Transcription for BANK VOZROZHDENIE

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Sberbank Asset Management

Presentation

Operator

Ladies and gentlemen, welcome to Bank Vozrozhdenie Q1 2014 earnings conference call. I now hand over to Ms. Elena Mironova. Madam, please go ahead.

Elena Mironova

Thank you, Marina. Hello, ladies and gentlemen, we are glad to welcome you on Bank Vozrozhdenie first quarter 2014 IFRS results conference call and webcast. The relevant reporting and press release are available in the investor relations section of our web site at vbank.ru, where you can refer for more details. As usually, I'll brief you on the key highlights during the presentation, and then we'll move to Q&A session with Andrey Shalimov, Deputy Chairman of the Management Board.

Presentation

Well, it was quite a good quarter for the bank. Despite some reviving macroeconomic risks we've managed to maintain net interest margin at quite high level of the fourth quarter. We ensured the modest growth of loan portfolio in key segments and improved net profit on year-on-year basis, but of course, we can't avoid some backdrops in the current environment.

Slide 2. Assets and liabilities

Assets were relatively stable at the level of 211 billion rubles, however, the share of interest-earning assets surged by 2 percentage points during the quarter, and now they represent 82% on the back of higher net loans and securities portfolio. Cash and equivalents dropped during the quarter due to seasonal factors and some quarter-specific factors like outflow of client funds that we'll comment a bit later. Despite that, liquidity ratio was preserved at a comfortable level of 18%, supported by higher securities portfolio. And, of course, now it is one of the priorities for us.

In the structure of the liabilities there were some changes - a part of customer financing was replaced by market instruments. We've raised 5.5. billion rubles from the Central Bank as part of one week REPO auction, and it was collateralized by securities. Our securities portfolio is made of high-quality, short-term bonds, mostly from the Lombard List of the Bank of Russia, that affords us to manage the liquidity. We treat this increase as a temporary measure, as supplementary funding source for us, while client funds still remain the core. However, the total volume of due to banks in our balance sheet made up 16 billion rubles or 8.5%, which is quite below our internal limit of 10% on market funding. So, we are in line on that. And I would also like to emphasize that major part of it, around 60%, falls on long-term facilities, like funding from the MSP Bank, with which we cooperate quite actively on SME support programs, and trade finance.

Due to outpacing dynamics of loan portfolio, loan-to-deposit ratio grew to 112 %, which is higher that we've got used to; however, it contributes to better revenues structure.

Slide 3. Corporate funds - corporate

Let's move on to the corporate funding. One of the key concerns of this quarter was a 5% outflow of client funds. The reasons lying behind it are different for corporate and retail segments. That's why we decided to show them separately. In the first quarter the outflow was more pronounced in the corporate segment and concerned mostly the ruble part on the back of devaluation. The current accounts dropped by 7.5%, and deposits - by 18%. As we have several times outlined, corporate deposits are an additional funding source for the bank. They are mostly short-term and quite volatile. Taking into account the rates that we saw on these instruments in February and March, we were not eager to participate in such fierce competition and replace the expiring deposits.

And as for the current accounts, the most significant outflows we saw in the fourth quarter. They were more on the mounting concerns of banking sector stability and regulator's activity. Then we've stabilized the situation, we coped with it, but this year such factors as macro environment and devaluation impacted the dynamics. However, we are glad to signal that, though average balances on the client accounts are dropping due to some clients willing to diversify the available funds or their need to extract some funds for working capital, the number of accounts is quite stable and we are not losing the clients. They stay with us, just keep lesser amounts on their accounts. The FX structure of corporate funds is very much alike with the corporate loan portfolio. Around 10% of clients keep FX accounts, and it's mostly clients with export revenues.

Slide 4. Customer funds - retail

Let's look at the retail funding side. There we saw an inflow of retail deposits, which represent 56% of our funding sources. The inflow was supported by the revaluation effect and growth of deposits in foreign currency. Excluding revaluation, it made 3.4%. In the general FX structure of retail funds 27% falls on foreign currency, that is quite a high level. However, jumping ahead, I'd like to say that in April the situation reverted, and we saw a massive inflow of ruble liquidity.

Current accounts dropped during the quarter by 3 billion rubles, but it's a normal seasonal trend. As you see in the upper right graph, there is always a hike in December, when people receive their bonuses, followed by a trough in January, when they spend or withdraw it. In this graph we also wanted to emphasize that the credit turnover on card accounts grew on a year-over-year basis by 2 %.

Slide 5. Loan portfolio

Now let's turn to the loan portfolio and the key drivers there. The corporate lending grew by 1.7% during the quarter, mostly on the back of our key clients segment - expansion of loans to small and medium enterprises. They grew by 2.3% to 75.6 billion rubles, and their share in the corporate portfolio reached 59 %, which is higher than as of the start of the quarter. The volume of loans to large corporates preserved at the level of the year-start. It's 51.6 billion rubles. And actually, such dynamics reflect the strategy of the bank focused on further diversification and decreasing concentration in the credit quality, and that's what we've been talking about on our recent conference calls.

In the retail everything is more or less the same. Growth of 2.8% was provided by mortgages. The share of mortgage portfolio is 70% in the retail book, and that's the key product that we focus on. We were actually outpacing the sector on this front. In the first quarter we've completed the third securitization deal. Its volume was 3.45 billion rubles, and we are glad to mention an improved structure of the transaction. The senior tranche represented 87% of the total issuance. That signals on good credit quality of our retail book.

FX structure of the portfolio, as I said, is more or less stable, 10% is denominated in US dollars and euros, and it's mostly clients with export revenues. The majority of our client base, SMEs and retail customers, receive their income in rubles. That's why we have quite limited opportunities of utilizing FX funds.

On the regional diversification we are glad to note some uptick in the share of our core regions, Moscow and Moscow Oblast. It improved by 2 % during the quarter.

Slide 6. Credit quality management

Now let's turn to another serious concern, asset quality. As you see, nothing new here, no serious developments. There was some minor pick-up in SME segment, you may see it on the left bottom graph, just a handful of exposures from 30 to 90 days overdue, but there are already 50% covered by provisions. Nothing new on large corporates, in the past our worst performer on that front. And on the retail side we saw an add-up in technical less than 30 days overdue. That often

happens when the last day of the month is a weekend, as we saw in March. So, around 2 % of the new NPLs fall into this category.
In the first quarter we are back to conservative provisioning, as we have guided. Fourth quarter was quite unusual on this front, and as we've commented last time, such low cost of risk level of 0.5 %, was due to large repayments in the end of December, and the new approach to provisioning of retail loans. And now it has become much milder. Due to recommendation of our auditors and the Central Bank, we now use the migration model. This quarter the cost of risk was 2.1%, quite close to what we've guided, and the majority of it was channeled to allowances for large corporate exposure that went impaired a year ago. As of the April 1, it was provisioned by 77%.

Slide 7. Credit quality

If you look at the static picture of our NPLs on the next slide, you can see that we've reached the full coverage for 1 day+ overdue and impaired but not overdue loans, now it's 101%. For a more general definition, for 90 days plus overdue, the coverage is 116%, which is close to our target of 120-140% coverage. By the general definition, share of over 90 days overdue is 6.6%, that is comparable with what we've seen generally in the sector, quite low level.
The restructured portfolio stood at 6.5%, a bit higher than at the start of the year. It's a couple of new borrowers there, but their business is working, and we can't say that we see some general worsening of the credit quality; however, in the current environment and on some indirect signs we understand that we should be cautious and well-prepared on that front.

Slide 8. Financial highlights

Now let's turn to the P'n'L statements. On the eighth slide there's an outline on our results. Net interest income in the first quarter grew by 1.2 % and reached 5.1 billion rubles. It was mostly contributed by healthy interest revenues from the retail business and expansion of the loan book. Interest expenses were outpacing here. They were up by 5%, driven by growing expenses on the retail deposits and lower share of current accounts. As a result, net interest income was slightly below, by 2 %, on a quarter-over-quarter basis. However, if we compare the results with the first quarter of 2013, we'll see serious improvements in net interest income at around 19%.
Non-interest income increased during the quarter by 1.7% despite some weak dynamics of fees and commissions. But it was supported by other operating income that grew by 114 million rubles as a result of sale of part of non-core assets at a profit.
Operating expenses decreased quarter-over-quarter by 9.5% due to seasonal factors. The level of the fourth quarter personnel expenses and administrative costs is usually higher than average

during the year. And on the year-over-year basis the growth of operating expenses was around 4.6%. That is quite modest, taking into account the inflation and the ruble devaluation that we saw.

So, as I’ve already commented on higher provisioning, our net profit on a quarter-over-quarter basis decreased to 428 million rubles, but on the year-over-year comparable basis it was up 28.5% due to stronger operating revenues.

Slide 9. Target on NIM achieved

Now let’s look in a bit more detail on net interest income evolution during the quarter. Net interest margin remained almost flat, despite net interest income contraction. It was supported by higher share of interest-earning assets in the book and stable total assets. So, we are now earning higher revenues on our loan book, and especially retail. Yields on interest-earning assets were flat. We saw a small pickup in retail lending rates after we’ve made a slight increase in March (we’ve raised loan rates both for mortgages and for consumer loans). Cost of funding was up 40 basis points quarter-over-quarter, mostly on higher cost of corporate deposits. It’s added 70 basis points, but, as I’ve commented previously, it was due to quite high competition and uneven monthly dynamics of the indicator. So, we saw some outflows in the second half of the quarter, while the major part of the period we’ve bore interest expenses on them. And on the retail deposits, average rates increased by 30 basis points, both due to volumes fluctuation and to some higher level of the current interest rates compared to average for the portfolio. On the bottom right table we’ve summarized all the changes for the last half of the year on the retail deposit rates. So, as you see, in most cases we were cutting rates on FX deposits, trying to restrain their growth. Now on the majority of the products they are less than 2%. We’ve centrally raised rates on Ruble long-term deposits only in March 2014. Well, as you see, it was quite modest movement, mostly in line with the market dynamics.

Slide 10. Operating results

A little bit on total operating income. Operating revenues before provisions improved on a year-over-year basis due to strong interest income and modestly dropped during the quarter on the back of decline in commissions. As you may remember, in the fourth quarter we’ve reclassified a part of commissions on retail business to future interest income. That affected the net fees. So, as you see, on an adjusted basis the net fees declined by 22% on a quarter-over-quarter basis, but that can be explained by seasonal factors - low business activity and long holidays in the first quarter. However, on the year-over-year basis the downward trend continued, and adjusted figures show a decline of 13 %. That is due to both higher competition in this segment and tougher conditions of payment systems, Visa and MasterCard that we see. We are also eager to increase our client base on fees and commissions by high-quality small and medium businesses. That's not a very quick process, so it should take some time to filter through the P'n'L. And we also plan to get higher revenues from online banking, advanced cash collection that are currently developing. The new mobile bank was launched in the end of March. So, in summer and autumn we may see some first fruits of it.

The dynamics of net income was affected by the provisioning that we saw on the previous tables.

Slide 11. Efficiency indicators

In the conclusion, a few words on our efficiency indicators and capital adequacy. As you know, Russian banks started calculating capital adequacy in accordance with Basel III requirements, so did we. In the first quarter the indicators significantly improved on the back of outpacing growth of net income, the main component for capital add-up, that was outpacing risk-weighted assets.

The point with Basel III is that the banks with simple capital structure like us actually benefit from its introduction, and we have it at quite comfortable ratios of 11.6 % for total capital adequacy with a limit of 10%, and 9.7 % for common equity tier 1 with a limit of 5%. So, it's well below it. And it proves the high quality of our capital and really high share of Tier 1 that we benefit from.

Cost-to-income was flat year-over-year on some modest revenues and some increases in the costs due to revaluation effects and inflation. However, we hope to see some improvements here during this year. As for the return ratios on a quarter-over-quarter basis, they have dropped from well-performed Q4, but it was some kind of artificial movement in the fourth quarter supported by lower provisions. If we look on the operating level, on profit before provisions and taxations, we'll see that both ROE and ROA improved in Q1.

Well, to sum up, it was not a bad quarter. Major targets on portfolio diversification, margin support and growth were achieved. Credit quality was calm. And as we said, we tried to be flexible and look for growth opportunities in key fields that can be most perspective for us. We have some room for improvement on costs on fee income and some uncertainty on the funding still remains, but these areas are in our focus in the near term, so we hope to cope with them.

That's all with the presentation. And now let's move to the Q&A session.

Questions and Answers Session

Operator

Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Please switch your handset before you ask your question. Thank you for holding until we have our first question.

The first question is from Svetlana Aslanova, VTB Capital. Please go ahead.

Svetlana Aslanova

Hello, thank you very much for the presentation. I have a couple of questions. First, on the cost of risk. In your press release you mention that now all your problem loans are fully provisioned. With cost of risk in the first quarter well above your guidance and stating that probably you don't see any significant deterioration in asset quality, do you reiterate your guidance for the cost of risk below 200 basis points for the full year and what kind of processes you see now in restructured loans? I guess, their share increased on Q-on-Q, and in NPLs? And I will ask my second question later.

Andrey Shalimov

Good evening. Talking about the cost of risk forecast and actual figure, yes, we consider that mostly all those big exposures are provisioned properly. I suppose the last piece should fall on the second quarter results. And I suppose, second quarter results should be the turning point in the process. So, it may be closer to 200 basis points again, for the second quarter, but then there is a good chance for improvement, and actual figure could be better than current level on annualized basis. But, of course, it's a speculation now, judging by the current situation. Unfortunately, if we put our calculations on a broader basis, taking into consideration macro economy, it's the reason for serious concern of what is the general path in the economy. We can't exclude that stagnation or even some kind of outright contraction in economy could cause deterioration in the book, and for that reason, I suppose, it makes sense to retain conservative outlook for the cost of risk for the whole year. But, as I said, our visible and realized causes for higher provisioning look like behind us.

Svetlana Aslanova

OK, thank you very much. And my next question is on loan-to-deposit ratio. You explained the reason for significant increase in the first quarter. Do you see this level as sustainable or this inflow that you witness in March, sorry, in April, of especially retail deposits will help you to bring it to more normalized level, if we say so?

Andrey Shalimov

Yeah, that's a very interesting point. What could be the sustainable ratio currently? The preference of the bank is still to keep it closer to a hundred per cent, but in nowadays environment rebalancing could be a bit more expensive. It's a matter of serious discussions whether we could sacrifice some part of our asset growth but not to pay aggressively for deposits, especially for corporate deposits, since market is very competitive. Biggest banks pay pretty handsome rates, and it's very difficult to compete in this environment, I mean, for rubles. So, it's now the matter of two factors. First, we have great flexibility to readjust our assets and liabilities, so it's still up to the management to decide in many ways what could be the proper size of the balance sheet. And then, of course, that's the matter of pressure on rates up, and here it's a very delicate matter of what could be a pass-through of this high interest expenses burden onto borrowers. The competitive environment has changed, and now borrowers are willing or simply have to pay high rates on loans, but, of course, you shouldn't overstretch them. Economic situation could limit their ability to pay and to service high rates. So, that's a delicate balance. On the average, the results of April and May allow us to be more optimistic on the ruble funding structure and prospects at least for the summer. So, I can't exclude that across the rest of the year the ratio could be elevated higher than a 100 per cent, but nonetheless it looks like smaller than it was as per April 1st, and maybe we could tolerate. There are, of course, some checks for these deviations. First of all, of course, the ability to attract Central Bank funding – other reliable sources should be really available for us. So, the precondition is to have a well-structured security portfolio ready to pledge with Central Bank or some loans, not marketable things, to be pledged with Central Bank, etc., etc. Providing the whole range of options in place and the size of available liquidity significantly higher than this gap between customers' assets and liabilities, we could tolerate for some periods of time to have loan-to-deposit ratio above 100 per cent. But strategically we don't feel that we should change this situation. Indeed, being on the safe side from liquidity point of view, from interest rate risk point of view, I suppose we should keep it closer to 100 per cent.

Svetlana Aslanova

OK, thank you very much.

Andrey Shalimov

Thank you.

Operator

Our next question is from Alex Kantorovich, JP Morgan. Please go ahead.

Alex Kantarovich

Thank you. Andrey, could you give us some ideas about how two components of your spread are developing in the current quarter? We appreciate that in Q1 NIM was supported by the asset mix, but can we have an update on this quarter, please?

Andrey Shalimov

Sure, Alex. Yes, we managed to defend the NIM on the balance sheet, but as you see, the spread, of course, is under pressure. So, the key question for us is the possibility of this pass-through. So, definitely we need to pay higher for ruble funding, and the key whether we could charge higher rates on customers and what could be the trend in re-pricing both on assets and liabilities side. Our cautious forecast for 4.5% NIM incorporates the possibility of deterioration across the second and maybe across the third quarter. So, higher rates especially on corporate deposits should feed in in our PNL. We enjoy pretty good dynamic on individual deposits without serious increase in interest rates. But, as I said, corporates is a very competitive market. We decided we could sacrifice some part of the market share, not to pay excessive rates, but nonetheless we need to defend something more or less suitable for us. So, I expect we could see some increase in interest expenses. But judging by how we could handle the situation with the loan book, and then how we manage our securities portfolio, since by the moment, I suppose, there is no serious impact from the distress in March or in April. Indeed, portfolio totally recovered or simply matured. So, we substitute most part of ruble securities which at the start of the year were, let's say, 7% yield with 9 to 10% yield currently. So, that helped to manage spread and NIM at least in the second and in third quarter. The feeling is that the figure for those quarters could be lower than in the first quarter, but nonetheless it still should be above 4.5%. And then the next serious change could be in the fall, but it's a bit premature to speculate about what could happen in the fall. I suppose situation could change not once within the country, and situation with Russia's access to international market could change and could affect the whole parts of the interest rates development.

Alex Kantarovich

Yeah, thank you very much. Very clear.

Operator

We have a question from Andrew Keeley, Sberbank. Please go ahead.

Andrew Keeley

Good afternoon. Thank you for the call. My first question is on your asset quality, in particular, your SME and individual entrepreneurial clients. We had a fellow bank of yours publishing results yesterday that seem to suggest quite a strong deterioration in asset quality amongst individual entrepreneurs, which was put down to an effect of a ruble devaluation. And I'm just wondering have you seen any such dynamic and do you kind of see any sense that individual entrepreneurs, small business owners have been struggling more, given the ruble depreciation? Thank you.

Andrey Shalimov

Thank you. Indeed, we try to be prepared, discuss internally and should not be surprised to see some deterioration. But it's still not in the book, it's still not surfaced, and I suppose that the difference is between traditional players and newcomers. And, of course, for guys who tried to accumulate these customers, this clientele recently in, say, last 5 to 6 years, the quality of their books should be different from ours. That could be a game changer. Whether it could be sustainable across the long time period, it's still a question. But of course, we are not in equal starting conditions and their book should be of different quality, judging by the market strategy, how they acquired those customers, etc., etc. So, it's not a surprise for us that the path in NPLs and restructured loans in SME books is different across the bank sector.

Andrew Keeley

OK, thank you; that makes sense. My second question is on your operating expenses. And it is seen there's quite strong year-on-year growth in terms of your other operating expenses. And I'm just wondering whether you can explain why that was the case, and, you know, are we likely to see that continue in future quarters this year?

Andrey Shalimov

Andrew, could you say what was the actual figure?

Andrew Keeley

Well, I think it was something like 12% or so year-on-year. Other operating, non-staff operating expenses.

Andrey Shalimov

If we talk about operating expenses path, what we faced this year is that the servicing of existing infrastructure became more and more a burden, and for some time, indeed, we managed to keep some rates and tariffs flat. But, of course, it's not gonna be the same forever. And this year nonetheless we try to renegotiate some agreements and to be tough on some number of items within it. The general figure tends to rise. The key here is to exploit most part of those funds within the projects to change the operational system, simply not to keep the same expense structure, etc., etc. But the result of such approach, segregating those projects within our PNL, was that we set up special item called "Projects" in expenses. And, of course, under this classification, without actual finished budgets of those projects across their life we try to put them in a separate bracket. So, we put them in "Other operational expenses", but in general they actually should be distributed across other items. We could do it appropriately, I suppose, at some future point, but currently keep them in this bracket. It's some kind of research and development for industrial companies, but of course, we expect that after initial stage of the project we could reallocate them properly.

Andrew Keeley

OK. Thank you very much. And just a final question. It's a bit of a broad one, but I'm interested in your view, I mean, do you see the situation in the Russian economy, and I suppose your kind of SME retail clients' financial position? Do you see that in the second quarter as generally kind of better or worse or pretty much the same as you saw in the first quarter?

Andrey Shalimov

Indeed, the easiest way to compare what could be the situation within broader customer base and our own clientele, it's monitoring of their transactions via our electronic network or across-branch network. And what we saw was that general period of slack in activity of the customers was in the fall last year and in the first quarter this year. Indeed, this trend rooted in early 2013, and I could say that our own customers fared slightly better than what we see from the customers of other banks, judging by the volumes of transactions and their purchases, etc. etc. So, if we compare the transactions of the outsiders using our infrastructure and our own customers, our transactions are still on the rise, and it was a serious drop in transactions of other banks' customers in October, November last year and then in February. But April changed the situation, and we see simultaneous increase in activity of our own customers and customers of other banks. So, maybe that's, to some extent, seasonal factor, but I suppose the key was the Central Bank's successful efforts to limit ruble devaluation and then renewed interest in ruble savings and some kind of spending activity. Whether it's for some months or could evaporate very quickly, it's still to be monitored, but May, again, looks to bring more optimistic result, as we see in transactional business. So, from that point of view, the most serious deterioration was in the fourth quarter and in the first quarter.

Andrew Keeley

Great. That's very helpful, thank you, Andrey.

Andrey Shalimov

Thank you.

Operator

Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding.

Our next question is from Maria Semikhatova, Citi Bank. Please go ahead.

Maria Semikhatova

Ah yes, thank you for the presentation. I have a couple of questions. First, maybe on fee income as following up on the previous question. You suggested that you see a pickup in transactional activity by your clients. I'm just wondering how confident you are in your guidance, so with between 5 and 10 % increase in fees this year?

Andrey Shalimov

Really, this guidance is under serious threat. Those fees associated with credit process or something different from plain transactional business are faring well. But the key in what we saw was the drop in transactional volumes and diminishing payrolls fees. Payrolls are not a question of something new. It was on the path to decline for years, and looks like that's the final stage of disappearing of those fees. But transactional part is a matter of serious concern. With the same range of products we offer via traditional channels, it's very hard to expect increase in revenues. The main tool to fix this was the full-blown introduction of mobile banking this spring. And the key is to prop up the fee stream via providing mobile services to general public. The marketing focus now is on those promotional mobile and cross-sale services among payroll customers and individual depositors. Provided determined work across the summer, I suppose we could seriously count on increase in those fees in the fall, in the third and in the fourth quarter. Provided that, we could still be targeting increase in magnitude of, say, 5 %. Of course, there is a drop in transactions of legal entities due to tighter standards of anti-money laundering and potentially some limitations from, say, OFAC lists, some other customers are under sanctions. It could not affect too much seriously, but nonetheless, some production chains could be affected, and the turnover of some customers could drop as the result of those things. That's an additional negative background, apart from some slack in the economy. So, I suppose some increase in fees could be considered as not a bad result, but the year could be considered as eventful if we achieve this 5 or slightly above 5 % target.

Maria Semikhatova
Understood, thank you. In those terms, maybe coming to March and some particular funding costs on corporate deposits, I understand that you were not willing to compete aggressively with the large state banks. Can you comment how different is your pricing on corporate term deposits relative to those peers? Maybe, to put it differently, what would be your cost of corporate term deposit if you were effectively paying the market prices in the first quarter?

Andrey Shalimov
Indeed, it's a very tricky situation, looks like there are some different levels simultaneously. You can attract funds, for example, at 9% knowing that somewhere else people pay more than 10% for the same funding. Indeed, visible and clear competition examples are in some kind of auctions like utility fund auctions or, say, regional budgets funding. What we see, banks eligible to bid for those funds, pay at least from 50 to a 100 basis points above us. But in some cases the rate is pretty reasonable, and it depends on the creditor's policy, too. For example, in Saint-Petersburg the regional budget distributes funds more evenly between banks and looks to control rate for some extent, and it's not so much expensive. And there are a number of such kind of examples. There is some part of the market in which rates are pretty reasonable for the bank and the borrower. It's not pretty much extensive and limited in borrowing potential, but nonetheless

it exists, and the key for us is to work in this segment and to apply to highly competitive market only in some cases, not to be a regular bidder alongside some big banks. If we are to prop up very serious loan book growth, we should have been competing in this environment. But with good private individual deposit inflow and almost stalling corporate book, we could allow ourselves not to be involved in all those competitive matters. That's a matter of delicate balance between the targeted loan-to-deposit ratio, desirable asset growth ratio and the cost of funding. So we need to maintain some balance between those three targets and not to overpay.

Maria Semikhatova

I see. And your base case asset growth target for this year is still around 8% or you revised it?

Andrey Shalimov

Of course, if we take effect of the currency devaluation, the total balance sheet growth could be maintained at that level, but from the quality point of view, the ruble balance sheet growth should be slower.

Maria Semikhatova

I see. Thank you. And maybe just a small clarifying question. You mentioned that there was a technical increase in overdues in the retail segment in the first quarter. Have you seen repayment or kind of, for those loans becoming performing in April-May?

Andrey Shalimov

Yes, those loans are not NPLs in their nature, we saw it not once. When the reporting date is closer to weekend, we have some technical shifts. Actually, it is paid next day or sometimes even we receive money overnight but simply could entry in our books only next day. So, it's not an issue of some credit quality. But nonetheless we try to find some ways to resolve that matter. The best possible solution is to negotiate some down payment a day before, for example, with deadline, etc., etc. But of course, not all customers are willing to make such things. But nonetheless it's a matter of fixing now.

Maria Semikhatova

I see. Good to know that most of that 2 % is appeared in the second quarter. And on your large corporate exposure that you're provisioning against in the first quarter, just to confirm that I understood correctly, you plan to bring coverage roughly to 100% in the second quarter. I just wanted to kind of hear your view whether you know, if there is any clarity on timing when the decision on this plant will be made by key creditors? Because I see in court decisions have been postponed for a number of times already.

Andrey Shalimov

Yes, we expected this decision to be taken many times in the past, but, unfortunately, it isn't. That's one of the reasons why we make a 100% provision, since, unfortunately, no there is no clarification in this situation even by time periods, and it's very difficult to sort out what could be the next steps. The state bank was the largest creditor in the case, but the real control is in hands of different private banks. It looks like they've received approval from the very top and laid down rules, simply this biggest creditor obeys those rules. I'm not quite sure that it's in the best interests of all creditors, but, as I said, it's a precedent to change the decision making and not to be a smaller creditor even in the good projects on the surface. That's a risk being minor creditor and squeezed out of the interest but that's the reality. We simply should be 100% provisioned and make our best efforts to recover at least some portion of this exposure. Unfortunately, that's the situation.

Maria Semikhatova

I see. Thank you very much for answers, Andrey.

Andrey Shalimov

Thank you.

Operator

We have a question from Elena Tsareva, Sberbank Upravleniye aktivami. Please go ahead.

Elena Tsareva

Hello. Thank you for your call. Just a quick question on your sale of non-core assets. What are these assets and what is the potential of additional income from these sales? Thank you.

Andrey Shalimov

That's collateral previously overtaken from customers, and we expected some heavy sales last year. Unfortunately, it realized in smaller quantities, but this year we observed good interest. Maybe that was the by-product of devaluation fears, so many people start looking at some assets, chasing some assets in real estate and in commercial real estate. But we saw real interest in some pieces of what we have on the balance sheet, and we managed to strike some deals. We expect further sales this year. Now, I suppose, roughly half of those assets are subject to some kind of negotiations, but what could be material result of those negotiations, it's still hard to say. But I suppose roughly a quarter of those assets could be sold this year. At least we made such type of projection, though we do not put the potential profits in the annual forecast, but it could be some supplements for the revenues.

Elena Tsareva

Thank you.

Andrey Shalimov

Thank you.

Operator

Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding.

We have no further questions. Dear speakers, back to you for the conclusion.

Elena Mironova

Dear ladies and gentlemen, thank you for participation and meet you next time on our half-year results. I'd also like to let you know that today we've officially launched our investor relations app for iPhone and iPad. You can find it in the App Store, and there are relevant links on our website. Now you can access all our news, press releases, financial reports, earnings calls, etc. any time you wish. It also includes some share price instruments and interactive analysis. It works offline, so internet connection is not necessary. Anyway, we hope for your feedback on that. Please download and let us know on your impressions. Thank you and have a nice day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you all for your attending. You may now disconnect.