

Scope's Covered Bonds Quarterly Q4 2018



Scope
Ratings

Welcome to Scope's first quarterly covered bond newsletter. The newsletter will wrap up key market developments from the preceding quarter, highlight covered bond rating actions as well as topical credit research.

During the last quarter of 2018, Scope assigned new ratings to two Norwegian mortgage covered bond programmes (see below), affirmed the mortgage covered bonds of Bank Burgenland, and updated its analytical research on the mortgage covered bonds issued by Bausparkasse Wüstenrot AG and Bankia S.A.

Current state of the covered bond market

The year started with the typical wave of new covered bond issuance. German issuers took pole position as the largest single country issuer group in the first three weeks of primary activity, with issuance coming right out of the gate on 2 Jan 2019.

German issuers accounted for more than a third of euro benchmark issuance in the first three weeks of the year, but the euro market also saw supply from other core eurozone countries (Austria, Netherlands and France), the eurozone periphery (Spain and Italy), as well as Australia, Canada, New Zealand and Norway. More than EUR 20bn of new covered bond supply emerged in the year to 18 January right across the maturity spectrum, from three-year lines out to 15 years. Swiss Franc, Swedish krona and sterling markets also saw covered bond supply; the latter including the debut Sonia-linked covered bond from a non-UK issuer.

While overall investor demand in the euro market was healthy, some new issues struggled more than others to get over the line amid a generalised cautious tone and as issuers, underwriters and investors attempted to gauge the overall strength of the market and how the ECB was going to engage post-CBPP3.

Three-year German covered bonds were a sweet spot and offered execution with tight new-issue concessions. The era of heavy sub-swap levels had until recently made the short end of the curve something of a no-go area for German issuers. The market's general spread widening in the fourth quarter of 2018 combined with a strong supply at the beginning of the year has pushed German mortgage covered bonds to trade at their widest spread levels since January 2013. At the same time, the German market remains the benchmark, with tightest spreads across all jurisdictions,

In a key development from 2018, all issues placed to-date offered positive spreads over mid-swaps. A generalised widening of covered bond spreads has been instrumental in attracting real-money investors. Levels of over-subscription to the issues that have emerged year-to-date were in general more modest than in previous years, but investors reacted well to issuers offering generous new-issue premia. One early signal emerging in 2019 is clearer credit differentiation among investors vis-à-vis issuing banks, which can be put down to post-CBPP3 investor behaviour.

The entry of real-money buyers has clearly helped the market push through the uncertain impacts of lower ECB participation and the woes surrounding Brexit or Italian banks. Issuance slowed to a trickle in the week of January 14. While that benefited the demand skew of the two issuers that opted to print in the week, we expect the market to maintain some momentum ahead of blackout periods.

The gradual replacement of TLTRO with covered bond funding will continue to provide a positive stimulus. Growth in underlying housing markets might moderate but will still support growth of outstanding covered bonds to beyond EUR 2.5trn.

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Related Research

[Covered Bond Outlook 2019](#)
November 2018

[Danish households still exposed to rate and refinancing risk](#)
October 218

[German commercial real estate: refinancing risk surging](#)
October 218

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Ongoing high credit quality and mostly stable bank ratings will support a capital market product that will see its 250th anniversary in 2019. Covered bonds are one of the few financing products that have a purely European origin. With the harmonisation envisaged for this year, it will become a product that shares the same basic ingredients across Europe.

Scope's covered bond ratings – key information

As of Q4 2018, Scope publicly rates 29 programmes from 19 issuers in seven countries. All programmes are rated AAA with a stable outlook. High bank ratings coupled with supportive legal and resolution frameworks provide 24 covered bond programmes with sufficient support to reach the highest rating without additional cover pool uplift. Most of these ratings are resilient against issuer downgrades as the strength of the cover pool could provide additional stability. Just five covered bond programmes are reliant on an additional cover pool uplift to achieve the highest rating. The buffer against issuer downgrades is lower for such programmes, but the current cover pool could in most cases still mitigate a mild adjustment of the issuer rating.

The list of covered bond programmes rated by Scope can be found in the appendix. A more comprehensive overview including key rating metrics and references to commentaries on the issuer and its covered bonds in an easy to use Excel format can be downloaded [here](#).

New covered bond ratings

19 Dec 2018 - Scope assigns first time AAA ratings to Norwegian SSB Boligkreditt's mortgage covered bonds – Outlook Stable.

The covered bond ratings reflect the BBB+ bank rating with a positive outlook assigned to SSBB, further enhanced by cover pool support. Up to eight notches of credit support can be provided to the covered bonds following Scope's covered bond cover pool analysis. The distance between the issuer rating and the programme rating are seven notches, which provides the programme with a one-notch buffer against a bank downgrade. Fundamental credit support factors provide five notches of uplift above the bank's rating effectively providing a rating floor at AA. Click [here](#) for the full announcement and [here](#) to download the rating report.

30 Oct 2018 Scope assigns first time AAA ratings to Norwegian Totens Sparebank Boligkreditt's covered bonds, Outlook Stable.

Covered bond ratings reflect the A- issuer rating assigned to TSBB, further enhanced by support provided by the cover pool analysis supporting an at least six notch credit uplift to TSBB's rating allowing the covered bonds to be rated AAA. Fundamental credit support factors provide five notches of uplift above the bank's rating effectively providing a rating floor at AA+. Click [here](#) for the full announcement and [here](#) to download the rating report.

Monitoring Notes

22 Nov 2018 - Scope affirms AAA ratings of mortgage-covered bonds issued by Bank Burgenland, Outlook Stable.

The covered bond ratings reflect the private issuer rating assigned to Bank Burgenland, further enhanced by support provided by the cover pool analysis. A seven-notch credit uplift to Bank Burgenland's private issuer rating based on cover pool support allows the covered bonds to be rated AAA. Fundamental credit support factors provide four notches of uplift above the bank's rating effectively providing a rating floor at AA-. Click [here](#) for the full announcement and [here](#) to download the rating report.

5 Nov 2018 - Scope Ratings has updated its rating report on mortgage-covered bonds issued by Bankia S.A., rated AAA with a Stable Outlook. Click [here](#) to download the rating report.

4 Oct 2018 - Scope Ratings has updated its rating report on mortgage-covered bonds issued by Bausparkasse Wüstenrot AG, rated AAA with Stable Outlook. Click [here](#) to download the rating report.

Bank and covered bond related research

European banks: 10 critical themes for 2019 In Scopes view, the European banking sector should remain in relatively decent shape in 2019, displaying reassuring prudential, financial and business characteristics, and pursuing moderate-to-low-risk strategies. Scope believes that these characteristics can be sustained into the medium term, with only a marginal probability of material disruption to this relatively benign outlook. Scope's ratings on the large European banks – predominantly in the single A/low AA range – reflect this assessment. We anticipate overall rating stability over the next 12 months."

Click [here](#) to download the full research report





Covered Bond Outlook 2019: After years of stagnation, economic momentum and stable credit quality should push the EUR 2.5trn covered bond market into net growth in 2019. Ratings will remain firmly placed in the AAA category thanks to stable, even improving, bank ratings. Click [here](#) to download the full research report.

Danish households still exposed to rate and refinancing risk: Recent measures to cushion against the impacts of the shifting monetary cycle and other factors have led to credit-positive shifts in Danish residential mortgages. But many households still face significant interest-rate and refinancing risk. Click [here](#) to download the full research report.

Scope held a conference call on 24st October discussing the developments in the structure of the Danish mortgage loan market and its relevance for covered bond ratings.

German commercial real estate: refinancing risk surging: German commercial property prices are above sustainable levels. Once interest rates normalise, debt instruments secured by CRE will be vulnerable to refinancing risk via property revaluation, and repricing risk. Click [here](#) to download the full research report.

Public covered bond ratings

Country	Covered bond issuer (or parent)	Issuer rating (Long term/ Outlook)	Covered bond programme/ Covered bond type	Primary collateral type	CB Rating (Long term/ Outlook)	Supporting OC
 Austria	Bausparkasse Wüstenrot AG	N/D	Hypothekendarlehen	Mortgages	AAA/ Stable	21.0%
	Hypo-Bank Burgenland AG	N/D	Hypothekendarlehen	Mortgages	AAA/ Stable	28.0%
 Denmark	Danske Bank A/S	A+/ Negative	Pool C – SDO	Mortgages	AAA/ Stable	Fundamental support
			Pool D – SDO		AAA/ Stable	Fundamental support
			Pool I – SDO		AAA/ Stable	Fundamental support
	Realkredit Danmark A/S	A+/ Negative	Capital Centre S - SDRO	Mortgages	AAA/ Stable	Fundamental support
			Capital Centre T - SDRO		AAA/ Stable	Fundamental support
 France	BNP Paribas SA	AA-/ Stable	BNP Paribas Home Loan SFH (Obligation d'habitat)	Mortgages	AAA/ Stable	Fundamental support
			BNP Paribas Public Sector SCF (Obligation foncières)	Public Sector	AAA/ Stable	Fundamental support
	BPCE SA	AA-/ Stable	BPCE SFH (Obligation d'habitat)	Mortgages	AAA/ Stable	Fundamental support
	Crédit Foncier de France	AA-/ Stable	Compagnie de Financement Foncier SA (Obligation foncières)	Mixed	AAA/ Stable	Fundamental support
	Crédit Agricole SA	AA-/ Stable	Credit Agricole Home Loan SFH (Obligation d'habitat)	Mortgages	AAA/ Stable	Fundamental support
			Credit Agricole Public Sector SCF (Obligation foncières)	Public Sector	AAA/ Stable	Fundamental support
	Société Générale SA	A+/ Stable	Société Générale SFH (Obligation d'habitat)	Mortgages	AAA/ Stable	Fundamental support
			Société Générale SCF (Obligation foncières)	Public Sector	AAA/ Stable	Fundamental support
 Germany	Commerzbank AG	A/ Stable	Öffentliche Pfandbriefe	Public Sector	AAA/ Stable	Fundamental support
			Hypothekendarlehen	Mortgages	AAA/ Stable	Fundamental support
 Norway	Landkreditt Bank AS	A-/ Stable	Landkreditt Boligkreditt AS (Obligasjoner med fortrinnsrett)	Mortgages	AAA/ Stable	11.0%
	Sandnes Sparebanken AS	BBB+/ Positive	SSB Boligkreditt AS (Obligasjoner med fortrinnsrett)	Mortgages	AAA/ Stable	8.50%
	Totens Sparebanken AS	A-/ Stable	Totens Sparebanken Boligkreditt AS (Obligasjoner med fortrinnsrett)	Mortgages	AAA/ Stable	8.00%
 Spain	Banco Santander SA	AA-/ Stable	Cédulas Hipotecarias	Mortgages	AAA/ Stable	Fundamental support
			Cédulas Territoriales	Public Sector	AAA/ Stable	Fundamental support
	Bankia SA	BBB+/ Stable	Cédulas Hipotecarias	Mortgages	AAA/ Stable	Fundamental support
	BBVA SA	A+/ Stable	Cédulas Hipotecarias	Mortgages	AAA/ Stable	Fundamental support
			Cédulas Territoriales	Public Sector	AAA/ Stable	Fundamental support
 Sweden	Nordea Bank Abp	AA-/ Stable	Nordea Hypotek AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable	Fundamental support
	Svenska Handelsbanken AB	AA-/ Stable	Stadshypotek AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable	Fundamental support
			Stadshypotek AB/ Säkerställda obligationer	Norwegian Mortgages	AAA/ Stable	Fundamental support
	Sw edbank AB	A+/ Stable	Sw edbank Mortgage AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable	Fundamental support



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