Sberbank (SBER)

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Sberbank releases Financial Highlights for 1M 2018 (under RAS; non-consolidated)

Please note that the numbers are calculated in accordance with Sberbank's internal methodology. Effective January 1, 2018 the methodology has been updated. For comparison purposes 2017 data has been calculated in accordance with the updated methodology. Also note that the effect of subsequent events is excluded from the numbers as of January 1, 2018.

February 7, 2018

Key highlights for January 2018:

- In January, the Bank earned RUB65.3 bn in net profit;
- The Bank issued more than RUB1 trln in loans, almost 2-times more than in January last year, and the highest for January loan volume to retail clients - RUB195 bn;
- Net fee and commission income increased by 20.3% compared to a year ago January;
- Starting from 2018 Sberbank began to apply IRB-approach to assess credit risk. As a result, Common Equity Tier 1 adequacy ratio increased to 11.4%, and Total capital - to 15.7%.

Deputy Chairman of Sberbank Alexander Morozov stated:

"*In January the Bank showed Return on Equity of 22.6%. Earned net profit and implementation of the IRB-approach to credit risk assessment contributed to the improvement of Total capital adequacy ratio by 0.7pp, of which 0.5pp were attributable to IRB*".

Comments for 1M 2018:

Net interest income increased by 7.4% compared to 1M 2017 and amounted to RUB102.8 bn. The increase was largely driven by the expansion of working assets portfolios as well as declining interest rates on client funds.

Net fee and commission income was up by 20.3% to RUB26.4 bn, which was mainly due to growth in operations with bank cards (+35.9%), settlements transactions (+23.1%) and commissions from insurance products (+31.0%).

Operating expenses were up by 24.5% compared to 1M 2017, due to continued dispersion of accrued expenses to smoothen seasonal fluctuations during the year. Normalization is expected by the end of 1Q 2018. Cost-to-income ratio in January reached 27.6%.

Provision charges totaled RUB13.2 bn in January, less than in January last year by 1/3. The volume in the reporting month was noticeably influenced by the revaluation of reserves due to Ruble appreciation. As of January 1, 2018, loan-loss provisions were 2.5 times the overdue loans.

Net profit before income tax came at RUB81.5 bn for 1M 2018, while **net profit** totaled RUB65.3 bn.

Total assets decreased by 1.5% in January to RUB23.0 trln mainly driven by FX revaluation. There was also reduction of cash and funds placed at the Bank of Russia after the extended New Year holiday season within the scope of liquidity management.

The Bank lent RUB840 bn to **corporate clients** in January 2018, almost 2 times higher than in January 2017. The corporate loan portfolio increased by 0.1% in real terms and decreased by 0.4% to RUB11.9 trln in nominal terms due to revaluation of foreign currency denominated loans.

The Bank lent RUB195 bn to **retail clients** in January 2018, which was 1.9 times higher year-on-year and represented the highest amount ever lent in January. The retail loan portfolio increased by 1.2% to almost RUB5.0 trln.

The share of **overdue loans** in total loan portfolio was up by 0.1pp reaching 2.5% in January, which is substantially lower than the banking sector's average (8.4% excl. Sberbank as of January 1, 2018).

Securities portfolio increased by 0.6% to RUB2.54 trln in January.

Corporate deposits and accounts in January increased by 0.3% to RUB5.66 trln, while in real terms the growth was 1.1%. **Retail deposits and accounts** were down by RUB381 bn, or by 3.1% to RUB11.7 trln due to FX revaluation and seasonal outflow from banking cards balances during the New Year holidays.

Core Tier 1 and Tier 1 **capital** (equal since Sberbank does not have instruments of additional capital) increased by RUB49 bn to reach RUB2,691 bn as of February 1, 2018 under preliminary calculations. Total capital increased by RUB26 bn to RUB3,721 bn.

Risk-weighted assets decreased by almost RUB1 trln to RUB23.7 trln.

In addition to net profit the capital adequacy ratios in January were impacted by the following factors:

- Full transition to Basel III in calculating exclusions from capital related to investments in the subsidiaries (+0.1pp to Total capital ratio);
- Introduction of IRB-approach in accordance with the CBR approval. Increase in Total capital ratio from the initial implementation of internal ratings reached 0.5pp;
- Decrease in the portion of the subordinated loan from the CBR that is recognized in capital (-RUB100 bn or -0.3pp of Total capital ratio).

Capital adequacy ratios as of February 1, 2018 under preliminary calculations were:

- N1.1 - 11.4% (minimum adequacy level, required by the Central Bank of Russia at 4.5%)
- N1.2 - 11.4% (minimum adequacy level, required by the Central Bank of Russia at 6.0%)
- N1.0 - 15.7% (minimum adequacy level, required by the Central Bank of Russia at 8.0%).

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