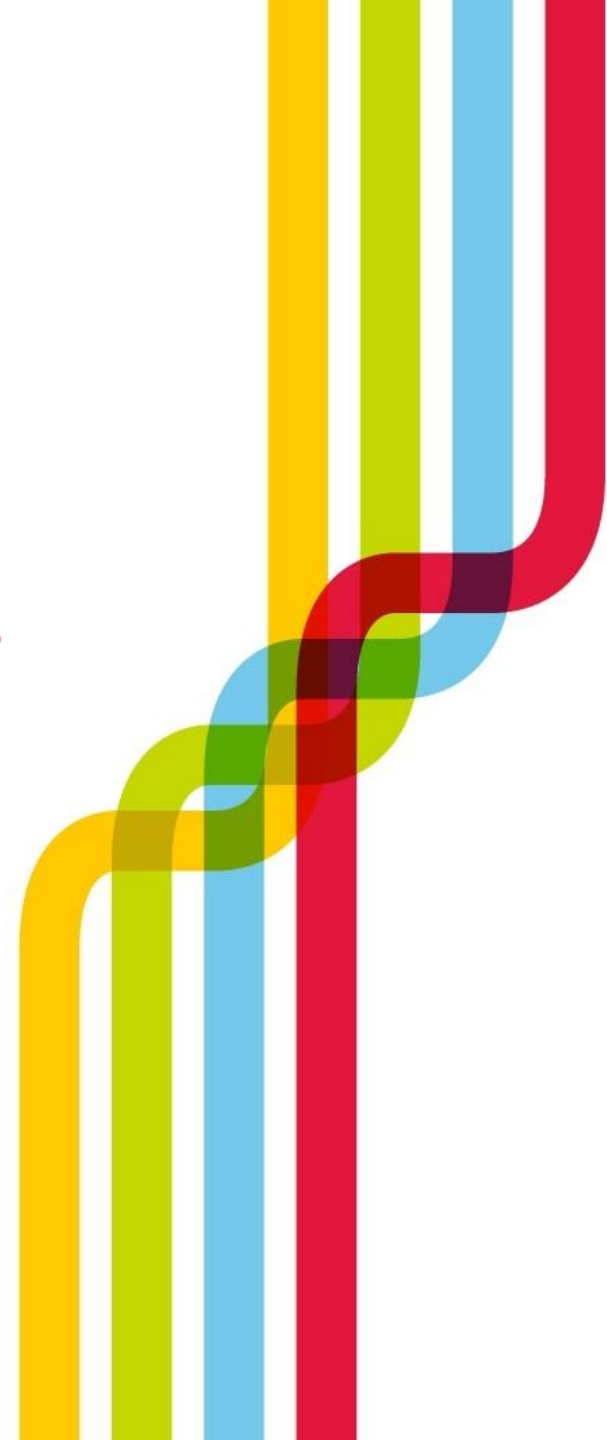


Trends of Russian securitization developments, the view of Standard & Poor's

**C.Bonds Conference
Moscow
October 9th 2014**

**Virginie Couchet
Standard & Poor's Rating Services
Structured Finance**



**Russia's New Securitization
Laws Could Boost Structured
Finance Issuance**

Some positive developments for the securitization market

- Overall, Standard & Poor's view of the Russian securitization market is positive and the prospects of the local market have been enhanced by the latest developments in securitization legal framework.
- Certain legal issues addressed in the latest laws are key to securitizations, nevertheless they are yet to be tested in the market.
- This could significantly improve Russia's legal securitization framework and should provide opportunities for new and existing issuers to securitize new types of transactions using a broad range of non-mortgage assets.
- Nevertheless such positive developments depend in part on the interpretation of some of these new provisions by different market participants.
- We view the contribution of the new laws to increased transparency, lower complexity and more comparability of the various Russian structured finance transactions as a positive factor for further developments in the Russian securitization market.

New types of collateral to be securitized, potential for different capital structures and new entrants to the securitization market

- **Potential for asset types like unsecured consumer loans, credit cards and loans to small and medium enterprises to be securitized backed by important origination volumes in the last years. Even if the pace of new origination has been declining for some of these assets, still the traditional funding tools (like deposits) may be lacking behind and securitization techniques could be seen as an opportunity by issuers in the domestic ABS and SME CLO markets. It will as well change the credit risk profile of securitizations towards shorter maturities transactions.**
- **Mortgages record high origination volumes experienced in the last years would still be associated with new RMBS issuances in the future. Even if high interest rates may constrain further increase in Russia's mortgage expansion, as the market still suffers from supply-demand mortgages imbalance, we think RMBS should still play a very active part in the Russian securitization market.**
- **In our view, such potential expansion of the securitization market could benefit less active market players or entities of more modest in size than top market participants and less complex transactions may be boosted as well by this new legal framework. It could address some of the legal and operational risks in transaction and favor more comparability between Russian transactions and the rest of jurisdictions.**

What does the law potentially improve?

In relation to S&P analytical framework for structured finance transactions, the new laws bring additional elements to the following:

- It broadens the scope of eligible collateral
- It creates new types of issuing vehicles, in addition to existing mortgage agents
- It confirms and clarifies the transfer of the assets to the issuer
- The issuer bankruptcy remoteness status is improved in various areas such as:
 - Restriction on voluntary reorganization and liquidation
 - Debt limitation
 - Technical insolvency
 - Limitation of recourse
 - Bankruptcy petitioning

What does the law potentially improve? (continued)

- Clarification and extension of the notes collateral concept
- Extra protection for noteholders rights
- Special transaction bank accounts

We understand several of the above innovations need to be clarified before practical implementation. Generally, we still need to see how such new framework will be interpreted by the market and how the new provisions will combine with existing legislation.

In addition, investor's confidence in the new legal framework will be key to further strengthen the securitization market.

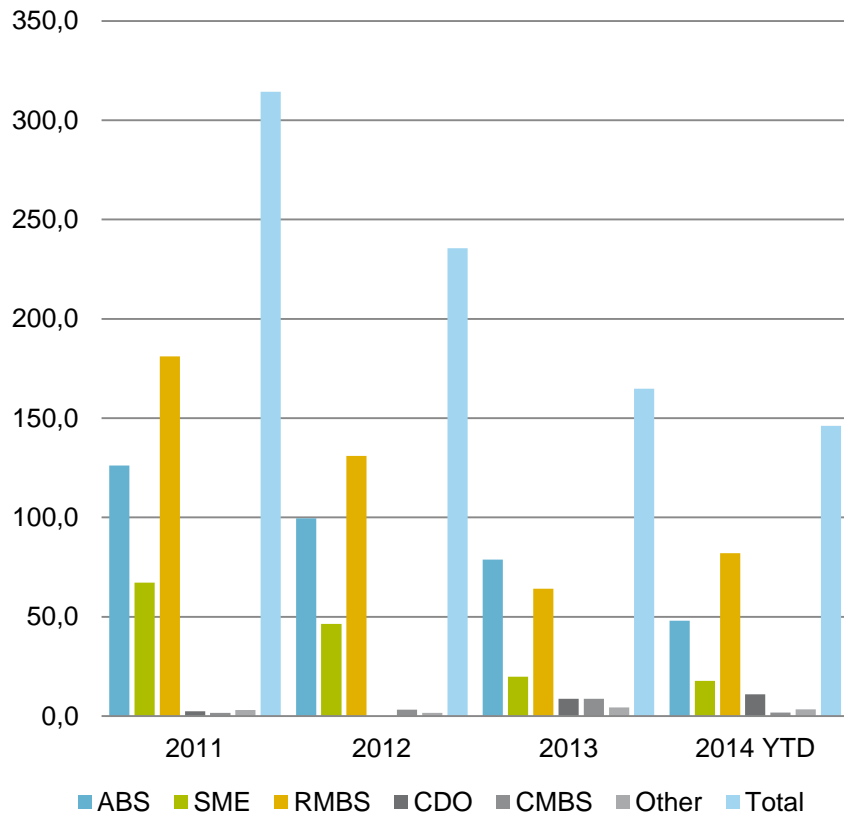
**The Russian securitization market
performance and other jurisdictions
comparisons**

Performance of existing Russian structured finance transactions rated by S&P

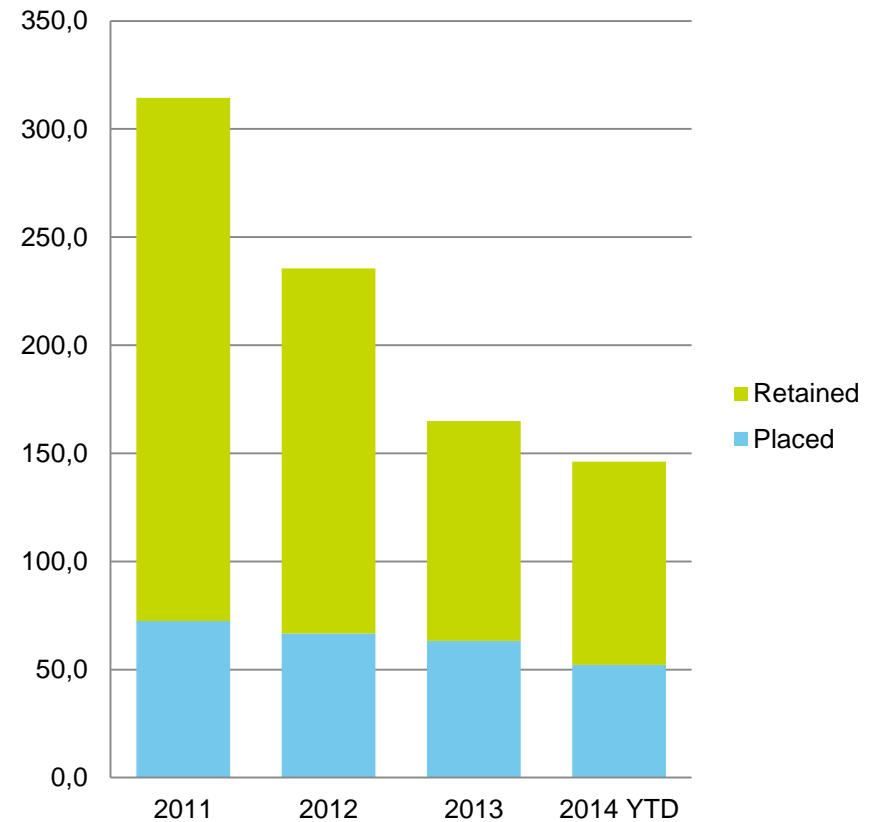
- **Structured finance transactions rated by S&P have shown a steady performance throughout the crisis. Even if the Russian securitization market is still young compared to other jurisdictions, it has proven to be resilient.**
- **Downgrades were mainly due to sovereign rating actions and associated financial institutions ratings movements rather than performance related issues.**
- **The expected performance of structured finance transactions rated by S&P incorporates our macroeconomic and sector outlook expectations. In particular, while we expect weaker economic performance and a slowdown in household income growth amongst other things, our assumptions incorporate potential macroeconomic and sectors adjustments as well as observed asset performance in these securitization (i.e. the 2008-2009 crisis and its impact on house prices, unemployment etc...).**
- **The credit analysis (levels of expected losses at each rating level) and each transaction structural features is reflected in the levels of credit enhancement of existing structured finance transactions.**

Brief overview of European structured finance market based on S&P rated transactions

Breakdown asset types European issuance (euros bn)



European Securitization Issuance (euros bn)



Brief overview of European structured finance market based on S&P rated transactions / Issuance

- **Retained transactions still account for the majority of the transactions (64% retained vs. 36% placed transactions)**
- **RMBS transactions have increased while there were less ABS issuances. Increasing incentives for non-core RMBS have returned (investor placed Irish RMBS closed in Q4 2013).**
- **Auto ABS transactions have increased significantly with German and U.K. transactions leading the tables.**
- **On the other hand SME CLO transactions that were traditionally issued out of the peripheral countries (like Spain and Italy) have decreased mainly due to the scarcity of collateral available for securitizations. This type of transaction benefits from official support that is yet to be materialized in new issuances.**
- **CMBS issuance jumped since 2013, although from a low level.**
- **Increasing leveraged loan originations support CLO issuance.**

Brief overview of European structured finance market based on S&P rated transactions / Credit performance

- ▶ **Defaults remain rare in most European asset classes**
- ▶ **Mortgage arrears are stable in many countries and associated with low level of RMBS prepayment rates**
- ▶ **Non credit related collateral factors like country and counterparty risk have continued to drive structured finance rating movements in the last years.**
- ▶ **ABS credit quality has mostly been robust with performance outliers concentrated in peripheral economies (Portugal and Spain) while German, French, Italian and U.K. collateral have shown a strong performance in terms of delinquencies and defaults.**
- ▶ **Real estate backing European CMBS continue to decline in value while the peak in CMBS loan maturities has now passed (peak in 2013).**
- ▶ **Structured credit collateral risk (SME CLO, corporate CLO) is falling resulting in fewer negative rating actions.**

**S&P methodology for rating structured
finance transactions**

Analytical framework for structured finance transactions:

Regardless of the jurisdiction of the assets being securitized and jurisdiction of the various entities involved in the securitization, S&P's rating process includes the following five key areas:

- Credit quality of the securitized assets;**
- Legal and regulatory risks;**
- Payment structure and cash flow mechanics;**
- Operational and administrative risks; and**
- Counterparty risks**

Conclusion

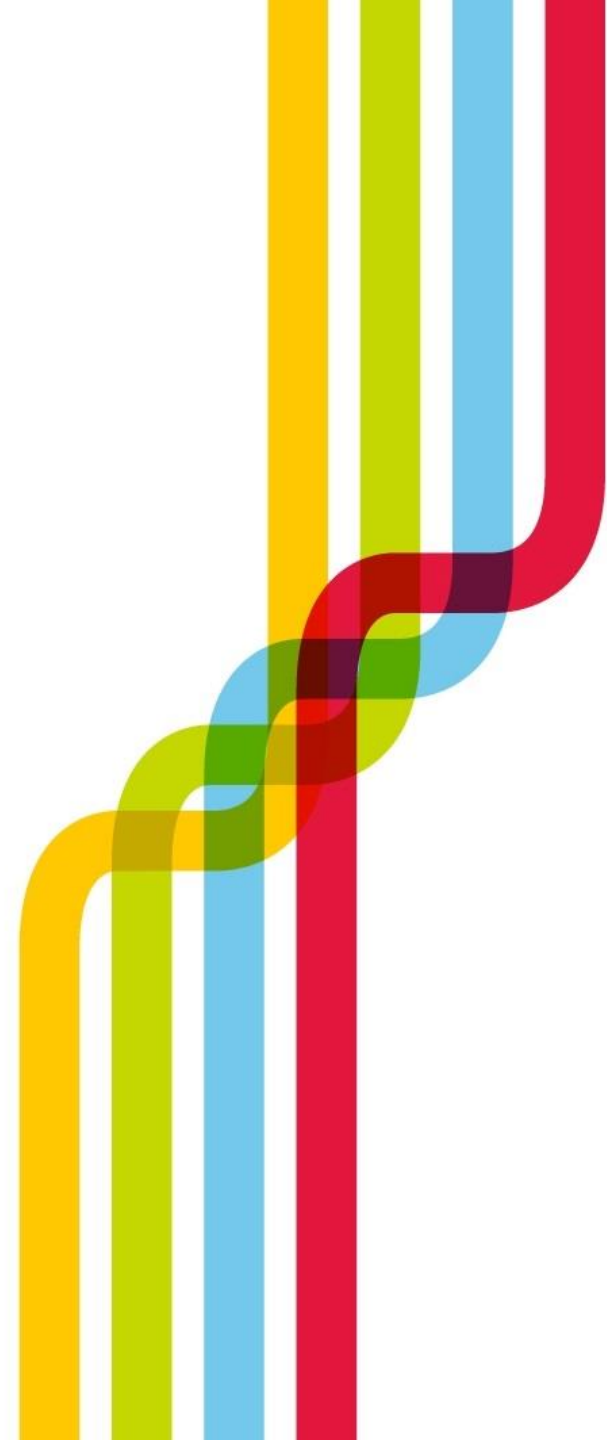
Standard & Poor's view of the Russian securitization market is positive in light of following:

- ▶ **Latest legal developments**
- ▶ **Growing base of securitizable assets and potential diversification in less complex transactions and more flexible structural features**
- ▶ **Resilient credit performance of securitized portfolios and commensurate structural features**
- ▶ **Investor interest supported through the refinancing options provided by the local authorities**

Nevertheless, the Russian securitization market face some challenges including the practical implementation of the new lawframe, investor's confidence in these latest developments to be further demonstrated, cost efficiency of securitization compared to unsecured bonds and announced evolution in the anchor investments banks supporting RMBS transactions.

Thank You

Virginie Couchet
Standard & Poor's Rating Services
Structured Finance
Tel: 34 913 896 959
virginie_couchet@standardandpoors.com





Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P, GLOBAL CREDIT PORTAL and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.