Pre-Sale

Presale:

HC Finance LLC

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Presale:

HC Finance LLC

RUB10 Billion Asset-Backed Capped Floating-Rate Notes

This presale report is based on information as of Sept. 24, 2013. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings.

Class	Rating*	Amount (bil. RUB)	Available credit enhancement (%)§	Interest	Legal final maturity
Notes	BBB (sf)	10.00	24.8	TBD	2021
Subordinated loan	NR	3.30	N/A	TBD	2021

*The rating on each class of securities is preliminary as of Sept. 24, 2013, and subject to change at any time. We expect to assign final credit ratings on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address timely receipt of interest and ultimate repayment of principal. §Including subordination only. NR--Not rated. TBD--To be determined. N/A--Not applicable.

Transaction Participants

Originator	Home Credit and Finance Bank LLC
Structuring lead managers	Alor Invest CJSC, Home Credit and Finance Bank LLC
Seller	Home Credit and Finance Bank LLC
Issuer	HC Finance LLC
Purchaser	Eurasia Structured Finance No. 3 B.V.
Servicer	Home Credit and Finance Bank LLC
Stand-by servicer	Russian Standard Bank JSC
Security trustee	TMF Trustee
Transaction bank account provider	Citibank N.A. (London Branch)
Collection account provider	Home Credit and Finance Bank LLC
Cash manager	Citibank N.A. (London Branch)
Data agent	TMF RUS LLC
Facilitating agent	ZAO Raiffeisenbank

Supporting Rating

Institution/role	Rating
Citibank N.A. (London Branch) as transaction bank account provider	A/Stable/A-1

Transaction Key Features

Expected closing date	October 2013
Collateral	Unsecured consumer loan receivables that Home Credit and Finance Bank LLC originated in Russia
Country of origin	Russian Federation
Regional concentration (%)*	Moscow (10.4), Krasnodarskiy (4.2), and Cheliabinskaya (4.1)
Total receivables (mil. RUB)*	68,430

Transaction Key Features (cont.)	
Average principal balance (RUB)*	156,932
Weighted-average seasoning (months)*	7.80
Delinquencies (30 or more days)*	None
Weighted-average interest rate (%)*	32.01
Excess spread at closing	To be determined
Substitution period (years)	3
Credit enhancement	Subordination, cash reserve, and excess spread

*Based on the eligible portfolio as of July 31, 2013.

Transaction Summary

Standard & Poor's Ratings Services has assigned its preliminary 'BBB (sf)' credit rating to HC Finance LLC's asset-backed capped floating-rate notes. At closing, HC Finance will also issue an unrated subordinated loan.

Our rating on the notes addresses the timely receipt of interest and the ultimate repayment of principal.

The securitized portfolio comprises Russian consumer loan receivables that Home Credit and Finance Bank LLC (HCFB; not rated by Standard & Poor's) originated in the ordinary course of its business. HCFB will also service the loans. The transaction will have a revolving period of up to three years.

This transaction will be the first public cash loan securitization in Russia from the Home Credit Group, which owns HCFB. We consider the Home Credit Group's experience in asset-backed securities (ABS) securitization to be adequate. Since 2003, it has issued three public and one privately placed transactions (all unrated).

The transaction will not be exposed to currency or interest rate risk, as the issuer's assets and liabilities will be denominated in Russian rubles and will pay a fixed interest rate during the first three years after closing. After this period, they will pay a floating-rate of interest capped at 12% per annum.

The issuer is a Russian limited liability company, which is structured similar to a typical domestic residential mortgage-backed securities (RMBS) vehicle, while the purchaser of the assets is a Netherlands-based special-purpose entity (SPE). The purchaser will borrow funds from the issuer (senior loan) and from the originator to fund the purchase of the assets, fund the liquidity reserve, and pay initial expenses (subordinated loan).

The purchaser will use collections under the purchased assets to meet all obligations under the loan agreement with the issuer. Then, the issuer will use this cash to meet its obligations under the notes' terms and conditions.

Our preliminary rating on the notes reflects our assessment of the underlying asset pool's credit and cash flow characteristics, as well as our analysis of the transaction's exposure to counterparty and operational risks. Our analysis indicates that the available credit enhancement for the notes is sufficient to mitigate credit and cash flow risks to a 'BBB' rating level.

Rating Rationale

Our preliminary rating reflects our view of the following factors:

Economic outlook. Our base-case default rate assumption for the portfolio reflects our expectation of Russia's sluggish economic recovery and a modest growth in personal income for borrowers. Our baseline economic scenario for Russia forecasts real GDP growth and real per capita income growth at more than 3.0% over the next few years and a continued low consumer price index at around 5.5% (see "Russian Federation," published on July 8, 2013). The overheated consumer lending market and increasing household debt could potentially offset this modest economic growth (see "Banking Industry Country Risk Assessment: Russia," published on May 15, 2013).

Operational risk. We view HCFB's ability to fulfill its obligations as servicer to be adequate. We have also considered Russian Standard Bank's availability as the stand-by servicer to replace HCFB if it ceases to be the servicer.

Set-off risk. We consider that the available credit enhancement for the notes mitigates the risk of borrowers setting off deposits held with HCFB as the originator.

Credit risk. We analyzed the transaction's exposure to credit risk under our relevant criteria to derive our assumptions on default, portfolio yield, as well as recovery and delinquency rates (see "Principles Of Credit Ratings," published on Feb. 16, 2011, and "European Consumer Finance Criteria," published on March 10, 2000). We received historical performance data for the pool spanning more than three years to back-up our credit assumptions. We applied our criteria for weighing country risk for ABS to set the applicable stress multiples and haircuts (discounts) that are commensurate with the notes under various rating scenarios (see "Weighing Country Risk In Our Criteria For Asset-Backed Securities," published on April 11, 2006).

Cash flow analysis. In our cash flow analysis, we assessed the transaction's payment structure. We made our credit and cash flow assumptions by applying our principles of credit ratings and European consumer finance criteria. Our analysis indicates that the available credit enhancement for the rated notes is sufficient to mitigate the credit and cash flow risks to a 'BBB' rating level.

Counterparty risk. The transaction will be exposed to counterparty risk from Citibank N.A. (London Branch) as the transaction bank account provider and the cash manager. We consider that the downgrade provisions in the transaction documents adequately mitigate counterparty risk at a 'BBB (sf)' rating level (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

Legal risk. We expect the issuer to be a bankruptcy-remote entity in line with our European legal criteria (see "Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance," published on Sept. 13, 2013). We have received legal comfort that the assets' sale would survive HCFB's insolvency as the seller.

Strengths, Concerns, And Mitigating Factors

Strengths

- We consider that HCFB has a strong position as a consumer loan provider in Russia.
- In our view, the transaction's eligibility criteria adequately maintain the pool's credit quality at closing and on any substitution date. The pool is highly granular and diversified. Under the transaction documents, as of any purchase date, the eligible portfolio cannot contain any delinquent or defaulted contracts.
- The transaction benefits from high levels of excess spread, given the loans' high interest rate.
- Under certain conditions, the revolving stage will stop and the transaction will follow a "turbo" amortization

structure, where all available funds (revenues and principal collections) will be used to amortize the notes. In addition, the transaction has an excess spread trapping mechanism. This mechanism traps excess spread against defaulted and delinquent loans (based on the provisioning table in the transaction documents applicable to the receivables based on their delinquency terms). It also traps excess spread against excess set-off risk exposure as defined by the transaction documents.
- The transaction benefits from a liquidity reserve that is sufficient to cover senior expenses and notes' interest payments for six months.

Concerns and mitigating factors

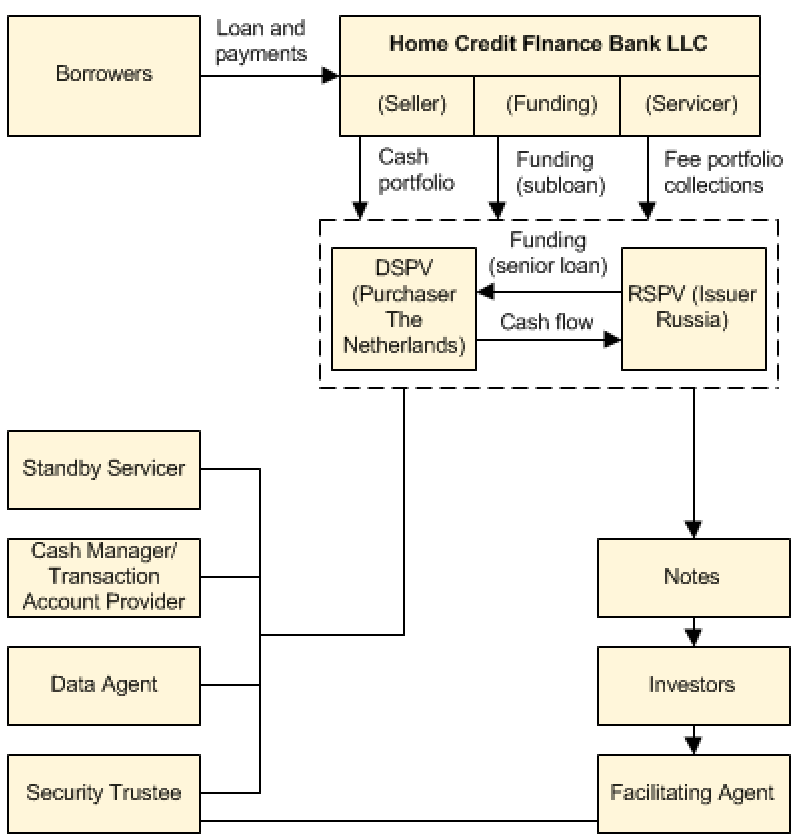
- Although the originator has adequate consumer lending experience and appropriate systems and workflows in place to support a growing consumer business, we have historically found that fast growing portfolios may result in future performance deterioration. We have accounted for this risk in our default rate assumption (see "Credit Analysis"). In addition, performance-linked amortization triggers help to protect the transaction against asset quality deterioration over the revolving period.
- Defaults under loan contracts are sensitive to the Russian economy. Although we expect moderate real GDP and real per capita income growth throughout 2013 and 2014, this could potentially be offset by the overheated consumer lending market and increasing household debt.
- The structure is complex and involves more than one SPE and several parties in different jurisdictions. This increases the structure's complexity, legal, and operational risks compared with typical securitizations.
- The seller (HCFB) is a deposit-taking bank not rated by Standard & Poor's, that collects payments from the underlying assets, which might result in commingling and set-off risks if HCFB defaults. We addressed set-off risk in our cash flow model, assuming 5% of assets will be lost due to deposit set-off risk. We consider commingling risk to be structurally mitigated by the servicing bank's limited credit risk exposure, and the availability of the liquidity reserve for senior costs and interest payments if a commingling event occurs.
- As an unrated institution, the servicer is not an eligible counterparty under our current counterparty criteria. The availability of a stand-by servicer at closing will mitigate servicer disruption risk, in our view.
- The loans are unsecured consumer loans, which typically result in limited recoveries if the debtor defaults. We have accounted for this in our recovery rate assumptions.

Transaction Structure

The issuer is a newly-established special-purpose entity (SPE) registered under Russian law. At closing, the issuer will place the notes on the Moscow Interbank Stock Exchange (MICEX). It will use the issuance proceeds to grant a loan to the purchaser (the senior loan).

Chart 1

HC Finance LLC
Transaction Structure



The purchaser is a newly-established SPE registered in the Netherlands set up to purchase the portfolio. In addition to the issuer's senior loan, the purchaser will receive a subordinated loan from the seller. The purchaser will use the senior loan proceeds solely to buy the initial pool of receivables. The subordinated loan proceeds will fund the assets acquisition, the liquidity reserve (or principal liquidity), and pay initial transaction expenses.

The structure effectively repacks the senior loan into the notes. The purchaser will use collections under the purchased assets to meet all obligations under the loan agreement with the issuer. Then, the issuer will use this cash to meet its obligations under the notes' terms and conditions.

As security for the payment of the notes, the purchaser and the issuer will provide a first ranking right of pledge over their assets in favor of the security trustee and noteholders, respectively. These assets comprise the purchased portfolio, the funding loans, and all rights to amounts in the transaction account.

The transaction has separate interest and principal waterfalls. Principal is paid sequentially. Interest collections, net from senior expenses and interest obligations, are used to mitigate principal losses. Principal collections can be borrowed to pay for senior expenses and notes' interest shortfalls.

The pool will revolve for three years after closing. Amortization begins if:

- The revolving period expires;
- Any of the amortization events mentioned below occurs; or
- An enforcement event occurs.

The notes reach legal final maturity eight years from closing, or five years from the scheduled expiration of the revolving period.

The notes and the assets pay interest monthly. The notes pay a fixed rate of interest for the first three years. After this period, they pay a floating rate of interest capped at 12% per annum. The interest on the subordinated loan is variable and subordinated to the notes' payments.

Originator

HCFB's Russian subsidy is owned by the holding company, Home Credit B.V., which is majority owned by PPF Group N.V. In 2002, the group entered into the Russian market by acquiring Innovation Bank Technopolis.

The bank is headquartered in Moscow, and it has one of the largest branch networks of all Russian banks. The network consists of more than 80,000 "point-of-sales" outlets, 1,008 individual branches in more than 500 cities, and 5,861 direct channels sales offices in more than 700 cities.

The origination and credit approval processes are highly standardized based on an IT platform with automated underwriting systems. HCFB approves loans based on an internal scoring system using several sources of information about borrowers. In addition to an internal database, HCFB considers external sources, such as credit bureau and partner data for the borrower's credit analysis. The decision engine always makes the final underwriting decision according to predefined rules, which are defined separately for each origination channel.

Recently, as a reaction to the observed deterioration in the consumer lending market's performance, HCFB adjusted its underwriting standards. Although it is too early to assess the impact on its portfolio performance, the approval rates for its cross-sale loans fell considerably.

The collections processes are automated with adequate workflows. Collections staff are located in four different centers, covering different regions and time zones. The process is structured in four different stages: pre-collection, early collection (5-120 days past due), field collections (120-180 days past due), and legal collection. For field and legal collections stages, HCFB might outsource the procedures, particularly in remote regions.

Eligibility criteria

In our view, the transaction's eligibility criteria adequately maintain the pool's credit quality during the revolving period. An eligible loan under the transaction documents adheres to the following factors (among others):

- The loan is compliant with Russian laws and regulations;
- It is part of the seller's business and complies with the originator's operational procedures;

- It exists and is legal, valid, binding, and enforceable. It is not subject to any conditions and is not able to be changed;
- It can be transferred to a third party without any limitations;
- It is not subject to any dispute, set-off right, counterclaim, defense, or an existing/pending claim against the originator;
- It is denominated in Russian rubles;
- It pays fixed-rate interest (with a minimum rate of 19.9% amd a maximum rate of 49.9% per annum). It is repayable in fixed monthly installments;
- It is not delinquent or defaulted on the relevant purchase date;
- The borrower has paid at least three scheduled monthly payments;
- The loan's remaining term will not exceed the date falling six years after closing;
- It has a principal outstanding balance of at least RUB1,500;
- It has not been restructured for credit management purposes;
- The seller has not previously marked the borrower as being doubtful or insolvent; and
- The borrower is eligible under the transaction documents.

Under the documentation, an eligible borrower will be an individual who (among other factors):

- Is a Russian resident registered as a taxpayer with the Russian Tax Authority;
- Is current (i.e., not in arrears) on all of its obligations with the originator;
- Is an existing HCFB customer, who has a positive credit history and has received a special offer to apply for a loan issued by HCFB;
- Fully meets the bank's underwriting criteria in its internal credit policy;
- Is not an employee of the originator, if the aggregate principal balance of the loans granted to the originator's employees represents more than 0.1% of the pool aggregate principal balance; and
- The aggregate borrower outstanding principal balance cannot exceed 0.02% of the aggregate principal balance.

Transaction stages

The revolving period will last from the closing date until the earlier of:

- The date on which the trustee will deliver an enforcement or an amortization event notice; or
- The expected maturity date (three years from closing).

During the revolving period, the issuer can use principal collections to purchase new receivables. If no new receivables are available for purchase and the available principal builds up to, or exceeds, 20% of the notes' outstanding balance less the amount that is required to be held back from principal as a liquidity reserve, then the issuer would use such excess principal collections to redeem the notes in line with the pre-enforcement principal waterfall.

If an amortization event occurs, the purchaser is no longer entitled to purchase additional receivables.

Amortization events for this transaction would occur if:

- The transaction fails the portfolio base test. This test tracks the level of collateralization of the notes. The test is defined by the ratio between the performing receivables' aggregate principal balance and the purchaser's cash balance, and the aggregate amount of the senior notes and the subordinated loan.
- A debit is made in the principal deficiency ledger (PDL) and remains unmatched by a credit for longer than four monthly distribution dates.

- The transaction breaches the delinquency trigger. This trigger tracks the total three-month rolling average of 31-60 days' delinquencies. It is breached if the ratio exceeds 2%.
- The transaction breaches the default trigger, which tracks the three-month rolling average of defaulted receivables. It is breached if the ratio exceeds 0.9%.
- The transaction breaches the excess spread trigger, which tracks the average asset excess spread calculated on each of the three preceding calculation dates. It is breached if the ratio falls below 5%.
- The seller or the servicer becomes insolvent.
- The seller, the servicer, or the standby servicer fails to pay any amount required to be paid under the relevant transaction documents.
- A servicer event—as defined by the transaction documents—has occurred.
- The seller and/or the servicer lose the authorization required to conduct a consumer loan origination business.
- Any representation, warranty, certification, or statement made by the seller or the servicer in any of the transaction documents proves to have been materially incorrect.
- The issuer or the servicer fails to pay interest (within seven days of the due date) or principal (within 30 days). This would either automatically constitute a default, or an indemnity event defined under the transaction documents.
- Any of the transaction documents are terminated, provided that they are not replaced within 30 days.
- The long-term corporate credit rating on the seller is either lowered or adjusted to a level below 'B-' by any rating agency, or is no longer maintained.
- The issuer redeems all of the notes (issuer call date).

Our cash flow model only addresses the amortization period. We did not model the revolving stage because, when assigning a rating on the notes that is higher than the rating on the seller (which, in this case, is unrated), we assumed that the seller defaults at closing and tested if the transaction could survive this default.

Note terms and conditions

The notes will pay interest monthly in arrears, at a fixed rate for the first three years, and then floating-rate interest with a 12% cap per annum.

The notes' fixed rate of interest will be determined on the placement date. The senior loan's fixed rate of interest and the senior loan's margin components, described in the transaction documents, will then be set to be the same as the notes' fixed rate, plus an allowance for issuer expenses. During the amortization stage, the senior loan's floating rate of interest will be the aggregate of 0.25x three-month Moscow Prime Offered Rate (MOSPRIME) determined before the 37th interest period, as well as the senior loan's fixed rate and its margin.

The notes will be subject to a full mandatory redemption on the legal final maturity date. They will also be subject to a partial mandatory redemption on each interest payment date (IPD) in accordance with the priority of payments, subject to the availability of funds.

During the revolving period, if the net available principal builds up to 20% (excess principal collections trigger percentage) or more of the notes' principal outstanding balance, less the amount that is required to be held back from principal as a liquidity reserve, the transaction will amortize to the extent of the excess available principal cash flow (the mandatory principal repayment amount). At any time prior to the amortization stage, the servicer may lower the level of the trigger percentage by providing written notice to the cash manager.

Once the revolving period ends, the issuer could redeem the notes if the purchaser sells the portfolio at a price that exceeds the notes' outstanding amount (the issuer call option). If the issuer call option is not exercised, investors could sell the notes to HCFB after three years (the investor put option).

Once the revolving period ends, if no party has exercised its option, or if an amortization event occurs, the transaction would enter the amortization stage. In this phase, the purchaser will use all available proceeds, interest, and principal to redeem the senior loan, and to transfer this cash to the noteholders under the terms and conditions of the notes.

Event of default on the notes. Under the transaction documents, nonperformance of the issuer's obligations would constitute a material breach of the loan agreement (a default). This is if the issuer fails to pay any amount of principal for the notes within 30 calendar days (inclusive) of the relevant due date, or if it fails to pay any amount of interest within seven calendar days (inclusive) of the due date.

Priority of payments

The transaction has separate interest and principal priorities of payments.

During the pre-amortization phase, after the PDL debit or the credit calculation, the cash manager will distribute the available revenue funds as follows:

- Purchaser taxes and profit for deposit;
- Pro rata, senior fees, and expenses (trustee and facilitating agent);
- Income deficiency ledger (IDL) clearance;
- Pro rata, senior fees, and remunerations (cash manager, servicer and stand-by servicer, transaction bank account provider, collection bank account providers, stand-by collection bank account provider, replacement collection bank account provider, data agent, data custodian, corporate administrators, any other third parties);
- Contingent indemnity payment payable to the issuer and funds that the servicer paid in error to the purchaser;
- Senior loan accrued interest;
- PDL clearance;
- Junior fees to the stand-by servicer;
- Pro rata, subordinated loan fixed interest rate to the subordinated loan facility provider and any intra-group assignee;
- Pro rata, outstanding principal under the subordinated loan facility agreement to the subordinated loan facility provider and any intra-group assignee under the initial expenses tranche only;
- Pro rata, variable interest to the subordinated loan facility provider and any intra-group assignee under the initial ;
- Any costs exceeding the senior expenses cap; and
- Variable interest to the subordinated loan facility provider and any intra-group assignee on the junior loan pro rata. Subordinated loan fixed interest rate to the subordinated loan facility provider and any intra-group assignee.

Senior fees, expenses, and remunerations are subject to a cap of RUB10,843,218, plus standby servicer fees of 0.04% and a servicer fee of 0.59% of the performing principal of the collateral.

During the pre-amortization phase, the cash manager will distribute the available principal funds to the issuer, which will then use the funds in the following order:

- Principal repayment to the senior loan advance equivalent to the mandatory principal repayment amount;
- Hold the principal repayment to the senior loan advance, which is equivalent to the mandatory principal repayment amount on the next distribution date;
- Hold an amount to refund the liquidity principal;

- Reconciliation payments payable to the seller;
- Purchase price of the accepted receivables; and
- Only if the senior loan is fully repaid, all amounts due to the subordinated loan facility provider and any intra-group assignee.

During the post-amortization or enforcement phase, the cash manager will distribute all available cash (principal and revenue proceeds) funds in the following order:

- Purchaser taxes and profit for deposit;
- Pro rata, senior fees, and expenses (trustee and facilitating agent);
- Pro rata, senior fees, and remunerations (cash manager, servicer and stand-by servicer, transaction bank account provider, collection bank account providers, stand-by collection bank account provider, replacement collection bank account provider, data agent, data custodian, corporate administrators, any other third parties);
- Contingent indemnity payment payable to the issuer and funds that the servicer paid in error to the purchaser;
- Before enforcement, all amounts due and payable on the senior loan interest and principal. Post-enforcement, amounts that would have been due under the senior loan are paid directly to the bondholders.
- Junior fees to stand-by servicer;
- All amounts due to the subordinated loan facility provider and any intra-group assignee and to the servicer following any incorrect calculations in the prices paid for defaulted receivables;
- Post-enforcement, pro rata, and pari passu, to any contingent liabilities and all amounts due and payable to the issuer by the purchaser under the senior loan if these amounts have not been paid to the bondholders; and
- Any excess as variable rate interest under the subordinated loan.

Income deficiency ledger

The IDL tracks the portion of available principal funds used to pay any revenue shortfall after the application of the available interest funds and the liquidity reserve. The transaction documents define revenue shortfalls as the lack of funds to pay senior items in the interest waterfall down to, and including, interest on the senior loan. If it is insufficient, the available principal will compensate for the shortfall amount. In subsequent periods, income cash will be transferred back to principal cash. The cash manager maintains the IDL, which tracks these cash movements.

Principal deficiency ledger

The PDL will be established as a ledger on the transaction account. It will record and maintain the issuer's provisions applicable to the receivables based on their delinquency term and any excess of set-off amount, as defined in the transaction documents. These provisions will be adjusted on a monthly basis and will be driven by the actual level of delinquencies and defaults, and the additional excess of the set-off risk amount exposure.

The required PDL amount based on delinquency, will be defined each month as the product of the outstanding principal balance of the receivables falling in each of six delinquency buckets, and the provisional ratio for the respective band, defined below:

- 31 to 60 days delinquency: 2.00%;
- 61 to 90 days delinquency: 4.00%;
- 91 to 120 days delinquency: 55.00%;
- 121 to 150 days delinquency: 80.00%;
- 151 to 180 days delinquency: 90.00%; and
- More than 180 days delinquency: 100%.

Compared with a conventional default-based PDL mechanism, this scheme ensures a gradual build-up of PDL, so long as a receivable moves through delinquency buckets, and finally reaches 100% when the receivable defaults. The excess spread starts to be trapped at an earlier stage, which makes it more likely for excess spread to provide full coverage of defaulted assets, once the servicer classifies these assets as defaulted.

Debits to the PDL are corrected by crediting an amount of income to the PDL according to the waterfall of payments. Income that is credited to the PDL becomes available principal.

In our cash flow model we modeled a conventional way of trapping excess spread, i.e., only against defaulted loans. This modeling approach produces more conservative results, in our view.

Credit enhancement

Hard credit enhancement for the notes (credit support that will exist at closing such as a reserve account, overcollateralization, and subordination) will include:

- Subordination: The subordinated loan is subordinated to the notes. The subordinated amount is less than the notional amount, since the purchaser will use part of the subordinated loan to fund the liquidity reserve and the initial costs. Our cash flow model accounts for the actual amount of collateral supporting the notes.
- Principal liquidity reserve: The liquidity reserve will pay senior expenses and interest obligations on the notes.

Soft credit enhancement includes excess spread that will cover interest shortfalls and delinquent and defaulted principal as excess set-off exposure.

Liquidity reserve

The liquidity reserve will be established as a ledger on the transaction account and funded from the subordinated loan proceeds. At closing, out of the loan proceeds, the purchaser will use a ruble-denominated amount (to be determined) to pay the initial costs, up to ruble-denominated amount (to be determined) to purchase the assets. It will use not less than an amount equivalent to the next six interest payments and senior expenses to fund the principal liquidity reserve. Subsequently, the liquidity reserve will be replenished using the principal waterfall to its required amount.

The liquidity reserve will be used to pay senior items in the interest waterfall down to, and including, the senior loan accrued interest. On the IPD when the notes are redeemed in full, any remaining balance in the liquidity reserve will be added to the available principal funds.

Set-off risk

Borrowers may have a right to set-off amounts they owe to HCFB for two reasons.

Firstly, since borrowers could potentially have cash deposits with HCFB, the set-off exposure may increase as borrowers deposit cash with HCFB over time. Secondly, loans can be granted to bank employees. If HCFB becomes insolvent, employees could set-off payments due under consumer loans against salary payrolls. The transaction's eligibility criteria limit loans granted to employees to 0.1% of the assets' principal balance.

If HCFB becomes insolvent, borrowers could set-off all or part of their payment obligations under their consumer loans against their deposit or payroll claims.

The transaction contains a structural mitigant for excess set-off amounts. The PDL records any excess set-off amount.

We sized this risk at 5% loss at closing, based on current statistics for loans provided to depositors. In addition, borrowers have little incentive to keep deposits with HCFB due to a large gap between deposit rates (up to 9%) and lending rates (33%).

Servicing

As servicer, HCFB will prepare monthly servicer reports and will maintain a loan-by-loan data tape that it will transfer to the data agent every month.

The stand-by servicer would step in if the servicer loses its role in the transaction. Upon replacement, the servicer will cooperate with the stand-by servicer (or any replacement servicer) to perform all duties outlined in the servicing agreement.

In accordance with the servicing agreement and the contingency plan, the servicer will:

- Provide detailed information on the receivables;
- Ensure that its employees, and any third party contractors comply with the stand-by servicer's directions; and
- Provide reasonable access to offices, relevant software systems, and operating instructions in order to perform all duties listed in the servicing agreement.

Commingling risk

Borrowers can make payments under their loan agreements' terms and conditions:

- Directly at HCFB's own bank offices, ATMs, kiosks, and payroll;
- At other banks; and
- Through a rapid payment service provider.

Payment dates are fairly equally distributed within a month. The purchaser holds the collection account with HCFB and transfers the collected cash to the transaction account on the next business day.

While neither the servicer nor the stand-by servicer have a minimum eligible rating to support a 'BBB' rating on the notes, we view commingling risk to be fully structurally mitigated in line with our current counterparty criteria due to:

- The timing of exposure to an ineligible collection bank account provider being limited to one business day; and
- The liquidity reserve being available to cover six months of note interest on an IPD (or about 4.3 months' expenses and interest on the notes), if collections were delayed or lost due to servicer default.

We believe that the documented takeover procedures would enable the standby servicer to resume collections within less than six months after a servicer default.

Counterparty risk

The transaction will be exposed to counterparty risk through Citibank N.A. (London Branch) as the transaction bank account provider and the cash manager. We consider that the downgrade provisions in the transaction documents adequately mitigate counterparty risk at a 'BBB (sf)' rating level, which supports our rating on the notes under our current counterparty criteria.

Collateral Description

The collateral comprises a single product, an unsecured consumer loan from HCFB. As of the July 31, 2013 cut-off date, the eligible pool comprised 540,959 loans totaling RUB68.4 billion (about $2 billion). The average original principal amount was RUB156,932 (about $4,756), and the average outstanding amount of RUB126,499 (about $3,833). The weighted-average original term was 42.57 months, and remaining term 34.77 months. The weighted-average interest rate is 32.01%. The interest rate is fixed throughout the transaction's life, and there are no other yield components (such as fees or commissions).

Chart 2

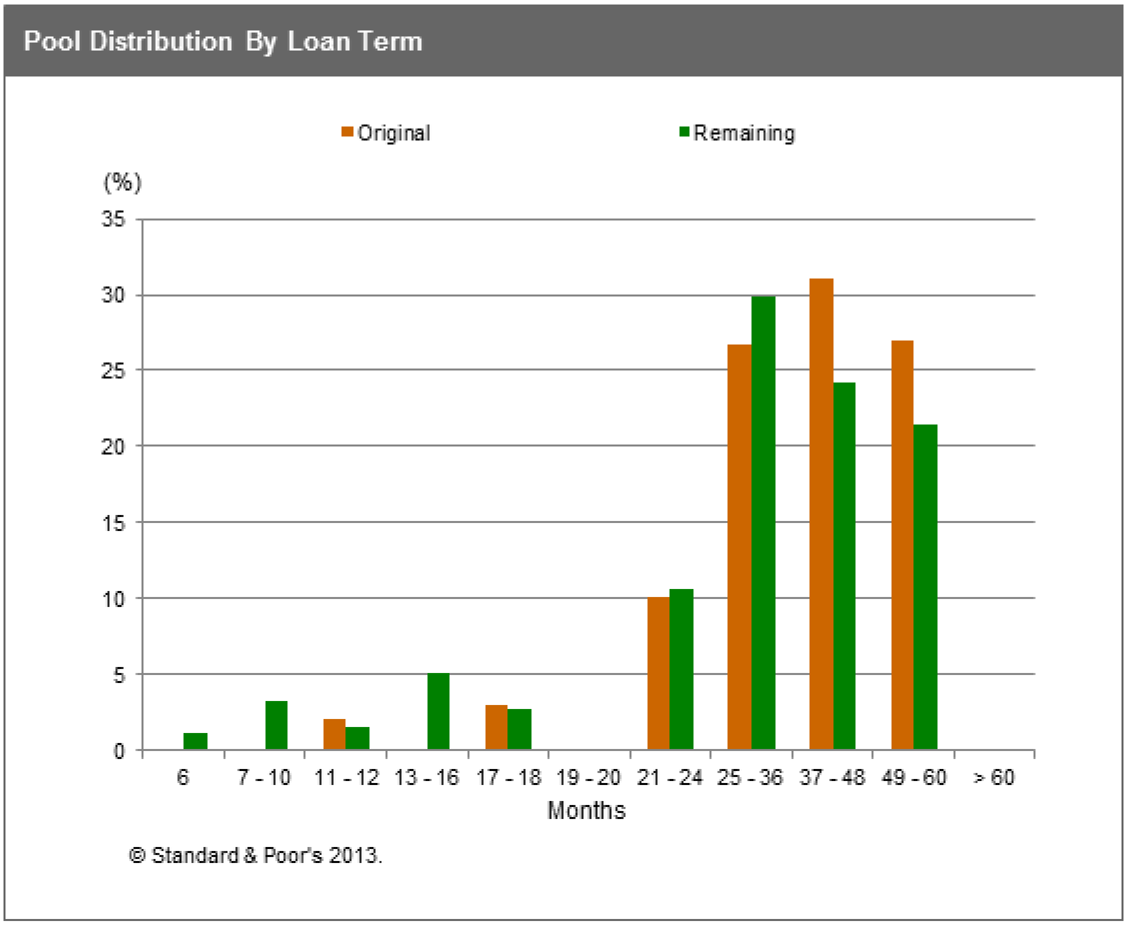


Chart 3

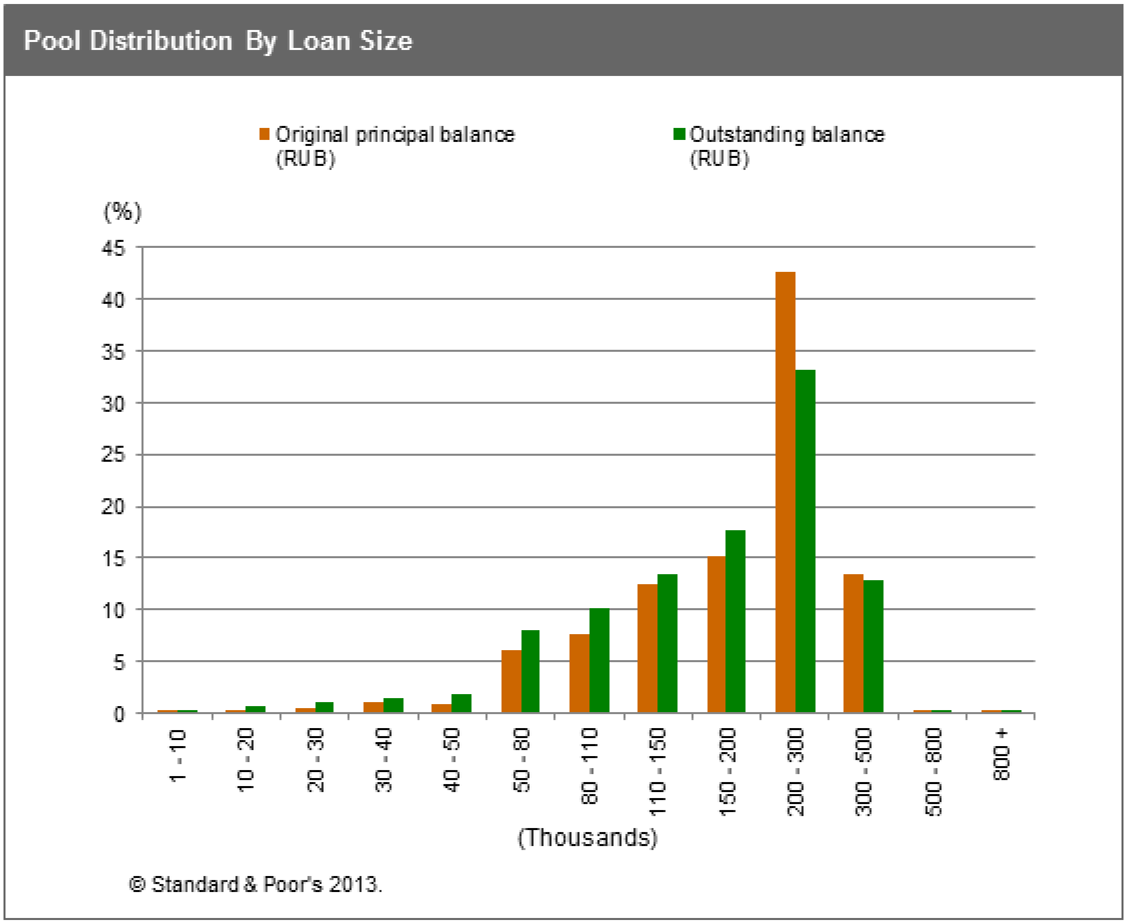

Pool Distribution By Loan Size
Original principal balance (RUB)
Outstanding balance (RUB)
(%)
45
40
35
30
25
20
15
10
5
0
1 - 10
10 - 20
20 - 30
30 - 40
40 - 50
50 - 80
80 - 110
110 - 150
150 - 200
200 - 300
300 - 500
500 - 800
800 +
(Thousands)
© Standard & Poor's 2013.

Chart 4

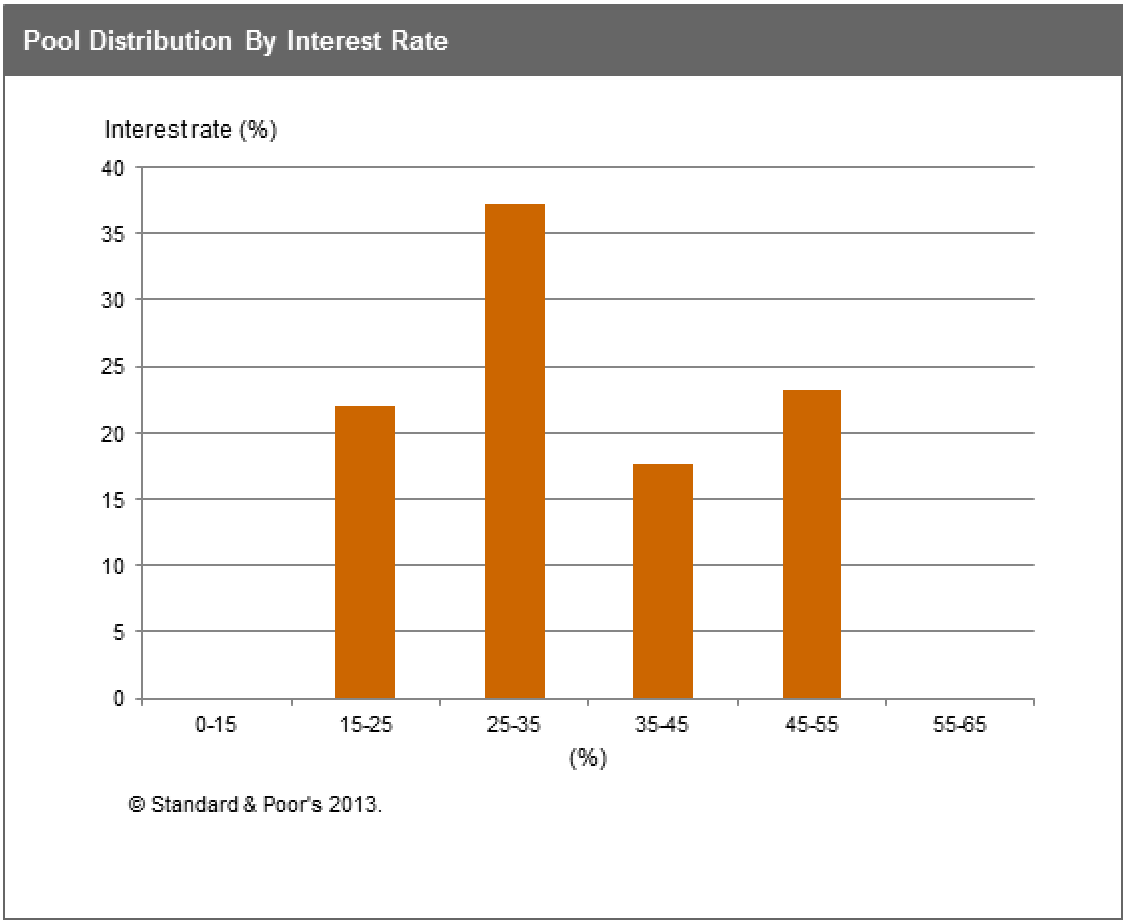

Pool Distribution By Interest Rate
Interest rate (%)
40
35
30
25
20
15
10
5
0
0-15
15-25
25-35
35-45
45-55
55-65
(%)
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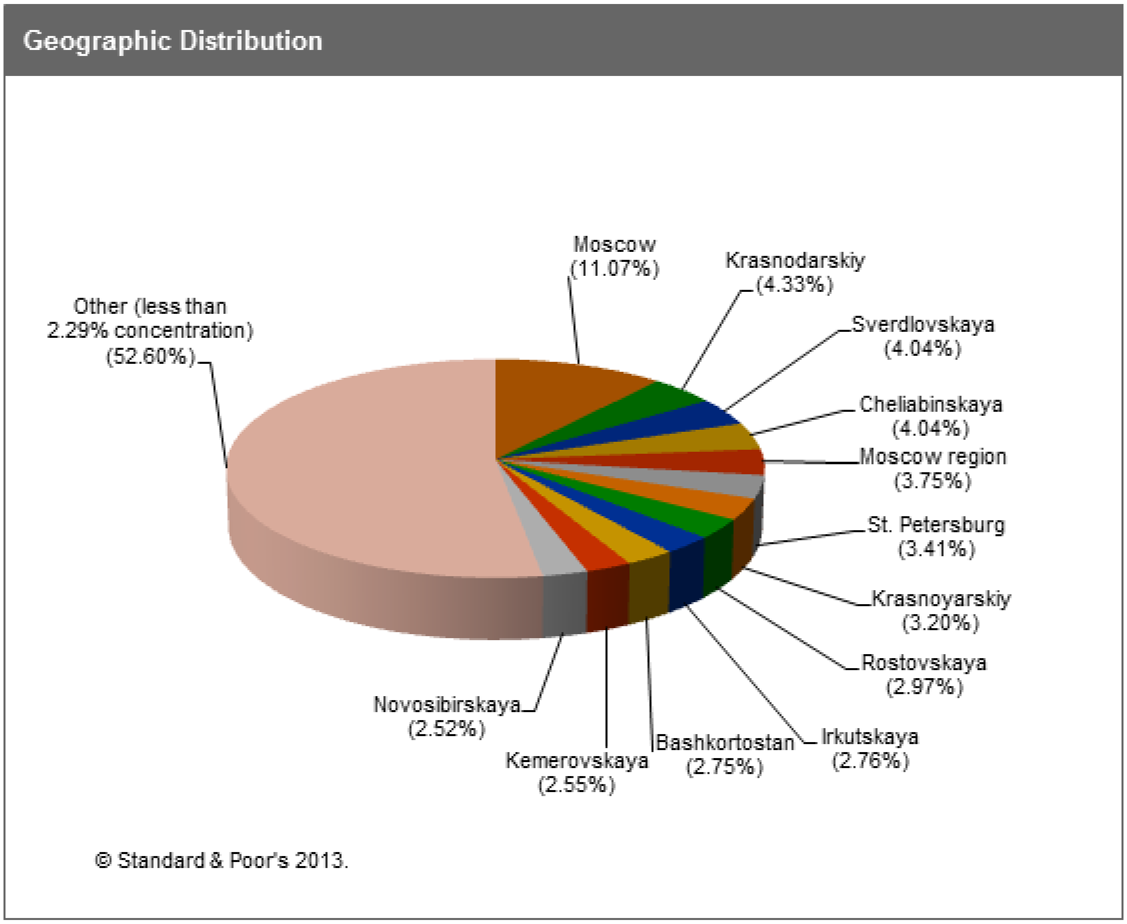
Chart 5



Credit Analysis

We analyzed the transaction's exposure to credit risk under various stress scenarios by applying our European consumer finance criteria.

Default rate

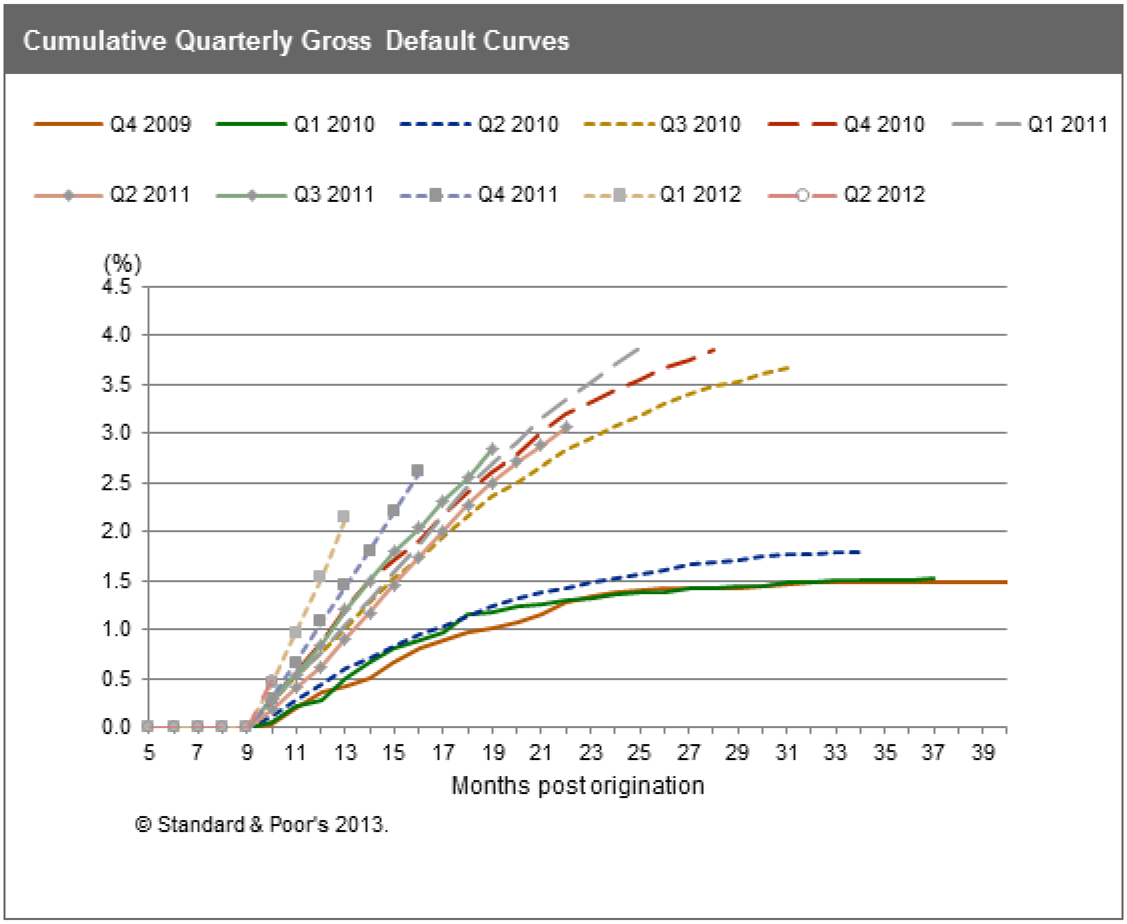
The transaction documents define defaulted loans as loans that are overdue by 181 calendar days or more.

When deriving our base case default rate assumption, we considered the following:

- The transaction's relevant performance history from the beginning of 2006 until May 2013. Given the changes in the originator's underwriting standards after 2009, we only evaluated the data after 2009. HCFB's portfolio has expanded in the last four years. In 2012, the originator's average monthly issuance had reached RUB7 billion from RUB2 billion in 2011, and RUB640 million in 2010. Due to low issuance volumes in 2009—when the Russian economy was in recession and loan issuance nearly stopped industry-wide—we believe that the originator has not fully tested current underwriting standards through the downturn.
- The originator is targeting a further increase in issuance volume to attain a higher market share. In our view, this increases the risk of performance deterioration caused by a rapidly growing business model. We therefore set our

base case default rate at 10.5%, which is higher than the actual default rates by origination vintages.

Chart 6



For our cash flow analysis, we assumed a 24-month default curve starting from closing. We applied defaults by considering different default patterns, such as even, front, and back-loaded.

Recovery rate

Because of the unsecured nature of consumer loans, we gave little or no benefit to recovery, in line with our European consumer finance criteria. In this transaction we gave limited benefit to recovery statistics due to HCFB's recovery data and a market-wide positive recovery history.

When deriving the base case recovery rate, we stressed HCFB's historical data to account for the risk of recovery rate deterioration if the servicer is replaced. We considered a six-month recovery horizon.

Credit multiple and haircut

We applied the highest possible haircut and credit multiple for a 'BBB' rating scenario to account for the fact that the 'BBB (sf)' rating is commensurate with Russia's sovereign foreign currency default rate.

Table 1

Base Case And Stressed Assumptions For 'BBB' Rating Scenario		
	Default rate (%)	**Recovery rate (%)**
Base case	10.50	15.00
Multiple/haircut	3.00	40.00
Stressed rate in 'BBB' scenario	31.50	9.00

Delinquency rate

Due to the annuity nature of the repayment pattern, we assumed that both principal and interest collections are delayed by six months. The total delinquency rate is two-thirds of the gross default rate. Delinquencies are applied over the first 12 months of us running our cash flow models.

Prepayment rate

The historical prepayment rate range lies between 5% and 33%. We tested the cash flow model under a low constant prepayment rate (CPR) of 0.5% and a high CPR of 35%.

Yield

We capped the portfolio yield by 24% under both low and high CPR scenarios, as it corresponds to our assumption of the potential yield that the portfolio could reach during the revolving period. The current weighted-average interest rate on the portfolio, as of the July 31, 2013 pool cut is 32.01%.

Cash Flow Analysis

We have tested the ability of the notes to pay timely interest and ultimate principal under the above stress assumptions through our cash flow model. The only varying parameters in our model are the prepayment rate and the variable rate applicable after period 36. All other parameters are fixed. The model outcome does not differ as per the interest rate assumptions, as interest is fixed on the assets and is capped at 12% on the notes.

The model passes at a 'BBB' rating level on the notes under high and low CPR scenarios.

Scenario Analysis

We include a "what-if" scenario analysis section in our rating reports to explain key rating assumptions and the potential impact of positive or negative events on the ratings (see "Methodology: Credit Stability Criteria," published on May 3, 2010, and "Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors," published on Nov. 4, 2011).

Methodology

When rating European consumer asset-backed securities (ABS) transactions, we have developed a scenario analysis and sensitivity testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross loss rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including a rise in unemployment and company insolvencies, together with a reduction in the availability of credit from tighter consumer debt refinancing. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a note (see table 2).

Table 2

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross loss rate (%)	30	50
Recovery rate (%)	(30.00)	(50.00)
Constant prepayment rate (%)	(20.00)	(33.30)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated notes in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

Scenario stress and sensitivity analysis

The results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. Tables 3 and 4 show the implied base case stresses and scenario stress results.

Table 3

Scenario Stresses

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Weighted-average gross loss rate (%)	10.5	13.65	15.75
Recovery rate (%)	10	7	5
Constant prepayment rate (%)	20	6	13.3

Table 4

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	Notes	BBB (sf)	BB (sf)
Scenario 2	Notes	BBB (sf)	BB- (sf)

Our analysis suggests that under scenario 1 and 2 stresses, the notes would most likely be downgraded to a 'BB' level. The rating transition lies within the maximum deterioration guidelines under our credit stability criteria.

Monitoring And Surveillance

We will regularly assess the following as part of our ongoing surveillance of this transaction:

- The performance of the underlying portfolio, including defaults, delinquencies, and prepayments; and
- The supporting rating in the transaction.

Standard & Poor's 17g-7 Disclosure Report

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com/1832.pdf.

Related Criteria And Research

Related criteria

- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- Global Methodology For Rating Repackaged Securities, Oct. 16, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Weighing Country Risk In Our Criteria For Asset-Backed Securities, April 11, 2006
- European Consumer Finance Criteria, March 10, 2000

Related research

- Russian Federation, July 8, 2013
- Banking Industry Country Risk Assessment: Russia, May 15, 2013
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

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