



Moody's Investors Service

Rating Action: [Moody's assigns B2/NP/E+ ratings to B&N Bank \(Russia\)](#)

Global Credit Research - 09 Dec 2009

A3.ru national scale rating affirmed

Moscow, December 09, 2009 -- Moody's Investors Service today assigned B2 long-term and Not Prime short-term local and foreign currency deposit ratings and an E+ bank financial strength rating (BFSR) to B&N Bank. The outlook on all the ratings is stable. At the same time, Moody's Interfax Rating Agency affirmed the bank's A3.ru long-term national scale credit rating (NSR). Moscow-based Moody's Interfax is majority owned by Moody's.

According to Moody's, B&N Bank's ratings are underpinned by the bank's visibility in the retail-deposit-taking market, the adequate geographic diversification of its business and its satisfactory financial indicators -- notably, its adequate capitalisation and liquidity profiles -- while asset quality deterioration has stressed its profitability, thus requiring additional provisioning. B&N Bank's ratings are primarily constrained by relatively high single-name and industry concentrations in the loan portfolio, some corporate governance and risk management issues (which are, however, common for Russian banks) and the still challenging operating environment in Russia.

B&N Bank -- ultimately controlled by an individual -- is a visible player on the market especially in the area of retail deposit taking: it is ranked 15th in terms of deposits from individuals among Russian banks. This funding source contributed over 63% of the bank's total non-equity funding at 30 June 2009, bringing welcome granularity to its liabilities. In Moody's view, such deposits, which are sensitive to confidence in the system, were well balanced by a high volume of liquid instruments, accounting for 36% of total assets.

Moody's notes that the bank's asset quality has been eroded by the deteriorating operating environment in Russia. The bank reported a ratio of over 9% of overdue loans to gross loans at 30 June 2009, although overdue loans were adequately covered by provisions, which represented 10.2% of the gross loan portfolio. At the same time, B&N Bank's loan book remains highly concentrated both in terms of single-name and industry exposure. The Top 20 credit exposures including lending and off-balance-sheet credit commitments exceeded 300% of Tier 1 equity at the end of H1 2009, making the bank's financial fundamentals vulnerable to the performance of certain names and sectors.

Further product diversification of B&N's business and franchise growth, as well as a decline in the level of credit concentration, could have positive implications for the bank's risk positioning and, thus, for its ratings as this strategy would reduce the vulnerability of the bank's profitability and capitalisation to any sharp asset quality correction. Moreover, the bank's track record of healthy profitability and acceptable asset quality in the current stressed operating environment could be positive for the ratings. On the other hand, Moody's cautions that a significant weakening of the bank's liquidity position, a further increase in borrower concentration and/or weakening profitability, capital adequacy levels and material deterioration of the bank's franchise would exert downward pressure on the ratings.

Moody's last rating action on B&N Bank was on 12 July 2005, when Moody's Interfax Rating Agency assigned an A3.ru NSR to the entity.

The principal methodologies used in rating B&N Bank are Moody's "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 are available on www.moody.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 this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Moscow, B&N Bank reported total IFRS assets of RUB72.6 billion (US\$2.3 billion) at 30 June 2009 and a net loss of RUB665 million (US\$17 million) for the six months then ended.

NATIONAL SCALE RATINGS

Moody's Interfax Rating Agency's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs in Russia are designated by the ".ru" suffix. NSRs differ from global scale ratings, as assigned by Moody's Investors Service, in that they are not globally comparable to the full universe of Moody's rated entities, but only with other rated entities within the same country.

ABOUT MOODY'S AND MOODY'S INTERFAX

Moody's Interfax Rating Agency (MIRA) specialises in credit risk analysis in Russia. MIRA is controlled by Moody's Investors Service, a leading provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets. Moody's Investors Service is a subsidiary of Moody's Corporation (NYSE: MCO).

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