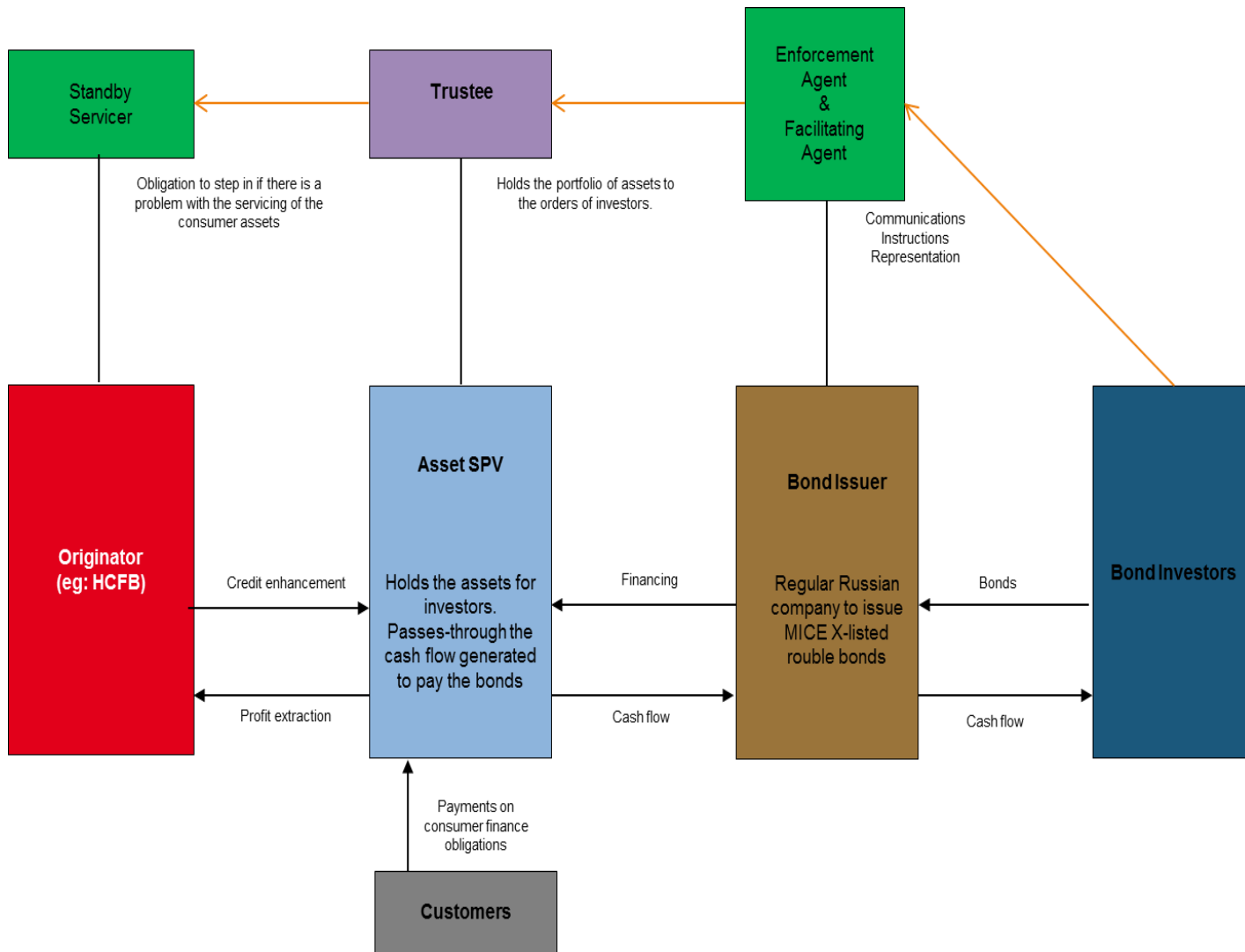


Securitisation of non-mortgage assets in Russia

Home Credit Transaction Highlights

- HF Finance closed yesterday.
- Coupon 8.25% fixed 3 years in roubles.
- RUB5bn senior note backed by a portfolio of consumer loans yielding (on average) 32% at close, with 25% credit enhancement.
- BBB (S&P), Baa3 (Moody's).
- There are no swaps in the structure, so this is the actual cost of the debt.
- Oversubscribed – the book was covered 1.4x.
- Distribution included pension funds and bank treasuries.
- Key players in the deal:
 - Home Credit(!)
 - Legal and tax: Baker & McKenzie
 - First mandated arranger: Alor Invest
 - Structuring: RUSSABS

New Russian securitisation structure



Why do we need a new structure?

- Securitisation was pioneered in 2005, with deals by Home Credit and Russian Standard Bank. These deals were bought by international investors.
- At the moment, international investors are interested in Russian deals, but only at pricing around EURIBOR + 300 (or around a 3.5% yield in euros). The problem is the currency swap to convert this funding cost into roubles (which costs around 6-7%). So the funding cost (all-in) is around 10.5%+.
- The domestic market offers funding at, let's say, 8.5% without needing any swaps. However, the domestic market is specific in what can be purchased (it must be a local bond, really needs to investment grade ratings, should be structured to revolve and then repay as a bullet).
- This combination of offshore and onshore structure is superior to mortgage deals done under the domestic mortgage law – if things go wrong, investors are pulled into a process (via the trustee) that actively seeks solutions.

Some realities

- **Pricing**:- Home Credit was very tough on the pricing, and the deal will find its level, which is probably 25bps wider than at placement.
- **Market**:- the domestic market is not completely there yet. Placement was a lot tougher for the arrangers than they expected. However there is clearly potential for more transactions, and time and patience will sort this out (see the experience of Russian ABS 2005/6).
- **Rating**:- Rating agencies are now regulated, and there is a clear separation between analytical and commercial teams. Inexperienced structuring teams attempting to execute new structures will run into significant difficulties.
- **Investment grade?**:- it is important to be realistic about what ratings can be achieved and from whom. The agencies have different criteria. Russia needs to develop a “BB” senior note market.
- **A domestic law?**:- we foresee only problems with this route in the absence of a trustee function being available domestically. The concept of “mortgage agent” transfers very poorly to non-mortgage assets.

- There is a lot of interest, and we would forecast that there will be a number of transactions next year based upon the Home Credit structure.
- The reasons are that:
 - Banks are under significant capital pressure as a result of new regulations on risk weightings and provisioning (effective q1 next year).
 - Moreover, we agree with Moodys that there will be a spike in NPLs in 2014, although not for all of the same reasons.
 - For properly-priced assets (we believe that consumer assets are generally priced correctly for stress-case risk in Russia) – securitisations are reliable and sensible investments.
- A domestic securitisation law for non-mortgage assets will not be used.
- On the other hand, we have to recognise that domestic investors will take some time to get comfortable with the ABS product. So market depth is probably not significant.
- Securitisation is important for Russia.