International
Special Report

Latin American Structured Finance 2006 Year in Review and 2007 Outlook

Analysts
Mark Salgado
+1 312 368-2080
mark.salgado@fitchratings.com

Sam Fox
+1 312 606-2307
samuel.fox@fitchratings.com

Greg Kabance
+1 312 368-2052
greg.kabance@fitchratings.com

January 12, 2007

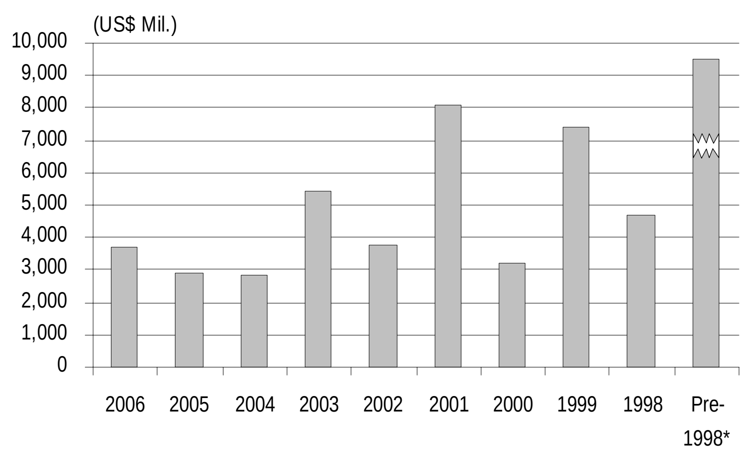
Summary

2006 was a transitional year for cross-border Latin American structured finance. Dollar volume increased more than 25%, and the overall number of deals was up slightly from 2005 levels. Both figures, however, remained well-below the levels seen in 2003. Total rated, internationally placed, structured finance from Latin America is estimated at $3.7 billion. The year was balanced with much asset class diversification. Unique new entries appeared from both the Dominican Republic and Peru. Two securitizations involving toll road concessions in Peru had their debut internationally, representing a hybrid combination on future flows and existing structures. Roughly one-half of the deals came from recognized names returning to market to add leverage to existing programs. Continuing a trend that took shape last year, Brazilian companies were not the dominant issuers. Although issuance levels crept slightly upward, investor confidence continued to grow. Demand for paper was high, and credit spreads were as tight as has been seen in some time. No major negative credit events surfaced in 2006. Latin America experienced the successful completion of national elections held throughout the region. Global trends, such as high commodity prices, continued to stabilize Latin American economies.

2006 Issuance Levels and Breakdown

In dollar terms, 2006 issuance levels were up roughly 25% from those observed in 2005. Unlike 2004 and 2005, issuance in 2006 was able to surpass US$3.0 billion of rated structured finance paper issued from Latin America into the cross-border market. However, annual issuance

Cross-Border Issuance in Latin America
(Issuance Volume)



*Pre-1998 cross-border issuance not to scale; actual amount was US$16.5 billion.

Latin American Structured Finance — 2006 Cross-Border Deal List

Issuance Date	Deal Name	Issuance Amount	Asset Class	Country	Original Fitch
1/06	AES El Salvador Trust	300,000,000	PRI	Panama	'BBB–'
2/06	Autopistas del Nordeste Ltd. (ADN)	162,000,000	Toll Road	Dominican Republic	'B'
3/06	Jamaica DPR Company (NCB) Series 2006-1	100,000,000	DPR	Jamaica	'BBB–'
3/06	HSBC Brazil DPR Finance Limited Series 2006-A	200,000,000	DPR	Brazil	NR
3/06	CCR Inc. MT-100 Payment Rights Master Trust (Banco del Credito del Peru) Series 2006	100,000,000	DPR	Peru	NR
6/06	Province of Neuquen	125,000,000	Royalty Rights	Argentina	NR
7/06	UBB DPR Finance Company (Unibanco) Series 2004-2 A&R VFN	150,000,000	DPR	Brazil	'BBB'
8/06	IIRSA Norte Finance Limited	213,000,000	Toll Road	Peru	'BB+'
8/06	Global Bank Corp.	85,000,000	Covered Bond	Panama	'BBB–'
9/06	Brazilian Diversified Payment Rights Finance Co. (Itau) Series 2006-1	200,000,000	DPR	Brazil	'BBB+'
9/06	Salvadoreno DPR Funding Ltd Series 2004-1 A&R	125,000,000	DPR	El Salvador	'BBB'
11/06	Cap Cana, S.A.	250,000,000	Real Estate Backed Loan	Dominican Republic	'B'
11/06	Navistar (Trust #229563)	136,360,000	Auto Loans	Mexico	'A' ('BBB–' Sub.)
12/06	Peru Enhanced Pass-Through Finance Limited (IIRSA Sur)	634,000,000	Toll Road	Peru	'BB+'
12/06	MetroFinanciera	175,000,000	RMBS	Mexico	NR
	Private Transactions (4)	725,000,000	Future Flows	Various	
	Total	3,680,360,000			

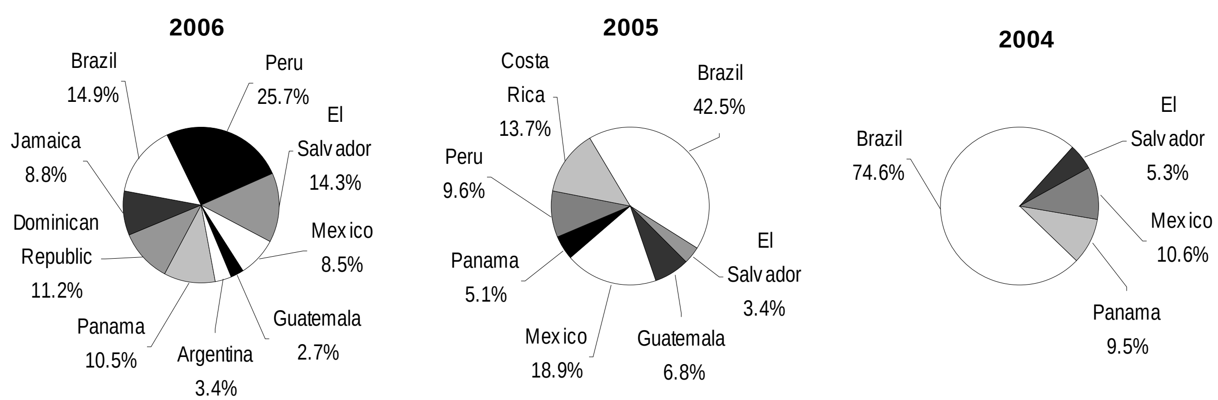
PRI – Political risk insurance. DPR – Diversified payment rights. Sub. – Subordinate. RMBS – Residential mortgage-backed securities. NR – Not rated.

volume has yet to reach 2003 levels of US$5.4 billion, and 2006 was still under the nine-year average issuance level of approximately US$4.7 billion. There were 19 deals in 2006, a marked increased compared with the 12 successful placements in 2005.

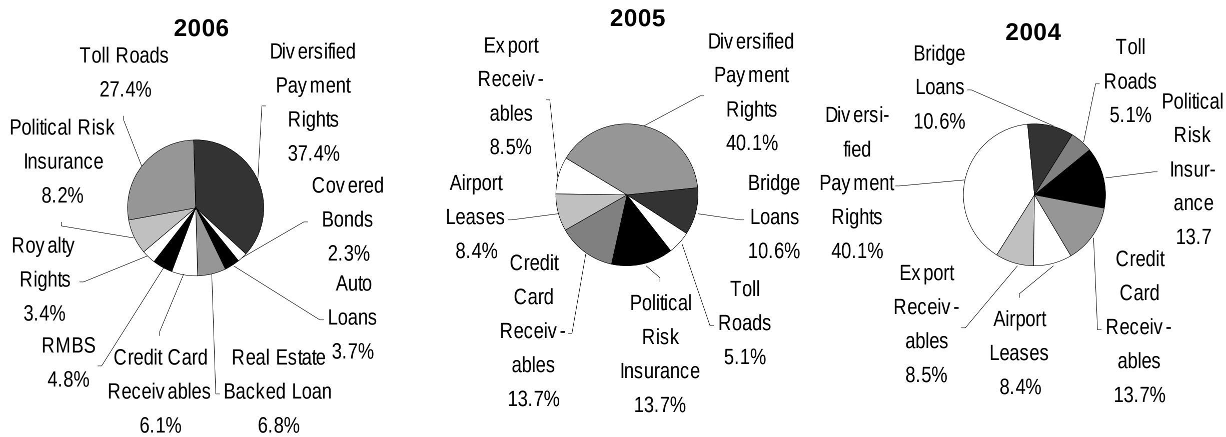
Similar to last year, Brazil did not continue as the majority contributor to cross-border volume in 2006. Approximately 15% of the dollar volume and only three of 19 issuances were from Brazilian companies. In contrast, in 2005, 42% of dollar volume came from Brazil. Eight other countries—Mexico, El Salvador, Panama, Guatemala, Peru, Jamaica, Argentina and the Dominican Republic—participated in the 2006 cross-border market. However, historically, Brazil has dominated the placement of dollar volume with an average of about 75% of the total.

2006 saw the emergence of two unique developments in the Latin American market. The first is the successful placement of sub investment-grade structured issuance. The second is a shift in the market toward more traditional existing asset or asset-backed securitizations (ABS) in lieu of future flow structures. There were four speculative-grade

Cross-Border Issuance by Country
(Issuance Amount)



Cross-Border Issuance by Asset
(Issuance Amount)



RMBS – Residential mortgage-backed securities.

transactions placed in 2006: three toll roads and one unique securitization in the Dominican Republic, Cap Cana S.A.

One of the toll road securitizations, Autopistas del Nordeste Ltd. (ADN), benefited from a partial guarantee provided by the multilateral corporation, MIGA. The other two Peruvian toll road transactions, IIRSA Norte Finance Limited and Peru Enhanced Pass-Through Finance Limited (IIRSA Sur), introduced the first construction progress with annual payments (CRPAO) securitizations. Both of these transactions rely on the support of the federal government to make payments upon the advancement of certain construction milestones. These future CRPAO payments are sold into a trust and used in to service debt. Cap Cana, a Dominican resort community, combines elements from many traditional asset classes into its structure. Bond proceeds were to be held in escrow and withdrawn only upon the completion of certain construction milestones. Collateral for the transaction came in the form of raw land, real estate properties and residential mortgages with individual borrowers.

Although the four previously mentioned transactions all combine some elements of existing asset securitization, 2006 also saw the successful placement of a true asset-backed issuance. Navistar (Trust #229563) was an auto loan securitization originated out of Mexico. Loans and leases for buses and/or trucks were placed into a trust in the same manner that traditional car loans are securitized. The underlying collateral received peso payments, and the bond was also denominated in the Mexican local currency. On this transaction, international investors displayed their willingness to invest directly in paper that was not denominated in hard currency.

2005 and 2006 results suggest the potential for a Mexican resurgence in the cross-border market. Over the past six years, Mexico has not shown a great volume of cross-border structured finance issuance. In particular, future flow securitization from the country has been minimal. Mexican credits, given the investment-grade sovereign rating and maturing local capital market, have not required the credit-enhancing techniques of future flow in order to gain access to the market. While this remains true for future flow, other types of securitization resembling traditional, existing, asset-backed structures have strong potential going forward.

Continuing the trend from 2004 and 2005, individual issuers placed a relatively small amount of debt through securitization. The largest single issuer in 2006 was Peru’s IIRSA Sur securitization of US$634 million. AES El Salvador’s political risk insured transaction was the second-largest issuer with US$300 million in structured financing for 2006.

Following the continuing trend, many issuers in 2006 were not new to the international capital markets. Of the 19 structured finance transactions, nine were repeat issuances from established programs such as Banco Itau, Banco del Credito del Peru, Unibanco and Banco Salvadoreño. Ten new names came to the structured finance market in 2006. One was the first diversified payment rights (DPR) program from a recognized name, NCB Jamaica, which previously has only securitized its credit card receivables. The other new names were the two Peruvian issuers mentioned earlier (IIRSA Norte and IIRSA Sur), the two Dominican issuers also mentioned earlier (Cap Cana and ADN), Navistar and Global Bank Corp., which was a covered bond securitization. Finally, the aforementioned AES El Salvador Trust transaction used a liquidity facility provided by a commercial bank to mitigate sovereign ceiling constraints and gained access as a new entrant to the structured finance market.

Continuing the trend, 2006 saw only two cross-border transactions wrapped with full financial guarantees. In 2002, 11 deals were wrapped by the three major monolines. In 2003, that number was reduced to seven. In 2004, only four transactions had an unconditional and irrevocable guarantee from a monoline. In 2005, the number of wrapped transactions increased to eight. In recent years the number of wrapped deals has been shrinking, with several reasons accounting for this trend. A high volume of wrapped deals in 2001 and 2002 exhausted monoline capacity for the region. Also, the continued tightening of credit spreads on unwrapped transactions has made nonwrapped financing alternatives in the private placement and conduit markets more attractive to issuers.

Similarly, monolines focused on the region have grown beyond the traditional three of MBIA, AMBAC and XL. The emergence of new monolines further enhances competition, tightens product pricing and reduces, to some extent, the appeal of providing insurance to cross-border transactions.

One interesting development in the monoline environment is their presence in the local markets. Perhaps because of the competitive forces mentioned earlier, in 2006 monolines continued to demonstrate a willingness to participate on various types of ABS driven by local assets and placed in local markets.

As expected, because of their tested ability to perform consistently, traditional future flow securitizations still represented a sizable part of issuance volume at approximately 43% of total dollar volume. Of these, the most common were originated from banks and securitized financial remittances or DPRs. There was also one bank-issued deal backed by international credit card flows.

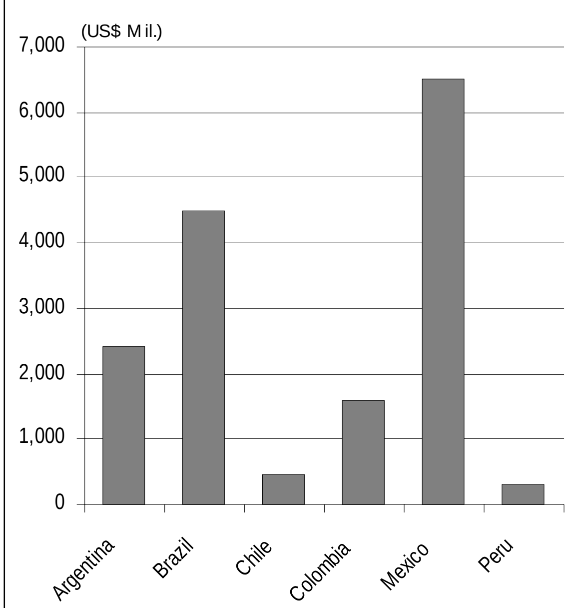
Credit Trends and Events

In 2006, Latin America saw no major negative credit events. Elections across the region were likely the biggest story of the year. Atypical to Latin America's past, no major disruptions occurred because of administration changes. Like 2005, strong commodity prices supported heavy export volumes and generally helped to increase stability for Latin American countries and issuers. Continued strength contributed to four sovereign rating upgrades and zero downgrades. 2006 upgrades included Argentina, Brazil, Peru and the Dominican Republic. Along with the four previously mentioned countries, Chile, El Salvador, Guatemala, Mexico, Panama and Uruguay also had their country ceilings upgraded in 2006.

A general improvement in sovereign environments reduces volatility and alleviates certain operational and financial stresses on companies. This can directly translate into improved overall performances at a corporate level, which directly underpins the strength of a securitization.

Reflecting the positive year, Fitch Ratings had only one downgrade to its cross-border structured finance portfolio in 2006. CVRD Finance Ltd.'s export-receivables transaction was downgraded in step with the corporate downgrade after CVRD's all-cash acquisition of Inco Limited. There were 11 upgrades

Latin American Annual Local Issuance — 2006



to Fitch's Latin American portfolio: DPR programs from Banco Itau, Unibanco, and Santander Banespa; Brazilian Merchant Voucher Receivables Ltd.; Salta Hydrocarbon Royalty Trust; and export receivable transactions from CSN, CVRD, Gerdau, Petrobras, Arcel and PDVSA. These statistics are encouraging, considering the numerous defaults and downgrades in the wake of the Argentine meltdown in 2001 and related regional volatility of 2002 and 2003.

There were two deals that paid down as scheduled in 2006. LAN Airlines S.A., out of Chile, had one tranche of its ticket receivables securitization program mature in March. Banco del Istmo, originating in Panama, had one tranche of its credit card receivables program pay down in August. Three issuers, Arcel, Telefonica del Peru and PDVSA, prepaid their entire future flow portfolios.

■ Emerging Markets Outside of Latin America

Other emerging markets outside of Latin America continued to increase cross-border structured finance issuance volumes. Eastern European countries participating in the cross-border securitization market for 2006 include Russia, Turkey, the Czech Republic and Kazakhstan. Together, these markets made up approximately $5 billion of issuance. Russia had more than $2 billion in issuance in various asset classes including future flow, residential mortgage-backed securities (RMBS) and leasing. While lower than 2005's $5.5 billion structured finance issuance boom, the Turkish financial future flow market had a solid year. Approximately $2.5 billion of DPRs was placed out of Turkey in 2006. Fitch expects emerging-market issuance outside Latin America to continue to grow in 2007.

■ Latin America's Local Markets

Latin America's local markets have continued to strengthen over the past five years. Recently, these markets have established a trend in which issuance volumes consistently surpass the cross-border counterpart. In the region as a whole, 2006 local market structured finance issuance was just under US$16 billion, more than four times the size of the year's cross-border market. The placement levels for 2006 were even higher than the record levels of 2005, which were approximately US$11 billion.

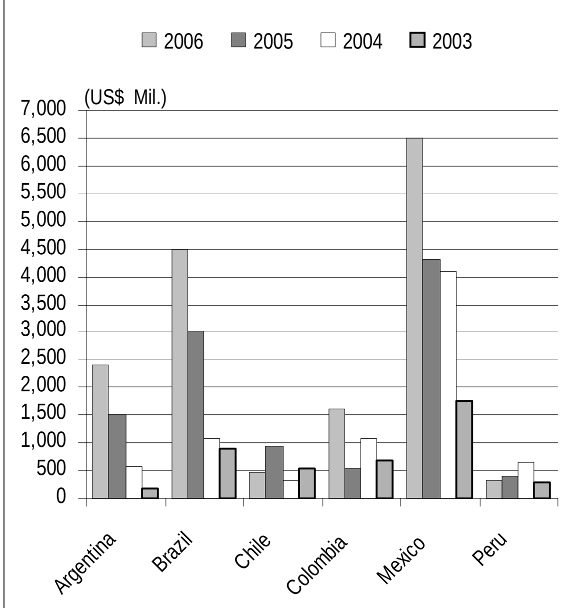
The issuance trend is expected to continue, reflecting maturing local markets and increasing levels of sophistication at the banker, issuer and investor levels. Brazil and Mexico, reflecting their positions as the region's two largest economies, continued to gain momentum.

In 2006, Brazil had issuance levels of approximately US$4.5 billion. This number compares favorably with the country's issuance levels in previous years, with 2005 issuance at US$3 billion, 2004 issuance at US$1 billion and 2003 issuance at US$902 million. Prior to 2003, the market had not yet truly established itself.

Mexico continued its growth trajectory despite concerns over the election year. After a slow first quarter that saw only five structured finance placements, the year ended on a high with issuance totals of approximately US$6.5 billion. 2005 had been an impressive year with US$4.3 billion in issuance and expectations were for limited growth in 2006. Year-on-year growth of more than 50% proved the predictions wrong, as Mexico had little problem overcoming election-year worries.

Mexico continues to build upon successes from 2005 in the RMBS segment. Year-end numbers reveal that approximately US$1.6 billion of issuance was backed by mortgages. There were 18 different RMBS transactions issued locally in Mexico. Several of these 18 deals also had subordinate tranches acting as credit enhancement. In 2005, there were eight deals totaling approximately US$600 million from four issuers.

Latin American Annual Local Issuance



Mexico's 2006 market total of approximately US$6.5 billion for rated structured financings reflected diverse asset classes such as RMBS, toll roads and construction bridge loan securitizations (CBLs), and tax securitizations.

Argentina continues an impressive rebound from its 2001 crisis. 2005 performance was noteworthy in that the US$1.5 billion of structured finance issuance reached 170% of 2004 levels. 2006 well surpassed these gains with approximately US$2.4 billion in issuance. The reopening of the Argentine market clearly continues.

The majority of remaining local market issuance for 2005 came from Chile, Peru and, surprisingly, Colombia. Colombia had more than US$1.6 billion of rated structured financing, two-fifths of which was real estate related. Peru's local market absorbed approximately US$300 million. Finally, Chile has an active local market with a healthy pipeline of expected deals. 2006 total issuance of US$466 million was down compared with 2005, but several deals are in the works and expected to close during the first quarter of 2007.

■ 2007 Outlook

Structured finance issuance levels in Latin American markets have been relatively stable over the past three years. Overall, Fitch expects a continuation of this trend for 2007. Similar to the past two years, the cross-border future flow market will be challenged to grow in 2007. Many of the region's strongest names and, therefore, best candidates for issuance have already been to market. Capacity for new debt under their existing programs is limited. In addition, the improving credit profile of the region, as evidenced by numerous sovereign upgrades, has opened new, nonstructured financing alternatives for issuers. The continued tightening of credit spreads also encourages this trend. Finally, the continued development of local markets offers a viable financing option and directly competes with the cross-border solution.

For 2007, Fitch expects increased levels of existing asset securitization to be place in the cross-border market. Auto loans, commercial mortgage-backed securities (CMBS) and RMBS are all potential candidates for international placement.

Similar to Fitch's comments at the end of 2005, potential growth in the cross-border structured finance market would come from one of three sources. First, if credit profiles continue to improve, a new generation of companies could mature toward becoming solid candidates for future flow securitization. Second, there is potential for new asset classes resembling more traditional ABS. In Mexico, in particular, RMBS and/or CMBS are expected for the future. Similar proposals from other countries have been discussed as well. These proposals are increasingly attractive for international markets with the emergence of long-term currency swaps (to the extent they are necessary) at economical prices. Third, Fitch expects a continued resurgence of infrastructure-backed project financings. Recent deals have highly structured components, which enhance their overall credit profile and facilitate access to the market.