

Rouble Bonds for Foreign Investors: **How to access the market?**

Stepan Amosov, ING Bank (Eurasia)

Russian Bond Congress
8-9 December 2005



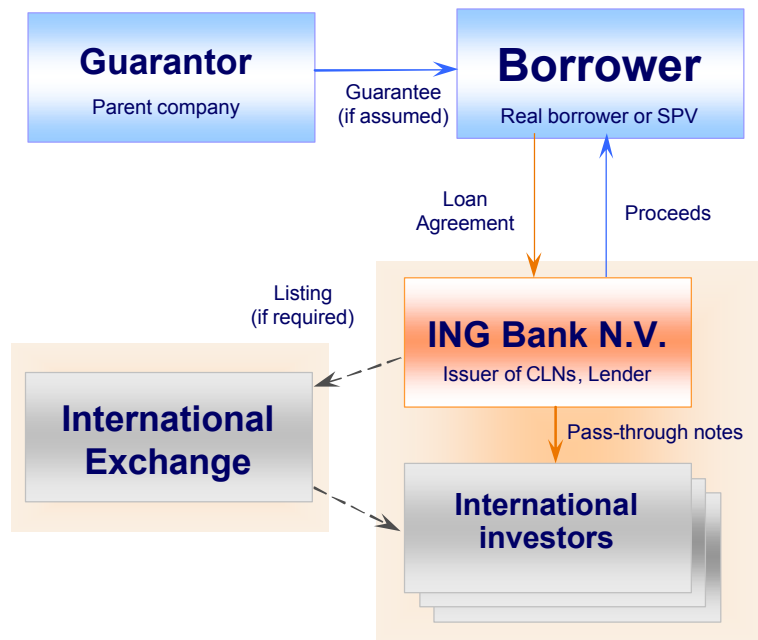
Local exposure: ways of delivery

ING has developed several ways of delivery of Rouble bonds exposure to international clientele:

- direct purchase – client opens an account with ING Moscow and trades directly on MICEX
 - trading in roubles
 - need to meet reserve requirements (2 % to be deposited with CBR for 1 year in case of corporate and municipal bonds, 15 % in case of government bonds)
 - tax issues for investors whose jurisdiction has no Double Tax Treaties with Russia
- pass-through notes linked to local assets (through London EM Sales Desk / SPG)
 - available for all clients
 - euroclearable
 - denominated in roubles but settled in USD
 - no risk of CBR and local infrastructure
 - favorable tax regime due to Double Tax Treaties between Russia and the Netherlands
- leveraged notes and TRSs and generic notes linked to local exposure
- unfunded credit derivatives – CDS, TRS, etc. (through London EM Sales Desk / Credit Derivatives Desk)
 - intended for clients who have ISDA-type agreements
 - the deal can be unwound through ING only

Transaction schemes: CLN

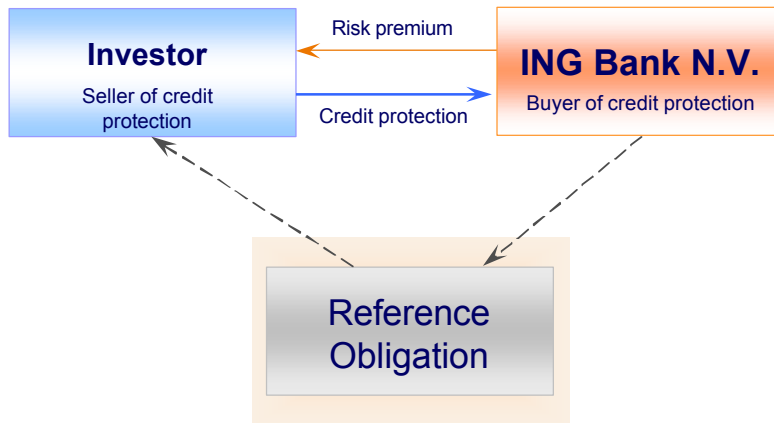
CLN issuance



If event of default occurs, the lender transfers rights of claim on underlying obligation to the note holders.

Transaction schemes: CDS

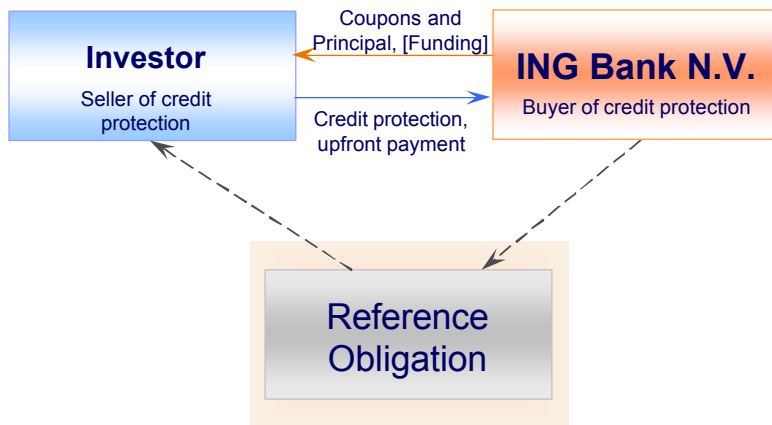
Credit Default Swap



If event of default occurs, the seller of credit protection pays agreed notional amount to the buyer of credit protection while the latter delivers reference obligation to the seller of credit protection or pays recovery amount.

Transaction schemes: TRS

Total Return Swap



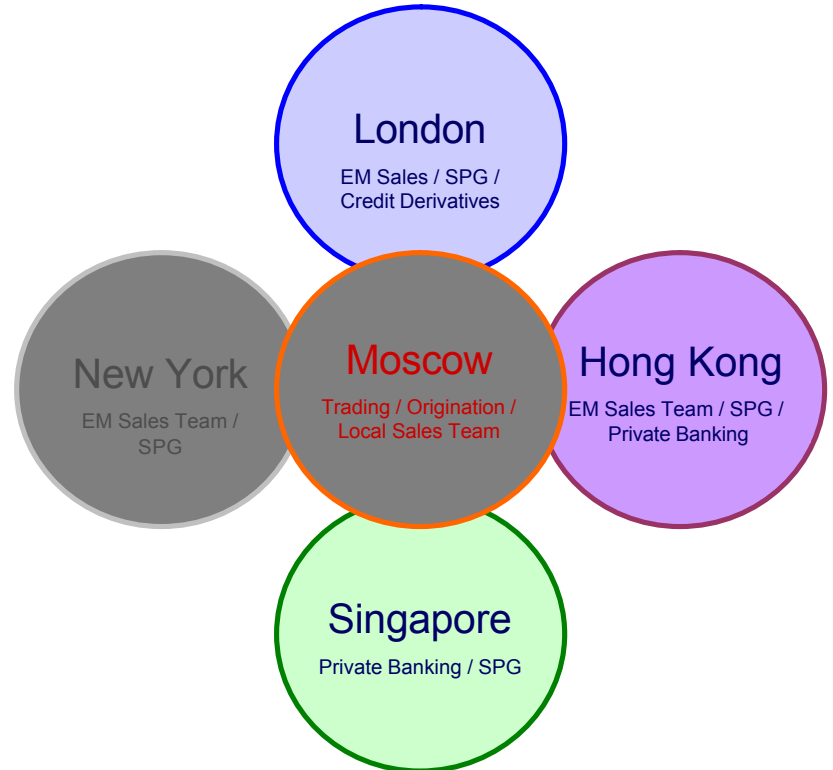
The seller of credit protection pays all cash flows received under the Reference Obligation to the buyer of credit protection while the latter takes the Reference Obligation credit risk. If event of default occurs, the seller of credit protection receives recovery value of the Reference Obligation and pays funding amount.

Who invests in rouble bonds?

Geography / Type

- Western Europe
 - financial institutions
 - private banking
 - hedge funds
- South East Asia
 - private banking
 - asset managers
- United States (secondary market only)
 - asset managers
 - hedge funds

ING locations



What names are acceptable?

- Blue Chips

- Gazprom
- Russian Railways
- Vneshtorgbank

- Second Tier

- consumer finance (Russian Standard Bank, Home Credit & Finance Bank)
- energy (Novatek)
- telecoms

- Local subsidiaries of foreign companies / eurobond issuers

- SUN Interbrew
- Finansbank
- TuraAlem Finance

Project Grid

- **Asset Repackaging** – a local asset can be repackaged by means of ING LRO programme to add the following features:
 - Provide access to a local bond for international investors in the form of a pass-through or total-return swap structure
 - Change the risk profile of an asset (strip a guarantee or embedded option, modify the coupon schedule, etc.)
- **Leveraged Structures** – leveraging of local exposure to enhance yields to investors.

The product typically has the following features:

- The structure DOES NOT create a credit relationship between ING and the Investor, making it available to any type of entity, subject to compliance procedures
- Full tradability through Euroclear/Clearstream on the basis of anonymity and small denominations provides opportunities to on-sell to clients

Project Grid *(continued)*

- **Credit Default Swap, First-to-Default Swap** – the product allows investors to trade the credit risk itself, adding the following features:
 - Transfer of credit risk (detached from market risk)
 - Typically unfunded position in local exposure; subject to internal (credit) approvals
 - No need to purchase/sell underlying asset
- **Credit-enhanced Notes** – issue of credit derivatives with a complex risk profile (for example, addition of an investors' put option or a guarantee from a local bank)
- **Collateralised Debt / Bond / Loan Obligations** – a set of local instruments can be combined into a basket with a number of subordinated CLNs issued on the back of this basket. The tranches then potentially are rated by an international agency to achieve good selling potential targeted at international investors

ING's Track Record

ING has worked on numerous structured capital market transactions in Russia, a number of which have been successfully implemented, often becoming industry firsts in their field

- **Russian Standard Bank (RSB) / IFC CLNs** – based on a local rouble bond with a partial IFC guarantee, ING created a derivative package of two CLNs with RSB and IFC risk. At inception, these CLNs offered a 700 b.p. gain over plain-vanilla RSB issues, and 150 b.p. over triple-A Rouble risk. Over 25% of the underlying issue has undergone “conversion” into the CLN through ING.
- **United Heavy Machinery (UHM) Loan Securitization** – Together with Alfabank and VTB, ING issued a \$30m CLN linked to a loan provided by ING N.V. London Branch to UHM. The euroclearable CLN delivered to Alfabank and VTB gave them the added comfort of having a tradable instrument on their books with minimum additional costs and delays.
- **RosBR quasi-sovereign ruble CLN** – ING issued a RUB 2.5bn CLN linked to a loan provided by ING N.V. London Branch to Russian Bank for Development (RosBR) under the guarantee of the Ministry of Finance of Russia.
- **Rostovenergo equity-linked notes** – As a result of the power sector restructuring program Rostovenergo was due to be split into separate generation, transmission and distribution companies. The notes allow investors to buy stakes in companies to be spun-off from Rostovenergo.
- **Gazprom bond-linked notes** – The notes are intended for investors who wants to open a position in domestic bonds of Gazprom. The notes allow investors to avoid difficulties specific for Russian market (i.e. settlement, reserve requirements etc.).

ING's Research Support



- Exhaustive range of research products: regular overviews (daily / weekly / quarterly), special sparks, market guide
- A new issue and on-going research coverage
- Wide coverage of local issuers (blue chips and second tier)
- Professional research team based in Moscow and London

Case Study: Sovereign Guaranteed RosBR CLN

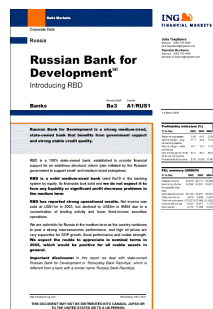


Key Terms

Borrower:	OA O RosBR
Issuer:	ING Bank N.V.
Guarantor:	Ministry of Finance of the Russian Federation
Principal amount:	RUR 2.5 bn
Placement date:	31 Mar 2005
Maturity:	29 Dec 2006
Coupon rate:	7.60 % pa
Coupon period:	Semi-annual
Issue Price:	100 %
YTM:	7.75 % pa
ING Bank Role:	Lead Manager, Sole Bookrunner

Borrower background

OA O RosBR (Russian Bank for Development) is a 100% state-owned bank established in 1999 by the Russian Federal Property Fund, with a mission to promote the investment policy of the Government of Russian Federation by providing medium- and long-term financing to Russian enterprises in priority industries of the economy.



- RosBR is rated at Ba3 by Moody's (as of 30 March 2005).
- RosBR maintains a very strong level of capitalization, with shareholder's equity covering 79.5 % of total assets in 2004.
- In December 2004 RosBR was rated the 20th Russian bank by the equity size by "The Banker" magazine.
- The bank's ownership structure and its development mission permit to conclude that the Government of Russia would be willing to offer a definite level of support to RosBR in case of financial distress.

Transaction details

- This was an inaugural capital markets transaction for RosBR, along its USD 50 m syndicated loan arranged by ING together with Citigroup in March 2005.
- The Ministry of Finance of the Russian Federation acting as an agent of the Russian Government provided ING Bank N.V. with a guarantee in the amount of RUR 3 bn covering the principal of the loan and the interest payments.
- It was the first fixed income issue linked to sovereign risk, denominated in rubles (but payable in USD) and traded on international markets (Euroclear / ClearStream).
- The issue was allocated between international institutional investors, several funds and a couple of local players.

Case Study: RSB RUB bond due 2010



Key Terms

Issuer:	Russian Standard Bank
Principal amount:	RUB 5 bn
Placement date:	15 Sept 2005
Maturity:	09 Sept 2010
Put option:	23 March 2007 at par
Coupon rate:	7.60 % pa (till put)
Coupon period:	Semi-annual
Issue Price:	100 %
ING Bank Role:	Joint Lead Manager, International Sales Co-Ordinator

Transaction details

- The issue was fully placed during an auction at the Moscow Interbank Currency Exchange (MICEX) at 100% of the nominal value.
- During the placement total 66 bids were submitted, in total amounted RUB 9.1 bn in nominal terms; the proposed coupon rate ranged from 7.12 to 8.70% per annum. 14 bids were satisfied for total amount of RUB 5 bn.
- This issue is the largest bond placed by a Russian privately owned bank on the domestic market.

Company background

Russian Standard Bank (RSB) is one of the most dynamic financial institutions in Russia. It demonstrated growth rates of 300% per annum in both 2003 and 2004, at the same time maintaining high profitability and adequate capitalisation. RSB is rated at Ba2 by Moody's and B+ by Standard & Poor's.



- RSB is controlled by the founder of the bank, Russian businessman Roustam Tariko. The largest minority shareholder of RSB is International Finance Corporation.
- As a main business line, Russian Standard Bank offers its customers financing through two main vehicles: consumer loans and credit cards.
- RSB has 20 branches in Moscow and the Russian regions, including in 11 large regional centres. The bank has a presence in 88 major Russian cities, which covers more than 90% of the Russian population.

Press comments



New Standard

Russian Standard Bank (RSB) completed a five-year Rbs5bn (US\$176m) bond with a coupon of 7.60% and an embedded 18-month put option on September 15. The issue was priced at par and the bonds mature on September 9 2010. It is the largest placed in Russia by a privately-owned bank.

ING and *Gazprombank* were joint arrangers for what was RSB's fifth domestic bond, which attracted a book of Rbs9.1bn and was 1.8 times subscribed from 66 bids in a range of 7.12% to 8.70%. International investors bought 97% of the issue. *ING* was international sales co-ordinator and *Gazprombank* the technical underwriter.

The syndicate group includes co-lead manager *Deutsche Bank* and co-managers *International Moscow Bank*, *Petrocommerce Bank* and *Promstroybank St Petersburg*. The bonds were registered with the Central Bank on July 22 2005 and listed on the Micex Stock Exchange. Trading will start in October.

International Financing Review. 1601 September 17 2005

Contact Details

Stepan Amosov

ING Wholesale Banking
Financial Markets
Local DCM & Structured Products

ING BANK (EURASIA) ZAO

www.ing.ru

36 Krasnoproletarskaya str., Moscow
127473 Russian Federation

T: +7 095 937 79 00

D: +7 095 755 54 38

F: +7 095 755 54 99