

**MDM Bank**  
**Friday December 12th, 2008**  
**13:00 Hrs UK time**  
*Chaired by Vadim Sorokin*

**Vadim Sorokin**

Thank you. Good afternoon, everyone. So today we'll have a conference call with our nine months' results. I will start with the financial highlights. Net profit of MDM Bank for nine months reached RUR 2.5 billion. The difference with the respective number for nine months in 2007 is 35% down. The main difference, actually – or the main reason why this difference happened – is due to the increase of loan loss provision. The overall strategy for MDM Bank is to secure the interests of our creditors and our clients; therefore we have increased substantially the coverage ratio from 131% as of June 30th 2008 to 145% as of September 30th 2008. With respect to the revenue, the increase for nine months year ended is about 12%, and the revenue was slightly over RUR 14 billion roubles. Cost/income ratio significantly improved, and that was due to our overall strategy to optimise costs, which has performed significant exercise in respect of cost optimisation, and I will touch on that later during the presentation. In terms of the balance sheet, the total has increased by almost 4%, equalling RUR 333 billion, in comparison with the year end 2007, when it was RUR 321 billion. The main driver for the difference was growth of loan portfolio, 23%. In terms of the loan portfolio, in the third quarter of 2008, MBM Bank significantly adjusted our provisioning policy, and also adjusted underwriting policy, we have tightened a lot our criteria with respect to new lending in line with our overall strategy. We continue to lend to SME business. We have not stopped completely our corporate lending, though as I mentioned, we tightened significantly our loan policy. Therefore we believe that the risk for new loans will be significantly less. With respect to the balance sheet also, we continue to maintain excess liquidity: as of this figure at year's end, the amount was about USD 1.7 billion. The deposit base was stable during third quarter of 2008. Equity growth was 5.7%, and totalled to RUR 41 billion. We significantly decreased our exposure in the loan portfolio for the real estate and construction sectors. The decline was 25% in comparison with the year end 2007, and almost 18% in the third quarter of 2008. Also our proprietary retraining portfolio declined substantially as of the period end. The amount equals to RUR 300 million. Next slide, please.

Overall income was stable, basically from quarter to quarter. Operating expenses significantly decreased, as I mentioned already. In terms of the profit: it decreased also, and this is due to the increase of our loan loss provision. Our cost/income ratio also became much better in comparison with prior periods, and return on equity was substantially not very different from the prior period. Next slide, please.

Revenue structure by business lines. There are no significant differences in terms of composition between our three main business lines: corporate investment banking, retail banking, central treasury. Corporate and investment banking is the main driver of the bank. For the nine-month period ended the revenue for corporate and investment banking was about RUR 10 billion, for retail banking RUR 3.7 billion, and central treasury had a small loss. This was due to our overall liquidity management. Therefore, in comparison with the prior respective period, there are no significant changes. Next slide, please.

More details on business segments: on corporate and investment banking, this business segment includes corporate banking, investment banking, financial markets, private banking, asset management and lending. One recent change which just happened in our bank, that the private banking business segment will be separated from corporate and investment banking; therefore, I think for the next period going forward it will be a separate business segment, subject of course to its size, but that's our plan. Corporate and investment banking business segment accounts for 72% of the total bank revenue. It has approximately 11,000 clients, and customer deposits in this business segment totalled to RUR 95 billion. There was significant growth with respect to assets, above 20%. In terms of liabilities it was also positive: the growth was 7%. There was a lending peak in September. Starting from September our overall strategy is to be not that active in terms of corporate lending. As I mentioned already we tightened significantly our lending policy, therefore starting from September our loan portfolio declined. Also right now we maintain leading positions in financial markets, foreign exchange money markets and trading in bullion. In terms of the growth of revenue and profit before tax, the growth was 12 and 25%, respectively. Next slide, please.

Retail banking, our second largest business segment. In the second quarter 2008 retail and the network business units were combined to increase efficiency. In terms of business development and client service, revenue combined for the nine month period ended equalled to RUR 3.7 billion. The increase is 23%. There was significant expansion in terms of ATM network. During this period, over 500 ATMs have been installed in Moscow and regions. We pay significant attention right now, and this is part of our overall strategy, with respect to retail and small to medium enterprise deposits. The growth for this business part was almost three billion roubles during this period. Our loan portfolio on SME lending increased from eight billion to 14 billion, and we expect that this growth will continue, and the share of non-performing remained unchanged during third quarter. Revenues and profit before tax grew during the third quarter, during the nine-month period on 23 and 29% respectively. Next slide, please.

Next the liability structure: in terms of assets there is a quite substantial change on the corporate loans, and cash lending from banks. That was due to our strategy in the first part of 2008, when the loan portfolio was growing. In terms of liabilities, all main components of liability side were basically stable during this period. Next slide, please.

During the third quarter we experienced quite substantial raise in terms of net interest margin. The change was 1% from 5.1% to 6.1%, and in all a substantial growth in our net interest income from RUR 4 billion to almost RUR 4.8 billion. Composition of loan

portfolio, the main part is represented by the corporate loans. It is RUR 158 billion. Second goes consumer loans, 41 billion, and small business loans, 14 billion. Next slide, please.

As I mentioned already, our overall strategy to the very conservative former loan loss provisioning, as you can see from this slide, it was quite substantial growth in the coverage ratio from 131% to 145%, and we plan to continue to keep the coverage ratio between 145 and 150%. Top 20 depositors and borrowers did not change significantly. There is a significant things, there is an *insignificant* – excuse me – growth in top 20 depositors, and this is due to our borrowing from the Ministry of Finance. Next slide, please.

Cost of risk didn't change in terms of the small business. There is a change in terms of the corporates from 0.4% to 2.2%. During the nine months there is a decrease in consumer lending cost of risk from 3.6% to 1.7 %, and there is overall growth of cost of risk from 1.1% to 2.2%. Our non-performing loans composition was 5.4% for consumer loans, 3.6% small businesses, 1.6% for corporates, and total was 2.6% in comparison with 2.7% the six-month period ended June 30th 2008. We expect that non-performing loan proportion in the loan portfolio will increase. Our expectation by the end of 2008 that it will be around 3.5%, and we will for that increase or loan loss provision to the level of approximately 5.3% to 5.5%. Next slide, please.

In terms of industry breakdown, there is a significant decrease in the real estate and construction segment of our loan portfolio. Other industries didn't change significantly. Next slide, please.

Overall customer accounts, if we exclude LTB accounts within trade bank, were very stable during this period. In terms of the fourth quarter, we experienced some outflow of our deposits in October, although during November and the first part of December the overall increase of our customer account balances were significantly higher than our October outflow. Therefore if you take the current balance, it would be very stable in comparison with the end of Q3. Our deposit/loan ratio was quite stable. If we exclude LTB it is about 50%, and going forward we expect that this ratio will increase, and we expect by the end of the year to have this ratio at the level of 55%. Next slide, please.

Our total equity increased from RUR 38.9 billion to RUR 41.1 billion during the nine months. Total capital to equity ratio at the end of the nine-month period equalled to 16.4%, and A1 capital ratio equalled to 14.3%. As you can see, there is no significant change from the year end '07 to the September 30th 2008. Next slide, please. Next slide, please.

OP Excuse me, sir, would you like slide 14 or 15?

Oh, 14.

OP Thank you.

Liquidity is one of our strategic objectives. We have achieved the level of USD 1.5 to 1.7 billion, and this is our strategy, to maintain this excess of liquidity going forward. We do not have significant international borrowings outflow during the remaining period of 2008. The only amount we have to repay is a quarter of a billion, which is due today, which we have repaid already. If we go forward, we have to repay about USD 800 million during 2009, and this is included in our liquidity budget for 2009, so we don't expect any significant problems in terms of liquidity for the next 12 to 15 months. Next slide, please.

The rate of party balances were very stable from the year end. Total assets with the various parties basically dropped to zero, and on customer accounts we had 1.5% from our total liabilities, and in comparison with 1.6% at the year end. Next slide, please.

Two months ago during the Board of Directors meeting there was a decision made to revise our overall strategy, given that times now are significantly different from those when the previous strategy was designed, and five new main objectives were established, were approved by the Board for the Bank. The first one is the deposit base growth. We expect to increase significantly our customer base in terms of customer accounts balances. Our plan is to expand by 50% to USD 6 billion, excluding our LTB, and we have already achieved substantial progress in this respect. Our customer accounts have increased by almost 17% since January 1. Also we have a target to significantly increase our loan/deposit ratio. As I mentioned, at the year end we plan to have about 55%. By the end of the next year our target is 85%. Our second strategic objective is to maintain excess of liquidity, not less than USD 1.6 billion. Right now our liquidity is between USD 1.5 and 1.7 billion, so we have achieved this goal, and will maintain this for at least the next 12, 15 months. In terms of profitability, our goal is to have a return which is not less than 10%. That would assume to have net profit from USD 190 million. Our current budget for the next year stands around that figure. That would assume also a significant decrease in our expense side. With respect to expenses we have undertaken substantial projects to decrease our expenses, which were broken into two parts. The first part consists of looking for optimisation of different business processes, and was not due to any degree of optimisation of staff costs. The second part was due to the overall crisis situation, and that would touch our staff expenses. Although the overall idea not to decrease staff but rather optimise it, we have all the opportunities in different business lines. Therefore that's our overall objective. But nevertheless we plan to decrease our cost year to year from 2008 to 2009 for about 32%. Our strategic objective to continue the momentum of our SME business, our plan is for next year to expand it for about 65 to 70%, and also we're aiming to maintain our capital to equity ratio at a level not lower than 12%. Right now it is almost 13%. Next slide, please.

We have substantially tightened our lending policy. Although we expect that we will be relatively active in this area, we plan to work with a selected number of blue chip companies in 2009. Also we will maintain excess of liquidity that will be adequate to cover any repayments which will be due during 2009, and also will be adequate to cover any market volatility. We do not have significant plans in terms of network expansion,

and it will significantly depend on our merger integration plan with URSA Bank. We do not assume during 2009 that we will have any international funding, therefore it's not budgeted. By the year end 2008 we expect that our net profit will be at around 3 billion ~~US dollars~~ Russian roubles, and that assumes – excuse me, Russian roubles – and that would assume a significant increase in the loan loss provision. Also we plan to have the coverage ratio at about 150%. For the 2009 budget our overall plan assumes that there will be, the bottom of the crisis will not be achieved before the year end 2009. Next slide, please. I think we need to go to slide 19, please.

There was a dedicated conference call on that matter in terms of the merger between MDM Bank and URSA Bank. Therefore I think I will go quickly through the executive summary, and then we'll be open to questions. Our shareholders have been in the discussion in terms of this merger for the last several months. The final conclusion was achieved about a month ago. On December 3rd there was an announcement about this transaction. That transaction will create a leading universal private bank. It will be bank number one, and number one private bank in terms of their total equity, and it will be a top two private bank in terms of total assets. Our two banks have substantial synergies with respect to different business plans and geographical coverage. MDM Bank is very strong in terms of its corporate business. URSA Bank is very strong in terms of its retail business. In terms of their geographical coverage MDM Bank is represented substantially in the central part of the Russian Federation, and URSA Bank is represented well enough in the Siberian part of the Russian Federation, so you will, you might see on one of the further slides the geographical synergy. It is a friendly merger, so there is no acquisition from one bank of another. There will be a holding company created for two major shareholders, Mr. Kim and Mr. Popov, and in that special holding company they will have equal rights in terms of the management. And the structure of the transaction assumes that there will be a holding company created above the two banks, so during stage one all shareholders of ordinary shares will have their shareholding in the holding company, including the two main shareholders. Subsequently the two banks will merge, and at that stage the holding company will be merged with the new bank. Therefore all shareholders of both ordinary and preferred side will have a direct shareholding in the new bank. Also there is substantial synergy in terms of the revenue and cost base. We have not yet calculated the overall synergies which we aim to have some time earlier next year, so I think when we'll be presenting the next quarter's results to you we'll be able to update on their transaction as well. I think I will not go through all the other slides. I mentioned there were, there was a dedicated presentation on that side, therefore I am open for your questions, gentlemen.

### *Questions and Answers*

*Viacheslav Shilin, UBS, London.*

*Good afternoon, two questions: the first is, have you been buying your Eurobonds back? And if yes, how much have you bought so far, and what's the overall plan for buying them back? And the second question... Well actually, could you extend it to the local desk as well? And the second question is, regarding your target for the capital adequacy for*

*the next 12 to 15 months, how do you see your assets performing? Do you see them growing? Do you see them remaining flat? What's the target in terms of there? Thank you.*

In terms of the buyout of our bonds, we do not have a strategy to buy out a substantial part of our bonds. Of course, if the market conditions in terms of the economy is very good, we do it from time to time, but the overall amount is not that significant, and we do not have, as I mentioned, strategic plans to buy out our bonds. In terms of their performance for the next year, we have a plan to maintain the same level of our capital adequacy. In terms of the assets quality we budget to have our loan loss provision at the year end 2009 at about 10% to our loan portfolio, with the same coverage ratio of about 140, 150%.

*Actually probably I misled you. The question was not about the asset quality but overall growth of assets. How do you see them growing in 2009? Whether growing at all? What's the target for capital assts growth?*

We don't expect significant growth of our total assets for next year. We plan to have our total assts at about RUR 325 million at the end of this year, and our budget for next year stands at the level of RUR 350 billion for the next year. So the growth's about 10%.

*And the third question, if I may, is what the, how flexible the bank is in terms of meeting the redemptions of the deposits. If the outflow should accelerate going forward, what's your plan B in terms of meeting those redemptions?*

We have a liquidity of about USD 1.7 billion. If you take our retail deposits, the balance, the overall balance is significantly smaller than this number. We have experienced in terms of just benchmarking of recent history outflow of our retail deposits during October at the level of about 6% from their overall level, which was not a problem at all for our bank in terms of our liquidity. And also, as I mentioned, during November and December we recovered that outflow completely. In terms of any peaks during certain events which might happen in the future, we believe that we're well-prepared for that. And also in addition to this USD 1.7 billion existing liquidity, we have unused limits with the Central Bank and the Vneshkonombank Bank, which we can use if it will be needed.

*And can you disclose the size of those limits?*

In terms of Vneshkonombank it's 100% of the overall limit, which equals to 15% on the Vneshkonombank, and the same amount from our shareholders from the total capital. In terms of the Central Bank the current unused limit is about RUR 20 billion.

*Thank you so much. It's a follow-up question, if I may, please. Could you just disclose how your securities portfolio stands right now? What's the competition in equities, in fixed income? What do you expect to do with the securities portfolio going forward? And what mark to market losses we should expect in the fourth quarter this year?*

Our securities portfolio is represented primarily by debt securities. On the equities side we have a very small number. It's about USD 10 million. The remainder belongs to debt securities. We do not have any plan in terms of the immediate disposition of this portfolio, so our overall strategy is to hold them either to maturity or to any other redemption rights. In terms of the mark to markets we expect some decline in value, in line with the overall market sense, but at the same time I think we have seen already a significant decline in this portfolio. We don't expect any further significant decline.

*Thank you.*

### **Closing Comments**

All right, so thank you very much, ladies and gentlemen. It was a pleasure your participation, and if you would have any further questions, all our services will welcome to respond to those. Goodbye.