

RMBS/Russian Federation  
Presale Report

Russian Mortgage Backed  
Securities 2006-1 S.A.

Expected Ratings\*

Class	Amount (USDm)	Final Maturity	Rating	C/E (%)
A	74.2	5-2034	BBB+	18.5
B	10.6	5-2034	BBB	6.5
C	3.5	5-2034	BB-	2.5

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\* Preliminary ratings do not reflect final ratings and are based on information provided by the issuer as of 8 June 2006.

■ Summary

This transaction is a securitisation of first-ranking US dollar-denominated residential mortgage loans secured on property located in the Russian Federation (Long-term issuer default rating (“IDR”) and country ceiling; ‘BBB’). Fitch Ratings has assigned expected Long-term ratings to the notes to be issued by Russian Mortgage Backed Securities 2006-1 S.A. (“the issuer”) as indicated at left. The issuer is incorporated and registered in Luxembourg with limited liability as a société anonyme, a public limited company. The seller of the mortgage portfolio is JSC Vneshtorgbank (“VTB”, rated ‘BBB/F3’), the second-largest bank in Russia and 99.9% owned by the Russian state.

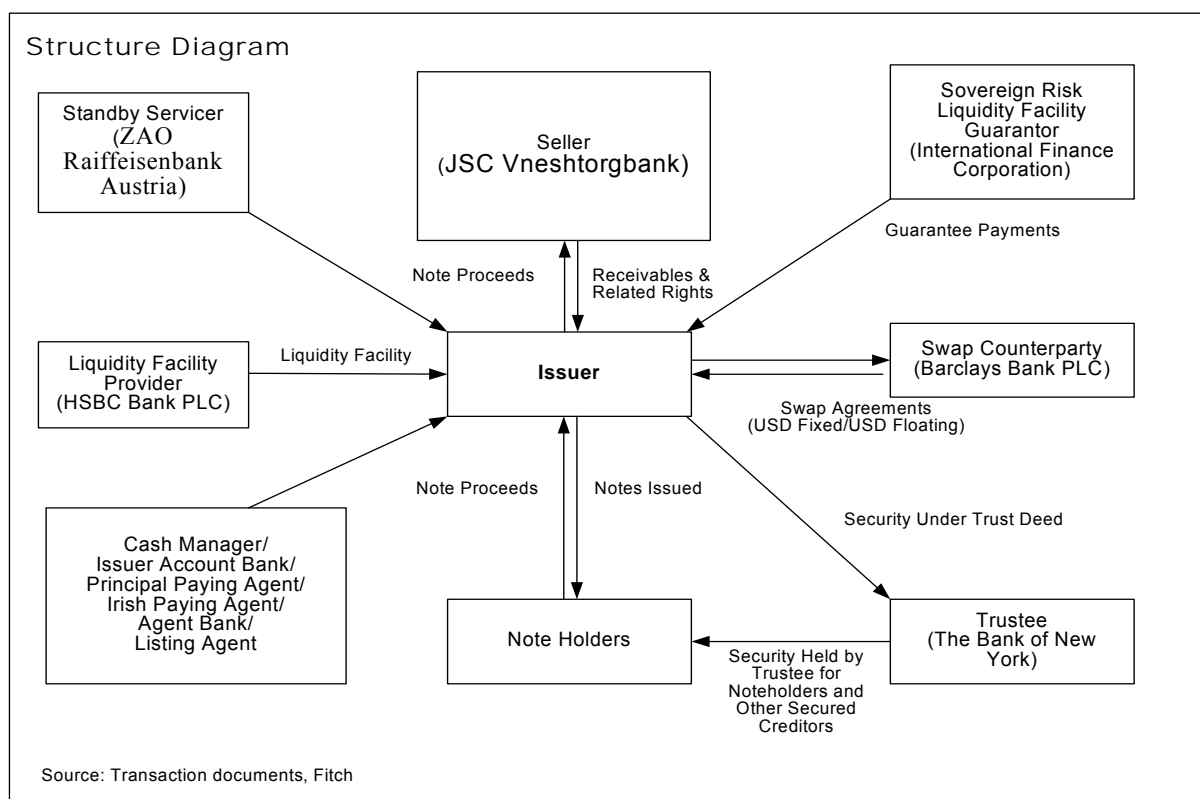
The transaction totals USD88.3 million in size and is the first RMBS transaction from the Russian Federation. The ratings address timely payment of interest and ultimate payment of principal in accordance with the terms of the notes. The expected ratings are based on the quality of the collateral, available credit enhancement, the underwriting and servicing capabilities of the originator and the legal structure of the transaction. VTB’s ownership structure and its importance for the Russian financial system also played a vital part in the rating analysis.

Initial credit enhancement of 18.5% on the Class A notes will be provided by the subordination of the Class B notes (12%) and the Class C notes (4%). Further credit enhancement is available in the form of a non-amortising cash reserve in the amount of 2.5% of the issuance fully funded at closing by a subordinated loan extended by VTB. A liquidity facility will also be made available to cover interest and senior fee shortfalls up to a limit of 6% of the issuance, and will be allowed to amortise to 2% of the outstanding balance of the notes subject to certain conditions. The transaction also benefits from a sovereign risk liquidity facility that provides liquidity for the senior notes in the event of the sovereign restricting the ability to convert and transfer US dollars out of the country.

The mortgage loans were originated by VTB. The bank has become an established mortgage lender over the past few years, although the overall size of the Russian mortgage market remains relatively small at less than 1% of GDP.

Fitch analysed the collateral using a default model with specific RMBS assumptions developed for the Russian jurisdiction derived from the fundamental characteristics and historical behaviour of the Russian mortgage market. The default model determines gross credit enhancement (expected losses at a given rating scenario) through a loan-by-loan analysis based on specific loan, borrower, property and lender inputs.

The default model results were input to the Fitch cash-flow model that establishes the net credit enhancement and rating levels in the capital structure of the transaction. The cash-flow model incorporates the margin generated by the pool of assets, the structural features of the transaction and applies a series of liquidity stresses under different rating scenarios. For details on the cash-flow model assumptions, please refer to “A Guide to Cash-Flow Analysis for RMBS in Europe”, published on 20 December 2002 and available at [www.fitchratings.com](http://www.fitchratings.com)



■ Credit Committee Highlights

Credit Issues

- While asset performance has been relatively strong in recent years due to the booming economy, the application of the emerging market stress multiple to the base-case default levels simulates the impact of a full economic cycle and thus makes allowances for a less benign economic environment (see “*Existing Asset Securitisation in Emerging Market – Sovereign Constraints*”, published on 12 May 2006 and available at [www.fitchratings.com](http://www.fitchratings.com)). It also captures the stresses that would be applicable at and beyond the country ceiling rating of the Russian Federation.
- The Russian legal system is in a state of evolution and the legal environment for existing asset securitisations remains untested. Laws designed to facilitate domestic securitisation were passed in 2003, which provide a certain amount of guidance for this transaction, but are not directly applicable to cross border securitisations. The transaction relies on certain elements of the general provisions of Russian Federal law.
- The transaction legal opinions are able to confirm that the essential components of a true sale are achieved under the transaction documents, and thus under the general law.

However, the transaction opinions are heavily qualified in terms of the general application of law within the Russian court system. In addition to there being no doctrine of binding precedent, the legal opinions point out that there is at present considerable inconsistency in the analysis and reporting of judgements. In addition, the independence of the judicial system and its immunity from economic, political and social influences in Russia remain uncertain.

- While these qualifications do not mean that the fundamental transactions would be incapable of enforcement in Russia – they significantly reduce the degree of certainty that the isolation of the portfolio assets could survive the bankruptcy of VTB when compared to legal opinions received in respect of RMBS transactions in other jurisdictions.
- Fitch has assumed that a challenge to the true sale might take place, but only upon the insolvency rather than the default of VTB. Thus, regardless of whether the true sale can be successfully challenged, for it to be actually litigated would require the initiation of bankruptcy proceedings against VTB. In Fitch’s view, there is a lower probability of bankruptcy or administration proceedings being initiated against VTB than the probability of a financial default by VTB.

Key Information

Portfolio Characteristics

**Total Principal Amount:** USD90.6m<sup>1</sup>

**Type of Loans:** Standard first-lien US dollar-denominated residential mortgages

**WA Remaining Term to Maturity:** 14 years

**Largest Remaining Term:** 25 years

**WA Seasoning:** 12 months

**WA Original LTV:** 70.4%

**WA Current LTV:** 65.2%

**Largest CLTV:** 85%

**WA Indexed Current LTV:** 63.3%

**Pool Cut-Off Date:** 30 April 2006

Key Parties

**Issuer:** Russian Mortgage Backed Securities 2006-1 S.A.

**Originator/Seller:** JSC Vneshtorgbank

**Trustee:** The Bank of New York

**Servicer:** JSC Vneshtorgbank

**Arrangers and Lead Managers:** Barclays Capital and HSBC

**Paying Agent/Custodian/Cash Manager:** The Bank of New York

**Backup Servicer:** ZAO Raiffeisenbank Austria

**Issuer Account Bank:** The Bank of New York

**Swap Counterparty:** Barclays Bank plc

**Liquidity Facility Counterparty:** HSBC Bank plc

**International Collections Account Bank:** ZAO Raiffeisenbank Austria

**Legal Maturity:** 15 May 2034

- The fact that the originator is a major (second-largest in Russia) state-owned bank of systemic significance, with an important international reputation, partially mitigated Fitch's concern that a true sale might be successfully challenged upon VTB's insolvency, and hence allowed a rating of the senior notes above the originator IDR. VTB is helping to execute the government's social agenda of developing the housing market in Russia, and this is seen as reducing the risk of any arbitrary politically-driven legal outcomes. However, more generally, Fitch notes that until the legal environment becomes more predictable, it will adopt a case-by-case approach to rating existing asset securitisations in Russia.

- The issuer entered into a mortgage sale agreement with VTB on 7 June 2006, pursuant to which VTB is to assign all of its rights under the mortgage loans to the issuer. The perfection of this assignment entails borrower notification, re-registration of the mortgages on the Russian land registry in favour of the issuer and the execution of individual deeds of assignment for each receivable. The proceeds of the issuance will only be released to the originator in relation to the assets where the assignment has been perfected.
- Any unperfected receivables outstanding on the third interest payment date are to be repurchased by the originator within 10 business days, and the related retained proceeds will be redirected as principal collections and returned to the investors. To address the commingling risk of the retained issuance proceeds in the issuer's VTB account during this three-month period, a mechanism has been put into place whereby upon a downgrade of VTB to 'BBB-(BBB minus)' or below, the balance of the account is to be transferred to the issuer account at the Bank of New York.

Asset Analysis

- Fitch analysed the collateral using a default model derived from the fundamental characteristics and historical behaviour of the Russian mortgage market; and its Emerging Markets Existing Assets rating criteria. Base-case mortgage default levels were stressed in accordance with Fitch's emerging markets criteria for rating above the country ceiling. For further details, please refer to "*Existing Asset Securitisation in Emerging Market – Sovereign Constraints*", published on 12 May 2006 and available at [www.fitchratings.com](http://www.fitchratings.com).
- As of the pool cut-off date, the provisional pool consisted of 1,696 mortgage loans with an aggregate outstanding balance of USD90.6m, all of which are first-ranking mortgages. The pool has considerable geographical concentration, with over 89% of the mortgages originated in the Moscow area and just under 11% in St. Petersburg. Default adjustments were applied to the loans in the portfolio that are up to 30 days in arrears and to the portion of the portfolio that pertains to self-employed obligors and business owners.
- Given that the mortgages are denominated in US dollars and borrowers' income may be paid in

<sup>1</sup> The collateral characteristics are based on the USD90.6m pool as of 30 April 2006. The notes will be issued off the USD88.3m pool as of the end of May.

Russian rubles, a devaluation of the US dollar/Russian ruble exchange rate will pose a stress to these borrowers' affordability. To account for this, Fitch applied an exchange rate devaluation haircut to income levels when analysing the portfolio. This was determined at 28% at the 'BBB+' rating level. In accordance with Fitch methodology, the exchange rate stresses were derived from historical data on exchange rates across a variety of emerging market countries that have experienced sovereign crises.

- Fitch devised market value decline ("MVD") assumptions by analysing the economic fundamentals of the Moscow and St. Petersburg property markets. At the 'BBB+' rating level, these were set at 60.5% for St. Petersburg properties and 50.4% for Moscow properties. Large value properties are deemed less liquid, hence the realisation that reposessed properties in this segment are subject to deeper discounts within a property market downturn. The MVDs are increased by the application of "jumbo" hits. Fitch has assumed a weighted-average recovery ratio of 63.8% at the 'BBB+' level.

#### Structural Analysis

- VTB will continue to service the transferred receivables on behalf of the issuer. In accordance with VTB's operating procedures, the borrowers must clear the mortgage instalment during the 21st to the 28th of each month, and VTB is to transfer the collections within two business days after the payment is due. Fitch has sized for the commingling risk that arises during this period, which would represent up to one month of collections. This has been accounted for in the cash-flow model by subtracting a full month of collections to the SPV account bank at the most vulnerable point of the transaction.
- A back-up servicer will be available for servicing the portfolio in the event a servicer termination notice is served to VTB. Adequate language is included in the servicing agreement to this effect. The back-up servicer is Raiffeisenbank Austria, ZAO; the Russian subsidiary of the Raiffeisen ZentralBank Oesterreich, AG (Credit Support 1, Austrian sovereign rating of 'AAA'), the third-largest bank in Austria.
- A rating trigger has also been put in place such that if VTB (as servicer) is downgraded to 'BB+' or below it is obliged to transfer all mortgage loan files to a data custodian

acceptable to the trustee and to transfer to a back-up servicer a copy of the back-up tape containing updated information on the borrowers and mortgage loans.

- At closing, the proceeds of a subordinated loan provided by VTB will establish a reserve fund in the amount of 2.5% of the issued notes. The reserve fund will not amortise. A liquidity facility in the amount of USD5.3m is also available to cover eligible interest shortfalls. This facility is equivalent to 6% of the note issuance. The facility will be allowed to amortise to 2% of the initial outstanding balance of the notes under certain conditions.
- The transaction will benefit from a USD10m international payment facility that will cover 18 months of interest payments under the Class A and B notes in the event the Russian government imposes restrictions on the transfer of US dollars out of the country. The facility is guaranteed by the International Finance Corporation, a subsidiary of the World Bank ('AAA/F1+').

#### ■ The Russian Mortgage Market

During the planned economy of the Soviet Union, housing was provided by the State. Since the market reforms and liberalisation in the 1990s, the private sector is playing a more important role in the Russian housing market. During the 1990s, most homebuyers had to save enough to pay for the full cost of a property, but today there is strong development in the mortgage lending business. However, the purchase of real estate is still difficult as the mortgage market is not yet well developed despite the significant improvement both in terms of lending/financing opportunities and the improvement in the federal and regional legal environment for mortgage lending.

Residential mortgage lending to the population is offered by an increasing number of banks. However, there are three primary types of operator in the emerging mortgage lending market: Universal Commercial Banks, the Federal Housing Mortgage Lending Agency and Regional Mortgage Agencies. Mortgage lending still accounts for less than 1% of GDP (2005), or some EUR3bn. This nonetheless represents growth of over 600% compared with 2003 levels. The average house price in Russia is USD25,000-30,000 but is much higher in the Moscow and St. Petersburg regions at around USD75,000-80,000. Loan-to-value ("LTV") ratios typically do not exceed 70% on long-term loans.

It is expected that mortgage financing will continue to show high growth rates. Recent amendments to

the Federal Law on Mortgages and, more importantly, a new Federal Law on mortgage-backed securities passed in November 2003, expressly provides for the possibility of the sale of mortgage loans and the issue of mortgage-backed securities, albeit in a domestic context. The number of new legal initiatives and the corresponding regulatory developments point to the government's desire to expand the mortgage market and promote private sector lending activities.

Crucial requirements for further development in the housing market in the short and medium term will be the establishment and operational reliability of a central credit bureau<sup>2</sup> and a mortgage risk insurance system. Another major drawback currently is the relatively low level of income within large parts of the population.

House prices in Russia are booming as in other countries in Europe. The boom in the market is due to the high demand for housing, underpinned by the positive impact of strong oil prices on the Russian economy. Fitch has analysed the growth in the Russian housing market and compared it to other fast growing housing markets in Europe to make inferences over future stability and to derive some of the stresses that could be applied to a securitised pool of mortgages, including assumptions of a decline in market values.

#### ■ Collateral

The collateral comprises first-ranking US dollar-denominated residential mortgages originated by VTB secured on property located in the Russian Federation. As of the pool cut-off date of 30 April 2006, the provisional pool consisted of 1,696 mortgage loans with an aggregate outstanding balance of USD90.6m.

The loans in the portfolio are all annuity repayment type, were originated since April 2001 and have a maximum 25 years to maturity. Around 51% of the portfolio was originated in the past 12 months. The portfolio has a weighted-average seasoning of 12 months with a weighted-average remaining term to maturity of 14 years. Mortgage loan payments are made monthly. At the cut-off date, around 1.11% of the mortgages were up to 30 days in arrears<sup>3</sup>.

<sup>2</sup>A new Federal law "On credit histories" effective from 1 June 2005 requires credit organisations to provide to at least a credit bureau the borrowers' credit history, as long as the latter have consented to their distribution. The Central Bank of Russia will supervise credit bureau agencies.

<sup>3</sup> According to VTB's past experience, the majority of these arrears have been cured within two business days due to their technical nature. Please see the *Collections and Arrears Management* section for further details on this subject.

The weighted-average original loan-to-value ("OLTV") of the pool is 70.4% based on valuations performed by VTB-approved valuers (see *Origination and Servicing* on page 11) and the current loan-to-value ("CLTV") is 65.4% (calculated as current loan balance divided by original loan valuation). Notwithstanding the short seasoning of the pool, the collateral benefits from the significant property price appreciation observed in Moscow and St. Petersburg. Fitch has applied conservative indexation to estimate the current property valuations and the resulting weighted-average indexed current loan-to-value is 63.6%.

Fitch applied a loan-by-loan analysis based on its default model for residential mortgages to determine the appropriate level of "gross credit enhancement". The result of the analysis is an expected loss for each loan and each rating level. This expected loss is calculated as the product of the likelihood that the borrower will default (default probability) and the magnitude of loss in case of default (loss severity).

Subsequently, the extent to which the financial structure of the transaction can help mitigate losses in a stress situation is analysed. In this transaction, the availability of excess spread to cover losses is one of the primary benefits. The result of this structural analysis is the level of "net credit enhancement" and the note tranche issuance levels.

VTB represents in the mortgage sale agreement the following eligibility criteria on the mortgages loans:

- No lien, right of set-off, counterclaim or right of deduction has been created or arisen between the originator and any borrower entitling the borrower to reduce any payment otherwise due under the loan.
- The relevant property was valued by an independent surveyor.
- Interest is paid monthly in arrears, and no loan is entitled to defer interest.
- At the date of closing, no loan will have more than one instalment in arrears.
- During the 12 months preceding closing, no loan will have been in arrears for more than 30 days.
- No arrangements have been entered into that could restrict the interest rate of the mortgage loans or the enforceability of security.
- The receivables and their related rights constitute a valid, binding and enforceable obligation of the borrower.
- The mortgages secure the repayment of the loan in priority to any other charges or securities affecting or registered against the relevant property.

- All borrowers have a valid and marketable ownership title to each property free from any encumbrance.
- All properties are properly insured throughout the term of the mortgage to an amount up to the property value.
- All of the properties are located in the Russian Federation.

#### Default Probability

The key determinants of default probability in Fitch's residential mortgage default model are the LTV, which accounts for the size of the borrower's initial down-payment and, thus, serves as an indicator of the borrower's willingness to pay, and the income multiple ("IM"), which reflects how affordable the home is to the borrower and signifies the borrower's ability to pay.

Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason for this is that when faced with financial distress (e.g. loss of job or divorce), borrowers with significant equity in their homes (lower LTV loans) have an incentive to remain current to maintain and protect their equity. As this transaction comprises loans denominated in US dollars, the default assumptions were derived by studying historical loan performance of Russian foreign currency loans.

Similarly, higher IMs are associated with higher default probabilities as the loan payments are more likely to overstretch high IM borrowers in case of events that impact income significantly. Given that the instalments are denominated in US dollars and the borrower's income may be denominated in Russian rubles, a devaluation of the RUB/USD exchange rate will pose a stress to the borrower's affordability. Accordingly, the borrower's income was adjusted by applying Russian ruble devaluation adjustments specific to each rating scenario.

The following matrix shows the "base" default probability depending on classes of LTV and IM. The base default probability is then further adjusted to account for loan and borrower characteristics that indicate additional default risk. The relevant factors applied to the loan's base default probability are described in the table below.

#### Employment Status

One of the important factors influencing mortgage credit risk is the employment profile. Self-employed and business-owner borrowers account for 6.4% of the pool. There is additional credit risk with these types of borrowers, given the uncertainty and volatility of income generation. These borrowers are

#### 'BBB+' Base Default Probability Matrix Income Multiple

LTV (%)	<2.0	2.0	2.5	2.75	3.0	3.5	4.0
<40	6.1	7.0	7.9	8.7	9.6	10.4	11.3
40	7.4	8.6	9.8	11.1	12.3	13.5	14.8
50	8.6	10.2	11.8	13.4	15.0	16.6	18.2
60	10.8	12.7	14.5	16.3	18.2	20.0	21.9
70	13.5	15.6	17.7	19.8	21.9	24.0	26.1
80	16.5	19.1	21.6	24.2	26.8	29.4	32.0
85	20.4	23.5	26.6	29.6	32.7	35.8	38.8
90	24.1	28.4	32.7	37.0	41.3	45.6	49.9
95	30.0	34.9	39.8	44.7	49.7	54.6	59.5
100	42.3	48.4	54.6	60.7	66.9	71.4	71.4

Source: Fitch

more exposed to fluctuations in the economic environment and business interruption, therefore Fitch has increased the respective default probabilities by 20%.

#### Performance

As of the cut-off date, around 1.11% of the loans were up to 30 days in arrears. Loans in arrears have a higher probability of following through to foreclosure than loans that are current. The default probability of these delinquent loans has been enhanced by a factor of 1.25.

#### Market Experience

As the mortgage market showed a strong increase in volumes very recently, making it necessary for Russian banks to update their systems and their loan processing, an additional adjustment factor is applied to account for the limited experience of those lenders with coping with large mortgage volumes.

#### Loss Severity

Fitch's model also calculates the expected loss amount (and, conversely, the recovery value) on a loan-by-loan basis and for each rating scenario. The expected loss depends on several factors, including MVD, foreclosure and carry costs.

#### Market Value Declines

In determining stressed MVD, the agency used regional historical house price information for St. Petersburg (1998 to 2004) and Moscow (1990 to 2005), respectively. Due to the fact that a housing market started to develop only recently, the agency did not apply the normal approach to measuring market value declines, which is based on the estimation of a long-term price trend. Rather, MVDs have been estimated using economic fundamentals.

As a first step, the basic relationship between economic variables and house prices was determined by estimating an economic model based on available historical information. Given the historical volatility of the underlying economic variables, stress levels

for these variables were determined. It was particularly important the data series contained a significant stress period, notably the 1998 crisis. The stressed economic variables together with the established relationship between economic fundamentals and house prices then determined the expected house prices. To arrive at the MVDs in the respective rating scenarios, additional haircuts are applied to account for the fact that sale proceeds from a stressed sale are typically lower than open market sales.

**Market Value Declines**

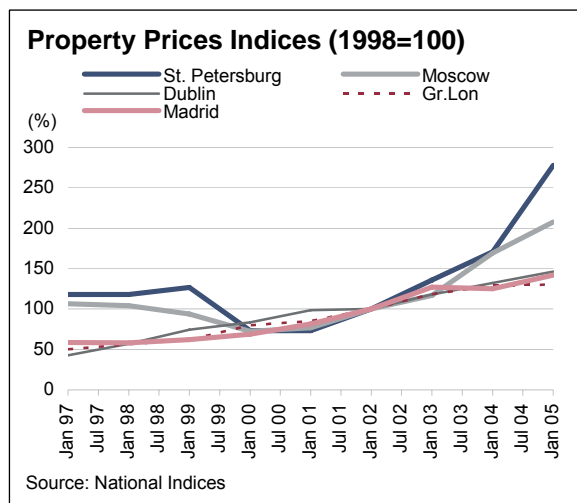
(%)	B	BB	BBB	BBB+
St. Petersburg	40.0	50.0	60.0	60.5
Moscow	30.0	40.0	50.0	50.4

Source: Fitch

The chart above summarises the resulting MVDs. The MVDs for St. Petersburg turn out to be higher than for Moscow mainly because St. Petersburg showed a stronger appreciation in the recent past. As can be seen from the chart, house price appreciation in St. Petersburg and Moscow has been very strong, stronger than, for example, in Spain or the UK, although the market started from a low base after the sovereign crisis in 1998. The MVDs for a 'BBB+' scenario are in the range or slightly above the 'AAA' levels assigned to European markets with high previous appreciation.

*High Value Properties*

Homes with relatively high market values are deemed to be subject to greater MVDs in a deteriorating environment than those with average or below-average market values. This is due to limited demand for such properties, resulting in diminished liquidity at the top-end of the market. Imprecise market information, caused by lack of comparable benchmark homes also influences the extent of price



Source: National Indices

**Adjustments to High Value Properties**

Property Value (USD)	MVD Adjustment Factor
< 240,000	1.00
>= 240,000	1.15
>= 560,000	1.20
>= 930,000	1.25

Source: Fitch

volatility during a market downturn. The weighted-average MVD is 51.3% in the 'BBB+' scenario.

To account for the additional risk posed by the potentially lower level of liquidity in this end of the housing market, Fitch increases MVDs for "jumbo" properties. The MVD is increased by the factor according to the categories shown in the matrix "Adjustments to High Value Properties".

Evidence on judicial foreclosure procedures is sparse. Fitch obtained opinions from market participants and legal advisors to derive assumptions on foreclosure timing and costs. Foreclosure timing is assumed to vary between an average of 15 months in a 'B' scenario and 33 months in the 'BBB+' scenario. The foreclosure costs are assumed at 11% of the outstanding loan balance at closing within a 'BBB+' scenario.

*Other Adjustments*

There is considerable geographical concentration in the pool, with over 89% of the mortgages originated in the Moscow area and just under 11% in St. Petersburg. Accordingly, Fitch has introduced adjustments to the gross credit enhancement levels to account for this concentration effect.

The mortgage loans accrue fixed interest rates within a range of 10% to 12%; and the weighted-average coupon of the portfolio is 11%. Due to this fact, the transaction benefits from significant excess spread that is accounted for in the cash-flow analysis subject to certain margin compression adjustments. In this respect, conservative assumptions have been employed regarding the correlation of defaults and prepayments towards higher interest-rate bearing loans, diminishing the benefit of excess spread in parallel with the seasoning of the transaction.

Base-case mortgage default levels were stressed in accordance with Fitch's emerging markets criteria for rating above the country ceiling. While asset performance has been relatively strong in recent years due to the booming economy, the application of the emerging market stress multiple criteria to the base-case default levels simulates the impact of a full economic cycle and thus makes allowances for a less benign economic environment. It also captures the stresses that would be applicable at and beyond the

country ceiling rating of the Russian Federation, relevant for this transaction.

#### ■ Financial Structure

The issuer is a bankruptcy-remote offshore SPV incorporated under the laws of Luxembourg whose sole purpose is to acquire credit rights from VTB as collateral for the issuance of securities.

##### *Mortgage Sale*

On 7 June 2006, the issuer entered into a mortgage sale agreement with VTB pursuant to which VTB is to assign all of its rights under the mortgage loans to the issuer. The transfer of each receivable and its related rights is carried out on the basis of separate Russian law governed deeds of assignment executed between the issuer and VTB up to the closing date in accordance with the mortgage sale agreement.

The statutory provisions on assignments under the Russian civil code state that the rights under a mortgage loan may be transferred without the consent of the borrower. In addition to this, the individual mortgage loan agreements executed between the borrower and VTB contain an express provision that allows the assignment of all of the originator's rights to the assignee. The loan agreements also include an exemption from confidentiality rights in connection to the assignment.

However, the law does state that borrowers must still be notified of the assignment within 10 days following the transfer of the rights. VTB will undertake this notification at its own expense during this period. The assignment will also be perfected upon completion of re-registration on the Unified State Register (Russian land registry) with the Federal Registration Service ("FRS").

Borrowers will be requested to change the insurance policies of the underlying loans to reflect the issuer as the first loss payee. VTB will procure that the payee re-designation is undertaken up to one year after the date of execution of the mortgage sale agreement; and is to report to the issuer and trustee on the completion of this procedure.

Upon the execution of the mortgage sale agreement, the originator commenced the process of re-registration of the mortgages in favour of the issuer, in tandem with the borrower notification and execution of the individual deeds of assignment. The FRS has a one month statutory limit for the completion of the mortgage registration, provided that all the necessary application documents conform to the FRS requirements.

There is a risk of this one-month period being enlarged due to a proportion of the registration

applications being returned (and new applications having to be re-submitted); or due to delays in FRS internal procedures beyond the statutory limit. To address this risk, the note proceeds pertaining to unregistered mortgages are to be retained by the issuer up to the perfection of the assignment with the completion of the re-registration.

The retained proceeds of the issuance related to the unperfected assigned mortgages will be held in an account established by the issuer at VTB, and operated by the cash manager (The Bank of New York, "BONY", rated 'AA-(AA minus)/F1+). If these mortgages are not registered by the third interest payment date, three months after closing, the originator is obliged to repurchase the unregistered assets within 10 business days. The amounts retained in the issuer's account in VTB will be redirected as principal collections and returned to the investors.

A mechanism has been put in place to address the commingling of these retained proceeds, whereby upon a downgrade of VTB to 'BBB-(BBB minus)' or below, the cash manager will transfer the balance of the issuer's account in VTB to the account held by the issuer in BONY within 24 hours; or to a separate institution rated at least 'BBB/F2' if a transfer event is ongoing.

Fitch draws sufficient comfort that the estimated period implied by a 'BBB+' rating scenario between the downgrade of VTB and the misappropriation or sequestration of the amounts in the issuer's account within a VTB default would exceed the 24 hours for transferring the retained proceeds.

##### *Servicer/Back-Up Servicer*

In the structure, the originator, VTB, will act as the servicer of the collateral. A back-up servicer has been identified, Raiffeisenbank Austria, ZAO ("RA"), which would be able to take over all the servicing functions of VTB at short notice. RA is the Russian subsidiary of the Raiffeisen ZentralBank Oesterreich, AG ("RZO", Credit Support 1, Austrian sovereign rating of 'AAA'). RZO is the third-largest banking group in Austria and has been present in Russia since 1996, commencing retail banking in 1999. It is the sixth largest bank in Russia in terms of consumer lending.

A rating trigger has been put in place such that if VTB is downgraded to 'BB+' or below it is obliged to transfer all mortgage loan files to a data custodian acceptable to the trustee and to transfer to the back-up servicer a copy of the back-up tape containing updated information on the borrowers and mortgage loans.

Each interest period under the mortgages runs for one calendar month ending on the 21st, and the borrowers are entitled to a grace period to pay the due instalment up to the 28th. Whilst no termination notice has been served, the servicer is entitled to transfer the collections to the issuer's account in the BONY up to 5pm two business days after the 28th. During this period, up to one month of collections will be exposed to VTB risk. Fitch has accounted for this commingling risk within a 'BBB+' rating scenario by deducting one full month of collections at the most vulnerable point of the transaction.

#### *Interest Rate Hedging*

The transaction benefits from an interest rate swap provided by Barclays Bank PLC ('AA+/F1+'). The swap will hedge the interest rate risk between the fixed rate receivables and the Libor-based coupon of the notes. The counterparty will exchange US dollar Libor by a fixed swap rate of [●] over the principal amount outstanding of the performing mortgages. In the event that the issuer has insufficient income receipts to make full payment of all amounts due to the swap counterparty, all payments made by the swap counterparty will be reduced by the same percentage.

#### *Reserve Fund*

At closing, the issuer will establish a fully funded reserve fund of 2.5% of the offered initial note balance, using the proceeds of a subordinate loan extended by VTB. In the event of it being drawn, the reserve fund will be replenished by capturing excess spread in the reserve fund replenishment position of the revenue priority of payments. The reserve fund is not allowed to amortise.

#### *Liquidity Facility*

A liquidity facility provided by HSBC Bank plc ('AA/F1+') will be available to cover interest shortfalls subject to certain conditions. The initial limit of the facility is equivalent to 6% of the note issuance. The liquidity facility will be allowed to amortise down to a floor of 2% of the initial balance of the notes if the following requirements are met:

- the reserve fund is at its required amount and there is no debit balance under the PDL;
- no drawn amounts are outstanding under the liquidity facility; and
- the current balance of loans more than 90 days in arrears is less than 5% of the current outstanding balance of the notes.

The liquidity facility will be available to cover interest shortfalls recorded in the pre-enforcement priority of payments after the application of the cash reserve, the available revenue collections and

amounts available to be drawn under the international payment facility; subject to the following conditions:

- The liquidity facility may be applied towards Class C interest shortfalls if:
  - the debit balance of the Class C PDL is under 33% of the balance of the Class C notes; and
  - the drawn and outstanding amounts of the liquidity facility are within 33% of the liquidity facility limit.
- The liquidity facility may be applied towards Class B interest shortfalls if:
  - the debit balance of the Class B PDL is under 20% of the balance of the Class B notes; and
  - the drawn and outstanding amounts of the liquidity facility are within 20% of the liquidity facility limit.
- No conditions are necessary to be met for covering Class A interest and senior fee shortfalls.

Adequate downgrade language has been introduced in the liquidity facility agreement in accordance with the Fitch liquidity support criteria.

#### *International Payment Facility*

As the Class A notes are rated above the Russian country ceiling of 'BBB', a facility has been made available in the amount of 18 months worth of Class A and B note interest and senior fees to provide liquidity in the event that the Russian government imposes certain restrictions<sup>4</sup>. These restrictions may take the form of either a convertibility or a transfer event. A convertibility event will occur if the Russian government prohibits or restricts the conversion by the borrowers or the servicer of Russian rubles into US dollars for the purpose of meeting their obligations under the mortgage loans; or if the US dollar obligations of the borrowers or the servicer are required to be paid in Russian rubles. A transfer event will occur if regulations are enacted that restrict the transfer of US dollars out of the Russian Federation into the issuer's account.

While a transfer or a convertibility event is outstanding, VTB must apply all US dollar and/or Russian ruble principal and revenue collections into certain accounts (the International Payment

<sup>4</sup> Fitch currently makes no distinction between the 'BBB' sovereign rating of the Russian Federation and the 'BBB' country ceiling, the rationale being that in the event of a sovereign default, the government would impose restrictions on the transfer of hard currency out of the country by non-sovereign entities and ration this foreign exchange in order to service its own foreign debts.

Collection Accounts) established at ZAO Raiffeisenbank Austria. An international payment facility will be extended by VTB to cover the transfer of these collections towards senior expenses and interest payments under the Class A and B notes during a maximum cumulative period of 18 months. The facility will be guaranteed by the International Finance Corporation, credit-linked to the World Bank ('AAA/F1+'), and will accrue a 0.5% commitment fee and a 2% margin over US dollar Libor on the drawn amounts, both to be paid in a senior position in the waterfall. The facility amortises in line with the redemption of the Class A and B notes.

### *Revenue Priority of Payments*

The structure incorporates a separate principal and income priority of payments of the monthly distributions. Prior to enforcement of the deed of charge, the issuer will apply all revenue funds towards the following pre-enforcement priority of payments:

- a. trustee and other senior expenses;
- b. fees and other amounts payable under the international payment facility agreement and the respective guarantee agreement;
- c. servicing and standby servicing, cash management and paying agent fees, and amounts payable to the GIC account bank;
- d. pari-passu and pro-rata:
  - fees and amounts payable to the liquidity facility provider;
  - payments due to the swap counterparty prior to a termination of the swap agreement due to default of the swap counterparty.
- e. interest due on the Class A notes;
- f. amounts to be credited to the class A PDL;
- g. interest due on the Class B notes;
- h. amounts to be credited to the class B PDL;
- i. interest due on the Class C notes;
- j. amounts to be credited to the class C PDL;
- k. replenishment of the reserve fund up to the required amount;
- l. payments due under the subordinated loan;
- m. swap counterparty "default" payments; and
- n. subordinated payments and release of excess spread to the originator.

Prior to the enforcement of the security and the transaction legal maturity, the notes will be redeemed sequentially. In the event the following conditions are verified, the notes will amortise pro-rata:

- the ratio between the outstanding balance of the Class A notes and the balance at closing of the

Class B and C notes is less than 50% of the ratio at closing;

- the ratio between of the current balance of loans more than 90 days in arrears over the aggregate current balance of the portfolio is less than 5%;
- the balance of the PDL is zero;
- the reserve fund is at the required amount;
- no amounts are outstanding under the liquidity facility; and
- the outstanding balance of the notes is less than 10% of that at closing.

### Optional Redemption

At the issuer's option, it is possible to redeem all of the remaining outstanding principal amounts of the notes under the following circumstances:

- following certain adverse tax changes with a potential impact on the notes; and
- when the outstanding balance of the notes is less than 10% of that at closing.

### ■ Legal Structure

Russia does not have a specific securitisation law for cross-border transactions. Federal Law No. 152-FZ, *On Mortgage-Backed Securities* expressly provides for the true sale of mortgage assets and the issue of mortgage-backed securities but only to a domestic SPV. Therefore, an offshore SPV, such as the one employed in this structure, does not benefit from the provisions of the legislation. Any securitisation under Russian law must therefore rely on the general provisions of Russian Federal law to carry out a true sale.

The transaction legal opinions are able to confirm that the essential components of a true sale are achieved under the transaction documents. There is, however, some degree of uncertainty as to the grounds on which such an assignment may be challenged. For example, it is not clear at this stage of the development of the legal framework, whether any potential challenge on grounds of an "undervalue" could be launched (primarily due to a lack of analogous transactions). In addition, there is some debate regarding the precise character and application of the relevant rules and principles, although transaction counsel is able to rely on a number of arguments to come to the conclusion that these risks are limited.

However, the transaction opinions contain significant qualifications in the application of law within the Russian court system. In addition to there being no doctrine of binding precedent, the legal opinions point out that there is at present considerable inconsistency of analysis and in the reporting of judgements. In addition, judicial lack of

understanding and the independence of the judicial system and its immunity from economic, political and social influences in Russia remain uncertain.

These qualifications do not mean that transactions are incapable of enforcement in Russia – they do, however, reduce the legal certainty with which the assessment can be made as to whether the isolation of the portfolio assets will be able to survive the bankruptcy of VTB. Investors should note that the agency sees substantially more systemic uncertainty regarding the legal regime in Russia than it does with respect to regimes in Western Europe as well as those in many other emerging market countries.

Fitch has assumed that a challenge to the true sale might take place, but only upon the insolvency rather than a default of VTB. Thus, regardless of whether the true sale can be successfully challenged, for it to be actually litigated would require the initiation of bankruptcy proceedings against VTB. In Fitch's view, there is a lower probability of bankruptcy proceedings being initiated against VTB than the probability of a financial default by VTB.

The fact that the originator is a major (second-largest in Russia) state-owned bank of systemic significance, with an important international reputation, is central to Fitch's analysis and assumptions in rating above the originator IDR. VTB is helping to execute the government's social agenda of developing the housing market in Russia, and this should help insulate the transaction from any arbitrary and politically-driven legal outcomes and expropriation.

#### ■ Origination and Servicing

VTB is 99.9% owned by the Russian state through the Federal Property Agency. It is the second-largest bank in the Russian Federation by assets and equity, with a market share of approximately 7%. VTB has close ties with the Russian state. Its supervisory board includes senior members of the Russian government including the Minister of Finance and the Central Bank of Russia, and the bank often works with important state-owned companies. The bank's assets have grown by 300% in the past three years, based on the strength of its traditional corporate lending activity and an actively developed retail business that includes consumer loans, mortgages and SME lending. Financial performance has been solid and profitability has increased and return-on-equity was 10.7% in the latest financial year.

The 'BBB/F3' rating of VTB reflects the bank's ownership and the strength of its franchise, the quality and diversification of its assets and its satisfactory liquidity and profitability. In the event of financial distress, it is expected that the Russian state

#### VTB

Risks to "True Sale"	Mitigating Arguments Presented
The novelty of securitisation in Russia means that courts will be unfamiliar with the relevant issues.	The domestic securitisation law "On Mortgage-Backed Securities" (2003), although not strictly applicable to a cross-border transaction, may still offer guidance.
Criteria for the assignment of claims (receivables) are not entirely clear. While the consensus view is that applicable criteria can be identified, these have not always been consistently applied.	Certain Russian laws including the MBS Law, "On Mortgage (Pledge of Immovable Property)" and "On State Registration of Immovable Property" expressly permit the assignment of mortgage loans. In addition, assignability is expressly stipulated in the standard loan agreement.
Assignment may require borrower consent if the identity of the lender is crucial for the borrower.	The consensus view is that the identity of the obligor is not crucial unless such assignment materially affects the rights and interests of the debtor.
Upon the initiation of insolvency proceedings, the assignment could be challenged on a number of insolvency-specific grounds: preference, undervalue, interested party transactions and executory contract.	Specific periods and conditions apply with respect to each of these and so the scope of their application is limited. However, it should be noted that, with regards to "undervalue", the valuation is prescribed to be done by reference to "analogous transactions", which are rare in Russia. However, as the portfolio is sold at par value, this risk is mitigated to some extent.
Inconsistent legal analysis within the court system and the possibility of economic or political influence in decision-making.	Decisions may be appealed to higher levels, which tend to demonstrate better commercial understanding and consistency of analysis.
Although the publication of laws is systematic, a court or tribunal could apply regulations that are not readily accessible.	This is not known to have occurred in a commercial context very frequently.

Source: Fitch

would assist the bank if this need arises, via liquidity support from the central bank and capital contributions from its shareholder. During the Russian financial crisis of 1998, VTB did not suspend operations and continued to execute payments and settlements and the bank fully honoured all of its obligations to clients and creditors.

#### Pre-Qualification

The originator's target clients are residents and non-residents of the Russian Federation aged between 21 and 55 and with a high level of income, on average USD25,000. The mortgage application is initiated via a web site form or by calling a hotline. Loan officers collect all documents and applications and assemble the credit file to send to Underwriting. This

currently takes approximately 2-3 days. In the future, this will take 12 hours as the bank is improving its credit scoring system, standardising and formalising criteria, automating manual procedures and changing the decision-making system via a workflow system enabling the electronic exchange of docs and signatures.

#### *Credit Approval*

The originator uses a proprietary scoring model, which examines personal data, solvency, creditworthiness and own-fund sufficiency.

Solvency scoring takes into account the income and outgoing expenses of the borrower and employment history including whether an employee is self-employed or works for a large/small company. Self-employed borrowers must have been in business for at least 18 months, with particular attention placed on businesses that survived the 1998 financial crisis. The following ratios are used;

- payment to net income: 40%; and
- obligations to net income: 60% (includes alimony and other liabilities and loans).

Creditworthiness checks are also carried out, although there is currently no credit bureau in Russia, so a subjective assessment takes place that looks at the credit history of borrower bank accounts and other obligations such as rental payments and utility bills. Solvency and payment-capacity depends on the analysis of the quality and sustainability of income sources. Sufficiency of own funds is derived from an examination of personal savings, funds gained from sale of property, gifts from relatives and employer grants.

#### *Appraisals*

VTB uses external property experts licensed by the Russian Federation. Experts calculate the market value of the property, using the methodology approved by the Russian Evaluators' Society and combining three approaches: (i) Comparative approach, based on the market value of similar properties, (ii) Alternative approach – deriving the market value from the present costs of a new construction of similar properties, and (iii) Revenue/capitalisation approach, market value as a present value of the revenues from the exploitation of the property plus its residual value.

#### *Servicing*

While VTB's programmes are similar to prime lending products in other jurisdictions such as the UK and the Netherlands, the arrears management process appears more active and more akin to the process used for servicing sub-prime, non-

conforming loans. Since the level of arrears and enforcement activity has been low, the process is relatively untested. Fitch has some concerns about VTB's ability to effectively manage the arrears and enforcement process should delinquencies escalate rapidly. The agency, however, views the management team's involvement in the development of the Russian mortgage market and extensive knowledge of mortgage legislation and the foreclosure process coupled with documented policies and procedures as appropriate mitigants.

Mortgage administration is the main responsibility of the Debt Service Division ("DSD") and consists of seven full-time employees ("FTEs") including a manager who has been with VTB for several years and has over 10 years' industry experience. One analyst within DSD is dedicated to reporting (creation, generation and distribution). Besides the day-to-day servicing, including payment processing and loan set-up, DSD is also responsible for monitoring insurance, verifying the registration of pledges against the collateral securing the mortgage and reviewing and preparing cases for approval relating to reconstruction loans.

DSD works with the Operational Division and Account Division in the monthly payment processing function. As a condition of the mortgage, two accounts must be opened – for debt service and annuity payments. The latter relates to 97% of VTB's portfolio, while all but 3% of monthly payments are due between the 20th and 28th of each month. While deposits into each borrower's Russian ruble-denominated current account are made via bank transfer or cash deposit, all payments from borrowers' current accounts into the respective payment account are processed in US dollars through direct debit. Prepayments not less than USD500 or full redemption of the loan is typically allowed within the first three months following loan completion without penalty. For the eight months ending on 31 August 2005, the average monthly prepayment rate was 1.12% for VTB's total mortgage portfolio, around 14.3% on an annualised basis.

For insurance, DSD reviews all three policies (life, building and title) acquired by the borrower. Borrowers are contacted two weeks prior to expiration to verify extension of coverage, and for VTB to obtain documentation or proof of coverage. VTB does not have a block policy where the lender's interest in the asset securing the mortgage is protected as with originators in other jurisdictions such as the UK, so there is some credit and operational risk if the collateral is damaged following expiration or cancellation of building

insurance. VTB, however, can call the mortgage due, declare the loan in default and, if necessary, begin enforcement of the collateral.

The reconstruction loans issued by VTB are additional credit facilities provided to borrowers remodelling or refurbishing their homes or flats. This is becoming common in Russia as borrowers acquire second flats adjacent to their primary residences, and reconstruct the units into one apartment. Prior to beginning any remodelling, borrowers must maintain special permission from the local authority. DSD reviews all reconstruction requests and prepares a package to submit to committee for approval. The servicer, on behalf of the lender, must approve the request before it can be presented to the government agency.

VTB's mortgage loans have a fixed interest rate over the life of the loan. Early amortisation is possible after the first three months. Payments are mostly made by direct debit between the 20th and 28th of each month.

#### *Collections and Arrears Management*

DSD is responsible for the early collection process for the first 30 days of delinquency before the loan is transferred to the Legal Department to begin enforcement and foreclosure. Although arrears at VTB, as with the Russian market, have been low (currently 0.001% of total portfolio), detailed procedures have been developed for managing the arrears process, including timelines for borrower contact by telephone, letter and in-person meetings.

To prevent overdue payments, DSD contacts borrowers and, if necessary, third party guarantors and other persons connected with the borrower or guarantors within three days prior to the due date. DSD also communicates closely with the Operations Division to verify available cash within each borrower's current account to identify possible arrears. Borrowers are contacted by telephone within one day of the payment date in conjunction with issuance of a system-generated letter. The vast majority of arrears are cured within two business days. This process is continued until the loan is more than 30 days delinquent, at which point DSD prepares a committee package to recommend (a) debt restructuring or modification or (b) full recovery of the debt. The package includes the following:

- collateral review, including valuation;
- assessment of borrower solvency and potential to repay; and
- inquiry letter to Underwriting division for more underwriting information.

If attempts to contact the borrower are unsuccessful, the borrower is unwilling to pay or refuses to

cooperate with VTB, DSD prepares a recommendation to committee to recover debt through judicial enforcement at which point the loan is passed to the Legal Department.

#### *Enforcement and Foreclosure*

Mortgages in Russia are regulated by the government and changes to the legal code over the past few years are designed to create a more creditor-friendly environment. Collateral enforcement can be handled through court action or extra-judicial measures including public auction. As only six cases nationally have been processed through Russian courts (according to VTB), information on the process is limited and based more on theory than practice. Some key facts about the foreclosure process include:

- full satisfaction of pledge (mortgage) with court decision (no recourse to borrower if shortfall unless through auction);
- situations requiring court decision include:
  - a. no agreement being reached between the parties for an out-of-court resolution;
  - b. property presents considerable historical, artistic or cultural value; and
  - c. borrower is absent and cannot be located;
- open (court ordered) auction can be postponed for one-year per request of borrower;
- extra-judicial or out-of-court remedies sought if lender(s) and borrower(s) enter into notarised agreement;
- initial (minimum) selling price at open auction fixed by court using appraisal ordered by court or through agreement executed by all parties: VTB believes it can recommend the appraisal company; and
- foreclosure can be initiated following any three arrears (non-successive) in any 12-month period regardless of delinquency timeframe.

Extra-judicial foreclosure requires agreement by all parties involved in the mortgage loan with the appropriate certificate or document witnessed by a notary. Both judicial and extra-judicial foreclosure resolutions are processed through the following procedures:

- Out-of-court resolution is handled through a public sale.
- If the first sale is unsuccessful, a second sale may occur at an unregulated open auction where the property price may be lowered by 10%. This second sale requires agreement of both parties.
- If a public sale is unsuccessful then lender can repossess the asset.

- Eviction can commence immediately upon repossession as borrower's right to use the asset stops.
- Temporary housing granted by lender up to the sale of the repossessed property.

Due to limited experience within VTB and nationally, the timing and expense relating to foreclosure are theoretical. While borrowers may be unfamiliar with the foreclosure process and recent legislative changes, it is more likely that VTB (like other lenders) will be able to encourage borrowers to accept extra-judicial foreclosure. How quickly VTB can assess the solvency of the borrower may also affect the volume of out-of-court resolutions. However, as the mortgage market grows and foreclosures increase, borrowers may become more familiar with the process and the protections afforded them within the law; thus, potentially decreasing the likelihood of out-of-court settlements in favour of a judicial resolution.

A dedicated team within the Mortgage and Consumer Loans department carries out the work-out process starting with a "soft collection" phase when delinquencies go over five days past due. The "hard collection" phase starts with delinquencies

over 30 days past due and may embrace a detail analysis of the causes and personal meetings with the borrower and includes: (i) re-setting the interest rate, (ii) restructuring the loan, (iii) demanding immediate repayment, (iv) private sale of the property, and (v) foreclosure. Foreclosure measures have to be decided by the board. Due to the high quality of VTB's residential mortgage portfolio there have been no foreclosure proceedings so far. VTB would generally try to reach extra-judicial arrangements with borrowers.

#### ■ Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at [www.fitchresearch.com](http://www.fitchresearch.com). Further information on this service is available at [www.fitchratings.com](http://www.fitchratings.com).

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.

■ Russian Mortgage Backed Securities 2006-1 S.A.

RMBS/Russian Federation

Capital Structure

Class	Expected Rating	Size (%)	Size (USDm Equiv)	Spread	I/P PMT Freq	Maturity	ISIN
A	BBB+	84	74.2	[●]bps	Monthly/Monthly	May 2034	XS0254447872
B	BBB	12	10.6	[●]bps	Monthly/Monthly	May 2034	XS0254451395
C	BB-	4	3.5	[●]bps	Monthly/Monthly	May 2034	XS0254451551
		Size (%)	Size (USDm)				
<b>Initial Reserve Fund</b>		2.50	2.2				
<b>Initial Liquidity Facility</b>		6.00	5.3				

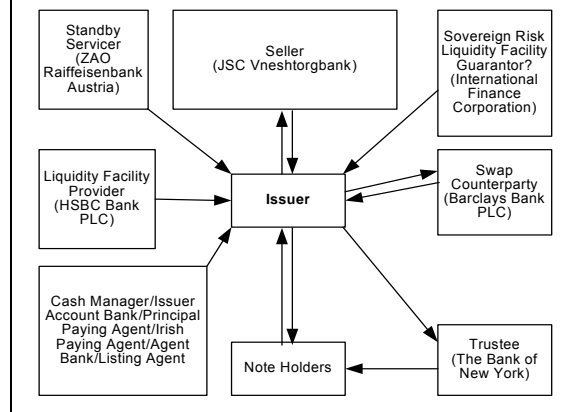
Key Information

<b>Expected Closing Date</b>	[15 August 2006]	<b>Parties</b>	
<b>Country of Assets</b>	Russian Federation	<b>Seller/Originator</b>	JSC Vneshtorgbank
<b>Structure</b>	Sequential Pass-Through	<b>Servicer</b>	JSC Vneshtorgbank
<b>Bloomberg</b>	[●]	<b>Back-Up Servicer</b>	ZAO Raiffeisenbank Austria
<b>Settlement</b>	Clearstream, Euroclear & DTC	<b>Joint Lead Managers</b>	Barclays Capital and HSBC Bank
<b>Listing</b>	London Stock Exchange	<b>Trustee</b>	The Bank of New York
<b>Analyst</b>	Pablo Perez pablo.perez@fitchratings.com +44 20 7417 4263 Wasif Kazi wasif.kazi@fitchratings.com +44 20 7862 4168	<b>Interest Rate/Basis Rate/Currency</b>	Barclays Bank PLC
		<b>Swap Counterparty</b>	
		<b>International Collections Acc. Bank</b>	ZAO Raiffeisenbank Austria
		<b>GIC Provider/Account Bank</b>	The Bank of New York
		<b>Intern. Payment Facility Guarantor</b>	International Finance Corporation

Others (Summary)

<b>Short-Term Rating Triggers (Minimum)</b>	
Interest-Rate Swap Provider	F2 and BBB+
Issue Account Bank	F2 and BBB+
Note Proceeds Bank	F3 and BBB
<b>Credit Committee Highlights</b>	
First RMBS issuance from the Russian Federation	
The transaction will benefit from a non-amortising 2% reserve fund, and a liquidity facility in the initial amount of 6% of the issuance	
Transfer and convertibility risk is mitigated by a USD10m payment facility guaranteed by the International Finance Corporation, a subsidiary of the World Bank	
The collateral was analysed with RMBS assumptions specifically developed for the Russian Federation jurisdiction	
The collections may be commingled with VTB during a period of up to eight days. This risk has been sized for	
The mortgage sale agreement will be perfected with the registration of the mortgages in favour of the issuer. The seller is to undertake this re-registration during a period up to three months after closing	
Any unregistered mortgages outstanding on the third interest payment date are to be repurchased by the seller	

Simplified Structure Diagram



Fitch Default Model Outputs

Rating Level (%)	BBB+	BBB	BB	B
<b>WAFB</b>	19.28	14.60	11.40	9.59
<b>WARR</b>	63.83	65.37	83.78	95.11
<b>WAMVD</b>	51.33	50.88	40.88	30.88

Collateral

<b>Pool Characteristics</b>		<b>Regional Concentration (%)</b>	
Current Principal Balance	90,600,876	Moscow	89.15
Average Current Loan per Borrower	53,420	St. Petersburg	10.85
Number of Loans	1,696	First Ranking (%)	100
WA Seasoning (Months)	12	Self-Employed and Business Owners	6.45
<b>Loan to Value (LTV) (%)</b>		Owner-Occupied (%)	100.00
WA Original LTV	70.35	<b>Arrears (After One Month Past Due) (%)</b>	
WA Current LTV	65.39	0-30 Days	1.11
WA Current Indexed LTV <sup>1</sup>	63.65	31-60 Days	0.00
<b>Mortgage Characteristics (%)</b>		61-90	0.00
Less Liquid Properties <sup>2</sup>	7.82	>= 90 Days	0.00
Interest-Only Loans and Partial Repayment	20.66	Fixed Interest Rate	100.00

<sup>1</sup> Based on only 50% credit given to upward movements in indexation and 100% weighting applied to downward movements

<sup>2</sup> Particularly large or small properties at less liquid extremes of market

Source: Fitch, Pool cut of 30 April 2006 provided by VTB

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