

Publication Date: March 20, 2008
 Presale Report: RMBS/Russia

RUMBA S.A. RUR6,817 Million Fixed-Rate Notes

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This presale report is based on information as of March 20, 2008. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of initial credit ratings that differ from the preliminary credit ratings.

Class	Prelim. rating*	Prelim. amount (Mil. RUR)	Available credit support (%)†	Interest	Step-up margin	Optional call date	Legal final maturity
A	BBB+	6,135	23.00	Fixed (8.75%)	N/A	April 2013	October 2040
B	BB	682	13.00	Fixed (9.00%)	N/A	April 2013	October 2040

*The rating on each class of securities is preliminary as of March 20, 2008, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address timely payment of interest and ultimate repayment of principal for the class A notes and ultimate repayment of interest and ultimate repayment of principal for the class B notes.
 †Available credit support includes overcollateralization of 6.5%, a reserve fund of 2.25%, and a commingling reserve fund of 4.25%; these will be funded at closing from the proceeds of a subordinated loan advanced to the issuer.

N/A—Not applicable.

Transaction Participants	
Originator	KIT Finance Investment bank
Lead arranger	Morgan Stanley & Co. International PLC
Seller	KIT Finance Investment bank
Issuer	RUMBA S.A.
Stichting	Stichting RUMBA
Mortgage administrator/servicer	KIT Finance Investment bank
Standby mortgage administrator/servicer	Limited Liability Company "CityMortgage Bank"
Custodian for the mortgage certificates	ZAO Depository Company "REGION"
Trustee	TMF Trustee Ltd.
Cash manager	Deutsche Bank AG
Issuer account bank	Deutsche Bank AG
Collections account bank	KIT Finance Investment bank

Supporting Ratings	
Institution/role	Ratings
Deutsche Bank AG, London branch, as issuer account bank	AA/Negative/A-1+

Transaction Key Features*	
Expected closing date	March 2008
Collateral	First-ranking residential mortgages
Originator	100% KIT Finance-originated loans
Currency	100% Russian ruble-denominated loans
Mortgage priority	100% first charge
Redemption profile	100% amortizing annuity loans
Principal outstanding (RUR)	6,816,209,185
Number of loans	5,841
Country of origination	Russian Federation
Concentration	St. Petersburg (16.2%)
Property occupancy	97.3% owner occupied
Weighted-average current LTV ratio (%)	65.34
Maximum LTV ratio (%)	89.90
Average loan size balance (RUR)	1,166,959
Loan size range (RUR)	25,723 to 12,003,292
Weighted-average seasoning (months)†	11.8
Weighted-average asset life remaining (years)	16.2
Weighted-average mortgage interest rate (%)	11.7
Arrears (greater than three months) (%)	None
Cash reserve	2.25% of the initial principal balance of the loans, fully funded at closing, nonamortizing, growing to 3.75% if 90+ delinquencies > 3%
Commingling reserve fund	4.25% of the initial principal balance of the loans, fully funded at closing
Overcollateralization	6.50% of the initial principal balance of the loans
Substitution period	The transaction is static and there is no revolving period
Principal deficiency ledger	Yes

*Pool data as of Jan. 28, 2008, excluding overcollateralization assets.
 †As of March 20, 2008.

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the class A and B notes to be issued by RUMBA S.A., an SPE incorporated as a limited liability company in Luxembourg. The issuance will comprise EUR6,817 million mortgage-backed ruble-denominated, fixed-rate notes.

Interest on the notes will be payable monthly in arrears on the 25th day of each month, while principal will be paid sequentially on a pass-through basis, with a potential future switch to pro rata payment (subject to performance triggers). The structure also includes a cash reserve fund of 2.25%, a commingling reserve fund of 4.25%, and overcollateralization of 6.5% of the initial principal balance of the mortgage loans, excluding overcollateralization assets (all funded from the proceeds of a subordinated loan advanced to the issuer).

The mortgage certificates that form the collateral of the underlying pool of assets are fixed-rate, ruble-denominated loans, which are secured by a first lien over residential properties in Russia. All loans were originated by KIT Finance Investment bank (KIT).

Notable Features

The following features of the transaction are noteworthy:

- This is the first securitization of mortgage receivables by KIT;
- All of the notes being issued are fixed-rate and ruble denominated; and
- The ratings address timely interest and ultimate principal for the class A notes and ultimate interest and ultimate principal for the class B notes. If the class A notes are the most senior class, and there are insufficient funds to pay interest for the class B notes, these amounts will not be regarded as payable on that date and will instead accrue interest during the period for which interest is unpaid.

Strengths, Concerns, And Mitigating Factors

<i>Strengths</i>
<ul style="list-style-type: none">• The transaction benefits from a credit structure that provides sufficient credit enhancement and liquidity to the notes through a combination of overcollateralization, two reserve funds (fully funded at closing), and structural elements in the priority of payments that allow borrowing of principal to meet revenue shortfalls. The structural elements also allow the acceleration of payment of the notes through available revenue receipts under certain circumstances.• All the mortgage loans in the portfolio are denominated in rubles, and are not indexed to any indicator, such as a foreign exchange rate or domestic inflation. Their amount is therefore less volatile than indexed mortgage loans, e.g., loans indexed to U.S. dollars but payable in local currency.• All the mortgages relate to fixed-rate repayment loans that are repaid monthly with an annuity amortization schedule, which is typical for the Russian mortgage market. This means that borrowers are not subject to payment (or repayment) shock through changes in interest rates, shifts in the amortization profile, or potential increases in the outstanding balance of the loan.• The pool is reasonably diversified geographically, with the highest concentration being in St. Petersburg (16.2%), a centre of operations for KIT Finance.• The weighted-average LTV ratio of the pool stands at a low level of 65.34%. This can act as a buffer both against potential house price volatility and the high costs of foreclosure in Russia.

Concerns

- KIT, as originator and servicer for the portfolio, only began operations in the mortgage market in 2005, and is therefore—like most originators in the Russian mortgage market – a relatively new and inexperienced lender.
- The short and untested track record of the Russian mortgage market creates difficulties and uncertainties in quantifying risks.
- The Russian legal system remains weak and untested, subject to changes and ongoing reforms. Securitization is a novel practice in Russia and securitization concepts have yet to be tested in the courts.
- While Russia has a detailed legal framework for mortgage foreclosure, it has not yet been widely tested, so there is no body of practical cases for local experts to draw upon in assessing how foreclosure against individuals will work in practice. In the absence of any track record or procedural norms, we cannot predict with certainty the timelines or other outcome of enforcement proceedings of mortgages in Russia.
- There is a risk that the Russian authorities could provide debt relief to borrowers when defaults rise against a backdrop of deteriorating economic conditions.
- Russian law does not recognize an account holder's ability to grant security over its accounts. Therefore, the issuer will not have any security or preferred interest over the collection accounts.

Mitigating factors

- During an onsite visit, Standard & Poor's reviewed KIT's underwriting, collection, and recovery procedures. Any strengths or weaknesses in KIT's aggressive growth in mortgage origination, and any deviations in each loan's features from the market benchmark, have been captured and accounted for in Standard & Poor's credit analysis.
- Credit stresses have been appropriately increased as compared with those stresses assumed in more mature markets, to account for and address the uncertainties surrounding the untested Russian mortgage market.
- Standard & Poor's analyzed the risk associated with the foreclosure process in Russia and took it into consideration when sizing the level of recoveries on the different classes of notes.
- There is a strong level of subordination and excess spread, providing sufficient financial protection up to the 'BBB+' rating level. Credit stresses have been appropriately increased as compared with those stresses assumed in more mature markets, to account for and address the uncertainties surrounding the untested Russian mortgage market.
- To take account of potential debt relief to borrowers, for the class A notes (which have a rating level equal to that of the Russian Federation's own foreign currency rating), Standard & Poor's considered that over the life of the transaction a portion of defaulted mortgages will never recover, while a percentage of defaulted mortgages will be restructured through a change in the characteristics of their amortization plans and the interest rate payable on them.
- The servicer will sweep all cash in the onshore collection account to the offshore transaction account daily. Furthermore, a commingling stress has been applied as a credit loss in the cash flow model.

Transaction Structure

Before the issue date, KIT sold a portfolio of mortgage loans to RUMBA under a framework and individual mortgage certificate purchase agreements. This sale occurred under Russian law. All mortgage loans were ultimately originated by KIT, and all mortgage certificates will benefit from a repurchase obligation by the originator if found to be ineligible for sale (typically, if not conforming to underwriting and eligibility criteria).

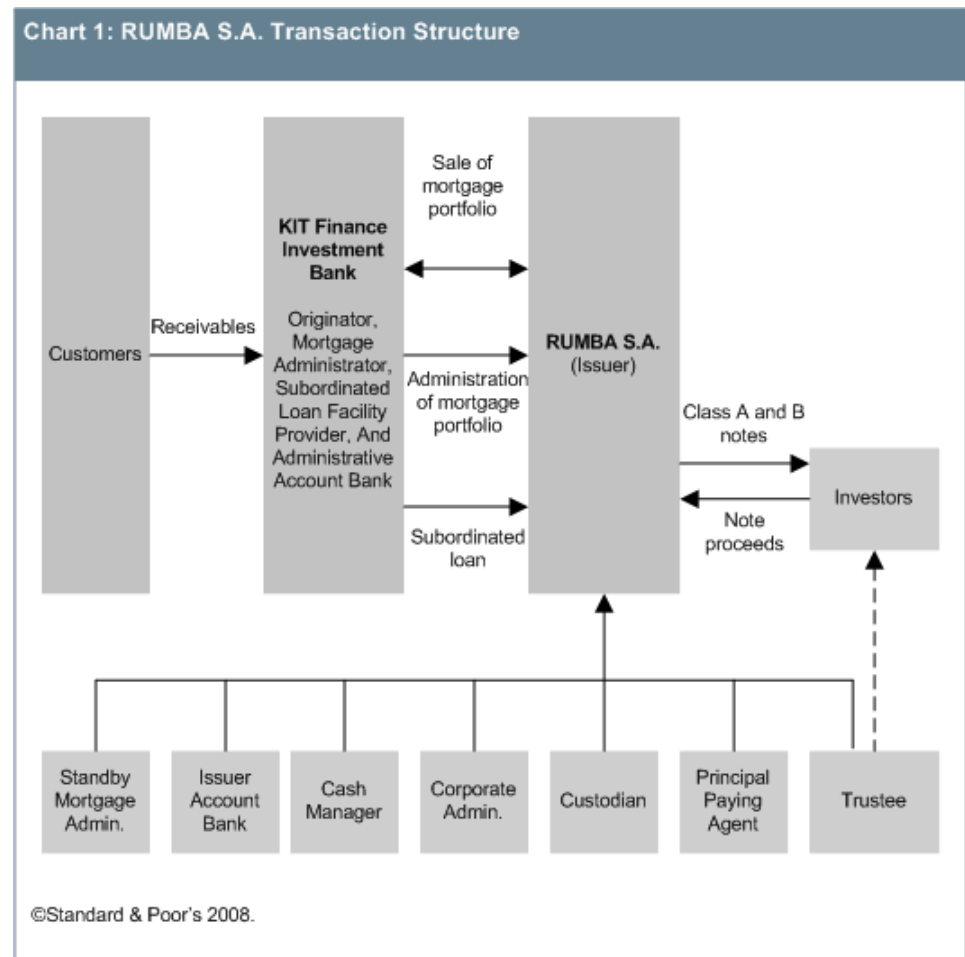
RUMBA will issue and sell two classes of rated notes (A and B), and will receive the proceeds of a subordinated loan. The proceeds of the subordinated loan will fund the reserve fund, the commingling reserve fund, and overcollateralization assets, as well as paying for certain transaction expenses.

The financing initially obtained by RUMBA for the purchase of these mortgage certificates occurred under a warehousing agreement with Morgan Stanley Principal Funding Inc. and a warehousing subordinated loan provided by KIT. The issuance of the notes and provision of the subordinated loan will refinance in full the provisions under these financing agreements. Consequently, on the issuance date, the obligations of the issuer under these documents, and the security created by them, is expected to be fully released.

The structure will be a pass-through transaction, therefore all interest and principal received under each loan will be allocated for payment to the corresponding notes.

The transaction will benefit from a ruble-denominated cash reserve and commingling reserve fund, to be fully funded at closing from the proceeds of the subordinated loan. The cash reserve will not amortize, and it will replenish through excess revenue in the revenue priority of payments if certain performance triggers are breached. The commingling reserve fund, on the other hand, will amortize in line with the outstanding balance of the mortgage loans (excluding the overcollateralization assets).

The seller, KIT, will be the mortgage administrator and servicer of the transaction. There will also be a back-up mortgage administrator and servicer in place (CityMortgage Bank) from the outset of the transaction.



Russian Mortgage Market

The development of residential mortgage lending in Russia initially dates from the mid-1990s, when it first became feasible for homebuyers to access credit to purchase residential property from retail banks. Volumes at that time were very small, and the Russian financial crisis of 1998 temporarily curtailed the housing and mortgage market's growth for a number of years. However, since the mid-2000s it again began expanding along with increases in the stock of private owner-occupied housing and in personal income levels (especially in urban areas).

The primary reason for this growth has undoubtedly been the housing sector's accelerated development. The origins of the private housing sector in Russia date from the early 1990s, when tenants of existing state housing programs were permitted to take ownership of their homes at a minimal expense as part of broader privatization measures across the economy. As a result, the home-ownership rate in Russia sharply increased during the course of a single decade, rising to approximately 65%-70% by the early 2000s from approximately 25%-30% in the early 1990s. Another key driver behind rising mortgage lending volumes is house price appreciation, which has been strong in Russia for several years, with particularly sharp accelerations in 2004 and 2006. An additional factor underpinning the mortgage market's growth is a dramatic decline in the absolute level of interest rates over the past decade and a more prevalent perception among lenders and borrowers that the potential range and volatility of these rates is now more stable. This has made mortgage credit more accessible to borrowers who would previously have been excluded by punitively high monthly installments. Finally, a dramatic improvement in the domestic economy over the past decade has also led to higher mortgage lending volumes. The resulting decline in unemployment rates, increase in per capita income, and growth in household wealth provided the benign macroeconomic conditions needed to consolidate the impact of the other factors outlined above

Mortgage products offered in Russia tend to be more uniform and less complex than those of more mature markets. One reason for this product standardization is the lending guidelines that the Agency for Home Mortgage Lending (AHML) initially passed down to smaller lenders and that some retail banks in the primary and secondary markets subsequently emulated. The standard mortgage product in Russia has the following characteristics:

- Fixed rate for the full term of the loan;
- Annuity amortization profile;
- Term of 15 to 30 years;
- Prepayment penalty for a limited period of time (typically, the initial six months); and
- Currency may be domestic (rubles) or foreign (typically, U.S. dollars).

There are certain credit risks that may have to be considered in Russia that do not exist in other markets. For instance, Russia lacks a sufficiently extensive track record of foreclosure cases upon which to build non-subjective recovery assumptions (both in terms of potential timing and loss severity). Furthermore, there is no broad or deep source of delinquency and default data to demonstrate collateral performance through a number of economic and credit cycles. However, these risks have been taken into account in the foreclosure frequencies and loss severities modelled when rating this transaction.

Originator Profile

KIT Finance, formerly known as CIT Finance, is an investment and commercial bank with its headquarters in St. Petersburg, with 57 regional offices in 55 cities in Russia, as well as offices in Ukraine and Kazakhstan. It was created in 2001 when the internet broker Web-Invest acquired a dormant bank called Palmira. The bank grew very rapidly during 2001 to 2007. The bank's main business lines include securities trading, brokerage, investment banking, finance leasing, and asset management. KIT is regulated by the Central Bank of Russia. It has over 1,600 employees, and was the 25th largest bank in Russia as of H1 2007.

Since 2005, the bank has expanded into mortgage lending, and had boosted its mortgage loan portfolio to \$900 million by July 31, 2007, and over \$1 billion by the end of 2007. As a result, the bank's mortgage loan book has more than doubled since the end of 2006. This growth has occurred both via the underwriting of loans by the bank itself and via the purchase of other banks' mortgage portfolios. (There are no loans originated by third parties included in the collateral underlying this transaction.) KIT is now the fourth largest lender in Russia (when measured by the volume of disbursements in the H1 2007), having been only the 11th largest in H1 2006.

KIT originates loans through the following channels:

- Branches (both Mortgage Centers and Loan Cash Offices): 57 offices in 55 cities (65%);
- Third-party channels: In particular, through 658 real-estate agencies and mortgage brokers (20%);
- Call centre: In St. Petersburg (15%).

However, when third-party agents are involved in the origination process, they have no determination in the actual credit decision or underwriting process.

Underwriting is undertaken centrally in St. Petersburg and Moscow, and the lending decision is not made by the local office of KIT. The maximum LTV ratio for confirmed income borrowers is 90% (or 70% for loan sizes above RUR30 million). The maximum LTV ratio for self-declared income borrowers is 80% (or 70% for loan sizes above RUR30 million). The payment-to-income (PTI) cannot exceed the maximum PTI guidelines for KIT (currently 50% of net income), while the debt-to-income (DTI) (including all borrowings) cannot exceed 90% of net income. There is an internally developed credit scoring model, and information on the borrower is also obtained from credit bureaus. All valuations are undertaken by accredited external valuation agents belonging to a list of approved valuers, who undertake a full valuation that always involves an on-site visit to the property.

In terms of servicing and arrears management, all collection activity is undertaken in-house, and there is no use of external collectors. In Moscow and St. Petersburg all collections on loans in arrears are undertaken via the central servicing departments, while in the regions the local offices of KIT may be used also (under the auspices of the servicing department).

Standard & Poor's has previously conducted a review of KIT's operations, and found them to be satisfactory. This is an integral part of the corporate overview carried out during the rating process, and is maintained throughout the life of the transaction.

Collateral Description

The provisional mortgage pool consists of approximately RUR6.8 billion of mortgage collateral, comprising 5,841 loans. The mortgage portfolio is constituted by mortgage certificates that give the right to receive the payments under the loans and give the mortgage right over the properties. Before the issue date, each mortgage certificate will be endorsed in the name of RUMBA, and all the mortgage certificate will be kept in the custody by ZAO Depositary Company "REGION", acting as custodian of the mortgage certificates.

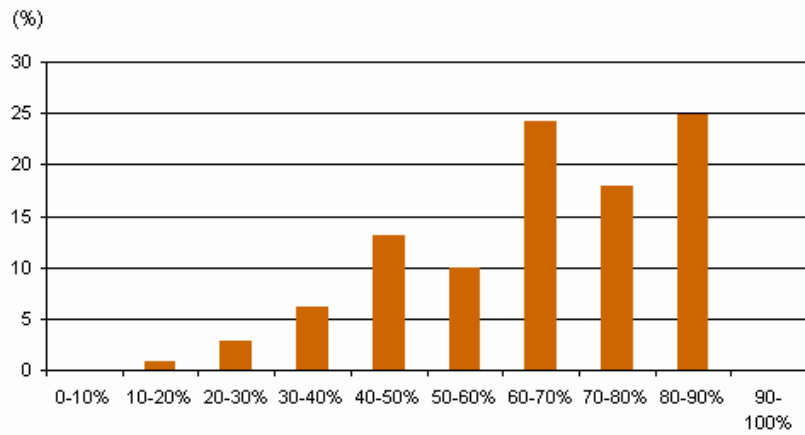
Each loan in the pool is secured by a first-lien charge on a residential property in The Russian Federation. The weighted-average LTV ratio of the portfolio is 65.34%, and the weighted-average seasoning of the portfolio is approximately twelve months. The average loan size of the portfolio is RUR 1,166,959, ranging from RUR25,723 to RUR12,003,292.

The portfolio is well diversified across Russia, with the highest concentration being in St. Petersburg (16.2%), followed by Novosibirsk (9.3%). All remaining regions have a concentration below 5%.

All the loans in the portfolio pay monthly, with an amortization schedule based on annuity payments. The loans all bear a fixed rate of interest ranging from 9.8% to 14.5%, with a weighted-average interest rate of 11.7% (see chart 4). There are prepayment penalties of either 2% during the first six months (for the "basic" product) or 5% during the first five years (for the "long-term standard" product).

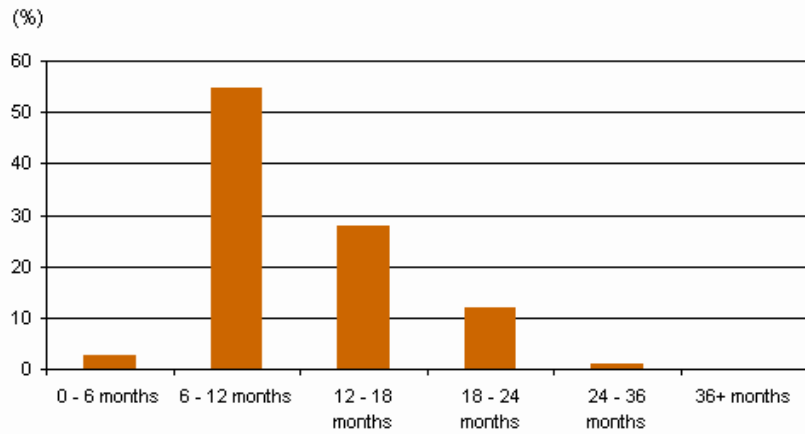
The transaction key features table on the first page of this presale report shows key portfolio statistics, while charts 2 to 5 show the portfolio breakdown by LTV ratio, seasoning, loan size, and interest rate.

Chart 2: Current LTV Ratio Distribution



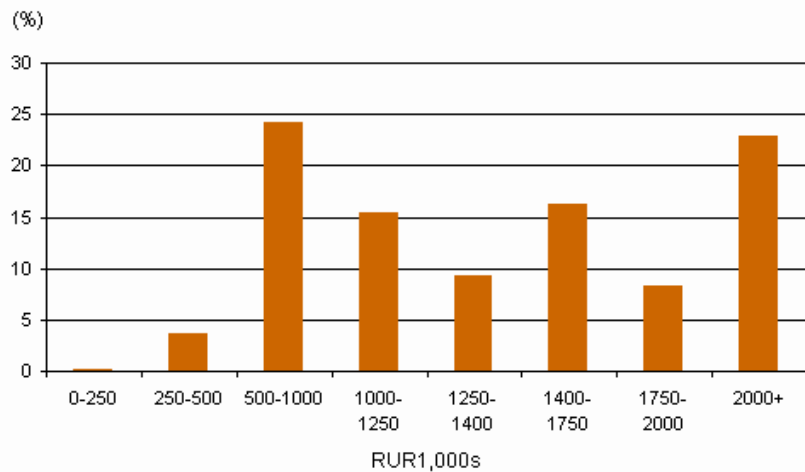
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Chart 3: Distribution By Seasoning



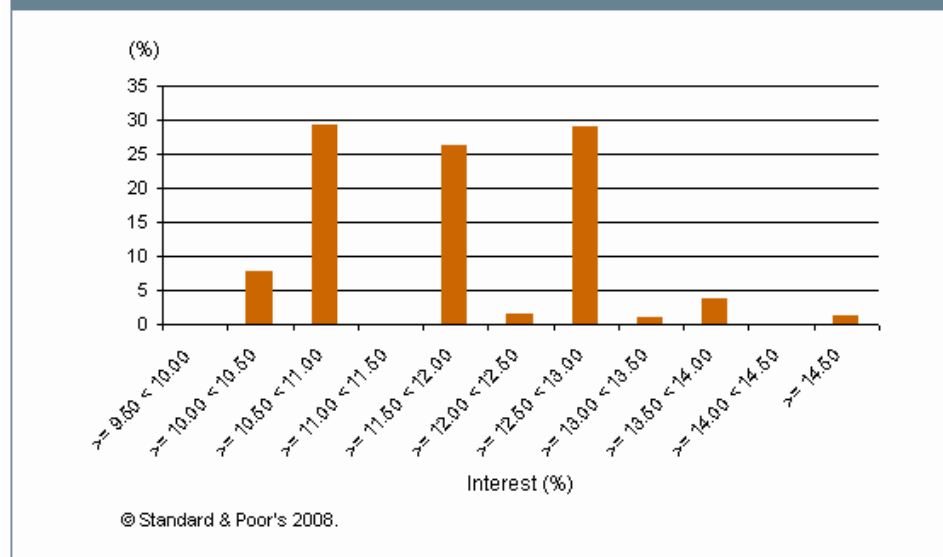
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Chart 4: Distribution By Loan Size



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Chart 5: Distribution By Interest Rate



Collateral Risk Assessment

An integral part of Standard & Poor's rating process for residential mortgage-backed securities transactions is a credit analysis of the underlying mortgage portfolio. This credit assessment includes the assignment of a probability of default to each individual loan. A base default rate is assigned to each loan in the portfolio at each rating level. The assigned probability of default is then adjusted up or down, according to the underlying borrower, loan, and property characteristics. Hence, each loan in the portfolio is associated with a unique assigned default rate, based on its underlying attributes.

Given the lack of historical information, and the untested nature of the mortgage market in Russia, the base default rate has been conservatively estimated by looking at different jurisdictions and after gathering information from mortgage players in the Russian market.

When adjusting the foreclosure frequency on loan-by-loan basis, additional penalties were applied to loans that:

- Have an LTV ratio higher than 80% (24.0% of the pool);
- Have an outstanding balance above RUR1.4 million (46.6% of the pool);
- Were located in St. Petersburg, being the only regional concentration in excess of 10% of the pool (16.2% of the pool);
- Were issued for buy-to-let/investment purposes (2.8% of the pool);
- Were provided to self-employed borrowers (11.6% of the pool); and
- Were disbursed to borrowers with partial or no official income confirmation (63.1% of the pool).

The limited experience of KIT Finance as mortgage underwriter also contributed to a higher foreclosure frequency. The foreclosure frequency was discounted for loans having an LTV ratio less than 50% (representing 39.1% of the pool), and seasoned by over 18 months (13.2%).

In relation to loss severity, the specific characteristics of the Russian market have been considered in the analysis. Standard & Poor's understands that there is detailed legislation in Russia that regulates the enforcement of mortgages against individuals. Notwithstanding these clear rules, there is a limited track record of enforcement of mortgages in Russia. This means that the local experts have very few practical examples to draw upon when estimating enforcement timelines. Given the limited existing track record, Standard & Poor's cannot predict with any certainty the timeliness or other outcome of enforcement proceedings of mortgages in Russia.

Standard & Poor's considers that there is a risk that the Russian authorities could provide debt relief to mortgagees when defaults arise against the backdrop of deteriorating economic conditions. This was specifically stressed for the class A notes, which are rated on par with the Russian Federation's own foreign currency ratings. Therefore, at this higher rating level Standard & Poor's considers that it is likely that a portion of the defaulting borrowers will have their debt restructured, and will then resume loan repayments after a period of time.

At lower rating levels, Standard & Poor's considers that it is reasonable to give credit to some level of recovery consistent with the rating on these lower tranches, based on an expectation that for a portfolio of this kind (with high geographic diversity, granularity, and low LTV ratios) there are likely to be some successful out-of-court arrangements and also (recognizing that there is a legal and procedural framework for foreclosure in place in Russia) some successful foreclosures. In particular, the low overall LTV ratios on the loans in this portfolio are likely to give borrowers an incentive to cooperate.

Standard & Poor's Stress Test

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction and, ultimately, the ability of the cash flows generated from the assets to pay the coupon on the notes on a timely basis and to repay the notes by the legal final maturity date.

The credit enhancement levels are sized after analyzing the impact that severe stress scenarios would have on the collateral. In determining the credit quality of a mortgage pool, an estimate must be made of an expected case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection needed. Such analysis determined the foreclosure frequency and loss severity on an exposure basis. In considering the foreclosure frequency, the characteristics and structure of the lending and the results of the evaluation of the originator were analyzed. The key structural characteristics considered include the loan leverage, the underwriting of the mortgage loans, and an administrator review. The foreclosure frequency and loss severity for each exposure was weighted to derive the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) at each rating level. At the 'BBB+' level, however, the determination of WALS also includes an assumption that over the life of the transaction a portion of defaulted mortgages will never recover, while a percentage of defaulted mortgages will be restructured through a change in the characteristics of their amortization plans and the interest rate payable on them. (This explains the lack of a WALS number for 'BBB+' in the table below.)

WAFF And WALS		
	WAFF (%)	WALS(%)
BBB+	23.5	N/A
BB	16.2	27.9

The transaction has been replicated using a cash flow model to test the robustness of the cash flows generated after applying severe stress scenarios to the transaction commensurate with each rating level. Stresses include defaults, recoveries, delinquencies, prepayment rates, and varying interest rate environments. Standard & Poor's also applied credit loss stresses resulting from potential loss of issuer cash due to commingling when sizing the required levels of credit enhancement.

Legal And Tax Analysis

Russia's legal system, particularly as it relates to commercial transactions, is in a relatively early stage of development. Securitization structures have not yet been tested in Russian courts. In addition, in this transaction, the laws of other jurisdictions are likely to be involved in adjudicating the issues that may arise in the transaction. Initial ratings, therefore, will be subject to receipt of comfort on the legal and tax aspects of the transaction.

This comfort will be expected to address security, true sale, insolvency, and tax matters, as well as data protection and bank secrecy issues under all the relevant laws (namely, the laws of Russia, England, and Luxembourg). This will be expected to include an analysis of sale arrangements that supports a conclusion that the assets purchased by the issuer are effectively isolated from KIT's insolvency risk. Standard & Poor's will also expect to receive comfort that payments to the issuer are free from withholding tax and that no VAT is payable by the issuer, or if it is, that it and any other taxes due by it will be funded.

Credit Structure

Cash collection arrangements

All the borrowers in the portfolio pay monthly, with the borrowers' individual payment due dates being dispersed throughout the month. These payments will be received in the collection account. Such funds will then be transferred from the onshore collection account to the offshore transaction account on a daily basis.

Interest and principal collections could become commingled with other funds of KIT if it became insolvent. This would cause a credit loss for the issuer, because the money in transit would be trapped. A commingling stress has consequently been applied on the cash flow model as a credit loss.

Reserve funds

The transaction structure includes a reserve fund held at the issuer level. This reserve will be equal to 2.25% of the initial outstanding balance of mortgage loans, and it cannot amortize during the life of the transaction. If the level of defaults (as defined by loans in arrears for more than 90 days) rises above 3.0% of the outstanding balance of mortgage loans at that time, then the level of the required cash reserve will be increased to 3.75% of the outstanding balance of mortgage loans. The cash reserve grows or is replenished by capturing available revenue in the revenue priority of payments. The cash reserve can be used for a number of items, including meeting senior expenses, paying interest on the notes, and recording a credit against an existing debit entry in a principal deficiency ledger (PDL) in the revenue priority of payments.

The transaction structure also includes a commingling reserve fund to address the risk that principal and interest receipts could be lost on insolvency of the collection account provider. Unlike the reserve fund, this commingling reserve fund will amortize in line with the outstanding principal balance of the mortgage loans. The size of this commingling reserve fund is expected to be 4.25% of the initial principal balance of the mortgage loans at closing.

These reserve funds will all be fully funded at closing through the proceeds of a subordinated loan provided to the issuer, and all reserve funds will be held in the issuer's transaction account outside the Russian Federation.

Overcollateralization

The transaction will be overcollateralized at closing by an amount equal to 6.5% of the initial principal balance of the mortgage loans. The overcollateralized assets will form a separately identifiable pool, and all principal and interest collections and recoveries generated by them will flow through the revenue priority of payments (none will flow through the principal priority of payments). Defaults on the overcollateralized assets do not create a debit entry to any PDL. These overcollateralization assets will be funded through the proceeds of the subordinated loan.

If on any interest payment date (IPD) the outstanding performing principal balance of the overcollateralization assets falls below 6.5% of the outstanding principal balance of the notes, the revenue priority of payments after the reserve fund will be used to repay principal on both the class A and B notes pro rata so that the ratio of 6.5% is restored.

Security for the notes

RUMBA will grant security in favor of the trustee and for the benefit of the secured creditors and noteholders. This security will comprise a first-ranking security interest under English law over its rights regarding the English transaction documents, accounts, property, assets, and rights. There will be also a pledge agreement under Russian law, by which RUMBA will grant a pledge in favor of the trustee over the mortgage certificates.

Terms And Conditions Of The Notes

Interest on the notes

Interest on the notes will be payable monthly in rubles at a fixed rate of 8.75% for the class A notes and 9.00% for the class B notes. There is no step-up provision to increase the rate payable on the optional call date.

If the class A notes are the most senior class of notes, and there are insufficient funds to pay interest for the class B notes, such amounts shall not be regarded as payable on that date and will instead accrue interest during the period for which interest is unpaid. The class B notes are consequently being rated to ultimate interest and ultimate principal; as opposed to the class A notes, which are rated to timely interest and ultimate principal.

Mandatory redemption/final redemption

There is no revolving period for this transaction, and the transaction has a pass-through structure. Consequently, on every IPD the notes will be partially redeemed in line with available principal collections received on the mortgage pool. All notes are scheduled to be fully redeemed at their outstanding principal amount on the scheduled maturity date (October 2040) at the latest.

Redemption of the class A and B notes will take place sequentially, but this can switch to pro rata after the optional call date if certain performance tests are met:

- The ratio between the class A notes outstanding and the class B notes outstanding is half that at the issue date;
- The level of 60+ days arrears is lower than 4%;
- All PDLs are equal to zero;
- The balance of the reserve fund is at the level required for that specific interest payment date; and
- The amount outstanding of the notes is greater than 10% of the initial principal amount.

Optional redemption

The issuer may exercise a call on the notes at their outstanding principal balance at that time if any of the following events occur:

- If on any interest payment date the issuer or paying agent is or would be obliged to make any withholding or deduction on account of tax from payments for the notes;
- If the principal amount outstanding of the notes is lower than 25% of the initial principal amount of the notes (clean-up call); or
- At the interest payment date falling in April 2013 and at any interest payment date thereafter (optional call).

Priority of payments (pre-enforcement)

The transaction features separate interest and principal priorities of payment before enforcement; these are both summarized below.

Revenue receipts will be applied in the following order of priority:

- Senior expenses, fees and taxes due to the trustee;
- Senior expenses, fees and taxes due by the issuer;
- Pari passu and pro rata: fees payable to the servicer, standby servicer, cash manager, principal paying agent, issuer account bank, collections account bank, corporate administrator, and custodian;
- Interest on the class A notes;
- Credit the class A PDL;
- Interest on the class B notes;
- Credit the class B PDL;
- The cash reserve, if it is not at its required level;
- Pari passu and pro rata, principal on the notes, if necessary to restore the overcollateralization ratio;
- Fixed interest due on the subordinated loan;
- Principal due on the subordinated loan;
- Variable interest due on the subordinated loan; and
- When the rated notes are no longer outstanding, the balance to the subordinated lender

Principal receipts will be applied in the following order of priority:

- An amount as revenue equal to the principal addition amount (if required, should there be a revenue shortfall);
- Principal due on the class A notes, until they have been fully redeemed;
- Principal due on the class B notes, until they have been fully redeemed; and
- When the rated notes are no longer outstanding, to the subordinated lender.

This sequential order of the principal priority of payments outlined above is subject to the conditions outlined in "*Mandatory Redemption*", "*Final Redemption*" and "*Optional Redemption*".

There is a mechanism in the credit structure that allows the use of principal to meet revenue shortfalls. If there are insufficient revenue receipts on any IPD to meet the required payments for certain items in the priority of payments, a revenue shortfall will be considered to have occurred. The cash manager will initially make a drawing from the reserve fund to the extent available and if such drawing is insufficient to make good the revenue shortfall, will deduct an available principal amount from the principal ledger and add it to the revenue ledger. However, principal receipts will not be available to cover interest payments on a given class of notes if a debit entry would thereby be made to the principal deficiency subledger for a more senior class of notes.

The proceeds of the overcollateralized assets do not pass through the priority of payments in the order outlined above. Rather, all proceeds of these assets flow through the revenue priority of payments, and none flow through the principal priority of payments.

Sovereign Risk Assessment

Aside from the risks that pertain to the credit quality of the assets, there are also non-asset-specific risks that must be assessed. Such risks involve country-specific sovereign and jurisdictional issues, including the stability of the political, legal, and regulatory systems, as well as the strength of the domestic banking and payments systems.

In determining the sovereign and country risks associated with the transaction, Standard & Poor's not only takes into consideration the broad economic risks associated with Russia, such as potential economic contraction, higher interest rates, and exchange rate movements, but also assesses specific sovereign actions that could include shifts in the regulatory regime. For instance, Standard & Poor's has assessed that the risk that the Russian authorities would interfere in the transaction is commensurate with the rating ('BBB+') on the class A notes.

In addition to the risk of sovereign interference in the transaction when the assets are mortgages, as is the case here, Standard & Poor's analysis extends to the possibility of the sovereign unilaterally easing mortgage terms in a stress scenario to provide mortgage debt relief. A number of sovereigns (such as Mexico and Argentina) have taken similar actions in a period of economic downturn to avoid the compounding of economic stress that would result from many people losing their homes. This is therefore reflected in the cash flow stresses applied to the class A notes, the ratings on which are commensurate with severe economic conditions that would lead to numerous defaults on mortgages.

Sovereign Credit Highlights

The ratings on The Russian Federation (BBB+/Positive/A-2; Foreign Currency) reflect its increasing reserve coverage (measured as months' coverage of current account payments), very low general government debt, and impressive non-commodity GDP growth. Growth is likely to exceed 7% in 2007 and 6% in 2008, driven by strong investments and impressive resilience in the manufacturing sector. Although there is likely to be a general government budget surplus of some 4% of GDP in 2007, the non-oil deficit is rapidly widening and is set to stoke inflationary pressures in an economy already operating close to capacity. For this reason any intensification of the current global credit squeeze might actually benefit Russian economic performance by moderating capital inflows and hence diminishing inflationary pressures.

Rapid external leveraging by private sector banks and public sector energy companies will lead to a gradual erosion in external ratios, albeit from levels considerably superior to the 'BBB' median. Gross external financing needs as a percentage of current account receipts plus usable reserves are likely to increase toward 83% by 2010, from the current 61%, although this will still be well inside the 'BBB' median of 114%. During 2006, despite a 37% decline in general government external debt to \$45 billion on the back of the Paris Club repayment, overall external debt increased by \$53 billion, or 5.1% of GDP, to \$310 billion. Over the same period, external debt of commercial banks doubled to a reported \$101.2 billion, or 10% of GDP, while the external debt of the non-bank sector rose 28% to \$160 billion.

Nonresident holdings of local currency corporate and banking sector debt have also increased rapidly, and stood at \$52 billion, or just below 5% of GDP, at the end of Q1 2007. Debt issuance has now replaced the current account surplus as the primary driver of foreign exchange reserve accumulation.

A significant component of this external borrowing is financing the expansion of domestic credit, which is contributing to a steady narrowing of Russia's still-formidable trade surplus. If the emerging slowdown in private sector external borrowing continues, the risks of overheating will be tempered.

Since 2004, the Russian economy has benefited from a near-continuous improvement in the terms of trade (prices of exports relative to imports). If this trend reverses, there will be a significant negative impact on growth, the budget, and export performance. A steadily narrowing current account surplus highlights the increasing role of financial flows as a driver of investment activity in Russia. A greater reliance on capital inflows also increases the importance of a transparent and well-capitalized banking system.

Over the past year, progress on banking sector reform has continued to be hampered by political constraints, creating additional risks for the real economy. Should external leveraging persist amid a narrowing of Russia's current account surplus and an absence of banking sector reform, the sovereign rating could eventually come under downward pressure. Conversely, smooth passage through next spring's political transition, followed by a reversion to fiscal prudence, could further bolster Russia's creditworthiness. This would particularly be the case if the new government accelerates progress on crucial structural reforms.

Key Performance Indicators

The transaction will be monitored regularly. Standard & Poor's will be sent reports that show the performance of the pool, defaults, and recovery levels. The key performance indicators in the surveillance of this transaction will be:

- Changes in credit enhancement for the notes;
- Total and 90-day delinquencies;
- Cumulative realized losses; and
- Constant prepayment rates.

The supporting ratings to the transaction will also be closely monitored.

Criteria Referenced

- "*Rating Methodology And Assumptions For Russian RMBS*" (published on Jan. 31, 2008).
- "*Cash Flow Criteria for European RMBS Transactions*" (published on Nov. 20, 2003).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).

Related Articles

- "*The Key Ingredient For Russia's Burgeoning Mortgage Market: Seasoning*" (published on Nov. 14, 2007).
- "*Still Untested, Russia's Securitization Market Is Demonstrating Solid Growth*" (published on May 14, 2007).
- "*As Russian Securitization Expands, Our Ratings Process Gets Refined*" (published on Jan. 17, 2007).
- "*Debt Recovery For Creditors And The Law Of Insolvency In Russia*" (published on May 7, 2007).
- "*The Next Generation Of Securitization Markets Emerges*" (published on Mar. 28, 2007).
- "*Assessing The Political Risk When Sovereigns Meet Structured Finance*" (published on Oct. 4, 2005).
- "*Weighing Country Risk In Our Criteria For Asset-Backed Securities*" (published on April 11, 2006).
- "*Legal Brief: Initial Observations On Legal Challenges In Rating Russian Securitizations*" (published on Oct. 9, 2006).
- "*Securitization Gains Momentum In The CIS Amid Strong Growth In Retail Lending*" (published on Sept. 18, 2006).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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