

Covered Bond Outlook 2017: Credit contraction unlikely to unravel



Scope Ratings' expects in its 2017 outlook that the credit performance of covered bonds will continue to improve, thanks to the enhanced regulation and supervision that is strengthening European bank credit fundamentals, the anchor point for this asset class's credit quality. The improvements are leading not only to safer business models for issuers, but to stronger capital and liquidity profiles as well. At the same time, the ECB's quantitative easing continues to support financial stability in Europe and benefits borrowers' asset quality, and ultra-low interest rates are prompting issuers to lengthen the maturities of new covered bonds, thereby reducing their main risk – the asset-liability mismatch.

We believe that base line credit quality for covered bonds will further improve, helped by changes in covered bond frameworks. Fundamental support factors for covered bonds will remain strong, and the protection provided by the cover pool will improve due to the harmonisation of covered bond frameworks.

However, covered bond investors cannot really benefit from these positive aspects, as new issuance remains meagre. The covered bond market continues to shrink, driven by high redemptions of covered bonds and soft credit demand on the supply side. Banks continue to deleverage their balance sheets, while investors stand on the sidelines because of the often-negative yields of covered bonds that destroy value.

The ECB continues to crowd out investors, as it is siphoning supply from both primary and secondary markets through its covered bond purchase programme (CBPP3). Also, the ECB is now the largest single investor in the market. Even if investors are willing to bite the bullet and invest in bonds with negative yields, they might be unable to maintain their covered bond holdings.

Existing investors should re-visit their investment policies, as credit quality could again become more volatile. A more pronounced credit differentiation of the asset class could be prompted by the end of the CBPP3, a potential rise in interest rates, and the socio-political risk emanating from Brexit or the 2017 elections in various European countries.

Rating stability: the new normal?

The credit quality of the large European banking groups we rate (most are covered bond issuers) continues to converge into the single A range. This reflects not only the increasingly level playing field on which banks operate, but also the converging prudential requirements, which leads to more uniform regulatory metrics. Scope's European banking outlook for 2017 (see: [European Banking Outlook for 2017 and Beyond: Balance Sheet Safety vs Profitability Challenges](#), published 15 November 2016) notes that: ultra-low rates will continue to challenge earnings; existing overcapacity remains the industry's Achilles' heel; and better capital levels are not matched by higher earnings.

However, most banks have started to adapt to the new environment, and changes to issuers' credit quality in 2016 have been very limited (Figure 1). Also, the bank rating changes have not affected our covered bond ratings. On aggregate, we see relative stability for the banks' credit quality to continue in 2017.

With the widened national implementation of MREL guidelines, and the resulting ability to bail in certain parts of a banks' liability structure, we even expect the credit quality of banks, as expressed in our Issuer Credit Strength Rating or ICSR, to improve.

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Related Research

[European Banking Outlook for 2017 and Beyond: Balance Sheet Safety vs Profitability Challenges](#)
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Issuance of MREL positive for ICSRs, provides additional buffer against downgrades

Our ratings of banks in Germany, Belgium, the UK and Switzerland already reflect this ability to bail in certain forms of senior bank debt.

We expect ICSRs of banks in France, Spain, Italy and Sweden to also improve once national regulators have clarified their view on MREL liabilities and banks start to issue this new type of senior unsecured – but bailinable – debt.

Improved ICSRs will bolster the resilience of existing covered bond ratings against issuer downgrades.

Figure 1: Bank rating changes in 2016

Country	Issuer	Date	To	Rating development	From
Germany	Deutsche Bank AG	15.04.2016	A-/ Negative	–	A-/ Stable
Germany	Deutsche Bank AG	09.06.2016	A/ Negative	+	A-/ Negative
Germany	Deutsche Bank AG	01.09.2016	A-/ Negative	–	A/ Negative
Germany	Commerzbank AG	09.06.2016	A/ Stable	+	A-/ Stable
France	Credit Agricole SA	07.04.2016	A+/ Stable	+	A/ Positive
Switzerland	UBS AG	01.06.2016	A+/ Stable	+	A/ Stable
Switzerland	UBS AG	20.06.2016	A+/ Positive	+	A+/ Stable
Switzerland	Credit Suisse AG	01.06.2016	A+/ Stable	+	A/ Stable
UK	Barclays Bank plc	01.06.2016	A+/ Stable	+	A/ Stable
UK	HSBC Holdings plc	01.06.2016	AA/ Stable	+	AA-/ Stable
UK	Lloyds Bank plc	01.06.2016	A+/ Stable	+	A/ Stable
UK	Royal Bank of Scotland plc	01.06.2016	A-/ Stable	+	BBB+/ Stable
Belgium	KBC Group NV	01.06.2016	A+/ Stable	+	A/ Stable

Most covered bonds rated by Scope (see Appendix: Covered bond ratings) are based on ‘fundamental support’. A bank rating in the single A range, combined with our favourable view on the countries’ legal frameworks and resolution regimes, supports covered bond ratings without taking recourse to the cover pool.

Currently, only two of the 23 covered bond programmes we rate (Bankia SA’s Cédulas Hipotecarias, AAA/Stable, and Dexia Kommunalbank Deutschland AG’s Öffentliche Pfandbriefe, AA-/Stable) rely on the cover pool recourse to achieve and maintain current ratings.

Covered bond volumes likely to stabilise in 2017, at best...

Our expectation of the continuation of net negative supply for covered bonds in 2016 has largely been confirmed. We expect the European covered bond market to end 2016 at close to EUR 2.3tn, following the height of EUR 2.7tn in 2012.

Looking ahead, we do not believe that a return to sustainable growth is already likely in 2017. European credit demand remains soft, and headline risk will persist in 2017. The ECB’s monetary policy continues to provide ample liquidity to the banking system¹ and, although the deleveraging of balances sheets has slowed, it is not over. Further, French, Italian, Spanish or Swedish banks are likely to start issuing bailinable senior debt in 2017, which will also reduce the need for covered bond funding.

Our baseline assumption is that the European economy will continue to grow – albeit at a slow and potentially volatile pace. The 2016 Brexit vote has already provided uncertainty and closed the markets for some time, and its method of execution remains unclear. Socio-political risk will persist, and it remains to be seen whether the unexpected (e.g. Donald Trump winning the US elections) will also become the new normal for 2017. The results of the 2016 referendum in Italy and the 2017 elections in France and Germany will be important European milestones in that context. It is still unclear whether the results will

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¹ i.e. the targeted longer-term refinancing operations (TLTROs), which are conducted quarterly, have a four-year maturity and are expected to cease in March 2017.

2016 Italian referendum an important milestone for 2017

introduce stability and certainty for the eurozone and its GDP growth, or amplify volatility and dampen growth prospects. In 2017, the Italian sovereign will need to roll over about EUR 330bn of redemptions, of which about EUR 50bn will mature in February. A calm market following a positive vote on the December 2016 referendum in Italy would help to significantly reduce the debt burden. In contrast, uncertainties following the Italian referendum could hamper consolidation efforts and economic growth – with a likely knock-on effect for other peripheral countries and for Europe as a whole.

Issuance volumes to stabilise at best

The persistent uncertainties, in combination with low growth prospects, make our issuance outlook bearish, and we expect that current volumes of outstanding covered bonds will stabilise at best.

...And low interest rates are unlikely to spur innovation

A long-term funding market is not the most likely candidate for product innovation, and the ultra-low interest rates are even less conducive in this respect. As long as spread differentials between asset classes remain low, we do not believe incentives for issuers are high enough to establish new dual-recourse funding alternatives using the covered bond blueprint.

2016 innovations likely to remain one-offs

In 2016, we have not seen any repeat of a real covered bond for small and mid-sized enterprises (SMEs), and the concept of a covered bond like the European Secured Note only remains a theoretical option². Also, BBVA's first-time issuance of the export-credit-based Cédulas de Internacionalización has not yet been repeated in Spain, and we fail to see that the structured covered bond currently marketed by Deutsche Bank³ will see further traction in Germany.

We see merit in innovations that are still driven by issuer-specific situations, and thus are unlikely to see a more widespread use. We hope that the EBA's harmonisation proposal, as well as the changes to the ECB's collateral policies, do not discourage issuers from further improving the product or allowing banks to establish dual-recourse funding products with a high credit quality.

Covered bond frameworks improving – but at their own pace...

Fundamental support factors, such as national legal frameworks that govern covered bond issuance, have great importance for a covered bonds' credit quality. Changes to existing covered bond frameworks over the last two years have been cosmetic in nature, and our views on the resulting fundamental support have not changed (see [Covered bond Framework Analysis – Analytical Considerations](#), published 31 July 2015).

Legal covered bond framework changes remained cosmetic in 2016...

In 2016, we have only seen legal framework changes that were immaterial for our rating analysis. These changes were driven by alignments of the covered bond acts to other regulations (i.e. increase of minimum overcollateralisation to 2% to avoid central clearing requirements under the European Market Infrastructure Regulation – EMIR) and the alignment of wording with the Bank Resolution and Resolution Directive (BRRD); or changes that allow a level playing field in the case of competing covered bond frameworks such as in France⁴.

² In 2016, the Italian covered bond framework saw the introduction of Obbligazioni Bancarie Collateralizzate, which allows a regulated, dual-recourse instrument that can be backed by SME loans, corporate bonds, shipping loans, and receivables from factoring and leasing contracts. We understand that the regulator has not yet provided a secondary legislation that is needed to issue such a 'covered bond-like' product.

³ We understand that the mortgage collateral in Deutsche Bank AG's CPT structured covered bond – guaranteed by SCB Alpispitze UG – is in principle of similar quality than what the bank uses as collateral for its legislation-based mortgage covered bond (Hypothekendarlehen). When the loans were originated, the collateral valuations were not performed in line with the regulatory valuation requirements and are thus ineligible for the Hypothekendarlehen.

⁴ On 8 Nov 2016 the French parliament amended the relevant law for covered bonds issued by Sociétés de Crédit Foncier (SCF), allowing Obligation Foncières (OF) to be secured by collateralised loans. This change aligns the eligibility criteria of OFs with those of Obligations à l'Habitat (OH), which already in the past were able to acquire mortgages from their sponsors without a true sale.

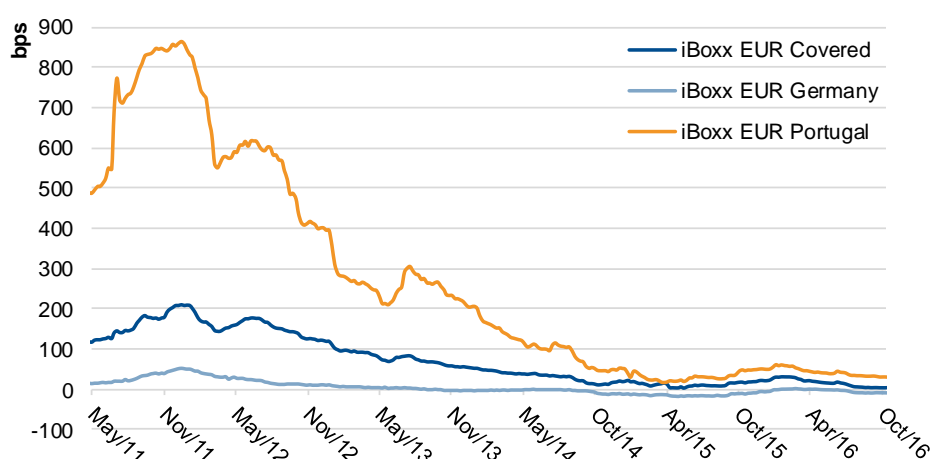
... but will become more frequent and tangible once European harmonisation becomes clearer

Current spread compression not reflecting credit differences

We expect the European Commission's harmonisation agenda to increase the number of changes to national covered bond legislations – eventually already starting in 2017. While some legislations may only need subtle amendments, others might be forced into more fundamental changes when trying to translate the EBA's core covered bond principles into national frameworks. Reflective of the processes and consultations surrounding legal changes, we expect the alignment process to be lengthy and unlikely to be completed before the end of the decade.

Protection for covered bond investors is not as uniform as suggested by the convergence of European covered bond spreads. In November 2016, the spread differential between the covered bond indices of Germany and Portugal (iboxx Germany vs iboxx Portugal) was only 40bps, a minor difference compared to the gap observed during the height of the sovereign crisis, when the two indices had an 810bps differential.

Figure 2: Significant spread compression driven by the ECB's CBPPs

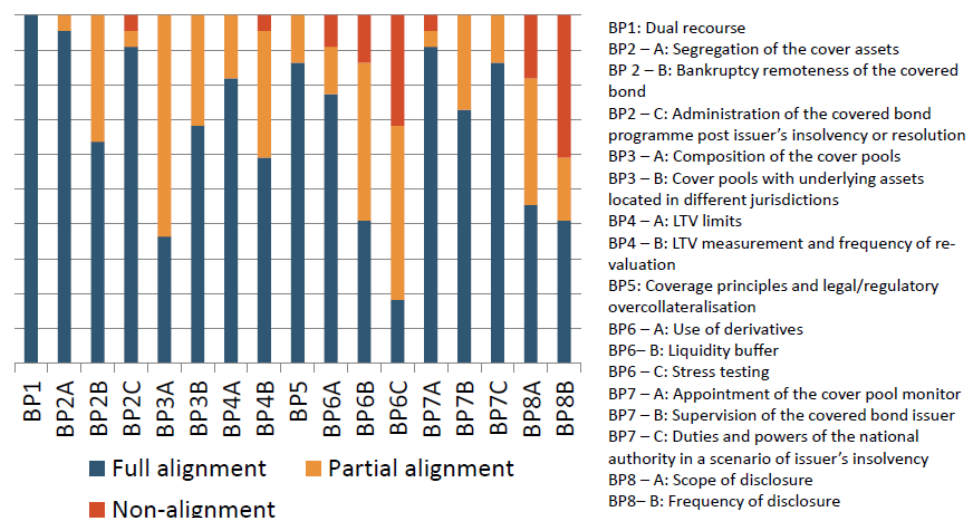


Source: JPM, Markit, Scope

Differences in legal frameworks highlight need for harmonisation

The analysis provided by the EBA (Figure 3) illustrates that differences in the frameworks persist and that investors need to be aware of these when investing on a pan-European basis to avoid surprises.

Figure 3: European covered bond frameworks vs EBA best practice



Source: EBA public hearing, 18 November 2016

EBA's three-step harmonisation hits the right notes...

... but different frameworks were not the driver of diverging liquidity across Europe

In some European countries, e.g. Slovakia, the bankruptcy remoteness of the cover pool is not a given, and investors could face an acceleration of covered bonds upon the insolvency of the issuer. In some countries, e.g. Spain, the collateral provided in the cover pools might no longer comply with loan-to-value limits, as compliance is only tested at origination and no revaluations based on house price development are needed. Further, investors mostly have to rely on the voluntary disclosure of issuers, which can be too infrequent and not comparable across countries, and investors cannot assess the pools' resilience as the publication of stress testing is uncommon.

The EBA's November 2016 draft of their harmonisation proposal addresses many of these issues and provides a sound basis for the further development of this asset class. In contrast to the European commission's initial idea of a prescriptive 29th regime (a uniform covered bond legal framework applicable to all member states), the proposal provides a mix of core principles applicable to all covered bonds that seek regulatory recognition and allows some further voluntary convergence.

The European Commission is ultimately in the driver's seat to put harmonisation into practice. In our view, a lot of the EBA proposals will eventually be adopted by all the member states. In addition, we believe investors will welcome the lower degree of divergence in the credit quality of covered bonds issued in the member states, and harmonisation might even help encourage covered bond investment across borders, without the risk of surprises. However, the proposal cannot remove basic differences in the economic fundamentals of member states, and will be thus unable to address a key reason for the harmonisation process. Harmonisation might also result in an underestimation of prevailing differences in risks: the diverging dynamics of bank fundamentals, as well as the dynamics driven by the management of risks between covered bond programmes of different issuers.

The EBA's proposal will have a large effect on the wave of amendments to covered bond frameworks and, as such, we highlight some of the key pillars below.

The EBA's harmonisation proposal

EBA's covered bond harmonisation will provide clearer definition for the asset class in three steps:

1. Amend the very vague basic definition in UCITS 52(4) to avoid bail-in under BRRD/ LCR and EMIR treatment – 'The cake'
2. Refine definitions in the Capital Requirements Regulation (CRR) to achieve preferential treatment under CRR and Solvency II – 'The icing'
3. Encourage further, voluntary convergence to establish additional best practice – 'The cherry on top'

Step 1: 'The cake'

'The cake'

To avoid a covered bond becoming affected by a potential restructuring of its issuer, e.g. when regulators apply their BRRD toolkit, the EBA proposes the following key features to establish a covered bond:

1. A clearly defined dual-recourse principle, the clear and valid segregation of cover assets, and the bankruptcy-remoteness of the covered bond
2. Requirements on the coverage of covered bond repayments, mitigation of liquidity risk, and cover pool derivatives
3. A more clearly defined system of special public supervision and administration
4. Transparency requirements for the issuer, including specific conditions for 'soft bullet'/conditional pass-through (CPT) covered bonds

Focus on liquidity after an issuer default is credit-positive and will further spur soft-bullet issuance

It is expected that requirements will be stipulated in an EU directive (similar to the current UCITS). Meeting these minimum standards requires a translation into national frameworks and can trigger a first wave of amendments.

From a rating perspective, we view positively the heightened awareness for a cover pool's inherent liquidity provision and the stronger use of covered bond structures that reduce liquidity needs if a bank becomes a 'gone concern'. Most frameworks already include 'substitute' and, by definition, more liquid assets than the prime collateral⁵. We consider as credit-positive the requirement to provide such liquidity for the first half year within the covered bond structure. The ability to postpone repayment using soft-bullet structures can further reduce the pressure for the cover pool administrator and avoid destroying value through forced sales at distressed prices. As a result we expect a further increase of covered bonds issued with soft bullets, as they allow issuers to reduce the amount of 'liquid' assets held within the structure.

We understand that special supervision and administration will provide investors with enhanced clarity surrounding the worst case: a 'stand-alone' cover pool having to service outstanding covered bonds. While rating agencies typically have access to legal opinions which provide sufficient clarity on this aspect, more transparency for investors is welcomed.

Covered bonds are a credit product and, despite all the regulatory safeguards aimed at ensuring a high credit quality, the EBA highlights that these need to be regularly monitored by investors. Quarterly cover pool reporting will become obligatory for issuers.

Step 2: 'The icing'

'The icing'

To achieve preferential risk weightings under the CRR/CRD IV as well as Solvency II, the EBA proposes to add: more-detailed credit measures into the regulation (including definitions for eligible cover assets); the requirement to keep the loan-to-value thresholds current; and a one-size-fits-all minimum overcollateralisation of 5%.

SME credits will currently not become an eligible cover asset

We believe the exclusive definition of eligible cover assets does not bode well for the acknowledgement that covered bonds are a credit product. From a credit-risk standpoint, we firmly believe that even SMEs can support high credit quality instruments – in particular when originated in the normal course of business and maintained on the balance sheet of the issuer.

The absence of a clear Europe-wide definition of what constitutes an SME, and the challenge to establish a similar, transparent credit-risk indicator for SMEs (such as the loan-to-value for mortgages) currently does not facilitate an easy restriction of cover assets to the prime segment. In light of the European Commission's Capital Markets Union (CMU), which aims to foster SMEs, we believe the final proposal should not rule out the widening of eligible assets to granular pools of assets with a predictable risk profile.

One-size-fits-all overcollateralisation is not able to mitigate diverging levels of risk

Further, an increased one-size-fits-all overcollateralisation creates a false sense of security. Even within the same jurisdiction and within the limits of the same covered bond regime, the combination of and interaction between risks (credit risk, residual market risk and, notably, asset-liability mismatch risk) can significantly vary. We do not believe that uniform requirements across issuers will provide the same credit protection. Similar to the Pillar II requirements in normal banking regulation, supervisors should receive the ability to establish and publish individual overcollateralisation levels that allow a cover pool to withstand a pre-defined level of stress.

⁵ Which often consists of high quality but illiquid pools of mortgage or public-sector loans.

Step 3: 'The cherry on top'

'The cherry on top'

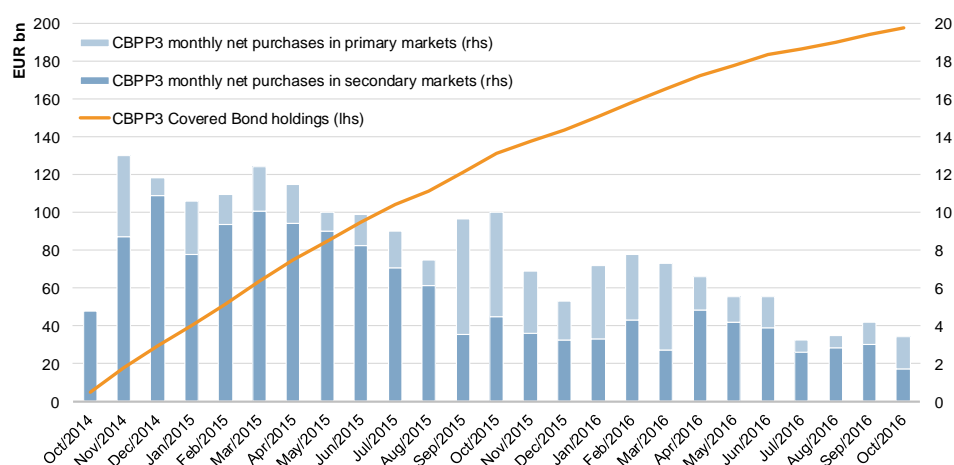
The proposal highlights additional areas that national regulators could focus on to further improve the quality of their frameworks, with the view to foster investor acceptance. This includes the restriction to a single asset type or geographic focus, or the way and frequency that loan-to-value is measured (difference between market value and prudent mortgage-lending value).

To corroborate the credit quality and demonstrate the product's resilience against shocks, we believe the additional stress-testing requirements (coverage requirements taking into account credit, market and liquidity risks), which are currently only part of the voluntary convergence, should become an integral part of preferential risk weightings.

The ECB: a role model for investors?

As of the end of November 2016, the ECB is the single largest covered bond investor, with holdings of almost EUR 200bn already accumulated during the third covered bond purchase programme (CBPP3) alone. Across all programmes, the ECB already holds 30% of eligible covered bonds on its balance sheet (up from about 18% a year ago), and the ECB's holdings in individual issuances can be as high as 70% of the outstanding volume. Any action of this investor will have a significant impact on the market and liquidity of this asset class.

Figure 4: Development of monthly purchases and holdings under CBPP3



Source: ECB, Scope

...siphons off supply in the market...

The CBPP3 has already had a significant impact on the covered bond market, resulting in a significant spread compression between 'core' and 'peripheral' markets and, in the view of many investors, effectively converting covered bonds into a 'rates' product. To date, the ECB has almost siphoned off primary and secondary markets, evidenced by the reduced availability of eligible covered bonds and the smaller volume of purchases (Figure 4). Still, markets expect a continuation of the programme beyond its scheduled end in March 2017, by another six to nine months.

Investors already feel crowded out. They cannot replace maturing covered bonds as the ECB is active in both primary and secondary markets. The end of the CBPP3 will clearly have a significant impact on the covered bond market, and a well-timed and well-managed end is of crucial importance.

At first glance, the ECB's annual update of the collateral framework seems simple as the changes are rather subtle, for example, to collateral haircuts. However, we believe the update provides something to consider for traditional covered bond investors. The ECB

...and highlights the importance of credit risk in a market that is increasingly perceived as a 'rates' one by investors

ECAF eligibility becomes more strongly tied to CRA disclosures

Retained covered bonds to become less attractive for repo...

...but final rules only to come after consultation in H2 2017

highlights two aspects that diligent covered bond investors should always monitor: 1. how does the credit quality of covered bonds evolve over time; and 2. what is the impact of maturity extensions (soft bullets, as well as conditional-pass-through covered bonds – CPTs).

With the end of the CBPP3 approaching, we believe the market will reprice, accompanied by the realisation that covered bonds are not a rates product but a credit product. The ECB's changes will make more information available to investors, who will then become able to validate their credit views. The enhanced transparency will benefit the market, as pricing will again have to reflect credit differences rather than the current supply-demand imbalances.

1. New disclosure requirements for rating agencies will raise awareness of credit differences

Regulators generally try to reduce reliance on ratings, but these still play a crucial role for the ECB's haircuts in the collateral framework. Forming an independent credit opinion for covered bonds is, in contrast to ECB-eligible securitisations, not really facilitated, as issuers do not provide a very high level of transparency on their cover pool risk structure. Regular and very detailed reporting is not required in most covered bond legal frameworks, and the industry has only recently made progress with the introduction of the ECB's covered bond label as well as a more standardised reporting format (the harmonised transparency template – HTT).

We understand that most investors rely on the diligent credit assessment performed by credit rating agencies (CRAs), and the level of sophistication investors apply for their own assessments can vary significantly. Monitoring the change of rather descriptive figures on the composition of the cover pool is a starting point, but what really matters is the impact of those changes on the covered bonds' credit quality. While CRAs might have diverging views on the level of credit risk and the impact of market risk – together translated into rating-supportive overcollateralisation –, we believe that the regular provision of different views will give investors the needed insight into a covered bond programmes' resilience against adverse shocks.

In their update, the ECB more firmly entrenches rating agency information into their collateral framework. Not only will the rating be relevant for the repo eligibility (or the so-called ECAF status) but the quarterly provision of their views to the market will become decisive for ECAF as well.

2. Consultation on the treatment of soft bullets and CPTs

The ECB further announced that in the second half of 2017 they will start looking into soft-bullet or conditional-pass-through covered bonds, including those issued at floating rates. Such repayment structures were widely used during the height of sovereign crisis, when a significant amount of retained covered bonds were issued with these features.

Retained covered bonds have been a lifeline for some banks in terms of providing liquidity, and we welcome that the ECB currently does not intend to go as far as the Swedish central bank, which disallowed the use of "self-issued" covered bonds as collateral. At the same time the ECB wants to limit their use going forward.

From a perspective of financial stability, we view positively that the use of such instruments will not become prohibited, and will only become an economically less-interesting liquidity option. At the same time, we view the widened application to publicly placed soft bullets or CPTs as a two-edged sword.

Soft bullets and CPTs allow an efficient mitigation of liquidity risk, and, on the back of the EBA's harmonisation proposal (and focus on liquidity risk), we expect their use to become

the new standard format for issuance. We believe the ECB needs to find a well-balanced change to its haircut framework to facilitate the increased use of such credit-positive issuance formats.






ECB's minimum requirements for new issue and surveillance reports

From July 2017, CRAs need to make available to the public their credit rating reports on covered bonds (new issue report), including a detailed analysis of the structural and legal aspects of the programme, a detailed collateral-pool assessment, an analysis of the refinancing and market risks, an analysis of the transaction's participants, the CRA's proprietary assumptions and metrics, and an analysis of any other relevant details of the transaction.

In addition, the ECB stipulates that, in order to gain the ECAF status, a CRA has to publish the following information quarterly, and no later than eight weeks after the end of the quarter:

1. Key credit metrics that form the basis for maintaining the current rating
2. Key information on the covered bond programme, including, at least, outstanding assets and liabilities, the main collateral-asset type, the issuer and other key transaction parties, and the relevant legal framework. In addition the CRA needs to disclose the rating of the issuer and the programme
3. Overcollateralisation levels, including current and committed overcollateralisation
4. The asset-liability profile, including the maturity type of the covered bonds (e.g. hard bullet, soft bullet, or pass through), the weighted average life of the covered bonds and the cover pool, and interest rate and currency mismatches
5. Interest rate and currency swap arrangements existing at the time of the report's publication, including the swap counterparty names
6. Composition of the foreign currency exposure for both the cover assets and the individual covered bonds
7. Key cover pool descriptors, including main asset types (including substitute assets), the number and average size of loans, seasoning, maturity, loan-to-value ratios, regional distribution and arrears distribution.
8. A list of all rated covered bonds, as well as a repository with data definitions and data sources used

I. Appendix: Covered bond ratings

Country	Covered bond issuer (or parent)	ICSR (Long term/Outlook/ Short term)	Covered bond programme/ Covered bond type	Primary collateral type	CB Rating (Long term/ Outlook)
 Denmark	Danske Bank A/S	A-/ Positive/ S-1	Pool C – SDO	Mortgages	AAA/ Stable
			Pool D – SDO		AAA/ Stable
			Pool I – SDO		AAA/ Stable
 France	BNP Paribas SA	A+/ Negative/ S-1	BNP Paribas Home Loan SFH (Obligation d'habitat)	Mortgages	AAA/ Stable
			BNP Paribas Public Sector SCF (Obligation foncières)	Public Sector	AAA/ Stable
	BPCE SA	A+/ Stable/ S-1	BPCE SFH (Obligation d'habitat)	Mortgages	AAA/ Stable
	Credit Agricole Group	A+/ Stable/ S-1	Credit Agricole Home Loan SFH (Obligation d'habitat)	Mortgages	AAA/ Stable
			Credit Agricole Public Sector SCF (Obligation foncières)	Public Sector	AAA/ Stable
	Societe Generale SA	A/ Stable/ S-1	Société Générale SFH (Obligation d'habitat)	Mortgages	AAA/ Stable
			Société Générale SCF (Obligation foncières)	Public Sector	AAA/ Stable
 Germany	Commerzbank AG	A/ Stable/ S-1	Öffentliche Pfandbriefe	Public Sector	AAA/ Stable
			Hypothekendarlehen	Mortgages	AAA/ Stable
	Deutsche Bank AG	A-/ Negative/ S-1	Hypothekendarlehen	Mortgages	AAA/ Stable
	Dexia Kommunalbank Deutschland AG	N/D	Öffentliche Pfandbriefe	Public Sector	AA-/ Stable
 Spain	Banco Santander SA	A+/ Stable/ S-1	Cédulas Hipotecarias	Mortgages	AAA/ Stable
			Cédulas Territoriales	Public Sector	AAA/ Stable
	Bankia SA	N/D	Cédulas Hipotecarias	Mortgages	AAA/ Stable
	BBVA SA	A/ Stable/ S-1	Cédulas Hipotecarias	Mortgages	AAA/ Stable
			Cédulas Territoriales	Public Sector	AAA/ Stable
 Sweden	Nordea Bank AB	A+/ Stable/ S-1	Nordea Hypotek AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable
	Svenska Handelsbanken AB	A/ Stable/ S-1	Stadshypotek AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable
			Stadshypotek AB/ Säkerställda obligationer	Norwegian Mortgages	AAA/ Stable
	Sw edbank AB	A-/ Stable/ S-1	Sw edbank Mortgage AB/ Säkerställda obligationer	Swedish Mortgages	AAA/ Stable



Covered Bond Outlook 2017:

Credit contraction unlikely to unravel

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