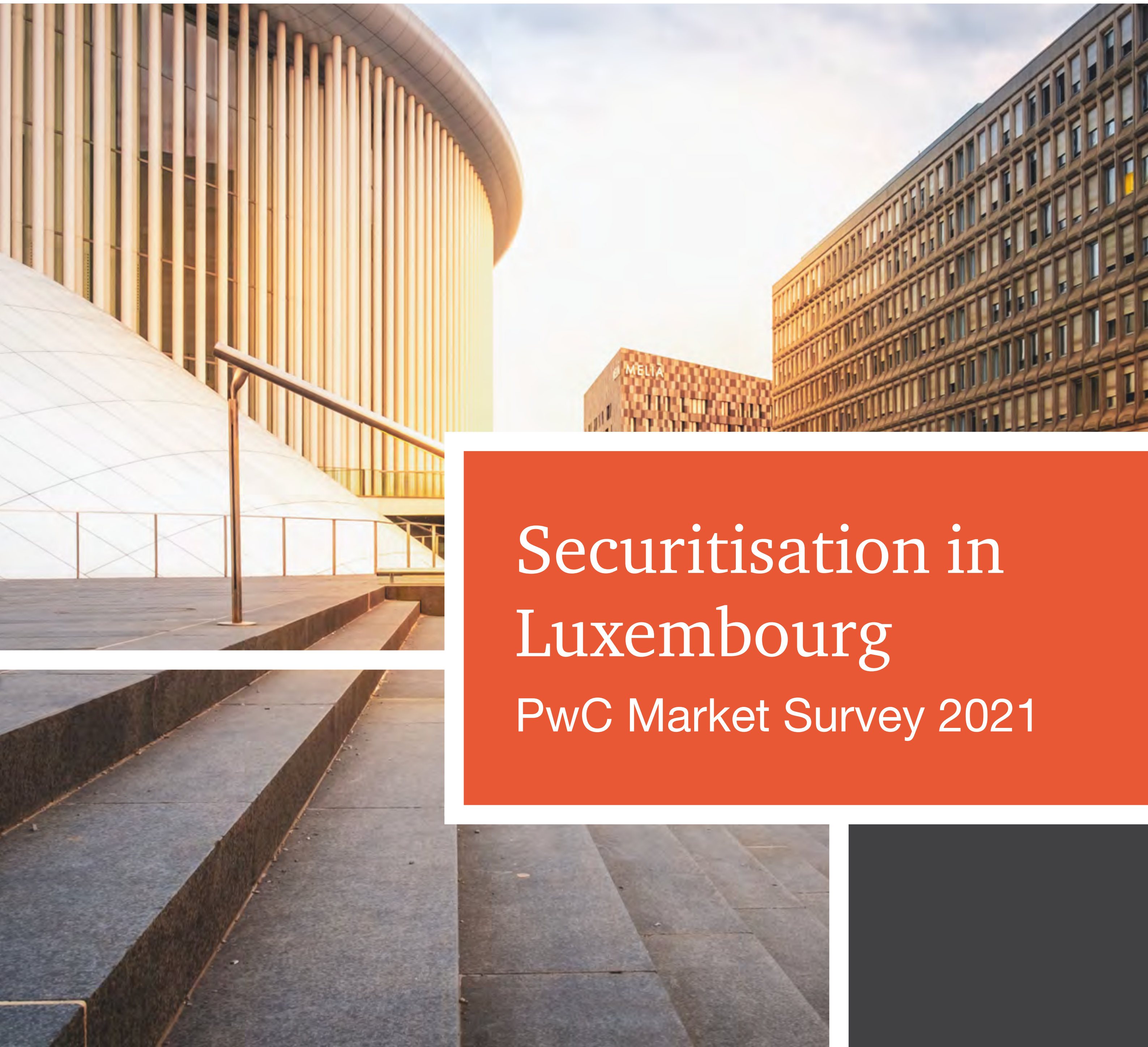

Securitisation in Luxembourg

PwC Market Survey 2021

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Following the positive feedback we received about our first survey on the Luxembourg securitisation market in 2020, we have asked your opinion again in 2021 and we are now happy to present the results of this year's survey.

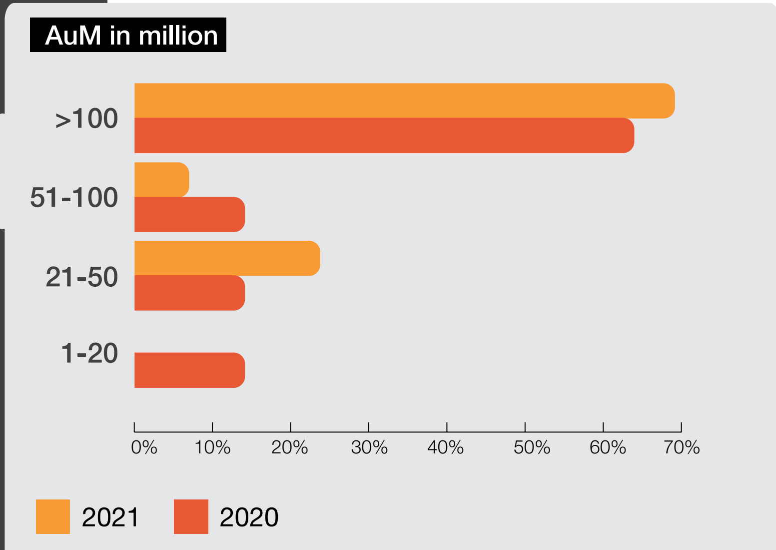
As in the prior year, we have contacted and received feedback from the main Luxembourg market participants, such as corporate servicers, law firms, banks and arrangers. Besides questions around the characteristics, asset types, the means of finance and the investor base of the different securitisation vehicles, we were also keen to get the market's view on the major challenges and opportunities and on current topics like the impact of the COVID-19 pandemic and the Brexit on the securitisation market.

We want to emphasise that this survey should neither be treated as a statistical report, nor should it be read as a representative study on the securitisation market. It is meant to reflect the views and perceptions collected from the key Luxembourg market players and we would like to thank you for your contribution.

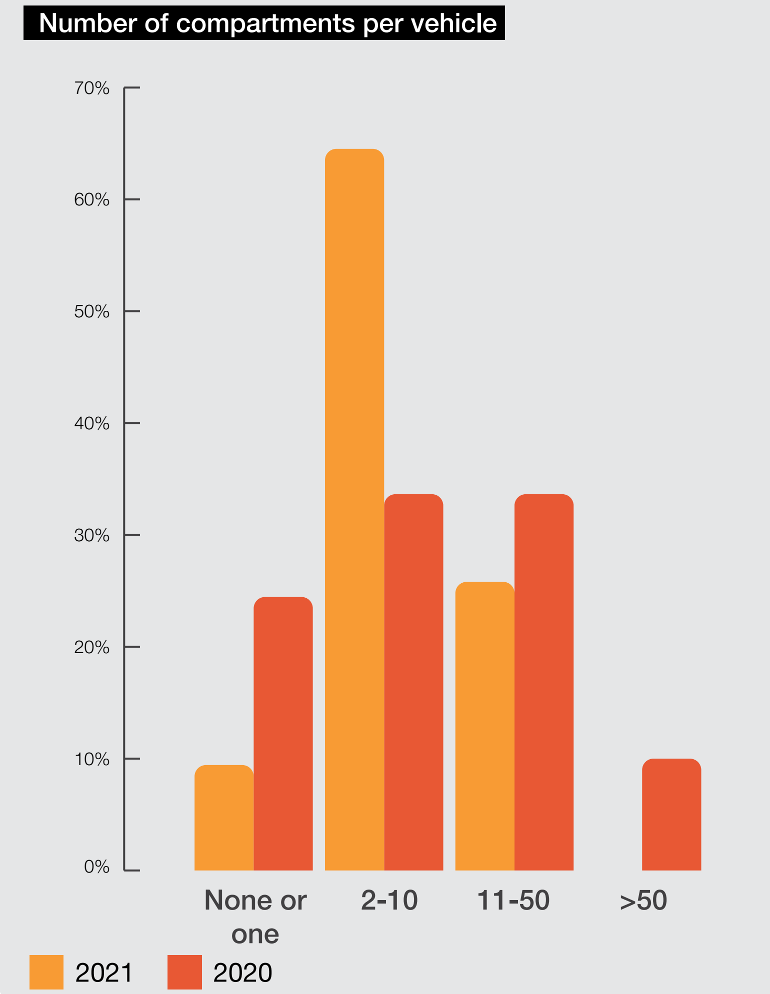
2020 was a challenging year for everyone personally, but also for the economy. Nevertheless, by the end of March 2021, we have identified more than 1,300 active securitisation vehicles under the Luxembourg Securitisation Law of 22 March 2004 (the "Securitisation Law"). Most of them were created in a corporate form (95%) while we saw some more securitisation funds, yet still the clear minority overall (5%). We estimate that those constitute approximately almost 9,000 transactions/compartments. The servicing of these vehicles by Luxembourg corporate servicers remains very fragmented with the Top 10 administrative agents servicing approximately one third of the active vehicles.

1 Securitisation vehicle characteristics

Last year's market survey showed that servicing securitisation vehicles require specific expertise and a minimum volume to be serviced. This view was also confirmed by this year's results, as most of the respondents state that they are servicing securitisation vehicles with an average of total assets under (passive) management above EUR 100 Mio.



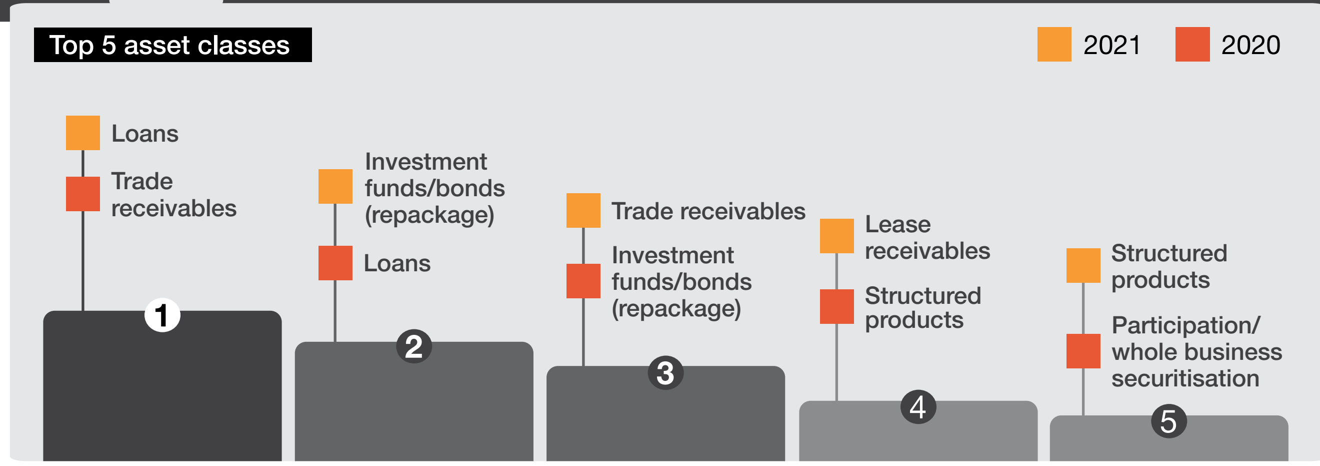
Our survey also confirmed that the possibility to create multiple compartments under the Securitisation Law is widely used. 90% of the respondents mainly serve multi-compartment vehicles. Around 64% of the respondents stated that their securitisation vehicles have in average between 2 and 10 active compartments, followed by 26% having between 11 and 50 active compartments. This is a similar result overall to last year. The maximum number of active compartments stated within one securitisation vehicle was 600.



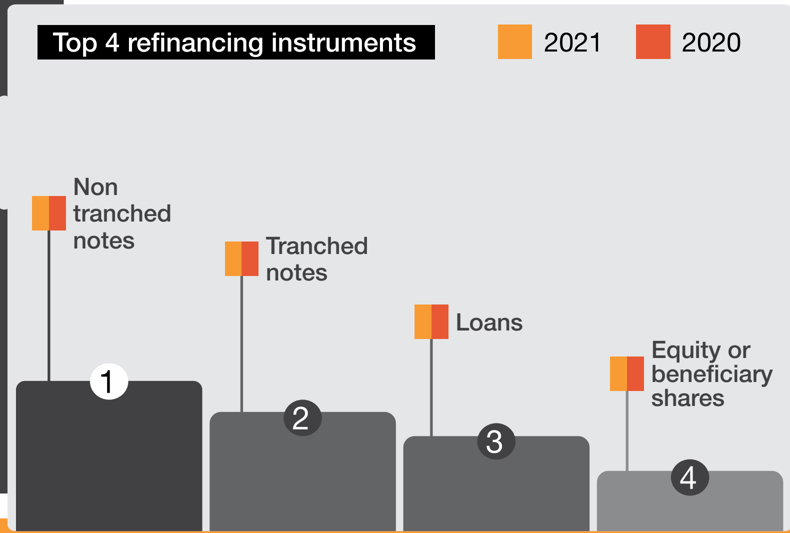
2 Asset types and means of financing

The graph shows the main asset classes observed by our participants. As in the prior year, the most classical securitisation structures such as loan structures, investment funds and bond repacks as well as trade receivables are on top of the list. The loan structures contain performing and non-performing loans ("NPL"). It will be interesting to see whether the NPL portion will further increase in the next years given the economic crises following the COVID-19 pandemic and the NPL securitisation actions taken by the European Union. Our respondents had a slight positive view on the latter.

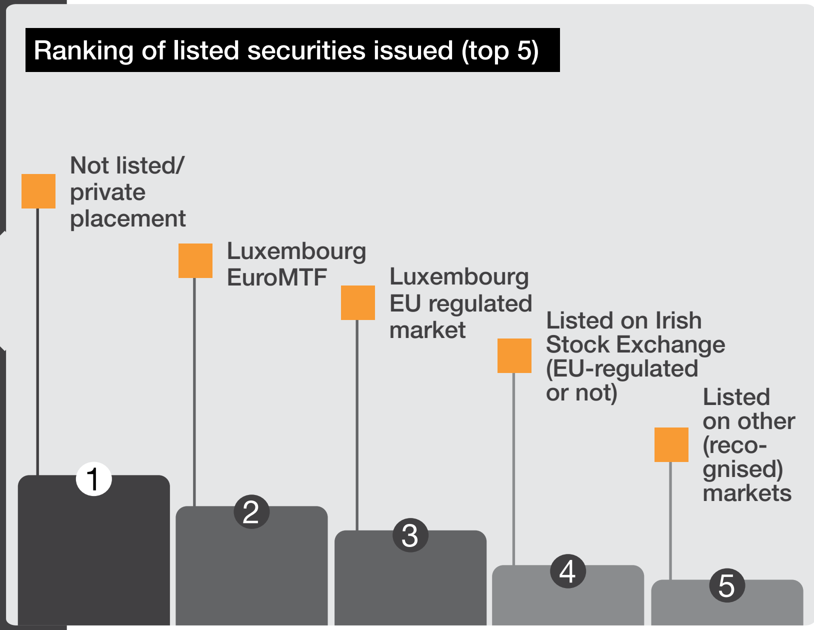
In this year's survey, we could again observe that a vast majority of the participants selected MBS structures in their top 5 (included in the loan structures), which confirms the fact that the real estate sector increasingly looks to the capital markets to raise long-term finance. With around 13% of total securitised assets, the securitisation of equity instruments and investment funds remains a Luxembourg specialty compared to other European jurisdictions (as per European Central Bank's Financial Vehicle Corporation statistics, 2020 Q4). Once the ongoing discussions on a modernised Securitisation Law become true, we would also expect to see more actively managed CDO/CLO structures in the future since active trading may become possible for some asset types.



It is not surprising to see that most of the vehicles are refinanced via the issuance of tranched or non-tranched notes and only about 27% of the serviced vehicles subject to our survey are equity or loan financed. With regards to total assets they even make up only 13% as per ECB statistics and this is lower than in competing jurisdictions. This underpins the fact that the Securitisation Law limits the possibility of loan financing and allows it only under certain conditions. However, this as well may become more flexible with the modernised Securitisation Law.

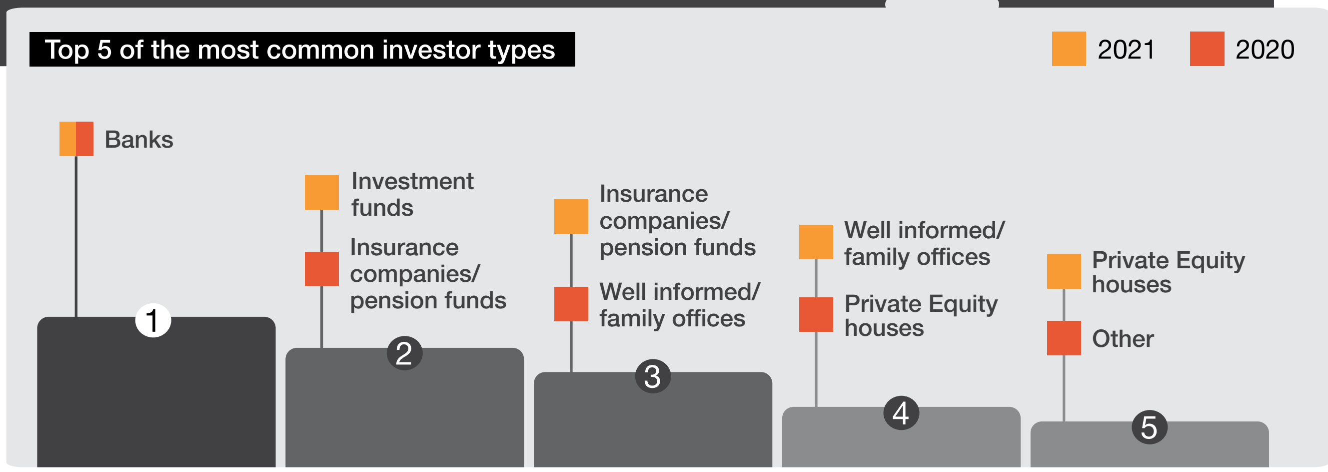


The results of the survey show that the majority of the transactions are not listed at all or not listed on EU-regulated markets. For securities admitted to trading on EU regulated markets, the Luxembourg Stock Exchange seems to be the preferred choice of our respondents, whereas the Euro MTF is mainly used when it comes to non-EU regulated markets. Based on our observations, public securitisations, i.e. those issuing securities admitted to trading on an EU regulated market, are often structured products or lease receivables securitisations. The vast majority of Luxembourg securitisation transactions are private securitisations, sometimes combined with other Luxembourg structured (e.g. investments funds, private equity or real estate).



3 Investor base

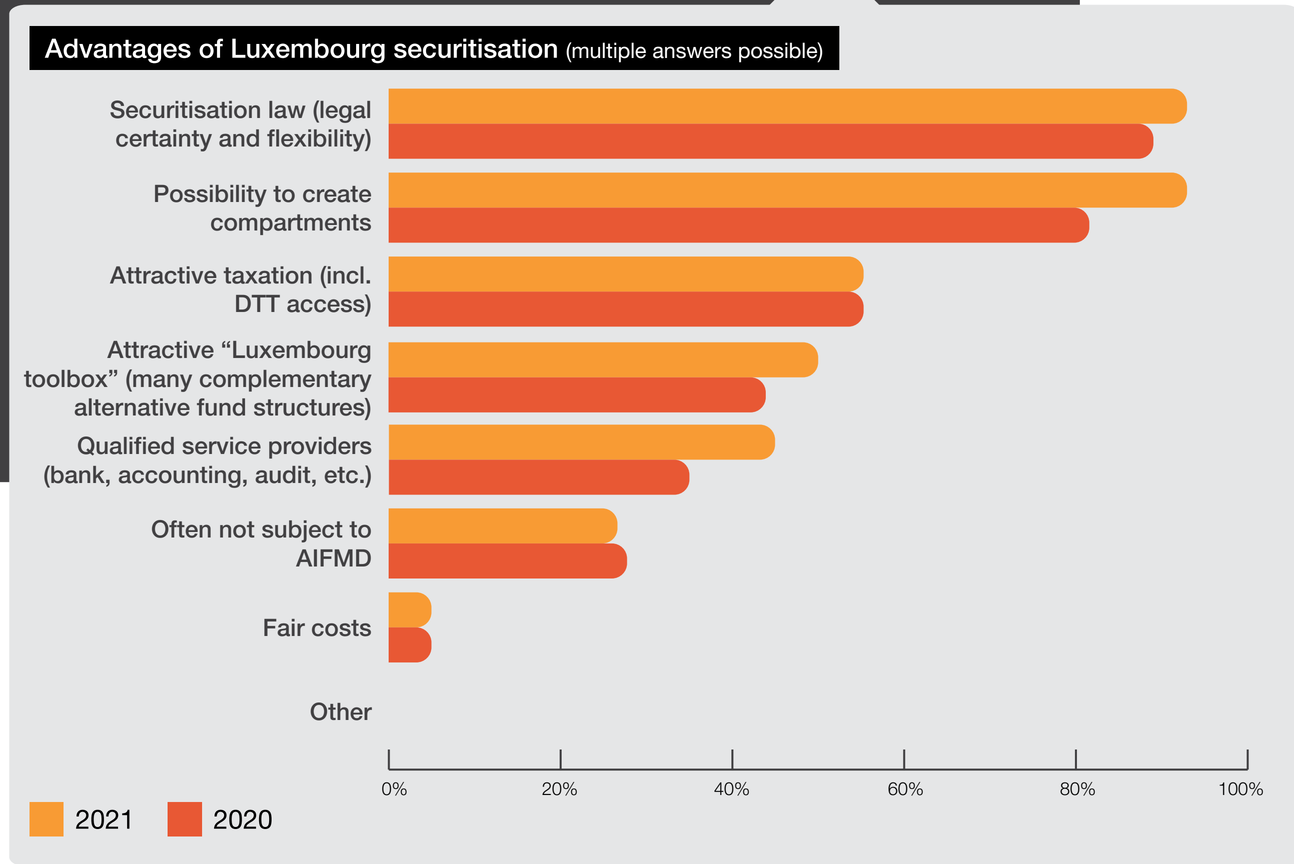
This year again, there were no surprises on the responses related to the investors. This is due to the fact that securitisation is normally not a retail product and often tailor-made. Banks, investment funds and insurance companies/ pension funds are representing the majority of the institutional investors. The issuance of securities to private investors played a minor role in the view of our respondents, and mainly relates to the so-called structured products. For some transactions, our respondents are not in a position to identify the investors or narrow down the investor type. This is most likely due to the fact that many notes are issued in bearer form and cleared.



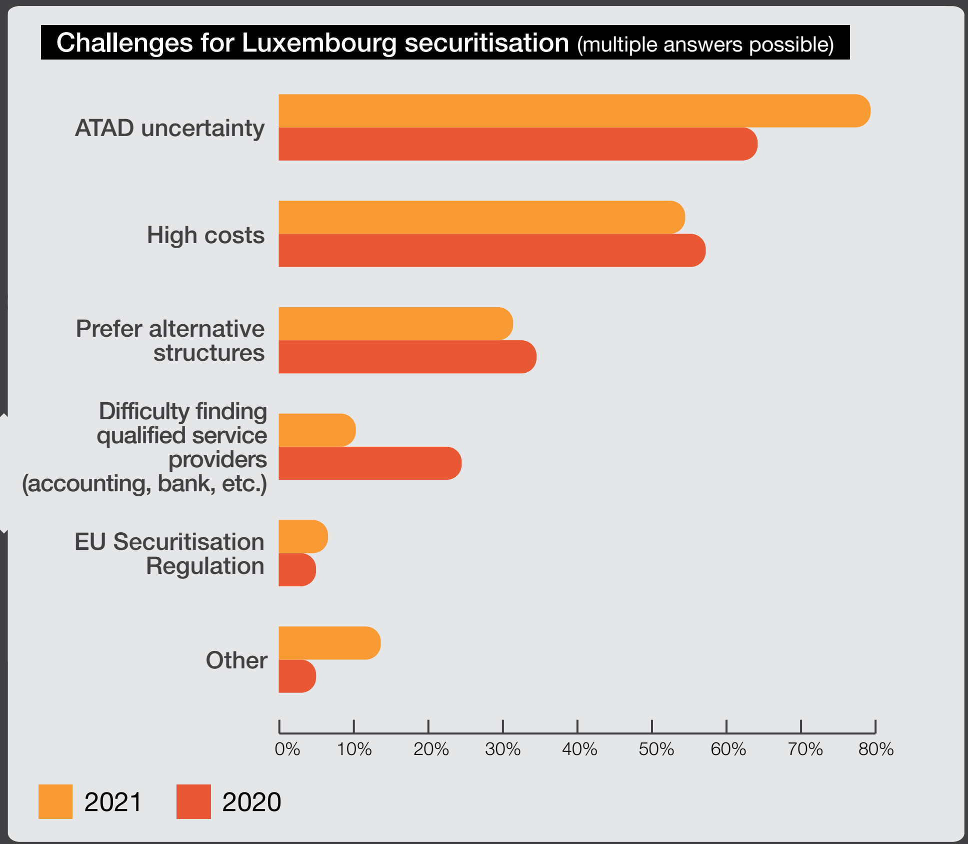
As in the prior year's survey, our respondents stated that they serve only a few (in average 1-10) EU Securitisation Special Purpose Entities ("SSPE"), with only the minority having a simple, transparent and standardised ("STS") securitisation in their portfolio. In our view, the administrative burden for such structures is relatively high and as such only cost efficient above a certain volume and if requested by investors.

4 Luxembourg competitive advantage and challenges

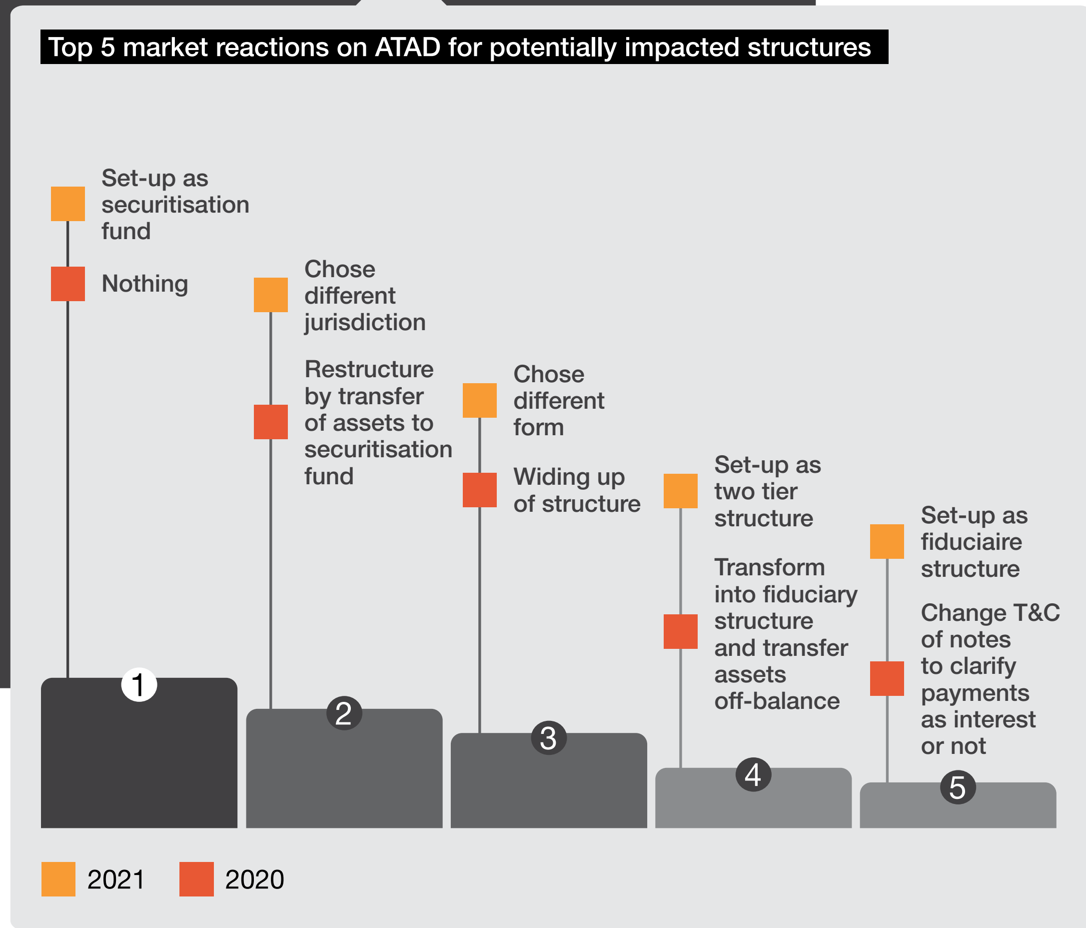
The key selling points for Luxembourg as a securitisation market as per our survey responses remain almost unchanged to the prior year. Based on this, the dedicated, robust and flexible Securitisation Law remains most important to attract arrangers for setting up their vehicle in Luxembourg. We think that the planned modernisation of the Securitisation Law will further underpin this view. As we could already see above, creating multiple compartments under one structure is an attractive and widely used concept, both in Luxembourg securitisation and fund structures. Furthermore, taxation plays a relevant role for decision takers. Based on our experience, taxation is usually not the main driver to set up a securitisation vehicle in Luxembourg, but rather an element checked to ensure tax treatment is not disadvantageous.



Also, the factors hindering arrangers choosing Luxembourg remain stable compared to the prior year. The uncertainty about the application of the interest limitation rules under ATAD 1 remains an issue and a competitive disadvantage for Luxembourg. In this context, we highly appreciate the tax authorities' circular clarifying some of those points and also the publications from industry bodies like LuxCMA. This, together with experience from tax declarations, should help to reduce this uncertainty over the next years. High costs and preference for an alternative structure follow as obstacles in the view of our respondents. Brexit, on the other hand, seems to play a relatively low role for securitisation (beyond general economic impact). Almost three quarters of the respondents did not expect a major impact from Brexit and the creation of a dual regulatory regime across the EU, while still noting the risk of the creation of a more favourable securitisation regime in the UK.

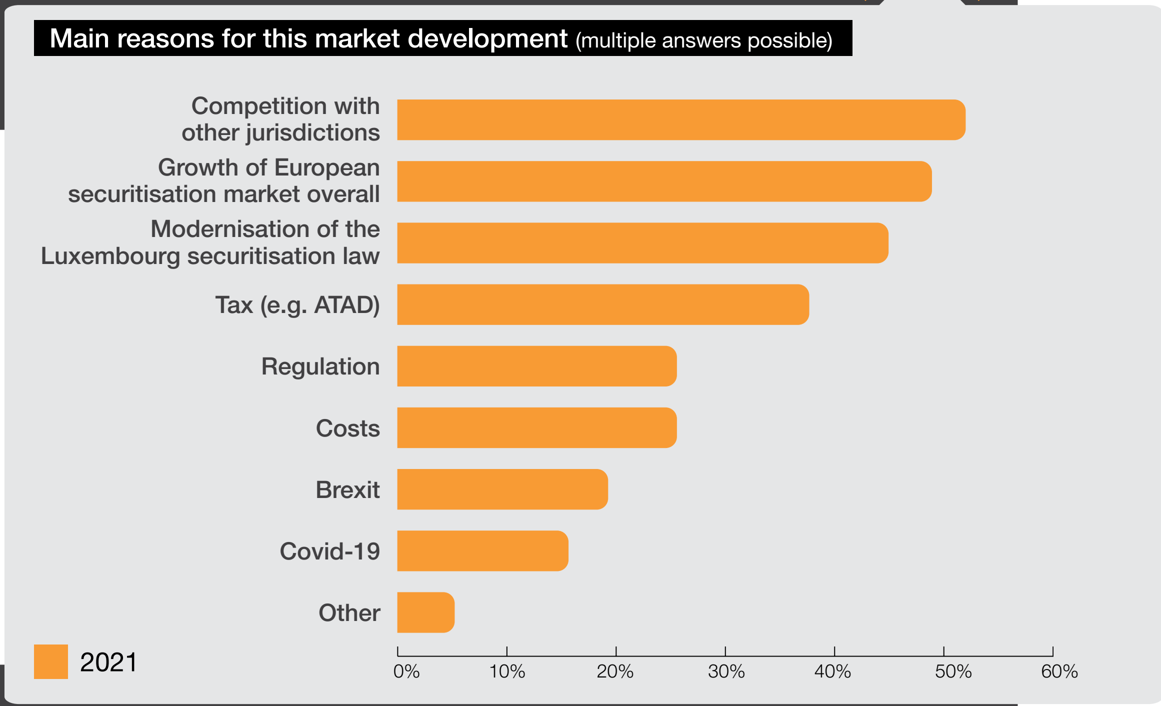


When looking at the interest limitation rules under ATAD 1 in specific, we have asked which reactions this caused with regards to securitisation structures. While last year the main reaction identified was that there was no reaction and rather no change of the existing structures, the picture looks different based on this year's survey. We still see in the Top 5 answers the restructuring into securitisation funds, fiduciary estates, two-tier structures or the use of Luxembourg vehicle other than securitisation. However, choosing a different jurisdiction gained relative importance and should alert us all with regards to the continued competitiveness of Luxembourg as leading securitisation hub in Europe.



5 Outlook

The next question is about something none of us saw coming when making the 2020 survey (which was started end 2019) – the Coronavirus crisis (COVID-19). Based on our survey, the main challenges around this are linked to reduced business opportunities and delays in delivery from different stakeholders (with the consequence of difficulties in meeting reporting deadlines). Another challenge, not only for securitisation, was - and is - remote working and the surrounding IT environment. Yet, maybe when looking back in few years, we can gain something positive out of this; as remote working and actively using IT solutions became more natural than before.

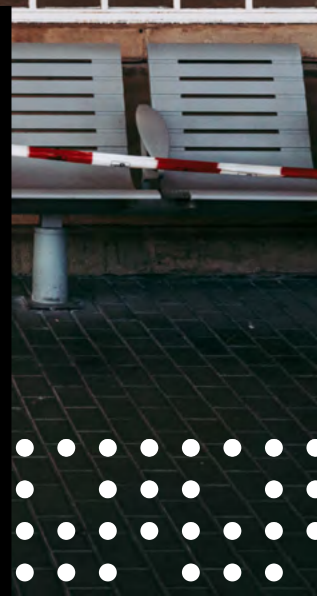


Surprising enough, the majority of our respondents deem the risk of additional impairment directly linked to Covid-19 relatively low. During the 2020 audits performed so far, we could observe a mixed picture. Of course, Covid-19 impact has to be analysed in each case. However, for many asset classes the amount of impairments directly linked to Covid-19 were limited, at least for the time being. For loan portfolios, payment holidays granted in many countries had a negative effect on the fair value of these portfolios, but not necessarily leading to the need for a durable impairment (if only delay of payments assumed and not more severe economic consequences). Nevertheless, we think it is still too early to overlook the economic and social consequences in the different countries and linked to this the impact on the different asset classes in Luxembourg securitisation vehicles.

Despite the challenges during 2020, we are glad to see that the vast majority of our survey respondents (76%) share our view that the Luxembourg securitisation market will continue to grow in the next years, while only 3% fear a decrease (with the remaining respondents expecting a stable development). The positive expectations are mainly due to an expected growth of securitisation in Europe overall as well as the modernisation of the Luxembourg Securitisation Law. Competition with other jurisdictions (mainly Ireland), uncertainty on taxation and high regulation and costs are identified as the main risks.

We would like to thank all participants to this survey for their valuable input and hope that you read the results with as much interest as we had when putting this publication together.

The members of our PwC Securitisation Core Group and the whole PwC securitisation team remain available for you for any question around this survey or our securitisation services in general.



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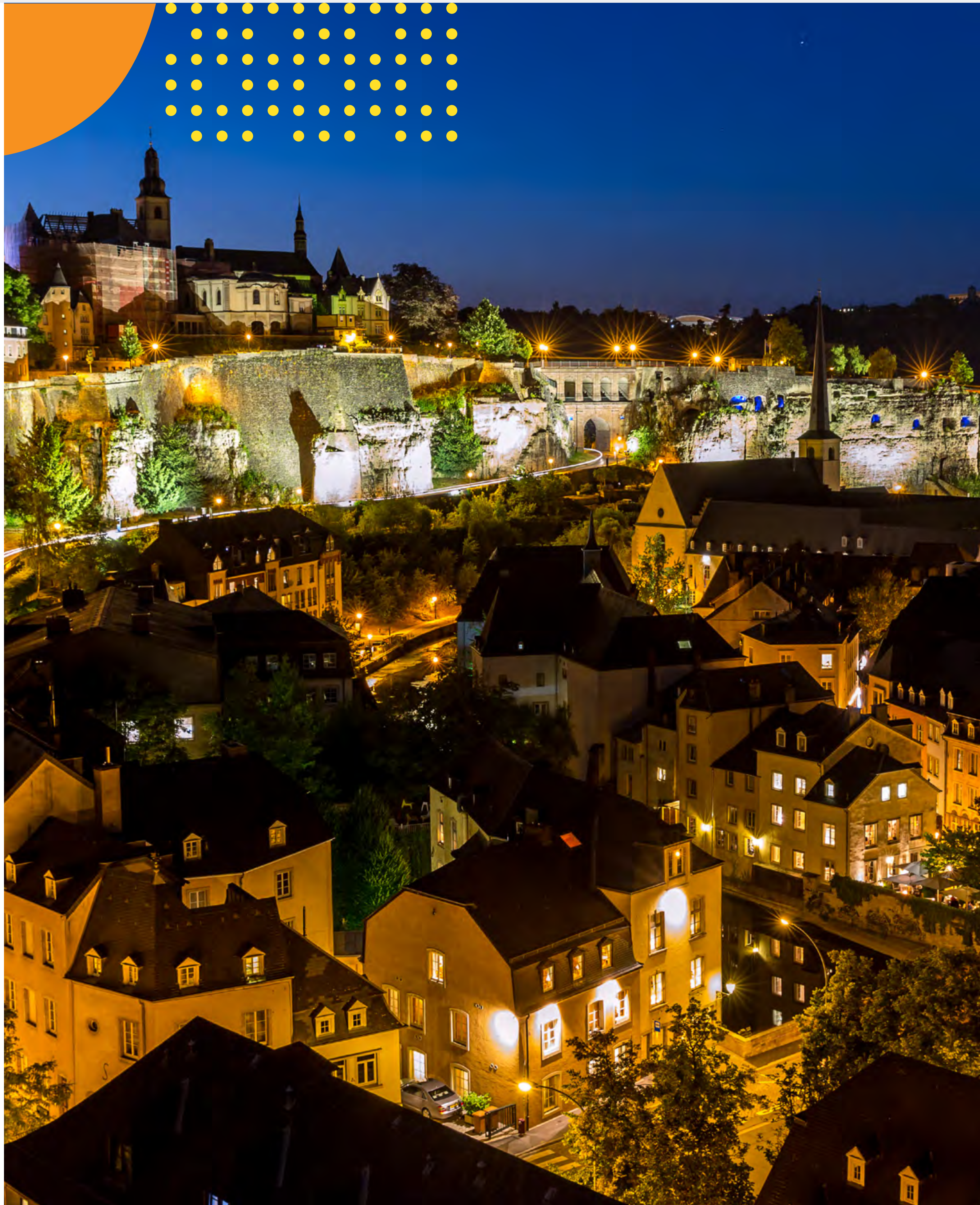

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