Moody's Investors Service

Global Credit Research
Credit Opinion
9 JUN 2008

Credit Opinion: Home Credit & Finance Bank

Home Credit & Finance Bank

Moscow, Russia

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Ba3/NP
NSR Bank Deposits -Dom Curr	Aa3.ru/--
Bank Financial Strength	D-
Senior Unsecured	Ba3

Contacts

Analyst	Phone
Roman Piven/Moscow	7.495.641.1881
Andrey Artyukhin/Moscow	
Reynold R. Leegerstee/London	44.20.7772.5454
Elena Redko/Moscow	

Key Indicators

Home Credit & Finance Bank

	[1]**2007**	**2006**	**2005**	**2004**	**2003**	**Avg.**
Total assets (US$ million)	**3315.92**	**1723.69**	**1367.29**	**930.81**	**277.49**	[2]**215.09**
Shareholders' Equity (US$ million)	**608.63**	**378.34**	**297.29**	**99.76**	**40.17**	[2]**149.76**
Return on average assets	**3.12**	**1.65**	**0.95**	**2.39**	**-5.73**	**0.48**
Recurring earnings power [3]	**15.74**	**13.99**	**13.46**	**9.50**	**-3.78**	**9.78**
Net interest margin	**21.35**	**19.75**	**18.10**	**17.05**	**7.12**	**16.68**
Cost/income ratio (%) [4]	**46.10**	**37.61**	**36.38**	**53.30**	**146.87**	**64.05**
Problem loans % gross loans	**12.13**	**14.16**	**13.92**	**5.47**	**9.79**	**11.09**
Equity % Assets	**18.35**	**21.95**	**21.74**	**10.72**	**14.48**	**17.45**

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets [4] Non-Interest Expense % Operating Income

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a D- bank financial strength rating (BFSR) to Home Credit and Finance Bank ("HCFB"), which translates into a baseline credit assessment (BCA) of Ba3.The BFSR reflects HCFB's developing franchise beyond point-of-sale (POS) loans, thanks to (i) its ability to cross-sell as one of the largest consumer lenders and its recognised name in Russia; (ii) high and expanding geographical coverage which may help it resist competitive pressure; (iii) the advantages associated with the bank's strong reported capitalisation levels; (iv) strengthening risk management; and (v) the historical commitment of its shareholder. The bank's high loan book granularity also supports the BFSR.

However, the rating is at the same time constrained by the bank's historically poor asset quality and its developing credit underwriting. These are reflected in a high rate of problem loans in relation to the gross loan book as well as a relatively high level of write-offs and problem loan sales in line with its very rapid pace of growth in 2007, which entails high credit risks that may translate into an even higher level of problem loans as fresh loans season. The bank's low-income consumer borrowers are at risk of inflationary pressures in Russia, which also may translate into a higher rate of problem loans. Given the high volume of repayments that fall due during 2008 amid an unfavourable credit and capital market environment, the bank's stand-alone capacity to repay or refinance such funding is at risk, making it reliant on the ability of its parent - the PPF Group (not rated) - to provide additional liquidity. HCFB's increased size following its recent growth may make such support more challenging, difficult debt and capital market conditions may put pressure on the bank's franchise value.

HCFB's global local currency (GLC) deposit rating of Ba3 is at the same level as the bank's BCA of Ba3 and does not incorporate any support in the event of need, either from its ultimate shareholder, the PPF Group, or systemic support.

Credit Strengths

- Track record of PPF Group providing support to the bank in the event of need,

- Persistently high reported capitalisation levels provide some comfort with regard to HCFB's ability to absorb unexpected losses

- Constant strengthening of HCFB's loan underwriting procedures

- Established access to market funding, including securitisation, but it also raises refinancing risks

- Strong positions in Russia's lucrative consumer lending market

Credit Challenges

- Weak asset quality weighs on financial performance

- Exposure to refinancing risk due to very high reliance on international wholesale funding

- Risks inherent to the retail segment in a country with an underdeveloped credit infrastructure but mitigated, to some extent, by selling products to customers with a credit history

- Adequacy of credit risk management remains untested in an economic downturn

- Increasing competition from both domestic and foreign banks

Rating Outlook

The outlook on all of the bank's ratings is stable

What Could Change the Rating - Up

HCFB's D- BFSR and deposits ratings have limited upside potential over the short term given the historical asset quality problems and increased refinancing risks. However, the elimination of the above weaknesses in line with sustained improvement in the franchise material improvements in liquidity, funding structure (on the back of increased level of customer funding), when combined with consistently high capitalisation levels, could exert positive pressure on the BFSR.

What Could Change the Rating - Down

Negative pressure could be exerted on the ratings as a result of further growth of NPLs (if not adequately covered by loan loss reserves), and inability to manage refinancing risks.

Recent Results and Developments

At the end of the first quarter of 2008, the bank reported total assets of US$2.9 billion under Russian accounting standards and was ranked the 38th bank in Russia.

DETAILED RATING CONSIDERATIONS

Detailed considerations for HCFB's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's D- BFSR for HCFB is constrained by weak asset quality which might worsen in a difficult operating environment, as well as by potential risk stemming from consumer lending and a high dependence on market funding and reliance on its unrated parent on refinance liabilities due in 2008.

Although the bank is constantly making efforts to refine its credit undertaking procedures, the effectiveness of these improvements still remains to be demonstrated by improved asset quality.

On the positive side, the rating is supported by adequate capitalisation, a developing franchise as one of the largest consumer lenders in Russia, as well as the bank's territorial coverage. Moody's also welcomes HCFB's further geographical and product diversification as well as the bank's vast client base.

As a point of reference, the assigned BFSR is one notch lower than the D outcome of Moody's bank financial strength scorecard. Moody's considers the D- rating to be an appropriate measure of the bank's financial strength given the relatively volatile local political and economic environment, together with issues relating to asset quality and liquidity risks.

Qualitative Rating Factors (70%)

Factor 1: Franchise Value

Trend: Neutral

The bank's franchise value is under pressure from unfavourable conditions in the international debt and capital markets.

The bank's principal activity is retail, providing consumer financing to individuals. It benefits from broad and growing territorial coverage (especially in relatively under-banked regions), an increasing product mix, a recognised name and its large customer base which comprises approximately 13 million customers in Russia. The number of its offices had increased to 184 (2006: 98) as of the end of 2007, and the bank's plan envisages an increase in the number of offices to over 350 in near term. Business is well diversified, with nationwide distribution and a broad customer base.

HCFB is in the process of further diversifying POS lending (it is the country's second-largest provider of this type of loan); we note that its dependence on this segment is decreasing gradually as the proportion of POS loans in the gross loan book fell to 50% at end 2007 (2006: 63%) while credit card loans remained at the level of circa 30% in both years of 2006 and 2007 but cash and mortgage loans jumped to 18% (2006: about 5%). In 2007, the bank launched its mortgage program. Over the coming years, the bank plans to preserve the trend of diversification from POS loans towards credit cards, cash loans and mortgages (in particular).

The bank's score for franchise value is C+.

Factor 2: Risk Positioning

Trend: Neutral

The bank's ownership is effectively concentrated in the hands of one controlling owner Mr Petr Kellner (a well-known businessman in the Czech Republic who controls PPF Group, the holding company of Home Credit Group. We see concentration of ownership as a risk.

HCFB's risk positioning score is supported by good granularity, good diversification of the loan book nationwide and by number of customers, together with developing risk management tools. At the same time, the score is constrained by its poor liquidity position, as the bank is highly dependent on market funds, and the proportion of customer deposits is low despite HCFB's declared plans to increase the proportion of customer accounts on the funding side.

Moody's views positively the fact that the bank is constantly improving its credit underwriting procedures including prevention, detection and collection measures. However, the historically reported high level of problem loans calls for further improvements.

The bank's low-income consumer borrowers are at risk of inflationary pressures in Russia, which also may translate into a higher rate of problem loans. Given the high volume of repayments that fall due during 2008 amid an unfavourable credit and capital market environment, the bank's stand-alone capacity to repay or refinance such funding is at risk, making it reliant on the ability of its parent - the PPF Group - to provide additional liquidity. HCFB's increased size following its recent growth may make such support more challenging.

Its market risk appetite, as measured by the potential loss of trading and non-trading books due to major market movements, is low.

The bank outperforms its CIS peer group in terms of frequency and quality of financial information. It publishes its results under IFRS on a quarterly basis, but there is room for improvement in both the detail and in the quality of its public disclosure. However, we note positively constant improvement in the quality of disclosure of the financial information as well as frequency that the financials are issued

The bank's score for risk positioning is D.

Factor 3: Regulatory Environment

For a discussion of the regulatory environment, please refer to Moody's Banking System Outlook on Russia published in September 2007.

Factor 4: Operating Environment

Trend: Neutral

This factor is also common to all Russian banks. Moody's assigns an E+ score for overall operating environment in Russia.

Quantitative Rating Factors (30%)

Factor 5: Profitability

Trend: Neutral

The bank's profitability in 2007 was undermined by high loan impairment charges and costs associated with business development. It is worth noting that a significant portion of fees and commission was backed by insurance income on operations with a related party. This source of income may not be sustainable going forward. The bank's access to lower-cost international financing, with the funds raised channelled into high-margin consumer loans, helped improve the ratios for net interest margin and net spread in 2005-2007. But an anticipated increase in cost of international funding may have a negative impact on NIM going forward.

Factor 6: Liquidity

Trend: Neutral

Refinancing risk will be tested in 2008 and thereafter when any large repayments have to be made. At the end of February 2007, the bank's refinancing needs made up 40% of the total funding on the same date, which represents very high refinancing risk. Moody's does not anticipate significant refinancing problems given the bank's parent, which currently has access to market funds, will likely support its subsidiary. However, we will be closely monitoring refinancing risk. Another mitigating factor is that domestic sentiment was quite favourable for the bank as evidenced by the oversubscription of its domestic bond placement as well as its short-term loan book, the liquidity management it has in place. .

Factor 7: Capital Adequacy

Trend: Neutral

The bank's Tier 1 capital ratio of 18.7% at end 2007 (2006: 21.7%) is still fairly strong, despite having declined from a high of 32.2% in 2005. Despite its low internal capacity to generate capital, the internal capital growth ratio, which stood at 8% in 2005 (11% in 2006 and) jumped rapidly to almost 20% in 2007. Tier 1 capital was regularly bolstered by the owners' contributions to support the balance sheet, which is growing at a more rapid pace.

We have lowered the score to B to take account of the bank's dependence on external capital injections and shift to riskier products which may need higher loss absorption cushion. Factors supporting economic capitalisation include the highly granular loan book.

Factor 8: Efficiency

Trend: Weakening

The ratio of operating expenses to average assets of 12.2% (2006: 8.5%) reveals low efficiency. This weakening trend stems from costs related to branch network development and employment of highly paid managers as well as a 50% increase in payroll employees.

The bank's adjusted score for efficiency is C.

Factor 9: Asset Quality

Trend: Neutral

The ratio of problem loans to gross loans has stood at a high 14% for the past two years, and dropped to 12% at the end of 2007 as a result of a dilution effect on the back of rapid loan book increase up to 93% and improvements in risk-management. The ratio of loan loss reserves to the total loan book of about 13% appear to be satisfactory to absorb possible losses. We have also taken into consideration the high rate of write-offs and the sale of impaired loans. The unseasoned nature of the bank's loan book in line with a shift to relatively new credit card and cash loans may reveal higher NPLs when loans season.

The bank scores E+ for Asset Quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

The global local currency (GLC) deposit rating is in line with the bank's Baseline Credit Assessment of Ba3 and does not incorporate any external support.

National Scale Rating

Moody's rates HCFB at Aa3.ru on Russia's National Scale. 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.

Foreign Currency Deposit Rating

HCFB's foreign currency deposit ratings of Ba3/NP are at the same level as its Baseline Credit Assessment.

Foreign Currency Debt Rating

HCFB's Ba3 foreign currency debt rating for senior debt is not constrained by the Russian ceiling for foreign currency debt, and is at the same level as the foreign currency deposit ratings.

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's

National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Home Credit & Finance Bank

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D-**	
Factor: Franchise Value						**C+**	**Neutral**
Market Share and Sustainability			**x**				
Geographical Diversification				**x**			
Earnings Stability	**x**						
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Neutral**
Corporate Governance [2]				**x**			
- Ownership and Organizational Complexity				x			
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management				**x**			
- Risk Management				x			
- Controls				x			
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness			x				
- Quality of Financial Information				x			
Credit Risk Concentration		**x**					
- Borrower Concentration		x					
- Industry Concentration	x						

Liquidity Management				x			
Market Risk Appetite			x				
Factor: Operating Environment						**E+**	**Neutral**
Economic Stability					x		
Integrity and Corruption					x		
Legal System				x			
Financial Factors (30%)						**C**	
Factor: Profitability						**A**	**Neutral**
PPP % Avg RWA	16.13%						
Net Income % Avg RWA	2.06%						
Factor: Liquidity						**D-**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets					52.08%		
Liquidity Management				x			
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%)	22.60%						
Tangible Common Equity % RWA	21.00%						
Factor: Efficiency						**A**	**Weakening**
Cost/income ratio	40.03%						
Factor: Asset Quality						**E+**	**Neutral**
Problem Loans % Gross Loans					13.40%		
Problem Loans % (Equity + LLR)				34.63%			
Lowest Combined Score (9%)						**E+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**D**	
Assigned BFSR						**D-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral