



# Approach to Rating Russian RMBS and Major Trends Observed in Russian RMBS Market



# Agenda

1. **Process of Assigning Ratings to Russian RMBS Transactions**
2. **Main Factors Limiting Ratings of the Securitisation Transactions**
3. **Russian RMBS Performance**
4. **Main Characteristics of the Rated Transactions**
5. **Latest Trends**
6. **Questions**

# 1

## Process of Assigning Ratings to Russian RMBS Transactions

# Rating Process Consists of Iterative Steps

- » High-level review of transaction structure and specifics
- » Review of pool data, historical data, and originator and servicer processes
- » Analysis of the structure
- » Committee process
- » Review and analysis of the documentation, legal/tax opinions, and AUP results

**Analytical Process is Iterative and Depends on Transaction Characteristics**

# Process Relies on Info Provided by Originator

- » Term sheet for the transaction
- » Portfolio data
- » Historical data for the originator's book and for servicer's book, if different
- » Completed originator and servicer questionnaire
- » Transaction and issuance documentation, legal and tax opinions, results of the AUP

Additional Information may be Requested Depending on Transaction Specifics

# Unmitigated Risks Impact Analysis

- » Unusual product types
- » Loan restructuring options
- » Lack of historical data or incomplete portfolio data
- » First time issuers/counterparties

Challenges may Impact Amount of Credit Enhancement or Limit Maximum Rating

# 2

## Main Factors Limiting Ratings of the Securitisation Transactions

# Local Currency Ceiling Defines Maximum Achievable Rating

- » Determined by the sovereign team based on country metrics
- » Currently A3 for Russia
- » Ceiling level may also impact the level of subordination

Local Currency Ceiling may Impact Notes Rated at or Below the Ceiling



# Financial Strength of Counterparties is Important

- » Originator - true sale concerns and set-off risks
- » Servicer - operational and commingling risks
- » Account bank - commingling and liquidity risks
- » Special depository and management company – operational risks and monitoring

Originator/Servicer is a key Counterparty in the Transaction

# Legal Uncertainty is Incorporated Into Analysis

- » Legal environment is largely untested
- » Contradictory court decisions add further uncertainty
- » Challenges identified previously have been partially remedied in the law
- » Uncertainty remains with regards to set off and true sale risks

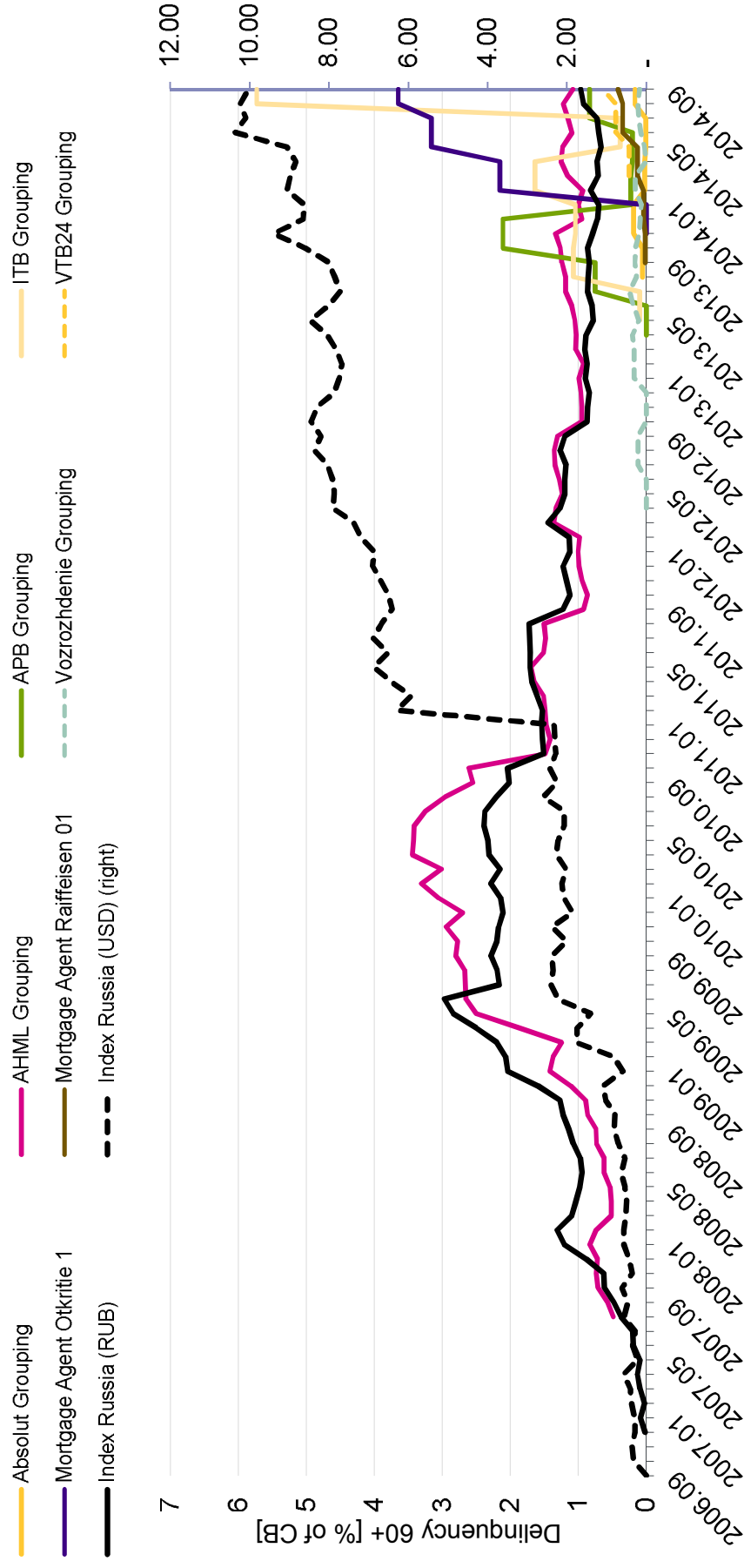
Legal Uncertainty may Limit the Maximum Achievable Rating

# 3

## Russian RMBS Performance

# Performance Remains Stable in Russian RMBS

## 60+ Day Delinquencies in Outstanding Russian Transactions

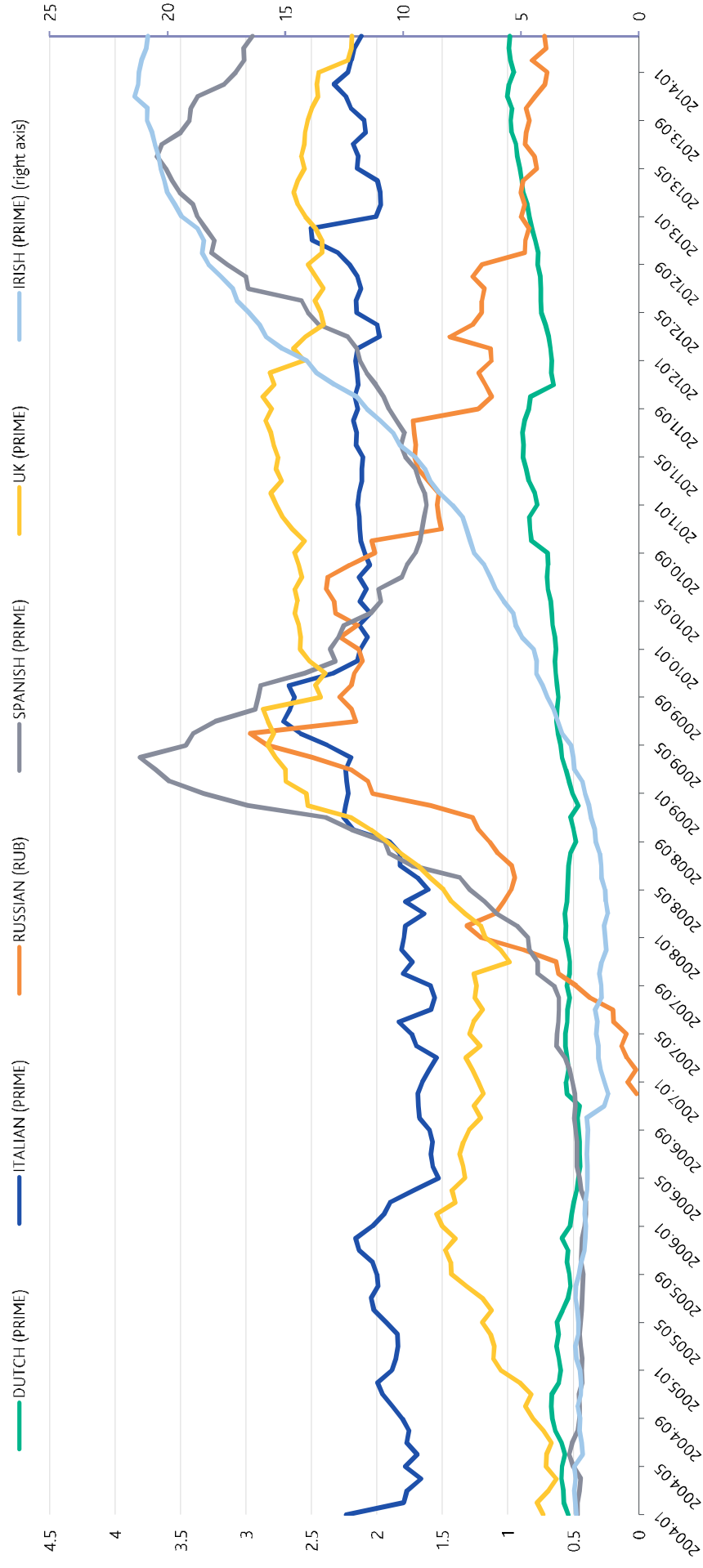


Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

Performance Supports Stable Outlook for Russian RMBS Market

# Performance has Stabilised in EMEA RMBS Markets

## 60+ Day Delinquencies in EMEA Markets

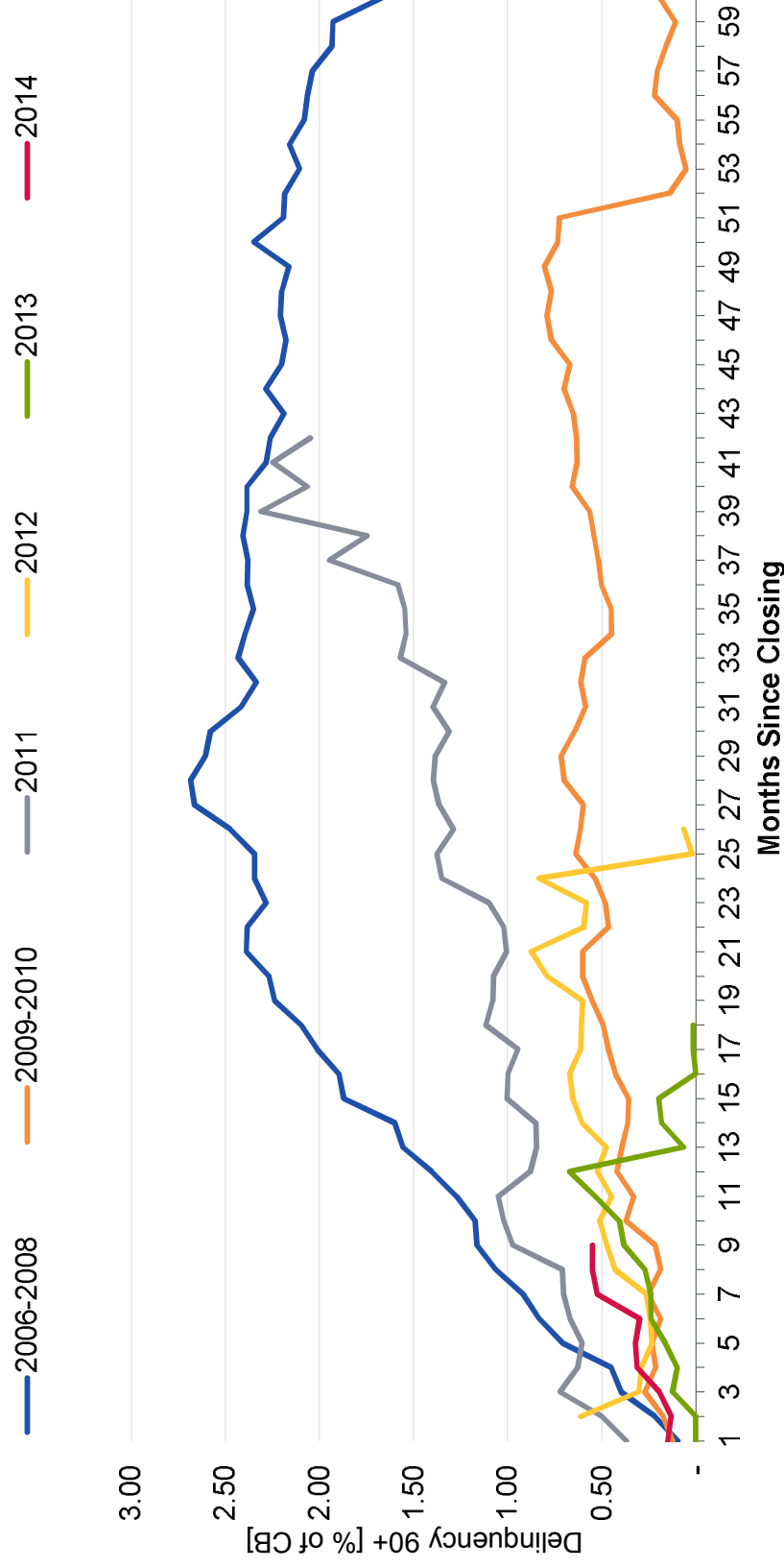


Source: Moody's Investors Service

Performance of Russian RMBS is Comparable With Other EMEA RMBS Markets

# Russian RMBS Vintages Show Stable Trend

90+ Day Delinquencies by Vintage in Russian RMBS

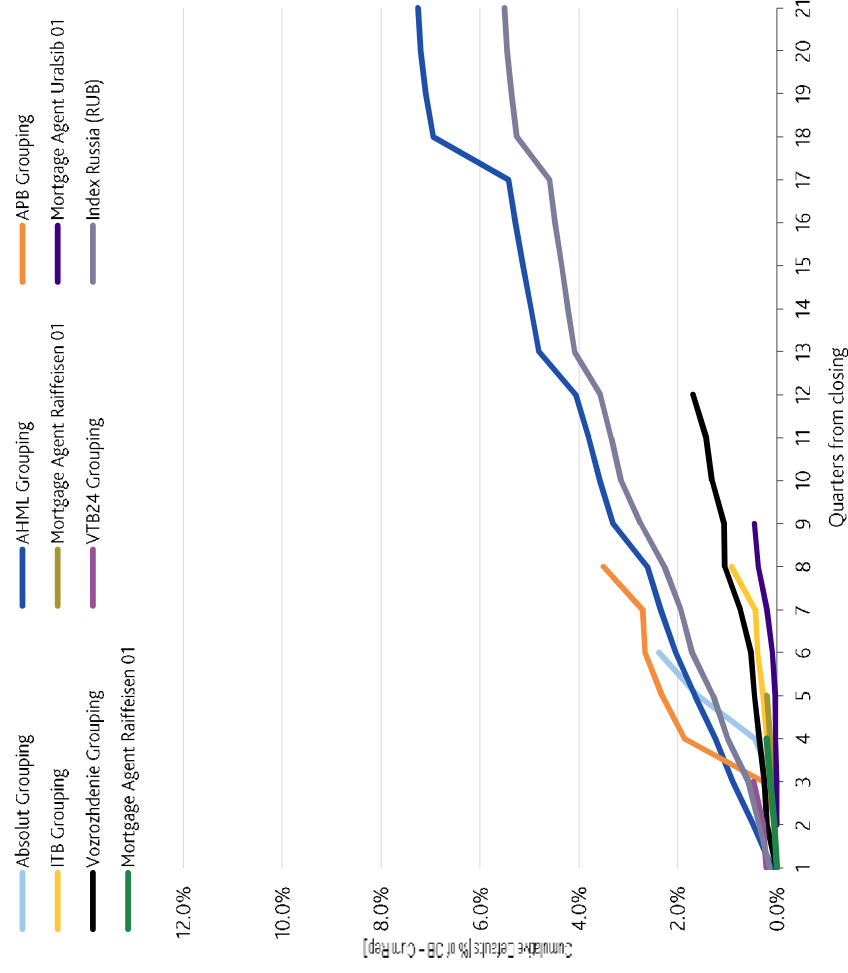


Source: Moody's Investors Service

Riskier Vintages are Originated Before 2008-2009 Crisis

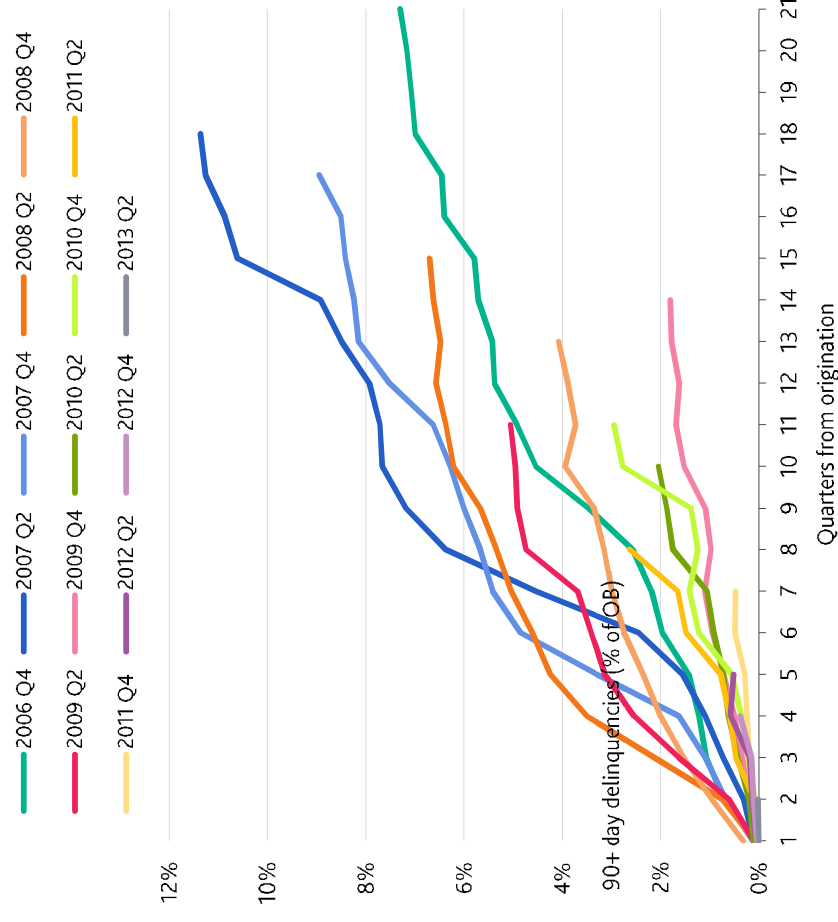
# RMBS Shows Lower Defaults Than Mortgage Market

## Cumulative Defaults in RMBS Transactions



Source: Moody's Investors Service

## Performance in Originator Portfolios

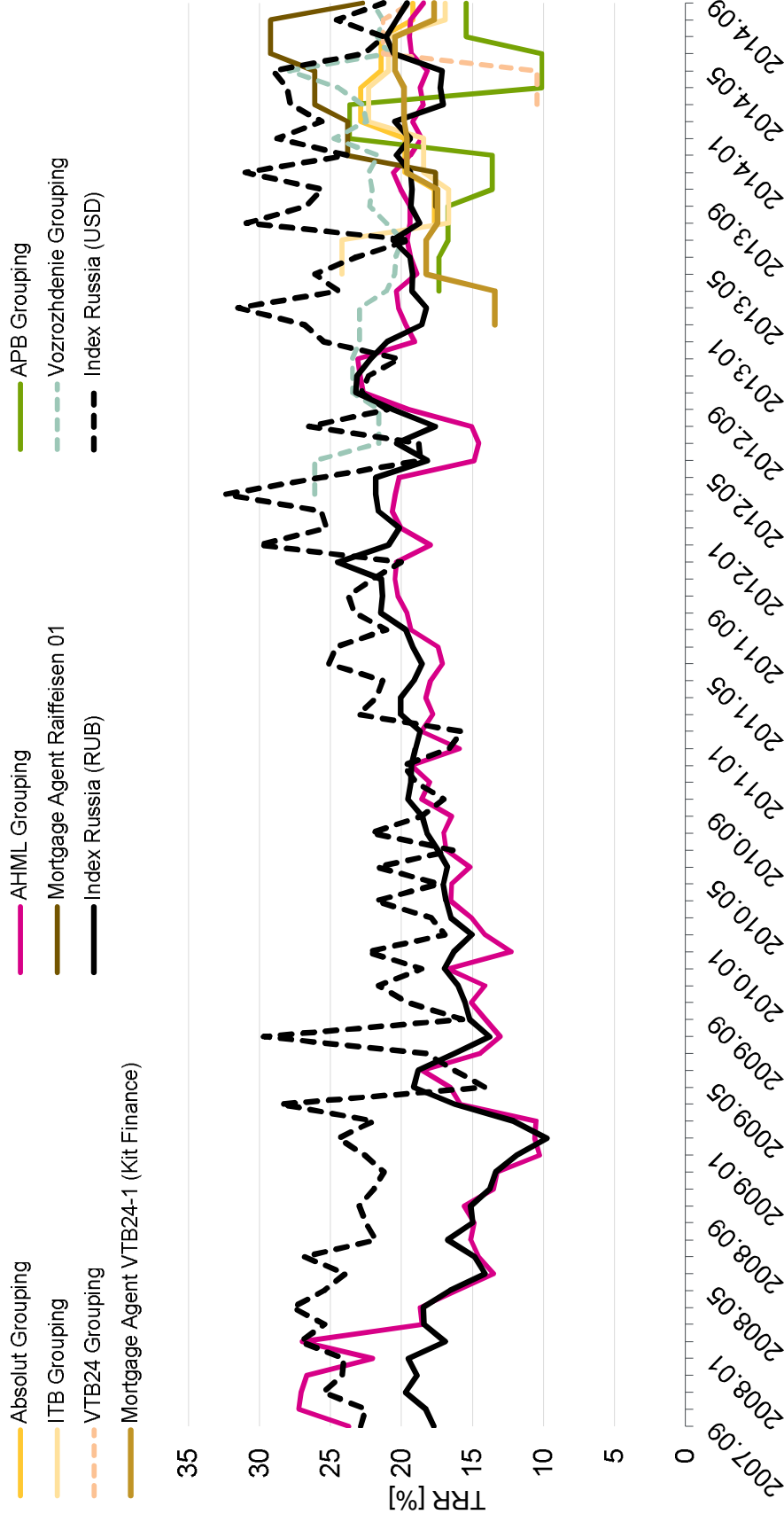


Source: Moody's Investors Service

## Performance of RMBS Deals Reflects Positive Selection of Portfolios

# Total Redemptions Remain Stable

Total Redemptions in Outstanding Russian Transactions



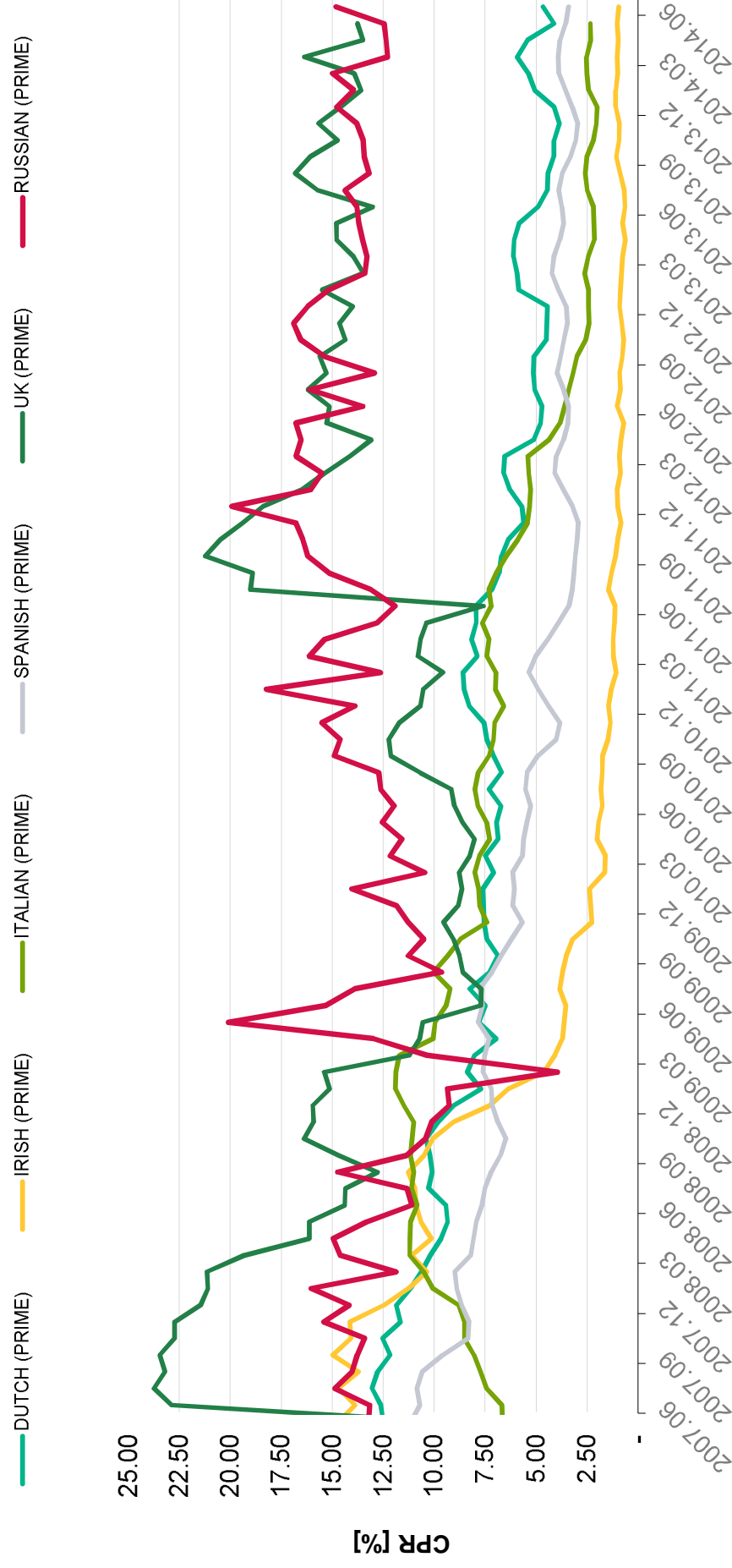
Source: Moody's Investors Service

Total Redemptions are on Average About 20%



# CPR is Higher in Russian RMBS Than in Other EMEA Markets

CPR in Russian RMBS and Other EMEA Markets



Source: Moody's Investors Service

High CPR Reflects Greater Propensity of Russian Borrowers to Prepay

# Assumptions Reduced in RMBS Transactions

DEAL NAME	REVISED EXPECTED LOSS ASSUMPTION	PREVIOUS EXPECTED LOSS ASSUMPTION
Closed Joint Stock Company Mortgage Agent Uralsib 01	4.00%	7.50%
Closed Joint Stock Company Mortgage Agent of AHML 2008-1	5.00%	3.75%
Closed Joint Stock Company Mortgage Agent of AHML 2010-1	4.50%	6.00%
Closed Joint Stock Company Mortgage Agent of AHML 2011-2	6.00%	7.00%
Red & Black Prime Russia MBS No. 1 Limited	1.00%	4.00%
Russian Mortgage Backed Securities 2006-1 S.A.	1.00%	4.00%
Specialised Mortgage Agent GPB-Mortgage 2	4.00%	8.50%

Assumptions Were Reduced due to Good Performance of Underlying Portfolios

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## Main Characteristics of the Rated Transactions

# Transaction Structures are Well Enhanced

DEAL	CJSC MA URALSIB 02	CJSC “MA MTSB”	CJSC “MA MKB”	CJSC MA AHML 2014-1
Closing Date	30-Oct-14	25-Jun-14	10-Jun-14	02-Jun-14
Originator/ Servicer	OJSC Bank Uralsib	OJSC MTS Bank	Credit Bank of Moscow	AHML
Issuance Amount	RUB 8.9 bil	RUB 4.3 bil	RUB 4.7 bil	RUB 19.6 bil
Ratings (at closing)	Cl. A1 - 56.4% - Baa3(sf) Cl. A2 - 28.6% - Baa3(sf) Cl. B - 15.0% - NR	Cl. A - 80.0% - Baa3(sf) Cl. B - 20.0% - NR	Cl. A - 79.0% - Baa3(sf) Cl. B - 21.0% - NR	Cl. A1 - 32.2% - Baa1(sf) Cl. A2 - 32.2% - Baa1 (sf) Cl. A3 - 32.2% - Baa1 (sf) Cl. B - 3.4% - NR
Note Coupon	Class A1 - 8.75% Class A12 - 11.25%	Class A - 10.5%	Class A - 10.65%	Class A1 - 8.5% Class A2 - 8.5% Class A3 - 3% (steps up to 8.5% in 2.5 years)
Reserve Fund	4.7%	4.4%	RF - 7.0%	RF - 2%

## Transaction Structures Feature Large Reserve Funds and Unrated Subordinated Tranche

# Changes in Collateral Point to Slightly Worsening Characteristics

Characteristic	Range	Trend
Current WA LTV	47% - 64%	Slightly increasing
WA Interest Rate	11.5% - 14%	Slightly increasing
WA Seasoning	1 year - 5 years	Slightly decreasing
% Self Employed	0% - 14%	Stable
% Income Verified by Bank Forms*	16% - 75%	Slightly increasing
Average Loan Size	1,100,000 - 2,300,000	Slightly increasing
Bad Credit History	10 - 20%, usually resolved and minor	Stable
Purchase Price	10-20% lower than valuations	Difference decreasing

\* Excluding AHML transactions

## Recent Securitisations Feature Higher LTVs and Larger Loans

# Deleveraging Offsets Country and Counterparty Risks

- » In October 2014 Local Currency Country Ceiling was reduced to A3 from A2
- » Ratings of large government-owned financial entities were downgraded
- » Two tranches in two AHML deals downgraded
- » No rating impact on any other Russian RMBS notes

Ratings of Downgraded Notes Were Supported by Surety Provided by AHML

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## Latest Trends

# Innovative Transaction Structures Encourage Issuance by Smaller Originators

- » Multi-originator platforms
  - Limited credit support between portfolios
  - Multiple servicers
- » Pass-through certificates
  - Backed by pools of residential and commercial mortgages

## Analysis Would Focus on Operational and Structural Risks



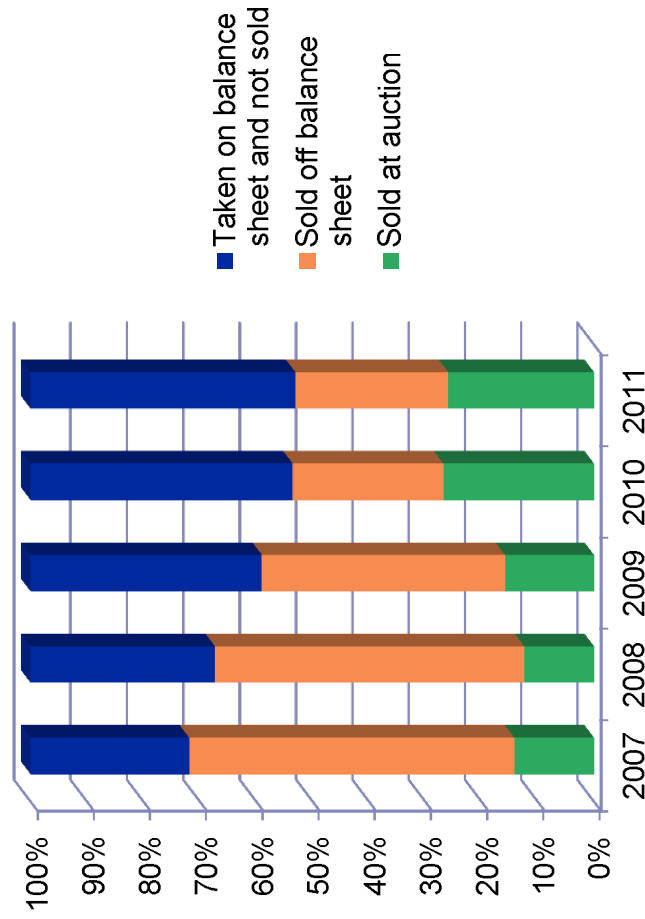
# Current Economic Climate Will Impact Transaction Performance

- » Transactions with weaker counterparties particularly affected by weakening economy
- » Portfolio mitigants are in place for existing transactions
- » Structural features mitigate operational risk

Good Collateral Quality and Back-up Arrangements Will Limit Impact of Economy on Performance

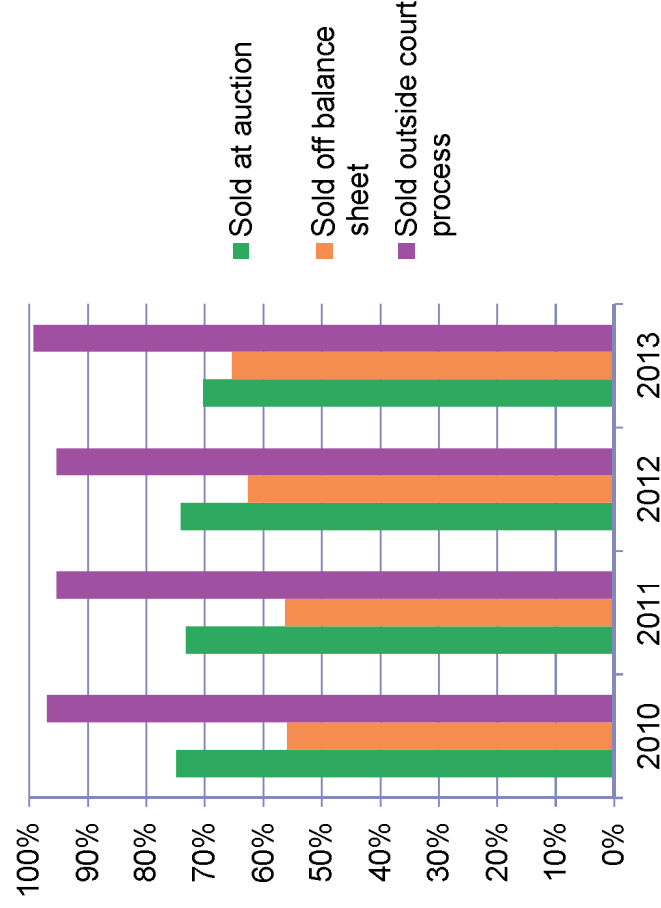
# Foreclosure Data Shows Little Improvement in Asset Disposal Process

Distribution of Outcomes by Year of Start of Foreclosure



Source: Originator/servicer data, Moody's calculations

Recovery Rates of Different Property Sale Methods



Source: Originator/servicer data, Moody's calculations

Inefficiencies in Property Foreclosure Process Will Adversely Affect Timing and Amount of Recoveries

# Transaction Assumptions Take Into Account Expected Performance

- » Expected loss assumptions incorporate performance observed during 2009 crisis
- » Downgrade of transaction counterparties may impact transactions
- » Decrease of Local Currency Ceiling may impact ratings

Performance Impact is Expected to be Limited;  
Counterparty and Sovereign Creditworthiness Changes may Have an Impact

# Government Programmes Continue to Support RMBS Issuance

- » RMBS issuance to continue in line with previous years
- » Increase in interest rates and tightened underwriting guidelines reduce origination volumes
- » Growth of investor interest depends on market conditions

Current Market Conditions Slow Entry of Third-party Investors Into the Market

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## Questions?



# Closing Remarks



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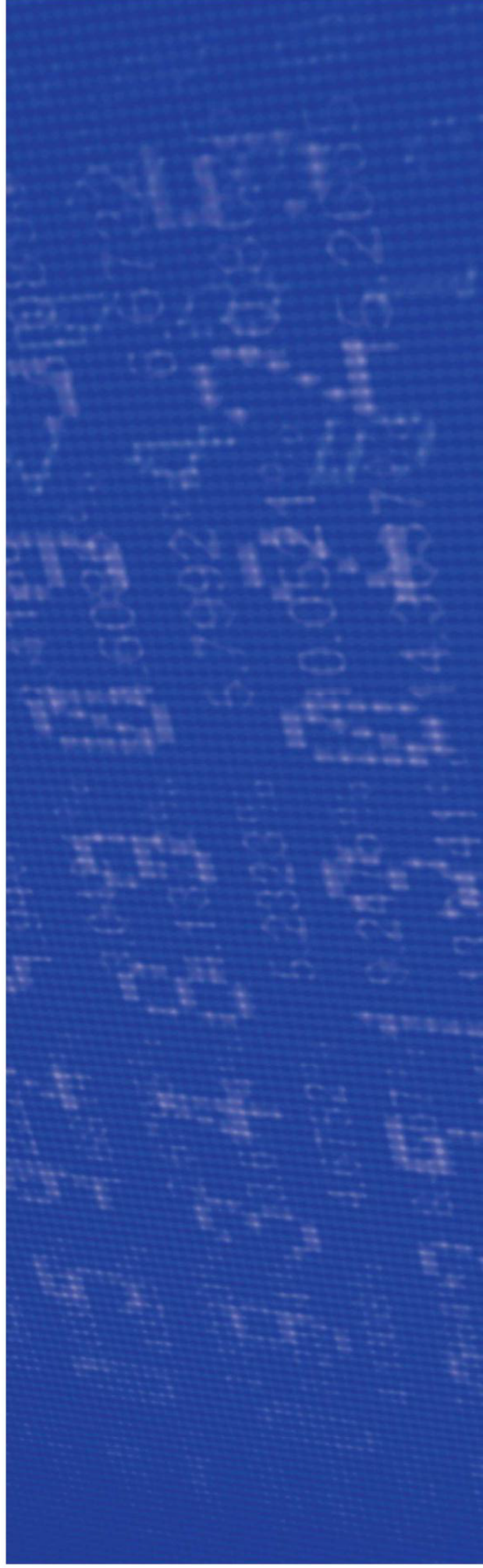
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