

**Announcement: Moody's affirms Bank of Khanty-Mansiysk's E+/Ba3/NP; stable outlook (Russia)**

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**Global Credit Research - 22 Jul 2011**

London, 22 July 2011 -- Moody's Investors Service has today affirmed the Ba3/Not Prime long-term and short-term local and foreign currency bank deposit ratings of Bank of Khanty-Mansiysk (BKHM). The standalone bank financial strength rating (BFSR) of E+ has been affirmed, but the bank's BFSR now maps to B1 on the long-term scale (formerly B2). All ratings carry a stable outlook.

The affirmation follows Moody's assessment of BKHM's audited financial statements for 2010, prepared under IFRS.

**RATINGS RATIONALE**

According to Moody's, the uplift of the long-term scale to B1 reflects BKHM's strengthened market franchise especially outside its core region -- Khanty-Mansiysk Autonomous Okrug (region) (KhMAO, Baa3) as well as a track record of sustainable performance amidst challenging credit conditions in Russia.

In 2010, the bank reported sound profitability, with Return on Average Assets (RoAA) of 2.06% and Return on Equity (RoE) of 15.19%; these improvements were based mainly upon recurring income sources -- net interest income and fees and commissions. Although the bank's assets demonstrated growth of almost 30% in 2010, internal capital generation helped to support a comfortable level of Tier 1 capital at 13.3% of risk weighted assets and total capital at 17.4%.

At the same time, the bank's ratings remains constrained by high single-name and related parties exposure. Loans to related parties accounted for close to 70% of Tier 1 capital as of 31 December 2010, exerting pressure on BKHM's economic capital. The bank's ability to diversify its franchise especially outside related parties will be one of the key rating drivers going forward.

BKHM's deposit ratings of Ba3/Not Prime incorporate a high probability of support from its controlling shareholder -- Nomos Bank (D-/Ba3 (stable outlook)) -- which provides a one-notch uplift for BKHM's long-term deposit rating from its B1 standalone credit strength. Moody's considers BKHM to be a strategic material subsidiary of Nomos Bank which consolidates operations of BKHM and has operational and managerial control over the bank.

At the same time, Moody's believes that, given BKHM's social and economic importance in its core region of KhMAO (which owns a 44.2% stake in the bank), the region would be willing to support BKHM in case of distress; however, Moody's assesses such probability as low because the region has limited operational control over the bank, and thus the rating agency's assessment of regional support does not result in any uplift to deposit ratings of the bank.

**PREVIOUS RATING ACTIONS AND PRINCIPAL METHODOLOGIES**

Please see ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the last rating action and the rating history.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology, published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, published in March 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Headquartered in Khanty-Mansiysk, Russia, BKHM reported total (audited) consolidated IFRS assets of RUB168 billion (US\$5.5 billion) and consolidated net income of RUB3 billion (US\$99 million) as at YE2010.

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