

Russian Federation  
Credit Update

## MDM Bank and MDM Holding GMBH

### Ratings

#### MDM Bank

##### Foreign Currency

Long-Term BB-  
Short-Term B  
Outlook Stable

Individual Support

C/D  
4

#### National

Long-Term  
Outlook

A+  
Stable

#### MDM Holding GmbH

##### Foreign Currency

Long-Term BB-  
Short-Term B  
Outlook Stable

Individual Support

C/D  
5

#### Sovereign Risk

Foreign Long-Term BBB  
Local Long-Term BBB  
Outlook Stable

### Financial Data

#### MDM Holding GmbH

	30 Jun 2005*	31 Dec 2004*
Total Assets (USDm)	4,426.0	4,475.5
Equity (USDm)	760.3	739.4
Net Income (USDm)	48.4	153.8
ROA (%)	2.20	3.70
ROE (%)	12.91	21.44
ROA (%)**	2.20	2.45
ROE (%)**	12.91	14.18
Net CR/AA***	2.30	2.10
Net CR/AE***	13.64	12.13
Equity/Assets (%)	17.18	16.85

Source: adapted from IFRS financial statements

\*Net of one-off transaction

\*\* Revenues net of unusually high one-off income

\*\*\*Core revenues less administrative expenses divided by average assets/equity

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### Rating Rationale

#### Assessment

- The ratings of MDM Bank and MDM Holding GmbH (Austria) reflect the high, albeit falling, concentration levels on both sides of MDM Financial Group's ("MDM" or "the group") balance sheet, the potential volatility of its earnings, its exposures (albeit capped at 10% of assets) to related companies as well as certain weaknesses in the operating environment. They also consider MDM's corporate governance and risk management procedure development, its cautious risk appetite, sufficient liquidity, sustainable core profitability, adequate asset quality and reasonable capitalisation.
- MDM Holding GmbH is the holding company of the group, of which MDM Bank, together with its operating subsidiaries, is the most significant component. MDM Holding GmbH itself undertakes almost no third-party financial transactions. Therefore, MDM Holding GmbH's Long-term, Short-term and Individual ratings are equalised with those of MDM Bank.
- The corporate management structure is adequately defined and organised.
- H105 performance deteriorated in the absence of securities gains and provisions release. Revenues are potentially volatile as a result of securities trading activity but gross core revenues grow steadily. Net core revenues fell in 2004 but rose in H105 as a result of flat costs and a rise in interest revenues. FY05 results are expected to remain modest, but performance should improve thereafter.
- The loan portfolio is concentrated (albeit to a lesser extent than in previous years). Lending to medium-sized borrowers should cause a further, gradual decrease in concentration. Related party lending is evident but is declining. Loan loss reserves ("LLRs") were reduced in 2004 and are low, in Fitch Ratings' view; however, asset quality has been adequate to date. Market risk can be high, but the risk has historically been well managed.
- Funding comes mainly from customers and is short-term. Despite a significant share of retail funds, customer funding is still concentrated. New borrowings in international markets are planned. Liquidity is managed effectively, and the bank came through the mid-2004 mini-crisis well.
- As the excess profits of 2003 and 2004 were paid out as dividends in 2004, the ability to absorb large one-off losses was reduced. Nevertheless, Fitch views capitalisation to still be reasonable. Due to its modest growth expectations, MDM's Tier 1 capital ratio could be at above its target of 13%-15%.

#### Support

- In light of MDM's growing franchise in Russia, in Fitch's view, there is a limited probability that support from the Russian authorities for the group's Russian banking subsidiary, MDM Bank, might be forthcoming if needed.

### Rating Outlook and Key Rating Drivers

- The Outlook is Stable. Upward pressure on the ratings of MDM Bank and MDM Holding GmbH could result from an improvement in profitability, an ongoing reduction in operations with related parties, further strengthening of risk management and corporate governance procedures, and further diversification of the bank's business mix and franchise. Downward pressure would be most likely to occur if there was significant asset quality deterioration resulting in a decrease in capitalisation and a sharp decline in profitability.

### Profile

- The group, in addition to a sub-holding company, consists of MDM Bank, MDM Bank St. Petersburg ("MDM SPB") and banks in Latvia and the Urals. In addition, it has a number of securities, leasing, real estate and asset management companies. The ultimate shareholders of the group are Andrey Melnichenko and Sergey Popov, his partner in certain other industrial assets.
- MDM's strategy is to grow in defined areas of commercial, retail and investment banking. Currently the group's key corporates are medium-sized and large companies, but the focus is on medium-sized corporates. At end-July 2005, MDM Bank ranked ninth in Russia in terms of total assets.

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