Moody's Investors Service

Global Credit Research
Credit Opinion
6 NOV 2007

Credit Opinion: Home Credit Slovakia, a.s.

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Piestany, Slovak Republic

Ratings

Category	Moody's Rating
Outlook	Stable
NSR Issuer Rating -Dom Curr	A3.sk

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Key Indicators

Home Credit Slovakia, a.s.

	[1]**2006**	**2005**
Total assets (SKK billion)	**4.05**	**3.74**
Total assets (EUR billion)	**0.12**	**0.10**
Total capital (SKK billion)	**0.18**	**0.11**
Return on average assets	**1.68**	**1.07**
Recurring earnings power [2]	**5.31**	**7.28**
Net interest margin	**15.06**	**16.47**
Cost/income ratio (%)	**56.14**	**47.36**
Problem loans % gross loans	**0.00**	**0.00**
Tier 1 ratio (%)	**--**	**--**

[1] As of December 31. [2] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

The A3.sk national scale rating of Home Credit Slovakia (HCS) is based on: (i) the expectation of support and commitment from the Home Credit Group and HCS's operational integration with Home Credit (Czech Republic) rated A3.cz; (ii) the company's leading position in the consumer finance market in Slovakia, being the second largest player in terms of principal granted with a market share of approximately 25% as of H1 2007; (iii) the extensive distributional network of its products based on partnership retailers covering the whole of the Slovak Republic; and (iv) strong risk management systems (both on the scoring and recovery sides) shared with Home Credit (Czech Republic).

However, the rating reflects: (i) HCS's heavy reliance on wholesale funding sources, limited funding-mix diversification and refinancing risk; (ii) the unregulated nature of consumer finance business in Slovakia; (iii) strong competition from other consumer finance companies, as well as retail banks focused on consumer finance; and (iv) its relatively weak financial fundamentals, especially in terms of capitalisation, profitability and efficiency.

Credit Strengths

- Expected support from the Home Credit Group, which is ultimately owned by the PPF Group, the biggest Czech financial group

- Leading position in consumer finance in Slovakia

- Operational integration with its Czech sister company Home Credit, rated A3.cz

- Good spread of distribution channels

Credit Challenges

- Reliance on wholesale funding sources

- Increasingly competitive market, potentially leading to more pressure on margins and market position

- The consumer finance sector is unregulated

- High risk profile given the predominantly non-prime nature of the customer base

- Low capitalisation

Rating Outlook

The outlook on HCS's rating is stable.

What Could Change the Rating - Up

The A3.sk rating is dependent on expected support from the Home Credit Group. Any rating upgrade would only follow sustained and significant increases in profitability and further franchise expansion, together with improved asset quality and further diversification of the funding profile.

What Could Change the Rating - Down

A reduction in integration with the Home Credit Group or in the likelihood of support would have negative rating implications, as would a significant deterioration in asset quality, an inability to maintain sufficient funding sources or material erosion in market position.

Recent Results and Developments

HCS reported IFRS net income of SKK65.57 million (EUR 1.91 million) in 2006 compared with SKK40.14 million a year earlier. Total assets of the company amounted to SKK4.051 billion (EUR 118 million) during the observed year, up from SKK3.739 billion at end-2005. Loans to customers increased by nearly 12% to SKK3.348 billion during 2006.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Home Credit Slovakia's currently assigned rating are as follows:

Home Credit Slovakia is a consumer finance company operating in the Slovak Republic. The company is integrated with its Czech sister Home Credit ("HC") and it has the same structure of product portfolio, as it provides consumer loans, revolving loans, cash loans and credit cards. HCS's business is, in Moody's view, a mono-line activity on the single market segment of non-prime customers, which are not typically a target segment for retail banks. However, strong competition in the Slovak banking market and some overlap in clients' segmentation of banks and consumer finance companies makes HCS's business very competitive. HCS's key net revenues are generated from revolving loans and consumer loans; cash loans were launched in 2006 and despite strong growth of volume suffer from lower quality; credit cards, which HCS began offering during 2007, currently represent an insignificant part of the company's product portfolio.

HCS ranked second among Slovak consumer finance companies as of end-June 2007 with 25% market share (excluding used car financing, which is not provided by the company). At the same time, Consumer Finance Holding, a.s., a subsidiary of Vseobecna Uverova Banka (rated Aa3/P-1/C-), had the leading position in the relevant market with a 37% share of new principal granted. Other leading players in the Slovak consumer market were, as of the middle of 2007, Cetelem (18% market share) and GE Multiservis (15%). HCS has a good track record in terms of capturing its current market share.

HCS benefits from an extensive point of sale network covering the whole of the Slovak market. Sophisticated management of the distribution network was developed and tested in the Czech Republic before it was implemented in Slovakia. HCS cooperates with around 3,500 retailers and it does not plan to extend this network going forward. HCS's retailers' network is focused mainly on the acquisition of new customers via consumer loans.

However, compared to its Czech sister entity, HCS is limited in leveraging synergies within the PPF Group (which after the closing of the transaction with Generali, will decrease its shareholding and will own 49% of the largest Czech insurance company Ceska pojistovna), which is partially due to its weaker position in Slovakia. HCS shares with HC a call centre, the key element in the distribution of cash loans. HCS's operations are concentrated solely in the Slovak market, while the company's parent, Home Credit B.V. (ultimately owned by the PPF Group), is currently actively present in six CEE and CIS national consumer finance markets.

HCS's risk management tools and guidelines are integrated with its Czech sister company HC, which has established data track records from its domestic market. Also, HCS's collection process is united with that of HC. HCS's loan portfolio is characterised by a lack of concentration whereby the average size of its loans is below EUR 1,000. Furthermore, HCS does not finance used or new cars. HCS's loan portfolio is denominated in Slovak koruna, and funding liabilities provided in a different currency have to be hedged, hence HCS has not been exposed to FX risk.

The business activities of consumer finance companies in Slovakia are not licensed by the Slovak National Bank (SNB); therefore, HCS is not allowed to use the credit register in which banks share data on their customers. HCS is also not required to comply with the prudential ratios that apply to banks; for example, in terms of capitalisation or liquidity, which implies additional risks in comparison with local banking peers.

HCS started to be profitable at end-2004, however, return on average assets is relatively low (1.7% as of end-2006). Moreover, recurring earning power dropped to 5.3% at end-2006, from 7.3% in 2005. Moody's notes that improvement in asset quality resulting in a lower level of loan loss provisions creation was weighed down by an increase in interest expenses and the doubling of net fee expenses (from SKK65 million to SKK136 million) in 2006. Compared to its sister company HC, HCS's profitability currently suffers from a lower level of revolving loans in its product portfolio, which bring relatively high yields with low levels of risk.

The overall liquidity of HCS is relatively good with sufficient headroom under current credit facilities. HCS's funding mix consists solely of bilateral and syndicated loans provided by local banks. HCS also uses one credit facility from PPF Bank, owned by the company's parental group, which is subordinated to major funding sources. Moody's highlights significant refinancing risk for the company at start-2008, when HCS plans to roll-over its SKK2 billion (EUR 58 million) syndicated loan. Looking forward, HCS will strive to strengthen back-up funding in year 2008.

HCS's capitalisation was weak at end-2006, when shareholders' equity to total assets was at 4.4%. Nevertheless, HCS's ongoing strengthening of capitalisation is underpinned by retaining of profits generated; following this, capital ratio improved during H1 2007 to 6%. HCS's low capital level is compensated by funds provided to the company from the parental group when based on the covenants of existing syndicated facility - HCS's total equity and funds provided by the PPF Group must not be less than 20% of total assets.

HCS reduced cost-to-income ratio to below 60% in the past two fiscal periods, which was driven by growth in HCS's operating income. Despite the increase in volume of HCS's business, operating synergies between HC and HCS enable the effective management of personnel expenses. Moody's therefore expects that HCS's cost-to-income ratio will move in line with the evolution of its operating income.

The asset quality of two key products in HCS's portfolio - consumer and revolving loans - slightly improved in the past two years, with delinquencies of 30+ and 90+, respectively, decreasing. However, Moody's points out that cash loans are generating a relatively high level of bad loans, whereas in some segments of their distribution the trend is even worsening. Nevertheless, regarding changes implemented from the start of August 2007, we expect disruption of this trend in Q4 2007.

Other Considerations

The rating reflects the expectation of support from the Home Credit Group and the cooperation with Home Credit a.s., especially given the high level of integration with Czech Home Credit in the areas of consumer-credit approval processes, risk management, human resources and IT development. HCS is 100% owned by Home Credit B.V., a Dutch holding company that is 100% owned by HC Holding, itself fully controlled by Home Credit Grand Holding a.s. Home Credit a.s. (rated A3.cz) and Home Credit & Finance Bank (rated Ba3) are HCS's sister companies and constitute the most important parts of the Home Credit Group at this time.
