

LCR – Liquid Assets –Feedback.

March 2013

- (i) **Dutch RMBS ineligibility as a Level 2B asset due to high LTVs does not consider the inherent liquid characteristics of these bonds, relative to other eligible assets, i.e. all RMBS rated AA or higher.**
- (ii) **European Auto ABS should also be considered as Level 2B assets, given liquidity characteristics comparable if not superior to RMBS.**

DUTCH RMBS

Dutch RMBS are considered to be one of the highest quality and largest structured finance sectors, along with European Autos and UK RMBS.

Dutch mortgages are characterised by high LTVs (up to 106%), due to the historical Dutch fiscal regime which allows tax deductibility of mortgage interest payments. Tax deductibility of mortgage interest strongly incentivises borrowers to maximise the outstanding principal balance on their mortgages for as long as possible, thereby increasing the tax benefits over the life of the loan. Due to this incentive the interpretation of LTV ratios as a measure of creditworthiness is not directly comparable to other markets, where such tax incentives do not exist¹. Therefore, LTVs are not a good measure of liquidity or credit risk for Dutch RMBS assets.

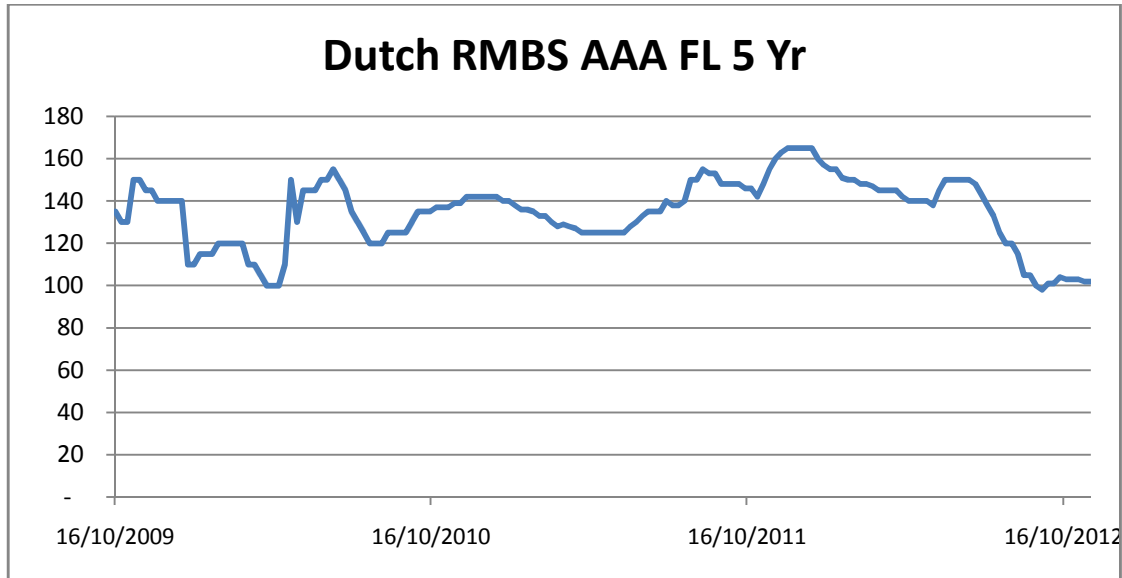
- To note, in order to address the high leverage in the Dutch mortgage market, the Dutch government implemented reforms in January 2012 to gradually reduce the tax deductibility benefit on interest-only mortgage products. Over time this will reduce the high LTVs in the Dutch mortgage market.

The below historical data on price/spread development and performance for Dutch RMBS compared to UK RMBS (an eligible Level 2B asset class) demonstrates the highly liquid characteristics of these securities.

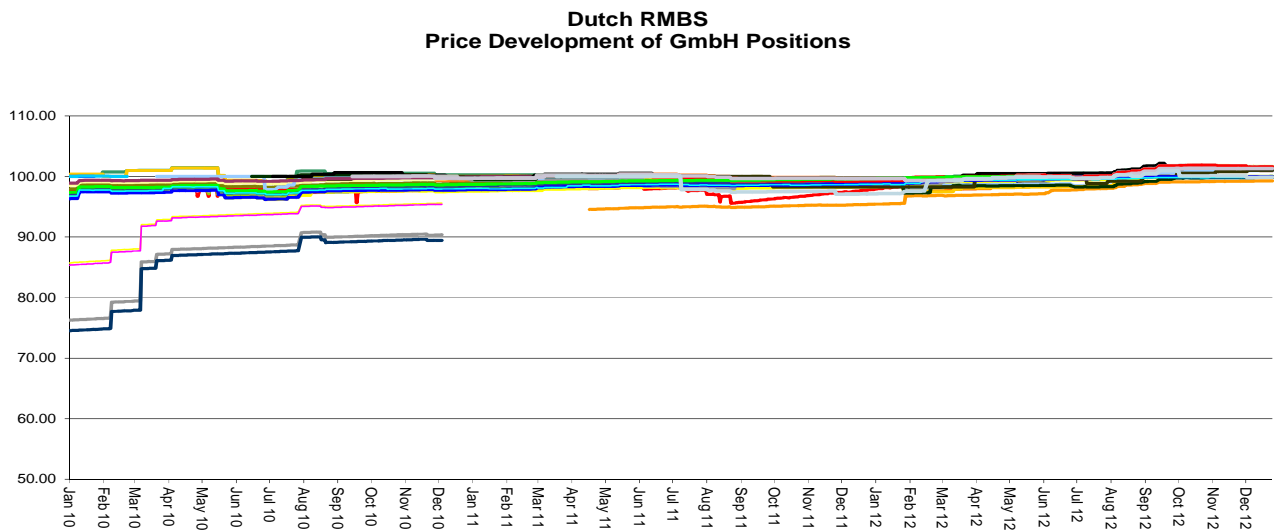
Price development

The price development in this market has stabilized and improved since early 2010.

¹Mitigants to this feature include: underwriting on a debt-to-income analysis; strict bankruptcy law (creditors have direct access to salary for any outstanding debt) and conservative credit bureau data (BKR registers in the Netherlands track positive and negative credit events on all types of credits, and register residential mortgage loans that are at least 120 days in arrears. Data is kept on record for 5 years strengthening the underwriting process).

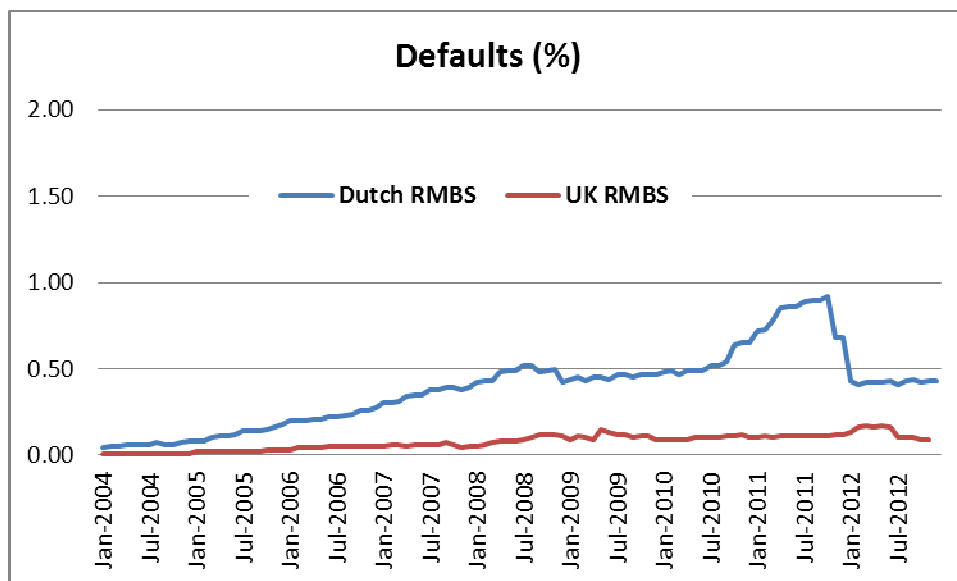
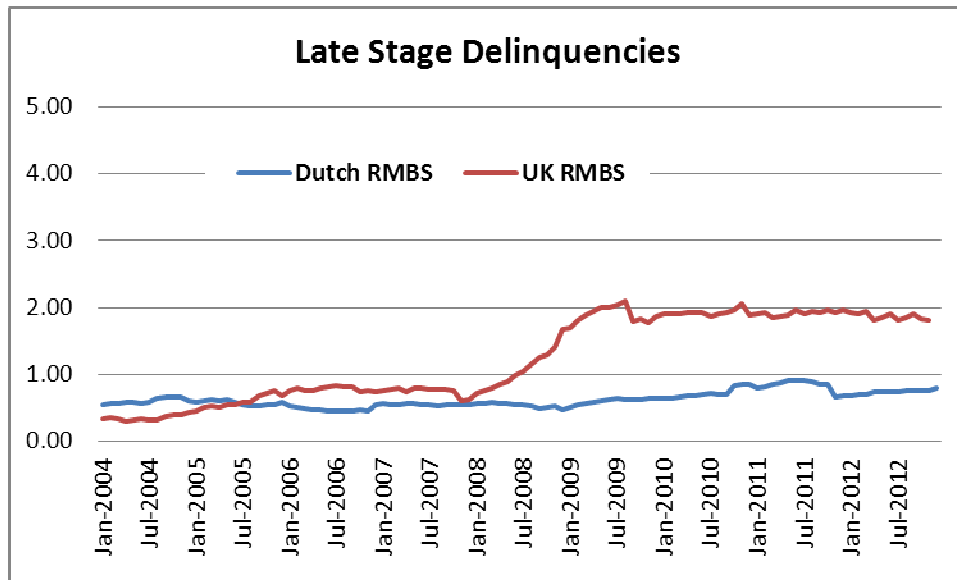


The Dutch RMBS portfolio had an unrealized gain of €19.4MM as of the March 2013. There is high demand for this product and limited supply. According to Deutsche Bank and Bloomberg there is currently just under €80 billion outstanding Dutch RMBS outstanding, indicating that the market is large and liquid. This sector is only behind UK RMBS which has over €100 billion outstanding.

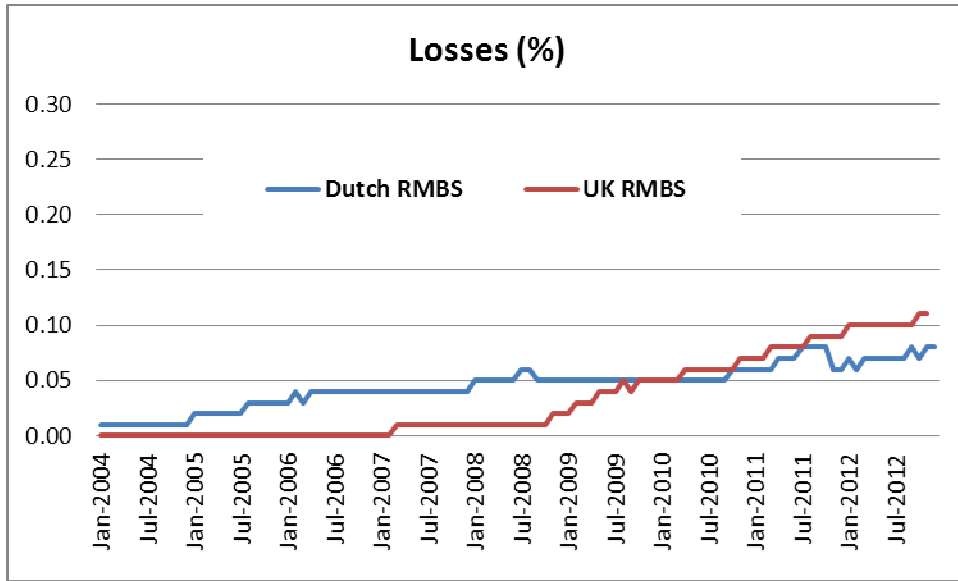


Performance²

Dutch RMBS has shown robust historical performance, throughout crises; and continues to be one of the best performing asset classes in the sector.



²Source: Moody's RMBS Indices

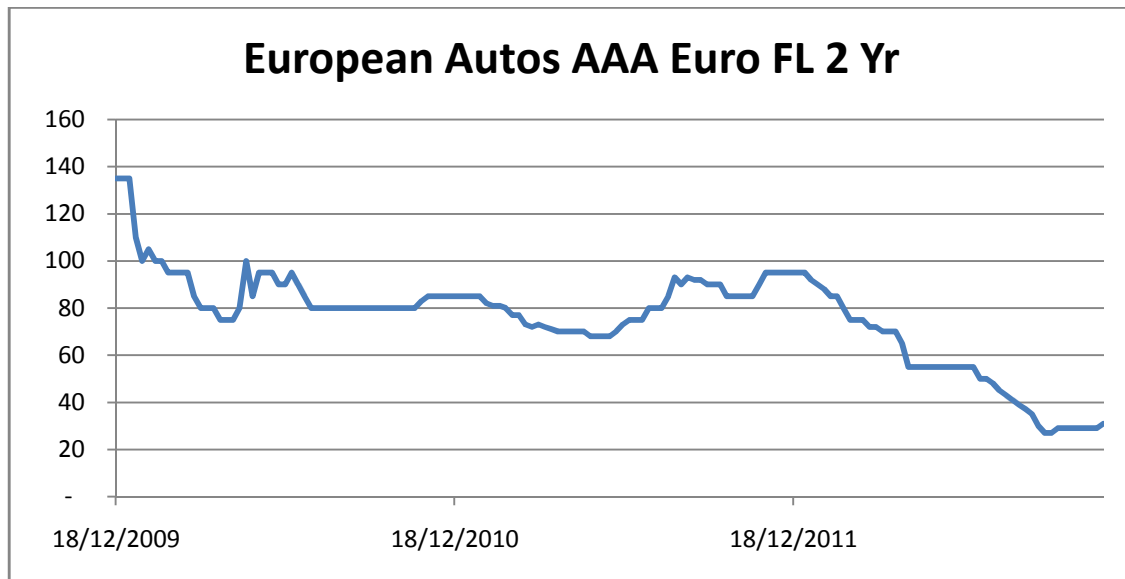


EUROPEAN AUTO ABS

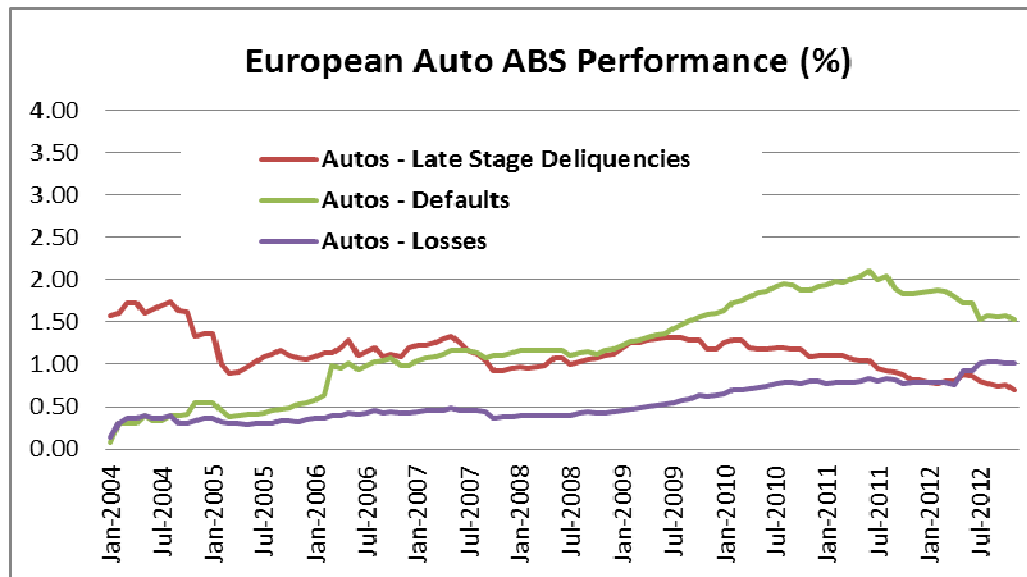
European Auto ABS have similar market and collateral characteristics (ratings, performance track record etc.) to RMBS, whilst generally having shorter maturities. Therefore, there is a strong case to include them as eligible Level 2B assets.

Price Development

The Auto portfolio had an unrealized gain of €7.4MM as of the March 2013. There is high demand for this product and limited supply. The chart below shows price stabilisation since mid-2009 with a steady price decrease since the end of 2011 showing the strong demand and liquidity for the sector in the ABS market.



Performance



Fitch EMEA ABS Transition Matrices: 1996–2012

(%)

	AAA	AA	A	BBB	BB	B	CCC	CC and Below	WD	PIF
Average Annual										
AAA	80.63	1.63	0.16	0.00	0.11	0.00	0.00	0.00	0.05	17.41
AA	3.78	71.22	3.15	2.73	0.00	0.00	0.21	0.00	0.21	18.70
A	0.45	5.71	77.24	2.99	0.27	0.09	0.00	0.00	0.45	12.78
BBB	0.27	0.40	2.79	76.46	2.13	2.53	0.80	0.53	0.66	13.43
BB	0.00	0.00	2.80	5.61	65.42	3.74	4.67	0.93	0.93	15.89
B	0.00	0.00	0.00	16.00	12.00	36.00	16.00	8.00	0.00	12.00
CCC	0.00	0.00	0.00	0.00	2.22	4.44	51.11	33.33	0.00	8.89
Average Two-Year										
AAA	62.69	2.51	0.41	0.06	0.23	0.00	0.00	0.00	0.12	33.98
AA	4.11	53.86	3.62	2.17	0.00	0.24	0.48	0.00	0.48	35.02
A	1.06	7.80	58.55	4.72	0.58	0.58	0.29	0.00	0.96	27.46
BBB	0.56	0.42	3.35	57.54	3.07	2.51	1.82	1.68	1.40	27.65
BB	0.00	0.00	3.26	7.61	43.48	2.17	6.52	4.35	1.09	31.52
B	0.00	0.00	7.14	4.76	21.43	16.67	9.52	16.67	0.00	23.81
CCC	0.00	0.00	0.00	0.00	0.00	5.71	25.71	48.57	0.00	20.00
Average Three-Year										
AAA	46.31	2.67	0.38	0.06	0.25	0.00	0.00	0.00	0.19	50.13
AA	4.02	41.82	4.02	2.41	0.00	0.27	0.54	0.00	0.54	46.38
A	1.03	6.28	40.16	5.36	0.82	0.82	0.82	0.00	1.65	43.05
BBB	0.61	0.30	2.73	42.94	3.19	2.43	1.67	3.03	1.37	41.73
BB	0.00	0.00	2.70	6.76	31.08	1.35	4.05	6.76	1.35	45.95
B	0.00	0.00	12.90	3.23	12.90	9.68	3.23	25.81	0.00	32.26
CCC	0.00	0.00	0.00	0.00	0.00	4.35	13.04	65.22	0.00	17.39
Average Four-Year										
AAA	33.22	2.11	0.42	0.07	0.28	0.00	0.00	0.00	0.21	63.69
AA	3.56	31.45	3.86	1.78	0.00	0.00	0.59	0.00	0.89	57.86
A	0.78	5.35	26.98	4.79	0.89	0.67	0.89	0.33	2.23	57.08
BBB	0.50	0.00	2.33	31.73	2.66	2.33	1.83	3.82	1.33	53.49
BB	0.00	0.00	1.79	5.36	23.21	1.79	1.79	3.57	1.79	60.71
B	0.00	0.00	6.25	0.00	12.50	6.25	6.25	31.25	0.00	37.50
CCC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	88.24	0.00	11.76
Average Five-Year										
AAA	22.45	1.11	0.24	0.08	0.16	0.00	0.00	0.00	0.24	75.73
AA	3.33	24.33	2.67	1.33	0.00	0.00	0.33	0.00	1.00	67.00
A	0.63	4.40	18.58	3.39	0.75	0.50	0.75	0.38	2.39	70.23
BBB	0.57	0.00	2.28	23.57	1.71	1.71	1.71	3.80	1.52	63.12
BB	0.00	0.00	0.00	2.27	20.45	0.00	2.27	0.00	2.27	72.73
B	0.00	0.00	0.00	0.00	9.09	0.00	0.00	36.36	0.00	54.55
CCC	0.00	0.00	0.00	0.00	0.00	0.00	0.00	90.00	0.00	10.00

Source: Fitch.