



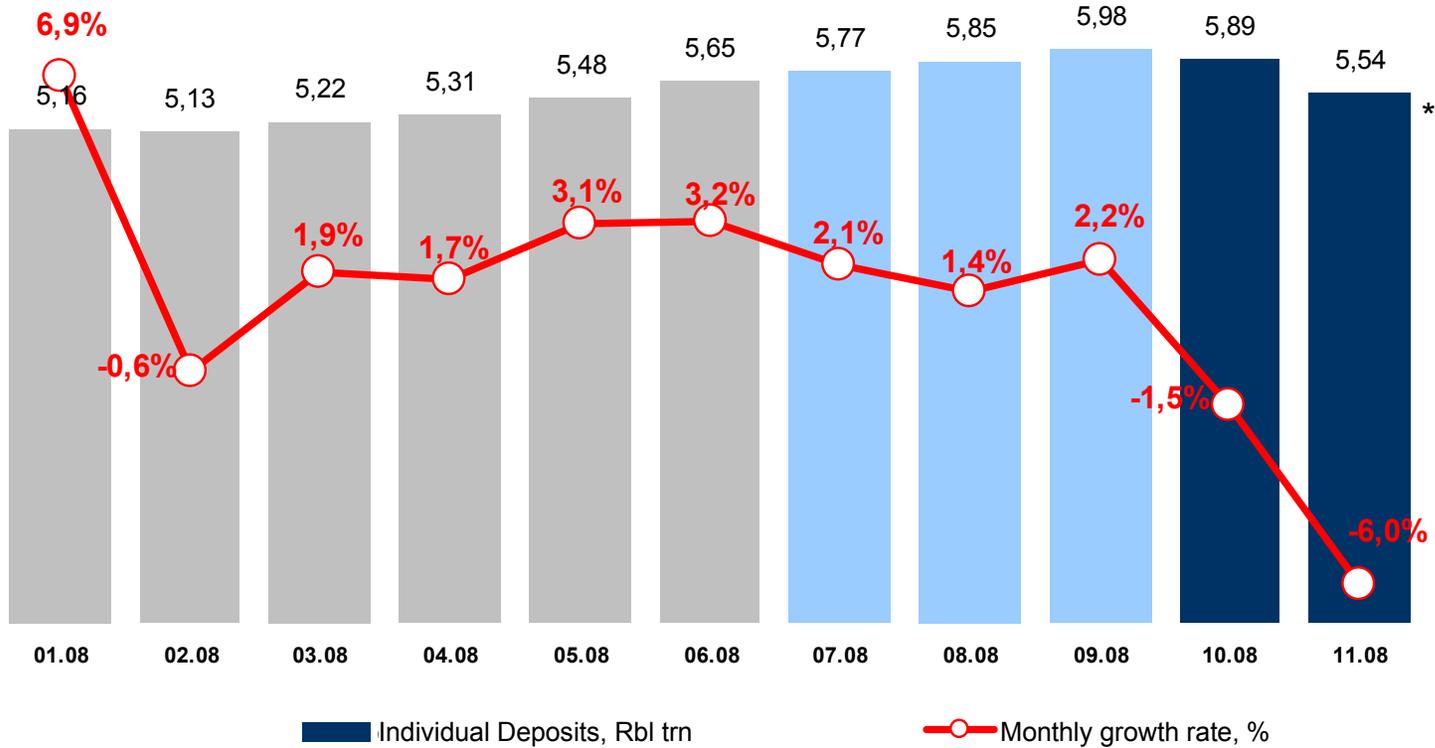
Consolidation as a factor of creating a new landscape in the Russian banking system

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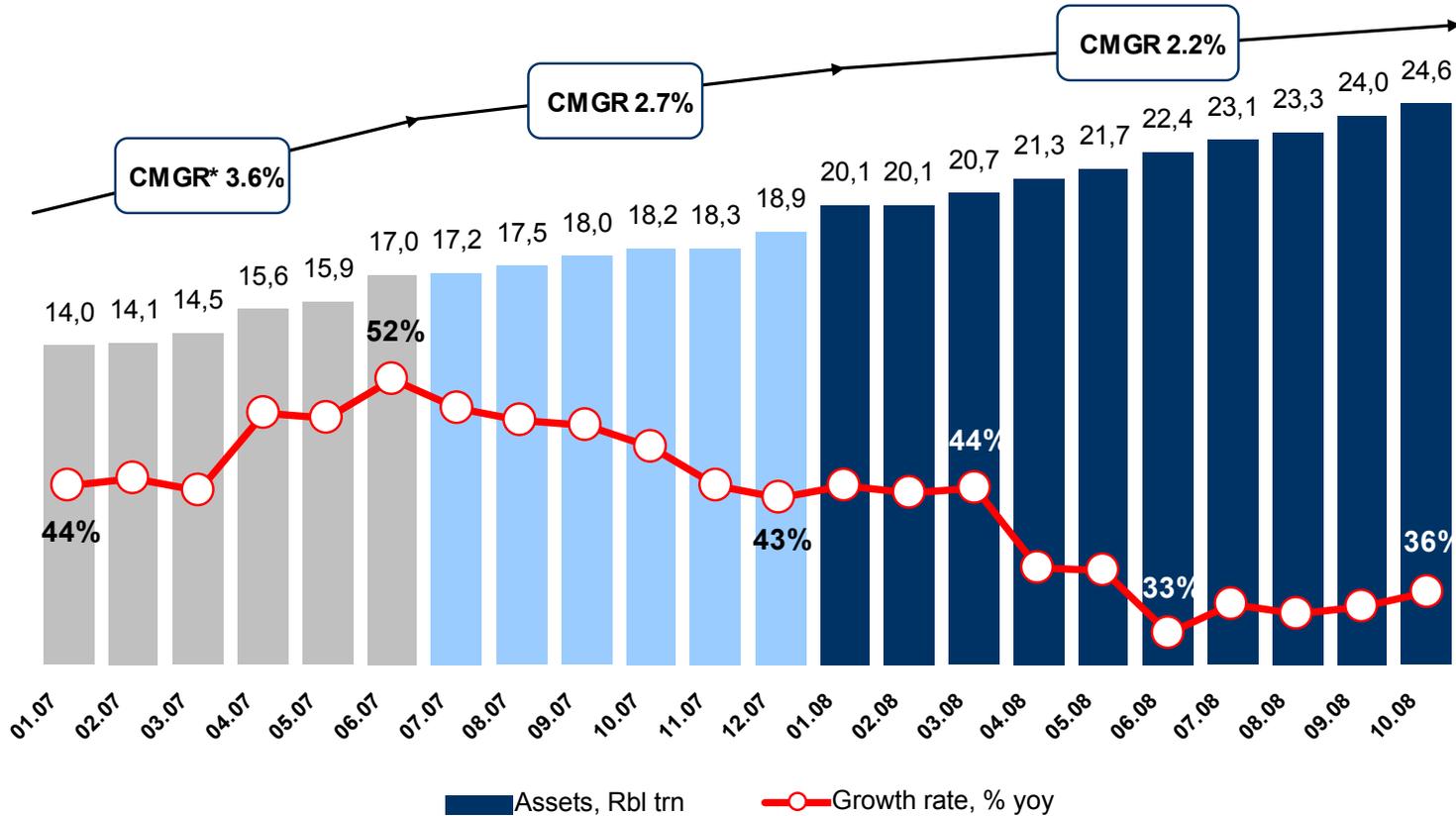
- ✓ Russian banking system in the context of crisis
- ✓ Fundamental factors of consolidation
- ✓ Banks Valuation
- ✓ Banking M&A in Russia: a reasonable strategy?
- ✓ The role of Government in encouraging consolidation
- ✓ Conclusions

- ✓ **Russian banking system in the context of crisis**
 - **Impact of the financial crisis on the banking system in Russia**
 - **Measures introduced by the government and Central Bank**
 - **Consolidation of the banking system: an anti-crisis measure or a strategic move?**
- ✓ **Fundamental factors of consolidation**
- ✓ **Banks Valuation**
- ✓ **Banking M&A in Russia: a reasonable strategy?**
- ✓ **The role of Government in encouraging consolidation**
- ✓ **Conclusions**



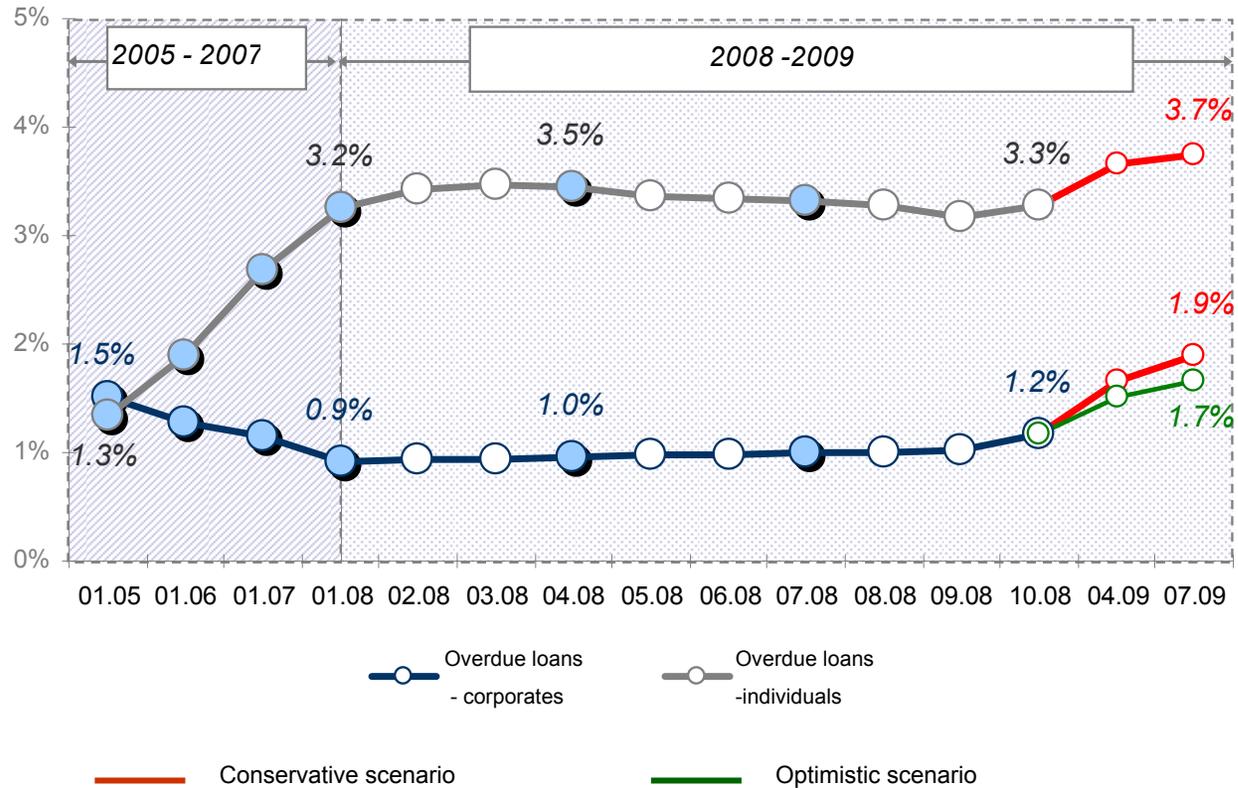
* Forecasts: Deposit Insurance Agency (State Corporation)

Source: CBR



*CMGR - compound month growth rate

Source: CBR



Measures introduced by the government to stabilize the banking system

Liquidity support	Unsecured loans from CBR for up to 6 months	~ 850 RUB bln
	Balances of Federal budget funds	~ 650 RUB bln
	Lower obligatory reserves requirements	~ 370 RUB bln
	Balances of the State Corporation 'Fund for reforming Housing and Utilities'	~ 157 RUB bln
	Subordinated loans (10 years, at 8% p.a.)	Sberbank – 500 RUB bln VTB– 200 RUB bln Rosselkhoz – 25 RUB bln Other banks– 225 RUB bln
Resuming lending operations	Before end- 2009 CBR can sign agreements with banks to cover losses from the Interbank lending	60 RUB bln
	Capital increase of the Agency for Housing Mortgage Lending to refinance mortgage loans	60 RUB bln
Refinancing international debts	VEB's* loans to corporates and banks covered by Gov't funding	US\$ 50 bln
Stock market support	VEB's* support of the domestic stock market funded by the National Wealth Fund	~ 175 RUB bln (~90 RUB bln invested)
	Capital increase of VEB*	75 RUB bln
Reorganization of problem banks	Capital increase of Deposit Insurance Agency	200 RUB bln
	Targeted/Direct state support	\$US 0,5 bln. to Gazenergoprombank for the purchase of Sobinbank \$US 2,5 bln to VEB to buy Svyazbank and 2 bln to support Globex bank

- ✓ Russian banking system in the context of crisis
- ✓ **Fundamental factors of consolidation**
 - Growth potential of the Russian banking system
 - Are there fundamental factors for lowering the fragmentation?
- ✓ Banks Valuation
- ✓ Banking M&A in Russia: a reasonable strategy?
- ✓ The role of Government in encouraging consolidation
- ✓ Conclusions

Consolidation of the banking system

Mature and better developed banking system

Easier management of the financial system and a more stable economy

Opportunities for effective M&As

- Fewer banks allow a more manageable banking system
- Better transparency
- More trust between banks
- More trust between banks and customers

- for international players – to make entrance to Russia or to strengthen existing presence
- for major Russian banks – to strengthen current positions

**Lets look at some key characteristics of Russian Banking in international comparison:
Potential & profitability, concentration, role of state banks, regional dispersion**

1. Potential & profitability

Banking in Russia still with very low penetration and therefore high growth potential while being highly attractive in terms of margins and profitability

2. Concentration

The core of Russian banking, 80% of total assets, is constituted by approx. 50 banks, while in most international markets half the number of banks is sufficient. In addition with some 1000 registered banks no other major country has such a vast number of small banks.

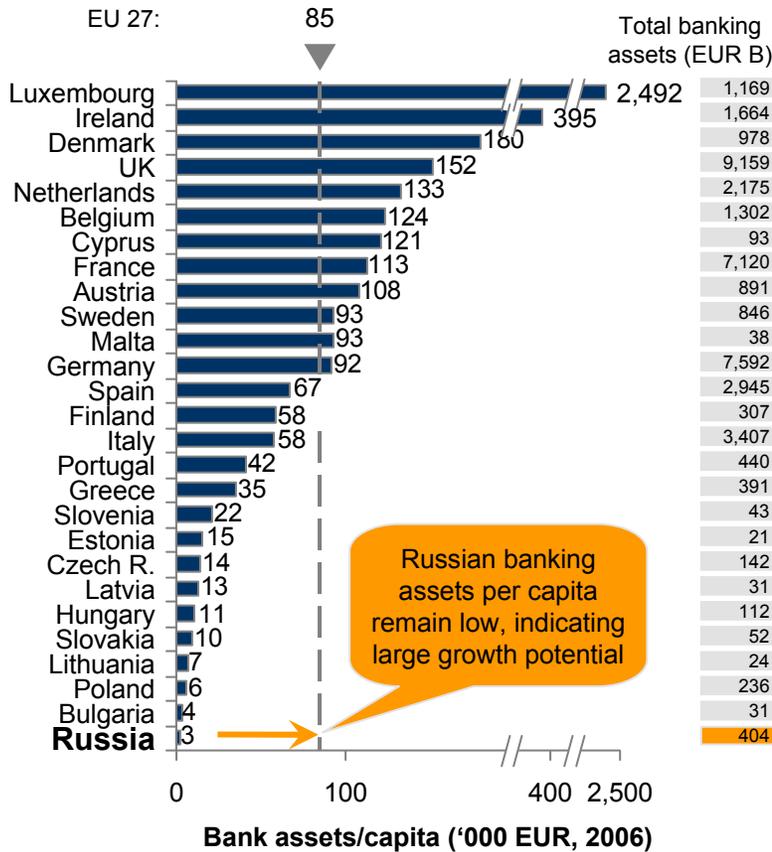
3. State ownership

Compared with other countries (exception Germany) Russia has a particularly high share of state banks (a 47 % share of state-banks in total assets) and further increase is expected

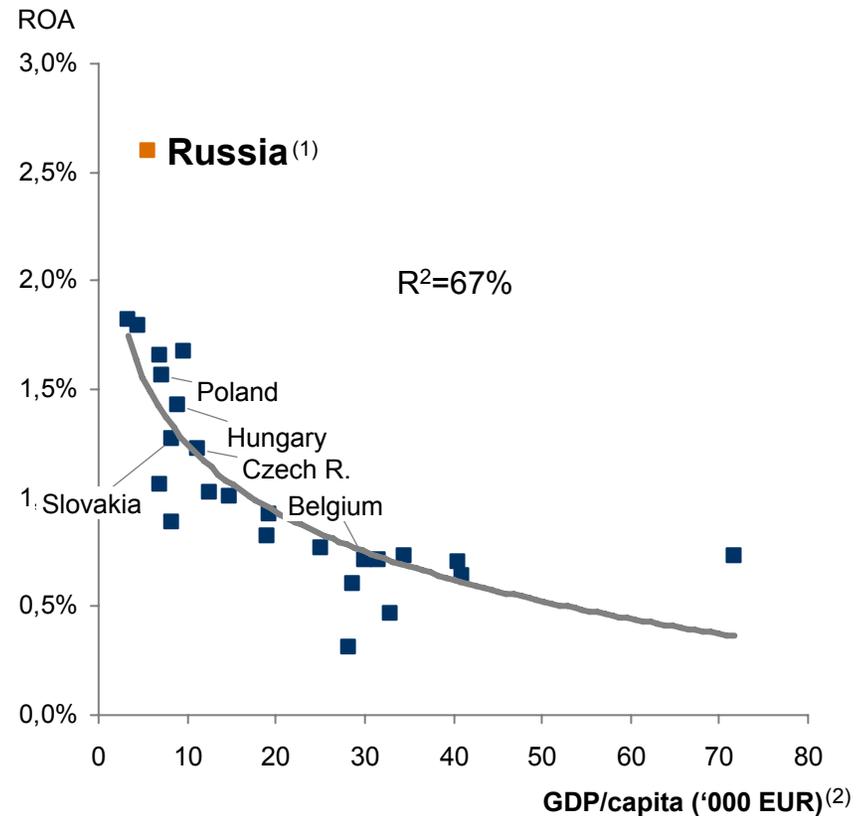
4. Regional business

15 Tier 1 & 2 regions constitute 66% (Retail Banking) to 80% (Corporate Banking) of total banking assets

Russia: large banking market with yet high potential ...

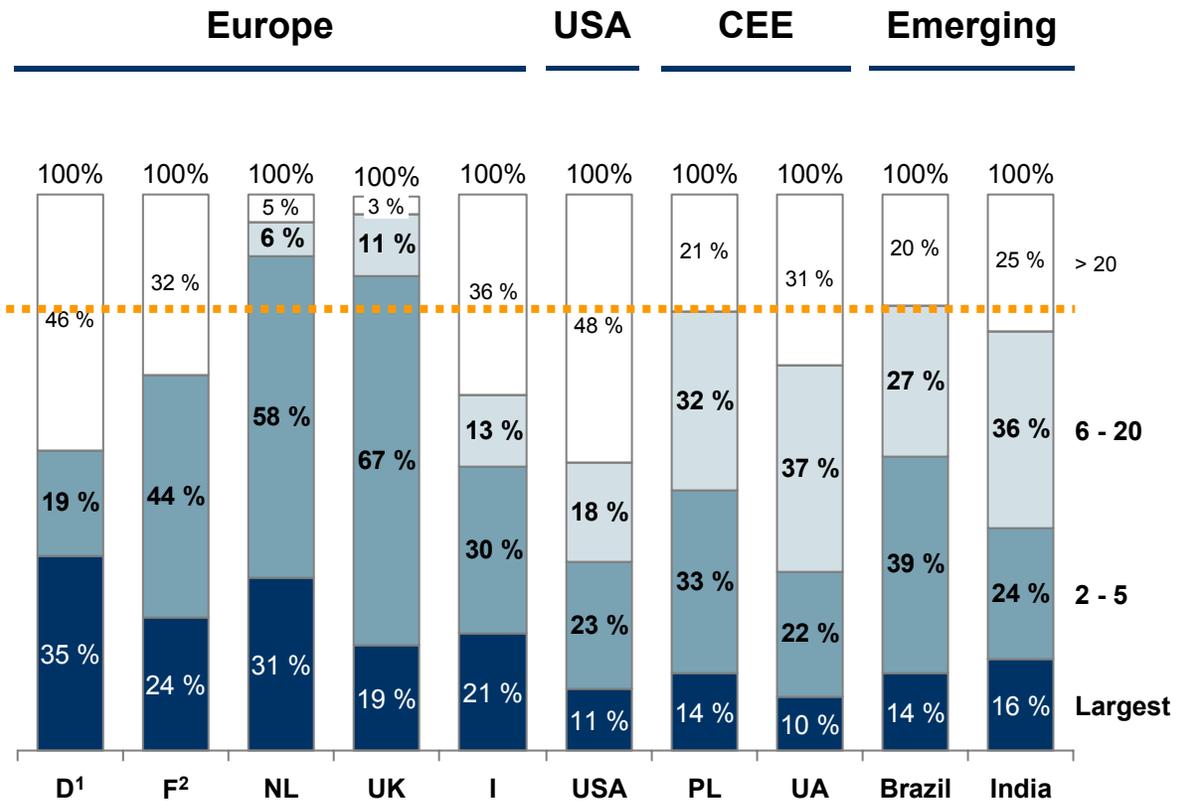
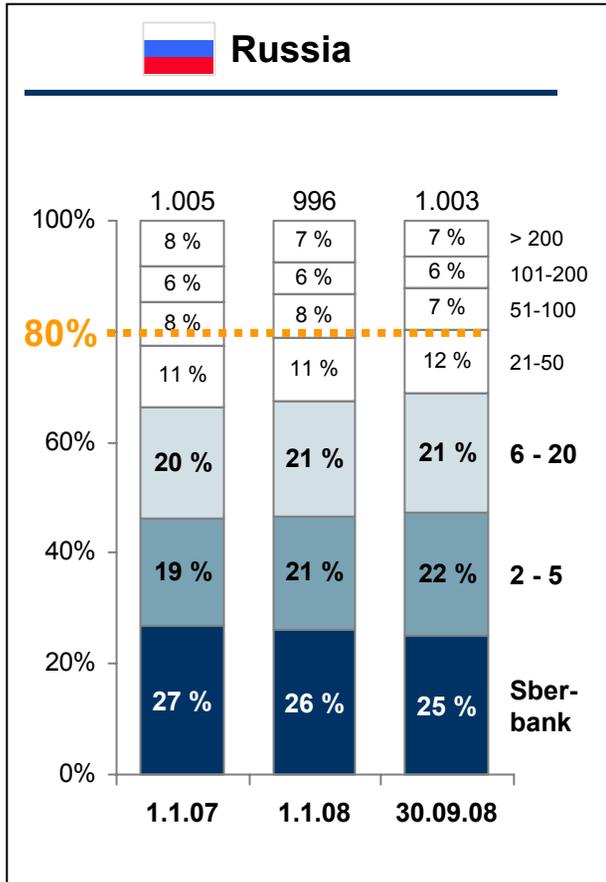


...and attractive profitability

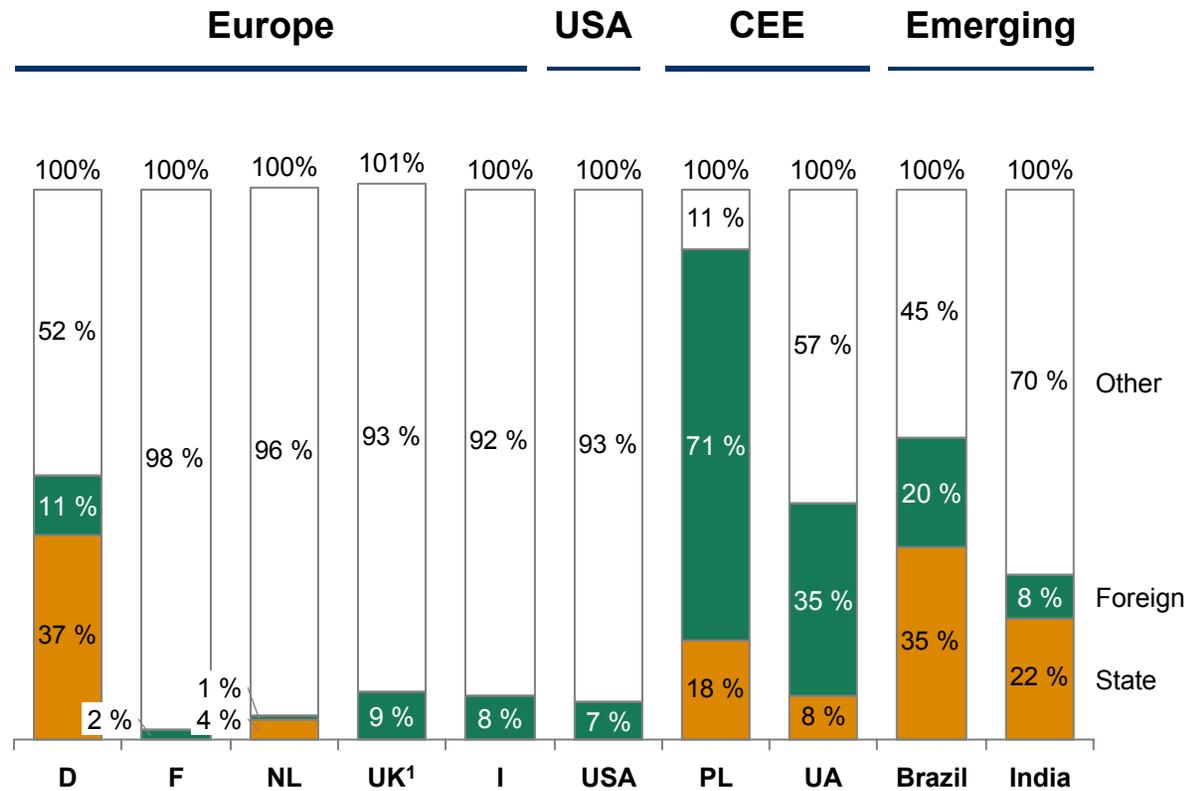
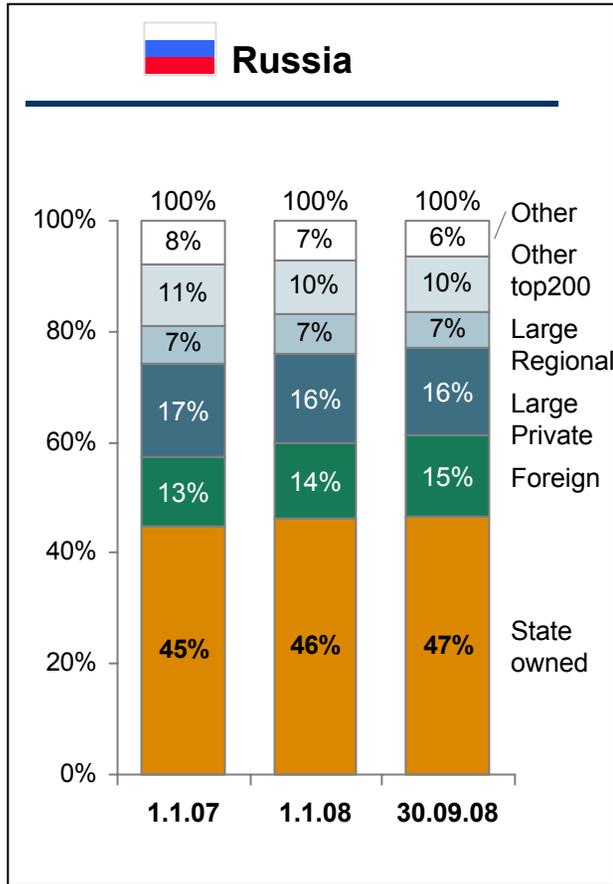


Source: ECB; EIU
 (1) ROA on Russia is of year end 2007
 (2) Nominal GDP

Very high fragmentation in Russian market in international comparison



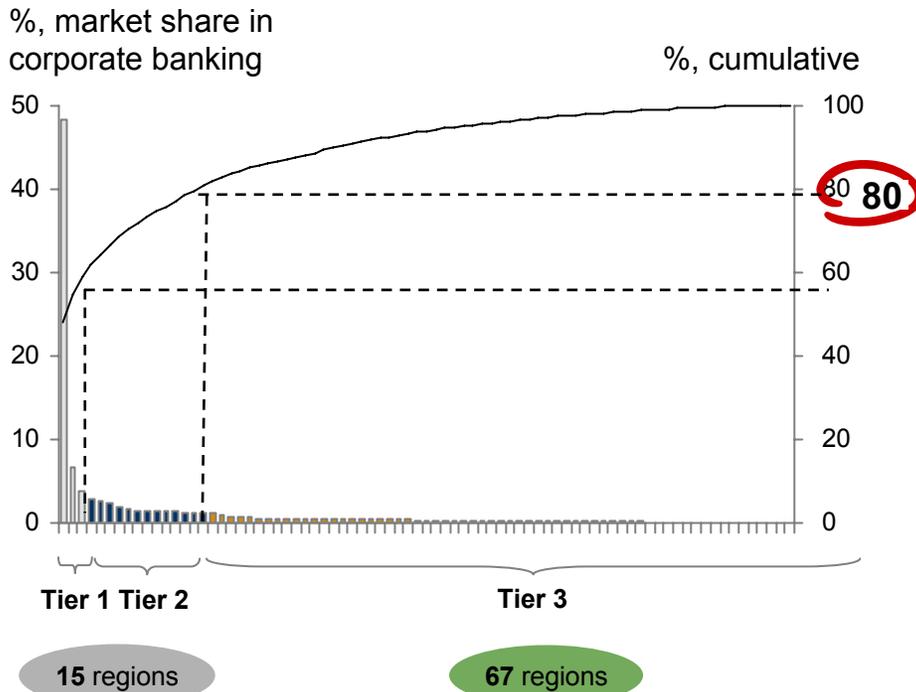
Source: Central Bank Data
 1,2. For Germany and France share of 6-20 and >21 are represented together



Source: Central Bank Data

1. The UK used to have no state owned banks...until recently

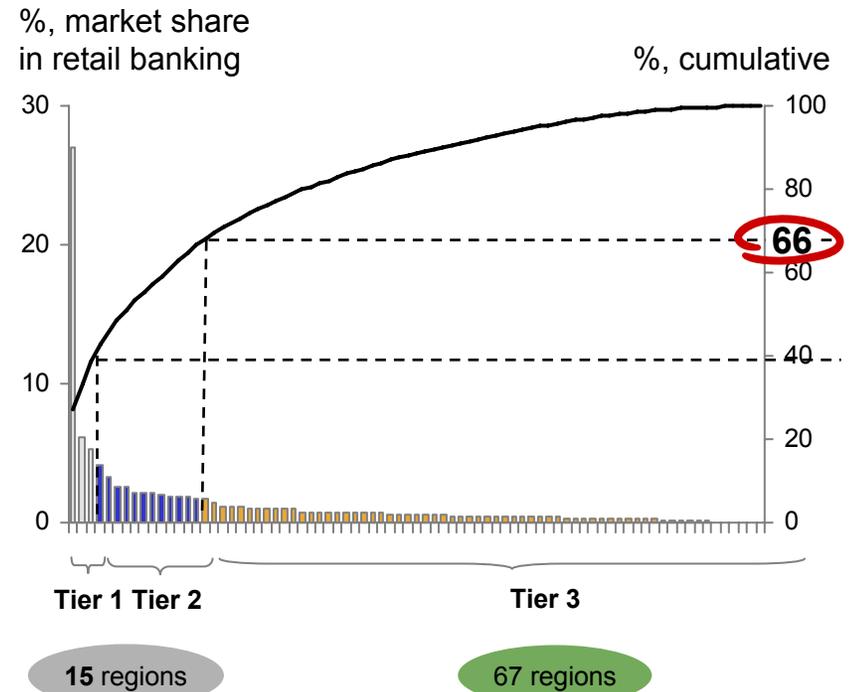
Corporate Banking: ~ 80% of business done in 15 Tier 1 & 2 regions



Tier 1 regions: Moscow, S.-Petersburg, Moscow region

Tier 2 regions: Sverdlovsk, Tatarstan, Tyumen, Samara, Krasnodar, N. Novgorod, Belgorod, Bashkortostan, Rostov, Perm, Chelyabinsk, Novosibirsk

Retail Banking: ~2/3 of business done in 15 Tier 1 & 2 regions



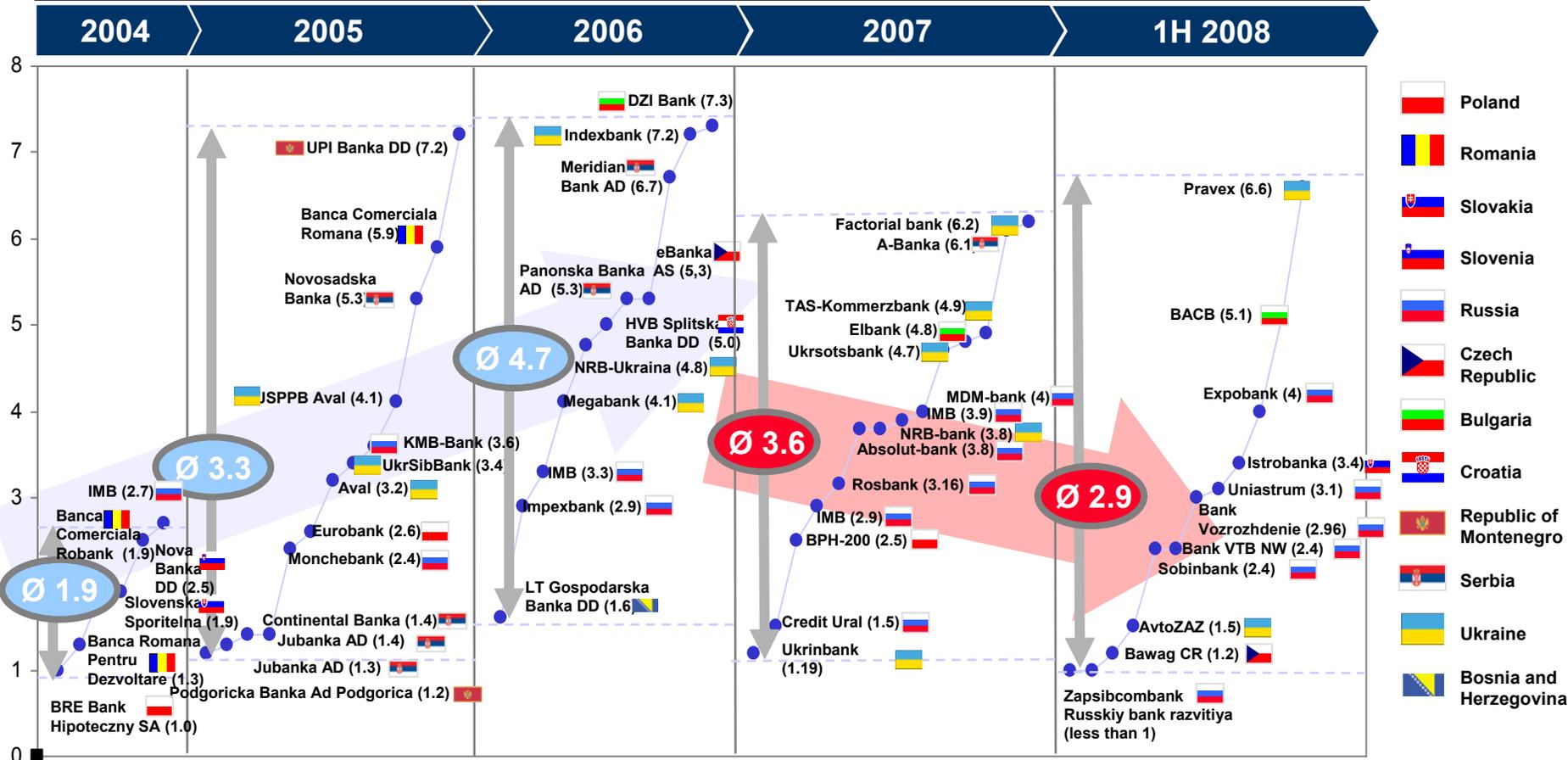
Tier 1 regions: Moscow, S.-Petersburg, Moscow region

Tier 2 regions: Tyumen, Sverdlovsk, Krasnodar, Samara, Tatarstan, Chelyabinsk, N. Novgorod, Krasnoyarsk, Novosibirsk, Rostov, S.-Petersburg Region, Perm

- ✓ Russian banking system in the context of crisis
- ✓ Fundamental factors of consolidation
- ✓ **Banks Valuation**
 - **The estimation of Russian banks' capitalization: what has the crisis changed?**
 - **Economically justified value of the banks**
- ✓ Banking M&A in Russia: a reasonable strategy?
- ✓ The role of Government in encouraging consolidation
- ✓ Conclusions

In CEE "overheated" transaction multiples started to come down during 2007

Price-to-book equity CEE for selected banking transactions



Note: Equity based on accounting figures; Sample: all transactions listed in datastream in CEE (without turkey); no figures for Banca Italo Albanese Sh A (AL), Mria Bank (UA), Niska Banka AD (CS), Delta Bank (CS), Eksimbanka (CS)
 Source: T.F. Datastream; BCG analysis

In October valuation levels in Russia down to partly below market-to-book of 1

		2006	2007	2008F
P/E*	Sberbank	20,2	18,2	5,5
	VTB	n/a	46,4	10,0
	Bank of Moscow	12,4	20,0	14,0
	Rosbank	35,9	33,4	16,7
	Bank Uralsib	30,6	86,1	3,5
	Ursa Bank	21,4	23,3	3,5
	Bank Saint Petersburg	n/a	15,8	2,6
	Vozrozhdenie Bank	23,4	17,5	2,4
	P/BV	Sberbank	5,4	3,5
VTB		n/a	2,4	0,8
Bank of Moscow		2,5	4,2	1,5
Rosbank		5,4	3,8	1,6
Bank Uralsib		4,5	2,8	0,4
Ursa Bank		6,9	3,0	0,6
Bank Saint Petersburg		n/a	2,6	0,5
Vozrozhdenie Bank		5,6	3,4	0,5
P/A		Sberbank	0,52	0,47
	VTB	n/a	0,56	0,13
	Bank of Moscow	0,20	0,36	0,13
	Rosbank	0,45	0,33	0,14
	Bank Uralsib	0,60	0,30	0,04
	Ursa Bank	0,57	0,35	0,07
	Bank Saint Petersburg	n/a	0,29	0,05
	Vozrozhdenie Bank	0,42	0,35	0,06

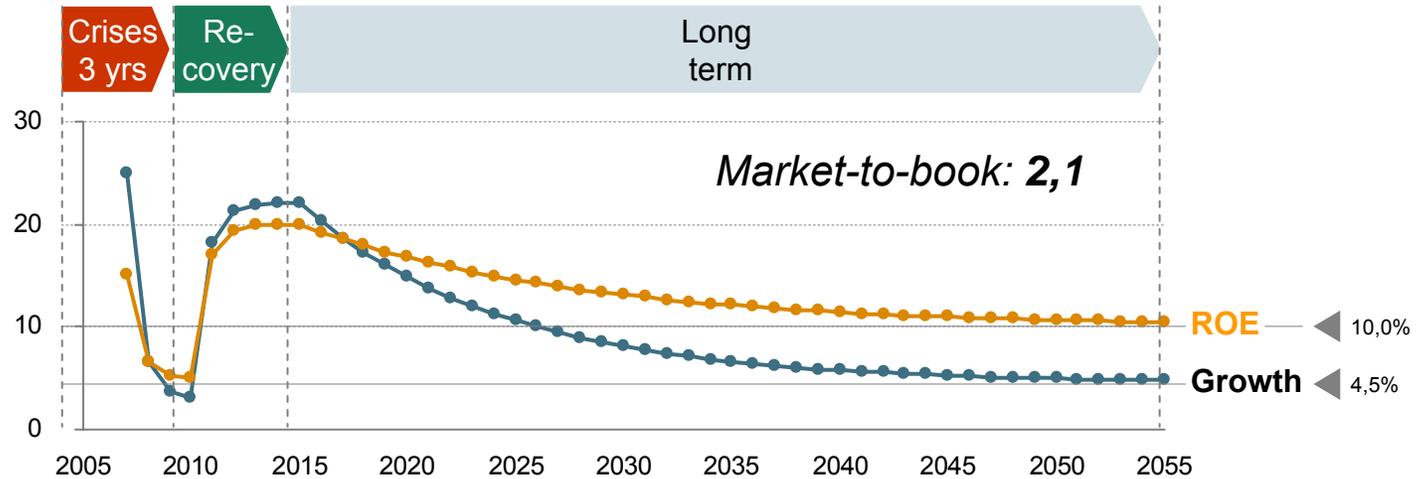
		2006	2007	2008F
ROAA*	Sberbank	2,9%	2,9%	2,4%
	VTB	2,5%	1,7%	1,5%
	Bank of Moscow	2,0%	2,1%	1,0%
	Rosbank	1,5%	1,3%	1,1%
	Bank Uralsib	2,1%	0,4%	1,2%
	Ursa Bank	5,1%	1,9%	1,9%
	Bank Saint Petersburg	2,4%	2,7%	2,2%
	Vozrozhdenie Bank	2,2%	2,4%	2,5%
	ROAE*	Sberbank	30,6%	22,5%
VTB		15,4%	7,0%	7,8%
Bank of Moscow		23,6%	25,3%	12,4%
Rosbank		15,9%	13,8%	11,4%
Bank Uralsib		14,9%	3,3%	11,4%
Ursa Bank		56,9%	17,5%	16,9%
Bank Saint Petersburg		26,1%	30,2%	22,1%
Vozrozhdenie Bank		32,1%	25,0%	23,3%

Which valuation levels are fundamentally supported?

* In valuation of the profit as at YE2008, a conservative scenario is used (the full valuation is transferred to profit), the multipliers are calculated 'as of date', performance indicators are calculated average-for-the-period

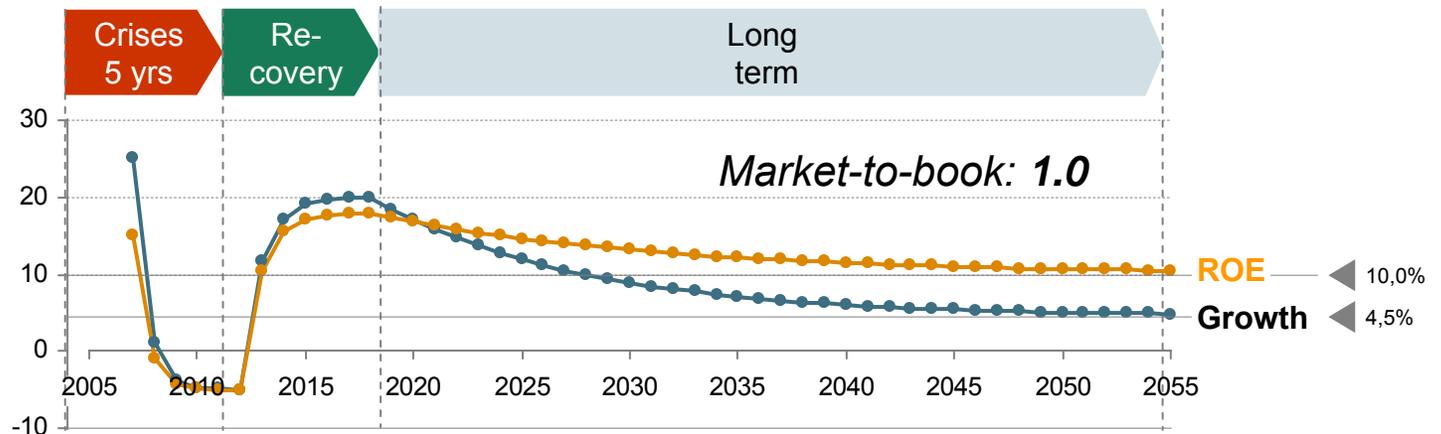
Crisis scenario 1:

- Crises shorter (3 years)
- ROE stays positive

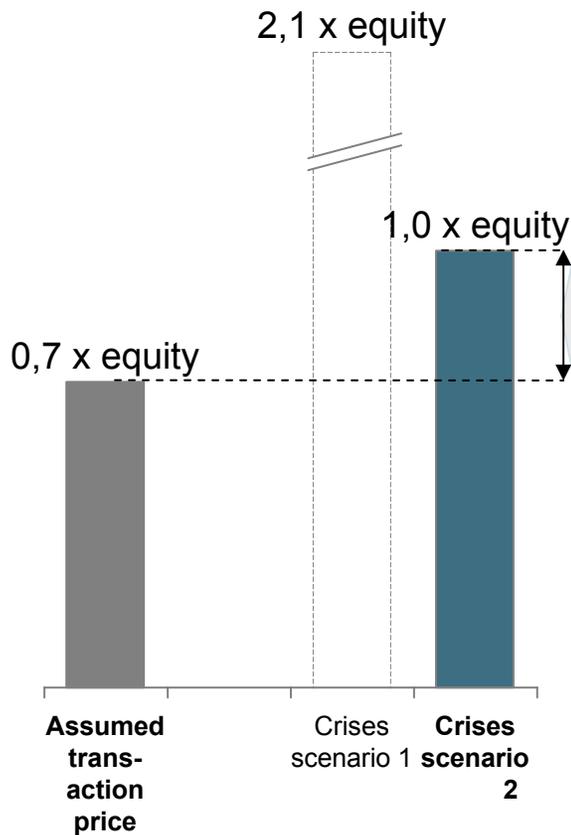


Crisis scenario 2:

- Crises longer (5 years)
- substantial losses/negative ROE

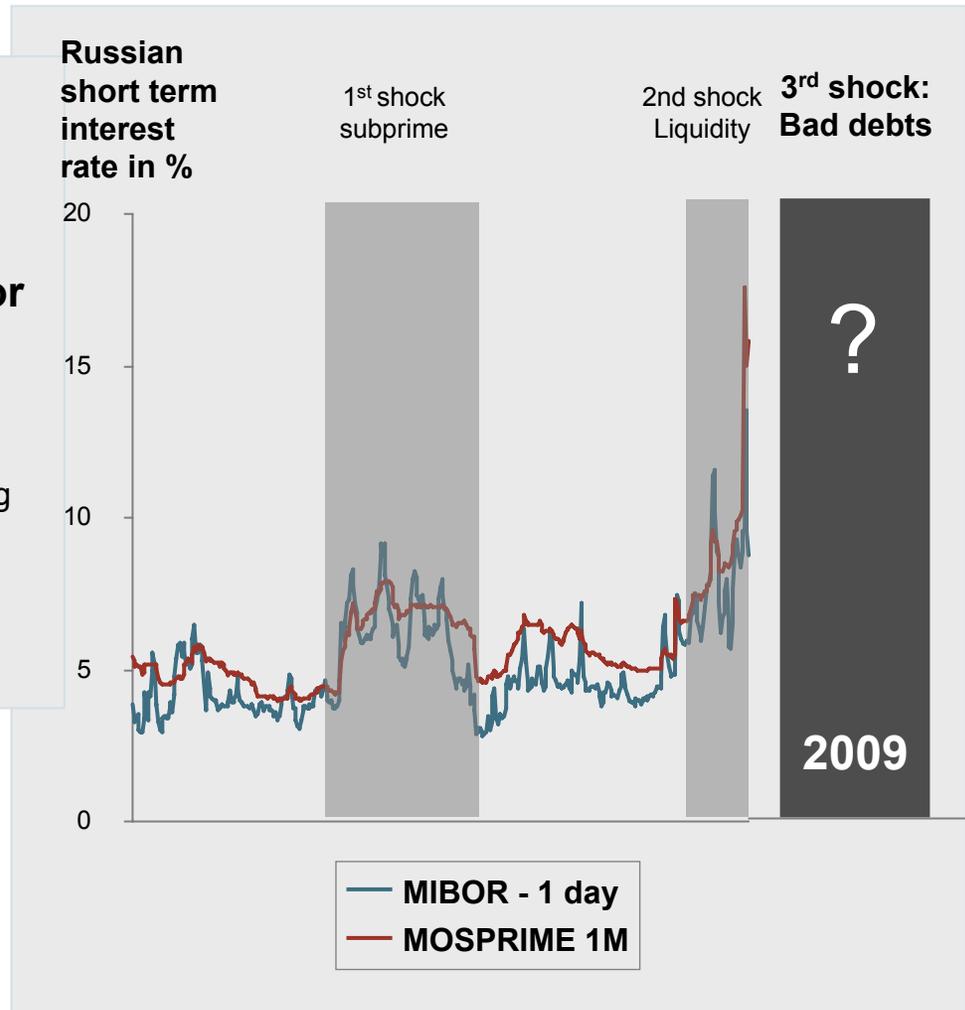


Transaction needs to compensate for bad loan portfolio of target – particularly relevant in 2009



"Buffer" needed for NPLs

- recapitalization
- restructuring costs



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- ✓ **Banking M&A in Russia: a reasonable strategy?**
 - **Examples of successful M&A strategies of western banks**
 - **What are the benefits of M&A for Russian banks?**
- ✓ The role of government in encouraging consolidation
- ✓ Conclusions

- Self-sustaining organic growth



- Acquisition of a local bank with a developed network. Offering own products through the acquired network



- Increasing of ownership in a major bank, supporting the bank as a shareholder



- Complex strategy including acquisitions of smaller mono-product banks and buying a stake in a major bank)





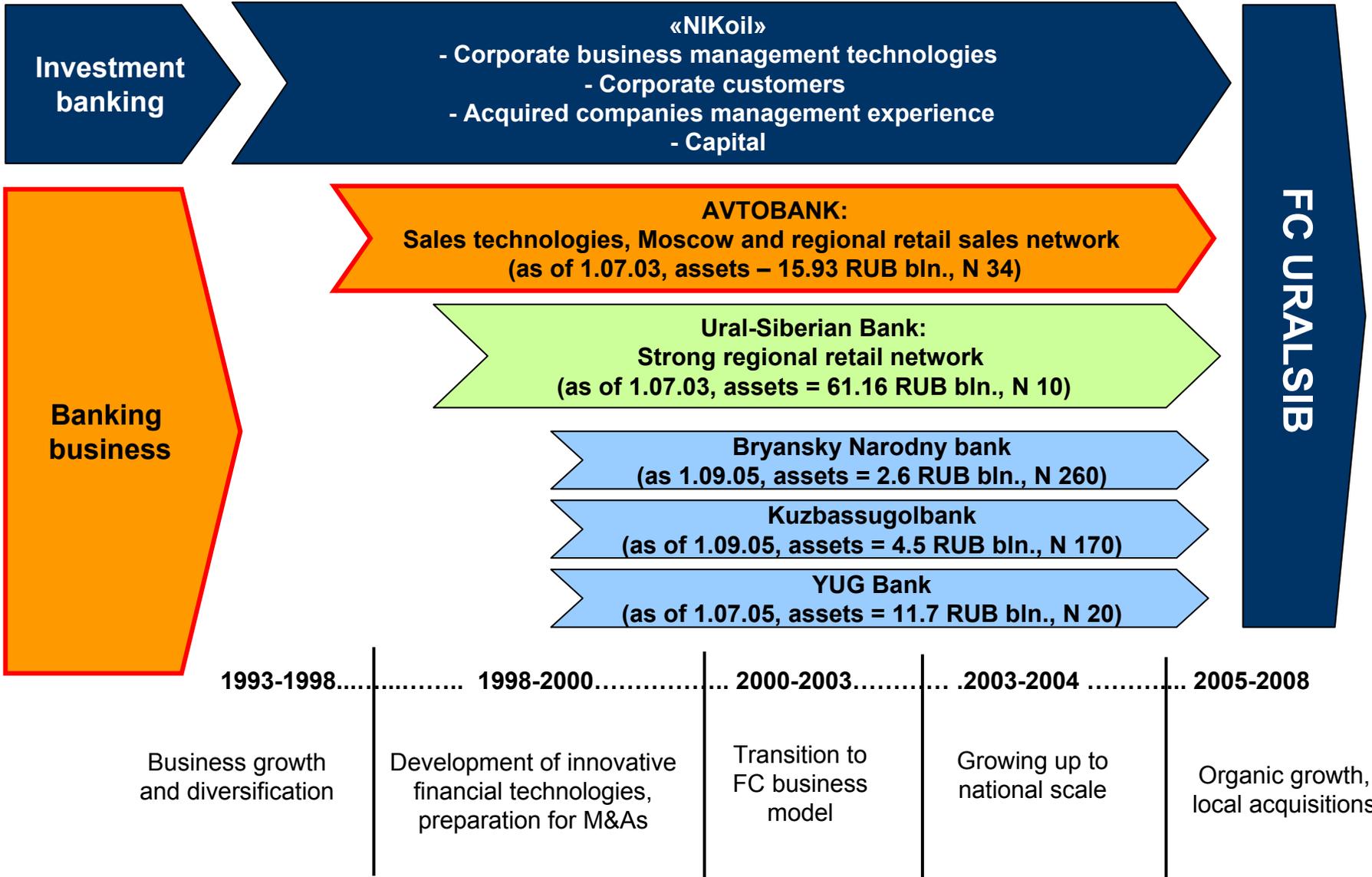
1996	A rep office in Russia opened
1999	First 2 branches offering retail services in Moscow
2001	A branch in St.Petersburg opened
2006	Acquisition of 100% shares of Impeksbank
	187 sales points (ranked #8 by RBC) Assets - 52,5 RUB bln (ranked #22 by RBC)
2007	Completion of legal merger with Impeksbank
Result:	245 sales points (ranked #11 by RBC) Assets – 460,3 RUB bln (ranked #7 by RBC)



1991	Establishing of MMB (the first bank with foreign participation)
2001	Merger with Bank Austria Creditanstalt
	Total assets – 52,5 RUB bln
2005	Consolidation of the controlling stake of MMB
2006	Consolidation of 90% shares of MMB
2007	Consolidation of 100% of MMB
2007	Name change to Unicredit
Result:	75 sales points (ranked #50 by RBC) Assets– 413,2 RUB bln (ranked #10 by RBC)

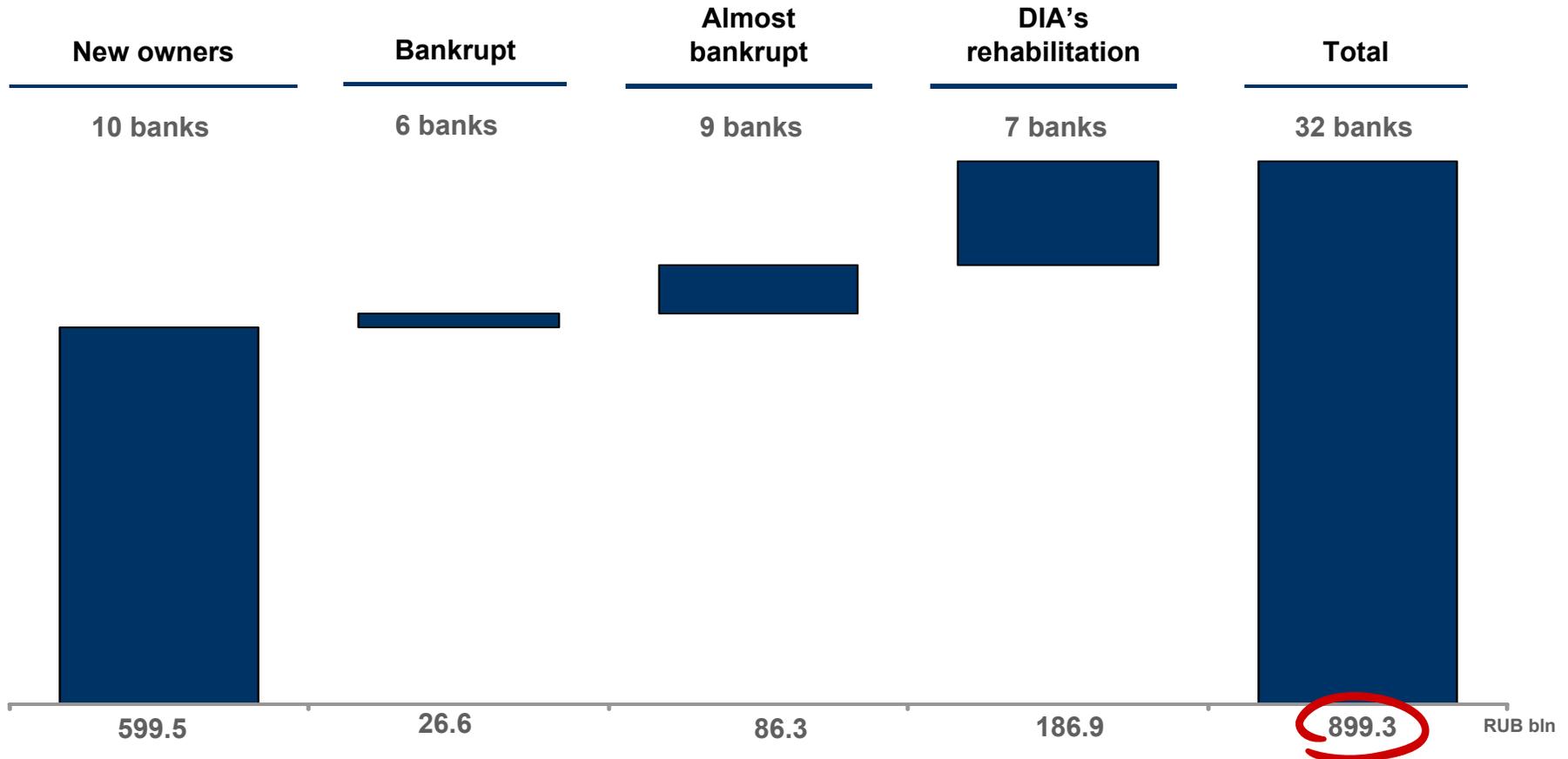


1993	Starting in Russia
2003	Starting of customer banking
2004	Opening LLC “Rusfinance”»
2005	Acquisition of Promeksbank (Samara)
	35 regions Assets – 2.8 RUB bln
2005	Acquisition of Delta Credit bank for 105 US\$ mln
	Assets – 4.3 RUB bln
2006	Acquisition of STB bank (Moscow)
	assets – 2.6 RUB bln
2006	Acquisition of Rosbank’s 20%
	494 sales points Assets – 194.5 RUB bln
2008	Acquisition of Rosbank’s 30% - total price US\$ 2.33 bln
Total:	BSGV, incl. subsidiaries 80 sales point Assets – 288.8 RUB bln Rosbank (BSGV share - 57,5%) 592 sales points (ranked #3 by RBC) Assets – 421.4 RUB bln (ranked #8 by RBC)



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 - **What is missing in the anti-crisis strategy?**
 - **Current status of the consolidation processes**
 - **A view on the future**
- ✓ Conclusions

Recovery of trust among market participants	depositors ► to banks	Pledging of guarantees for full deposit insurance
	banks ► to banks	Extended number of banks eligible for Interbank lending guarantees
	banks ► to customers	State support of key industries (infrastructure and strategic) Simplification of bank debt collection procedures. Exclusion of collaterals from bankruptcy assets in case of company's bankruptcy
Maintenance of the banking system's current liquidity	Short-term liquidity	Prolongation of reduced requirements period for obligatory reserves
		Extension of securities list eligible for REPO
Resuming lending activity	Large and medium corporate borrowers	Refinancing of loan portfolio under CBR Regulation 312: <ul style="list-style-type: none"> - Increase of individual limits - Softer borrowers criteria - Longer maturities (up to 1 year) - higher LTVs - easier procedures
	Small business	Establishment of SME lending fund through the Russian Development bank similar to the AHML*
	Mortgage loans	Development of new refinancing mechanism (bank mortgage bonds issuing under AHML's* guarantees). Cutting the registration period for mortgage bonds
	Auto loans	Establishment of Automobile lending support fund as an instrument boosting demand for cars together with car producers
	Consumer loans	Simplification of bank debt collection procedures
Increase in the banking system's stability	consolidation	Defining banks, which form the core of the banking system (80% - in 20-30 banks)
		Range of Incentives for consolidating banks : <ul style="list-style-type: none"> - Capital increase through Gov't buying preference shares; - Simplification of M&A procedure; - Cutting timing requirements



At present 32 banks are in trouble (3.7% of the banking system in terms of assets), of which 16 banks are among Top-200 (2.6% of the banking system)



A view on the future Russian Banking Landscape: move towards core densification

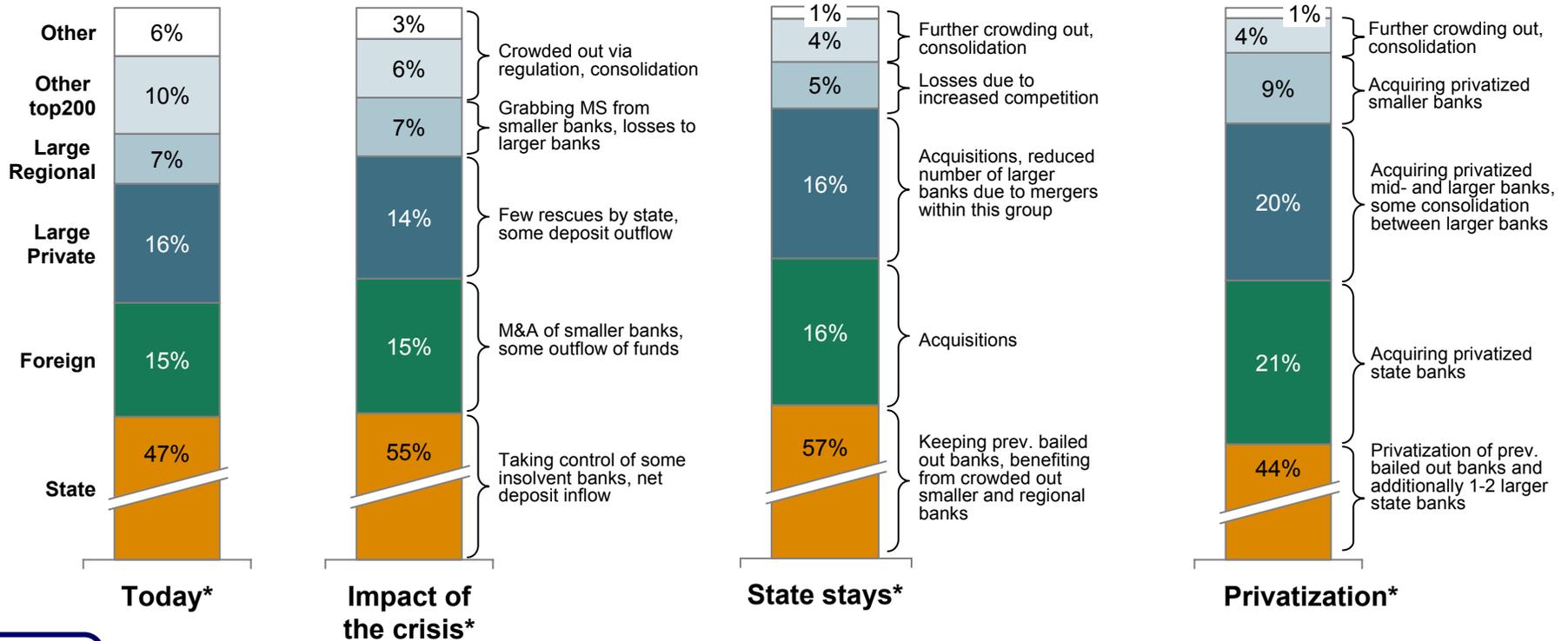
Today

Impact of crisis

Post-crisis longer term

Scenario: **state stays**

Scenario: **privatization**



80%
of assets

50 banks

~45 banks

~20 banks

~25-30 banks

* by total assets

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- Consolidation is a step towards a more stable and mature banking system
- The Russian banking system in the medium-term perspective is one of the most attractive in the emerging markets
- State support is crucial for boosting consolidation

Time to Buy?