MDM Bank Conference
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14:00 Hrs UK time
Chaired by John McNaughton

John McNaughton

Okay, thank you. Hello and welcome, everybody. Thank you for joining us on the call today. I have the honour to speak about the year-end financial results of MDM Bank for the year 2009. My name is John McNaughton, Co-Chairman of the Investment Banking team here at MDM Bank. After my introductory comments, Vladislav Khokhlov, the MDM CFO, will present the year-end results.

Afterwards we'll open the lines for questions. Please feel free to ask questions, either through your telephone, or if you're online, you can ask questions online.

Start off by saying that the general mood of the Bank is one of guarded recovery and of forging ahead with the new strategy and sense of optimism. As the financial year of 2009 was a generally poor year, highlighted by financial and economic crisis, both here in Russia and abroad, the Russian economy contracted last year by approximately 8%, and this obviously had a significant performance on the Bank, and the whole banking sector of the country. Interest rates were extremely volatile for the duration of last year, but we saw the worst of the crisis subside in the second half of 2009. Rates subdued, markets opened, and borrowers were able to increase their cash flows.

On the back of this difficult year, MDM Bank was able to remain a profitable bank and maintain its leadership role throughout the Russian banking industry.

Today's call is focused on both the year-end results of MDM Bank for the whole of 2009, as well as the more specific set of data relating to the fourth quarter of 2009. Please note that due to the merger with URSA Bank, year-on-year data becomes more difficult to accurately compare, and that is why in this presentation we are also using quarterly comparisons.

Our year-end financial statements are available on our website for downloading, and these statements do contain annual comparisons as per IFRS standards.

Next slide, please. Next slide?

We don't see it on the screen, so I'll go if you have the presentation slide number three. I want to talk to you about recent developments and key highlights.

A lot of the trends that we have seen at our Bank have been seen in other banks throughout Russia. Thank you; even the next slide, which as it says, recent developments and key highlights. Anyway, most of the privately-owned Russian banks have seen a decline in lending throughout 2009, as well as a decline in overall assets. This decline has come with an increase in non-performing assets, and a growth in provisioning. On the positive side, banks have been able to increase their liquidity positions, as well as their capital ratios despite, or maybe because of, the crisis. Retail deposits have been coming in substantial numbers.

During the last quarter of 2009, we saw our assets grow by about 7.2%, and overall, equity last quarter grew by 6.6%, mostly due to retained earnings. If you look at the full year comparison, asset growth was 22.4% and equity grew by 49.9% as per IFRS. However, this annual growth was primarily due to the merger with URSA Bank. I'd like to remind you that MDM Bank has reported its consolidated financials, that is post merger financials, ever since the second quarter of 2009.

If you go on further, if you look at the retail deposit side which I mentioned has been quite positive, there's always been a core focus on the funding side, last year, that grew by 36%, which is more than the industry average. As I mentioned before, profitability has returned to the Bank since the second quarter when we created a large pool of reserves to guard against credit losses. Profits for last quarter RUB3,847 million. For the full year, however, due to large provisions created in the first half of the year, the full year profit was down to RUB358 million.

MDM Bank is now one of the best capitalised banks in Russia. We have maintained a conservative capital adequacy policy which was in place before the crisis and is still in place now. Total capital adequacy is at 21.2%, and it's forecast to remain at high levels for the foreseeable future. The bulk of the capital of MDM Bank is Tier 1 equity and is made up shareholder capital, the distribution of which we'll talk about later on. Please note that MDM Bank did not take any capital from the Russian Government, although we were eligible for that programme.

The trend that we have seen since the middle of last year is that the drop in credit quality has steadied. Although NPLs make up a large proportion of our loan portfolio, the absolute growth in NPLs has slowed. We define NPLs as 90 day loans that overdue or more, including full principle loan amount into the calculation. NPLs did creep up in the fourth quarter by about 7%. This was a result mostly of some of our previously restructured loans going into the default. However, we do believe that we will turn the corner in the NPL situation during the course of 2010.

The high level of capitalisation has given us a high loss absorption capacity. If you look at our capital adequacy levels, we have the ability to absorb loan loss reserves going up to 28.3% of NPLs versus gross loans. This level would still have a 12% capital adequacy, and not force us to increase new capital. However, these levels are definitely not predicted.

The merger of MDM and URSA Bank, which was the largest bank merger in Russian history, has been completed. We do still have some remaining tasks finalising the IT platform unification; implementing the new brand, which you can see in the presentation. Both are underway as scheduled.

Also highlighting our cost efficiency, cost to income ratio remained at a low 36.8% during the year, despite the fact that we've had to have merger-related payments.

In terms of the ratings, March of... last month Fitch May ratings put MDM Bank on Rating Watch Positive; another, fact to mention is that Moody's did issue a report yesterday in which it mentioned that they see Russian banking sector is going to be put on stable outlook in the second half most likely.

Next slide.

The slide turner is coming about. Unfortunately, that's controlled centrally, so I'll just go on to the next slide, which is slide four; MDM Bank at a glance. If you look at MDM Bank and where we are now, MDM Bank is the second largest privately-owned Russian bank by equity. MDM Bank is a universal bank offering a complete suite of banking services, offering retail and corporate investment banking, small and medium business banking, private banking and asset management.

In terms of retail loans and deposits, we're seventh largest in Russia, and eighth in deposits. In terms of corporate loans and deposits, we're ranked tenth and eleventh. We have a nationwide coverage; over 330 branches present in 162 cities, although we are headquartered in Novosibirsk, Yekaterinburg and Moscow are major operational centres.

IFRS financials, you can download the full disclosure, full set of financials on the site. Just as brief background, we ended the year with RUB402 billion in total assets, RUB61 billion in equity, loan portfolio RUB236 billion, deposits up to RUB194 billion; as I mentioned, comprehensive income at RUB358 million. Tier 1 capital adequacy was at a high, 18.9%.

I mentioned before that Fitch has recently put us on positive outlook. Moody's is also... as you can see, we're Ba2 with negative outlook. We think that in second half, Moody's will move to a stable outlook environment, and Standard & Poor's has taken recent action with some of our peers putting them on positive outlook, and this is something we might be seeing.

As you can see, the awards we've put on this slide. MDM Bank was awarded Bank of the Year by Banker Magazine last year. Bank of the Year in Russia is quite a prestigious award, as there are around 1,000 banks in Russia, being number one is quite an honour.

But that's not the only award. We received awards, as you can see, from Global Finance Magazine, Best Bank in Central & Eastern Europe. Finance Magazine awarded our merger with URSA Bank as the best FI merger. And Business New Europe and other magazines have awarded our syndicated loan which we did last year as the best syndicated loan.

Our next slide, please.

Well, the next slide is basically a graph of MDM Bank and its peers on the retail side. As I mentioned before, MDM Bank is the seventh largest in retail loans and eighth in retail deposits. We expect to keep these... to be in the top ten going forward. Retail banking obviously is a key tiller of our banking business. We are the sixth largest in terms of branch network. This ranking is at the middle of last year, which was when we had the last available data for all of our comparisons. Branch network obviously is a key feature of our retail and SME platform. Branch networks we expect to grow in the future.

Next slide, please.

Next slide shows the ranking of MDM Bank with its peer group in the corporate sector. Although MDM Bank does have the tenth spot in corporate loans and eleventh in corporate deposits, we do have a much higher spot, fifth largest bank in SME loans. MDM Bank is focused on lending to customers in our core markets, in our core regions, and this is one of the indicators lending to small and medium businesses, which is one of our key business activities.

Next slide, please.

This next slide shows you where our shareholder structure distribution is, and shows you the numbers of our board of directors. We want to highlight this slide as it goes to one of our core strategies, which is being a key... having a key foundation in corporate governance, and being the most transparent bank in Russia.

Our shareholder structure has not changed much since the merger. Sigler Guff, which you can see has 4.5%, did increase their stake since the end of last year, which was 3.3%, purchasing out other minority shareholders. However, this has been the only shift in shares since the middle of last year. Sergei Popov and Igor Kim together control roughly two thirds of the Bank, and they've set the clear direction and focused strategy, but of course, the development banks, EBRD, IFC and DEG do have core shareholding stakes, and their strategic involvement is quite strong.

There are other shareholders participate in the Bank to one degree or another, having the Bank at strong corporate governance standards. You can see by the board of directors, of the seven board members, four of them are independent members of the board, and they're involved in setting strategy and other board functions.

This is the end of the initial part of the call. I'd like to move into the financial performance, so can you skip this slide and go to slide number nine, please?

Maybe why don't we start...? Vladislav Khokhlov, CFO of MDM Bank.

Vladislav Khokhlov

Thank you, John. Please, slide number nine, please.

First of all, I'd like to start off with a few comments on key highlights of the balance sheet and income statement focusing on the last quarter of 2009.

Number nine slide, please. Thank you.

There are a couple of notable trends on the balance sheet. One is the quarterly growth of assets and equity by 8% and 6% respectively, while net loans went down by 6%. The balance sheet grew thanks to two debt replacements; a syndicate loan of $250 million, and local bonds of RUB5 billion, as well as deposit growth, especially on the retail side, which was up by 18% quarter-on-quarter, or close to 66% on pro forma basis over the course of 2009.

The contraction of loan book is attributable to two factors; first of all, the conservative lending policy, and the recovery of NPLs through repossession of collateral resulting in the rights of assets held for sale. The deposit growth and loan book contraction together led to an improvement of loan to deposit ratio from almost 148% to 122% in the space of the first quarter.

Next slide, please.

Moving on to the income statement highlights. As mentioned earlier, the Bank posted a positive comprehensive income of RUB358 million in 2009, marking a return to profitability after heavy losses due to provisioning charges over the earlier 2009. Most notable is the comprehensive income of the first quarter of nearly RUB4 billion. There were several drivers for this, of which I'd like to point out the recovery of provisions in the first quarter is almost amount of RUB800 million, along with trading income of around RUB1 billion and RUB2 billion. This was, of course, helped by stable core income and an increased fee income too.

Next slide, please.

On asset quality side, I'd like to draw your attention to a couple of key themes. One is the stabilisation of NPLs which effectively stayed flat in second half of the year, while growing only slightly in percentage terms, thanks to the loan book contraction.

Given the credit provisional... provisions for the end of the year, this has led to a dramatic reduction in provisioning charges, which in fact turned to recoveries in the last quarter.

The associated sharp decline in the cost of risk is another notable trend that I'd like to highlight.

Jumping a bit ahead, I'd expect that the cost of risk will remain at a lower level of around 2% in 2010.

Another notable thing is high absorption capacity maintained by the Bank. With the level of equity at the end of 2009, the Bank can absorb over 28% of gross loans in provisioning losses, while still keeping its capital adequacy above 12%.

Next slide, please.

Let's now get some colour on what are key drivers of Bank profitability. Stable net interest income given a contracting loan book shows that the net interest margin is improving, which is what we see on this slide. The margin went up from 6.4% on a quarterly basis in second quarter to 7% in the fourth quarter. The Bank traditionally remains cost efficient, with the cost income ratio kept at 36.8%, well under 40%, making us one of the most efficient banks among peers.

Obviously, this story would not be complete without mentioning one-offs that made substantial contribution to the bottom line in the second half of the year, namely sharply lower provisioning charge and gains on trading activities of MDM Bank.

Next slide, please.

While liquidity is no longer a concern, it is still important to show the comfortable repayment schedule, which is more than amply covered by the Bank's high liquidity cushion, standing at over a quarter of its branches.

Moreover, recent non deal roadshows revealed high investor appetite for MDM Bank debt. However, with the amount of liquidity that the Bank already has, we choose not to tap into foreign capital markets so far.

Next slide, please. Slide number 14, please. It's the slide liquid and well capitalised, please. Thank you.

The Bank's focus on capital preservation in 2009 resulted in a highly liquid and well capitalised balance sheet, making MDM Bank well prepared for a variety of macroeconomic scenarios. If the current visible recovery gains traction and becomes sustainable, the Bank is well positioned to take full advantage of growth opportunities, both organic and acquisitive. That's actually covered in my presentation. However, if the credit crunch turns out to be more prolonged, the Bank is then prepared to absorb additional credit losses that such economic distress may cause.

Next slide, please.

This is a fairly self-speaking slide. It's telling just a few benefits of the post merger diversification, both on the funding and the asset side. The merged Bank has a dramatically lower and decreasing reliance on largest depositors. The funding structure has also become more diversified compared to what the two Banks had just a year ago, especially in terms of capital market funding which went down, and retail deposits which went up.

The same can be said for the loan portfolio, which also became better diversified across different sectors.

Next slide, please.

A short update on the status of integration, which for all participants' purpose is completed. We have just launched our new brand, which you may have already seen on your presentation. New brand introduction, along with the gradual unification of IT platform are the two remaining tasks. Both are on track to be completed by the end of this year.

Next slide, please. Next slide is slide number 17.

Okay, overall, our view on 2010 numbers is rather conservative than bullish. We expect that the recovery if continued would be gradual at best, translating into moderate or flat market growth. This year, we would be preferring efficiency over growth, focusing on such performance metrics such as deposits per branch, business volume per employee, profit per employee, and cost to income ratio.

The same side, retail deposits will remain a strategic focus for us, with the expected growth of over 40% in our home regions.

Lending growth will be at modest 12%, thanks to continued conservative lending sense, which together with deposit growth is expected to drive loans to deposit ratio under 100%.

The cost of risk is expected to go under 2%, thanks to certain underwriting criteria, and better knowledge of borrowers, focusing on their cash flow in particular.

Comprehensive income is expected to range from RUB5 billion to RUB7 billion, with the result return on equity of up to 10%.

Thank you very much.

John McNaughton

All right, well, that's the prepared presentation. We're happy to answer any questions that you may have, please, either through the phone or through the online session.

Questions and Answers

Alexei Krivoshapko - Prosperity Capital

Yes, hello, gentlemen. This is Alexei Krivoshapko from Prosperity. Thank you very much for the guidance over deposits and lending for the next year. I wonder what is your current understanding of the evolution of net interest margin for 2010. And you also did mention the efficiency metrics, etc., but at the same time, what are your expectations for standalone wage increase for the branches at least.

Thank you.

John McNaughton

Yes, let me just answer the first question about the net interest margin. What we see in the first quarter is that net interest margin was approximately 6.3%. As you can see, over the last year, this was similar, actually a little bit better, than last year's first quarter figure, but of course last year had I guess the violent interest rate spike.

Going forward in the second, third and fourth quarter, we see that this net interest margin should remain fairly flat throughout this year. Does that...?

Alexei Krivoshapko - Prosperity Capital

That answers the question, thank you.

What was the second question, sorry?

And the second question was with respect to the staff costs. What are your expectations with respect to the standalone wage increase, like-for-like wage increase for new phase?

Now we're looking at staff costs, at the moment, fairly stable. We expect that by the end of the year, if you look at year-to-year, you can see it from our presentation that staff expenses are creeping up. From year 2010 beginning to end, you could estimate that they would be up by about 15%.

So if we take full year 2009, you're saying that full year 2010 would be 15% more than that in ruble terms?

Yes, if you look at 31st December 2009 and 2010, that would be 15% increase.

With respect to... I was also... John, sorry for jumping to one more question. I was also under the impression that you have planned to optimise staff a little bit, so that this 15% cost increase, how did it break down between wage increase and personal change? Is it true that you are raising wages by 15%, or you also plan to add more staff in the branches?

Yes, you have two things going on at the same time. One is optimising staff costs on the operational side since we are finishing up with the integration of the operational procedures. But then on the other side, you have an increase in the... how would you say, business side? In other words, for office personnel and things of that nature since the business is expected to expand.

So you obviously have a natural wage inflation that seems to be coming back as overall inflation is expected to be in the range of 5% to 8%, but the additional cost would be the increase of business-related staff.

So in other words, kind of...

(Overtalking) operationally related staff.

So in those, 5% to 8% like-for-like wage increase, and the rest is basically volume? That is what you are saying?

Yes, maybe you could factor in that half of that, so 8% is wage inflation, and then the other half is the difference between the increase in business personnel and the decrease in operational personnel.

Understood. And if we are... this one finally. The operating costs which also have been kind of creeping a little bit over the quarters, how would you envisage them to evolve for the full year 2010?

We expect these costs to grow by about 30% because we're obviously investing more money in.... into the fixed cost sector, so we're actually going to be investing more into operational platforms, IT platforms and things of that nature.

Understood. And just to confirm; you did say that you expect deposits to grow by 40% in 2010 in the home regions, or was I overly excited about the figure?

That's correct.

Okay, fair enough. Thank you very much. You're very kind.

You're welcome.

Anastasia Shelepeva

Hello. In your statement, it is written that the Group in February 2010 partly repaid the loan from the EBRD. And I would like to know what was the part that you repaid.

And my second question is about your company F&M Motors which was incorporated in Cyprus. What is this company?

Yes, I can see you're referring to our point number 35. Basically, the loan with the EBRD is a syndicated loan, which is an AB loan, meaning that the EBRD provides money under an A tranche, and a group of ours, a syndicated group of ours, provide money under B tranche, and this B tranche became due in February 2010, and we paid according to the standard maturity of the loan; I guess, nothing that wasn't predicted. Yes, you might see that in our presentation on chart... slide 13. That was part of our repayment schedule.

Okay.

About F&M Motors Limited, this was a company we incorporated in Cyprus that's handling some... our NPLs in the realm of auto dealers, so we had some auto dealers last year that went into... had some difficulties repaying their loans. In part of the restructuring of these debts, we restructured and shifted some of these to this group that we created, F&M Motors Limited. Obviously, they would... they are... they would be consolidated in forthcoming financial statements. However, again, this is a subsequent event, so it's not reported in this one. But you should see something in the first quarter.

If you look in page... I hope that answers your question, or did you have something more specific in mind?

And what is the level of NPLs in this F&M Motors Limited?

Right now, it 's zero.

Ah, you are...

It's just a company that we registered and when we start actually bringing in assets to this company, then they will start to grow. We don't know exactly how much that will be, but it's an ongoing process, because as you know, it takes quite a long time to resolve some of these problem loan issues.

Okay, I see. Thank you.

Bob Kommers, UBS

Hi. Yes, I have a few questions. First of all is, yes, just trying to get an idea of how you are trying to grow your retail deposits by 40%. Are there any marketing campaigns, or is it rates? What is your rate policy for deposits? Are you keeping a certain margin over retail deposits? How have you managed to attract, or do you think you can attract 40% new retail deposits?

Thanks for your questions. Well, obviously, our Bank for many... for a few decades has been attracting deposits, so we have experience in this business. The reason why we're noting this 40% growth – and don't forget we put this in our home market – this isn't that we're being... going to be able to increase in markets where we're not present, or where we have little presence. The reason why we think that we'll be able to grow this first is on the trends that we've seen already this year, the economic situation where we find ourselves where we believe that retail deposits will be growing system-wide, and the concentration in the regions. In other words, our home markets are the areas where we plan to extend this year, which means that we'll be increasing our presence, we'll be increasing our product lines in these areas. And once you become a major player in a certain area, the growth feeds on itself, so it's much easier I guess for a major player in a region to increase deposits on a higher level than the competition that might only have one or two offices and not such a well known brand in that area.

So concentration in these home areas is one of the keys we think that will lead to the deposit growth.

In terms of keeping up with the margins and how we attract deposits and the rates and those things, we are a large bank, a bank that has a good brand out in the regions as well as the major cities in Russia. Although we do offer deposit rates that are higher than Sberbank, we keep our rates lower than most of the other competition in the areas. So this allows us to keep a relatively high margin. In other words, rates are among the lowest on the deposit side, but we're competing with, as I mentioned, these other banks that don't necessarily have large concentrations in the areas that we're operating in.

If you look over the last year, despite the crisis, and if you look at the previous years, we've always been able to keep a margin in this range of 6% to 7% area, despite having competitive trends that we'll be seeing this year as well.

To come back to the rates, what is currently your highest rouble retail deposit rate, and what has been the decline in that rate since the end of 2009?

Our highest normal deposit rate on rubles, this would be I guess a one year deposit for a relatively large amount. I think it's over RUB500,000 to RUB1 million. RUB1 million is 10%. The effective rate would be up to 11%; nominal rate would be 10%.

Yes.

So the second part?

What is... what was that same rate? What was that at the end of 2009? Or in other words, what has been the decline in the rate year-to-date?

Vladislav Khokhlov

The decline to our rates, today with four times in this year, and I think that the total decline then was roughly 5%. It means that the same rate five months before was 16%; 15%/16%.

Okay, all right. And on the lending side, a lot of banks are... yes, noting a lot of pressure on lending rates, particularly coming from companies to get refinance on capital markets or with other banks, and it has a knock-on effect on smaller loans as well, I reckon. So I just wondered, what do you see in terms of... what percentage of your client base you think has access to capital markets? And where you see a much higher level of repayments and starts of new loans than you saw, say, two or three quarters ago. I mean, is there a very high churn in your loan portfolio?

John McNaughton

Yes, if you look at... obviously, one third of our clients, they're retail clients. Obviously, they don't have access to capital markets. If you look at the two thirds of our customers which are corporate and SME, these are what we consider second tier clients that don't have access to capital markets. And one of the goals working with clients is obviously to work with them, give them financial knowledge and consulting in order to bring them eventually to capital markets. But our core clientele, and if you look at our clients right now, these are ones that don't have access to capital markets.

But of course, as I mentioned, we have a strong investment bank at MDM, and this is one of the goals is to bring our larger customers to markets, and we've been successful in that in the past. But again, you do see, and we have heard of obviously compressing spreads on the corporate lending side, but it hasn't come to our sector of the market yet.

Okay. And one final question is on credit quality. I just wondered whether you could shed some light on the... first of all on the concentration, level of concentration in NPLs, whether it is all concentrated in certain sectors or not; whether there were any specific reasons for the net write-back in the fourth quarter of last year, and in general what you expect to be the recovery rate on NPLs.

On the concentration of NPLs, it's a very difficult question. Obviously, each category has their own concentration, and if you... we actually have a very full disclosure, I think it's 17 pages in our IFRS statements where you can see it. It's sectorised.

Obviously, credit card loans have higher NPLs than mortgage loans which are secured. If you look on the corporate side, real estate, construction and manufacturing did worse than retail trade, for example. But we don't actually have a sectoral breakdown by NPLs, because it's actually quite a difficult task, but the trend is clear.

And the other to note on the NPLs is it really depends on the borrower and their position, so if it's a construction company that's building apartment buildings in, say, an oil town, they're doing very well, but if it's a construction company building an office space in, I don't know, in an uninhabited, or slightly inhabited area, they're going to be doing very poorly. So really, sectoral NPL isn't a key factor that we look at. It's more of a borrower-by-borrower task.

In terms of the recovery, what we're estimating is that we would see an 80% level of recovery in the next three years. Of the 80% loans that we expected to be recovered, we expect to see recovery this year 15%; 25% in 2011, and the remaining 40% in 2012.

This is because it takes a long... there are two reasons. One is it does take a long time to actually structure loans in restructuring stage. The other reason is that it does take time. We would like to make sure that a lot of these loans, the clients are able to have stronger cash flows before we take them out for sale.

And is the recovery, is that coming from just, I mean, borrowers starting to pay again because their financial position is better, or how much of this recovery is coming from actually asset sales?

Well, this is actually... obviously, this is coming from both. If you look at our NPL level, which is roughly 18%, you'll see that obviously of that figure, a lot of the recoveries will come from that through asset sales, because with NPLs, it's likely they will be... will have to take their assets as collateral and then sell them off over the next two years. But if you're looking at, say... on the other side of the loan book, then these would just be coming back from... in other words, restructured loans or loans that haven't got into 90 day overdue for the full principle. These would be because of increased cash flow for businesses.

Okay, thank you very much.

You're welcome.

Olga Vasilova

Thank you. Just a follow-up question to the question what Bob Kommers asked. Could you please give us your range of interest rates on corporate loans as well, and by how much the rates came off from their peaks last year? And how you see competition with state banks evolving in regions; if you could speak a little bit about it.

Thank you.

Could you please repeat your first question?

Yes, I'm asking about your range of interest rates on corporate loans and by how much they declined from peaks.

Yes, obviously, corporate, we're talking corporates and not... let's not talk about SMEs now because that's a different category. But if you're talking about corporate loans, obviously, the beginning of last year, which was the peak, corporate lending was... the average, if you're talking about first quarter of last year was around 24%. This was, you know, an adjustment, as you saw MosPrime and other indicators spike in the last part of last year, so that's... you're talking about that as a peak. Now they're down average corporate rates to 13%, so you can see that it's a fall of 11%.

However, in the first quarter of last year, we weren't making very many new loans. These were mostly rates that were applied to restructured loans. And so it's... I guess maybe it's a little bit unfair to say that this is an actual average interest rate on corporate new loans.

We see current rates at 13%, but of course, it depends on the type of corporate, it depends on the tenure of the loan, and of course what type of collateral and risk metrics that the corporate has.

Okay, thank you. And my second question was...

Your second question, well, of course, you know, state-owned banks are... you know, Sberbank has 20,000 branches. Most of them are in the regions. Agricultural Bank about 1,200, and most of them are in the regions. VTB is not very active in the regions, but VTB24 is. Bank of Moscow is slightly active in the regions if you include them as a state-owned bank.

And then of course you have the sub sovereign state-owned banks like Ahbash and Khanty-Mansiysk Bank, which are owned... which are large banks, but owned by their regional governments. And then you have very... I guess smaller banks that are also owned by regional governments.

Each of these banks has their own strategy, and of course, growth in the regions and growth in their specific regions are part of the strategy. As you know, Sberbank has put out a major platform for rebranding, bringing out their new corporate colours and corporate role, bringing in new products, focusing on pretty much their universal banking model. VTB24 is also going out more in mortgages and trying to advance in credit card and retail lending.

The other regional banks, in other words, the ones that are active in one region or other, actually haven't really started in any growth phase yet, but the federal state-owned banks are definitely not only focused, but starting to grow out in the regions.

But each bank is different and each region is different, and each banking product is different, so it would be interesting to speak about, but it would take a long time to talk about everyone and everything.

Okay. But may I ask it in this way? Would you say that pricing competition on corporate lending is notably increasing for MDM Bank in the regions?

In the regions? It's a good question. Well, the thing is, you know, interest rates... first of all, we always work in a competitive environment, and interest rates are always market based. And so I would say that there's no different competition than there was two/three/four/five/six or seven years ago. It's just pretty much you have the same players and you have the same sort of interest rate dynamics, and nothing I would say has changed in that.

The fact now is that interest rates are coming down. You have that dynamic. Maybe in six or 12 months, interest rates will be going up and then you'll have that dynamic. But nothing I would say has changed.

Okay, thank you.

Bob Kommers, UBS

Yes, I just wanted to ask about the pref dividends. Is that something that you're going to pay for sure?

The pref dividends, the payment of any dividends, whether it be pref or common stock dividends is a decision made by the shareholders. We will have... I think it's on the 4th May... sorry, the 6th May, a board of directors meeting that will make a recommendation on the payment of dividends both for pref and common, and the shareholder meeting will be in the beginning of June, and they will either decide to follow the recommendations of the board or not.

So in other words, the long... the short version is that we don't know, but the decision should be made within the next... or a recommendation should be made within the near future, and a decision should be made within the next one to two months.

Okay, and what are the... what is the charter of the pref shares exactly saying about the payments of dividends? Are there conditions under which there is no obligation to pay dividends? Or is it fully up to the discretion of the board of directors and shareholders, or is it dependent on whether the Bank is profitable or not? What are the parameters.

Yes, we have lots of different types of preference shares, so there are seven classes of preference shares.

All right. Sorry, the listed ones. Sorry, I should have been more clear.

Yes, yes; the listed ones are obviously the majority of preference shares that we have and the rules of a dividend payment are as follows. A dividend of either the minimum of 8.1 cents, or the minimum of what is paid on common shares should be paid on an annual basis on the pref shares. However, if less than 8.1 cents per share, or what is paid out on common shares is less, then these shares become voting, and they have full voting rights. A decision on whether to pay dividends is made by the annual shareholders' meeting, which is recommended, and they will base their vote on a recommendation by the board of directors.

So there's no... we must pay dividends or we won't pay dividends in the charter. However, there is this rule that if we don't pay at least 8.1 cents per share dividends, then they do get full voting rights.

All right. Okay. So then, I mean... okay. That's... Okay, that's very clear. I mean, would it have consequences for the listing or not? It would just be voting shares being listed then?

That's right. It wouldn't have a consequence for the listing.

Okay. Would it make the shares of the... would it make the current... would it give the... sorry, I should be clear. I mean, the current common shareholders, would it give them the option to sell the shares in the market; i.e., would it be in the same pile of shares?

No, no. They don't fudge with common shares. They remain preference shares of the third type...

Okay.

But they receive full voting rights.

Right, understood; understood. Okay, thank you very much.

You're welcome.

Closing Comments

Well, thank you everyone for joining in this call. We're always open to your questions and comments and discussions. Please feel free to contact us if you should like. Otherwise, thank you very much again, and until next time, goodbye.