

Announcement: Moody's affirms ratings of Nomos Bank and BKHM following acquisition announcement (Russia)

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Moscow, September 15, 2010 -- Moody's Investors Service has today affirmed the following ratings of Nomos Bank (Nomos): the D- bank financial strength rating (BFSR), Ba3/Not-Prime long- and short-term foreign currency deposit ratings, as well as the senior unsecured debt rating of Ba3 and the bank's subordinated debt rating of B1. All these ratings carry a stable outlook. At the same time, Moody's Interfax Rating Agency has affirmed the Aa3.ru long-term national scale credit rating of Nomos. Moscow-based Moody's Interfax is majority owned by Moody's, a leading global rating agency.

Moody's has also affirmed the E+ BFSR, Ba3/Not-Prime long- and short-term local and foreign currency deposit ratings of Bank of Khanty-Mansiysk (BKHM). All ratings carry a stable outlook. Concurrently, Moody's Interfax Rating Agency has affirmed the bank's Aa3.ru long-term national scale rating. National scale ratings do not have a specific outlook.

RATING RATIONALE

The rating affirmations follow the recent announcement that Nomos intends to acquire a 51.27% stake in BKHM. Moody's expects the transaction to be finalised by year-end 2010. While Moody's notes that this transaction is expected to lead to some deterioration of Nomos's financial fundamentals, the rating agency does not expect the result of such deterioration to be sufficiently significant to warrant a downgrade. Furthermore, Moody's believes that BKHM's stand-alone credit risk profile -- assessed in the BFSR of E+, mapping into a Baseline Credit Assessment (BCA) of B2 -- is unlikely to change immediately as a result of the transaction.

Nomos Bank

As a result of the transaction, Moody's expects Nomos's capital adequacy ratio to drop considerably from over 20% to a lower, albeit still adequate level. Moody's also notes that Nomos's shareholders have demonstrated an ability and willingness to provide both on-going and extraordinary capitalisation, and Moody's expects the bank to receive further capital injections in 2011. During the global financial crisis the bank has demonstrated a good ability to quickly de-risk its balance sheet, thus also easing pressure on capital. Additionally, the rating agency also expects Nomos's liquidity position to deteriorate as a result of this transaction because the currently abundant liquidity cushion is expected to reduce to a more sustainable level and is expected to remain sufficiently adequate to meet moderate stresses. The agency also notes that the bank's liquidity management proved effective to meet the challenges of the operating environment.

Moody's observes that the notable risks of BKHM -- such as related-party risk and significant market risk appetite -- are not sizeable enough to drive Nomos's ratings into the lower rating category. At the same time, Moody's expects the market risk appetite of the merged bank to reduce as the current level of market risk at BKHM is not in line with the strategic priorities of Nomos's shareholders and management. Related-party transactions may be diluted -- as partially represented by lending to related entities of the Khanty-Mansiysk regional administration (KhMAO) -- which is expected (i) to be restricted due to a change in shareholder structure (N.B. Nomos is also owned by a group of foreign shareholders -- PPF and J&T groups -- which together control 49% of Nomos) and (ii) to be more in line with Nomos's historically moderate related-party lending risk appetite.

In addition, Moody's notes that integration risk is significantly mitigated by the fact that a stake in BKHM is to be acquired by Nomos's controlling shareholder, IST group, thus mitigating possible negative consequences that could arise as a result of the shareholder change.

At the same time, Moody's cautions that if the transaction is not completed as announced (e.g. the purchase price is raised) -- which could negatively impact Nomos's financial fundamentals -- the rating could be subject to a downward revision. In addition, the ratings could also be downgraded if integration risk materialises (e.g. inability to obtain control of BKHM), but this is not regarded as a central scenario.

Bank of Khanty-Mansiysk

Moody's views positively the possibility that Nomos will introduce more rigorous risk management practices in BKHM leading to a decrease in market risk appetite, single-name concentrations and volume of related-party transactions, which are currently the major constraining factors to BKHM's BFSR. However, the rating agency expects implementation risk and would view favourably a track record of positive changes in the risk-taking culture of BKHM which will be incorporated into the ratings.

BKHM's Ba3 local and foreign currency deposit ratings benefit from a two-notch uplift from its BCA of B2 as a result of Moody's assessment of a moderate probability of support from the bank's home region, KhMAO (rated Baa3). The support considerations are driven by the bank's social and economic importance as the largest retail deposit taker in the region (where it has close to a 20% market share), and by the regional authorities' management oversight of the bank's business and history of providing support in recent years. Following Nomos's consolidation of a 51.27% stake in BKHM, Moody's does not consider that regional support could be withdrawn altogether, as the bank will continue to maintain its regional focus and visibility in the home region; thus Moody's expects BKHM to remain a socially important player, receiving support in case of need.

Any evidence of the region intending to reduce its stake in BKHM or diminish its management oversight over the bank could result in Moody's adjusting downwards its assessment of the probability of regional support for BKHM. Such an outcome would likely be a result of close integration between Nomos and BKHM, and thus could lead to an incorporation of parental support from Nomos, substituting a dilution of regional support.

Moody's previous rating action on Nomos was on 29 July 2010 when the rating agency changed the outlook on the bank's ratings to stable from negative.

Moody's previous rating action on BKHM was on 18 December 2009 when the rating agency assigned Ba3/Not Prime/E+/Aa3.ru first-time ratings to the bank.

The principal methodologies used in rating Nomos and BKHM are "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, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating Nomos and BKHM can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Moscow, Russia, Nomos reported -- at year-end 2009 -- total consolidated assets (audited) of US\$9.2 billion and total shareholders' equity of US\$1.2 billion. Nomos is mainly a corporate bank with the majority of operations concentrated in Moscow, although it has moderate regional presence in over 30 regions.

Headquartered in Khanty-Mansiysk, BKHM reported total consolidated IFRS assets (audited) of US\$4.3 billion as at 31 December 2009 and total equity of US\$620 million.

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