



ESF Securitisation Data Report

Winter 2006

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- European securitised issuance increased to €319.2 billion in 2005, up 32.3 percent from the €243.5 billion issued in 2004
- RMBS was the largest sector, totaling €142.6 billion
- Collateral originated in the UK backed 45.4 percent of the European securitised markets in 2005
- Pfandbriefe issuance totaled €204.6 billion in 2005, up from the €187.7 billion in 2004

European Securitisation Issuance Surges to a New Record for 2005 and in 4Q; Mortgage-Related and CDO Sectors Lead the Way

Boosted by a favorable market environment and strong investor demand, European securitisation issuance increased by 31.1 percent to €319.6 billion in 2005, surpassing the previous annual record of €241.2 billion set in 2004. In addition, fourth quarter issuance established a new quarterly record at €135.7 billion, accounting for nearly 40 percent of 2005 volume. Historically, fourth quarter has been a strong issuance quarter, averaging nearly 60 percent above the average for the first three quarters of a calendar year.

Anticipation of the European Central Bank (ECB) raising key interest rates undoubtedly contributed to the 2005 fourth quarter issuance surge. Nearly 85 percent of the fourth quarter volume came to market before the ECB raised rates a quarter of percentage point for the first time in 2 years. The ECB raised rates again in early March and futures markets imply at least one additional 25 basis point increase as the monetary authority attempts to maintain price stability and curb inflationary expectations in an economic environment affected by rising energy prices.

According to the latest ESF survey, securitised issuance is expected to increase 15.0 percent in 2006, with most of the increase coming

from the commercial mortgage-backed securities (CMBS) and collateralised debt obligation (CDO) sectors. Of course, the ECB's recent and projected rate hikes could affect this year's issuance level.

While issuance supply benefited from historically low interest rate and funding cost levels, demand for European securitisation products remained strong with investors seeking higher investment-grade yields and returns. According to a Merrill Lynch index, euro-denominated asset-backed bonds returned approximately 3.8 percent in 2005, compared to a 3.6 percent return for euro-denominated corporate bonds.

The major European ABS credit sector spreads ended 2005 generally wider than a year ago. Residential mortgage-backed securities (RMBS) AAA spreads to EURIBOR increased as much as 6 basis points during the first half of the year as the housing market began to slow in certain European regions before recovering somewhat in the second half and ending the year 3 basis points wider. Spreads of AAA credit card receivables to sterling Libor remained relatively stable during 2005 and ended the year 2 basis points wider. Auto AAA spreads to EURIBOR

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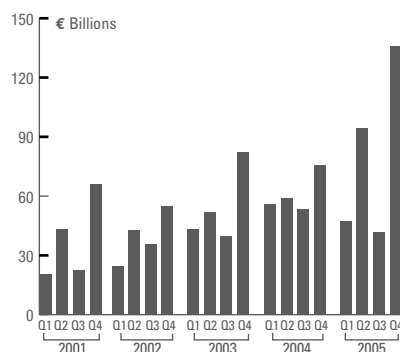
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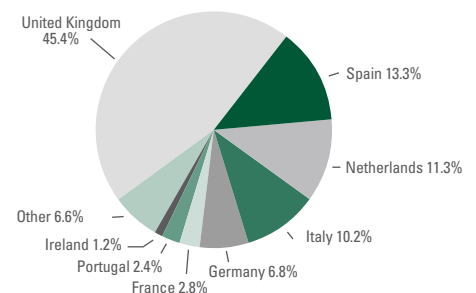
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European Securitisation Issuance
2001:Q1–2005:Q4



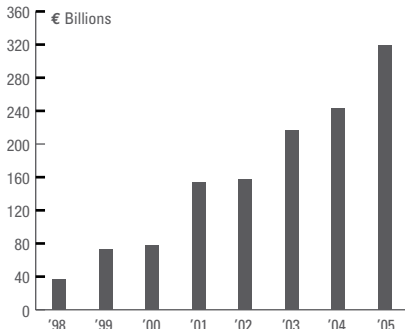
Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

European Securitisation Issuance
2005 by Country of Collateral



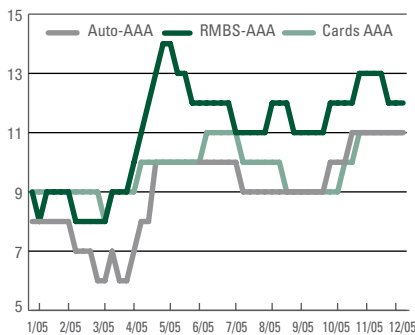
Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

Historical European Securitisation 1998–2005



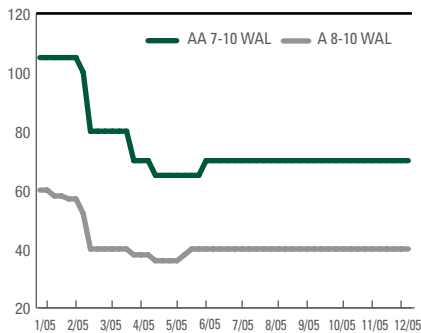
Sources: JP Morgan Securities, Inc., Dealogic, Thomson Financial, Structured Finance International

European ABS Spreads to EURIBOR and Sterling LIBOR



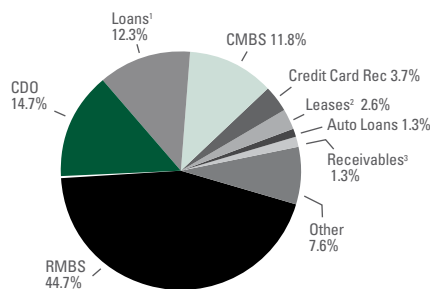
Source: J.P. Morgan Securities Inc.

European High-Yield CLO Spreads to LIBOR



Source: J.P. Morgan Securities Inc.

European Securitised Issuance by Collateral Type 2005



Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

¹ Includes leveraged, commercial, consumer, corporate, SBL, and other loans

² Includes equipment and other leases

³ Includes account, health care, insurance, utility and other receivables

were more volatile, tightening during the first four months of the year but ending the year slightly wider. AA European high-yield collateralised loan obligations (CLO) spreads to Libor tightened by 35 basis points in the first half of the year fueled by strong investor demand and favorable credit quality and ratings trends, ending the year at 40 basis points.

Collateral Type

Issuance in the RMBS sector totaled €142.6 billion in 2005, up 18.7 percent from the €120.1 billion issued in 2004. While RMBS continued to be the largest European securitised sector, its market share decreased from 49 percent of total securitised issuance in 2004 to 44 percent in 2005. The decrease in RMBS market share, in part, resulted from a slower United Kingdom (UK) housing market relative to the UK housing sector expansion in recent years. The UK accounted for 51 percent of total European RMBS issuance. According to the European Mortgage Federation, gross mortgage lending in the UK during 2005 was 3.8 percent lower than 2004. There is a view that the mortgage lending volume could be lower again in 2006, which would suggest that overall RMBS issuance growth could very well moderate further this year. The CDO sector, including funded, unfunded, cash and synthetic deals, continues to develop and grow, finishing the year as the second largest volume sector. CDO issuance in 2005 hit €46.8 billion in 2005, an increase of 85.6 percent from the €25.3 billion issued in 2004. Securities collateralised by loans, including leveraged, commercial, corporate, consumer and small business loans, totaled €39.2 billion in 2005, accounting for 12.2 percent of total securitised issuance and ranking third in terms of issuance volume. CMBS was the fastest growing product sector in 2005 with issuance totaling €37.7 billion, more than the double the €15.2 billion issued in 2004. A very favorable commercial real estate environment led to the CMBS growth. Investors absorbed well the supply of new CMBS, characterised by rating stability and above average coupons. New issue activity of securities backed by European credit card receivables also increased significantly to €11.7 billion in 2005, up

from the €6.7 billion issued in 2004. The auto loan sector decreased 39.9 percent to €4.1 billion in 2005.

Country of Collateral

Collateral originated in the UK backed 45.4 percent of the European securitised markets in 2005, an increase from 43.8 percent in 2004. UK new issue activity rose 39.3 percent to €145.0 billion, compared to the €105.8 billion in 2004. Issuance of securitised debt domiciled in Spain totaled €42.5 billion or 13.3 percent of the European securitised debt in 2005, up from the €34.5 billion issued in 2004. After the UK, the Netherlands experienced the most significant absolute volume increase in 2005, with new issuance totaling €36.0 billion, almost twice the €19.6 billion in 2004. Italian collateral accounted for nearly 10 percent of the overall market, totaling €32.6 billion, a slight decrease from the €33.6 billion issued in 2004. Germany accounted for €21.7 billion during 2005, more than three times the €6.5 billion in 2004. Much of the increase came from a single €8.0 billion securitised issue of the German Postal Pension system during the second quarter.

European Pfandbriefe

Issuance in the European Pfandbriefe market increased in 2005, as banks continued to use the covered bond market to manage long-term liquidity and match portfolio durations. Total issuance increased 9.0 percent to €204.6 billion in 2005 from the €187.7 billion issued in 2004. European governments' home buying incentives developed to stimulate economic growth generally supported the growth of loan pools available to issuers of Pfandbriefe. While various European countries are implementing legislation on covered bonds, including Italy, Germany continued to account for most of the Pfandbriefe issuance, accounting for nearly 70 percent of the European market. Issuance originated in Germany totaled €137.9 billion in 2005, down from the €145.9 billion issued in 2004. Spanish issuance more than doubled in 2005, totaling €34.5 billion, up from the €16.5 billion issued in 2004. Pfandbriefe issuance in France decreased 12.8 percent to €17.0 billion in 2005.

European Securitisation by Country of Collateral

€ Billions

COUNTRY	2004	2005	Annual Change
AUSTRIA	0.50	0.66	0.16
BELGIUM	0.95	0.50	-0.45
DENMARK	-	0.11	0.11
FRANCE	7.02	9.08	2.06
GERMANY	6.50	21.66	15.16
GREECE	0.75	2.25	1.50
IRELAND	1.43	3.88	2.45
ITALY	33.57	32.57	-1.00
NETHERLANDS	19.64	35.99	16.35
PORTUGAL	7.11	7.60	0.49
RUSSIA	5.20	0.04	-5.16
SPAIN	34.47	42.45	7.98
SWEDEN	1.53	0.28	-1.25
TURKEY	1.00	2.68	1.68
UK	105.76	145.02	39.26
MULTINATIONAL	15.77	14.34	-1.43
TOTAL*	241.20	319.58	78.38

*Totals may not add due to rounding

Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

European Pfandbriefe Issuance by Country of Collateral

€ Billions

	NON-JUMBO			JUMBO			TOTAL*		
	2004	2005	ANNUAL CHANGE	2004	2005	ANNUAL CHANGE	2004	2005	ANNUAL CHANGE
AUSTRIA	-	0.18	0.18	-	-	-	-	0.18	0.18
BELGIUM	-	0.29	0.29	-	-	-	-	0.29	0.29
CZECH REPUBLIC	0.30	0.05	-0.25	-	-	-	0.30	0.05	-0.25
FRANCE	12.24	8.40	-3.84	7.30	8.63	1.33	19.54	17.03	-2.51
GERMANY	104.30	88.01	-16.29	41.58	49.91	8.33	145.88	137.92	-7.96
HUNGARY	0.05	0.13	0.08	-	-	-	.05	0.13	0.08
IRELAND	-	0.29	0.29	-	-	-	-	0.29	0.29
ITALY	-	-	-	-	4.00	4.00	-	4.00	4.00
LUXEMBOURG	2.66	5.92	3.26	0.81	-	-0.81	3.47	5.92	2.45
NETHERLANDS	0.10	-	-0.10	-	2.00	2.00	0.10	2.00	1.90
SPAIN	-	-	-	16.45	34.50	18.05	16.45	34.50	18.05
SWITZERLAND	2.07	2.27	0.20	-	-	-	2.07	2.27	0.20
TOTAL*	121.72	105.54	-16.19	66.14	99.04	32.90	187.80	204.58	16.71

*Totals may not add due to rounding

Sources: Dealogic