

Rating Agency Expert Rating Ltd
 (www.expert-rating.com, e-mail: general@expert-rating.com,
 Phone +38 044 227 60 74 tel./fax: +38 044 207 08 81)

The rating report
 (version for publication)
 (on basis of the Agreement No. 13/PA of July 31, 2009)



Collection Company Stability
 Rating, national scale:

uaA.col

(high stability level)

Interpretation of the rating:

There is high probability of that the company with the given
 rating will discharge its fiduciary obligations with the clients
 and partners

Rating date:

October 20, 2009

Last rating report publication
 date:

October 26, 2009



Limited Liability Company
Agency on Debt Management
CredEx Group of Companies
 (full name of the company)

23, Klimentko str., 03110, Kiev
 (company legal address)

6th floor, of. 1, no. 8, Tankovaya str., 04112, Kiev
 (company de facto address)

Description:

Full name of the company in Russian:

Legal status:

National enterprises register code:

Name and title of Company Head:

Citizenship of Company Head:

Share of non resident participants in the authorized capital:

Incorporation date:

Date of start of operations in Ukrainian market:

Account bank:

Phone:

Fax:

e-mail:

Web address:

Place to be filled in:

Агентство по управлению задолженностью

(Agency on Debt Management)

Limited liability company

34914080

Deminsky Serghey, General Director

Ukraine

100%

07.02.2007

February 2007

Ukreximbank

+38 (044) 377 70 62 (63)

+38 (044) 377 70 64

info@credex.com.ua

www.credex.com.ua

Note: The Company 'Agency on Debt Management' is wholly owned by a non-resident of Ukraine, see more detailed information in the relevant section of this rating report

*The present report is the rating research expressing opinion of Expert Rating RA analysts.
 The report is a substantiation of the rating assigned, being also an opinion of Expert Rating RA analysts.
 See the last page of the report for use limitations*

Section 1. Company description.

The company Agency on Debt Management has been created under conditions of very dynamical growth of credit market in Ukraine. The arrival of foreign banks to Ukraine, simplified access to credit resources, abuses of scoring systems created favorable conditions for the activity of the companies specializing on collection of the credit indebtedness from the population and small and medium companies.

The company Agency on Debt Management was incorporated on February, 7th, 2007. Main shareholders at incorporation were IC BUSIN (Enterprises register number 19492371) and three physical persons, two of whom were the top executives of CredEx group companies:

- **Sergey Deminsky** (General Director of collection company at incorporation and by now);
- **Zoryana Tsebrovskaya** (presently General Director of factoring company making part of CredEx group).

In June, 2007 the Agency on Debt Management attracted the first client under agency contract on the stage of *soft-collection* and obtained in management a debt portfolio of unsecured loans of Renaissance Capital Bank being one of the most active players of consumer crediting market. In September, 2007 the first client under the contract of agency on the stage of *legal-collection* was attracted. The first portfolio for judicial collection has been passed by IC BUSIN which was one of the Company founders at that time. In March, 2008 the Company updated its specialized communication equipment used for work with troubled debt, and in 2008Q1 IC BUSIN exited from the number of founding members of collection company. In April, 2008 the Company begun working out the technology of debt recovery at the stage of *hard-collection*. In November, 2008, a foreign investor was attracted, and in December, 2008 the factoring company was incorporated. About the same time it was decided to unify factoring and collection companies under a single brand. It was the registered trade mark **CredEx**. In March, 2009 the certificate of incorporation of a financial institution (factoring company) and the authorization for factoring activity have been obtained.

In April, 2009 a historical event for the Company took place: the buyout of the first 2 debt portfolios: debt on bank unsecured loans and financial recourse claims of an insurance company. Before that the Company has been working under the agency scheme only, collecting debts of borrowers and actually without accepting transfer of credit risks' ownership. In September, 2009 **CredEx** bought out 2 more portfolios of troubled debt on 280 million UAH, which allowed it to increase by 3 times the volume of debts under management. One portfolio consisted of consumer credits of physical persons and credit cards, another one was coming from small and medium business.

The Rating Agency evaluates practical realization of debt buyout scheme within the limits of **CredEx** group as a very strong competitive step. According to Agency, the agency scheme of debts collection is implemented in practice in many large banks. Some of them even have created similar collection companies which work under agency scheme. But debts buy out opens for the banks a possibility to get rid of bad loans and to reduce provisioning amounts. In Ukraine there are practically no collection companies working in tandem with factoring companies, thus ensuring fast buyout of debts. This opens for **CredEx** good prospects of market presence expansion under support of foreign investors.

The analysis of Company key performance indicators is given in the *table 1*.

Table 1

**Key performance indicators of the Company
Agency on Debt Management (th. UAH, %)***

Показатели	2009Q2	2009Q1	2008Q4	2008Q3	2008Q2	2008Q1	Growth rate
Assets	6270.0	2989.0	3345.1	260.4	254.2	265.7	2259.80%
Shareholders equity	5181.0	2534.0	2969.1	188.8	206.6	222.4	2229.59%
Shareholders equity /Assets	82.63%	84.78%	88.76%	72.50%	81.27%	83.70%	-
Authorized capital	5000.0	3260.0	3260.0	260.0	260.0	260.0	1823.08%
Company earnings	1655.0	279.0	353.1	184.4	165.7	153.8	976.07%
Operating costs	771.0	714.0	572.8	202.4	181.3	160.2	381.27%
Net profit (loss)	884.0	-435.0	-219.7	-18.0	-15.6	-6.4	-13912.5%
ROS	53.41%	-155.91%	-62.22%	-9.76%	-9.41%	-4.16%	-
ROE	17.06%	-17.17%	-7.40%	-9.53%	-7.55%	-2.88%	-
Amount of credit debt taken over for collection under agency scheme	94920.0	57777.0	31000.0	21403.0	16868.0	15500.0	512.39%
Amount of debt collected from that taken over for collection under agency scheme	3089.2	2339.8	1922.0	1862.1	1383.2	1240.0	149.13%
Amount of credit debts taken over/ Amount of debts collected under agency scheme	3.25%	4.05%	6.20%	8.70%	8.20%	8.00%	—
Amount of debt bought out from credit institutes and financial sector companies*	24697.7	—	—	—	—	—	—
Share of debt collected in the debt previously bought out from credit institutes and financial sector companies	5.0425%	—	—	—	—	—	—

Note: * — including operations with the affiliated factoring company of CredEx group.

Hereinafter the Agency refers to CredEx group due to that group membership of the Company 'Agency on Debt Management' ensures for it the external support. However the infrastructure stability rating is assigned to the Company 'Agency on Debt Management' only; CredEx group and factoring company are not rated.

The analysis of main data of Company work for the last 6 quarters allows to draw the following conclusions:

1. The Company is rather young, but very dynamic one. It managed to increase earnings almost by 10 times for the past 6 quarters. The 2009Q2 became the first profitable period for the Company and has actually inverted the unprofitable trend which has been caused by the expenses due to business organization and development.

2. The company maintained redundant level of capital adequacy all the time through. To do so it was helped by non significant turnovers and the character of business which under agency scheme did not assumed working with borrowed means to be reflected in the balance-sheet.

3. ROE and sales loss ratio can be regarded as moderated. The Company did not allow to show losses in exceed of one tenth part of shareholders equity per quarter. The 2009Q1 was an exception, when **CredEx** was launching in Ukraine the new scheme of work with troubled loans portfolios connected with buyout of troubled debt.

4. At the end of first half 2009 the volume of troubled indebtedness with which the Company worked under the agency scheme, exceeded 94 million UAH. The Company was recovering in a quarter from 3 to 8% of the debt taken for collection. The recovery percentage decrease was due to too quickly growing debt in work, and to aggravation of the economic situation in the country.

5. In the first quarter when the debt from financial institutions has been bought out, the Company managed to recover 5% of such debt, that is by one order higher compared to work under the agency scheme. Possibly, **CredEx** is better motivated to work with bought out debt already put on the balance-sheet of the factoring company of the group. Most likely, it is connected with portfolio concentration as the bought out portfolio is by 96% made by bank loans debts and by 4% by insurance recourses while in the portfolio under management the share of banks was not more than 75–80%. As collection of insurance recourses in 2009 did not show good recovery rate, accordingly, recovery rate of this segment under the agency scheme has worsened also. Moreover, the bough out portfolio had better structure than the portfolios passed to **CredEx** on the commission.

It is obvious for the Agency, that the stage of development of **CredEx** group of companies is by now completed, the main products for credit institutes are brought to the functional stage after which they begin to produce profit. Now for the sake of financial well-being the group of companies should conduct a reasonable borrowing policy, through buying out the debt at an adequate cost and securing its recovery.

Section 2. Business activity of the company.

Due to that Company business is somewhat innovative for the financial market of Ukraine, study of the activity of the Company should start from its range of services. As of October, 1st, 2009 the range of services of the Company could be divided into 2 groups:

1. Debt collection under the agency scheme supposing that the collector works with the troubled debt which remains on the balance-sheet of the financial entity.
2. Collection of the debt previously bought out through the factoring company.

1. Debt collection under the agency scheme. The collection of the debt under the agency scheme is done on behalf of the client only. Debt transfer under the contract of agency is made in several steps:

A) Conclusion of contract of agency (commission).

B) Transfer of the portfolio into Company management.

C) Debt collection, according to contractual conditions. **CredEx** Group performs several forms of collection:

- soft;
- hard;
- legal.

These forms of collection can combine. Their combination depends upon the wishes of the client and the state of the client credit portfolio itself.

At the stage *Soft collection* the collection company informs the debtor on the arisen indebtedness and carries on the talks on debt recovery. The contacts with the borrower are made by phone, aiming to achieve a compromise. Search of the debtor will be performed when necessary.

CredEx group of companies has following facilities for realization of Soft collection stage:

- CredEx call-centre with 110 specially trained operators;

- IP-telephony based on Cisco technologies allows one operator to carry out 9–12 calls per hour;
- the available hardware allows to process simultaneously up to 100 thousand loan cases;
- possibility of technical monitoring of the work performed per each debtor.

Hard collection stage implies personal meetings with the debtor and organization of pre-judicial collection of debt. The company has 58 *Hard collection* experts with collection work experience. Representatives of the company work in all the regional centers of Ukraine.

At the stage *legal collection* the judicial procedure of debt collection and/or alienation of collateralized property takes place. 12 lawyers in Kiev and 33 experts in regions of Ukraine do work for **CredEx**. There is in place an accurate and worked out system of communication with local courts, executive services, traffic police officers.

D) The Parties conduct regular verifications of payment amounts received from debtors.

The general algorithm of **CredEx** work with debtors is shown on the scheme (fig. 1).

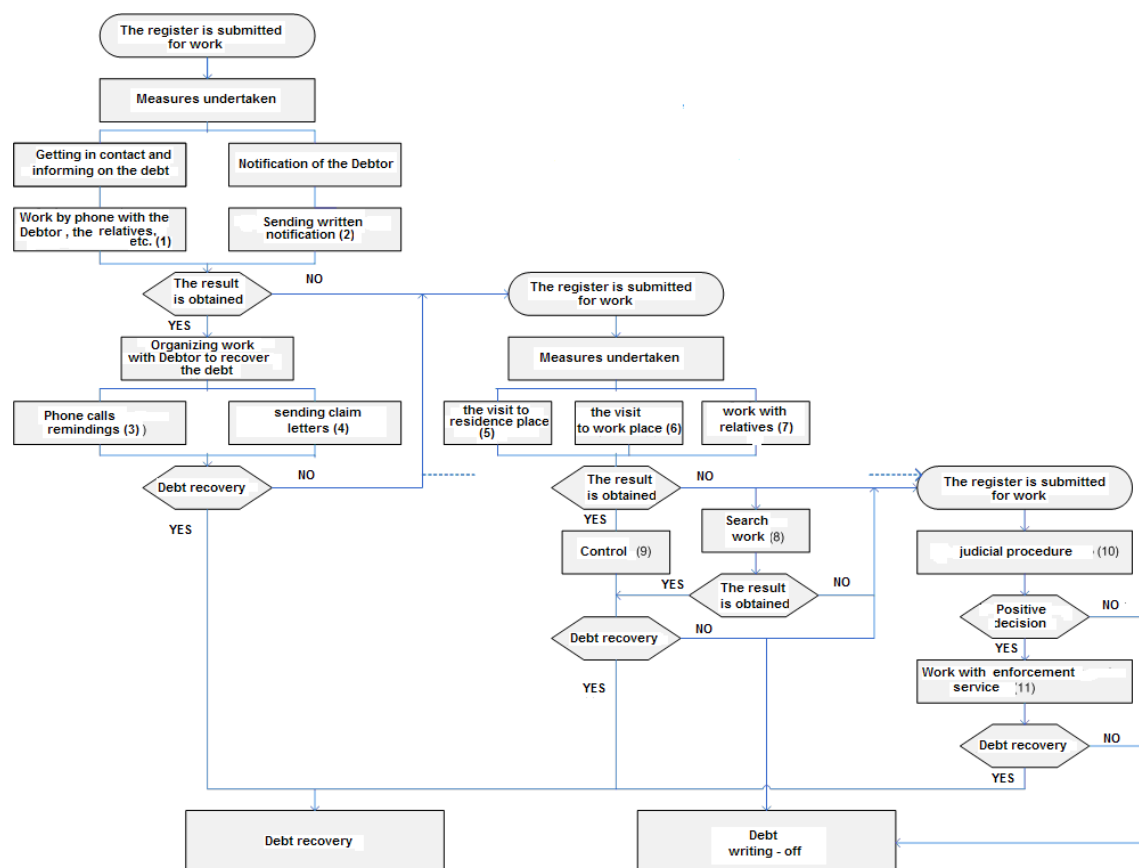


Fig. 1. Algorithm of basic stages of collection work by CredEx group of companies

The Company business model allows to work effectively with indebtedness of any kind. The company can work with clients both from financial, and non financial sectors, however presently the cooperation with bank entities is of major interest for the company.

The Agency assesses the system of debt recovery efficiency evaluation used in **CredEx** as being able to reflect real working achievements of collection company. The key indicator of debt recovery efficiency is the ratio of amounts recovered to the portfolio under management. Average quarterly recovery levels are shown in the table 2.

Table 2

Average quarterly ratios of recovered amounts to the portfolio under management

Period	2009Q2	2009Q1	2008Q4	2008Q3	2008Q2	2008Q1
Indicator	3%	4%	6%	9%	8%	8%

Source: Company data, calculations by RA Expert Rating

The Agency evaluates overall performance level of collection company as good. The average quarterly collection of the debt calculated for the last 6 quarters, is evaluated at the level of 6% of the debt portfolio and looks rather moderate, however the following objective reasons lead to the above mathematical value of efficiency:

1. Growth rate of debt taken on collection exceeded 65% for the first quarter alone. That is the volume of Company client portfolio has been growing too fast whereas enough time is required to process the entire volume of debt. By Agency estimations, processing of an average portfolio of troubled debts needs about one year of time. At the same time the Company uses quarterly time base for own efficiency monitoring. This is the case in which sharp growth of business influences negatively the debt recovery efficiency indicator.

2. In 2009 the population solvency worsened, arrears under credits have increased and the credits 'have grown old'. Namely these factors have mainly produced the decrease in Company efficiency comparative indicators. These indicators, according to the Agency, correspond to market reference indicators, and in some portfolio segments do exceed them.

2. Debt collection with participation of factoring company. Collection of **CredEx** group factoring company debt is carried out under contract of factorage, which entails debt property right. The buy out of debts allows to take more flexible decisions on deferral of payment, setting of time recovery frameworks, etc. The most important issue for the factoring company is assessment of buyout object. Presently in the market of bad debts products of retail crediting (unsecured loans, car loans and mortgage) are offered for sale only. In this connection, the actual methodology of assessment for such purchase objects has been developed and the factoring company is purposed to cooperate with bank entities in the nearest half a year. The key indicator of debt recovery efficiency is the ratio of amounts recovered to the portfolio under management. Average quarterly recovery ratio makes 5.4% following the results of 2009Q2. The Agency draws attention to that **CredEx** company group began working under debt buy out scheme in 2009Q2 only. And though percentage of collection is by an order higher, than at **CredEx** portfolio under the agency scheme, and also above the average indexes of troubled debt collection at special departments of banks, it is still early to draw conclusions about efficiency level of debt recovery with factoring company participation. Although after **CredEx** takes over the troubled debt, it is much more motivated to work more fitly with it than with the debt when under the agency scheme.

In Ukraine the transfer of portfolios is mainly realized as assignment of claim, i.e. change of the Creditor and is made out through assignment agreement. This solution is not acceptable for many banks as it implies a number of legal and tax risks. The scheme of debt buyout based on factoring agreement makes reassignment of the claim for existing debt absolutely transparent and essentially reduces the tax load.

Besides that, thanks to possessing detailed statistics concerning level of repayment per kinds of credit products, categories of debtors, delay periods etc., **CredEx** is able to predict level of recovery of the portfolio offered to sale, and based on that, to offer acceptable terms for portfolio price.

Summarizing the section 'Business activity', the Agency draws the following conclusions:

1. The company does already have a full value product line targeting the clients from the financial sector. Each of Company products has been approved in practice and is involved in live business processes which can be analyzed.

2. Debt collection efficiency under the agency scheme and the scheme with buy out of the troubled debt can be assessed as good one, though most likely the given assessment remains understated because of large growth rates of portfolio, and therefore should be adjusted in the next three quarters.

**Assessment of the component 'debt recovery efficiency' for
the Company 'Agency on Debt Management'**

№	Indicator name	aa	a	bbb	bb	B
		1 point	3 points	6 points	9 points	12 points
1	Average quarterly level of ratio of recovered debt to the total portfolio volume	>8%	5-8%	2-5%	1-2%	<1%

Section 3. Market share and business environment of the Company.

Market share. According to RA Expert Rating, the volume of the market (including debts of banks, insurance and telecommunication companies, and also of the housing and communal services) where collection companies work, makes about 2 bn. US dollars. For today only tenth part of this market has been developed. Low level of market assimilation by collection companies is caused by the current legislative barriers.

The market of 'bad' debts consists of the indebtedness of bank and insurance markets, telecommunication companies, housing and communal services, debt of the enterprises, and others. And as the nature of debts can be absolutely different, accordingly impact factors depend upon the kind of activity of clients. For example, bank secrecy disclosure in the bank segment, badly developed workflow of insurance companies, absence of contact information in the telecommunication companies etc.

The collection company of **CredEx** group was one of the first to come in the market. According to **CredEx**, throughout the first 3 years no market opinion evaluation was conducted and it was impossible to determine company share in the market. The first estimations of market volume have been made in 2008. By rough estimates of RA Expert Rating, **CredEx** occupies ca **5%** of the market of debts under management. There is no public information available on the sizes of buyout transactions. As some part of collection companies belongs to banks, the indicators of their activity may be regarded as conditional, for example, the bank may for administrative reasons transfer for collection portfolios of loans with a non critical 'badness' grade.

Analysis of the competitive environment. According to RA Expert Rating, the main competitors of **CredEx** are: Credit Collection Group, European Agency for Debt Recovery, Performance of obligations service, Ukrborg, X-point, Verdict, Ultimo.

The Agency regards the independence of **CredEx** collection business as an advantage; the parent company is not a financial institution (bank, insurance company, or other), the company does not make part of any formal or informal FIG and provides a complete set of pre-judicial and judicial collection of debt. **CredEx** does not render any other services such as: outsourced call-centre, telemarketing, legal services etc. Specialization on collection operations allows **CredEx** to achieve higher results than market average in management of troubled debt.

At the same time, evaluating the competitive environment for **CredEx**, the Agency notices that **CredEx** clients did not developed yet accurate criteria of collection company selection and therefore each client is guided by its own reasons concerning what exactly determines quality of work of a collector. Someone considers as most important the cost of services, others pay attention to the regional network, company operational experience, information technologies used in work etc. Under all other equal conditions, the main result of collector work is debt servicing level, which is not subject to exact calculation because of dynamics of agency portfolio of the collector.

According to the Agency, an optimum procedure for collection company selection should be a pilot project within which frameworks it is possible to make an integrated assessment of collection companies work. Therefore the Agency positively evaluates the readiness of **CredEx** to take part in pilot projects with the aim to prove in practice the own efficiency for the client. It is one of the most important competitive advantages in the new market of collection services.

In the nearest time **CredEx** plans to increase its presence in the markets of debt recovery under lease agreements, and also in the market of debt collection for housing-and-municipal services. The Agency recommends the Company also to consider the telecommunication sector so to eliminate the dependence upon bank business only. According to the Agency, collection work with banks only in certain situations can put **CredEx** business into a strong dependence on the conditions of monetary market and current trends in bank sector.

RA Expert Rating recommends **CredEx** not to only carry on branch diversification of portfolios, but also to try to build a vertical structure of debt collection along the entire credit chain. For example, to render services on collection of troubled debt not only to the Ukrainian banks, but also to foreign banks which are not able to recover their credit resources from the troubled Ukrainian banks. Coverage of such chains in different branches requires significant expenses, but ensures a package approach to collection though is going beyond the concept of traditional collection business.

The analysis of sales process. Process of sales of the basic products in the Company implies that sales department employees should get preliminary contacts with potential clients and pass the information to the new business development department which arranges an expanded presentation of **CredEx** services for the companies or banks interested by such services. **CredEx** attracts intermediaries who carry out search of potential clients and are than rewarded in the form of percentage from corporate incomes. However the main channel consists in direct sales by the employees of the Company. Specificity of **CredEx** services obliges the manager involved in their promotion both to understand the features of potential customer business, and be perfectly aware of collection service details. Before contract conclusion meetings with various divisions of potential client are held:

- legal department is met concerning procedure of collector work;
- IT department concerning data exchange automation;
- security service — to check company reputation and possibilities;
- risk management/sales department — concerning transfer of data on debtors and the structure of such data.

Also the Agency underlines that while **CredEx** group did not expands management of troubled debt of housing and communal services or of the real sector companies, the group does not need a wide advertising or support from mass-media as the number of its potential clients is limited to several tens of banking entities and telecommunication and insurance companies. The Agency also evaluates the absence of dependence on intermediaries in sales as a positive fact.

The analysis of market outlook. In the next several years, by estimations of RA Expert Rating, the banks shall remain major clients of collection companies. **CredEx** can diversify product lines per branches, but most likely in the real sector the business will be unprofitable because of rather low cost of telecommunication services and housing utilities. Prospects of work with bank segment are huge, due to that the top managers of the majority of banks several years ago have underestimated the credit risks, and did not took in attention availability of accurate interdependence between systemic and non systemic risks and of the possibility that one could transform into other.

In Ukraine a clear logic chain has been observed: collapse of exchange rate — drop of population solvency in the national currency — consumption and export reduction — aggravation of the economic situation — growth of troubled credits number in the financial sector. Ukraine is not an exception from the rule: the volume of troubled indebtedness is a value derivative of economic recession. Some idea about dynamics of the troubled indebtedness in bank sector is given by dynamics of loan portfolio provisions of commercial banks for the recent 6 accounting quarters (*tab. 3*).

Table 3

Dynamics of the data on cumulative loan portfolio of the Ukrainian banks and provisions for credit operations for 2008–2009

Indicator	2009Q2	2009Q1	2008Q4	2008Q3	2008Q2	2008Q1	Growth rate
Bank loans	735094597	737913200	741815978	570394934	522026653	484874473	51.61%
Provisions for credit operations	76587982	62281728	42454212	23923852	20904035	19149123	299.96%
Portfolio quality	10.42%	8.44%	5.72%	4.19%	4.00%	3.95%	-

Source: NBU data, RA Expert Rating calculations

For the last 6 quarters the provisions have grown by 4 times and by the beginning of July, 2009 made 10.42% of loan portfolio cost. The total amount of provisions for credit operations stated by NBU, made 76 bn. UAH. It is a kind of a technical figure which does not disclose the character of troubled indebtedness, but its dynamics allows to understand the growth rate of such indebtedness. Growth of reserves by 4 times evidenced to that the banks underwent a real credit stress, the complete impact of which they, most likely, masked by manipulations with loan portfolios.

RA Expert Rating draws attention to that at the above amount of provisions in July, 2009 the assessment of the market of troubled debt at the level of 2 bln. US dollars most likely is underestimating. By the end of 2009 in bank sector alone the figure of 7–9 bn. US dollars of troubled loans appears. Obviously, not all of that amount will be recovered by the collectors, some part will be diluted by affiliated collection or leasing companies, some part will be collected by the banks independently.

If the negative tendencies will persist in the economy of Ukraine, the problem indebtedness will continue to grow as well. By estimations of RA Expert Rating if the industrial production drop will not stop in Ukraine, than in the spring of 2010 volumes of troubled indebtedness in banks will reach 11–15 bln. US dollars, depending on Hryvnya exchange rate at that time.

Estimation of 'market share' component for the company Agency on Debt Management

	Indicator name	aa	A	bbb	bb	b
		1 point	3 points	6 points	9 points	12 points
1	Market share outlook	>8%	5–8%	2–5%	1–2%	<1%

Section 4. Warranties of business processes continuity and efficiency

The analysis of business processes in the Company conducted by RA Expert Rating has shown that in the Company there are no conflicts of interests between departments. The company builds its business in such a manner that its activity does not entail any fiduciary risks for the clients of the Company. Absence of fiduciary risks is confirmed by:

1. Independence of **CredEx** group from any banks. In the contrary case a significant conflict of interests at work with other banks and a reason for leakage of information on clients could appear.

2. The collection company of **CredEx** group in September, 2009 accessed the association of collectors and has automatically joined the ethical code of the given association. The given fact does not guarantee that **CredEx** employees in practice shall not deviate from the norms of association code, however, accepting the Code, Company management has incurred the public obligation to supervise the work of the personnel and not to allow deviations from the Code. The last fact does considerably minimize risks of non adequate behavior in the market from the side of the Company.

Additional researches have shown that the Company has methodical recommendations concerning work with debtors at all stages of indebtedness collection and each employee is trained initially when employed, and also passes regular trainings in the course of work. The employees are presented strict requirements as regards both the level of debts recovery, as well as the working process itself (records and monitoring of phone talks, photos of debtors' place of residence, check of the submitted working reports etc.).

In **CredEx** the client is also explained the plan of work with its debtors, and if from the side of the client a wish is expressed to introduce changes in the technology of work (to change the wording of claim letter, to change the time of phone calls or visits, make changes to conversation script etc.), **CredEx** performs the due updates of its work.

The **CredEx** work is built so to allow providing the client with the information on the done work and the results obtained on a daily basis. Accordingly, the client is enabled to monitor the reports and to introduce corrective amendments into the work of **CredEx** when needed.

Also the following restrictions on the maximal number of debtors in work of one manager of the company apply:

- Call-centre — up to 300 cases per month;
- Hard-collection — up to 200 cases per month;
- Legal collection — up to 100 cases per month.

RA Expert Rating draws attention to presence of restrictions of the number of cases with which managers of different departments work. In an infrastructure business the regulative limitation of personnel task load is indicative at initial of work quality.

Special requests are presented to the personnel of the collection company:

a) Call-centre: age over 20 years, stress tolerance, clear diction, Russian and Ukrainian languages skills, PC skills, readiness to work in two shifts, insistence.

b) Hard collection: age over 30 years, experience of work in enforcement structures or in bank security service, own car, readiness to work at night, stress tolerance, strong physic appearance, height over 170 cm.

c) Legal collection: higher legal education, age over 25 years, minimal experience of similar work 2 years, readiness for frequent business trips.

The analysis of works on judicial debt collection has shown its following arrangement:

1. The customer passes to **CredEx** a package of documents necessary for initiation of court proceeding. Study of case materials and preparation of claims is carried out by the lawyers of the central office, after which the cases are directed to district courts.

2. After case admission in court the lawyers send copies of case documents to the regional representatives who take part in court sessions (the first instance, the appeal).

3. After reception of a positive court decision documents are passed to enforcement service. The support of enforcement procedure, i.e. complex work on court decision enforcement in a close contact with enforcement service, includes:

- contact with the debtor for the purpose of finding-out its position concerning the indebtedness, explanation of consequences of debt payment refusal;
- search for the item of lien, contact with enforcement service for the purpose of property withdrawal;
- search of possible buyers of the item of lien, organization and support of the auction;
- comprehensive legal support.

The Agency has carried out the detailed analysis of **CredEx** personnel, assessed the level of its load and work quality. Basic statistics of this analysis are presented in the *table 4*. The Agency can draw following conclusions based on the data submitted by the Company:

a) For the last 6 quarters the number of employees of the Company has grown by 5 times, more than half of employees of the Company have higher education, over one third — have experience of work in law-enforcement bodies and one fifth part has higher juridical education.

b) The task load of employees in volume of 300–400 cases per month is far from a critical value (at this estimation the Agency was guided by critical load level of 500 cases).

c) The amount of debt at the size of 600–800 cases per month indicates that the Company works in the segment of rather large credits.

At the same time the number of judicial proceedings where **CredEx** acted as claimant, has increased for the last 6 quarters approximately in 20 times that indicates a sharp increase of load on the lawyers of the Company. The given growth of load should not regarded as critical because the Company can transfer a part of cases for outsourcing. However there was no such a need as yet. Also the Agency draws attention to that fact that the share of cases in which the Company won the litigation, for the last 6 quarters has grown from 25 to 35%.

Table 4

Key indicators characterizing the personnel and the level of its load in CredEx

Indicators	2009Q2	2009Q1	2008Q4	2008Q3	2008Q2	2008Q1
Number of employees involved in collection process by the end of the period	150	118	93	81	65	45
including those having:						
- Cand. Sc. or Ph.D. degree	1	1	1	1	1	1
- higher education	83	76	64	36	32	24
- higher legal education	28	23	17	12	11	8
- working experience in law enforcement bodies	52	46	31	18	16	11
Average quarterly number of troubled borrowers per 1 employee of the Company	300–400	300–400	300–400	300–400	300–400	300–400
An average amount of troubled debt per one employee, th. UAH	600–800	600–800	600–800	600–800	600–800	600–800
Number of court trials, where the Company was a claimant	1034	652	766	197	96	54
Number of successful trials per quarter, with no appellation consideration of the decision	286	412	325	108	72	23
Share of debt on which the judicial proceedings were successfully completed, but the debt was not recovered due to different circumstances	35%	30%	30%	25%	20%	25%

Source: Company data, calculations by RA Expert Rating

The Agency positively evaluates in whole the process of Company personnel formation in place for the last 6 quarters. The Agency does not see any conflicts of interests between the owners of the Company, the labour collective and clients of the Company.

**Estimate of the component 'influence of fiduciary risks on business processes'
for the company 'Agency on Debt Management'**

	Indicator name	aa	a	bbb	bb	B
		1 point	3 points	6 points	9 points	12 points
1	Influence of fiduciary risks on business processes	No conflict of interests	There are persons previously connected with the conflict party in the management bodies or among founders. The collector is formally associated with the conflict party	There are acting workers of the conflict party in the management bodies, but they are only in part controlling processes of collection company management	There are acting workers of the conflict party in the management bodies, they are entirely controlling processes of collection company management, but the founders remain independent	There are acting workers of the conflict party in the management bodies, they are entirely controlling processes of collection company management, the founders also are controlled by the conflict party

Section 5. Financial soundness

At present 100% of the share in JSC 'Agency on Debt Management' belongs to the company Mertico Investments Limited (Cyprus). Besides being founder of collection company, Mertico Investments Limited (Cyprus) is founder of the factoring company AUZ Factoring (Ukraine), i.e. actually owns **CredEx** group of companies. Mertico Investments Limited has enough financial resources allowing to increase at least in 2 times the shareholders equity of the Companies at the expense of own means. However by results of 2009Q2 it can be safely said that in the next 6 months there will be no additional shareholders capital intervention into the operational activities of collection company. In the near-term outlook additional financing of the factoring company is possible for the purpose of new portfolios buyout. No other entities than parent company provide external support to **CredEx** group.

Study of Mertico Investments creditworthiness has shown that the company is in effect able to provide adequate level of external support to the affiliated structures in Ukraine. The company financial analysis has shown that it maintains a redundant capital adequacy level. At the same time its activity was unprofitable in five of the six last quarters (tab. 5).

Table 5

**Key performance indicators of the company
Agency on Debt Management, (th. UAH, %)**

Indicator	2009Q2	2009Q1	2008Q4	2008Q3	2008Q2	2008Q1
Shareholders equity / Company assets	83%	85%	89%	73%	81%	84%
ROE	17%	-17%	-7%	-10%	-8%	-3%
Earnings over a period	1655.0	279.0	353.1	184.4	165.7	153.8
Share of three top clients in the earnings	18.82%	73.05%	60.10%	71.31%	67.59%	96.42%

Source: Company data, calculations by RA Expert Rating

It should be also noted that following the results of the second quarter the Company has eliminated dependence on three top clients, whose share in the earnings dropped to 19%. In view of redundant adequacy, but also presence of losses, the Agency evaluates Company financial condition as **good**. Awareness of Company plans for the second half of the year 2009 enables the Agency to predict that Q3 and Q4 will be profitable for collection company of **CredEx** group. Provided that **CredEx** basic infrastructural divisions are already developed, obviously the Company will continue successful escalation of its presence in the market.

**Assessment of the component 'financial condition' of the company
Agency on Debt Management**

	Indicator	aa	a	bbb	bb	b
		1 point	3 points	6 points	9 points	12 points
1	Financial condition	Excellent financial condition with availability of external support	Good financial condition with availability of external support	Satisfactory financial condition with availability of external support	Good financial condition	Satisfactory financial condition

The analysis of an additional group of 'dormant' factors has shown that **CredEx** top managers do not have previous convictions, there are no claims to **CredEx** group collection Company in courts of Ukraine, the Company did not yet underwent any inspection by tax authorities.

CONCLUSIONS

At the Rating Committee meeting of RA Expert Rating on October, 20st, 2009 the decision was taken to assign the collection company **Agency on Debt Management** of **CredEx** group an infrastructural stability rating **uaA.col**. The given rating means that the Company with high probability will discharge its fiduciary duties with clients and partners. Taking the above decision, the Agency was guided by the following conclusions:

1. Company financial condition can be characterized as good, presence of losses in five of the six analyzed quarters is explained by necessity of increased expenses for business development. At the same time the Company does not conduct any aggressive borrowing policy and maintains a redundant equity ratio. The positive conclusion about financial condition is also dictated by availability of good level of external support.

2. The level of debt recovery efficiency following the results of the last quarter has been recognized good both under the agency scheme and under the scheme with the indebtedness buyout. The Agency also draws attention to that during several last quarters the indebtedness taken under management grew very fast, therefore it is impossible to precisely evaluate the level of collection work efficiency under the agency scheme, anyway it does not drop below a design value. The agency considers that debt recovery level following the results of the last 6 quarters is equal to 6%, the given indicator is calculated on an average quarterly base.

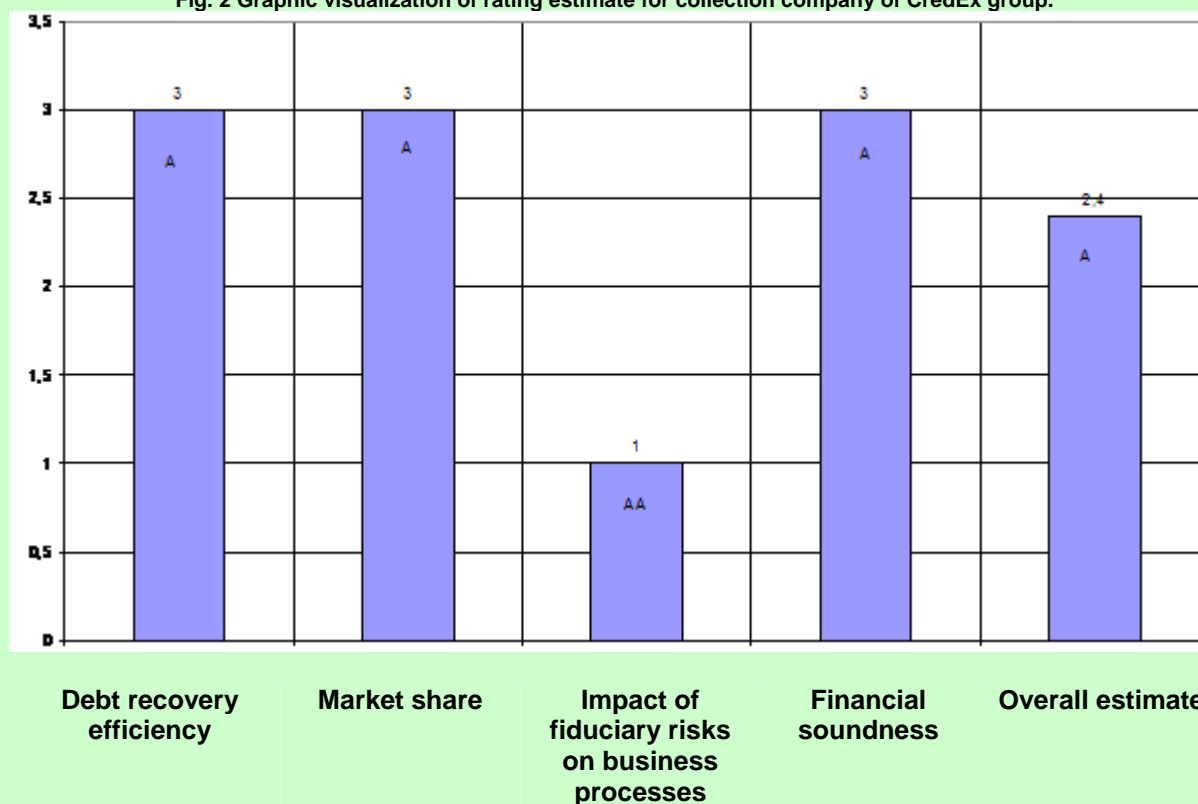
3. The Agency estimates the share of **CredEx** in the market of troubled debt management at the rate of 5%. The Agency also pays attention to significant growth rates which the Company shows over the last 6 quarters. Most likely, Company market share estimation will be reviewed after 6–8 quarters of collection company work in tandem with factoring company. The Agency expects that on the close of the year under **CredEx** management there will be a total portfolio of debts for the amount about 05 bn. UAH. It can become a reason for revision of rating estimation following the results of the year.

4. **CredEx** group of companies remains an independent player of collection services market, there are no links of its shareholders (participants) with Ukrainian banks or financial and industrial groups. The given fact is fixed by RA Expert Rating in the rating report and it proves to absence of any conflicts of interests in the Company which would prevent it from discharging fiduciary duties to client.

5. The rating can be raised in case when more certain statistics becomes available on the average quarterly level of debt collection both under the agency scheme, and under the scheme with buyout. Also if the practice of unprofitable work of the Company will be stopped, the estimation of its financial condition can be raised by an order.

The visualization of rating estimation is presented in the **figure 2**.

Fig. 2 Graphic visualization of rating estimate for collection company of CredEx group.



Appendix A

Use limitations of the rating report

The present report is an intellectual property of Expert Rating RA Ltd. All intellectual property rights owned by Expert Rating RA Ltd are protected in conformity with the legislation of Ukraine. No part of this report may be sold, reproduced or distributed by third parties without previous written approval of Expert Rating RA Ltd. All information contained in the present report, had been obtained by Expert Rating RA Ltd from sources which Expert Rating RA Ltd considers as reliable. Due to the possibility of human or technical error, and other factors, Expert Rating RA Ltd does not guarantee the absolute reliability of the provided information. The rating of AMC, and any part of the information contained in the report, should be regarded exclusively as an opinion on the possibility of AMC to meet its fiduciary commitments to the client and not as recommendation about purchase or sale of securities or recommendation about use of AMC services. Expert Rating RA Ltd does not bear responsibility for any consequences of credit, investment or economic decisions of the third parties taken solely based on information on ratings, assigned by Expert Rating RA Ltd.

Depositors, insurers, investors, when using the given rating report, do automatically agree that the contents of the given rating report are the opinion of analysts of Rating Agency Expert Rating.

For AMC the Rating is made according to the scale of RA Expert Rating Ltd (table A) which has been adapted to national standards.

Specially for Ukraine the RA Expert Rating analytical service adapted the national rating scale to infrastructural ratings (*table A*).

Table A

Adaption of national rating scale to infrastructure ratings

Rating	Probability of issuer compliance with undertaken liabilities	Scale for AMC	Scale for collectors	Scale for custodians	Probability of infrastructure company compliance with fiduciary obligations
uaAAA	Highest	uaAAA.amc	uaAAA.col	uaAAA.cus	Highest
uaAA	Very high	uaAA.amc	uaAA.col	uaAA.cus	Very high
uaA	High	uaA.amc	uaA.col	uaA.cus	High
uaBBB	Good	uaBBB.amc	uaBBB.col	uaBBB.cus	Good
uaBB	Acceptable	uaBB.amc	uaBB.col	uaBB.cus	Acceptable
uaB	Satisfactory	uaB.amc	uaB.col	uaB.cus	Satisfactory
uaCCC	Alerting	uaCCC.amc	uaCCC.col	uaCCC.cus	Alerting
uaCC	Low	uaCC.amc	uaCC.col	uaCC.cus	Low

Within the two last years Expert Rating RA was developing the methodology of rating infrastructural participants. In this development participated members of UAIB Council, workers of State Financial Services Committee, NBU, SCSSM and state entities.

How should be infrastructural ratings read?

We draw the attention of market participants to that the infrastructural ratings by Expert Rating RA do not show probability of a default of the company, and the alphabetic rating consists of three values.

For example, the rating **uaAAA.amc** should be perceived so:

- **ua** — national scale attribute;
- **AAA** — There is highest probability of that the asset management company with the given rating will discharge its fiduciary duties to the clients;
- **amc** — the letters designating that the rating made is for the asset management company

For example, the rating **uaAAA.col** should be perceived in the following way:

- **ua** — national scale attribute;
- **AAA** — There is highest probability of that the collection company with the given rating will discharge its fiduciary duties to the clients;
- **col** — the letters designating that the rating made is for the collection company.

Specifics of methodology of infrastructural ratings.

When the investor chooses a fund, he should necessarily study not only conditions of investment into the fund, but also to understand, how AMC does operate this fund. At the first stage the investor should make sure that AMC has everything necessary to make effective the processes of fund management. At the second stage the investor should realize the degree of AMC motivation in funds management efficiency. Namely after the synthesis of the two above listed aspects the AMC rating appears which indicates Probability of AMC compliance with fiduciary obligations.

When the bank having a portfolio of bad debts, chooses a collector, it should be assured that the collector has sufficient resources to execute the contract with bank. That is, that the collector has enough qualified personnel, developed regional network, worked out methodology of work with bad debtors etc. Besides, the collector should not have a conflict of interests which would prevent him from executing the obligations under contracts with clients. The methodology of Expert Rating RA on individual infrastructural ratings of collection companies accounts for both above mentioned aspects.

Expert Rating RA does disclose traditionally the technique of calculations at the publication of rating reports, the publication of reports on individual infrastructural ratings remains obligatory as it ensures compliance with basic IOSCO requests to rating agencies.

Members of the Rating Committee of Expert Rating RA:

1. **Vladimir Duhnenko**, Director of Expert-Rating RA ltd., Ph.D. —
2. **Vitaliy Shapran**, Deputy Director,
Chief Financial Analyst of Expert-Rating RA ltd, Ph.D., —

By the present, I confirm signatures of members of the Rating Committee of Expert Rating RA ltd:

Director of Expert-Rating RA ltd _____ **Vladimir Duhnenko**