



Key Considerations When Rating Russian Securitizations

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Structured Issues Rated By S&P In 2007

Issuer	Collateral	Closing date	Originators	Issue size	Senior tranche rating
Red Arrow International Leasing PLC	Leasing payments	30 March 2006	Magistral Finance, Investment Partner и FC Incorporated Depositors	RUR 2.7 bln	BBB+
RUSSIAN CONSUMER FINANCE No. 1 S.A.	Consumer loans	4 April 2006	Russian Standard Bank	Eur 300 mln	BBB/ Watch Positive
Taganka Car Loan Finance PLC	Auto loans	23 October 2006	MDM Bank	USD 403.1 mln	A-
Russian Car Loans No. 1 S.A.	Auto loans	22 November 2006	Russian Standard Bank	Eur 220.1 mln	A-
Dali Capital PLC	Mortgage loans	21 December 2006	Sovfintrade Ltd	Eur 140,9 mln and RUR 864 mln	BBB+



Russian Securitization Market Set For Growth In 2007

- **Strong growth of underlying asset base**
- **Funding diversification**
- **Equity relief**
- **Better matching of assets and liabilities**
- **Decrease in funding costs**



Key Risk Factors Under Consideration

- **Credit**
- **Structure**
- **Country**
- **Legal**



Credit Analysis: Default Rate

- **No historical record of Russian assets performance in an economic downturn**
- **Modeled default rate is based on:**
 - Pool performance in today's favourable environment
 - Performance of a relevant asset class in other countries in stressful economic conditions
- **The approach varies per an asset class**



Credit Analysis: Impact Of Foreign Currency Risk

- **Rouble depreciation risk raises the default rate**
- **Currency risk carried on by the underlying obligors cannot be hedged**
- **Depreciation scenarios are determined for each stress level**
- **The impact of depreciation risk depends on the assets particularities**



Credit Analysis: Recovery Rate

- **We give low or no credit to recovery, dependent on the asset class and stress scenario**
- **Reasons:**
 - Limited number of precedents of in-court foreclosure
 - Risk of the government providing debt relief to the obligors in a mass default scenario
- **Cash recovery via loan restructuring is taken into account for mortgage loans**



Structural Risks: Commingling Risk

- **Commingling occurs when the cash belonging to an SPV is mixed with the cash belonging to a third party**
- **This risk is important in Russian transactions and mainly related to the Russia-based counterparties having low or no ratings**
- **Servicer default is covered by the availability of a back-up servicer**
- **Bank account providers should be rated adequately to support senior notes rating**
- **Special coverage should be provided against the risk of a temporary disruption in the banking system for notes rated A- and higher**



Structural Risks: Foreign Currency and Interest Rate Risks

- **FX and interest rate risks are inherent in Russian transactions**
- **Fully or partially hedged with swaps provided by foreign banks**
- **Swap counterparty has to be adequately rated to support the ratings of the notes**



Country Risks

- **Country risks are always taken into consideration when modeling the stress scenarios:**
 - the magnitude of economic recession
 - the state of the banking system
 - the likelihood of government providing debt relief to borrowers
 - the exchange rate volatility
- **Transfer and convertibility risk has to be covered for tranches rated at “A” and higher**
- **The risk of direct government interference was not a constraining factor for any of the rated Russian securitizations**



Legal Risks

- **True sale is achievable**
- **No concept of a pledge of monetary assets in the Russian law amplifies commingling risk**
- **Limited practice of foreclosure lowers the expected recovery rate**
- **Tax implications of securitization are always examined and may have a direct impact on ratings**



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