Covered Bond Conference

Market Trends

Brussels, 1st February 2015

AGENDA

- COVERED BOND PRICES THROUGH THE CRISIS
- ….SECONDARY MARKET DRIVE TO FRAGMENTATION?
- OBSTACLE IN CROSS-BORDER INVESTMENT?
- REGULATORY TREATMENT

COVERED BOND PRICES THROUGH THE CRISIS (1/2)

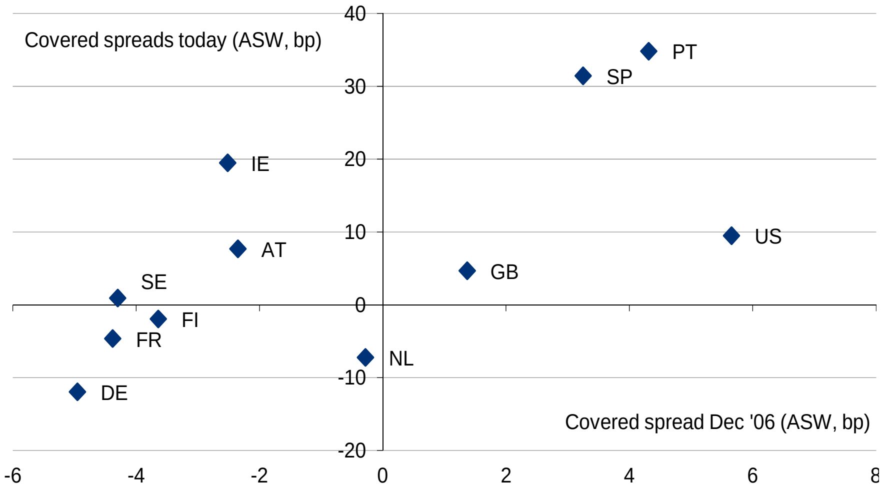
BEFORE 2007

- Covered Bonds perceived as "rates products"
- Strong and highly rated sovereigns
- Low market price differentiation

AFTER 2007

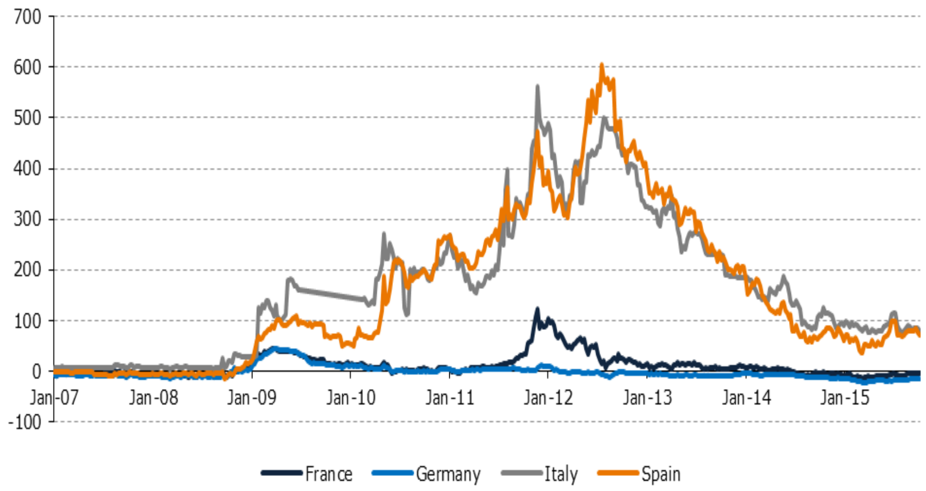
- Increased risk sensitiveness
- Sovereign and single issuer Rating differentiation
- Increased market price differentiation among countries and issuers

Figure 1: Covered bond spreads differ - ahead of the crisis and today



Source: ING

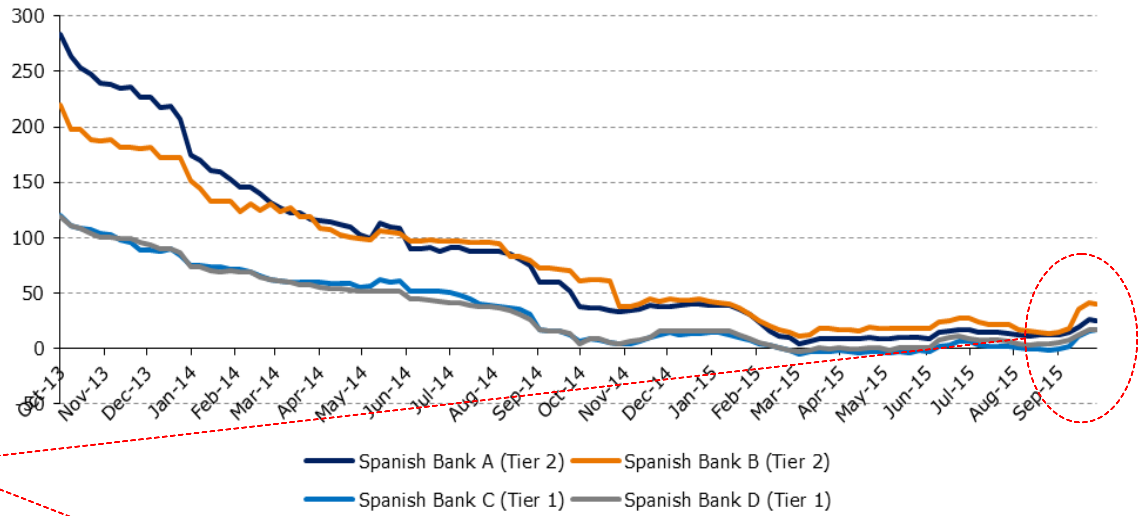
Figure 2: EUR ASW spreads show no pricing differentiation until the banking & sovereign crisis

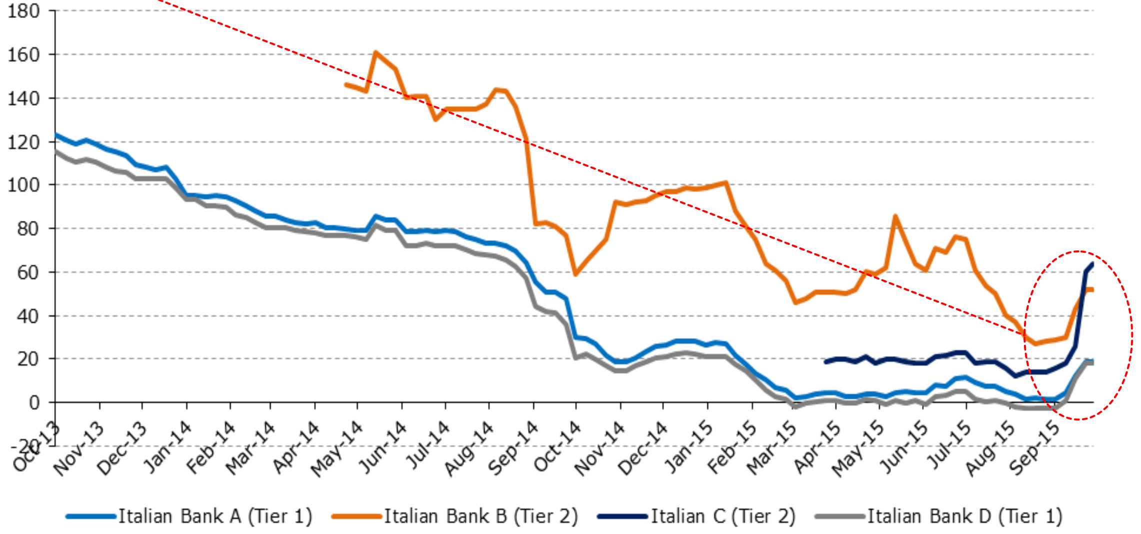


Source: BofA Merrill Lynch Global Research; 3-5yr EUR ASW (bp)

COVERED BOND PRICES THROUGH THE CRISIS (2/2)

CBPP3 has compressed EUR ASW spreads to similar levels......with the exception for weaker CB issuers



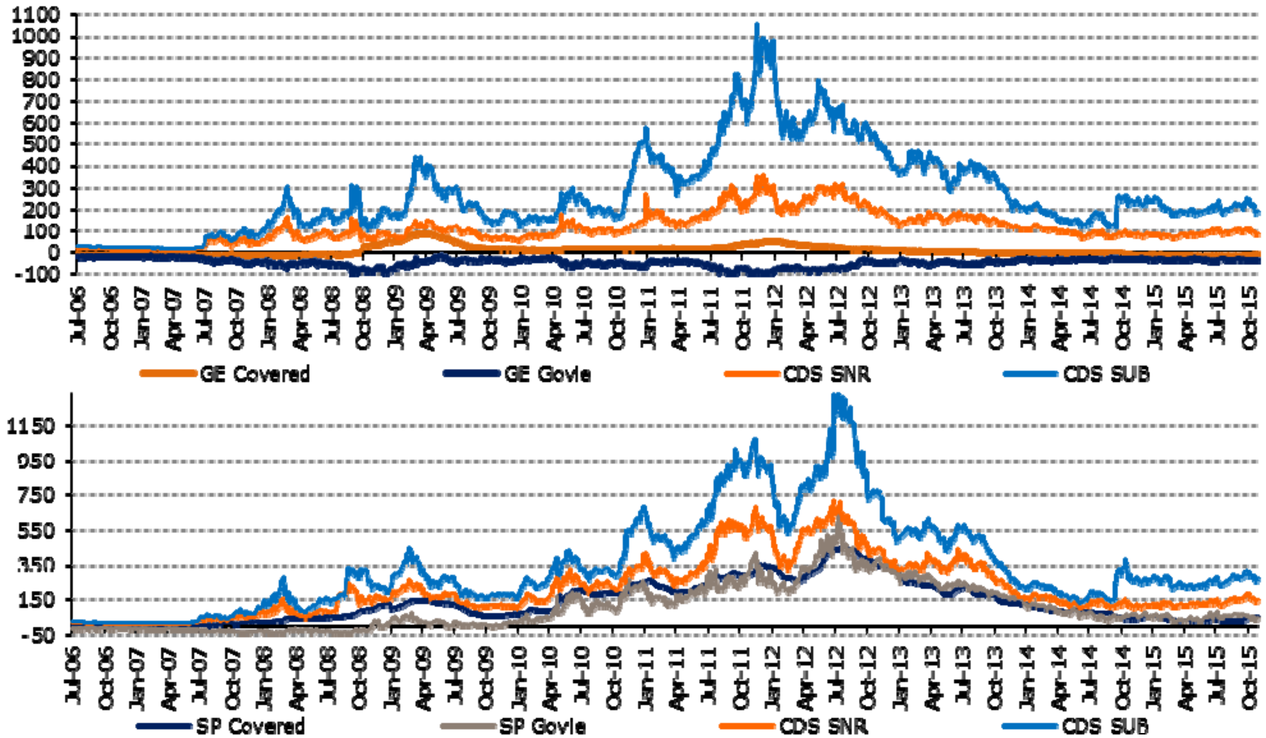


Source: BofA Merrill Lynch Global Research; 3-5yr EUR ASW (bp)

SECONDARY MARKET PRICING DOES NOT LEAD TO MARKET FRAGMENTATION (1/2)

- Spread widening across covered bond sectors occurred during the sovereign crisis as consequence of covered bonds linkage to underlying sovereign and fragmentation in sovereign markets
- Spread differentiation derived from the minimum pricing requested by investors to cover the intrinsic country-related risks in covered bond products, as well as from the impact that the sovereign has on the quality of the different underlying cover assets (macroeconomic impact)

Spread histories by country (Germany, Spain)

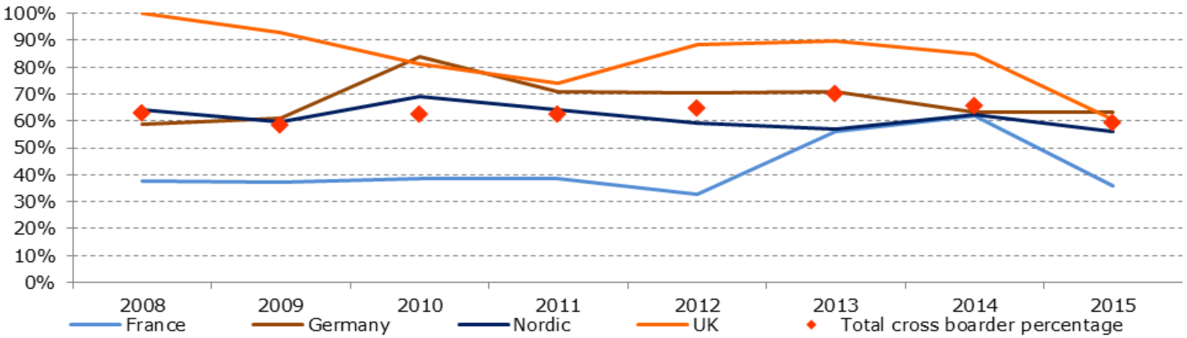


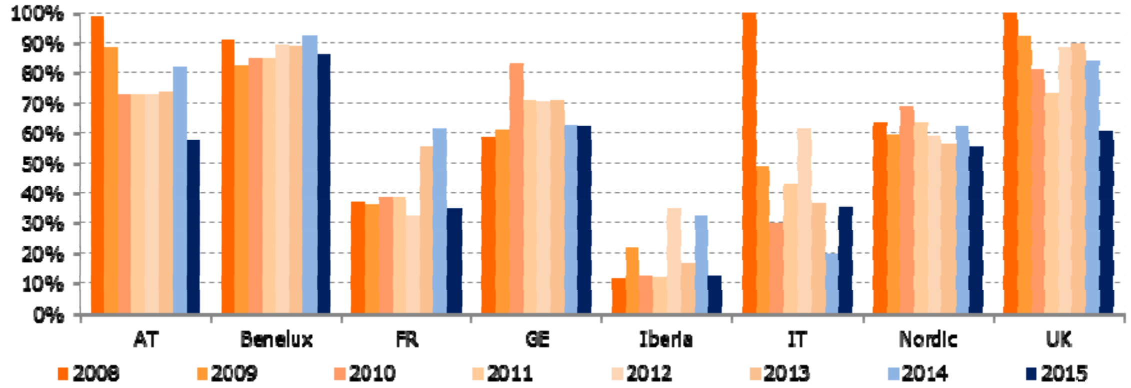
Source: Crédit Agricole CIB

SECONDARY MARKET PRICING DOES NOT LEAD TO MARKET FRAGMENTATION (2/2)

- Throughout 2008-2015, there has been a high level of cross-border investments, thus investors clearly have not been affected by multiple legal frameworks even during times of crisis

Share of cross border investments of total covered bond primary benchmark investments





Source: Crédit Agricole CIB

CROSS-BORDER INVESTMENTS AND ISSUANCE

- No legal obstacles seems to impair or limit the possibility for cross-border investments
- Investors did not have country credit lines for some countries and were thus prevented from buying covered bonds from these countries
- Minimum covered bond or issuer rating requirements prevented some investors from buying certain peripheral euro area covered bonds as they were subject to sovereign ceilings by rating agencies
- Overall the investor base is well diversified with sizable cross-border flows
- Difficulties occur in issuance of multi-jurisdictional covered bonds: legal peculiarities in each jurisdiction – e.g. in terms of asset segregation, constitution of guarantees or potential problems related to fiscal or operational issues for assets, such as different IT systems.

Source: Crédit Agricole CIB

REGULATORY TREATMENT VS OTHER COLLATERALIZED INSTRUMENTS

- Covered Bond regulatory treatment seems to be aligned vs other instruments

- Preferential risk weight treatment is fully justified by:
  - ✓ Strong historical performance of the product;
  - ✓ Estensive compliance to EU regulation CRR/CRD VI, LCR, Solvency 2, ECB Repo, CBPP3
  - ✓ Strict legal provisions that define asset quality and several level of controls
  - ✓ Special supervisions
  - ✓ Bail-in exemption

- On the other side ABS have historically had a different treatment especially after the crisis