COMMERCIAL BANKING

OVERVIEW OF EUROPEAN SECURITISATION MARKETS

2014 European Asset and Liability Management Seminar

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LLOYDS BANK

SECURED FUNDING TOOLBOX

Spectrum of wholesale asset based funding – linkage of risk to originator

Sources de-linked from an originator

	Credit Risk	Prepayment Risk	Asset Side Market Risk[2]	Liability Side Market Risk	Risk of change in Rating Criteria	Rating Downgrade Risk
Portfolio Sale	🔴	🔴	🔴	🔴	🔴	🔴
Stand-alone Securitisation[1]	🟠	🔴	🔴	🔴	🔴	🔴
UK Master-trust RMBS	🟠	🟢	🟠	🔴	🟠	🟠
Covered Bonds	🟢	🟢	🟢	🔴	🟠	🟠
Private Term Repos	🟢	🟢	🟢	🟢	🟢	🟢

Sources linked to an originator

🔴 Risk transferred to Investor 🟠 Risk partially retained by Originator 🟢 Risk retained by Originator

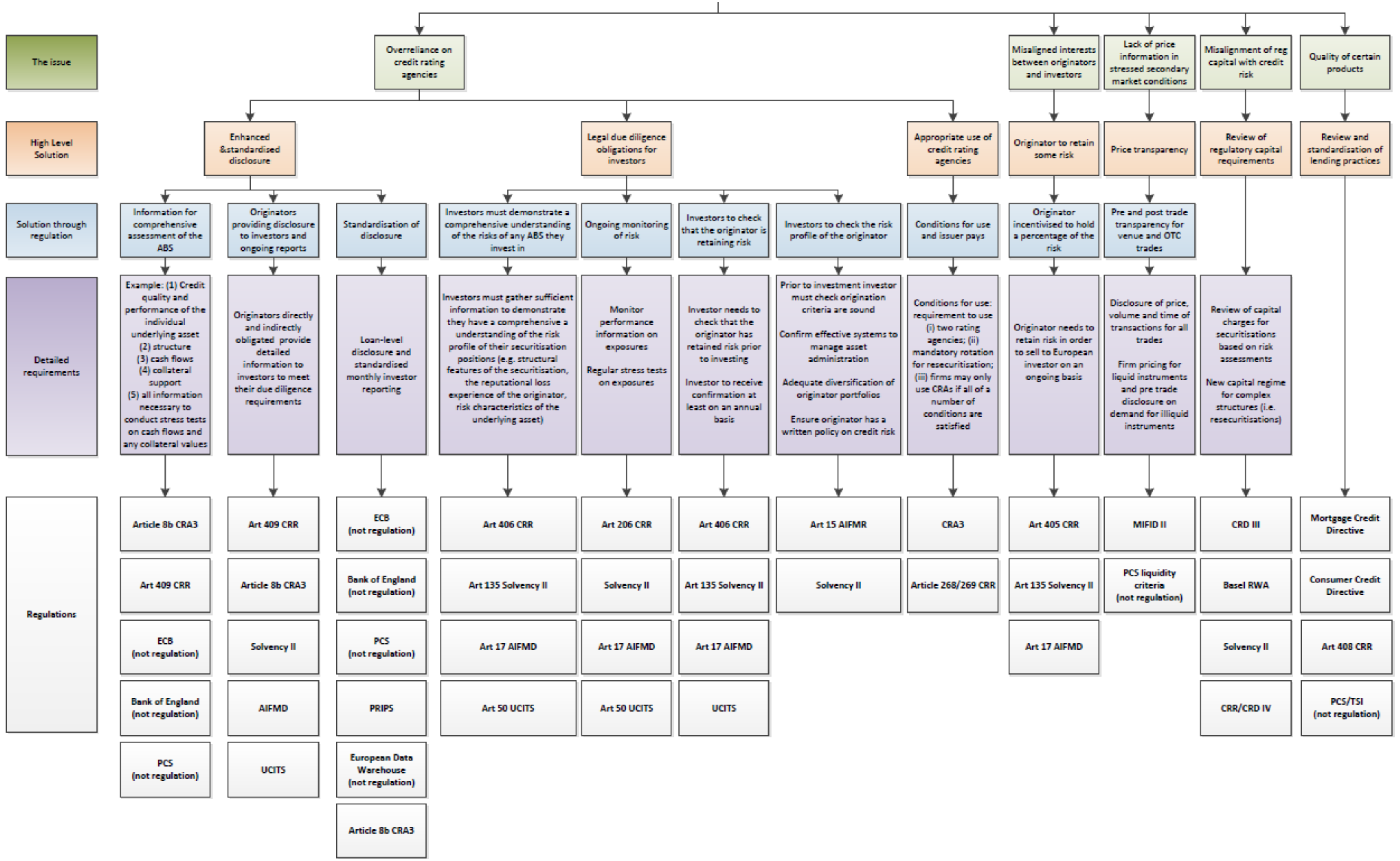
Risk pricing and allocation

- Issuers price more and more accurately these risks, mostly driven by regulatory requirements
- Investors who can play across products may not be willing to accurately reflect the risk transfer in their pricing

Notes:
[1] with first loss retained
[2] HPI fluctuations

MAP OF DIRECT AND INDIRECT SECURITISATION EUROPEAN REGULATIONS SINCE THE CRISIS

Mapping of securitisation specific problems during the financial crisis and EU regulatory reform*

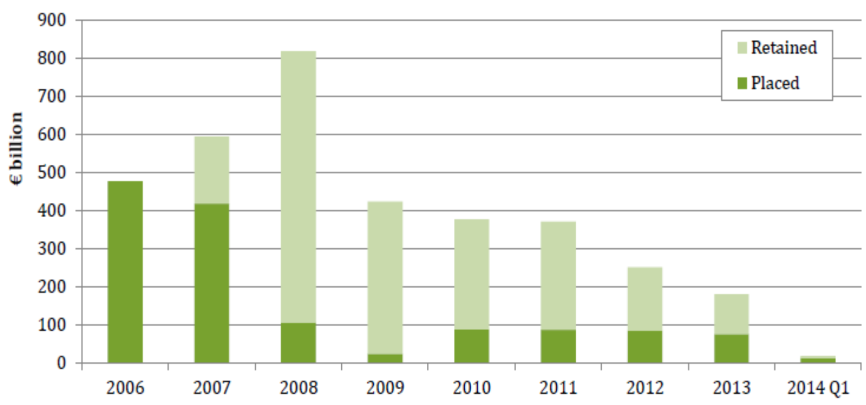


*US has introduced similar regulatory initiatives for securitisation, primarily under Dodd-Frank

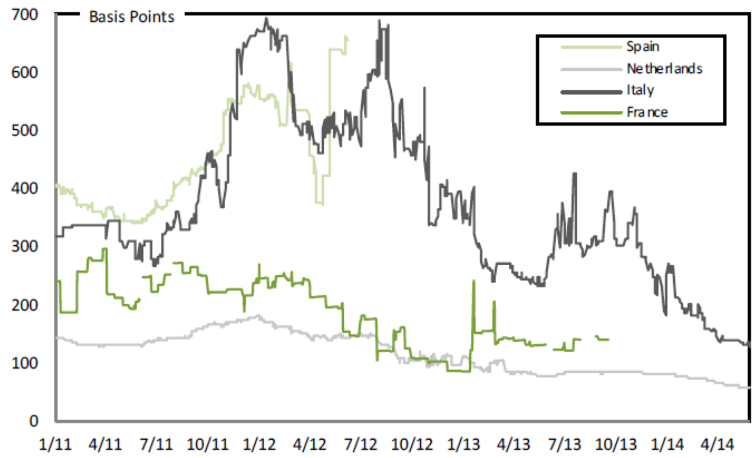
Source: AFME, Regulatory Reform - Map of direct and indirect securitisation European regulations since the crisis, 22 April 2014

EUROPEAN VOLUMES AND PRICING

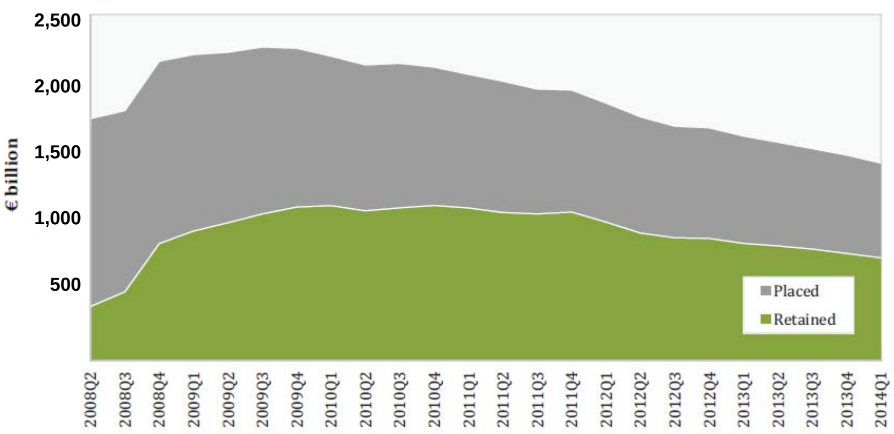
European ABS issuance



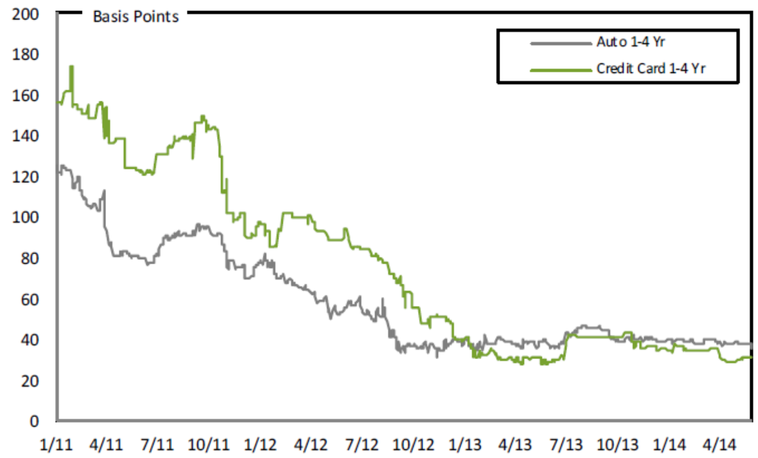
AAA RMBS Spreads (3-5yr)



European securitisation outstanding Q2 08 to Q1 14



AAA ABS Spreads (1-4yr)

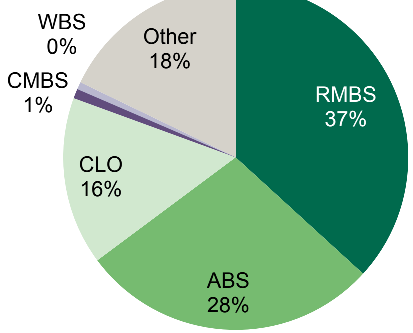


Source: AFME/SIFMA Securitisation Data Reports, Markit

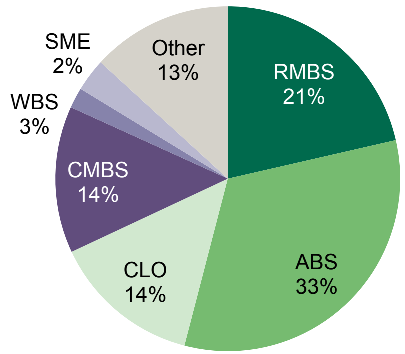
ASSET BACKED MARKET ISSUANCE PATTERNS

European Issuance Asset Type Distribution

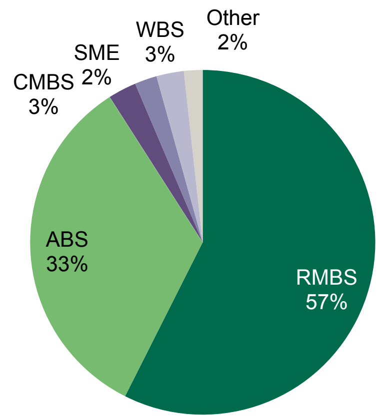
2014 YTD



2013

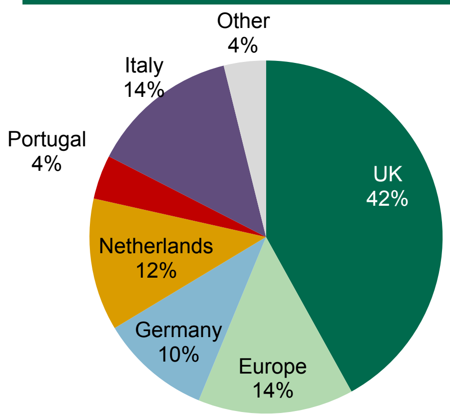


2012

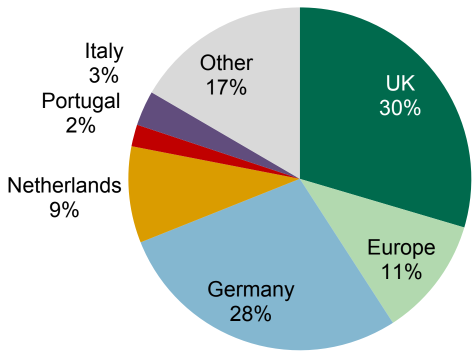


European Issuance Breakdown By Jurisdiction

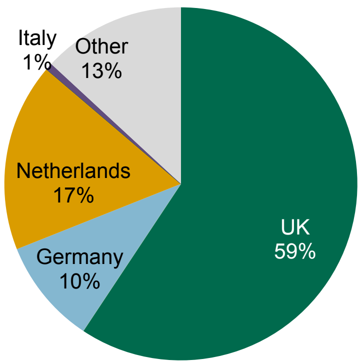
2014 YTD



2013



2012



Source: Lloyds Bank plc as at 18 June 2014

EUROPEAN SECURITISATIONS PERFORMANCE

European securitisation default rates: mid-2007 to end 2013

	Original Issuance (€bn)	Default Rate (%)
Europe		
Total PCS eligible asset classes	**960.2**	**0.15**
Credit Cards	33.2	0.00
RMBS	756.0	0.12
Other consumer ABS	68.0	0.13
SMEs	103.0	0.41
Note: Only senior tranches to be PCS labelled, the default rate for which is zero, like covered bonds		
Total Non-PCS eligible asset classes	**728.9**	**5.66**
Leveraged loans CLOs	70.6	0.10
Other ABS	69.1	0.00
Corporate securitisations	64.9	0.13
Synthetic Corporate CDOs	254.4	2.87
CMBS	163.3	10.34
Other CDOs	77.8	6.54
CDOs of ABS	28.9	41.04
Total European securitisation issuance	1,689.1	2.53
Covered Bonds	1,085.0	0.00
Total European issuance	**2,774.1**	**1.54**
Select US asset classes		
Credit Cards	295.4	0.07
Autos	198.2	0.04
Student loans	266.9	0.34
RMBS	3,254.9	22.05

Source: AFME, High-quality securitisation for Europe, June 2014

PRODUCT REHABILITATION IN FULL SWING

Politicians & Central Bankers Positive	▪ **Barnier (EC):** "One of the suggestions we have put forward is to revive sustainable securitisation markets because we want to make it easier for small businesses to access capital markets and larger pools of investment." Athens speech, 1 Apr 2014 ▪ **Draghi (ECB):** "We think that a revitalisation of a certain type of [asset-backed security], a so-called plain vanilla [asset-backed security], capable of packaging together loans, bank loans, capable of being rated, priced and traded, would be a very important instrument for revitalising credit flows and for our own monetary policy." Frankfurt speech, 6 Feb 2014 ▪ **Breedon (BoE):** Correcting the regulatory over-reaction to securitisation is a top priority of the BoE in its reviews of potential regulatory overkill from the crisis. Meeting with AFME/PCS representatives, 18 Mar 2014
Words into Action	▪ **Solvency II** – EIOPA definitions of Type A and Type B ABS with proposed capital for Type A already having been reduced twice ▪ **Basel RWAs** – Proposed floor on RWA's for ABS already lowered once; further changes expected due to both political pressure and effective industry advocacy ▪ **LCR** – EBA has confirmed that certain types of RMBS will qualify as Type 2 liquidity collateral; it is expected that eligible asset classes will be widened particularly off the back of the strong German / French auto manufacturing lobby for auto ABS
Expected Market Reaction	▪ As flow ABS becomes a more attractive product to purchase (both politically and economically), investor base should increase ▪ Increased investor base will lead to spread tightening ▪ Spread tightening will make product more attractive to issue for bank treasurers leading to increased activity ▪ Follow on impact will mean sympathetic spread tightening for more esoteric asset classes

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