
# Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

# Agenda




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RESP NRDR <GO>

# Market overview
# Covered Bonds

Author: Dr Frederik Kunze

**Covered bond market: lively issuance activity and further mandates**

Last Wednesday, de Volksbank from the Netherlands (DEVOBA) and the Bank of Nova Scotia (BNS) approached their investors. With an ultra-long maturity of 20 years, DEVOBA ventured into the market, which proved to be quite receptive to the EUR 600m long-term covered bond. The order book eventually totalled EUR 1.9bn, with the reoffer spread tightening by four basis points at ms +6bp over IPT. BNS opted for a term to maturity of eight years for its primary market appearance. The bond was priced at ms +8bp after entering the marketing phase at ms +11bp area. The issuance volume was mainly allocated to accounts in Germany and Austria (51%), followed by the UK/Ireland (20%) and the Benelux countries (18%). By investor group, banks dominated (60%), while asset managers and central banks/OI each accounted for 20% of the issuance volume. At the end of the week, another issuer from the Netherlands, ABN AMRO, joined the proceedings. As with DEVOBA, ABN AMRO also chose a term to maturity of 20 years. Likewise, the IPT (ms +10bp area) and the reoffer spread (ms +6bp) matched. The bond volume, on the other hand, was noticeably larger at EUR 1.5bn, and it was significantly oversubscribed (bid-to-cover ratio: 1.7). A total of 45% of the allocation went to Germany and Austria, while the Benelux countries accounted for 38%. The share of banks among the investor groups was comparatively small at 19%, while central banks/OI accounted for 38% and asset managers still received 32% of the allocated bond volume. My Money Bank (MMB) from France kicked off the new trading week. The covered bond placed as an obligation foncière by MMB SCF started the bookbuilding process as a no-grow deal for EUR 500m at ms +11bp area. The reoffer spread was set three basis points tighter at ms +8bp during the marketing phase, which initially saw somewhat sluggish order entries. With an order book of EUR 1.4bn and a bid-to-cover ratio of 2.8, it could certainly be called successful at market placement; the most recent calculated NIP of two basis points may well have tempted one or two investors to place an order. A total of 46% of the allocated deal volume went to accounts in Germany and Austria, with 27% remaining in France. Further shares are attributable to the following categories: the Nordics (8%), South Korea (6%), Italy (5%), Switzerland (3%) and the UK (2%). The investor group banks received 44% of the volume, followed by Central Banks/OI (28%) and Fund Managers (17%). Fitting with the lively issuance activity is the abundance of mandates and deals with near-term pricing. For example, yesterday, Eurocaja Rural ended investor calls for a sustainable covered bond (10y). Also in the ESG segment, both Unicredit and NORD/LB mandated for a green debut. Iccrea Banca from Italy also presented to investors its covered bond debut. Bausparkasse Wüstenrot AG also constituted an addition to the group of Austrian sub-benchmark issuers; beginning as of Thursday, it is extending invitations for investor calls for the launch of its EUR 300 million (WNG) sub-benchmark debut with a term to maturity of seven years (see NORD/LB Issuer View Bausparkasse Wüstenrot from 14 September).

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| MMB SCF | FR | 13.09. | FR0014005H24 | 10.0y | 0.50bn | ms +8bp | - / - / AAA | - |
| ABN AMRO | NL | 10.09. | XS2387713238 | 20.0y | 1.50bn | ms +6bp | AAA / Aaa / - | - |
| Bank of Nova Scotia | CA | 08.09. | XS2386592138 | 8.0y | 1.50bn | ms +8bp | AAA / Aaa / - | - |
| de Volksbank | NL | 08.09. | XS2386592302 | 20.0y | 0.60bn | ms +6bp | AAA / Aaa / - | - |

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research, (Rating: Fitch / Moody's / S&P)

**A note for the diary: NORD/LB with Green Pfandbrief in benchmark format**

The NORD/LB Group has been an active issuer in the green bond segment for a number of years. Both Deutsche Hypothekenbank and NORD/LB Covered Bond Bank in Luxembourg have issued Green Covered Bonds as subsidiaries. Now our bank has also mandated NORD/LB to place a Green Pfandbrief. Corresponding investor calls have already been made for the debut of a green Pfandbrief in the form of a EUR 500m (WNG; 5y) bond. The NORD/LB Green Covered Bond is based on the NORD/LB Green Bond Framework. Assessed by ISS ESG, it is aligned with the ICMA Green Bond Principles and the EU Taxonomy. This fulfils the requirements of the German Pfandbrief Act as well as the vdp's minimum standards for the Green Pfandbrief brand. Today, the deal entered the marketing phase shortly before our publication deadline with a guidance of ms +4bp area.

**Two successful placements in the EUR sub-benchmark segment**

Although Oberösterreichische Landesbank is an established issuer in the EUR sub-benchmark segment, it last appeared on the primary market in April 2018. For its latest market appearance in the past trading week, the institute chose the format of an ESG issue, in so doing extending the group of green covered bond issuers in Austria. With a reoffer spread of ms +4bp and an issue yield of -0.132%, it can certainly be called a successful placement. The EUR 250m bond (WNG) was largely allocated to investors from Germany and Austria (88%). The Nordics accounted for the remaining 12%. By investor group, banks (57%) dominated as buyers, ahead of central banks/OI (25%) and asset managers/funds (18%). For its covered bond debut, Canadian Equitable Bank chose a EUR transaction in sub-benchmark format. This makes sense to us for several reasons: this segment tends to enable smaller issuers in particular to pursue a regular market presence. In addition, there are no differences in regard to regulatory treatment for Canadian issuers. The deal initially entered the marketing phase with an attractive guidance of ms +low 20bp area, initially aiming for a volume of EUR 300m. The final spread was then also five basis points tighter at ms +15bp. The order book, at EUR 1bn (bid-to-cover ratio: 2.9) however continued to point to high demand. We see this as the result of a combination of an attractive spread and a maturity of three years, which is already unusually short for a euro-denominated covered bond. A description of the Canadian covered bond market can also be found in the last issue of our weekly publications.

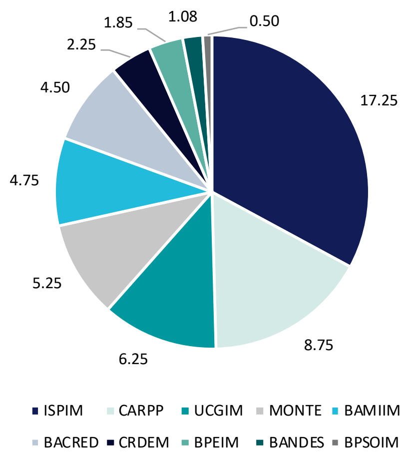
**Moody's with assessments of Asia's covered bond market in Q3 2021**

Among other things, with regard to changing rating outlooks for its covered bond ratings, the rating agency Moody's has recently shown itself to be comparatively relaxed insofar as no downgrades are to be expected for covered bond issuers in Australia, New Zealand, Japan, South Korea and Singapore. This also applies against the backdrop of the current coronavirus case figures (e.g. in Australia and South Korea) and the associated, possibly newly emerging, uncertainty. In addition to basic resilience, the risk experts also see vaccination progress as a supporting element (for example in Japan). Another factor is the high quality of the cover assets in the mortgage-backed cover pools. We share Moody's assessment, in particular, that even possible new waves of infection will not be able to significantly affect the dual recourse covered bond product in Asia. In terms of the overall economic situation and economic activity, there is unlikely to be another setback as extreme as the one observed in 2020.

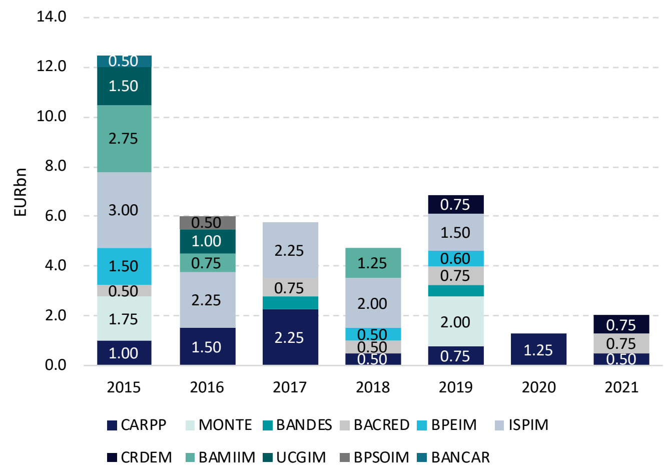
**EUR benchmark debut: Iccrea Banca from Italy announces EUR 500m (WNG)**

It is not only the established issuers on the market that approach investors after the summer break. Moreover, covered bond debuts are by no means exclusively reserved for the EUR sub-benchmark segment. The EUR benchmark segment is also growing again: Iccrea Banca from Italy has mandated a roadshow followed by an inaugural benchmark transaction (EUR 500m; WNG; 7y). As a cooperative credit institution, Iccrea Banca is part of the Gruppo Bancario Cooperativo Iccrea (GBCI) and also its central institution. GBCI is the largest cooperative banking group in the country and ranks third in terms of total branches and is the fourth-largest banking group in Italy by total assets. GBCI also had very solid capital ratios by national standards, at 16.7% (CET1 ratio) and 17.5% (total capital ratio). As an issuer, Iccrea Banca has long-term ratings from Fitch (BB-, stable), Standard & Poor's (BB, negative) and DBRS (BB[high], stable). Iccrea Banca's covered bonds, on the other hand, have an Aa3 rating from Moody's. The OBG of the EUR 10bn programme also have a soft bullet structure. The cover pool is also composed of 100% senior secured residential construction loans. The cover pool volume totals EUR 675m and comprises a total of 6,923 loans, and so - also given that the average loan amount is EUR 97,410 - it can be called a granular pool. While Italian covered bond legislation does not require an overcollateralisation ratio, the committed OC for the Iccrea Banca issuance programme is 7.5%. We see a successful debut by Iccrea Banca as a welcome sign of life from Italy. The last primary market appearance from Italy dates back to the end of June. A total of EUR 2bn has been placed so far this year, compared to EUR 1.25bn in 2020 and EUR 6.85bn of new issuance in 2019. So far, the Italian EUR benchmark segment comprised ten active issuers with a volume of EUR 52.4bn between them.

**IT: EUR benchmark segment: distribution (EUR bn)**




**IT: EUR benchmark segment: issues (EUR bn)**




Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

**Series of articles in NORD/LB Covered Bond & SSA View: rating approaches for covered bonds**

The characteristics of covered bond ratings are an important feature of the covered bond market. Both in the context of the ECB purchase programmes and in the context of the ECB Collateral Framework, the ratings of recognised agencies for these purposes influence the eligibility and/or treatment of covered bonds. Likewise, investors regularly rely on the ratings of rating agencies - among other things, with regard to their investment criteria. The rating approaches of Fitch, Moody's, Standard & Poor's, DBRS and Scope, for example, differ in their approach and are at the same time influenced by innovations or changing underlying conditions on the market. Within the framework of our weekly publications, we would like to present the rating approaches in the coming weeks and months, briefly discussing what we consider to be the main elements of the methodologies. This week we start with Fitch's rating approach (see article on Fitch's rating approach).

**In brief: TLTRO III**

We have already referred to 15 September 2021 several times in our weekly publication. Until 5 pm on this day, the commercial banks that have provided themselves with liquidity in the course of TLTRO III.1 to TLTRO III.5 can inform the national central banks that they wish to make use of the (partial) voluntary repayment option introduced for the first time in the context of TLTRO III (see the ECB's TLTRO III calendar). Large amounts of voluntary repayments can theoretically be good news for the covered bond primary market, although we should wait and see what the allocation in the new TLTRO III.9 tender is before making a judgement. This will be reported on 23 September at 11:30 am. In addition, a high take up under TLTRO III.9 without prior repayments is also conceivable. Some issuers may already be taking precautions here, possibly with a view to available collateral. Based on Bloomberg data, Societe Generale stands out here, for example. The covered bond issuer Societe Generale SFH issued EUR 4.5bn in retained covered bonds on 03 September 2021.

# Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

**Quibbling about the term "tapering"**

After a few hawkish statements recently, the meeting of the European Central Bank last week was awaited with a certain degree of tension. Unsurprisingly, neither the key interest rates nor the pace of purchase in the (Extended) Asset Purchase Programme (EAPP) were touched upon. The targeted total PEPP volume of EUR 1,850bn also remained unchanged. However, the Governing Council appeared to be unanimous in no longer seeing the need to continue front loading of the PEPP in order to secure favourable financing conditions. In Q4, the pace of net purchases will therefore be moderately reduced. We had assumed this in our projection two weeks ago in the context of this publication. According to our chief economist, this decision is based on very robust economic data, which in fact suggests that the Eurozone economy will now be able to cope with slightly less support. Even if the hawks in the Governing Council can claim a partial success for themselves, this does not yet represent tapering. An explicit volume is still deliberately not mentioned and the Governing Council reserves the right to respond flexibly to market developments within the framework of its self-imposed guidelines. We particularly liked the phrase used by ECB President Christine Lagarde that "the lady isn't tapering". Rather, she spoke of "a recalibration" of the PEPP for the next three months. Above all, this is intended to avoid the impression of a pre-commitment to a continuous path of reduction. The weekly data has previously been extremely clear and the market is only interested in how many billions find their way into the system, not verbal acrobatics. It is our internal opinion that just a moderate reduction in the monthly purchase volume is to be expected for the next few months. While the volume does not have to be fully exploited in the end anyway, Lagarde's recent remarks had repeatedly suggested that a full exploitation of the total volume would be sought if possible. Despite the current solid economic data, 09 September was not yet the right time to make fundamental statements about the future of the PEPP beyond March 2022 – also due to the uncertainty about the further course of the pandemic. This topic will not be on the agenda until December. The ECB had to raise the short-term inflation projection again (2.2% for 2021). The assessment that the current buoyancy is largely based on transitory effects remains unchanged. However, Lagarde discussed the risk of prolonged upwards pressures on underlying inflation from supply-side restrictions. The ECB wants to closely monitor possible risks for second-round effects in the form of a wage price spiral. The fact that this is not the ECB's baseline scenario is signalled by the inflation projections for 2022 (1.7%) and 2023 (1.5%). According to the forward guidance which was adapted to the new strategy in July, it is precisely these longer-term forecasts that are of crucial importance. We will be looking for a story in time for the meeting on 28 October, as all eyes are already on (16th) December due to the framing and expectations of the PEPP. Conclusion of our chief economist: overall, the ECB is taking its foot off the gas somewhat, but the Governing Council has to factor in a long braking distance due to the high stimulus.

**Lively activity on the part of the EU after the summer break**

EUR 9bn for seven years at ms -14bp – these are the figures for the first Next Generation EU (NGEU) transaction after the summer break. The bond started the marketing phase yesterday with a guidance in the region of ms -12bp. In the end, the order books amounted to more than EUR 103bn and were consequently 11.4 times oversubscribed. This brings the current funding for NGEU in the calendar year to EUR 54bn out of EUR 80bn, with five remaining timeframes (see table below). For EU bonds, one syndication and one auction per month are planned. The first of three auctions still planned in 2021 will take place on Monday, 27 September. We dedicated an article to this special topic last week. The auction system is also used for taps. The EU's aim is to establish a liquid NGEU benchmark curve. It will therefore always try to top up each bond in the future. As part of the issuance calendar, EUR 1.55bn is also planned in the EU's macro-financial assistance (MFA) programme. EU bonds benefit – regardless of the internal programme – from the ISIN limit of 50% for supranationals in the course of the PSPP. All bonds (as well as bills!) can additionally be requested abundantly in the PEPP. The EU bonds are therefore not only in great demand by investors on the primary market but will also be circulating in the secondary market until they end up with the Eurosystem.

**Timeframe for …**

| **… syndications** | | **… auctions (4th Monday of the month)** | |
|---|---|---|---|
| **CW 37** | 13 to 17 September | **September** | Monday, 27 |
| **CW 41** | 11 to 15 October | **October** | Monday, 25 |
| **CW 45** | 8 to 12 November | **November** | Monday, 22 |

Source: EU, NORD/LB Markets Strategy & Floor Research

**Auctions for EU bills start today**

In addition to the often-mentioned total volume (EUR 806bn by the end of 2026), many billions of EU bills will be added by the end of the year (and beyond). The exact volume in 2021 and beyond has not been specified in more detail. The individual bills will have a term of three months and six months, and will each be EUR 2-3bn, with corresponding taps of EUR 1.5-2bn in the future. The European Commission will offer the bills exclusively through auctions. The auction programme will start today (15 September; after the editorial deadline). The European Commission will normally host two auctions per month for EU bills, on the first and third Wednesday of the month. With the exception of 15 and 22 September, these will happen in the current starting month. The early transactions of each month will be new bills, whereas existing bills will always be topped up on the second date of the month. The auction programme will be used for bonds, in addition to syndications. Whether 15 December will or will not be used remains to be seen following the first successful bill auctions.

**Action Logement Services (ALS)**

In our weekly analysis of the ISIN lists within the framework of the purchase programmes (PSPP and PEPP), we have come across a new name for the first time: Action Logement Services (ALS). Under the ticker ALSFR, there are two such bonds outstanding, each with a volume of EUR 1bn. Their maturities are 2034 and 2041. ALSFR 0 3/4 07/19/41, which was only issued in July 2021, has now been purchased. We may take a closer look at this public sector issuer from our neighbouring country in Q4 2021. Fitch has assigned a rating of AA. The bond is currently priced at around ms +42bp with a residual maturity of just under 20 years.

**Investor call of the International Investment Bank (Ticker: IINVBK)**

Founded in 1970, the International Investment Bank (IIB) is a multilateral development bank registered with the United Nations. Its mission is to promote the social and economic development of its nine member states. The IIB is focused on the support of small and medium-sized companies as well as export-import businesses, which includes not only the financing of trading transactions, but also the provision of various financial products and services. However, by far the largest segment of business activity is lending to SMEs. The IIB principally provides loans through its distribution network of promotional banks, state-owned banks and other financial institutions. Alongside creditworthiness, this also takes into account innovative strength, modernisation, resource and energy efficiency as well as social responsibility. On account of the IIB's ownership structure, its member states provide an implicit guarantee. This is sustained by the political commitment of member states to support the IIB, which has been reflected in several capital contributions that have been made by member states since 2014, most notably through the increase of callable capital. The following nine countries are shareholders: Russia with 44.85%, five EU countries with 51.42% (Hungary, Bulgaria, the Czech Republic, Slovakia and Romania) as well as Cuba, Vietnam and Mongolia for the remaining share. Fitch and S&P have confirmed their respective ratings at A- in 2021 and provided a stable outlook in light of the positive business development. The IIB moved its headquarters from Moscow to Budapest in the EU in 2019. This, too, is still positively noted and the refocus on the EU members in the business model should also sustainably improve credit quality.

**Primary market**

We already discussed the EU heavyweight called the NGEU bond (7y, EUR 9bn, ms -14bp) above. In second place as the next largest transaction of the trading week under consideration (Wednesday to Tuesday) is a social bond of EUR 5bn over ten years from CADES at OAT +13bp (reference bonds: FRTR 0% 11/25/30 & FRTR 0% 11/25/31). The guidance started at OAT +15bp area. In the end, the books amounted to more than EUR 12.5bn for this weighty ESG bond. The EIB's Climate Awareness Bonds (CABs) also fall within the ESG segment. It increased its 2030 CAB by EUR 500m at ms -12bp, which was also in line with the guidance. The books amounted to a little over EUR 1.3bn. The pipeline is also unusually strong by current standards and at the same time well filled: KfW mandated a ten-year green bond (EUR 3bn, WNG). The EIB exactly matched the volume, but opted for its customary EARN format and a five-year maturity. In addition, NRW announced a benchmark that had a term of over 30 years. This is clever in that all bonds with maturities of 31 years minus one day are eligible for the purchase programmes. We expect all three bonds to be significantly oversubscribed and for NRW to be more than EUR 500m and move towards a jumbo transaction.

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| EU | SNAT | 21.09 | EU000A3KWCF4 | 7.0y | 9.00bn | ms -14bp | AAA/Aaa/AA | - |
| CADES | FR | 15.09 | FR0014005FC8 | 10.0y | 5.00bn | ms +6bp | -/Aa2/AA | X |

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research (Rating: Fitch / Moody's / S&P)

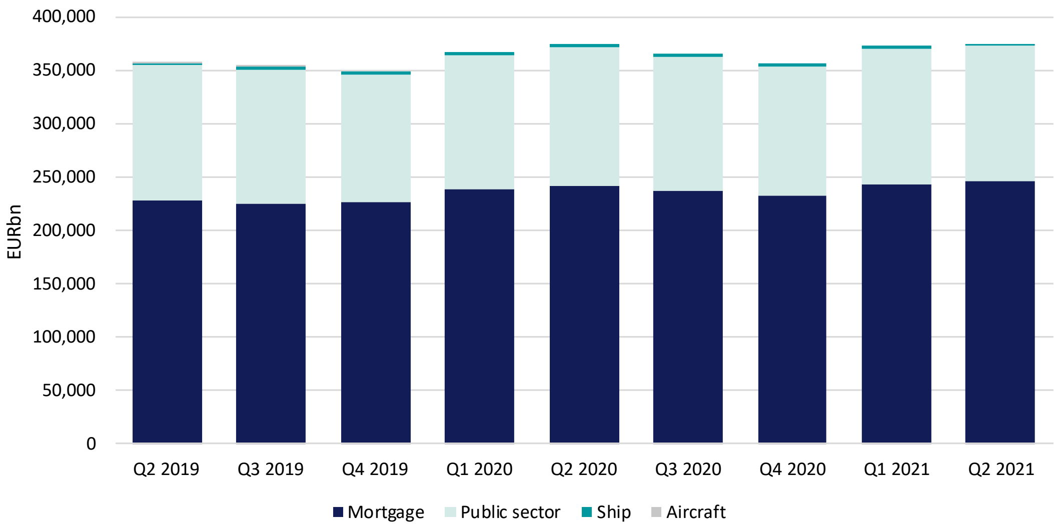
# Covered Bonds
# Transparency requirements § 28 PfandBG Q2 2021

Author: Dr Frederik Kunze

**Expanded circle of issuers**

The Pfandbrief issuers organised in the Association of German Pfandbrief Banks (vdp) recently published their transparency reports on the composition of their cover pools for the second quarter of the current year in accordance with Section 28 of the German Pfandbrief Act (Pfandbriefgesetz; PfandBG). With regard to the circle of issuers, Oldenburgische Landesbank AG and Sparda-Bank Südwest eG complement the mortgage Pfandbrief segment, with their contributions to the outstanding volume varying considerably at EUR 531m and EUR 5m, respectively. Our Covered Bond Special "Transparency requirements §28 PfandBG Q2 2021" now contains cover pool data on 37 mortgage Pfandbrief issuers and – still – 25 public sector Pfandbrief issuers.

**Development of outstanding volume**

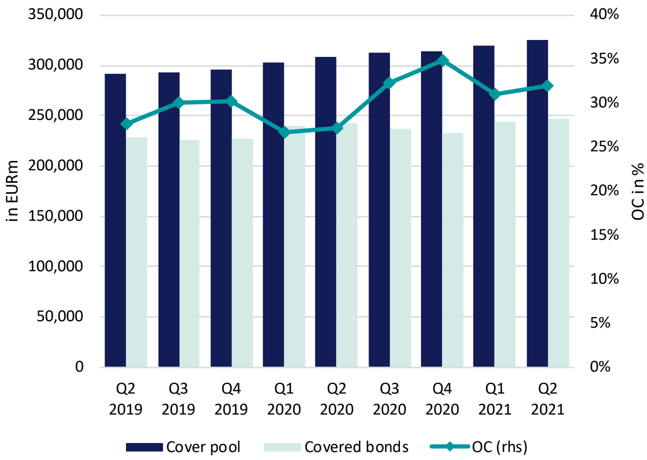



Source: vdp, NORD/LB Markets Strategy & Floor Research

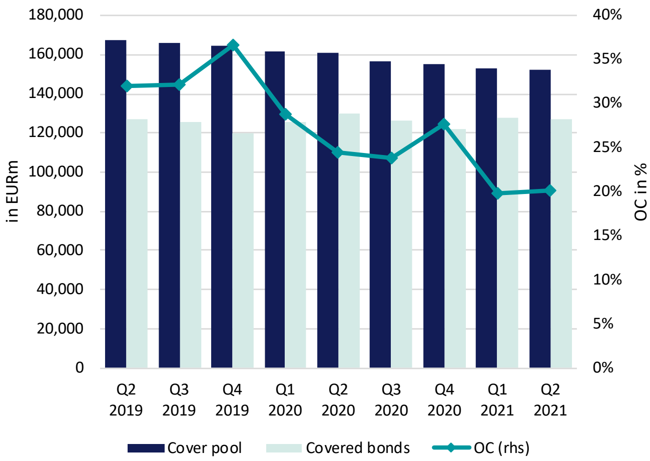
**Total volume up EUR 1.8bn overall**

With EUR 375.6bn of Pfandbriefe outstanding, the total volume further increased on the previous quarter – albeit less strongly than at the previous reporting date (31 March 2021) – and therefore remains at the level of Q2 2020. The outstanding mortgage Pfandbrief volume (EUR +2.8bn and +1.2% Q/Q) was responsible for this rise, with the volumes for both public sector Pfandbriefe and ship Pfandbriefe declining by EUR -987m and EUR -45m, respectively. With regard to the cover assets, mortgage assets increased by EUR 5.2bn, while the other two types of Pfandbriefe also recorded decreases of EUR -780m (public sector) and EUR -83m (ships).

**Trend – mortgage Pfandbriefe**




**Trend – public sector Pfandbriefe**




Source: vdp, NORD/LB Markets Strategy & Floor Research

**Mortgage Pfandbriefe record rise in EUR 2.8bn or 1.2% quarter on quarter**
For the reporting period from April to June 2021, mortgage Pfandbriefe were less dynamic than in the first three months of the year, but continued their upwards trend with EUR +2.8bn so +1.2% quarter on quarter. After an increase of EUR 10.8bn in the first quarter of the current year, the year-to-date rise totals 13.6bn. DZ HYP recorded the largest increase in terms of Pfandbrief volume (EUR +818m). By contrast, LBBW (EUR -919m) and UniCredit Bank (EUR -877m) recorded pronounced declines. Overall, at the end of the second quarter of 2021, the outstanding mortgage Pfandbriefe in the amount of EUR 246.7bn were backed by cover assets of EUR 325.5bn. Average overcollateralisation climbed slightly to 32.0% (previous quarter: 31.1%).

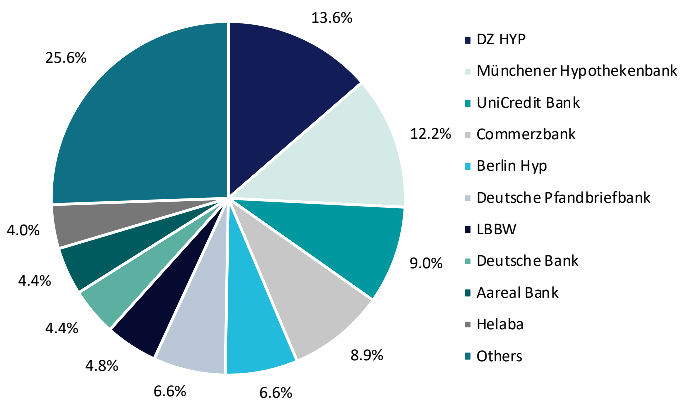
**Public sector Pfandbrief segment: decline of EUR 987m or -0.8% quarter on quarter**
The decline in the outstanding nominal volume of public sector Pfandbriefe in the second quarter of 2021 was EUR 987m (or -1.2% quarter on quarter). At EUR -2.9bn or -2.2% year on year, there is an even stronger decline in momentum here than in the previous year. At issuer level, Helaba recorded the largest absolute decline. Its outstanding volume of public sector Pfandbriefe fell by EUR 726m. However, the strongest growth is attributable to pbb. Here, the outstanding volume increased by no less than EUR 579m. Overall, the outstanding volume of public sector Pfandbriefe amounted to EUR 126.8bn at the end of the second quarter of 2021. However, there were cover assets of EUR 153.0bn, so the average overcollateralisation slightly increased to 20.1%, as in the case of mortgage-backed Pfandbriefe.

**Ship Pfandbriefe remain a niche product**
With a volume of EUR 2.1bn, the ship Pfandbrief segment continues to represent a market niche within the Pfandbrief market in Germany. With Commerzbank, Hamburg Commercial Bank and NORD/LB, only three institutions currently have outstanding ship Pfandbriefe, with Hamburg Commercial Bank accounting for around 91%.

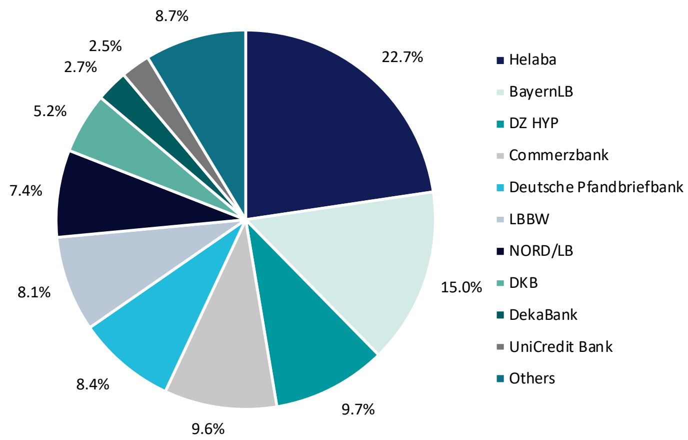
## A look at the top 10

Compared with the previous quarter, there is no change in the ranking of the ten largest mortgage Pfandbriefe issuers. DZ HYP remains the largest issuer in the mortgage-backed Pfandbriefe submarket, followed by Münchener Hypothekenbank and UniCredit Bank. At 25.6%, the share of "smaller" issuers in the outstanding volume rose slightly (second quarter of 2021: 25.0%). Helaba, Bayern LB, DZ HYP, Commerzbank and pbb continue to occupy the top five places in the public sector Pfandbriefe. The five institutions constitute at least 65% of the outstanding volume, while the institutions outside the top 10 account for only 8.7%.

**Market share – mortgage Pfandbriefe**




**Market share – public sector Pfandbriefe**




Source: vdp, NORD/LB Markets Strategy & Floor Research

## Conclusion

The total volume of outstanding Pfandbriefe continued to rise in the past quarter – albeit less pronouncedly than in the first three months of the year. As in previous quarters, the reporting figures must be evaluated against the background of special influencing factors. For example, we have on a number of occasions pointed out the influence of monetary policy on the issue volume, which for some issuers is reflected in the form of a higher weight of retained bonds at the expense of public placements. This circumstance is not directly reflected in the reported data, but was and is rather evident in the EUR benchmark segment. In the current year, the issue volume of Pfandbriefe totals EUR 10.25bn. In the full years 2020 and 2019, respective values of EUR 18.75bn and EUR 26.03bn were reported here. Nine issuers have been active so far, compared to 17 (2020) and 16 (2019) in previous years. In addition to the availability of central bank liquidity, other factors (including high deposits) have recently had an impact on the funding behaviour of issuers. Nevertheless, it is too early to sign off primary market activity on the Pfandbrief market in 2021. In both 2020 and 2019, Pfandbrief issuers also referred to their investors in the EUR benchmark segment. In our opinion, our current issue forecast (EUR 12.5bn for 2021) remains at least tangible. For more detailed information on the market for Pfandbriefe and the cover pool characteristics as at 30 June 2021, please refer to the current study Transparency requirements §28 PfandBG Q2 2021".

# Covered Bonds
# Fitch: rating approach covered bonds

Author: Dr Frederik Kunze

**Issuer rating as starting point**

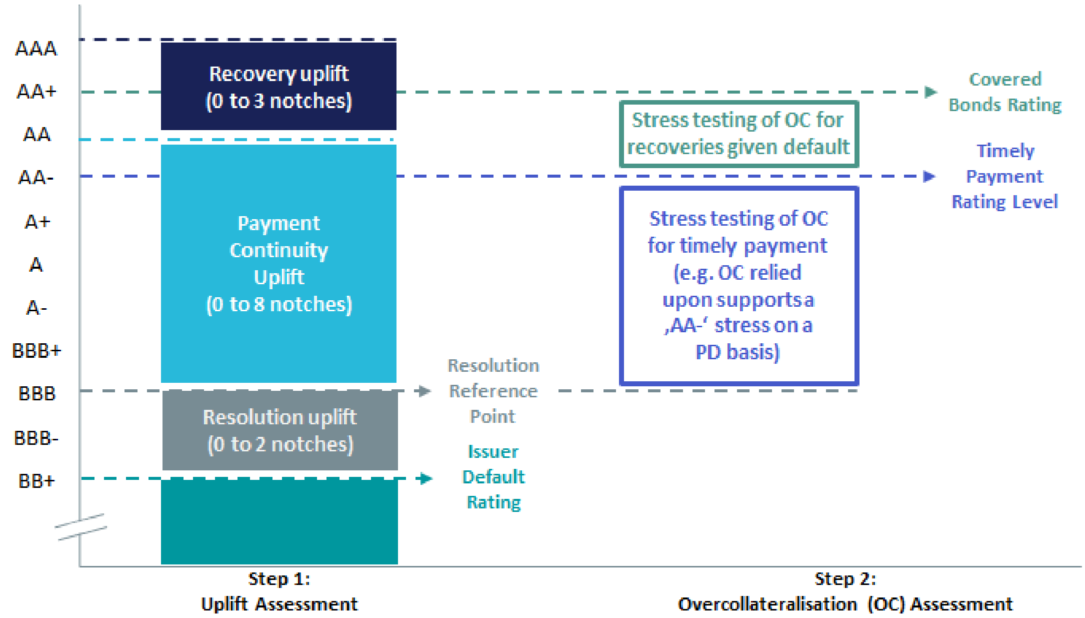
Fitch uses a two-step process to determine its covered bond ratings, taking into account both the probability of a default on a bond as well as the recovery given default. The first step involves assessing the resolution uplift of up to two notches above the Long-Term Issuer Default Rating (IDR). A resolution uplift may be granted to Covered Bonds originated from a jurisdiction that has, among other things, an advanced bank resolution mechanism that provides for a bail-in of senior bonds and excludes fully collateralised Covered Bonds from this. Moreover, an uplift is only awarded when the risk of a coverage deficit in relation to outstanding liabilities is minimal at the time a resolution threat exists. From the rating agency's perspective, this is then expected when, for example, a legal framework or contractual provisions, a responsible supervisory authority and an asset monitor are all in place. If all criteria are met, Fitch will award a resolution uplift above the IDR of a maximum of two notches. This expresses the preferred status of a covered bond in comparison with unsecured bonds in the case of a liquidation and creditor participation. The conditions for a resolution uplift can be seen in the table below, as well as those conditions that do not involve such uplift.

**Fitch: Level of Resolution Uplift**

| Issuer Characteristics | Notches |
|---|---|
| • Institutions with an IDR not driven by institutional or state support and their subsidiaries whose IDR is equalised with the parent's<br>• IDR based on their participation/integration in a mutual support scheme and equalised with group IDR | 2 |
| • Institution with an IDR driven by support and their subsidiaries. | 1 |
| • Specialised mortgage or public-sector lender that forms part of a broader banking group and is not operationally integrated with the parent<br>• Institution without debt buffers requirement such as Minimum Requirement for Own Funds and Liabilities and for which Fitch does not expect resolution to be applied in case of a failure or default | 0 |

Source: Fitch Ratings, NORD/LB Markets Strategy & Floor Research

**Overview of the covered bonds rating steps**




Source: Fitch Ratings, NORD/LB Markets Strategy & Floor Research

**Determining the Payment Continuity Uplift (PCU)**

Fitch additionally determines the Payment Continuity Uplift (PCU). The PCU reflects the rating agency's assessment as to how likely a delay or interruption to interest and capital payments is to occur during transfer of the payment flow from the issuer to the cover pool (following issuer insolvency). The PCU can range from zero to eight notches and together with the resolution uplift and the IDR reflects the maximum possible covered bond rating on timely payment basis. The following applies: The higher the PCU, the less likely the disturbance of the cash flow is considered. Where Fitch assumes that an interruption to payment due to a lack of liquidity mechanisms is likely, the assessed covered bond programme receives a PCU of zero notches, whereas programmes with a soft-bullet structure (and 12 month extension) could be granted a PCU of up to six notches (above the IDR adjusted by the resolution uplift) as long as they are backed by standard cover pool assets in mature banking markets. Issues with a pass-through structure receive a PCU of up to eight notches. In line with the methodology presented on the following page, German Pfandbriefe benefit from a PCU of six notches reflecting the 180 day liquidity buffer and 12-months maturity extension feature. Other risks, e.g. resulting from insufficient separation of assets or high risks related to alternative cover pool management, can lead to a reduction in the PCU uplifts.

**Level of Payment Continuity Uplift**

| Maximum PCU in Notches | Effective Liquidity Protection for Principal Payments | Programme Types |
|---|---|---|
| 8 | Maturity date extends beyond the longest maturing asset in the cover pool | Pass-through programmes |
| 6 | At least 12 months | Mortgage and public-sector programmes predominantly exposed to developed banking markets |
| 5 | At least 6 months | Public-sector programmes predominantly exposed to developed banking markets |
| 4 | At least 9 months | Mortgage programmes predominantly exposed to developed banking markets |
| 3 | At least 6 months | Mortgage programmes predominantly exposed to developed banking markets |
| 0 | No protection | Any programme exposed to maturity mismatches |

Source: Fitch Ratings, NORD/LB Markets Strategy & Floor Research

**Recovery uplift – additional uplift of up to two or three notches possible**

As covered bonds offer a recovery given default even in the event of a payment default on account of the associated assets, the respective programmes may receive a further uplift over the timely payment rating level of up to two notches based on the recovery prospects; for issuers with a non-investment grade rating, this can be up to three notches. The maximum number of notches is awarded when the programme's long-term overcollateralisation ratio sufficiently covers the credit risk in the relevant rating scenario and in the absence of additional material downside risk to recoveries. The uplift can be limited if, for example, the bulk of the assets are denominated in a currency which differs from the covered bond issued.

**Limit to the maximum covered bond rating via breakeven OC for the rating**

Finally, in a second step, the overcollateralisation ratio for the respective rating level (breakeven OC) is determined. This ensures timely payment of outstanding covered bonds during stress scenarios above the IDR adjusted by the resolution uplift (i.e. issuer default). The breakeven OC reflects the amount of assets needed in excess of covered bonds issued, it is composed of (i) the ALM loss (non-credit loss) and (ii) the credit loss. The breakeven OC calculated by Fitch for a given rating is then compared with the OC expected to be maintained over the long term by the issuers from the perspective of the rating agency. If the OC maintained by the issuer is below the breakeven OC for the maximum possible rating, Fitch tests the next-lowest rating scenario. Usually the covered bond rating is floored at the IDR plus available notches of resolution uplift and at least one notch of recovery uplift.

# SSA/Public Issuers
# Update: Joint Laender (Ticker: LANDER)

Author: Dr Norman Rudschuck, CIIA

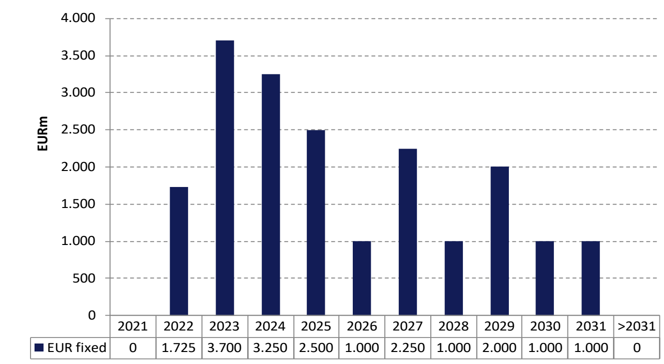
**Introduction**

An idiosyncrasy of the bond market in general, and one specific to the German sub-sovereign market, is the issuance vehicle known as the *Gemeinsame deutsche Bundeslaender*. Within this framework, several Bundeslaender issue joint bonds (known as "Laender jumbos"; issuance volumes starting from EUR 1bn), whereby each sub-sovereign assumes partially and severally liability for the issuance overall. As a result, joint liability structures do not exist for such deals. The first time several Bundeslaender came together to issue such a joint bond was in 1996. Since then the *Gemeinschaft deutscher Laender* has become an established part of the bond market, with several Bundeslaender placing joint bonds on a semi-regular basis. The large-volume Laender jumbos enable these Laender, which before the pandemic would have had a comparatively low refinancing requirement, to achieve economies of scale that are reflected in lower interest expenses.

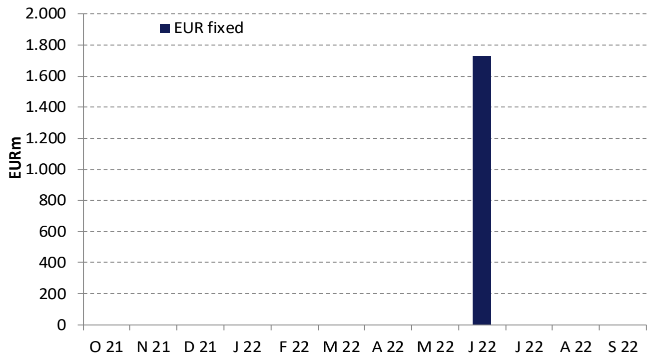
**Participants, structure and rating**

A total of eight Laender participated in the bond issuances currently in circulation. While Saxony-Anhalt, Hesse and North Rhine-Westphalia (NRW) ceased to use Laender jumbos as a funding instrument after the first issuance in 1996, with Berlin subsequently opting not to participate in the joint issuing body since 2002, the following Bundeslaender have at times made use of Laender jumbos as key funding instruments (prior to the coronavirus pandemic): Brandenburg, Bremen, Hamburg, Mecklenburg-Western Pomerania, Rhineland-Palatinate, Saarland, Schleswig-Holstein and Thuringia raised substantial amounts of their funding volume via bonds of the joint issuing body currently in circulation. As a result of the particular structure of the *Gemeinschaft deutscher Laender* there is no issuer rating. Instead, the rating agency Fitch rates each individual issuance in order to take account of the differing participation structures (several but not joint liability basis). However, this does not lead to any differences: since series No. 11, Fitch has awarded a rating of AAA to all Laender jumbos. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the restructured federal financial equalisation (VAT distribution entirely according to the number of inhabitants), in which it generally sees an exceptionally low default risk (AAA).

**Overall maturity profile**




**Bond amounts maturing in the next 12 months**

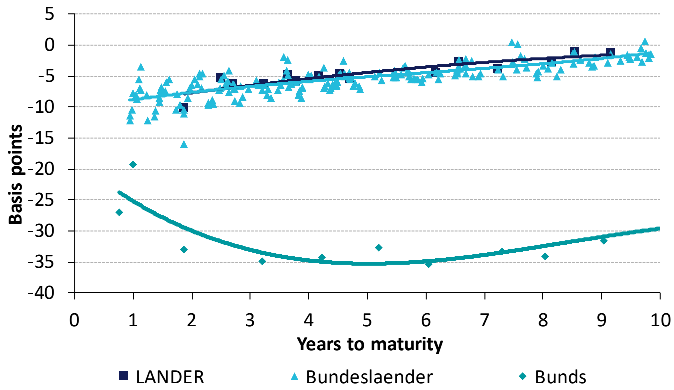



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

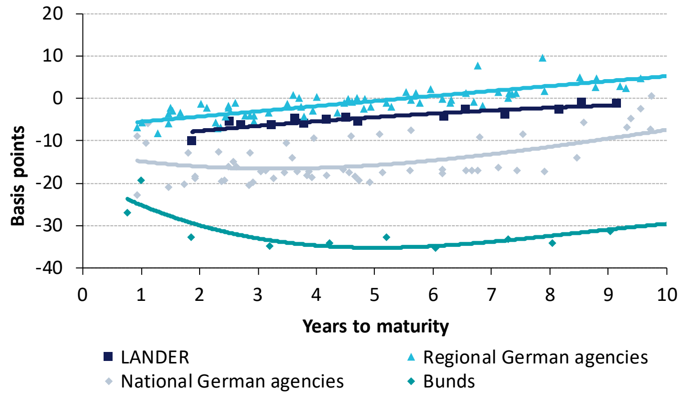
### Outstanding volumes

In total, an outstanding volume of EUR 19.4bn in 17 bonds is attributable to the *Gemeinschaft deutscher Laender* (ticker: LANDER), making it an important player in the German Bundeslaender bond market. The outstanding volume is EUR-denominated in full and features a fixed coupon. Other instruments such as Schuldscheindarlehen (SSD) are not jointly issued. Having issued a Laender jumbo in the form of a floating rate note (FRN; floater) in 2008, the Joint Laender has subsequently refrained from using this instrument for joint refinancing. Here, too, the coupon has long since been in the region of 0.0% or 0.01%. In fact, 2015 was the first year in which a zero preceded the decimal point. The series of bond issuances on the part of the *Gemeinschaft deutscher Laender* has now reached No. 60. At present, the longest outstanding bond is set to fall due in February 2031 (No. 60), while the largest bond comprises a volume of EUR 1.725bn (No. 40). In 2021, there are no further bonds set to fall due under this ticker (LANDER). A look at the calendar, history and our gut instinct tell us that we can expect a new bond in the foreseeable future.

**ASW spreads vs individual Bundeslaender & Bunds**

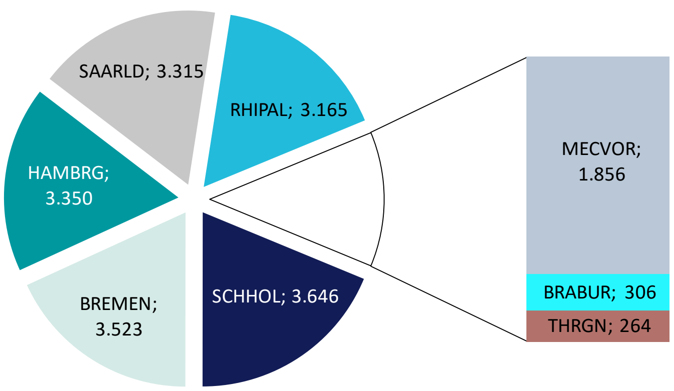



**ASW spreads vs German promotional banks & Bunds**

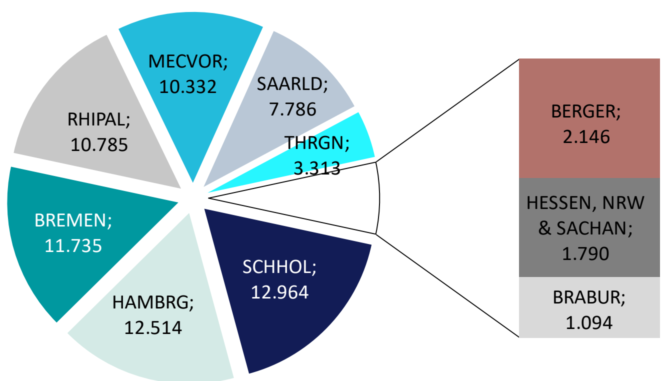



Source: Bloomberg, Markit, NORD/LB Markets Strategy & Floor Research

**Share of current outstanding volume attributable to each Bundeslaender (EUR bn)**




**Cumulative share of total issuance volume since 1996 (EUR bn)**




Source: Federal Ministry of Finance, Federal Statistical Office, national accounts produced by the Laender, NORD/LB Markets Strategy & Floor Research

**Strengths**

- + Includes smaller issuers
- + More liquid bond volumes

**Weaknesses**

- – Participants are primarily Bundeslaender with budgetary problems, high-level dependency on the federal financial equalisation system and/or below-average economic output
- – Complex structure
- – Several (but not joint) liability

**Conclusion**

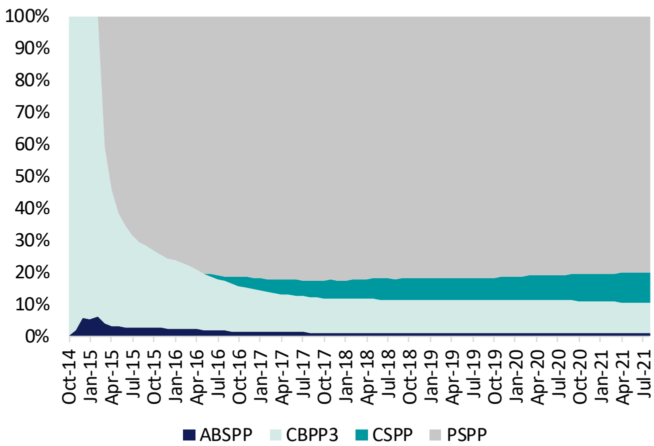
After the only BULABO bond matured on 15 July 2020, the *Gemeinschaft deutscher Laender* construct represents the most complex remaining construct in the German sub-sovereign market. With an outstanding volume of EUR 19.4bn in 17 bonds, the ticker LANDER is one of the most liquid on the market. It comes down to partially and severally liability for each participant, so no joint liability is envisaged for the so-called Laender jumbos, which is why this type of structure requires explanation. However, it does not lead to any differences: all Joint Laender jumbos are rated AAA by Fitch. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the restructured federal financial equalisation, in which it generally sees an exceptionally low default risk (AAA). A look at the calendar, history and our gut instinct tell us that we can expect a new bond in the foreseeable future.

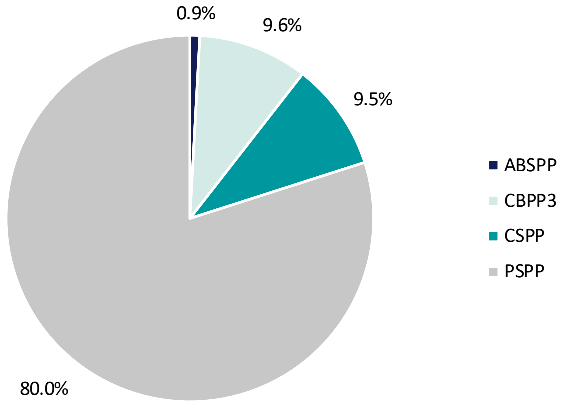
# ECB tracker

### Asset Purchase Programme (APP)

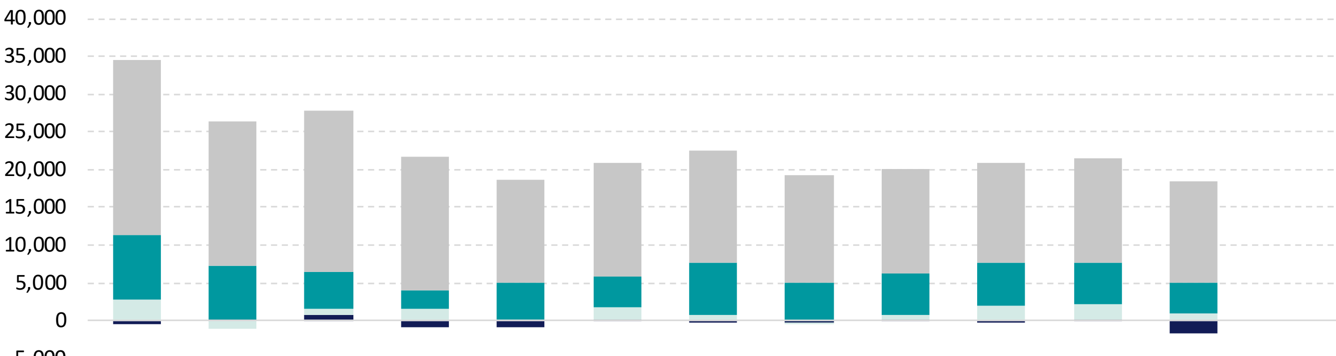
| | ABSPP | CBPP3 | CSPP | PSPP | APP |
|---|---|---|---|---|---|
| **Jul-21** | 28,331 | 293,776 | 287,233 | 2,429,274 | 3,038,614 |
| **Aug-21** | 26,582 | 294,775 | 291,169 | 2,442,837 | 3,055,363 |
| **Δ** | -1,749 | +999 | +3,936 | +13,563 | +16,749 |

### Portfolio structure




### Monthly net purchases (in EURm)

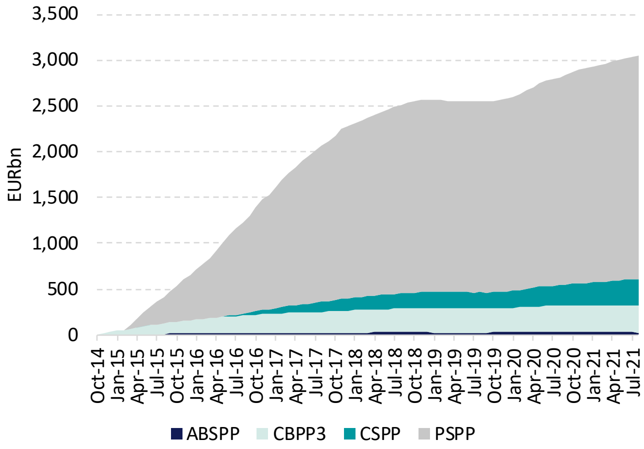



| | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 34,014 | 25,349 | 27,720 | 20,929 | 17,846 | 20,915 | 22,561 | 18,918 | 20,141 | 20,640 | 21,597 | 16,749 | 267,379 |
| PSPP | 23,102 | 19,182 | 21,241 | 17,822 | 13,655 | 15,129 | 14,955 | 14,186 | 13,973 | 13,320 | 13,943 | 13,563 | 194,071 |
| CSPP | 8,496 | 6,983 | 5,009 | 2,378 | 4,924 | 4,064 | 6,929 | 5,015 | 5,394 | 5,602 | 5,502 | 3,936 | 64,232 |
| CBPP3 | 2,839 | -1,041 | 646 | 1,529 | 74 | 1,539 | 684 | -5 | 686 | 2,037 | 2,011 | 999 | 11,998 |
| ABSPP | -423 | 225 | 824 | -800 | -807 | 183 | -7 | -278 | 88 | -319 | 141 | -1,749 | -2,922 |

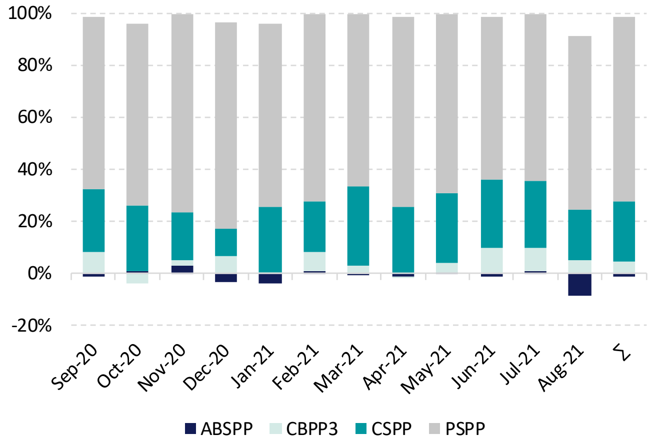
Source: ECB, NORD/LB Markets Strategy & Floor Research

NORD/LB

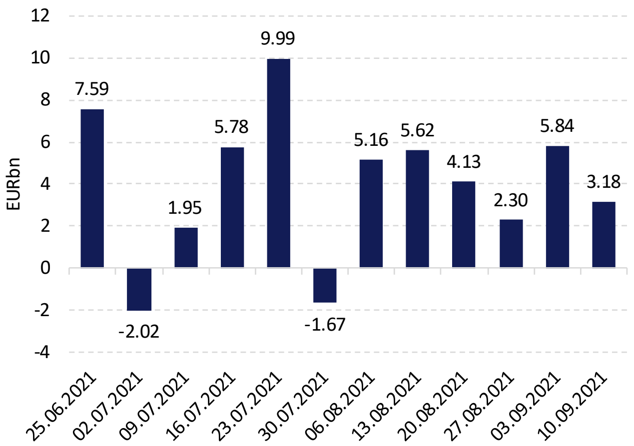
### Portfolio development



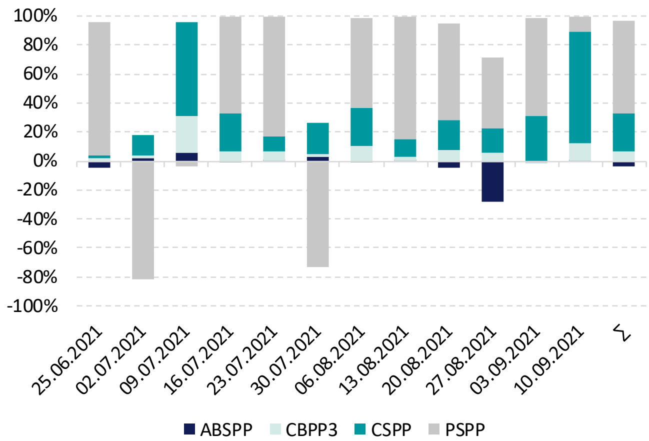

### Distribution of monthly purchases



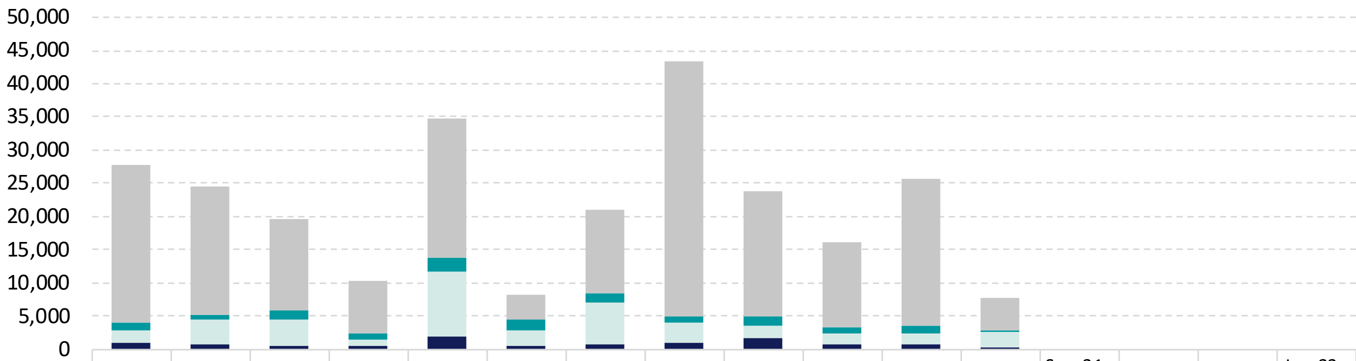

### Weekly purchases




### Distribution of weekly purchases




### Expected monthly redemptions (in EURm)

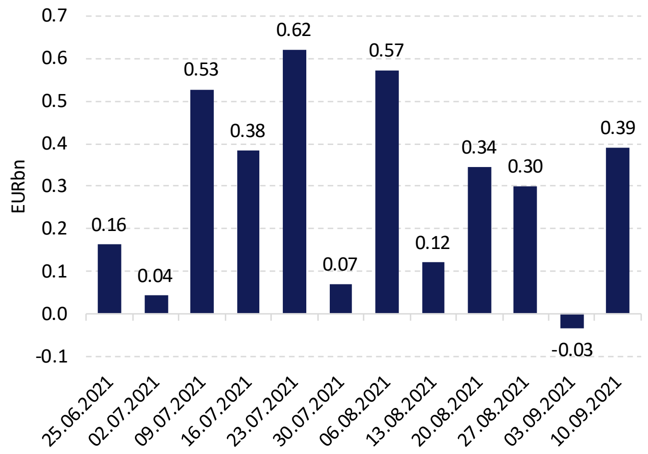



| | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-21 - Aug-22 | 2020 | 2021 | Jan-22 - Aug-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 27,710 | 24,480 | 19,661 | 10,201 | 34,662 | 8,146 | 21,133 | 43,496 | 23,851 | 16,063 | 25,694 | 7,726 | 262,823 | 262,253 | 245,841 | 180,771 |
| PSPP | 23,667 | 19,224 | 13,802 | 7,811 | 20,906 | 3,625 | 12,603 | 38,442 | 18,998 | 12,714 | 22,123 | 4,841 | 198,756 | 201,482 | 188,484 | 134,252 |
| CSPP | 1,102 | 800 | 1,269 | 826 | 1,946 | 1,590 | 1,416 | 1,125 | 1,341 | 1,017 | 1,191 | 280 | 13,903 | 18,267 | 16,288 | 9,906 |
| CBPP3 | 1,920 | 3,775 | 4,048 | 937 | 9,797 | 2,524 | 6,380 | 2,997 | 1,866 | 1,522 | 1,558 | 2,226 | 39,550 | 33,236 | 30,143 | 28,870 |
| ABSPP | 1,021 | 681 | 542 | 627 | 2,013 | 407 | 734 | 932 | 1,646 | 810 | 822 | 379 | 10,614 | 9,268 | 10,926 | 7,743 |

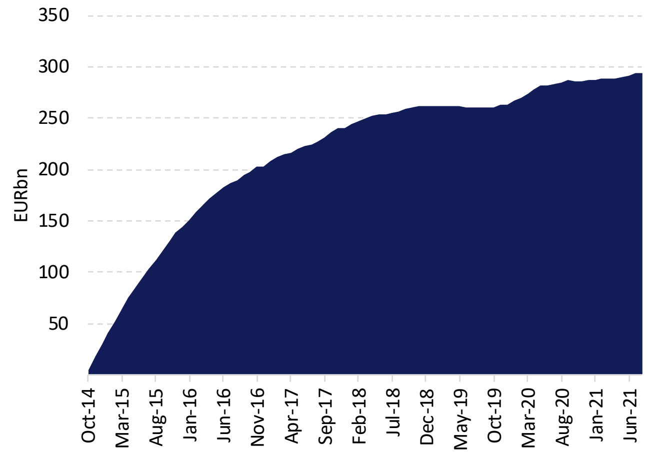
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Covered Bond Purchase Programme 3 (CBPP3)

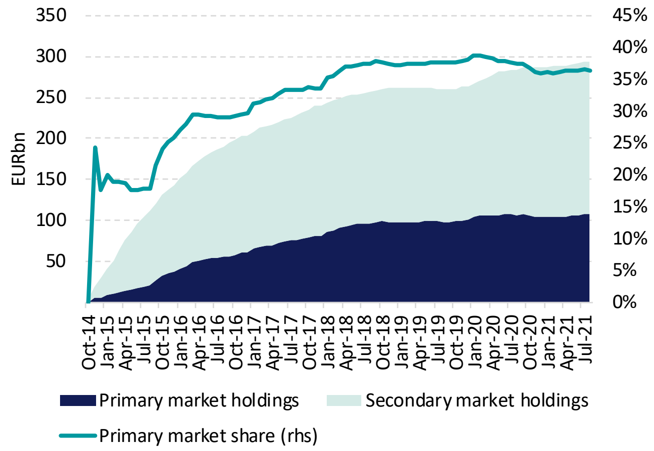
### Weekly purchases



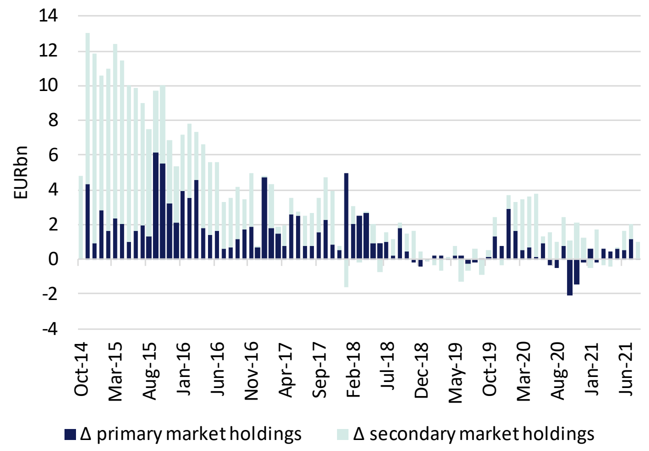

### Development of CBPP3 volume



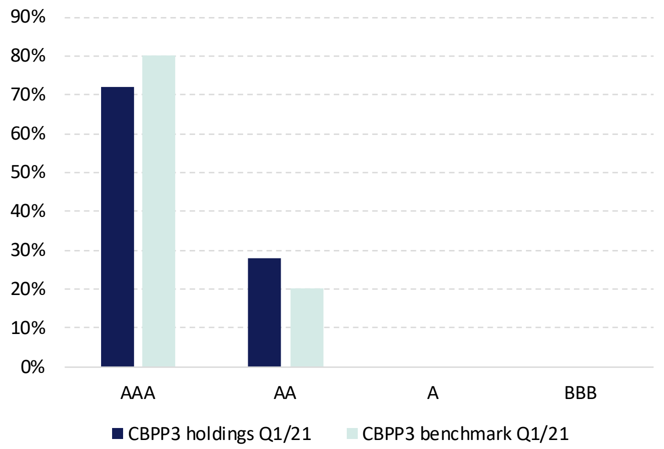

### Primary and secondary market holdings



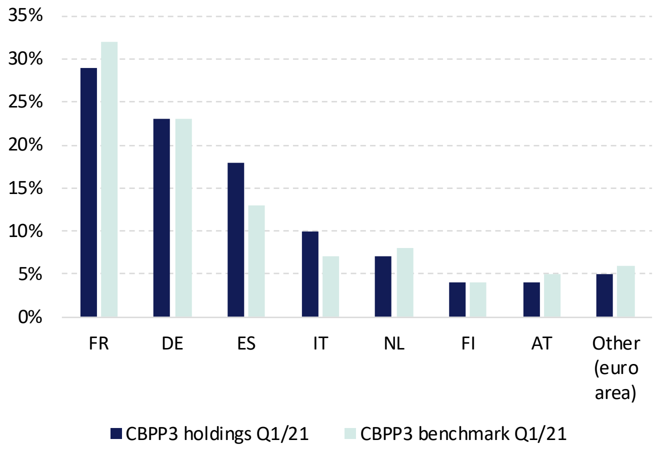

### Change of primary and secondary market holdings




### Distribution of CBPP3 by credit rating



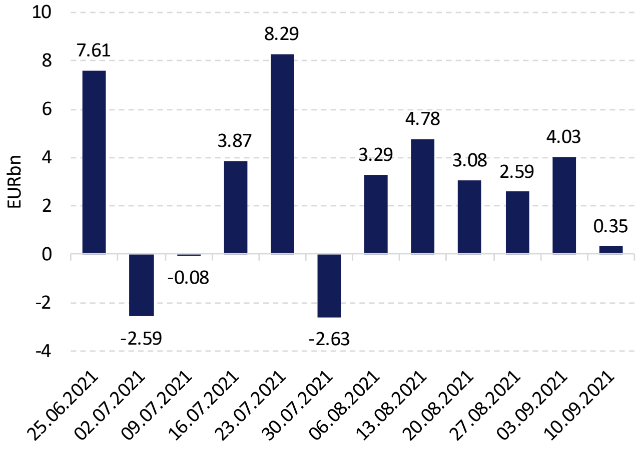

### Distribution of CBPP3 by country of risk



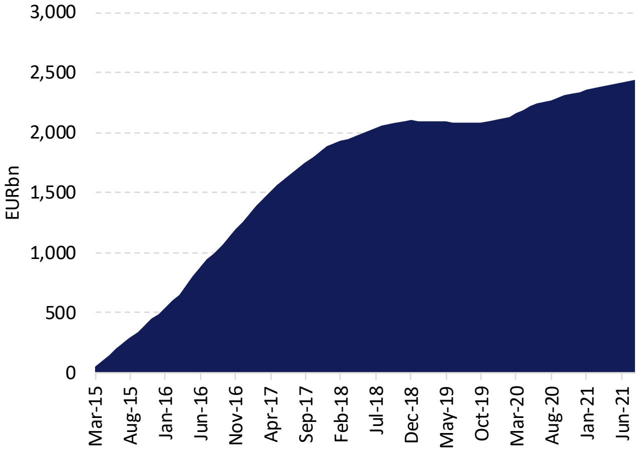

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Public Sector Purchase Programme (PSPP)

### Weekly purchases




### Development of PSPP volume



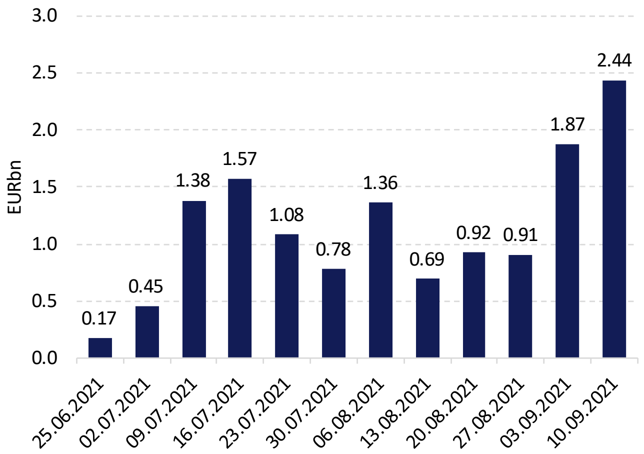

### Overall distribution of PSPP buying at month-end

| Jurisdiction | Adjusted distribution key[1] | Purchases (EURm) | Expected purchases (EURm)[2] | Difference (EURm) | Avg. time to maturity[3] (in years) | Market average[3] (in years)[3] | Difference (in years) |
|---|---|---|---|---|---|---|---|
| AT | 2.7% | 0 | 0 | 0 | 7.5 | 7.6 | -0.1 |
| BE | 3.4% | 0 | 0 | 0 | 8.0 | 10.2 | -2.2 |
| CY | 0.2% | 0 | 0 | 0 | 9.9 | 8.8 | 1.1 |
| DE | 24.3% | 0 | 0 | 0 | 6.6 | 7.6 | -1.0 |
| EE | 0.3% | 0 | 0 | 0 | 9.2 | 7.5 | 1.7 |
| ES | 11.0% | 0 | 0 | 0 | 8.0 | 8.4 | -0.4 |
| FI | 1.7% | 0 | 0 | 0 | 6.9 | 7.7 | -0.8 |
| FR | 18.8% | 0 | 0 | 0 | 7.2 | 8.1 | -0.9 |
| GR | 0.0% | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| IE | 1.6% | 0 | 0 | 0 | 8.5 | 10.1 | -1.6 |
| IT | 15.7% | 0 | 0 | 0 | 7.1 | 7.9 | -0.8 |
| LT | 0.5% | 0 | 0 | 0 | 10.2 | 10.6 | -0.4 |
| LU | 0.3% | 0 | 0 | 0 | 5.6 | 7.2 | -1.7 |
| LV | 0.4% | 0 | 0 | 0 | 11.3 | 10.4 | 0.9 |
| MT | 0.1% | 0 | 0 | 0 | 9.5 | 9.2 | 0.3 |
| NL | 5.4% | 0 | 0 | 0 | 7.7 | 9.0 | -1.4 |
| PT | 2.2% | 0 | 0 | 0 | 7.0 | 7.2 | -0.2 |
| SI | 0.4% | 0 | 0 | 0 | 9.9 | 10.2 | -0.3 |
| SK | 1.1% | 0 | 0 | 0 | 8.2 | 8.3 | -0.1 |
| SNAT | 10.0% | 0 | 0 | 0 | 7.7 | 8.9 | -1.2 |
| **Total / Avg.** | **100.0%** | **0** | **0** | **0** | **7.3** | **8.2** | **-0.9** |

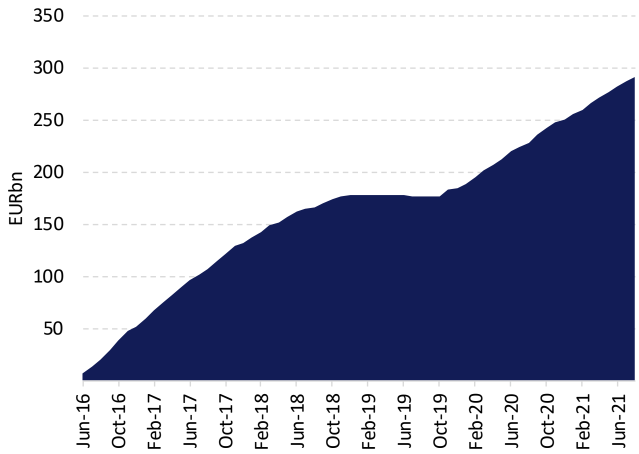
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor Research

## Corporate Sector Purchase Programme (CSPP)

### Weekly purchases

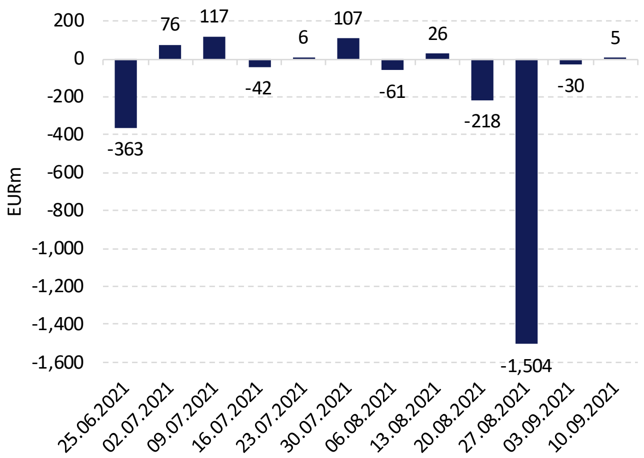



### Development of CSPP volume

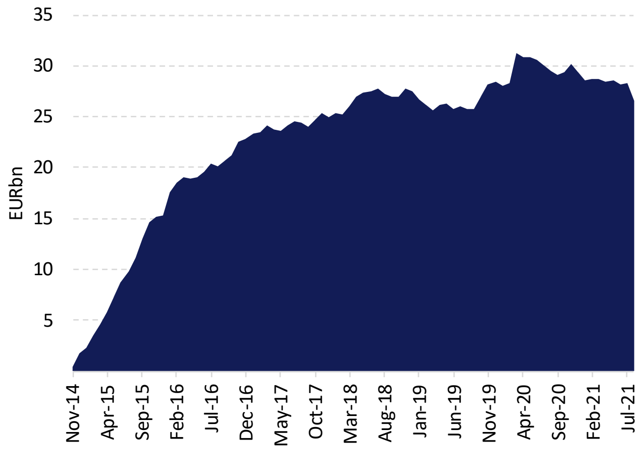



## Asset-Backed Securities Purchase Programme (ABSPP)

### Weekly purchases




### Development of ABSPP volume



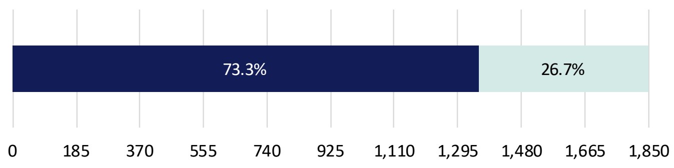

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Pandemic Emergency Purchase Programme (PEPP)

### Holdings (in EURm)

| | PEPP |
|---|---|
| **Jul-21** | 1,272,190 |
| **Aug-21** | 1,337,240 |
| **Δ** | +65,050 |

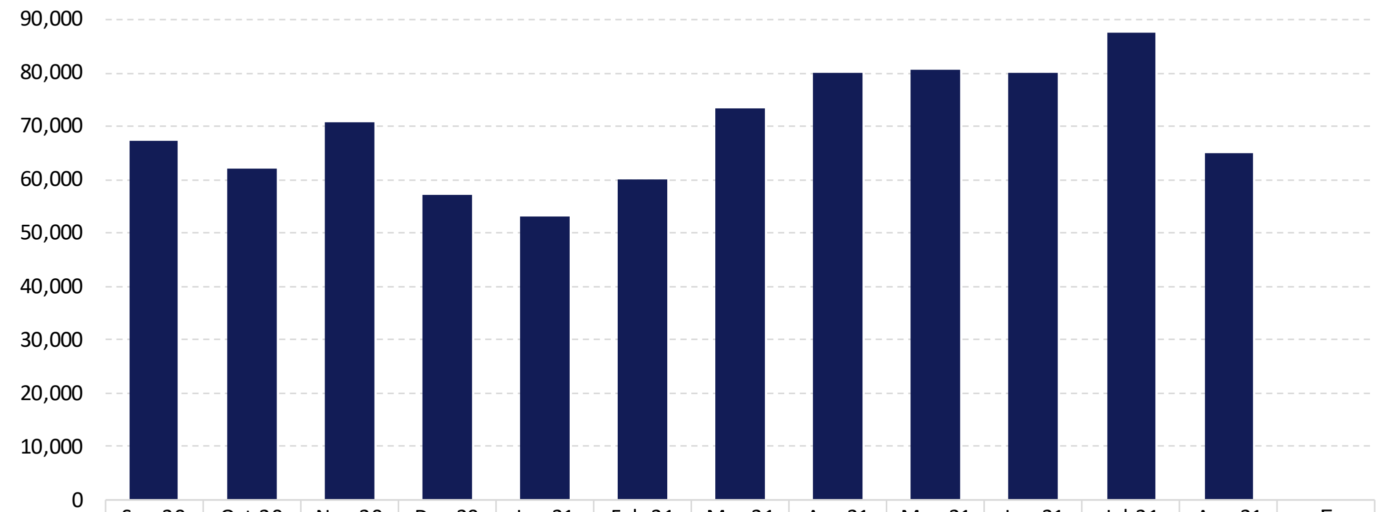
### Volume already invested (in EURbn)




### Estimated portfolio development

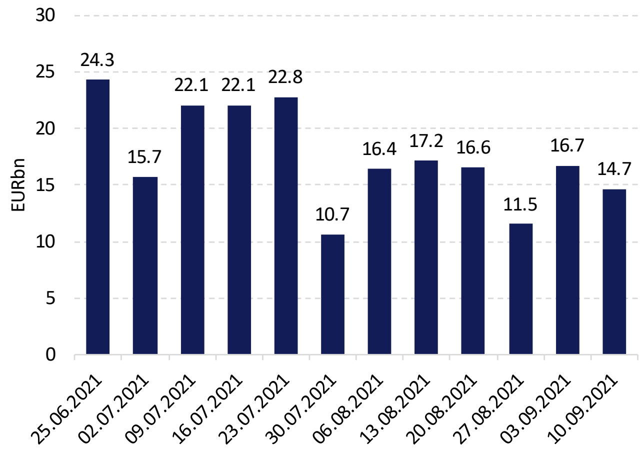
| Assumed pace of purchases | Weekly net purchase volume | PEPP limit hit in … |
|---|---|---|
| Average weekly net purchase volume so far | EUR 17.8bn | 28 weeks (25.03.2022) |

### Monthly net purchases (in EURm)

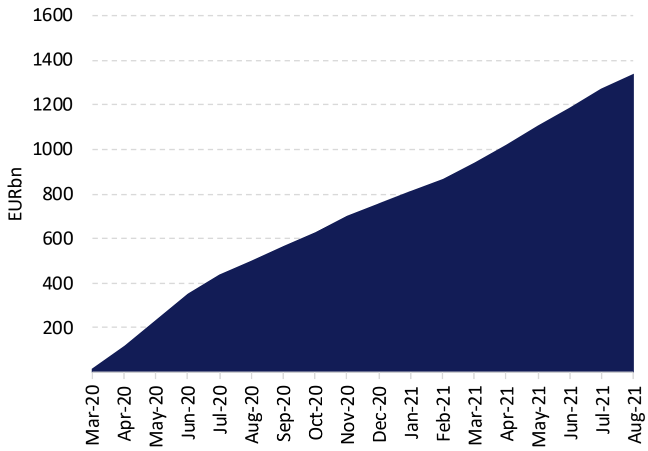



| | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PEPP | 67,308 | 61,985 | 70,835 | 57,163 | 53,046 | 59,914 | 73,521 | 80,118 | 80,700 | 80,168 | 87,577 | 65,050 | 837,385 |

### Weekly purchases




### Development of PEPP volume

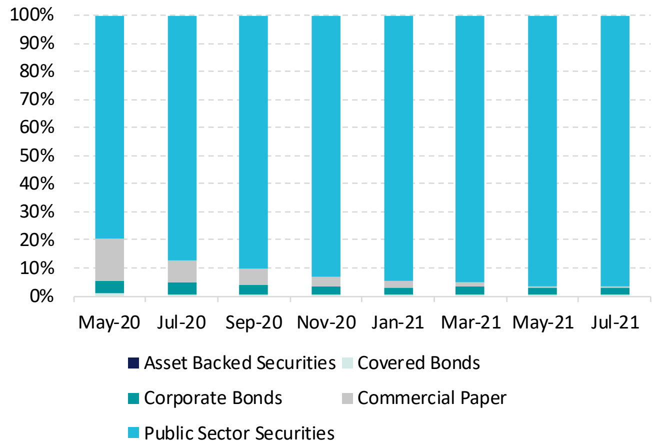


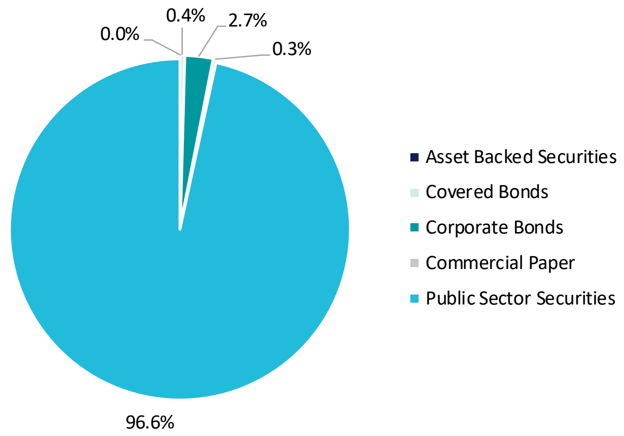

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Holdings under the PEPP (in EURm)

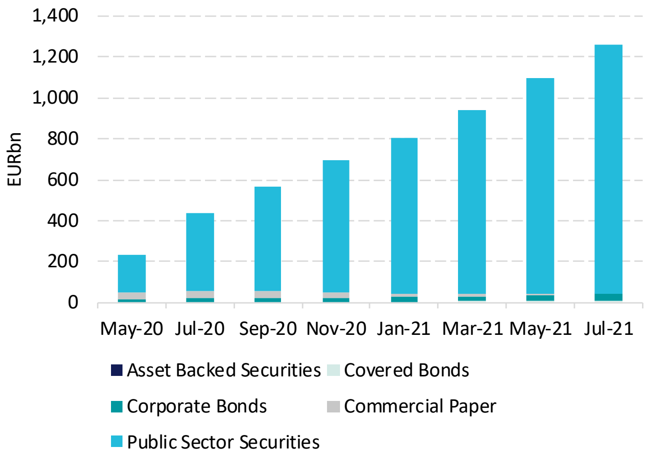
| | Asset-backed Securities | Covered Bonds | Corporate Bonds | Commercial Paper | Public Sector Securities | PEPP |
|---|---|---|---|---|---|---|
| May-21 | 0 | 4,055 | 31,014 | 4,590 | 1,058,882 | 1,098,541 |
| Jul-21 | 0 | 5,379 | 33,684 | 3,861 | 1,220,424 | 1,263,348 |
| Δ | 0 | +1,328 | +2,695 | -730 | +164,430 | +167,724 |

## Portfolio structure

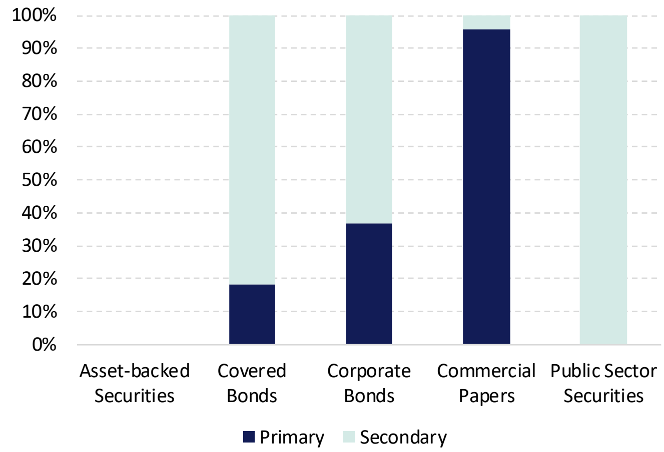



## Portfolio development




## Share of primary and secondary market holdings




## Breakdown of private sector securities under the PEPP

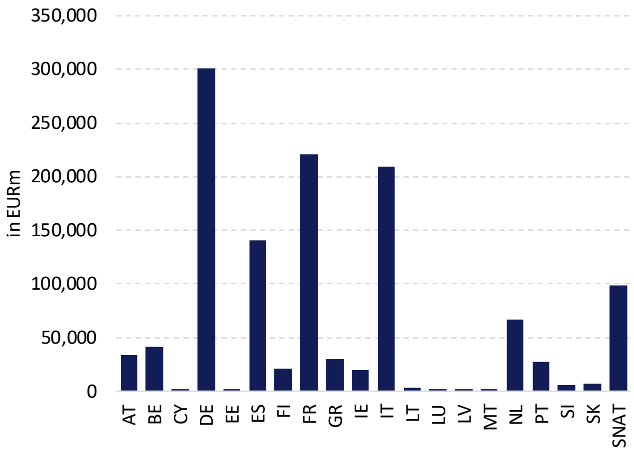
| May-21 | Asset-backed securities | | Covered bonds | | Corporate bonds | | Commercial paper | |
|---|---|---|---|---|---|---|---|---|
| | Primary | Secondary | Primary | Secondary | Primary | Secondary | Primary | Secondary |
| Holdings in EURm | 0 | 0 | 745 | 3,310 | 11,431 | 19,583 | 4,397 | 193 |
| Share | 0.0% | 0.0% | 18.4% | 81.6% | 36.9% | 63.1% | 95.8% | 4.2% |

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

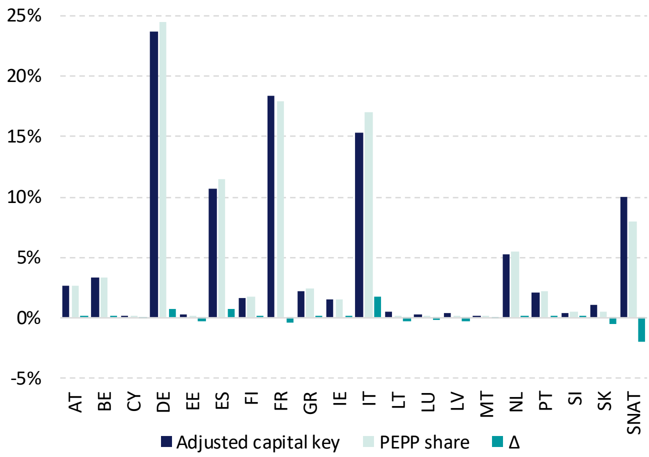
**Breakdown of public sector securities under the PEPP**

| Jurisdiction | Holdings (in EURm) | Adj. distribution key[1] | PEPP share | Deviations from the adj. distribution key[2] | ø time to maturity (in years) | Market average[3] (in years) | Difference (in years) |
|---|---|---|---|---|---|---|---|
| AT | 33,219 | 2.6% | 2.7% | 0.1% | 9.0 | 7.1 | 1.9 |
| BE | 41,621 | 3.3% | 3.4% | 0.1% | 6.8 | 9.3 | -2.5 |
| CY | 2,201 | 0.2% | 0.2% | 0.0% | 9.3 | 8.1 | 1.2 |
| DE | 301,191 | 23.7% | 24.5% | 0.8% | 6.2 | 6.8 | -0.6 |
| EE | 255 | 0.3% | 0.0% | -0.2% | 8.9 | 7.1 | 1.7 |
| ES | 140,702 | 10.7% | 11.4% | 0.7% | 8.3 | 7.5 | 0.8 |
| FI | 20,955 | 1.7% | 1.7% | 0.1% | 7.4 | 7.5 | -0.1 |
| FR | 220,705 | 18.4% | 18.0% | -0.4% | 8.4 | 7.6 | 0.8 |
| GR | 29,397 | 2.2% | 2.4% | 0.2% | 9.4 | 9.6 | -0.2 |
| IE | 19,346 | 1.5% | 1.6% | 0.0% | 9.1 | 9.4 | -0.3 |
| IT | 208,774 | 15.3% | 17.0% | 1.7% | 6.9 | 6.9 | -0.1 |
| LT | 2,597 | 0.5% | 0.2% | -0.3% | 11.1 | 10.7 | 0.4 |
| LU | 1,847 | 0.3% | 0.2% | -0.1% | 7.0 | 6.4 | 0.5 |
| LV | 1,403 | 0.4% | 0.1% | -0.2% | 9.5 | 9.4 | 0.1 |
| MT | 323 | 0.1% | 0.0% | -0.1% | 8.5 | 8.7 | -0.2 |
| NL | 66,946 | 5.3% | 5.4% | 0.2% | 7.0 | 8.3 | -1.3 |
| PT | 27,288 | 2.1% | 2.2% | 0.1% | 7.3 | 7.2 | 0.1 |
| SI | 5,556 | 0.4% | 0.5% | 0.0% | 9.5 | 9.2 | 0.3 |
| SK | 6,707 | 1.0% | 0.5% | -0.5% | 9.3 | 8.3 | 1.0 |
| SNAT | 98,170 | 10.0% | 8.0% | -2.0% | 10.8 | 8.8 | 2.1 |
| **Total / Avg.** | **1,229,199** | **100.0%** | **100.0%** | **0.0%** | **7.7** | **7.5** | **0.2** |

**Distribution of public sector assets by jurisdiction**




**Deviations from the adjusted distribution key**



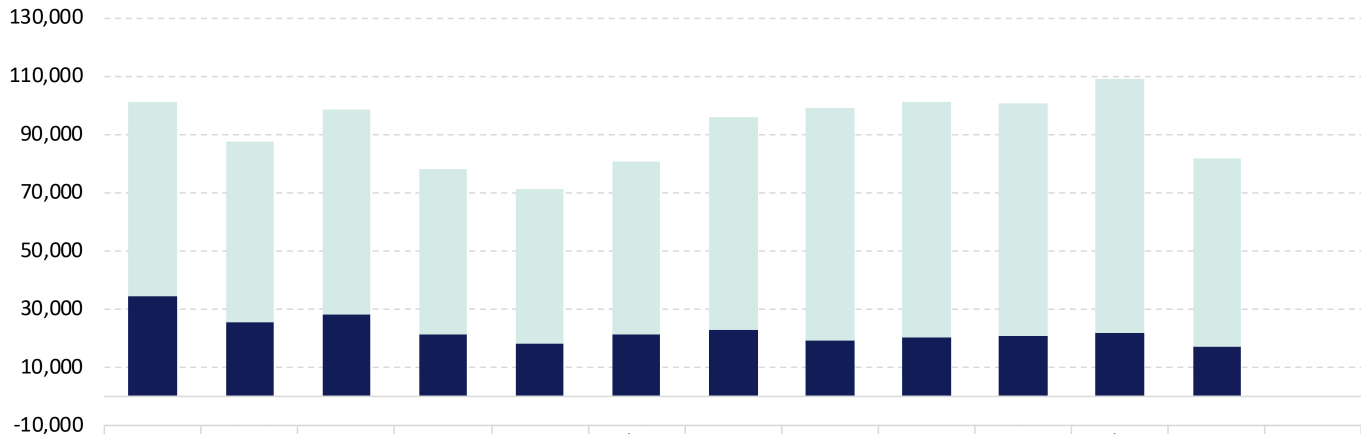

[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

### Aggregated purchase activity under APP and PEPP

**Holdings (in EURm)**

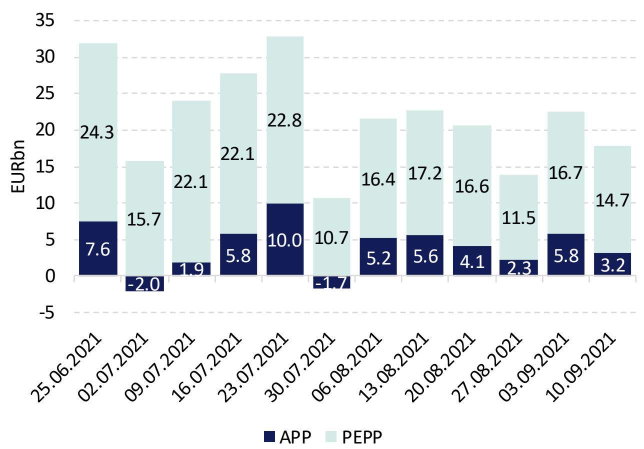
| | APP | PEPP | APP & PEPP |
|---|---|---|---|
| **Jul-21** | 3,038,614 | 1,272,190 | 4,310,804 |
| **Aug-21** | 3,055,363 | 1,337,240 | 4,392,603 |
| **Δ** | +16,749 | +65,050 | +81,799 |

**Monthly net purchases (in EURm)**

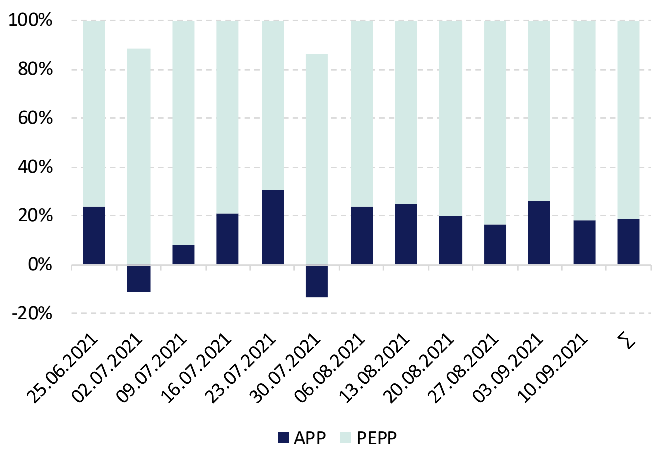



| | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ∑ | 101,322 | 87,334 | 98,555 | 78,092 | 70,892 | 80,829 | 96,082 | 99,036 | 100,841 | 100,808 | 109,174 | 81,799 | 1,104,76 |
| PEPP | 67,308 | 61,985 | 70,835 | 57,163 | 53,046 | 59,914 | 73,521 | 80,118 | 80,700 | 80,168 | 87,577 | 65,050 | 837,385 |
| APP | 34,014 | 25,349 | 27,720 | 20,929 | 17,846 | 20,915 | 22,561 | 18,918 | 20,141 | 20,640 | 21,597 | 16,749 | 267,379 |

**Weekly purchases**



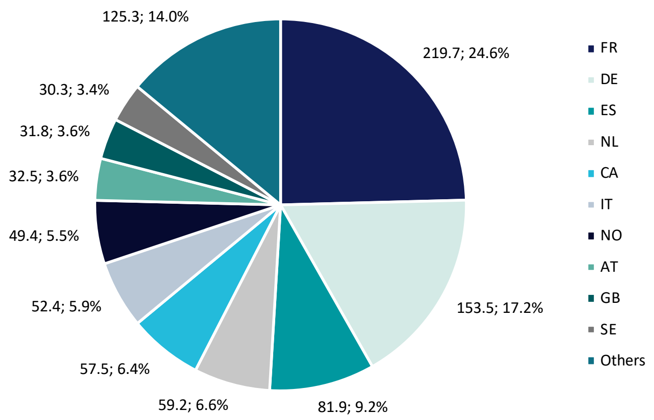

**Distribution of weekly purchases**



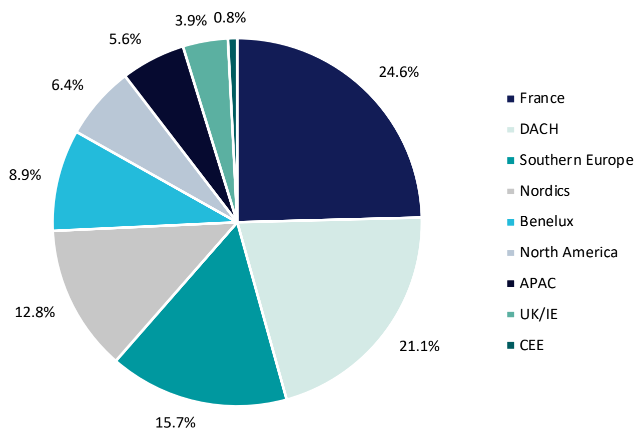

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Charts & Figures
# Covered Bonds

### EUR benchmark volume by country (in EURbn)



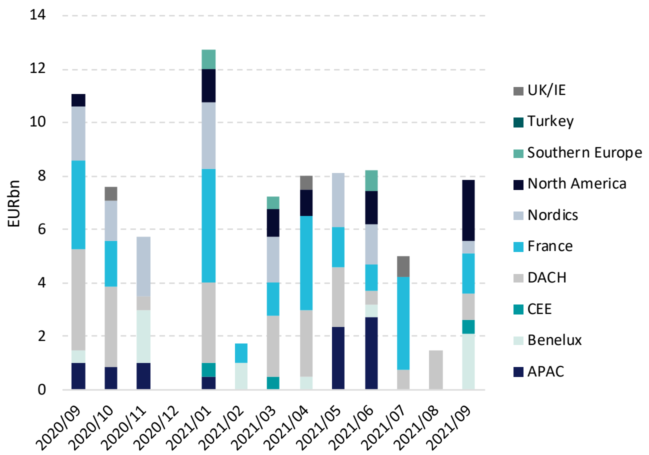

### EUR benchmark volume by region (in EURbn)



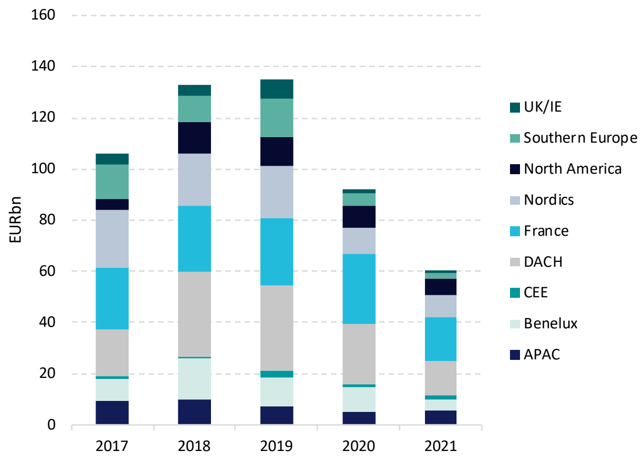

### Top-10 jurisdictions

| Rank | Country | Amount outst. (EURbn) | No. of BMKs | There of ESG BMKs | Avg. issue size (EURbn) | Avg. initial maturity (in years) | Avg. mod. Duration (in years) | Avg. coupon (in %) |
|---|---|---|---|---|---|---|---|---|
| 1 | FR | 219.7 | 207 | 10 | 0.95 | 10.1 | 5.5 | 0.99 |
| 2 | DE | 153.5 | 229 | 13 | 0.61 | 8.4 | 4.6 | 0.42 |
| 3 | ES | 81.9 | 67 | 3 | 1.13 | 11.4 | 3.7 | 1.79 |
| 4 | NL | 59.2 | 61 | 0 | 0.92 | 11.6 | 7.6 | 0.83 |
| 5 | CA | 57.5 | 50 | 0 | 1.12 | 6.1 | 3.1 | 0.25 |
| 6 | IT | 52.4 | 61 | 1 | 0.83 | 9.1 | 4.0 | 1.38 |
| 7 | NO | 49.4 | 56 | 8 | 0.88 | 7.3 | 4.0 | 0.40 |
| 8 | AT | 32.5 | 60 | 2 | 0.54 | 9.9 | 6.3 | 0.61 |
| 9 | GB | 31.8 | 38 | 0 | 0.86 | 8.4 | 3.6 | 0.92 |
| 10 | SE | 30.3 | 36 | 0 | 0.84 | 7.5 | 3.4 | 0.44 |

### EUR benchmark issue volume by month

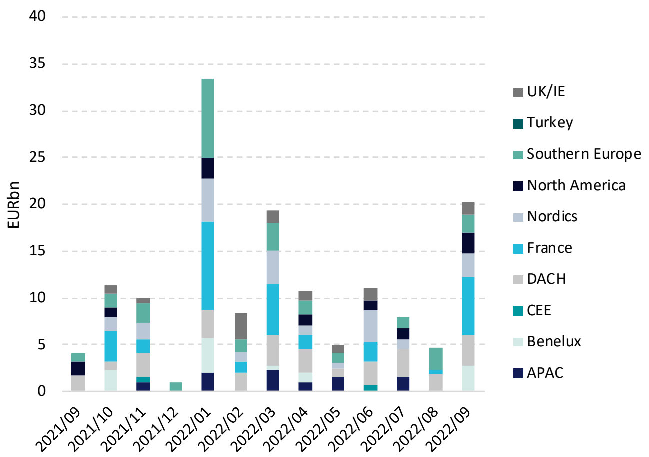



### EUR benchmark issue volume by year

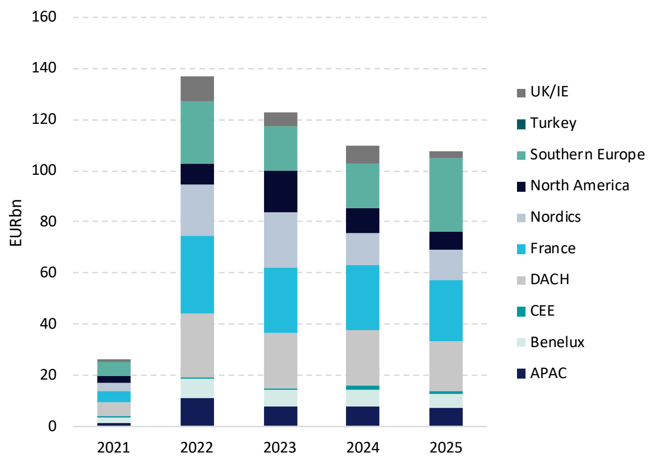



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

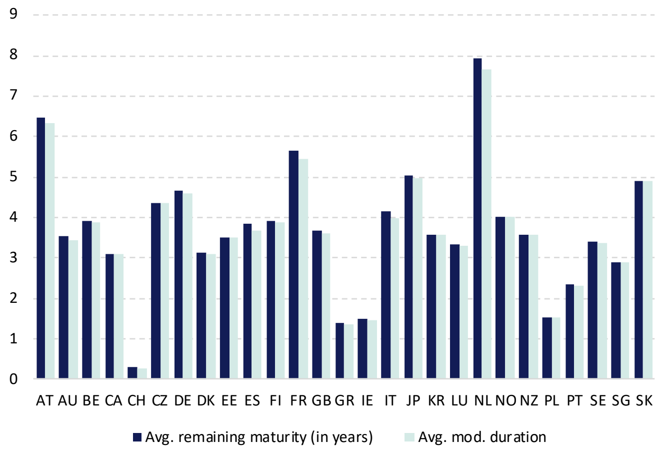
## EUR benchmark maturities by month



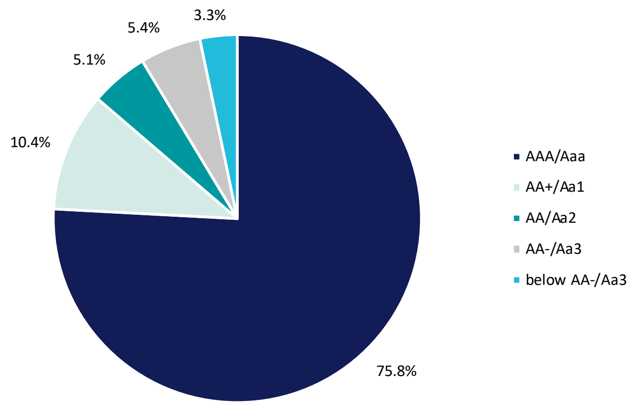

## EUR benchmark maturities by year



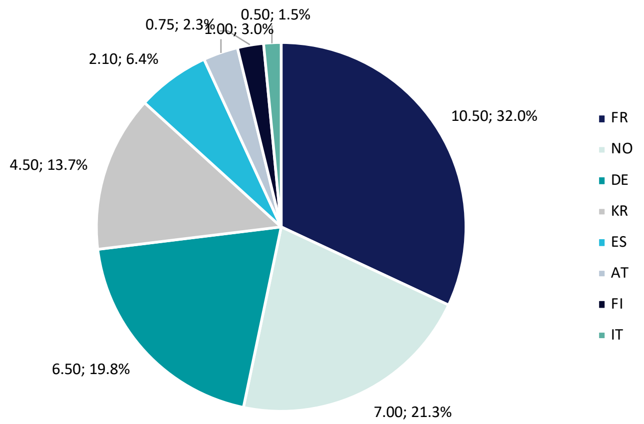

## Modified duration and time to maturity by country



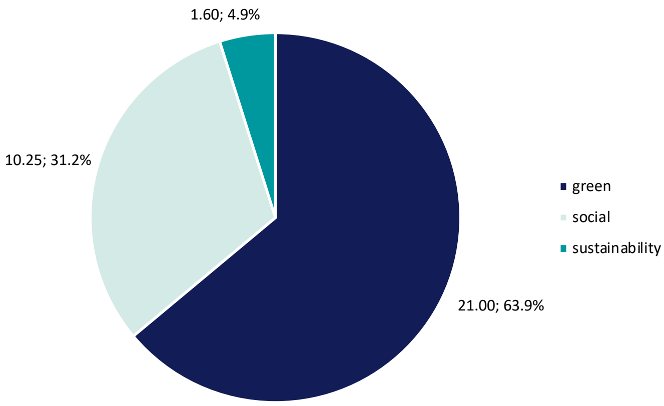

## Rating distribution (volume weighted)




## EUR benchmark volume (ESG) by country (in EURbn)

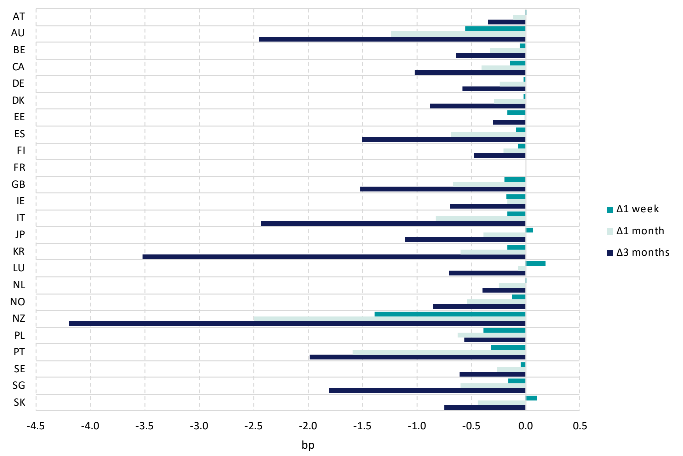



## EUR benchmark volume (ESG) by type (in EURbn)

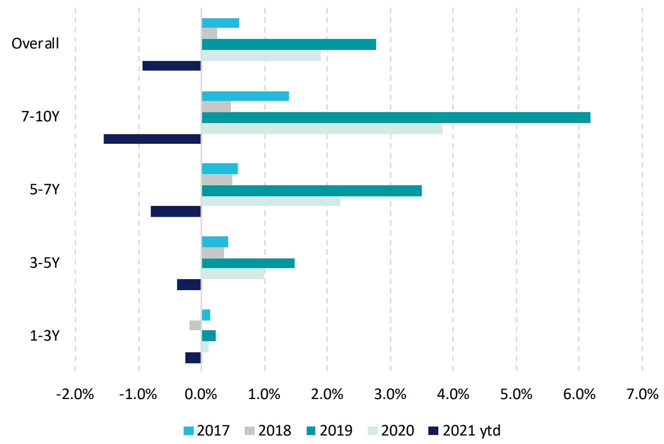



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

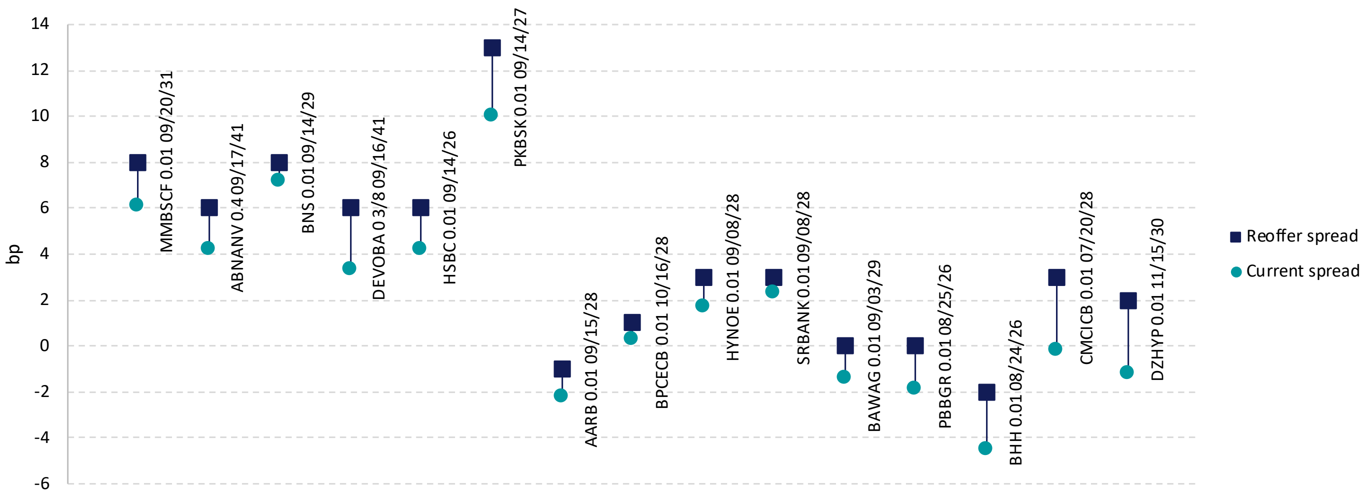
## Spread development by country



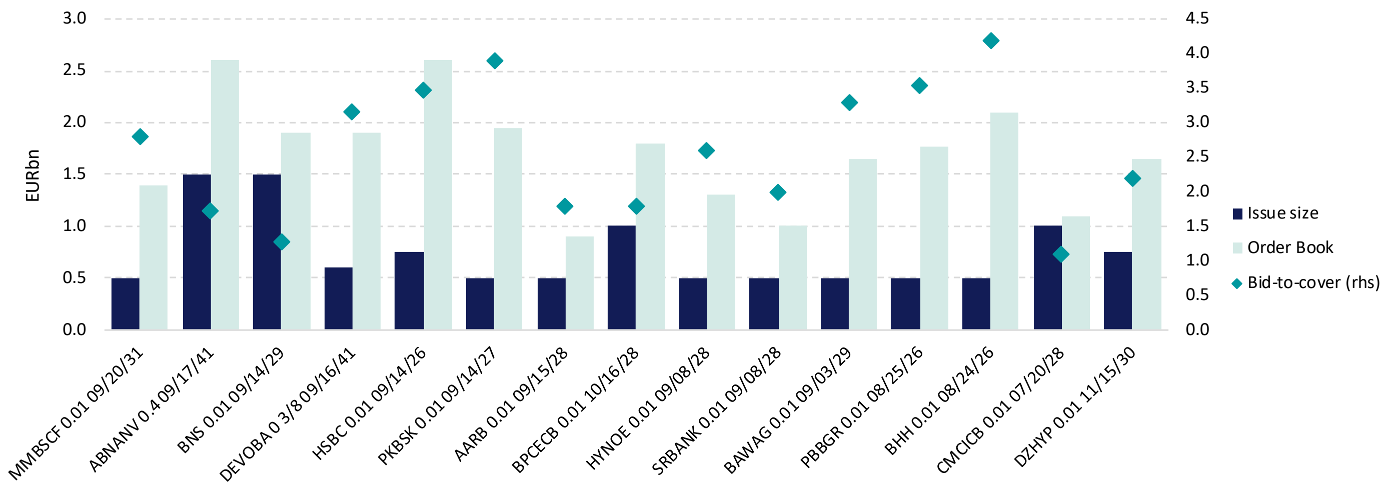

## Covered bond performance (Total return)




## Spread development (last 15 issues)



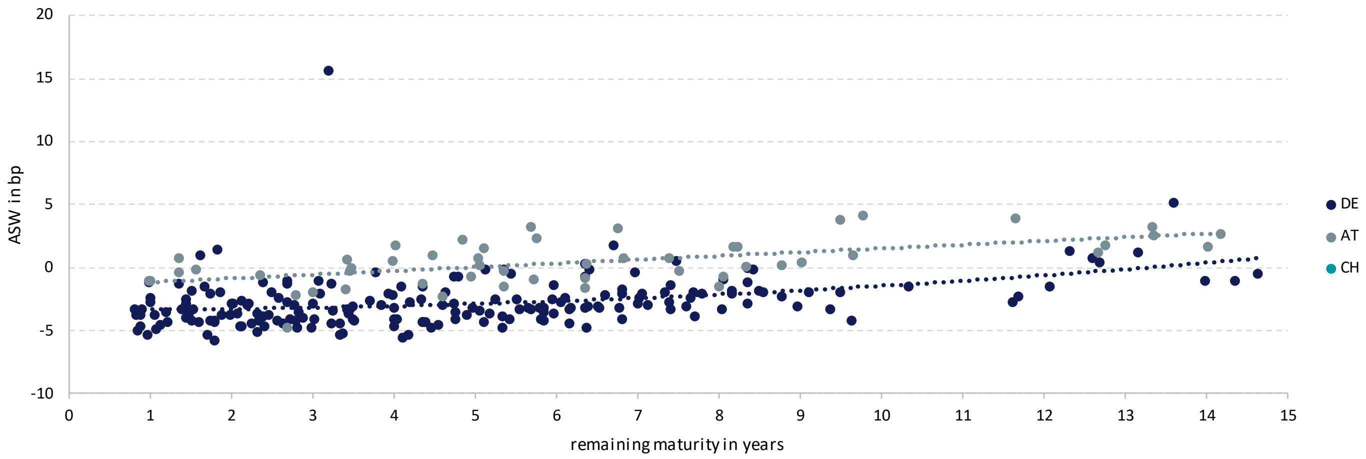

## Order books (last 15 issues)



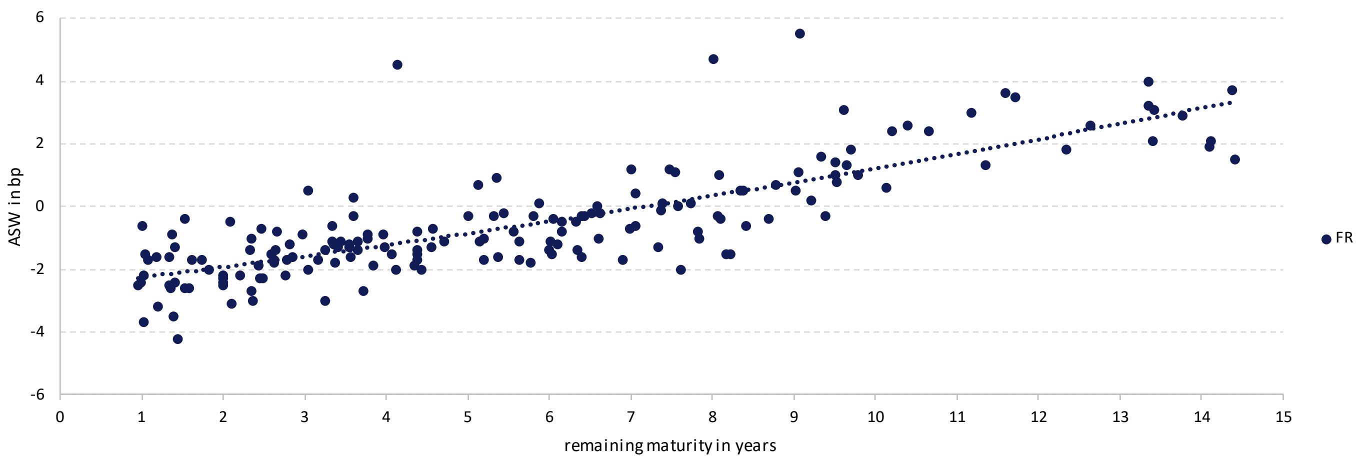

Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Spread overview[1]

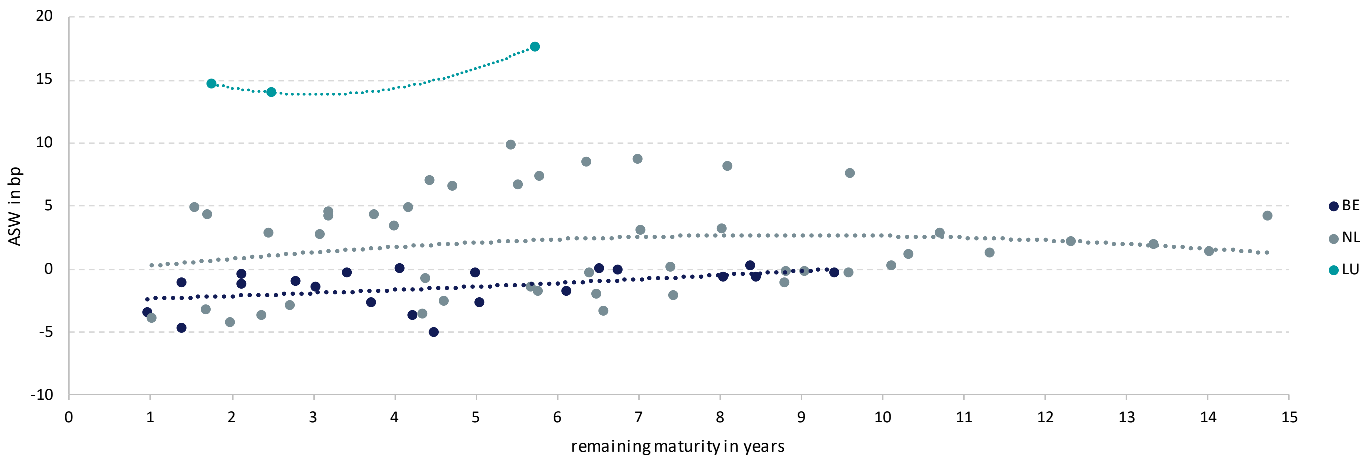
### DACH




### France

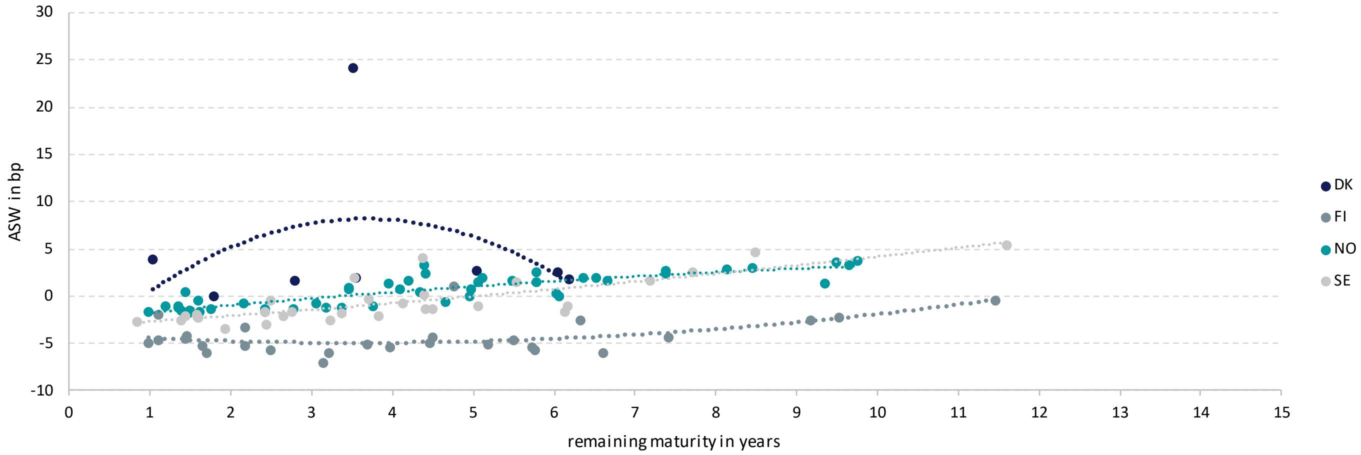



### Benelux

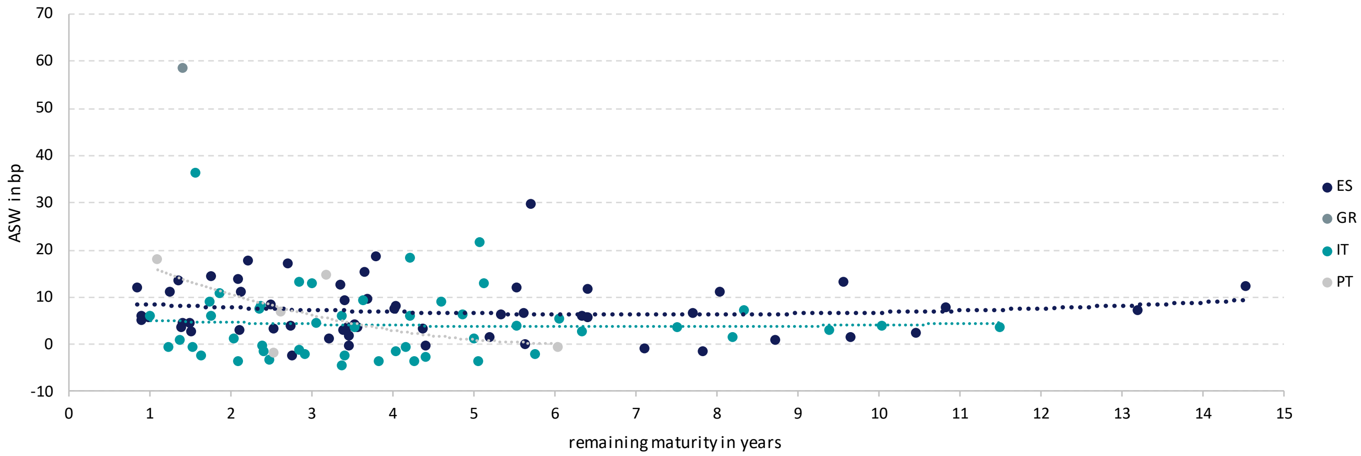



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

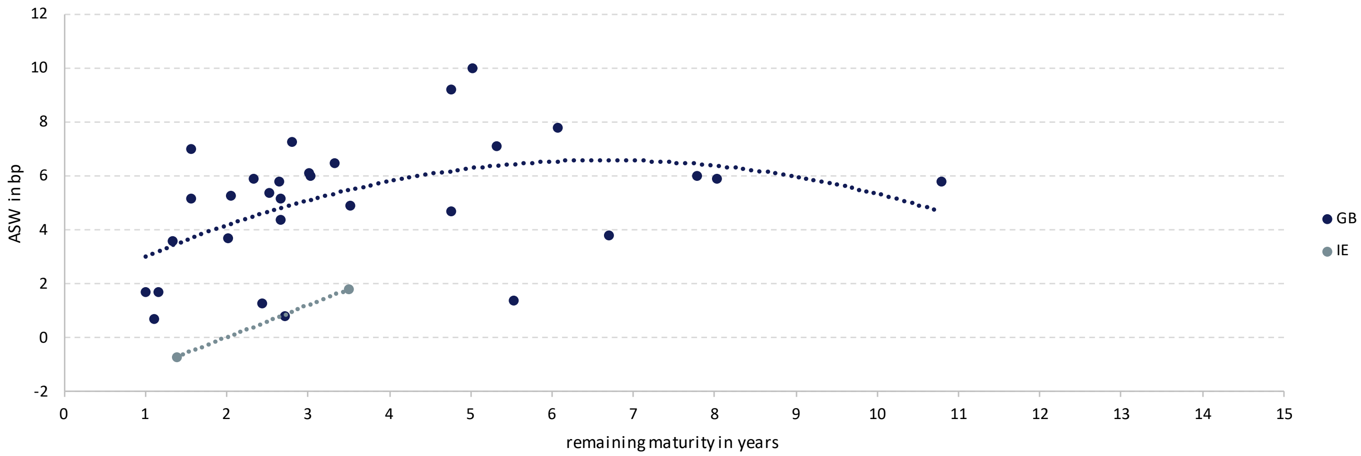
**Nordics**




**Southern Europe**

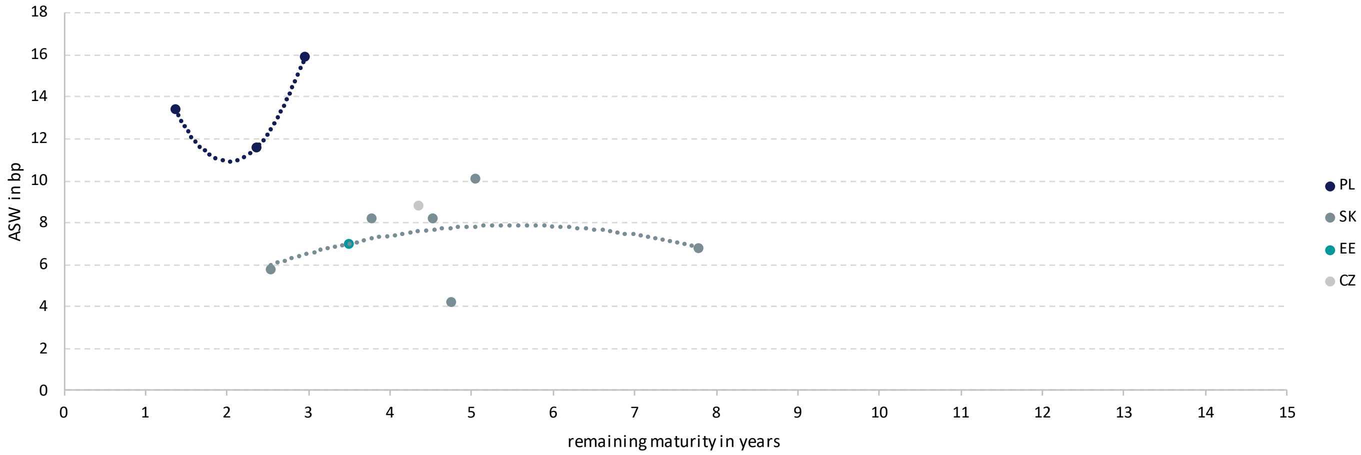



**UK/IE**

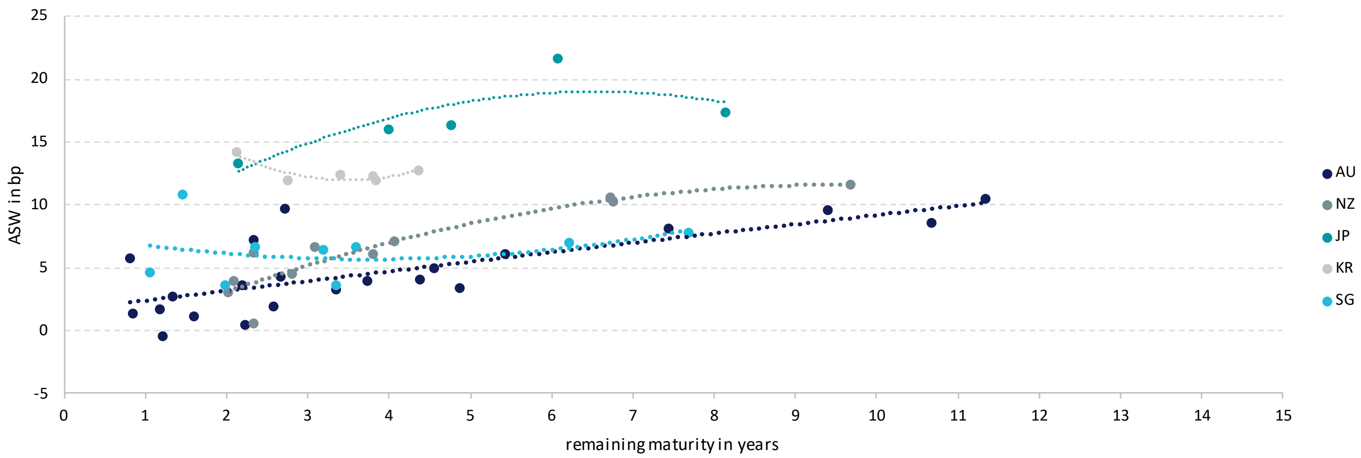



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

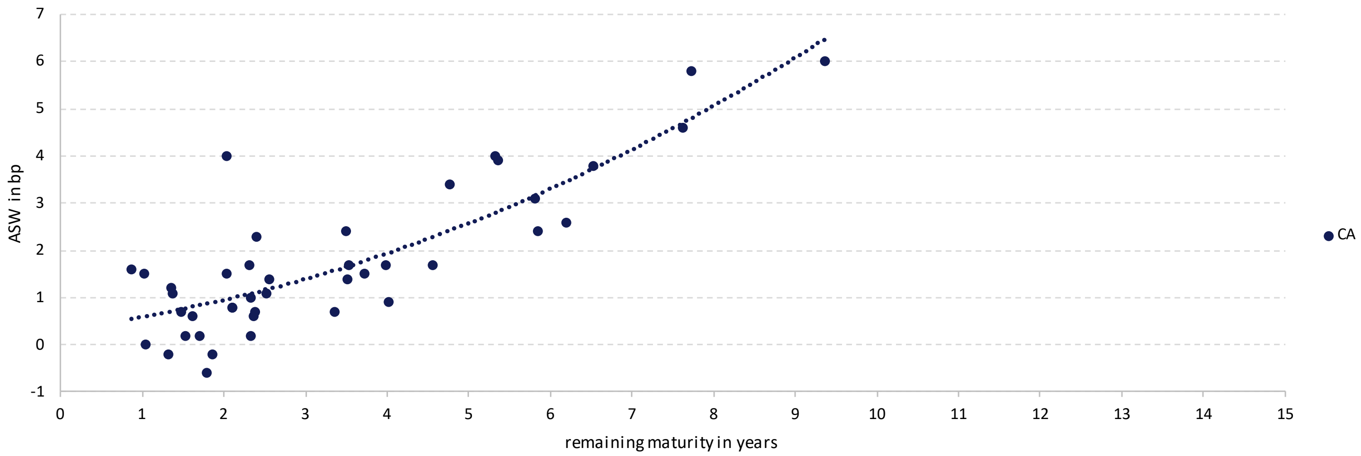
**CEE**




**APAC**



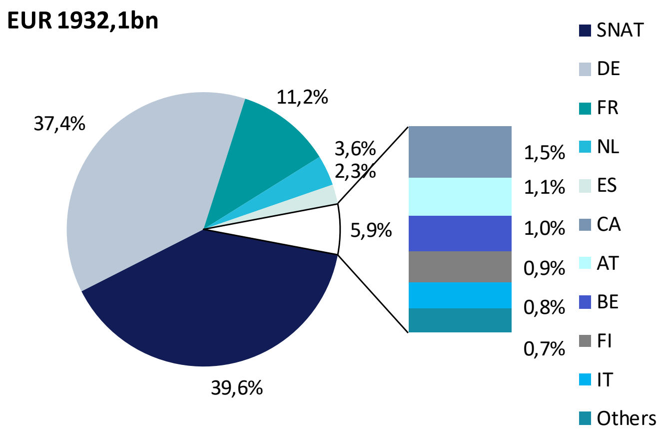

**North America**




Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Charts & Figures
# SSA/Public Issuers

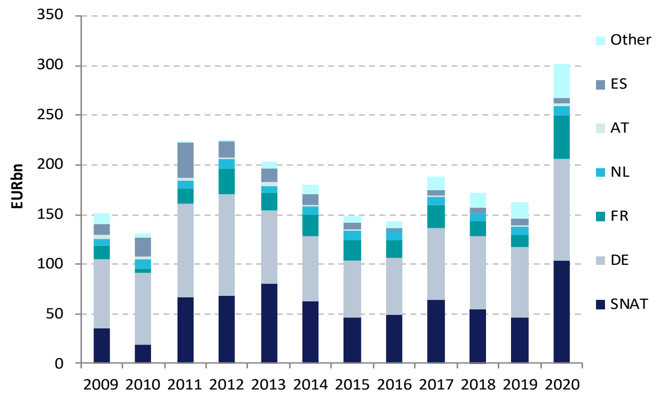
### Outstanding volume (bmk)



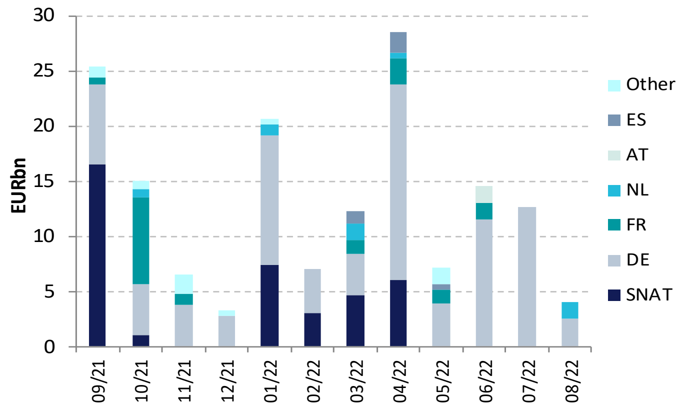

### Top 10 countries (bmk)

| Country | Vol. (€bn) | No. of bonds | ØVol. (€bn) | Vol. weight. ØMod. Dur. |
|---|---|---|---|---|
| SNAT | 764,6 | 193 | 4,0 | 8,5 |
| DE | 722,6 | 565 | 1,3 | 6,8 |
| FR | 216,5 | 146 | 1,5 | 5,4 |
| NL | 68,9 | 67 | 1,0 | 6,4 |
| ES | 44,7 | 55 | 0,8 | 5,3 |
| CA | 28,5 | 20 | 1,4 | 5,6 |
| AT | 21,2 | 23 | 0,9 | 5,3 |
| BE | 20,2 | 24 | 0,8 | 14,4 |
| FI | 17,0 | 22 | 0,8 | 5,6 |
| IT | 15,0 | 19 | 0,8 | 5,9 |

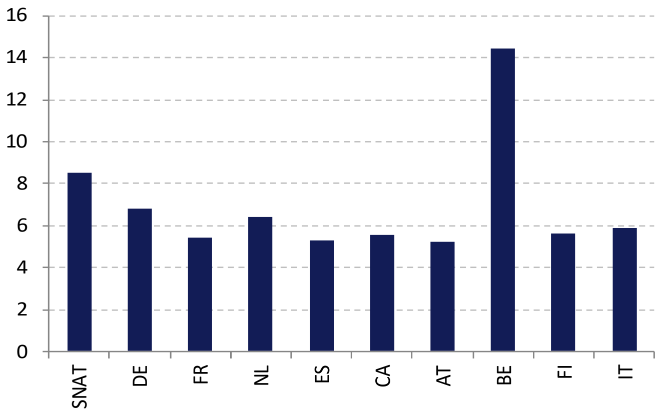
### Issue volume by year (bmk)



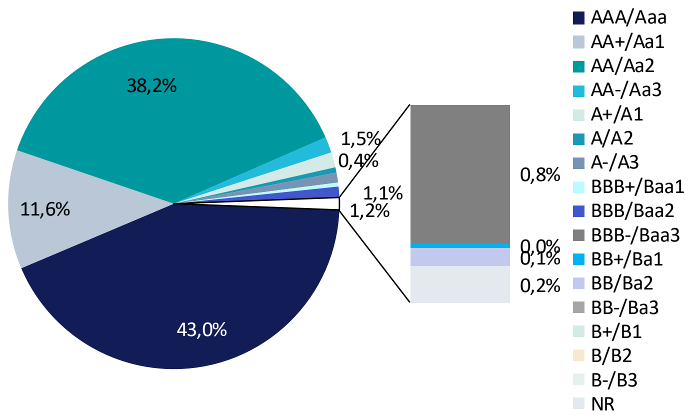

### Maturities next 12 months (bmk)




### Avg. mod. duration by country (vol. weighted)

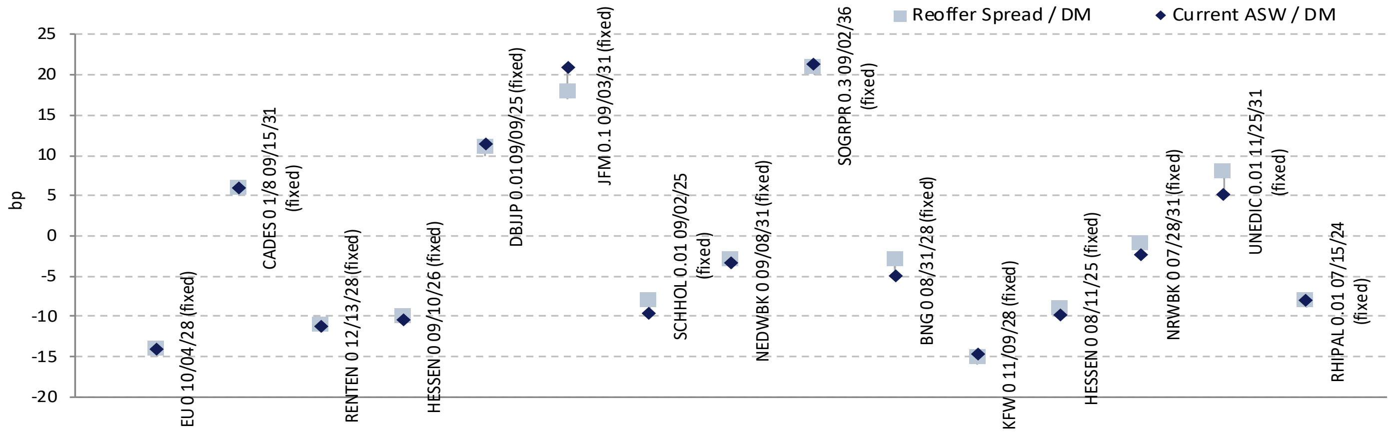



### Rating distribution (vol. weighted)

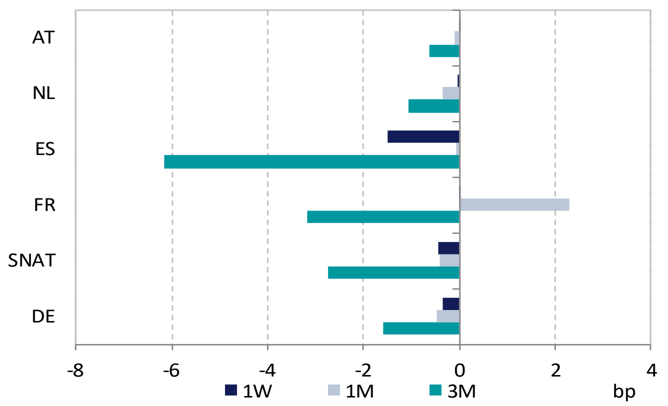



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

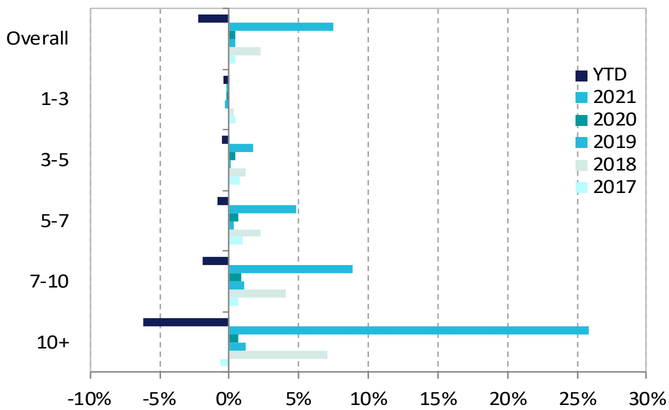
## Spread development (last 15 issues)



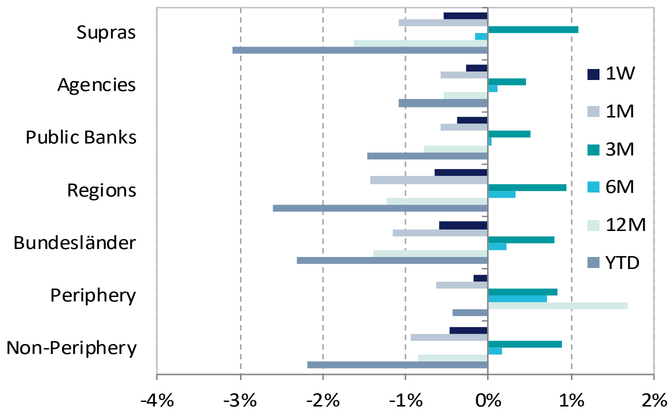

## Spread development by country



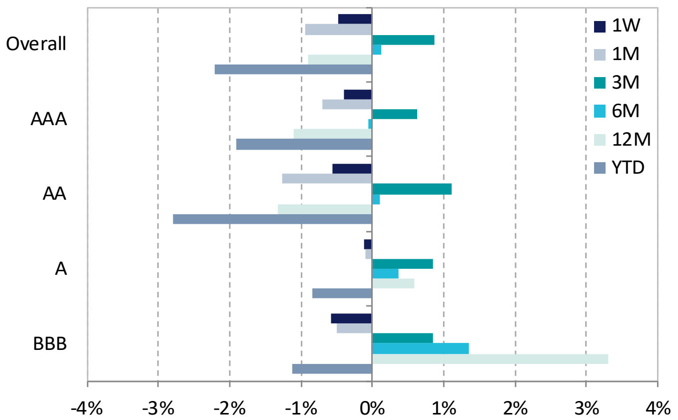

## Performance (total return)




## Performance (total return) by regions

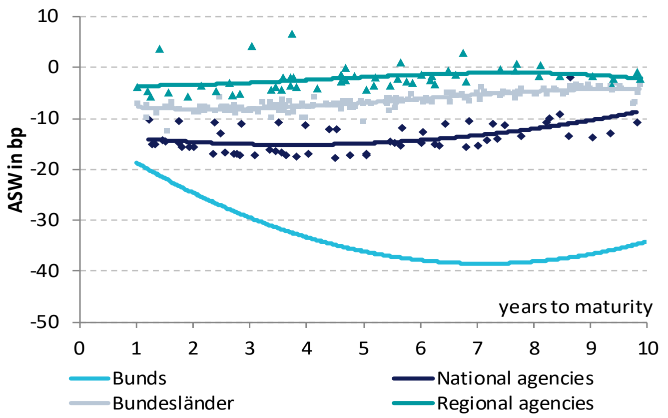



## Performance (total return) by rating

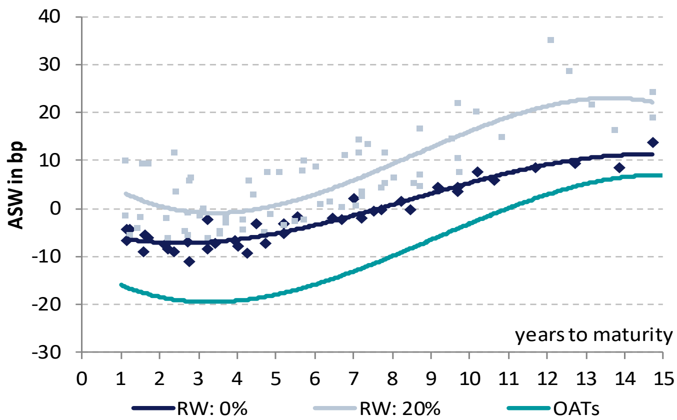



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

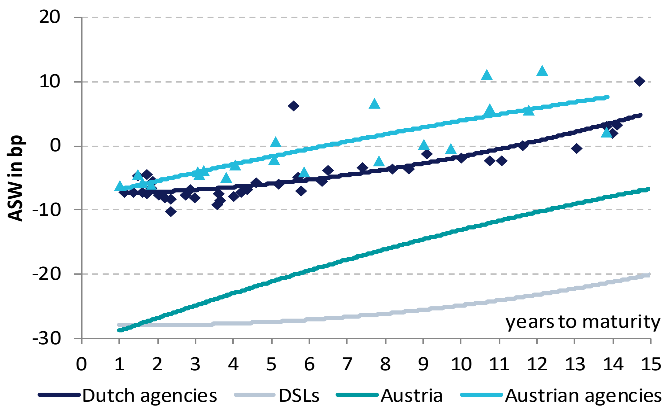
**Germany (by segments)**



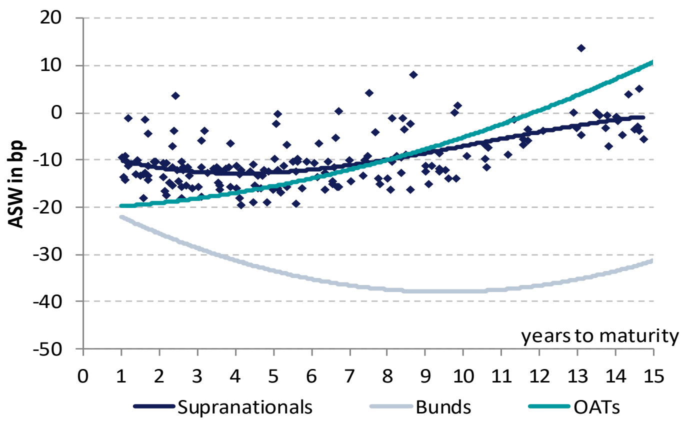

**France (by risk weight)**



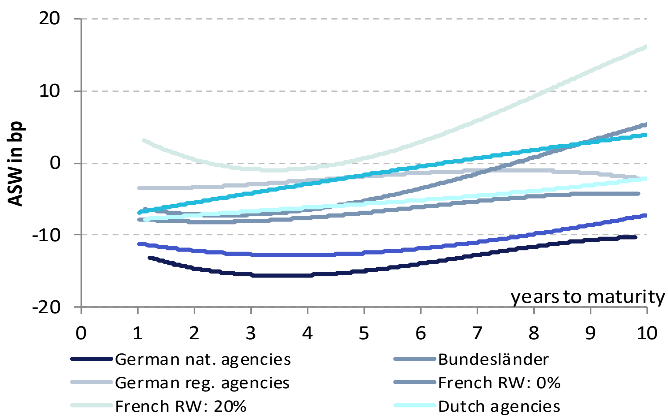

**Netherlands & Austria**



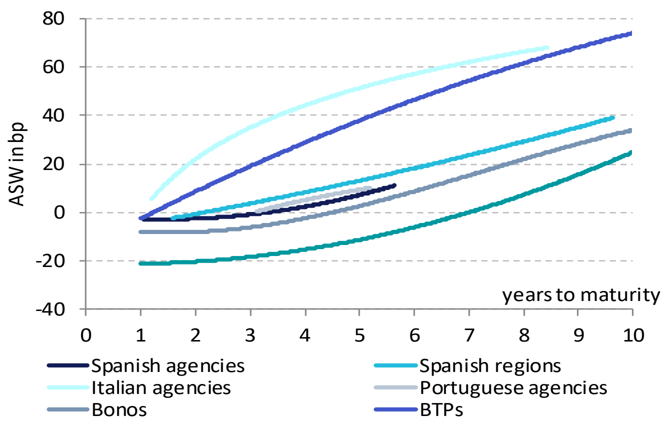

**Supranationals**




**Core**




**Periphery**




Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

# Appendix
# Overview of latest Covered Bond & SSA View editions

| Publication | Topics |
|---|---|
| **29/2021 ♦ 08 September** | ▪ New dynamic on the Canadian covered bond market: Two debut EUR issuers<br>▪ Development of the German property market<br>▪ NGEU in the starting blocks: 3, 2, 1 … EU auctions! |
| **28/2021 ♦ 01 September** | ▪ ECB preview: focus on the pace of PEPP purchases?<br>▪ France – largest jurisdiction in EUR benchmark bond segment: a covered bond overview of the “Grande Nation” |
| **27/2021 ♦ 28 July** | ▪ NORD/LB Issuer Guide Covered Bonds 2021: A constant during turbulent times<br>▪ Beyond Bundeslaender: Madeira and the Azores |
| **26/2021 ♦ 21 July** | ▪ Summer break just around the corner – a glance at covered bonds in USD and GBP |
| **25/2021 ♦ 14 July** | ▪ New ECB strategy – communication remains the be-all and end-all<br>▪ ECB preview: the first meeting under the “new” regime |
| **24/2021 ♦ 07 July** | ▪ Covered Bonds: Review of H1 and outlook for H2 2021<br>▪ Half-time report 2021 – how will the SSA segment fare in the second half? |
| **23/2021 ♦ 30 June** | ▪ Return of the Australian covered bond market:  National Australia Bank issues first EUR benchmark since 201) |
| **22/2021 ♦ 23 June** | ▪ TLTRO III.8 neither really strong nor extraordinarily weak: implications for the covered bond market<br>▪ Realignment of the German real property tax |
| **21/2021 ♦ 16 June** | ▪ ICMA Green and Social Bond Principles: 2021 update<br>▪ The covered bond universe of Moody’s: an overview Covered bonds vs. senior unsecured bonds |
| **20/2021 ♦ 09 June** | ▪ PEPP reporting: increased pace of purchases in Q2<br>▪ Covered bonds vs. senior unsecured bonds |
| **19/2021 ♦ 02 June** | ▪ ECB preview: Spectre of inflation fuelling tapering thoughts<br>▪ FX covered bonds: Same symptomatology as EUR benchmarks? |
| **18/2021 ♦ 19 May** | ▪ United Overseas Bank reinvigorates the market in Singapore<br>▪ Transparency requirements §28 PfandBG Q1 2021 |
| **17/2021 ♦ 12 May** | ▪ ASB Finance opens primary market “Down Under”: Our outlook for the rest of the year<br>▪ Development of the German property market |
| **16/2021 ♦ 05 May** | ▪ Austria implements requirements of the covered bond directive and harmonises existing legal framework<br>▪ EIB goes Blockchain |
| **15/2021 ♦ 28 April** | ▪ EU Taxonomy meets the market for sustainable covered bonds |
| **14/2021 ♦ 22 April** | ▪ LCR levels and risk weights of EUR benchmarks<br>▪ NextGenerationEU: NGEU is taking shape |
| **13/2021 ♦ 14 April** | ▪ Predominant ECB strategy: wait-and-see but remain proactive<br>▪ PEPP reporting: First year done; a second (at least) now follows<br>▪ OSFI abandons temporarily increased 10% limit with immediate effect: (in)direct implications for Canadian benchmarks |

# Appendix
# Publication overview

**Covered Bonds:**

**Issuer Guide Covered Bonds 2020**

**Risk weights and LCR levels of covered bonds**

**Transparency requirements §28 PfandBG**

**Transparenzvorschrift §28 PfandBG Sparkassen (German only)**

**SSA/Public Issuers:**

**Issuer Guide – Supranationals & Agencies 2019**

**Issuer Guide – Canadian Provinces & Territories 2020**

**Issuer Guide – German Bundeslaender 2020**

**Issuer Guide – Down Under 2019**

**Fixed Income:**

**ESG update**

**Analysis of ESG reporting**

**ECB holds course, but ups the ante – PEPP running until 2022**

**ECB launches corona pandemic emergency**

**ECB responds to corona risks**

# Appendix
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| Sales Sparkassen & Regionalbanken | +49 511 9818-9400 |
| Sales MM/FX | +49 511 9818-9460 |
| Sales Europe | +352 452211-515 |

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| | |
|---|---|
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| Issuer / security | Date | Recommendation | Bond type | Cause |
|---|---|---|---|---|