

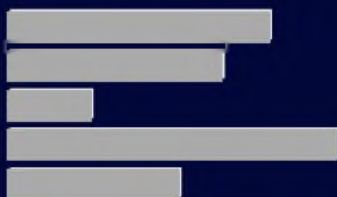
Securitisation Roundtable at the European Parliament
Brussels, 25-26 January, 2016

Bank of America
Merrill Lynch



22 January 2016

Who needs securitisations *and* covered bonds?



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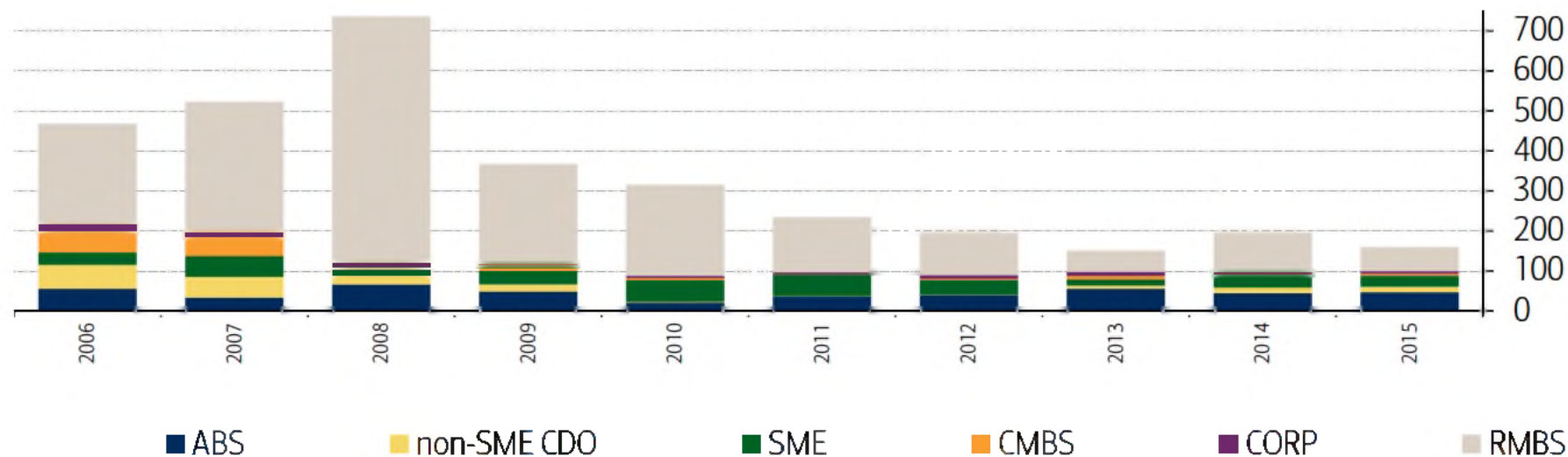
Refer to important disclosures on page 20-24.

- EU securitisation can be divided between:
 - cash placed (distributed with investor) transactions and
 - retained (for ECB or other repo financing) transactions.
 - synthetic securitisation for risk transfer purposes
 - Today, majority of EU securitisations are funding transactions, as opposed to the funding-and-risk-transfer transactions of the past.
- EU securitisation market is contracting rapidly, with net negative supply and shrinking investor base, largely due to:
 - punitive regulatory framework;
 - favourable regulatory treatment of competing funding and investment instruments (covered bonds, loan portfolio sales, ECB funding);
 - constraints on its ability to capture the benefits of the securitisation technique (risk transfer, reach to wide investor base, self-liquidating financing, asset reduction);
 - lack of 'level' playing field across different funding and investment instruments (covered bonds, whole loan sales, direct lending by traditional investors, etc.).

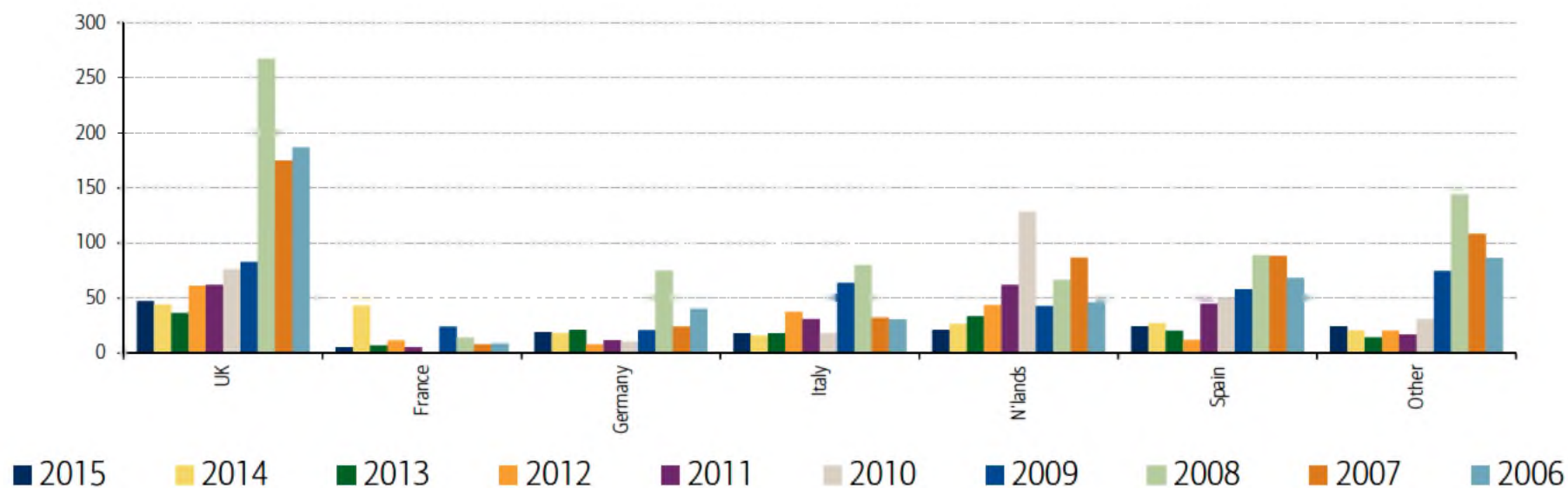
- EU securitisation market is needed to help:
 - provide funding for banks, corporates and SMEs by 'liquifying' illiquid loans;
 - access a wider range of investors even under stressed market conditions;
 - allow long-term investors, such as pension funds and insurance companies, another route to provide capital to the real economy;
 - provide desired investment instruments to a wide range of investors;
 - support banks to distribute risks, reduce assets, access funding, improve balance sheets;
 - facilitate the development of a capital markets union (CMU) in the EU;
 - facilitate the monetary policy of ECB.
- EU securitisation market has a strong track record in:
 - providing finance to the real economy
 - maintaining strong credit performance
 - attracting good level of liquidity
 - furnishing diversification of funding and investment opportunities
 - complimenting other forms of secured funding and investments (covered bonds, secured loans)

SF new issuance volume – a longer term view

Issuance by asset class(€bn), as of 2015ytd



Issuance by country (€bn) as of 2015ytd



Placed vs. retained transactions vs. BWIC flows

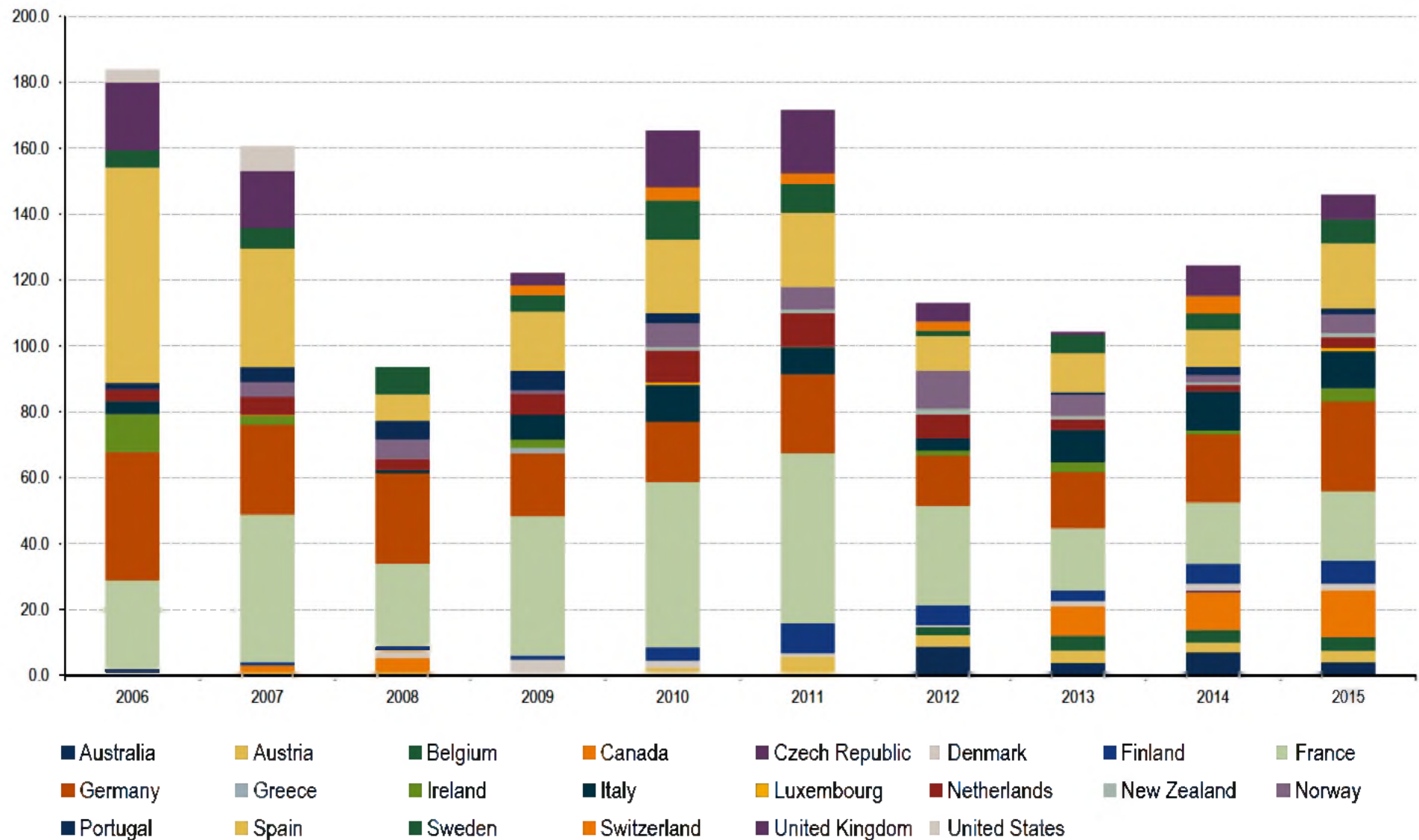
Primary market, €mn

| | 2014 | | | 2015 | | |
|-----------|------------------|-------------------------------|------------|------------------|-------------------------------|------------|
| | Assumed retained | Assumed placed (incl.private) | Total 2014 | Assumed retained | Assumed placed (incl.private) | Total 2015 |
| ABS | 27,105 | 17,572 | 44,678 | 25,871 | 20,719 | 46,590 |
| RMBS | 73,493 | 24,023 | 97,516 | 27,279 | 32,606 | 59,886 |
| SME | 26,816 | 1,581 | 28,397 | 24,674 | 2,161 | 26,835 |
| Sub-total | 127,414 | 43,176 | 170,591 | 77,824 | 55,487 | 133,311 |
| CLO | | 14,569 | 14,569 | | 14,145 | 14,145 |
| CMBS | | 4,122 | 4,122 | | 5,487 | 5,487 |
| Corp | | 7,360 | 7,360 | | 6,591 | 6,591 |
| Sub-total | | 26,051 | 26,051 | | 26,223 | 26,223 |
| Total | 127,414 | 69,227 | 196,642 | 77,824 | 81,710 | 159,534 |

BWIC volumes, €mn

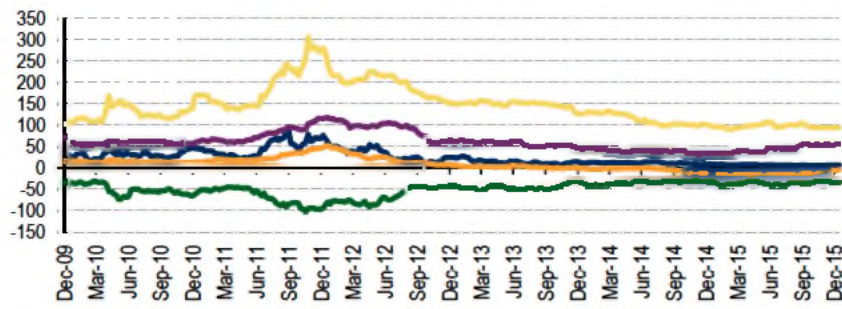
| | 2012/9 | 2013 | 2014 | 2015/10 |
|---------------------|--------|--------|--------|---------|
| RMBS, ABS & SME CLO | 17,587 | 27,964 | 40,375 | 29,603 |
| of which: | | | | |
| UK Prime RMBS | 3,895 | 5,631 | 7,497 | 3,774 |
| Dutch Prime RMBS | 917 | 878 | 2,320 | 1,738 |
| Spanish Prime RMBS | 2,352 | 3,516 | 7,615 | 7,052 |
| Italian Prime RMBS | 820 | 2,458 | 2,574 | 3,203 |
| Auto ABS** | 1,253 | 1,390 | 749 | 1,575 |
| SME CLO | 1,026 | 1,156 | 1,426 | 380 |
| Other RMBS/ABS* | 7,324 | 12,936 | 18,193 | 11,880 |
| Leveraged loan CLO | 5,025 | 8,099 | 7,267 | 5,742 |
| CMBS | 4,603 | 6,985 | 6,410 | 4,838 |
| Total | 27,215 | 43,047 | 54,052 | 40,183 |

Covered bond supply



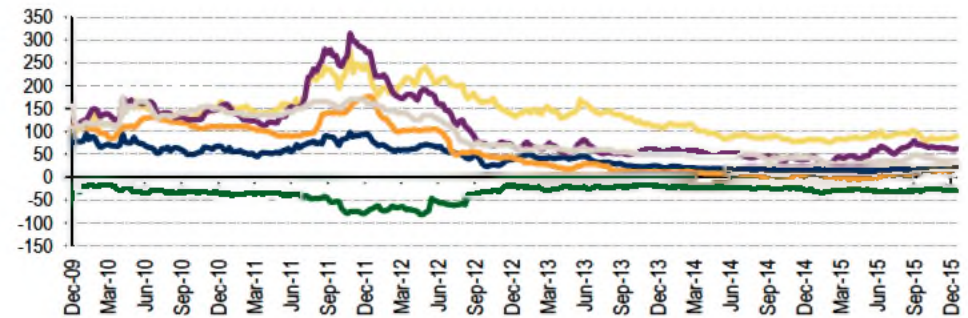
Should covered bonds price inside the sovereign?

Germany



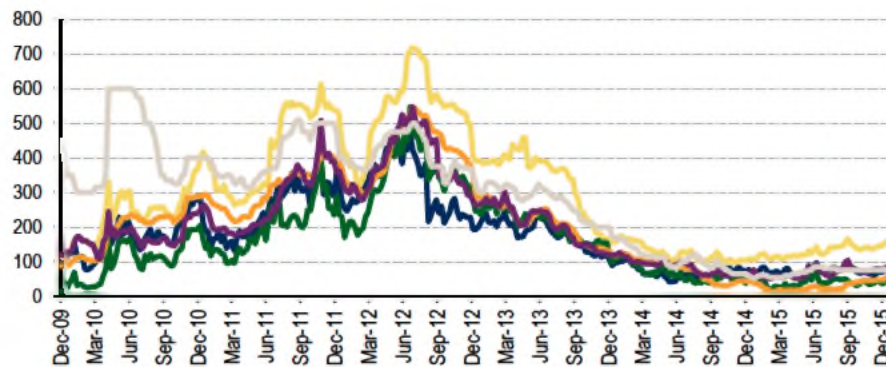
Sov CDS Bank CDS Sov Debt Covered Bonds Bank (Snr)

The UK



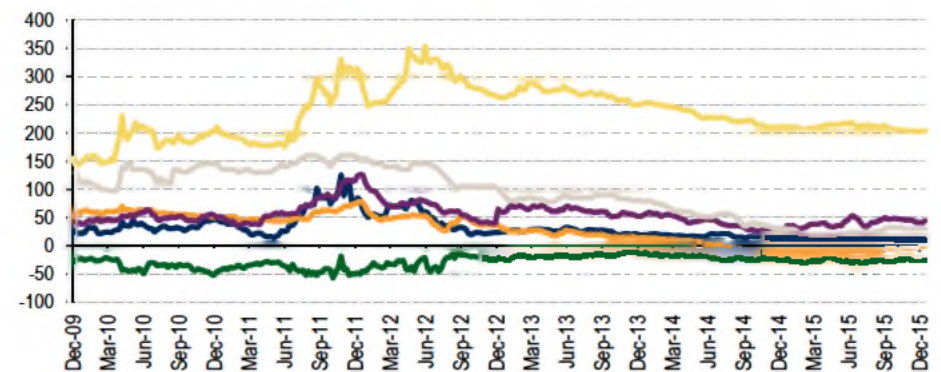
Sov CDS Bank CDS Sov Debt Covered Bonds Bank (Snr) RMBS AAA

Spain



Sov CDS Bank CDS Sov Debt Covered Bonds Bank (Snr) RMBS AAA

The Netherlands



Sov CDS Bank CDS Sov Debt Covered Bonds Bank (Snr) RMBS AAA

The macro picture

| EU aggregate MFI balance sheet | Asset-based Finance | Issuer Considerations | Investor Considerations |
|---|--|--|--|
| Assets Loans to financials ex. MFIs and ICPF €1tn Loans to non-financials €4.3tn Loans to HH: cons. credit €5.3tn Loans to HH: house purchase €3.9tn Loans to HH: other €0.8tn Source: ECB | CBs (2014) Total o/s €2.5tn: <ul style="list-style-type: none"> Public sector 0.4tn Mortgages €2.1tn Ships €9.8bn Other €1bn Public placement €1.9tn <ul style="list-style-type: none"> Benchmark (>€500mn) €1.5tn Benchmark (<€500mn) €275bn Private placement €694bn Source: ECBC | Balance sheet treatment Regulatory capital Leverage ratio NSFR LCR Funding diversity Capital TLAC Trading book review Market liquidity Publicity Positive and Negative Transparency/disclosure Data protection Attestation ECB and EC action / inaction Regulatory oversight, System efficiency Cost overlay, Public support | Yield Capital Market liquidity Broker/dealers availability Regulatory liquidity Bond optionality Legal framework Systemic support Operational requirements Due diligence Cost base Validation, assessment, certification, audit |
| NPL O/s €1.2tr Source: PWC Non-core portfolios and businesses, NPLs TBD? | Securitisation (2Q15) Total o/s €1.3tn: <ul style="list-style-type: none"> ABS €195bn CDO/CLO €100bn CMBSE€83bn RMBS €789bn SME €97bn WBS/PFI \$72bn Source: AFME | | |

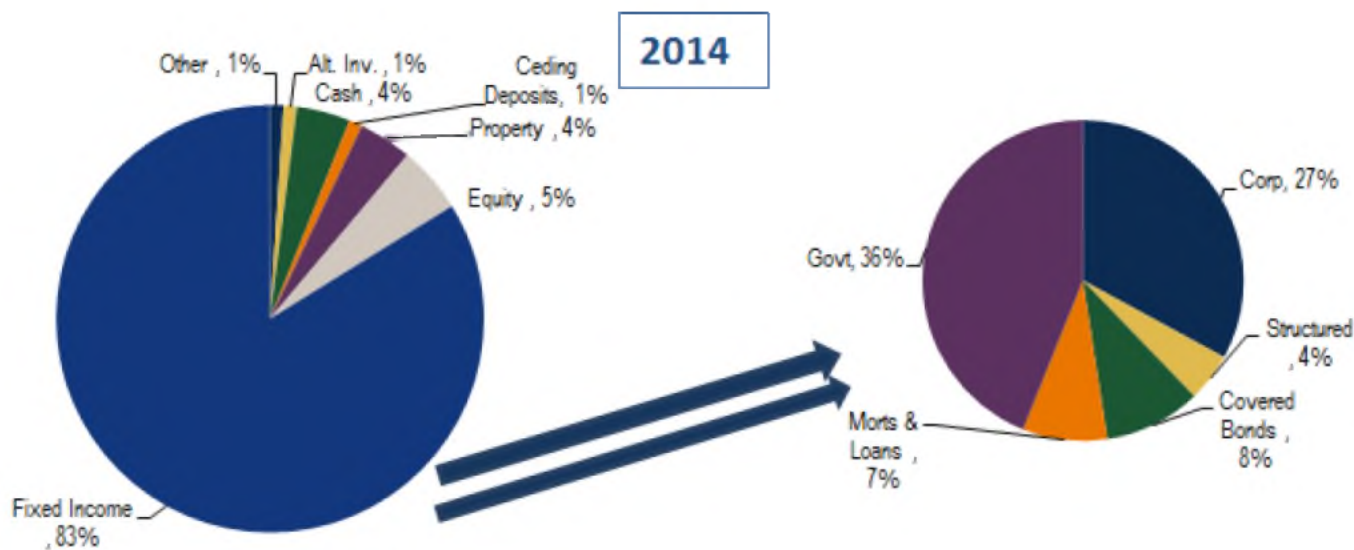
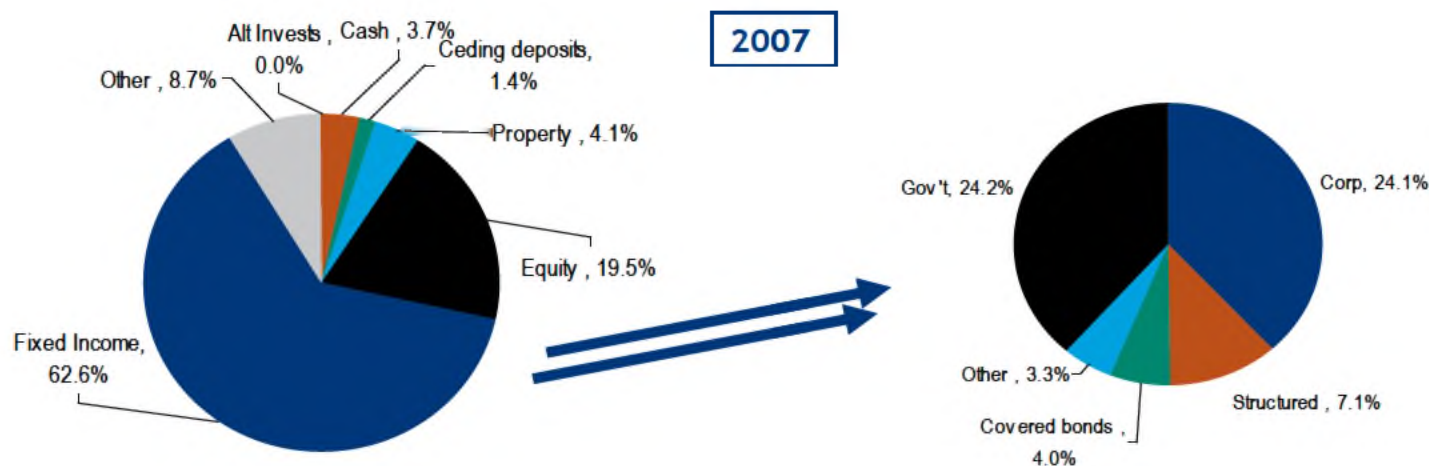
| Assets | Structures | Regulation | Pros/Cons |
|--|---|--|--|
| <p>Residential mortgage loans</p> <p>Commercial real estate loans</p> <p>Public sector debt</p> <p>-----</p> <p>Shipping loans Aircraft leases</p> <p>SME loans</p> <p>MBS (legacy)</p> <p>Banks and bank subsidiaries</p> | <p>Traditional CB (special law based)</p> <p>Structured CB (contract law)</p> <p>UCITS-compliant (EU, non-EU)</p> <p>CRR compliant (Labelled CB)</p> <p>-----</p> <p>Mortgage pass-through bonds</p> <p>Balance sheet or SPV structure</p> <p>Conditional pass-through CB</p> <p>-----</p> <p>Dual – recourse bonds ?</p> | <p>Preferential capital treatment under CRR & Solvency 2</p> <p>Preferential liquidity treatment under LCR</p> <p>Preferential operational / investment regime</p> <p>Preferential ECB treatment</p> <p>Multiple assets, structures, products and legal frameworks</p> <p>Credit history - no defaults, result of bail-outs, sovereigns caps, bank downgrades, rating methodology changes, and systematic support (i.e. European champion)</p> | <p>Systemic risk / reputation (too-big-to-fail)</p> <p>Asset encumbrance/ financial flexibility</p> <p>Stable, competitive funding source</p> <p>ALM cost</p> <p>Past bail-outs/ Future no bail-ins</p> <p>Innovation integrating securitisation features</p> <p>Double counting of dual recourse (CRR)</p> <p>Enforceability of dual recourse</p> <p>Credit vs. Rates product</p> <p>Transparency/ disclosure</p> |

| Assets | Structures | Regulation | Pros/Cons |
|---|---|--|--|
| Residential mortgage loans Consumer credit Auto loans Auto leases Equipment leases Aircraft leases Commercial RE SME loans Corporate loans NPLs Other | PCS label ABS, RMBS ABS, RMBS, CMBS, CLO, WBS Securitisation law or contract law Mortgage pass-through bonds SPV structure Cash or synthetic Guaranteed | Punitive capital treatment under BIS and Solvency 2 Limited liquidity treatment under LCR (2B) Complex and burdensome operational and investment regime Limited ECB treatment Multiple interpretations Securitisation vs. exposure regulation | Idiosyncratic risks Diversification 'Liquification' / liquidity Balance sheet and risk transfer relief Self-liquidating No bail-out/ No bail-in Innovation for new products and assets Actual performance of underlying asset pool Forecasting loan pool credit and prepayment performance |
| Banks Non-banks Corporates Other | Flexibility to meet the needs and demands of new assets, issuers or investors | Multiple assets, structures, products and legal regimes Negative publicity Credit history – overall positive with few exceptions | |

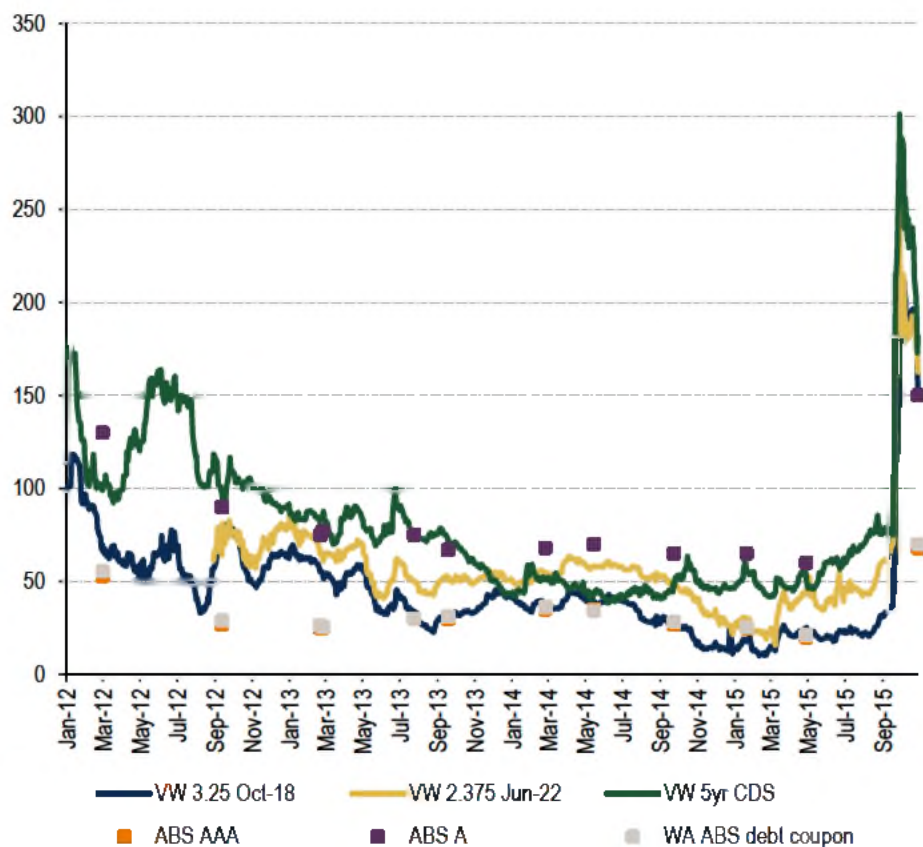
European SF, CB and bank assets as % of GDP

| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------|-----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Germany | Total SF, % of GDP | 0.29% | 0.98% | 1.69% | 0.96% | 2.92% | 0.85% | 0.40% | 0.43% | 0.29% | 0.76% | 0.63% |
| | Total CB, % of GDP | 7.66% | 7.51% | 6.98% | 5.39% | 5.97% | 4.49% | 3.37% | 2.66% | 2.05% | 1.75% | 1.57% |
| | Bank assets, % of GDP | 291.43% | 298.12% | 298.94% | 302.10% | 308.10% | 302.25% | 321.88% | 310.51% | 298.62% | 266.91% | 267.60% |
| Spain | Total SF, % of GDP | 3.26% | 4.67% | 6.77% | 8.17% | 7.96% | 5.37% | 4.63% | 4.20% | 1.16% | 1.96% | 2.61% |
| | Total CB, % of GDP | 4.58% | 6.47% | 7.44% | 5.32% | 5.00% | 4.09% | 5.35% | 8.63% | 10.09% | 2.79% | 2.39% |
| | Bank assets, % of GDP | 206.10% | 237.25% | 250.69% | 278.06% | 305.45% | 319.43% | 321.12% | 338.30% | 343.39% | 305.62% | 285.56% |
| France | Total SF, % of GDP | 0.34% | 0.44% | 0.47% | 0.41% | 0.71% | 1.23% | 0.04% | 0.27% | 0.55% | 0.33% | 2.02% |
| | Total CB, % of GDP | 1.49% | 1.61% | 2.27% | 3.12% | 3.99% | 3.05% | 3.64% | 4.95% | 2.80% | 1.29% | 1.22% |
| | Bank assets, % of GDP | 279.63% | 308.80% | 333.05% | 365.96% | 386.33% | 394.88% | 391.65% | 407.85% | 386.97% | 372.38% | 383.45% |
| UK | Total SF, % of GDP | 5.40% | 7.04% | 9.06% | 8.07% | 14.01% | 4.96% | 4.21% | 3.32% | 2.98% | 1.78% | 1.97% |
| | Total CB, % of GDP | 0.58% | 0.65% | 1.25% | 1.46% | 6.34% | 2.03% | 1.43% | 1.98% | 1.81% | 0.07% | 0.56% |
| | Bank assets, % of GDP | 379.95% | 434.53% | 474.06% | 459.67% | 457.33% | 537.23% | 505.98% | 521.51% | 465.45% | 435.42% | 399.13% |
| Italy | Total SF, % of GDP | 2.34% | 2.38% | 1.97% | 2.00% | 4.90% | 4.07% | 1.13% | 1.89% | 2.32% | 1.13% | 1.03% |
| | Total CB, % of GDP | 0.00% | 0.27% | 0.26% | 0.00% | 0.40% | 0.67% | 0.93% | 2.15% | 4.38% | 1.79% | 2.51% |
| | Bank assets, % of GDP | 164.18% | 174.39% | 185.29% | 211.60% | 226.21% | 238.07% | 236.55% | 247.90% | 261.38% | 251.93% | 249.20% |
| Netherlands | Total SF, % of GDP | 3.49% | 6.88% | 7.98% | 14.13% | 10.41% | 6.92% | 20.30% | 9.65% | 6.76% | 5.15% | 3.97% |
| | Total CB, % of GDP | 0.00% | 0.37% | 0.95% | 1.25% | 0.84% | 1.25% | 2.16% | 2.20% | 1.66% | 0.69% | 0.59% |
| | Bank assets, % of GDP | 320.19% | 311.17% | 318.22% | 353.55% | 349.13% | 359.01% | 358.00% | 372.08% | 379.87% | 337.60% | 369.96% |

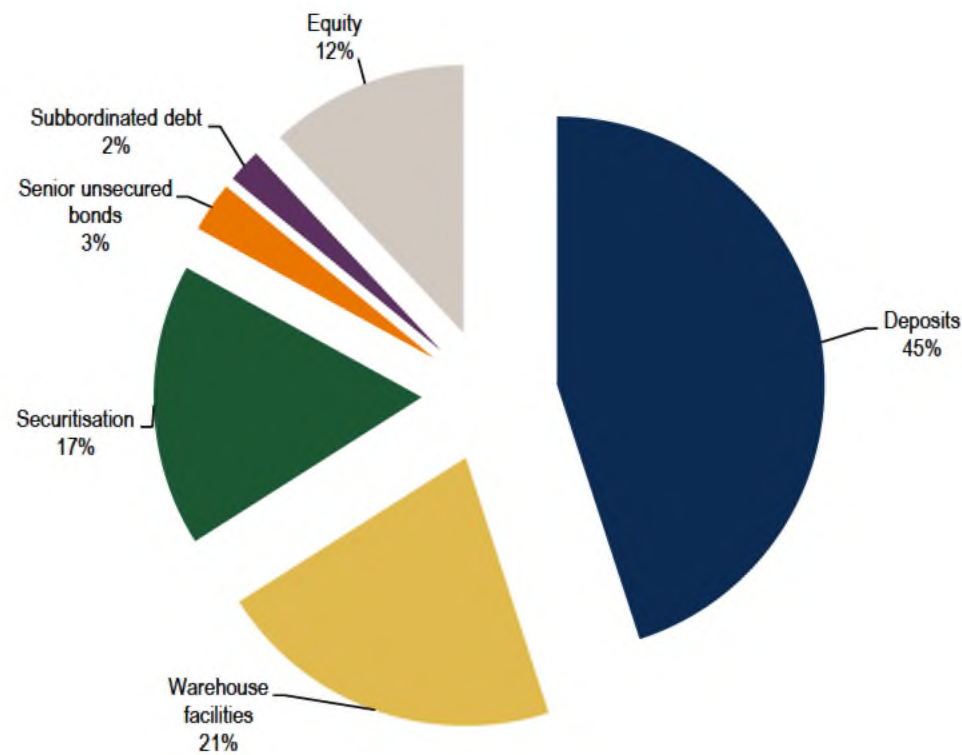
Shift in insurance companies fixed income holdings



The case of VW financing

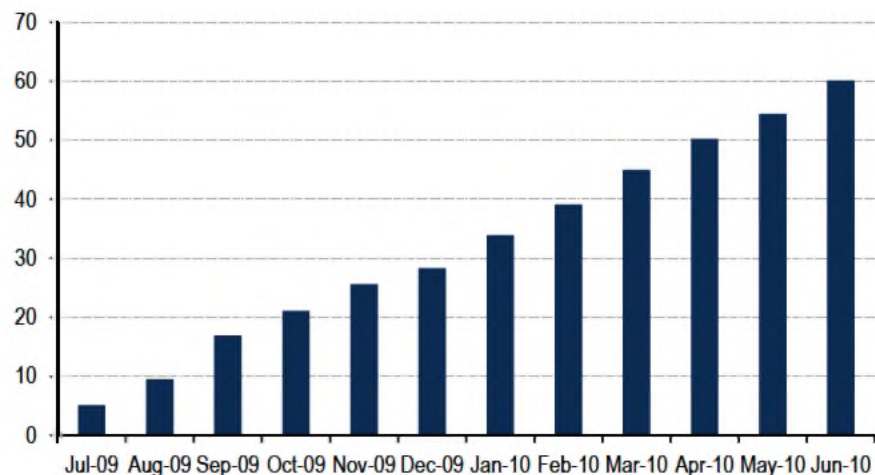


The case of SCL Nordax Bank Funding mix

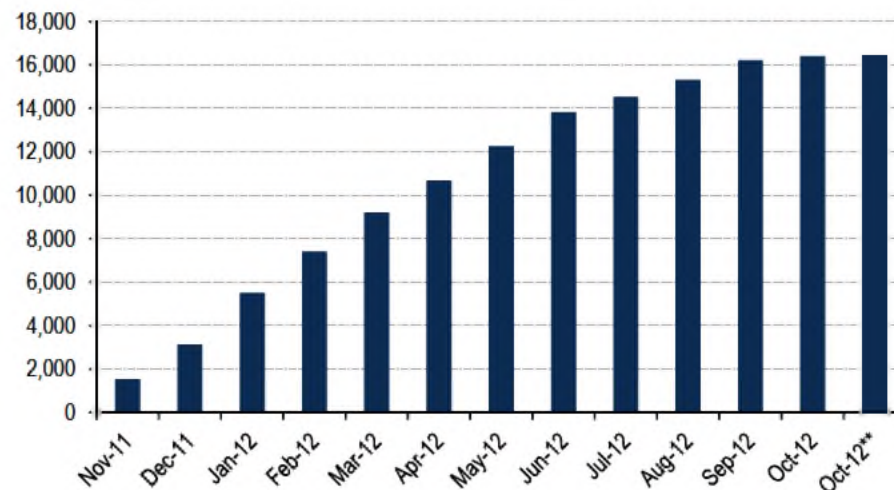


ECB CBPP1,2,3 and ABSPP(1?)

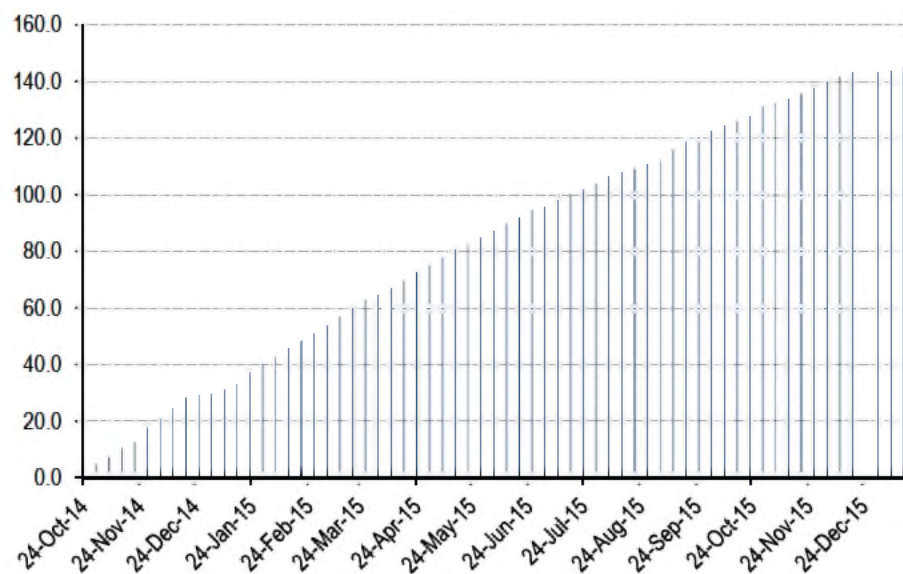
Total Cumulated purchases CBPP, €bn



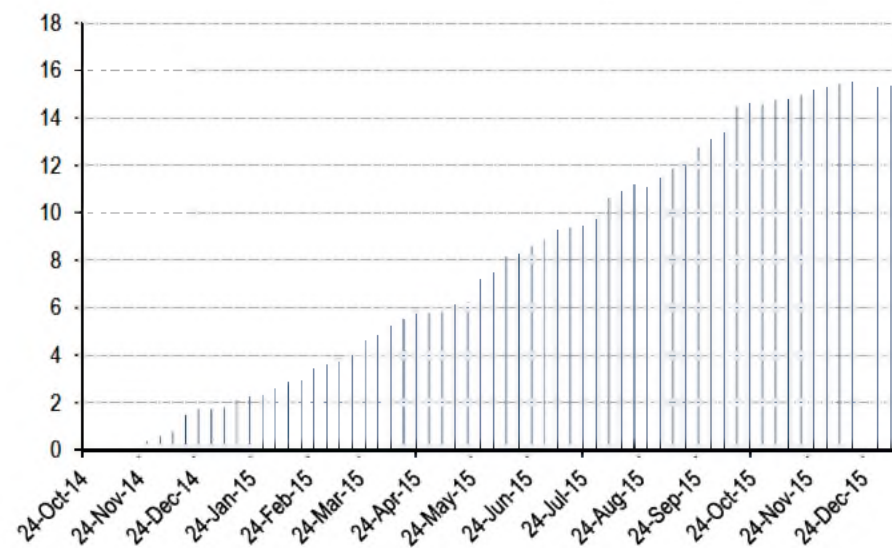
Total cumulated purchases CBPP 2, €mn



Total cumulated purchases CBPP3



Total cumulated purchases ABSPP



ECB repo operations

ECB public collateral data, 2013Q1 – 2015Q3

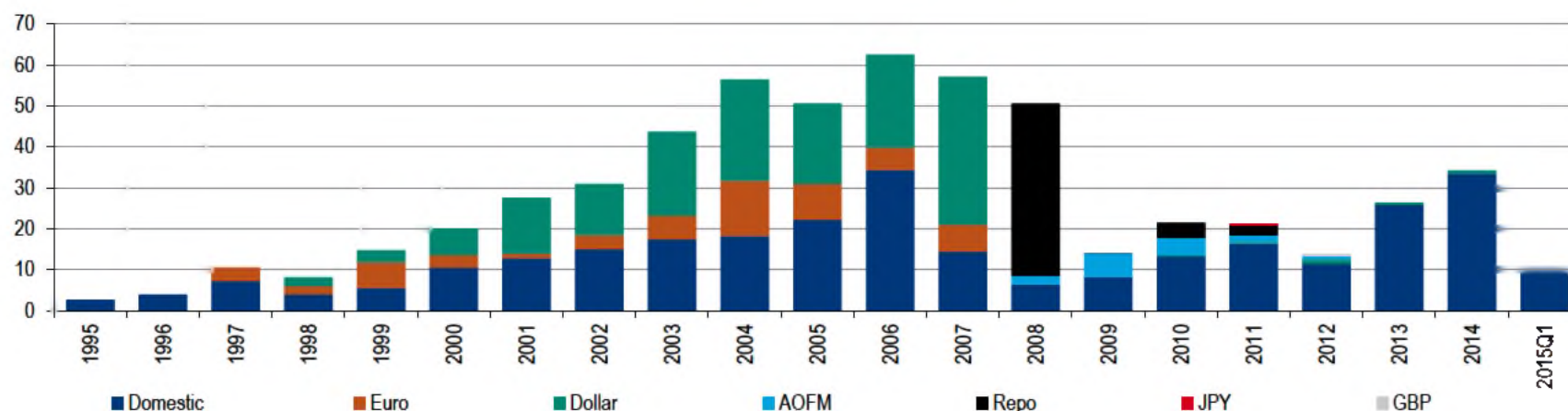
EUR billion, nominal amounts, averages of end of month data over each time period shown

| Eligible marketable assets | | | | | | | | | | | |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|----------------|
| | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 |
| Central government securities | 6298.5 | 6472 | 6473.1 | 6371.5 | 6458.9 | 6578.9 | 6584.6 | 6642.4 | 6663.9 | 6687.9 | 6683.3 |
| Regional government securities | 418.4 | 420.7 | 425.7 | 428.5 | 430.8 | 433.9 | 439.5 | 440.3 | 441.3 | 437.5 | 433.3 |
| Uncovered bank bonds | 2533 | 2265.3 | 2225.6 | 2281.1 | 2260.8 | 2239.2 | 2164.6 | 2129.1 | 2482.4 | 2412.4 | 2136.4 |
| Covered bank bonds | 1623.9 | 1588.2 | 1560.6 | 1531.6 | 1508.9 | 1489.1 | 1450.3 | 1402.7 | 1374 | 1363.3 | 1358.8 |
| Corporate bonds | 1469.7 | 1510.4 | 1519.9 | 1456 | 1383.9 | 1412.8 | 1393.8 | 1393.3 | 1428.6 | 1436.5 | 1435.7 |
| Asset-backed securities | 837.4 | 797.2 | 801.4 | 761.1 | 726.4 | 684.2 | 691.9 | 660.9 | 635.3 | 613.6 | 626.4 |
| Other marketable assets | 1150.8 | 1138.8 | 1144.1 | 1167.3 | 1217 | 1214.9 | 1194.5 | 1180.1 | 811.8 | 811.5 | 810.9 |
| Total | 14331.7 | 14192.6 | 14150.4 | 13997.1 | 13986.7 | 14053 | 13919.2 | 13848.8 | 13837.3 | 13762.7 | 13484.8 |
| Use of collateral | | | | | | | | | | | |
| | 2013 Q1 | 2013 Q2 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 |
| Central government securities | 363 | 317 | 315 | 331 | 321 | 329 | 341.9 | 372.6 | 364.9 | 340.7 | 338.7 |
| Regional government securities | 90 | 91 | 92 | 96 | 97 | 96.6 | 97.8 | 98.9 | 97.3 | 90.2 | 88.9 |
| Uncovered bank bonds | 339 | 317 | 298 | 282 | 261 | 228.8 | 196.9 | 180.9 | 166.7 | 138.8 | 132.3 |
| Covered bank bonds | 469 | 445 | 435 | 402 | 378 | 360.9 | 352.7 | 333.4 | 324 | 320.8 | 320.7 |
| Corporate bonds | 108 | 115 | 123 | 120 | 107 | 97.7 | 87 | 74.2 | 72.4 | 73.1 | 73.3 |
| Asset-backed securities | 338 | 348 | 370 | 325 | 307 | 300.9 | 306.2 | 309.2 | 304.1 | 295.1 | 306.8 |
| Other marketable assets | 133 | 124 | 119 | 118 | 118 | 113 | 117.1 | 117.2 | 101.3 | 97.9 | 105.5 |
| Non-marketable* | 644 | 612 | 579 | 536 | 527 | 452 | 355 | 362 | 370 | 372 | 363 |
| Credit Claims* | 473 | 453 | 429 | 404 | 392 | 382 | 355 | 362 | 370 | 372 | 363 |
| Fixed term and cash deposits* | 172 | 160 | 150 | 132 | 135 | 70 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,483 | 2,367 | 2,330 | 2,210 | 2,113 | 1,979 | 1,855 | 1,848 | 1,801 | 1,729 | 1,729 |

Source: ECB

Australian RMBS market new issuance and AOFM support

Breakdown of Australian RMBS new issuance by placement, A\$bn



Source: BofA Merrill Lynch Global Research

BAML Estimates regarding the execution of the RMBS purchases by AOFM, A\$m

| A\$ mn | Cum. | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------------|--------|------|-------|-------|-------|-------|
| Total # of AOFM Deals | 60 | 7 | 13 | 20 | 16 | 4 |
| AOFM Investments | 15,462 | 847 | 2,079 | 4,783 | 5,758 | 1,996 |
| AOFM Participation % Avg | | 7% | 24% | 33% | 68% | 78% |
| AOFM Sales | 3,391 | 329 | 999 | 849 | 674 | 540 |

Source: BofA Merrill Lynch Global Research

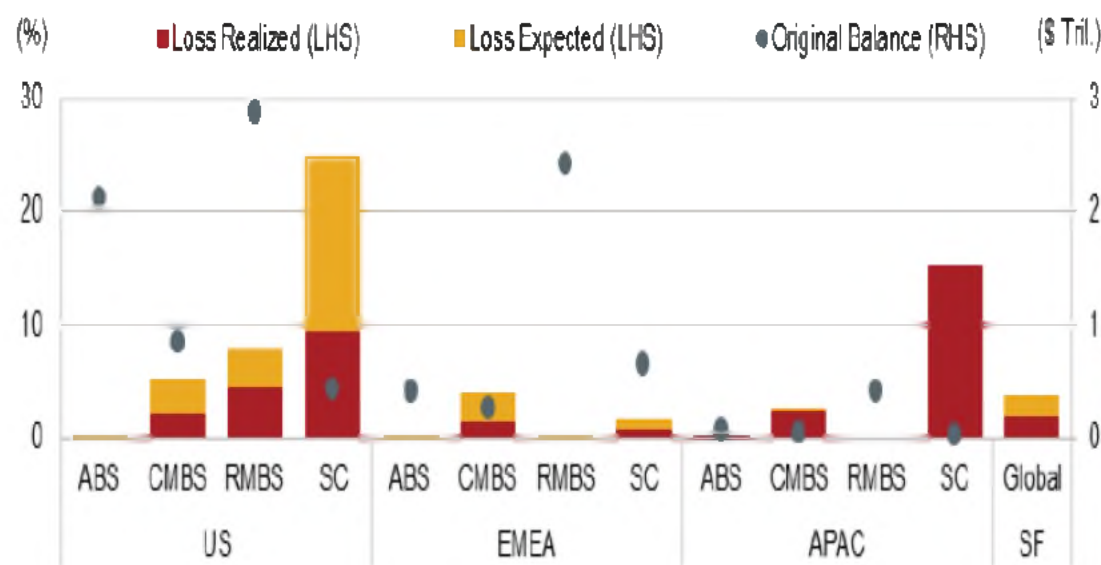
- Moody's review: *'Of 10,044 structured finance issues rated between 1 Jan 2009 and 30 June 2014, only 9 have become impaired through June 2014. None of these tranches was ever rated investment grade, leaving the investment grade impairment rate at 0% for all vintages and investment horizons.'*

Moody's 12-mo impairment rated by sector and region, 1993-2014

| | 5-yr Ave | Hist Ave |
|--------------------|----------|----------|
| Aisa-Pacific ABS | 0.59 | 0.22 |
| Aisa-Pacific CMBS | 5.72 | 1.99 |
| Aisa-Pacific RMBS | 0.03 | 0.01 |
| EMEA ABS | 0.58 | 0.5 |
| EMEA CMBS | 2.82 | 1.26 |
| EMEA RMBS | 0.58 | 0.6 |
| Global CDO ex CLOs | 2.62 | 10.65 |
| Global CLO | 0.1 | 0.21 |
| EMEA CLO | 0.2 | 0.2 |
| US CLO | 0.1 | 0.2 |
| Global other SF | 1.34 | 3.45 |
| US ABS | 1.03 | 0.62 |
| US CMBS | 5.52 | 3.46 |
| US RMBS | 10.02 | 7.93 |
| Global SF | 6.35 | 5.8 |

Source: Moody's

Global Structured Finance Losses: 2000-2014 issuance



Source: Fitch

Funding options: costs to issuers

| | | Required risk retention/haircut | Deal execution cost | Balance sheet treatment, capital benefits | Reporting | NSFR | ALM | Certification | Administrative/criminal charges |
|-------------------------------------|-----------------------|--|---------------------|---|---|----------|---|---------------|---------------------------------|
| Loans | Residential (75% LTV) | None | Medium | Off balance sheet upon sale | No specific contractual requirements | NA | NA | NA | NA |
| | Corporate BB loan | | | | | | | | |
| | Unrated SME loan | | | | | | | | |
| Senior unsecured | A | None | Low/ Medium | On balance sheet | Balance sheet and income statement reporting | Yes | Not fully disclosed | NA | NA |
| | BBB | | | | | | | | |
| Covered bonds | AAA | Overcollateralisation required by law and by rating agencies | Low | On balance sheet | Aggregate pool reporting | Yes | Required, not fully disclosed | NA | NA |
| | A | | | | | | | | |
| | BBB | | | | | | | | |
| Securitisation (e.g. UK Prime RMBS) | AAA | 5% risk retention required for life of transaction | High | On or off balance sheet, depending on execution | Detailed loan by loan reporting requirements tied to NCB repo eligibility | No, cash | Match funded; interest rate hedging requirements and disclosure | Yes | Yes |
| | A | | | | | | | | |
| | BBB | | | | | | | | |
| Securitisation (e.g. CLO) | AAA | | | | | | | | |
| | A | | | | | | | | |
| | BBB | | | | | | | | |
| ECB funding | | Haircut | Medium | On balance sheet | Depends on instrument used | NA | NA | NA | NA |

Investment options: costs to investors

| | | Capital charges* | | Risk retention | LCR | ECB repo | Due diligence | Cost of investing |
|----------------------------------|-----------------------|------------------|-----------|--|---|---|-------------------------------------|-------------------|
| | | Bank | Insurance | | | | | |
| | | Europe | Europe | | | | | |
| Loans | Residential (75% LTV) | 2.8% | 3.0% | NA | NA | Permitted as non-marketable securities | no specific requirement | medium |
| | Corporate BB loan | 8.0% | 22.5% | | | | | |
| | Unrated SME loan | 4.6% | 15.0% | | | | | |
| Senior unsecured | A | 4.0% | 7.0% | NA | NA | Category IV (e.g. 11% haircut for AAA-A 5yr fixed coupon bonds), 32.5% for similar BBB bonds | no specific requirement | low |
| | BBB | 4.0% | 12.5% | | | | | |
| Covered bonds | AAA | 0.8% | 3.5% | NA | 70% Level 1B (7% haircut), 40% Level 2A (15% haircut) and 15% Level 2B (30% haircut), depending on rating, size, etc. | Category III/IV (e.g. 3% haircut for Category III AAA-A 5yr jumbo covered bonds), 22.5% for similar BBB bonds | no specific requirement | low |
| | A | 1.6% | 7.0% | | | | | |
| | BBB | 1.6% | 22.5% | | | | | |
| Securitisation (e.g. Prime RMBS) | AAA (senior) | 1.6% | 10.5% | Responsibility of investor in securitisation to ensure originator/sponsor/original lender retains 5%, otherwise penalty capital charges or potential forced sale | Some securitisation permitted in level 2B, subject to a 25%/35% haircut depending on asset class). CLOs and CMBS not eligible | Category V for eligible ABS, subject to a 10% haircut for AAA to A rated bonds, or 22% haircut for BBB bonds | Detailed due diligence requirements | high |
| | A (mezz) | 13.1% | 15.0% | | | | | |
| | BBB (mezz) | 22.0% | 15.0% | | | | | |
| Securitisation (e.g. CLO) | AAA (senior) | 1.6% | 62.5% | Responsibility of investor in securitisation to ensure originator/sponsor/original lender retains 5%, otherwise penalty capital charges or potential forced sale | Some securitisation permitted in level 2B, subject to a 25%/35% haircut depending on asset class). CLOs and CMBS not eligible | NA | Detailed due diligence required | high |
| | A (mezz) | 13.1% | 83.0% | | | | | |
| | BBB (mezz) | 22.0% | 98.5% | | | | | |

*For banks: Basel II standardised approach capital charges (CRR implementation for Europe), except for securitisation, where Basel III proposed ERBA is used for Europe and Basel III proposed IRBA is used for the US (based on a UK Prime RMBS). Solvency II for European insurance companies (assuming 5yr duration) and NAIC for US insurance (Life) companies. Capital charges for covered bonds assume CRD compliance; **Using BIS3 ERBA for banks and Solvency II for insurance companies

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