

Russia
Credit Update

MDM Bank

Ratings

MDM Bank

Foreign Currency

Long-Term IDR*	BB
Short-Term IDR*	B
Outlook	Stable

National

Long-Term	AA-(rus)
Outlook	Stable

Individual	C/D
Support	4
Support Floor Rating	B

Sovereign Risk

Foreign Long-Term IDR*	BBB+
Outlook	Stable
Country Ceiling	A-

* IDR – Issuer Default Rating

Financial Data

MDM Bank

	30 Jun 07*	31 Dec 06
Total Assets (USDm)	11,562	9,233
Total Assets (RUBm)	298,497	243,122
Eligible Capital (RUBm)	27,973	25,276
Reported Equity (RUBm)	30,013	27,324
Operating Profit (RUBm)	3,518	4,604
Published Net Income (RUBm)	2,682	3,320
Comprehensive Income (RUBm)	2,674	3,338
Operating ROAA (%)	2.60	2.41
Operating ROAE (%)	24.65	17.86
Internal Capital Generation (%)	18.74	12.95
Basel I Tier 1 Ratio (%)	10.50	10.90

* Unaudited, but reviewed

Analysts

Alexei Kechko, Moscow, CFA
+7 495 956 9931
alexei.kechko@fitchratings.com

James Longsdon, London
+44 20 7417 4309
james.longsdon@fitchratings.com

Alexander Danilov, Moscow
+7 495 956 9931
alexander.danilov@fitchratings.com

■ Rating Rationale

- The ratings of MDM Bank (MDM) reflect its adequate capitalisation, sound management and risk management capabilities, satisfactory asset quality and sound performance. They also consider certain weaknesses in the Russian operating and banking environment, the potentially significant, although falling, rollover risk associated with a high level of wholesale funding and the risks (credit, liquidity etc) inherent in the bank's rapid growth.
- Currently sound performance could be sensitive to margin pressure and changes in asset quality. Earnings have been supported by low levels of impairment charges, which will not be sustainable through the cycle. In addition, short-term earnings may be affected by costs associated with the implementation of MDM's current five-year strategy.
- Credit risk is well managed and, against the backdrop of a very favourable operating environment, asset quality is presently good. Loan book concentrations have been steadily improving. However, loan growth is rapid.
- Corporate governance compares favourably with many other Russian banks. Related-party lending is now insignificant. MDM has been used to facilitate shareholders' other business interests in the past. Following changes in the bank's shareholders, Fitch Ratings believes that MDM is less likely to be used for such ends now.
- MDM does not take on much trading market risk, but has been known to hold quite large open FX positions in the past (before 2005), when Group's capital was held in USD.
- In H207, MDM needs to refinance around USD842m of wholesale funds, including a RUB6bn bond (repaid and re-issued on 9 October) and USD 250m loan participation notes in December. 2008 refinancing needs are more modest and are estimated at USD700m. Fitch has been informed that the bank has a USD1.1-1.3bn cash cushion to cover potential redemptions.
- Liquidity is satisfactorily managed. At end-H107 MDM had positive cumulative gaps across all time banks. However, liquidity remains a major risk for all Russian banks, including MDM.
- MDM is adequately capitalised. The recently completed issue of 5% of new shares to the IFC for USD184m means that the total capital ratio at the end of 2007 should be at around 14%, which compares with the bank's internal "floor" of 12%.

Support

- In Fitch Rating's view, there is a limited probability that the Russian authorities would support MDM.

■ Rating Outlook and Key Rating Drivers

- Further diversification of MDM's business, as envisaged in its current five-year plan, could improve its credit profile as well as the improving, albeit still challenging, Russian operating environment and the enhanced prospects for the country's leading privately-owned banks. Downward ratings pressure is unlikely in the short term, but a significant deterioration in asset quality or liquidity would be rating negatives.

■ Profile

- MDM is the 10th-largest banking group in Russia, although market shares are modest. It is mainly a corporate bank, but is now pushing deeper into retail and SME banking.
- Following the 2006 restructuring, MDM now owns and consolidates all other financial companies of the MDM Group.

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