Update on Covered Bonds in European Emerging Markets

Jacek Kubas

Munich, September 2018

European Bank
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European Covered Bond Market - Overview

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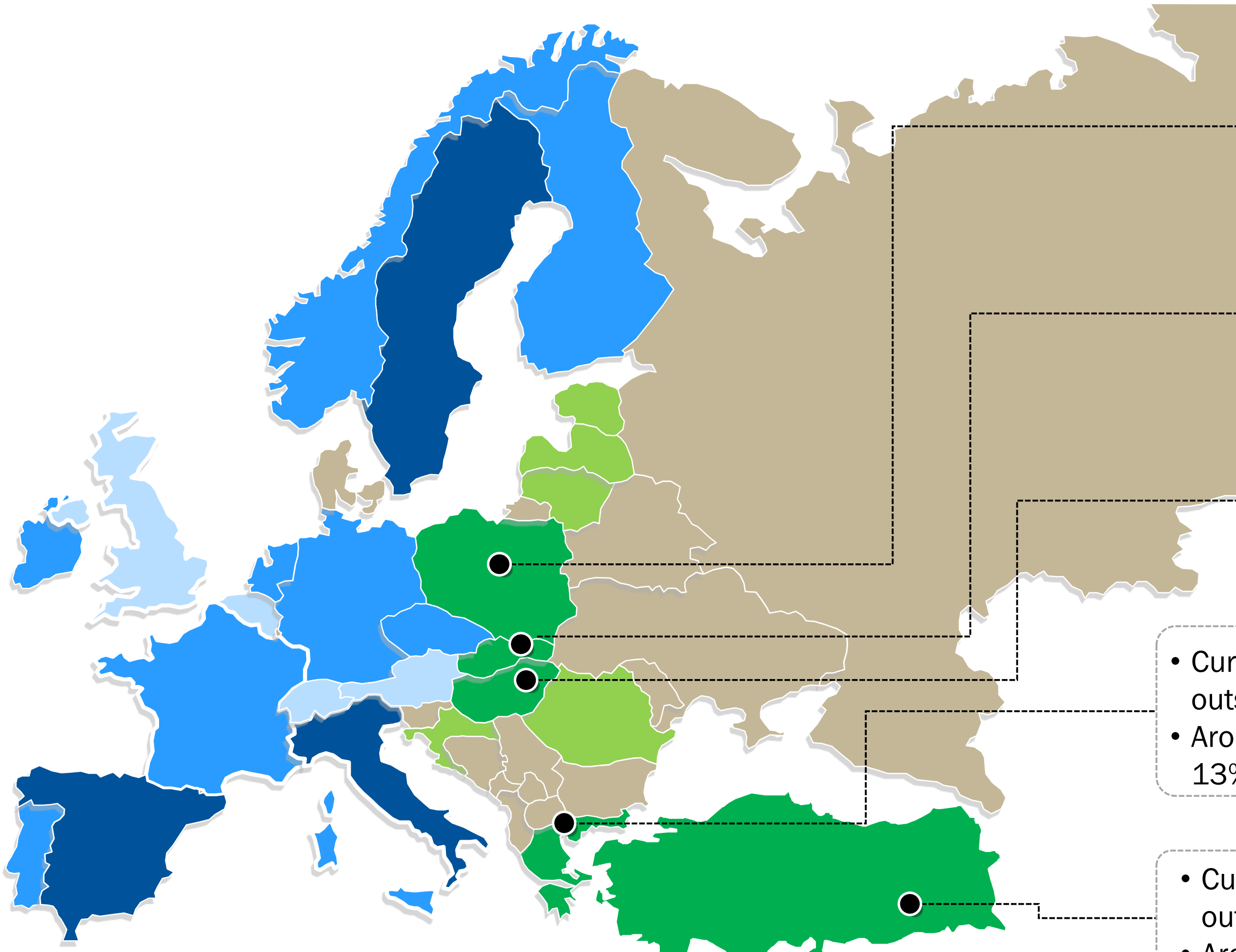

Poland

- Currently EUR 4.4 bn in covered bond outstanding
- Around 5% of mortgage stock

Slovakia

- Currently EUR 3.1 bn in covered bond outstanding
- Around 13% of mortgage stock

Hungary

- Currently EUR 3.2 bn in covered bond outstanding
- Around 24% of mortgage stock

Greece

- Currently EUR 2.3 bn in covered bond outstanding / 7.5bn including retained
- Around 3% of mortgage stock (incl. retained c. 13%)

Turkey

- Currently EUR 1.9 bn in covered bond outstanding
- Around 4% of mortgage stock

Covered Bond market penetration: CBs outstanding as % of Mortgage Stock

> 40% | 20% - 40% | < 20% | *No data* | *Active EBRD COOs* | *TC Support / Pipeline in EBRD COOs*

Covered bonds can provide several key benefits to EBRD's transition economies.

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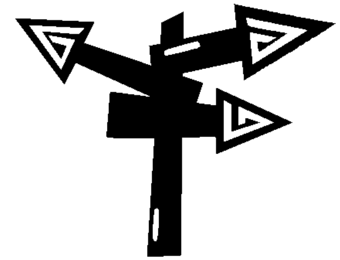
Alternative Financing Instrument



Matching Long term assets with long-term liabilities

Relatively delinked instrument from their own credit rating

EBCI Vienna Initiative

Benefits widely recognised i.e. Vienna Initiative II

How does EBRD work on Covered Bonds?

Policy Dialogue leads to Investments

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POLICY DIALOGUE

- The Bank has engaged and advised in drafting new legislation or proposed legal and regulatory reforms
- We are currently engaged in Policy Dialogue in Hungary, Ukraine, Estonia, Latvia, Lithuania and Slovakia.

TECHNICAL CO-OPERATION

- We partner with the Ministry of Finance or National Banks of our countries of operation and support through any Parliamentary processes until the framework is enacted and subsequently implemented.
- We have completed TC projects in Poland, Romania and Slovakia and currently carry out TC projects in Estonia, Lithuania, Latvia and Croatia.

INVESTMENTS

- Successful policy dialogue and TC projects lead to new investment opportunities, for EBRD and the wider market.
- Since 2016 EBRD has invested in Covered Bonds issuances out of Poland, Turkey, Slovak Republic, Hungary and Greece for more than. EUR 600 million


What's
Next?

Further harmonisation: EU directive on Covered Bonds – And why it matters to the EBRD Region

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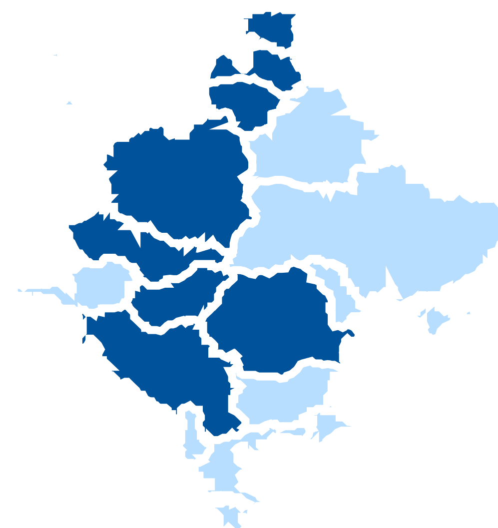
European
Commission

Upcoming EU Regulation

In March 2018 the European Commission presented its proposal for a directive on covered bonds laying down conditions that these bonds have to respect in order to be recognised under EU law.

Relevance for the EBRD region

The issuance of covered bonds is currently regulated at national level. Regulatory regimes differ widely across countries in terms of supervision, disclosure requirements and the composition of the pool of assets backing the covered bond.



The EU directive will be the benchmark defining best practice, hence being relevant across the EBRD region

Covered Bond legislation in the EBRD region – seeking alignment with upcoming EU Directive

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Key EBA Recommendations	Assessment of legislative Covered Bonds Frameworks					
	Hungary	Poland	Romania	Slovakia	Turkey	Greece
Dual recourse						
Segregation of the cover assets						
Bankruptcy remoteness						
Administration of the covered bond programme post the issuer's insolvency						
Composition of cover pools						
Cover pools with underlying assets located in different jurisdictions						
LTV limits						
LTV measurement and frequency of revaluation						
Legal/regulatory over-collateralisation						
Use of derivatives						
Liquidity buffer						
Stress testing						
Appointment of the cover pool monitor						
Supervision of the covered bond issuer						
Duties and powers of the national authority in a scenario of the issuer's insolvency						
Scope of disclosure						
Frequency of disclosure						
Overall Assessment	Partially aligned	Mostly aligned	Mostly aligned	Partially aligned	Mostly aligned	Mostly aligned

Slovakia – a successful reform

New Law entered into force in 2018; secondary legislation only later in the year;

Moody's rating - Aaa

(1st ever Aaa bond in EBRD COOs)

Credit strengths:

"Support provided by the Slovak legal framework"

The Pan Baltic Covered Bond Framework

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Estonia

The Estonian Ministry of Finance announced in January 2016 that they were working on developing a covered bond law. This process has progressed and the draft law was developed by the Banking Association.

The EBRD has reviewed an earlier draft of the law and provided comments to the Ministry of Finance.

Latvia

A law on mortgage bonds was passed in 1998 (with some subsequent amendments). The first bond was issued in 2004 but by 2011 no bonds remained outstanding. At no stage has the total aggregate of outstanding bonds exceeded €100mn.

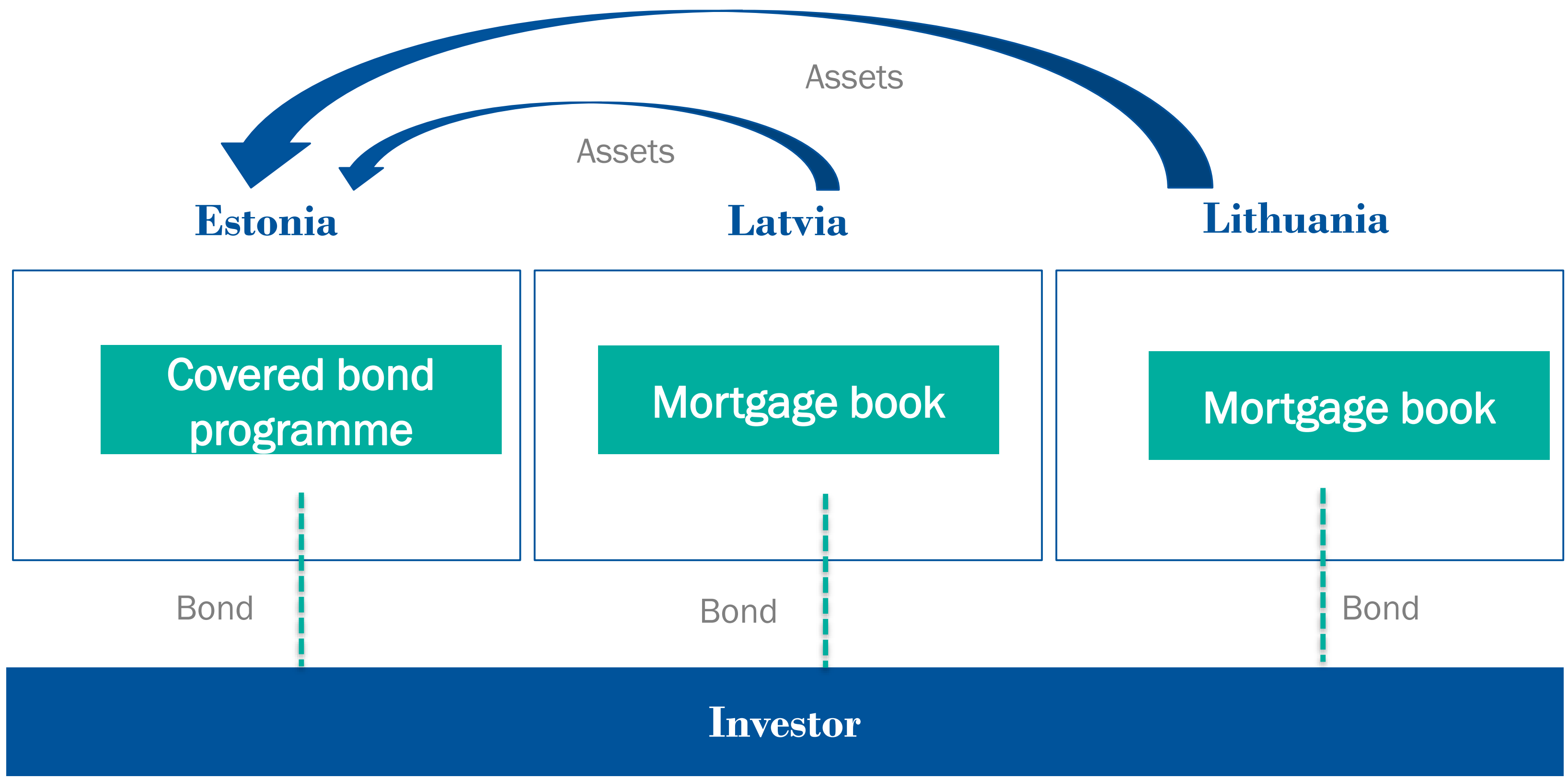
Lithuania

EBRD and the Ministry of Finance are currently working together on an updated draft Covered Bond and Securitisation law.

In October 2017 the Ministries of Finance in Estonia, Latvia and Lithuania signed an MOU to promote the development of the Pan Baltic Capital Market. This project comes from the MOU and is the pilot project under the enhanced cooperation.

Event 18th of October 2018 London

Structure: three equivalent laws –taking assets from all three countries



- For example: An Estonia based bank uses the Estonian covered bond law
- Estonian covered bond law allows Latvian and Lithuanian assets to be used
- Latvian and Lithuanian law facilitate the transfer of assets to Estonia

Green Covered Bonds – Is a New Trend Emerging?

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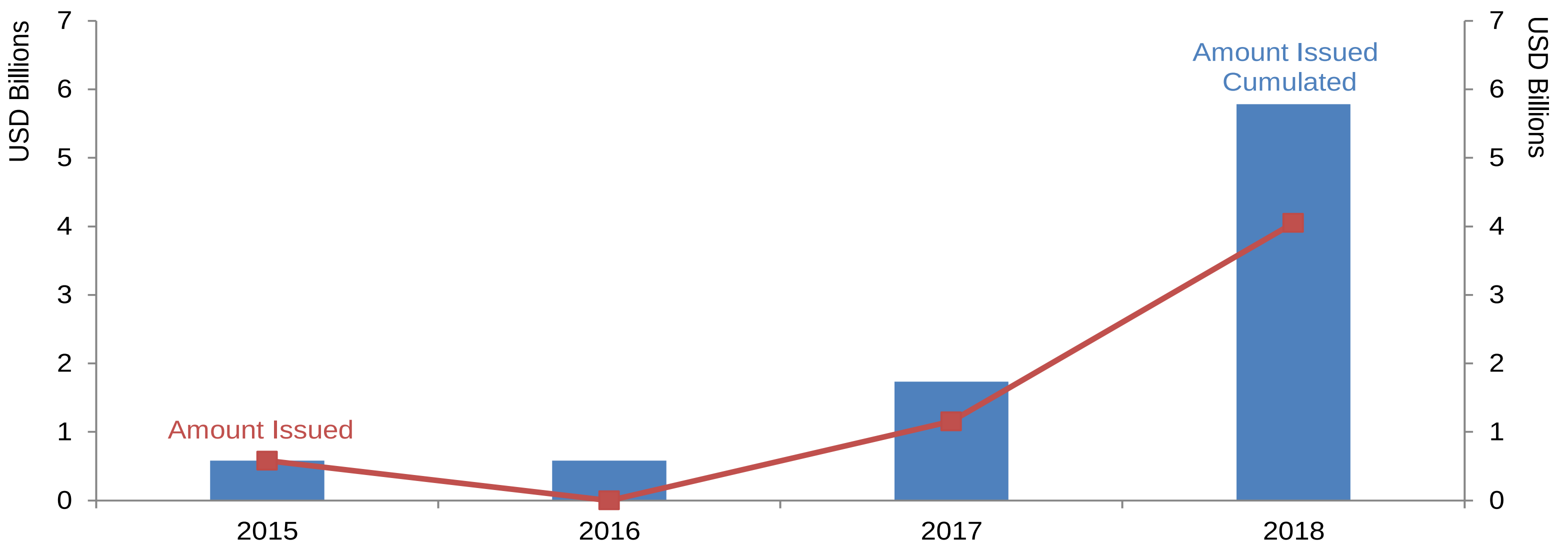
- Green covered bonds are covered bonds backed by assets considered to have a positive environmental impact.
- Green cover pools consist of comprised green mortgages.
- After the first ever Action Plan on Sustainable Finance has been published by the EU in 2018, demand for green covered bonds is increasing.
- So far, ~USD 6 Billion of green covered bonds have been issued by German and Northern European banks – more than **two thirds** in 2018.
- *"PKO preparing a green covered bond framework in CEE first"* – the Covered Bond Report



Source: Reuters as of September 2018

Covered Bonds – What Role Fintech May Play

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- Fintech has come to revolutionise the way, in which traditional financial services providers work and interact with their customers.
- To build a **Capital Markets Union**, the EC adopted an action plan on Fintech:
  a) Scaling up of innovative business models at EU level
  b) Supporting the uptake of new technologies including blockchain, AI and cloud services in the financial sector
  c) Increasing cybersecurity and integrity of the financial system.
- Especially the **digitalisation** of covered bond management, the related information services and solutions, and **big data analytics** give Fintechs an edge over traditional banks.
- For borrowers in the **mortgages sector**, there are various benefits with the use of Fintech, including KYC, digital identification or digital loan distribution, origination and servicing.
- Georgia – "**Bitfury Group**" – blockchain based land registry.

Source: EBRD, European Commission

What Does Fintech Mean for Green Covered Bonds – and Vice Versa?

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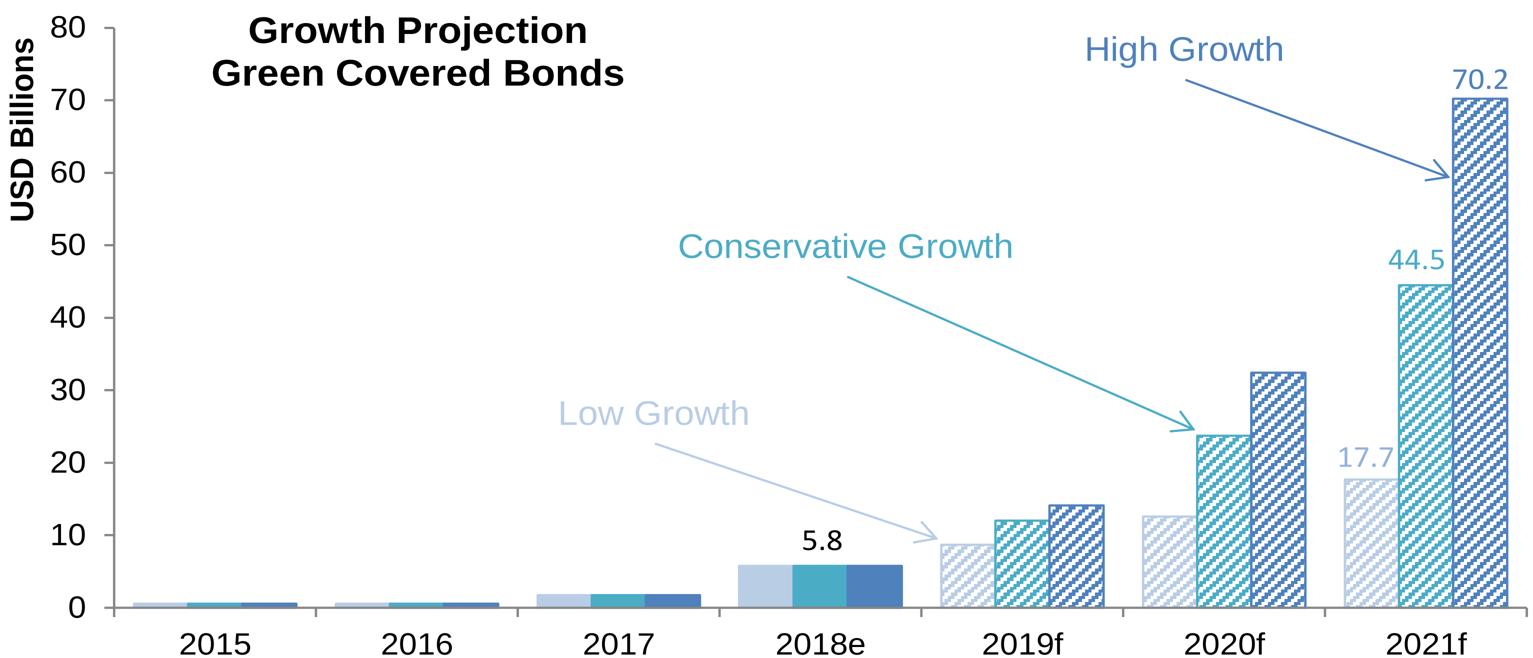
- The **mortgage sector** is the combining element between green covered bonds and Fintechs pushing into the covered bonds market.
- We expect that the increasing demand for sustainability and environmental friendliness will result in massive growth of the green covered bonds market – a share that Fintech may take up. This, in turn, will further increase the amount issued of green covered bonds.



Source: EBRD, European Commission

CEE in 2019

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- ECBC meeting in Riga
- April 2019 – clear sign that the CEE covered bonds are progressing;
- Current work continues;
- Croatia
- Hungary
- Baltics
- Ukraine

Q&A and Discussion

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Jacek Kubas
Principal
Local Currency and Capital Market
Tel: (+44) 20 7338 7495
Email: kubasj@ebrd.com

&

Andreea Moraru
Associate Director - Senior Banker
Financial Institutions
Tel: (+44) 20 7338 6718
Email: morarua@ebrd.com

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