MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa1 rating to Series 13-IP of DeltaCredit Bank mortgage covered bonds

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London, 01 October 2014 -- Moody's Investors Service has assigned a long-term rating of Baa1 to Series 13-IP of the mortgage covered bonds issued by DeltaCredit Bank (the issuer or DeltaCredit Bank), which are governed by the Federal law No. 152-FZ "On Mortgage Backed Securities", dated 11 November 2003 (the Mortgage Securities Act).

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's obligation to pay interest and principal on the bonds; and (2) if the issuer defaults, the economic benefit of a collateral pool (the cover pool). The ratings therefore take into account the following factors:

(1) The credit strength of DeltaCredit Bank (long-term global local-currency (GLC) rating of Baa3, BFSR D/BCA ba2/Adj. BCA baa3, P-3, outlooks stable).

(2) The value of the cover pool in the event of issuer default. The stressed level of losses modelled in event of issuer default (cover pool losses) for this transaction is 44.25%.

The analysis of the value of the cover pool considered:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Russian residential mortgage loans. The collateral score for the cover pool is 16.26%.

b) The Mortgage Securities Act, which provides protection for bondholders, such as:

(i) The ring-fencing of cover pool assets. These assets do not form part of the issuer's bankruptcy estate.

(ii) The amount of eligible cover pool assets must not fall below the amount of outstanding covered bonds.

(iii) Any issuance of covered bonds by a bank must be registered with the Central Bank of Russia (CBR).

(iv) An independent party, the Special Depository, monitors the cover pool on an on-going basis. The Special Depository is licensed by and reports to the CBR.

c) The exposure to market risk. The market risk for the cover pool is 33.35%.

d) The commited over-collateralisation in the cover pool is 0%. The minimum over-collateralisation level that is consistent with the Baa1 rating target is 0%. These numbers show that Moody's is not relying on "uncommitted" over- collateralisation in its expected loss analysis.

The TPI assigned to this transaction is Very Improbable. With covered bonds accelerating by law upon issuer insolvency, the Mortgage Securities Act offers very limited support for timely payment to covered bondholders after issuer default. There is therefore no mitigation to refinancing risk for covered bondholders.

This TPI constrains the rating of the covered bonds at A3, with the current foreign currency ceiling for Russian transactions being A2, and the current local currency ceiling being A1.

As is the case with other covered bonds, we consider the transaction to be linked to DeltaCredit's credit strength, particularly from a timeliness of payment perspective. If this credit strength deteriorates -- all other variables being equal -- the covered bond ratings may come under pressure.

As per 27 January 2014, the total value of the assets included in the cover pool, comprising 3,012 residential mortgage loans, is approximately RUR 7.37 billion. The residential mortgage loans have a weighted-average seasoning of 24 months and a weighted-average loan-to-value (LTV) ratio of 58.4%.

The rating assigned by Moody's addresses the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. We expect that the Baa1 rating assigned to the covered bonds might be assigned to all subsequent covered bonds issued by Delta Credit and rated by Moody's. However, since covered bond issuance in Russia is not done in the form of a programme, any future rating actions might not affect all covered bonds issued by Delta Credit and rated by Moody's in the same way. We will in each case publish details in a separate press release.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (1) a function of the issuer's probability of default (measured by the issuer's rating); and (2) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for DeltaCredit Bank's mortgage covered bonds are 44.25%. This is an estimate of the losses Moody's currently models if DeltaCredit Bank defaults. Cover pool losses can be split between market risk of 33.35% and collateral risk of 10.9%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 16.26%.

The commited over-collateralisation in the cover pool is 0%. The minimum over-collateralisation level that is consistent with the Baa1 rating target is 0%. Therefore, Moody's is not relying on "uncommitted" over-collateralisation in its expected loss analysis.

All numbers in this section are based on Moody's most recent modelling (based on data, as per 27 January 2014).

The cover pool losses are an estimate of the losses Moody's currently models if the relevant issuer defaults. Cover pool losses can be split between market risk and collateral risk. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the issuer's credit strength.

The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

Based on the current TPI of Very Improbable the TPI Leeway for this programme is 0 notches, meaning the covered bonds might be downgraded as a result of a TPI cap once the issuer rating is downgraded below Baa3, all other variables being equal.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the ratings on the covered bonds. The TPI leeway measures the number of notches by which Moody's might lower the CB anchor before downgrading the ratings on the covered bonds because of TPI framework constraints.

The TPI leeways are limited, and thus any reduction of the CB anchor could lead to a downgrade of the ratings on the covered bonds.

A multiple-notch downgrade of the ratings on the covered bonds might occur in certain limited circumstances,

such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer's rating; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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