SCOPE Scope Ratings

Covered Bond Outlook 2022

Credit stability and limited differentiation will persist; subtle spread differentiation will emerge only when policy rates normalise and the market returns to a new normal

Covered Bonds, Scope Ratings GmbH, 27 January 2022

info@scoperatings.com | www.scoperatings.com

| Bloomberg: RESP SCOP

Executive summary

We do not expect new credit trends to emerge in 2022. It is more about nuances and if and when current unknowns take centre stage, with the hope that their severity remains limited.

Banks entered the pandemic with sound prudential capital levels and got their booster shots from fiscal and monetary support. The end of dividend bans and the subsequent resumption of share buy backs are unlikely to change the situation. Additional protection for preferred investors from higher MREL buffers further supports the soundness of the sector.

Cover pools remain strong and legislation remains supportive. Some countries are not yet compliant with the European Covered Bond Directive but we believe that those that haven't made the cut will make the compulsory upgrade in time, otherwise issuers will lose their preferential risk treatment.

We expect bank asset quality to remain stable in 2022 despite the gradual expiry of support measures. Risk to asset quality could arise from tighter financial conditions and possible house price corrections, making it harder for highly leveraged borrowers to service their debt. Even so, abundant liquidity will remain in 2022 despite the slow but steady tightening by central banks. Therefore, the banks' own Achilles heel – liquidity – will remain well covered.

As a positive, the volume of retained covered bonds will not see further growth. The favourable conditions under TLTRO III will likely fade by end-June 2022; so will the preferred use of covered bonds as collateral. However, the remaining stock of retained covered bonds is significant.

Investors should receive more transparency on the way an issuer intendes to manage retained bonds. Unlike gradual, macro-driven changes that impact the credit risk of borrowers and their collateral, retained covered bonds can swiftly change the risk profile of a covered bond programme. How they are managed is at the full discretion of the issuer. This highlights that governance is the covered bonds' premier ESG risk to watch out for, and it supports Scope's approach to limit cover-pool uplift if transparency is not in line with potential risks.

Covered bond issuance started the year strongly. Banks had raised EUR 28bn as of 24 January, a start to a year not seen since 2011. That said, investors did become increasingly sensitive around long tenors into the final part of January, forcing issuers to pay concessions, and ultimately forcing one issuer to abandon a 15-year tranche.

What's positive, though, is that no transaction to-date in January has come with a negative yield. Also positive is that this marks the way back to normality as January is traditionally one of the strongest issuance months.

Our base case is that 2022 will be the fourth year of net negative supply in the benchmark segment. New issuance will not be sufficient to end the trough. Covered bond supply will be held back because very high excess deposits and non-preferred funding targets allow lending growth to be easily absorbed at attractive rates.

On the European housing front, price inflation might have reached its climax during the pandemic. The 10.6% rolling annual growth in Q3 2021 may have been the final sprint. In 2021, exuberance in European residential real estate was a key theme for national regulators and macroprudential authorities and for the supervisory side of the ECB. In response to the pandemic and to calm markets, regulators fine-tuned existing borrower-based macroprudential measures or started introducing them.

Contents

Executive summary **2**

Key trends for 2022 – all good? **4**

2022 to mark the turning point for credit quality – not yet 4

Banks credit quality improving further? 4

Refocus on profitability and business model needed 5

Higher issuance volumes – not really… 5

Retained covered bonds: no further growth but investors should know 5

Retained covered bonds skew the risk profile… 6

… to what extent investors should be aware – but how ? 6

Have European house prices reached their climax? 6

Macroprudential measures, more to come 7

Covered bond harmonisation, just before the finish line 8

Scope's covered bond universe 8

Appendix I: ESG – what's new **10**

Annex I: Related research **11**

Scope Covered Bond Ratings

Karlo Fuchs
Managing Director
k.fuchs@scoperatings.com

Mathias Pleißner
Director
m.pleissner@scoperatings.com

Reber Acar
Associate Director
r.acar@scoperatings.com

Key trends for 2022 – all good?

From a credit perspective, we do not expect new trends to emerge in 2022. It is rather about nuances and if and when current unknowns take centre stage, with the hope that their severity remains limited. This outlook is about covered bonds, not Covid-19, but there are some striking paralells.

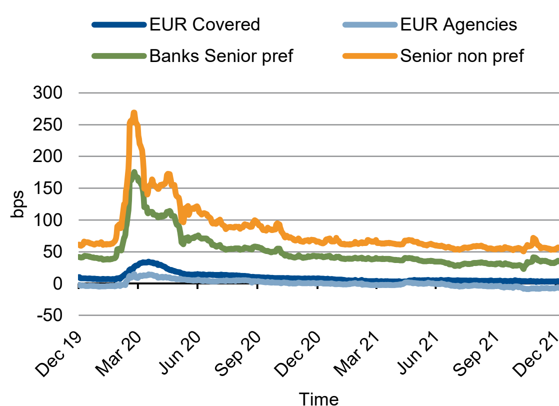
Banks entered the pandemic with sound prudential capital levels and got their booster shots from fiscal and monetary support. In its latest Risk dashboard, the European Banking Authority (EBA) diagnosed the banking system as being in good health with capitalisation rates close to all-time highs. The end of dividend bans and the subsequent resumption of share buy backs are unlikely to change the situation. Additional protection for preferred investors from higher MREL buffers further supports the soundness of the sector. According to the Single Resolution Board, there is almost no MREL shortfall.

Cover pools have remained strong, and legislation remains supportive. Some countries have delayed their vaccination upgrades so do not yet comply with the European Covered Bond Directive. However we believe that those that haven't made the cut will make the compulsory upgrade in time, otherwise issuers will lose their preferential risk treatment.

Collateral values, in particular residential house prices, continue to soar, reducing average LTVs and improving risk buffers for investors.

Not surprisingly, covered bond spreads moved sideways in 2021 and are likely to continue to do so .

Figure 1: Selected spread developments



Source: Markit, Scope Ratings

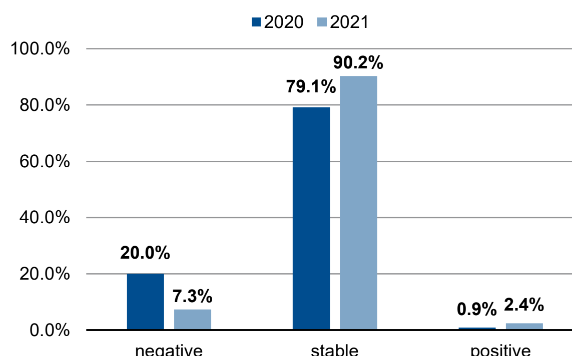
2022 to mark the turning point for credit quality – not yet

Once Covid becomes endemic and life is back to normal, investors will start looking for ideosyncratic sources of risk. As such they will analyse the Achilles heel of covered bonds: i) the credit quality of the bank and ii) the risk profile of the supporting cover pool. Both risk factors are highly correlated.

Banks credit quality improving further?

The European banking sector has come through its first real-life stress test since the GFC with little to no damage. Looking at Scope's rating universe – which spans more than 70, mostly European banking groups – average ratings have remained broadly unchanged throughout the pandemic. Most banks we placed on Negative Outlook at the onset of the crisis were moved back to stable in 2021. For the remaining banks on negative outlook', this reflects pre-existing financial health issues like an unsustainably low level of pre-provision profitability or high levels of NPLs.

Figure 2: Bank rating Outlooks as of end-2021



Source: Scope Ratings

We entered 2022 with mostly stable outlooks thanks to governments' bold fiscal policy responses, including public-sector support payments, generous furloughs and tax breaks, which shielded borrowers against the economic impact of the pandemic. While some weaker borrowers might not make the cut, generally banks' cost of risk will remain under control.

We expect asset quality to remain stable in 2022 despite the gradual expiry of support measures. Risks to asset quality could arise from tighter financial conditions and possible house price corrections, making it harder for highly leveraged borrowers to service their debt.

Even so, abundant liquidity will remain in 2022 despite the slow but steady tightening by central banks. Therefore, the banks' own Achilles heel – liquidity – will remain well covered.

Refocus on profitability and business model needed

Banks are facing major challenges to their business models: i) how to regain a strong first line of defence – profitability; ii) how to future-proof their business models; and iii), how to manage ESG risks.

ECB policy plays a pivotal role. The level and shape of the yield curve is forcing banks to seek new sources of revenue. The ECB still subsidises the banking system via preferential rates for targeted longer-term refinancing operations (TLTRO), providing another jab for bank profitabilty. However, this will not persist. Half of maturing TLTROs will disappear and not be substituted via market funding, thus reducing the profitability boost.

As a positive, the volume of retained covered bonds will not see further growth. The favourable conditions under TLTRO III will likely fade by end-June 2022; so will the preferred use of covered bonds as collateral.

Higher issuance volumes – not really…

Covered bond issuance started the year strongly. Banks had raised EUR 28bn as of 24 January, a start to a year not seen since 2011. There was even some exuberance last seen in 2006 in the guise of a single issue amounting to EUR 2.75bn from Bank of Montreal, which drew EUR 3.6bn of demand.

That said, investors did become increasingly sensitive around long tenors into the final part of January, forcing issuers to pay concessions, and ultimately forcing one issuer to abandon a 15-year tranche.

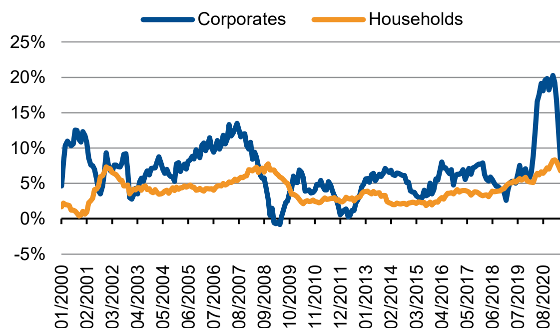
What's positive, though, is that no transaction to-date in January has come with a negative yield. Also positive is that this marks the way back to normality as January is traditionally one of the strongest issuance months.

However, it is a myth that 2022 will be the year in which covered bonds regain relevance for long-term investors other than central banks or bank treasuries. The dire situation of low supply and low attraction to covered bonds by real-money investors remains. Barely positive yields plus not-so transitory inflation results in negative real rates.

Our base case is that 2022 will be the fourth year of net negative supply in the benchmark segment. With 15% higher redemption volumes than last year, new issuance will not be sufficient to end the trough.

Covered bond supply will be held back because very high excess deposits and non-preferred funding targets allow lending growth to be easily absorbed at attractive rates (see Figure 1).

Figure 3: Deposit growth rates for European households and corporates



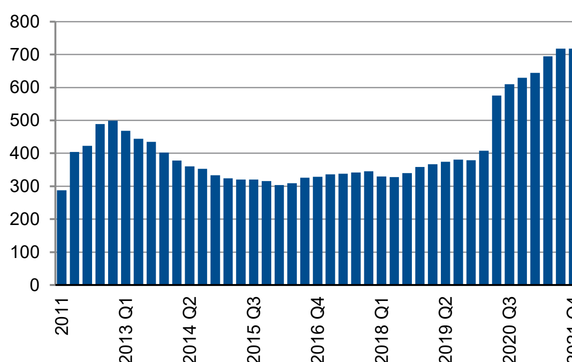
Source: euro-area-statistics.org, Scope Ratings

Since 2000, the stock and flow of deposits have never been higher for European households and corporates. During the pandemic, deposits swelled by 13.7% in the corporate sector and by 6.7% in the household sector. This compares to average growth rates since 2000 of 6.9% and 4.1%, respectively. At the same time, the main collateral of covered bonds – residential mortgages – grew by "only" 4.8% during the pandemic. This is below the 5% long-term average since 2000. Deposit growth rates fell at the end of 2021 but remain at above-average levels and may reduce covered funding irrespective of whether this is placed in the market or retained.

Retained covered bonds: no further growth but investors should know

Due to exceptionally favourable conditions, the TLTRO has not only made market-based funding less attractive; it has also increased the stock of retained covered bonds. As a result, the ECB has become the biggest holder of covered bonds: EUR 717bn as collateral for monetary operations, including TLTROs, plus EUR 298bn via its covered bond purchase programmes (CBPP).

Figure 4: Use of CBs as collateral at all-time high



Source: ECB, Scope Ratings

While the Pandemic Emergency Purchase Programme (PEPP) terminates in March 2022, the asset purchase programmes (APP) will continue and the CBPP will expand further in addition to approximately EUR 40bn of reinvestments. Investors will remain side-lined and covered bond spreads will continue to be squeezed as a result. Nevertheless, we expect the ECB's covered

bond holdings to start decreasing in the second half of 2022 when the EUR 1.3trn TLTRO III.4 funds roll into the one-year window and no longer account in full under banks' net stable funding ratio (NSFR).

Coupled with changes towards less favourable TLTRO terms, we believe banks will need to start thinking of how to manage their dependence on ECB funding.

Retained covered bonds skew the risk profile…

Record-low credit spreads on European covered bonds hide the fact that market risk and not credit risk from collateral has increased. This is mostly driven by issuers optimising the collateral haircuts for their retained issuance. They have increased mismatches as well as concentration risk compared to cover pools comprised of residential mortgages, which typically exhibit a smooth amortisation profile.

For programmes with fixed-rate collateral, an increasing share of retained bonds added another twist. Often issued at floating rates to benefit from lower haircuts, retained covered bonds have also increased interest-rate mismatches.

In the course of 2022, we do not believe the overall picture will change materially. Market risks arising from asset-liability mismatches will persist at a historically high level but are unlikely to worsen because retained issuance will eventually decline.

… to what extent investors should be aware – but how ?

Given the current health of the banks, it is unlikely that retained covered bonds will result in a liquidity crisis nor become the nightmare of treasurers, or even worse, covered bond insolvency administrators. No outside investors are present and banks can actively manage and silently cancel them long before they mature. But covered bond investors should be aware.

As there is no specific labelling of retained covered bonds, investors are not able to assess the risk contribution of retained covered bonds. Moreover, investors cannot even rely on current cash flow profiles as steady state, as banks can swiftly unwind and cancel retained covered bonds with an immediate effect on the programme's risk structure.

All of this contradicts the primary idea of covered bonds to fund assets that are at the same time used as collateral. If issuers follow this initial concept, which still is the norm for traditional Danish covered bonds, market risks including maturity mismatches would be extremely limited.

It is only natural that banks optimise their funding tools by using sources that are most efficient. It should be clear that this comes at the cost of the risk profile of covered bonds, however. Retained covered bonds can be a significant driver of a covered bond's risk profile.

Issuers should provide more transparency. For instance, a risk profile including and excluding retained covered bonds and clear communication over what period an unwinding will occur.

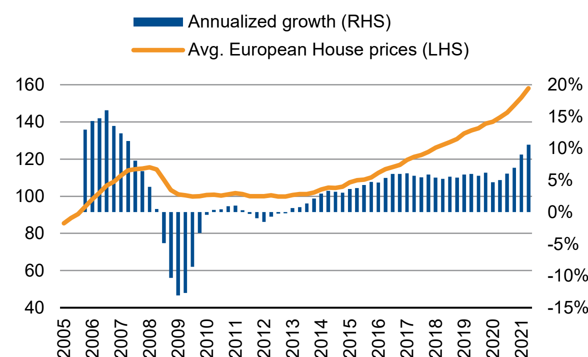
We do not believe issuers will proactively share the size of retained issuance in their programmes nor the breakdown by maturity bucket if this is not requested by market participants or the ECB itself as the largest investor in covered bonds. To put it into context, ECB holdings amount to a third of globally issued covered bonds and about half of the most common covered bond index. We doubt that any issuer would close its ears to the ECB's call.

Have European house prices reached their climax?

European house-price inflation might have reached its climax during the pandemic. The 10.6% rolling annual growth in Q3 2021 may have been the final sprint. The last time prices grew in double digits was in 2007, a year before they collapsed by 15%.

House prices continue to be fuelled by ultra-low interest rates, historically high household savings, and a desire among consumers to move into more spacious homes during the pandemic.

Figure 5: European house prices at pandemic climax

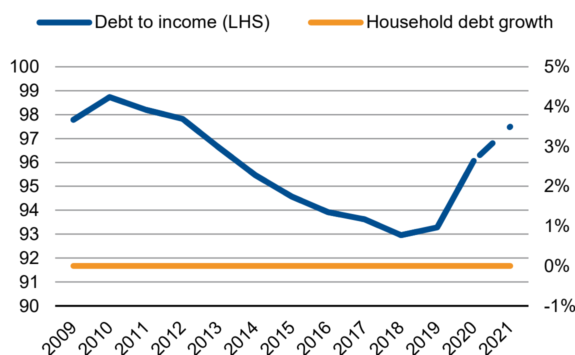


Source: EUROSTAT, Scope Ratings

European house prices have been a hot topic ever since they started recovering in the wake of the financial crisis. In some countries, bubble risks were identified as early as 2010 but the consensus remains that primary indicators such as household debt and debt-to-income ratios do not indicate a bubble.

In fact, current levels of 4% growth in household debt are far from the 8%-9% annual growth rates seen in 2004-2008. But the trend has been increasing since 2014. Strong economies such as France, Germany, Austria and Belgium have all showed mortgage debt growth well above 5%, before and during the pandemic. The debt-to-income argument seems to be gaining ground, demonstrated by the strong increase in 2020. That said, some attribute the spike to short term unemployment. However, by the end of 2020, unemployment had almost moved back to pre-pandemic levels.

Figure 6: European debt to income and household debt (euro area)



Source: EUROSTAT, ECB DW, Scope Ratings

Inflation could stress house prices. But given the European Central Bank's reluctance to touch rates, debt-financed house purchases will continue to be attractive. Politicians as well as European and national regulators are trapped. In the medium term, the most obvious tool to fight inflation – interest-rates – is not viable in the euro area or in countries that peg their currency to the euro. Rates will remain broadly untouched in 2022.

Fiscal policy could soften the housing boom. Higher taxation could help fight inflation but will be widely condemned by consumers, especially in the wake of a pandemic. Politicians may decide to halt public infrastructure investment if inflation is hot but this does not sound like a sustainable or popular action, among other things because public investment creates jobs.

Finally, after their usage was dialled down in recent years, national supervisors may increase or re-introduce macroprudential measures. Germany had been slow to activate such measures but in its first action of 2022, BaFin asked banks to build back buffers as the property market heats up.

It intends to increase the countercyclical buffer to 0.75% from February 2023 from 0% and introduce a supplementary 2% buffer for residential mortgages. We do not expect this to be a game changer but a first step to making German mortgages less attractive as long as the ECB keeps to its ultra-low rate policy. Other national regulators will likely follow, including the Bank of England.

Macroprudential measures, more to come

Figure 7: Borrower-Based Macroprudential measures in Europe

Source: ESRB, Scope Ratings

In 2021, exuberance in European residential real estate was a key theme for national regulators and macroprudential authorities and for the supervisory side of the ECB. In response to the pandemic and to calm markets, regulators fine-tuned existing borrower-based macroprudential measures or started introducing them (like in France).

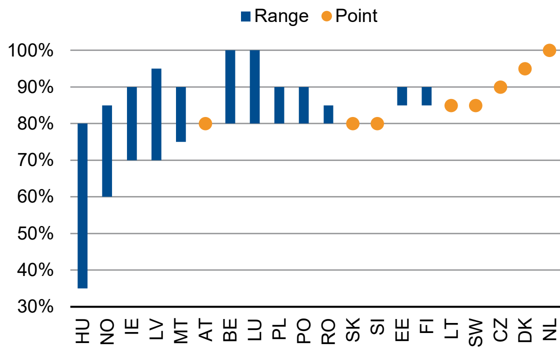
Increasing capital buffers for residential mortgages, as just announced in Germany, are one option. However, they do not address the root cause of granting financing to vulnerable households. Rather, higher capital requirements will make mortgage lending more expensive and thus create an incentive for banks to reduce lending and/or require lower LTVs.

Tightening existing measures, reducing exemptions or changing recommendations to legally binding rules will more directly address and potentially mitigate financial stability risks.

The Slovakian regulator, so far, has been the most diligent, using the full slate of borrower-based macroprudential measures: limits on maximum loan to value (LTV), debt-service-to-income as well as debt-to-income thresholds, limiting loan terms while also stressing for interest-rate sensitivities.

Limits on LTVs are the most common measure in Europe, being activated in 21 countries (see Figure 8). Most limits range between 80% and 100%. In some countries, even lower limits are used for buy-to-let mortgages or reflect peculiarities of the different markets, like the 60% limit on secondary homes in Oslo or the 35% maximum LTV for non-HUF mortgages in Hungary.

Figure 8: LTV limits in Europe



Source: ESRB, Scope Ratings

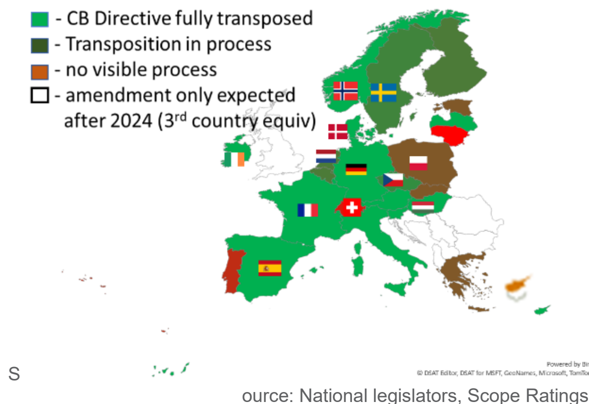
Market stresses when assessing a borrower's debt service capacity are expected in 12 European countries, typically in markets where floating-rate mortgages prevail, like in Norway and Finland. Just like in fixed-rate mortgage markets, the systemic risk of increasing inflation and interest rates should be limited, as borrowers are required to have at least some capacity to cover higher mortgage payments.

Even though we prefer direct, borrower-based measures, we do not expect the white spots of the map (see Figure 7), namely Spain, Italy, Greece and Germany, to be filled in in the near future. Spain, Italy and Greece are still recovering from the previous crisis and the German regulator will not likely add measures as they just opted for broad-based buffers.

Covered bond harmonisation, just before the finish line

As of today, only 41% of member States have announced full transposition of the European Covered Bond Directive[1]. In 16 member States, four of which have reported a partial implementation, the translation into national law is still in the making.

Figure 9: Covered bond harmonisation



Source: National legislators, Scope Ratings

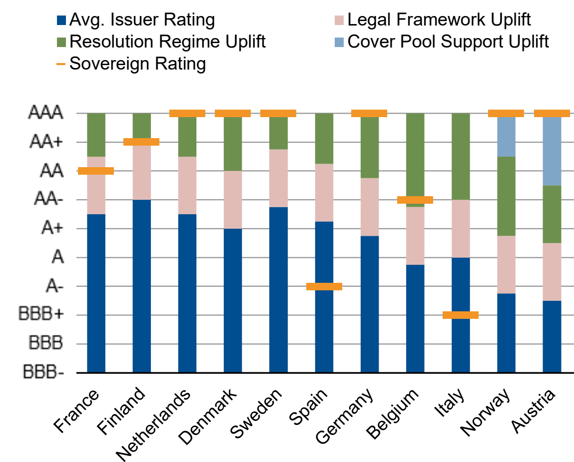
Most countries listed by the European Commission as current "non-achievers" are more advanced than it seems. Some countries simply may not yet have reported their implementation (such as Italy which announced late); others have passed legislation that is waiting to come into force (e.g. Austria). With six additional member states reaching full transposition status in the last quarter of 2021, we can finally see the silver lining. The chances of missing the final deadline are relatively remote as the risks of losing regulatory privileges and thus investor interest or even massive divestments are too high.

Latecomers will face material uncertainty, as it is not clear whether an introduction after the 8 July 2022 deadline will directly reinstate privileges under UCITS, CRR and LCR. We will closely monitor developments and would not be surprised if latecomers pull draft legislation like a rabbit out of a hat.

Scope's covered bond universe

All of Scope's covered bonds are rated AAA and only one has a negative outlook (click here). Finnish, French and Dutch covered bond are the least sensitive to issuer downgrades thanks to their banks' on-average higher credit quality.

Figure 10: Covered bond rating composition



Source: Scope Ratings

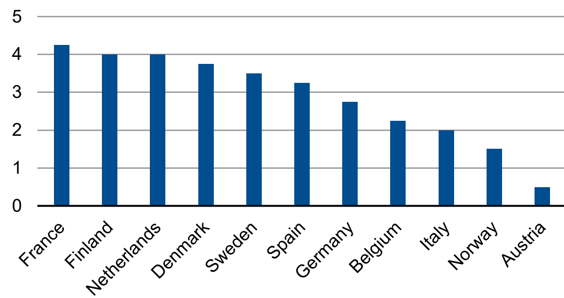
This is not unique to covered bonds from those countries. Thanks to still-sound bank ratings and very supportive legal and resolution frameworks, 85% of the covered bond programmes rated by Scope are not reliant on cover pool support to reach the highest ratings. Cover-pool support is only a secondary rating driver, and the strength of the cover pool can provide additional rating stability.

On average, covered bond programmes rated by Scope can withstand issuer downgrades of up to three notches, on condition that the programmes' risk characteristics and protection provided through over-collateralisation (OC) do not materially change.

At the same time, the dual recourse of covered bonds allows the other 15% of covered bond programmes to support the highest ratings on the basis of cover-pool support. Notably, we see that covered bonds in Austria and Norway achieve AAA ratings with the help of this

[1] See here

rating driver. The buffer against issuer downgrades is lower for such programmes. For all, except one, strong cover-pool support can mitigate a downgrade of the issuer rating of at least one notch. We also see that currently provided OC exceeds the OC needed to support the AAA ratings by around 25% on average. Therefore, we do not expect rating-supporting OC to constrain the ratings in the short to medium term, either through increased issuance activity or through a deterioration of cover pool quality.



Source: Scope Rating

Figure 11: Covered bond rating stability

Appendix I: ESG – what's new

EU Green bonds – just another green bond standard?

Green covered bonds received a major boost in 2021 and now make up almost 20% of new issues, with a rising tendency. At the same time, investor concerns about greenwashing have also risen. With its proposed European Green Bond Standard (EUGBS) the EU commission is trying to tackle these concerns and openly competing with established market standards like the Green Bond Principles.

Compared to other green bond labels the EUGBS is more prescriptive and most importantly, aligned with the EU Taxonomy's sustainable activities. While the risk of greenwashing is lower, the data burden for issuers is significant. But the European legislative process does take time and therefore the European green bond regulation is not expected before 2023.

So far, the EUGBS has been constructed as an additional, voluntary label, with no regulatory advantages for investors. Therefore, it is still unclear how the new standard will change the green bond market. The key question will be if issuers will receive enough premium for their additional regulatory and compliance burdens.

The ECB has welcomed the Commission's initiative and climate risks have become a key theme for the central bank in recent years. A green bond purchase programme limited to EUGB would be no surprise.

ESG and credit risk: first positive signs, but data still scarce

Environmental factors on covered bond collateral are becoming increasingly important for credit analysis. Borrowers that finance eligible ESG collateral could benefit from higher affordability and thus a lower likelihood of defaults Vice versa, foreclosure proceeds from non-green collateral might become more volatile due to rising energy costs, higher fossil fuel prices and the prospect of carbon regulation – all of which could force potential buyers to factor in additional refurbishing costs, thereby lowering potential foreclosure proceeds.

Our analysis of asset-credit risk is non-mechanistic and uses available performance data. Therefore, we incorporate available issuer-specific or market information that robustly supports differences in asset-credit risk between ESG-compliant assets and other assets in the cover pool.

Actual information on how green the cover pools really are remains scarce, however. Energy efficiency data has neither been stored nor requested for newly-originated mortgages until recently. Moreover only a few countries benefit from a centralised data repository that may allow broader a picture to form and most importantly to see significant results in regard to ESG and credit risk.

Missing performance information as well as the absence of a common taxonomy between countries currently prevents our credit analysis from distinguishing between standard collateral and ESG-compliant collateral.

We therefore warmly welcome the numerous industry initiatives trying to tackle these data gaps, for example the inclusion of energy-related information in the ECBC's 'Harmonised transparency template' (HTT), as well as its 'Energy Efficient Mortgages Initiative' (EEMI).

Green funding came out of its niche

With green bond activity rising and more and more investors including sustainability criteria in their investment guidelines, green funding could become a differentiating factor in covered bond credit analysis in the near future. Even though green covered bonds only provide a minuscule 'greenium' of 2-3bp compared to non-ESG compliant covered bonds, this gap may increase if rates and spreads widen again. Issuers with a more diversified funding profile and access to a broad group of investors may be less exposed to refinancing risk.

Annex I: Related research

House price commentaries

“European house prices reaching their climax?”, published 20 Jan 2022 available here

“Austria takes measures to cool house price growth”, published 16 Dec 2021, available here

“Bundesbank takes wait-and-see approach while house prices increase at record pace”, published 25 Nov 2021, available here

“Hesitation by policy makers poses financial stability risk in Germany”, published 12 Nov 2021, available here.

“Austria poised to introduce measures to slow house-price boom,” published 2 Nov 2021, available here.

“Inflation fears and ultra-low mortgage rates fuel record-high European house prices”, published 25 Oct 2021, available here

“European house prices hit highest growth rate in 14 years,” published 14 July 2021, available here

ESG in covered bonds and banks

“ESG and digital transition as measures of long-term sustainability for banks”, published 8. Nov. 2021 available here

“European Banking: social factors material for credit analysis as regulatory pressure mounts”, published 30. Sept 2021 available here

“Loose ESG disclosures for banks: good for on-boarding not trust”, published 17. Sept 2021 available here

Other

“Asset-quality Quarterly: a case of credit provision reversal”, published 28 Oct 2021, available here

Covered Bond Quarterlies

“Q3 2021 Covered Bond Quarterly: Covered bonds at a turning point”, published 21 Oct 2021, available here

“Q2 2021 Covered Bond Quarterly: no credit-relevant topics to dampen the outlook”, published 1 July 2021, available here

“Q1 2021 Covered Bond Quarterly: public supply depressed; ESG issuance in jeopardy”, published 19 April 2021, available here

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris
23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

Oslo
Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid
Paseo de la Castellana 141
E-28046 Madrid
Phone +34 91 572 67 11

Milan
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London
52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2022 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Analysis GmbH, Scope Investor Services GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.