

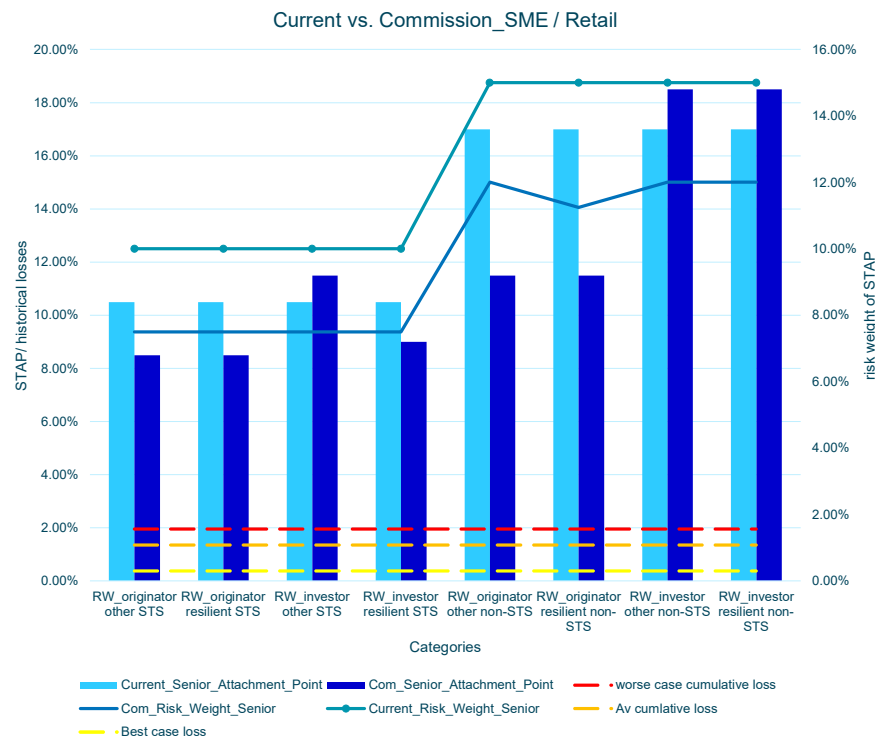
AFME Impact analysis

November 2025

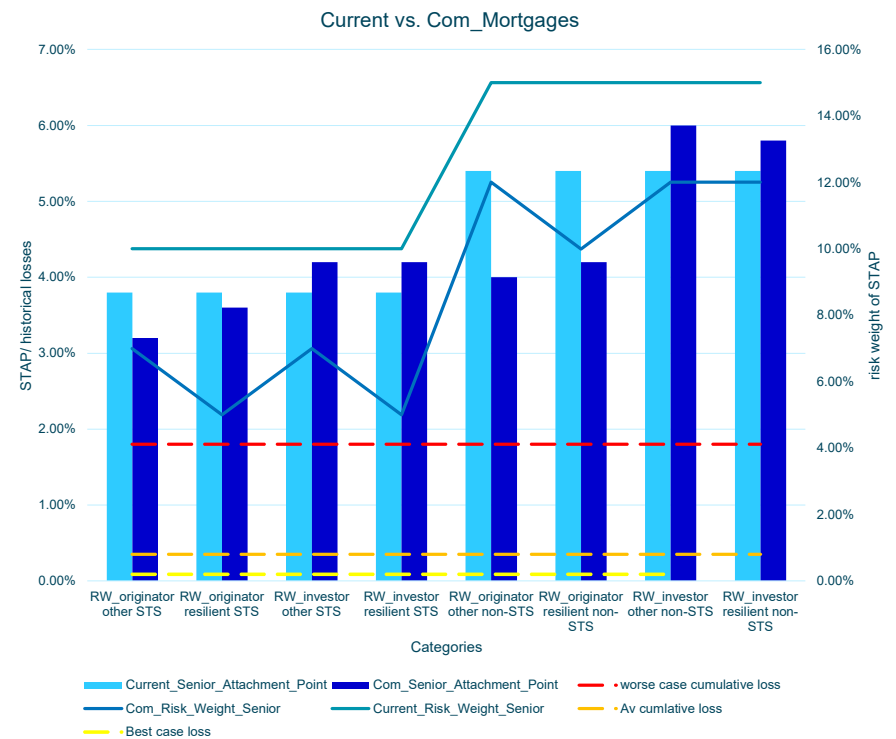
Executive Summary

- The objective of this impact analysis is to assess the likely effect on securitisation capital structures arising from the implementation of 1) the Commission's proposed reforms and 2) AFME's proposed changes to these reforms versus the current securitisation prudential framework. The analysis compares the protection afforded by securitisation structures against empirical losses over the past 40 years across 4 market segments; i) SMEs, ii) investment grade corporates, iii) retail mortgages, and iv) leveraged loans.
- The following high-level conclusions can be drawn from this analysis:
 - i. Senior tranches retained by banks in all scenarios are very well protected from losses even when tested against worse case losses incurred over the past 40 years. The range of protection varies across market segments with an upper and lower range of 25x and 4x vs average cumulative losses and of 6x and 1.5x vs worse case cumulative losses, respectively. This analysis gives no credit for excess spread that is in all traditional and some synthetic securitisations.
 - ii. AFME's proposed adjustments to the risk weight floor, most pertinent for retail mortgages and corporate lending, has the general desired effect of increasing protection for banks and enhancing financial stability.
 - iii. AFME's proposal to collapse Originator/Sponsor and Investor into one category achieves the objective of simplification without introducing discernible credit risk.

Impact analysis: Current vs Commission proposal (1/2)

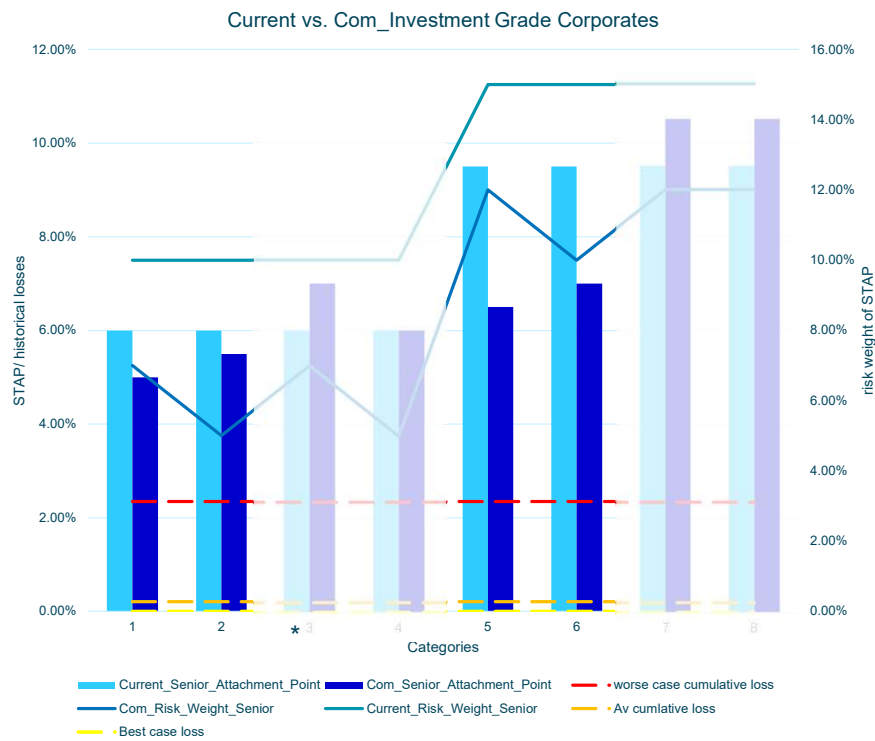


Source: Moody's Ratings and AFME: Cumulative losses over 5 years



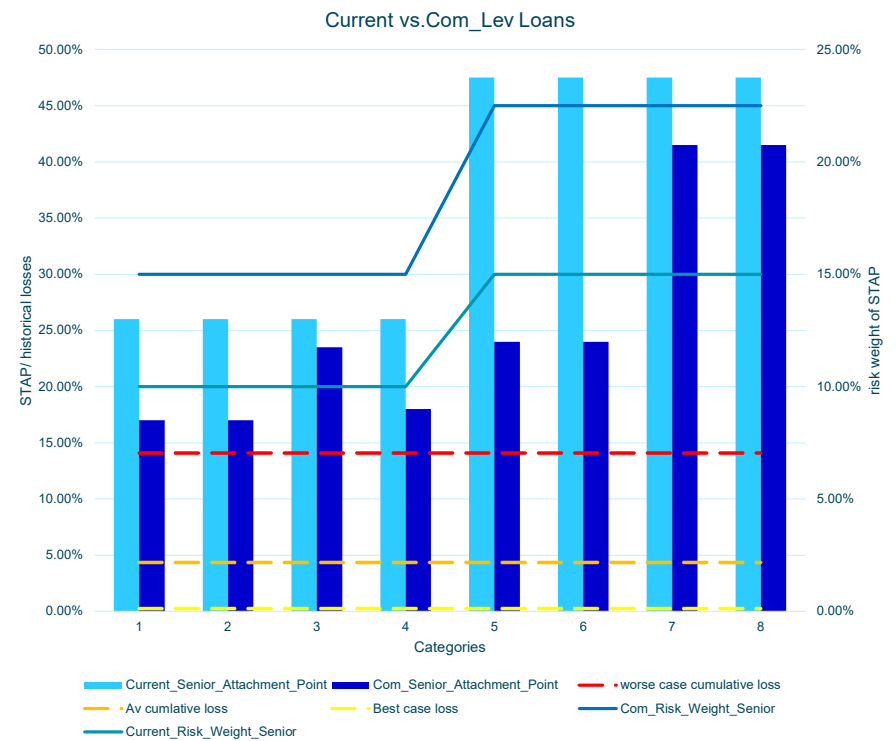
Source: Moody's Ratings and AFME: Cumulative losses over 10 years

Impact analysis: Current vs Commission proposal (2/2)



* Categories 3,4,7,8 not applicable

Source: Moody's Ratings and AFME: Cumulative losses over 5 years



Commission vs AFME proposal – summary of changes that affect Impact Analysis



Commission proposal

- Resilient Criteria: 1.5x KA
- Risk weight floor: STS / Resilient / Senior @5%
- Enable risk weight floor to rise beyond risk weight floor levels under EUSECR today
- Differentiate treatment between Originator / Sponsor and Investor
- P Factor STS Resilient/non Resilient: 0.3/0.3
- P Factor non-STS Resilient/non Resilient: 0.6/0.6

AFME proposal

- Resilient Criteria: 1.1x KSA (upfront only)
- Resilient Criteria – traditional securitisation: CQS1,2 equivalent ratings
- Risk weight floor: STS / Resilient / Senior @2% for mortgages
- Unify treatment between Originator / Sponsor and Investor
- P Factor STS Resilient/non Resilient: 0.25/0.25
- P Factor non-STS Resilient/non Resilient: 0.5/0.5
- Reduce scalar of RSRWF* from 10%/15% to 7%/10%

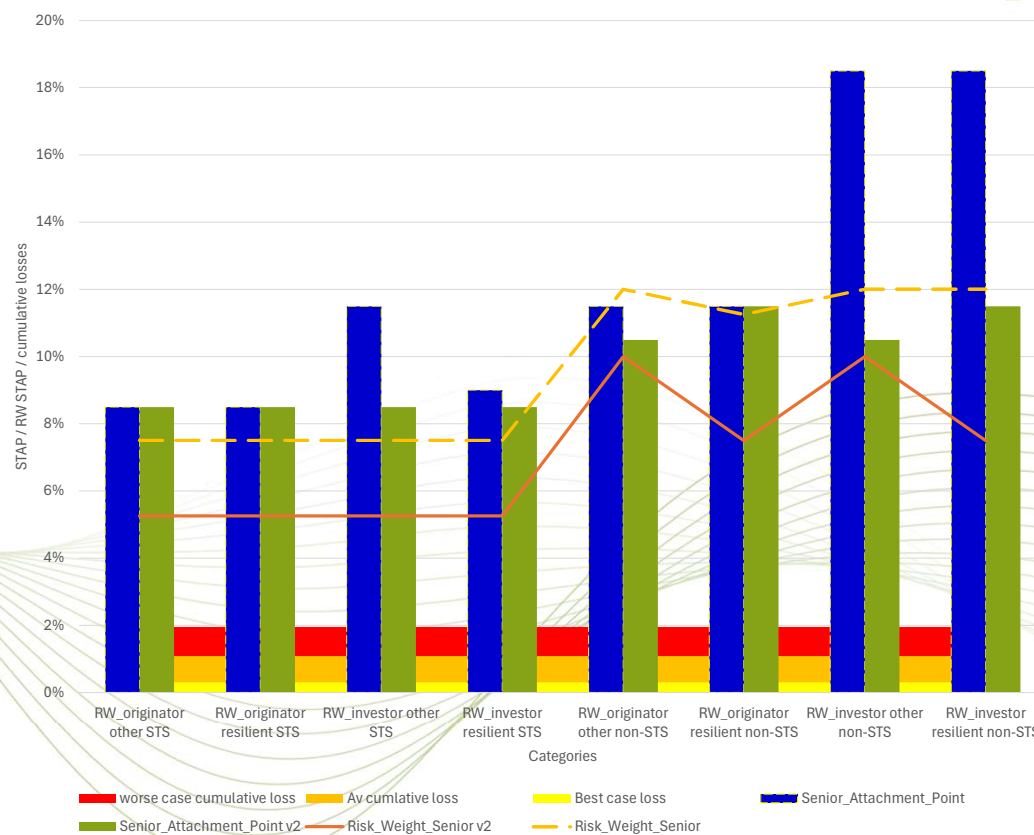
* RSRWF – Risk Sensitive Risk Weight Floor

Impact analysis: Commission vs AFME's proposal (1/4)



Com vs AFME_SME / Retail

- Appropriate capital levels are key to enable banks BOTH to finance SMEs at more competitive rates and to support risk transfer.
- AFME's proposal provides 3 x coverage against worse losses experienced over the last 40 years.
- AFME's proposal reverses the Commission's proposed increase in capital for banks financing non-STS SME portfolios whilst maintaining significant protection for bank exposures.



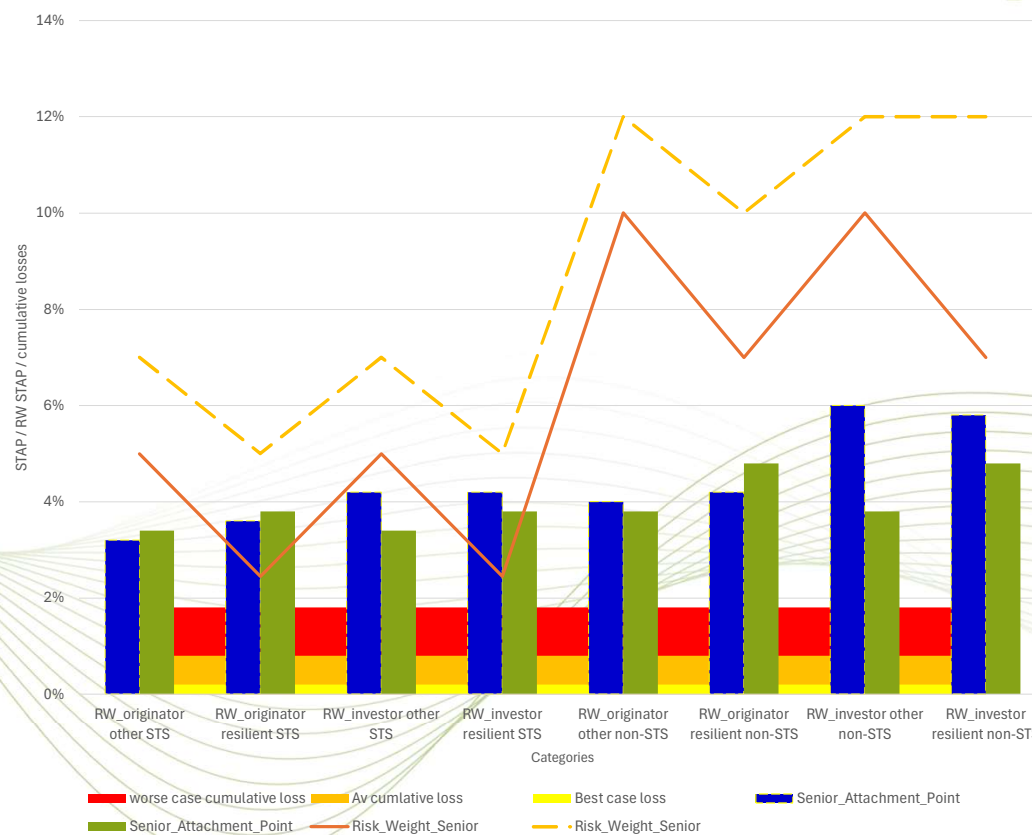
Source: Moody's Ratings and AFME: Cumulative losses over 5 years

Impact analysis: Commission vs AFME's proposal (2/4)



Com vs AFME_Mortgages

- AFME's proposal aims to facilitate transfer of credit risk for banks with large mortgage portfolios as well as provide competitive financing to speciality finance lenders.
- AFME's proposal provides at least c.2x coverage against worse case 10 yr cumulative losses and 4x average 10 yr losses experienced over the last 40 years.
- AFME's proposal results in the same or greater protection for banks in the role of originator in most scenarios.
- The reduction in the RW floor to 2.5% is only possible through increasing the size of the protected tranche for SRT banks.



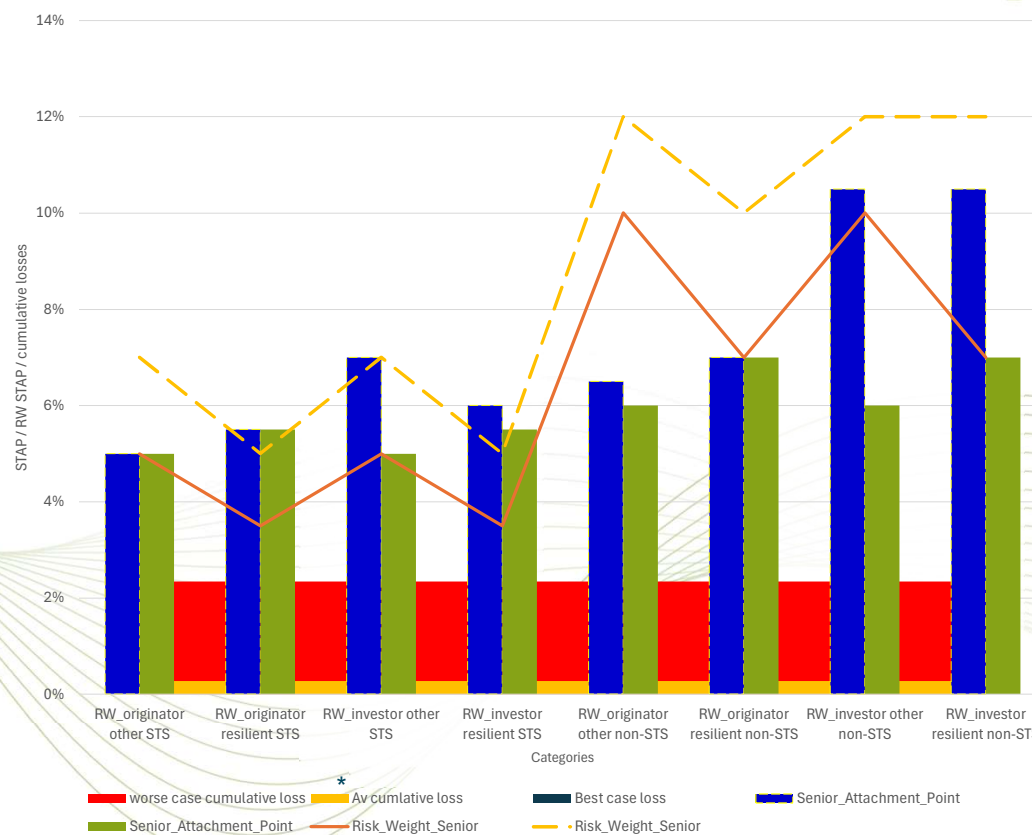
Source: Moody's Ratings and AFME: Cumulative losses over 5 years

Impact analysis: Commission vs AFME's proposal (3/4)



Com vs AFME_Investment Grade Corporates

- Investment grade corporates are only referenced in SRT securitisations, hence greyed out sections
- AFME's proposal provides over 2x coverage against worse case 5 yr cumulative losses and 15x average 5 yr losses experienced over the last 100 years.
- AFME's proposal advocates for a reduction in the risk weight of the retained Senior Tranche whilst the attachment points are broadly aligned.



* Categories 3,4,7,8 not applicable

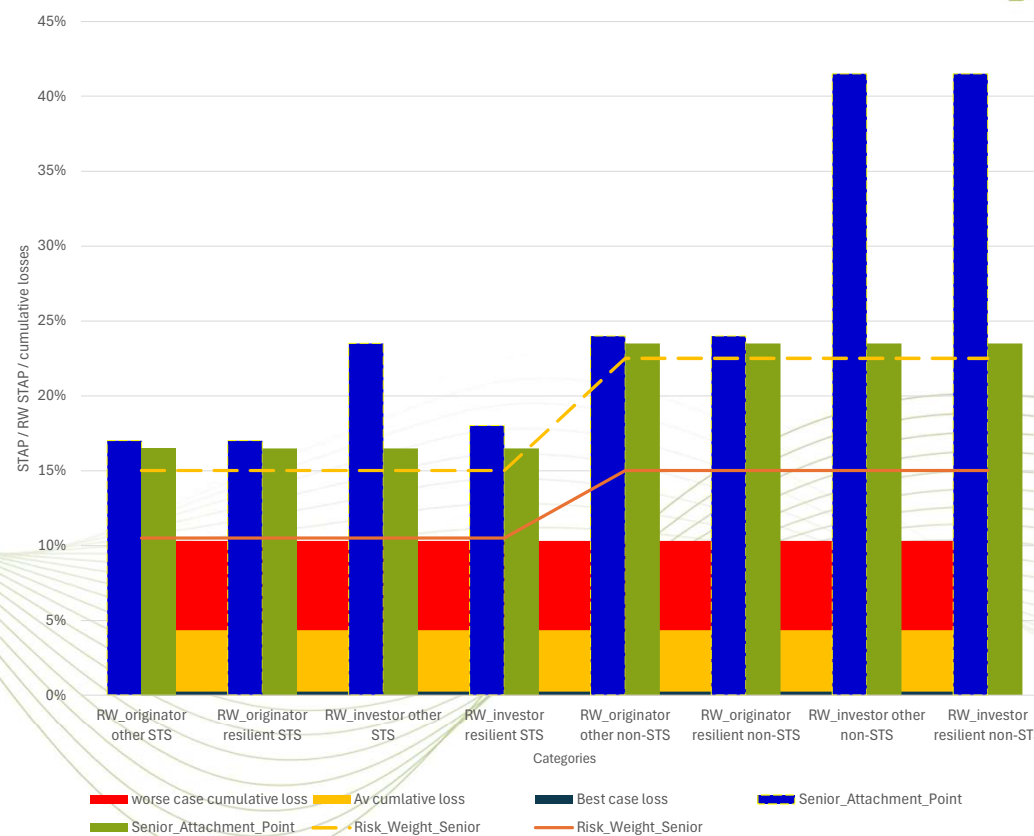
Source: Moody's Ratings and AFME: Cumulative losses over 5 years

Impact analysis: Commission vs AFME's proposal (4/4)



Com vs AFME_Lev Loans

- AFME's proposal provides over 1.3x coverage against worse case 5 yr cumulative losses and 4x average 5 yr losses experienced over the last 100 years.
- AFME's proposal to cap the RW Floor at the current RW Floor has the beneficial effect of elevating the attachment point in all scenarios.
- Categories 7 and 8 capture the majority of bank warehousing activity. This activity benefits from several additional structural protections (e.g. borrowing base funding), most importantly excess spread which will generate between an additional 4-6% of credit enhancement over the life of the transaction.



Source: Moody's Ratings and AFME: Cumulative losses over 5 years

AFME Proposal



AFME Resilient

Senior Position	Risk weight floors	STS				Non-STS			
		Originator/Sponsor		Investor		Originator/Sponsor		Investor	
		SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA
		Formula: 7%*Kirb or Ka*12.5 Floor 2/5%				Formula: 10%*Kirb or Ka*12.5 Floor 7%			
	(p) factor	Formula, Scaling factor 0.3, Floor 0.1, Cap 0.25	0.25	Formula, Scaling factor 0.3, Floor 0.1, Cap 0.25	0.25	Formula, Scaling factor 0.7, Floor 0.25, Cap 0.5	0.5	Formula, Scaling factor 0.7, Floor 0.25, Cap 0.5	0.5
Non-senior position	(p) factor	Formula, Scaling factor 0.5, Floor 0.2, Cap 0.5	0.5	Formula, Scaling factor 0.5, Floor 0.3, Cap 0.5	0.5	Formula, Scaling factor 1, Floor 0.3, Cap 1	1	Formula, Scaling factor 1, Floor 0.3, Cap 1	1

AFME Non-Resilient

Senior Position	Risk weight floors	STS				Non-STS			
		Originator/Sponsor		Investor		Originator/Sponsor		Investor	
		SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA	SEC-IRBA	SEC-SA
		Formula: 7%*Kirb or Ka*12.5 Floor 5%				Formula: 10%*Kirb or Ka*12.5 Floor 10%			
	(p) factor	Formula, Scaling factor 0.3, Floor 0.1, Cap 0.25	0.25	Formula, Scaling factor 0.3, Floor 0.1, Cap 0.25	0.25	Formula, Scaling factor 0.7, Floor 0.25, Cap 0.5	0.5	Formula, Scaling factor 0.7, Floor 0.25, Cap 0.5	0.5
Non-senior position	(p) factor	Formula, Scaling factor 0.5, Floor 0.2, Cap 0.5	0.5	Formula, Scaling factor 0.5, Floor 0.3, Cap 0.5	0.5	Formula, Scaling factor 1, Floor 0.3, Cap 1	1	Formula, Scaling factor 1, Floor 0.3, Cap 1	1



The Association for Financial Markets in Europe (AFME)
is the voice of the leading banks in Europe's financial markets.

Our purpose is to advocate for deep and competitive, integrated capital markets globally, which support companies and investors, facilitating economic growth.

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