Myth busting - Performance of European securitisation over 40 years

Perception:

Securitisation is extremely risky.

Reality:

EU Securitisation has a robust track record, meeting investor expectations over the past 40 years, including during the post GFC period.

Perception: Securitisation is extremely risky

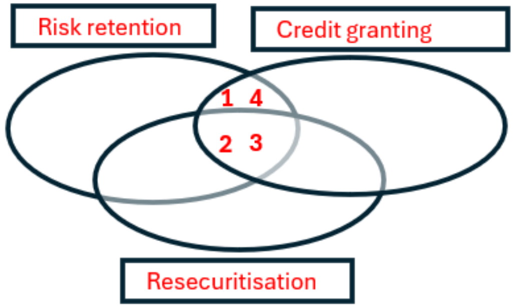
Reality: EU Securitisation has a robust track record, meeting investor expectations over the past 40 years, including during the post GFC period

- Historical default rates across all rated securitisation tranches have performed at the same standard or better than similarly rated fixed income bonds issued by corporates and governments
- Historical performance of STS and non STS bonds in the main market segments is very similar. This is also true over periods of stress post GFC.
- Underperformance is limited to securities issued in a 5 year window (2003 and 2008), all products now prohibited under EUSECR
- Securitisation bonds are unique in evidencing high ratios of upgrade to downgrade due to their self liquidating nature of many of the products

The effect of EUSECR upon securitisation issuance in Europe

Prohibited products		Permitted products	
Objective: arbitrage		Objective: Funding	✓
Synthetic IG Corp (1)	✗	CLO - SME, Midcap	✓
CDO of ABS (2)	✗	ABS - Consumer, Auto, Leasing, trade	✓
CDO^2 (3)	✗	RMBS	✓
Subprime RMBS (4)	✗	CMBS	✓
		Objective: Fund leverage	✓
		CLOs - Leveraged Loans	✓
		Objective: Credit Risk Transfer	✓
		SRT - Synthetic, traditional	✓

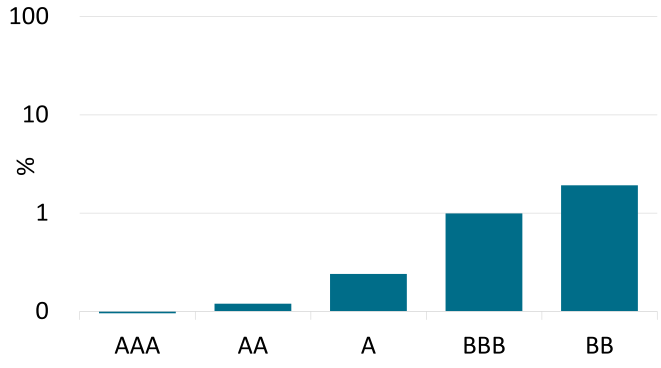
Prohibited under relevant Articles



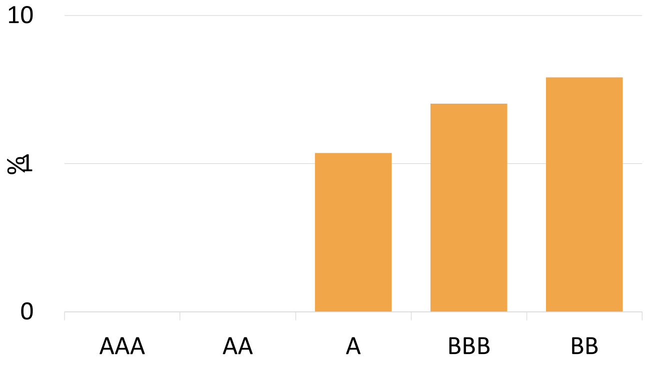
- Use of securitisation to finance lending has been in existence since the 1990's in Europe and this segment has consistently performed in line or better than other fixed income asset classes, such as government or corporate bonds.
- The emergence in 2000's of an arbitrage product type (in red) under the banner of securitisation (2003 – 2008) had far reaching consequences for issuers and investors.
- These products are explicitly prohibited under the EU Securitisation Regulation arising from breaches of some / all of Articles 6, 8 and 9 as indicated to left.
- Use of securitisation to transfer credit risk from the banking sector has been in existence since 1990's.

Comparative default rates: Securitisation vs. fixed income

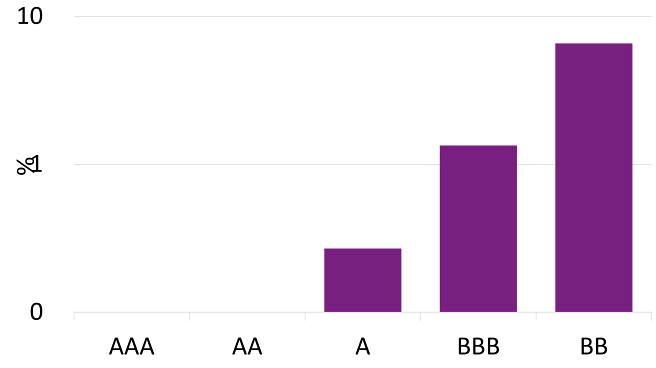
Five-year cumulative default rates, European securitisations*



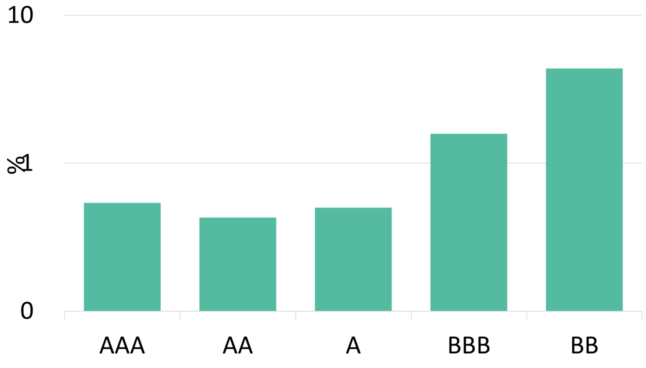
Five-year cumulative default rates, global sovereigns



Five-year cumulative default rates, global nonfinancial corporates



Five-year cumulative default rates, global financials

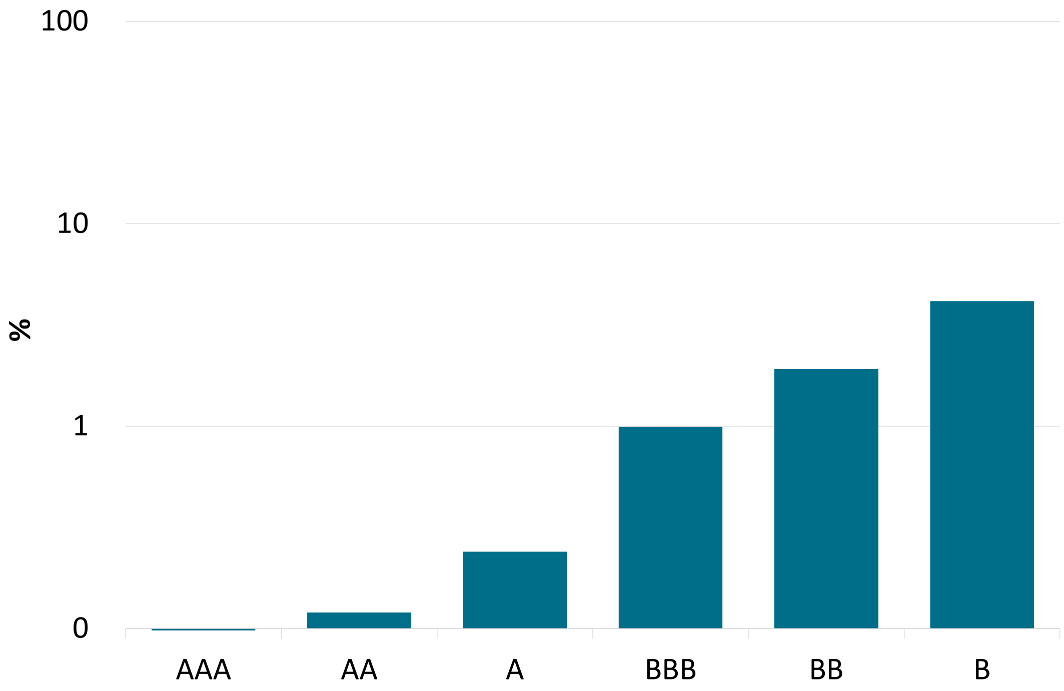


- Securitisation data includes both STS and non STS products permissible under the EUSECR, excluding CMBS.
- Each chart shows the average 5 year cumulative default rates over a 40 year study period for each product (1983-2024).
- Securitisation has performed similarly or better across each rating category than government and corporate bonds over the 40 year study period.
- This highlights that the securitisation products that performed badly post GFC were originated primarily in the US in a 5 year window prior to the GFC.
- None of these products are permissible under EUSECR

*Average default rates based on 1983-2024 period. *includes largest currently active sectors, i.e. ABS, RMBS, and corporate-backed CLOs. Source: S&P Global Market Intelligence CreditPro.

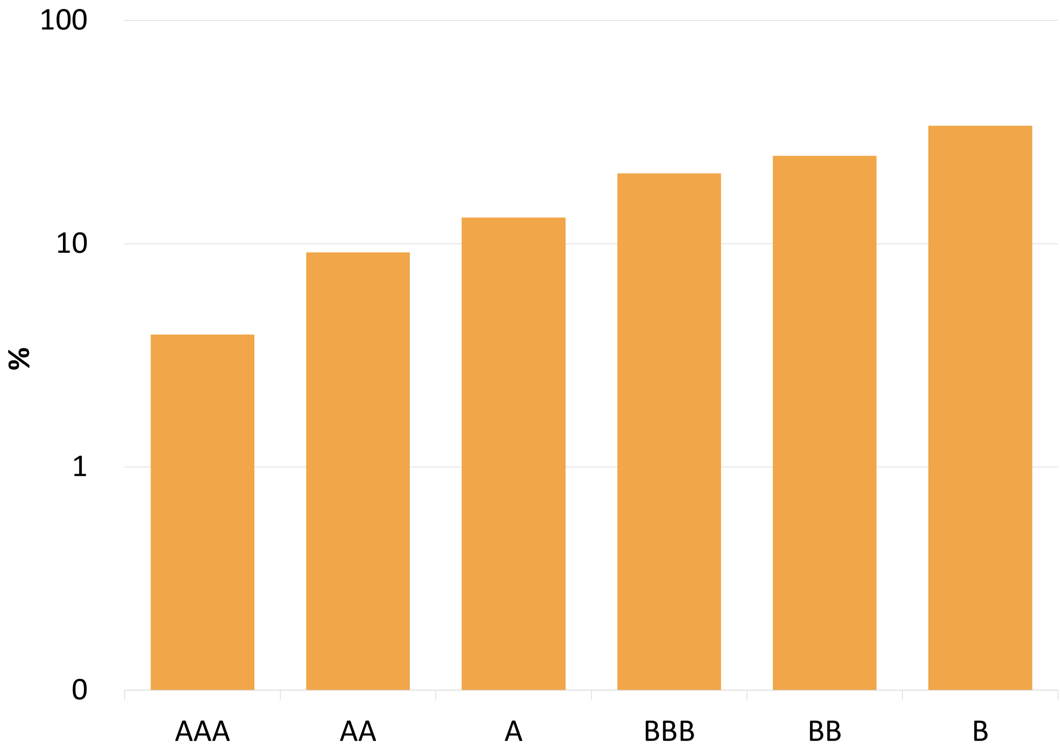
Securitisation default rates: Europe vs. US

Five-year cumulative default rates, European securitisations*



Average default rates based on 1983-2024 period. * includes largest currently active sectors, i.e. ABS, RMBS, and corporate-backed CLOs.
Source: S&P Global Market Intelligence CreditPro.

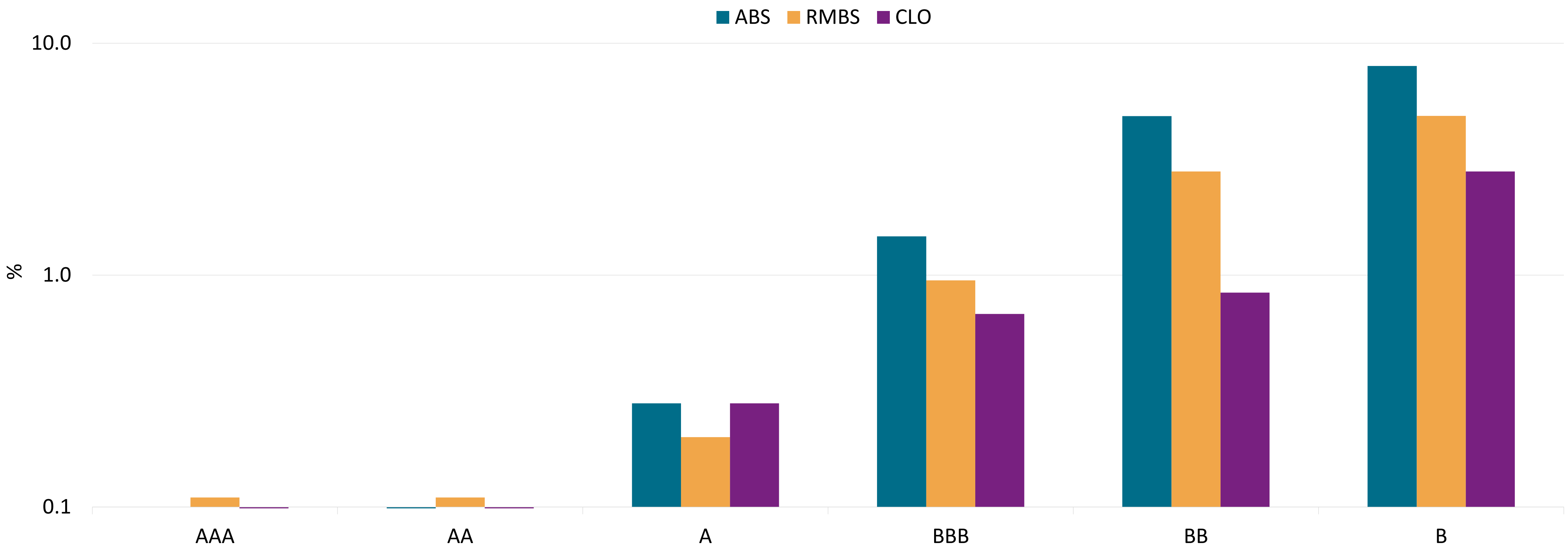
Five-year cumulative default rates, U.S. securitisations*



Average default rates based on 1983-2024 period. Source: S&P Global Market Intelligence CreditPro.

The Main Active European securitisation Sectors Have Performed Well

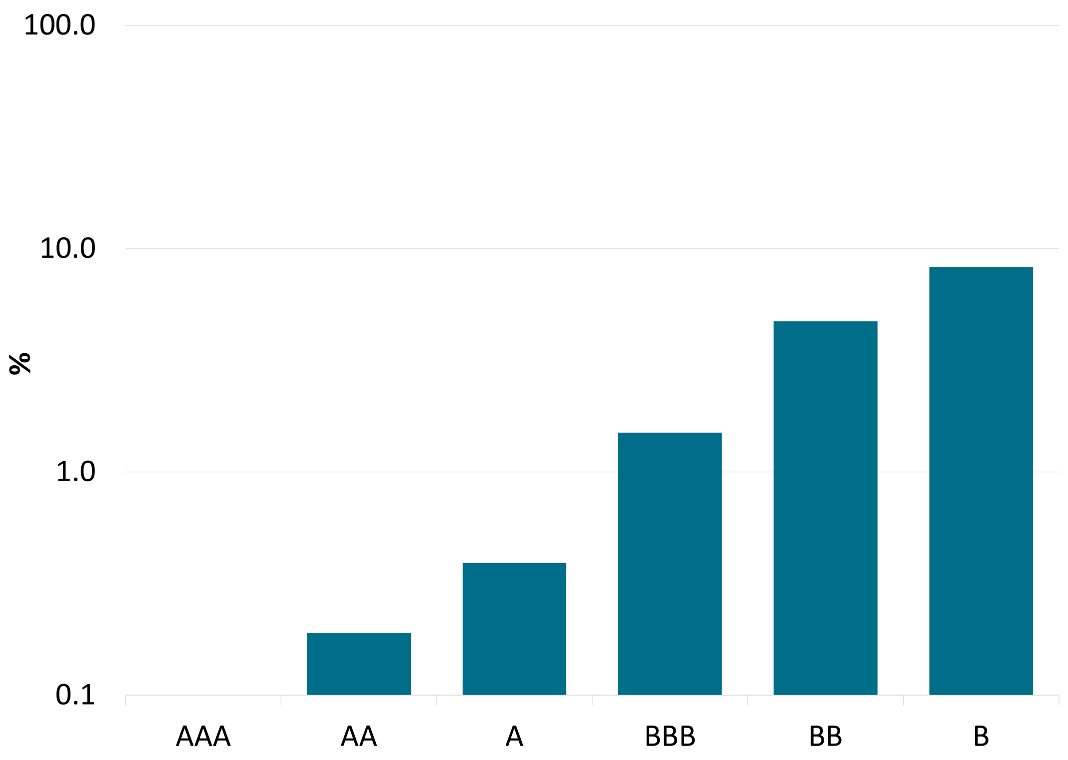
Five-year cumulative default rates, by European securitisation sector



Average default rates based on 1983-2024 period. Source: S&P Global Market Intelligence CreditPro.

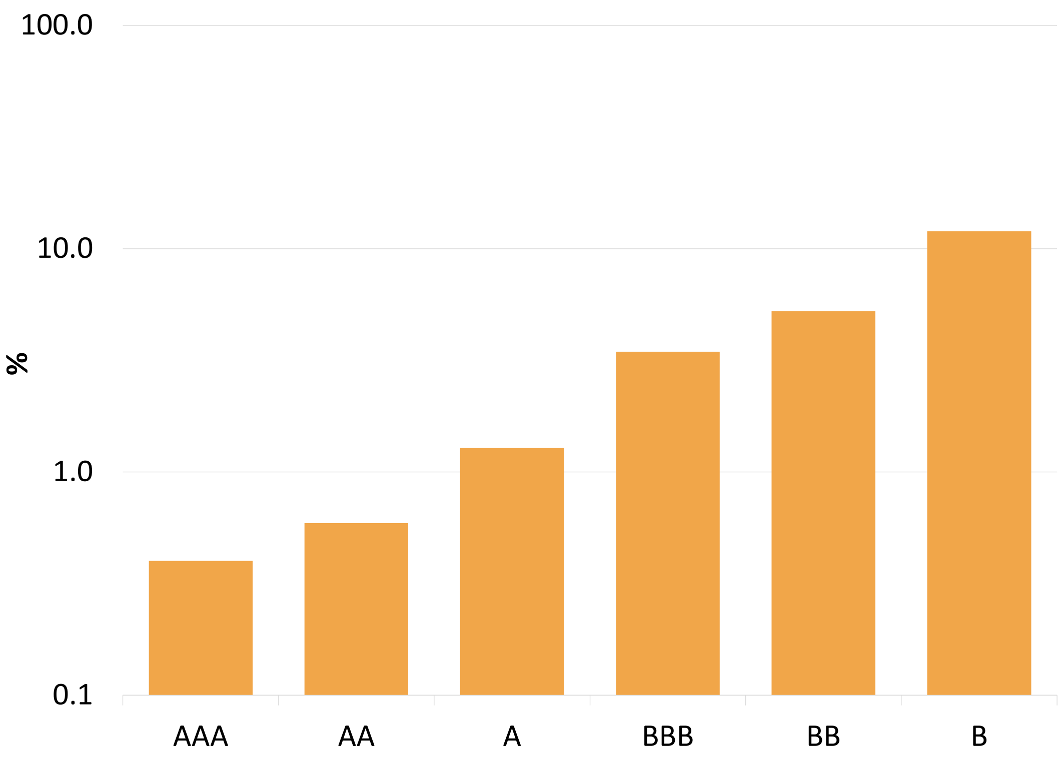
Performance Of STS And Non-STS Sectors Has Been Similar

Five-year cumulative default rates, Europe, STS*



*Historical proxy for STS sectors is ABS (excl. whole business), RMBS (excl. buy-to-let, nonconforming, nonperforming, and reperforming), and SME CLOs. Source: S&P Global Market Intelligence CreditPro.

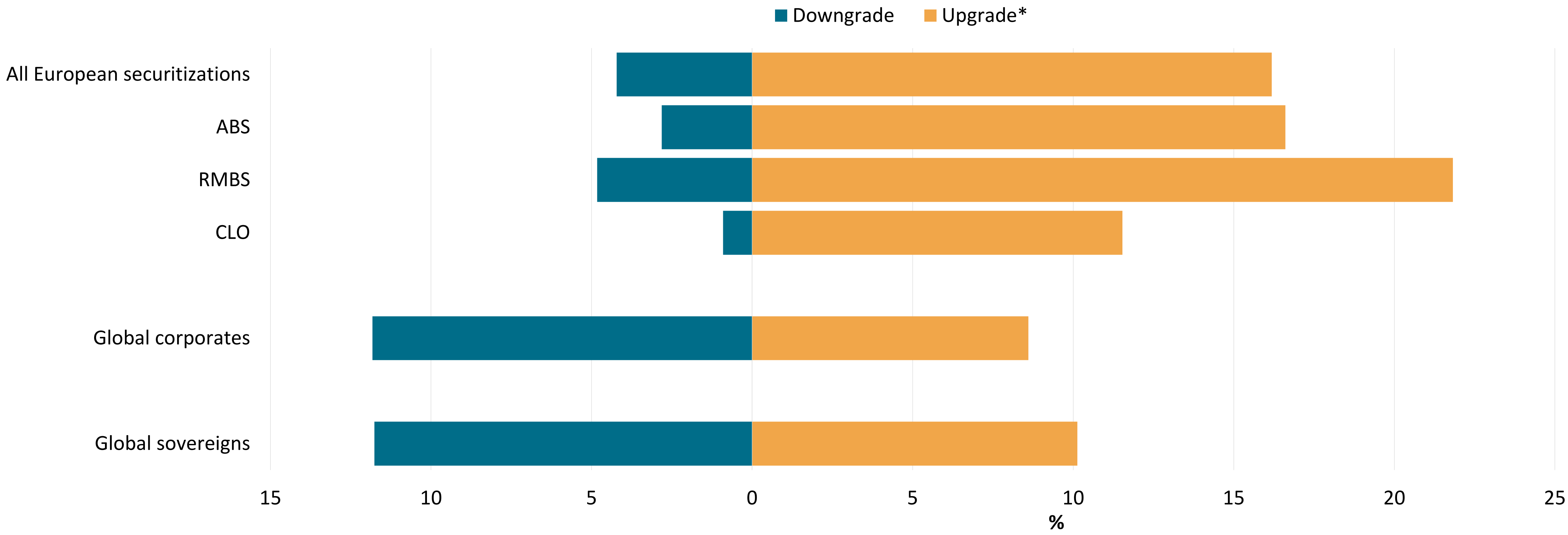
Five-year cumulative default rates, Europe, non-STS**



**Historical proxy for non-STS sectors includes whole business, buy-to-let, nonconforming, nonperforming, and reperforming RMBS, leveraged loan CLOs, and CMBS. Source: S&P Global Market Intelligence CreditPro.

European securitisations Typically See More Upgrades Than Downgrades

Annual average rating transition rates, 2015-2024



- Upgrade rate calculations exclude 'AAA' ratings, which cannot be raised. Source: S&P Global Market Intelligence CreditPro.
- Study period over 10 year period to limit rating actions due to methodological change