

MDM Bank
Thursday, 9th April 2009
14:00 Hrs UK time
Chaired by Sam VanDerlip

Sam VanDerlip

Thank you, thank you, ladies and gentlemen who have joined us today. I know it's been a busy day for those of you who follow Russian banks. We're grateful that you have been able to find time to listen to what we have to say as well. I will do a short introduction of some of the highlights, and then pass the word over to Vadim Sorokin, our CFO, who will go into some more detail on our 2008 results, and then we will be able to answer all your questions following the presentation. I want to start – could we get to the next slide, please? – I want to start, just going over some of the highlights of MDM Bank at the end of 2008 and beginning of 2009. We are the highest rated private Russian bank, by all three international credit rating agencies. This is a reflection of our strong financial position at the end of the year, and going forward, we have finished the year with a capital adequacy ratio of 17.9%. We have shareholders who have expressed their readiness to support the bank in the event that that should become necessary. You've heard us talk about our excess liquidity since August of 2007, and we continue to maintain a very healthy level of excess liquidity. At the end of the year it was around \$1.6 billion. Right now, we're at around \$1.1 bln. Also, we've continued to take a conservative approach to loan loss provisions and finished the year with loan loss provisions at almost 140% coverage of our NPLs, and taken together this means that we are in a position where we have a significant capacity to absorb what is ahead in the crisis, and we strongly believe that having taken this conservative approach for almost a year and a half now, this will allow us to manage this crisis ends to really come out of the situation much stronger, in a much stronger market position, and we are ready to face what is ahead of us in 2009. If we go through some of the financial highlights for 2008, our net profit was 3.3 billion Roubles, which is down 40% from 2007, at the same time revenue was up 20%, to 21.8 billion Roubles. The main factors that influenced this on the upside were the increased net interest margin and increased net interest income; increases from financial operations – especially the early redemption of debt – and the impact of cost optimization measures that we started in the third quarter and continued in the fourth quarter, and will further improve into 2009. At the same time, I think we are certainly not an exception, despite the increase in revenues, our profit was lower, due to primarily decreased asset quality and the loan loss reserves that we built up, as well as losses on securities, which I think is a fairly standard set of reasons for Russian banks these days.

Going onto the asset side, you see the assets grew by about 2.4%, which is a slight growth for 2008. We, as I mentioned, continue to maintain a high level of excess liquidity. We've successfully reduced our exposure to the real estate and construction sectors. Taken together at the end of 2007, that was at 25%. At the end of 2008, we were down to 20%. The main reduction there was seen in our exposure to the construction sector, which we will continue to be reducing our exposure to, during

2009. Also, as you look at the sides of our trading securities portfolio, by the end of 2008, we were down to 194 million Roubles.

If you look at our key targets for the next six to twelve months, I think we normally would present to you a couple of slides, or at least one slide about our strategy. We continue to seek to reach our overall strategic goal, which is to become Russia's leading universal private bank. At the same time, we're realistic and we understand that in the current situation, long term strategic goals need to be suspended somewhat in order to focus on what's going to happen in the next year or so. While the merger with URSA Bank is certainly a significant and important step towards achieving our goal. If you look at the strengths of URSA Bank and the strengths of MDM Bank, and you'll see that we will be creating a universal bank, but the management and Board of Directors of MDM in the fall also wanted to look at some shorter term goals, increasing deposit base by 50%, while you so our overall deposits decline, in 2008, our retail term deposits were up 80% which we think is a very good number, and they continue to rise into 2009. I mentioned our excess liquidity cushion already. We seek to maintain return on average equity as at least 10%. This is obviously in this environment a challenging goal to meet, even at 10%. At the same time we have taken some significant efforts to reduce expenses. Our cost income ratio at the end of the year was down to 42.9%, and if you look at the last two quarters of the year on a quarterly basis, we were down below 40%. We seek to increase our share of profits in strategically important sectors of the economy, relative to our competitors. I think 89% growth in our small business loan portfolio is good evidence that in this strategically important sector especially, we have been successful at meeting this goal, and continue to be so. I mentioned maintaining our international credit ratings already, and we also, in addition to the high capital adequacy ratio, by international accounting standards, we seek to maintain our regulatory capital ratio of at least 12% at the end of the year, including post balance sheet events. We are at 14.9%, just for your information, not including the quoted balance sheet, we're at 12.53%, so either way, we're above that goal. I think I can hand over to Vadim Sorokin now. If you could go to the next slide?

Vadim Sorokin

Sam, thank you very much for your highlights of our performance in 2008. I will continue with liquidity and then bank strategic decision back in August 2007 to maintain high excessive liquidity. This helped a lot during quite difficult times, during the end of the third quarter and beginning of the fourth quarter 2008, where we saw significant outflow of customer deposits. On the other hand, during the end of 2008, we saw a significant inflow of customer deposits, but during this difficult times, excess liquidity has helped us a lot. At the year end, our liquidity level was \$1.6 billion. Right now, our liquidity push is approximately US\$1.1 billion, and we expect to continue with this level for the year. Our international debt, which was reduced during this year is about 800 million. The most part of this amount is half a billion US\$ which is due in July, and right now we are in the process of arranging refinancing of this amount in part, if not in total. Next slide please.

The composition of our business lines has not changed significantly since 2007. The main part belongs to corporate and investment banking segments. Our second segment is retail banking – and the central Treasury is the third one. The overall

revenue during 2008 equalled to 21.8 billion Roubles, versus 18.3 billion in 2007, and all three segments have performed on a very good level, growing from 2007 to 2008. Next slide please.

Corporate and investment banking, which consists of corporate banking, investment banking, financial markets, private banking, asset management and leading business. Corporate investment banking brings to overall revenue about 70%. During 2008, there was a substantial growth in terms of the amount of customers. By the end of the year, equal to 11,500 active customers. The peak of the loan activity was in September, starting from that time the bank has taken quite a conservative approach to new lending. This continues partly in the first half of 2009, therefore we saw a wide outflow in our loan portfolio which was reflected partly in the levels of income which we will see in one of the following slides. On the other hand, it helped a lot in terms of the management of our asset quality. We took a lot of serious actions in terms of risk management, allocated risk and market risk, which again helped us towards serious problems with respect to loan loss provision and other provision other assets. Revenue growth in corporate investment banking was about 11% for the year. Profit before tax in terms of overheads decreased to about 9% during the year. Next slide, please.

Retail banking is one of our strategic initiatives, especially on the funding side for 2009. That was also our strategic sector in 2008. Retail and SME liabilities growth for 2008 was about 35% from 15 billion to 21 billion roubles, and we see that this increase continues in the first quarter of 2009. The growth for the year was about 20% and the growth of profit before tax on central overheads was 13% for the year. Next slide, please.

On the left hand chart, you can see a very significant growth in the income statement revenue side, in the fourth quarter of 2008. This was due partly to increase of margins, substantial to this increase in revenue contributed our redemptions on financial markets, including early redemptions of our liabilities. Operating expenses were all quite stable. A decrease in the third quarter was due to a decision of our bank to substantially decrease the loans for the year, which were accrued in the first quarter, thereby creating expenses in the first quarter more in line with the overall spend. A lot of actions which we have undertaken in terms of cost optimisation helped to improve cost to income ratio which on an annual basis equals 42.9%. For your information, in the last quarter it was 38.5%. Return on equity is decreased due to the decrease in net profits for the year, till April. Next slide, please.

As I mentioned already, we have made the strategic decision to be very conservative on the lending site during the last quarter and first quarter 2009, therefore the overall result net interest income in the fourth quarter was lower than in the third one. On the other hand, the growth of the first and the second quarter was quite substantial, which left a margin in the four quarter at 6.2%. Our target for 2009 by the end of the year is to increase it to 7%. On the right hand side, you see a reflection of a decrease in our corporate loan portfolio from 158 billion to 138 billion during the fourth quarter. Other two business lines the small business and consumer loans were quite stable during the fourth quarter. Next slide, please.

There were a few differences in the structure of our liabilities during the year. On the asset side, there was a growth of consumer and SME loans, as well as leading from 15% to 18%. Also there was an increase in corporate loans from 38% to 44%. On the other hand, there was a decrease in due to banks and REPO transactions from 38% to 36%. On the liabilities side, the main differences are a decrease in the capital deposits from 39% to 35% and due to banks and financial institutions from 32% to 30%. Next slide, please.

We have spoken a lot on the quality of our loan portfolio. As you can see, on the left hand side chart, our coverage ratio during the year was well above 140%. By the end of the year, it was 159%. We expect to continue to maintain such a coverage ratio during 2009. The concentration on top 20 world depositors was quite stable during the year. In the fourth quarter, the concentration of the top 20 depositors decreased from 55 to 46%, with a slight increase in top 20 borrowers, from 17.7 to 20.7%. Next slide, please.

Cost of risk obviously has increased during twelve months of 2008 versus 2007, on all three segments of our business and overall. The level of NPLs also increased. On NPLs, I would like to mention that we do not perform any loan restructuring to the extent it does not coincide with our overall business objectives. We do not restructure any loans just for the sake of decreasing the level of NPLs or overdue loans. Also in the case when a customer has a temporary problems with performance, in order to help them to maintain their performance and for the customer to be able to repay the loan in full in the future, in all cases we do not go for restructuring. We use approach to either prefer the collateral or to do any other actions in order to recover our level. Next slide, please.

In terms of industry breakdowns, the main difference between 2007 and 2008 is our exposure to the construction industry, which dropped substantially from 12% to 7% during the year. All other industries were quite inline with 2007. Next slide, please.

The main trend on a funding base was a decrease of all our international financing, due to complete close of all international markets, during 2008. There was also a slight decrease on customer accounts, which was not significant in the overall figure. Also, we have borrowed 35 billion from the Central Bank. For your information, the current obligation of our bank to the Central Bank is 20 billion rubles. Next slide, please.

The deposit loan ratio at the year end is equal to 47.5%, with a slight decrease in the fourth quarter. It is one of our strategic objectives to increase the deposit base in our liabilities side of the balance sheet in order to exchange amortization of our international funding, which we expect to continue during 2009. We plan to increase substantially the deposit-loan ratio. Our target is to have it at the level of 70% at the end of 2009. Next slide, please.

Our equity raised from almost 39 billion at the end of 2007 to 41 billion at the end of 2008. Capital adequacy ratio, tier one ratio equal to 16% at the year end, and the total debt equity ratio is equal to almost 18% at the year end. Next slide, please.

Our exposure to related targets on the asset side decreased further from 0.1% in 2007 to 0.03%, almost a full zero in 2008. On the liabilities side, stated relative basis 1.5 billion versus 1.7 billion in 2007. The main of the 1.5 billion belongs to a deposit from our shareholders and top management of the bank. Next slide, please.

Sam VanDerlip

Okay, and now we're ready to open it up to questions. The next few slides are just the standard information about the merger that most of you will have seen already and if you have any questions, please go ahead.

We'll wait another thirty seconds, please do ask them. If you can't think of any now, and you see our address and our phone number also on the last slide here, so we'll always be happy to answer if anything comes up later.

Questions and Answers

Eugene Tarzimanov – Moscow

It's Eugene Tarzimanov from Moody's. Can you shed some more light on the debt buy back programme and how much you plan to buy going forward? Thank you.

We have performed some buy back of our public debt during the fourth quarter of 2008 and the beginning of 2009. We don't expect that we will continue with this buy back, due to very low margins right now in the market. The overall result from the earlier redemption was 1.1 billion in the fourth quarter of 2008, and we expect quite a lower figure in terms of the next gain in the first quarter of 2009, and we do not expect to continue this business going forward.

Robert Harshani – Atradius Dutch State Business, Amsterdam

Yes, this is Robert Harshani from Atradius Dutch State Business, could you please brood a little bit more elaborately on the process of the merger between the URSA Bank and when you expect this merger to be fulfilled and to be reflected also in your financials, etc? Thank you very much.

Okay, recently a lot of directors of the two banks have voted to call for an extraordinary shareholders meeting on the two banks. These shareholders meetings will be held on the 8th of May. The only item on the agenda of these meetings is to finally approve the merger. By that time, actually our shareholders have already agreed on the exchange ratio between MDM and URSA shares, for the exchange of those. They have also agreed on the shareholding agreement, so starting May 8th, subject to the positive resolution of those shareholder meetings, which we expect will happen, we will start our formal registration process, which is necessary to undertake in order to exercise the legal merger between these banks. In terms of the timeframe, we expect that the legal merger will become legal sometime in July 2009, and starting from that point, there will be one joint bank, with one set of the financial statements. In terms of the account, we expect that the full set of the reports of the joint bank will be published for the third quarter of 2009.

Konstantin Sorin – Raiffesenbank, Moscow

Yes, this is Konstantin Sorin speaking, from Raiffesenbank in Moscow. Thank you very much for the presentation and my question is with regard to the asset quality of the bank, the first one is if you could please remind what was the amount of restructured loans at the end of third quarter 2008?

At the end of the year the amount of restructured loans was 15.4 billion rubles.

Yes, exactly, but what was it the amount at the end of the third quarter, if this is on top of your head?

Right now, we don't have the amount. I think if you will contact our IR, they will be able to provide it to you.

Okay, I will, thank you. And, the second question is if you look at the breakdown of the overdue loans in the corporate loan book, there is considerable, to my opinion, amount of 6 billion rubles which is in the bucket of between 30 days and 90 days, and my question is, because this is quite a considerable amount and it could affect the overall number if it moves further to 90 plus. My question is whether it is there in 90 plus category or have you managed to restructure it, or is it a non-performing loan as of now?

Certain loans were restructured. Certain loans were retrieved from these buckets, and certain loans of course will go into the NPL category. I can give you an indication of the level of NPLs at the end of the first quarter 2009. It was around 6% of the loans.

Is that total NPLs or from corporate funds?

It's total NPLs for entire loan portfolio.

Okay, and if you could give me an indication of which portion of the six billion went to a non-performing category?

Again, in order to give you a good number, please go to our IR and they will be able to provide this to you.

Okay, and my last question is with regard to the retail deposit growth, which was significant in the year 2008. I wonder if there were any chunky deposits, for example, from shareholders of the bank or other non-related parties, which placed significant money as individual depositors, which would affect that dramatic growth in the year 2008?

No, because all shareholders and all other related parties, they would go in the category of private banking, rather than retail, but all retail deposits growth were from third parties and pure retail business, rather than the private banking business. It is separate a segment.

Okay, and the retail deposits, are they mainly concentrated in Moscow or in the regions of the country?

There is a certain concentration in Moscow, but what we experienced during the fourth quarter in 2008, and the first quarter in 2009, that the growth comes primary from regions rather than from Moscow, although there is growth in Moscow as well, but relatively the regions are growing faster than Moscow.

If we break it down by Moscow and regions, which portion would fall on regions?

Again, in order for us to give you a good answer, please contact our investor relations.

All right, thank you very much.

Gleb Shpilevoy – RZB, Vienna

Good afternoon everyone, this is Gleb Shpilevoy from RZB in Vienna speaking. I have a question on the syndicated loans, which are due this year and next year. Can we basically assume that MDM Bank has reached agreements with holders of syndicated loans, with regards to waivers related to covenants which will be triggered in the merger process?

Yes, we have received this already.

So, is it reasonable to assume that no syndicated loans, there will be some for early redemption in 2009 and 2010?

No, in that case, we have received on all syndications letters from the syndicate and there will be no early agreements due to the merger.

Okay, thank you very much, that's all from me.

Closing Comments

Sam VanDerlip

Okay, thank you very much. We once again are grateful that you found the time to join us today on this call. We know it's a busy day for Russian banks and please do be in touch if you have any additional questions. We will certainly be actively communicating with you in the coming months. So, goodbye and enjoy the weekend that is coming soon. Bye.