Development of mortgage lending in Russia
Development of Russian mortgage market: 2007-2012

Sources: Central Bank of Russian Federation, Russian State Registrar, AHML forecasts
Quality of Russian mortgage market

**Market portfolio**

01.04.2011 (%)

- no delay: 88.0%
- 1-30 days: 1.6%
- 31-90 days: 1.1%
- 91-180 days: 4.6%

01.04.2012 (%)

- no delay: 94.2%
- 1-30 days: 0.7%
- 31-90 days: 0.4%
- 91-180 days: 3.3%

**Domestic MBS**

*Weighted average NPL share in mortgage collateral*

*Sources: Central Bank of Russian Federation, AHML*
Agency for Housing Mortgage Lending (AHML)

- AHML was established in 1997 by Decree of the Russian Government as a national institute for the development of the mortgage lending market
  - 100% owned by the Russian Government
  - Included in the list of strategically important enterprises of the Russian Federation
- Operates through a wide network of mortgage originators across Russia
- Government support
  - Government guarantees for AHML internal bonds issues
  - Special purpose credit line for construction support
  - Capital injections

**Assets structure, RUB bln ($, bln)**

- Cash and cash due from credit institutions: 16.27 ($0.55)
- Mortgages: 11.55 ($0.39)
- Loans issued: 84.29 ($2.87)
- Other assets: 156.82 ($5.34)
- Total: 268.93 ($9.15)

**Liabilities structure, RUB bln ($, bln)**

- Bonds issued: 35.52 ($1.21)
- Loans from banks: 114.21 ($3.89)
- Other borrowed funds: 4.33 ($0.15)
- Other liabilities: 0.9 ($0.03)
- Total: 154.96 ($5.27)
AHML role in steady market development

AHML group bases its strategy on mortgage market development cycles and changes its priorities according to the stage of the cycle to smooth its fluctuations.

I. Growth stage

Development of the secondary mortgage market

II. Maturity (stable) stage

Mortgage market infrastructure development

III. Declining (crisis) stage

Risk assumption
Net liquidity level of Russian banking sector and AHML influence on mortgage market recovery

Sources: Central Bank of Russian Federation, AHML estimation
Since 2006 16 domestic RMBS deals for total 122 bln RUB ($4,3 bln) and 13 cross-border RMBS deals for more than 61 bln RUB ($2,1 bln) were originated.

**Mortgage backed securities, bln RUB**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-border RMBS deals</th>
<th>Domestic covered bonds</th>
<th>Domestic RMBS deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2007</td>
<td>26</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>2009</td>
<td>0</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td>14</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>15</td>
<td>31</td>
</tr>
</tbody>
</table>

**AHML share in domestic issues is 50%**

*Sources: Cbonds, AHML*
Measures to maintain mortgage asset quality

**Russian legislation requirements:**

- Special regulation for mortgage market and RMBS;
- All issuers of MBS (RMBS and covered bonds) are required to publish the Mortgage collateral registry as part of the emission documentation and then on a monthly basis, which contains detailed information on each mortgage loan included in the mortgage collateral (outstanding debt, interest rate, term, market value, region and type of mortgage collateral, delinquency, insurance, etc);
- Mortgage loans with LTV higher than 80% are not allowed to be securitized;
- Property insurance amount should match mortgage loan amount;
- An independent licensed organization (specialized depository) keeps mortgage certificates and monitors mortgage collateral to comply with all legislation and emission documents;
- The original par value of MBS can not exceed principal amount of loans included in the mortgage collateral;
- Mortgage loans included in the mortgage collateral can not be replaced except in a closed list of instances (the most common is default);
- Defaulted mortgage loans are not included in the amount of mortgage collateral;
- Investors have the right to claim prepayment in case of issuer`s violation of legal requirements and/or terms of emission documents.

**Requirements of AHML RMBS programs:**

- AHML can purchase a senior tranche of RMBS or provide a guarantee for senior tranche of RMBS if the equity is not less than 10% of the issue and is kept on the originator’s balance;
- For loans with LTV higher than 70% mortgage insurance is recommended.
Programs for refinancing of RMBS have been launched for the following purposes:

– Development of Russian RMBS
– Liquidity supply for lenders
– Interest rate risk hedging
– Bridge financing to accumulate pool or complete the transaction (not more than 70% of senior tranche volume)

<table>
<thead>
<tr>
<th>RMBS Programs</th>
<th>Term</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program №1</td>
<td>30.09.2010 - 31.12.2012</td>
<td>20 bln RUB. ($0,67 bln.)</td>
</tr>
<tr>
<td>Program №2</td>
<td>29.09.2011 - 27.12.2013</td>
<td>20 bln RUB. ($0,67 bln)</td>
</tr>
<tr>
<td>Program №3</td>
<td>13.04.2012 - 27.12.2013</td>
<td>20 bln.RUB. ($0,67 bln)</td>
</tr>
</tbody>
</table>
The main characteristics of AHML’s senior note purchase program

• The maximum transaction size per originator should be up to 5 bln RUB ($170 mln), minimum 1 bln RUB ($30 mln)
• Issued notes must comply with the requirements of the federal law on MBS
• Issued notes must be denominated in RUB
• Junior tranche notes must represent at least 10% of the total asset balance
  • The junior tranches should be retained by the originator
• The notes’ security must represent a senior claim in the waterfall
• The notes must be either
  ✓ Rated by at least one of the rating agencies (Fitch, Moody’s and S&P) at a minimum rating of BBB- (Fitch or S&P) and Baa3 (Moody’s).
  ✓ Unrated by rating agencies where AHML provides a guarantee and makes its own analysis, sets the haircuts and required subordination levels for the notes.
State Corporation “The Bank for Development and Foreign Economic Affairs” (VEB) is the managing company of Russian Pension Fund

VEB RMBS Program - 150 bln RUB. ($5.1 bln)

VEB provides buyout guarantees for senior domestic RMBS tranches with collateral conforming the following:

- Maximum loan amount – 8 mln RUB. ($270,000) for Moscow and St. Petersburg, and 3 mln RUB ($100,000) for the rest of Russia
- Interest rate for mortgage loans not higher than 11%
- Primary residential market only (new construction)