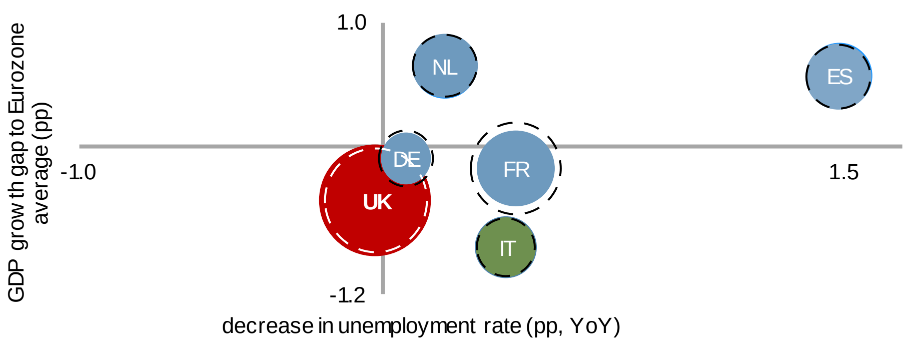
2018 Structured Finance Outlook Continent Cruising at Highs. Will Turbulence Hit Beyond 2018?

Scope's European structured finance and covered bonds credit outlook is stable, with the exception of the UK, which faces an economic slowdown. Issuance volumes will increase slightly in 2018 to about EUR 200bn, driven by the regulatory status quo on retention rules, and by opposing forces:

- **The search for spread and solid credit fundamentals, driving investor appetite for selective asset classes;**
- **Bank ring-fencing in the UK, leading to more capital optimisation and liquidity needs;**
- **The prolongation of political uncertainties (e.g. Brexit, Spain's Catalan crisis), possibly discouraging some investors;**
- **The availability of cheap unsecured funding alternatives in Germany and the decline in mortgage refinancing volumes in France.**

The weakest credit performers will be UK consumer and RMBS buy-to-let securitisations, a consequence of rising debt levels and a decline in property rents. In continental Europe, most asset classes will perform strongly, especially Spanish securitisations (supported by improving credit fundamentals), European CLOs and Italian NPLs. Figure 1 summarises our credit outlook for 2018. We believe a geographical view provides a stronger insight than developing asset-specific expectations could, because of the shift to jurisdiction-specific credit drivers. Figure 2 provides further details by country.

Figure 1: Credit outlook drivers and expected 2018 issuance volumes (EUR)



Size of circles indicates the expected issuance volumes in 2018
Dashed lines represent 2017 estimated issuance volumes
Colours represent inflation levels: red-highest; green-lowest; blue-midrange

Country/asset class	Credit outlook	Issuance volume 2018 (EURbn)	
Germany	Stable	Down	10.0
France	Positive	Down	22.5
Italy	Stable/Positive[1]	Stable	14.0
Spain	Positive	Stable	16.5
Netherlands	Stable	Stable	15.6
UK	Negative	Up	47.5
European CLOs	Positive	Up	40.0

1 The 'positive' outlook in Italy reflects our outlook on Italian NPL securitisations.

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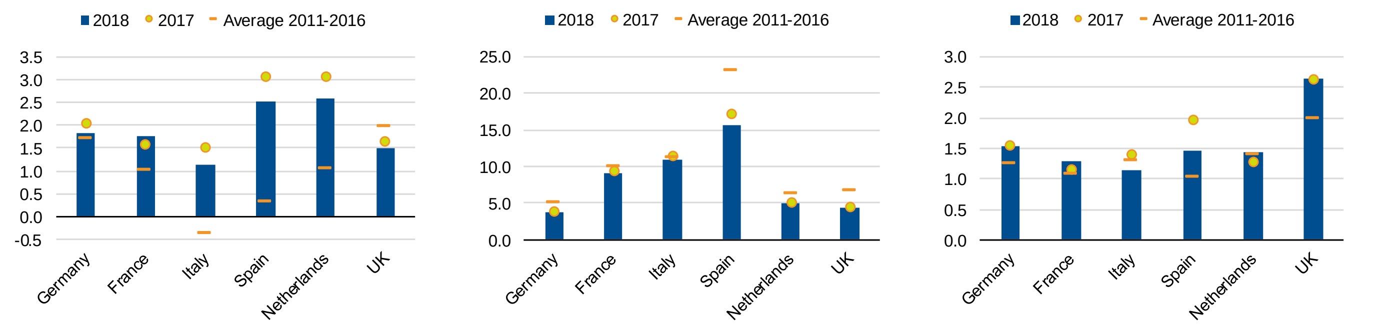
Figure 2: Detailed macro drivers by country for European securitisations

Real GDP growth (%) **Unemployment rate (%)** **Inflation rate (%)**



Source: IMF

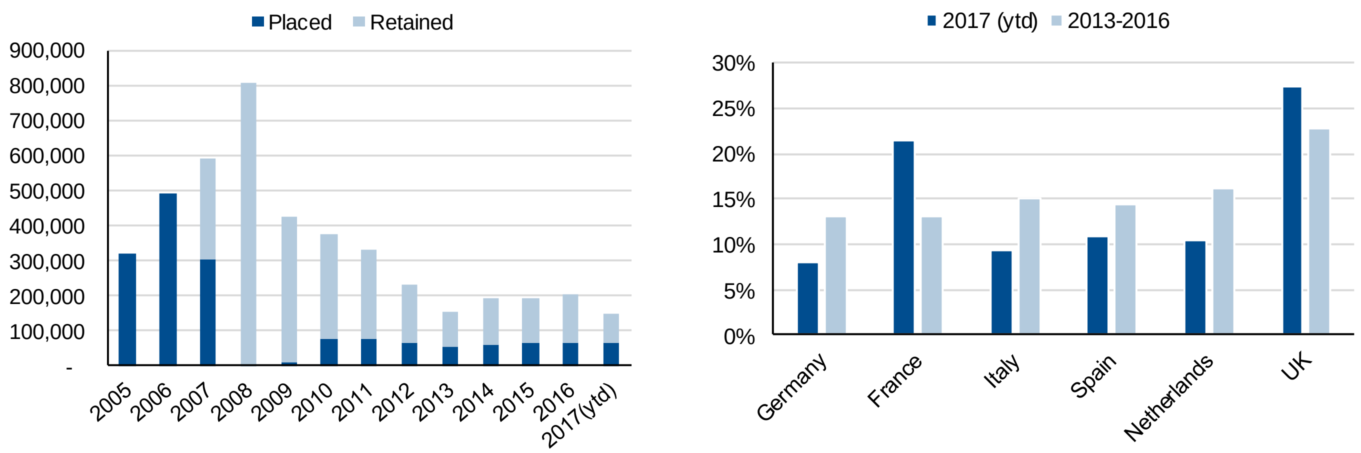
Solid fundamentals in continental Europe

Solid credit fundamentals for SME, consumer and mortgage markets support our credit outlook on continental Europe. In 2017, the eurozone economy enjoyed its fastest growth since the financial crisis, and we expect it to keep moving forward in the cycle during 2018, albeit at a slower pace. The main downside risk beyond 2018 is a faster-than-anticipated tightening in monetary conditions, resulting in a repricing of private yields. Continental Europe is likely to benefit in 2018 from continued economic recovery, falling unemployment levels and muted inflation, against the backdrop of hyper-low interest rates and the gradual withdrawal of ECB stimulus. We expect banks will continue to originate sound credit as they have been since the financial crisis. A moderate easing of credit conditions will also support securitisation performance.

Downside risks in the UK

By contrast, the credit performance for UK securitisations will exhibit downside risks in 2018. Securitisations backed by high-yield collateral such as unsecured consumer ABS will be the most susceptible to an economic downturn. Buy-to-let RMBS will also suffer from declining property rents, particularly in London. UK's year-on-year economic growth has slowed for almost 12 consecutive quarters, from 3.3% in Q4 2014 to 1.5% in Q2 2017. The 25-30% slump in the sterling after the 2016 Brexit vote failed to improve the UK's trade balance while triggering a boost of inflation (3% in October 2017), resulting in negative earnings growth. These factors, together with a deterioration in early economic activity indicators, reflect the desynchronisation of UK business cycle with that of the rest of Europe.

Figure 3: Issuance volumes (EUR m) and country distribution



Source: JPM

Germany: Economy and low leverage to support consumer ABS

Low indebtedness levels in Germany

The stable credit outlook for German securitisations is underpinned by the strength of the country's economy, which has the lowest unemployment rate in the euro area (3.7% as of Q3 2017) and below-average economic indebtedness (see Figure 4). Gross government debt (market price) to GDP decreased year on year by 6.3 percentage points to 72.3 in Q2 2017. Meanwhile, corporate and households' debt remained stable and below the western European average, at about 55% each, which translates into above-average debt affordability (see Figure 5).

While investors continue to flock to the German ABS market, some lenders have reported to our analysts that cheaper or more flexible financing alternatives exist; unsecured debt issuance is one example. Consequently, Scope expects issuance to stay below EUR 10bn in 2018. As of November 2017, yearly issuances totalled EUR 12.1bn, a drop of about 20% year on year. German securitisation will continue to be dominated by auto ABS, which accounted for about two-thirds of volume over the past five years.

Auto ABS will remain robust

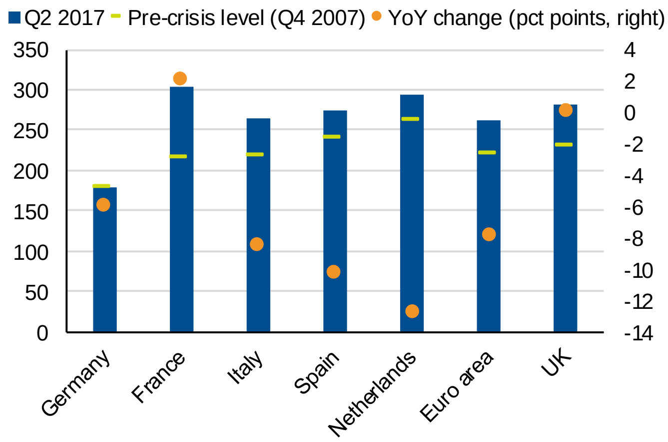
German auto ABS securitisations will perform robustly during 2018, supported by benign macroeconomic conditions, prudent underwriting and strong credit availability. We expect 90 days-past-due arrears to remain stable at about 1.7%, in line with 2016-2017 levels. Lending conditions are evolving within reasonable limits: During 2017, German banks eased credit standards moderately for households (see Figure 8) but credit risk drivers for auto ABS, such as original loan terms, LTVs and average balloon amounts, have remained fairly stable[2].

The credit performance of portfolios exposed to residual value are likely to be supported by good refinancing conditions and the dynamic used-car market in Germany. Two risks to monitor are i) the declining trend of new registrations for diesel vehicles, caused by the uncertainty due to proposals on restricting diesel cars in metropolitan areas, and ii) the increasing share of alternative-fuel vehicle registrations (2.4% in 2017Q2[3]), which have enormous growth potential in the medium term.

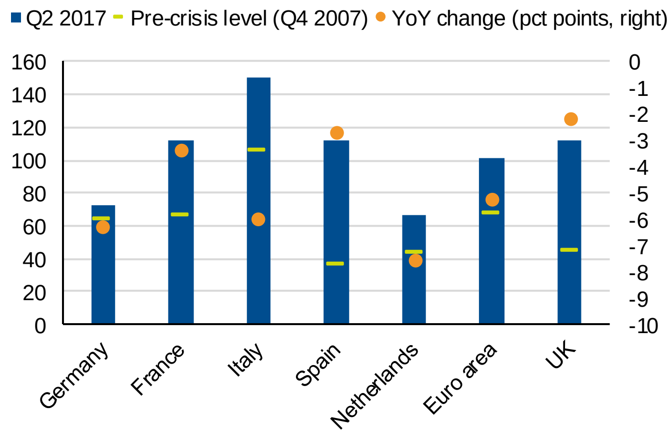
2 Based on European Data Warehouse stratifications.
3 As of October 2017 (Kraftfahrt-Bundesamt).

Figure 4: Gross debt at market value to GDP (%)

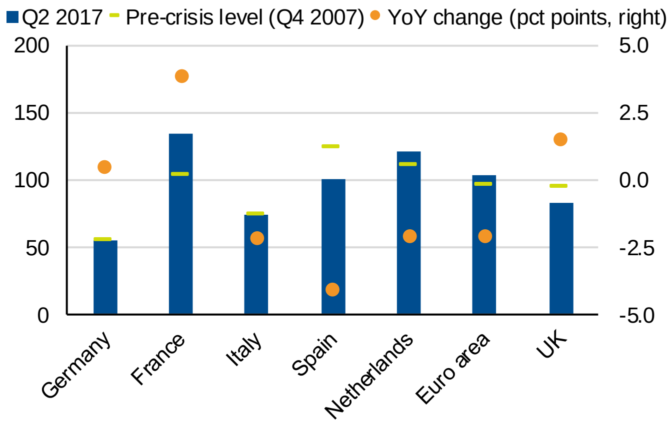
a) Total non-financial sector = b + c + d



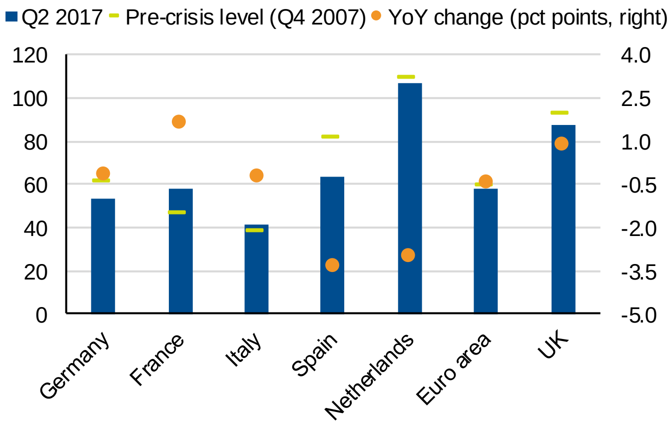
b) Government debt



c) Corporates



d) Households



Source: BIS (gross debt at market value as % of GDP)

France: Residential credit moving forward in cycle

Ultra-low rates support French RMBS

Our credit outlook for French securitisations is positive, largely due to the country's economic recovery and moderate household indebtedness. For 2018 the IMF forecasts real GDP to grow by 1.8% from 1.6% in 2017. Medium-term risk factors include an excessive easing of lending standards and a rise of property prices beyond sustainable levels.

Retained RMBS, which have accounted for about 70% of issuance volumes since 2014, will continue to hold the highest share in the French market. Unsecured consumer ABS will still take a distant second place. As average mortgage rates on housing loans hit an all-time low of 1.5% at end-2016[4], a wave in mortgage refinancings in 2017 led to France's highest issuance volumes (EUR 32bn), also the highest in the eurozone. This was almost double that of Spain, which ranked second. We expect issuance volumes to slow in 2018 to about EUR 22.5bn, consistent with the 2013-16 average.

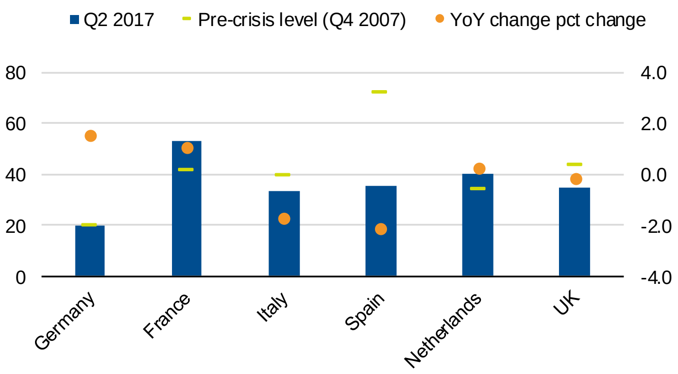
The positive performance of French RMBS securitisations will be supported by ultra-low rates and prudent lending models in the country (mostly fixed-rate and constant-

4 Source: Bank of France.

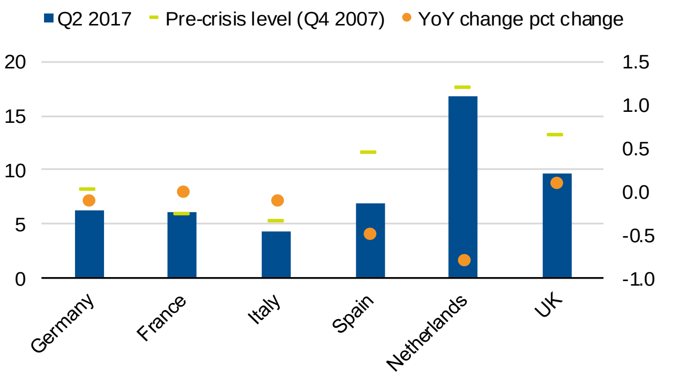
instalment mortgages). The rate of doubtful mortgage loans will increase to about 2% in 2018 (1.54% as of end 2016[5]), technically driven by a slowdown in origination volumes (denominator effect). We expect moderate increases in mortgage rates in 2018, driven by the gradual withdrawal of ECB stimulus. Our view on the property market is stable, supported by the resilience of house prices. Since the financial crisis, the correction in French property prices has been moderate relative to those of European peers (see Figure 6). This suggests that the 115% cumulative price rise (real terms) between 1998 and 2007 was not driven by a wide-scale speculative bubble.

Figure 5: Debt service ratios (%)

Non-financial corporates



Households



Source: OECD. The DSR reflects the share of income used to service debt

Italy: NPL securitisations to gain momentum

Improving expectations in Italy…

The stable/positive credit outlook for Italian securitisations is supported by moderate private-sector indebtedness and improving real estate expectations. Scope expects the moderate economic expansion of around 1% to continue in both 2017 and 2018, driven by stronger external demand and the recovery in investment levels. While Italy's GDP growth is the lowest in the eurozone, we highlight that this rate has stayed below 1% for the last 10 years.

…will drive a sharp increase in Italian NPLs

In 2018, Italy will continue to be the main European market for public NPL securitisations. The share of market-placed deals, which in 2017 amounted to about a third of issuance volume, will continue to rise. The year 2017 saw the rebirth of public NPL securitisations, which found interest among real-money investors. Investor appetites will continue to be driven by the improving expectations for real estate, following a house price correction of about 30% (real terms) since the 2008 peak (see Figure 6). Italian securitisation issuance amounted to about EUR 14bn in 2017, a 50% drop relative to the average during 2013-16, driven by a slump in retained deals.

Scope anticipates a sharp increase in Italian ABS NPLs next year, which could reach up to EUR 40bn-45bn in gross book value (GBV) of sold assets. This forecast is, however, sensitive to Banca Monte dei Paschi di Siena's potential transaction. If the latter does not go ahead, the forecast may drop to around EUR13bn-18bn in GBV, which in any case is significantly more than what has been done in 2017 (around EUR 8bn GBV so far).

Scope also expects a majority of ABS NPL transactions issued in 2018 will rely on the Guarantee on Securitization of Bank Non-Performing Loans (GACS) because most banks have witnessed in 2017 that asset sale prices are actually more favourable in the context

5 Source: Bank of France.

of a securitisation than a portfolio sale. The use of the securitisation format therefore significantly reduces the loss for the bank selling the NPL assets.

NPL securitisations, whose recoveries are impacted directly by property prices and the general economic environment, are expected to perform well in 2018. Securitisations of loan and leases to companies could also improve supported by the country's moderate economic expansion. The performance of RMBS and consumer securitisations will be broadly stable: We expect their performance to be less correlated with the economic cycle, given it is driven by the low leverage of Italian households.

Spain: strong outlook for 2018; political downside risks beyond

Economic momentum outweighs political risks

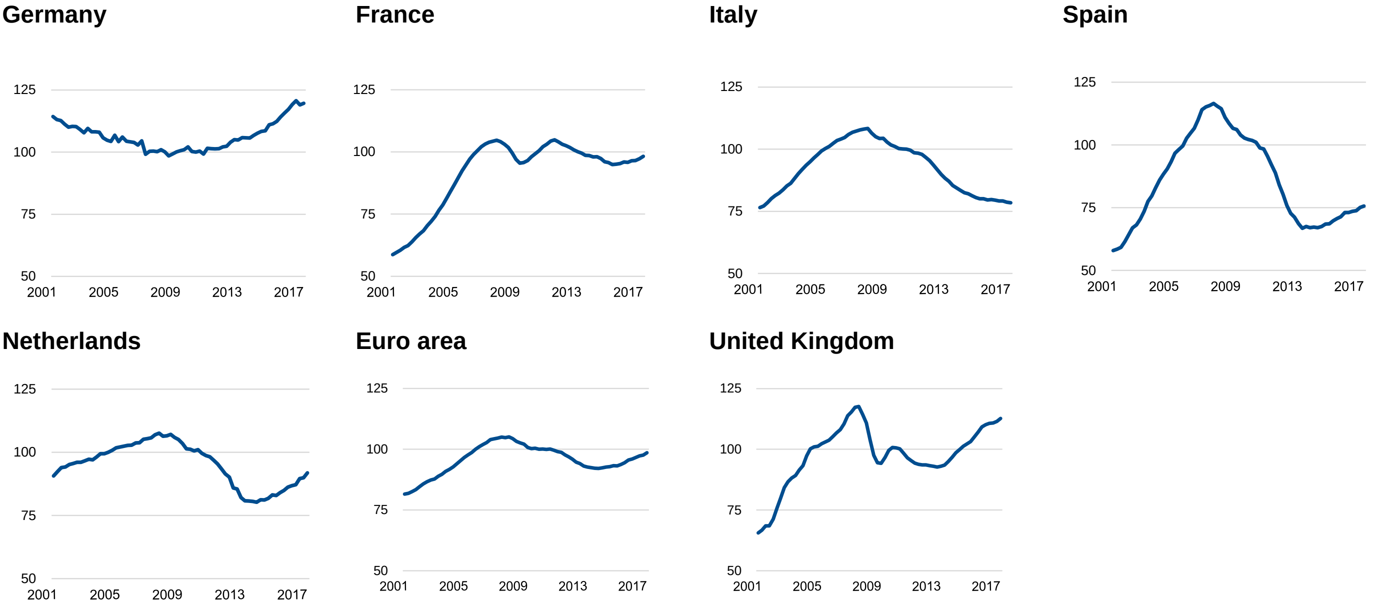
Spain's positive credit outlook is underpinned by macroeconomic developments: robust economic growth, a significant drop in the unemployment rate, the deleveraging of the private sector, and a gradual recovery of the real estate market. However, the institutional crisis triggered by the Catalan independence movement following the illegal referendum on 1 October generated material uncertainties over the performance of long-maturity instruments such as mezzanine SME ABS or RMBS tranches.

For 2018, we expect issuance volumes to remain stable at about EUR 16.5bn, still supported by retained securitisations. New securitisations will be underpinned by rising private- and corporate-debt levels and the recovering real estate market. However, economic uncertainties prompted by the Catalan crisis may dampen investor appetites. Spanish securitisation issuance in 2017 amounted to roughly EUR 16.5bn. Market placements comprised 20% of total issuance volumes in 2017, a moderate rise from the 2013-16 period, during which 5% of issuance volumes were placed.

Improving affordability for Spanish securitisations

We expect the positive performance of Spanish SME ABS and RMBS transactions, driven by solid performance of underlying collateral pools. SME ABS will benefit from the improved credit service capacity of Spanish SMEs (see Figure 5), while RMBS transactions benefit from the recovery of real estate prices (see Figure 6). Extensive credit availability and low margins will support the performance of corporates and private households alike. Despite increasing competition, we expect underwriting standards to evolve within reasonable limits, as suggested by the ECB lending conditions survey (see Figure 9 and Figure 10)

Figure 6: Real house price indices



Source: OECD

Netherlands: structural vulnerabilities persist

Structural vulnerabilities, but solid economy

The stable credit outlook for Dutch securitisations is driven by the solid Dutch economy and moderate house price levels (see Figure 6 and Figure 7) even with persisting vulnerabilities in the country's lending model. Dutch households are highly indebted, a consequence of tax-relief measures on mortgage debt, though this is mitigated by one of Europe's highest levels of net wealth. The Dutch economy is characterised by very low structural unemployment, between 3% and 7.5% over the last 30 years. The evolution of underwriting standards is a risk to monitor: Following a series of restrictive credit measures in previous quarters (see below), about half of Dutch banks expect a net easing of credit conditions for households in Q4 2017.

For 2018, we expect total issuance volumes to remain stable, as the dynamic Dutch RMBS market spurs momentum in distributed deals, but at the expense of retained deals. As of November 2017, the total issuance volume of Dutch public securitisations was EUR 15.6bn, evenly distributed between retained and distributed deals. Excess liquidity and funding availability is caused a year-on-year slump of retained transactions by about 65%, whereas distributed transactions remained stable. Generous tax incentives on mortgage debt are also benefiting Dutch RMBS: about 90% of issuance volumes since 2013 have corresponded to the asset class.

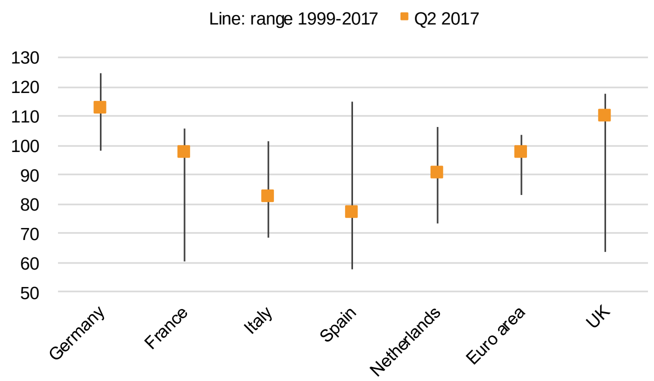
Lending improvements support RMBS performance

We expect the 2018 performance for this sector to be stable, underpinned by steps taken since 2013 to mitigate the vulnerabilities of the Dutch lending model, characterised by a high share of mortgages with negative equity (ca. 20% in 2016) and a high share of non-amortising loans. Two important initiatives include the gradual implementation of LTV caps (down to 100% in 2018) and tax-deductibility limits on mortgage interest payments (see Scope's report on Dutch Residential Mortgages, 7 November 2017). We expect average 90 days-past-due arrears of Dutch RMBS to remain below 0.35%, in line with 2017 performance[6].

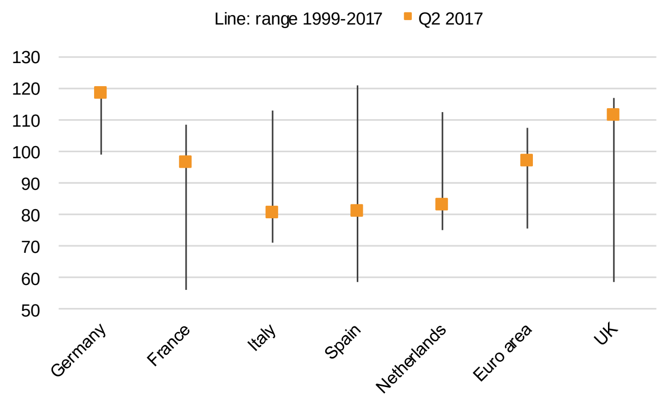
6 Based on European Data Warehouse stratifications.

Figure 7: House price ratios

Affordability index (base 2010)[7]



Profitability index (base 2010)[8]



Source: OECD

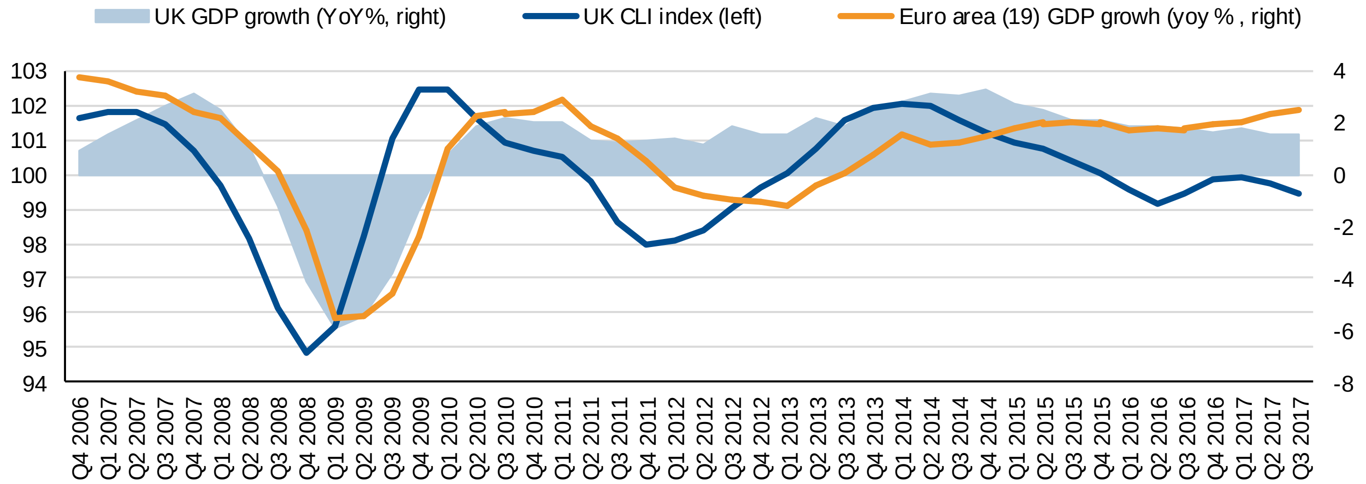
7 Nominal house prices relative to nominal net households' disposable income.
8 Nominal house prices relative to nominal rental prices.

UK: Business cycle desynchronises from continental Europe

Business cycle downturn approaching

The desynchronisation of the UK economic cycle from those in continental Europe (see Figure 8) drives our negative credit outlook. GDP growth in the UK is expected by the IMF to decrease to 1.5% in 2008 from 1.7% in 2017. In addition, rising corporate- and private-debt levels during 2017 are putting pressure on debt affordability. 2018 promises to be a year of strong uncertainty relating to the outcome of the Brexit negotiations. This is likely to create financial market volatility and added downward pressure on already inflated real estate prices, which could compromise private-wealth levels.

Figure 8: Desynchronisation UK and EU business cycles



CLI Composite Leading Indicators
Source: OECD, edited by Scope

For 2018, we expect issuance volumes to reach EUR 47.5bn, exceeding the 2017 level by about 15%. This will be driven by the UK's ring-fencing legislation[9], which will lead to a greater need for liquidity and capital optimisation. Notwithstanding, weaker investor appetites owing to Brexit uncertainties will affect securitisation issuance for risk-transfer and capital-raising purposes. Securitisation volumes will remain dominated by prime RMBS, followed by secured and unsecured consumer credit.

Consumer ABS will be most vulnerable…

Performance of securitisations backed by higher-yielding collateral, such as credit cards and unsecured consumer securitisation, will be the most vulnerable to the gradual reversion of the benign credit conditions. The main contributor to UK GDP growth during the last three years has been private consumption, driven by a boost in consumer credit thanks to the rising risk appetites and competitive pressures among UK lenders. At the same time, credit performance has been supported by the unprecedented combination of low unemployment, low inflation and low interest rates. For instance, annualised quarterly write-off rates on credit-card lending to individuals bottomed out in Q2 2015 at 2.5%[10], but have since started to gradually increase. For 2018, we expect annual write-off rates to exceed 3.5%.

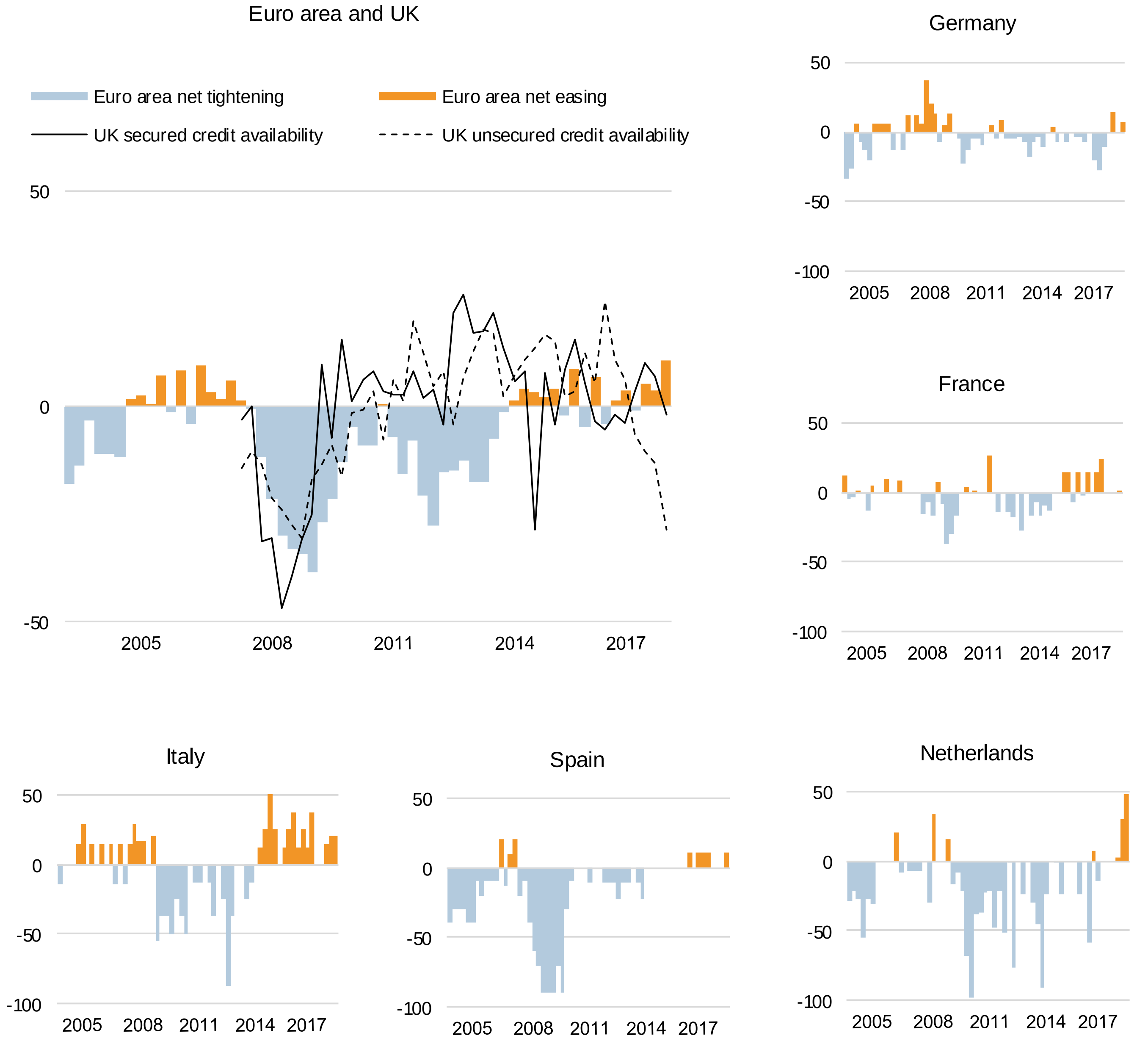
…but tighter lending conditions will support new issuance performance

Performance of new consumer securitisations will be supported by a net tightening of underwriting standards, a result of decreasing risk appetites since the Bank of England warned UK banks of excessive consumer credit growth in Q2 2017. This is already reflected in the significant drop in approvals of unsecured credit applications, according

9 UK ring-fencing legislation, which require banks with deposits of GBP 25bn or more to split by January 2019 their essential banking services from their more risky investment banking and international services, may have a positive effect on 2018 securitisation issuance.
10 Scope calculations, based on Bank of England data.

the Bank of England in its Q3 2017 credit conditions survey.

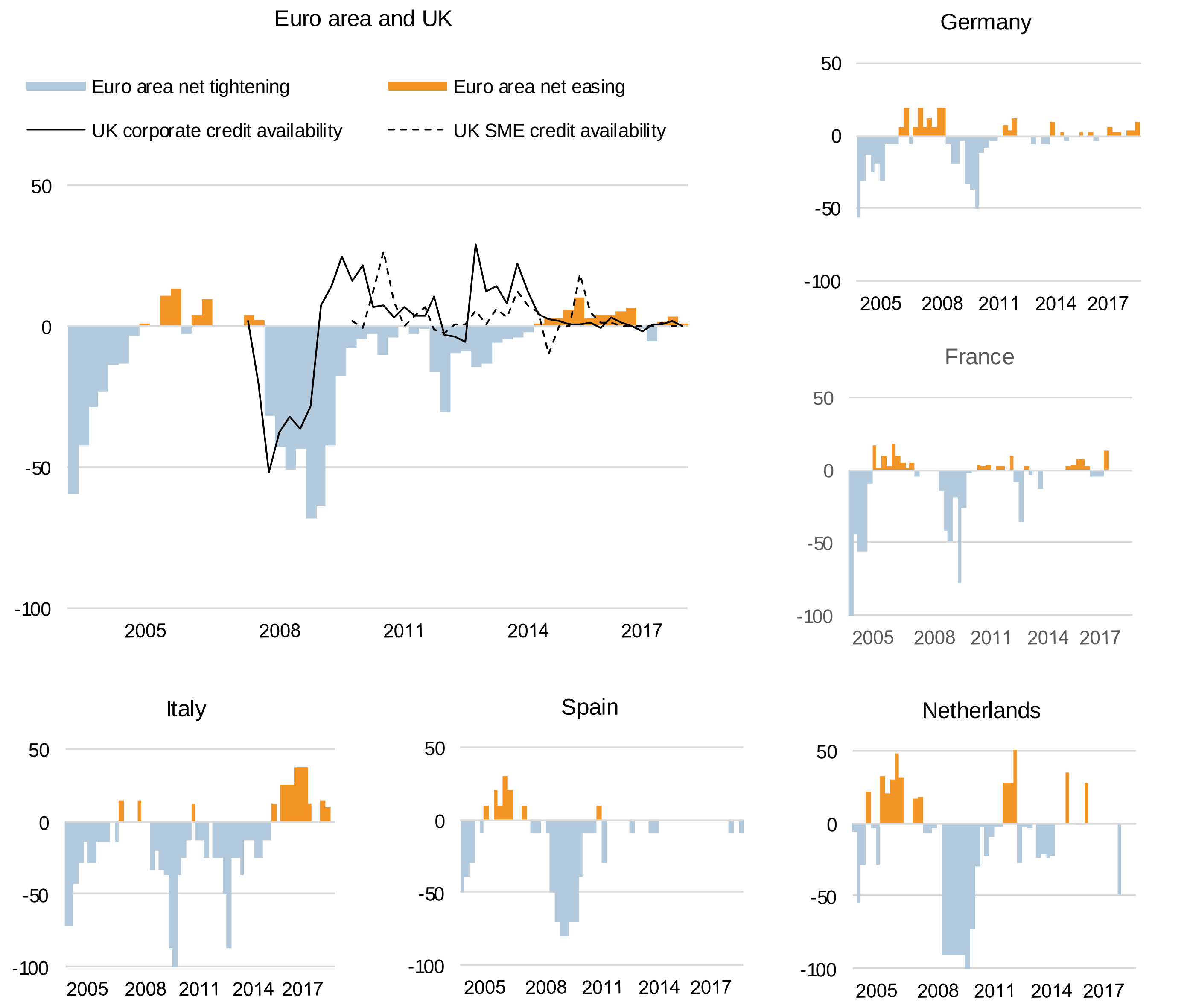
Figure 9: Credit to households: changes in credit standards[11]



Sources: ECB and Bank of England

11 In net percentages of banks' reporting easing (if positive) or tightening (if negative) credit standards.

Figure 10: Credit to companies: changes in credit standards [12]



Sources: ECB and Bank of England

12 In net percentages of banks' reporting easing (if positive) or tightening (if negative) credit standards.

European CLOs: Strong credit year but selectivity crucial

Solid issuance growth for 2018

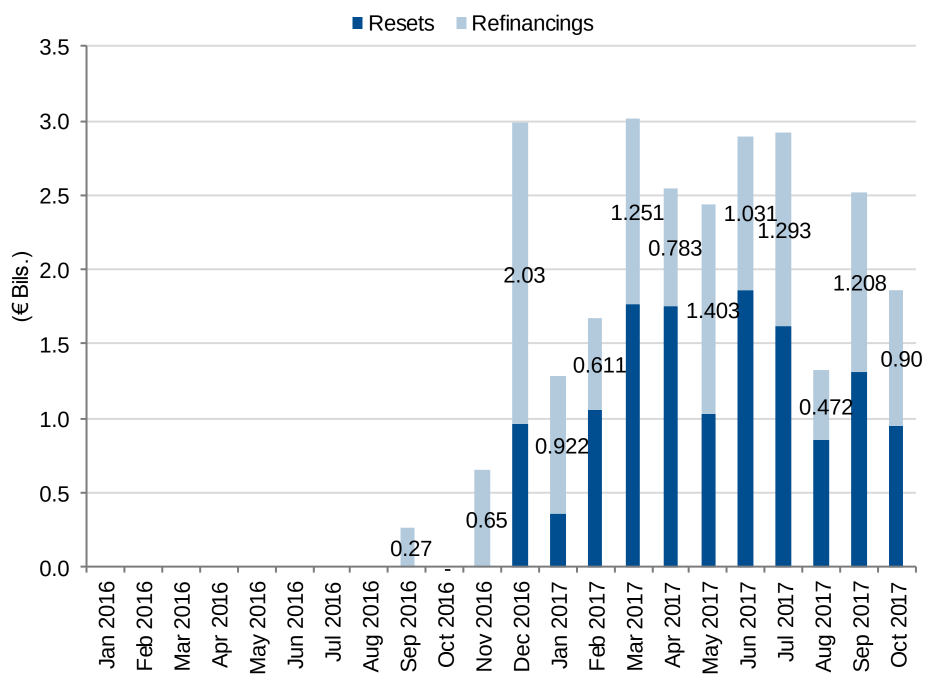
Favourable fundamentals will drive appetite for European CLOs

In 2018, we expect robust issuance volumes owing to a balanced mix of new issuance and refi/reset of about EUR 20bn each. High-quality European CLO debt will benefit from the growing and broadening demand of investors worldwide. Issuance volume will remain constrained by a lack of available collateral, and CLOs are unlikely to comply with STS given their managed nature. However, the ongoing hunt for yield among investors and the favourable European fundamentals will drive appetite for European CLOs in 2018. In addition, the floating-rate nature of underlying collateral makes CLOs an attractive asset class, limiting duration risk should inflation expectations be revised upwards. The refinancing of earlier 'CLO 2.0' vintages at competitive spreads will continue in 2018 and contribute to the boost in issuance volumes. Figure 11 illustrates the substantial activity to date.

Volumes will grow from both new issue and refi/resets

Issuances in 2017 outperformed our expectations, with a total YTD amount of priced transactions of EUR 14bn, and a combined refinancing and reset volume of EUR 22.5bn.

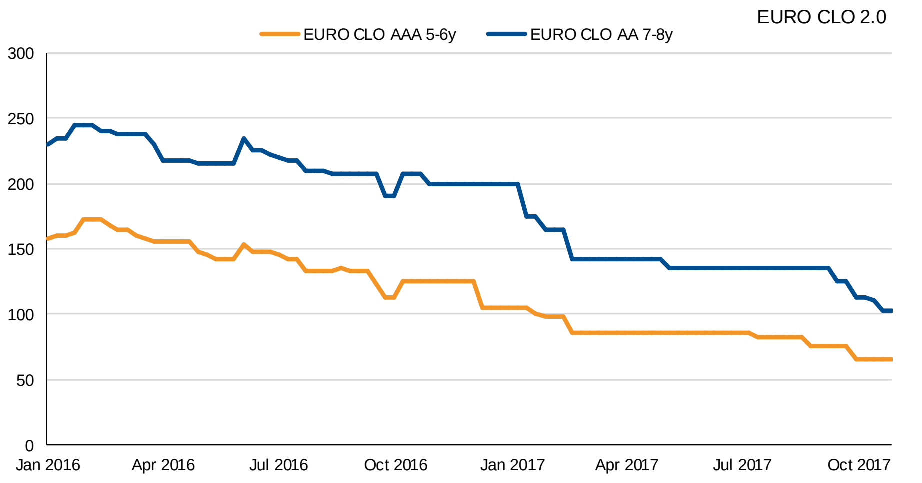
Figure 11: European CLO refinancing and resets to date



Source: Thompson Reuters LPC

Demand and constrained supply to tighten spreads further

Figure 12: European CLOs: senior tranche spreads



Source: JPM

European CLOs will continue to exhibit tighter spreads, given their potential for collateral performance is better than those in the US.

New-issue spreads have fallen below 85 bps for AAA tranches between the start of the year and end-November. Figure 12 shows the compression of senior-tranche secondary spreads at the AAA and AA level, which is likely to continue based on supply-demand and credit fundamental dynamics.

Stay vigilant despite the party mood: re-extend, re-set, re-leverage

The market mood is positive regarding the credit performance of European CLOs in 2018, and rightly so. Credit fundamentals will be supportive in 2018, with benign headline default rates for European loans. On the other hand, market participants must stay disciplined against a general erosion of credit quality and maintain standards to avoid taking decisions that will lead to increased losses once the credit cycle reverts.

Credit quality standards will erode on both CLO-structure and asset side, on the back of benign headline loan default and tightening loan spreads

On the liability and structural side, in 2017 we have already observed European CLO issuances with longer re-investment periods of up to 4.5 years as well as increasingly leveraged liability structures. We expect this trend to slowly creep further into 2018. On the asset side, we foresee a rapid increase in the proportion of cov-lite loans in European 2.0 and expect substantial re-leveraging of familiar loan issuers in 2018. This evolution makes it difficult to draw an exact parallel with pre-crisis structures when assessing relative protection levels.

In 2018, net corporate leverage in Europe will remain contained, while top-line growth momentum will improve. Combined with favourable funding conditions for corporate credit, this will incentivise high-yield issuers to actively seek re-leveraging. The yield-hunting theme will likely continue into 2018, and the shortage of European loan supply will contribute to the supply-demand imbalance of loans that began in 2016. Further repricing pressure on leveraged loans will push spreads even lower in 2018. As a result, lower-quality issuers will refinance and/or re-leverage on the loan market. Asset managers will therefore need to call upon their best asset-sourcing abilities to identify credits and build sufficient diversity in their portfolios, while being highly selective in terms of their sector choices. In addition, decreasing spreads in sub-investment grade companies may no longer be commensurate with their risks of default and restructuring.

European leverage loans: solid credit performance in 2018

We anticipate a solid performance for the asset class, supported by improvements in GDP and economic conditions for most European countries, the UK being the exception. The stable credit performance of underlying collateral will support favourable refinancing conditions in 2018.

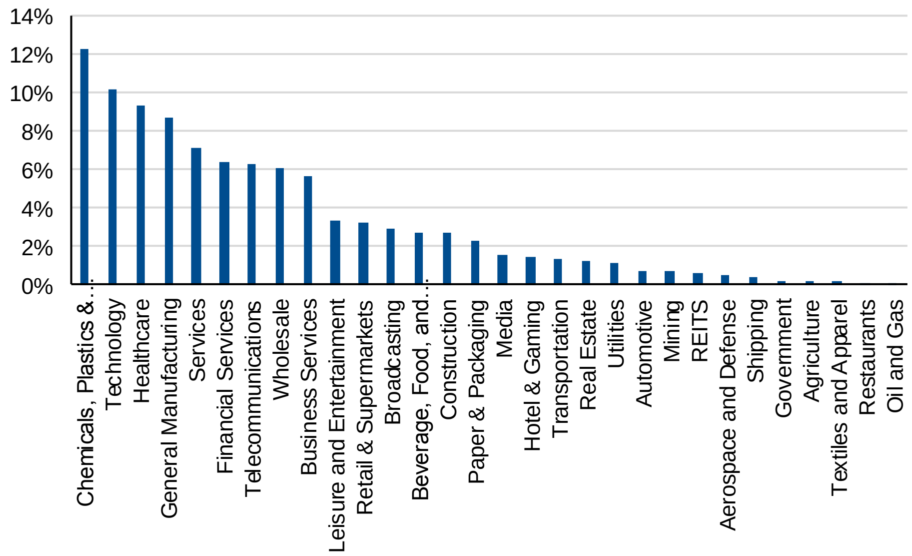
No strong catalysts for loan default spike over the next 12 months

Despite political risk related to Brexit and the Catalan independence movement, we do not see strong catalysts for a default spike over the next 12 months.

According to Scope's corporate rating team[13], the uninterrupted and, by historical standards, long period of healthy economic conditions has been supported over the last five years by an unprecedented combination of low oil prices, low inflation and low interest rates. Thus, 2017 qualified as another year of reduced corporate defaults. Based on industry fundamentals and capacity utilisation, we do not see a recession in the near term.

The largest industry sector for European CLOs is chemicals (12%; Figure 13: Top industry exposures for European CLOs. Our 2018 outlook for the chemicals industry is stable and we believe positive momentum in profitability will slow in 2018. Integrated chemical companies have improved profitability over recent years due to lower prices for feedstock and positive demand-side effects. Consequently, profitability should reach a peak of about 23% for the current year. Crude oil prices in the range of USD 60-65 will move feedstock costs up and place margins under pressure. Moreover, capacity expansions in base chemicals and intermediates will come online. In general, we believe speciality chemical companies will continue to benefit from the positive development of their respective end-markets with solid pricing power.

Figure 13: Top industry exposures for European CLOs



Source: Thompson Reuters LPC

13 Scope's Corporate Outlook 2018 – Risk of selective downgrades rising amid mature credit cycle

Covered bonds: as good as it gets?

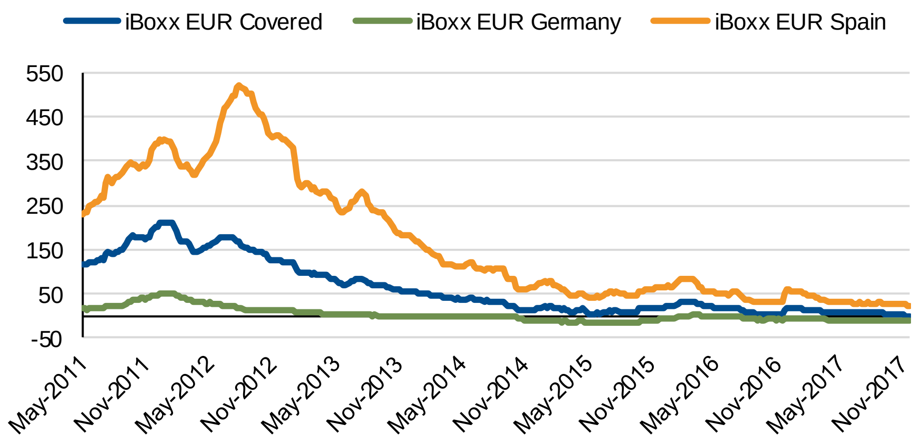
Our positive 2018 outlook on the credit quality for covered bonds (see Scope's full covered bond outlook for 2018) reflects the benign outlook of their bank issuers and reduced risks arising from the ultimate recourse, the cover pool.

We also expect the European banking sector to benefit from continued balance-sheet strength, high liquidity, reassuring capital levels, and a gradual improvement in remaining asset-quality legacies. In addition, risk-averse business models and strategies are expected to take the upper hand.

In 2017, only a few ratings were assigned to covered bond-issuing banks. Notably, no covered bond rating was affected by issuer rating changes during the year. Our forward-looking bank ratings place most covered bond issuers in the single A or low AA range. Nevertheless, they also reflect modest profitability indicators, for the most part with single-digit returns on equity (ROE), lingering asset-quality legacies in several cases, and sometimes business-model challenges.

Scope's covered bond ratings are exclusively in highest range (AAA and AA+) and all have Stable Outlooks. We also observe limited rating differentiation. The same holds true for market spread differentiations in and, more importantly, across countries. Continued ECB demand has removed such differentiation and most covered bonds currently trade at five-year lows (see Figure 14).

Figure 14: Ongoing spread compression between countries



Source: Mark-it

Cover pool credit risk declining in importance...

We see that covered bond credit metrics continue to be well supported. Affordability (see Figure 7) for residential mortgages, the main collateral type in covered bonds, is supported by low interest rates. An additional credit-positive aspect is the reduced risk of payment shocks for borrowers, a default driver. Even in countries with a preference for floating-rate mortgages, Scope sees an increase in the share of fixed-rate mortgage loans. With unemployment falling every quarter, another main delinquency driver does not currently introduce a significant risk for cover pools either. Current benign base case credit performance currently only reflects the 'noise' of the typical, idiosyncratic events experienced by borrowers (such as death, divorce, unemployment).

However, even in the event of borrower default, cover pools seem better protected against loss given default. House prices in most European countries have bottomed out, and in those countries where they appear to be 'warm', regulators are ramping up efforts to address problems early on (i.e. by introducing maximum debt-to-income leverage, minimum amortisation guidelines, or even LTV caps). The risk of credit losses in a base case scenario has therefore become more contained.

….and maturity mismatch to become better addressed

Another credit-positive development in 2017 is the decline in maturity mismatch risk. We observed stronger issuance of longer-dated covered bonds, which allows better matching of redemption profiles between the cover asset and covered bond.

In addition, the trend to structurally address the maturity mismatch has further gained pace. New covered bond programmes have been set up as conditional pass-throughs and have even become the new normal for some markets. All major Dutch issuers now structurally address maturity mismatch in their programmes, and Greek covered bond issuers that re-entered the market in 2017 exclusively issued conditional pass-throughs. Investor acceptance of such structural features is finally increasing, reducing exposure to mismatch risk as a result.

Covered bond volume growth expected in 2018

The road is paved for further volume growth in the covered bond market. Following years of net negative supply in the benchmark segment, positive fundamentals will likely prompt a market revival. This reflects normalised gross issuance in the range of EUR 100bn-120bn against scheduled 2018 redemptions of approximately EUR 90bn.

Furthermore, the already highlighted positive sentiment among borrowers, paired with good affordability, will likely spur mortgage lending across Europe – which can be financed with covered bonds most cost-efficiently. Lastly, we expect hibernating central and eastern European markets and smaller banks to contribute to further volume growth – mostly in the sub-benchmark segment, however.

Outside of Europe, the covered bond market also seems to be regaining traction. We see preparatory works across the Mediterranean rim (Morocco and Egypt), and more Asian countries (Hong Kong, Thailand, Malaysia, India) will investigate the product's feasibility for their financial system. Brazil will also likely see its first issuance in 2018.

Against these supportive factors, some big question marks remain. Banks need to start filling up their MREL/TLAC requirements with issuance of senior non-preferred debt, providing additional funding capacity. Furthermore, with over EUR 430bn of TLTRO funding maturing in September 2018, a likely rolling might not support new covered bond issuance activity – also assuming the ECB maintains its competitive pricing. Conversely, reduced TLTRO liquidity might further contribute to growth in the covered bond segment.

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