



BNP PARIBAS
CORPORATE & INVESTMENT BANKING

Key issues in structuring Russian and CIS transactions

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Impact of asset trends and investor requirements on structuring

- Impact of asset trends and investor on structuring:
 - driven by Central Bank regulations (ex. ratio of debt per borrower) the first CLO type of transaction and the first synthetic transaction have come to the market
 - diversification of assets following development of lending in Russia (SMEs, credit cards etc)
- In general, investors and originators became more familiar with legal structure and framework
- However, biggest influence on the structuring is stemming from financial market 'dislocation'
 - direct and indirect consequences to the rating process and performance of bonds

Investors preferences factors	Structural considerations
■ Investors are looking at homogeneous assets with good and stable performance	■ Strong eligibility criteria ■ No non-conforming or non-performing assets
■ Certain assets are short term also due to high prepayment levels while many issuers prefer longer WAL	■ Certain deals included revolving period in the structure
■ Currency risk	■ Given assets are mostly RUR denominated, to reduce cost of hedging some tranches might be denominated in Roubles
■ Market factors	■ To mitigate certain risks PDL mechanism introduced
■ Indirect impact for non mortgage assets	■ Non mortgage assets are becoming more interesting



Rouble denominated assets vs. other currencies

Cost and other considerations

- Liquidity in foreign currencies became scarce which resulted indirectly in more expensive Rouble interbank funding in Russia
- Investors investing in Russian ABS are those more familiar and eager to take Russian exposure, thus could potentially be more interested to invest in Rubles directly
- Swap prices are higher and more volatile especially for longer term where activity is very limited - influenced by a liquidity lack
- **Demand from investors is a major factor in decision process for currency**

Issuance in EUR/USD	Issuance in RUB
<ul style="list-style-type: none"> ■ Demand: high prior to market disruption. Investors are a combination of pure EM investors and ABS 	<ul style="list-style-type: none"> ■ Demand: growing demand from domestic and off-shore investors familiar with Russian risk
<ul style="list-style-type: none"> ■ Capacity of the market: Historically large volumes and large buckets from investors 	<ul style="list-style-type: none"> ■ Capacity of the market: Growing capacity due to increasing familiarity with structures and increasing liquidity from certain type of investors
<ul style="list-style-type: none"> ■ Tenors: historically longer tenors 	<ul style="list-style-type: none"> ■ Tenors: the market is short term and not many investors are interested in long tenors
<ul style="list-style-type: none"> ■ Interest rate environment: More stable 	<ul style="list-style-type: none"> ■ Interest rate environment : More volatile
<ul style="list-style-type: none"> ■ Credit margins: will depend on the risk appetite, familiarity of investors and above factors 	<ul style="list-style-type: none"> ■ Credit margins: will depend on the risk appetite, familiarity of investors and above factors

Cost example:

Gazprombank MBS Series 2001-1

EUR senior tranche A3 - 1mEURIBOR + 110

RUB senior tranche A3 – fixed 7.5%

Rouble denominated assets vs. other currencies (cont.)

Placement	Selective Deals	Currency	Total Issuance	Tranches in RUB			
				A	B	C	D
International	Red Arrow International Leasing Plc	RUB	RUR 13.730bn	Baa2/BBB- 12.570bn * coupon 8.4%	NR 1.030bn	NR 0.130bn	
Domestic	Specialized Mortgage Agent GPB-Mortgage	RUB	RUB 3bn	Baa2 3bn (15%) coupon 8%			
International	Dali Capital PLC (Gazprombank MBS Series 2006-1)	RUB/EUR	EUR 165.8m		Baa3/BB 518.0m (9.6%) coupon 8%	Ba3/B 346.0m (3.6%) coupon 11%	
International	Gazprombank MBS Series 2007-1	RUB/EUR	EUR 199m	A3/BBB+ 850m (15.5%) coupon 7.5%	Baa3/BBB- 311.8m (11%) coupon 7.75%	Ba2/BB- 329m (6.25%) coupon 10.5%	NR 329m coupon 12%
Domestic	First Mortgage Agent of AHML	RUB	RUB 3.294bn	A3 2.9bn (15.97%) coupon 6.94%	Ba1 264m (7.97%) coupon 9.50%	NR 130.8m	
	Republic of Chuvashia IFC Guarantee	RUB	RUB 1bn	Ba2			
Private	Transalp 2 Securities Plc	RUB	RUB 3,882m	Baa1 2.290bn (41%) coupon 10%	NR 1.592bn coupon 16.89%		
Private	LADA Car Loan Finance No. 1 Ltd.	RUB	RUB 2,975m	BBB 2,730m	BB 245m		
Private	Russian Structured Consumer Credit No. 1 S.A.	RUB	RUB 5,247m	BBB 5,247m			
Private	Russian Credit Cards No. 1 S.A.	RUB	RUB 12.500bn	Baa1 6.250bn	Baa1 6.250bn		
Private	Eurasia Credit Card Funding 1 S.A.	RUB	RUB 11.5 bn	Baa2 5.35bn			

* CE: Borrower VAT Tax Reserve, Borrower Tax Reserve, Borrower Reserve Account and Issuer Tax Reserve



Impact of changes in securitisation laws and regulations on deal structuring

- A number of draft laws has been introduced to amend the current legislation, designed to facilitate **domestic** and **offshore securitisation** of various assets in Russia
- The project attempts to introduce amendments to the **Civil Code, Securities Law, Insolvency Law, Banking Law** and the **Tax Code**
- The proposals include:
 - Introduction of a new SPV-like entity
 - Changes to the Russian Civil Code regulating factoring
 - Changes to the insolvency legislation to support a true sale
 - Express recognition of pledge of rights (receivables), facilitating future receivables as well as the pledge of wholesale receivables
 - Introduction of new types of accounts relevant to securitisation:
 - a pledge bank account and a nominal bank account
 - Expressly allowing (regulated) disclosure to the secured creditor and the beneficiary of information that constitutes bank secrecy
 - Amendments to the Tax Code exempting SFC from Russian profit tax on any income received in connection with its activity
 - Introduction of new concepts: 'representative of bond holders', 'general meeting of bond holders', 'subordination' (tranching) and of 'qualified investors'
- Certain changes were implemented at the end of last year
 - facilitating **recognition of future receivables**
- Suggested changes will make **true sale 'cleaner'** and ensure higher comfort for investors:
 - they will help to legally separate securitisation vehicles from originator assets in case of bankruptcy/insolvency
 - will create more certainty that sold assets will not be subject to adjustment or unwinding in case of insolvency of originator



Latest innovative structures in the market

- In terms of new ground by securitising new assets:
 - Credit cards transactions
 - Synthetic CLOs

- In terms of using a new structures:
 - Combination of EUR and RUR tranches
 - Use of balance guaranteed swaps comparing to rolling structures
 - Use of revolving period
 - Amortisation of reserve fund, pro rata amortisation when certain triggers are met
 - PDL mechanism

- Introducing securitisation to new jurisdictions in CIS:
 - Ukrainian and Kazakh existing assets transactions



The future of Russian securitisation

- Up to now rated transactions in the region performed strongly with overcollateralisation and credit enhancement level above target levels (Fitch). Certain transactions upgraded following Sovereign rating upgrade
- Economy is doing fine. Assuming investors' appetite recovers environment will continue to be stable
- Lack of demand and liquidity from international investors will result in growth of domestic transactions
- We have seen a shift from future flows to existing assets transactions following:
 - the development of the market,
 - clearer legal framework,
 - growth of retail lending,
 - improvement of sovereign rating and
 - greater understanding of the market.We think this trend will continue.
- Underwriting criteria will become tighter to allow better performance data (delinquencies and losses) and more homogeneous assets pools. Better performance will lead to higher investor's confidence
- Future flows became easier to structure as a true sale due to some changes in legislation and thus potentially new assets can be introduced
- More link to the Originator indirectly or directly
- Given current environment difficult to predict when the market will re-open, however there is a big interest for that kind of transactions in the region



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