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Bank of Khanty-Mansiysk (JSC)

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Bank of Khanty-Mansiysk (JSC)

Major Rating Factors

Strengths:

- Strong links to the Khanty-Mansiysk Autonomous Okrug-Yugra
- Good market position in its home region
- Limited foreign debt repayment burden
- Reported asset quality indicators below peers

Weaknesses:

- High system risks, related to the deteriorating operating environment and increased liquidity and funding risks
- High exposure to market risk due to volatile financial markets
- Weak profitability on the back of increasing provisioning costs and trading losses in 2008
- Constrained capitalization

Counterparty Credit Rating
B+/Stable/B
<i>Russia National Scale Rating</i>
ruA+/-/--

Rationale

The ratings on Russia-based Bank of Khanty-Mansiysk (JSC) (BKM) are constrained by our view of the high system risks it faces related to the deteriorating operating environment and increased liquidity and funding risks. The volatility of financial markets has heightened its market risk, in our view. Its profitability is weak owing to increasing provisioning costs and trading losses in 2008, and its capitalization has been eroded by negative revaluation reserve of financial assets.

The ratings benefit from BKM's strong links to the Khanty-Mansiysk Autonomous Okrug (KMAO-Yugra; BBB-/Negative/--), its good market position in its home region, limited foreign debt repayment burden, and relatively low reported nonperforming loans (NPLs) compared with peers.

BKM is one of the largest regional banks, ranking among the top 30 in Russia, with total assets of Russian ruble (RUR) 116 billion (\$4 billion) on Dec. 31, 2008. It operates in KMAO-Yugra, one of country's wealthiest regions, which accounts for 60% of Russian oil production.

KMAO is the principal owner of BKM. Although it decreased its stake to 66.3% from 92.7% in October 2008 in line with plan to privatize the bank, its connections to BKM remain strong, as reflected by its considerable business flows through the bank. BKM continues to service KMAO-linked companies and budget recipients, and participates in regional investment programs. Therefore, Standard & Poor's Ratings Services classifies BKM as a "commercial institution" government-related entity (GRE) and accords the long-term rating on BKM a one-notch uplift above the bank's stand-alone credit profile.

BKM bears high market risk due to volatile financial market conditions, with 16.31% of assets held in its securities portfolio. The portfolio experienced a significant revaluation following the recent sharp drop in financial markets in the second half of 2008, including losses on BKM's first to default credit-linked notes.

BKM's exposure to credit risk is moderate, with the level of reported NPLs at 0.8% according to Central Bank of Russia (CBR) calculations, which together with restructured loans doesn't exceed 5%. This compares favorably with

peers. However, we expect asset quality to deteriorate further given the current recession in Russia, which will likely lead to higher provisions and pressure on earnings and capitalization.

In the period of financial and economic stress, BKM--like other banks--has suffered from liquidity pressures, accentuated by the confidence-sensitive behavior of depositors. However, this has been offset by substantial funding from the Central Bank of Russia (CBR), which BKM is now gradually reducing.

BKM's profitability is weak. The negative bottom-line results for 2008 were affected by trading losses, increasing provisioning, and high operating expenses.

BKM's capitalization is only just adequate, in our view, with an adjusted total equity (ATE)-to-assets ratio of 8.3% as of Dec. 31, 2008. Although capitalization was supported by a recent capital increase totaling RUR6 billion, it was constrained by the negative revaluation reserve of financial assets of RUR3.23 billion and poor retained earnings in 2008.

Outlook

The stable outlook on BKM balances our view of the negative pressure on BKM's business and financial profile stemming from accumulating systemic risks with the support that the bank receives from the regulator and KMAO-Yugra, as well as its good market position in the region.

A negative rating action could result from a material weakening of the bank's financial standing in 2009, caused either by credit risks accelerating significantly (that is, in case of the total share of NPLs and restructured loans exceeding 10% of the loan book), further liquidity shortages, or further strong pressure on its capitalization. An upgrade might be possible if the operating environment improved substantially, leading to an improvement in BKM's financial performance.

We could withdraw the one-notch uplift attributable to BKM's GRE status if the bank is further privatized, with KMAO-Yugra reducing its ownership to less than a 25% blocking stake, and if an outside party attained a majority ownership stake in the bank.

Profile: Large Regional Bank With Strong Ties To Khanty-Mansiysk Autonomous Okrug-Yugra

BKM is one of the largest regional commercial banks, ranking among the top 30 in Russia, with total assets of RUR116 billion (\$4 billion) on Dec. 31, 2008. It operates in KMAO-Yugra, one of country's wealthiest regions, which accounts for 60% of Russian oil production and has per capita GRP of about 6x the national average.

KMAO-Yugra is still the principal owner of BKM. Although its stake decreased to 66.3% in October 2008 from 92.7% previously, in line with the privatization plan, its connections with the bank remain strong. This is reflected in the considerable business flows coming through the bank.

BKM is KMAO-Yugra's financial agent, servicing corporate and individual budget recipients (about RUR6 billion of individual current accounts) and running regional investment programs. The bank provides payment services to local companies and commercial banking services to KMAO-Yugra-linked companies. It uses its privileged links with the regional government to expand its corporate and retail banking operations within KMAO-Yugra.

BKM targets corporate and retail clients through a good distribution network of 132 outlets, including 18 branches. It increased its branch network in 2008 by opening 28 new outlets. The bank's business is mainly concentrated in KMAO-Yugra, where it has more than 90 offices. However, its presence outside KMAO-Yugra is also expanding. BKM enjoys a strong market position within the KMAO-Yugra region thanks to good brand awareness and strong ties to the local authorities. In KMAO-Yugra, it has market shares of 19.5% of all retail deposits, 45% of corporate deposits, 24.4% of consumer loans, and 43.1% of corporate lending.

Support And Ownership: Link With KMAO-Yugra Is A Positive Rating Factor

BKM is 66.3% owned by KMAO-Yugra. The okrug's stake was reduced from 92.7% following a RUR1.95 billion capital increase on Oct. 28, 2008. The new minority shareholders include the state-owned Eurasian Bank for Development (5%), Ferrosplav Invest (6.5%), and IST Capital (16.43%).

Standard & Poor's views KMAO-Yugra's ownership of the bank and strong links to the regional government as a positive rating factor. Therefore, we accord the long-term rating on BKM a one-notch uplift above the bank's stand-alone credit profile and classify it as a "commercial institution" government-related entity (GRE).

KMAO-Yugra has been BKM's controlling shareholder since the mid-1990s. In March 2009, it approved the bank's privatization plan, with a 40.3% stake to be sold to new investors. KMAO-Yugra intends to retain a blocking stake in BKM not falling below 25%. We do not anticipate that this potential change in BKM's ownership structure will affect its business profile, because the bank will remain focused on servicing KMAO-Yugra's budget-related flows and the accounts of budget recipients.

The bank is considering increasing its capital by RUR3.5 billion, which is to be approved at its shareholders' meeting on July 27, 2009. This might result in a change in ownership structure and reduction of the direct shareholding by KMAO-Yugra, but not to below 44%.

The bank also has strong ties to the regional authority through its management structure. BKM's Board of Directors is chaired by KMAO governor Filipenko A.V., while CEO Mizgulin D.A. is the head of KMAO budget committee.

Strategy: Moderate Growth Plans With A Focus On Improving Liquidity

According to its management, BKM targets moderate growth for 2009, with the priority to strengthen liquidity in the tougher macroeconomic environment. It plans to increase its loan book by not more than 5%, while raising its customer deposit base by 30%. The bank's goal is to enhance its market share within KMAO-Yugra. In pursuit of this, BKM intends to further expand its servicing of the regional government's business flows to both corporate and individual budget recipients and municipal companies by streamlining payment and settlement services.

BKM's objective is to develop its retail franchise in KMAO-Yugra, in close cooperation with the regional government. BKM has introduced retail deposit-taking products and has developed payroll programs. The bank also runs a special regional social card program that delivers multifaceted banking services to Okrug residents, including payment of pensions, allowances, and other social benefits.

The banks says that one important objective is to build a diversified, steady funding base. We consider this a difficult task to achieve given the decline in the population's disposable income, rise in unemployment, and

increasing competition within the sector. However, BKM should benefit from its remaining strong ties with the Okrug.

Having actively built its network in 2008 by opening 28 new outlets, BKM targets organic growth for 2009 within KMAO-Yugra. In line with the geographic diversification, the bank intends further to expand in other regions by possibly acquiring small banks or establishing cooperation agreements with other regional banks. To this end, in May 2009 BKM acquired a 25.37% stake in Novosibirsk Municipal Bank, with total assets of RUR4.8 billion (3.65% of BKM's assets), to expand its clientele within Siberia.

Risk Governance And Management: Dominated By High Market Risk

BKM bears high market risk in our view due to volatile financial market conditions with 16.31% of assets in its securities portfolio. This portfolio has experienced a significant revaluation after the recent sharp drop in financial markets, including its financial derivatives portfolio.

BKM's exposure to credit risk is currently adequate, with the level of reported NPLs below 1%, which compares favorably with peers. However, we assume asset quality will deteriorate further given the current recession in Russia. The bank recognizes this and is taking measures to strengthen its credit risk management, including continuous monitoring of all existing clients, reducing credit limits, and increasing collateral and provisioning.

In this period of financial and economic stress, BKM--like other banks—has suffered from liquidity pressures, accentuated by the confidence-sensitive behavior of depositors. However, this was offset by substantial funding from the CBR, although this is now gradually being reduced.

We view BKM's foreign debt repayment burden of \$148 million in 2009 as manageable. BKM aims to further improve its diversification of funding sources by increasing customer deposits and reducing public funding, which we view as challenging.

Enterprise risk management (ERM): Weak due to lack of well-developed risk management structures

We classify BKM's ERM as weak, mainly because it has a short track record and therefore lacks a well-developed risk management structure. At the same time, senior risk managers are experienced bankers, albeit only in a Russian context. The bank monitors major risks on a regular basis, with a strict set of limits. Policies for measuring and mitigating different types of risk are well documented. We view positively the strengthening credit risk management procedures with tighter underwriting and more frequent monitoring. However, market risk management is insufficient and needs further improvement through more sophisticated techniques and stress testing.

Credit risk: Reported asset quality indicators below peers

BKM's loan portfolio increased by 65% in 2008, mainly driven by growth in corporate lending, which more than doubled by year-end, and by a 10% revaluation of its foreign currency loan book. This fast lending growth, which the banks says it is putting on hold in 2009, is partly offset by its relatively granular and diversified loan portfolio by industry. In terms of sector breakdown as of March 31, 2009, loans to manufacturing companies represent 24.9%, loans to construction (including regional infrastructure and development projects) 20.1%, trade 14.8%, financial services 19%, and transport 5.9%. Sixty-percent of the loans were granted in the relatively prosperous KMAO-Yugra region. The 20 largest nonbank loans to ATE accounted for 236% (35% of gross loans) as of at year-end 2008, with most of the loans granted to large systemically important corporates in the shipbuilding, energy, and air transportation sectors, as well as government development projects. The retail loan book is 61%

comprised of mortgages provided mainly under a special program subsidized by KMAO-Yugra.

Given the deteriorating business environment, the bank conducts monthly monitoring of all the existing clients, reducing credit limits, and increasing collateral and provisioning. BKM has received collateral in the form of KMAO-Yugra guarantees amounting to RUR2.7 billion.

BKM's reported NPLs, standing at 0.8% on June 1, 2009, demonstrate adequate asset quality, in our view, and compare favorably with peers. However, this doesn't reflect the scope of future potential asset-quality problems. Recent fast lending growth implies that a large part of BKM's loan portfolio has yet to be tested through the full economic cycle. Problematic loans including restructured loans do not exceed 5% of the loan portfolio as of June 1, 2009. BKM is gradually increasing its provisioning, with 3.5% of new loan loss provisions built up in 2008, resulting in a loan-loss reserve of 4.6% as of Dec 31, 2008.

Market risk: Fairly high for a regional bank

BKM's exposure to market risk has heightened since the significant drop in the financial markets. The securities portfolio of RUR19 billion (16.31% of assets) as of Dec. 31, 2008 consists of RUR4 billion financial assets at fair value through profit and loss and RUR14.9 billion available-for-sale securities, including reclassified. Financial assets at fair value contain first-to-default credit-linked notes (65%) with reference bonds, such as those of OAO Bank VTB, OAO Gazprom, OAO Evrazholding, OAO Rosneft, etc.; currency forward contracts (22%); debt securities with embedded put options (5.8%); and other derivative contracts. Available-for-sale securities were mainly composed of debt securities (93%). BKM experienced considerable negative revaluation of its available-for-sale securities portfolio of RUR3.2 billion as of year-end 2008, which has eroded its capitalization. The bank's significant exposure to first-to-default credit-linked notes and debt securities with embedded put options resulted in RUR1.4 billion losses as of Dec. 31, 2008, which negatively affected profitability. BKM monitors its market risk exposure through the online system of limits. Open currency positions are hedged through foreign currency swaps.

Liquidity and funding risks: Limited foreign debt repayment burden

BKM's funding profile is fairly diversified by source, composed of the following as of March 31, 2009: customer deposits (48%; of which 22% corporate accounts and 26% retail accounts), CBR funding (21%), interbank (12%), issues securities (10%), and subordinated loans (5%). In the period of financial and economic stress, BKM, like other banks, has suffered from liquidity pressures, accentuated by the vulnerability of retail deposits. However, this was offset by substantial funding from the Central Bank of Russia, which is now gradually reducing.

Confidence-sensitive retail deposits experienced a 10% outflow within three days in October 2008 at the peak of the crisis, but are now recovering, showing 14% growth by March 31, 2009 compared with Sept. 30, 2008. Deposits of KMAO-Yugra-linked companies amounted to RUR3.1 billion as of March 31, 2008, up from RUR1.8 billion on Dec 31, 2008.

BKM plans gradually to reduce its dependence on public financing through development of its own customer franchise and attracting customer deposits. The bank has decreased its funding from CBR to RUR13.1 billion as of June 11, 2009, from RUR24.5 billion as of March 31, 2009, having fully redeemed its uncollateralized CBR loans. However, BKM's reliance on government sources still remains strong. The bank intends to maintain funding from the CBR at a maximum RUR15 billion.

BKM's liquidity cushion, consisting of cash and money-market instruments of RUR20 billion as of March 31, 2009,

is adequate and accounts for 15% of the balance sheet. BKM's refinancing risk is limited. International borrowings maturing by the end of 2009 account for about USD148 million.

One of BKM's challenges is to balance the maturity of assets and liabilities. With the predominantly long-term loans, including mortgages in its portfolio and short-term funding, the bank is exposed to maturity mismatches, with a negative liquidity gap for more than one year. To address this, the bank needs to attract long-term borrowings.

Profitability: Hampered By Trading Losses And Increasing Provisioning Costs

BKM's profitability is weak, in our view. The negative bottom-line results for 2008 were affected by trading losses (including revaluations), increasing provisioning costs, and high operating expenses. Adverse market conditions and high exposure to market risk hit BKM's trading results, with a reported RUR1.4 billion loss. Weakening asset quality led to RUR1.9 billion growth in provisioning costs (3.56% of customer loans). Branch network expansion, under which 28 new outlets were opened in 2008, heightened operating expenses. This led to a cost-to-income ratio of 80%, constraining the financial result. On the positive note, the bank enjoyed a high interest margin of 5.78% in 2008, thanks to the relatively low cost of funding.

We believe that BKM's profitability will be volatile in the future. It will depend on its ability to generate sustainable earnings from retail and corporate clients, while keeping asset quality and interest and operating expenses under control. The growth of the share of retail deposits in core deposits could pressure the interest margin in the medium term.

Capitalization: Despite Recent Capital Injection, Eroded By A Negative Revaluation Reserve

BKM's capitalization was supported by an RUR1.95 billion share-capital injection in October 2008. This, together with the surplus, resulted in the total RUR6 billion equity increase, which we view positively because it improved the bank's flexibility and provided a satisfactory buffer against accumulating risks in the system. In addition, state-owned Vnesheconombank (foreign currency BBB/Negative/A-3, local currency BBB+/Negative/A-2) provided a RUR2 billion subordinated loan to BKM in February 2009 for 10 years. Although we don't factor in Tier II capital increases in to our ATE calculation, this strengthened BKM's regulatory capital to 15% at of June 1, 2009.

However, this recent support for its capitalization was eroded by a negative revaluation reserve of financial assets available-for-sale amounting to RUR3.23 billion. Asset growth and poor revenue generation in 2008 constrained capitalization, resulting in an ATE-to-adjusted assets ratio of 8.3% at year-end 2008, which is, however, still adequate.

We view positively the bank's intention to increase Tier I capital by RUR3.5 billion, which is to be approved at the shareholders' meeting on July 27, 2009. Should this go ahead, it will improve the bank's capitalization and enable it access to additional subordinated loan from Vnesheconombank.

Table 1

Balance Sheet Statistics*											
(Mil. RUR)	-Year ended Dec. 31--					-	Breakdown as a % of assets (adj.)				
	2008	2007	2006	2005	2004		2008*	2007	2006	2005	2004
Assets											
Cash and money market instruments	24,118	24,045	18,419	24,368	19,083		20.72	28.49	26.51	46.18	44.80
Securities	18,983	15,707	25,189	10,981	16,933		16.31	18.61	36.25	20.81	39.75
Trading securities (marked to market)	4,056	11,049	22,995	2,512	10,133		3.49	13.09	33.09	4.76	23.79
Nontrading securities	14,927	4,659	2,195	8,469	6,801		12.83	5.52	3.16	16.05	15.97
Customer loans (gross)	70,448	42,695	24,511	15,934	5,613		60.53	50.59	35.28	30.20	13.18
Other consumer loans	23,314	20,398	11,327	3,197	1,001		20.03	24.17	16.30	6.06	2.35
Commercial/corporate loans	47,134	22,297	13,183	12,736	4,612		40.50	26.42	18.97	24.14	10.83
Loan loss reserves	3,329	1,778	1,451	1,265	494		2.86	2.11	2.09	2.40	1.16
Customer loans (net)	67,119	40,917	23,060	14,669	5,120		57.67	48.48	33.19	27.80	12.02
Earning assets	105,388	75,161	62,534	43,818	29,699		90.55	89.06	90.00	83.05	69.72
Intangibles (nonservicing)	0	0	0	6	1		0.00	0.00	0.00	0.01	0.00
Fixed assets	4,041	3,087	2,579	1,450	1,241		3.47	3.66	3.71	2.75	2.91
Accrued receivables	0	0	0	1,185	121		0.00	0.00	0.00	2.25	0.28
All other assets	2,121	637	236	111	97		1.82	0.76	0.34	0.21	0.23
Total reported assets	116,382	84,394	69,483	52,769	42,596		100.00	100.00	100.00	100.01	100.00
Less nonservicing intangibles+ I/O strips	0	0	0	(6)	(1)		0.00	0.00	0.00	(0.01)	0.00
Adjusted assets	116,382	84,394	69,483	52,764	42,595		100.00	100.00	100.00	100.00	100.00
Breakdown as a % of liabilities + equity											
							2008*	2007	2006	2005	2004
Liabilities											
Total deposits	90,978	63,945	52,222	46,080	37,859		78.17	75.77	75.16	87.32	88.88
Noncore deposits	37,155	13,294	4,048	3,358	1,217		31.93	15.75	5.83	6.36	2.86
Core/customer deposits	53,823	50,651	48,174	42,722	36,642		46.25	60.02	69.33	80.96	86.02
Repurchase agreements	1,467	816	4,435	N.A.	713		1.26	0.97	6.38	N.A.	1.67
Other borrowings	12,355	11,132	4,565	2,024	879		10.62	13.19	6.57	3.84	2.06
Other liabilities	1,341	238	327	344	77		1.15	0.28	0.47	0.65	0.18
Total liabilities	106,141	76,130	61,548	48,447	39,528		91.20	90.21	88.58	91.81	92.80
Total shareholders' equity	10,241	8,264	7,935	4,322	3,067		8.80	9.79	11.42	8.19	7.20
Preferred stock and other capital	0	0	1	1	1		0.00	0.00	0.00	0.00	0.00
Common shareholders' equity (reported)	10,241	8,264	7,934	4,321	3,066		8.80	9.79	11.42	8.19	7.20
Share capital and surplus	11,843	5,858	5,857	3,557	2,857		10.18	6.94	8.43	6.74	6.71
Revaluation reserve	633	596	634	33	N.A.		0.54	0.71	0.91	0.06	N.A.
General banking risk reserves	1,051	751	751	N.A.	N.A.		0.90	0.89	1.08	N.A.	N.A.
Reserves (incl. inflation revaluations)	(3,235)	N.A.	N.A.	N.A.	N.A.		(2.78)	N.A.	N.A.	N.A.	N.A.
Retained profits	(50)	1,060	692	731	210		(0.04)	1.26	1.00	1.38	0.49
Memo: Dividends (not yet distributed)	0	(49)	(44)	(40)	(20)						
Total liabilities and equity	116,382	84,394	69,483	52,769	42,596		100.00	100.00	100.00	100.00	100.00

Table 1

Balance Sheet Statistics* (cont.)					
Equity Reconciliation Table					
Common shareholders' equity (reported)	10,241	8,264	7,934	4,321	3,066
- Dividends (not yet distributed)	0	(49)	(44)	(40)	(20)
- Revaluation reserves	(633)	(596)	(634)	(33)	0
- Nonservicing Intangibles	0	0	0	(6)	(1)
Adjusted common equity	9,609	7,620	7,256	4,242	3,046
+ Admissible Prefs and hybrids	0	0	1	1	1
Adjusted total equity	9,609	7,620	7,257	4,243	3,047

*Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards.RUR--Russian ruble. N.A.--Not available.

Table 2

Profit and Loss Statement Statistics *											
(Mil. RUR)	--Year ended Dec. 31--					-	--Adj. avg. assets (%)--				
	2008	2007	2006	2005	2004		2008*	2007	2006	2005	2004
Profitability											
Interest income	10,572	6,388	4,497	3,383	1,873		10.53	8.30	7.36	7.09	5.97
Interest expense	5,356	3,418	2,236	949	1,091		5.34	4.44	3.66	1.99	3.48
Net interest income	5,216	2,970	2,261	2,434	782		5.20	3.86	3.70	5.10	2.49
Operating noninterest income	(163)	947	1,400	1,114	702		(0.16)	1.23	2.29	2.34	2.24
Fees and commissions	1,213	884	627	363	257		1.21	1.15	1.03	0.76	0.82
Trading gains	(1,392)	58	753	618	430		(1.39)	0.08	1.23	1.30	1.37
Other market-sensitive income	N.A.	N.A.	N.A.	128	(8)		N.A.	N.A.	N.A.	0.27	(0.03)
Other noninterest income	16	5	20	6	24		0.02	0.01	0.03	0.01	0.08
Operating revenues	5,053	3,917	3,661	3,548	1,485		5.03	5.09	5.99	7.44	4.73
Noninterest expenses	4,086	3,161	2,465	1,861	1,198		4.07	4.11	4.03	3.90	3.82
Personnel expenses	2,467	1,891	1,409	981	687		2.46	2.46	2.30	2.06	2.19
Other general and administrative expense	1,286	1,117	928	775	434		1.28	1.45	1.52	1.62	1.38
Depreciation	333	153	129	105	78		0.33	0.20	0.21	0.22	0.25
Net operating income before loss provisions	967	756	1,195	1,687	286		0.96	0.98	1.96	3.54	0.91
Credit loss provisions (net new)	1,921	332	143	782	8		1.91	0.43	0.23	1.64	0.03
Net operating income after loss provisions	(954)	423	1,052	905	278		(0.95)	0.55	1.72	1.90	0.89
Amortization of goodwill and intangibles	0	0	0	0	(5)		0.00	0.00	0.00	0.00	(0.02)
Pretax profit	(954)	423	1,052	905	283		(0.95)	0.55	1.72	1.90	0.90
Tax expense/credit	(175)	28	318	355	79		(0.17)	0.04	0.52	0.74	0.25
Net income before minority interest	(779)	395	734	551	204		(0.78)	0.51	1.20	1.15	0.65
Net income before extraordinaries	(779)	395	734	551	204		(0.78)	0.51	1.20	1.15	0.65
Net income after extraordinaries	(779)	395	734	551	204		(0.78)	0.51	1.20	1.15	0.65
Core Earnings Reconciliation											
Net Income (before Minority Interest)	(779)	395	734	551	204						
+ Amortization/ Impairment of Goodwill/ Intangibles	0	0	0	0	(5)						
- Preferred dividends	0	0	(0)	(0)	(0)						

Table 2

Profit and Loss Statement Statistics * (cont.)										
Core earnings	(779)	395	734	550	199	(0.78)	0.51	1.20	1.15	0.63
	2008*	2007	2006	2005	2004					
Asset Quality										
Nonperforming assets	495	374	190	160	102					
Nonaccrual loans	495	374	190	160	102					
Net charge-offs	38	5	1	N.A.	N.A.			N.A.	N.A.	
Average balance sheet										
Average customer loans	54,018	31,989	18,865	9,894	4,625					
Average earning assets	90,275	68,848	53,176	36,759	22,800					
Average assets	100,388	76,939	61,126	47,683	31,372					
Average total deposits	77,462	58,084	49,151	41,969	25,637					
Average interest-bearing liabilities	90,347	68,557	54,663	43,777	28,333					
Average common equity	9,253	8,099	6,127	3,694	2,964					
Average adjusted assets	100,388	76,939	61,123	47,679	31,370					
Other data										
Number of employees (end of period, actual)	3,426	2,909	2,409	1,702	1,542					
Number of branches	18	16	16	16	14					
Off-balance-sheet credit equivalents	28,513	10,695	5,627	3,855	785					

*Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. RUR--Russian ruble. N.A.--Not available.

Table 3

Ratio Analysis*					
	--Year ended Dec. 31--				
	2008	2007	2006	2005	2004
ANNUAL GROWTH (%)					
Customer loans (gross)	65.00	74.19	53.83	183.86	21.44
Loss reserves	87.26	22.53	14.73	168.20	(2.00)
Adjusted assets	37.90	21.46	31.69	23.87	111.45
Customer deposits	6.26	5.14	12.76	16.59	248.35
Total equity	23.93	4.15	83.59	40.90	7.12
Operating revenues	28.99	7.00	3.18	138.98	10.40
Noninterest expense	29.24	28.23	32.50	55.26	12.63
Net operating income before provisions	27.95	(36.80)	(29.15)	489.55	1.96
Loan loss provisions	478.53	131.96	(81.69)	9268.93	N.M.
Net operating income after provisions	(325.36)	(59.76)	16.23	225.84	(21.24)
Pretax profit	(325.36)	(59.76)	16.23	219.58	(17.07)
Net income	(297.01)	(46.14)	33.35	169.76	(26.88)
	2008*	2007	2006	2005	2004
PROFITABILITY (%)					
Interest Margin Analysis					

Table 3

Ratio Analysis* (cont.)					
Net interest income (taxable equiv.)/avg. earning assets	5.78	4.31	4.25	6.62	3.43
Net interest spread	5.78	4.29	4.37	7.03	4.36
Interest income (taxable equiv.)/avg. earning assets	11.71	9.28	8.46	9.20	8.22
Interest income on loans/avg. total loans	14.50	13.27	13.70	0.00	22.66
Interest expense/avg. interest-bearing liabilities	5.93	4.99	4.09	2.17	3.85
Interest expense on deposits/avg. deposits	5.64	5.37	3.40	0.00	3.13
Revenue Analysis					
Net interest income/revenues	103.23	75.82	61.75	68.59	52.68
Fee income/revenues	24.00	22.57	17.14	10.23	17.28
Market-sensitive income/revenues	(27.56)	1.48	20.57	21.02	28.40
Noninterest income/revenues	(3.23)	24.18	38.25	31.41	47.32
Personnel expense/revenues	48.84	48.28	38.48	27.64	46.27
Noninterest expense/revenues	80.87	80.71	67.35	52.44	80.72
Noninterest expense/revenues less investment gains	80.87	80.71	67.35	54.41	80.27
Net operating income before provision/revenues	19.13	19.29	32.65	47.56	19.28
Net operating income after provisions/revenues	(18.89)	10.81	28.74	25.52	18.72
New loan loss provisions/revenues	38.02	8.48	3.91	22.04	0.56
Pretax profit/revenues	(18.89)	10.81	28.74	25.52	19.08
Tax/pretax profit	18.38	6.63	30.24	39.19	27.96
Core Earnings/Revenues	(15.42)	10.09	20.05	15.51	13.37
	2008*	2007	2006	2005	2004
Other Returns					
Pretax profit/avg. risk assets (%)	0.00	0.00	2.78	0.00	0.00
Revenues/avg. risk assets (%)	N.A.	N.A.	9.66	N.A.	N.A.
Net operating income before LLP/LLP	50.32	227.53	835.09	215.78	3429.20
Net operating income before loss provisions/avg. risk assets (%)	N.A.	N.A.	3.16	N.A.	N.A.
Net operating income after loss provisions/avg. risk assets (%)	N.A.	N.A.	2.78	N.A.	N.A.
Net income before minority interest/avg. adjusted assets	(0.78)	0.51	1.20	1.15	0.65
Net income/employee (currency unit)	(245,903)	148,689	357,131	339,401	144,837
Non-interest expenses/average adjusted assets	4.07	4.11	4.03	3.90	3.82
Personnel expense/employee (currency unit)	778,987	711,270	685,343	604,527	487,546
Core earnings/average risk-weighted assets	N.A.	N.A.	1.94	N.A.	N.A.
Core earnings/average adjusted assets	(0.78)	0.51	1.20	1.15	0.63
Core earnings/ Average ACE (ROE)	(9.04)	5.32	12.77	15.11	6.73
	2008*	2007	2006	2005	2004
FUNDING AND LIQUIDITY (%)					
Customer deposits/funding base	51.36	66.74	78.69	88.81	92.88
Total loans/customer deposits	130.89	84.29	50.88	37.30	15.32
Total loans/customer deposits + long-term funds	104.10	68.80	43.15	33.37	14.06
Customer loans (net)/assets (adj.)	57.67	48.48	33.19	27.80	12.02

Table 3

Ratio Analysis* (cont.)					
Parent Only Analysis					
	2008*	2007	2006	2005	2004
CAPITALIZATION (%)					
Adjusted common equity/risk assets	N.A.	N.A.	16.75	13.07	N.A.
Internal capital generation/prior year's equity	(9.43)	4.37	15.97	16.64	7.13
Tier 1 capital ratio	N.A.	N.A.	16.85	12.20	N.A.
Regulatory total capital ratio	N.A.	N.A.	19.32	14.17	N.A.
Adjusted total equity/adjusted assets	8.26	9.03	10.44	8.04	7.15
Adjusted total equity/adjusted assets + securitizations	8.26	9.03	10.44	8.04	7.15
Adjusted total equity/risk assets	N.A.	N.A.	16.75	13.08	N.A.
Adjusted total equity plus LLR (specific)/customer loans (gross)	18.36	22.01	35.52	34.56	63.07
Common dividend payout ratio	0.00	12.30	6.01	7.29	0.00
	2008*	2007	2006	2005	2004
ASSET QUALITY (%)					
New loan loss provisions/avg. customer loans (net)	3.56	1.04	0.76	7.90	0.66
Net charge-offs/avg. customer loans (net)	0.07	0.02	0.01	N.A.	N.A.
Loan loss reserves/customer loans (gross)	4.73	4.16	5.92	7.94	8.80
Credit-loss reserves/risk assets	N.A.	N.A.	3.35	3.90	N.A.
Nonperforming assets (NPA)/customer loans + ORE	0.70	0.88	0.78	1.00	1.81
NPA (excl. delinquencies)/customer loans + ORE	0.70	0.88	0.78	1.00	1.81
Other consumer NPL	N.A.	0.62	N.A.	N.A.	N.A.
Net NPA/customer loans (net) + ORE	(4.22)	(3.43)	(5.47)	(7.53)	(7.66)
NPA (net specifics)/customer loans (net specifics)	(4.22)	(3.43)	(5.47)	(7.53)	(7.66)
Loan loss reserves/NPA (gross)	672.83	475.31	763.60	789.77	485.49

*Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. N.A.--Not available. N.M.--Not meaningful.

Ratings Detail (As Of July 8, 2009)*

Bank of Khanty-Mansiysk (JSC)

Counterparty Credit Rating	B+/Stable/B
<i>Russia National Scale Rating</i>	ruA+/-/-
Certificate Of Deposit	B+/B
Senior Unsecured	
<i>Russia National Scale Rating (1 Issue)</i>	ruA+
Subordinated (1 Issue)	B-

Counterparty Credit Ratings History

21-Apr-2009	B+/Stable/B
07-Apr-2008	BB-/Stable/B
28-Sep-2006	B+/Positive/B
01-Jul-2005	B+/Stable/B
24-Mar-2005	B-/Positive/C
21-Apr-2009	<i>Russia National Scale Rating</i> ruA+/-/-

Ratings Detail (As Of July 8, 2009)* (cont.)	
07-Apr-2008	ruAA/--/--
28-Sep-2006	ruA+/--/--
01-Jul-2005	ruA/--/--
24-Mar-2005	ruBBB/--/--
Sovereign Rating	
Russian Federation	
<i>Foreign Currency</i>	BBB/Negative/A-3
<i>Local Currency</i>	BBB+/Negative/A-2
<i>Russia National Scale Rating</i>	ruAAA/--/--
Related Entities	
Khanty-Mansiysk Autonomous Okrug	
Issuer Credit Rating	BBB-/Negative/--
<i>Russia National Scale Rating</i>	ruAAA/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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