

'08



**Corporate
Social
Responsibility
Report**



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Chairman and CEO statement



OLEG VIYUGIN



IGOR KIM

Dear shareholders, clients and partners:

We believe that no commercial organization can guarantee truly sustainable growth without engaging in genuine partnerships with the communities in which it operates. To be respected by society at large, while achieving new levels of success as a business, we must take into account the interests and preferences of not just our clients and shareholders, but all members of the communities with which we interact. It is our deep-seated belief that this approach to corporate social responsibility is inseparably connected with the long-term strategic principles of business development, and it forms the basis of MDM Bank's Corporate Social Responsibility (CSR) Strategy, which was adopted in the summer of 2007. The CSR Strategy determines the Bank's key priorities in this sphere and was a major

qualitative step forward in our development as a socially responsible institution.

During the year and a half which has passed since adopting its CSR Strategy, MDM Bank has developed and organized a series of programs in the area of social responsibility. This report details the results of the Bank's activities in 2008. During its entire 15-year history, the Bank has continuously upgraded its system of corporate relations, aiming to ensure a balance between all its shareholders, as well as to provide a transparent decision-making procedure and independent control over governance quality. MDM Bank's efforts in this area are positively perceived by society, as evidenced by the numerous prestigious awards the Bank has received for its information disclosure policies. In addition, MDM Bank is the only Russian financial institution that has received a public corporate governance score

(CGS) by Standard & Poor's, and the Bank has one of the top three corporate governance scores among all Russian companies.

In accordance with its CSR Strategy, which reflects the main principles of the Bank's business strategy – to conduct business based on international best practice in the banking sphere – the Bank defined the following spheres of social responsibility: developing a higher education system; increasing the general population's financial literacy; and sponsoring classical music concerts. These areas were selected because of our belief that they can have a significant qualitative effect on living standards in the Russian regions. In 2008 the Board of Directors of MDM Bank approved 1% of the Bank's net profits from the previous year to be directed toward the implementation of CSR programs. The impact of these programs is underscored by the following figures: more than 2,000 people participated in the educational programs MDM Bank "World of Business Youth" and "Financial Literacy" during 2008, and during the same period, more than 18,000 people attended classic music concerts organized through the "World of Divine Melodies" program.

The end of 2008 witnessed a landmark event in the Bank's history, when shareholders agreed to a friendly merger between MDM Bank and URSA Bank (which is one of the most dynamically developing regional banks in Russia). In terms of financial indicators, the united bank will become one of Russia's leading private credit institutions and will have a strengthened position both in the retail and corporate spheres. The two banks mutually complement each other – both in terms of business structure and geographical coverage. Both institutions adhere to the

highest standards of corporate governance and transparency, and also have shared principles in the area of corporate social responsibility.

The newly merged bank will therefore build its activities upon the same basic principles. We will do everything necessary in order to retain and develop within the united bank our traditions and methods in the sphere of corporate social responsibility.



OLEG VIYUGIN
Chairman
of the Board of Directors
MDM Bank



IGOR KIM
Chairman
of the Management Board
MDM Bank

Mission, Vision and Values

Mission

MDM Bank's Mission is to be a respected and successful universal financial institution, achieving market leadership by adhering to globally accepted standards of banking services and principles of corporate ethics.

Vision

MDM Bank strives to ensure consistent high returns on equity capital by pursuing the following goals:

- Provide the highest quality and cost effective services to all our corporate and retail clients;
- Offer products and services that support our clients at each stage of their development, helping them grow their business and prosperity;
- Extend and deepen our nationwide franchise by developing our business with small and medium-size companies and establishing a strong regional presence;
- Ensure exceptional career opportunities to our employees and maintain the highest standards of corporate governance.

Values

- **Expertise.** We are guided by the highest professional standards and thorough market analysis; we continuously augment our capabilities by fostering initiative and professional development of our staff.

- **Client focus.** A partnership philosophy forms the basis of our client relations. We strive to be a model of reliability and efficiency for all our counterparties.

- **Integrity and confidentiality.** We act with honesty and integrity with regard to our employees, clients and competitors. We comply with both the spirit and the letter of the law.

- **Transparency.** We support productive communications within the Bank and open relationships with our external stakeholders.

- **Social responsibility.** We contribute to the wellbeing of society by offering first-class economic opportunities to our clients and implementing environmental programs, as well as supporting educational and cultural projects.

The Board of Directors approved the Bank's newly formulated Mission, Vision and Values (MVV) on February 14th, 2008. The process through which the Company created and implemented its MVV is described in greater detail in the chapter entitled "Internal Social Policy and Corporate Culture."

Corporate Social Responsibility Strategy

Targets for Introducing the Bank's CSR Strategy

Interactions with Stakeholders

CSR Strategy Priorities

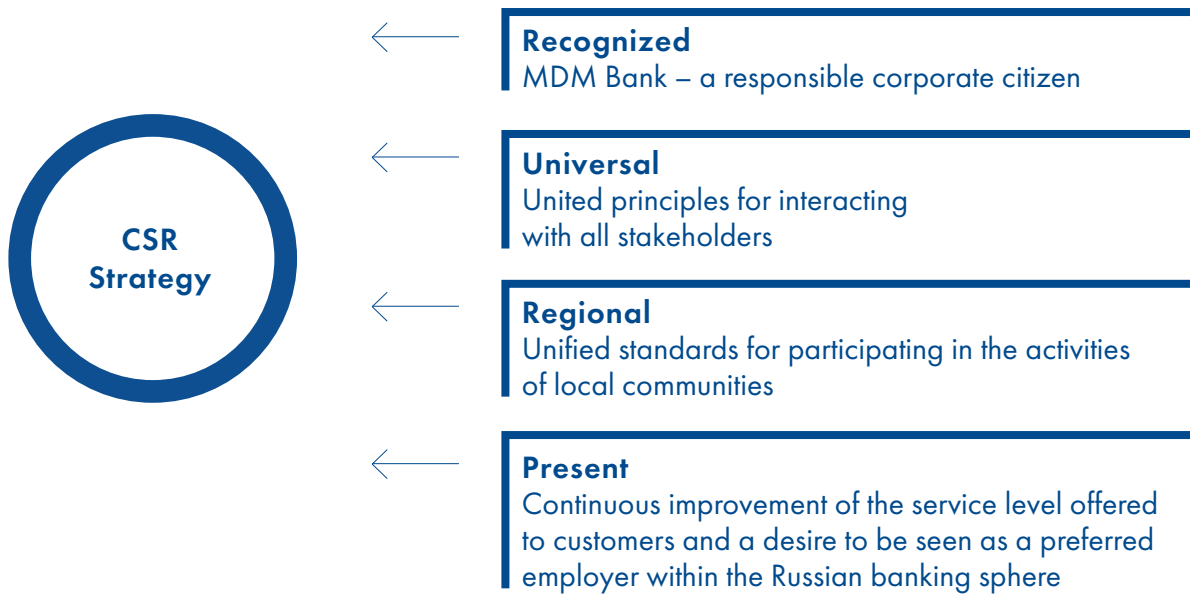
«A real partnership between business and society is key to sustainable growth for any commercial organization. To be a respected and successful business, an organization has to take into account the interests of the diversified audience with which it interacts, including not only clients, but society as a whole. It is therefore our belief that a systematic approach to corporate social responsibility corresponds to a long-term approach to business development. Adopting this CSR Strategy demonstrates our commitment to this type of approach.»

Julia Kochetygova, Director of Corporate Relations,
MDM Bank

The systematic actions of the Bank in economic, ecological and social spheres, assuming the continuous cooperation of Bank with the stakeholders, aimed at implementing the Bank's business strategy and minimizing risks, connected with the Bank's activity for all stakeholders, are considered by the Bank to be the manifestation of corporate (social) responsibility (CSR).

The Bank's CSR measures are developed and implemented in accordance with the "Strategy of OJSC MDM Bank in the Sphere of Corporate Social Responsibility," which was approved by the Bank's Board of Directors in July 2007. The CSR Strategy complements the Bank's medium- and long-term business strategy and is an essential part of systematizing the Bank's activities in the social sphere (which are organized based on a voluntary and pro-bono basis). Activities in the CSR sphere are overseen by MDM Bank's Corporate Social Responsibility Department, which is a part of the Corporate Relations Unit.

Goals of the CSR Strategy Implementation





Interactions with Stakeholders

Any organization, community and/or physical person that has a direct or indirect effect on the Bank's activities is considered to be an MDM Bank stakeholder.

While carrying out its activities, the Bank regularly interacts with the following stakeholders:

Group(s) of stakeholders	Mechanism for interacting
Society as a whole	<ul style="list-style-type: none"> • Mass media; • Website; • Organizing and participating in public events such as exhibitions, conferences, seminars, etc.
The Bank's shareholders	<ul style="list-style-type: none"> • General shareholders meeting; • Disclosure of material facts; • Mass media; • Website.
Clients, counterparties and competitors	<ul style="list-style-type: none"> • Publication of detailed information about banking products and services on the Bank's website; • Special promo-sites for particular categories of clients and specialized products; • Organization of public events and participation of Bank's speakers at these events.
Personnel	<ul style="list-style-type: none"> • Collective meetings of the Bank's top management with personnel; • Individual meetings with employees; • Regional meetings; • Conference calls; • Intranet; • Telephone "hotline" for employees; • E-mail "Ask" service for employees; • Strategic sessions involving top managers and line managers; • Various types of education and training.
Public authorities and state supervisory and regulatory bodies	<ul style="list-style-type: none"> • Participation in the improvement of the market and the development of a legal base through business and professional associations; • Participation in the work of expert commissions of different government organizations.

Communities in the Russian regions	<ul style="list-style-type: none"> • Signing cooperation agreements with regional authorities; • Concluding cooperation agreements with educational institutions and other institutes of higher education; • Concluding partnership agreements with cultural institutions.
Suppliers and contractors	<ul style="list-style-type: none"> • Publication on the special web page of the Tender Committee all information needed to participate in tenders: samples of the needed documents, rules of the tender(s), results of the tender(s), etc. on the Bank's website; • Publication of contact information and feedback forms
Mass media	<ul style="list-style-type: none"> • Distribution of press releases and comments of the Bank's experts on events taking place in the banking and stock markets; • Disclosure of material facts; • Organization of interviews with Bank's management and specialists; • Preparing information based on mass media requests; • Inviting journalists to events (conferences, exhibitions) at which Bank senior management and specialists participate. • Special media events (press-conferences, briefings, presentations of new banking products and services, press-parties).
Non-governmental organizations, businesses and professional associations	<ul style="list-style-type: none"> • Information distribution through mass media; • Partnership projects; • Information sharing; • Membership and active participation in the activities of business and professional organizations, including those which are self-regulated. (Association of Russian Banks, Russian National Association of Securities Market Participants, National Securities Market Association, etc.)*
Rating agencies	<ul style="list-style-type: none"> • Developing relations with leading international rating agencies on the basis of informational transparency (Standard & Poor's, Moody's, Fitch, Rus-Rating); • Regular meetings between representatives of the rating agencies and the Bank's shareholders and senior management; • Preparing answers to requests from rating agencies, providing the latest updates about the Bank's activities and results.

* The complete list of organizations with Bank's membership can be found in the chapter "Non-commercial organizations" in the 2008 annual report.

During interactions with stakeholders, the Bank is governed by the following principles:

- Transparency
- Partnership
- Reliability
- Flexibility
- Complex approach

For MDM Bank, this means that:

- The Bank regularly informs a broad range of stakeholders about all aspects of its activity that are of interest to these parties, using the techniques and technologies that are advanced and user-friendly.
- Employees and managers of the Bank study and evaluate the processes, expectations and concerns of the stakeholders that they interact with. In this case, these processes are optimized through the two-way communication.
- The stakeholders trust both the Bank as a whole and MDM's representatives – a sentiment understood and nurtured in the interaction process. Due to positive partner relations, stakeholders feel free to discuss all issues that are of interest to them.
- The Bank reacts in a timely manner to the requests of stakeholders, as well as to changes in the market situation and makes needed adjustments to its activities.
- The Bank focuses on types of business and projects which bring the greatest benefit to stakeholders. The Bank also adheres to the "Triple Bottom Line" concept – taking into account how its corporate activity is affecting the development of the economy, society and the environment.

In order to better understand the interests and expectations of the various groups of stakeholders and better involve them in the decision-making process, MDM Bank uses multiple different fields and mechanisms for interacting.

- The Bank's representatives take part on a voluntary basis in preparing expert evaluations for the State Duma Committee on economic policy and entrepreneurship.
- In 2008 "MDM Asset Management" (MDM AM), a subsidiary of MDM Bank, entered the non-commercial partnership the "National League of Trust Managers." The league is a self-regulated organization, representing the interests of professional participants in the Russian stock market in conjunction with state authorities. Cooperation with the League gives MDM AM the opportunity to participate in improving capital management markets and in developing the legal base for these markets.
- Since 2000, MDM Bank has been an authorized bank of the Government of Moscow, and participates in the counsel of representatives of authorized banks under the Mayor of Moscow. This counsel helps determine interactions between commercial banks and the government of Moscow. A representative of MDM Bank is also a member of the Expert Council under the Finance Department of the city of Moscow.
- Within the program of supporting small businesses, MDM Bank actively cooperates with local authorities. For instance, in April 2008, the Surgut branch of MDM Bank participated in the conference "The Development of Small- and Medium-sized Enterprises as a Factor in The City's Sustainable Development," organized by

the Surgut Chamber of Commerce. The Bank's representative directed the section "Finance and Credit Support for Small- and Medium-sized Enterprises: Banking Programs for SME Crediting, Development of Micro-Financing, Infrastructure and Legislation." Issues of practical interaction between the bank and individual entrepreneurs (for MDM Bank's crediting products for small- and medium-sized enterprises) were considered during the section, and actual suggestions were made to the city administration of Surgut.

- An "Agreement on Cooperation on Finance and Credit Relations Issues in Support of Small Businesses for 2007-2008" was signed between the Barnaul branch of MDM Bank and the local administration. Based on this agreement, MDM Bank has offered credit to local entrepreneurs with small- and medium-sized businesses. In turn, the local administration has agreed to consider the possibility of allocating funds in its yearly budget to subsidize interest payments on loans to small entrepreneurs who have implemented socially important investment projects.
- On 20 September 2008, within the framework of the international investment forum "Sochi 2008," the local branch of MDM Bank and the government of the Stavropol region signed a cooperative agreement for financing investment projects in Stavropol. Working within this framework allows social and economic development efforts to be coordinated.
- In 2008, the Bank organized a series of events (educational seminars, roundtables and business breakfasts) in various regions of Russia on the subject "Increasing the Energy Efficiency of Enterprises." In some regions, the local branch-

es of the Russian Chamber of Commerce partnered the Bank, and in other regions, business publications partnered MDM Bank for these events. For example, the Murmansk seminar was sponsored by informational portals and the non-commercial ecological organization "Belona-Murmansk," whereas in Samara, the event took place through the support of the Samara Region's Department of Entrepreneurial Development.

- The Bank interacts with various groups in local communities as it implements its CSR projects in seven large Russian cities. Thus, for example, the Bank's partners in the development of the CSR project in the Ekaterinburg and Sverdlovsk region were, within the cultural sphere, the Sverdlovsk State Academic Philharmonic; in the sphere of higher education, Ural State University (named after Gorkiy); and within the program of financial literacy for Ural residents, Ural State University (named after Gorky) and Lyceum № 110 (named after Grishina). During the reported period, MDM Bank allocated approximately RUR 7 mln to the development of projects in the areas of culture, higher education and financial literacy. The government of the Sverdlovsk Oblast recognized the Bank's positive input into the local community's development – MDM Bank was one of the winners of the annual "Days of Charity" event (an event in which approximately 130 leading regional businesses participate).
- MDM Bank concluded strategic partnership agreements with leading Russian universities, which form the basis for the implementation of the Bank's programs in the field of higher education, and also increased the financial literacy of Russia's regional population. Among the uni-

versities which are part of the agreement are Saint Petersburg State University, Novosibirsk State University, Ural State University (named after Gorky), Nizhniy Novgorod State University (named after Lobachevskiy), Rostov State Economic University and the Khabarovsk State Academy of Law and Economics. In addition, the Bank actively cooperates with the Institute of Independent Financial and Investment Advisers, which is to date the first and only educational institution in our country that teaches individuals how to manage personal finance effectively.

- Musical theatres and philharmonic halls in eleven large Russian cities became partners of the Bank as it implemented its cultural program.

CSR Strategy Priorities

Based on the Bank’s business development strategy for 2008–2012, and taking into account international and domestic experience, the Bank defined four priority groups for stakeholders and strategic CSR tasks that correspond to their needs.

Strategic tasks in the CSR field for priority stakeholders from 2008-2012

Society as a whole (all stakeholders)	<ul style="list-style-type: none"> • Further improvement of the Bank’s information transparency for all stakeholders.
Clients/Counterparties	<ul style="list-style-type: none"> • Developing, adopting and conforming to ethical business principles; • Further improving service quality in all regions of Bank’s presence; • Providing access to products and services for a broad range of clients.
Personnel	<ul style="list-style-type: none"> • Forming and developing a corporate culture and unified team spirit; • Increasing the attractiveness of the Bank as a potential employer; • Providing professional development and career opportunities to all employees.
Local communities in regions of the Bank’s presence	<ul style="list-style-type: none"> • Continuous constructive dialogue(s) with local communities; • Responsible financing; • Sponsorship and charity.

Socially Conscious Business Conduct

Information Openness and Disclosure

Information Openness and Disclosure

Taking into Account Social and Environmental Risks in the Bank's Credit Policy

Counteraction Against Dishonest Business Conduct

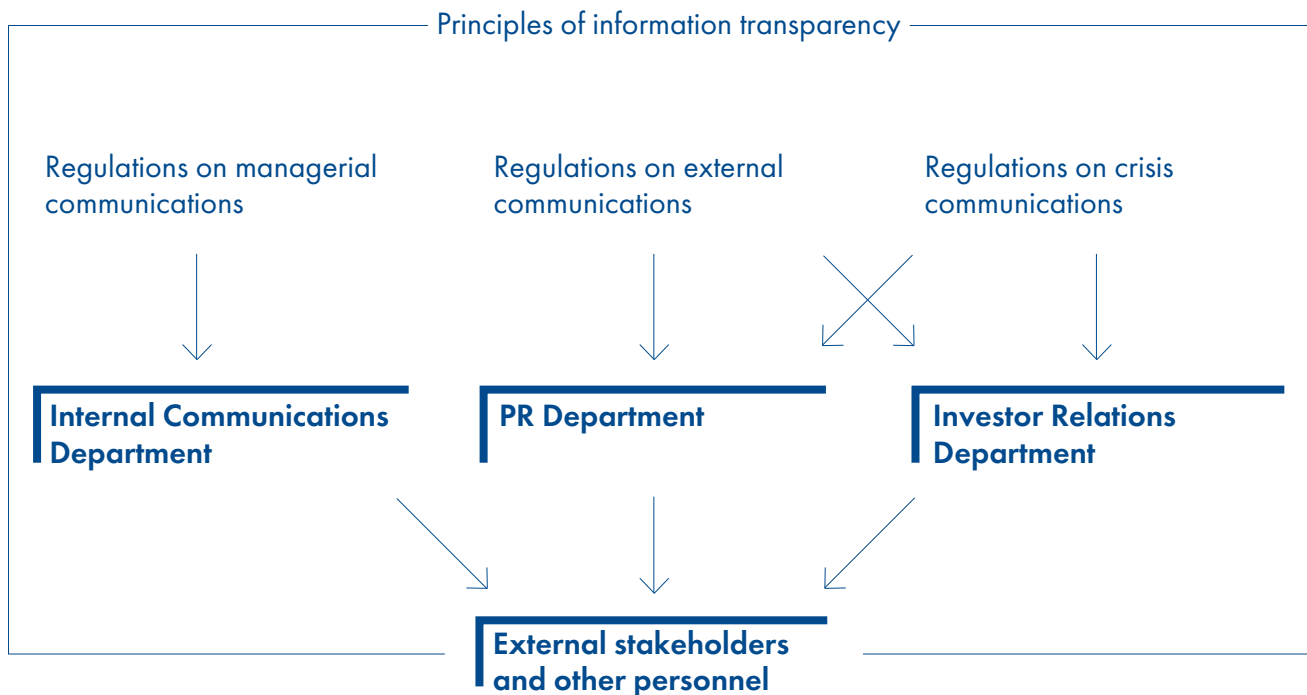
Interested Attitude Towards Clients

Openness (information transparency) is one of the most important conditions for building civilized business relationships with society. It is also crucial for forming a socially responsible business position, as well as for achieving strong operational indicators and for successfully attracting capital.

Information transparency has received high priority from the Bank not only because of the recommendations and requirements of the Basel Committee on Banking Supervision and the OECD, but also because of the Bank's desire to upgrade its standards and operations in this area. MDM Bank aims to meet international best practice standards, believing that this will give the Bank a competitive advantage in the Russian market and help it to attract new depositors and investors.

Ensuring information transparency for all stakeholders is also a priority for MDM Bank in the context of its corporate social responsibility strategy. Information disclosure regulations published on the Bank's website <http://www.mdmbank.ru/about/infopol> and the three internal communications regulations provide the foundation for the Bank's information policy.

The information policy of MDM Bank



MDM Bank discloses material facts and information in a way that is clear and accessible for all stakeholders. To disseminate this information, MDM Bank uses cutting-edge methods and technology to ensure that its audience receives the information in a timely manner. The Bank's website provides all necessary information about MDM's management, structure and managerial methods, as well as the main directions of the Bank's business and corporate social responsibility activities. Information on the Bank's activities are published in open sources, both in Russian and in English.

The Bank's interaction with mass media is carried out by its public relations department. The department answers journalists' questions in a timely manner and fully satisfies the media's needs about information related to the Bank's activities. In addition, the Bank offers all necessary materials and commentaries prepared by the Bank's senior management and analyst teams. MDM Bank's senior management are open for interviews and media questions on a wide range of topics, including those directly connected with the Bank's activities and those regarding the market situation as a whole.

During the economic crisis that started in the fall of 2008, MDM Bank added a section to its website "To our clients – about the market, the banking sector and MDM Bank today." This section, which is updated on a daily basis, contains commentaries on the macroeconomic situation, key market indicators, measures of regulating organs that support the economy and banking sector, as well as information about the financial condition and new products of MDM Bank.

Managing of Social and Environmental Risks in the Bank's Credit Policy

In the process of offering credit, the Bank may face ecological and social risks connected with clients' non-compliance with legislative requirements or best practices in the field of environmental protection, health protection, labor safety and other normative documents regulating ecological, labor and social activity.

The general principles and procedures for managing these types of risks are governed by the Bank's "policy of ecological risk management," which was adopted in 2Q 2008. Based on this policy, the Bank strives to finance clients whose business activities do not have a harmful environmental impact and also provide for long-term sustainable social development. On the contrary, the Bank aims to minimize its interactions with clients whose business activities harm the environment (including ecologically polluted production) and/or do not comply with relevant labor regulations and legislation.

The partners and creditors of MDM Bank are large international investors, including the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD). Credit agreements with the IFC and EBRD contain a number of special covenants, which are connected with conducting ecological appraisals of potential credit projects.

Based on recommendations from the IFC and EBRD, MDM Bank defined a list of activities that it will not credit – these include activities harmful to the environment and other activities banned by national and/or international legislation.

A number of activities (which have ecological and social risks) are credited by the Bank in

limited volumes – totaling not more than 3.5% of the Bank's credit portfolio. These types of activities include (if they are authorized by Russian and/or international legislation): the production and/or trade of weapons and ammunition, the production of alcoholic drinks (not including low alcohol content drinks, such as beer and wine), the production and trade of tobacco and tobacco products, gambling, the production and trade of radioactive outputs, including radioactive waste storage and re-processing.

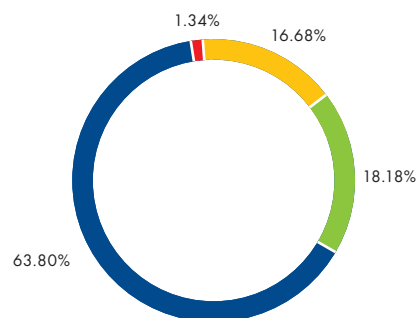
As of 31 December, 2008, the share of credits provided to such clients was 1.34%.

When considering crediting issues, all of the Bank's clients go through a **two-step analysis**:

Express-analysis: Depending on the primary ecologic risk level set by the Policy for each type of activity and limit parameters (the sum

The Bank's credit portfolio structure, based on the primary ecological risks for various client activities (as of December 31st, 2008).

- Low
- Average
- Above average
- High



and goal of crediting), the need for an in-depth analysis of ecological risks is determined.

In-depth analysis: Verifying the client's compliance with actual Russian legislation and (for large-scale investment projects over 30 million USD) with requirements based on the Policy on Social and Environmental Sustainability developed by the IFC. This Policy addresses social and ecological management, as well as labor conditions. If the Bank's specialists determine that risk levels are too high, the specialists together with the client develop an action plan that will put the client and its project in conformity with ecological, labor and social regulations, as well as with the IFC Policy. Subsequently, the Bank's specialists regularly verify to what extent the client observes these plans.

The Bank **conducts constant monitoring of ecological risks for all projects to which it provides crediting.** The Bank tracks serious technological accidents, suspensions of production as a result of ecological problems, social protest actions and activity prohibited by ecological regulations.

In 2009, the Bank plans to complete the process of introducing an ecological appraisal mechanism into its credit processing.

Counteraction Against Dishonest Business Conduct

To counteract the practices of dishonest business conduct, as well as to detect the potential and current risks which may damage the Bank and its clients and shareholders financially or in terms of reputation, a system of compliance control was introduced in MDM Bank. It's main aspects are described in the "Policy of Compliance Risk Management of OJSC "MDM Bank" and its subsidiaries". This document was developed on the recommendations of the Basel Committee on Banking Supervision, the main objectives which are to introduce united standards in the sphere of banking regulation. The Provisions contained in the Policy fully conform to the best international banking practices and significantly exceed the obligatory requirements defined by Russian legislation and the regulations of the state regulatory agencies.

The "compliance risk" term means the risk connected with the legal and regulator sanctions, financial losses or deterioration of Bank's reputation as a result of non-compliance with the requirements of laws and normative acts, standards of business conduct, own instructions and regulations, connected with the Bank's activities in the financial markets. The compliance control system is aimed at developing mechanisms of managing such risk, and also implicates the development and the fulfillment of recommendations which allow for the prevention of potential risks.

Main risks and their sources

Clients/counter-agents	<ul style="list-style-type: none"> • Legalization (laundering) of money obtained through illegal means; • Financing terrorism.
Personnel of the MDM Bank group	<ul style="list-style-type: none"> • Price manipulation and using insider information for personal advantage; • Breach of corporate ethics principles; • Combining activities in the Bank with work in other external organizations.
Companies of the MDM Bank Group	<ul style="list-style-type: none"> • Breach of requirements for professional activity in the stock market; • Breach of information disclosure requirements; • Infringing on clients' rights and interests.
Internal activity	<ul style="list-style-type: none"> • Possible conflict of interest; • Errors in introducing new products and services; • Breach of social norms and business activity conditions; • Violation of license terms.

Specific procedures aimed at detecting fraud and stock price manipulation are defined in the “Policy of Compliance Control over the Activities of OJSC “MDM Bank” in Financial Markets.”* The requirements introduced by the Bank significantly exceed the acceptable deviation in prices when conducting operations on financial markets, which may be grounds for organization of control over activities of Bank’s employees and clients on the subject of presence of fraud or dishonest fulfillment of responsibilities.

The Bank’s cooperation with the IFC also means that there are additional liabilities on counteracting fraudulent and/or dishonest business practices. The mechanisms used by the IFC are far more effective in preventing fraud and corruption than similar mechanisms developed by other market participants and development organizations. Credit agreements with the IFC put a variety of obligations on the borrower, one of which, in particular, contains the requirement to be governed by the Wolfsberg Anti-Money Laundering Principles (which were developed by twelve leading international banks). At the same time, the borrowers’ procedures for financial control, anti-money laundering principles and mechanisms, as well as methods for counteracting the financing of terrorism, are subject to compulsory audit.

The ethical site of employees’ behavior and the order for concluding transactions in which employees are stakeholders, are regulated by the specially developed “Regulations on Preventing Conflicts of Interests for OJSC “MDM Bank” Employees.”** This document describes the system for managing conflicts of interests, based on the following principles:

- Compulsory disclosure of the facts of actual or potential conflicts of interest;
- Investigation of each individual case of potential conflict of interest, the appraisal of the severity of possible risks to the Bank and the settlement of each case on an individual basis;
- Confidentiality of information disclosure processes and settling conflicts of interest (if so desired by the employee);
- Observance of the balance of interests between the Bank and its employees during the settlement of conflicts of interest.

* Adopted by order № 812 from December 27th, 2007

** Adopted by order № 322 from May 5th, 2008

Client Focus

MDM Bank is a universal financial institute, that conducts activities across all segments of the financial market and aims to build stable long-term relationships with existing and potential clients and counter-agents. The Bank understands that its principal value is in its clients and that its long-term success depends on fully satisfying its clients' needs.

Within the framework of implementing the 2008 – 2012 business strategy, and in full accordance with the CSR Strategy, the clients/ counter-agents were divided into groups of high priority stakeholders, the interaction with which the Bank will attribute a particular attention in the nearest 3 years.

While working with clients, the Bank and its employees focus on:

- Complying with ethical principles;
- Providing high quality services;
- Ensuring broad access to products and services.

Approaching the Bank, clients have the opportunity to make a considered decision about their cooperation with MDM Bank, because they are provided with comprehensive information about all services and operations offered by the Bank (as well as information about all applicable fees for credit products).

When the Bank informs clients about its services (particularly retail products), the Bank and its employees look to disclose the credit conditions in such a way that clients who have no special knowledge in the field of finance will be able to avoid, if at all possible, any misunderstandings or misinterpretations.

The Bank allocates maximum effort to form long-term, benevolent and open relations with

its clients, improving the infrastructure of client-servicing and the set of products, training and development for its employees. The quality of services and the process of handling claims are thoroughly overseen; the Bank opens constantly new, well-located points of sale; existing retail offices are being re-equipped and re-formatted to improve client convenience; and client managers are undergoing in depth training. In 2008, the MDM Bank introduced united standards of high quality servicing for all employees of divisions working with retail clients. Universal training methods were developed and implemented, including methods of complex case analysis and key case management skills.

As a result of these measures, the Bank has successfully upgraded its client relations. This is confirmed not only by a substantial growth in the volume of positive feedback from clients (compared with 2007), but also through data from internal studies and by consistently high marks in client services' quality ratings published by independent companies.

In 2008, MDM Bank received several awards recognizing the quality of its retail banking services. Examples of awards include being rated second in the ranking "Index of 2008 client impressions: Who leads the Russian retail banking business?" that was prepared by Senteo International and PricewaterhouseCoopers (after monitoring the activities of 51 Moscow and Saint Petersburg banks). The evaluation was based on five key indicators that form client impressions: brand awareness, the effectiveness of the Bank's marketing strategy, how the product line and offered services correspond with clients' needs, the availability of comfortable conditions for clients and the advertency

“The senior management of the Federal Special Construction Agency expresses gratitude for the professionalism, understanding, and timely solution for the federal state unitary enterprises of Spetsstroy demonstrated by MDM Bank, which was provided even during rapidly changing conditions in finance and the credit market.”

N.P. Abroskin, Director of the Russian Federal Special Construction Agency

of the Bank’s employees towards its clients. Based on these indicators, MDM Bank soared from 24th position in 2007 to 2nd place in 2008 – becoming both an overall leader and the leader in improvement.

During the reported period, MDM Bank entered the top three in the ranking of client services in the banking sector (as prepared by The Retail Finance magazine and SAS Russia/CIS company).

The Privolzhye branch of MDM Bank was a prize winner in the first Nizhniy Novgorod banking award “Golden Elephant 2008” in the special “client-focus services” category. The award was organized by Client & Bank newspaper, which continually monitors the activities credit organizations operating in the Nizhniy Novgorod region.

In 2008, the Bank received thirteen thank you letters from large corporate clients for services rendered, including from the Federal Special Construction Agency, OMZ Group, and the Irkut Corporation. The texts of these letters are published on the MDM Bank website <http://www.mdm.ru/folders/3647>.

In 2008, at the request of MDM Bank, RADIX & Partners Company conducted a study of the quality of services that retail clients received at 62 MDM operating offices in 35 Russian cities, as well as at the Contact Center in Moscow. To more effectively evaluate the service level in the operating offices, the “anonymous shopper” method was used. In May 2008, employees from the research company conducted a number of visits to the operating offices under the guise of ordinary banking clients and also called the contact center to get information about different types of banking services offered by MDM Bank. The researchers recorded parameters, such as: quality of service, customer care, professionalism and appearance of customers in the checklist as a result of the visits. Summarizing the results of this research, RADIX & Partners specialists evaluated the quality of work in the operating offices from the point-of-view of ordinary customers. The average mark for service quality across all of the participating MDM operating offices totaled 80% and for the Contact Center it stood at 81.2%. As a result of the research, RADIX & Partners prepared recommendations on how to improve some of the key indicators affecting client-service quality.

During the reported period MDM Bank’s retail clients – both in Moscow and the regions were interviewed. According to this study, more than 25% of clients evaluated the Bank’s client services as “perfect,” and an additional 60% found the services to be “good.” In addition, more than 80% of clients stated that they would repeatedly use the Bank’s services. The Bank’s management team carefully analyzed the feedback from this research and made the necessary changes in its product and service offering.

“We believe that quality of our service is best judged by our customers. To better understand what our clients want and what they would qualify as “good service,” we created a dedicated page on our website where each client can evaluate the quality of service the Bank provides, using either an online form or by letter. We are grateful for these messages, as they provide the Bank with an opportunity to not only correct defects in the client-servicing process, but also to retain or even to increase customer loyalty.”

Natalya Pashniskaya, Head of the service standard development and implementation unit, MDM Bank

For additional client feedback, a “quality time” page was created on the Bank’s website <http://www.mdmbank.ru/sme/qualitytime>. This page contains a form where clients can leave their opinions about MDM Bank’s service quality, and it also provides the e-mail address Customer_Care@mdmbank.com, to which relevant letters can be sent. The Bank’s “regulations on receiving and handling customer claims,” guarantee that all client opinions will be considered and taken into account. An answer to the client’s request can be sent via e-mail, letter or phone depending on the client’s choice.

Local Community Development

Responsible Financing

Supporting Small Businesses

Objects and Products with a Significant Social Component

Corporate Social Responsibility Programs

Culture

Education

Financial Literacy

Charity

One of MDM Bank's key strategic tasks during the next five years is to actively develop its regional business and strengthen its presence in key regions. In accordance with the business strategy of the Bank and its CSR Strategy, the local communities are attributed to the number of priority stakeholders. Developing further interaction with regional communities on a comprehensive basis will allow the Bank to effectively use the highly-structured regional distribution network, which will become a key competitive advantage in the medium-term. The following are considered to be the principal groups that form local communities:

- Regional clients/counter-partners;
- Local government bodies and regulatory bodies;
- Local non-governmental organizations;
- Local population.

The Bank continues active dialogues with local communities and also acts in such directions, as responsible financing, sponsorship and charity.

Responsible Financing

“During 2008, our business actively gained momentum. We increased our credit portfolio, implemented new products and services and attracted clients to our cash management services. However, the global economic crisis required a re-adjustment of our plans. But despite the global downturn, we are satisfied with our 2008 results. In addition, given the sufficiently diversified credit portfolio, MDM Bank has a good opportunity to make 2009 a successful year as well – with active cooperation with local entrepreneurs who are developing their business. Our development strategies remain unchanged: we are focused on building up client relations on a mutually beneficial and long-term basis”.

Andrey Kuznetsov, Head of the Small Business Development Department, MDM Bank

Supporting Small Businesses

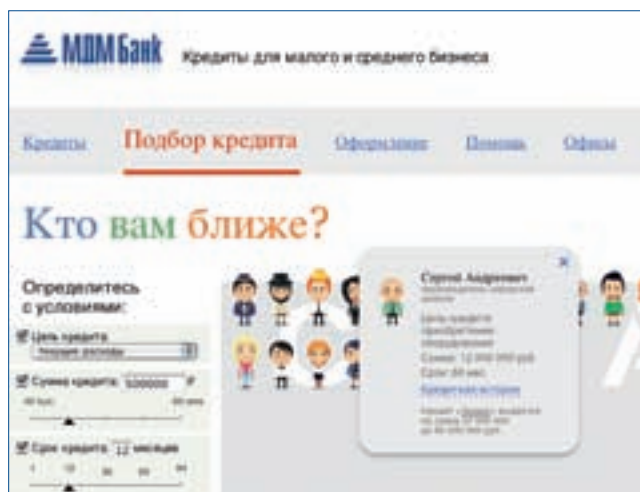
Bearing in mind the importance of supporting small businesses in the current difficult economic environment, MDM Bank considers these small-sized enterprises to be an extremely high priority client segment. With this goal in mind, the Bank has modified its approach to working with borrowers and has developed new services allowing its client companies to reduce operating costs. This new approach allows the Bank to appropriately tailor its financing scheme(s) to the clients' needs. The Bank offers a broad line of credit to small businesses, including: ten specific credit products, leasing and factoring. Among these products are both

universal credits including non-collateralized loans and credits that are specifically developed for particular aims, tasks and branches of industry.

The Bank takes a flexible approach to the provision of credit collateral – accepting not only a company's own property (including goods in circulation), but also the property of business owners and third parties. In addition, other financing schemes are used against security of acquired real estate, equipment and motor vehicles.

Using credit provided by MDM Bank, small enterprises can buy additional shipments of goods, can replenish working assets and can also acquire and/or upgrade equipment. This will improve the performance of the enterprises, allow some to open new outlets and in general, broaden and strengthen their business performance.

While interacting with small-sized enterprises, MDM Bank uses a specially developed system to score and evaluate the borrowers' business solvency. This methodology allows the Bank to quickly determine the maximum credit limit and dramatically reduce the time required to make a business decision (anywhere from one to seven days depending on the complexity of the considered transaction). Using modern credit technologies, enterprises can receive a sum of up to RUR 60 mln for up to seven years. In addition, to improve client convenience, the Bank foresees and provides for different forms of credit offering and flexible payment schedules. MDM Bank offers the most competitive and favorable tariffs and interest rates to small businesses in the Russian market. The small business crediting program that was launched by MDM Bank in the summer of 2006 has granted more than 14,120



loans for more than RUR 34.5 bln. At the end of 2008, the volume of the credit portfolio provided by the Bank to small businesses totaled RUR 15.7 bln (a 55% increase compared to the previous year).

MDM Bank interacts with small business representatives in multiple ways. For this category of client, we created a special section on the Bank's website <http://www.mdm.ru/sme> (which describes all of the applicable products and services). In addition, a free (throughout Russia), 24-hour hotline, 8-800 333-0800, was launched. Also, the Bank conducted information seminars for small business representatives.

MDM Bank clients who own small companies can independently select the most advantageous and convenient credit products on the special website www.kredit-na-delo.ru, that was launched in 2007. The promo-site not only gives information about the Bank's products, but is also a tool to increase the financial literacy of site visitors. The motto of the promo-site is to "Learn based on others' success." Two website characters – "Information consultant" and "collateral consultant" help visitors understand all crediting peculiarities. Other website characters talk about their "credit histories" with MDM Bank. All this helps potential clients to select the right scheme for obtaining credit. Visitors are also given the opportunity to leave an application and ask questions online.

Energy Efficiency Activities. Special Credit Product "MDM Energy"

The Bank's activities do not directly affect the environment. However, at the same time, in accordance with its CSR Strategy, the Bank pays special attention to the ecological and social consequences of its business. An example of this approach is the specialized credit product "MDM Energy" (which was created by MDM Bank in conjunction with the International Finance Corporation (IFC)), aimed at increasing the energy efficiency of small enterprises. Using targeted financing within the framework of this product, the Bank provides companies not only with traditional credit types, but also offer free consulting by IFC experts and technical specialists during an energy audit. Companies that participate in this program obtain additional competitive advantages; improve their profitability and business returns, and consequently upgrade their competitiveness. Possible projects within the "MDM Energy" program are very diverse and include: modernizing light systems, heat supply, cold supply and water supply systems, installing co-generation plants and the energy efficiency re-equipment of buildings, and other projects. Under this program, entrepreneurs can receive a loan of RUR 3-60 mln for a period of up seven years. In such situations, the energy audit experts evaluate the potential impact from implementing these energy

“When I approached MDM Bank for credit, I needed financing on time and with favorable terms. Throughout the process, I was satisfied by the competent work of MDM’s managers. And what’s more, I also obtained professional advice from technical experts at IFC. As I work towards moving my business to a new level of development, I am grateful that I am able to not only economize on energy bills, but that I am also able to have a positive input on improving ecology.

Alexey Timofeev, Director, LLC “Production and commercial firm “Ecology resource”

efficient technologies and recommend optimal technical solutions.

Within the framework of the “MDM Energy” project, over 200 Bank employees had undergone special training on: “Determining and evaluating energy efficiency projects.” During the reported period, the Bank conducted educational seminars in 30 Russian cities to promote this product. These seminars were attended by more than 600 directors of small- and medium-sized enterprises. At the end of 2008, more than 28 projects were financed within the framework of this program for more than RUR 254.6 mln. The main aim of such activity is to increase the financial knowledge of individual entrepreneurs and small enterprise managers (through offering consulting in the area of energy efficiency); to provide them with the opportunity to evaluate their own enterprise’s energy consumption and to choose methods to optimize these costs.

The “MDM Energy” program has made a real impact on improving both ecological and social

situations in Russian regions, helping to solve energy deficiency problems, contributing to the development of small businesses in the region and increasing the overall competitiveness of the Russian economy.

- The modernization of equipment using the “MDM Energy” credit product will allow companies to decrease the volume of greenhouse gas emissions by 250,000 tons of CO₂- equivalent of the projects’ lifetime.
- By decreasing electricity bills, the enterprises will save more than RUR 100 mln on an annual basis.

The first “MDM Energy” credit – totaling RUR 4.7 mln – was received by Ekaterinburg company LLC Production and Commercial Firm Ecology Resource. The Company invested these funds in buying a new production line.



A Special Event "Save smart!"

The special event "Save smart!" marked the Bank's next step in the efforts relating to energy efficiency.



The aim of the event was to cut small businesses' operating costs without requiring additional investment or with only minimal inputs. Entrepreneurs with an account at MDM Bank received free advice from IFC experts on how they could dramatically diminish their energy consumption. All questions on this topic were posted on-line using a special forum that was created on the Bank's website. Clients discussed with IFC experts and MDM Bank specialists concrete examples of implementing the systems of low-cost and rapid

payback measures to increase energy efficiency of their companies. Experts also offered help searching for information on energy-saving technologies and equipment and provided risk evaluations and other needed advice.

The first 25 participants of the forum received detailed reports and recommendations from IFC specialists on how to implement low-cost, rapid payback measures to cut operational costs. Several companies that were the most active during discussion received free express energy audits.

Objects and Products with a Significant Social Component

Deposits “MDM Social” and “MDM Social Replenishable”

Two new deposit programs – “MDM Social” and “MDM Social Replenishable” – were developed to target elderly Russians, and were introduced in all regions where the Bank operates. Upon presenting a pension certificate, an individual can open a new deposit in rubles, US dollars and/or Euros for a term ranging from 6 months to 2 years. The minimum size for the deposit is RUR 3,000, USD 100 or EUR 100. The interest rates for the deposits range from 12.25% to 15.50% for rubles, from 5.95% to 7.45% for dollar deposits and from 5.45% to 6.95% for Euros. Thus, by placing only 3 thousand rubles or 100 US dollars or Euros on deposit, individual depositors may count on interest rates that are usually available only to clients whose deposits total at least RUR 0.5 mln or USD 25,000. In addition, the conditions for both “MDM Social” and “MDM Social Replenishable” deposits foresee the possibility of paying in additional money, which makes these deposits particularly attractive for pensioners.

Building a Book Printing House in the Tver Region

MDM Bank strategically aims to finance enterprises which comply with best international practice standards, based on indicators such as: the organization of business processes,

the quality of equipment and management qualifications. In addition, the Bank also takes into consideration the social importance of these projects. Based on these considerations, in 2008, MDM Bank decided to build a book printing house in the Tver region. This project is the largest in this sector during the last 20 years. The printing house will produce up to 69 mln books and brochures (which will be approximately 8% of the Russian book market) and will also create 500 new jobs in the Russian printing industry. The overall volume of investment for this project totaled RUR 2.3 bln (70% were provided by MDM Bank). The Bank offered the “Pareto-print” company a credit line totaling 1.7 billion rubles.

The printing house, fitted with modern, high quality, energy efficient and ecologically clean production units, will create import substitution and will significantly decrease printing capacity deficiencies in Russia. Building this publishing house will also contribute to solving the problem of youth unemployment in Tver. In response to the building of this facility, both the Moscow State Printing University and Lyceum №12 of Tver developed special educational programs. Course students undertake practical work at the new printing house and graduates will have an opportunity to realize their professional potential at this modern printing facility.

Building of Gas Boiler Houses in the Tver Region

In 2008, MDM Bank participated in the financing of projects to build module gas boiler houses in district centers of the Tver region. Currently 15 out of the 16 planned boiler houses have been built and are operational.

“During our long-standing cooperation, MDM Bank always proved itself as a reliable and responsible partner, continuously offering convenient and interesting projects”.

Alexey Sisakyan, Director of the Joint Institute for Nuclear Research

The amount of financing provided to LLC “Gorteplo,” which is the operator of the project, totaled RUR 100 mln.

Implementing this project allowed old and low-efficiency coal boiler houses to be replaced with modern natural gas ones. As a result, around 26,000 residents of towns and settlements in the Tver region are provided with stable year-round heating and hot water. In addition, installing new equipment decreased operational costs and significantly cut the emission of contaminants into the atmosphere. According to statistics, dry fuel boiling houses produce 20 times more CO₂ emissions than gas industrial boiler houses. Environmental pollution produced by small-sized coal boiler houses exceeds pollutions of boiler houses and TPPs activity by five times. Another factor, which is no less important from the point-of-view of ecological safety when using natural gas, is the decrease in greenhouse gas emissions.

Financing of the Joint Institute for Nuclear Research (JINR) in Dubna

In 2008, MDM Bank provided a RUR 245 mln loan to the Joint Institute for Nuclear Research in Dubna (JINR). The institute is an internationally recognized scientific center

that successfully undertakes fundamental research (both theoretical and experimental), elaborates and implements new technologies, as well as developing university education.

MDM Bank and JINR have cooperated for more than seven years and have implemented a large number of joint projects aimed at developing Russian science. MDM Bank’s credit is directed at financing the Institute’s current scientific activity, including making wage payments to its employees. During ecological appraisal, the Bank’s experts assessed the ecological risks of these projects as low. Credit activity is not connected with production; the utilized scientific and technical installations are fitted with special devices that prevent any dangerous or damaging impacts on the population’s health and/or the environment.

In addition, MDM Bank allocates funds to support scientific and social activities launched by JINR. Total support in 2008 stood at RUR 0.4 mln. These funds were used to help organize an international seminar dedicated to the 100th birthday of the world famous Russian physicist, Nobel Prize winner I.M. Frank, and also helped celebrate the 50th anniversary of JINR scientists’ house.

Participating in the Development of the South of Russia

MDM Bank, in partnership with VTB Bank and Uralsib Bank, became a cornerstone investor in launching a closed mutual investment fund “The development of the South of Russia.” This mutual fund has capital of approximately USD 60 mln. The Fund, created with the assistance of the National Agency for Direct

Investment, is a pilot project for increasing investments in the southern Russian economy and for developing public-private partnerships in this Federal Region.

In addition to investing in building residential and commercial real estate, the Fund's assets will also be used to create production enterprises of the building industry, as well as completing infrastructure projects. In 2008, the Fund's investment portfolio totaled RUR 1.8 bln, and the Fund had four residential development projects in Krasnodar, Astrakhan, Rostov-on-Don and Volgograd. The overall space of development projects totaled 34,000 square meters of housing. Within the framework of the infrastructure project, the Fund takes part in developing the business of the LLC "Dredging company "CaspTransForm," – which is a leader in dredging in the basins of the Caspian and Azov Seas. The equipment acquired via financing from the Fund contributes to the Company's capital renewals, expands the Company's market share, allows for the mastery of new technologies, minimizes dredging costs and leads to the formation of long-term portfolio orders.

Corporate Social Responsibility Programs

Key indicators of MDM Bank's CSR and charitable projects in 2008

In 2008, the Bank allocated 1% of the Bank's 2007 net profit to implementing CSR programs.

"Education" program: more than 60 tutors and students from seven leading Russian universities received personal grants and scholarships from MDM Bank.

"Culture" program: fourteen classical music concerts were held in eleven large Russian cities; these concerts were attended by 18,000 spectators.

"Financial literacy" program: 83 free seminars were conducted in six Russian cities and were attended by more than 2,000 people.

"Donors to children" event: 80 Bank employees participated in this event, donating 35 liters of blood. In addition, more than RUR 60,000 were transferred to assist the treatment of children with blood cancer, and a young child's life was saved during the very first day of the event.

"Charity instead of souvenirs" program: USD 50,000 was directed toward the treatment of orphaned children.

MDM Bank has recently adopted a systematic approach to its corporate social responsibility strategy. Throughout its fifteen-year history, MDM Bank has participated in various cultural, ecological and charitable projects. However, by adopting a comprehensive CSR policy, the Bank has been able to focus on the needs of the population in the regions where the Bank operates. A key responsibility for the Bank under the CSR Policy is to provide and ensure free and convenient access to high quality financial services. Other key features in the Bank's CSR program include: developing higher education systems and preserving classical music cultural traditions. In 2008, following approval from

the Board of Directors, MDM Bank began to implement three large, long-term projects in the CSR sphere in 11 Russian cities that have branch banks: "Culture" (under the brand: "World of Divine Melodies"), "Education" (under the brand: "World of Young Businesspeople"), and "Financial literacy." In 2009, the Bank plans to expand these programs into other regions of Russia.

“I would like to express my admiration for the wonderful joint project and concerts with MDM Bank. It is remarkable that in our difficult time there are companies focused on the future of Russian culture.”

Yuri Bashmet, art director and chief conductor of the Russian State Symphonic Orchestra “Novaya Rossia”

Culture. “World of Divine Melodies” Program

Geography 2008

Vladivostok, Voronezh, Ekaterinburg, Irkutsk, Krasnoyarsk, Nizhniy Novgorod, Novosibirsk, Omsk, Penza, Rostov-on-Don, Khabarovsk.

2008 Budget

RUR 26.7 mln.

Supporting musical culture has been defined as one of the priority directions for the Company’s CSR activities by MDM Bank’s top management. In February 2008, the Board of Directors approved the long-term program “World of Divine Melodies.” A five-year program provides for carrying out a series of concerts throughout Russia and bringing foreign classical music performers to some of Russian largest cities.

Aims of the “World of Divine Melodies” program include:

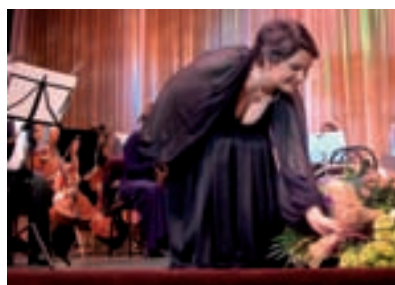
- Retaining and augmenting traditions of domestic and world musical art;

- Providing regional residents with access to the greatest achievements in the field of classical music;

- Offering financial support to regional cultural institutions (musical theatres, philharmonics, etc.) through charitable donations.

In 2008, MDM Bank organized fourteen concerts of leading Russian musicians in eleven largest cities of Russia: the legendary violinist and conductor Vladimir Spivakov, the famous conductor and violist Yuri Bashmet, the famous violinists Gidon Kremer and Vadim Repin, the internationally renowned conductor and cellist Alexander Rudin, the “baritone of the century” Dmitry Hvorostovsky, the “golden soprano” Hilda Geizmava and the oldest Russian string quartet – the Russian State Quartet named after Borodin. The performances of these famous artists were attended by more than 18,000 people. In addition, MDM Bank provided charitable donations to regional cultural institutions, in particular, to buy musical instruments and install concert hall equipment.

Sponsorship of the Mariinsky Theatre is a special area of activity in the Bank’s programs of musical culture. Specifically, MDM acted as an official partner of the Easter Festival, and became one of the sponsors of the 225th anniversary season to the Theatre. In 2009, MDM Bank will continue to develop its own musical culture programs.





Education. Program “World of Young Businesspeople”

Geography 2008

Vladivostok, Ekaterinburg, Nizhniy Novgorod, Novosibirsk, Omsk, Penza, Rostov-on-Don, St. Petersburg, and Khabarovsk.

2008 Budget

RUR 8.4 mln.

Another primary focus of MDM Bank’s CSR strategy is higher education, including developing long-term partnerships with leading Russian universities. The Bank’s program in this area – “The world of young businesspeople” – foresees carrying out a variety of joint projects with partner universities, such as: the qualification(s) of tutors on economics and finance raising the level of tutors on economics and finance skills; developing high quality, up-to-date courses; and offering financial and expert support to active, successful students.

The Bank’s initiatives were supported by leading Russian universities: Saint Petersburg State University, Novosibirsk State University, the Pa-

cific State Economics University, the Khabarovsk State Academy for Economics and Law, Nizhniy Novgorod State University (named after Lobachevsky), Rostov State Economics University (RSEU), as well as the Urals State University (named after Gorkiy). The Bank concluded strategic collaboration agreements with each of these educational institutions.

Raising the Level of Tutors’ Skills

In 2008, twelve of the best tutors from MDM Bank’s partner universities participated in an open contest and were also involved in a program through the Stockholm University Business School to share their experiences in the banking sphere. The program was specially organized by the Business School at the initiative of the Bank. During the training program, participants familiarized themselves with modern international educational and methodological standards, exchanged experiences and discussed pressing financial and economic issues with leading professors at the Business school. In addition, the program’s participants received online access to the

“Improving the level of banking education is far from being a problem limited to banks, and MDM Bank understands this very well. Having qualified professionals in the country’s banking sphere provides the foundation for the state to have a strong financial system. It also provides for stability and as a result, allows citizens to rely on their savings.”

Vasily Solodkov, director of the Banking Institute of the Higher School of Economics

Stockholm University’s library and also were offered the most useful textbooks as gifts. At the end of the course, the Russian tutors recognized that actively interacting with European specialists can help them qualitatively upgrade their teaching of economics and finance, and also significantly contribute to students’ learning. Another positive result of the program was that its participants felt unified as a team, and this program laid the foundation for closer inter-university ties in the future.

All tutors who participated in the innovative exchange program are also included in a new joint program between MDM Bank and its partner universities – the development of a modern educational course on banking. In 2008, each of the participants received a grant from MDM Bank to develop an educational methodological program on a particular subject. As a result of these projects, the twelve programs will be united in a full educational course that will be included in the curriculum of all the financial and economic partner universities. The project is scheduled to be completed in May 2009 and its supervisor is the Banking Institute of the Higher Schools of Economics.

Scholarship Program

MDM Bank’s scholarship program plans to establish personal scholarships for students studying in the economics and finance departments of Russia’s leading regional universities. The program also foresees organizing open contests for these students. The aim of these programs is two-fold: (1) to stimulate the educational, scientific and practical activity of gifted Russian students and (2) to create advantageous conditions for training specialists in the banking and finance spheres. The contests are organized on an annual basis, and students from the second to the fifth year at economics and finance universities are allowed to participate. Scholarship winners are selected based not only on their academic performance, but also on their participation in scientific and practical research in the financial and banking sphere. The first open contests to receive MDM stipends were conducted simultaneously in September 2008 at seven regional partner universities. More than 150 students qualified and 49 of them were awarded MDM scholarships. The scholarship winners were paid a monthly stipend during 2008 and 2009 ranging from RUR 2,700 to 5,000 depending on their particular course of study. In 2009, the Bank plans to expand the geographical scope of this program. Open contests will take place at leading state universities in Russian cities, including: Volgograd, Stavropol, Voronezh, Chelyabinsk, Krasnoyarsk and Samara.

“Thanks to the support of MDM Bank, I received a wonderful opportunity to participate in a number of conferences in other regions and to share my experiences and work results with colleagues.”

Ekaterina Zatonova, a 4th year student at the economic department of Saint Petersburg State University

Financial Literacy

Geography 2008

Vladivostok, Ekaterinburg, Nizhniy Novgorod, Novosibirsk, Rostov-on-Don and Khabarovsk.

2008 Budget

RUR 2 mln.

Consistently implementing its CSR strategy and looking to contribute to improved social welfare and sustainable development in Russian regions, in the beginning of 2008, MDM Bank launched its educational program – “Managing personal finance.” Its goal is to increase the financial literacy level of Russian citizens. The program provides for free seminars on personal finance management for residents of the Russian regions, including small business representatives – as well as developing special educational courses for school children.

A “managing personal finance” course was prepared by MDM Bank, in conjunction with the Institute of Independent Financial and Investment Advisers (INFIS). This course encompasses such themes as: banking services, securities, ways of choosing investment methods, pension support and insurance protection, as well as the basics of managing

private finance, how to put together a private financial plan and taxation issues for natural persons.

Leading Russian regional universities that had already concluded partnership agreements with the Bank as part of its “World of Young Businesspeople” program, became partners in the “Financial Literacy” program. MDM Bank and INFIS developed a series of educational courses and conducted training for 20 tutors from regional universities on how to teach the basics of financial literacy to citizens, provided training to MDM Bank employees and also organized personal finance management seminars for the population as a whole.

The first “Personal Finance Management” seminar took place on 27 September 2008 in Ekaterinburg. Following this successful event, similar seminars were held in Vladivostok, Nizhniy Novgorod, Novosibirsk, Rostov-on-Don and Khabarovsk. Each week, the seminars were attended by 50 people. Classes were conducted by highly qualified lecturers from MDM’s partner universities, and at the same time, specialists from the Bank provided additional support – analyzing each particular case from a banking practice perspective.

Altogether in 2008, 83 free educational seminars, “Personal Finance Management”, were held in five Russian regional centers. These seminars were attended by more than 2,000 individuals. In 2009, the Bank plans to expand these seminars to twelve additional Russian cities. In addition to the cities listed above, “Personal finance management” seminars will also be held in Volgograd, Voronezh, Krasnoyarsk, Samara, Saint Petersburg, Stavropol and Chelyabinsk.



“I attended several courses of private finance management. I had always considered myself rather knowledgeable in these areas, but in these courses, I discovered a lot of new information and also found out some peculiarities of banking and insurance services that I had not previously been aware of. Of particular interest to me was the topic of taxing physical persons. Following these courses, I chose MDM Bank as my business partner and plan to open a metal account with the Bank.”

Alexey Kochurov, entrepreneur from St. Petersburg

During the reported period, in conjunction with the Rostov State Economic University (RSEU), the Bank began to develop a financial literacy course for small business representatives. During the fall of 2008, a pilot project, “Financial literacy in schools”, was launched in Ekaterinburg; this program will provide school children with the framework for understanding basic financial information.



MDM BANK OFFERS YOU THE WARMEST OF NEW YEAR GREETINGS AND THANKS YOU FOR YOUR SUPPORT OVER THE LAST YEAR.

We believe 2009 will bring our partnership new and interesting opportunities and projects.

The holiday season is traditionally a time for celebration, contemplation and gift giving, which is why we feel compelled to share with you our efforts as part of the "Charity Instead of Souvenirs" project. This year, we will take the money usually spent on corporate gifts and donate it to the Children's Hearts Fund to pay for operations for children born with congenital heart defects.

Nothing is more precious than the health of a child, and we hope you can share our joy at helping these remarkable and brave children, as well as bringing some of the magic of Christmas and New Year to those who truly need it.

We wish you and your loved ones health, wealth and happiness for 2009!



Friends, partners and clients of MDM Bank received a greeting card from the Bank on New Year's Eve painted by five-year old Arina Kovalchuk from Irkutsk. Arina had been diagnosed with a serious congenital heart disease that required both an operation and expensive treatments. The required funds for Arina's treatment were provided by "Children's Hearts" (a charitable fund to assist children with congenital heart disease). "Children's Hearts" was selected by employees of MDM Bank as the beneficiary of its "Charity Instead of Souvenirs" program. Arina has since recovered from her operation and is dreaming of going to school.



Charity

The CSR Strategy adopted by MDM's Board of Directors in July 2007 also served as the foundation for all of the Bank's charitable activities. In accordance with the newly launched strategy, the charitable activity of MDM Bank is based on principles of voluntary and free participation and is conducted systematically and purposefully, strictly in compliance with current Russian legislation.

"Charity Instead of Souvenirs" Initiative

It is well known that businesses around the world spend a significant amount of money buying, delivering and storing business souvenirs. Yet, at the same time, a large number of ordinary people are in need of significant financial assistance. In the middle of 2008, MDM Bank decided to join the initiative "Charity Instead of Souvenirs." This initiative unites companies ready to direct their former souvenir budgets to assisting society's most vulnerable: orphans, the disabled, the severely ill, the homeless and the elderly. The Bank's employees voted on particular charity to assist in 2008. During the reported period, the Bank selected "Children's Hearts" – a regional charity that supports children suffering from congenital heart diseases – to receive approximately USD 50,000.

Donor Event

For the first time in November 2008, MDM Bank participated in a charitable donor event organized in conjunction with "Give Life" (a charitable fund) and "Donors to children" (an initiative group). On November 6 and 7, approximately 80 MDM employees donated blood to patients at the Russian children's clinical hospital. In addition, employees from the Rostov branch of the Bank sent several boxes of art sets, coloring books, albums and entertainment games to the hospital. The Bank employees also transferred RUR 62,000 to the hospital's oncology department 16. These funds also helped pay for radiation treatment for a young patient, Olya Zhihareva.

Annual Support for Veterans of World War II

Each year, MDM Bank provides financial support to the Veterans' Committee "Goncharnaya Sloboda" in Moscow. During the 2008 May holidays, RUR 50,000 were transferred to the Committee.

Internal Social Policy and Corporate Culture

Managing Human Resources

Managing Human Resources

Corporate Culture and Internal Communication Development

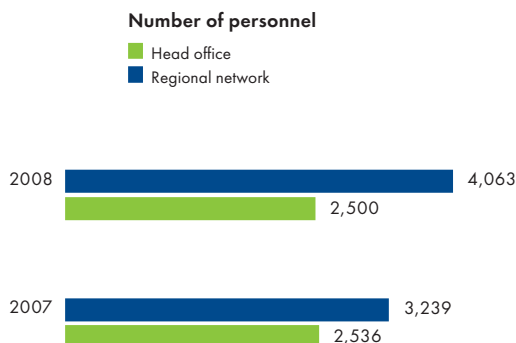
MDM Bank’s personnel plays a key role both in client servicing and in providing the market with the Bank’s products and services. Investing funds in corporate culture and improving its employees’ professional skills has allowed the Bank to carve out a competitive advantage on the Russian market. For this reason, personnel is one of the key priorities of the Bank’s CSR strategy.

Within the Bank’s CSR Strategy, initiatives in the area of human resource management include:

- Developing corporate culture;
- Increasing the Bank’s attractiveness as an employer;
- Offering professional development and other career opportunities to the Bank’s employees.

Other human resource development issues are regulated by Bank’s “2008 – 2012 Strategy for Managing Human Resources,” which was adopted within the interbank “Acceleration Program” in December 2007. This strategy is one of the most important components of the Bank’s overall business strategy and is aimed at:

- Effective human resource and talent management;
- Managing employee loyalty;



- Developing a motivation system;
- Optimizing human resource processes administration.

At the end of 2008, MDM Bank employed 6,563 people (including personnel at both the Head Office and in regional branches). This figure represented a 14% increase from the previous year – primarily due to the active development of the Bank’s branch network. The level of employee turnover increased slightly (showing a 6% uptick). The overall employee turnover for 2008 was 35.5%, which reflects general trends in the financial sector, including a high demand for qualified personnel and high labor mobility.

The specifics of the banking business require employees with high levels of education. 82% of MDM Bank’s total employees have higher education, whereas 6% have studied at a postgraduate level.

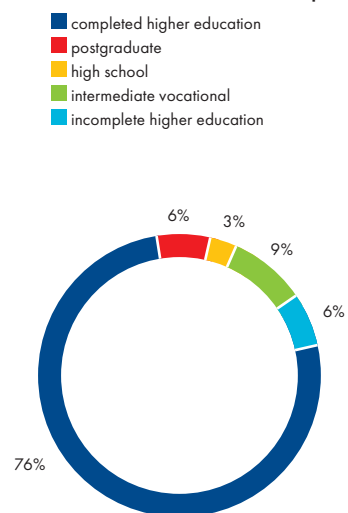
More than half (52%) of the Bank’s employees are younger than 30 years old; whereas 42% of the Bank’s employees are between the ages of 30 and 50. Within the Bank, women outnumber men by a two-to-one margin. Not only do women outnumber men in the Bank, female employees occupy important positions in the Bank: Female employees hold ten out of seventeen directorial positions and 38 out of 43 chief accountant positions. In 2008, one out of three positions on the Management Board were held by women.

In 2008, the Bank regulated and modernized its personnel relations to more effectively align its policy with the Bank’s business goals, as well as with international best practices in human resource management. Equal opportunities, fairness and transparent evaluations are basic

principles that the Bank uses when hiring, firing and evaluating employees’ performance. The principles of work with personal data of employees ensuring their right on protection of such information were formally stipulated in the Provision on work with employees’ personal data.

In 2008, MDM Bank launched its new motivation system, which is oriented not only to the individual results of the employee, but also to the achievements of the team as a whole. The human resources department of the Bank, as well as business processing units, held a series of events to directly link employee’s remuneration with his/her activity. Specifics of various units’ activities were taken into account when the human resources department developed personnel motivation tools (which allowed the Bank to correctly attach priorities to personnel work). Working together with the corporate relations department, significant efforts were made to clarify the Bank’s remuneration policy for all employees.

Education level of the Bank’s personnel



The Bank pays its employees all benefits and payments dictated by Russian labor legislation and also provides support in special cases that have a significant impact on the financial well-being of employees. Financial support is provided in cases such as the serious illness of employees, the death of close relatives and other circumstances, such as natural disasters, fire or property theft. Financial support is also provided to close relatives of deceased Bank employees.

In 2008, MDM Bank spent RUR 6.5 mln for the financial support of its personnel – which represents a 36% increase compared to the previous year. The main part of this sum was spent on payments to employees at the Bank's regional branches. In addition, the Bank provided additional payments to the temporarily incapacity allowances increasing it up to the factual salary of the employee for a period of up to 10 working days per calendar year. While paying confinement and birth grants, the Bank also provides additional payments up to the factual salary of the employee.

Ensuring seamless changes in positions occupied by employees who have been dismissed or downsized is one of the key principles for the Bank (as it looks to decrease head count). The Bank's human resources department tends to provide internal candidates with priority for existing vacancies and also consult with employees who are actively involved in the job search process.

Education and Training

The banking sphere is a highly competitive and rapidly changing branch of the Russian economy, where service quality is often the decisive and only factor that clients consider when choosing a partner bank. During the reported period, MDM Bank initiated an internal corporate training program for its employees aimed at teaching them the necessary skills for effectively working in a rapidly changing market environment. Investment in the education and training of the Bank's personnel became one of the priority tasks of the Bank's human resources department. Compared to 2007, external educational events were attended by almost twice the number of Head Office employees in 2008 (887 employees versus 450). From April to December 2008, internal corporate trainings (developed by educational specialists together with the Bank's business units) were attended by 2,662 people, including employees from the regional branch banks.

Management Development Program

The Bank's top management focuses great attention on the professional development of its management team, as well as on building leadership spirit and a strong corporate culture. The Bank's management also focuses on developing inter-department communication.

In 2008, the Bank's management development program (launched in 2007) was successfully completed. Within the framework of this program, 27 top managers of the Bank participated in a specially developed educational program at the European Institute for Business



Administration (INSEAD). From March to July 2008, these managers studied the most pressing management issues and key concerns in the banking sector. The program was divided into four three-day modules, and at the end of the course, participants were required to defend projects that they had developed. Topics that were studied included: managing assets and liabilities, customer-focus, building an organized company structure, fostering career development and a well-defined benefit system, and providing service quality and leadership in the IT sphere.

In September 2008, a two-day training “MDM Bank Leader” was organized, and around 300 people participated in the program. One of the bank’s top managers who had completed the INSEAD program told senior and mid-level management about international best practices in the banking sector, and also made suggestions on how to improve the Bank’s management processes. During the first day, the following issues were discussed in working groups: improving labor effectiveness, upgrading banking products, creating a client-focused corporate culture and improving the

Bank's structure, as well as organizing a system of financial and non-financial motivation for employees. During the second training day, the Bank's managers actively participated in sports team competitions aimed at building team spirit.

The leadership program for middle management and branch directors became an important step forward to creating a well-qualified team of Bank leaders, that will help form MDM's banking culture and direct the staff towards achieving common goals and tasks.

In addition, during the summer of 2008, the Bank organized internal and external communication training. The Bank's senior management understands that effective communications are a key part of the managerial process. MDM's goal is for each director (both at the corporate head office and at the regional branches) to have real authority for their employees and to properly represent the company to external audiences. Over 170 senior and mid-level managers participated in training, where issues such as the strategic role of communications in the business process and the implementation of the Bank's goals, tools and skills (used in communications), the status of Bank's communications and ways to improve it were addressed. According to a survey that was conducted, 93.2% of participants positively evaluated the training.

Corporate Culture and Internal Communication Development

The Bank management is assured that without a unified information space both between the employees and between the employees and the management it will be impossible to effectively address the challenges facing the Bank. It is essential that all employees no matter which regions they are operating in are able to regularly hold dialogues.

Communications Audit

At the beginning of 2008, the internal communications department conducted research on the Bank's level of corporate culture and its effectiveness of communications. Employees from 80 branches throughout the Russian regions participated in this research. The results of the research helped the Bank understand the current state of its communication and also target key priority areas for internal communication upgrades over the next year. It is planned to conduct such surveys on a yearly basis.

Employees' Feedback

To help integrate employees into a unified information space, the Bank has an Intranet web-site. According to the results of the communication audit, the Intranet web-site is the main source of information for about 40% of the Bank's employees. Because of these results, the Bank focused significant attention on Intranet development when putting together the 2008 communication policy. The new version of the Company's Intranet web-site offers:

- Information support of business and corporate communications;

- workspace for each branch, group and employee;
- knowledge management system;
- information security.

The Intranet gives access to web pages and working groups and the intra-bank system working with request forms. It also integrates the internal system of document management. With the assistance of the Intranet, employees get access to new communication tools, such as forums, interviews, billboards and online conferences. Also news, articles and interviews are published on the Intranet. As part of a crisis communication program a number of interviews with top Bank managers were organized, to answer employees' questions. Commentaries about the current situation are regularly published, as is a weekly digest of the Bank's activities.

By 2Q 2009, the Bank plans to transfer all Intranet-users to the new version of the Intranet.

Since December 2007, one of the instruments of direct dialog between the management of the bank and the employees is 'Hot Line'. Its aim is to provide a reaction to those employees, who want to get help and support connected with their work in the Bank. During 2008, there were 161 calls to the 'Hot Line', 60% of these questions were inquiries, 14% were connected to the quality of the work of the branches, and 16% were connected with questions of personnel policy and facility management. In addition to these calls, 10% of employees called the 'Hot Line' with suggestions about business development concepts, products and services offered by the Bank, improvements about upgrading the working quality of operating offices and ATMs, improvement of business safety and consultations connected with business correspondence and business etiquette.

In addition, all employees can submit questions via e-mail and receive rapid responses using a special e-mail box "Ask." From the program's inception in October 2007 till 31 December, 2008, 124 questions have been submitted and 87 answers were sent in response to a contest about the history of the Bank.

Since the end of 2007, there have been special online surveys, which are conducted with Bank employees after each important arrangement, helping employees honestly and openly offer their point of view about such arrangements, and aiding the Management's efforts to take into consideration employee feelings and ideas. For example, based on these surveys, the form and content of corporate meetings and trainings have been improved.

Introducing the Mission, Vision and Values (MVV) of MDM Bank

Through active dialogue and brainstorming, the Bank, its shareholders, members of the Board of Directors and senior management developed the Bank's mission, vision and values. Once the policy was accepted, it was passed to members of Extended Main Management Council, that then provided information about the MVV to employees.

In March 2008, members of the Management Board, as well as managers of key units, presented the Bank's MVV to directors of local and regional branches. 258 directors from 43 Russian cities took part in these meetings.

The internal goal of MDM Bank was to ensure that the written MVV program was practically implemented and became a real guide for the

Bank's employees. Introduction of MVV in the head office and in all representative offices of the Bank took place.

The following events took place within framework of the implementation program:

- The articles "What does the corporate mission mean?" and "What is the principal goal of the mission?" were published on the Intranet site, along with an interview with the management of the Bank. The interview focused on the Bank's mission, vision and values.
- New employees received an introductory course, including a specialized section on the organization's MVV.
- Modules about the Bank's MVV are included in training programs for sellers of banking services. These programs are designed to help employees to organize their behavior more effectively.

In 2008, MDM Bank conducted "Success story" contest – focusing on stories of the Bank's employees. Participants of the contest had to choose from two topics: either "How do we realize mission and values in our work?" or "How have the values of the Bank helped me to succeed?" Twenty-six projects were entered in this contest. In these projects, employees of the Bank described their achievements and non-standard ways that they used solve to the problems. All these stories (one of them was a poem) were published on the Company's Intranet web-site, and winners of the contest were presented with a set of books of "The Best Business Books" series.

To emphasize to employees the importance of providing the Bank's clients with the best

finance services and to work according to the regional Bank's MVV, a professional skills contest was held. The next contests in the Regional Bank "CENTER" were: the "deposit leader," "the most active manager," "the best supplementary office working with corporations," "the best supplementary office working with individuals", and in the North-West Regional Bank – "employee of the month" and "deposit marathon". Account managers, client managers and employees in the corporate and investment and retail block, and branches supervising the job with the middle market companies and small businesses, participated in these contests. Intermediate results of the contest were regularly posted on the Intranet, and the winners in each category were recognized at the end of the year.

employees they worked with clients. Face-to-face communication between managers and employees helped employees understand all necessary information about the Bank's development (particularly in time of crisis), and at the same time employees were able to ask the management team any relevant questions. Employees also offered new numerous ideas for the Bank's development. Following these site visits, senior management offered feedback on what they saw, offered recommendations on how to improve the operating offices and provided recommendations to retail banking.

Strategic Sessions

During October and November 2008, as part of its crisis management program, strategic sessions took place at all of the Bank's branches. Employees of all grades offered different suggestions to solve the Bank's main business problems. Most proposals were successfully accepted. In particular, a new multi-currency account was introduced, and the initiative was implemented that turned every employee into a promoter of the Bank's services, and attracting deposits through the efforts of every employee. A number of methods to successfully cut costs were worked out. In addition, a marketing campaign – "I like MDM" – was launched.

During the "personal example" campaign (which was developed during strategy sessions), the Bank's senior management visited operating offices, where together with local



A number of corporate events – “Growing with the Bank”

In 2008, under the umbrella of “Grow with the Bank,” a number of events took place that were dedicated to MDM Bank’s fifteenth anniversary. Additionally, classical music concerts were held in eleven Russian cities.

In December, interviews with MDM Bank employees were placed on the Bank’s Intranet

site. In addition to these interviews (with employees who had been at the Bank since day one), articles about the oldest regional branch offices of the Bank were placed on the website, as well as congratulations to partners and clients.

A week before this event took place a special page was formed, where each employee was able to congratulate the Bank and his or her colleagues personally.

On December 17 – the official birthday of MDM Bank – the Bank organized a festive table in honor of its longest-tenured employees. The Chairman of the Management Board, as well as all of the members of the Management Board, participated.

MDM Bank held its gala jubilee celebration on December 25. All employees from Head Office and senior management from each of the branches were invited to the celebration. During the event, the Bank showed a film “15 years of steady development” – that described the Company’s establishment and development, the people who have enabled the Bank to achieve such remarkable results, as well as the Bank’s history, present and future. Ten senior employees received awards.

During the celebration, a contest was held focussing on the history of the Bank. The results of the contest were announced on the gala night, when five winners who answered all the questions correctly and more quickly than others received prizes.

Based on operating results from 2008, awards were given to the best employees of the Bank’s branches.

Contest of Marketing Proverbs and Sayings

In October, MDM Bank held a contest of marketing proverbs and sayings – interesting and informative statements, which could be used in finance and banking operations. A large number of employees took part in the contest – submitting more than 300 sayings, proverbs, poems and toasts. The best ideas from the contest were used when the Bank prepared new parts of its website and promotional items.

New Year Events

On 11 January, 2009, the Bank organized a Christmas tree at the Moscow Theater of Clownery under the management of Tereza Durova for children of the Bank’s employees. In addition to organizing the celebration for employees’ children, Bank representatives also presented more than 170 gifts to the charitable fund “Give Life.” The founder of this charity – Chulpan Khamatova (a famous actress) – thanked the Bank for its generosity.

About the Bank

MDM Bank was founded in 1993 and is one of Russia's largest financial institutions. The Bank engages in activities, including investment activity, providing banking services on the financial markets, offering lending services to small businesses and providing private banking and asset management to high net worth individuals. The Bank also offers a wide spectrum of retail banking services to private individuals.

The Bank has a well-diversified client base with 10,800 corporate customers; nearly 27,000 small business clients and approximately 412,000 retail customers.

By the end of 2008, MDM Bank had 199 offices in 80 cities, an increase of 35 offices compared to 2007.

Private client banking is one of MDM Bank's main strategic and business lines. Retail banking works with individual clients and offers a wide choice of financial products and services, including cash management services, transfers, debit and credit cards, credits for buying real estate and cars, consumer crediting, acquiring, and a variety of time-deposits in rubles, dollars and euros. In 2007, the Bank also established a special deposit for pensioners "MDM Social Replenishable," with soft terms for investing money.

Clients with financial assets in excess of USD 200,000 receive comprehensive services from the Bank's Private Wealth Management, including: financial planning, consulting and trust management.

The Bank developed a wide variety of lending products, which are oriented towards **self-employed entrepreneurs and small businesses**.

These products are included in the Retail Banking Division. MDM Bank employs a flexible approach both toward re-payment terms and credit security (collateral). To help upgrade energy efficiency at small- and medium-sized enterprises, the Bank – in conjunction with the International Financial Corporation (IFC) – launched a specialized credit product "MDM Energy." Additional details about the Bank's specialized credit products for individuals and small businesses are described in greater detail in the "Responsible financing" section of this report.

In its work with **corporate customers**, MDM Bank also employs a complex approach. The corporate-investment division of the Bank offers its clients a wide range of services, including credit financing, leasing, factoring, cash management services, encashment, trade and structured financing, depositary and brokering services, forfeiting, pre-export financing, corporate financing, consulting, intra-bank lending, trading and placement into securities market, repo, FOREX market operations, hedging, money market operations with precious metals, banknote transactions and analytical support.

MDM Bank is interested in working with reliable partners. According to its internal policy of managing and minimizing ecological risks, the primary target of the Bank is to finance clients whose activities do not negatively impact on the environment and which provide for future sustainable development. The activities of the Bank (focused on minimizing social and ecological risks) are described in more detail in the section "Social principles of business".

The Bank holds a leading position in the Russian banking sector. By the end of 2008, it was the fourth largest private Russian bank – measured in capital stock and assets.

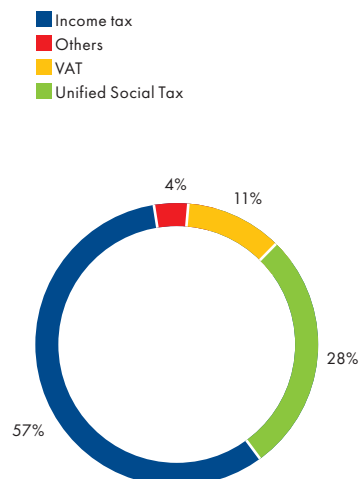
The main part of the Bank's income – 67.9% – is generated by MDM's corporate and investment banking. Comparing 2008 to the previous year, the income from this unit increased 10.8%. During the same period, income from retail business – which includes financial services for individuals and small businesses – was 19.5% higher than in the same period. At the same time the share of retail business in the overall profits of the bank has not changed and remained 21.8%.

The principal financial results for MDM Bank in 2008 year are highlighted in the Bank's annual report in the section "Main Performance Indicators".

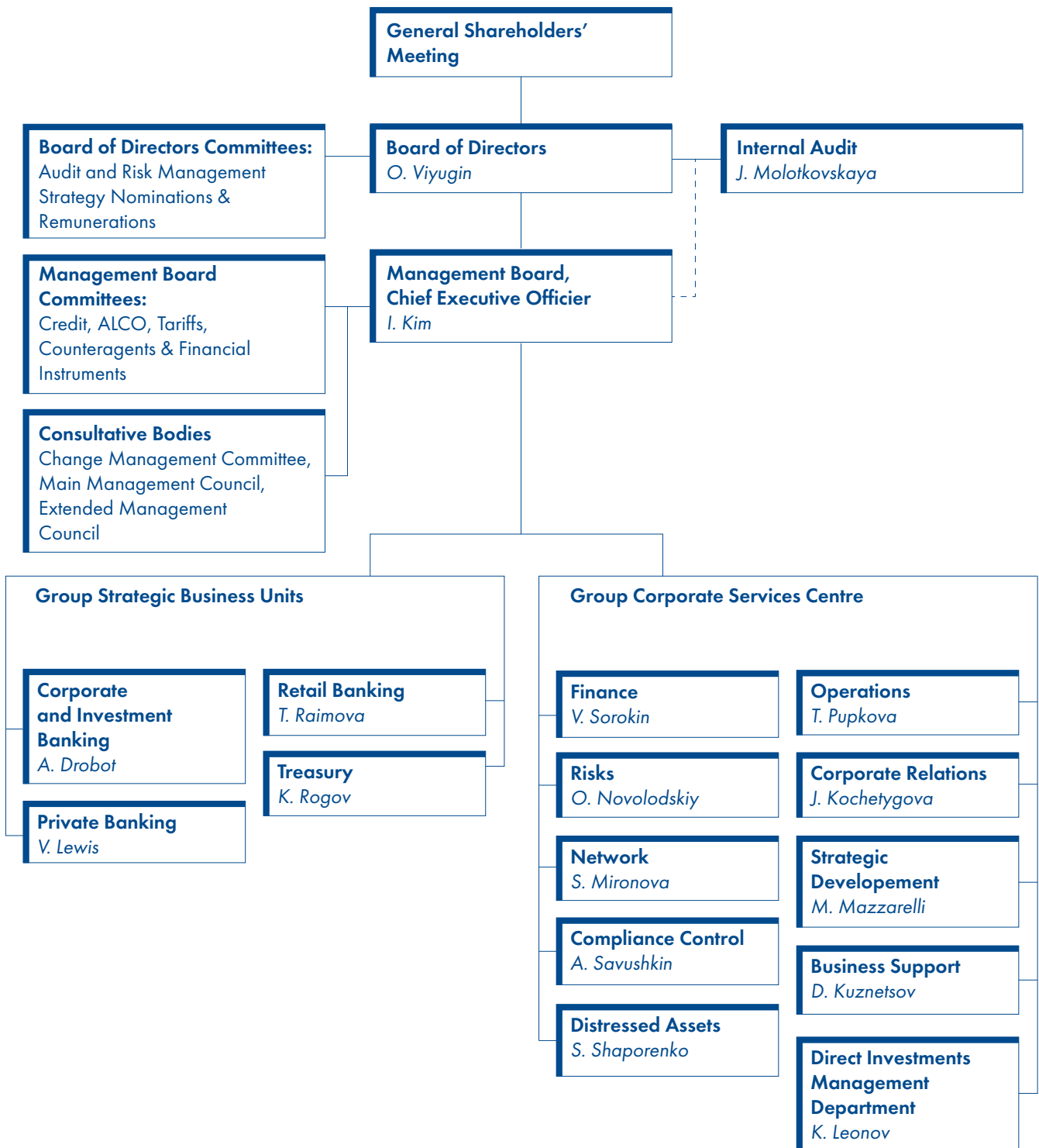
The Bank is a large taxpayer. For FY 2008, at all budget levels, the Bank paid RUR 1,938 mln in taxes – which was divided between the Head office (RUR 1,161 mln) and the branches which paid RUR 776 mln. Income tax for the period accounted for RUR 1,333 mln.

Corporate governance practices at MDM Bank are based on international best practices. The overall direction of the Bank is determined by the Board of Directors, which is responsible for establishing strategy, supervising and controlling the actions of the Bank's management team, and acting in the best interests of all of the Bank's shareholders. To improve the Bank's corporate governance system and to ensure that it meets with the highest international standards, MDM Bank focused significant attention on the work of the management body – ensuring balanced composition between the Board of Directors and the committees. Prior to the December 2008 re-election, the Board of Directors consisted of seven members – including four independent directors (one of them was Chairman of the BoD). The Chairman of the Management Board reports to the Board of Directors.

Structure of taxes paid in 2008



Organizational structure*



* Information about the current situation as of April 2, 2009

MDM Bank is the only Russian financial institution that has a public Corporate Governance Rating from Standard & Poor's, and has one of the top three Corporate Governance Scores in Russia. As part of the rating process, S&P's pointed to the following positive factors at MDM Bank: no conflicts of interest with the main shareholder, balancing role of minority shareholders and their representation on the Board of Directors, the inclusion of independent, non-executive directors on the Board, a high level of communication with investors and a well-defined link between top managers' performance and the compensation that they receive from the Bank.

The Bank received numerous awards recognizing the re-organization of its supervisory system. The MDM Chairman of the Board, Oleg Viyugin, was named as best in the category of "The Chairman of the Board of Directors: Development of Corporate Governance" at the "Director – 2008" national conference. This conference was established by the Association of Independent Directors, in conjunction with PricewaterhouseCoopers.

More details about MDM's management can be found in the section "Corporate Governance and Management" in the 2008 Annual Report.

At the moment, the main shareholders of MDM Bank are Mr. Sergey Popov – the primary beneficial owner with nearly 77%; Olivant Limited – with a beneficial ownership of 9.5%; Mr. Martin Andersson – with an 8.5% beneficial ownership; and IFC with 5% direct ownership.

The legal structure of MDM-Bank is spelled out in the section "The legal and ownership structure" of the 2008 annual report.

In December of 2008, shareholders from MDM Bank and URSA Bank agreed to merge their banks. Following the merger, the united bank with capital of 70 billion rubles and assets greater than 500 billion rubles (joint indicators for MDM Bank and URSA Bank as of the end of 2008, according to RAS) will become one of Russia's leading financial institutions.

The merger will strengthen the Bank's position on the market by offering income synergy, by allowing for the optimal use of existing infrastructure, cutting expenses, expanding the geographical scope of the Bank and its branch offices and diversifying products and business (both in the retail and corporate sector).

Awards received during the reported period

MDM Bank received an award from the Cbonds information agency in 2008. In the category, "The best research in the bond market," MDM Bank's team was selected as the second best – beating out numerous leading Russian and international banks. The Cbonds Awards are a yearly professional contest on the bond market (conducted since 2005). Winners in individual categories are selected through voting on the information agency's website.

MDM Bank received third place for customer service satisfaction in ratings compiled by The Retail Finance magazine and SAS Russia/CIS company. Russia's 50 largest retail banks were included in the research.

MDM Bank received an award for second place in the quality of retail banking. The survey "The impression of the client in 2008: Who is the leader in retail banking in Russia?" was prepared by Senteo International and PricewaterhouseCoopers. The rating was made after visiting experts 51 bank offices in Moscow and Saint Petersburg. The overall result for the Bank – 4.22 points (out of a possible 5) – marked a significant improvement from 2007, when MDM Bank received only 2.97 points and placed 24th.

MDM Bank received an award from Euromoney magazine as "The best managed bank in corporate & investment banking in Central and Eastern Europe in 2007." This award was presented for the first time as part of yearly research that the magazine conducts on the best companies in the CEE and was based on interviews with European banking experts.

In April 2008, MDM Bank was the winner in a national contest "Dealer of the Year," organized by the Moscow International Forex Association (MIFA) in the category "2007 Best Money Desk." In addition, MDM Bank received a second place award for "2007 Best Forex Desk" in the same competition.

In 2008 Global Finance magazine recognized MDM Bank as the best in nomination "Domestic Bond Research."

In 2008 MDM Bank became a winner in nomination "Best annual report of central federal region issuer" of the XI Yearly Federal Competition of annual reports and websites, conducted by "Rinok Tsennikh Bumag" (Securities Market) magazine together with the Ministry of Economic Development of Russia and MICEX SE.

Corporate Social Responsibility Report describes activities MDM Bank performed in the area in 2008. The Report has been approved by the Chairman of the Board of Directors. The Report covers both the Head Office and regional branches based in Russia. Most figures are shown as of 2008. The Report is based on certain criteria for sustainable development of the Global Reporting Initiative (GRI); such criteria were recommended by the top management.

The Report is based on publicly available information and corporate statistics.

Corporate Social Responsibility Report is available in Russian and English versions. In the event of any disagreement between the Russian and English versions the Russian one will be conclusive.

Please send your comments and any improvement proposals related to MDM Bank nonfinancial reporting to the beneath stated contact details:

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