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Retail Lending 1H06: Shifting to Mortgage

Auto loans and consumer finance loans were the worst retail lending performers of 1H06, delivering YTD growth of 33% and 50%, respectively. Demand seems to be shifting to credit cards, which posted a 300% YTD increase. Mortgage growth also accelerated, driving the market to a total of \$6.2 bln.

Slow auto loan growth in 1H06 is a big surprise. The 33% YTD growth of the auto loans market is the weakest growth rate in the retail sector. Our take is that the poor results are temporary and growth will accelerate in 2H06 following the simplification of loan distribution. However, auto loans are still likely to underperform the rest of the retail lending market.

Sberbank is losing its share on the mortgage market. The mortgage market hit \$6.2 bln in 1H06, a 107% YTD increase that exceeded growth on the auto loans market. The list of market leaders has changed substantially. Raiffeisen dropped to fifth place this year from third place in 2005, and second-tier banks accelerated their penetration. As a result, Sberbank's market share dropped from 80% to 60% in 1H06.

Credit cards taking priority from consumer finance. While as of end-2005 the consumer finance market exceeded the credit card market by \$2 bln, by mid-2006 they became virtually equal in size. The leader in consumer finance, Russian Standard, has begun to shift its focus to credit cards, increasing its portfolio to \$3.1 bln.

Russian banks will be focused on mortgage and credit cards. While in 2005 the majority of banks were building up their presence on the auto loans market, in 1H06 their priority shifted to mortgage. In the coming 12 months we expect the credit cards market will maintain its strong growth rate. Russian Standard's share, currently at 78% of the market, should decline substantially.

	2004	2005	1H06
Mortgage, \$ bln	0.9	3.0	6.2
Auto loans, \$ bln	2.5	4.5	6.0
Consumer finance, \$ bln	1.8	3.0	4.5
Credit cards, \$ bln	0.5	1.0	4.0
Personal loans, \$ bln	16.3	29.5	35.0
Total retail loans, \$ bln	22.0	41.0	56.0

Source: RBC rating, Company reports, Alfa bank estimates

Top auto loans issuers

Bank	1H06 Portfolio, \$ mln	Market Share
Rosbank	1,191	20%
MDM	616	10%
Raiffeisen	504	8%
MIB	356	6%
UralSib	307	5%
Russian Standard	300	5%
Bank Moskv	230	4%

Source: RBC-rating, Company reports, Alfa Bank estimates

Top mortgage issuers

Bank	1H06 Portfolio, \$ mln	Market Share
Sberbank	3,717	60%
VTB Group	334	5%
Delta Credit	275	4%
UralSib	187	3%
Raiffeisen	186	3%
Absolut Bank	134	2%
Zapsibcombank	134	2%
BSGV	117	2%

Source: RBC-rating, Company reports, Alfa Bank estimates

Top credit card issuers

Bank	1H06 Portfolio, \$ mln	Market Share
Rus. Standard	3,100	78%
Home Credit and Finance	220	6%
Citibank	130	3%
Investsberbank	130	3%

Source: Company reports, Alfa Bank estimates

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Share of personal loans drops to 60% of total

Retail lending market is becoming more specialized

The retail lending market underwent substantial changes in 1H06, mainly in the form of increased specialization. The share of personal loans – loans provided for unspecified purposes – dropped from 70-75% in 2004-2005 to 60% in 1H06. The personal loans market totaled \$35 bln as of July 2006.

Mortgage is now the largest retail segment

The big surprise was that mortgage lending became the largest segment on the specialized market, with \$6.2 bln in total. However, all four segments of the market – mortgage, auto loans, consumer finance and credit cards – stayed within the narrow range of \$4.0-6.2 bln, in contrast to the large size differences reported between segments in 2005.

Figure 1: Retail banking structure

	2004	2005	1H06
Mortgage, \$ bln	0.9	3.0	6.2
Auto loans, \$ bln	2.5	4.5	6.0
Consumer finance, \$ bln	1.8	3.0	4.5
Credit cards, \$ bln	0.5	1.0	4.0
Personal loans, \$ bln	16.3	29.5	35.0
Total retail loans, \$ bln	22.0	41.0	56.0

Sources: RBC rating, Company reports, Alfa bank estimates

Auto loans deliver the weakest growth

Auto loan market went up by just 33% YTD, or some \$1.5 bln

The auto loan segment was up just 33% YTD, below the 37% average for the retail lending market. The segment grew by \$1.5 bln in 1H06, still an important increase compared to \$2 bln increase for FY2005. However, we believe that the growth rate is likely to accelerate going forward, as a number of banks substantially simplified the procedure for issuing loans at the beginning of this year. In the meantime, around 30% of auto purchases in Russia are now financed by loans, and we believe that the auto loan growth rate will continue to underperform other retail areas.

Rosbank keeps its leading position with 20% of the market

We believe that saturation of the market is confirmed by the fact that the key market leaders remain unchanged. Rosbank kept the top position with 20% of this market, MDM is the second-largest with 10%, and Raiffeisen held on to 8%. The most important change was that Russian Standard, known as the market maker of consumer finance, accumulated a \$300 mln auto loan portfolio in 1H06.

Figure 2: Auto loan market leaders

	Portfolio as of July 1, 2006	Portfolio as of Jan. 1, 2006	Average Loan Size	Market share	1H06 YTD Growth
Rosbank	1,191	837	10,693	20%	42%
MDM	616	446	12,468	10%	38%
Raiffeisen	504	420	14,910	8%	20%
Moscow International Bank	356	240	15,712	6%	49%
UralSib	307	282	10,269	5%	9%
Russian Standard	300	92	4,080	5%	226%

Source: RBC-rating, Company reports, Alfa Bank estimates

Mortgage market up 106% YTD, or \$3.2 bln

Sberbank lost market share

Mortgage up \$3.2 bln in 1H06, Sberbank loses market share

The mortgage market delivered a very impressive \$3.2 bln increase in 1H06 (up 106% YTD). The total market size doubled compared to its \$3 bln last year.

In contrast to the auto loans market, the mortgage market showed significant changes in its market leaders. Sberbank, which just six months ago controlled 80% of this market with a \$2.5 bln portfolio, lost a significant portion of its market share in 1H06. The bank now controls 60% of the market with \$3.7 bln in mortgage loans. VTB, Raiffeisen and UralSib benefited from the decline in Sberbank's share. Also, some second-tier banks like Absolut successfully penetrated this market.

Figure 3: Mortgage market leaders

	Portfolio as of July 1, 2006	Portfolio as of Jan. 1, 2006	Average Loan size	Market Share	1H06 YTD Growth
Sberbank	3,717	2,487	22,700	60%	49%
VTB Group	334	119	99,600	5%	181%
Delta Credit	275	190	n.a.	4%	45%
UralSib	187	90	29,800	3%	108%
Raiffeisen	186	159	112,900	3%	17%
Absolut bank	134	46,3	79,700	2%	189%
Zapsibcombank	134	n.a.	36,300	2%	n.a.
Banque Societe Generale Vostok	117	70,7	107,300	2%	65%

Source: RBC-rating, Company reports, Alfa Bank estimates

Credit card market increased by 300% YTD

Russian Standard switched from consumer finance to credit cards

Shifting from consumer finance to credit cards

The most remarkable growth was delivered in the credit card segment, which increased from \$1 bln at the end of 2005 to \$4 bln in July 2006. This represents growth of 300% YTD, the fastest among the different market segments.

Rapid growth in the credit card segment is due to key market players shifting from the consumer finance segment. Russian Standard, well-known as the market maker in consumer finance, did not expand its consumer finance portfolio in 1H06 from \$1.6 bln, but aggressively extended its position on the credit card market. The bank now controls 78% of the credit card market. Home Credit still holds second place on this market.

Figure 4: Major credit cards issuers

	Market share	Portfolio as of July 1, 2006
Russian Standard	78%	3,100
Home Credit and Finance	6%	220
Investsberbank	3%	130
Citibank	3%	130

Source: Company reports, Alfa Bank estimates

Consumer finance market posted modest \$1.5 bln increase in 1H06

Along with auto loans, the consumer finance segment delivered modest growth of 50% YTD. Its volume increased by \$1.5 bln, however, it is unlikely to improve growth in the coming years. Within a couple of years this market is likely to be absorbed by credit card products. Russian Standard, which still enjoys the leading position in this segment, declined from 60% in 2005 to 37% in 1H06.

Figure 5: Major consumer loans providers

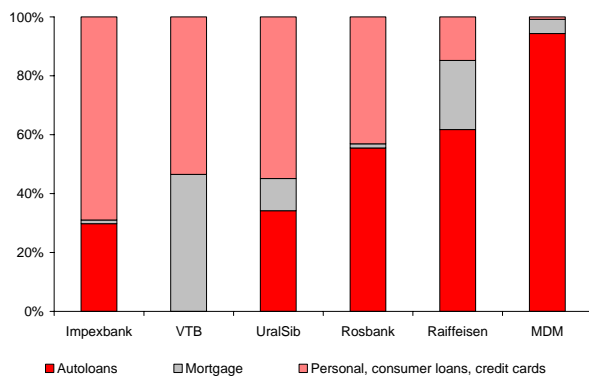
	Market share	Portfolio as of July 1, 2006
Russian Standard	37%	1,600
Home Credit and Finance	20%	840
Rosbank	13%	580
Investsberbank	7%	300
Finansbank	6%	250

Source: Company reports, Alfa Bank estimates

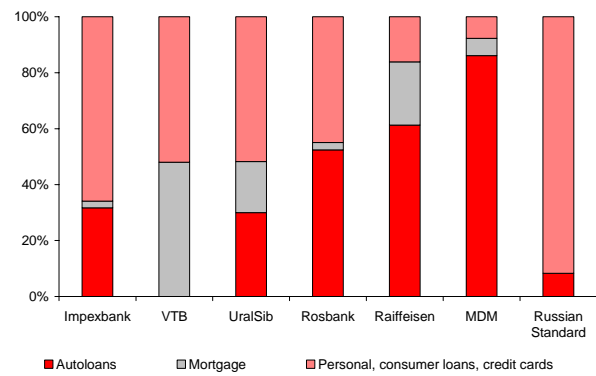
Top banks' portfolio structure remains unchanged

Largest banks increased auto loans and mortgage

As was the case at the end of 2005, all of the top retail players except VTB have a presence on the auto loans market. However, the share of the auto loans in the total retail portfolio is gradually declining under pressure from the rapid growth of mortgage and credit cards. UralSib, Impexbank and Rosbank all increased the share of mortgage in their retail portfolios.

Figure 6: Retail portfolios, December 2005


Sources: Company's reports, RBC-rating

Figure 7: Retail portfolios, June 2006


Sources: Company's reports, RBC-rating

Sberbank stays focused on mortgage, personal loans

Sberbank, which boasts the largest retail portfolio at \$21 bln, announced its intention to focus on the mortgage market, which represents 20% of the bank's portfolio. It does not plan to expand into the auto loans and consumer finance markets, as it considers them too risky. The bank recently launched a pilot project in which it plans to issue 10,000 credit cards by the end of 2007. The bank's management, however, does not foresee credit cards becoming the main priority of its retail portfolio. Personal loans still make up 80% of its total size.

Russian Standard shifts to credit cards, auto loans

Russian Standard, which has a \$5 bln retail portfolio, was growing on par with the market in 1H06. However, its development strategy has changed dramatically over the past six months: the bank shifted its focus from providing consumer loans to issuing credit cards. The share of the former declined from 49% to 31% of the retail portfolio, whereas the share of the latter increased from 48% to 63%. Simultaneously the bank rapidly expanded in auto lending: its auto loan portfolio more than tripled over the 1H06.

Consumer, auto loans represent 70% of Rosbank's retail portfolio

Rosbank, with a \$2.3 bln retail portfolio, is the largest private bank on the retail market. It holds the top position in auto lending and is the third-largest on the consumer finance market. Consumer finance and car loans together represent more than 70% of Rosbank's total portfolio.

UralSib moves to mortgage

UralSib, with a \$1 bln retail portfolio, is shifting its focus from auto loans to mortgage. The share of car loans dropped from 47% in June 2005, to 34% as of December 2005 and 29% as of June 2006. The bank has become the fourth-largest mortgage issuer and its market share grew to 1.8%.

Bank of Moscow is well-diversified

Bank of Moscow, which had a \$719 mln as of June 2006, has extremely diversified exposure to the retail market. As of October 2006 auto loans represented 32% of its total retail loans, consumer finance – 24%, mortgage – 12% and credit cards – 8%. The remaining 24% comes from personal loans. Despite its exposure to retail, Bank of Moscow is still seen as a very corporate-focused municipal brand.

MDM focused on auto loans

MDM has a \$716 mln retail portfolio and is Russia's second-largest issuer of auto loans, to which almost 90% of its retail portfolio is dedicated. MDM developed on par with the segment and retained a 10% share in this market. In October the bank appointed a new head of its retail section, which may imply amendments to the bank's retail strategy.

VTB is growing rapidly

VTB's retail portfolio reached \$700 mln and delivered one of the fastest growth rates in 1H06. The bank is mainly focused on the mortgage market, and as of October 2006 its exposure to this market had reached \$500 mln vs. \$334 mln in July.

Raiffeisen shows poor growth

Raiffeisen, with its portfolio at \$823 mln, showed very modest growth in 1H06. The bank merely maintained its presence in auto loans and mortgage, representing 61% and 23% of its retail portfolio, respectively. Raiffeisen is not expanding on the consumer finance and credit card market, since Raiffeisen-controlled Impexbank has two-thirds of its portfolio concentrated in this segment.

Vozrozhdenie became 7th-largest retail bank

Vozrozhdenie has a \$215 mln retail portfolio, with 30% allocated to consumer finance and 40% to mortgages. Vozrozhdenie is the seventh-largest on the mortgage market as of June 2006.

