MDM Bank
Friday, 16th October 2009
15:00 Hrs UK time
Chaired by John McNaughton

John McNaughton

Hello ladies and gentlemen, welcome to our investors, colleagues and others listening today. Thank you for joining us on this call, my name is John McNaughton, I am the Co-Chairman of the Investment Bank at MDM. I have the honour today to speak to you about our results for the first half of 2009. After my brief introductory comments, Vladislav Khokhlov, MDM Bank's CFO, will speak in detail about the bank's first half IFRS financial results, after that we will open up the lines to questions and you will be able to ask questions either by telephone or online.

You probably have had a quick chance to review our financials and I would say that the overall environment in our financial situation in particular can be best described as some good news and then some bad news, but in the end it is the more good news. The first good news is that the merger between MDM Bank and URSA Bank, which is the largest banking merger ever in Russia, is now complete. If we announced our merger in December 2008 we have been working hard to get everything in place, and many of you have been through similar transactions at your own banks. Organisations have complimented us for how smoothly and quickly we completed this merger transaction. The bad news is that the Russian economy, like the global economy, underwent severe economic shock during the reporting period that we are discussing today. Russia GDP contracted significantly in the first half of this year, the rouble was devalued, and clients and banks were forced to rapidly deleverage. This of course had a major effect in our balance sheet.

Despite improvements in core income, the bank has had to create substantially large loan loss provisions which, as everywhere else in the Russian banking sector, is the primary factor affecting profitability. Getting back to the good news, however, while it is clear that some uncertainty and difficulties lie ahead, we feel that the economic situation has stabilised to a significant degree. Commodity prices are back up and the Russian markets are performing quite well. Banks are starting to resume lending and the ruble has stabilised and indeed has been showing its strength in recent days.

First I would like to talk about a few key highlights for the first six month of the year. As I mentioned late last year when we announced that MDM Bank and URSA would merge, we announced a completion target of one full year. However, our legal merger was completed in August 6th 2009. The degree of support that we have received from all of the stakeholders was extraordinary. Government and regulatory officials were extremely approving of the merger. Bond holders and creditors also viewed this merger as positive and we were able to successfully complete all liability management exercises. Our shareholders were also extremely supportive, and not only of the merger transaction itself, we received commitments from them including our IFI shareholders, the EBRD, the IFC, to support the bank through capital injections if needed.

MDM has been and remains a very well capitalised and highly liquid bank. We are the best capitalised bank in Russia of the top banks, with the total capital adequacy of 17.3%. With our tier 1 capital at 15%, we are in a great position vis-à-vis our peers to take advantage of certain opportunities in the banking arena, while keeping a large equity cushion that we could calculate would enable us to absorb up to 24% loan loss provisions to gross loans by the end of 2009. At the same time, our first line of defence in this environment is also strong. If you look at our pre-provisioning operating income, it continues to grow and on an annualised basis amounts to over 40% of equity. Of course, the major economic disruptions in the first half of this year put a serious strain on our corporate and retail borrowers. Loan loss provisions are the main driver of Russian banks' financial results in 2009 and this was the main contributor to the RUB4.3 billion comprehensive loss in the first half. In fact, in line with our conservative approach the bank created over RUB5 billion of additional provisions as an adjustment for the current economic and credit conditions. On a positive note however, the bank continues to demonstrate high efficiency levels. The core indicator that we focus on is cost to income. This ratio has improved to 33.6% which makes us one of the most efficient banks among our peers. This ratio has improved not only in response to our cost optimisation efforts, but also due to the fact that we have been able to grow our operating income. MDM Bank is also in a very good position regarding liquidity. The bank has always kept relatively high levels of liquid assets on our balance sheet, in addition to these liquid assets we have additional lines from the Russian Central Bank of RUB80 billion; this line is completely unused.

Looking forward, we do see more activity in the markets. MDM bank for example will close a syndicated loan very soon that is oversubscribed and currently amounts to around $300 million. This is the first and only syndicated loan that a Russian bank has been able to close this year. This is no small accomplishment; it definitely does speak to the strength of our bank, a focus on key relationships, a history of earning trust from the international community through a policy of transparency, good corporate governance, clear business practices and openness and straightforward accounting.

Partly due to the fact that markets were difficult in the first half of this year, on a pro-forma basis the bank's assets declined during this period. Virtually no new loans were being made during this time and our two banks were focused on preservation of capital which has put us in a very strong position compared to our peers in this environment as we see things start to stabilise. The return of the markets is definitely a positive sign, however our core funding strategy is focused on increasing retail deposits. The first half year has seen very positive trends. Retail deposits grew at a 22% annualised rate in the first half of 2009. This is a very positive sign, and you will see illustrated later how the merger has helped diversify both the funding and asset bases for MDM Bank. Next slide please.

Of course the most significant effect not only on the balance sheet and on the first half financials, but also for the future direction and business of MDM Bank has been the completion of the merger of URSA Bank. As mentioned before, although the legal merger was approved on August 6th which means that we are operating under a single banking licence, the merger process was underway since the beginning of this year. With the merger complete we are talking about a new MDM Bank. This new MDM Bank has an even stronger nationwide network; we have over 350 branches and more than 2,000 ATM machines operating in 162 cities throughout Russia. Our business lines are split into core retail and corporate banking, private wealth management and investment banking services. The bank consists of a headquarters handling centralised functions and three regional sub-banks; the European bank, the Siberian Bank and the Urals bank. Each of these regional banks are responsible for business growth in its own territorial area. MDM Bank is well know as a leading force in promoting good corporate governance in Russia. As part of the strong beliefs, the new post merger bank has a board of directors comprised of extremely reputable and knowledgeable bankers and economists. In line with best practices, of the seven members of the board, four them are independent. The management board of the post merger MDM Bank represents the sum of the strongest sides of the two pre merger banks, and this has not only insured a smooth integration process, but has also insured a clear path into the future. Another important point to mention is that during the first half of 2009 URSA bank paid out dividends to its preferred shareholders in 2009 and the pref shares of the new MDM bank have the same standards and rights, including the listing status and dividend policy that they had under the pre merger URSA Bank. Next slide please.

This slide illustrates how the merger has vaulted MDM bank in position and importance throughout the Russian banking market. MDM Bank is now the second largest of the privately owned Russian banks. We are second only to Alfa Bank in regards to both equity and total assets. Of course in terms of important metrics such as capital adequacy, corporate governance, and cost to income, we are the number one. In other important products such as retail loans and deposits, and corporate loans and deposits, we are one of the leading players. Here you can see we were in the number two or the number three position; the gap to number one is quite small. We are determined to close this gap in the near future.

You can also see even MDM has less than 3% share country-wide within the businesses we are most interested in: there is still plenty of room for growth.

Now I'd like to pass over to Vlad Khokhlov, MDM Bank's first Deputy General Director and CFO, to dig into the first half results.

Vladislav Khokhlov

Hello ladies and gentlemen, thank you for joining us on the call today. I have the honor to present to you the IFRS Results of MDM Bank for the first half of the year. In connection with the merger, a few points regarding the IFRS treatment of the transaction that I want to cover before I get into the numbers.

Well, the final stage of the legal merger took place on the 6th August this year. By the 1st July we had completed all the necessary corporate steps to consider the point of no return for transaction as being passed. By this date the both of shareholders of both banks had approved the deal and all documents have already been submitted to the central bank. In connection with this, as of the 1st July for IFRS reporting purpose, the transaction is considered complete, and H1 Financial Statements are for the merged MDM Bank on the consolidated basis. The shareholders of the pre-merger MDM Bank received around 65% of the shares of the merged bank which means that IFRS considered this transaction as reverse acquisition, whereby URSA Bank is acquired by MDM Bank. Despite the fact that legally the transaction was done, the other way round.

It's also important to say that in merging URSA Bank with MDM Bank, all assets, liabilities, and contingent liabilities of URSA bank were evaluated by an independent appraisal at fair value. And they were assumed by MDM Bank on this basis. Therefore, on the following slides, you will see balance sheet figures that reflect the combined assets, liabilities and capital of the two banks, while P&L figures are from MDM Bank only. All comparative information is likewise presented, only based on pre merger MDM Bank figures.

Here you can see the highlights of the merged bank balance sheet as of the 1st July this year. Of course the main changes are due to the merger and the significant growth in assets, gross loans and equity are due only to the merger. The reduction of assets in the first half of the combined basis was due to the over RUB100 billion in repayment that the banks made during that period, as well as the bank's conservative policy focused on maintaining adequate capital level, to ensure sustainability and stability in the challenging economic environment.

I would like to focus now on the factors that led to a decline in liquid assets. This is due to repayment of over RUB100 billion to debt capital markets, and the Central Bank, as well as interbank repayments, like bilateral and syndicated loans. As a result of this, the bank showed a significant improvement in the loan to deposit ratio, which fell from 179% to 150% during the six month period. I would also like to note that the bank saw significant retail deposit growth. If you look at the proforma figures for both banks during the period, retail deposits grew by 11% which is in line with sector trends. This slide covers some of the key income highlights for the merged Bank. You can see that we saw significant improvements in net interest income which was primarily due to rise in interest rate on the assets and liabilities of the merge bank. Of course this led to an increased net interest margin and even despite the fact that the merged banks' assets decreased and the loan book shrank by 8%, we experienced more than 8% growth in the net interest income. Net fee and commission income grew at a faster rate. The bank paid special attention to cost optimisation during the period and you can see that operating expenses dropped by nearly 13%, with a number of employees on a combined basis down 14.3% compared to July 1st last year.

The main drivers of financial performance this year remains loan loss provisions which saw a more than eightfold growth year-on-year. The bank continued to take a conservative approach to provisioning on our loan portfolio and RUB11.5 billion of provisions where created during the first half of year. The merged bank continues to maintain 100% coverage of NPL. None the less, the RUB5 billion of provisions created during the current economic and credit conditions is roughly equal to the loss of RUB4.3 billion in the first six months of this year. I would like to point out that this figure represents only the business activities of pre-merger MDM Bank during the period according to IFRS. Therefore, on the slide we would like to show the equity reconciliation on the merged bank's equity from the end of the last year.

The business activities of URSA Bank during H1 this year did not affect the equity of the merged bank, with the exception of the key items listed here. In their assessment of URSA Bank's balance sheet, the independent appraisers wrote off goodwill amounting to

6.5 billion rubles – this write-off was taken into account when determining the share exchange ratio for the merger. URSA Bank paid nearly 700 million rubles in dividends on its pref shares, and revaluation of URSA Bank's fixed assets amounted to around 900 million rubles. The remaining changes in the fair value of the bank's assets and liabilities had a minimal net effect amounting to around 260 million rubles. As a result, the total equity of the merged bank, as of the 1st of July this year, amounted to nearly 57 billion rubles, which is 12 billion lower than the figure at the beginning of the year.

On the following slides you will see pro-forma data for past periods, unless otherwise noted. On this slide we want to highlight that MDM Bank has one of the strongest capital adequacy ratios among its peer banks in Russia. The tier 1 ratio is the highest among the bank's peer group, at 15% as of July 1st of this year, and the total capital adequacy ratio is over 17%. Based on our calculations, the bank is able to **a**bsorb potential losses of up to 24% of the loan book by the end of this year, while the current NPL level is slightly over 14%**.** At the same time, the bank's main shareholders have all committed to participate in a capital injection, although the bank currently does not view this as necessary because current capital adequacy levels are manageable and additional support from the shareholders is not required. The bank is also not planning to raise capital using any government support programs.

This slide demonstrates the bank's core business results. You can see here that items like net fee & commission income and net interest income – and as a result pre-provision operating income – demonstrate strong growth**.** The bank has seen significant net interest margin growth as well. I would like to underscore that combined annualized pre-provision operating income for the period was over 43% of the merged bank's equity.

This underscores the fact that the bank is highly efficient prior to the creation of provisions, and in line with our belief that the period when significant new provisions need to be created is coming to an end, the bank will in the future be able to demonstrate significant returns on equity through profitability.

If we compare some of these indicators to our direct peers, we see once again that MDM Bank has a serious lead in cost-to-income, at 33.6%, and net interest margin, at 8.8%, during the period.

On this slide I'll cover merged bank asset quality and provisions. The bank's policy is to maintain 100% provision coverage of NPLs and in the financials for the first six months of this year we see that the bank's coverage ratio was 100.2%. At the same time, NPLs in the second quarter of this year rose from 8.2% to 14.2%. I would also note that one contributor to the increased NPL ratio was an 8% decrease in the bank's gross loan portfolio. Nonetheless, the bank is maintaining at least 100% provision coverage of NPLs, which was the primary factor influencing profit for the period. The bank also created nearly 5 billion rubles of provisions as an adjustment for the current credit and economic conditions during the period, which is nearly equal to the 4.3 billion ruble loss reported for the first six months of this year. I would also like to note that the bank is pursuing a long-term client-oriented policy with regards to problem assets, which, we think, will have long-term benefits for the bank and our ability to recover problem loans in the future.

Touching on restructured loans, which amounted to 45.5 billion rubles on June 30th, I would like to say that this amount primarily consists of loans that the bank restructured with the goal of improving credit quality, through increased collateral and/or improved payment discipline by the borrower. The bank does not restructure loans that it does not expect to be repaid or that are significantly impaired.
Deposit growth is an important strategic focus for the bank, and we pay special attention to increasing deposits from individuals. In the first six months of this year the bank managed to increase overall retail deposits by 11%, while retail term deposits grew by 16.9%.

This growth helped the bank to significantly improve the loans-to-deposits ratio, which decreased from 178% to 150% over the last quarter.

I would also like to draw your attention to the fact that in connection with the merger and the banks' efforts to improve diversification of its deposit base, the top-20 depositor concentration fell from over 50% at MDM Bank to near 35% for the merged bank as of the 1st of July this year. Here I would also point out that these deposits are primarily from companies in sectors that we do not expect to suffer significantly from the crisis. Most of the top-20 deposits are from companies in the telecoms, chemicals and public sector.

The next slides illustrates the significant improvements in the diversification of the merged bank's assets and liabilities. This is connected with two factors: the merger of MDM Bank and URSA Bank, and the business activities of the two banks during the first six months of this year.

On slide 13 you see that customer accounts amounted to 44% of the merged bank's funding base as of June the 30th, compared with MDM Bank's 35% and URSA Bank's 33% customer accounts funding at the beginning of the year.

The merged bank's dependence on debt capital markets also significantly decreased, with funding from this source at around 15% at the end of H1 09, compared with 34% for URSA Bank at the end of 2008.

Slide 14 shows a similar effect on the asset side. If we take a look at the loan book, for example, as a result of the banks' work in the first six months of this year and due to the merger, the share of FX loans dropped from 48% at MDM Bank at YE 2008 to 34%, or just over one third of the loan portfolio of the merged bank as of June the 30th.

Also, retail loans increased from 12% of the MDM Bank loan portfolio at the beginning of this year to 34% of the merged bank's loan portfolio at the end of H1 of this year.

In closing I want to give you an overview of the management's estimates for the end of this year. We do not expect significant changes in the assets, and likewise the loan portfolio, of the merged bank. We estimate that these figures will remain around current levels – with assets of around 400 billion rubles and net loans of around 300 billion rubles.

We will and are engaging in new lending, and expect, for example, to issue up to 10 billion rubles of new loans for credit cards and consumer lending by the end of this year.

Management does not expect significant growth in NPLs in the second half of the year – our optimistic forecast for NPLs is to be around 14 to 15%, and in our negative scenario NPLs rise to 18%, which will mean the Bank's total capital adequacy will be between 16% and 20%, depending on the amount of NPLs.

The bank will of course continue to keep a tight grip on costs, and on the cost-to-income ratio. We expect to keep this indicator under 40%, which is a particularly low level for the banking sector.

We expect comprehensive income to amount to approximately half a billion rubles for the full year 2009.
Of course these numbers represent management's expectations as of today, but we will do our best to achieve these results by the end of the year.

Thank you for your attention. I will be happy to answer any questions you have.

Questions and Answers

Marta Czajkowska – KBC Securities, Warsaw

The question that I have is if you could discuss the competitive landscape and the outlook for POS lending, I know that URSA Bank used to be very good at that and we have already learned from a few of your peers that we should see seasonality in the fourth quarter for POS lending; do you also see this as usual or rather pre-crisis seasonality in consumer lending, and if you can also comment on the current trends on this type of lending.

Actually we do see a reengagement of banks in the sector. I think if you look at the activity from the end of last year until the beginning of the second half, activity has been quite slow. A lot of banks, including ourselves, were reassessing underwriting criteria. Again, in the first half of the year the economy took a tumble and a lot of the banks, including ourselves, had to keep a lot of liquidity on hand. Right now many banks are feeling a lot better. Of course banks that are more reliant on deposit sources for their liquidity, as opposed to capital markets, have more funding and are willing to deploy it.
If you look at our business model in general we don't have a POS sales strategy. We do retail lending, but these are retail-lending decisions that are made in the branch, at the branches and a lot of the retail lending that we do is basically either on salary cards, so there are overdraft options on salaries, or via credit cards and other types of debit card products. If you're looking at the banks in this sort of landscape, they all have a little bit of a different strategy. In terms of hard numbers it's hard to say exactly where POS and other types of retail lending is going from now until the end of the year and indeed into next year. However, I would say that if you're looking across the different platforms, this is probably the first one to take off. Obviously in terms of the maturity of these loans, they're shorter; in terms of the ability to underwrite, it's perhaps easier; and the third thing relating to your question is the margin. The marginality of these loans will…it's similar to where the situation was five years ago – in other words when the competitive landscape was not so tough. We're looking at margins that are approaching 30% on this type of

product. Obviously things will depend on the levels of NPLs and the trends in funding; however, the 30% level is probably…would be accurate towards the end of the year.

I appreciate that it's difficult to estimate, but you think that the retail lending is going to drop by the end of the year from these levels or what are your expectations?

In retail lending you have three major retail lending directions. There are mortgage loans, car loans and then consumer loans. If we're talking only about consumer loans we think that you're going to have a very stable sector trend because, as you know, a lot of these retail loans were short-term and they're coming due, but that would then decrease, which is what is going on in other lending sectors. You will see the mortgage and car loans coming down, whereas the retail loans, if they do grow they will just grow just maybe into the single digits from now until the end of the year.

Okay, clear, and maybe just one more question on the cost side. Do you have any room to further track costs and where would it come from, if yes?

Well, our bank is in a maybe singularly good position to continue to the reduction of costs because one of the purposes of the merger between the two banks was to take advantage of the cost synergies, so the optimisation procedures are continuing. In other words we are focusing on how to optimise both the back office procedures, the front office types of products etcetera, so you will definitely see a decrease in costs across the different platforms of the bank going forward.

Tatiana Boroditskaya – UBS, London

The first one is realated to NPLs; can you please tell us which sectors are driving NPL's growth now? And second question is related to restructured loans. As far as I understand, you mentioned that restructured loans stood at 18% of gross loan book, as of first half '09, so where do we see them by the end of 2009?

Unfortunately we didn't hear your question, so clearly. In terms of the first question, as far as I understood, it's regarding the NPLs and which sectors were driving the NPLs. Well, again, NPLs were driven primarily in the first half of the year. If you look at the growth in NPLs, you can see a growth pretty much in every sector that we lend to. If you break it down into corporate and retail NPLs you will see that the retail sector has grown from a 7.7% up until 19.1% at the first half. In terms of the corporate sectors it's gone from 4% all the way up to 12.1%. All sectors were the driving force in the first half of the year, and if you're looking forward you will see a retraction, or at least a stabilisation, in pretty much all of the sectors across the board – I mean you don't really see one sector outstanding versus the other sectors, and that goes for both corporate and retail as well.
Can I ask you to repeat the second question?

The second question is related to the restructured loans. You mentioned that these stood at 14% at first half '09 and where would you see it by the end of this year?

First of all let me just define what a restructured loan in our book is. A restructured loan is a loan that has had its terms or conditions changed. Most of these have happened in the first half of the year. However, they were made only…when the client was performing, the client was able to bring in additional collateral to the loan and the client was able to

work out new conditions in terms of both interest rates and the payment schedule, so we consider the majority of these types of loans as performing, which they are.
In terms of the growth, in restructured loans you probably won't see any major increase towards the end of the year. We think this will stay around the 14 to 15% level.

Andrew Keeley – Troika Dialog, London

Yes, just a first question on NPLs, you said an optimistic scenario would be about 14 to 15% NPL for the year-end, which basically implies no growth in percentage terms in the second half of the year. I was just wondering whether you can give us any colour on how things stood at the end of the year, the third quarter.

Yes, based on our optimistic scenario that the levels will be 14 to 15%, if you look at the performance on these loans in the third quarter, you will see that NPL only went up by 1%; so in other words they are hovering around 15%, which is a clear indicator that NPLs have levelled off. Now when we're talking about optimistic scenarios this would mean that NPLs would not substantially rise between the third and the fourth quarter.

So really you're seeing quite a marked improvement in terms of your borrowers' ability to repay in the third quarter compared to the second quarter. Is that fair to say?

Yes, as I mentioned at the beginning, we're talking about a lot more good news now in the third quarter than we had seen in the first half. The ability of the borrowers to repay has returned; the economic situation in general is stabilising pretty much across sectors, and we have seen that in our loan performance quite definitely.

Can you just tell us what your expectations for loan growth are in the second half of the year in percentage terms? And if you could also break that down in terms of retail and corporate that would be useful.

Okay, well, basically we don't see that the loan book would grow substantially towards the end of the year. Don't forget that there are loans coming due and we are also making new loans, so that by the end of the day the net loan amount will pretty much stay stable. If you break it down between corporate and retail, you might see a very, very small increase in the amount of corporate loans, you might see a little bit of a decrease in the retail loans by the end of the year, but I think the net effect will be zero.

Okay, so basically pretty much flat in the second half of the year. And just a final question on your margins; it seems like there was very, very strong growth in the net interest margin in the second quarter. Can you just give us some idea of what were the drivers of that margin expansion? Was it primarily on funding costs coming down or on loan yields still going up? And also can you give us some colour on what trends you're seeing on margins so far in the second half of the year?

Yes, well, of course there are a lot of factors that affected the net interest margin in the first half of the year. If you look at the drivers of the growth, the net interest margin of 88.8%, first of all it is thatat the beginning of the year you had a rapid increase in interest rates across the board in Russia, which means that we were able to re-price loans at a faster rate than the cost of funding went up, so that's one driver of the interest margins. The other reason for the growth is due to a decrease in liquid assets, which had originally

low profitability. We had excess liquidity stocks build up at the bank and these liquid stocks, of course, were returning fairly low returns, but that had gotten better towards the mid of the year.
Going into the end of the year I think you will see a general trend maybe towards the lower end of the scale, in other words net interest margins might be driven down a little bit because of interest rates coming down versus the first half of the year when they were going up, and the amount of liquid assets remaining fairly stable throughout and towards the end of the year with the similar low profitability, so that's basically where we see things going.

Okay and just one final question; if, as you're saying really, that you're seeing generally a much better economic environment and asset quality is improving, why do you think it is that you're not really planning to grow the loan book in the second half of the year?

Well, of course, there are many reasons for that as well. If you look at the corporate borrowers, even though the economy has turned around it doesn't mean that everyone is now in perfect financial shape. It's going to take a while before these corporate borrowers strengthen their balance sheets, increase their equity, get their business plans up and running again, and this is going to take us a while ourselves to sort out the proper types of criteria that we'll be using for these, I guess, corporations that are in the turnaround mode.
On the retail side as well it's something that we were starting off slowly in terms of increasing retail loans and we're rebuilding our systems, and we also expect to see growth but, again, slow growth.
The other reason is because that things have turned around but we're still going to maintain that conservative approach. We still don't know exactly where the economy is going. We still don't know exactly how the NPL situation is going to turnaround. Obviously these are all estimates based on what's going on in the economy at the current date, but we're not ready to take a plunge and say that we're going to have a fast growth.

Svetlana Kovalskaya – Aton, Moscow

My question is not actually on the results as such; it's rather on the actual pref share issue which you have listed. This scheme that the stock liquidity has somewhat come down recently while partly due to the general crisis in the Russian banking sector, but also partly due to the fact that free flow has decreased as a percentage of the capital and maybe became less interesting for some investors. So my question is do you plan to do anything about improving the liquidity of your stock? For example, would you consider a conversion of prefs into commons or a placement of common shares in the market or new prefs or anything like that?

Let me just answer that question in several ways. First of all if you look at the performance of our stock price in the last couple of months it's been quite extraordinary. I think prices you can say have either doubled or in parts tripled; of course this is sort of a short-term rebound in the general market.
The second thing about our preference shares is what makes it interesting to investors not only is it the possible price hit upside, it's also the dividend policy. You may know we have a dividend policy to pay 80 cents per share, which if you look at current levels, is quite interesting even on a fixed income basis.
In terms of the liquidity of the share itself, as I mentioned at the beginning and as Vlad says, we have over 17% capital adequacy. It's unlikely that they are going to be issuing

any new stock in the near future. Even if we do need any capital for regulatory reasons, we do have plenty of room to increase the lower Tier-2 and upper Tier-2 capital in case things get better in the economy and we need more capital for growth. However, increasing the prefs is an option. It's something that we're always looking at and I think that once we do have a need for a capital this is something that we will look at. Actually converting the preference shares into ordinary shares would be something that we'd do at an even later stage, I would say, but obviously we look at all the options, as the bank will grow, but that's definitely not something that we will be doing this year.

So did I get it right that you do not look at the capital increase this year for all good reasons, but once you look at this idea again you would first go for a new pref issue and then a conversion of prefs into commons at some point in the future.

Let me just say your first part is correct. We do not have any need or plans to increase capital at the bank this year. As to your second point, what I want to stress is that when the bank will need capital we will look at all options, and we will look at the best way for the bank to increase its equity, whether it would be an increase of pref shares, or a conversion of pref shares that would remain to be seen at the time when we need the new equity.

Jay Hallen – Rosemount Capital

Is the projection of NPLs based on a top-down or a bottom-up analysis?

The answer that it's from a bottom-up analysis. I hope that answered your question.

Gleb Shpilevoy – RZB AG, Vienna

Good afternoon, I have a quick follow-up on NPLs. You indicated some slow down in NPLs from even in the third quarter; however, if I look at the corporate portfolio at the seasonal analysis then I see quite a huge chunk in the 30-day bucket compared to 30 to 90-days, and like it seems to me that NPLs are very accelerated in the June 2009. Is it a result of some researching activities or was it really on the reacceleration? The other question, what's the trend in the retail portfolio, which is the same across practically all the retail products?

Okay let me answer your first question first and then…well, first of all we just previously gave an estimate on what the third quarter NPL figure might look like; obviously until it's published we can't make any commitments to these numbers. The other thing is that if you look at the economic environment in the third quarter, it was much better than at the second quarter, so if you see a growth in the 30-day overdue loans for the corporate borrowers in the second quarter, you will see a very fast turnaround and so a lot of these 30…1-day to 30-day overdue loans to a certain degree are what we call technical overdues; in other words that might be 1 day late or 3 days late, these are technical matters. The other thing again is, as I mentioned, the rapid turnaround in the economy and the markets in the third quarter. So I wouldn't necessarily use those numbers to make predictions for the numbers that will be as of October 1st. What was your other question, sorry?

The other question was essentially the same on retail loans. If I look at the different product types then they obviously equate to huge chunks in the less than 30-days bucket in comparison to 30 to 90-days, so is it the same trend what you indicated for the corporate portfolio or do we see really some reacceleration of NPL formation in the retail portfolio?

No, I think you're seeing a general overall economic environment where not only the corporates are feeling better but especially the retail borrowers are feeling a lot better, and you'll see that, I think, reflected in the third quarter figures. You will definitely see a rebound in…a levelling off of these levels of Non-Performing Loans and it's just something that you can't really predict from looking at the second quarter numbers, but being here and working on a daily basis it's something that we definitely see among all of our borrowers, which is a levelling off of these Non-Performing Loans.

Closing Comments

Thank you very much and thank you everybody for joining this call. I would like to reiterate that we're always open to your questions and comments. Please contact us at your convenience if you have any additional comments on our second quarter numbers.