

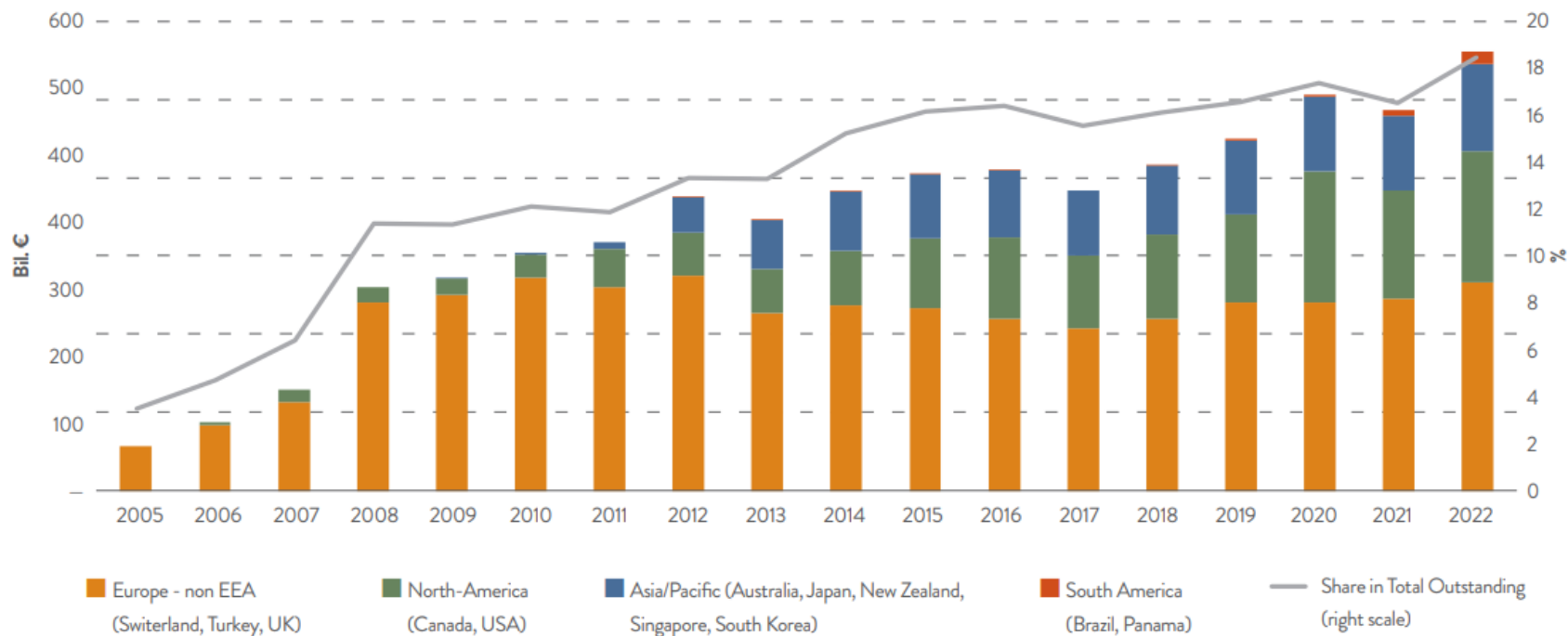
EMF-ECBC Academy Training Session  
Covered Bonds: Market Trends & Legal Characteristics

# Global Developments

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# Covered Bonds Are Growing Rapidly Outside Europe

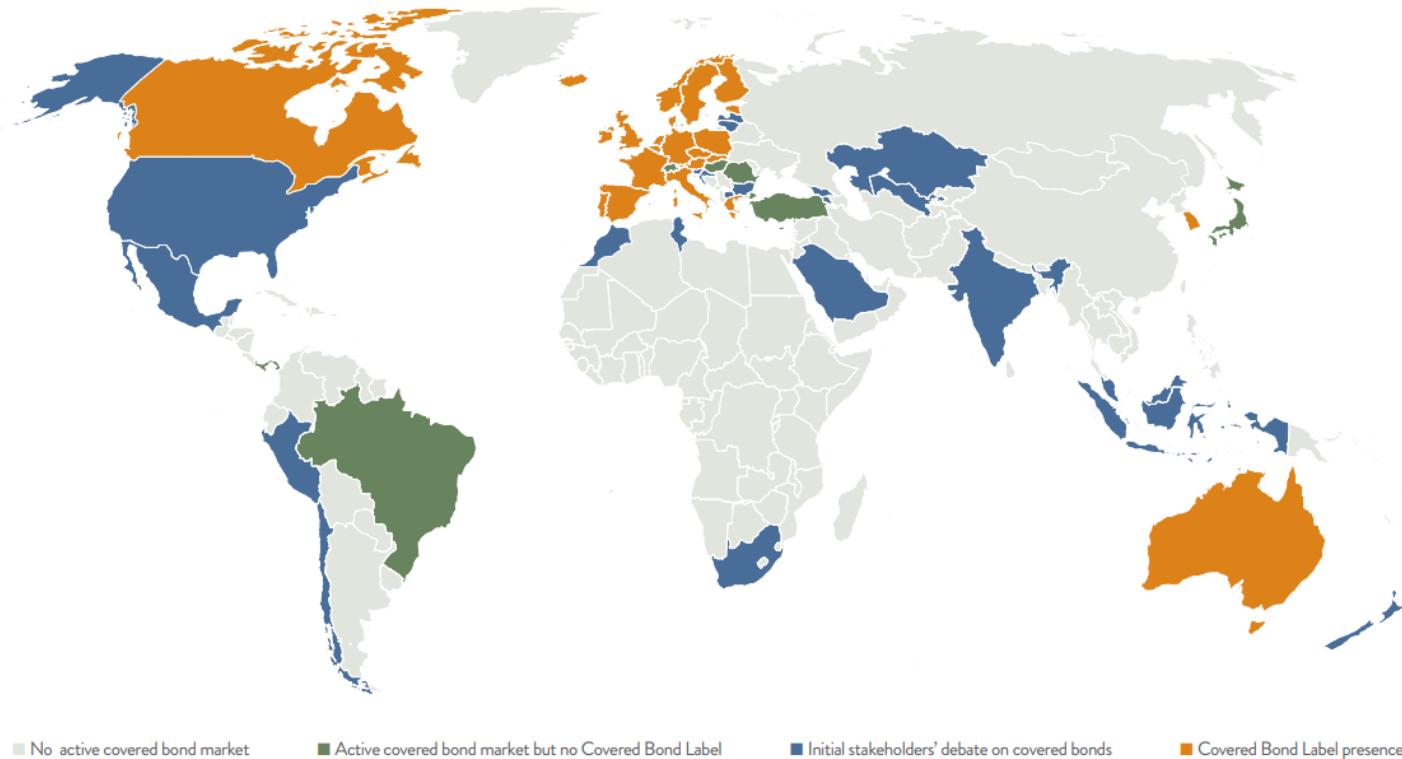
Non-EEA Covered Bond Market, Outstanding Amounts



Source: European Mortgage Federation, European Covered Bond Council.

# Covered Bonds Are Growing Rapidly Outside Europe

Global Covered Bond Presence

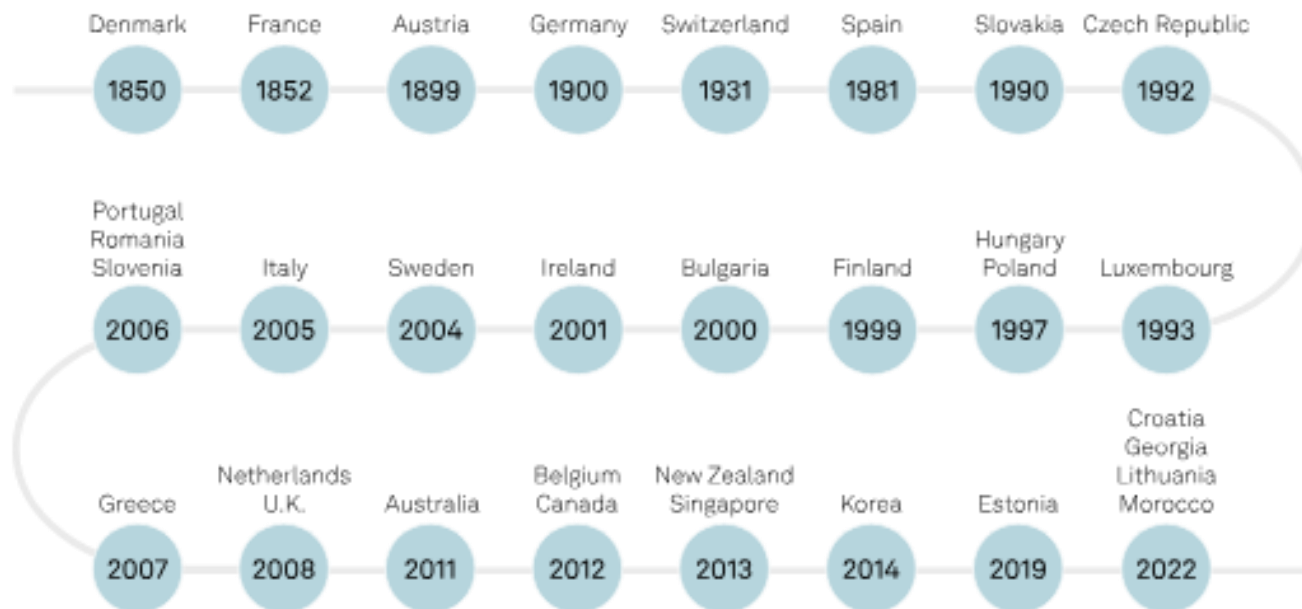


Source: *European Covered Bond Council.*

# The Importance Of The Legal Framework

## The Evolution Of Covered Bond Frameworks

Year When First Legislation Adopted



Source: S&P Global Ratings.

# The Importance Of The Legal Framework

## EU Regulatory Framework

### **Covered Bond Directive (CBD)**

Defines the key features of covered bonds

### **Capital Requirements Regulation (CRR)**

Article 129 assigns low risk weights to covered bonds

### **Bank Recovery and Resolution Directive (BRRD)**

Article 44(2) exempts covered bonds from bail-in

### **Liquidity Coverage Ratio (LCR) Delegated Act**

Articles 11 to 13 define covered bonds as highly liquid assets

### **Solvency II Delegated Act**

Article 180(1) assigns low capital requirements for covered bonds held by (re)insurance undertakings

### **European Market Infrastructure Regulation (EMIR)**

Provides a specific treatment of cover pool derivatives

Source: S&P Global Ratings.

# The Business Case And The Credit Story

## The Main Reasons To Issue And Buy Covered Bonds

### From the issuer's perspective



Reduce funding costs relative to senior unsecured debt



Limit their balance sheet asset-liability mismatch by extending the maturity profile of the liabilities



Increase the diversification of the investor base as well as funding mix



Transform illiquid mortgage loans into securities that are eligible as collateral for central bank liquidity

### From the investor's perspective



The dual recourse nature of the bonds increases recovery prospects



They are excluded from bail-in



Cover pools are typically subject to strict eligibility requirements that ensure asset quality



Covered bonds are generally highly rated instruments and traded in large markets, ensuring greater liquidity

Source: S&P Global Ratings.

# Strong Growth Potential But Legislative Support Needed

COUNTRY	LONG-TERM SOVEREIGN CREDIT RATING	GROSS DOMESTIC PRODUCT (EUR BN)	EXPECTED POPULATION GROWTH 2020-2040 (%)	HOUSEHOLD DEBT (% OF GPD)	DOMESTIC LOANS (% OF DOMESTIC DEPOSITS)	DEDICATED COVERED BOND LEGISLATION	COVERED BONDS OUTSTANDING (EUR MN)
United States	AA+	20,217.10	10.75	77.98	111.45	No	--
China	A+	15,590.07	0.67	67.57	121.05	No	--
Japan	A+	4,339.98	-10.37	63.31	61.48	No	6,174
India	BBB-	2,183.50	15.41	22.86	78.05	No	--
Canada	AAA	1,750.08	15.22	107.48	160.32	Yes	138,436
Korea	AA	1,592.02	-2.90	108.39	113.95	Yes	9,966
Brazil	BB-	1,414.46	7.76	31.24	111.57	Yes	7,609
Australia	AAA	1,356.48	19.89	101.07	174.00	Yes	57,864
Mexico	BBB	1,135.89	16.15	16.29	114.94	No	--
Indonesia	BBB	866.54	16.49	10.02	96.75	No	--
Saudi Arabia	A-	732.77	22.00	39.12	108.72	No	--
Thailand	BBB+	444.81	-1.13	89.69	106.58	No	--
Nigeria	B-	379.79	59.63	1.30	88.41	No	--
Israel	AA-	424.07	30.93	44.41	101.77	No	--
Argentina	CCC+	429.77	15.71	6.10	55.11	No	--
Egypt	B	355.31	37.15	8.79	52.99	No	--
Philippines	BBB+	346.44	23.76	10.18	82.95	No	--
Singapore	AAA	349.00	10.17	68.16	91.63	Yes	11,087
Malaysia	A-	327.64	19.74	89.02	153.19	No	--

Source: European Covered Bond Council, S&P Global Ratings.

# Thank you

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