Moody's
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Moody's Approach to Rating Covered Bonds in Russia

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Agenda

1. Global Covered Bond Landscape
2. Moody's Rating Approach to Covered Bonds
3. Regulatory Developments
4. Covered Bonds in Russia
5. Russian Covered Bonds Rated under Moody's Covered Bond Method
6. Appendix: Monitoring Reports
7. Questions

1 Global Covered Bond Landscape

Covered Bonds

» Moody's rates 244 CB programmes in 27 jurisdictions globally; 217 in EMEA

» Over €2.8 trillion outstanding in Europe (largest private debt market segment)

» Widely favoured by regulation

» Basel III – possibly accepted as Level 1 b assets for liquidity coverage ratio

» Preferential regulatory treatment in The Bank Recovery and Resolution Directive (BRRD)

» Drivers for this success:

  – Flight to quality: despite spread widening, no covered bond has yet defaulted

  – Regulatory and central bank support

Global use and Importance of Covered Bonds is Growing

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Moody's Rating Approach to Covered Bonds

The Rating Method

» Covered bonds are debt instruments that have recourse to both

– the bank supporting the covered bonds (the “Issuer”), and

– a pool of collateral (the “Cover Pool”)

Covered Bonds Have Always Been a “Linked” Product Under our Rating Method

Two Step Rating Approach to Covered Bonds

» Moody's rating for a covered bond is determined after applying a two-step process:

1) We assess the rating of the bond using our Expected Loss Method;

And

2) The rating achievable under (1) may then be capped by our Timely Payment Indicator (TPI) framework

Covered Bond Ratings are Restricted to the Lower of the EL Rating and the TPI Cap

The Expected Loss

$$\text{EL} = \text{Issuer PD} \times \text{LGD}$$

	PROBABILITY OF ISSUER DEFAULT (A2)	LOSS ON COVER POOL	EXPECTED LOSS
Year 1	0.011%	12%	0.000%
Year 2	0.059%	12%	0.010%
Year 3	0.152%	12%	0.020%
	Cumulative Expected Loss:		0.030%

Aaa Rating Always Achievable Under the Expected Loss Method

TPI Framework

» TPI Framework was primarily introduced because of issuer discretion and refinancing risk

» A TPI gives the probability of timely payments being made to covered bonds following issuer default

» The TPI caps a covered bond rating to a certain number of levels or “notches” above the issuer rating

The Uplift a Covered Bond Rating has Over the Issuer Rating is Limited

TPI Table

Sponsor Bank Rating	Very Improbable	Improbable	Probable	Probable-High
A1	Aaa	Aaa	Aaa	Aaa
A2	Aa1	Aa1	Aaa	Aaa
A3	Aa2	Aa2	Aaa	Aaa
Baa1	Aa3	Aa3	Aa1	Aa1
Baa2	A1	A1	Aa2	Aa2
Baa3	A3	A2	A1	Aa3

3 Regulatory Developments

Covered Bonds not Subject to Bail-in in EU

Effects for different debt classes:

» Unsecured creditors may be bailed-in → higher default probability

» Covered Bonds will not be bailed in → lower probability of issuer default

» Capital contributions of unsecured creditors via bail-in will increase the likelihood of a going concern entity which is likely to continue to support to covered bonds

Issuer may Continue to Support Covered Bonds After SUR Default

Further Regulatory Topics

» Liquidity coverage ratio: This standard aims to ensure that a bank has an adequate stock of unencumbered high quality liquid assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

» Level 2 Status Confirmed if rated Aa3 or above, Level 1 Status now likely

» Capital requirements regulation (CRR): Increased transparency expected

» Further positive developments in legal and regulatory frameworks expected in core jurisdictions

» Majority of covered bonds are UCITS compliant; larger proportion are CRR compliant

» Increasing number of covered bond laws and asset classes in various jurisdictions

Increased use of Covered Bonds Encouraged

4 Covered Bonds in Russia

Mortgage Covered Bonds in Russia

» Mortgage covered bonds are debt instruments issued under MBS law

» Investors have recourse to both

  – the bank supporting the covered bonds (the "Issuer"), and

  – a pool of collateral (the "Cover Pool")

Russian Mortgage Covered Bonds are a Direct Liability of the Issuer

Similarities to Other Jurisdictions

- Covered bond investors have a direct claim against the issuer
- Upon issuer default covered bond investors have a preferential right on the cover pool
- Investors still benefit from an unsecured claim against the issuer

Covered Bonds are a Secured Bank Bond

Idiosyncrasies of Russian Covered Bonds

» Covered bonds accelerate automatically upon issuer insolvency

» Investors may accelerate covered bonds even earlier

» Each series of covered bonds is backed by a separate pool of mortgages

» Russia's country ceilings are A2 for foreign and A1 for local currency bonds

Uplift Over the Issuer Rating may be Restricted by Country Ceiling

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Russian Covered Bonds Rated Under Moody's Covered Bond Method

DeltaCredit’s Covered Bonds

» DeltaCredit’s senior unsecured rating from Moody’s is Baa3

» Series 09-IP/11-IP/12-IP and 13-IP are all rated Baa1

» Investors have priority over a pool of residential mortgages in case DeltaCredit default on the covered bond

The Covered Bond Rating is not Restricted by TPI or Country Ceiling

DeltaCredit's Series 13-IP

Collateral Summary

Size of Cover Pool:	RUB 7.37 million
Main Collateral Type in Cover Pool:	Residential Mortgage Loans
Main Asset Location:	Russia
Loans Count:	3,012
Borrowers Count	3,012
Currency:	RUB (100%)
WA Seasoning:	24 months
WA Remaining Term:	168 months
Interest Rate Type:	99.86% fixed 0.14% floating
"Committed" Over - Collateralisation:	0%
Current Over-Collateralisation	5.2%
Cover Pool Losses	44.25%
Collateral Score:	16.26%
Pool Cut-off Date:	27 January 2014

Source: Moody's Investors Service

Cover Pool Backing Series 13-IP

DeltaCredit's Series 13-IP

Overview	
Collateral Score:	16.26%
Asset balance:	7,368,053,805
Average loan balance:	2,446,233
Number of loans:	3,012
Number of borrowers:	3,012
Number of properties:	3,012
WA Remaining Term (in months):	167.75
WA Seasoning (in months):	23.51

Details on LTV	
WA current LTV (*):	58.4%
WA Indexed LTV:	n/a
Valuation type:	Market Value
LTV threshold:	80%
Junior ranks:	n/d
Prior ranks:	0.0%

Specific Loan and Borrower characteristics	
Loans benefiting from a guarantee:	n/a
Interest Only Loans:	0.0%
Loans for second homes / Vacation:	0.0%
Buy to Let loans / Non owner occupied properties:	0.0%
Limited income verified	0.0%
Adverse Credit Characteristics(**):	0.0%

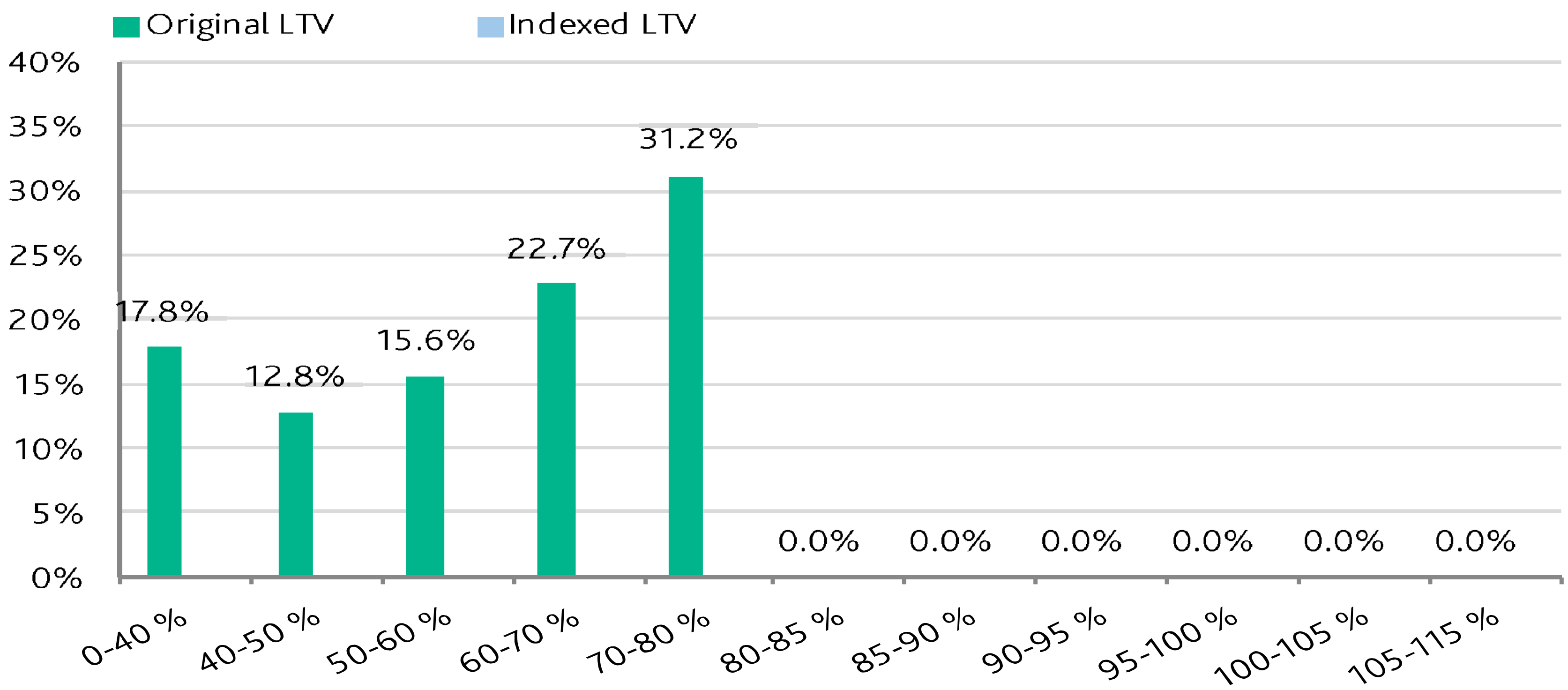
Performance	
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

Multi-Family Properties	
Loans to tenants of tenant-owned Housing Cooperatives:	n/a
Other type of Multi-Family loans (***)	n/a

Cover Pool Backing Series 13-IP

DeltaCredit's Series 13-IP

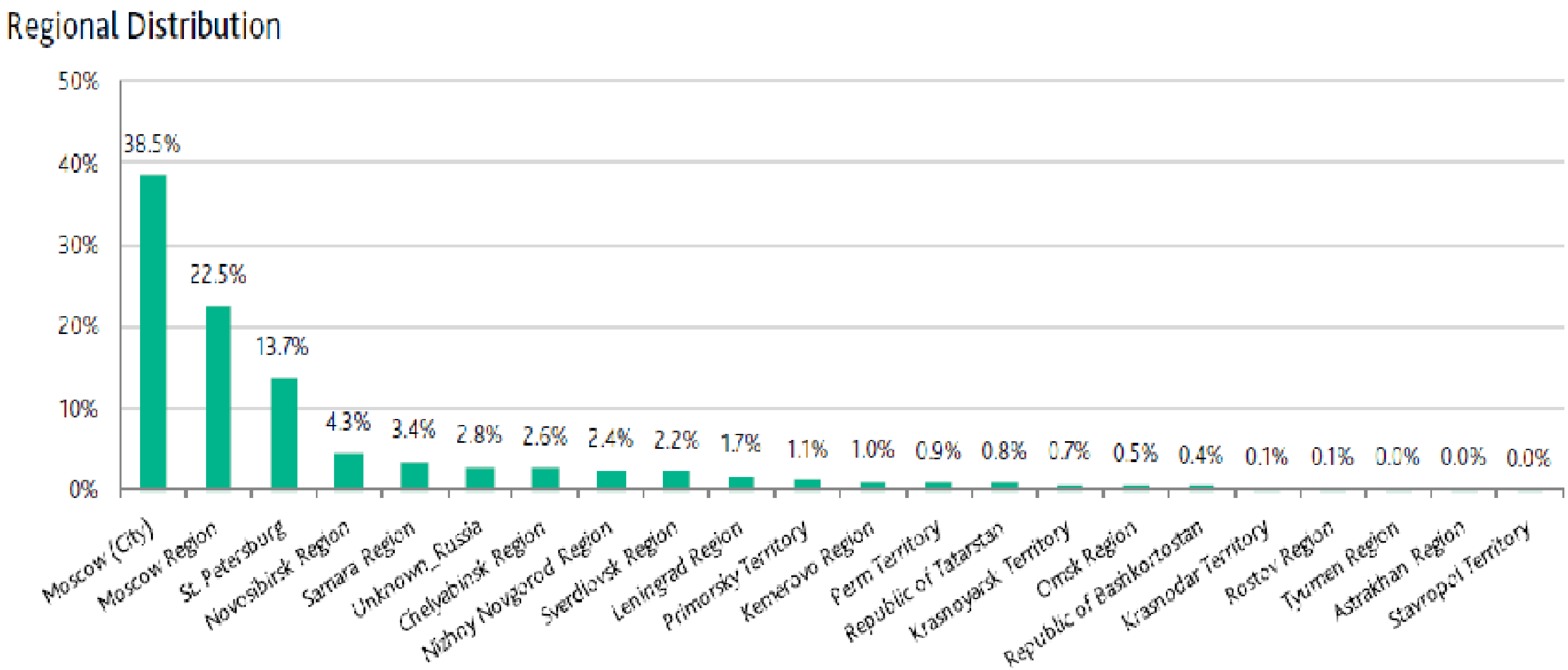
Balance per loan to value (LTV) Band



Source: Moody's Investors Service

Cover Pool Backing Series 13-IP

DeltaCredit's Series 13-IP



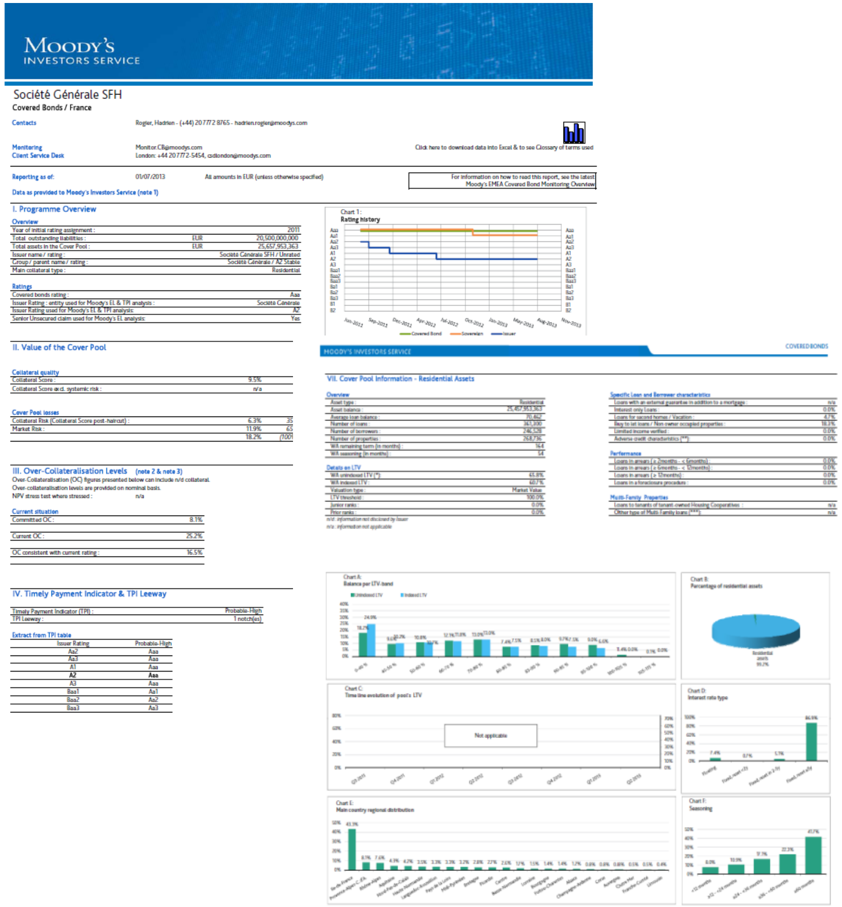
Source: Moody's Investors Service

Cover Pool Backing Series 13-IP

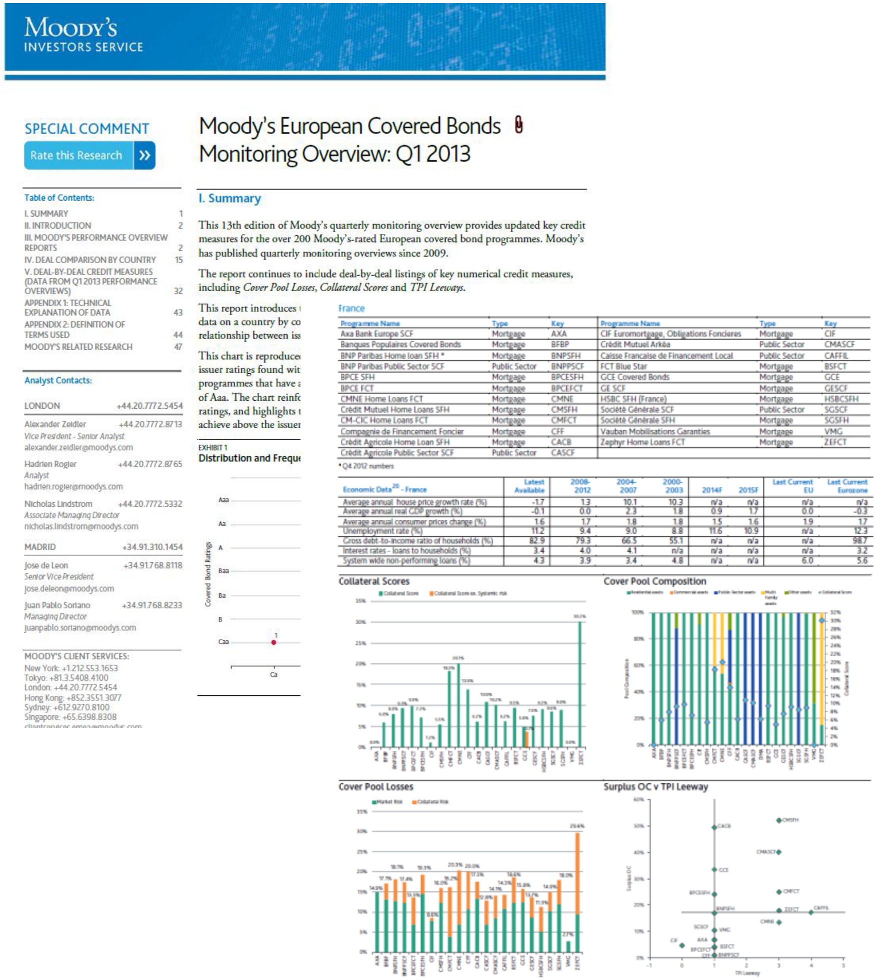
6 Appendix: Monitoring Reports

Follow the Credit Performance Through Quarterly Reports

Programme Performance Overview Report



Covered Bonds Monitoring Overview Report



7 Questions?

Lunch