

2010 IFRS FINANCIAL RESULTS PRESENTATION VERBATIM

Andrey Neverov:

Ladies and Gentlemen, thank you for joining us today to discuss MDM Bank's 2010 year-end results. This call will be hosted by Konstantin Rogov, CFO of MDM Bank, Artem Astanin, Head of Finance and Economics Department, and myself, Andrey Neverov, Head of IR.

If you have not already done so, you may download our financial statements and the presentation from the IR section of our web-site at mdmbank.com.

After the presentation, we'll open the lines for questions. Please feel free to ask questions, either through your telephone, or if you're following our webcast, then you can ask questions through the webcast page.

We will start with an overview of key highlights and achievements that, in our view, are worth your attention.

Operator, **Slide 2**, please

SLIDE 2

One of the key highlights of 2010 was the sustained decline in NPL levels starting from the level of over 19% in the first quarter of 2010 to 14.4% at the year-end, or by 11.5 bln roubles in money terms. A similar trend was visible for restructured loans, which steadily decreased by around 7 bn roubles every quarter, demonstrating the validity of the management's approach to restructuring. In line with the improving asset quality, the Bank also reduced its provisioning charges: in 2010 the Bank's cost of risk dropped to 1.8% from 7.9% in 2009.

Like every other bank in the Russian banking industry, we have experienced a tightened competition for high quality borrowers, resulting in pressure on lending yields. The Bank's net interest margin stood at 5.6% for 2010, compared to 6.9% in 2009.

On the funding side, MDM has kept its focus on retail deposits as a strategic source of funding. In 2010, they grew by 35.4%, which is higher than the sector average of 29%. Jumping a little ahead, I would add that the bank also saw a net outflow of retail deposits in the first quarter of 2011 of about 5 bn roubles, which was expected as the old more expensive deposits matured and phased out, improving the cost of funding.

As for capital markets, the Bank closed two deals in early 2011: a three year syndicated loan in the amount of 300 mn USD and 3-year rouble bond in the amount of 5bn RUB. I'd highlight that the ruble bond closed at the historically lowest coupon of 8.15%.

MDM Bank also maintains the highest capital adequacy among peers, which makes it possible for us to look into the future with confidence and ensures further growth for our business.

With that, let me turn the microphone over to Konstantin for a discussion of financial statements proper.

Konstantin Rogov:

Thank you Andrey. Let us start with an overview of key changes on the balance sheet in 2010.

Operator, **Slide 3**, please.

SLIDE 3

As you can see from the balance sheet highlights comparing to 2009, the Bank's assets contracted by around 5%. The bulk of this contraction is due to a decline in liquid assets, driven by the planned repayments of the Bank's wholesale debt of about 37.4 bn roubles in total, these repayments also explain decreases in both interbank borrowings and issued debt securities. As Andrey mentioned earlier, the more conservative lending stance post-crisis translated into a flat loan book year on year. Still, within the year we did observe a visible pick-up in new loans in the second half that continued into 2011.

The flat loan book combined with a significant deposit growth led to an improvement of loan to deposit ratio from almost 122% to 104% at the end-2010.

Operator, **Slide 4**, please.

SLIDE 4

One of the key trends on the income statement was the decline in credit charges thanks to the improving asset quality, continued recoveries, as well as a brighter economic outlook. The cost of risk for the full 2010 was 1.8%. In rouble terms, the impairment charge was around 5 bn roubles.

The bank earned just under 18 bn roubles in net interest income, which is 16% less than in 2009. This contraction has two factors behind it. The first one was the decline of earning assets on the bank's balance sheet in 2010, which reversed, as I said earlier, in the second half, so we'd expect this factor to phase out in 2011. The other factor was the decline in asset yields sector-wide, driven by both competition for high quality borrowers, as well as a higher than normal liquidity level in the system. Again, we'd expect both trends to be temporary, though possibly a bit persistent in 2011. Asset yields have hit the historical lows, and given the increasing inflationary concerns expressed by the regulator, we don't see much room for them to fall further.

Fee income also remained at a healthy level of 15% of operating income, or nearly 3.2 bn Roubles.

The amount of trading income halved as the bank moved to a more conservative strategy. Going forward, the bank is going to remain averse to speculative risk taking.

On the expense side, IFRS numbers indicate a rather sharp increase in operating expenses of 39%. I'd like to highlight here that due to the IFRS treatment of the merger of MDM and URSA Bank in 2009, the income statement for 2009 does not include pre-merger URSA Bank for the first half of 2009. If we look at pro-forma expenses, we'll see that both opex and staff costs have picked up only slightly, by less than 10% each, which is on par with inflation.

Operator, **Slide 5**, please.

SLIDE 5

As we touched on earlier, Net interest margin decreased to 5.6%. With interest expense remaining flat year on year, this contraction was primarily due to the well-known reasons of increased competition for creditworthy borrowers and the resulting decline in asset yields. At the same time, the credit risk have dropped substantially as well, from the peak of nearly 8% for 2009 to under 2% for 2010, permitting the bank to significantly offset the effect of declining yields.

The cost-to-income ratio reached 65.1% in 2010, primarily driven by contracting operating income. The bank remained cost-conscious during the year keeping its quarterly expenses under 4bn roubles, except for the 4th quarter, when the expenses were 4.3 bn roubles, largely due to a one-off expense for the final stage of IT integration.

Operator, **Slide 6**, please.

SLIDE 6

This slide decomposes net interest income into component factors on the asset and funding side to shed more light on what drove the compression in net interest income in 2010. As pictured on the charts, the asset yield contracted visibly faster compared to the cost of funding. Again, this trend is not unique to MDM, and is observed across the whole sector. The decline in earning assets in the first half of the year was another reason for interest income to decrease. The decline in earning assets reversed already in the third quarter 2010, laying grounds for a rebound in interest revenue.

Operator, **Slide 7**, please

SLIDE 7

As the economic situation in Russia began to improve in the second quarter of 2010, the bank resumed cautious lending.

If we look at the level of diversification of our loan portfolio – we do not have significant risks to any particular sector. Our portfolio is well diversified in terms of concentrations by sectors as well as largest borrowers. All sector exposures are well under 20%. The exposure to 20 largest borrowers in the portfolio in proportion to the Tier 1 capital was 145% as of the end-2010, which compares favorably to most peers.

Another highlight of the quality of the loan book is the relatively high level of its collateralization that stood at 76% at year-end.

Operator, **Slide 8**, please.

SLIDE 8

This slide focuses on asset quality, which improved significantly since the second quarter of 2010. Non-performing loans decreased to 14.4% of total loans, or to 37.4 bln RUB as of the end of 2010. The chart on the right decomposes NPLs by product books: in corporate and retail instances the declining trend is quite visible.

The restructured loans have also demonstrated a declining trend, their amount steadily contracting by about 7 bn roubles every quarter during the second half of the year. Most of the decline is due to the improving financials of the borrowers, who went back to timely servicing of their debt, in some instances fully repaying it .

Loan impairment reserves stood at 12% of the loan book, covering 82.5% of non-performing loans. In management view, this level of coverage is sufficient, given the improving economic environment, high level of collateralization, and improving asset quality.

Operator, **Slide 9**, please.

SLIDE 9

This slide discusses risks other than credit risk. In terms of liquidity gaps, the Bank's current liquidity position is traditionally strong. The excess in the short-term bucket is kept at high levels with a view to roll it over to longer-term maturity buckets. It is also remaining sufficient to support the potential growth of the Bank's business.

The bank maintains a neutral position in foreign currencies, closing its balance sheet mismatches with off-balance sheet hedghes.

In 2010, the Bank minimized its market risks. The total VAR with a 99% confidence level and 10 days horizon as of the end-2010 was less than 5% of the total equity.

Operator, **Slide 10**, please.

SLIDE 10

On the funding side, we observed a significant inflow retail deposits, which grew by 35.4%, or higher than the market average of 29%.

Concentration of 20 largest depositors remains moderate, making up 13% of total liabilities at the year-end.

The Bank's reliance on wholesale funding continued to decline, but we remain open to a possible debt placement in Eurobond market this year to satisfy the growing demand from the Bank's clients for longer-term loans.

Operator, **Slide 11**, please

SLIDE 11

The Bank's debt repayment schedule is quite comfortable, both this year and beyond. There is only 30 bn roubles to repay this year, which is well within the regular liquidity cushion kept by the bank.

As mentioned earlier, in the beginning of 2011, the Bank closed two deals: a bi-currency dual-tranche syndicated loan in the amount of 300 mn USD and 3yr domestic bond in the amount of 5 bln roubles. These deals confirm a high level of interest from both international and domestic investors for the Bank credit risk.

Operator, **Slide 12**, please.

SLIDE 12

High levels of capital adequacy traditionally remain MDM Bank's hallmark, supporting its strong credit profile.

MDM has improved its capital adequacy during the crisis years of 2008 and 2009, and kept it at a high level in 2010, closing the year with the total capital adequacy ratio of over 20%. I'd emphasize the high quality of our capital, with 91% of it being Tier 1.

The capital position is also superior by a large margin to our peers'. This capital buffer allows the bank to absorb credit losses of up to 23% of gross loans, or nearly double the current levels, while still keeping its adequacy ratio above 12%.

Operator, **Slide 13**, please.

SLIDE 13

This slide details our view on key financial metrics in 2011. We expect that gross loans will continue expanding cautiously, posting about 10% increase for the full year, and closing it at around 290 – 300 bn roubles. NPLs will continue to decline, we expect them to be well under 8% at the year-end. We see the cost of risk to be under 2% for the full year, which is similar to what we observed in 2010. Asset yields are showing signs of stabilization, so we expect net interest margin to compress slightly to around 5 – 5.5%, while the cost of funding, in our view, still has room for decline.

The bank will generate stable core income before provisioning charges and operating expenses at around 23 bn Roubles. The bank continues to keep a close eye on operating expenses, with a view to bring the cost to income ratio under 55%.

The remaining slides are appendices which might be helpful for those on the call who are new to the Bank. They present an overview of the bank, its market share and corporate governance. I do not plan to present them for the purpose of this results call, but will be happy to answer any questions that you may have on these slides.

This concludes our presentation.

Operator, please open the line to **questions and answers**.

Operator

Yes, of course. Ladies and gentlemen, we will now conduct the question-and-answer session.
[Operator Instructions]

And we have a question coming from the line of Olga Veselova from Troika. Olga, please go ahead.

Olga Veselova: Thank you. I have a couple of questions. One question is about the ownership of preferred stock, if I may. At the meeting yesterday with analysts, the bank mentioned that Igor Kim owns around 10%, but Vedomosti today mentioned that this data are as of yet last year. Could you please confirm or refute this?

Andrey Neverov: This is Andrey Neverov. The information regarding the owners of preferred stocks will be disclosed to the bank during one week, starting from the 12th of May. The

nominal holders should disclose the names of owners of the stock under the law, we will then understand the current shareholders.

As of today, we have the data that was provided to us a year ago. And according to this data, we understand that Igor Kim owns about 0.7% of the charter capital in preferred shares. The updated information will be available to the bank within this week.

Olga Veselova: Yes, perfect. Thank you. And another question, the Chairman, Oleg Viyugin, I think mentioned a wide range of earnings for this year from RUB2 billion to RUB9 billion, if I'm correct. What are the factors for the wide range of earnings for this year? I mean, why it's so wide? Will it depend on the sale, write-off of non-core assets, provisions?

Why the range is so wide?

Konstantin Rogov: For us, it's more comfortable to predict core income because it's... er... to forecast the net income is rather difficult to predict reserves and it's very difficult to predict these numbers, that's why we operate with this core income. And if we're talking about the interest income, we expect the interest rate margin about, as I mentioned before, 5% to 5.5% because we expect some growth in the interest rate, that's why the prediction is not at all sharp and that's why we like to talk about this range, 5.5%.

Olga Veselova: Right, okay. And a small technical question, in the balance sheet, there's a line on investment property RUB11 billion and part of this line came from reclassification of assets held for sale. Could you just tell us what assets are these and what are the plans on their disposal?

Artem Astanin: Hello, this is Artem Astanin. I'm Head of Finance Department. In terms of the investment property and assets held for sale, in 2010 year, MDM Bank made a reclassification in the balance sheet with respect to the assets held for sale because as you know, from the IFRS standards, assets held for sale basically can be held on the balance sheet within one year, and we made some review of our property which was classified as this category in 2010.

We understood that we have some good investment property objects, which can be solved with a good upside for the bank. That's why in accordance with IAS 40, we made a reclassification to the investment property. Some of the objects are leased and some are held for a possible upside in 2011 to 2012.

Olga Veselova: And these are assets which were received as collaterals from borrowers or not...?

Artem Astanin: Yes, correct.

Olga Veselova: Okay, thank you.

Operator

Thank you. Our next question is coming from the line of Carlo Ciaroni from Barclays Capital. Please go ahead.

Carlo Mario Ciaroni: Hi, there. Thank you very much for your presentation. Just a general question for you guys. If could you just give us an outlook of what you are expecting your strategy to be in 2011, if you're expecting any major developments or changes from 2010? Thank you.

Konstantin Rogov: All right. In a few words, no major changes. We just discussed our outlook. And I think regular business, corporate and commercial lending, and just retail and corporate business, nothing more in 2011. I'm sorry, is that answering the question?

Carlo Mario Ciaroni: Yes, sure. If that is all that you are going to say. So you don't expect any major changes from last year? Is that what you were going to say?

Konstantin Rogov: Yes. We're talking about the regular business. No major changes actually.

Carlo Mario Ciaroni: Yes.

Konstantin Rogov: Regular banking business.

Carlo Mario Ciaroni: Sure. The other technical question that I had is: are you guys planning on refinancing the debt that is maturing in 2011, that you are showing on your chart, or are you planning on actually letting it mature?

Konstantin Rogov: Yes. As I mentioned before, we – yes, that's one possibility to refinance this debt, but we also should understand that we expect some growth on our deposit side and, of course, we will consider this possibility to refinance our debt in Q4. Yes, we'll think about it.

Carlo Mario Ciaroni: Okay. Thank you.

Konstantin Rogov: Thank you.

Operator

Thank you. Our next question is coming from the line of Bob Kommers from Deutsche Bank. Please go ahead.

Bob Kommers: Hi. I have two questions. First of all, just explain your core revenue assumption for 2011 of RUB23 billion. Where is the cost of funding going in your scenario for 2011? I saw it was 6.9% in Q4 2010. Where is that going in 2011, do you expect? Hello, could you hear me?

Konstantin Rogov: Yes. Could you please repeat your question?

Bob Kommers: My question is, what do you expect the cost of funding to be in 2011?

Artem Astanin: Yeah. In terms of the cost of funding for retail deposits, we forecast that our average cost of funding will be around 7% or more likely 5%, we expect. And in terms of corporates and legal entities, we expect that it will be around 6% or 7% for one-year term.

Bob Kommers: Okay. And that would bring – and then you have a securities portfolio, so that on a blended basis that would bring your funding cost at 6.5%? Is that a fair assumption?

Artem Astanin: Yes, it will bring us to under 6%.

Bob Kommers: Under 6%? Okay. So the 6.9%, I mean, I'm looking at slide six of the presentation, so the 6.9% from Q4, that should go to under 6% in 2011?

Artem Astanin: Yes.

Bob Kommers: Okay. And my second question is the operating expenses. How do you expect to reduce your cost in 2011? Were there any major one-offs in 2010 that will not recur in 2011? Do you expect what is the head count reduction, if any, that you want to do in 2011? What are the drivers of that cost reduction?

Artem Astanin: Well, you are quite correct about the one-offs. In 2010, we basically spent a lot for our IT infrastructure integration. If you see our financials for Q3 and Q4, you will see some peaks in spending on the IT. And in 2010, we concluded and we stopped our integration, all of our branches are now running the one... er... banking core system. That's why in 2011 we expect that the operating expenses will drop.

Also, we are now doing some procedures in respect of the head count. You're correct. We expect that probably a few offices will be closed in 2011, which are not quite effective, and this will give us the expected figure for operating expenses.

Bob Kommers: Okay. And in terms of head count, what would be the implication of the office closures?

Artem Astanin: Well, it's about 10% to 15% in 2011.

Bob Kommers: 10% to 15% head count reduction?

Artem Astanin: Yes.

Bob Kommers: Okay. And I mean, you probably have to make one-off costs for that head count reduction, right? Is that something you factor in for 2011 in your outlook of your operating costs around RUB11.5 billion to RUB12 billion?

Artem Astanin: Sorry, you speak about the average salary level or what?

Bob Kommers: No, no, no, I was speaking about the guidance that you gave for the operating expenses for 2011, which is around RUB12.5 billion, yeah, it was around RUB12.5 billion, that's your guidance for 2011. And I just tried to understand whether that guidance includes any one-off costs that you may have for the head count reduction?

Artem Astanin: Yes, yes, it includes the one-offs, absolutely.

Bob Kommers: Okay. Okay, thank you.

Artem Astanin: Thank you.

Operator

Thank you. We currently have no further questions coming through. [Operator Instructions] And we have a question from the line of Ali Dhaloomal from Merrill Lynch. Please go ahead. Ali Dhaloomal from Merrill Lynch, please go ahead with your question. Your line is opened.

Ali Dhaloomal: Hi, I have just a question regarding the funding. Do you expect to come to the Eurobond market by the year-end?

Konstantin Rogov: Yes. As I mentioned before, we have this possibility at the end of 2011. Yes, you're right.

Ali Dhaloomal: Okay, perfect. Thanks.

Operator

Thank you. Our next question is coming from the line of Shweta Agrawal from Nomura. Please, go ahead.

Shweta Agrawal: In terms of the ...(unclear)... during consolidation and expansion going on in Russia, do you have any expansion plans in 2011?

Konstantin Rogov: No, we don't have specific plans, ... such plans. We just concentrate in on our organic growth, and we're just only thinking about this only – thinking about our branches, our present branches, for the business. No such plans, we don't have.

Shweta Agrawal: Okay, thank you.

Konstantin Rogov: Thank you.

Operator

Thank you. [Operator Instructions] We have no further questions coming from the telephone line.

Andrey Neverov

Ladies and gentlemen, thank you for the call. Thank for your participation and we would like to say that we close our lines and thank you. Good-bye.