

Fitch Rates Russia's Tinkoff Credit Systems 'B-'; Outlook Stable

Fitch Ratings-London/Moscow-11 May 2010: Fitch Ratings has assigned Russia-based Tinkoff Credit Systems (TCS Bank) ratings of Long-term Issuer Default (IDR) 'B-' with a Stable Outlook, Short-term IDR 'B', Individual 'D/E', Support '5' and Support Rating Floor 'No Floor'.

The ratings of TCS Bank reflect Fitch's view on the creditworthiness of the broader group consolidated at the level of Cyprus-domiciled Egidaco Plc (TCS). TCS Bank is the core operating entity of TCS.

The ratings are constrained by TCS's small size, limited track record, high credit risk exposure and the weaknesses in its funding profile due to its reliance on wholesale markets and high concentration risks. The ratings also reflect the company's recent strong profitability, the robust cash generation capacity of its portfolio and its acceptable reported asset quality to date.

Approximately 80% of TCS's end-2009 liabilities fall due in 2011, although about 50% are held by shareholders, suggesting that such liabilities should be easier to roll over. Fitch also positively notes the strong cash generation capacity of the bank's receivables portfolio, improved conditions in capital markets and TCS's demonstrated ability to raise substantial amounts of retail deposit funding. Additionally, the company has recently managed to secure another RUB800m credit facility from a Russian bank, thus improving its overall funding profile.

TCS's exposure to credit risks is high as it focuses on under-banked consumers throughout the country. Asset quality metrics, however, have been reasonable, and the portfolio has been tested in the severe economic recession of 2009. Following the sharp deterioration in the Russian economy, receivables arrears peaked in Q209 before trending lower through the rest of the year to stabilise at current levels. Average write-offs stabilised in Q309 and remain manageable in the context of the high interest rate income from its receivables portfolio.

Wide margins on its receivables portfolio and a monoline operational focus enabled TCS to report its first and strong profit in 2009 - just two years after its inception.

Fitch considers the current equity/assets ratio of 16.5% to be acceptable for the rating. However, TCS's leverage ratio may be quite volatile in the near term due to expected large capital market borrowings.

TCS is the first and only credit card monoline company in Russia established in 2007 by Russian businessman Oleg Tinkov. A 29% stake was subsequently sold to Goldman Sachs and Scandinavian private equity fund Vostok-Nafta.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 29 December 2009, are available on www.fitchratings.com.

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