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# Announcement: Moody's publishes pre-sale report on DeltaCredit's Russian covered bonds

Global Credit Research - 20 Nov 2012

London, 20 November 2012 -- In a new pre-sale report published today, Moody's Investors Service explains the rationale for its assignment of a first-time provisional (P)Baa1 rating to the series 09-IP covered bonds to be issued by DeltaCredit Bank (Baa3, deposits, stable; BFSR D/BCA ba2 stable).

The Pre-Sale Report report, entitled " DeltaCredit Bank Mortgage Covered Bonds", is now available on www.moodys.com. Moody's subscribers can access this report via the link provided at the end of this press release.

This is the first covered bond rating that Moody's has assigned in Russia using its covered bond rating methodology. The Russian legal framework for covered bonds offers the same fundamental protections as other covered bonds rated by Moody's, with investors benefiting from both recourse to the issuer and to a pool of collateral (the cover pool).

However, Moody's says that the Russian law also differs from other typical covered bond laws in a number of ways. On the credit-positive side, issuer discretion is restricted as the legal framework discourages the issuance of multiple bonds out of a single programme. On the credit-negative side, the covered bonds accelerate after issuer default, which increases refinancing risk.

--- INVESTORS BENEFIT FROM TWO LEVELS OF PROTECTION

Like all other covered bonds rated by Moody's, investors benefit from two levels of protection: (1) the covered bonds are full recourse to DeltaCredit; and (2) in the event of issuer default, benefit from a cover pool securing the bonds. In this transaction, the cover pool consists of prime residential mortgage loans originated by DeltaCredit. The cover pool comprises 1,897 prime residential mortgages with a total outstanding balance of RUB5 billion. The properties securing the loans are all in Russia.

--- LIMITED ISSUER DISCRETION

Due to the nature of covered bond issuance in Russia, separate bond issuances are backed by separate cover pools. Because of this, asset-substitution risk is somewhat less than covered bond programmes with one revolving cover pool backing recurring bond issuances. In addition, the issuer may replace assets only if the assets no longer comply with the eligibility criteria.

--- BONDS ACCELERATE AFTER ISSUER DEFAULT

Unlike typical covered bonds, Russian covered bonds accelerate upon issuer default. The issuer must raise funds against the cover pool in order to repay covered bondholders. This gives rise to refinancing risk as the cover pool has to be liquidated in a stressed scenario. The market value of these assets may be subject to volatility, potentially leading to a discount on the value of the assets. Furthermore, given that the covered bonds immediately become due upon issuer default, it is very unlikely that timely payments to investors will continue. This is reflected by the assignment to the bonds of our lowest timely payment indicator of "Very Improbable".

--- AVERAGE COLLATERAL CREDIT RISK COMPARED WITH RUSSIAN RMBS

The collateral score of 17.9% indicates average credit risk for the collateral in the cover pool compared with Russian RMBS transactions that Moody's has rated. By global comparison, however, this collateral score is relatively high for a purely residential mortgage-loan portfolio backing a covered bond.

Subscribers can access this report via this link: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF305466

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