

## CSI 17<sup>th</sup> edition, new ECB repo rules in force and thoughts on NIBC's conditional pass-through

### ■ CSI 17th edition – an issuers' heaven?

Frustrated investors and happy issuers have dominated our latest CSI edition. The overall index has moved to 6.2 from 6.0 driven up by a jump in the issuer component. Investor sentiment has moved sideways.

Core issuers in particular are becoming a touch more cautious in the expectations score though. They are also less optimistic for private than for public markets; the opposite is true for issuers from the periphery.

Investor sentiment has moved sideways with the big winners this time being Australia/New Zealand as well as Ireland/Portugal.

We don't think that things will improve markedly in coming weeks. Issuance looks to continue to be on the low side leading to negative net issuance.

We would become more conservative in core markets and stop chasing the last basis points of compression between sectors and issuers while at the same time hunt for yield in the weaker names in the periphery.

### ■ New ECB repo haircuts in force now – surprise on retained covered bonds and more clarity on ABS in cover pools

The new ECB repo haircuts have been in force since early October (both the overall haircut changes as well as the add-on for retained covered bonds).

The ECB has also given a final definition of what it considers to be a retained covered bonds, which is fairly loose (as long as issuers pledge less than 75% of a bond, it is not considered retained), and added information on its treatment of ABS in cover pools (issuers with external ABS can still tap outstanding bonds until 28/11/14).

### ■ NIBC successfully issues conditional pass-through structure – next stop Italy...?

NIBC recently issued its inaugural conditional pass-through covered bond.

To us the structure doesn't behave as differently in the end compared to a hard bullet covered bond as one might think. It is more about rating agency methodology arbitrage. As long as issuers do not use this to reduce OC and investors are aware of the fact that AAA on CPT does not equal a AAA on a hard bullet bond we see the benefit the structure can offer to investors.

The main concern that we have is that the structure will reduce the implicit government support. Since we are looking at smaller, weaker rated issuers using the CPT structure, this is nothing to be disregarded. We would therefore argue for CPT deals to price wider than traditional covered bonds.

CPT could be a very relevant topic for weaker issuers from the periphery, most likely Italy in the months to come.

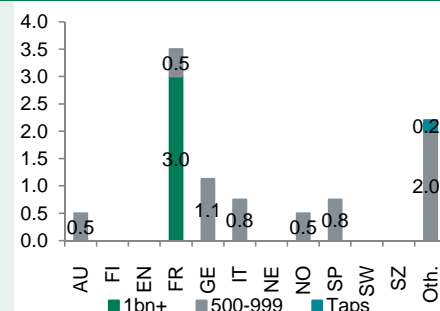
### ■ Covered bond shorts

Spanish banks enabled to issue Bonos de Internacionalizacion (BI).

Florian Eichert, CFA

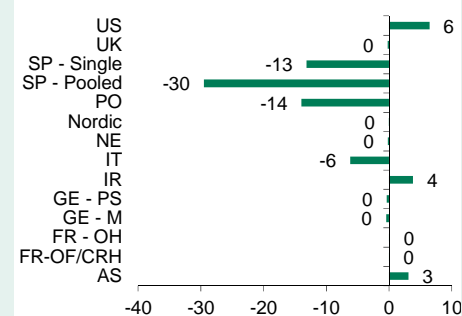
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### Benchmark CB issuance last month (EURbn)



Source: Bloomberg, Crédit Agricole CIB

### ASW spread change MoM covered bond 3-5Y segments (bp)



Source: iBoxx, Crédit Agricole CIB

## Key themes

### Many thanks to all of you who voted for us in the covered bond awards 2013 and the fixed income research survey earlier this year!

#### 'The Thrill Is Gone'...?, B.B. King (1970)

Before we get to the business end of this monthly, first of all we want to thank all of you who have given us their vote for this year's Euromoney fixed income research survey (the results for the top 100 asset managers were released a few days ago and we came first for the first time) as well as the covered bond awards, which were given out in Barcelona. After the first win in 2011 and number two in 2012, making the covered bond awards threeppeat this year doesn't just sound cool, it also felt good.

As is always the case having won something a few times, questions are being asked about what comes next. Well, we are still struggling to find a good slogan for next year's campaign ('fourpeat' just doesn't sound anywhere near as sexy and catchy as 'threeppeat') but we don't see why number four should be any less desirable than numbers one, two or three.

We will in any case try to give you all the reasons in the next 12 months to comfortably cast your vote for us again next summer. And even though we haven't yet turned this into a catchy campaign slogan, winning it four times in a row would equal Ted Packmohr's run between 2007 and 2010. And catching up with Ted is motivation enough and would be an honour in itself.

#### CSI 17<sup>th</sup> edition – an issuers' heaven...

##### 'I Stay in the Mood'..., B.B. King (1966)

- **Frustrated investors and happy issuers have dominated our latest CSI edition. The overall index has moved to 6.2 from 6.0 driven up by a jump in the issuer component. Investor sentiment has moved sideways.**
- **Issuers have become very optimistic in the current assessment index. However, core European issuers in particular are becoming a touch more cautious in the expectations score. They are also less optimistic for private placements than they are for public markets, the opposite of which is true for issuers from the periphery.**
- **Investor sentiment has moved sideways with the big winners this time being Australia/New Zealand as well as Ireland/Portugal. The former have always been the prime suspects to look at for frustrated core investors looking for an alternative. In the case of the latter it's been mainly Ireland that has profited from better investor sentiment of late.**
- **We are not too optimistic that things will improve materially for investors in coming weeks. Issuance looks to continue to be on the low side, leading to negative net issuance, while issuers can enjoy the luxury of pushing boundaries on both spreads (Pfandbriefe at swap minus levels) as well as structures (NIBC for example).**
- **In this situation we would become more conservative in core markets and stop chasing the last few basis points of compression while at the same time go for the weaker names in the periphery if rating rules give investors the flexibility to do so.**

We have been collecting feedback for the 17<sup>th</sup> edition of our bi-monthly Covered Bond Market Sentiment Index (CSI) in recent days. After summer we're almost back to our normal participant numbers with 92 investors coming back to us this time as well as 23 issuers.

#### Headline CSI number is back to 6.2 after 6.0 in June

Big squeeze is the name of the game in the covered bond space at the moment. Issuance has continued to be deeply negative in net terms (YTD net issuance in

#### Threeppeat + debut win



Source: [www.scx.hu](http://www.scx.hu)

#### Frustrated investors dominating the scene



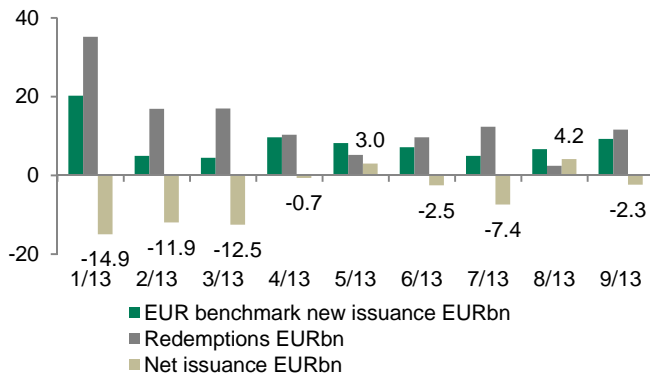
Source: [www.scx.hu](http://www.scx.hu)

92 investors coming back to us in our 17<sup>th</sup> CSI edition

Big squeeze the name of the game

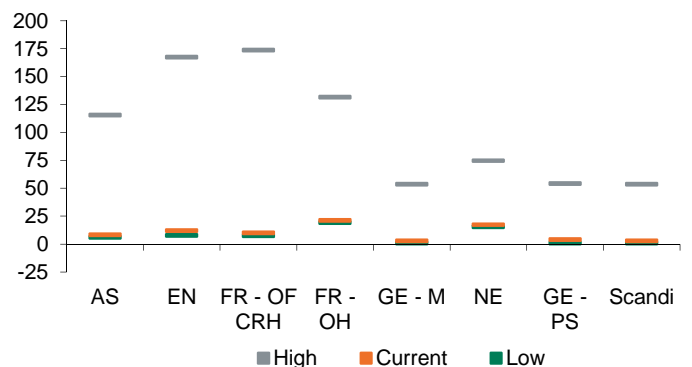
EUR benchmark covered bonds: -EUR45bn) with all but two months so far this year producing a negative net issuance figure. This has driven spreads to multi-year lows in core but also peripheral markets.

**EUR benchmark covered bond issuance, redemptions and net issuance per month (EURbn)**



Source: Bloomberg, Crédit Agricole CIB

**ASW spread iBoxx EUR Covered 3-5Y indices, last three years (bp)**



Source: Bloomberg, Crédit Agricole CIB

As a result of this situation, the market out there is paradise for issuers while at the other end of the pitch frustrated investors are waiting for issuers to service their investment needs.

*Issuers in heaven while investors are frustrated*

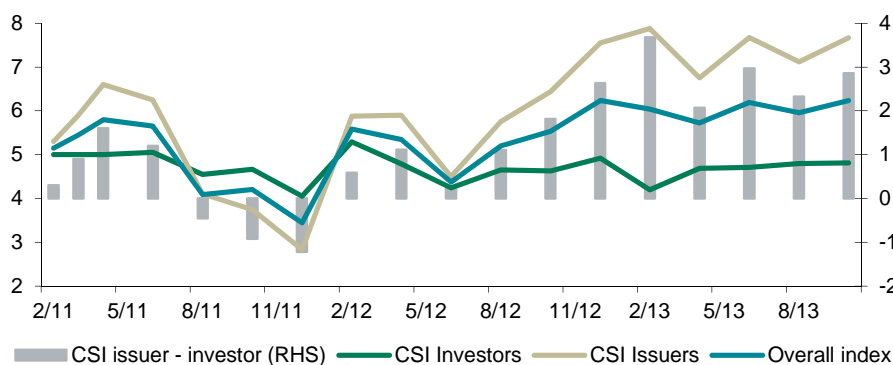
Our overall CSI index has moved back up to 6.2 from 6.0 after it had dropped by the same margin last time. The increase has been driven by issuers rather than investors, however. Our issuer subcomponent has jumped from 7.1 to 7.7, which is just shy of the all-time high recorded by issuers in February this year. Investors on the other hand have moved sideways, with their subindex staying virtually unchanged at 4.8.

*Overall index score up to 6.2 from 6.0*

As a result the difference in sentiment between issuers and investors has moved out to 2.9, which is the third-highest difference we've recorded since we started the index in February 2011. Funding officials across the market are more than ever in a pretty comfortable position with structurally lower funding needs, still cheap central bank liquidity and ongoing demand from cash-rich investors. As long as senior markets are open to issuers from both the core and the periphery – and even smaller banks from Spain such as Banco Popular can access hybrid bank capital – all is well for issuers in the covered bond space.

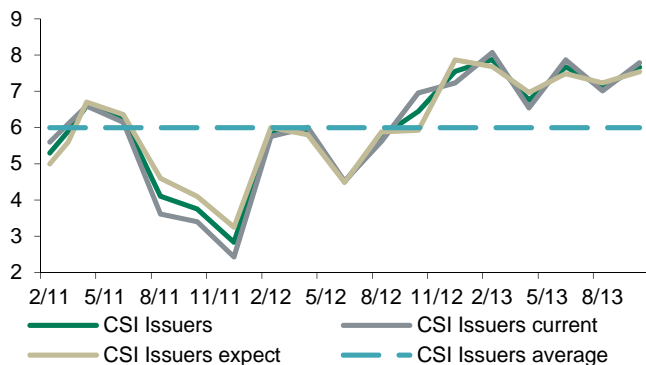
*Issuer sentiment is well above investor sentiment*

**CSI index**



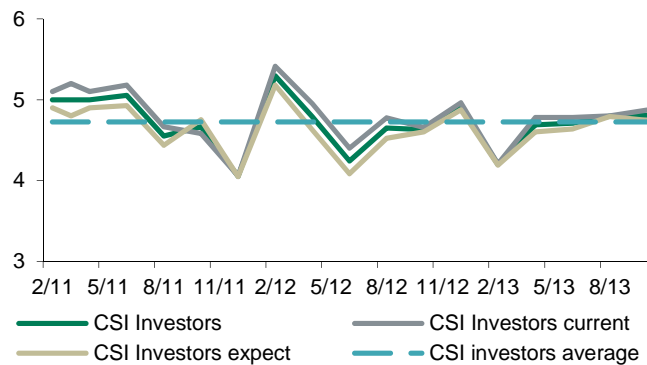
Source: Crédit Agricole CIB

**Breakdown and development of CSI issuers index**



Source: Crédit Agricole CIB

**Breakdown and development of CSI investors index**



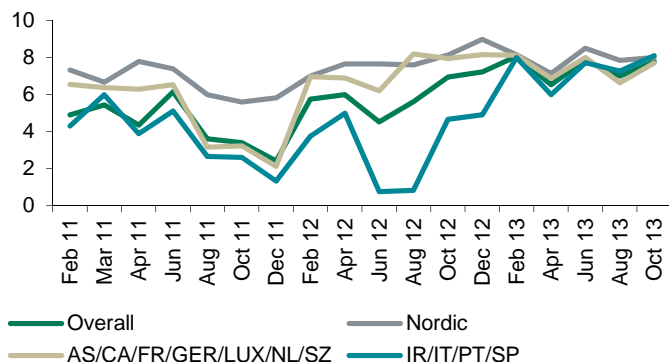
Source: Crédit Agricole CIB

**CSI issuers – shooting up but expectations slightly less euphoric and differences emerging between private and public markets**

As mentioned above, issuer sentiment is again close to its all-time high from earlier this year. The only region that didn't improve compared to August was the Nordics. Their sentiment was, however, already at the highest level of all regions so the room for further improvement was rather limited. Because of the Nordics staying unchanged and all other regions gaining, nearly all issuers are back at around the same level, especially in the current situation assessment. We have had 10s from Spain, same as 8s and 9s from core Europe or the Nordics.

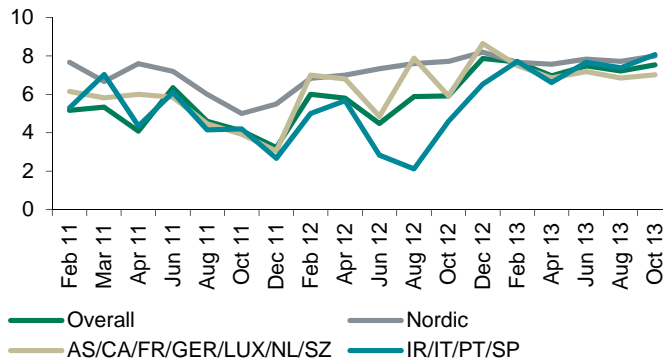
*Issuer sentiment is again close to its all-time high*

**CSI issuer current situation by country**



Source: Crédit Agricole CIB

**CSI issuer expectations by country**

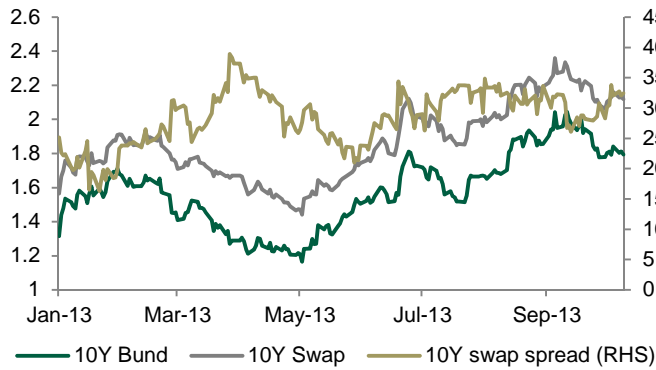


Source: Crédit Agricole CIB

The picture changes slightly when looking at the expectations score. As every mountaineer will be able to testify, the air becomes thinner the higher one goes and as one reaches the summit the only option left to reach even higher is to jump up a few inches. Being at very high levels already, expectations scores didn't move as much as the current assessment scores did this month. In the case of core European issuers, expectations are actually noticeably (0.7 index points) below their current assessment.

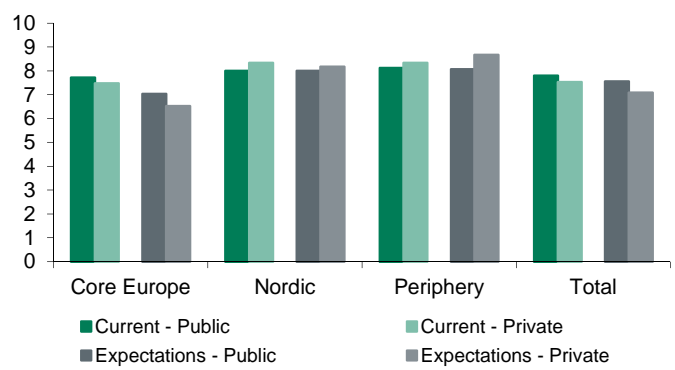
*Issuers slightly more cautious on expectations scores*

**10Y Bund yields, swap spreads and swap yield**



Source: Bloomberg, Crédit Agricole CIB

**CSI issuer – public placements vs private placements**



Source: Crédit Agricole CIB

Another thing worth noting in our view is the fact that sentiment towards public and private markets is starting to differ more markedly. In most of our recent CSI editions, differences between the two funding markets were virtually non-existent across the board. This time around, they do differ for core European issuers as well as for issuers from the periphery.

- Core issuers are less confident about their ability to approach private placement markets than they are for public benchmark deals. The current low yield environment (especially now that 10Y Bunds are back down to well below 2%) apparently still makes it hard for them to approach insurance companies and pension funds. In the public space, they can rely on a strong LCR-driven bank treasury bid, which isn't there in private placements.
- Peripheral issuers are finding it easier to generate funding in private placement markets. This is especially the case for some of the weaker rated ones (some of which have their covered bonds in HY), which might have a hard time generating sufficient demand for a benchmark transaction.

*Sentiment differences between private placement and public markets*

*Core issuers finding it easier in public markets*

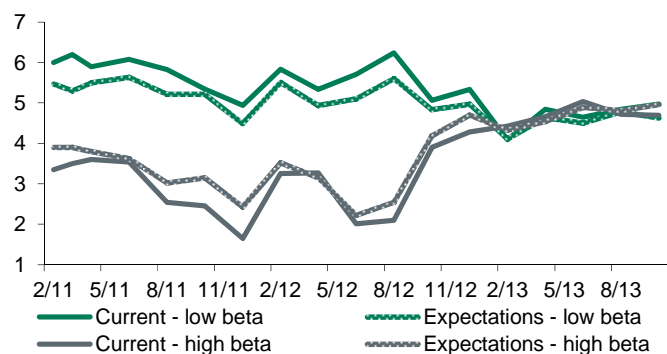
*Issuers from the periphery with higher sentiment in private placement space*

**CSI investors – a frustrated sideways move this time around**

We are at multi-year spread lows while there isn't enough supply to cover the existing demand. No wonder investors are frustrated and CSI scores show that. Compared to August, current assessment scores have moved up slightly (up by 0.2 index points to 5.0) while expectations have come down a bit (down by 0.2 index points to 4.6) causing the overall investor index to move sideways at 4.7.

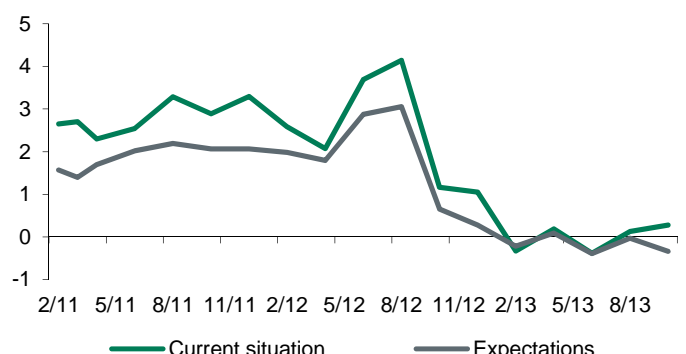
*Investor sentiment moving sideways*

**CSI investor index – low-beta vs high-beta**



Source: Bloomberg, Crédit Agricole CIB

**Low-beta – high-beta gap**



Source: Crédit Agricole CIB

When looking at the distinction between high- and low-beta markets we can continue with the lacklustre and frustrated theme. We are still at around the same level for both sectors. In the current situation assessment core sectors have the slight edge while in the expectations score the periphery has the upper hand by a tiny margin.

*High- and low-beta sectors at about the same sentiment level*

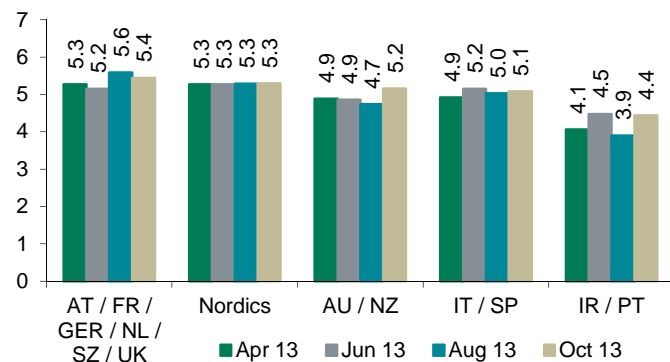
Going into a bit more detail doesn't change the overall theme all that much, it rather reinforces it. Sentiment towards core sectors, Nordic sectors as well as covered bonds from Italy/Spain has hardly changed compared to August. The big winners this time are Australia/New Zealand, whose sentiment jumped up by 0.5 index points in the current assessment and 0.3 points in the expectations score. Covered bonds from these countries had always been the prime suspect when it came to desperate investors looking for alternatives beyond core Europe.

*Big winners sentiment-wise are Australia/New Zealand as well as Ireland/Portugal*

With regards to the increase in sentiment towards Ireland/Portugal, we would say this is clearly driven by Ireland. Recent successful deals by Bank of Ireland and more positive headlines from the country have led to many investors becoming more comfortable. We are still a touch more cautious for now though. Most of the positive headlines on house prices are coming from Dublin while outside of Dublin prices are still vulnerable. At the same time, both AIB and Bank of Ireland have around two-thirds of their pools based outside of Dublin.

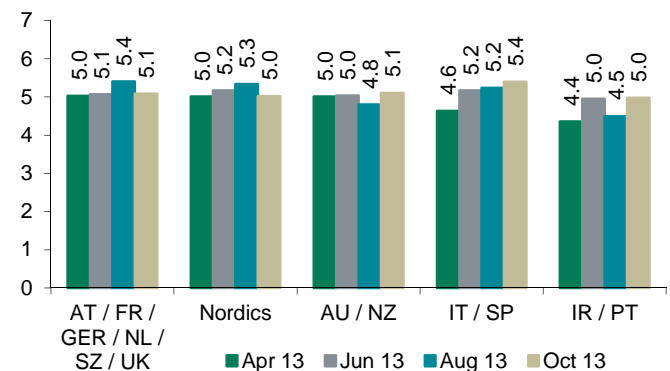
*In the Ireland/Portugal category, based on discussions we have had with many accounts it's mainly Ireland driving up scores*

**CSI Investors current situation index per sector**



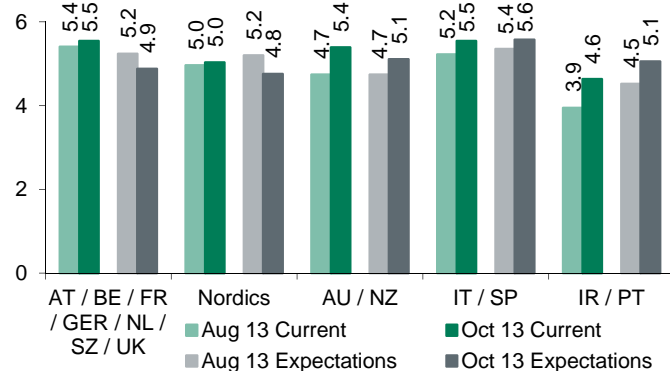
Source: Crédit Agricole CIB

**CSI Investors expectations index per sector**



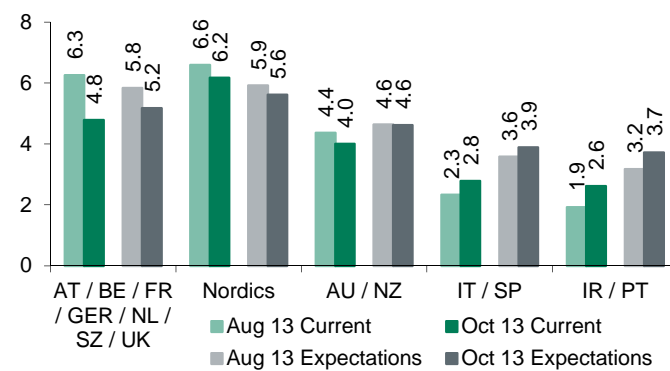
Source: Crédit Agricole CIB

**Core European investors' view**



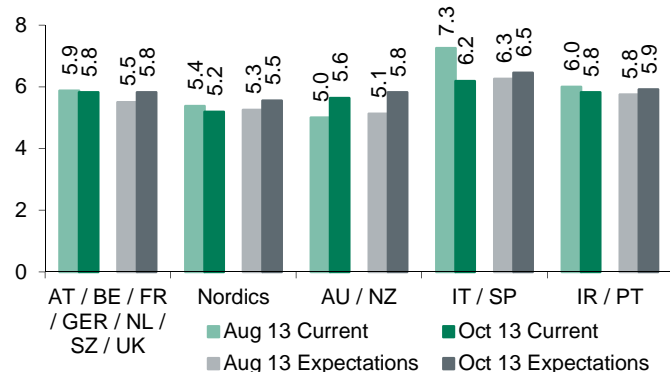
Source: Crédit Agricole CIB

**Nordic investors' view**



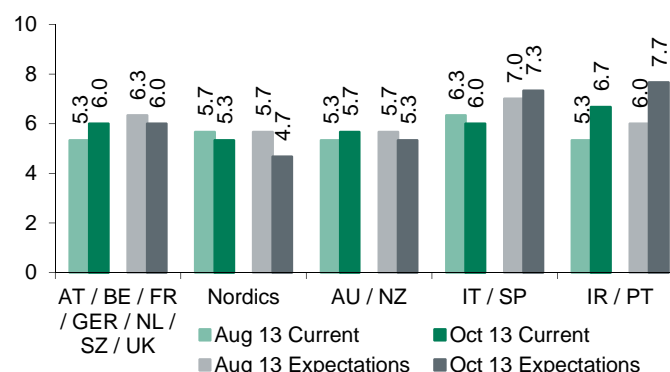
Source: Crédit Agricole CIB

**Italian / Spanish investors' view**



Source: Crédit Agricole CIB

**Irish / Portuguese investors' view**



Source: Crédit Agricole CIB

When looking at the individual investor bases and their preferences we want to highlight a few interesting points:

- **Core investors' expectations drop** – While core European investors' sentiment towards most sectors has been going up slightly compared to August, the bigger movement has taken place on their expectations scores. Sentiment towards their domestic markets and the Nordics has come down noticeably. Italy/Spain, which have enjoyed higher scores from core European investors overall, are by now actually leading all regions in the expectations score by quite a margin. Recent 10Y Bund yield moves back to well below 2% as well as further spread tightening in core sectors coupled with more attractive spreads of tier 1 bank Cedulas vs Bonos and ongoing compression of the weakest names has probably helped here.
- **Nordic investors refocusing on core markets** – Nordic investors' take on core European covered bond sectors has taken a fairly substantial hit this time around. Sentiment towards their own markets has fallen slightly too but the drop in core sector sentiment was very pronounced. At the same time, sentiment towards peripheral markets continues to creep up slowly but steadily. So what are Nordic accounts doing at the moment then? When we saw accounts in Copenhagen three weeks ago for example, the main theme for them was to move back into DKK assets. Coupled with the gain from the currency basis and the wider spread levels, DKK covered bonds were offering them almost the same yields as some of the strongest OBG and Cedula issuers. An easy decision if one has the luxury of making that move.
- **Italian/Spanish investors fall in the current assessment but stable expectations for their home markets** – Italian and Spanish investors have been the ones with the highest sentiment scores for their home markets in the past and that has not changed in this edition of our CSI. The current situation assessment did take a hit though as some accounts didn't take the recent article in Spanish newspaper *Expansion* too well. This talked about reducing investors' claim on the whole mortgage book to bring down asset encumbrance. Looking ahead, we are talking about fairly stable expectations scores though so it's certainly not all doom and gloom. We have also seen good and healthy investor participation in Italy, for example in the recent UBI or Popolare Emilia deals. These new issues had less negative spreads relative to BTPs for the former and even positive spreads in the latter case, making them attractive to domestics.
- **Portuguese/Irish investors becoming a bit more weary of their own markets** – There isn't too much to say about this investor base other than that they continue to show the same level of support for their domestic markets that they have for a long time.

### Bottom line

Frustrated investors and perfectly content issuers have driven our October CSI edition. Unfortunately, we don't see anything that could change that situation in the short run. We will end the year with significant negative net issuance while a lot of structural new demand is still pouring into the covered bond market (there are still regions which are, for example, only now starting to build up covered bond holdings for LCR purposes).

We will continue to see investors grudgingly accept spread levels that are technically squeezed but not reflective of true risk as they try to build up exposure. At the same time, we will continue to see issuers trying to profit from this both spread-wise but also with regards to pushing boundaries on structures.

In this environment where spread differences across countries are almost back to 2006, while at the same time liquidity is less (after all, we're not talking artificial liquidity from inter-dealer market-making any more) and bid-offers wider, generating outperformance by switching positions in the secondary market is tricky business.

We would as a result stop trying to chase the last few basis points of core sector/ issuer compression. For benchmarked investors we would rather start taking a more defensive stance both across core sectors and within each core sector with regards to the issuer selection. The name of the game here is now immunisation against widening spreads rather than yield optimisation. At the same time, we

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*Core investors with a drop in confidence towards their domestic markets in the expectations score. Italy / Spain scores are leading all other sectors with mainly Spain driving up sentiment*

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*Nordic investors' sentiment towards core Europe plummets, when they can move back into their domestic currency markets. Sentiment towards the periphery still on the rise but at low absolute levels*

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*Recent press coverage from Expansion about reducing Cedulas investors' claims on the total mortgage book has led to lower current assessment scores by domestic accounts. Domestic bid is still strong when looking at expectations scores however*

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*Irish/Portuguese investors with ongoing support for their domestic markets*

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*Frustration is likely going to remain the main theme on the investor side for now*

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*Issuers will likely be able to push spreads in new issues even a touch tighter from here and be creative with structures*

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*In this environment we would favour a credit barbell for benchmarked investors. It doesn't pay to chase these last few basis points, so play it safe in core while chasing yield in the weakest names in the periphery where rating limits allow for it*

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would continue to chase yield in the periphery and focus on the weakest names there, ideally if ratings guidelines allow, the ones in high yield. There is further compression upside there in our view. We still like BKIASM and the recent upgrade of CAJARU by Fitch should push the bonds back into the iBoxx EUR Covered Index at the next rebalancing date. In Italy UCGIM and ISPIM are too tight for our taste while BPEIM is offering both a positive spread to BTPs and virtually double the spread of the two strong names.

Ultimately, credit barbell is the name of the game for us. Much of the middle part of the market is no longer offering sufficient spread upside as well as carry while potentially exposing them to spread downside should overall markets become nervous again.

## New ECB repo haircuts in force now – surprise on retained covered bonds and more clarity on ABS in cover pools

### ‘Friends’, B.B. King (1975)

- The new ECB repo haircuts have been in force since the beginning of this month with both the overall haircuts changing slightly as well as the add-on for retained covered bonds being in force now.
- Overall haircuts were adjusted slightly. The main change for covered bonds is a smaller difference between liquidity category 3 (traditional covered bonds) and 2 (jumbos).
- The ECB has stated what it considers to be a retained covered bond. The final definition is a fairly soft one. As long as issuers pledge less than 75% of a bond, it is not considered retained.
- The ECB has also given additional information on its treatment of ABS in cover pools. The status of “internal ABS” is determined at the time the ABS is added to the pool. It doesn’t change subsequently even if the issuer is sold to someone else. Covered bonds with external ABS in the cover pool will be grandfathered until 28 November 2014 with tap issuance of existing bonds being allowed until then.

The ECB repo rules and adjusted haircuts that were announced in late July have been in force since this week. This is the link to the press release.

- <http://www.ecb.europa.eu/press/pr/date/2013/html/pr130927.en.html>

This means that both the adjusted haircut table (mainly lower haircuts for ABS and slightly smaller haircut difference between liquidity category 2 and 3) as well as additional haircuts for retained covered bonds are now in force.

### ECB still showing some love for retained covered bonds



Source: [www.scx.hu](http://www.scx.hu)

## New ECB repo-haircuts as well as haircut changes (%)

### Change vs previous haircuts

#### AAA to A- Liquidity categories

Residual maturity (years)	I		II		III		IV		V
	Fix	Zero	Fix	Zero	Fix	Zero	Fix	Zero	Fix / Zero
0-1	0.0	0.0	0.0	0.0	-0.5	-0.5	0.0	0.0	-6.0
1-3	-0.5	0.5	-1.0	0.0	-1.0	0.0	0.0	0.0	-6.0
3-5	-1.0	-0.5	-1.0	-0.5	-2.0	-1.0	0.0	0.0	-6.0
5-7	-1.0	-0.5	-1.0	-0.5	-2.0	-1.5	0.0	0.0	-6.0
7-10	-1.0	-0.5	-1.0	0.0	-2.5	-1.5	0.0	0.0	-6.0
>10	-0.5	-1.5	0.5	-1.5	-2.0	-3.5	0.0	0.0	-6.0
Retained	+ 8% for retained CB								

#### BBB+ to BBB- Liquidity categories

Residual maturity (years)	I		II		III		IV		V
	Fix	Zero	Fix	Zero	Fix	Zero	Fix	Zero	Fix / Zero
0-1	0.5	0.5	1.0	1.0	0.0	0.0	-2.0	-2.0	prev. not eligible
1-3	0.5	1.5	-0.5	3.0	-3.0	-3.0	-3.0	-3.0	
3-5	1.5	2.0	0.0	3.5	-3.0	-3.0	-4.0	-3.0	
5-7	2.0	3.0	-2.0	1.5	-2.0	-1.5	-2.5	-3.0	
7-10	2.5	3.5	-1.0	5.0	-2.0	-1.0	-2.0	-2.0	
>10	2.5	2.5	2.5	4.0	-2.0	-3.0	-2.0	-2.0	
Retained	+ 12% for retained CB								

### New repo haircuts

#### AAA to A- Liquidity categories

Residual maturity (years)	I		II		III		IV		V
	Fix	Zero	Fix	Zero	Fix	Zero	Fix	Zero	Fix / Zero
0-1	0.5	0.5	1.0	1.0	1.0	1.0	6.5	6.5	10.0
1-3	1.0	2.0	1.5	2.5	2.0	3.0	8.5	9.0	10.0
3-5	1.5	2.5	2.5	3.5	3.0	4.5	11.0	11.5	10.0
5-7	2.0	3.0	3.5	4.5	4.5	6.0	12.5	13.5	10.0
7-10	3.0	4.0	4.5	6.5	6.0	8.0	14.0	15.5	10.0
>10	5.0	7.0	8.0	10.5	9.0	13.0	17.0	22.5	10.0
Retained	+ 8% for retained CB								

#### BBB+ to BBB- Liquidity categories

Residual maturity (years)	I		II		III		IV		V
	Fix	Zero	Fix	Zero	Fix	Zero	Fix	Zero	Fix / Zero
0-1	6.0	6.0	7.0	7.0	8.0	8.0	13.0	13.0	22.0
1-3	7.0	8.0	10.0	14.5	15.0	16.5	24.5	26.5	22.0
3-5	9.0	10.0	15.5	20.5	22.5	25.0	32.5	36.5	22.0
5-7	10.0	11.5	16.0	22.0	26.0	30.0	36.0	40.0	22.0
7-10	11.5	13.0	18.5	27.5	27.0	32.5	37.0	42.5	22.0
>10	13.0	16.0	22.5	33.0	27.5	35.0	37.5	44.0	22.0
Retained	+ 12% for retained CB								

Source: Eurosystem, Crédit Agricole CIB Category I: Government bonds; Category II: Local & regional governments, SSAs, jumbo covered bonds; Category III: Traditional covered bonds, structured covered bonds, multi Cedulas, corporates bonds; Category IV: unsecured bank bonds; Category V: ABS

The ECB did specify some of the residual uncertainties as well however. They specified what they consider to be retained and gave some more detail on the repo-eligibility of covered bonds that have ABS in the cover pools.

### Retained covered bonds

Retained covered bonds face an additional 8%/12% haircut depending on their ratings. What we weren't sure about though is what the ECB actually considered to be retained. Is it enough to merely buy back some parts of an outstanding benchmark covered bond for treasury/trading purposes to be subject to the 8%/12% or does it have to be a proper retained bond that never saw the light of day?

The ECB has now stated that it considers only the following bonds retained:

- "For these purposes, 'own-use covered bonds' means covered bank bonds issued by either a counterparty or entities closely linked to it, and used in a percentage greater than 75% of the outstanding notional amount by that counterparty and/or its closely linked entities."

This clarification is good news for banks that have used retained bonds as collateral. The way we would read this, it is now sufficient to merely keep 25% of a fully retained bond sitting in one's own books and not pledge it to the ECB to still be exempt from the additional haircuts. As such it is only a very gentle first push by the central bank to get banks off central bank funding.

One could even construct a case whereby two banks get together and each one privately buys 25% of the retained covered bond of the other bank and without any external investors involved, the level of liquidity obtained from the central bank wouldn't change.

*ECB clarified uncertainties surrounding treatment of ABS as well as retained covered bonds*

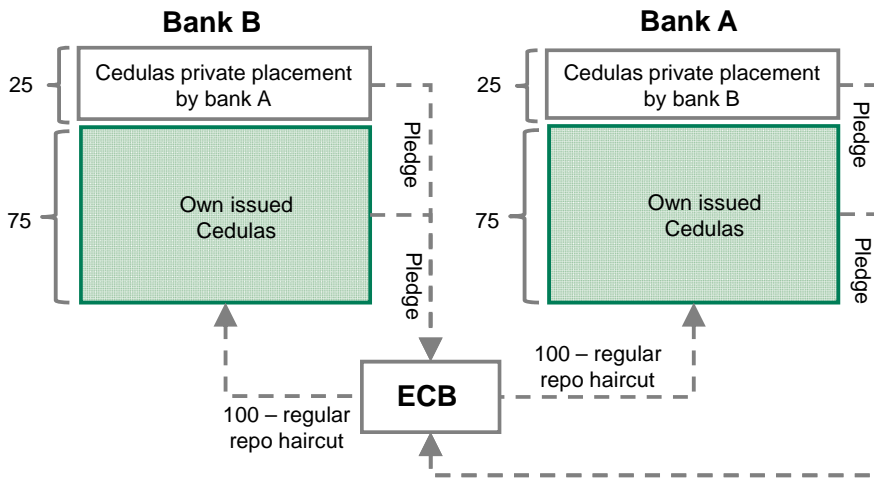
*Retained covered bonds with additional 8% / 12% haircuts but what is actually a retained covered bond...?*

*Retained status only if more than 75% of a bond is used by the issuer as collateral with the ECB*

*Keeping or using with third parties 25% of a deal means issuers can avoid the haircut add-on*

*Two banks using 25% of the other bank's covered bonds as collateral can continue to generate the same ECB liquidity*

### How to get around the additional haircut for retained covered bonds



Source: Crédit Agricole CIB

Had the ECB been stricter about it, retained could have also been defined as posting one's own name as well. This could have included even jumbo deals that banks might merely be trading themselves. The definition used by the ECB is thus not only positive for a bank's liquidity position, it's also positive for covered bond trading in general.

#### ABS in cover pools

The ECB has clarified some details on timing here as well as what happens if a bank is sold and previously internal ABS become external ones. They stick to the fact that covered bonds with external ABS in their cover pools are in principle ineligible collateral for repo purposes.

- **Internal ABS:** The ECB states that the distinction between internal and external ABS is made at the time of the asset transfer into the cover pool. If a bank is subsequently sold to someone else, internal ABS remain internal in the eyes of the ECB.

A practical example of this would have been CAFFIL in the past. The issuer had public sector ABS from the Dexia group, its former owner in the cover pool. The issuer sold these to its mother company at the end of June though. Other than CAFFIL we currently can't think of anyone who would directly profit from this. CIF Euromortgage does have internal securitisation tranches in its cover pool but obviously is being wound down under unchanged ownership.

- **Timing:** "Covered bonds which were on the list of eligible assets on 30 March 2013 shall benefit from a grandfathering period until 28 November 2014. Tap issues of such covered bonds may also benefit from the grandfathering period provided that, from 31 March 2013, asset-backed securities that do not comply with the requirements specified in Section 6.2.1.1.3 (a) to (c) of Annex I to Guideline ECB/2011/14 are not added to the cover pool."

This one mainly affects CFF as on the one hand it gives the issuer time to replace the external ABS in its cover pool and on the other hand enables it to tap outstanding issues without impacting their repo-eligibility. CFF has in recent quarters been constantly reducing its RMBS and public sector ABS exposure. Between Q411 and Q213, the issuer has in total reduced exposure to the two collateral types by almost EUR8.5bn. CFF still has securitisations worth EUR9.1bn or slightly below 10% of the overall pool at the end of June (see chart further below).

Should CFF still have external ABS in its cover pool by end November 2014, however, their OFs will be removed from the collateral database and lose their repo-eligibility entirely.

*The ECB could also have defined covered bonds as retained the moment the issuer and collateral user are the same, which could have also applied to banks' own trading*

*The status of ABS as internal is determined at the time the ABS is entered into the pool and subsequently doesn't change even if the issuer is sold*

*After CAFFIL sold its internal ABS to its mother company we can't think of any issuer that would be affected by this at the moment*

*Covered bonds with external ABS will continue to be ECB repo eligible until 28/11/2014, taps will be eligible as well*

*CFF impacted by this rule – tap issuance until next year is therefore possible but the issuer still has to make sure external ABS are sold by that time*

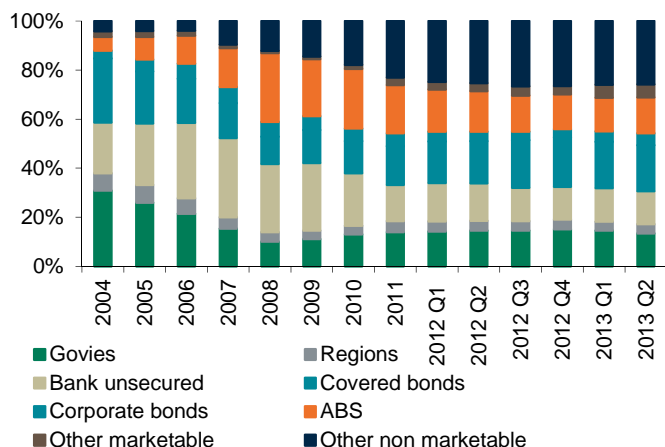
**Bottom line**

All in all, the ECB rules are a fairly (to some extent surprising) positive development for covered bonds:

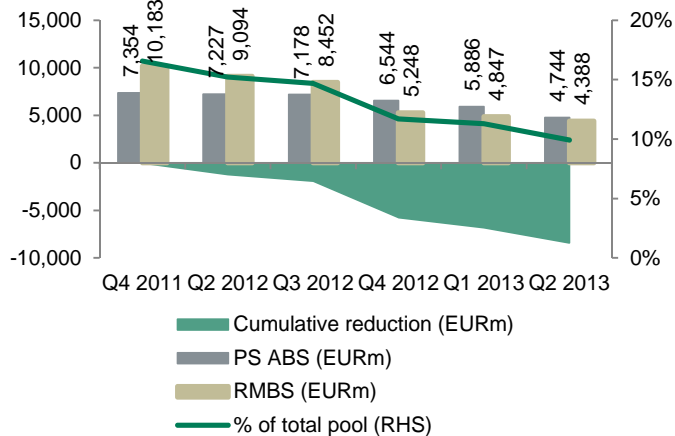
- They allow banks to still use much of their retained covered bonds as collateral without incurring the additional repo haircuts. This in turn reduces the pressure for them to approach the market at any cost.
- CFF is able to continue to tap outstanding bonds without losing repo eligibility for another good year from now, the way we read the ECB announcement.

*ECB clarifications are positive for both peripheral issuers (looser stance on retained covered bonds) as well as CFF*

**Posted collateral in Eurosystem for monetary policy operations** | **Share of securitisation in CFF's cover pool**



Source: Eurosystem, Crédit Agricole CIB



Source: CFF, Crédit Agricole CIB

**NIBC successfully issues conditional pass-through structure – next stop Italy...?**

‘You Put It on Me’...?, B.B. King (1968)

- NIBC recently issued its inaugural conditional pass-through covered bond
- To us the structure doesn't behave as differently in the end compared to a hard bullet covered bond as one might think. It is more about rating agency methodology arbitrage. As long as issuers do not use this to reduce OC and investors are aware of the fact that AAA on CPT does not equal a AAA on a hard bullet bond we see the benefit the structure can offer to investors.
- The main concern that we see is that the structure will reduce the implicit government support in these covered bonds. And since we are looking at smaller, weaker rated issuers making use of the CPT structure, this is nothing to be disregarded. We would therefore argue for CPT deals to price wider than traditional covered bonds.
- CPT could be a very relevant topic for weaker issuers from the periphery, most likely Italy in the months to come.

**Conditional pass-through, joining the others or remaining a loner?**



Source: www.scx.hu

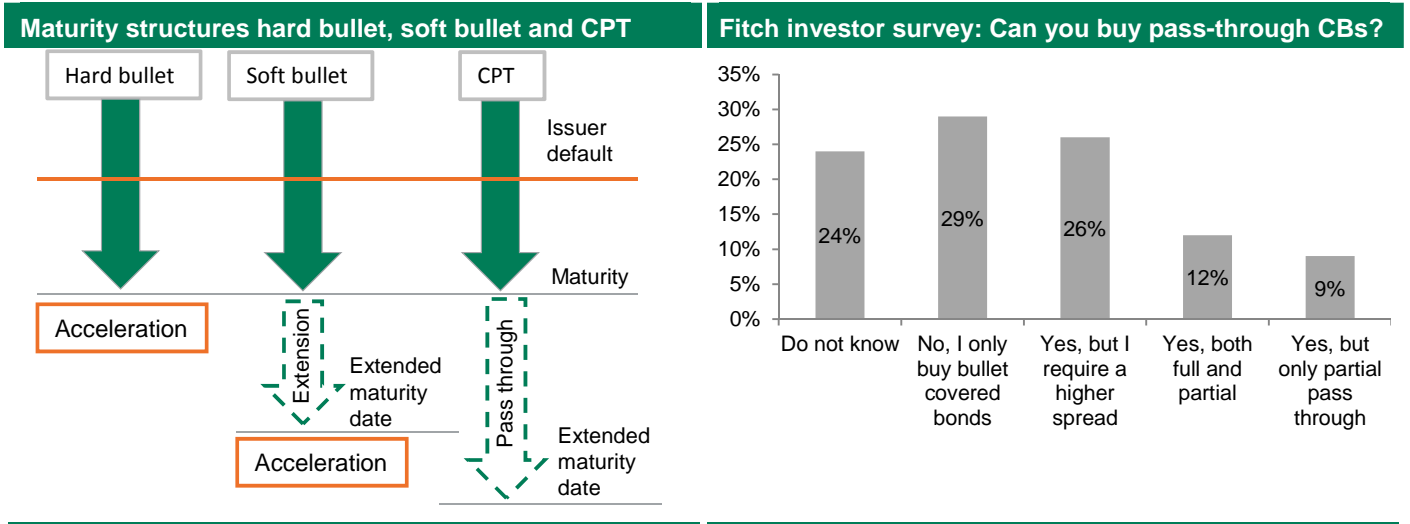
After having worked on its conditional pass-through (CPT) covered bond programme for a long time and having been on the road marketing it for weeks, earlier this month NIBC successfully priced the first conditional pass-through covered bond. We are planning to write a longer report on maturity structures in the covered bond market in coming weeks (also covering soft bullets, and pass-through structures used by Commerzbank in its SME-backed structured covered bond and the dreaded discussion about multi-Cedulas extensions) so, for now, we only want to briefly go through the basics.

### Is the structure really all that different...?

To us there have been bigger innovations in the covered bond space than NIBC's CPT programme and, in a market driven by very traditional investors and market participants as well as lobbyists trying to protect the product against regulatory strangeness, we mean this in a positive sense. Commerzbank's SME-backed structured covered bond was a novelty in many aspects; the NIBC issue merely changes one element – maturity structures – while leaving all others unchanged.

*There have been bigger innovations in covered bond space than NIBC's CPT programme*

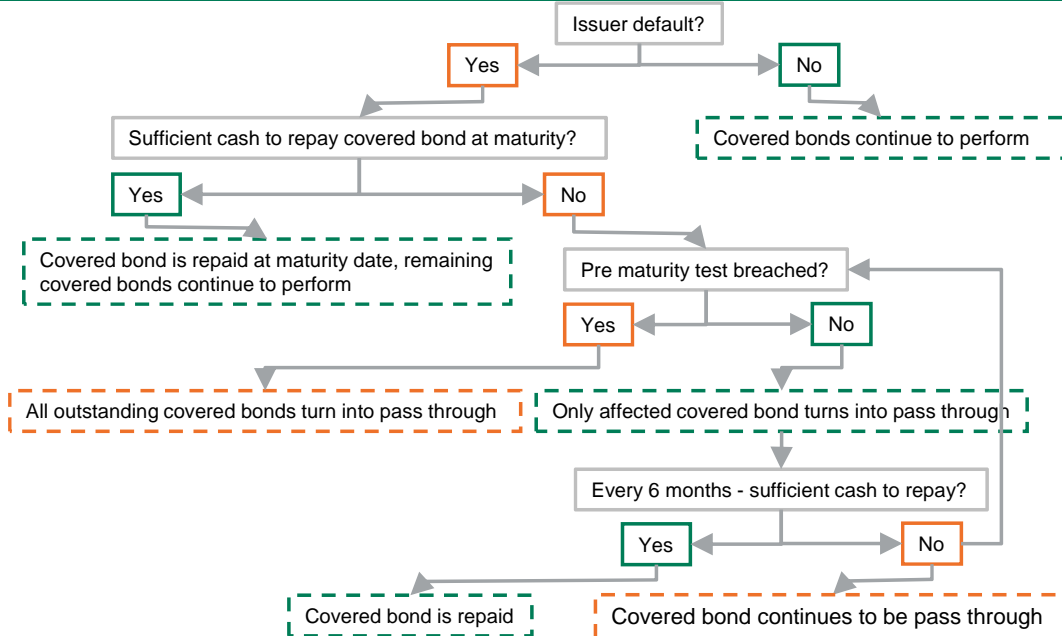
And even that maturity structure change doesn't look as drastic as the name of the programme would lead one to believe. We have depicted both the main idea behind the various maturity structures used in the covered bond space as well as the decision tree showing at what point the pass-through structure actually kicks in.



Source: Crédit Agricole CIB

Source: Fitch, Crédit Agricole CIB

### Decision tree NIBC's CPT structure



Source: NIBC, Crédit Agricole CIB

The way the NIBC programme is structured, the pass-through element doesn't become relevant until the last possible moment. As long as the issuer is still alive, investors are looking at a bullet maturity; the moment the issuer defaults, the bonds are still repaid at their bullet maturities; only if the pool doesn't have sufficient liquidity to repay does the pass-through structure kick in. Quite frankly, at this point every traditional covered bond would essentially become a pass-through security since the administrator would be forced to wind down the pool

*Pass-through kicks in only at the very last minute after the issuer has defaulted already and the cover pool doesn't have sufficient liquidity to repay bonds*

after the covered bonds have defaulted and pass on proceeds to the investors. The main difference here is in the timing.

- In the traditional example the administrator would likely try to sell off the pool sooner rather than later. There are no practical examples of this ever happening out there but it is fair to assume that, while acting in the best interest of covered bond investors, he wouldn't want to wait ten years hoping for asset prices to stabilise.
- In the pass-through example the administrator has no need to sell any assets if there is no market for them.

The end-result is that investors have a bond that behaves similarly to a traditional covered bond in all but one scenario and in that scenario (default of the traditional covered bond and pass-through for the NIBC one) the main difference is in relation to the time the pool is liquidated. Whether it is better to sell quickly and take certain losses or wait hoping to achieve full repayment it is not easy to say, especially when looking at it from a net present value angle.

- It could be better to have full repayment in 10 years' time than accept a loss of let's say 40% now.
- However, at the same time, it could be better to accept a 20% loss now than have full repayment in 25 years' time.

### Regulatory treatment – are there any differences?

At a time when regulators want to promote easy structures, CPT makes covered bonds more complex structures. At the same time CPT structures don't have a material impact on how regulators treat covered bonds at the moment:

- NIBC's bonds are Dutch regulated covered bonds and as such UCITS and CRD compliant.
- The bond is eligible for covered bond indices.
- The bond is ECB repo eligible and falls into liquidity category 3.
- There is no final clarity on bail-in yet but since bonds are UCITS and CRD compliant, chances are they will not be treated any differently to traditional Dutch covered bonds.

### Advantages/disadvantages

The biggest advantage the structure offers investors is rating stability. The CPT structure allows rating agencies (at least S&P and Fitch for now) to rate CPT delinked from the issuer rating. The NIBC covered bonds are a stable AAA from S&P and Fitch while the issuer is rated BBB-. Moves on the issuer will also not lead to any rating action on the covered bonds.

When agencies link issuer and covered bond ratings the biggest concern they have is always the risk of having sufficient cash to repay a bullet maturity. Passing this risk on to investors in the form of extension risk puts agencies almost completely at ease with regards to both the absolute achievable rating level as well as the required OC.

This already leads us to two disadvantages investors have to think about:

- Liquidity risk for the issuer is passed to investors in the form of extension risk.
- Since rating agencies require less OC for CPT programmes, issuers could potentially hold less OC than for traditional programmes.

The first of these two bullet points is not as dramatic as it sounds as we've explained above. The second issue is one that investors will have to pay close attention to when looking at CPT programmes. CPT enables issuers to achieve high ratings with relatively low OC levels as they have to cover only credit risk. NIBC has committed to hold 15%, which is more than the other Dutch programmes, but other issuers could try to approach this differently.

The biggest disadvantage for us, however, is the following:

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*Main difference in the end is about the timing of selling off the cover pool*

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*CPT will receive regulatory treatment similar to traditional covered bonds*

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*Biggest advantage is rating stability*

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*Liquidity risk is passed on to investors in the form of extension risk*

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*Investors have to make sure that issuers don't significantly reduce OC levels compared to traditional covered bonds*

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- If structures are able to better survive on a stand-alone basis, the probability of external support will be lower (ie, sale of covered bond business to a stronger entity). At the same time survive in this case doesn't mean investors couldn't face losses on a NPV basis as payments are possibly extended well into the future.

NIBC's programme can realistically default only because of over-indebtedness of the cover pool on the back of rising NPLs and credit-related losses. Liquidity shortfalls, which are the biggest risk in traditional covered bond structures, are covered by the CPT structure. Authorities therefore have much less incentive to keep supporting a programme should the issuer default. It is much easier to move the programme to a bad bank for example and let it operate there on its own with payments to investors potentially extending into the future. A hard bullet programme would very likely be supported by transferring it to a stronger entity (as has happened in Spain a few times) or by providing liquidity lines (think about CIF Euromortgage in France), in order to avoid covered bond defaults which could have wider systemic implications for the banking sector. In both of these cases, original maturities would be honoured and investors would receive their money back on the original scheduled maturity dates.

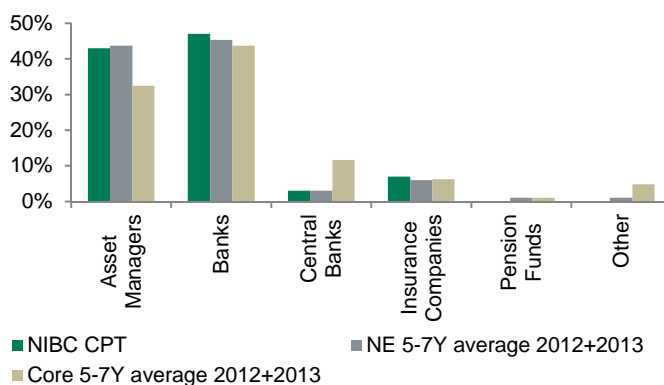
### Investor distribution NIBC vs core – any noticeable differences?

With all the talk about CPT in recent weeks, we were very interested to see how the deal would actually go. After all, despite the novel structure, we live in squeezed times and investors are looking for bonds. We have had a look at the distribution statistics of the deal to get some clues.

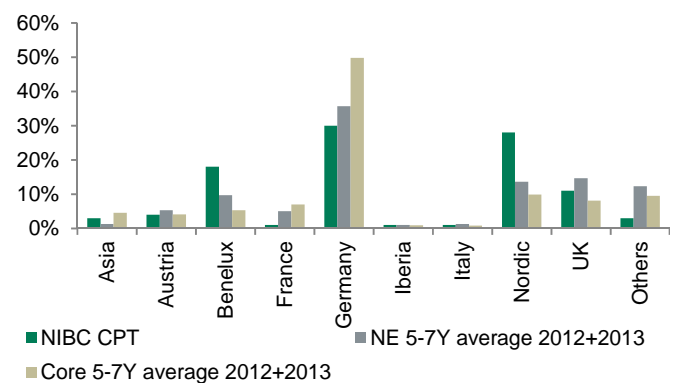
*Biggest disadvantage for us is lower probability of receiving external support post issuer insolvency*

*A programme that can survive on its own doesn't need to be transferred to a stronger entity or supported via public sector liquidity*

Investor distribution EUR benchmark covered bonds by investor type (%)



Investor distribution EUR benchmark covered bonds by region (%)



Source: IFR, Bloomberg, the cover, Covered Bond Report, Crédit Agricole CIB

Source: IFR, Bloomberg, the cover, Covered Bond Report, Crédit Agricole CIB

The EUR500m deal had an order book of EUR1.3bn. According to *The Cover* lead managers in the deal mentioned that around 75% of the book was made up of traditional covered bond buyers. We have obviously not seen the book but the breakdown by investor type seems to suggest this statement is correct. There is hardly a difference compared to other 5Y Dutch covered bonds.

The differences start to emerge on the geographic split:

- At 30% the German share is well below other core covered bonds (average 50%) and also below other Dutch covered bonds with similar maturities. French investors were virtually absent with a mere 1% in the order book. This is probably where the shortage of traditional investors came from.
- Nordic investors on the other hand have been much more active in the deal buying almost one-third, which is double their normal Dutch average and three times their average in other core covered bonds. The domestic bid was also significantly higher than is usually the case in core covered bonds. Dutch but also some Nordic accounts have a lot of experience in securitisation markets and are thus probably more open to the structure. As far as we are aware, the Nordic portion was also pushed up by bank treasuries who are building up LCR buffers.

*Investor distribution not that different to traditional Dutch covered bonds*

*Fewer Germans and virtually no French*

*Much more Nordic and domestic Dutch investors*

## Bottom line – what do we think and is there more to come..?

In the end, to us the CPT structure doesn't change the way a covered bond behaves as much as one could think initially. We still like hard bullet covered bonds with pre-maturity tests or 180-day liquidity rules and higher OC better, and a AAA there is worth more than a AAA on a CPT. We understand the motivation for issuers like NIBC though. In the end, for a weaker rated issuer it is more about rating agency methodology arbitrage than anything else. And as long as issuers limit this arbitrage to improving and stabilising the absolute rating level and not to reduce OC levels significantly we see the benefit the structure can offer to investors.

The main concern that we see though is that the structure will reduce the implicit government support in these covered bonds compared to traditional hard or soft bullet ones. And since we are looking mainly at smaller, weaker rated issuers making use of the CPT structure, this is nothing to be disregarded. We would therefore argue for CPT deals to price wider than traditional covered bonds.

When it comes to who could follow in the footsteps of NIBC, the CPT structure could become a very hot topic amongst weaker names in Italy. OBGs by Carige, for example, could be rated as high as the A2 Moody's sovereign ceiling for Italy or the AA ceiling for S&P, while their traditional programme looks set to fall into non-investment grade territory. The CPT structure could thus enable them to discuss pricing with investors that would have otherwise been kept away from a deal because of rating constraints, irrespective of the pricing the issuer would be willing to offer.

Using CPT for Spanish issuers will be very tricky if not impossible. Other than the Italians, who can set up multiple covered bond programmes and thus don't have to approach existing investors with programme changes, Cédulas issuers can have only one programme per collateral type. Changing the maturity structure from hard bullet to CPT is something that would certainly require investor approval. Spanish banks would have to resort to Bonos Hipotecarias if they want to add CPT structures to their arsenal.

## Covered bond shorts

### 'Three o'clock Blues', B.B. King (1951)

#### ■ Spanish banks enabled to issue Bonos de Internacionalización (BI)

#### Spanish banks enabled to issue Bonos de Internacionalización (BI)

Spanish banks can now issue Bonos de Internacionalización (BI). Moody's commented on this earlier this week:

- "Since 27 September, Spain's new Law 14/2013 allows Spanish Banks to issue BIs. A specific cover pool of loans that finance the exports and international expansion of companies serves as collateral for the BIs".

Don't mix BI up with Cédulas de Internacionalización (CI - a kind of public sector covered bond backed by all guaranteed export finance loans on bank balance sheets in Spain) and also don't assume we're talking about any of the already publicly placed Cédulas products out of Spain such as Cédulas Hipotecarias (CH) and Cédulas Territoriales (CT).

The main difference between Bonos and Cédulas is that the former are backed by a specific pool of assets on a bank's balance sheet rather than the overall loan book. The concept of a Bonos is nothing new in Spain in that context. Banks have for a long time for example been able to issue Bonos Hipotecarias (BH) even though they haven't really made much use of this.

BI are backed by loans related to the export finance business of Spanish companies. Other than for CI these loans don't have to be backed by an explicit guarantee though and thus represent the weaker and more diverse collateral. Moody's mentioned this in their press release:

- "Moody's believes that some of the assets eligible for BI cover pools carry higher credit risks than those permitted in CI cover pools. Unlike CIs, assets in BI cover pools may be granted to private export private companies without

*CPT to us is mainly rating agency methodology arbitrage while not necessarily changing the underlying risk profile as much as one might think*

*Our main concern is less the structure but the in our view lower implicit government support*

*CPT could be big for smaller Italian issuers that can move ratings up to the sovereign ceiling levels and enable investors to engage in a discussion about price rather than be not allowed to buy on the back of low ratings*

*CPT will be tricky for Spanish issuers as they can't have multiple programmes, and changing maturity structures for existing programmes will need investor consent*

Insert chart title here



Source: [www.scx.hu](http://www.scx.hu)

*Bonos are backed by a specific pool of assets rather than all assets on a bank's balance sheet*

*BI are backed by export finance business related loans*

*Loans will not need a sovereign guarantee though so collateral will be weaker than for CI*

a guarantee from a public-sector entity or credit insurance, and do not need to be classified as having "high credit worthiness".

So why is the Spanish regulator allowing its banks to use BI when they haven't even made much use of BH? The question becomes even more pressing as encumbrance is a topic in Spain and allowing them to go for another type of Bonos would encumber an entirely new collateral class.

We don't think that the main driver behind this is necessarily market issuance. Bonos do allow banks to implement other maturity structures such as soft bullets or pass through structures (like NIBC) and achieve higher ratings with these securities than would be the case for CI or even CH. In fact BI would allow Spanish banks to improve the product's ratings up to the A3 sovereign ceiling by reducing market / refinancing risk from the angle of the issuer (which is how NIBC got up to AAA with a weak triple B issuer rating). However whether there is a market for these securities remains to be seen.

We would think about a possible third LTRO at some point down the line. There has been a lot of talk about supporting the SME sector lately. This is a big topic in Brussels as well as in Frankfurt these days. It could therefore well be that SME related collateral is pushed in a third LTRO. BI could thus feature big there. And in that context the bigger rating stability pass through structures would bring in worth a lot as it would secure a single A rating which is the threshold below which haircuts materially increase.

Just coming back to the issue of additional encumbrance once more. BI increase encumbrance as yet another collateral type is added to the collateralised funding arsenal, Spanish banks have. And in that context, the Expansion article talking about changes to the collateralised mortgage funding might make even more sense. If one adds export related loans that don't even need a public sector guarantee to a bank's collateralised funding arsenal authorities might want to reduce encumbrance in other areas of the bank.

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*Main motivation for BI in our view is to generate additional repo-eligible collateral*

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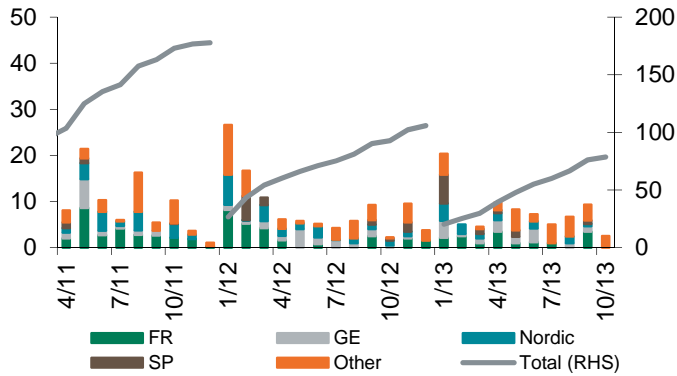
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*BI could feature big in a possible third LTRO that might have a bigger focus on supporting the real economy and SME lending*

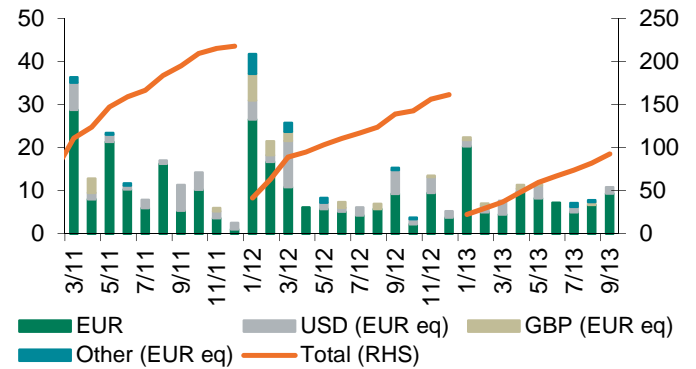
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# Primary market monitor

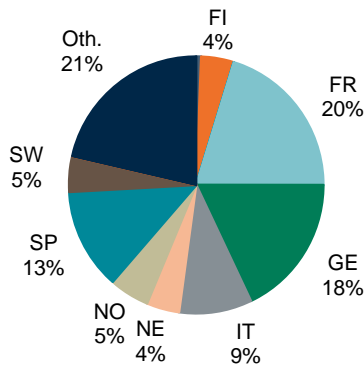
## New EUR benchmark issues per country (EURbn)



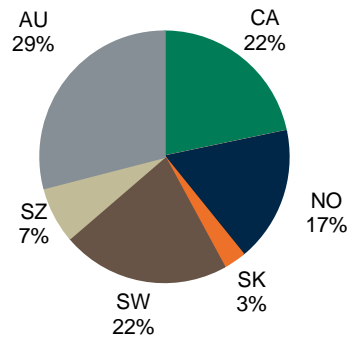
## New benchmark issues per currency (EURbn)



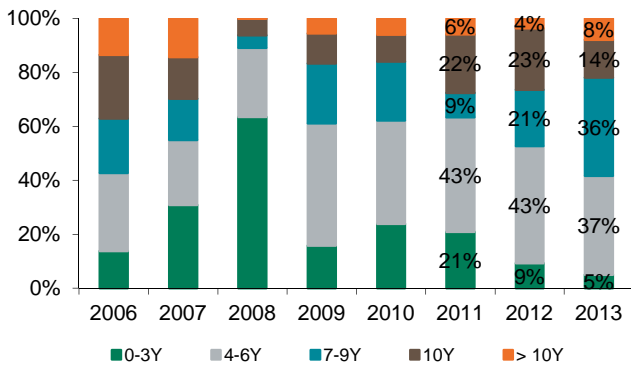
## EUR benchmark issues in 2012 by country



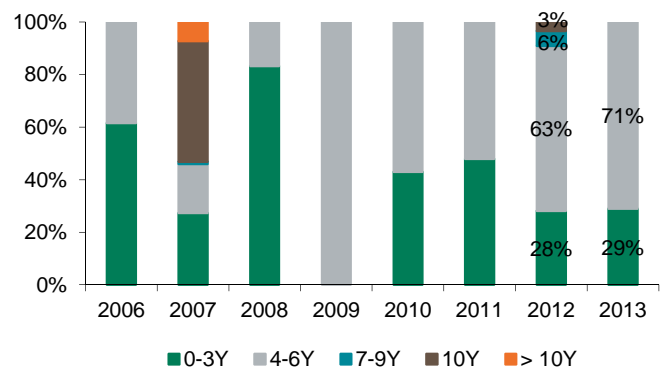
## New USD benchmark issues in 2012 by country



## Initial term distribution of new EUR benchmark issues



## Initial term distribution of new USD benchmark issues



## New EUR benchmark issues per country (EURbn)

All EUR benchmarks													
	AU	FI	EN	FR	GE	IT	NE	NO	SP	SW	SZ	Oth.	Tot.
1/13	0.0	1.3	0.0	2.2	3.6	2.0	0.0	2.5	6.3	0.0	0.0	2.5	20.3
2/13	0.0	0.0	0.0	2.5	0.5	0.0	0.0	0.0	1.0	0.0	1.0	1.0	5.0
3/13	0.0	0.0	0.0	1.0	1.0	0.0	0.0	0.0	1.0	1.0	0.0	0.5	4.5
4/13	0.0	0.0	0.0	3.5	2.5	0.0	0.0	0.0	0.6	1.5	0.0	1.6	9.7
5/13	0.0	0.0	0.0	1.0	1.4	0.0	1.3	0.0	1.4	0.0	0.0	3.3	8.3
6/13	0.0	0.5	0.0	1.2	3.0	1.0	0.0	1.0	0.0	0.0	0.0	0.5	7.2
7/13	0.0	0.0	0.0	1.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	3.5	5.0
8/13	0.0	1.5	0.0	1.0	1.0	1.0	1.5	0.0	0.0	0.0	0.0	1.8	6.7
9/13	0.5	0.0	0.0	3.5	1.1	0.8	0.0	0.5	0.8	0.0	0.0	2.2	9.3
10/13	0.0	0.0	0.0	0.0	0.0	2.0	0.5	0.0	0.0	0.0	0.0	0.0	2.5
2013 ytd	0.5	3.3	0.0	15.9	14.1	7.3	3.3	4.0	10.0	3.5	0.0	16.8	78.5
2012	8.8	6.0	3.8	26.0	15.3	3.3	7.3	11.7	10.3	1.6	2.8	9.5	106.1
2011	0.0	9.1	19.3	49.8	25.8	14.8	9.8	9.0	18.7	10.0	3.3	8.3	177.7

## New USD benchmark issues per country (USDbn)

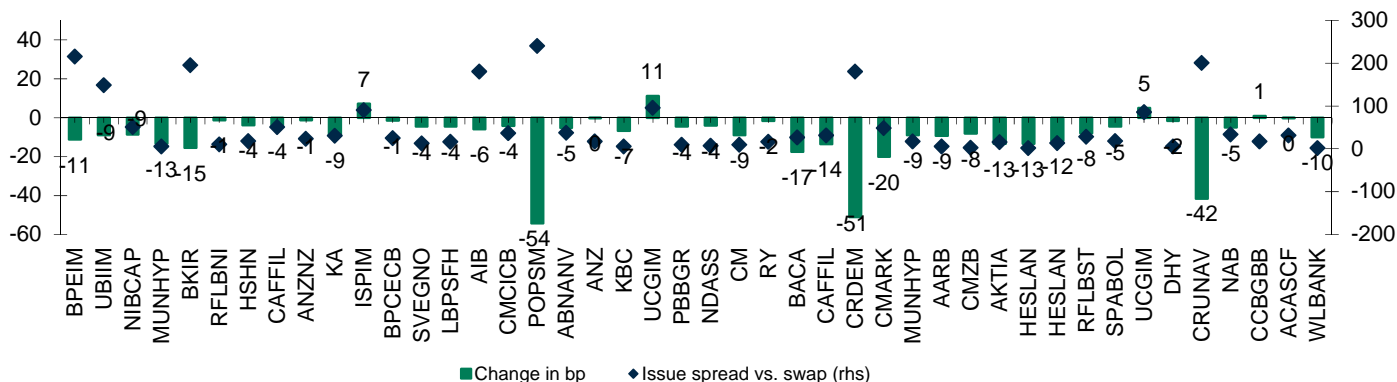
All USD benchmarks											
	CA	EN	FR	GE	NE	NO	SK	SW	SZ	AU	Total
1/13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.0
2/13	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	1.8	2.3
3/13	0.0	0.0	0.0	0.0	0.0	2.0	0.0	1.0	1.3	0.0	4.3
4/13	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	1.0
5/13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.0	1.3	4.0
7/13	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8
9/13	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
2013 ytd	3.8	0.0	0.0	0.0	0.0	3.0	0.5	3.8	1.3	5.0	17.3
2012	16.4	2.0	1.0	2.0	1.5	2.3	0.0	3.0	5.5	10.8	44.4
2011	21.9	1.3	3.0	0.5	0.0	6.3	0.5	3.0	1.0	2.3	39.7

Source all charts: Bloomberg, Crédit Agricole CIB

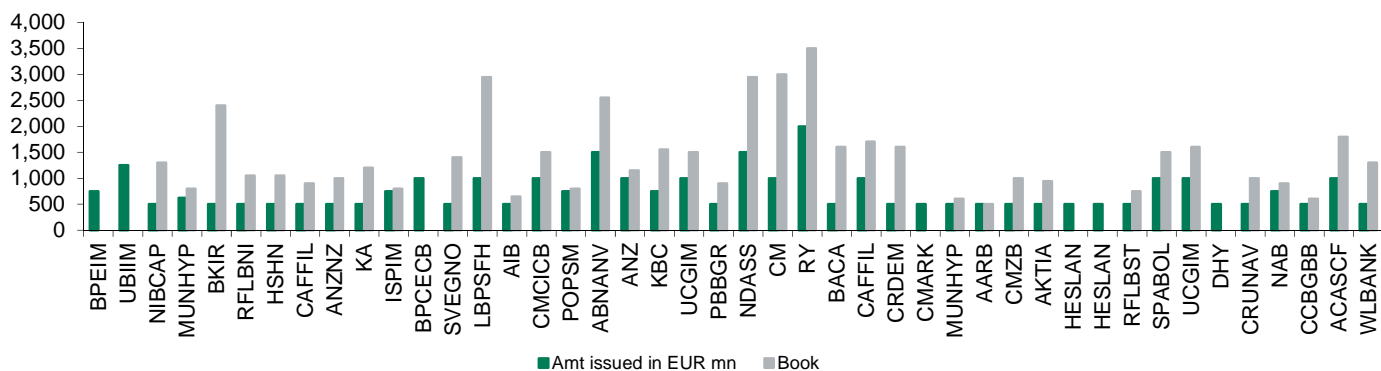
Source all charts: Bloomberg, Crédit Agricole CIB

# Recent EUR benchmark covered bond issues

## Issue spread and spread performance – recent EUR benchmark covered bond issues (bp)



## Amount issued and book volume – recent EUR benchmark covered bond issues (EURm)



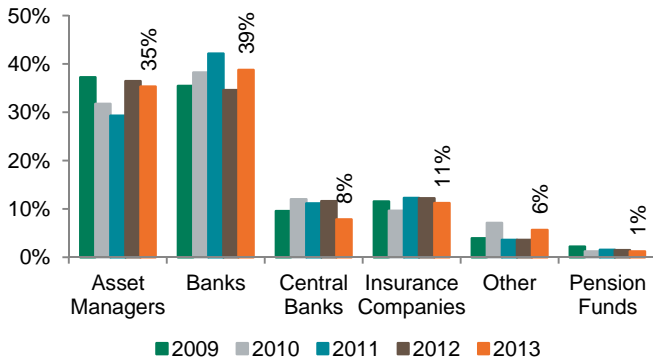
## Overview last 25 EUR benchmark covered bonds issues

ISIN	Type	Security Description	Rating (S&P / Moody's / Fitch / DBRS)	Amt issued in EUR mn	Book	Issue spread vs. swap	Current spread vs. swap	Change in bp	Last price
IT0004965346	Italian CB	BPEIM 3 3/8 10/22/18	- / Baa2e / - / -	750	n/a	215	203	-12	99.98
IT0004966195	Italian CB	UBIIM 3 1/8 10/14/20	- / A2e / A+e / -	1,250	n/a	148	139	-9	100.01
XS0977140531	Dutch CB	NIBCAP 1 3/4 10/08/18	AAA / - / AAA / -	500	1,300	50	42	-8	100.10
DE000MHB11J1	Pfandbrief - PS	MUNHYP 1 1/8 10/04/18	- / Aaa / - / -	625	800	5	-8	-13	99.56
XS0975903112	Mortgage ACS	BKIR 3 5/8 10/02/20	- / Baa3 / - / AL	500	2,400	195	179	-16	100.62
XS0975766295	Austrian CB	RFLBNI 1 3/4 10/02/20	- / Aaa / - / -	500	1,050	10	9	-1	99.70
DE000HSH4MH4	Pfandbrief - M	HSHN 1 3/8 10/02/18	- / Aa3 / - / -	500	1,050	18	14	-4	99.67
FR0011580588	France - OH	CAFFIL 3 10/02/28	AAA / Aaa / AA+ / -	500	900	50	46	-4	99.31
XS0973586059	New Zealand CB	ANZNV 1 1/2 10/02/18	- / Aaa / AAA / -	500	1,000	23	18	-5	100.09
XS0973424152	Austrian CB	KA 1 5/8 09/25/18	- / Aa2 / - / -	500	1,200	30	22	-8	100.53
IT0004961295	Italian CB	ISPIIM 2 1/4 09/24/18	- / A2 / - / -	750	800	90	97	7	99.88
FR0011565985	France - OH	BPCECB 2 1/8 09/17/20	AAA / Aaa / - / -	1,000	n/a	25	23	-2	101.24
XS0969571065	Norw. CB	SVEGNO 1 1/2 09/11/18	- / Aaa / - / -	500	1,400	12	8	-4	100.66
FR0011565738	France - OH	LBPSFH 1 7/8 09/11/20	AAA / - / - / -	1,000	2,950	16	12	-4	100.41
XS0969616779	Mortgage ACS	AIB 3 1/8 09/10/18	A / Baa3 / A / -	500	650	180	174	-6	100.33
FR0011564962	France - OH	CMCICB 2 1/2 09/11/23	AAA / Aaa / AAA / -	1,000	1,500	36	32	-4	100.26
ES0413790314	Céd. Hip.	POPSM 3 1/2 09/11/17	- / Baa2 / - / A	750	800	240	184	-56	102.26
XS0968926757	Dutch CB	ABNAV 2 1/2 09/05/23	AAA / Aaa / AAA / -	1,500	2,550	37	32	-5	100.29
XS0968449057	Australian CB	ANZ 1 3/8 09/04/18	- / Aaa / AAA / -	1,000	1,150	17	14	-3	99.77
BE0002441161	Belgium CB	KBC 0 7/8 08/29/16	- / Aaa / AAA / -	750	1,550	5	-2	-7	100.32
IT0004957137	Italian CB	UCGIM 2 5/8 10/31/20	AA / A2 / A / -	1,000	1,500	95	106	11	98.85
DE000A1X2566	Pfandbrief - M	PBBGR 1 3/8 08/28/18	AA+ / Aa2 / - / -	500	900	9	5	-4	100.25
XS0965104978	Fi. CB	NDASS 1 3/8 08/28/18	- / Aaa / - / -	1,500	2,950	7	3	-4	100.33
XS0958742313	Canadian CB	CM 1 1/4 08/07/18	- / Aaa / AAA / -	1,000	3,000	9	-3	-12	100.10
XS0956580327	Canadian CB	RY 1 5/8 08/04/20	AAA / Aaa / AAA / AAA	2,000	3,500	16	12	-4	98.89

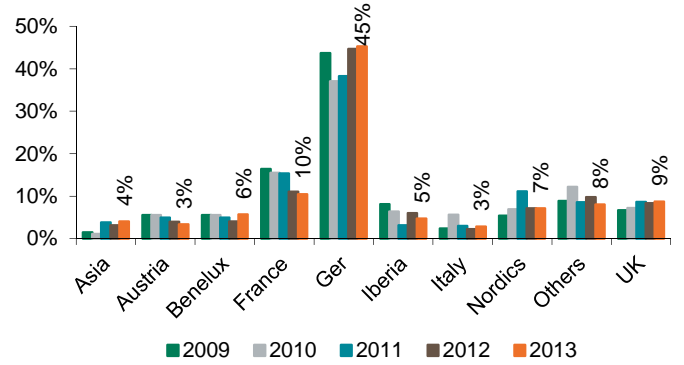
Source all charts: Bloomberg, IFR, Coveredbondreport.com, The Cover, Crédit Agricole CIB

# Investor distributions and redemptions

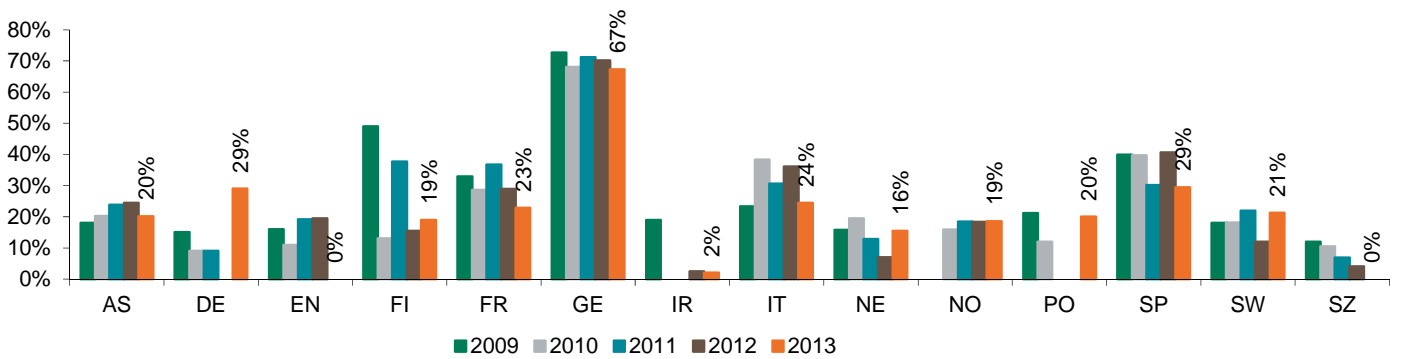
**Distribution EUR benchmark issues by investor type**



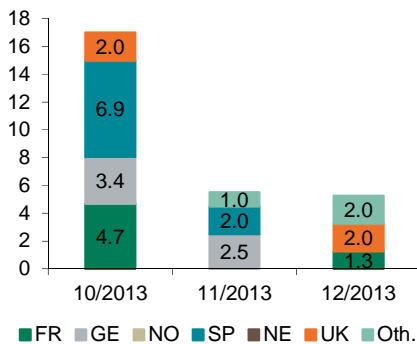
**Distribution EUR benchmark new issues by country**



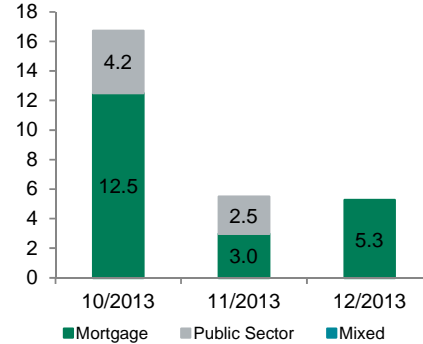
**Average domestic participation in new EUR benchmark covered bond issues (%)**



**EUR benchmark redemptions (EURbn)**



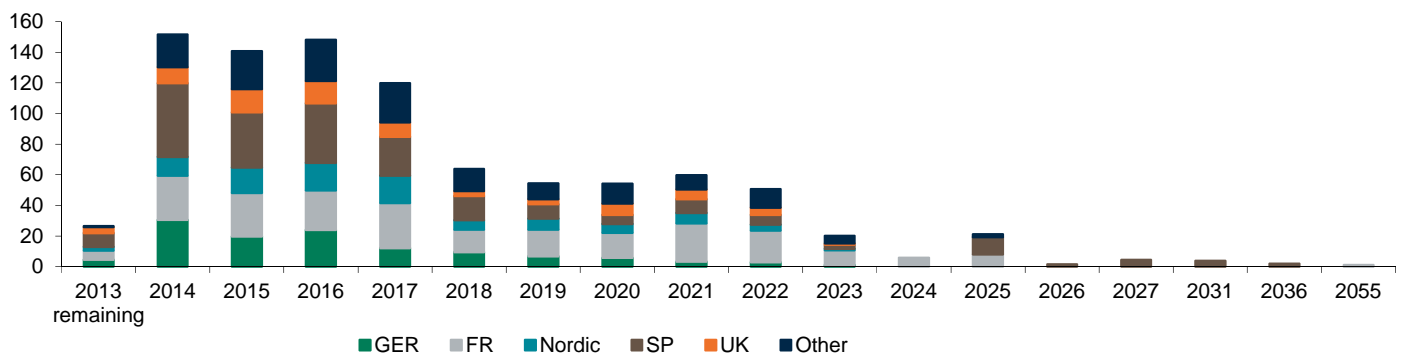
**EUR benchmark redemptions (EURbn)**



**Upcoming EUR benchmark redemptions**

ISIN	Maturity	Country	Ticker	Cpn	Amt out	Tenor
DE000DXA1NB5	21/10/2013	GE	DEXGRP	1.63	1,000	3
XS0178952650	23/10/2013	EN	LLOYDS	4.5	2,000	10
FR0000488702	25/10/2013	FR	CRH	5	4,705	12
ES0312298088	25/10/2013	SP	AYTCED	3.75	1,300	7
ES0414970188	31/10/2013	SP	CABKSM	4.25	2,000	10
DE000A0KAA75	04/11/2013	GE	WLBANK	3.75	1,000	7
XS0465450525	13/11/2013	GE	COREAL	3	500	4
XS0559150833	15/11/2013	AS	HYNOE	2	500	3
XS0560055955	18/11/2013	FI	AKTIA	2	500	3
DE000HBE1MM2	21/11/2013	GE	HYPFRA	3.88	1,000	7
ES0317019000	26/11/2013	SP	CEDTDA	4.5	2,000	10
XS0277571385	05/12/2013	EN	NWIDE	3.88	2,000	7
FR0010034348	10/12/2013	FR	CIFEUR	4.5	1,260	10

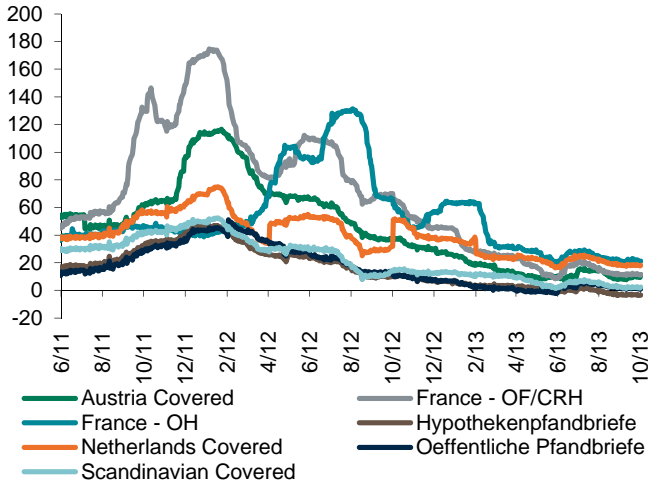
**EUR benchmark covered bond redemptions per country (EURbn)**



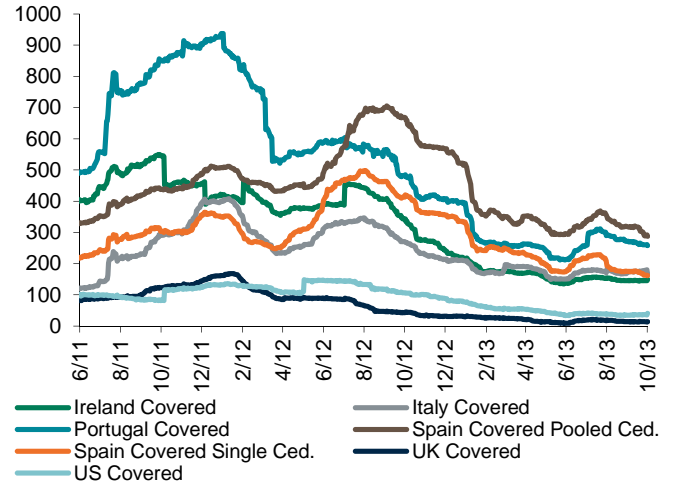
Source all charts: iBoxx, Crédit Agricole CIB

# Secondary market monitor

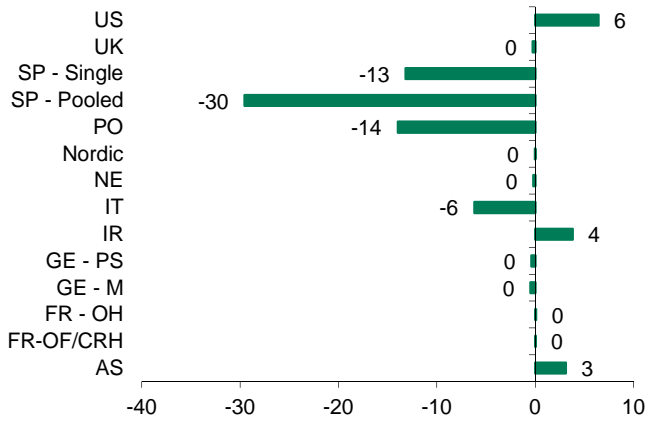
ASW 3-5Y covered bonds per country (bp)



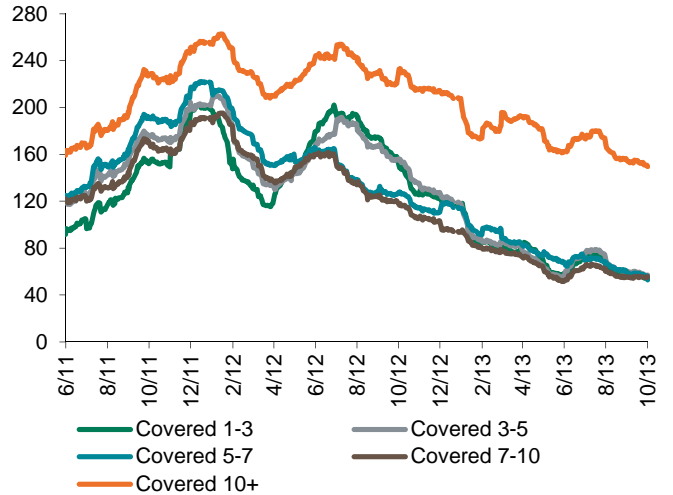
ASW 3-5Y covered bonds per country (bp)



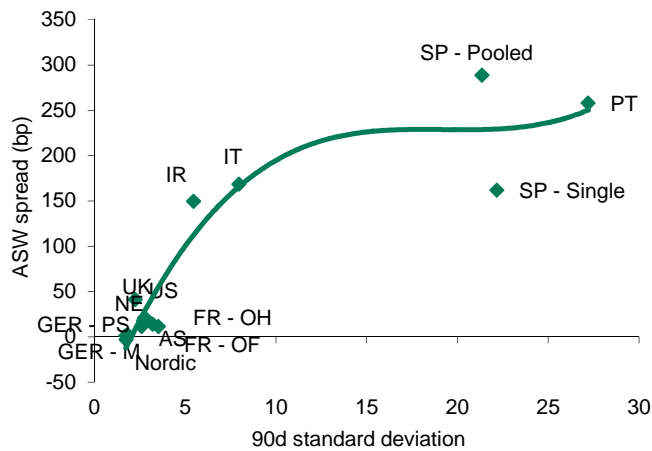
MoM change ASW covered bond 3-5Y segments (bp)



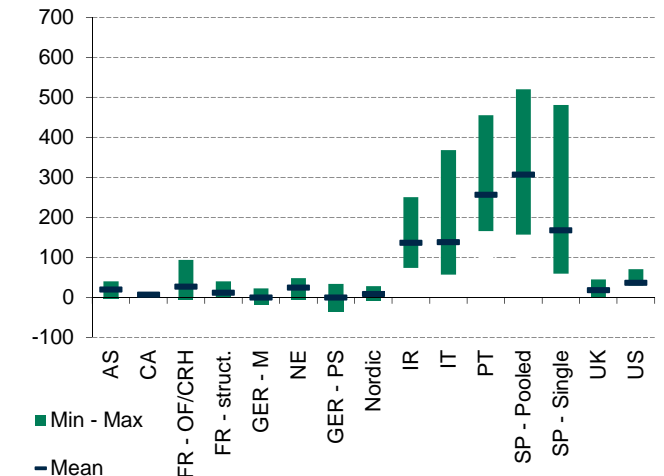
ASW covered bonds per maturity bracket (bp)



Covered spreads vs standard deviation (bp)



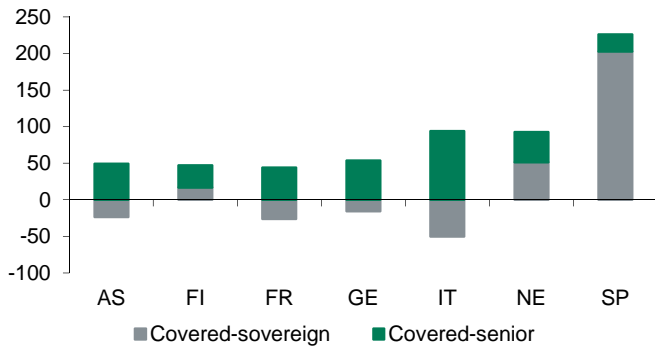
Min/mean/max CB ASW spreads per country (bp)



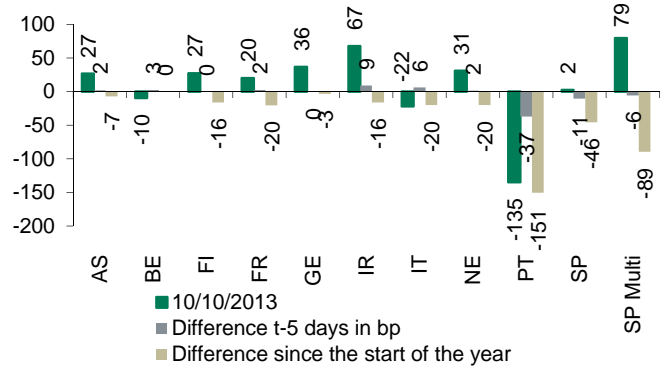
Source all charts: iBoxx, Crédit Agricole CIB

# Covered bonds vs other asset classes

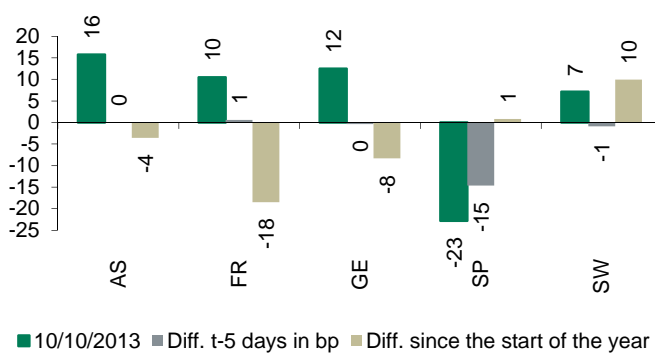
Relative value covered-senior and covered-govie (bp)



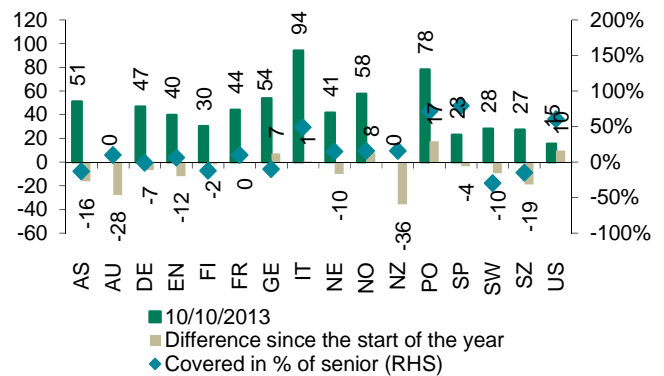
Average covered – govie basis (bp)



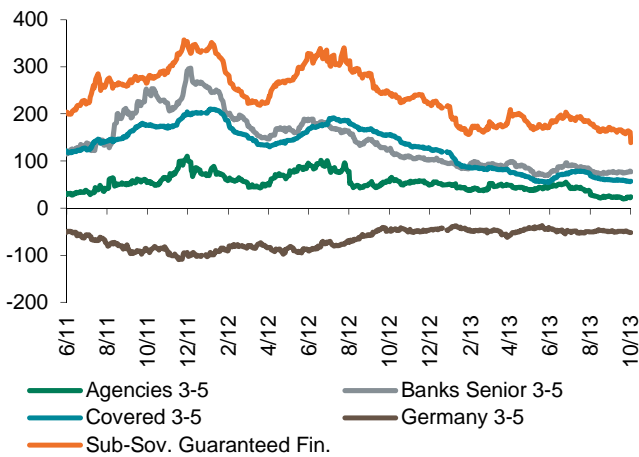
Covered – Agency basis (bp)



Covered – Senior basis (bp)



ASW covered bonds vs other asset classes (bp)



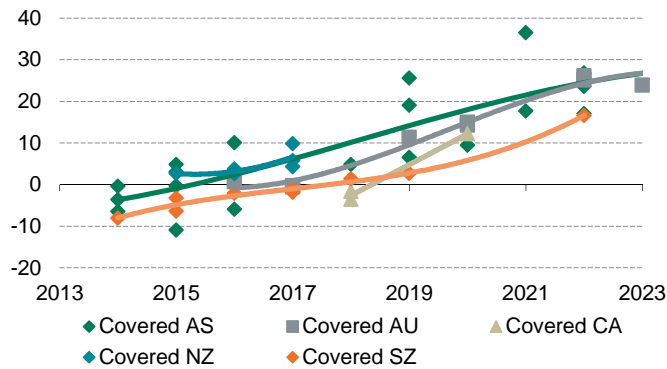
Average spread levels vs other asset classes (bp)

Country	5Y Govie	5Y Agency	5Y Covered	5Y Senior
AS	-20	-16	3	118
AU	-	-	1	35
BE	-1	-	4	61
EN	-	-	8	46
FR	-18	-4	5	47
GE	-50	-19	-5	76
IR	132	210	139	-
IT	173	-	156	216
NE	-21	-	16	55
NO	-	-	2	64
NZ	-	-	7	50
SZ	-	-	-1	34
DE	-	-	1	59
FI	-30	-	-1	32
PO	-	-	250	-
SP	154	169	178	137
SW	-	-	-4	35

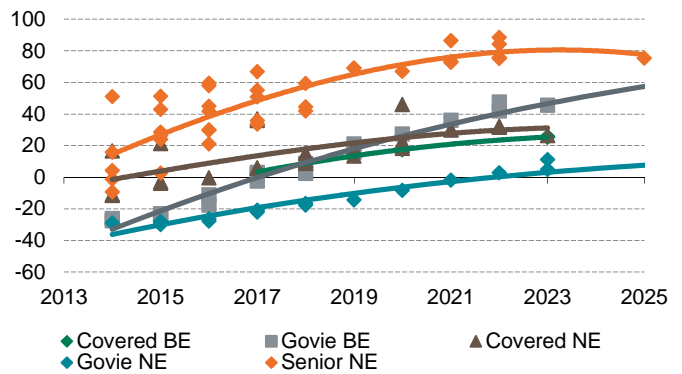
Source all charts: iBoxx, Crédit Agricole CIB

# Spread curves covered bonds vs seniors, agencies, govies

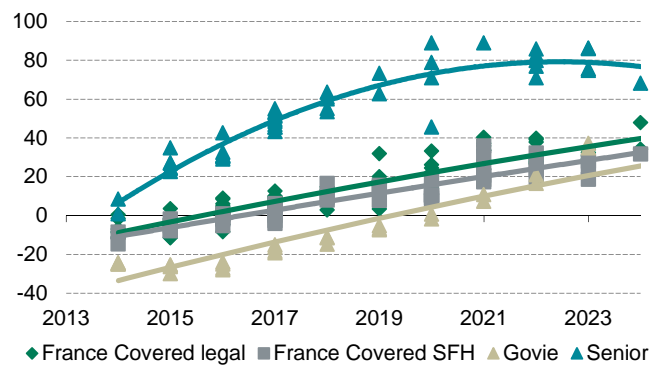
**Asset swap spreads – AU, AS, CA, NZ, SZ (bp)**



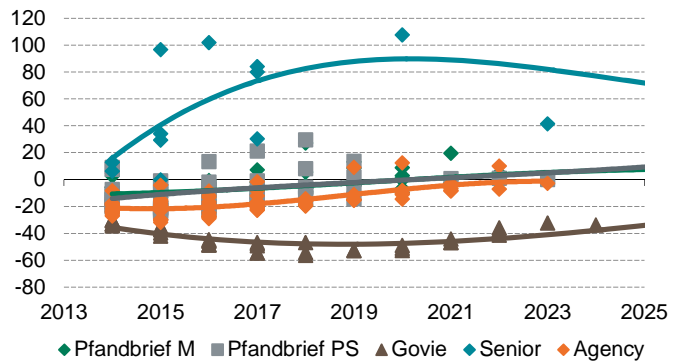
**Asset swap spreads – Benelux (bp)**



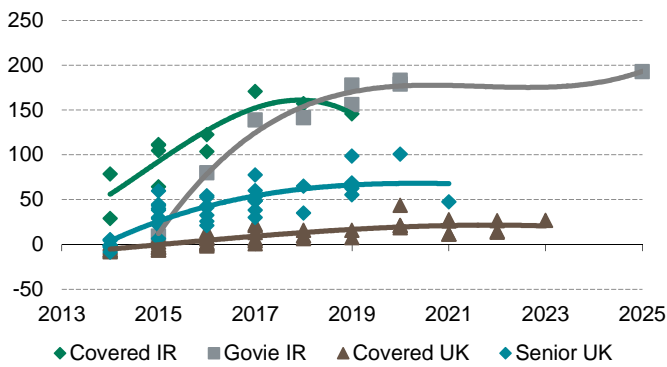
**Asset swap spreads – France (bp)**



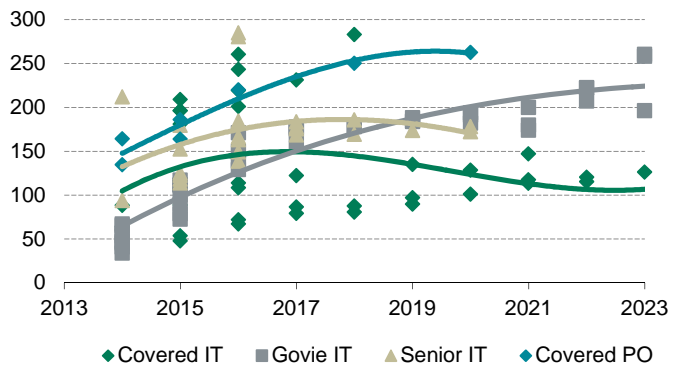
**Asset swap spreads – Germany (bp)**



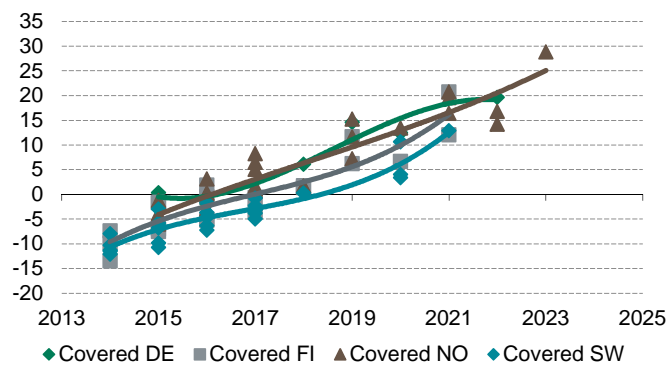
**Asset swap spreads – IR, UK (bp)**



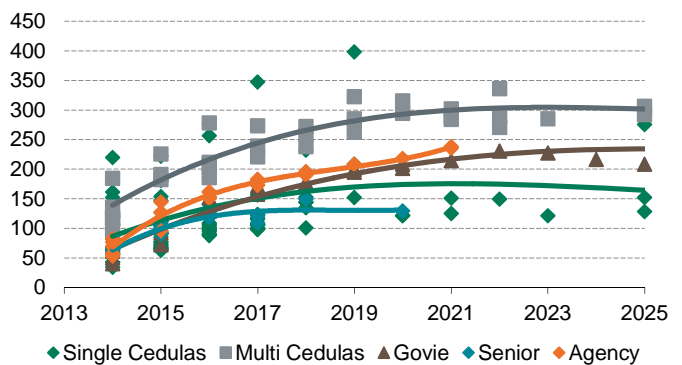
**Asset swap spreads – IT, PT Spain (bp)**



**Asset swap spreads – Nordics (bp)**



**Asset swap spreads – Spain (bp)**



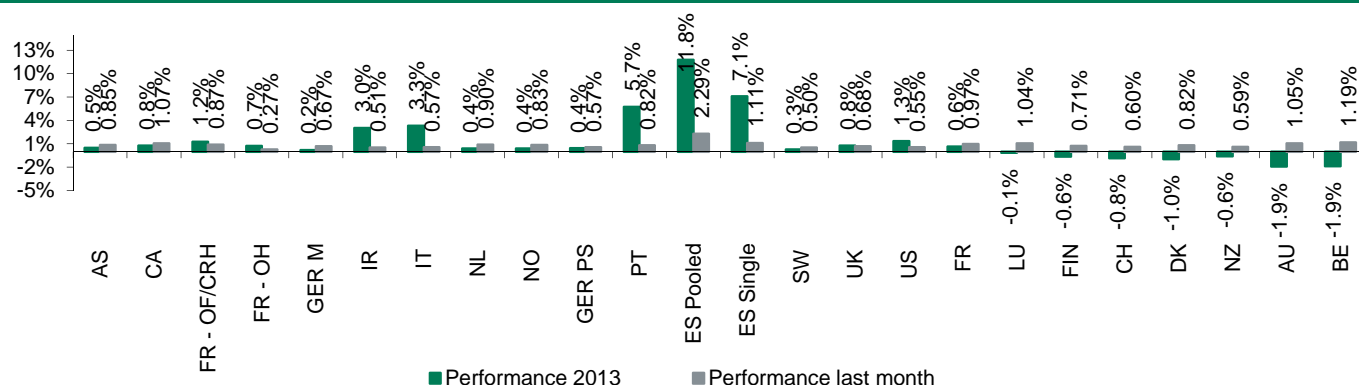
Source all charts: iBoxx, Crédit Agricole CIB

## iBoxx EUR Covered index analysis

### Overview performance iBoxx EUR Covered sub-indices month on month

iBoxx Covered indices	Index level 1st January 2013	Index level 1st last month	Index level 31st last month	Performance 2013	Performance last month
iBoxx € Covered	190.11	193.27	195.04	2.59%	0.92%
iBoxx € Covered 1-3	173.60	176.84	177.45	2.22%	0.35%
iBoxx € Covered 3-5	192.71	195.81	197.49	2.48%	0.86%
iBoxx € Covered 5-7	204.54	207.25	210.01	2.67%	1.33%
iBoxx € Covered 7-10	215.35	217.33	220.45	2.37%	1.44%
iBoxx € Covered 10+	201.28	209.03	214.40	6.52%	2.57%
iBoxx € Austria Covered	134.78	134.26	135.40	0.46%	0.85%
iBoxx € Canada Covered	124.68	124.30	125.62	0.76%	1.07%
iBoxx € France Covered Legal	140.91	141.43	142.65	1.24%	0.87%
iBoxx € France Covered Structured	128.79	129.38	129.72	0.72%	0.27%
iBoxx € Hypothekenpfandbriefe	191.41	190.48	191.75	0.18%	0.67%
iBoxx € Ireland Covered	139.16	142.64	143.37	3.03%	0.51%
iBoxx € Italy Covered	123.02	126.37	127.08	3.30%	0.57%
iBoxx € Netherlands Covered	143.28	142.54	143.82	0.38%	0.90%
iBoxx € Norway Covered	134.83	134.22	135.33	0.38%	0.83%
iBoxx € Oeffentliche Pfandbriefe	183.63	183.39	184.44	0.44%	0.57%
iBoxx € Portugal Covered	134.64	141.23	142.38	5.75%	0.82%
iBoxx € Spain Covered Pooled Cedulas	120.30	131.48	134.49	11.79%	2.29%
iBoxx € Spain Covered Single Cedulas	120.21	127.30	128.72	7.08%	1.11%
iBoxx € Sweden Covered	131.68	131.40	132.05	0.28%	0.50%
iBoxx € UK Covered	142.50	142.60	143.57	0.75%	0.68%
iBoxx € US Covered	146.23	147.34	148.15	1.32%	0.55%
iBoxx € France Covered SFH	114.34	113.94	115.05	0.62%	0.97%
iBoxx € Luxembourg Covered	100.12	98.95	99.99	-0.13%	1.04%
iBoxx € Finland Covered	99.96	98.62	99.32	-0.64%	0.71%
iBoxx € Switzerland Covered	99.95	98.52	99.11	-0.84%	0.60%
iBoxx € Denmark Covered	99.91	98.15	98.95	-0.96%	0.82%
iBoxx € New Zealand Covered	100.03	98.86	99.44	-0.59%	0.59%
iBoxx € Australia Covered	99.80	96.87	97.89	-1.92%	1.05%
iBoxx € Belgium Covered	99.82	96.81	97.96	-1.86%	1.19%

### iBoxx EUR Covered sub-indices – performance last month and since the beginning of the year (%)



Source all charts: iBoxx, Crédit Agricole CIB

Details iBoxx EUR Covered				Details iBoxx EUR Covered			
Index	Nominal value (EURbn)	Weight	Annual MDUR	Index	Nominal value (EURbn)	Weight	Annual MDUR
iBoxx EUR Covered	790.3	100.0%	4.13	Hypothekendarlehenbriefe	51.1	6.5%	3.74
iBoxx EUR Covered 1-3	290.3	36.7%	1.9	Oeffentliche Darlehenbriefe	38.1	4.8%	3.23
iBoxx EUR Covered 3-5	212.7	26.9%	3.54	Other Darlehenbriefe	0.5	0.1%	3.65
iBoxx EUR Covered 5-7	107.4	13.6%	5.47	Irland Covered	12.6	1.6%	2.53
iBoxx EUR Covered 7-10	136.0	17.2%	6.91	Italien Covered	40.6	5.1%	4.05
iBoxx EUR Covered 10+	44.2	5.6%	9.64	Luxemburg Covered	1.0	0.1%	4.22
Austrien Covered	14.6	1.9%	4.47	Niederlande Covered	39.6	5.0%	4.75
Australien Covered	12.5	1.6%	5.47	Norwegen Covered	32.9	4.2%	4.29
Belgien Covered	6.0	0.8%	5.3	Neuseeland Covered	5.0	0.6%	3.27
Canada Covered	4.3	0.5%	5.18	Portugal Covered	6.2	0.8%	2.54
Danmark Covered	8.0	1.0%	4.18	Pooled Cédulas	59.0	7.5%	4.62
Finnland Covered	22.1	2.8%	3.68	Single Cédulas	120.9	15.3%	3.44
Frankreich Covered Legal	139.1	17.6%	4.73	Schweden Covered	25.2	3.2%	2.99
Frankreich Covered SFH	66.6	8.4%	5.15	Schweizland Covered	11.5	1.5%	3.33
Frankreich Covered Structured	3.0	0.4%	1.92	UK Covered	65.8	8.3%	3.88
				US Covered	4.0	0.5%	3.05

Source all charts: iBoxx, Crédit Agricole CIB

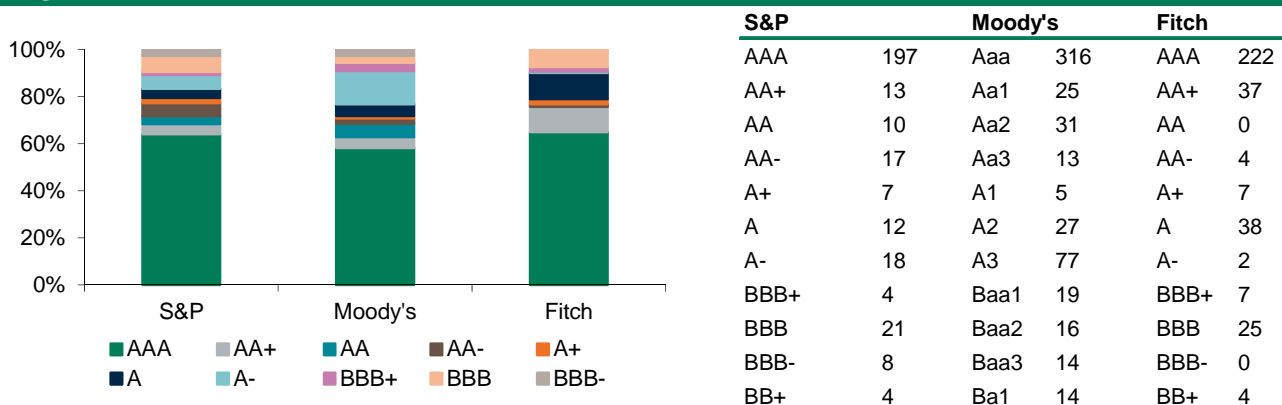
## Rating changes + overview

### Benchmark covered bond rating changes last month

Date	Issuer	Country	Type	Agency	Rating old	Rating new
11/9	BACA	Austrien	Austrian CB	Moody's	Aaa /*-	Aaa
17/9	SNSSNS	Netherl.	Niederlande Covered	Moody's	A1 /*-	A1
20/9	NOVAGA	Spanien	Spanien Hipotecarias	Fitch	BBB+ /*-	BBB+
24/9	BANCAR	Italien	Italien Covered	Moody's	Baa1	Baa1 /*-
24/9	UBIIM	Italien	Italien Covered	Moody's	A2	A2 /*-
24/9	BPIPL	Portugal	Portugal Covered	S&P	A-	A- /*-
24/9	SANTAN	Portugal	Portugal Covered	S&P	BB+	BB+ /*-

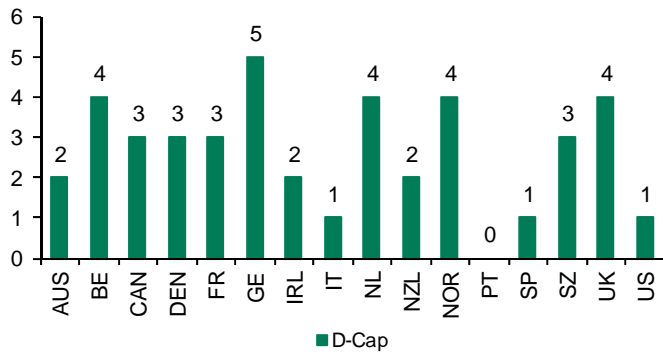
Source: Bloomberg, Crédit Agricole CIB

### Rating distribution iBoxx EUR Covered



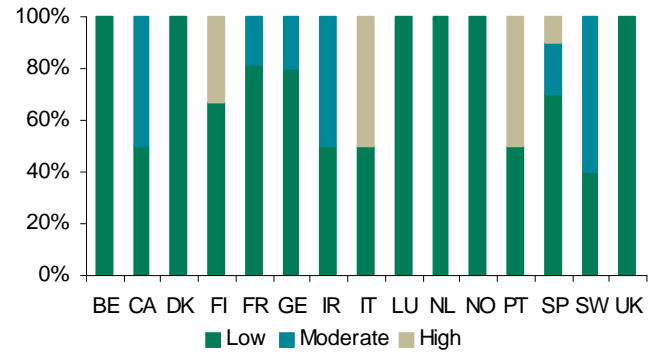
Source: Bloomberg, iBoxx, Crédit Agricole CIB

**Fitch – Distribution D-Caps per country**



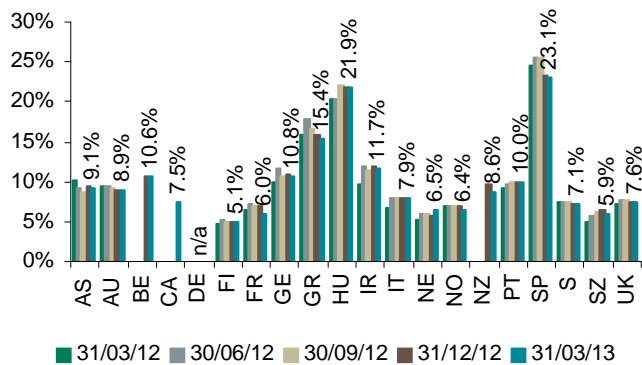
Source: Fitch, Crédit Agricole CIB

**S&P – Distribution ALMM risk category per country**



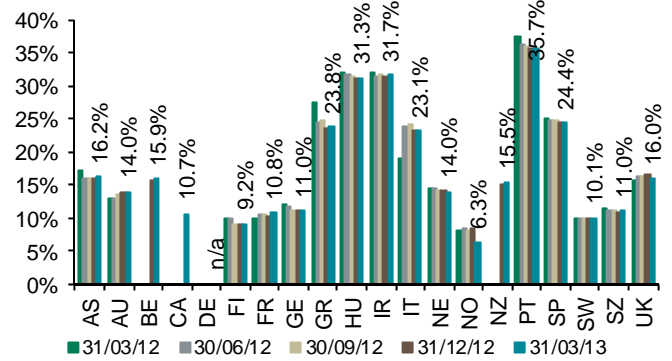
Source: S&P, Crédit Agricole CIB

**Average Moody's collateral score**



Source: Moody's, Crédit Agricole CIB

**Average cover pool losses – Moody's expected loss assumption in case of an issuer default**



Source: Moody's, Crédit Agricole CIB

**Overview covered bond ratings per issuer and country**

	S&P	Moody's	Fitch		S&P	Moody's	Fitch		S&P	Moody's	Fitch
<b>Australia / New Zealand Covered</b>				<b>Germany - Pfandbriefe PS</b>				<b>Other Covered (2)</b>			
ANZ	-	Aaa	AAA	BHH	NR	Aa1	AA-	ETEGA	-	Caa2	B
CBAAU	-	Aaa	AAA	BYLAN	-	Aaa	AAA	CS	-	Aaa	AAA
NAB	-	Aaa	AAA	DEKA	AAA	Aaa	NR	UBS	-	Aaa	AAA
WSTP	-	Aaa	AAA	DEXGRP	A+	-	-	<b>Portugal Covered</b>			
ANZNZ	-	Aaa	AAA	DGHYP	AAA	-	WD	BCPPL	-	Ba1	BBB-
BZLNZ	-	Aaa	AAA	DHY	-	Aa2	-	BESPL	NR	Baa3	WD
WSTP (NZ)	-	Aaa	AAA	DKRED	-	Aa1	-	BPIPL	A- /*-	Baa3	BBB
<b>Austria Covered</b>				DPB	NR	Aaa	AA	CXGD M	NR	Baa3	BBB
BACA	-	Aaa	-	HYPFRA	NR	Aa3	WD	CXGD PS	-	Baa3	BBB-
BAWAG	-	Aa1	-	HESLAN	NR	Aaa	AAA	SANTAN	BB+ /*-	Baa3	BBB
ERSTBK	-	Aaa	-	HSHN	-	Aa2	-	<b>Spain Territoriales</b>			
KA	-	Aa2	-	HVB	AAA	Aaa	-	BBVASM	NR	A3	-
NDOLB	-	Aaa	-	LBBW	-	Aaa	AAA	BKIASM	NR	Ba1	-
RFLBST	-	Aaa	-	MUNHYP	-	Aaa	-	SANTAN	-	A3	-
<b>Canada Covered</b>				NDB	-	Aaa	AAA	<b>Spain Hipotecarias</b>			
BMO	-	Aaa	AAA	PBBGR	AA+	Aa1	WD	BBVASM	A-	A3	-
RY	AAA	Aaa	-	SEBAG	NR	Aa1	-	BKIASM	BBB	Ba1	WD
<b>France - OF / CRH</b>				WESTLB	NR	Aaa	-	BKTSM	A	A3	NR
AXASA	AAA	Aaa	AAA	WLBANK	AAA	-	-	CABKSM	AA-	A3	-
BNPSCF	AAA	WR	AA+	<b>Ireland Covered</b>				CAIXAC	BBB	Ba2	WD
CFF	AAA	Aaa	AAA /*-	AIB	A	Baa3	A	CAJARU	-	Ba2	BBB
CIFEUR	-	Aa2	AA+	BKIR	NR	Baa3	-	CAZAR	A	Baa1 /*-	-
CMARK	AAA	Aaa	-	EBSBLD	-	Baa3	A	CRUNAV	-	A3	-
CRH	-	Aaa	AAA	DEPFA (PS)	BBB	A3	A	KUTXAB	AA-	A3	-
CAFFIL	AAA	Aaa	AA+	ERSTAA (PS)	NR	A3	-	NOVAGA	BBB+	Ba2u	BBB+
GESCF	AAA	Aaa	-	<b>Italy Covered</b>				POPSM	BBB+	Baa2	-
SOCSCF	AAA	Aaa	WD	BANCAR	-	Baa1 /*-	BBB+	SABSM	-	A3 /*-	-
<b>France - OH / FSCB</b>				BPIM	-	Baa2	BBB+	SANTAN	-	A3	A
ACACB	AAA	Aaa	AAA	CRDEM	-	A2	A+	SANTAN (CF)	-	A3	-
BNPPCB	AAA	WR	AAA	ISPIM	-	A2	-	UCAJLN	-	Baa2 /*-	-
BPCECB	AAA	Aaa	-	MONTE	-	Ba1	A	<b>Sweden Covered</b>			
BPCOV	AAA	Aaa	-	PMIIM	-	Baa2 /*-	A- /*-	LANSBK	AAA	Aaa	-
CDEE	AAA	Aaa	-	UBIIM	-	A2 /*-	A+	NDASS	AAA	Aaa	-
CMARK	AAA	-	-	UCGIM	AA	A2	A	SBAB	AAA	Aaa	-
CMCICB	AAA	Aaa	AAA	ISPIM (PS)	-	A3	-	SEB	-	Aaa	-
HSBC	AAA	Aaa	-	<b>Netherlands Covered</b>				SHBASS	-	Aaa	-
SOCSFH	-	Aaa	AAA	ABNANV	AAA	Aaa	AAA	SPNTAB	AAA	Aaa	-
<b>Germany - Pfandbriefe M</b>				ACHMEA	NR	Aa2	AAA	<b>UK Covered</b>			
AARB	-	-	AAA	INTNED	AAA	Aaa	AAA	ABBAY	AAA	Aaa	AAA
BHH	-	Aa1	AA+	NIBCAP	-	WR	A+	BACR	AAA	Aaa	AAA
COREAL	-	-	AA-	SNSSNS	-	A1	AA+	BRADBI	AAA	Aa1	AA+
DB	AAA	Aaa	-	<b>Norway Covered</b>				COVBS	-	Aaa	AAA
DHY	-	Aa2	-	DNBNOR	AAA	Aaa	AAA	LLOYDS	AAA	Aaa	AAA
DPB	NR	Aaa	AAA	SPABOL	-	Aaa	AAA	LLOYDS	-	Aaa	AAA
HYPFRA	NR	Aa3	WD	SVEG	-	Aaa	WD	NRKLN	AAA	Aaa	AAA
HSHN	-	Aa3	-	TERBOL	-	Aa2	-	NWIDE	AAA	Aaa	AAA
HVB	-	Aa1	AAA	<b>Other Covered</b>				RBS	-	Aaa /*-	AAA
INGDIB	-	Aaa	-	AKTIA	-	Aa3	-	YBS	-	Aa2	AA+
LBBW	-	Aaa	-	POHBK	AAA	Aaa	-	<b>US Covered</b>			
MUNHYP	-	Aaa	-	SAMBANK	-	Aaa	-	BAC	A+	A1	AA-
NDB	-	A2	-	DANBNK (I)	AAA	WR	AAA	JPM	A+	WR	AA-
PBBGR	AA+	Aa2	WD	DANBNK (C)	AAA	-	AAA				
WESTIB	AA	-	-	NYKRE	A+	WR	-				
WLBANK	AAA	-	-	EURHYP (LX)	NR	-	A				

Source: Bloomberg, Crédit Agricole CIB

## Articles in previous issues...

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### **August 2013 - [CSI 16th edition and new ECB repo haircuts](#)**

- CSI 16th edition – core sector sentiment improves in overall sideways index move
- ECB increases repo haircuts for retained covered bonds – first step to reducing banks' reliance on central bank liquidity?

### **July 2013 - [Moody's and Cedulas, EBA and the LCR, bail-in and covered bonds, as well as Canada](#)**

- Spanish days at Moody's – what is in store for multi-Cedulas and where do we see value in Cedulas?
- Minimising bail-in-related residual risk for covered bonds – think like a politician...
- CRD IV/CRR texts published – decision on level 2 cap of 40% passed on to EBA

### **June 2013 - [CSI 15th edition, new Aktia covered bonds and some thoughts on planned Depfa sale](#)**

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- Aktia Bank plc to start issuing covered bondsxx
- HRE initiates sale process of Depfa Bank plc – not good news for ACS holders

### **May 2013 - [Covered bond relative value and bail-ins, CRD IV, Credit Logement and ECB base rate cut](#)**

- Covered bond relative value vs senior unsecured in a bail-in world...
- CRD IV package passed – we're still in wait and see mode though in this never ending saga...
- Credit Logement downgraded to Aa3 – should we get worried about OHs now...?
- ECB lowers from 0.75% to 0.5% - more covered bonds become carry trade material.

### **April 2013 - [CSI 14th edition, which regulatory reforms are relevant to investors, Asian accounts and Coda](#)**

- CSI 14th edition – investor sentiment holding up remarkably well...
- Covered bonds and regulation – do investors care at all and where is their focus?
- Covered bonds and Asia – not just potential issuance, investors are also showing more interest again
- Covered bond shorts

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Our CASH ANALYSIS pages give you an overview of the company you select, including our analyst's view, the issuer's bonds, spread performance and spread history. (see KPN as an example, right)

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## Rating target

## Fundamental credit assessment:

We evaluate the fundamental credit quality trend of an issuer for the next 12 months.

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We assign a rating to a company which reflects the assessment of the credit quality by the credit analyst. The timeframe for the rating is one year. As a rating scale we use a scale similar to that of S&P and Fitch, however, we substitute the rating agencies' plus or minus by high and low, ie, the Crédit Agricole CIB scale uses High-AA, Mid-AA, Low-AA, etc.

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Performance of credit instruments: We express our expectation of how the 5Y CDS is going to perform vis-à-vis its sector over a one month timeframe. When the analyst changes a recommendation he/she should indicate in the analysis when the last recommendation was made.

**SELL:** CDS spreads should outperform the sector performance.

**NEUTRAL:** CDS spreads should perform in line with the sector performance.

**BUY:** CDS spreads should underperform the sector performance.

	All companies covered		Companies where CA CIB provided Investment Banking Services in past 12 months	
	Count	Percent	Count	Percent (of 'all companies covered')
Sell	23	26%	12	52%
Neutral	41	46%	22	54%
Buy	25	28%	9	36%

## Cash recommendation (per issuer on a six-month horizon)

**BUY:** Overweight exposure to all the issuer's bonds. It corresponds to a strong positive conviction about the issuer in terms of both credit metrics and relative valuation aspects.

**ADD:** Overweight exposure to some specific bonds of the issuer. Fundamental opinion is positive on the credit's underlying. Relative value analysis can lead to overweight or maintain the position on some specific bonds.

**NEUTRAL:** Maintain position based on stable credit fundamentals. Relative value analysis can lead to overweight/underweight or maintain the position on some bonds of the issuer.

**REDUCE:** Underweight exposure to some specific bonds of the issuer. Fundamental opinion is negative on the credit's underlying. Relative value analysis can lead to underweight or maintain the position on some specific bonds.

**SELL:** Underweight exposure to all the issuer's bonds. It corresponds to a strong negative conviction about the issuer in terms of both credit metrics and relative valuation aspects.

	All companies covered		Companies where CA CIB provided Investment Banking Services in past 12 months	
	Count	Percent	Count	Percent (of 'all companies covered')
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Add	30	28%	18	60%
Neutral	42	39%	21	50%
Reduce	24	22%	9	38%
Sell	4	4%	2	50%

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