DEBT MARKET FUNDING

MATERIALS FOR DISCUSSION

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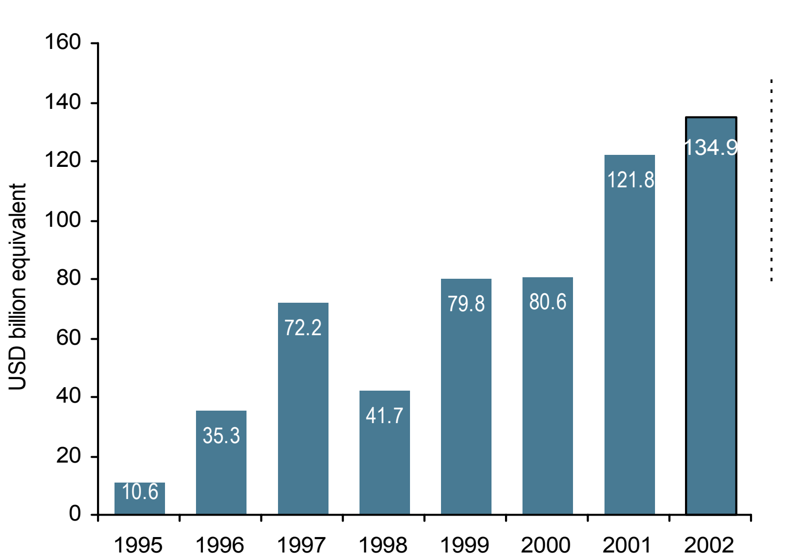
CREDIT SUISSE | FIRST BOSTON

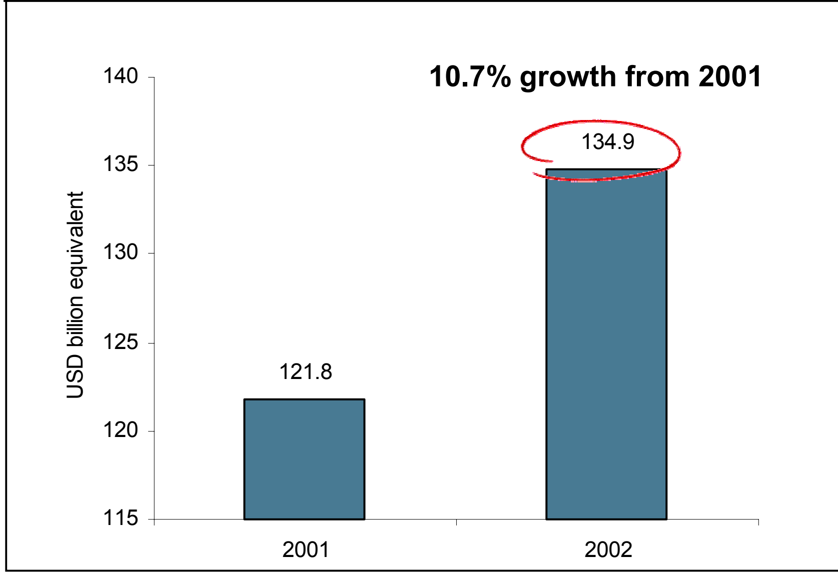
1. European RMBS / ABS Market

2002 MARKET OVERVIEW

Total market Size: 1995 - 2002



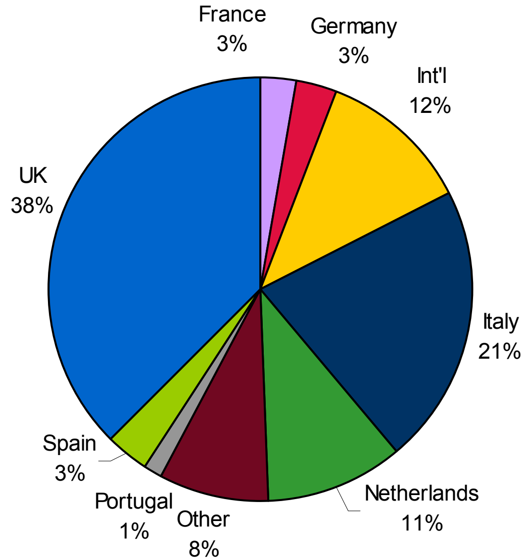
Total Market: 2002 vs 2001



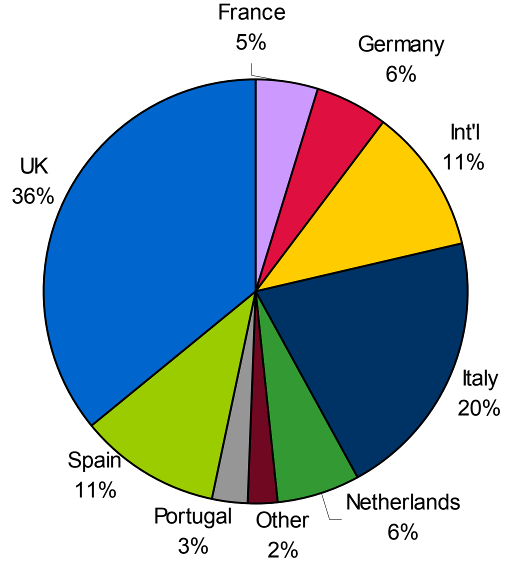
- Despite a slow start to the year, the European ABS market experienced another record year of issuance at $135bn, 10.7% up on 2001.
- Volumes were low in the first half ($50bn) but accelerated significantly, including $50bn in Q4 alone. A further $20bn of deals in the pipeline was left as hangover into 2003, ensuring a busy start to the following year.

2002 MARKET OVERVIEW (Cont'd)

2001 Volume by Jurisdiction



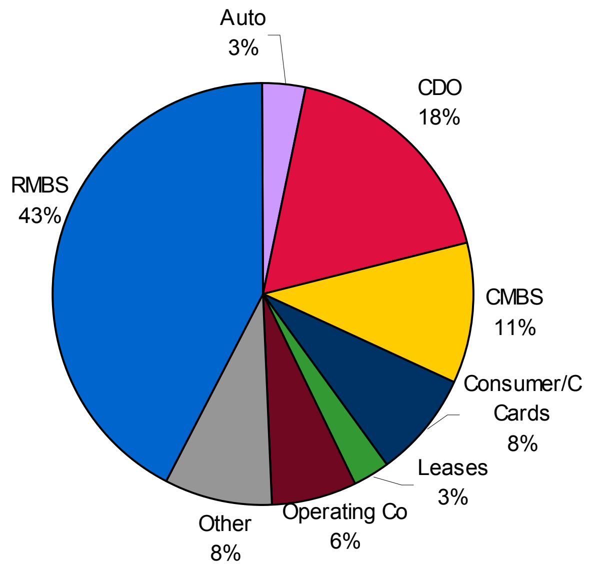
2002 Volume by Jurisdiction



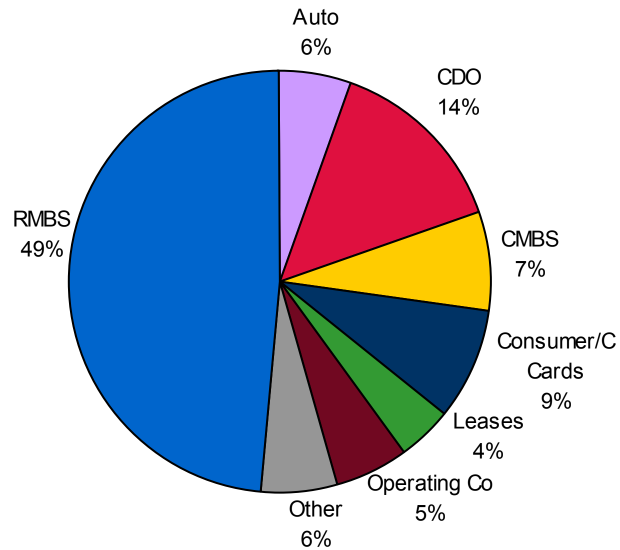
- The UK remains the largest market in Europe by some distance, reflecting several factors – the large RMBS programme issuers, the more developed consumer credit markets and the friendlier legal environment for complex trades such as whole business deals.
- Elsewhere in Northern Europe, the sharp decline in issuance from the Netherlands was disappointing as some RMBS issuers stayed out of the market. This was offset though by growth in France and Germany, the German market growing 300% despite the fact that the bulk of deals are synthetic - a sign of the very dramatic increase in deals
- In Southern Europe, the Italian market stayed roughly stable at €27bn (v €26bn 2001) although 1/3 of this was from a single issuer (Italian Government). However, Europe's fastest growing 2 markets were Spain (up 360%) and Portugal (up 300%).

2002 MARKET OVERVIEW (Cont'd)

2001 Volume by Asset Class

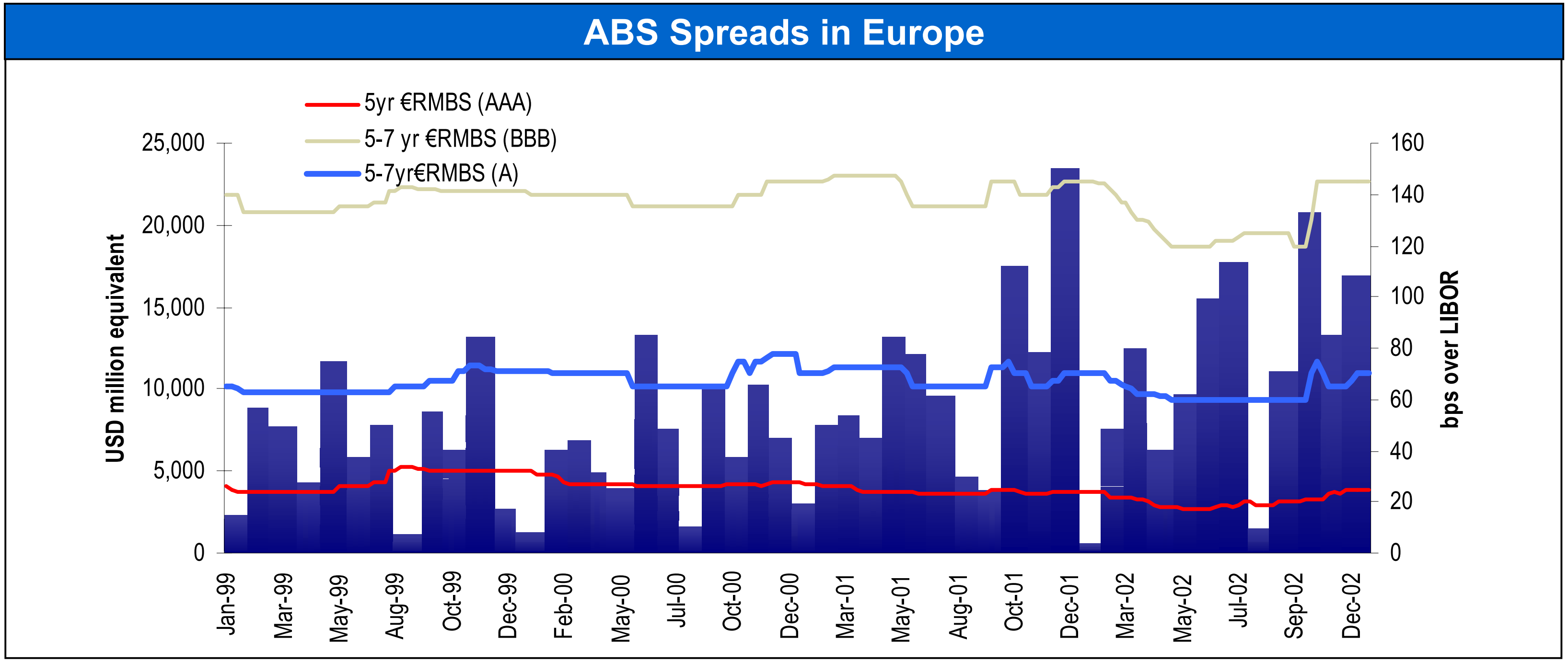


2002 Volume by Asset Class



- Slightly surprisingly, RMBS constituted an increased share of the market at close to 50%.
- The other main growth sector was Autos, doubling its share to 6%, whilst Credit Cards and Consumer Loans also remained a significant asset class.
- CDOs and CMBS both declined in market share, reflecting increased concerns with either corporate-related assets or non-granular pools. Ratings volatility, reduced investor demand and the decline in demand from bank originators hit the CDO market particularly.

2002 MARKET OVERVIEW (Cont'd)



- Supply in the first half was sporadic and totaled $50bn resulting in significant spread tightening in consumer ABS.
- The final quarter was busy as usual ($51bn in Q4 alone) as year end balance sheet concerns dictated deal timing.
- Back ended issuance combined with negative ratings activity in CDOs, concerns about the European consumer and the difficult tone of the Credit Markets generally, led to spread volatility.
- The extent of this widening has, however, been more restrained for liquid, programme, benchmark names compared with more esoteric/corporate-backed transactions.

2002 MARKET OVERVIEW (Cont'd)

LARGEST 10 EUROPEAN CASH SECURITISERS IN 2001

ISSUER	AMOUNT (USD)mn	ASSETS	NO. OF DEALS
Holmes Finance	9,833	Abbey National U.K. RMBS	3
Smile 2001	4,490	ABN Amro – Dutch Corporate loans	1
Granite Mortgages	2,687	Northern Rock U.K. RMBS	2
European Loan Conduit	3,205	MSDW Mortgage Capital UK CMBS	3
Dutch MBS	2,853	NIB Capital Bank Dutch RMBS	1
Dwr Cymru Finance	2,743	Operating Co – Water Receivables	1
SCCPP	2,670	Italian Government Lottery Revenues	1
Telereal ABS	2,556	BT Property portfolio	1
Blue Danube Loan Funding	2,307	Austrian government RMBS	1
Delphinus	2,283	ASR Bank Dutch RMBS	2

LARGEST 10 EUROPEAN CASH SECURITISERS IN 2002

ISSUER	AMOUNT (USD)mn	ASSETS	NO. OF DEALS
Italian Government	9,667	Italian Gvt - Real estate and social security	2
Granite Mortgages	8,421	Northern Rock U.K. RMBS	3
Holmes Finance	6,885	Abbey National U.K. RMBS	1
Permanent Finance	5,093	HBOS U.K. RMBS	1
Bancaja	3,191	Bancaja FTH RMBS	3
Hypovereinsbank	3,046	HVB RMBS and SME loans	3
Delphinus	2,862	ASR Bank Dutch RMBS	2
AWS Financing	2,770	Operating Co – Water Receivables	1
Canary Wharf Plc	2,285	CW Group UK CMBS	2
RMAC / EMAC	2,159	GMAC - RFC UK & Dutch RMBS	3

- 2001 was characterised by the presence of both large programme issuers (mainly the big European banks and the Italian Government) and jumbo one-off principal/acquisition-led trades (Dwr Cymru, BT portfolio, Blue Danube).
- 2002 changed all that. The maturing of the market combined with the difficulties associated with the acquisition market in a challenging credit environment, meant that the banks dominated.
- 7 of the top 10 issuers were originators issuing primarily RMBS pools. Only 1 deal could be characterised as a one-off (AWS), both the Italian Government and Canary Wharf being regular issuers in the market.
- Whilst the top 5 issuers are issuing more, roughly the same volume enabled issuers to make the top 10.

RMBS Trends - Europe

- RMBS volume up 31% in 2002, with note issuance exceeding €60 billion
- RMBS is the second largest risk transfer asset class in Europe behind CDOs
  - Still the largest funded asset class
  - UK, most active RMBS market
- 75 public deals in 2002 vs. 74 in 2001
- 2002 volume includes very large transactions (largest, €10 billion Dutch deal, EMS IV)
- Weaker market in late 2002 resulted in several deals being postponed until 2003
- Arrears and losses expected to increase due to increasing unemployment in some countries and weak house prices
- Tendency towards mortgage bond and RMBS financing in major European countries
  - Deposits and general balance sheet financing, more volatile

Investor Appetite - New Market ABS

- No public ABS issuance from Eastern Europe - other than future flows deals from Turkey and the recent highway transaction from Croatia.
- Strong potential investor demand for new market ABS
  - Well-established investor base for emerging market sovereigns and ABS paper rated BBB or better
  - Given lack of supply for sovereign and corporates, strong interest from investors to gain exposure in new markets for diversification
  - Potential for transaction ratings above the sovereign foreign currency rating
  - Pricing at levels close to the sovereign possible
  - Anticipated investor appetite: institutional investors in UK, Germany and Holland
- Minimum requirements
  - Size, €100-250 million
  - Rating, 1-2 major international rating agencies
  - Maximum term, 7-10 year average life

Using a Third Party Enhancer

Financial Guarantor:

- Assuming the underlying transaction will be rated investment grade by Moody's and S&P (i.e. without the benefit of any third-party guarantee), we believe there is interest from triple-A monoline insurers to provide a financial guarantee for a maturity of up to 10 years.
- We believe that a financial guarantee from a AAA-rated monoline insurance company would provide significant benefits:
  - The ABS Notes would be rated AAA based on the financial guarantee provided by the wrapper (compared to a lower on the "unwrapped" transaction).
  - The originator would gain access to AAA ABS investors, the largest pool of investors.
  - Using a wrapper could provide further savings and significantly enhance certainty of execution (with regard to timing and spreads).
    - Spreads for AAA-rated (monoline-wrapped) notes are very stable.
    - Investor appetite for AAA-rated paper is less volatile than for lower rated rated paper.

Other Third Party Enhancers:

- Supranationals have provided enhancement to new markets transactions including by:
  - Acting as credit enhancer by taking the subordinated tranches of ABS deals
  - Providing transfer and convertibility insurance

2. Rating Approach for New Markets

Targeted ABS Transaction Rating

General Rule:

- Rating of a foreign currency-denominated security is capped by the foreign currency country ceiling of the country where the issuer (or the originator of assets in structured transactions) is domiciled.

Objective:

- To achieve the highest rating possible on the ABS notes to achieve the lowest cost of funding

Credit Enhancement Components:

- Overcollateralisation to cover potential defaults and dilutions.
- Credit support to pierce the sovereign ceiling.
- Mitigants re: exposure to servicer/collection agent and impact of the originator's insolvency on pool performance.

Enhancements for ABS Deals

1. Overcollateralisation

- Assumptions v. Western European model:
  - An emerging market is viewed to be a more volatile environment.
    - Economic, legal and regulatory environment
    - Lenders' attitude to credit
    - Borrowers' attitude to debt
  - Possible limitations on historical data?
  - Few servicers considered to be "investment grade" ⇨ back-up servicer required?
  - Example: For securitisation of Polish (medium-term) consumer assets, preliminary feedback indicates stress rates would be further stressed, for example as follows:

Jurisdiction	AA, Targeted ABS Rating
Western Europe	2.25x
Poland	3.25x

- Additional considerations re: hard currency-linked assets:
  - Following devaluation, higher defaults as obligors face higher debt service in local currency terms
  - "Pesification" risk, e.g. Argentina
- Additional credit and structural enhancement may be required for:
  - Industry, geographic and/or obligor concentrations.
  - Liquidity stresses.
  - Significant dilutions.

Enhancements for ABS Deals

2. Credit Support to Pierce the Sovereign Ceiling

- Structural enhancements ensure debt service in the event that a debt moratorium or other convertibility / transferability restrictions prevent payments being made.
  - Political risk insurance policy / transfer and convertibility insurance.
  - Offshore reserve account.
  - Letter of credit.
  - Swap agreement which effectively provides transfer and convertibility cover.
- Amounts of required support depends on the potential duration of the potential convertibility / transferability restrictions and amount of debt service over that period of time.
- CSFB has successfully used FX swap agreements to enable ABS transactions to achieve transaction ratings above the sovereign ceiling.
  - The swap counterparty takes the potential risk of early swap termination, e.g. following deterioration in the receivables portfolio's performance.

Enhancements for ABS Deals

2. Credit Support to Pierce the Sovereign Ceiling - Examples

	Fitch	Moody's	S&P
Preliminary Feedback re: Cover for ABS transaction from most convergence countries	6-12 months debt service.	18 months debt service.	Proprietary-based model to size cover. [25%] principal cover.
Example of a Recently Completed Transaction	Garanti Leasing (Turkish Equipment Leases) Senior Notes: BBB Turkey: BB-	BHN IV (Argentinean RMBS) Senior Notes: [Downgraded from A1] Argentina: [Downgraded from B1]	MSF Funding (Brazilian Medical Equipment Leases) Senior Notes: A Brazil: B+
External Credit Support	Offshore collection accounts IFC's preferred creditor status	Offshore collection accounts T&C policy for 31 months cover Liquidity reserve fund Offshore premium reserve fund	Offshore collection accounts T&C policy for all principal and interest Liquidity reserve fund Premiums paid upfront

Enhancements for ABS Deals

3. Mitigants re: exposure to credit risk of servicer and collection agent.

- Investors' exposure to the insolvency of the originator is mitigated through a combination of structural features.
- Segregation of cash collections.
  - Ideally, obligors will be instructed to pay into a segregated bank account (i.e. not in the name of the originator).
  - Alternatively, daily segregation into a segregated bank account.
- A ratings trigger linked to the originator's credit rating may be required for the following reasons:
  - To mitigate against portfolio deterioration following the originator's insolvency, one or more triggers may be required:
    - To stop additional purchases of receivables.
    - To adjust upwards the dynamic credit enhancement and the floor.
  - To minimise co-mingling risk by terminating the reinvestment of cash collections with the originator.
- A liquidity facility from a suitably rated third party may be required to provide liquidity to the program should collection accounts be frozen following the insolvency of the originator.
- The program will typically also stop purchasing receivables if the originator defaults under other financial indebtedness or if the originator become bankrupt or insolvent.
- A back-up servicer - cold / warm / hot - may be required:
  - In a similar line of business.
  - With compatible IT systems.

POOLING MORTGAGES FROM MULTIPLE JURISDICTIONS

MATERIALS FOR DISCUSSION

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Securitising Mortgages from Multiple Jurisdictions

Potential Benefits

- Achieve geographic diversification
  - To achieve lower credit enhancement requirements from the rating agencies
  - To achieve greater regulatory capital release
  - To achieve tighter spreads
- Generate very large volumes of issuance
  - Pooling of assets from multiple jurisdictions to support issuance
    - "Minimum" issuance amount recommended, €100 million (equivalent)
    - In the current environment, even larger recommended to attract more investor attention
  - Cultivate an investor following and name recognition as a "programme issuer"
    - To achieve tighter spreads given larger issuance amount and / or more frequent issuance ⇨ liquidity, liquidity, liquidity
    - To enable placement of lower rated notes, over time
  - Allow smaller banks to join the programme later on

Potential Issues

- Significantly more difficult execution
  - Legal and regulatory issues
  - Different mortgage product offerings
  - Different stages of mortgage market development
- Cross collateralisation
- Management objectives

Case Study:
Pan-European Securitisation Project 1999-2001

Project was a led by a management consultancy for four leading European banks

- Leading European banks were approached to combine their mortgage portfolios with the following objectives:
  - Achieve pan-European diversification to derive credit enhancement benefits from the rating agencies
  - Generate very large volumes of issuance and allow smaller banks to join the project later on
  - Develop European benchmark MBS as an alternative to €-denominated Government Bonds
- 4 banks participated in the project from late 1999 through to early 2001 from:
  - Spain, Germany, Italy and Switzerland
- Technical complications with the assets arose early on:
  - Spanish and Italian banks had generic amortising floating rate mortgage pools that were cash securitisable
  - German bank wanted to pursue a funded synthetic
  - Swiss bank had fixed rate collateral denominated in CHF with little amortisation and higher credit quality
- Broadly, the conclusions were that:
  - There was some marginal diversification benefit from combining pools from other jurisdictions
  - A proprietary method of allocating excess spread, first loss support and cross-collateralisation was developed
  - The legal, technical and commercial obstacles to defining the sharing of benefits far outweighed the advantages
  - Certain mortgage portfolios presented legal challenges
    - Limited receivables available for securitisation ⇨ severely limited transaction size
- Flawed premise: one mortgage platform ***near impossible*** given diversity of asset characteristics and securitisation objectives of the 4 banks!

What did each participating bank learn from the project?

Internal processes were productive

- Data extraction methodology was iterated and required fields successfully populated
- Systems were adapted to track which loans were to be securitised
- Extracting historical data for prepayments, arrears, losses and recoveries was difficult and inconsistent
- Rating agency presentations were prepared and delivered:
  - Overview of the local housing market and mortgage types
  - Prigination network and bank branch underwriting processes
  - IT systems for servicing and tracking loans
  - Credit recovery process and credit risk category analysis
- Rating agency feedback was positive:
  - Preliminary credit numbers based on the provisional pool
  - They were very impressed with the operations/systems and 'credit culture' at each of the banks
- Initial documentation was completed regarding each mortgage pool