stocks at discounts – for example suppliers of

ATMs now selling their ATMs exactly at the rate of say 40-45 Ruble per Dollar, so almost no effect of devaluation. It is unpleasant and slow process, how to bargain better prices, but we will try our best. The eventual effect should be smoothed by those efforts. Potentially, within this 15%, maybe between a third to 40% could be exposed to devaluation.

Maria Vasilenko
So 30 to 40 among this 15% which are attributed to IT costs, right?

Andrey Shalimov
That's IT and plastic cards' cost....

Maria Vasilenko
... yes, so...

Andrey Shalimov
... since the fees we need to pay international payment system, they're of course in dollars, so they are directly influenced by exchange rate fluctuations.

On portfolios, that is a tricky thing - not the size is the most interesting thing now, but the efficiency of the balance sheet. We were ready to shed some currency deposits, and with shrinking our loan portfolio in currencies across 2015 we already got a serious glut of currency liquidity. We were lucky to put it to work in financial markets in December and January; we bought a lot of securities nominated in currencies. But strategically, when state banks pay more than 7% on currency deposits, it is not a pretty favourable competitive situation.

At those rates we could provide loans to our customers, not to attract deposits, and we do not like to compete with state banks for currency deposits at all. It makes sense to limit the currency part of the balance sheet to extract more profits.
In the situation with Ruble liquidity, as we discussed, the core was not to allow serious increase on individual deposits average rate to surface. I suppose we managed to do that.

Corporate deposits – they are quite opportunistic – we do not compete with big banks with good retail funding, of course we could wait and see and limit ourselves with smaller amounts of corporate deposits to extract a better margin. With rates going closer to 12 or 13% in Rubles on deposits, we could start to compete more actively. That is a proactive assets and liabilities and balance size management, and I suppose the profit extraction it is the key.

Maria Vasilenko
Thank you

Andrew Keeley
Hi Andrey. My question is on the outlook, generally, for the first half of this year relative to the second half of the year. It seems that you made a small loss in the fourth quarter of last year and, for the first half of this year, I would imagine there would be downward pressure on net interest income. As the NIM comes down a little bit as your retail deposit re-pricing impact starts feeding through, you would also have very weak credit growth in the first half, probably.

I get the sense that your cost savings – there may be more benefits coming through in the second half of the year, and then you talk about serious provisioning in the first quarter and second quarter of this year. Maybe there will be some positive impact from higher fee income, but overall it seems like it will be tough to be profitable in the first half of the year. In the second half, perhaps when there is more growth and you start getting the kind of repricing impact on the funding side coming through, the profitability could pick up quite a bit. Do you think that is reasonable? Is that what you are thinking?

Andrey Shalimov
Yes, exactly, Andrew; that is our way of thinking now. We expect more beneficial second half with the economy more adjusted to the new model of behavior – maybe not growth but at least not recession. In the first half of the year, the target is to be in the black. I suppose, that is enough and maybe a pre-provision something. Since with capital at 12%, there should be no serious impact of devaluation on capital adequacy. It should be possible to be above breakeven and to function across the first half and make the foundation for better results in the second half.

Andrew Keeley
Okay, that's good, and just another question on your provisioning – there is quite a big charge in the fourth quarter for a provision for impairment of other assets, so not the credit-related commitments that Elena referred to. Can you tell us a little bit about what that was and can we expect subsequent charges on that, going forward? Thank you.

Andrey Shalimov
Thank you. Indeed that's provisions against non-core assets that we overtook from the customers. As you know, we adopted more-or-less the same approach in IFRS as in the Central Bank practice. We have some assessments, independent evaluation of those assets, but it is a policy – if we hold those assets for some period of time, we need to make additional provisions against them, whatever the current valuations are. That is the

same approach as the Russian standards - a pretty tough approach by Central Bank, but I suppose quite reasonable.

If we cannot sell them at a good price, or some legal disputes, etc; it is better to make provisions in advance. By time slots, the first quarter, so 1st February some years – that is one point to make those provisions and for the 1st December (so in the fourth quarter) that is another thing. It took two years to go to the next bracket, so the previous provisioning under this rule (serious provisioning) was in 2012, and now that is mainly a second leg. Indeed that was extensive talks with Price Waterhouse on the valuation of those assets, although independent companies which evaluate them – they are from the list adopted by Price Waterhouse themselves, so we simply asked those guys from that list to make those valuations. That was additional argument on both sides to make good rationale for those valuations. In some cases there were some adjustments to this time-based approach, but they were not so much material, so the key is this time-based approach.

Andrew Keeley
Okay...

Andrey Shalimov
If to say further about provisioning, indeed the worst thing which sent us to the red in the fourth quarter (actually they were not overheads) was those provisions for credit-related commitments - indeed, this 92 million; that was exactly what made us red and that was in 2015 already. Simply, one of our customers is in a legal dispute and we guaranteed some of its liabilities. The court decision was to honor those liabilities, so we need to pay. The customer could refund us, but under the standards we need to put some provisions against this guarantee. Within 2015, we expect that we fulfil this guarantee obligation and the customer will refund us. The actual results should be recovery of all this provisions, but nonetheless it is stated in the standards, so we need to follow. That is why we put it in peculiar bracket our profit and loss.

Andrew Keeley
Okay, that’s clear. Thanks, Andrey.

Olga Veselova
Thank you. I understood from the presentation that the bank has not used new Central Bank regulation introduced in December 2014. If this is the right understanding, then one question is: why? Do you see any constraints, using it?

The second question here is if the Central Bank is in any dialogue with banks and with Vozrozhdenie Bank when it comes to the idea to cancel this softened regulation from July of this year? Thank you.

Andrey Shalimov
Thank you. Yes, that's our policy for years not to resort to such tricks. Indeed that was the same stance in 2008 and now with securities portfolio with risk-weighted assets, etc, but this time we used other option. Indeed, one of our borrowers exceeded the 25% limit on single-party exposure and we applied to Central Bank to use the historical exchange rate for this particular customer. It is a pretty tricky situation for us. That is a very good customer, actually, and what to do with this exposure by 1st of July – that is more a business question. We would like to preserve this customer, but it looks like we need to slash this exposure to comply with Central Bank regulation. The risk is that it could buy services from other financial institutions and we could partly lose this customer. That is actually a business risk. Nonetheless, we see that regulation as pretty straightforward and pretty good, and we expect to comply with the regulation any way. We are not involved in any talks with Central Bank for any further allowances.

Olga Veselova
Thank you. Can you say in which industry is this customer?

Andrey Shalimov
Sorry?

Olga Veselova
In which industry is this customer, the one which is above 25% of capital?

Andrey Shalimov
It is metals.

Olga Veselova
Thank you.

Andrey Shalimov
Thank you.

Operator
As we have no further questions, dear speakers, back to you for the conclusion.

Elena Mironova
Dear ladies and gentlemen, thank you for joining and we are inviting you to our Analyst Day, to be held on Friday. We are going to discuss strategy and business prospects in more detail. The next conference call will be in May to discuss the first quarter results. Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call.