



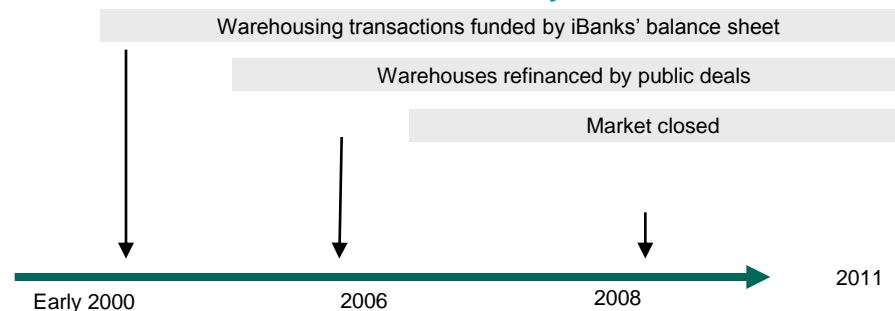
Global Debt Market – Secured Structures

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CIS ABS Market Evolution

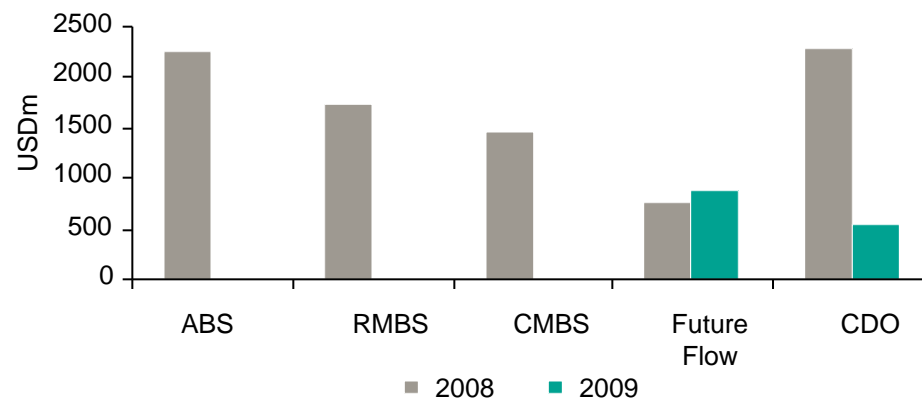
CEEMEA ABS Issuance remained virtually closed since 2008



- iBanks found good use of short-term capital and could tap into well-developed specific ABS investor base
- Drivers for ABS investors (rating, structure, currency)

- Russian (and CEEMEA) ABS was increasing in popularity and issuance volumes prior to the credit crisis
- ABS provided the following benefits to issuers:
 - Increased ratings
 - Matched funding
 - Access to a new investor base
- The net benefit to Russian issuers was a cheaper cost of funds when compared to conventional senior, unsecured issuance
- Russian issuers raised attractive funding against all major assets classes including mortgages, consumer loans, auto loans, credit card receivables and future flows such as diversified payment rights

CEEMEA ABS issuance remained virtually closed since 2008



Source: RBS, Fitch

ABS building blocks

- **Assets/collateral:** funding is raised against a specific pool of assets as opposed to the creditworthiness of the Originator
- **True sale:** A legal transfer of financial assets that, for purposes of bankruptcy or insolvency laws, constitutes an actual sale of such assets to an SPV
- **Bankruptcy remote:** SPV business limited to the transaction
- **Non-recourse to originator:** Investors have no recourse to the originator
- **Insolvency proof:** The assets are beyond the reach of creditor's of the Originator

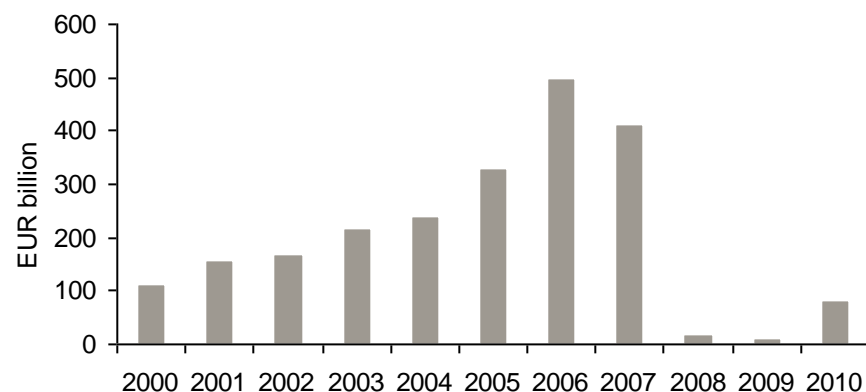
European ABS Market Affected by the Crisis

- European ABS has been remarkably resilient from a credit perspective with the vast majority of AAA rated issuance withstanding the crisis without downgrade
- In general, losses have been concentrated in subprime mortgage and CDO issuance although commercial real estate is seen a potential crisis is 2011-12
- Losses have also been incurred on subordinated tranches that would have been expected to deteriorate in an economic downturn
- On the other hand, dislocation of the European ABS investor base, lack of transparency and understanding lead to huge price volatility and a lack of liquidity throughout the crisis
- Public issuance ground to a halt in 2008 and 2009

S&P : 1982 - 2009 five-year average transition matrix for all European structured finance (%)

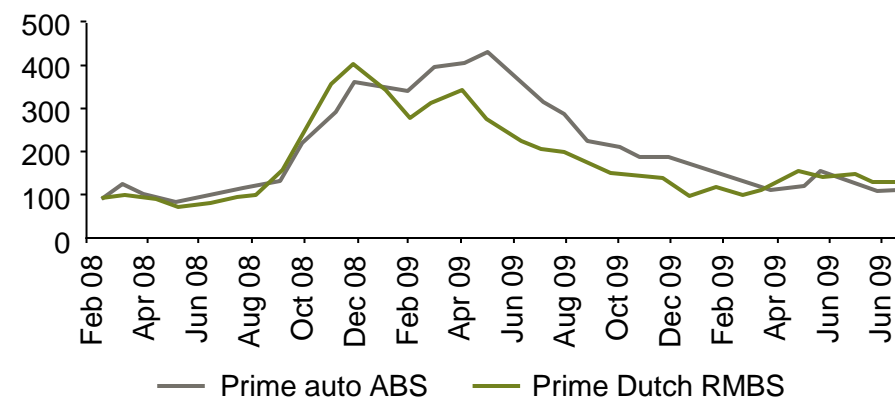
From	Stable/up	Down	Default
AAA	92.3	7.7	-
AA	86.7	13.3	-
A	92.0	7.9	0.1
BBB	93.4	6.2	0.4
BB	89.0	8.9	2.1

Publicly placed annual supply of European ABS 2000-2010



Source: RBS, up to 31 October 2010

European primey ABS spreads



Source: RBS

Secured Structures in Russia and CIS During the Crisis

Market themes

- Original investor based challenged (ABS markets are closed and iBanks recapitalising)
- The performance of Russian and CIS ABS transactions remained stable throughout the crisis
- As European market re-opens, severe price dislocation between BBB-rated ABS paper and senior unsecured levels
- Interest beginning to increase from local and international banks that seek a high and safe return on capital

Performance highlights

- Kazakh DPRs (BTA and ALB) have repaid in full following issuer default while senior, unsecured creditors have recovered approx. 50%
- Other DPRs from CIS have repaid early due to downgrade triggers (MDM, Alfa & KKB)
- Kazakh RMBS has performed extremely well in the face of severe property price declines (60%) and nationalisation of BTA
- Losses incurred on Russian factoring transaction as a result of fraud

Emerging markets ABS performance and outlook

Asset class	Performance	Overview
Russian auto loans	Stable	The turn around in the Russian economy at the end of 2009 augurs well for recovery of consumer finance. Russian auto loans continue to perform and the outlook has improved for the rest of the year.
Ukraine auto loans	Declining	Both the asset performance and ratings outlook remains negative . Delinquencies continue to rise.
Russian mortgage loans	Stable	Following a sharp increase in delinquencies at the end of 2008 the performance have stabilised .
Kazakh DPRs	Stable	Strong performance throughout the crisis. The structures have withstood severe shocks such as nationalisation and default by originator.
Russian future flows	Stable	Strong cash flow performance and positive outlook . E.g. a revision of the going concern view of Gazprombank has resulted in an upgrade of Gazprom's future flow transaction by Fitch.
Turkish DPRs	Stable	Turkish future flow collections remain relatively strong , despite reduction in collections of foreign banking payments over the course of 2009.

Source: RBS, Rating Agencies reports

CIS ABS – Post Crisis

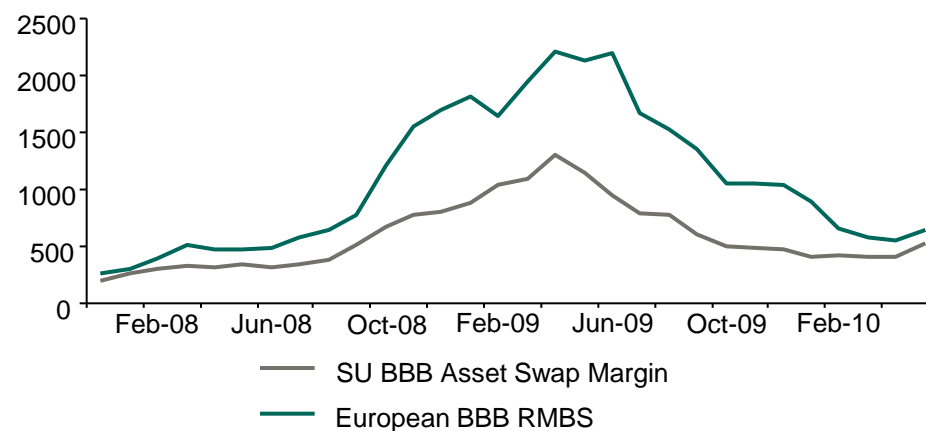
Challenges

- Pre-crisis investor base will continue to be challenged
- iBanks
 - Basel III will reduce appetite for structured issuance due to increased Risk Weighting
 - FI cost of funds remains prohibitive
- ABS-specific investors
 - Finding enormous value in the secondary market
 - Interest for new issues limited to well-established issuers

Reasons for optimism

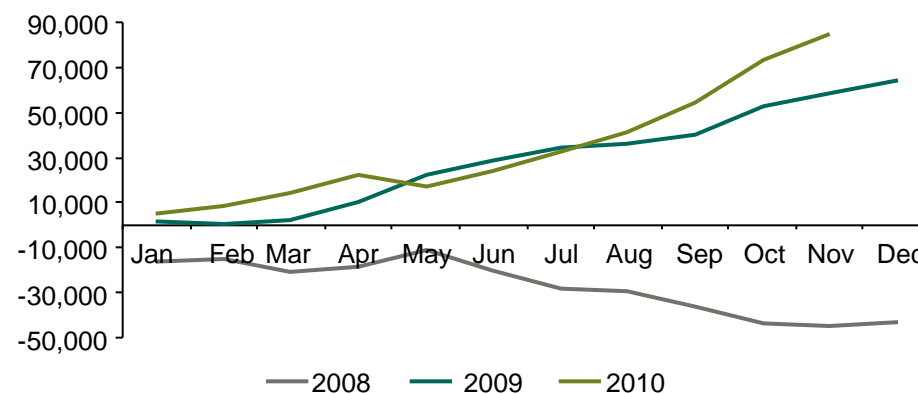
- Despite the concerns that fiscal problems are spreading over to affect not only Portugal but also Spain, investors seem to be immune and put another hefty amount of fresh cash into the assets class. As of 26 November, EM funds gathered YTD a tremendous sum of USD78 billion
- ABS credit performance has been impressive and a portion of this new capital will find its way to less liquid but secure structures
- Local market continues to develop with VEB, CBR, AHML playing a role along with larger, liquid

Current pricing dynamics



Source: RBS, Bloomberg, Markit

Cumulative net EM fund flows, 2008-2010



Source: EPFR

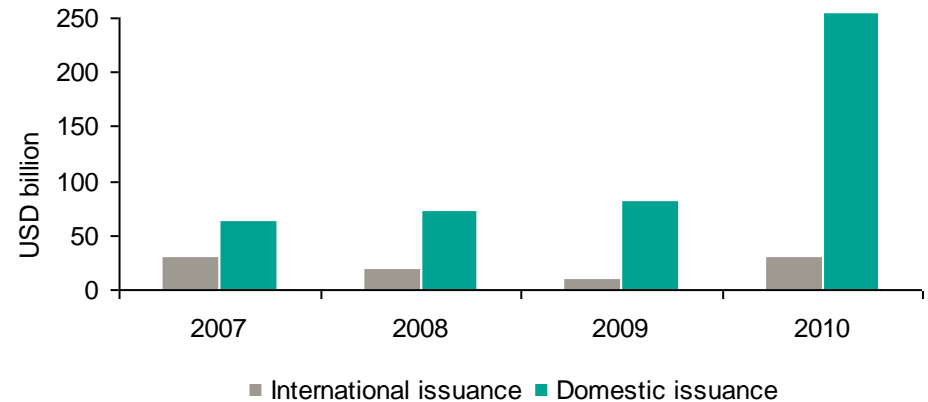
Lessons from the Crisis

- Across jurisdictions it became evident that local demand is essential to a healthy market
- This was proven to be the case in classic EM jurisdictions just as Russia, South Africa, Turkey and Brazil as well as developed markets of Germany, UK and US
- In times of crisis, capital tends to return home
- Local Russian debt market more than offset flight of capital in 2008 allowing Russian corporate and FI Issuers to survive without international capital
- Proactive stance of Russian authorities also a key factor in this success of Russia
- From a product perspective, Covered Bond issuance was among the most resilient throughout the Crisis as investors valued the dual recourse nature of the instrument
- Perhaps not a coincidence that Covered Bond issuance has always had a high proportion of local demand

Why covered bond structures?

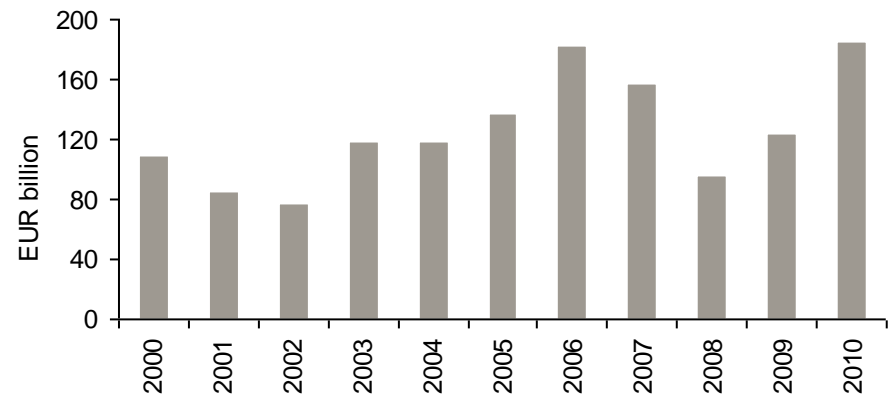
- Existing regulation in Russia
- Dual recourse to issuer and cover pool enhanced protection
- Attractive to traditional EM investor base
- High ratings achievable
- Eligible as collateral for central bank
- Appeal to rating agencies

Russian debt issuance (domestic and international)



Source: RBS, Bloomberg, Markit

Covered bond issuance volumes



Source: EPFR

Concluding Remarks

- ABS has in general performed very well throughout the credit crisis
 - Notable exceptions being subprime residential mortgages and CDOs
- Russian and CIS ABS in particular has been tested by extreme deterioration of the economy and health of originator, and has performed extremely well throughout the crisis
- However, traditional ABS investor base continues to be distressed
- Secondary trading levels of ABS do not support new issuance of Russian ABS to international ABS investors
- Russian ABS does have a future but must focus on tapping local investors and more traditional EM debt investors
- Development of dual recourse structures is likely to facilitate this demand

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