

Positioning Russian and CIS Securitisation Deals in Global Credit Markets

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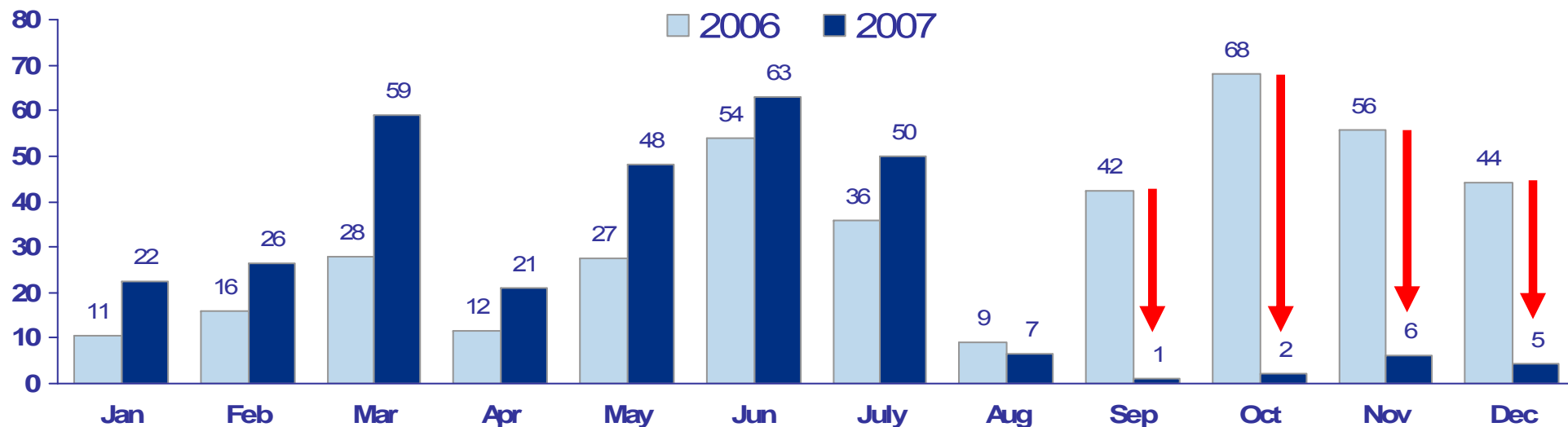


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1. Review of ABS Markets in 2007

2007 European ABS – The Good, The Bad and The Ugly

European Primary ABS Issuance (€ in Billions)



The Good: 1H07

- Record European ABS issuance
- RMBS primary issuance up by 79%
- Russian ABS issuance up by 25%
- First domestic MBS issue of AHML

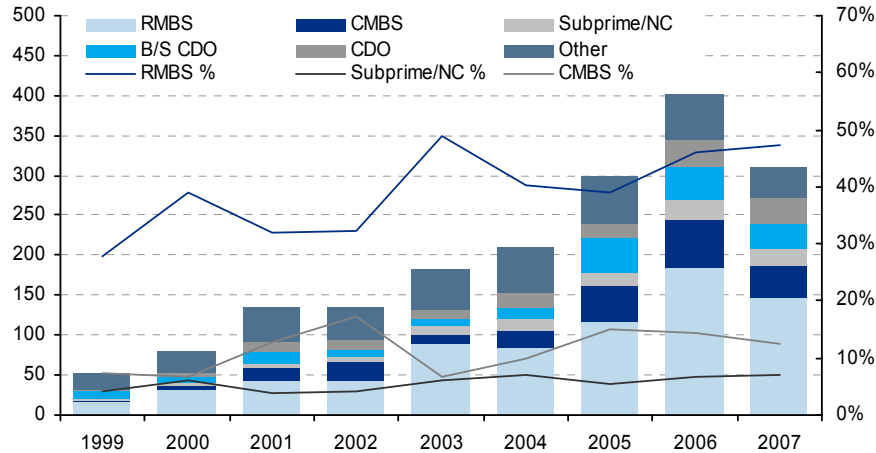
The Bad and the Ugly: 2H07

- US subprime crisis triggers liquidity crunch
- Investor loss of confidence and spread widening
- Little public ABS issuance after the summer
- Huge pipeline of postponed deals

European ABS Market Overview

European Securitisation Annual New Issuance

(€ in Billions Equivalent)



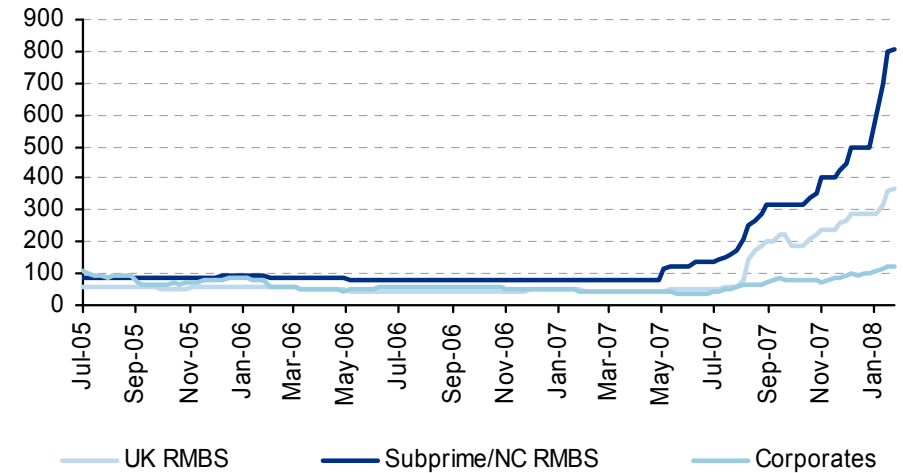
Source: Citi.

Late 2007

- Only a handful of publicly marketed deals surfaced towards the end of 2007 (usually partially pre-placed)
- A number of deals closed but were retained by the originators to be used for repo with the ECB

Secondary RMBS Spreads – € BBB

(5-year, bps over EURIBOR)



Source: Citi.

MBS Issuance has Become More Expensive

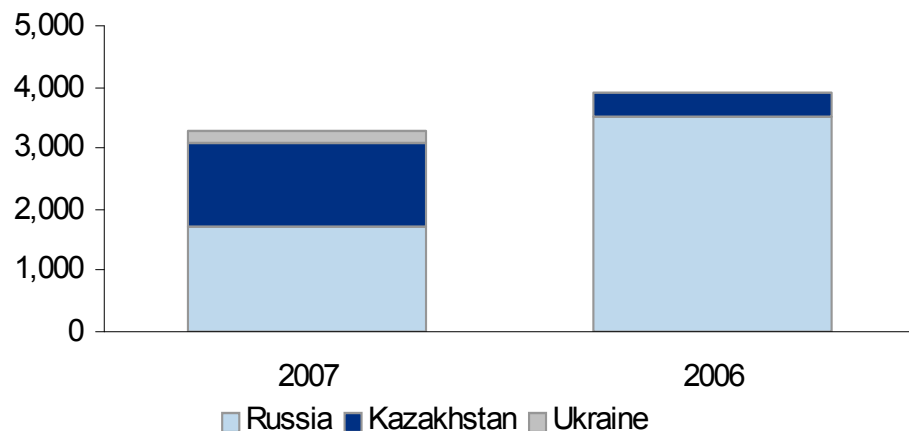
- Widening in secondary spreads
- Increased volatility in spreads
- Forced sellers (Banks, SIVs, etc.)
- Limited liquidity
- Volatility is set to remain in the near-term

2007 Russia and CIS ABS Market

Russia and CIS public ABS Issuance in 2007 decreased slightly but overall securitisation activity in the region increased significantly.

2006 and 2007 ABS Issuance (US\$ in Millions)

	2007	2006	% chg
Russia	1,702	3,505	(51)%
Kazakhstan	1,400	400	250%
Ukraine	180	0	NM
CIS Total	3,282	3,905	(16)%



Data source: www.cbonds.info, pre-sale reports and other public sources.
Exchange rates may include estimates. "NM" = Not Meaningful.

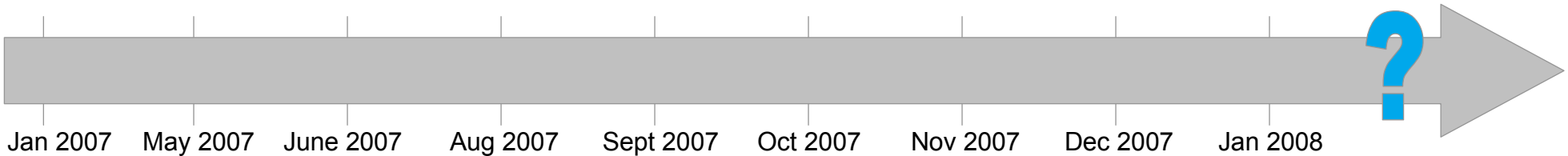
Highlights

- Public Deals
 - Russia: 7
 - Kazakhstan: 3
 - Ukraine: 1
- First RMBS deals from Kazakhstan and Ukraine
- First tranching Russian domestic RMBS deal by AHML
- Domestic and International Investor base for Russia and CIS deals continued to develop in 1H07
- Huge pipeline of postponed deals
- Increased activity for private and warehoused transactions (in excess of 40 warehouse or pipeline transactions)

2. The Credit Crisis

Timeline of the Credit Crisis

Uncertainty remains as to when the market will come back and what the new market will look like.



- Signs of stress in the US subprime market
 - Significant decline in the ABX Indexes
 - UBS shuts down internal hedge fund Dillon Read
 - Large bid lists of securities for sale by banks trying to meet margin calls
 - Rating Agencies downgrades of subprime and second lien MBS
 - S&P downgrades/puts on Watch Negative SIV-lites
 - ECB intervention provides €95 billion to Eurozone banking market
 - ECB injects fresh cash into markets (total reaches €250 billion)
 - Banks announcing large subprime losses
 - Banks commit to support SIVs
 - Monoline insurers under scrutiny
 - Impact on real economy ?
 - Stocks market volatility
 - US Feb cuts rates sharply



Source: The Digerati Life.

3. Outlook for ABS Markets in 2008

European Securitisation Market 2008 Outlook

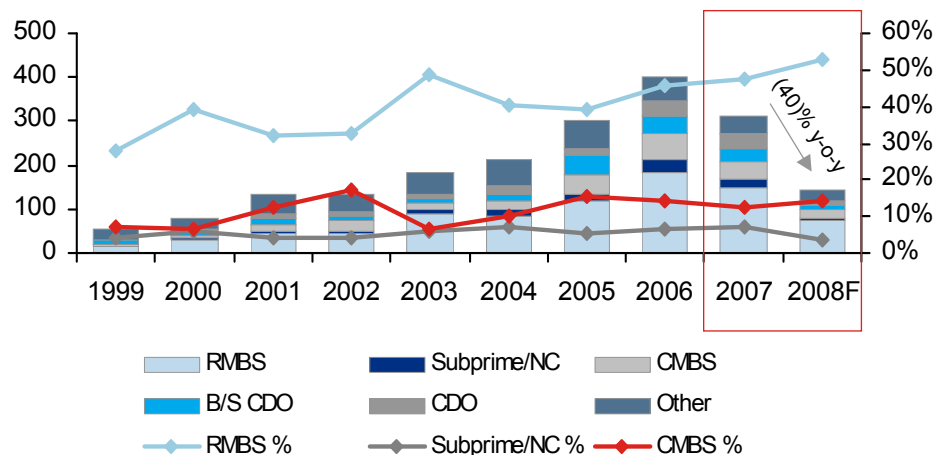
Citi forecasts that in 2008 European issuance could fall to approximately €125–175 billion given decreased investor demand, wide spreads and reduced lending volumes.

Key Primary ABS Supply Trends in 2008

- Pressure from selling weighing on the secondary market
 - We expect the selling pressure to continue for a good while
- We expect primary market issuance 2008 at approximately €125–175 billion or 45.8% of 2007 level
- There are several reasons for this:
 - Marked decrease in loan origination, particularly residential mortgage lending in the UK and Spain
 - Worsening fundamentals, as banks are withdrawing liquidity
 - Significant market volatility and negative news flow

European Securitisation Annual New Issuance

(€ in Billion Equivalent)



Source: Citi.

- ▲ Positive factors might eventually support issuances:
 - Redemptions, assets sales and lower new lending volumes that should start freeing up banks' balance sheets
 - New lending at wider margins
 - The comeback of certain products later in the year

Issuance across all asset classes expected to be lower in 2008

We expect 2008 to be a challenging year given the expected reduction in supply. Should demand emerge, interest rates fall and spreads come in more quickly, supply could come back sooner.

Publicly Placed European Securitisation Issuance – 2008 Forecasts by Asset Class (€ in Billion Equivalent)

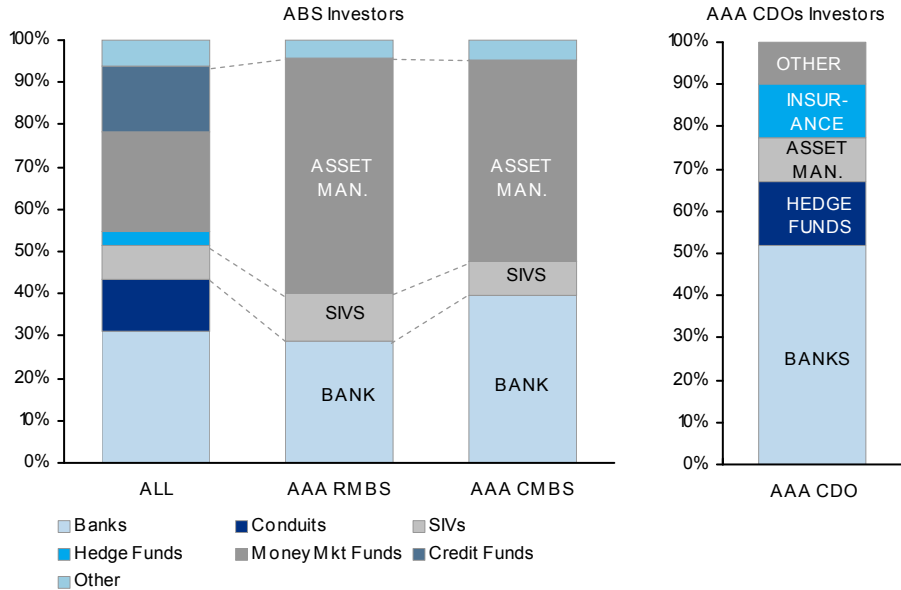
| | 2008 | 2007 | 2006 |
|-------------------------|------------|------------|------------|
| RMBS | | 147 | 185 |
| Subprime/NC RMBS | | 22 | 27 |
| UK Buy-to-let RMBS | | 7 | 9 |
| Total RMBS | 80 | 176 | 221 |
| Autos | | 12 | 11 |
| Consumer loans | | 3 | 10 |
| Credit cards | | 0 | 3 |
| Leases | | 4 | 6 |
| Total Consumer | 12 | 19 | 30 |
| CMBS | 20 | 39 | 58 |
| Whole Bus. (incl. Pubs) | | 4 | 4 |
| Infrastructure/Proj Fin | | 3 | 5 |
| State (originated) | | 3 | 7 |
| Other | | 2 | 3 |
| Total PFI | 10 | 12 | 19 |
| Balance Sheet CLOs | | 32 | 40 |
| Arbitrage CDOs | | 32 | 35 |
| Total CDOs/CLOs | 20 | 64 | 75 |
| TOTAL | 142 | 310 | 403 |

Source: Citi.

Who will be investing in 2008?

A number of investors suffered large losses due to large concentrations in subprime and CMBS. We expect new investors to enter the market in 2008 and the overall investor base to look different than in prior years.

Investor Base Pre Crisis Breakdown



Source: Citi.

- Banks: approximately 45% of the investor base
- SIVs: 9–14% of AAA demand
- Asset managers: 45% of AAA demand
- Hedge funds, credit funds, conduits

Investors in ABS Going Forward

- The traditional investor base has been sitting on the sidelines with some trying to hedge or sell
 - Redemptions
 - More attractive spreads
 - More selective participation resulting in higher price differentiation between each deal
- Higher spreads are attracting new investors:
 - Pension funds
 - Hedge funds
 - Insurance companies
 - Sovereign wealth funds
 - Money market funds
- New investors still have to become familiar with the underlying assets and structures

Russia and CIS ABS Market 2008 Outlook

The market outlook for European issuers, including Russian & CIS issuers remains volatile. Issuers must be positioned to move quickly as opportunities present themselves.

Timing

- Near term markets remains volatile, hope to see stability then improvement through 2008
- Huge pipeline of warehoused and mandated deals across region (40+)
- Russia and CIS public deal flow likely to follow a market re-opening by Western issuers
- Likely to see “quieter” private placements or reverse inquiry trades
- Deals must be done quickly as opportunities to issue present themselves

Market characteristics

- Opportunism
- Better access to “better known” names or repeat issuers
- Smaller and more conservatively structured transactions
- A greater range in pricing among issuers
 - Driven by factors such as asset class, ratings, experience of the issuers and the servicers, country, structural features
- Higher degree of analysis by investors and longer approval times

4. Positioning of Russian and CIS Deals in 2008

Challenges for Russia and CIS Issuers, What Has Changed?

In the global ABS scene, Russian & CIS issuance is relatively immature. Therefore many of the challenges facing issuers going forward remain the same as for the pioneers of the past few years.

- The new challenge faced by ALL ABS issuers is a shift in the “balance of influence” in the market in favour of investors
 - Investors will be more selective
 - A return to more fundamental analysis by investors
 - Due diligence on underwriter / servicer (quality and experience)
 - Historical and expected asset performance (data may be requested for investors’ own modelling)
 - Deal structure and features (keep it simple)
 - Greater price differentiation between deals will result
- Relative to more established Western jurisdictions, many challenges for Russian & CIS issuers remain the same
 - The Russian & CIS ABS markets are relatively immature though great progress has been made
 - Demonstrating relative value and quality of Russian & CIS ABS
 - Collateral performance
 - Underwriting practices and servicing experience
 - Regulatory and legal framework
 - Macro-economic outlook

Positioning Russian and CIS Deals – Demonstrating Relative Value

A more thorough relative value and credit analysis by investors means Russian & CIS issuers will require more intensive marketing and a real attitude to “sell” the deal.

- Investors will focus more intensively on the following key factors and price in for the risk on a relative value basis
 - Stable macro-economic outlook
 - Performance of banks through the market volatility
 - Asset quality and underwriting
 - A good understanding of the market (i.e. mortgage and housing market, consumer lending market)
 - Adherence to strong underwriting standards
 - Low loss and delinquency experience
 - Servicing
 - Diligent servicing
 - Adequate staffing and experience
 - Capacity to deal with deterioration in the portfolio
 - A legal and regulatory environment that continues to support ABS
 - Bankruptcy and insolvency regime
 - Tax regime
 - Enforcement
 - Asset quality
- Russian & CIS issuers are well positioned on many of these factors

5. What Issuers Can Be Doing Now

What Issuers Can Be Doing Now?

As market conditions remain volatile, issuers must re-assess their expectations. There are a number of things issuers can be working on to enhance their attractiveness to investors.

What issuers should do:

- Assess (honestly!) your strengths and weaknesses relative to peers
 - Underwriting and servicing standards
 - Asset characteristics and performance
- Sell the strengths and mitigate the weaknesses
- Have realistic price expectations for securitisation funding
 - Prices will remain wider than before the credit crunch
 - Expect price differentiation between each deal
 - Deals will need to be more conservatively structured to appeal to investors
 - Price loans to borrowers accordingly
- Warehouse assets, an important interim funding source and:
 - A great way to build knowledge, discipline and experience
 - Positions you to quickly react to opportunities in ABS markets (reverse inquiry and private placement)

What issuers should avoid:

- Aggressive origination practices (no subprime)
- Over engineered deal structures

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