Presentation to Syndicated Lending in Russia – 2012

Secondary market for syndicated loans: business opportunities and legal aspects

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Introduction: secondary market – why now? Relevance of the topic

- Moderate activity on primary in 1h2012
- Russian market generally in line with EMEA region: results achieved leave much to be desired, significant drop by both volume and no of deals
- Logical shift of lenders' attention to other opportunities/products – local DCM (RUB bonds mainly) – in an attempt to compensate slowdown on primary
- Secondary loan market – another attractive opportunity to invest
- Secondary sale – offloading risk from balance

It’s all about perception...

- Perception of Russian risk (loan quality, country risk) by foreign investors – based on macroeconomics
- Secondary loan trades as a new lending tool – local players’ view

Russia - macroeconomic snapshot

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Macroeconomic situation in Russia is **stable and strong** enough to allow for attractive investments:

• **steady** and stable **GDP growth** of 3-4% for the past 3y (3.7% expected in 2012, 3.9% in 2013 and 4% in 2014) ... provided that crude oil price stays above $80 per barrel

• fairly modest external debt amounting to 29.1% of GDP -> **smallest debt-to-GDP ratios** compared to other emerging markets

• credit crunch lesson of 2008 has been learnt - more **conservative debt management strategies** used by local companies and banks

• compared to 2008-2009 the **structure** of Russian external debt became more skewed towards **short-term debt** – more cautious approach and change of attitude to refinancing risk

• decline of foreign currency denominated debt indicates that companies and banks have become more concerned and **cautious on FX risk management**

• **strongest liquidity position** among EM peers – international reserves cover short-term external liabilities by a factor of six (Reserve fund: 3% of GDP, circa $60bln; National Welfare Fund: 5% of GDP, circa $85bln; 8% of GDP in total

Investing in Russian loans shall be perceived by foreign players as a **good alternative** to loans of other European regions both risk- and yield-wise

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Local perception: market makeup

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- A fragmented and rapidly growing market with a variety of structures and deal types
- Vast opportunities on primary – new names coming to the market, development of Russian law based transactions

Russian secondary loan market – a combination of two

I

Activity of local players

Steadily widening circle

Purely local Russian market

II

Part of European market

Fewer opportunities for growth

Driven by foreign banks' activity

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Local secondary loan market – main features

- Limited no of players: 15 to 20 names active on the market
- Role of state banks: main volume drivers
- Silent market, volumes can hardly be estimated
- Almost no pure trading – buyers eager to take and hold
- Direct dialogue between buyers and sellers – loan trading brokers rarely involved
- Deals/trades closed under both Russian (bilateral loans, syndicated loans) and English law (LMA based)
- Case-by-case basis due to a lack of homogeneous structures and uniform documentation
- Specific market niches: distressed debt, real estate, other
- High potential of growth – very limited access to credit risk insurance as an alternative to secondary sale (goals: risk offload, RWA and capital relief)
- Obvious need in educating potential secondary market participants

Benefits of secondary – stepping in the buyer's shoes

- Access to high-quality assets (top tier, blue-chips, higher mid-caps) at good price (discounts prevail – premium to primary in most cases), access to new names and x-sell opportunities
- Lower ticket size VS primary, becoming a part of decision-making process
- Building up relationship with key market players/investors, monitoring of current trends (pricing, structures), keeping 'finger on pulse' and better understanding of the market
- Lucrative and more secured investment as an alternative to bonds (Rub bonds, Eurobonds): no need in mark-to-market and ability to sell down the asset promptly, secured loans (pledge of shares, equipment, mortgage of real estate, assignment of rights under export contracts, etc.), set of covenants and undertakings
- High speed of deal closure: banks are familiar with credit nature (credit approval, loan documentation, booking)
- Access to product knowledge (structure, documentation, legal expertise), getting experience in syndicated lending – good launch pad for setting up syndicated lending (on the lender's side)

Joining a deal on the secondary – coming down to legal aspects

- Principal difference between primary and secondary markets – new lender joins existing deal, terms of which are not subject to a change -> take it or leave it
- Take it – vital importance of working legal solutions to transfer techniques
- Available legal forms – which are the best operational and legal risk-mitigants?

Available legal forms:

- novation
- assignment
- sub-participation

Preferences for different types of deals:

- real estate finance
- loans secured by various assets

How it works (does not work) under Russian law:

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- Much better than it used to be (partial assignment, assignment to a non-banking entity, assignment of future rights), but:
  - transfer of an available commitment
  - does sub-participation works under Russian law? (NO)
  - prudential regulations (110-I)
  - banking secrecy rules
  - security documents

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Can we use English law?

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- transfer of an English law governed loan between two Russian banks
- sub-participation in a Russian law governed loan

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New civil code:

- novation (transfer of an agreement)
- assignment of future claims
- restrictions of assignment

Thank you for your attention

Your

questions

are welcome after panel discussion