

Prime Collateralised Securities Investor Guide

September 2014



The PCS Mission

The aim of the PCS initiative is to reinforce asset-backed securities as sustainable investment and funding tools for both investors and originators with the aim to improve market resilience in Europe, promote growth in the real economy and at all times maintain the standards of quality, transparency, simplicity and liquidity.

PCS Objectives

As the crisis unfolded in 2007/2008, the asset backed securities market came under substantial criticism as some securitised products played a major role in the financial difficulties. Badly underwritten products, opaque structures and over-leveraged issuances performed very badly and weakened the world financial system. Yet, a number of years later, the vast majority of European securitisations have demonstrated incredible credit resilience and strong price performance. They show that simple, transparent and high quality securitisations are a healthy and robust part of the financial architecture. As Europe seeks to return to growth and prosperity, a healthy financial flow of credit to consumers, SME's and corporations will be a key component. PCS strongly believes, as do many policy makers, that a strong and resilient asset backed market is an indispensable part of that growth and prosperity.

By building on the lessons of the past, the PCS initiative – as an independent entity – seeks to define and promote standards of “best practice” in the asset backed market: standards of quality, transparency, simplicity and liquidity.

Through its role in helping define these standards, its advocacy role in promoting them and its label, awarded to securitisations that meet them, PCS seeks to revitalise a healthy asset-backed market that directly benefits the real economy.

PCS

The Prime Collateralised Securities (“PCS”) initiative is composed of the PCS Association, a Belgian not-for-profit association and the PCS Secretariat, a United Kingdom registered limited company.

The PCS Association is the governing body for PCS, setting the eligibility criteria for the PCS Label and guiding the PCS initiative.

The PCS Association is chaired by Mr Francesco Papadia.

The PCS Secretariat deals with issuers seeking a label for their securities, runs the day-to-day operations of PCS and awards the PCS Label in accordance with the rules, procedures and criteria established by the PCS Association.

The PCS Association has over 50 members and observers drawn from all stakeholder segments including public bodies, issuers and investors.

The PCS initiative is an independent, not for profit enterprise.

PCS Label

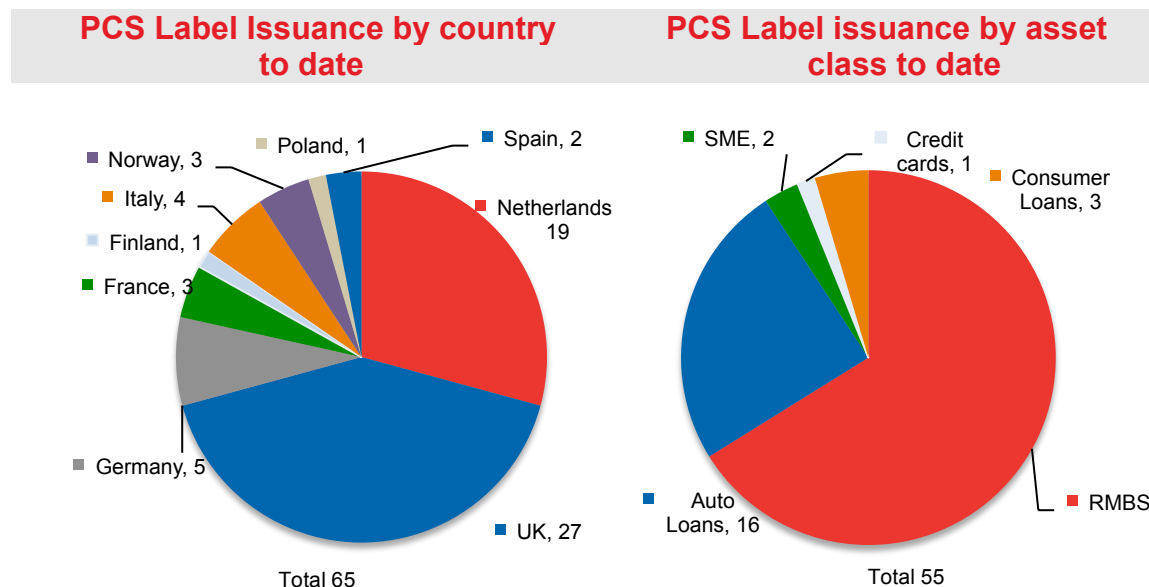
The heart of the PCS initiative is the PCS Label. This label can be awarded to securitisation issuances meeting the strict criteria set by PCS.

The PCS Label criteria seek to embody the PCS mission. They focus on issues of quality, transparency, simplicity and liquidity. They are not, however, a credit rating. They do not seek to rank or measure the creditworthiness of the obligation to which it is awarded. They are informational and designed to assist investors and market participants in understanding aspects of the labeled securities.

Although issuers pay for the label, PCS is a not-for-profit operation. Therefore, all revenue generated from the label goes solely to covering the cost of the label and of the ancillary activities of the PCS initiative, such as working towards better standards in the asset backed market and advocacy for such standards.

Current PCS label activity

- As at August 31, 2014, PCS has issued 65 labels for senior tranches of transactions totaling approximately €99.13 billion equivalent with activity as shown in the two charts below.



- PCS labeled transactions (including all tranches of labeled transactions) total €111.25 billion as at August 31, 2014.
- Total PCS label volume represents approximately 10% of total European Securitisation outstanding market (eligible and non-eligible) volume.
- PCS label issuance represents 20% of the total placed outstanding European Securitisation market.
- From January to August 2014, new issue and PCS labeled transactions represented around 50% (by number) and 62% (by volume) of all new securitisations eligible and placed with capital market investors (as distinguished from retained by banks for use as repo collateral for central bank liquidity operations).

Key PCS issues

The key contentions of PCS are that:

- a strong and healthy securitisation market is essential for the European economy;
- a strong regulatory regime around securitisation is necessary to prevent a repetition of past errors;
- the two aims can be achieved by creating a robust definition of “high

quality securitisations” and differentiating the regulatory prudential rules by calibrating the requirements around the actual performance of high quality securitisation, on the one hand, and other securitisations, on the other;

- such an approach will only be successful if the various European regulatory frameworks are working off the same or similar definitions of high quality securitisations.

Further information

For further information regarding PCS, please see the PCS website at www.pcsmarket.org.

Questions and answers for investors

Q 1. Why do we need a quality label, when so many European securitisations have performed so well?

A 1. Although many European securitisations have performed well, many have not. For many outside the industry, the technology of securitisation still remains tainted. At best it is seen as a technology which can be put to good use but can also be used to wreak devastation. Recently, many policy makers have expressed support for the return of “high quality securitisations”. But the industry should not believe that this can lead to a “blank cheque”. The words “high quality” are as important in that support as the word “securitisation”. In addition, despite the support from high-level policy makers whose mandates are closely linked to financial markets, many policy makers, opinion makers and large parts of the public remain unconvinced.

The PCS Label should not, therefore, be seen merely as a quality stamp relevant to this or that securitisation transaction. The Label is part of a covenant between the industry and policy and opinion makers. It is the visible sign of the industry’s commitment to learning from the past and moving forward with a strong and safe securitisation market serving the real economy.

By supporting the PCS Label, investors provide tangible evidence of their commitment to this new securitisation market.

Q 2. I do sufficient due diligence on securitisations I buy, why would I ask for a PCS Label?

A 2. The securitisation industry is facing regulatory proposals that, in their present form, could cripple the market. At worst, these could lead to the market’s implosion, at best to making the market much smaller or effectively prevent certain categories of investors from investing in this asset class.

There are clear indications that policy makers are willing to assist in the revival of securitisation, *but* only if they can be confident that the market has changed and unsafe securitisations will not return. With trust in financial professionals lower than it has ever been, policy and opinion makers will need to see some tangible evidence of this commitment to change.

As we have said, the PCS Label is more than a quality stamp. It is evidence of the covenant between finance and policy makers. By asking an issuer to obtain the PCS Label an investor is asking that

issuer to sign up to that covenant. In doing so, an investor strengthens the arguments of those who seek a better regulatory treatment for high quality securitisations. By doing so, an investor also helps policy makers who are favourable to a return of high quality securitisation to make the case to those who remain skeptical.

The PCS Label evidences support for the strategic mission and objectives of PCS. Without broad and cross-industry support, the PCS initiative will not be successful – in essence, investor support is really self-help to maintain and enhance securitisation as an investment platform for the future. PCS is an important element in the discussions with policy makers and regulators regarding the future of the securitisation industry. The PCS Label is therefore the practical embodiment of the PCS initiative and it fits together with PCS' outreach work with policy makers and regulators.

The PCS Label is an investment in the future of securitisation.

Q 3. If I support the PCS Label now, where does this go in the long term?

A 3. As we have seen with the recent EIOPA proposals for capital weightings in Solvency II, the trend in European regulations is to bifurcate regulatory outcomes by defining a category of “high quality securitisations”. This is important since otherwise all regulatory treatment of good securitisations will be calibrated, in whole or in part, on US sub-prime.

Should this bifurcation take place, it may cause uncertainty for investors, issuers and regulators as to whether any given transaction falls within the defined category of “high quality securitisation” an eligible for the better regulatory treatment. By making use of a label such as PCS, regulators and market participants would be able to reduce substantially any such uncertainty.

This is another way in which the PCS Label is an investment in the future of securitisation: by making possible a bifurcated yet predictable regulatory scheme.

Q 4. As an investor, do I get any other benefit from the PCS Label?

A. 4. The additional benefits are:

First, for new securitisation investors or for those considering re-entry into the market, the PCS Label, crafted and verified by an

independent, not for profit institution, defines high quality securitisation which can (a) assist the investment decision process and (b) give management comfort that only high quality securitisations are being purchased.

Second, for existing securitisation investors, the PCS Label gives comfort that certain detailed minimum standards are being maintained and provides a “second set of eyes”.

Third, for asset managers, the PCS Label can assist in explaining to existing and potential investors the investment parameters and validating them as having been crafted and verified by an independent, not for profit, industry wide institution.

Fourth, PCS publishes on its website the PCS Checklists where investors may find each relevant PCS Label criteria and the location of its verification in the offering document. This publicly available material can streamline the due diligence of potential investors in the secondary market.

Fifth, issuers are using the PCS Label in increasing numbers – buying securities with the PCS label is a market friendly approach for investors.

Q 5. Will there be a market impact with the PCS Label?

A 5. At this stage, it is difficult to say that there is any pricing or liquidity differential between PCS and non-PCS labeled transactions. However, PCS believes that if regulatory change supporting the PCS concept is established then it is likely that a pricing differential will then occur. This may impact both secondary and new issue PCS labeled transactions.

Q 6. Are the PCS Label standards easy to assess?

A 6. PCS criteria are binary, either they are met in full or not all. The criteria are simple, straightforward and focus on key standards for securitisations in terms of quality, liquidity, transparency and simplicity. The PCS rulebook is available on the PCS website.

Q 7. Securitisations already have ratings from rating agencies, what does a PCS Label add to that?

A 7. The PCS Label is not a rating. It does not indicate relative credit strength or speak directly to the probability of default or loss. But the crisis showed that very highly rated securitisations proved

ultimately fragile. Many saw brutally swift rating transitions, often to default. PCS, together with many in the industry, believe that lessons can be learned from this experience regarding the structural soundness and stability of securitisations. These are categorically different from issues of a rating agency's assessment of likely repayment. It is those lessons that PCS seeks to incorporate in its label criteria.

Q 8. Are investors and issuers interested in the PCS Label?

A 8. Yes, increasing numbers of investors are enquiring about the PCS Label during new issue roadshows. PCS has a material and growing number of key European investors (including APG, AXA, Allianz, Swiss re, JP Morgan, HSBC GAM, etc) in its membership list. Please see the current PCS membership list on the PCS website.

Q 9. What else is PCS doing to support the securitisation market?

A 9. PCS has a very active outreach programme with (senior) policy makers and regulators interested in the future of the securitisation industry. In the past year, PCS has established itself as an active, credible and serious interlocutor in discussions regarding the future of the securitisation industry. We would be happy to discuss the current status of industry regulation with you.

Q 10. To what extent is PCS supported by stakeholders in the securitisation industry?

A 10. PCS currently has 59 members and observers across the industry spectrum including:

- policy makers, policy influencers and European bodies (EBA, ESMA, ECB, EIB, KFW, EFAMA, Insurance Europe, EFR, etc);
- issuers (Santander, Lloyds, Rabobank, Unicredit, RBS, BNP Paribas, etc);
- investors (APG, AXA, Allianz, Swiss re, JP Morgan, HSBC GAM);
- other market participants (Clifford Chance, KPMG, BNY Mellon, etc).

The full list of members and observers together with the list of issuers under the PCS Label can be obtained from the PCS website.

Q 11. How successful has PCS been to date?

A 11. PCS has, at May 31, 2014, labeled 50 transactions representing €85 billion of securities and 7% of the total outstanding European

securitisation market. From January 1, 2014 to May 31, 2014 PCS labeled transactions representing 53% by number and 64% by volume of all new and eligible market-placed securitisations.

Q 12. What can my institution do to help PCS?

A 12. Investors can help in a number of ways:

First, always ask about the PCS Label for eligible new issue securitisation transactions.

Second, consider the benefits and apply to become a PCS member.

Third, actively support the PCS initiative in industry forums and regulatory discussions.

The 2014 securitisation industry is at a critical juncture in regulatory terms. Policy makers and regulators are closely reviewing the progress of PCS. Your active support of the PCS initiative is therefore important.

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