

Red & Black Prime Russia MBS No. 1 Limited

RMBS / Russia

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of [12 March 2007]. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

[10 April 2007]

Lead Analyst

Alix Faure
Analyst
+33 1 5330-1038
Alix.Faure@moodys.com

Backup Analyst

Martin Lenhard
Analyst
+49 69 70730-743
Martin.Lenhard@moodys.com

Additional contact

Neal Shah
Team Managing Director
+44 20 7772 5440
Neal.Shah@moodys.com

Investor Liaison

New York
Brett Hemmerling
Investor Liaison Specialist
+1 212 553-4796
Brett.Hemmerling@moodys.com

Client Service Desk

London: +44 20 7772-5454
csdlondon@moodys.com
Frankfurt: +49 69 70730-776
Paris: +33 1 5330-1047

Monitoring

monitor.rmbs@moodys.com

Website

www.moodys.com

PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	(P) A2	[\$180.9]	[84.00]	[January 2035]	\$1M Libor+[·]%
B	(P) Baa2	[\$15.1]	[7.00]	[January 2035]	\$1M Libor+[·]%
C	(P) Ba2	[\$19.4]	[9.00]	[January 2035]	\$1M Libor+[·]%
Total		[\$215.4]	[100.0]		

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- Strong underwriting and servicing standards of DeltaCredit Bank;
- Good credit characteristics of the underlying loans, in particular moderate LTVs (weighted average current LTV [65.0]%), average loan size (\$[67,856]) and average seasoning ([10] months at cut-off date);
- All the borrowers will be notified of the sale within eight weeks after closing, while the insurance providers will be notified within 12 months after closing, which gives additional comfort with regard to borrowers' right of set-off;
- Record on the Principal Deficiency Ledger (PDL) is triggered by loans in arrears for more than 180 days, which allows for an early excess spread trapping mechanism;
- All mortgages are backed by mortgage certificates ("zakladnaya"), which allows an efficient transfer of mortgages to the SPV ;
- Credit quality of DeltaCredit Bank (global long-term local currency deposit rating **A2**);
- Credit quality of DeltaCredit Bank's parent company Société Générale (**Aa2/Prime-1**) which also acts as Swap Counterparty and Liquidity Facility Provider in the transaction;
- Availability of the Reserve Fund and the subordination of junior notes.

Weaknesses and Mitigants

- Uncertainties regarding the development of Russia in terms of consumer behavior, real estate prices, the mortgage loan market and the overall political and economical environment;
- There remains a link between the ratings of Russia and the ratings assigned to the Notes, especially to the Senior Notes. This might lead to above average volatility of the ratings as it is dependent not only on the performance of the asset pool and the related parties, but also on the country ceiling;



- Pool is concentrated in the Moscow ([81.3]%) and the St. Petersburg ([16.5]%) areas, therefore the performance of the notes to a high degree depends on these two markets. This is mitigated by the fact that these two areas are among the economically strongest areas within the Russian Federation;
- Very limited historical performance data as the Russian mortgage market has developed just recently, while there is only slightly more historical data available on the performance of Russian real estate markets. Due to limited data available Moody's has used conservative estimates for certain parameters based on other similar markets, which is reflected in the size of the credit enhancement;
- Legal uncertainties still exist given that the transaction relies on some legal concepts (primarily regarding insolvency proceedings and the foreclosure process) which have not been extensively tested under Russian law. Moody's has discussed the structure and the potential legal issues in great detail with the legal counsel of the transaction. In Moody's opinion, the ratings of the notes are in line with the degree of legal uncertainty associated with this transaction. Given the uncertainties regarding insolvency proceedings under Russian law, the ratings of the Notes are likely to be affected in case the creditworthiness of DeltaCredit should deteriorate. This linkage could be reduced in the future by a further development of the legal framework regarding insolvency laws and in particular the securitisation law as well as through increased experience of Russian courts;
- Whereas all the loans in the pool are denominated in US dollars, some borrowers' income is currently at least partially denominated in roubles (but this could change going forward). Therefore delinquency and default rates might increase if the rouble depreciates against the US dollar. In addition, political risks associated with redenomination of foreign currency assets into roubles by the Russian government in case of a financial crisis could lead to additional losses for the transaction. When sizing the credit enhancement, Moody's has taken this risk into account on a probability weighted basis, so that this risk is incorporated in the credit enhancement. The occurrence of such redenomination would nevertheless most likely result in severe losses for the noteholders;
- There is no Back-up Servicer agreement signed at closing. However, Banque Société Générale Vostok ("BSGV"), a wholly-owned Russian subsidiary of Société Générale will be designated as the Stand-by Servicer for the transaction through a letter of engagement signed between BSGV and the Issuer at closing date;
- Though re-registration at the State Registry of the sale of the Mortgage Certificates from the Originator to the SPV is not required to perfect the transfer, it might provide certain practical benefits on the SPV. In this transaction the re-registration will not be performed by the Seller which can lead to delayed collection or foreclosure processes, in particular if the Mortgage Certificate is lost or damaged. However, this is mitigated by the fact that all Mortgage Certificates will be transferred to the Custodian at closing. It is also mitigated by the quality of both the Originator and the Custodian ("Region" also acting as such in previous Russian RMBS transactions);
- Given the uncertainty related to security provided over financial assets, Moody's believes that the transaction is exposed to commingling risk. This risk has not been sized, and is mitigated by the rating of the originator in the transaction and the rating downgrade triggers in place at closing, which will limit the likelihood of a loss from commingling arising. As such, the ratings on the Notes will to a certain extent be linked to the rating of the originator.

STRUCTURE SUMMARY *(see page 5 for more details)*

Issuer:	Red & Black Prime Russia MBS No. 1 Limited, SPV registered in Ireland
Structure Type:	True Sale/Pass-Through
Originators:	DeltaCredit Bank (Foreign currency deposit rating Baa2 / Global Long-term local currency deposit rating A2) and Partner Banks (see page for more details)
Seller:	DeltaCredit Bank
Servicer:	DeltaCredit Bank
Collection Account Bank:	DeltaCredit Bank
Issuer Account Bank:	The Bank of New York
Standby Servicer:	Banque Société Générale Vostok ("BSGV"), a wholly-owned Russian subsidiary of Société Générale
Interest Payments:	Monthly on the [22]th of the month, starting on [May] 2007
Principal Payments:	Monthly on the [22]th of the month, starting on [May] 2007
Credit Enhancement/Reserves:	Excess Spread, Reserve Fund, Subordination
Swap Counterparty:	Société Générale (Aa2/Prime-1)
Liquidity Facility Provider:	Société Générale
Paying Agent:	The Bank of New York
Security Trustee:	The Bank of New York
Cash Manager:	The Bank of New York
Custodian:	Region
Lead Manager:	Société Générale

COLLATERAL SUMMARY

Pool Cut-off Date:	[03 February 2007]
Pool Amount:	[\$215,376,476.37]
Collateral Type:	Russian law Mortgage Certificates ("zakladnaya"), arising from loans granted to private individuals, secured by residential mortgages on properties in Russian Federation
Loans Count:	[3,174]
Average Loan size:	[\$67,856]
WA Original LTV:	[67.7]%
WA Current LTV:	[65.0]%
WA Seasoning:	[0.82] years
WA Remaining Term:	[13.5] years
Interest Rate Type:	Fixed rate ([96.4]%) and floating rate ([3.6]%)
Geographic Diversity:	Portfolio includes mortgages on properties in the St. Petersburg area ([16.5]%), Moscow ([56.6]%), Moscow region ([24.7]%), Other regions ([2.2]%)
Loan Purpose:	Purchase
Occupancy type:	Owner occupied ([91.4]%), partially owner occupied ([8.4]%), other ([0.2]%)

NOTES

Class	Subordination	Reserve Fund(*)	Total
A	[16.0]%	[4.2]%	[20.2]%
B	[9.0]%	[4.2]%	[13.2]%
C	0.00%	[4.2]%	[4.2]%

* Reserve Fund will build up from [2.7]% at closing to [4.2]% by trapping excess spread

TRANSACTION SUMMARY

Public RMBS, securitising Russian law Mortgage Certificates

This transaction is the fifth public RMBS transaction in Russia. Red & Black Prime Russia MBS No. 1 Limited (“Issuer”), an SPV incorporated under the laws of Ireland, will issue three classes of US dollar-denominated notes to fund the purchase of receivables arising from Russian mortgage loans originated by DeltaCredit Bank and some of its Partner Banks. The Mortgage Certificates Purchase Agreement, the Collection Account Agreement, the Custodian Agreement, the Pledge Agreement and the Rouble Administrative Account Agreement are governed by Russian law, while the remaining documents are governed by English law.

The loans are denominated in US dollars and secured by mortgages on properties in Moscow, the Moscow region, St. Petersburg, and other areas. The instalments will be paid in US dollars.

COLLATERAL

Portfolio of loans granted to retail prime borrowers secured by mortgages on properties primarily in the Moscow and the St. Petersburg areas

The pool consists of an aggregated amount of US\$[215.4] million of receivables arising from [3,174] mortgage loans which are secured by mortgages on properties located primarily in the Moscow ([81.3]%) and St. Petersburg ([16.5]%) areas. All mortgages in the pool were granted for the purchase of apartments. As the pool mainly consists of mortgages secured by properties in the Moscow and St. Petersburg areas, the pool features a heavy regional concentration compared to the Russian benchmark based on population distribution. At this early stage of the Russian residential mortgage market, Moody’s considers this concentration as not unusual for pools of Russian Mortgage Certificates as these two markets were the first regional markets to develop a mortgage market and are – in contrast to most of the other markets – denominated in US dollars. In addition these two areas belong to the strongest economic regions of the country which further mitigates this excess concentration.

In addition to this regional concentration in the property markets of Moscow and St. Petersburg, the pool also features a small borrower concentration as the [20] largest loans in the pool exceed a loan amount of US \$270,000 but in aggregate represent only [2.9]% of the initial pool.

About [5.5]% of the mortgage loans in the pool were originated by Partner Banks and subsequently acquired by DeltaCredit Bank. The mortgage loans sold by the Partner Banks to DeltaCredit Bank were originated in full compliance with the procedures performed at DeltaCredit Bank which in addition re-underwrote each loan before purchasing it (please refer to the Originator’s section on page 8).

Most of the loans in the pool are fixed-rate loans ([96.4]%). The initial weighted average interest rate is [11.4]% at closing. The underlying loan conditions for the majority of loan agreements allow the borrowers to prepay after a given period of time. In Moody’s opinion this could lead to increasing prepayment rates in case the interest rates charged for residential mortgage loans in these markets could decrease over time.

All mortgages in the pool include property insurance, life and disability insurance, and title insurance for 100% of the loan outstanding for the entire life of the loan.

Eligibility criteria of the pool

In addition to DeltaCredit Bank’s strong underwriting criteria described in the respective section below, Moody’s considers as major strengths of the portfolio (i) the weighted average loan-to-market-value (LTV) of [65.0]% (ii) the maximum LTV in the pool of 85% and (iii) the fact that only [8.40]% of the pool has an LTV greater than 80%. Approximately [95.3]% of the borrowers are employed while the remaining portion of the portfolio consists of self-employed borrowers for [2.7]% and other employment type for [2]%. Approximately [91.4]% of the properties in the pool are owner occupied and the remainder are mainly [partially owner occupied]. Since the weighted average interest rate of the portfolio is [11.4]%, the portfolio provides the transaction with a sizeable amount of excess spread which represents the first layer of credit enhancement of the notes to be issued by the SPV.

The key eligibility criteria for the loans selected for the transaction include the following:

- The mortgage loan has been originated by DeltaCredit Bank or purchased from a Partner Bank;
- The amount advanced under the Mortgage Loan does not exceed \$500,000;

- The mortgaged property is located in Russia and was the subject of an independent valuation;
- The mortgage loan is denominated in US dollars;
- Each Obligor is a natural person with full legal capacity under the Russian Federation;
- The Mortgage Certificate has been duly registered with the Unified State Register.

One of the major challenges for Moody's regarding the modelling, was the limited historical performance data available. The short period covered to date by historical performance data indicates a very strong performance as only minor arrears have been experienced so far, and most of these arrears have been cured immediately. From Moody's point of view this performance cannot be solely used to project future performance as it only covers the early stages of the market and also only covers a period of very favourable economic conditions in the respective areas. Please also see the modelling section below for more details.

The Russian Residential Property and Mortgage Market

Under the planned economy, housing was generally provided by the government, therefore the private residential property market and the mortgage market only have a very limited history in Russia. After 1991, the development of the real estate market gained some momentum as the private sector became increasingly important. Due to general economic conditions, the property markets – especially in the St. Petersburg and Moscow areas – developed with prices being listed in US dollars. In particular the two regional property markets of Moscow and St. Petersburg have experienced strong increase in house prices during recent years which in turn has led to a higher demand for mortgage loans.

The property market's reliance on the US dollar, together with the lack of available long-term funding denominated in roubles led to the current situation in which the newly developing mortgage markets in the above-mentioned areas are also denominated in US dollars. As mortgage loans were rarely available during the 1990s, the growth of the mortgage market has only gained significant momentum in recent years but is still small compared to Western European countries as a very small portion of real estate transactions is funded by mortgage loans. Market estimates indicate that the total amount of outstanding mortgage loans in Russia does not exceed US dollar 3-4 billion as of the end of 2005.

Interest rates currently start at about 9.5% p.a. for US dollar-denominated, fixed rate loans and are even higher for loans denominated in roubles. Compared to the average house prices of about US\$100,000 in the two areas included in the pool, the average loan amount in the portfolio is rather small. In 2006, the Russian market experienced tremendous growth up to 80% in the Moscow area and more than 100% in Saint Petersburg.

The mortgage lending activity also continued to grow significantly in 2006 and should keep on increasing in the coming years. Moody's expects this growth and the increasing competition between lenders to contribute to the market maturing further, while the identification of risk drivers, the build-up of risk control systems, the still low disposable income of a large portion of the population as well as potentially decreasing margins over time will be among the major challenges for the further development of the market.

STRUCTURAL ASPECTS

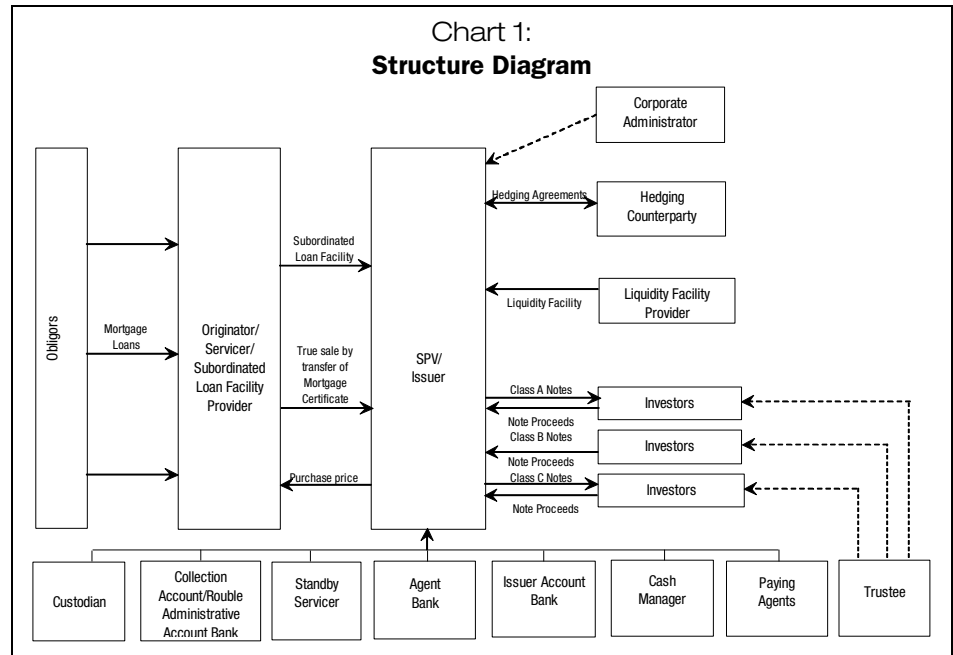
The Issuer is incorporated under the laws of Ireland and will issue three Classes of US dollar-denominated Notes in order to refinance the purchase of Mortgage Certificates from DeltaCredit Bank.

All mortgages are created pursuant to the issuance of Russian Law Mortgage Certificates, which have been transferred directly from DeltaCredit Bank to the SPV without requiring re-registration in the State Registry. A Mortgage Certificate is a security which was created in Russia in July 1998 to simplify the transfer of mortgage receivables and to facilitate securitisation. The certificate can be transferred directly by endorsing it in the name of the new owner pursuant to the relevant sale and purchase agreement and does not need to be re-registered in the State Registry to validate the sale.

*The mortgage market in Russia
literally did not exist a decade ago*

*Irish SPV buys Russian law
Mortgage Certificates*

For this transaction, all mortgage certificates will be endorsed in the name of the SPV prior to closing and kept with the Russian custodian (Depository Company "Region"). Unlike some previous RMBS Russian transactions, re-registration will not be performed by DeltaCredit Bank even though it can allow for faster replacement of stolen or lost certificates. However, the risk of loss of the Mortgage Certificate is mitigated by the role of the Custodian, and the rating of the originator, which will limit the likelihood of such arising.



Priorities of Payments

Waterfall includes two separate priorities of payments for principal and interest collections

There are two separate priorities of payments for principal and interest collections. Credit enhancement for the notes will be provided by excess spread, Reserve Fund and by the subordination for the Class A Notes ([16]%) and Class B Notes ([9]%).

The Available Revenue Funds will be applied according to the interest priority of payments as stated below (shortened) to pay:

- Senior expenses (Trustee fees, administrative expenses, certain third-party fees);
- Servicing fees and fees due to other transaction parties;
- Fees and principal due under the Liquidity Facility agreement;
- Amounts due to the swap counterparty;
- Interest on Class A;
- Principal Deficiency Ledger (PDL) on Class A;
- Interest on Class B;
- PDL on Class B;
- Interest on Class C;
- PDL on Class C; and
- Credit the Reserve Fund until it reaches required amount.

The principal collections (and other amounts credited to the Principal Ledger) will be applied to redeem first Class A and then Class B and then Class C.

Principal will be first used to meet any Revenue Shortfalls (excluding PDL).

Notes will start amortising sequentially and will switch to pro rata when some triggers are met

The notes will start amortising sequentially and will switch to pro rata amortisation if the following triggers are met:

- The subordination provided to the Class A by the Class B and C has doubled since the closing date;
- There is no debit on any PDL;
- The Reserve Fund is at its required amount;
- There is no outstanding drawing on the Liquidity Facility, and
- The aggregate balance of all loans in arrears for more than 60 days is below [5]% of the outstanding portfolio.

From closing date onward Reserve Fund will build up from [2.7]% to [4.2]% and will start amortising when some triggers are met

Principal to pay interest mechanism and a [6]% Liquidity Facility are available to meet interest shortfalls

Interest rate risk hedged through swaps with Société Générale

The PDL is debited when loans are in arrears for more than 180 days

General uncertainty regarding legal environment, political development and tax treatment of this transaction

Reserve Fund

The Reserve Fund will be initially funded at \$[5.8] Million ([2.7]% of the initial notes balance) and will build up to [4.2]% of the initial notes balance by trapping excess spread from the first Interest Payment Date. Available excess spread will then also be used to bring back the Reserve Fund to its required level in case there have been drawings in earlier periods. The reserve fund will start amortising not earlier than the 25th Interest Payment Date (two years from closing date) and when the following triggers are met:

- The subordination provided to the Class A by the Class B and C has doubled since the closing date;
- The Reserve Fund is at its required amount at the previous Interest Payment Date;
- The aggregate balance of all loans in arrears for more than 90 days represents less than [1]% of the outstanding amount of the portfolio;

Please note that the Reserve Fund level (expressed as a percentage of the then outstanding balance of the notes) achieved at the first amortisation date will be maintained until the end of the transaction with a minimum of [1.5]% of the Initial note balance.

Liquidity Facility

As already mentioned above, principal can be used to pay interest if the Available Revenue Funds are not sufficient to pay senior fees or interest due under the notes (please note that PDL is not covered by the principal to pay interest mechanism).

In addition, the Issuer will be entitled to make drawings under the Liquidity Facility Agreement to meet any interest shortfalls. The Liquidity facility will amount to [6]% of the Outstanding Note Balance (amortising) with a minimum of [2]% of the initial Note Balance. No amortisation will be allowed if the aggregate balance of all loans in arrears for more than 30 days exceeds [6]% of the outstanding amount of the performing loans.

Hedging

There is no foreign exchange risk in the structure of the transaction as all mortgage loans and all issued notes are US dollar-denominated.

At closing date, the Issuer will enter into [2] swap agreements with Société Générale, which will enable the Issuer on each Interest Payment Date to exchange amounts calculated by reference to a fixed rate of interest or by reference to U.S.\$ LIBOR applicable to the Mortgage Loans, for amounts calculated by reference to U.S.\$ LIBOR applicable to the Notes. In each case, the notional amount will equal the underlying Principal Amount Outstanding of the Notes at the start of the Interest Period.

Principal Deficiency Ledger (PDL)

Unlike previous Russian transactions, the Principal Deficiency Ledger in this transaction is debited once loan are in arrears for more than 180 days (or loss realisation, if earlier). In Moody's opinion, this mechanism allows for an earlier and more efficient excess spread trapping mechanism than when the PDL is debited once the loss has occurred under a loan, in those scenarios where there is a lengthy realisation process.

Legal and Tax Considerations

The transaction relies on some legal concepts which have so far not been tested by court proceedings. Moody's has discussed these issues in depth with the Lead Managers' legal counsel, who, in addition, has provided a legal opinion which discusses the legal issues.

Main concerns regarding the legal environment in Russia are related to the potential re-characterisation of the asset sale, the timing and the feasibility of the foreclosure process regarding the loan collateral and the generally lower predictability of decisions related to complex finance transactions by Russian courts compared to more developed financial markets.

In Moody's opinion the existence of Mortgage Certificates for all mortgages in the pool, the notification of borrowers and the credit quality of the Originator and the Custodian reduce the uncertainty related to the insolvency law and the foreclosure process. The strong quality of DeltaCredit Bank as Originator and Servicer also makes adverse scenarios less likely.

As this transaction is among the first public RMBS under Russian Law, many potential tax implications might not be fully resolved. Moody's has reviewed the legal opinion provided by the Issuer's tax advisor. According to this opinion, the issuer will benefit from a double-tax treaty between Russia and Ireland, so that prior to enforcement no withholding tax on the interest payments to the SPV will become due. In the post-enforcement case however, the applicability of this double tax treaty is endangered as once the trustee starts to enforce the security, the transaction will most likely not benefit anymore from the above mentioned treaty.

Given the generally higher degree of uncertainty in this market, Moody's is comfortable that the uncertainties regarding the legal and tax environment are in line with the ratings assigned to this transaction.

Commingling risk is mitigated by rating downgrade triggers

Collections received from borrowers are transferred once a month to the Issuer Account from Closing date. However, if the local currency deposit rating of the Collection Account Provider reaches **Baa1**, funds will be transferred on a semi-monthly basis, and if the rating reaches **Baa2**, funds will be transferred to the Issuer Account on a daily basis. Given the uncertainty related to security provided over financial assets, Moody's believes that the transaction continues to be exposed to commingling risk. This risk has not been sized, and is mitigated by the rating of the originator in the transaction, which will limit the likelihood of a loss from commingling arising. As such, the ratings on the notes will to a certain extent be linked to the rating of the originator.

Set-off risk does not apply

A set-off risk does not apply to this transaction because the only borrower's accounts opened at DeltaCredit are those to facilitate the payment of the instalments and the only monies, which are deposited into the borrowers' collection accounts, are the funds owed to DeltaCredit by the borrowers under the mortgage agreements. In addition, the sale of the Mortgage Certificates is notified to all borrowers.

DeltaCredit Bank specialises in mortgage lending and is one of the leading and most experienced banks in the residential mortgage lending market

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

DeltaCredit Bank was incorporated on February 1999 initially under the name of "ZAO CB JP Morgan". It is a Russian commercial bank licensed to perform all banking operations (including retail operations). However, following its acquisition by the U.S. Russia Investment Fund from the J.P. Morgan Group in 2001, mortgage lending has become its sole principal area of banking activity.

In November 2005, DeltaCredit Bank was acquired by Société Générale and is now part of the Société Générale Group. DeltaCredit Bank is one of the leading and most experienced banks in the Russian residential mortgage lending market. In particular, it benefits since its creation from international experienced senior management.

The mortgage market in the Russian Federation is currently becoming more competitive and is concentrated with the top seven originators (including Sberbank, Vneshtorgbank and DeltaCredit Bank) controlling over 80 per cent of the total Russian mortgage lending market. DeltaCredit is the third largest mortgage loan lender in the Russian market, and the first one not owned by State.

DeltaCredit Bank offers loans secured with a mortgage on residential property all across Russia, with a main focus in the cities and regions of Moscow, St. Petersburg, Samara/Tolyatti and Nizhny Novgorod, where it has direct presence through agency offices or representatives. DeltaCredit Bank is headquartered in Moscow and uses two main channels of distribution: the direct channel, which represents 85% of the production in 2006, through sales offices, field agents, call centre and internet, and the indirect channel, which represents 15% of the production in 2006, mainly through Partner Banks (please note that this is not reflected in the collateral of the transaction where only [5.5]% of the pool was originated by Partner Banks).

In the course of 2007, DeltaCredit Bank expects to open new agency offices in some strategic areas, and to develop its Partner Bank network.

Partner Banks are stringently assessed and credit quality of loans originated through this channel is always re-assessed before purchase

The production is focused toward prime borrowers

Underwriting decisions are made according to the Credit approval procedures and based on a variety of factors presented by underwriters

Collection process includes strict procedures

Before entering into a partnership with a Partner Bank, DeltaCredit Bank performs a strong selection and due diligence of the potential partner. Only experienced originators in strategic areas (mostly big regional cities) are selected. The Partner Banks must offer DeltaCredit Bank's products and fully comply with their underwriting criteria. DeltaCredit Bank provides Partner Banks with similar training as performed to its own sale force.

DeltaCredit Bank then purchases loans initially originated by Partner Banks on an ongoing basis and fully re-underwrites each loan bought. Therefore, in Moody's opinion, the origination quality of the loans bought to Partner Banks is broadly equivalent to the one observed in the direct production of DeltaCredit Bank.

The originators offer mainly residential mortgage loans to finance purchases of properties on primary and secondary residential markets. Loans can be denominated in U.S dollars or in roubles, at fixed or floating interest rates. DeltaCredit Bank only focuses on prime borrowers. Employment history and borrower income is verified respectively through the Employment Logbook and direct contacts with borrowers' employers. The LTV can not exceed 85% (the maximum LTV for loan amounts > U.S.\$ 300,000 is 80%) and the maximum loan size ranges from U.S.\$ 150,000 in regions to U.S.\$ 500,000 in Moscow. The eligibility criteria set in the transaction are in line with the underwriting criteria observed in the book of DeltaCredit bank (please refer to the description of the collateral on page 4).

Underwriting and Servicing

The origination process starts with a preliminary assessment whereby a potential borrower meets with the mortgage consultant and provides all the required documents to assess his credit worthiness and capacity of payment.

Based on those documents, underwriters then assess the customer's monthly income and expenses according to standardised procedures laid down in the underwriting guidelines. The two major components of the credit approval are the Obligation to Income (OTI) and the Loan to Value (LTV) ratios. The OTI is assessed by comparing the total monthly obligation (which includes: alimonies, child support, living expenses, utility expenses and other debt repayment expenses) with the income net of taxes of the potential borrower.

Then, based on those two ratios underwriters calculate the maximum loan amount which the Customer is eligible to. The loan is then approved according to the credit approval procedures.

After the Customer identifies the property for purchase, the Originator orders an appraisal for the property from a properly licensed and accredited by DeltaCredit appraisal company. The Appraisal Report provided by the appraisal company is transferred to DeltaCredit, which makes a decision on whether the property meets DeltaCredit requirements, and adjusts the maximum loan amount to the Customer based on maximum loan-to-value (LTV) limits valid for the selected product.

Payment Process

Borrowers can either pay directly into the account they have opened at DeltaCredit Bank or pay by wire transfer from another bank account. In order to facilitate this last solution, DeltaCredit Bank has signed agreements with selected banks across Russia with whom borrowers may open bank accounts.

Delinquent Loans Collection Process

A loan is considered delinquent on the day following the payment date. Once a loan is delinquent, borrowers receive regular calls from the Delinquencies Management Unit to determine why he is no longer in compliance with the terms of the Mortgage Loan Agreement.

Letters demanding for repayment of overdue indebtedness are sent on the 7th, 14th and 30th days following the initial non-payment date.

If the borrower is willing to pay but meets financial difficulties, the Delinquencies Management Unit can propose one of the following solutions: i) restructure the mortgage loan, ii) organise out of court sale of the property or iii) workout a repayment schedule of the delinquent amount.

On the 45th day, if the payment due has not been made the Servicer sends a letter claiming for full repayment of the loan amount outstanding including all accrued and applicable fines and penalties.

On the 60th day, the file is transferred to the Originator's Legal Department which acts together with the Delinquency Management Unit. At that time, the Borrower receives the last letter where he is informed of the Originator's intention to file a court claim. With no response to this letter within 15 days, a court claim is filed.

Asset Management

Even during the court procedure, the Servicer can offer the borrower a voluntary court settlement, whereby DeltaCredit Bank can either receive title to the Mortgaged Property in discharge of the Borrower's indebtedness under the Mortgage Loan or agree with Borrower on sale of the Mortgaged Property under the DeltaCredit Bank's control.

If this solution is not accepted by the Borrower, the Originator completes the public sale process.

Moody's has met with DeltaCredit's management as well as with employees from the various departments and believes that the underwriting criteria are sufficient to ensure that the creditworthiness of the borrowers is as good as expected. In addition, all departments perform the various servicing and reporting tasks according to a standard which should, in Moody's opinion, also allow them to fulfil their tasks within the scope of the contemplated transaction.

Stand-by Servicer

Bank Société Générale Vostok ("BSGV") will act as stand-by servicer for this transaction. However, please note that at closing date, there will be no other formal requirement than a confirmation letter from BSGV that it will perform the role of back-up servicer in case it is required to do so. A downgrade trigger condition ensures also that once the local currency deposit rating of DeltaCredit Bank falls below **Baa3**, DeltaCredit Bank will provide on each interest payment date to the stand-by servicer, or as may be required by applicable law, to the Custodian, a back-up tape which contains all pieces of information necessary for the stand-by servicer to take over the servicing. This arrangement is in place to facilitate the transfer of the servicing once it should be necessary and to allow the stand-by servicer to take over the servicing of the portfolio within a reasonable time.

MOODY'S ANALYSIS

To determine the ratings on the Notes, Moody's has used the following methodology, which is applied to most European RMBS markets.

The Loss Distribution

The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Given the large number of loans and supporting historical data, Moody's uses a continuous distribution to approximate the loss distribution: the lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss. These parameters are derived from two important sources: historical loss data and the loan-by-loan model.

Due to Limited historical performance data, Moody's has derived an estimate for the expected loss for the pool by comparing the Russian mortgage market to the mortgage markets of other Emerging Markets. In addition, the procedure takes into account DeltaCredit Bank's underwriting criteria, its servicing procedures, as well as the Russian economic environment and the Russian legal environment.

To calculate the volatility, Moody's also tries to take historical data into account. However, observed historical volatility may not be significant because of insufficient data points or incomplete data. In addition, past volatility may not be a good indicator of future volatility as it relies on the previous economic environment.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain the highest rating available in Russia under highly stressed conditions. This enhancement number is obtained by means of a loan-by-loan model, Moody's Individual Loan Analysis ("MILAN"), which looks at each loan in the pool individually and, based on its individual characteristics such as loan-to-value or other identified drivers of risk, computes a benchmark CE number.

Determining the loss distribution which allows to assign probabilities to certain loss scenarios for the portfolio

This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed time to recovery. The weighted average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole, in order to produce the “MILAN CE” number.

The “MILAN CE” number and the Expected Loss number form the basis of rating committee discussions and are used to derive the lognormal distribution of the pool losses. The loss distribution is created using the Milan CE and the Expected Loss.

Tranching and Rating of the Notes

Once the loss distribution of the pool under consideration has been computed, a cash flow model: Moody’s Analyser of Residential Cash-Flows (“MARCO”), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

MARCO calculates the average lives and the losses experienced by the Notes for every loss scenario for the portfolio. Based on these numbers, the expected loss and the weighted average lives for the notes are calculated as weighted averages based on the probabilities of the respective scenarios. The expected loss on each tranche together with the notes’ weighted average life determines the rating, which is consistent with Moody’s target losses for each rating category.

The rating of the Notes is therefore based on an analysis of:

- The characteristics of the reference loan portfolio,
- The Russian real estate market,
- Country wide and originator-specific performance data,
- The protection provided by credit enhancement and liquidity against defaults and arrears in the mortgage pool,
- The economic and legal environment,
- The roles and creditworthiness of the various transaction counterparties,
- The legal and structural integrity of the Issue.

Redenomination Risk

In addition, the risk of the redenomination of US-dollar-denominated obligations into Roubles was taken into account via the level of subordination required for the Notes. In case of a financial crisis, foreign currency assets could be redenominated into Roubles. In such a case the borrowers would no longer be obliged to make payments in US dollars but would pay their debt in Roubles. Since the market rate for foreign exchange transactions from Roubles into US dollars could be different to the rate at which the Issuer’s assets were redenominated, this could lead to significant losses for investors. Moody’s has taken this risk into account when sizing the credit enhancement by applying a probability weighted approach, which resulted in additional credit enhancement for the Notes. Moody’s considers it to be important to highlight that in case redenomination should occur, it is likely that investors will suffer sizeable losses.

The rating of the Class A Notes is also constrained by the Local Currency Ceiling for Russia which currently stands at **A1**. This rating constitutes the ceiling for all Russian transactions and reflects the risks associated with the country and its economic, political and legal environment.

RATING SENSITIVITIES AND MONITORING

Moody’s will monitor the transaction on an ongoing basis to ensure that the outstanding ratings will reflect the actual risks related to the investment in the notes. This will entail checking all supporting ratings and reviewing the periodic servicing reports.

From Moody’s point of view this transaction’s ratings are sensitive to DeltaCredit’s creditworthiness as its deterioration would increase the likelihood of adverse scenarios including servicer replacement, exposure to commingling and reliance on so far untested aspects of Russian insolvency proceedings. The transaction’s ratings also rely on the other transaction parties to fulfil their contractual obligations in the manner expected.

Moody’s Cash-flow Model determines the ratings of the notes

Notes are sensitive to DeltaCredit Bank’s creditworthiness as well as to the legal and economic development within the Russian Federation

In addition, it should be highlighted that the ratings are also sensitive to the economic environment and the Russian legal environment, and could change if any of the ratings related to the Russian Federation changed.

Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

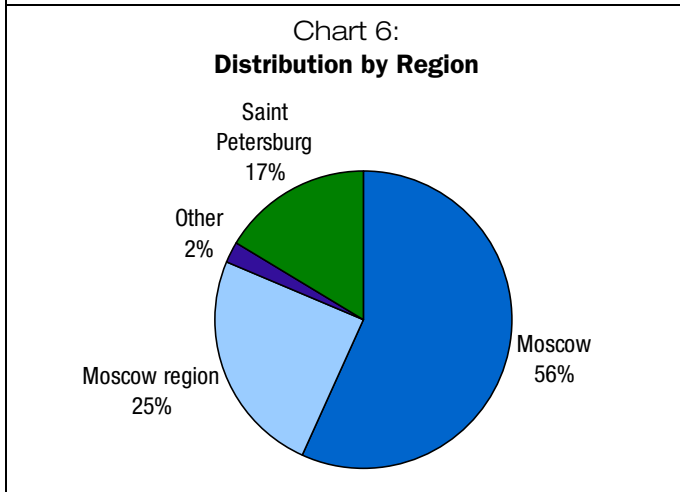
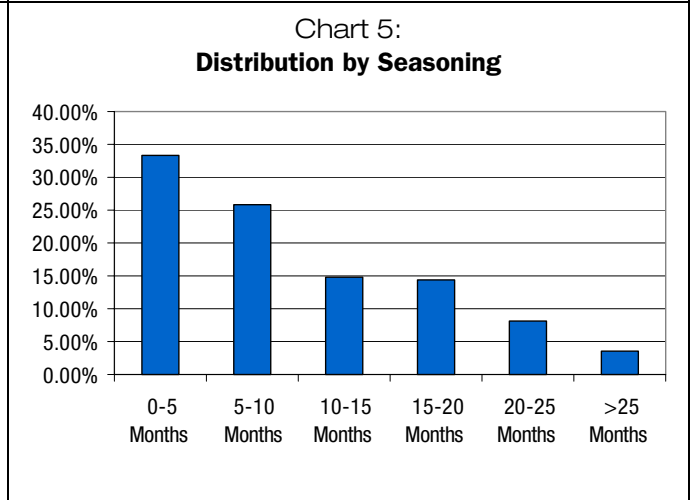
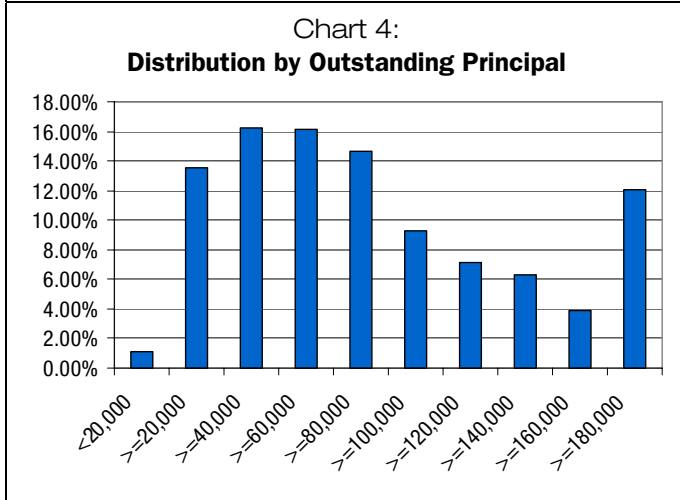
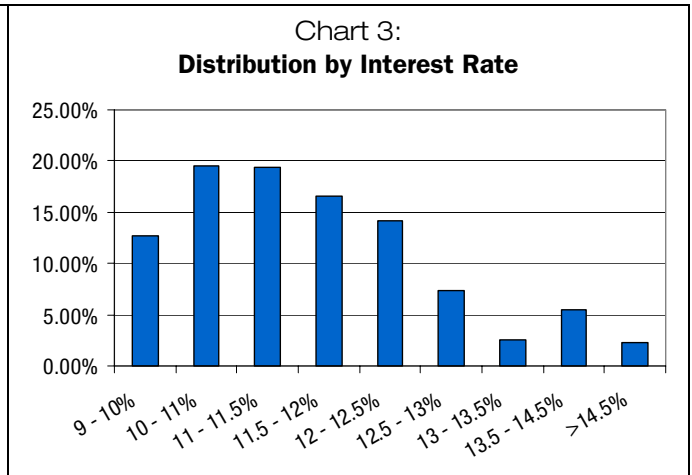
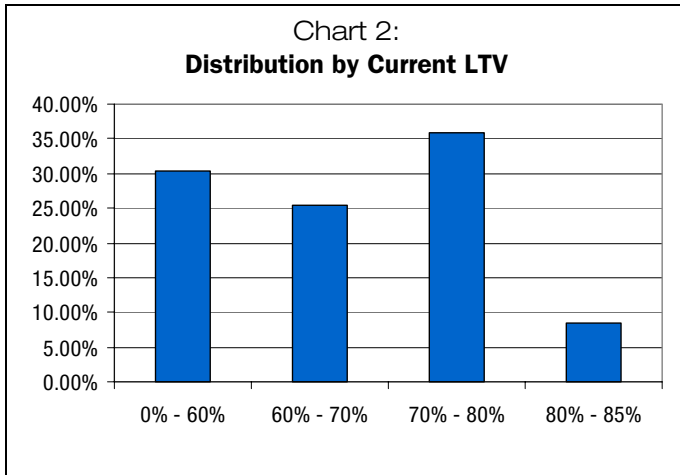
Rating Methodologies

- Piercing the Country Ceiling: An Update, January 2005 (91215)
- Moody's Approach to Rating German RMBS, December 2004 (SF47671)
- Revised Foreign-Currency to Better Reflect Reduced Risk of a Payment Moratorium in Wake of Government Default, May 2006 (97555)
- Securitisation in New Markets: Moody's Perspective - Europe, Africa and the Middle East, October 2003 (SF22806)

Analyses

- Russia, November 2005 (95003)
- International Finance Corporation, October 2005 (94851)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.



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