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Virtual Conference:

Just hitting the brakes or breaking the habit?

Thursday, March 03 2022, 3:30pm (CET)

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Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

23 February 2022 ♦ 07/2022

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Finanzgruppe

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Agenda

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Market overview
Covered Bonds

Author: Dr Frederik Kunze

Primary market: fears of war lead to reticence on the part of covered bond issuers too
A handful of issuers braved the primary market despite a market environment characterised by uncertainty in connection with the Ukraine conflict. For example, five banks approached investors with EUR benchmarks across the previous five trading days, and these primary market appearances can be described as successful overall. However, we have also noted signs over the past few trading days that the depressing back and forth with regard to the Ukraine conflict is leaving its mark on the covered bond market as well. For example, the odd issuer is now exercising caution and restraint having previously communicated mandates for transactions. This is, of course, perfectly understandable, particularly as fears of war have recently materialised on the market. As soon as the tension eases in this respect, it is likely that momentum will return relatively quickly to the covered bond market too. However, let us now turn to events on the market itself: last Wednesday, the Commonwealth Bank of Australia (CBA) became the first issuer from Down Under to put in an appearance on the primary market in 2022. In fact, the last Australian deal dates back to 06 October 2021 (also CBA). This new benchmark went into the marketing phase with guidance of ms +14bp, while the final spread for the deal with a term of six years came in at ms +10bp. The bond volume of EUR 1.25bn was met with an order book of EUR 1.85bn. The combination of deal size, order book and calculated new issue premium (+2bp) certainly indicates that this was a successful first transaction from Australia in 2022. In a market environment less impacted by geopolitical uncertainties, we could certainly see this deal as a potential spark for further benchmark placements from the direction of Australia and New Zealand. Also on Wednesday, UniCredit Bank became the first of three Pfandbrief issuers to appear on the market over the past five trading days. The public Pfandbrief worth EUR 1bn started out in the marketing phase in the area of ms +4bp area before eventually being priced with a re-offer spread of ms -1bp. This equates to a new issue premium of a single basis point, with demand for this deal surely supported by the maturity selected (5y). At the end of the process, the bid-to-cover ratio stood at 2.4x. The same oversubscription ratio (2.4x) was also in evidence for the EUR 500m (WNG) mortgage Pfandbrief from Berlin Hyp that was marketed the following day (17.02.). With a term to maturity of seven years, the re-offer spread also came in at ms -1bp, which was four basis points below the guidance (ms +3bp area). The third Pfandbrief deal was the mortgage-backed bond from ING-DiBa last Friday. This deal was eventually placed with an impressive volume of EUR 1.5bn at ms +1bp. At the start of the new trading week, Rabobank approached investors for the first time in 2022 to place a mortgage-backed EUR benchmark worth EUR 1.75bn on the market. This fresh deal was placed at ms +6bp, having originally started out in the marketing phase in the area of ms +10bp. This deal is worth mentioning due to the maturity of ten years alone. Lately, issuers have tended to hone in on maturities of between five and seven years, with the odd long-dated bond in excess of ten years also observed. With another manageable NIP (+2bp) and a final order book of EUR 2.9bn, we would again speak of a highly successful placement here as well.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Rabobank	NL	21.02.	XS2449505820	10.0y	1.75bn	ms +6bp	- / Aaa / -	-
ING-DiBa	DE	18.02.	DE000A2YNWA1	7.0y	1.50bn	ms +1bp	- / Aaa / -	-
Berlin Hyp	DE	17.02.	DE000BHY0JD5	7.0y	0.50bn	ms -1bp	- / Aaa / -	-
UniCredit Bank	DE	16.02.	DE000HV2AYU9	5.0y	1.00bn	ms -1bp	- / Aaa / -	-
CBA	AU	16.02.	XS2446284783	6.0y	1.25bn	ms +10bp	AAA / Aaa / -	-

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

Considerations with regard to spread developments in a market environment shaped by monetary policy and geopolitical uncertainties

In the year to-date, the primary market volume totals EUR 40.5bn, with the largest share of EUR 11.5bn (29%) now attributable to Germany, followed by France (EUR 8.0bn) and Canada (EUR 7.75bn). For the year as a whole, we remain unchanged in our projection of fresh supply in the order of EUR 124bn, offset by maturities of EUR 138bn. Viewed in isolation, there is little impetus for covered bond ASW spreads to widen on technical market grounds – but also on a fundamental basis. Geopolitical uncertainty factors in addition to a lack of specificity with regard to the future monetary policy course of the ECB are currently impacting the EUR benchmark segment, primarily in terms of the general sentiment on the secondary market side. Monetary policy is likely to be tightened before the end of this year, a development which seems to have already been priced in, at least to some extent, by the market. Nevertheless, newly placed deals continue to perform in more than solid fashion overall on the secondary market. This can be explained not least by the sustained presence of the Eurosystem on the primary market. At least for the time being, the ECB will remain active on the primary market in its role as a non-price-sensitive buyer with its initial "standard order share" of 40%. However, moving away from this approach could certainly lead to renewed widening for EMU covered bonds and ultimately also have an impact on non-EMU jurisdictions in the form of second-round effects. In this context, we see a certain degree of event risk in the next decisions and communications from the ECB, which could certainly point in the direction of a comparatively rapid reduction in asset purchases. As a result, one conceivable scenario would be that the primary market order share of the Eurosystem could be revised downwards, which in our view would certainly not be without consequence for price considerations on the primary market and would ultimately also impact the spread level on the secondary market. As a result, we expect an ASW spread in the region of ms +7bp for 10y Pfandbriefe at the mid-point of 2022, for example. We shall seek to shed some light on these and other implications in connection with the current market environment on Thursday, 03 March 2022 at 3:30pm (CET) as part of our latest NORD/LB Capital Market Spotlight event (cf. also Market Overview SSA/Public Issuers). We look forward to seeing you there. If interested in taking part in this event, please contact: events-markets@nordlb.de.

EUR sub-benchmark segment: DekaBank places EUR 250m deal

DekaBank made its first appearance of 2022 in the EUR sub-benchmark segment with a public Pfandbrief worth EUR 250m (WNG; 5y). On Monday, the order books opened with guidance in the area of ms +4bp. During the book-building process, the final re-offer spread tightened by five basis points to ms -1bp. From our point of view, the final order book (EUR 850m) signalled a high level of investor interest. This deal once again underlines our belief that the EUR sub-benchmark segment should be regarded as an attractive niche market for investors and issuers alike.

Overheating tendencies on the German and European property markets: Implications for credit institutes and covered bonds – but also for the ECB

As part of our weekly publication, we also regularly report on the developments in connection with the property and mortgage markets. While we tend to refer to the database of the European Mortgage Federation (EMF) in a European context, the vdp property price index represents a key benchmark for us with regard to the situation on the German property market. We shall again be looking at the most recent developments in connection with the important vdp index family in this edition of our weekly publication (cf. focus article). The vdp figures on the fourth quarter of 2021 once again show a strong and sustained upwards trend in prices, in particular for residential properties. In our view, this picture can be applied to a number of other European economies, which is why we are not surprised that the ECB is now seeking to tackle this issue in its role as the banking regulator. For example, the ECB banking regulator lists both the commercial real estate sector and the residential real estate sub-market as "key vulnerabilities" for commercial banks in the period between 2022 and 2024. We shall also be honing in on this development in addition to the corresponding assessments by the regulator and the importance of this risk assessment for covered bonds as part of another focus article in this edition of the NORD/LB Covered Bond & SSA View. The European Systemic Risk Board (ESRB) also recently evaluated the respective susceptibility of the residential property markets in EEA countries. The ESRB has been addressing this issue for more than five years already, issuing both warnings and recommendations for action in the process. In 2019, for example, country-specific warnings were issued for the Czech Republic, Germany, France, Iceland and Norway. Unsurprisingly, the ESRB points out with regard to the current report that the assessment of the situation has been made more difficult due to the COVID-19 pandemic. Nevertheless, in our opinion, the conclusions are of great relevance for the European residential real estate markets. In total, the ESRB has issued warnings for a total of five countries (Bulgaria, Croatia, Hungary, Slovakia and Liechtenstein), while two recommendations for action were additionally formulated for Germany and Austria. For Germany, the ESRB has identified weaknesses in connection with the overvaluation of house prices, the growth in property prices and an easing of lending standards. In terms of the recommended action for Germany (1. macroprudential measures and 2. tightening of lending standards), BaFin, the Federal Financial Supervisory Authority, has already announced plans to increase the counter-cyclical capital buffer as a macroprudential measure (cf. also NORD/LB Covered Bond & SSA View from 02 February). Fundamentally speaking, the question of lending standards and, in this context, housing costs in general, apply not only to Germany, but rather to Europe as a whole. In this respect, it is not surprising that the ECB, in its role as the monetary policy guardian, is also addressing rising inflation and housing costs. In the most recent Economic Bulletin, one article accordingly deals with the question of the affordability of housing costs and the idea of including relevant price components in the Price Index (HICB). In our opinion, the rising trend in the proportion of housing costs and the increasing (over)burden caused by this price component, which is also outlined in the article, is also of great relevance for banks and covered bonds. From a risk perspective, this observation underscores the ESRB conclusions that lending standards need to be tightened.

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Market overview SSA/Public Issuers

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Teaser – NORD/LB Capital Market Spotlight

In retrospect, there have not been many key rate decisions since the ECB was established, where the official statement and the subsequent press conference seemed to belong to different worlds. At the ECB's first meeting in 2022, ECB president Lagarde certainly caused a certain amount of speculation. This was partly because of the statements she did not repeat, compared with the last meeting held in 2021. Will the ECB trigger a turnaround in interest rates before the end of this year and what does this mean for the fixed income markets? We want to discuss this and other issues with you during our digital NORD/LB Capital Market Spotlight on Thursday, March 03 2022 (3:30pm CET) under the heading, **"Just hitting the brakes or breaking the habit?"**. In addition to the ECB's monetary policy, the focus will be on the impact this would have on public sector/SSA asset classes and covered bonds. A week later, the meeting of the ECB's Governing Council will take place. For now, all we know is that new growth and inflation forecasts will be announced. However, we do not know whether and how the ECB will revise its decisions taken in December 2021 and February 2022 respectively. Putin's bellicose rhetoric is only adding to uncertainty, as he might now let actions do his talking for him. It is the only way to interpret the tanks entering east Ukraine.

ECB fed up with online meetings

Amidst the – intentionally or unintentionally initiated – discussion about a change of course for its monetary policy in view of the high rates of inflation, Europe's central bankers are congregating for their first face-to-face meeting in a long time. The ECB announced last Friday evening that its Governing Council would get together for an "informal" meeting in Paris on Thursday (24.02.). According to reports in the media, the meeting will take place one day before the EU's finance ministers and ministers of economic affairs convene in the capital of France, where the ECB will also be represented. So far so good; the ECB placated immediately, explaining that it was common practice for it to have informal face-to-face meetings. "Such a meeting in person" was now "possible for the first time in a long time". The background is that during each presidency, the Governing Council organises an informal meeting of the ministers for economic and financial affairs to discuss matters within the remit of the Economic and Financial Affairs Council (ECOFIN). ECOFIN determines EU policy in three important areas: economic policy, taxation issues and the regulation of financial services. National central banks and other institutions may also participate in discussions during this meeting. The Eurogroup, which became a household name during the Greek financial tragedy, ultimately also is "only" an informal body, allowing Eurozone ministers to meet to discuss matters concerning the euro. We have therefore come to the conclusion that words such as "transitory" and "informal" are not always accurate in terms of describing the actions of important committees and/or have rather negative connotations, or are certainly open to interpretation.

ILB focused on certain areas again in 2021

According to a press release, Brandenburger Förderbank ILB committed to subsidies amounting to EUR 2.87bn last year for a total of 42,502 projects. In 2021, too, processing various coronavirus-related programmes again represented a key area of development bank business. The various types of interim aid and other programmes, such as the November and December subsidies, provided support worth EUR 668.2m to 37,978 companies and self-employed individuals. Strong results were also achieved in other development business. An interesting fact is that, adjusted for the coronavirus-related programmes, approximately EUR 2.2bn was committed for 4,524 projects. The result from development activities was sustained by a high level of demand in the segment of business development, innovation and technology as well as agricultural subsidies, by promoting near-market and local infrastructure, housing construction and further dynamic activity in the area of start-ups. Support for business development was one of ILB's key areas of activity in 2021. Under the central investment programme for the development of commercial companies, the Growth programme for small enterprises (Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur, GRW-G), commitments of EUR 133m were made, which once again significantly exceeded the previous year's figure. This triggers investments of almost EUR 640m. Under the GRW-G, for every euro from subsidies around five euros are invested in Brandenburg's economy. This is an important factor for creating and maintaining valuable jobs in Brandenburg. Positive development effects were also achieved in promoting innovation. At EUR 65m for 315 projects, considerably more funds were committed than originally planned. Under the ProFIT Brandenburg and Brandenburgischer Innovationsgutschein programmes, the previous year's volume was again exceeded. In the promotion of housing, ILB reported another record year in 2021. A total of EUR 152m from Land grants was invested in constructing and modernising capped-rent flats. In addition, a further EUR 359m came from promotional loans under the ILB's own programmes. This means that a total of 2,107 new – primarily climate and generation appropriate – flats will be either constructed or modernised. Tillmann Stenger, Chairman of the Management Board, stated: "For 2022, we plan a volume of new commitments totalling EUR 1.5bn in our core sectors – i.e. excluding the coronavirus-related programmes." He continued, "this year, the new programming period for EU funds will also start. The operational programmes have been submitted and we at ILB are delighted to continue to take on the implementation of the key development programmes for Brandenburg. Our robust business model, the supplementary loan programmes and many years of development expertise make us the ideal partner for the Land of Brandenburg. Around EUR 2.3bn from the EU's EFRE, Interreg, ESF+ and JTF funds is available to Brandenburg in the period up to 2027." Furthermore, sustainability will be a watchword in 2022. Based on the Land development programmes and the bank's own products, the ILB will provide even stronger incentives in future for achieving the Paris climate targets and the sustainable development goals of the United Nations (SDGs). These 17 global sustainability targets will influence both the bank's loan and investment decisions in the future. Including the coronavirus-related programmes, the ILB has supported almost 245,000 projects since 1990 and made commitments amounting to almost EUR 49bn for Brandenburg. These development funds helped to jumpstart investment of around EUR 93bn. Consequently, every euro in development funds provided by the ILB triggered almost two euros in investments. According to the ILB, this created a total of 179,000 new jobs in Brandenburg. More than EUR 11bn in development funds has been invested in housing, which meant that over 337,000 housing units have either been newly constructed or modernised.

Primary market

In view of the worsening situation regarding the Russia-Ukraine crisis, there is no easing of tension on the capital market at present (see the market section on covered bonds above). By recognising the breakaway regions of Donetsk and Luhansk, the Russian government has fuelled extensive sanctions by the EU (and the rest of the world). As a result, general market conditions are rather defensive, providing few windows of opportunity for placing bond issues. One of the few opportunities was opened last week by Export Development Canada. With a 5y EUR-denominated benchmark bond issue, EDC – which is also its ticker – raised EUR 2.5bn. The coupon amounts to 0.5%. The bond issue was met with a high level of demand, something that is evident from the very high order book volume of EUR 15bn. This facilitated spread tightening of three basis points on the guidance (ms +1bp area) during the marketing phase, ending with a final spread of ms -2bp. The yield is therefore 0.529% per annum. Let's take this opportunity to look at the EDC's funding target in more detail. Converted into euros, the Canadians plan to raise a volume equivalent to between EUR 9bn and EUR 11bn (EUR equivalent) in the capital market during 2022, denominated in various currencies. In view of the explicit guarantee as an agent of Her Majesty in right of Canada, rating agencies Moody's and S&P have given EDC a rating which corresponds to Canada's sovereign rating (Aaa/AAA). The next bond issue in our coverage also attracted a high level of attention from investors: Kreditanstalt für Wiederaufbau (ticker: KFW) issued a bond with a 3y maturity worth EUR 5bn. The guidance for this deal was in the ms -28bp area and the spread was set at ms -30bp at the end of the marketing phase. With an order book totalling EUR 47bn, the bond issue clearly hit the mark in the current environment, both in terms of the maturity and the associated security. We also identified two tap issues in the trading week, one of which we already announced last week. The European Stability Mechanism increased its ESM 0% 12/15/26 by EUR 2bn at ms -20bp. This tap issue promptly became the most oversubscribed deal of the previous week. Measured in terms of the bid-to-cover ratio, the figure was 18.5x. By way of comparison, although the EIB achieved a larger order book in nominal terms with its EARN issue last week, the oversubscription was lower at 15.3x. The other tap issue was launched by the Land of Berlin, BERGER 0.625% 02/08/27. This increase amounted to EUR 300m. Now we come to a preview for the week ahead: according to the EU's funding plan, an auction is due on Monday. The issuer has sent a request for advice to selected primary dealers. The intended volume amounts to EUR 2.5bn. Finally, the Bundesland of Thuringia (ticker: THRGN) has also mandated for a 7y bond with a volume of EUR 0.5bn (WNG).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
KfW	DE	22.02.	DE000A3MP7J5	3.3y	5.00bn	ms -30bp	- / Aaa / AAA	-
EDC	CA	18.02.	XS2448412879	5.0y	2.50bn	ms -2bp	- / Aaa / AAA	-

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

Covered Bonds
ECB banking regulator also views the residential real estate market as a potential risk driver for banks

Authors: Melanie Kiene, CIIA // Dr Frederik Kunze

ECB is focusing more on real estate risks: both commercial real estate financing and the residential sector pose potential risks for banks

In its role as the banking regulator, the ECB has identified the risks from the commercial and residential real estate sector as one of the main weaknesses for banks in its Risk Assessment 2022-24. While price corrections because of possible overvaluations must be expected in the residential real estate (RRE) sector in the medium term and household debt is still increasing, the commercial real estate (CRE) sector has been identified as vulnerable to repercussions from the pandemic. As the ECB banking regulator stresses, banks' exposure to the CRE sector is considerable, accounting for roughly 8% of total credit granted by the banks it regulates and more than 20% of total corporate loans. Compared with other EU member states, Germany, France and Italy have the highest CRE exposure in absolute terms, whereas Cyprus, Slovenia and Estonia are among the leaders in relative terms. For example, the three countries mentioned report figures of over 40% in relation to outstanding corporate loans. In the context of this article, we shall look at the ECB's risk assessments in relation to the two real estate segments, and also examine the implications for mortgage covered bonds associated with this.

ECB banking regulator sees CRE sector as exposed to a variety of risks: pandemic with significant impact here

As the ECB commented in its press release on 16 February, the coronavirus pandemic hit CRE markets at the peak of their cycle, as drastic falls in finance-market based valuations, such as indices of real estate investment trusts, were already seen at the beginning of the pandemic and transaction activity also decreased sharply. Compared with their normal levels, only half as many transactions took place. This is interpreted as a sign that risks on the market started to materialise. The ECB had pointed to this development at the time in its Financial Stability Review from November 2020. The trend towards working from home and the massive increase in online shopping in particular are leading to structural changes on the market for office and retail real estate, and rents are expected to fall in the medium term. This could result in higher loan losses for banks if borrowers get into financial difficulties as a result of this trend. Another issue is rising loan-to-value ratios caused by the market values of collateral falling. Consequently, this will mean that banks have to set aside more provisions to cover the credit risk. The different trends in the CRE sub-segments are also reflected in the latest changes in prices, as for example shown in the comments on the vdp property price index for the German real estate market in this issue of our weekly publication.

Heterogeneous pool structures: taking the mortgage cover pools of German Pfandbrief issuers as an example

While residential assets must be viewed as dominant in an international comparison of mortgage cover pools, it is true that there are also significant percentages of CRE assets here, especially for mortgage backed Pfandbriefe in particular. In this respect, the assessments of the banking regulator are of explicit significance for German covered bonds both with regard to the CRE segment and also in relation to the RRE market in our opinion. In fact, depending on the issuer, we find different priorities among RRE cover assets and CRE cover assets in the cover pools. For example, there are some banks that have specialised in lending to the commercial sector and therefore the proportions of CRE exposure in the cover pools are consequently higher. Looking at the section 28 German Pfandbrief Act (PfandBG) reports on Q3 2021, the cover pools of Aareal Bank, BayernLB, DekaBank, Deutsche Pfandbriefbank, Hamburg Commercial Bank, M.M. Warburg & CO Hypothekenbank, Natixis Pfandbriefbank and SaarLB in particular contain between 70% and just above 90% of cover assets in the commercial real estate sector. Precise details about the individual banks, relative and absolute values can be found in our regular report on the information required by section 28 PfandBG.

Rising construction costs as a risk driver for current projects and sustainability as the driving force for structural changes on the CRE market?

Banks that primarily have loans where the properties are still under construction in their portfolio could be exposed to a higher risk because the pandemic has massively disrupted supply chains, and this will lead to significantly higher construction costs. The report also states that the CRE sector is particularly exposed to climate related transition risks. The demand and desire for more sustainability and the reduction of harmful CO2 emissions is leading to regulators, consumers and borrowers alike all becoming more aware of how they handle resources. According to the ECB, approximately 40% of energy consumption is currently attributable to buildings, whereby they are responsible for 36% of greenhouse gas emissions. Approximately 35% of buildings are also more than 50 years old. The first signs of structural changes may be inferred from reduced demand for the non-prime CRE segment and the weak outlook for this sector. The European Commission is also exerting more pressure on property owners. It is, for instance, suggesting minimum standards for energy certificates, under which the least energy-efficient properties would have to be renovated within a certain period. A requirement of this kind is already in force in the Netherlands. To counter the above-mentioned risks adequately, a prudent approach to credit risk management, which recognises non-performing loans in good time and makes sufficient loan loss provisions, is of critical importance to mitigate any weaknesses in the CRE market. The ECB is therefore examining a sample of banks with considerable CRE exposure more precisely in targeted reviews and will subsequently assess the climate related risks.

ECB banking regulator also focusing on the residential real estate segment

However, the residential real estate portfolio will also be part of a more detailed audit by the ECB banking regulator. The report states that the RRE sector in particular is characterised by overvaluations and high levels of debt among private households. The significance of this sector, which accounts for 26% of the total loan portfolios of bank, must not therefore be underestimated either.

Pandemic and other factors also leaving their mark on the residential real estate sector

As a consequence of the political support measures during the pandemic, which averted any immediate dramatic repercussions from the dual shock, as well as persistent extremely low interest rates, private households benefited from both favourable financing terms and a relatively stable income situation. The emergent economic recovery also had an impact on residential construction. However, persistent global supply bottlenecks and rising construction costs as well as labour shortages led to higher prices. In actual fact, when compared with other European countries, the coronavirus outbreak triggered at most temporary reverses in real estate prices (see EMF Quarterly Review). Due to house prices rising far more sharply than incomes, it is clear that households in many European economies have accumulated more debt. Should price corrections occur in the meantime, this will increase the potential risk from the overvaluation of properties for which financing has been provided, which will also make banks more vulnerable in the medium term. With regard to mortgage covered bonds in general and mortgage Pfandbriefe in particular, the very conservative assumptions, in some cases, on which the calculation of the loan-to-value ratio of the residential property for which finance was being provided in each case, and the requirements of national covered bond legislation in terms of the loan-to-value ratios permissible for the cover pool must be taken into consideration, if it is a matter of deducing the impacts on the credit quality of the issued bonds. Overall, we believe that covered bonds are exposed to a far lower risk here. Depending on the jurisdiction, the cover assets also have significant buffers that shield against falling real estate prices. Having said that, taking such a broad view of this topic fails to highlight national characteristics in the case of lending standards, changes to LTV ratios as well as national legislation too.

Regulator will take measures if necessary; monetary policy also moving into focus

In addition to examining portfolios, the ECB banking regulator will also check compliance with EBA guidelines on lending and loan monitoring and, if applicable, demand that any faults are corrected. BaFin, the Federal Financial Supervisory Authority for Germany, is also looking at risks on the market for residential real estate and in January 2022 advocated setting a systemic risk buffer of 2.0% from 1 February 2023 for domestic residential real estate business. Having come through the pandemic-induced crisis comparatively unscathed with relatively stable capital ratios, even if some capital and liquidity requirements were eased in the meantime, the current market environment still poses some challenges for banks. The persistently high inflation rates affecting consumer prices and energy costs are forcing ECB monetary policy decision-makers to react ever more strongly to inflationary pressures – the ECB's obligation to maintain price stability must also be met. In this market environment, attention is not only focusing increasingly on interest rate hikes. The end of the pandemic purchasing programme, the PEPP, has already been announced; we are assuming that the end of the programme will be accompanied by much smaller increases in the APP. In the wake of monetary policy "normalising", we do not expect any new targeted longer-term refinancing operations (TLTRO) on the "customary" attractive terms, which means that these special effects for banks' P&L accounts are not likely to occur again in the short and medium term.

Side note: dealing with the real estate cycle for covered bond ratings using Moody's methodology as an example

When deducing the risks with regard to CRE financing or setting a rating, rating agencies have been taking into account the possibilities of significantly inflated market values for some years. The real estate cycle in the commercial real estate sector plays a significant role here, which means that its variability is also a component of the methodology for rating covered bonds. The rating agency Moody's uses haircuts on property values in its methodology to smooth inflated CRE market valuations and also includes this in the valuation. At the same time, the agency regularly evaluates changes on real estate markets and applies haircuts to inflated valuations, if the covered bond is collateralised by CRE cover assets from such an overvalued country. The amount of the haircuts applied depends mainly on CRE market yields and risk premiums. The CRE market yield at the time of the analysis is compared with the long-term sustainable minimum yield – and the same process is used for the risk premium. If the market yield is below the minimum yield at the date of the analysis, a haircut is applied. The haircut is adjusted up or down if the CRE risk premium is outside the historic fluctuation range. The long-term trend in interest rates also has an effect. Rising long term rates may increase the CRE market yields, which will lead to lower market values. According to Moody's, real estate values are relatively stable over the entire cycle compared with market values if the macroeconomic conditions improve. Higher haircuts have been gaining traction at Moody's for some time. In a sector report from April 2021, the agency states that haircuts already apply to the market yields and market values for the countries mentioned there (IE, IT, UK, ES, DK, NL, FR, AT, GE, NO).

Conclusion

Not surprisingly, the ECB regulator is also focusing on the potential risks to which banks are exposed on real estate markets. Here, the bank looks not only at commercial financing but also at the market for residential financing. The factors driving risk in the CRE segment differ from those for RRE financing. In principle, the risk factors on both sub-markets are also of relevance to mortgage covered bonds, although the specific links vary significantly. This is particularly true when looking at the countr. However, what is also true in our opinion is the fact that covered bonds collateralised by mortgage assets benefit from significant risk buffers and mechanisms in covered bond legislation that should shield the newly issued bonds from setbacks on European real estate markets to a significant extent. Regardless of this, there are already some mechanisms and provisions at issuer level that are already applied, which means that a downturn on the CRE market can be mitigated and, in the best case, absorbed. In addition to changes to loan loss provisions and the ECB's NPL guide for dealing with non-performing loans (NPL), the (planned) measures for real estate portfolios on the part of national regulatory authorities (systemic risk buffer), the consideration of over/under-valuations when setting ratings and the regular stress tests, a correspondingly active provisioning policy is pursued.

Covered Bonds
Development of the German property market

Author: Dr Frederik Kunze

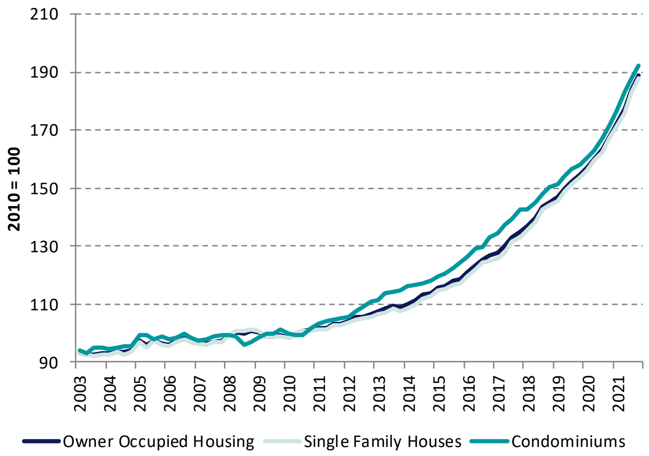
Another record high!

The Association of German Pfandbrief Banks (vdp) published information about the trend in its property price indices on 10 February 2022. On the basis of an evaluation of the property transaction data of more than 700 financial institutions, which provides the relevant data basis, an overall index of 187.4 points was derived for the fourth quarter of 2021. This level marks a new high in the time series going back to the base year of 2010. In the previous quarter, the figure was 184 (this represents a +1.8% increase Q/Q). Compared with the previous year, growth amounted to 8.4%. This means that the annual rate is slightly lower than that for the previous quarter (+8.7% Y/Y) and based on the annual average, the index climbed 7.8%. The sectoral view highlights differing patterns, despite the marked upward trend. With regard to residential property in Germany, dynamic growth continued at +10.7% Y/Y. At the same time, an increase of 0.3% Y/Y was recorded for commercial property. Essentially, the price surge in the capital value of office property remained in positive territory (+2.1% Y/Y after +0.3% Y/Y), whereas a further decline was recorded for retail property (-4.1% Y/Y after -3.6% Y/Y). Accordingly, Jens Tolckmitt, the vdp's Chief Executive, also underlined that the office property market had recently seen a noticeable recovery. Overall, he still did not see the COVID-19 pandemic generating sustained negative impetus on prices for the market as a whole. Furthermore, Tolckmitt pointed to higher construction costs as a rather more current factor driving prices (cf. vdp press release dated 3 February 2022).

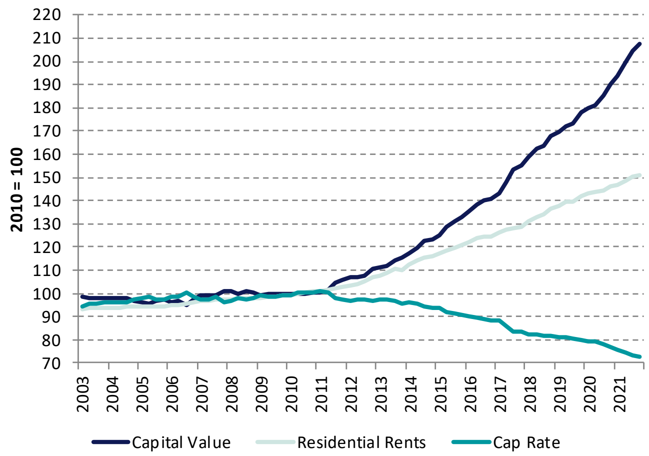
No weakening of demand for residential property – further sharp increase in owner-occupied housing

Compared with the first quarter of 2020, a 17.5% increase was recorded for the residential property price index. It should be noted that double-digit growth rates have been observed in the past three quarters, in particular. In addition, differentiated analysis of this growth highlights further important aspects. While the housing index climbed 10.7% Y/Y in the fourth quarter of 2021, the increase in the index for owner-occupied homes, at 12.4% Y/Y, was just as high as in the previous quarter (+12.5% Y/Y). It is unsurprising that the sub-indices for houses (+12.5% Y/Y) and flats (+12.1% Y/Y) reflect the same dynamic growth. The index for owner-occupied homes has now recorded double-digit growth on the previous year in relative terms for the third quarter in a row. In addition to the general interest rate level and the uninterrupted high level of demand, high construction costs and supply chain problems are also responsible for this price increase. The vdp believes a valid correlation to be that increased building costs for new construction are also providing positive impetus for existing property. According to the vdp's view, multi-family dwellings remain a focus for domestic and international investors. The relevant index for capital values climbed 9.1% Y/Y, which means it has slightly slowed compared with growth in the second and third quarters (+10.5% Y/Y and +10.4% Y/Y respectively). Rent under new contracts rose by 3.3% Y/Y, while the index for property yield (Liegenschaftszins) continued to decrease (by 5.3% Y/Y).

Owner-occupied homes



Multi-family dwellings



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

Prices of office property – growth of 2.1% year-on-year

The challenges facing the commercial property market in the context of the pandemic were disproportionately greater. Unsurprisingly, social distancing measures were a key factor in this. This resulted in overall demand for commercial property being noticeably muted at times. However, the vdp ascertained that “uncertainty about the future requirement for office space [seems] to be waning” in the office property market. In the vdp’s view, it should also be considered that the opposing effects of more people working from home and/or new concepts for how space is used (including coworking and more distancing) are likely to have boosted demand recently. The rise for office property was 2.1% Y/Y in the fourth quarter of 2021. In this context, the increase in rents under new contracts should also be mentioned, which were up by 0.3% Y/Y.

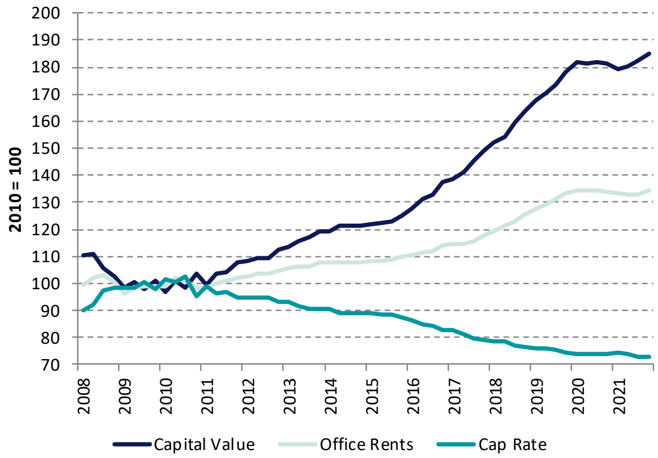
Retail property prices – decrease in demand for city centre office buildings and department stores

At -4.1% Y/Y, the downward trend in prices for retail property continued. Lower demand for sales floor space accordingly also resulted in a decrease in lease payments under new agreements of -2.5% Y/Y. The vdp additionally clarified that investors had taken a conservative approach to office buildings and department stores in city centre locations, which were affected by social distancing measures.

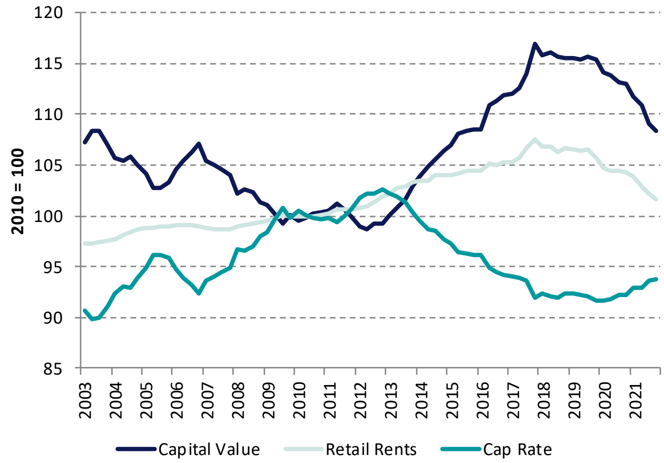
Top 7 in the housing market – sharp price increases in urban centres continue

The separate index reflecting the trend in the housing markets of the top 7 cities (Berlin, Hamburg, Munich, Cologne, Frankfurt/Main, Stuttgart and Düsseldorf) was on a somewhat steeper upward trajectory again over the 12-month period. Prices for owner-occupied homes rose by +11.7% Y/Y over the past twelve months. The corresponding increase a year ago was “only” +5.7% Y/Y and two years ago “barely” +2.9% Y/Y. The sharpest growth was recorded in the sub-index for owner-occupied houses in the top 7 cities, where prices climbed 11.8% Y/Y. However, this growth was only just higher than the dynamic growth recorded for owner-occupied flats (+11.6% Y/Y). Dynamic growth also continued with regard to multi-family dwellings in the top 7 cities. The index increase of 9.7% Y/Y outstripped that of the previous quarter’s level (+9.5% Y/Y) and was the highest value recorded since the second quarter of 2018.

Office property



Retail property



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

Bundesbank also uses vdp figures as reference and sees the German residential property market as significantly overvalued

In its recently published monthly report, the German Bundesbank also dealt with the price trend for residential property in Germany and referred to the vdp figures. In addition to data from the Federal Statistical Office of Germany, bulwiengesa AG and Hypoport AG, the Bundesbank indicator system includes vdp data. In its current monthly report, the Bundesbank highlighted the overvaluation of residential property as well as the price trends pointed out in this article. According to the Bundesbank, a further increase in overvaluation occurred in 2021. Based on estimates, properties in cities were 15% to 40% overvalued in 2021. The purchase price to annual rent ratio for "flats in cities" was more than 30% above the long-term average. The overvaluation is similarly high if based on the purchase price to income ratio. According to the information from the Bundesbank, prices for residential property in Germany considered under this approach were 20% to 35% higher than the reference figure. In its role as banking regulator, the ECB therefore views the property market as a weakness for the banking sector both in Germany and beyond (cf. focus article). BaFin, Germany's financial supervisory authority, has also resolved macroprudential measures, following an ESRB recommendation.

Conclusion and outlook

Similar to previous quarters the vdp property price index, which receives much attention, indicates marked growth in Germany's property prices for the fourth quarter of 2021. Once again, this was mainly caused by the prices for residential property. An increase was also evident for commercial property, driven by office property. Overall, a growing number of cautionary statements are currently emerging with regard to the situation in the property market. Overheating tendencies certainly cannot be dismissed, which would also further increase the risk of a reversal in the price trend. In this context, we believe that there is a lower risk to the asset quality of mortgage Pfandbriefe. This is partly attributable to the conservative approach to establishing lending values and the requirements regarding eligibility as cover funds under the German Pfandbrief Act (PfandBG).

SSA/Public Issuers
Beyond Bundeslaender: Paris metropolitan area (IDF and VDP)

Author: Dr Norman Rudschuck, CIIA

Introduction and structure of France

In this edition we are keen to take another look at the French region Île-de-France (IDF) and the local authority Ville de Paris (VDP) having previously done so at the end of 2020. Both issuers represent an interesting investment alternative, especially for green bond investors. But let's start with the basics: in administrative terms, the decentralised unitary state of France is divided into 18 regions (régions), 101 departments (départements), 333 arrondissements, 2,054 cantons and 35,416 municipalities (communes). None of these categories includes the special status entity of VDP that we are looking at here, which was created in 2019 from a merger of the municipality of Paris and the Paris department. The "new" status means that a single authority now exercises the powers of the city administration and the department. The regions are the most recent structure of French local government and were introduced in France with the 1986 decentralisation law. Various reforms have strengthened the role of the regions. Nevertheless, France is regarded as a unitary state, as the regions, unlike German Laender or US states, do not have the character of a state. Each region elects regional councils (Conseils Régionaux) for six years, which appoint the president of the regional council. In general, the regional councils primarily control the economic aspects of the region. For example, the regional council determines the budget, the staff and various political decisions. Its responsibilities include regional planning, economic development, vocational training and rail passenger transport. The French department, created during the revolution of 1789, corresponds to a German regional authority. The last reorganisation of the departments took place in 2011. An administrative officer (Préfet), appointed by the government, manages the department. There is also the departmental council (Conseil Départemental), whose powers were strengthened by the last decentralisation law. Its tasks consist of administering the budget and managing staff. The departmental council is elected for six years by the cantons, which, as subdivisions of the departments, form the electoral districts. The departments are also divided into arrondissements, which in turn are made up of the municipalities.

Political system

Overall, the administration in France is characterised by the principle of free administration through elected councils and the limitation of the competence of the local authority to its territory. In addition, the responsibilities and resources must comply with the legal requirements. The state plays a key role in this, particularly in organising the sectors and determining resources. At national level, France has a semi-presidential system of government. The executive is composed of the President, who plays the central role in French politics, and the government, which is headed by a Prime Minister and appointed by the President. The legislature is characterised by a bicameral system, consisting of a directly elected National Assembly and a Senate elected by representatives of the regions, departments and municipalities.

Political and economic tensions

Emmanuel Macron has been President of France since 14 May 2017. Macron stands for liberal, progressive politics and is committed to deeper European integration. His extensive reform policy met with strong resentment within the population in the course of its implementation. At the end of 2018, the “yellow vest” movement was born, which called for nationwide protests and took to the streets to object to various political initiatives. For example, the protesters opposed the higher taxation of fossil fuels, demanded an increase in the minimum wage and the introduction of a system of direct democracy. In the course of the protests, which found supporters from all sides of the political spectrum, Macron's approval ratings plummeted and have hovered close to only 40% since then. Following concessions by the government, the situation has calmed down somewhat, and the protests have since subsided. Nevertheless, the situation remains tense. The rural population in particular feels increasingly disconnected, and the administration is regarded as run-down and the social system as outdated. Last but not least, coronavirus, which has hit France particularly hard, and Islamist terrorist attacks also provide political dynamite that populists like Marine Le Pen are trying to exploit for their own ends. Although the majority of the French have supported the President's tough stance to contain the pandemic so far, confidence in the incumbent has stagnated in the face of the grievances. With regard to the upcoming presidential election in April 2022, according to the latest polling data Le Pen from the right-wing extremist collective movement “Rassemblement National” ranks second, with 16% of the votes, behind the incumbent president (24%). Third place, with 14% of the votes at present, is occupied by the President of the Regional Council of the Île-de-France region and member of the Republicans, Valérie Pécresse.

Covid-19 in France

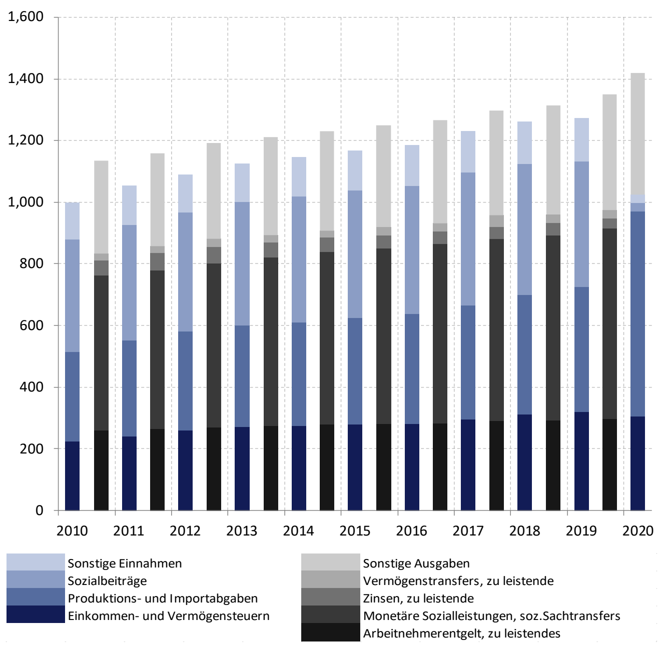
The effects of the pandemic are putting the world’s sixth largest economy (in terms of GDP) under considerable strain. Compared with other EU member states, France ranked ninth among the worst affected countries, having experienced a fall in GDP of -5.5% Y/Y in 2020. The effects of the crisis can largely be explained by France’s high-level dependency on industries that have been particularly hard-hit, such as tourism and aircraft construction. The country has also adopted comparatively tough lockdown measures, which have also taken their toll on other branches of the economy. After approximately 392,000 workers were laid off in 2020, estimates by the European Commission based on government aid, to finance short-time working among other things, indicate that the working population increased once more by approximately 465,000 as early as 2021. The third and fourth wave of the pandemic again hit France particularly hard. In April 2021, a nationwide lockdown with closures of non-essential shops and schools in conjunction with restrictions on travel and a nationwide night-time curfew were imposed. As a result of a sharp fall in new infections, the measures were gradually relaxed between May and June, most shops were allowed to reopen once more, and the travel ban was revoked. At the end of 2021/beginning of 2022, case numbers surged once more – due not least to the Delta and Omicron variants – meaning that the situation escalated again. The consequences of the pandemic are being countered by a EUR 100bn stimulus package, 40% of which was financed by EU subsidies. The government’s declared aim is to achieve far-reaching economic reforms on the path to climate neutrality by 2050. According to Bruno Le Maire, the French Minister of the Economy and Finance, GDP is expected to return to its pre-crisis level at the end of 2021.

(2020 values; in some cases provisional)
GDP 2020 (2019)
EUR 2,303bn (EUR 2,438bn)
GDP growth 2020 (2019)
-5.5% (+3.2%)
GDP per capita (vs. 2019)
EUR 33,960 (EUR -2,090)
Unemployment (2019)
8.0% (8.4%)
Budget balance (2019)
EUR -209.2bn (EUR -74.7bn)
Balance/GDP (2019)
-9.1% (-3.1%)
Debt/GDP 2020 (2019)
115.0% (97.5%)

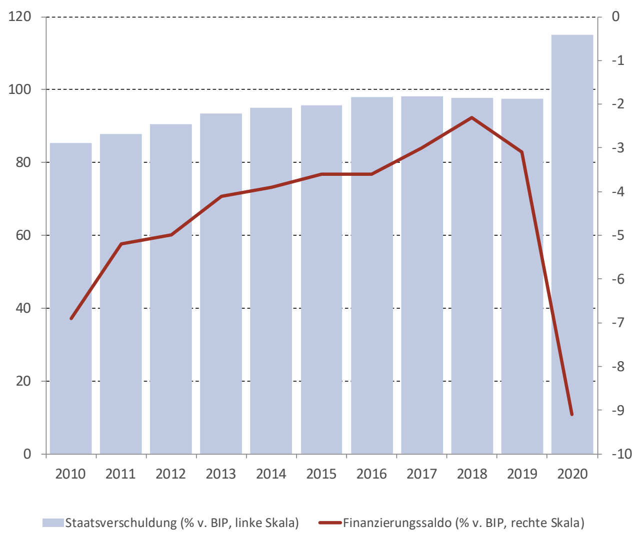
Development of the French economy

France's public debt rose steadily in the wake of the financial crisis and has stagnated in recent years before the coronavirus crisis at a level just below 100% of GDP. With debt amounting to 115.0% of GDP in 2020, France is among the six EU countries with the highest public debt ratio. For the year 2021, the coronavirus pandemic is expected to cause a sharp jump in national debt – similar to what happened after the financial crisis. The IMF estimates that at the end of 2021 France will have debt amounting to 113.5% of GDP, which means that its public debt ratio would be almost twice as high as the 60% ceiling set by the EU convergence criteria. According to Eurostat, France's GDP grew by 7.4% in 2021, while growth in the EU was expected to average 7.0%. In order to support economic recovery in the wake of the coronavirus crisis, the French government has announced that it will tolerate high deficits in 2020 and 2021. In 2020, the deficit was – largely in the context of the pandemic – 9.1%, while a deficit of 3.0% is forecast for the last calendar year. France's national budget was last balanced in 1974. As a result of the temporary flattening of the pandemic in summer 2021, the economy was able to recover in Q3. From July to September 2021, GDP rose by 10.4% compared with Q2 (-11.0%). This recovery is also reflected in the utilisation rate of production capacity, which, at 82.2% in Q3 2021, was already close to the 2019 year-end figure (83.1%). Developments on the labour market were also positive; the unemployment rate of 8.1% in Q3 2021 was below the comparable figure in the previous year (9.1%) but remains above the EU average (6.7%). The "France Relance" stimulus programme worth EUR 100bn aims to accelerate the economic recovery and reform France's economy in sustainable fashion. The measures to reform the economy had achieved some success on the labour market prior to the pandemic and are seen as a key driving force in releasing potential growth and creating employment over the next few years. A revision of the unemployment benefits system and harmonisation of the pensions systems are regarded as the most significant reforms targeted by the Macron administration.

Govt. revenue vs. govt. expenditure (EURbn)



Govt. debt vs. budget balance (%)



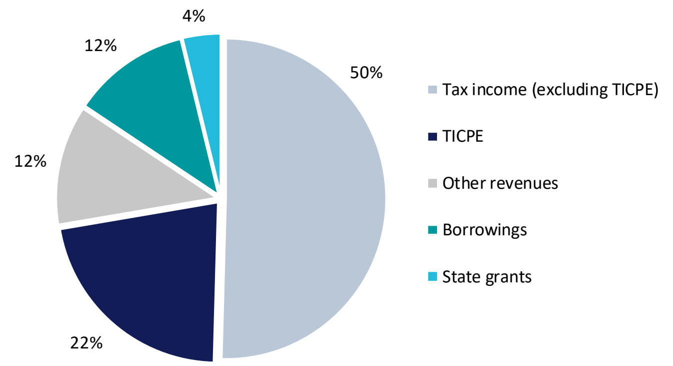
Source: Eurostat, IMF, Insee, NORD/LB Markets Strategy & Floor Research

Île-de-France (IDF) and Ville de Paris (VDP) – the conurbation around the capital
The Île-de-France region comprises the conurbation surrounding the capital city of Paris. Accounting for only 2% of the total area of France, IDF is the second-smallest region in terms of area, but with 19% of the total population it is by far the most populous. The 12.2 million inhabitants are spread over eight departments. The regional council consisting of 209 members was last elected in June 2021 after the elections were postponed in March due to the pandemic. As a cosmopolitan city, Paris particularly attracts young people: over 50% of the population is aged under 40. Thanks to a multitude of sightseeing attractions, a culture steeped in history and two large nature reserves, not only Paris but the whole of the Île-de-France is a tourist magnet. In 2015, e.g., the region was ranked first in a global comparison with over 50 million tourists. For years, IDF has been one of the regions with a brisk rate of primary market activity. It currently has 16 outstanding bonds with a total volume of around EUR 5.1bn. With a focus on green and sustainable bonds, the region is interesting for investors in sustainable bonds (ESG framework). The Ville de Paris, the centre of Île-de-France, can be described as one of the most important cities in Europe with a population of 2.2 million. In addition to IDF, the VDP has also set itself the goal of promoting environmentally friendly and responsible financing. The city has therefore been active in this segment since 2015 with the "Parisian Climate Bond", the "Parisian Sustainability Bond" in 2017 and sustainable issues in 2020 and 2021.

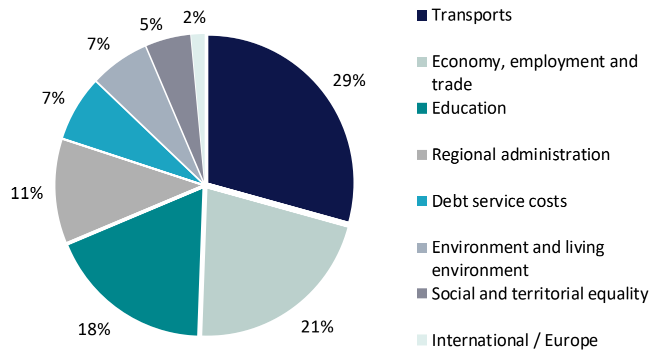
Economic situation in the Paris region
In addition to its cultural and political importance, Île-de-France, with Paris as the capital, is also the country's economic centre. In 2019, the GDP of IDF stood at EUR 743bn, which was equivalent to roughly 31% of French GDP. The GDP of Île-de-France alone is therefore higher than that of Norway or Belgium, for example. With GDP per capita of EUR 60,400 (2019), IDF is the most prosperous region in France, and its GDP is almost twice as high as the average figure for the European Union (EUR 31,200; 2019). GDP data for Île-de-France for 2020 is not yet available. The region is extremely attractive for both national and international companies, so that around one million enterprises have opted to base themselves in IDF. With around 53 million square metres of commercial space, the region also has the largest volume in this category in Europe. As many as 29 of the world's 500 largest companies listed in the Fortune Global 500 Index have their headquarters in the Paris area, making the region one of the largest economic clusters in Europe as a result. Île-de-France's economy is highly diversified. Important sectors include banking and insurance (e.g. BPCE, AXA), the automotive industry (Renault, Groupe PSA), the energy sector (Total), and the production of luxury goods (LVMH, Kering). With more than 8,000 start-ups, Paris is a stronghold in Europe for young companies due to its strategic location and government initiatives. Tourism, as mentioned previously, also plays a major role. Until the beginning of 2020 – pre-COVID-19 – the sector still employed roughly 500,000 people in Île-de-France. Paris is still almost universally regarded as one of the European hotspots of the pandemic. The Convention and Visitors Bureau reported a slump in tourist numbers of 33.1 million and an associated loss of revenue of EUR 15.5bn for 2020. Europe's largest infrastructure project, the "Grand Paris Express" is currently being implemented in Paris. This involves the extension of the Paris metro network at an estimated cost of EUR 35bn. The project is scheduled for completion in 2030 and the first part of the network will be operational before the 2024 Olympics.

Île-de-France: draft 2022 budget to supercharge investment offensive
Since 2016, Île-de-France has set itself the goal of reducing administrative costs and investing a larger share of its budget. The latter includes modernising public transport, building secondary schools and supporting research activities. In comparison with 2015, the current draft 2022 budget envisages an increase in investment of +73.4% or EUR 1.1bn. Additional investment of EUR 4.7bn is envisaged over the next seven years. In addition, there is an increasing focus on protecting the environment, with the region having formulated concrete targets for reducing air pollution and lowering energy costs. In 2021, the IDF budget amounted to nearly EUR 5.0bn, which was distributed over the following areas: transport and mobility (29%), economy, employment and trade (21%), education (18%), regional administration (11%), repayments (7%), environment and habitats (7%), social justice (5%) as well as European and global issues (2%). At the end of April 2021, the revenue side of the region was made up of tax revenues (72%), borrowing (12%), other income (12%) and government subsidies (4%). Tax revenue was again made up of the domestic excise duty on energy products (TICPE, Taxe intérieure de consommation sur les produits énergétiques), the levy on the value added by businesses (CVAE, Cotisation sur la valeur ajoutée des entreprises) and VAT. Borrowing is primarily through public bond issues (80.6%). Capital is also raised through loans and SSD deals. There is a long-term partnership with the European Investment Bank (EIB) to finance sustainable investment projects associated with this.

IDF: revenue (2021)



IDF: expenditure (2021)



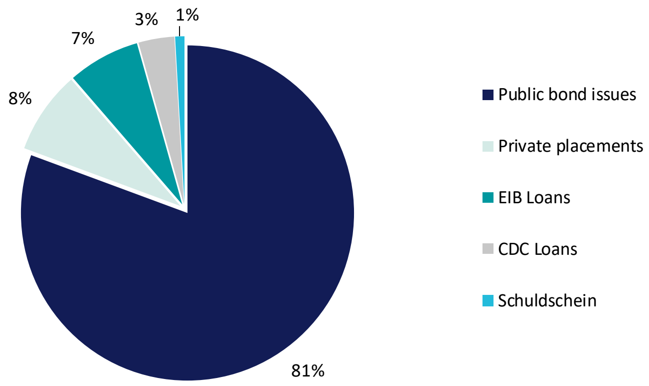
Source: Île-de-France, NORD/LB Markets Strategy & Floor Research

Supplementary Covid-19 budget: more than simply emergency aid
To contain the coronavirus pandemic in Île-de-France, a supplementary budget was adopted in June 2020 to cushion the economic and social impacts of the coronavirus crisis and introduce the initial steps of a regional recovery plan. The EUR 1.3bn budget focused on four areas: the economy (EUR 640m), environment (EUR 238m), employment (EUR 231m) as well as health and social issues (EUR 192m). In addition to emergency aid, the stimulus also aims to support the regional economy on a long-term basis through continuous investment in digitalisation and emissions reduction initiatives, for example. It is expected, for instance, to help SMEs in particular in the process of transforming their value chains.

Île-de-France funding

Île-de-France is a regular player on the capital market. The issuance of public bonds is the main funding method, followed by private placements. The region is also open to SSD deals. In total, sustainable bonds accounted for 75% of regional debt in 2021. The region's total debt amounted to EUR 5.8bn at the end of 2020, which means that the debt level has remained stable since 2015.

Île-de-France: refinancing mix (2021)



Source: Île-de-France, NORD/LB Markets Strategy & Floor Research

Sustainability as a fundamental principle

With its historical monuments and extensive natural environment, Île-de-France is an active proponent of sustainable development. Politicians are focusing on reducing environmental pollution, with the aim of becoming Europe's most environmentally friendly region. The commitment to sustainability is also reflected in its refinancing operations. ESG bonds have long since formed an integral part of the region's funding strategy. Looking back, the region has launched a total of ten green or sustainable bonds with a total nominal value of EUR 4.4bn since 2012. This means that green and sustainable bonds account for about 78% of regional debt (as at April 2021). Sustainable bonds issued by IDF are listed, among others, in the MSCI Global Green Bond Index. The Green and Sustainable Bond Framework, which IDF is guided by, includes the areas of sustainable mobility and renewable energies. With regard to compatibility with the EU taxonomy, a revision appeared in May 2021. In the context of the coronavirus crisis, a new sub-category was also added to the Framework with the aim of improving medical infrastructure. The proceeds of the bond issues will be used, among other things, to finance the regional Recovery Plan.

Rating and planned funding for the coming years

Île-de-France is rated by Moody's (Dec. 2020: Aa2 [stable]) and Fitch (Oct. 2021: AA [negative]). S&P discontinued its rating in 2012. Both Moody's and Fitch highlight IDF's sound debt management policy. Regular funding is provided through bonds (89.5%) and loans (10.5%). IDF bonds have an LCR level of 2A and are subject to a 20% risk weighting. Further green and sustainable benchmark bond issues are planned at regular intervals until 2033 for the time being. Ville de Paris is rated by Fitch (Oct. 2021: AA- [stable]) and S&P (Oct. 2021: AA [stable]). In April 2021, Fitch downgraded the VDP rating by one notch. In so doing, the rating agency reacted to the negative effects of the pandemic on revenues and the increased funding requirement. Nevertheless, Fitch praised its debt management and long-standing strict spending discipline.

General information: IDF

Outstanding bond volume

EUR 5.1bn

Of which EUR bonds

EUR 5.0bn

Bloomberg ticker

IDF

General information: VDP

Outstanding bond volume

EUR 6.1bn

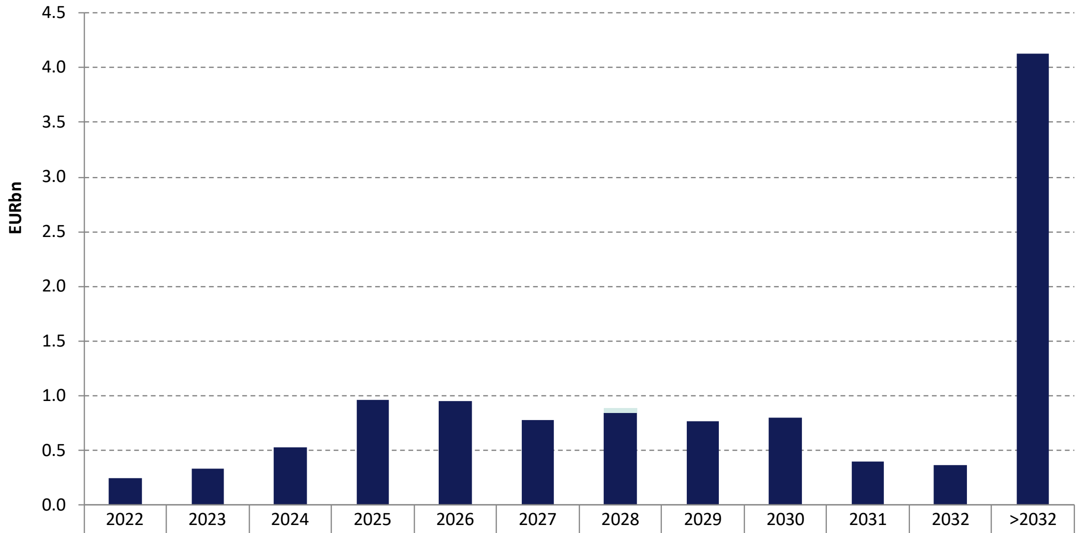
Of which EUR bonds

EUR 6.1bn

Bloomberg ticker

VDP

Maturity profile of select French regions (IDF and VDP)



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	>2032
JPY	0	0	0	0	0	0	38	0	0	0	0	0
EUR	240	330	525	965	946	775	845	766	800	395	365	4,131

NB: Foreign currencies are converted into EUR at rates as at 21 Feb. 2022.
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

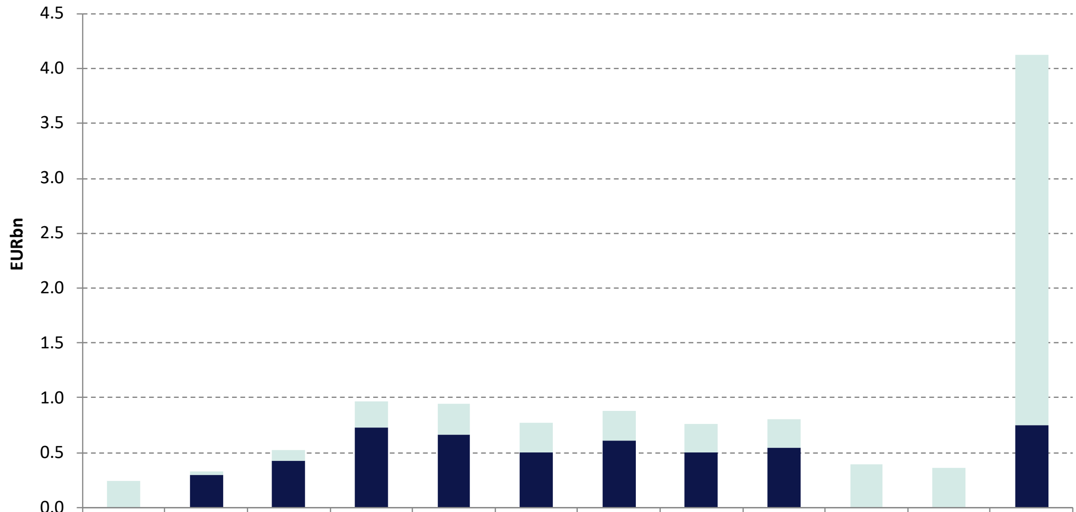
Outstanding volume

Of course, the two tickers that we are focusing on here – IDF and VDP – do not represent the entirety of French regions. Various other local authorities or regional vehicles and agencies are also active on the capital market (e.g. Auvergne-Rhône-Alpes (ARA) Pays de la Loire (PDLL), MARSE (City of Marseille) or CUDM (Communauté urbaine Marseille Provence Métropole). Nevertheless, based on our narrow definition of the relevant universe, 73 bonds are now outstanding (2020: 68). This already indicates a certain granularity when it comes to Parisian regional bonds. A total of EUR 11.1bn is outstanding. We were able to detect foreign currencies in only one bond, which relates to a transaction denominated in JPY (IDF). As a result, the FX segment has hardly any share in the composition of the liabilities. At the end of 2020, IDF had another FX bond (AUD) outstanding. This means that around 99% is diversified over the maturities. Around EUR 4.1bn will not fall due until after 2032, which suggests that very long-term refinancing is chosen (largely attributable to VDP). There is also another twist: all seven benchmark bonds pertain to the IDF ticker, meaning that EUR 3.8bn of the EUR 5.1bn can be described as large-volume and liquid. VDP, on the other hand, has 57 ISINs outstanding, which are spread across a volume of EUR 6.1bn. IDF has already gained a great deal of experience in the ESG segment, with all bonds being ESG-compliant since 2019.

Fixed coupons dominate

Fixed coupons account for the dominant share of bonds from both issuers. Of the EUR bonds (72) we have identified, 67 bonds have a fixed coupon. This corresponds to 93.1%. Bonds with the classification “floating” (6.9%) follow thereafter. The last remaining FX bond (JPY) also has a fixed coupon. Overall, the two issuers are therefore quite open to niche products in terms of their refinancing profiles (benchmarks, sub-benchmarks and also private placements as well as SSD deals). The share of fixed coupons, measured against German Bundeslaender, for example, is rather high. The refinancing strategies of both issuers are sufficiently varied, as explained above.

Outstanding bonds of select French regions (IDF and VDP)



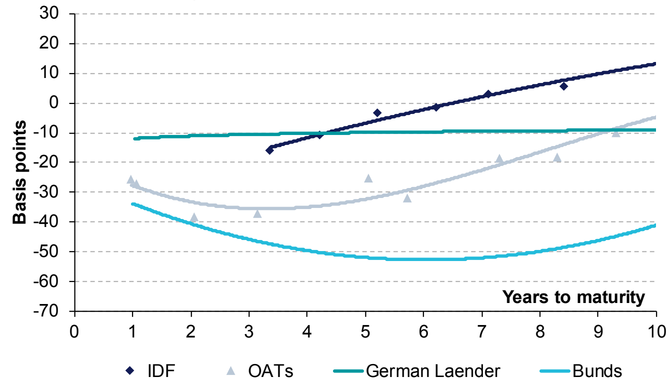
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	>2032
VDP	240	30	100	240	286	275	275	266	250	395	365	3,381
IDF	0	300	425	725	660	500	608	500	550	0	0	750

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

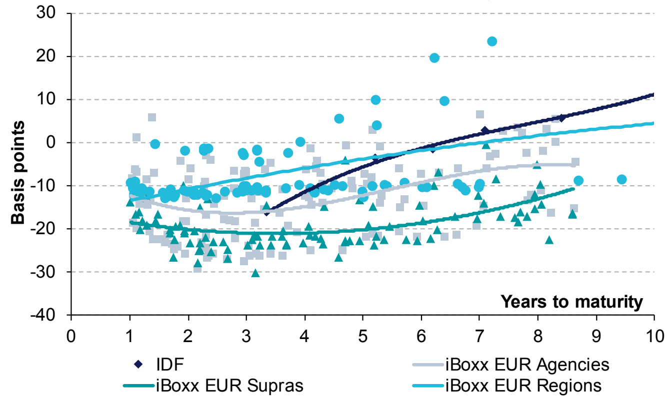
Paris regions vs. iBoxx regions and German Laender

Even compared to the iBoxx Regions, the two Paris regions trade with mark-ups. At the long end, the spread difference is 5 to 10 basis points. At the middle end – IDF has no benchmark bonds outstanding for less than three years – the spread is lower. The differences versus agencies and Supras are greater. Compared with Supras, which have an even better average rating, and the generally significantly higher liquidity of the bonds from these regular issuers, this is hardly surprising. This is true both in comparison with German or French sovereigns and compared with German Laender. Overall, IDF in particular is the sole benchmark issuer with the widest spreads compared to its peers and could therefore – with limited liquidity – generate pick-up for investors. In addition, both issuers (IDF and VDP) may be open to private placements and certain yield expectations of institutional investors.

Comparison of generic ASW spreads



Comparison of ASW curves of French regions vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 18 Feb. 2022 eod

Regulatory overview for RGLAs* / ** (Examples)

Issuer	Risk weighting	LCR classification	NSFR classification	Solvency II classification
Belgian regions	0%	Level 1	0%	preferred (0%)
German Laender	0%	Level 1	0%	preferred (0%)
French regions	***20%***	***Level 2A***	***15%***	***preferred (0%)***
Italian regions	20%	Level 2A	15%	non-preferred (individual review)
Austrian Bundeslaender	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)

*Regional governments and local authorities
** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).
Source: NORD/LB Markets Strategy & Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	Institut de Réescompte et de Garantie/- Herdiscontering- en Waarborginstituut
Denmark	Eksport Kredit Fonden, Eksport Kredit Fonden A/S, Danmarks Skibskredit A/S and KommuneKredit
Germany	Kreditanstalt für Wiederaufbau (KfW), undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under that law as non-profit housing undertakings (e.g. Rentenbank, L-Bank, IFBHH, IBSH etc.).
France	***Caisse des Dépôts et Consignations (CDC)***

Source: CRD IV, NORD/LB Markets Strategy & Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	Municipalities (Communauté/Gemeenschappen), regions (Régions/Gewesten), towns (Communes, Gemeenten) & provinces (Provinces, Provincies)
Germany	Bundeslaender, municipalities & municipal associations
France	***Regions (région), municipalities (commune), "Départements"***

Source: (EU) 2015/2011, NORD/LB Markets Strategy & Floor Research

Summary for French regions

Risk weighting	20%
LCR classification	Level 2A
NSFR classification	15%
Solvency II classification	Preferred (0%)

Issuer (Ticker)	Inhabitants	Unemployment (2020)	GDP per capita (2019)	Outstanding volume	No. of bonds	Rating
IDF	12.2 million	7.7%	EUR 60,500	EUR 5.1bn	16	(AA / Aa2 / -)
VDP	2.2 million	5.4%	-	EUR 6.1bn	57	(AA- / - / AA)
France	67.4 million	8.0%	EUR 35,100	EUR 2,182bn	98	(AA / Aa2 / AA)

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

Liability mechanism

There is no explicit guarantee on the part of the French state for the regions or local authorities. However, since 2003 there has been a system of financial equalisation, consisting of payments between regions (horizontal financial equalisation) as well as payments from the state to the regions (vertical financial equalisation) (Article 72-2 of the Constitution). Due to their stable financial situation, the French regions have a good credit rating. Moreover, under the current system, it is not possible for regions to become insolvent.

ECB purchase programme

It is interesting to look at the Eurosystem's purchasing activities. Of course, there are many French names among the agencies: e.g. CADES, UNEDIC, AGRFRNC, OSEOFI, SFILFR, SOGRPR. By mid-February 2022, 178 different ISINs of French agencies had been acquired by the Eurosystem since the start of the programme. By contrast, only eight bonds under the IDF and VDP tickers found their way onto Eurosystem's shopping list over time. This is fewer than in the case of both Spain and Belgium, for example. The number of ISINs remains numerically small in comparison to German Bundeslaender. In fact, more than 530 different German Bundeslaender bonds had already been purchased in the same period – compared with 111 from the rest of Europe, including the five from IDF and three from VDP.

Conclusion

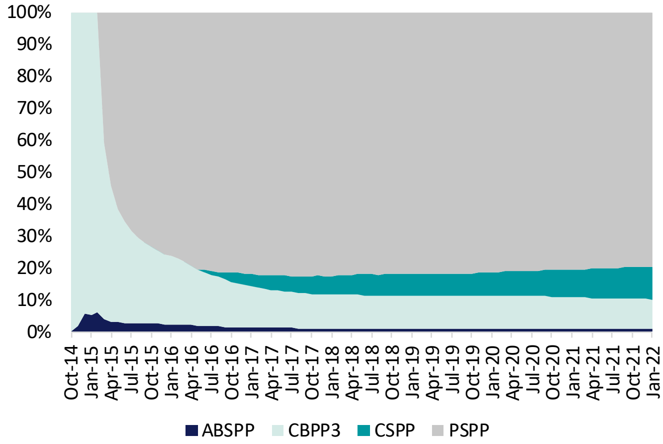
The Île-de-France region has become increasingly well-established on the capital market in recent years. As a result of its activities in the ESG segment along with outstanding green and sustainable bonds, it offers an interesting investment option, especially to investors who are willing to support sustainability and social projects. In addition, IDF has a comparatively strong economic environment and qualifies for ratings of Aa2 and AA from Moody's and Fitch respectively. We may see additional positive effects over the next few years if the national programme of reforms, which was thwarted by the current pandemic, gains momentum from next year at the latest and thus lays crucial foundations for potential future growth in the regions. We would like to see VDP expand its investor relations activities. The information available may be appropriate for a sub-benchmark issuer, but IDF's data situation and provision of information was nevertheless more transparent. Both, investors and analysts, highly appreciate transparency here.

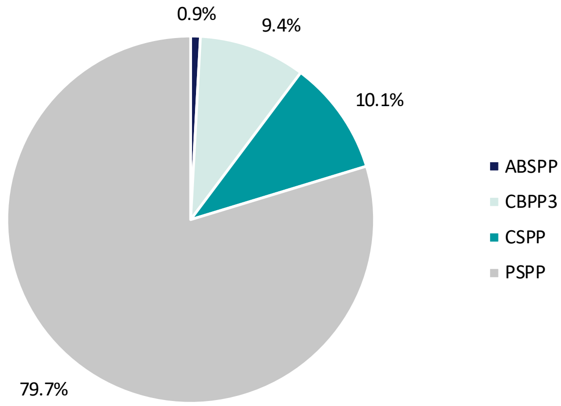
ECB tracker

Asset Purchase Programme (APP)

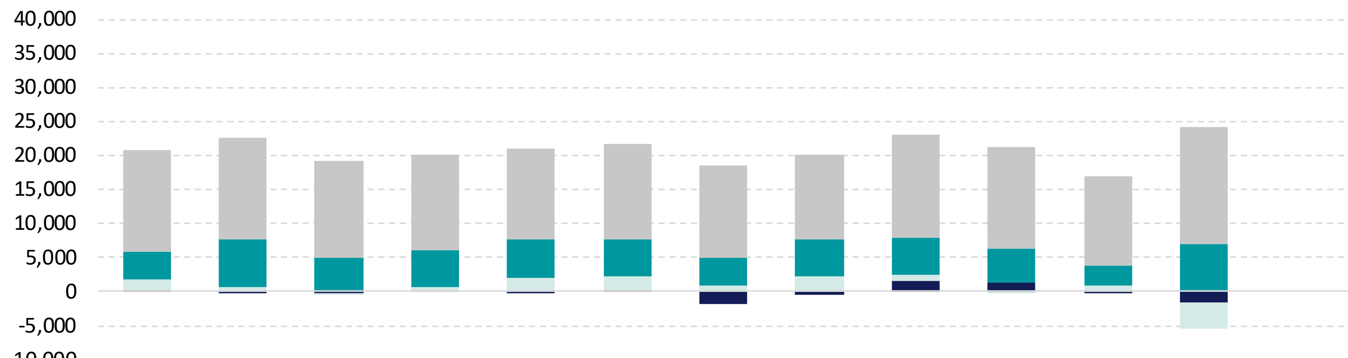
	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-21	28,403	298,167	309,676	2,487,136	3,123,382
Jan-22	26,740	294,407	316,646	2,504,428	3,142,221
Δ	-1,663	-3,761	+6,970	+17,292	+18,838

Portfolio structure





Monthly net purchases (in EURm)

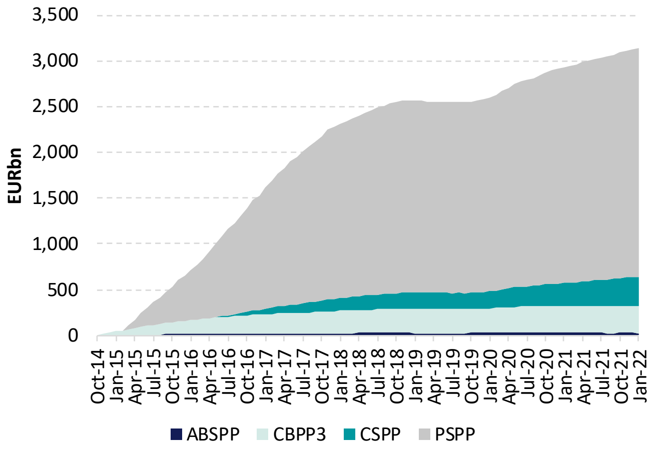


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Σ
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831
PSPP	15,129	14,955	14,186	13,973	13,320	13,943	13,563	12,423	15,038	14,815	12,989	17,292	171,626
CSPP	4,064	6,929	5,015	5,394	5,602	5,502	3,936	5,590	5,481	5,142	3,007	6,970	62,632
CBPP3	1,539	684	-5	686	2,037	2,011	999	2,184	1,008	-12	942	-3,761	8,312
ABSPP	183	-7	-278	88	-319	141	-1,749	-538	1,490	1,255	-342	-1,663	-1,739

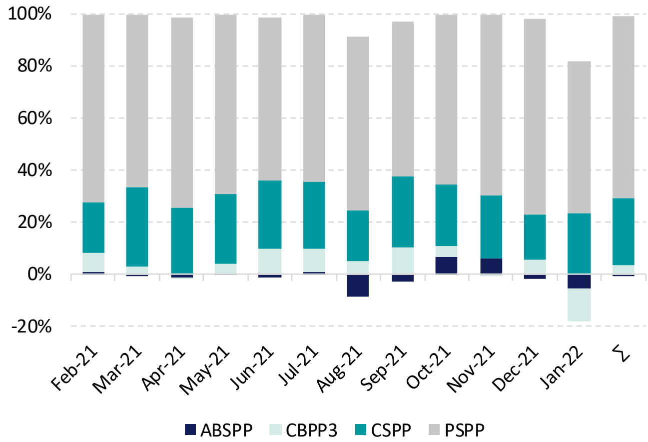
Source: ECB, NORD/LB Markets Strategy & Floor Research

NORD/LB

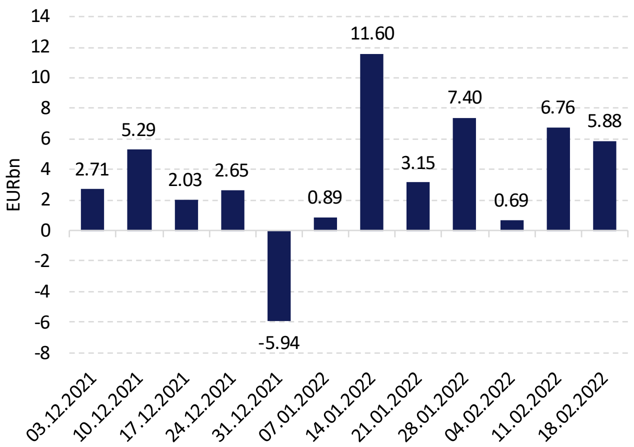
Portfolio development



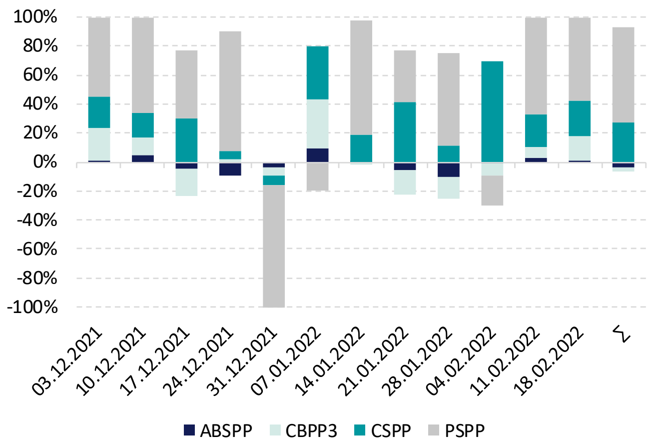
Distribution of monthly purchases



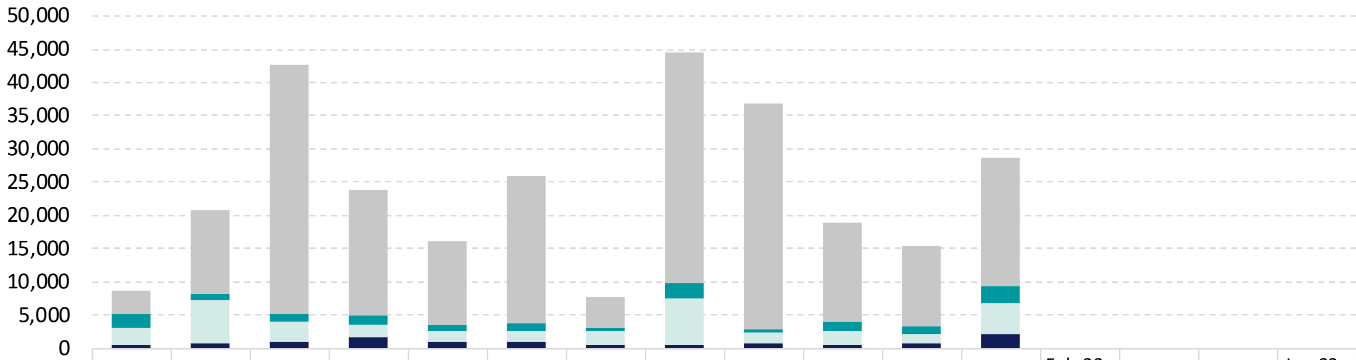
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)



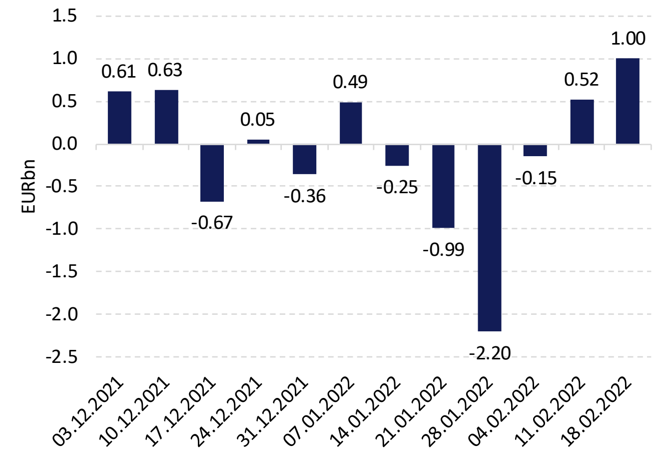
	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-22 - Jan-23	2021	2022	Jan-23 - Jan-23
APP	8,750	20,883	42,709	23,836	16,193	25,963	7,816	44,440	36,849	18,867	15,430	28,815	290,551	247,069	296,544	28,815
PSPP	3,625	12,603	37,532	18,999	12,638	22,218	4,841	34,554	34,003	14,945	12,016	19,469	227,443	188,494	228,880	19,469
CSPP	2,093	1,030	1,093	1,250	1,017	1,198	280	2,431	549	1,332	1,156	2,482	15,911	17,134	15,435	2,482
CBPP3	2,524	6,419	3,019	1,866	1,582	1,618	2,227	6,866	1,645	2,165	1,408	4,783	36,122	30,143	41,139	4,783
ABSPP	508	831	1,065	1,721	956	929	468	589	652	425	850	2,081	11,075	11,298	11,090	2,081

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

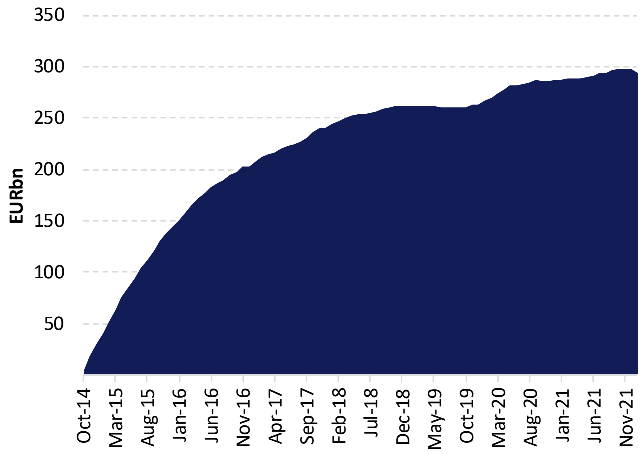
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

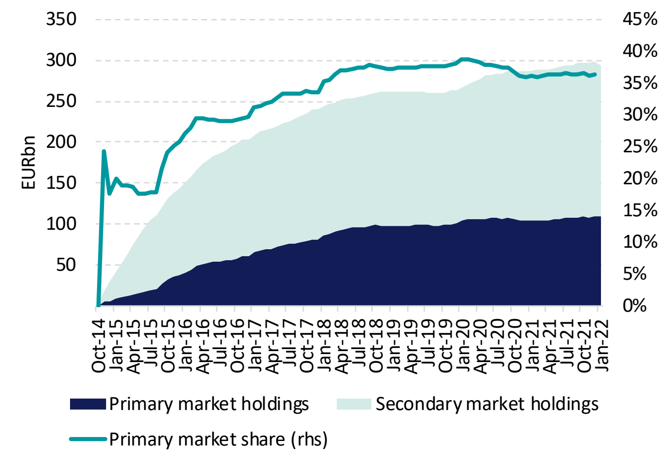
Weekly purchases



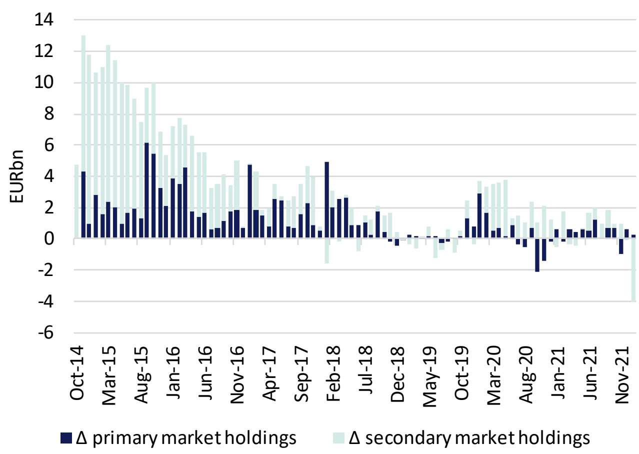
Development of CBPP3 volume



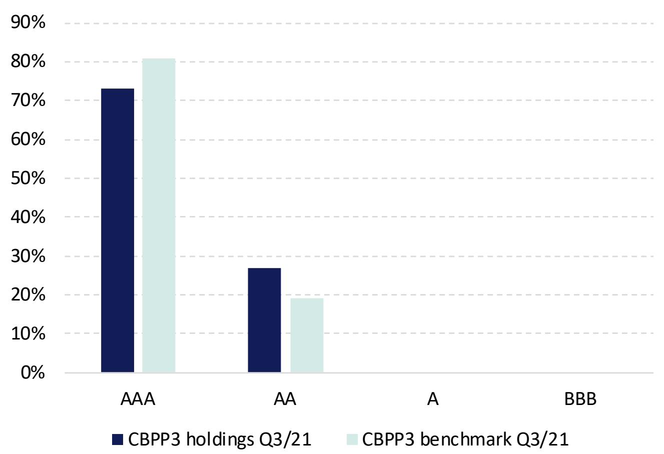
Primary and secondary market holdings



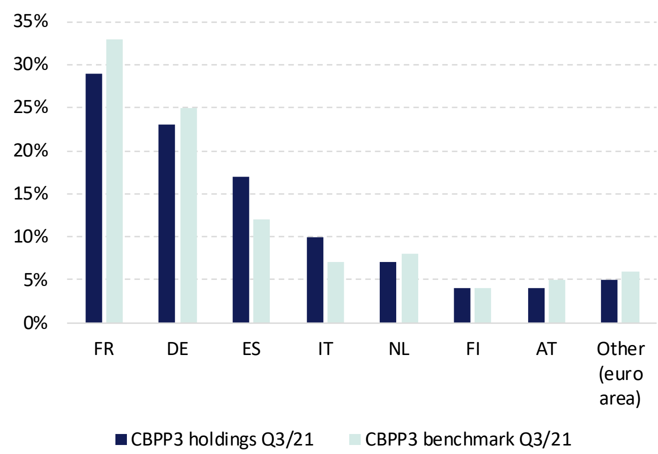
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



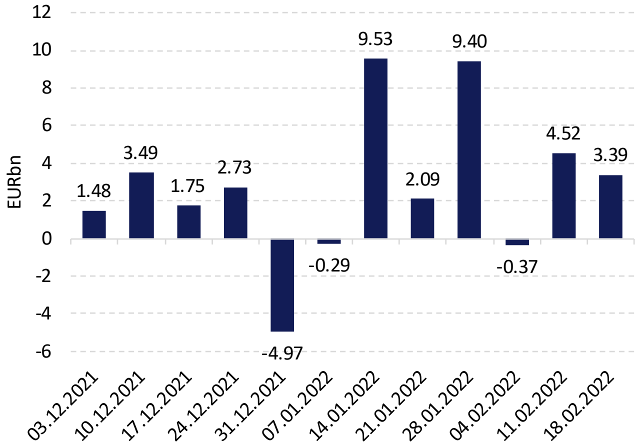
Distribution of CBPP3 by country of risk



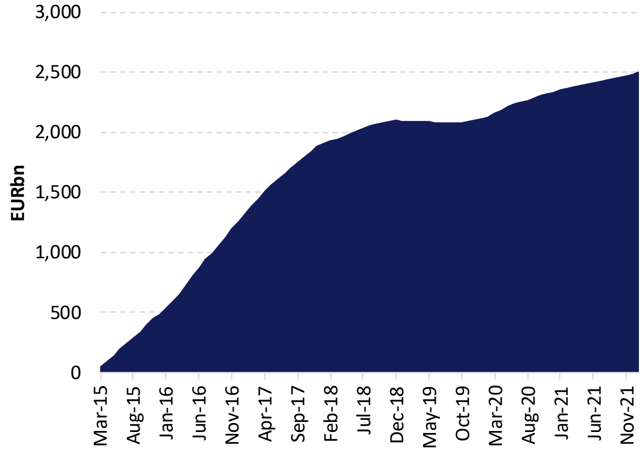
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



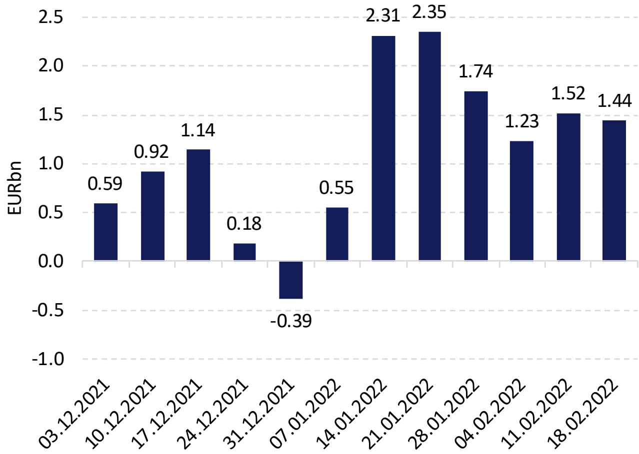
Overall distribution of PSPP buying at month-end

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%	73,533	71,534	1,999	7.5	7.6	-0.1
BE	3.4%	92,162	89,041	3,121	8.0	10.2	-2.2
CY	0.2%	4,231	5,259	-1,028	9.9	8.8	1.1
DE	24.3%	636,820	644,277	-7,457	6.6	7.6	-1.0
EE	0.3%	412	6,885	-6,473	9.2	7.5	1.7
ES	11.0%	304,289	291,438	12,851	8.0	8.4	-0.4
FI	1.7%	42,029	44,893	-2,864	6.9	7.7	-0.8
FR	18.8%	522,717	499,173	23,544	7.2	8.1	-0.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	41,707	41,386	321	8.5	10.1	-1.6
IT	15.7%	435,606	415,201	20,405	7.1	7.9	-0.8
LT	0.5%	5,595	14,145	-8,550	10.2	10.6	-0.4
LU	0.3%	3,900	8,051	-4,151	5.6	7.2	-1.7
LV	0.4%	3,386	9,523	-6,137	11.3	10.4	0.9
MT	0.1%	1,363	2,563	-1,200	9.5	9.2	0.3
NL	5.4%	123,586	143,229	-19,643	7.7	9.0	-1.4
PT	2.2%	51,757	57,202	-5,445	7.0	7.2	-0.2
SI	0.4%	10,474	11,768	-1,294	9.9	10.2	-0.3
SK	1.1%	17,208	27,990	-10,782	8.2	8.3	-0.1
SNAT	10.0%	277,625	264,840	12,785	7.7	8.9	-1.2
Total / Avg.	**100.0%**	**2,648,399**	**2,648,399**	**0**	**7.3**	**8.2**	**-0.9**

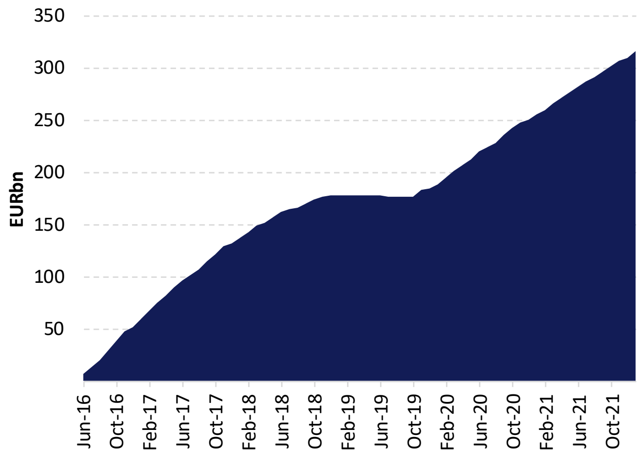
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor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

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

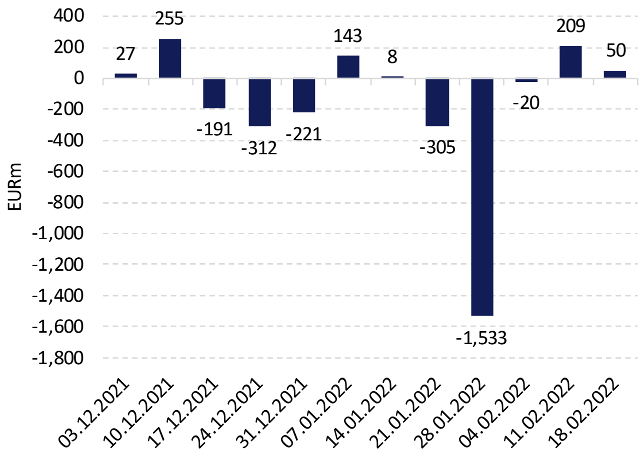


Development of CSPP volume

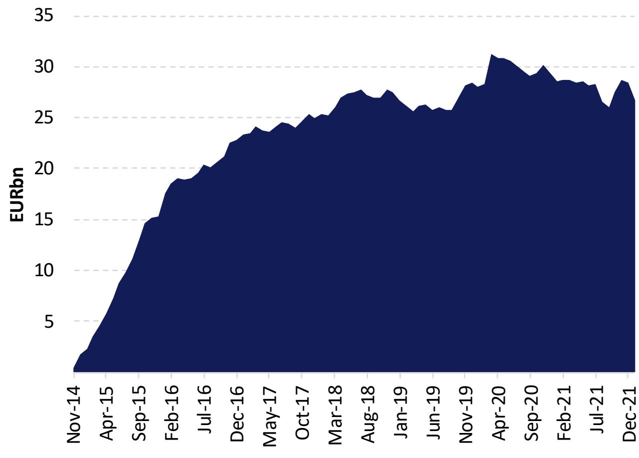


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



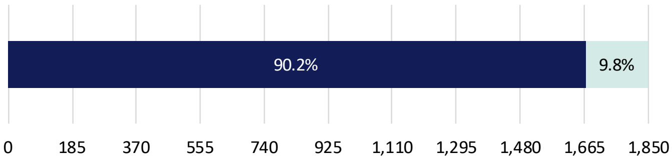
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Dec-21	1,597,565
Jan-22	1,647,678
Δ	+50,113

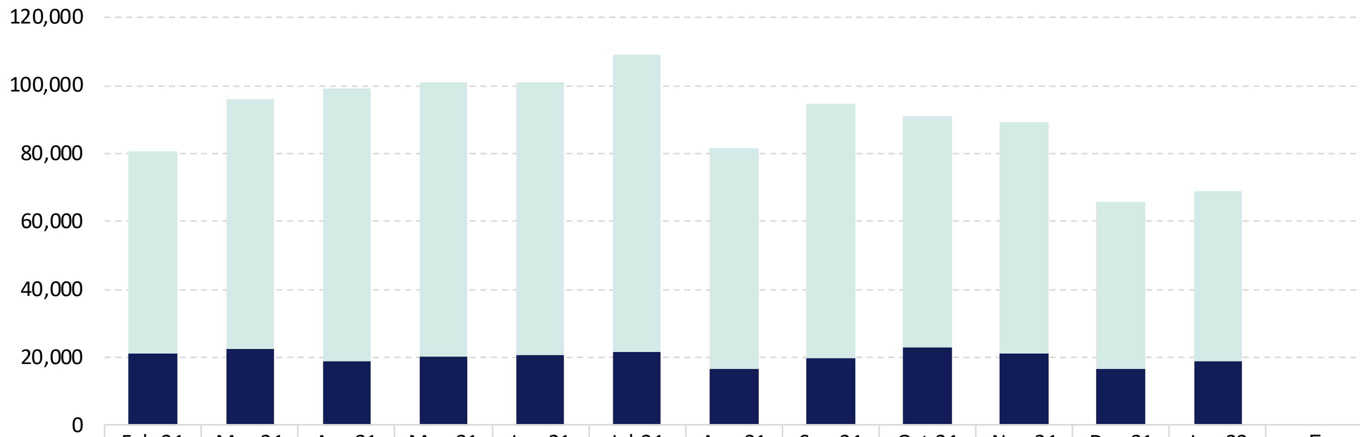
Volume already invested (in EURbn)



Estimated portfolio development

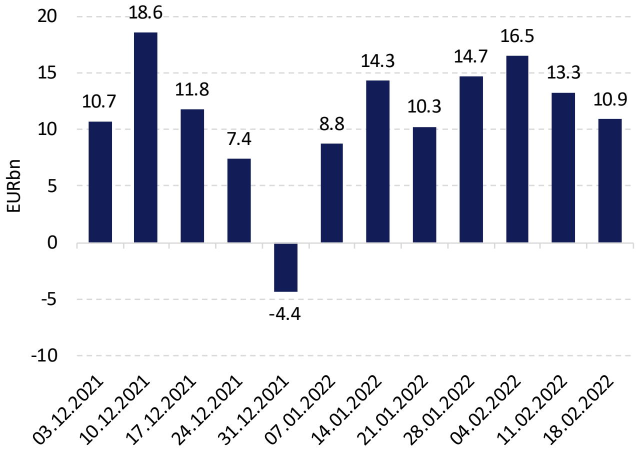
Assumed pace of purchases	Weekly net purchase volume	PEPP (theoretically) limit hit in ...
Average weekly net purchase volume so far	EUR 16.9bn	11 weeks (06.05.2022)

Monthly net purchases (in EURm)

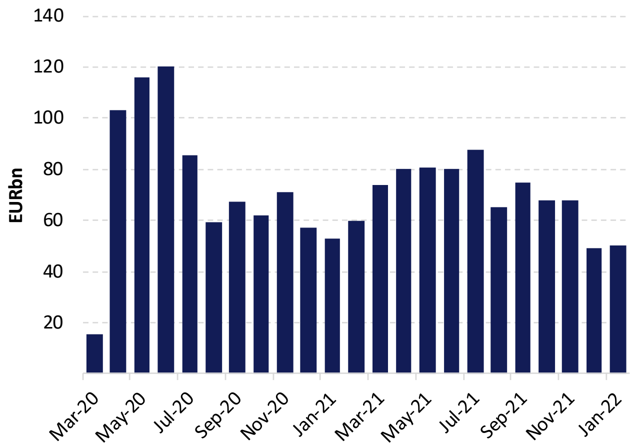


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	∑
∑	80,829	96,082	99,036	100,841	100,808	109,154	81,799	94,710	90,872	89,245	65,971	68,951	1,078,29
PEPP	59,914	73,521	80,118	80,700	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	837,467
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831

Weekly purchases



Development of PEPP volume

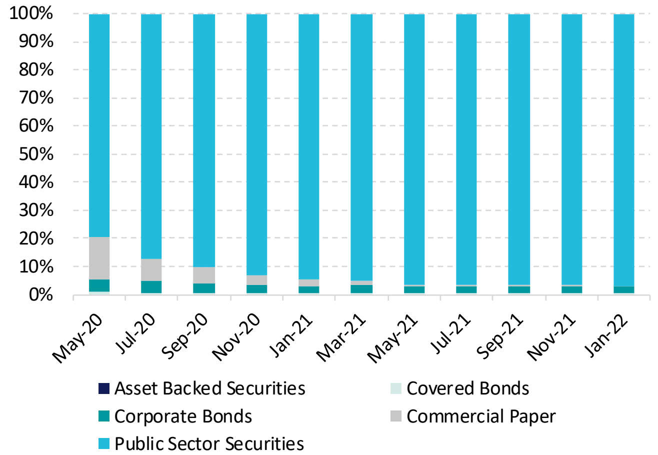


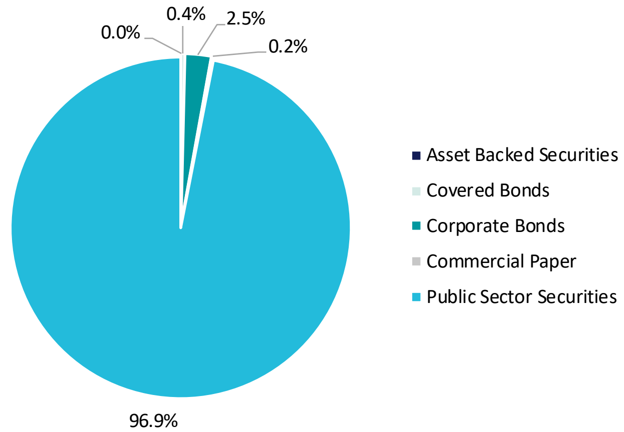
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

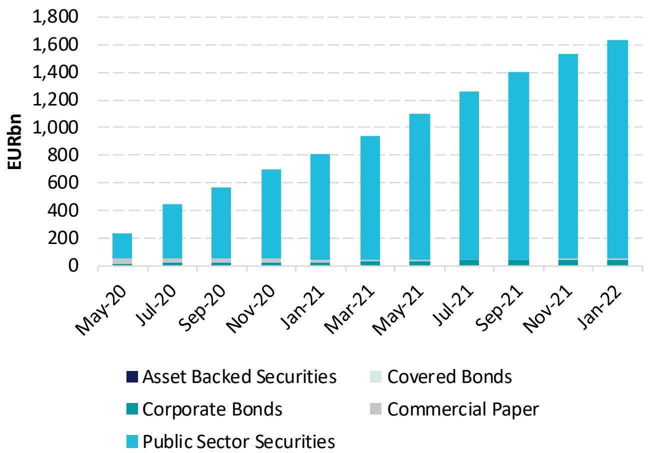
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Nov-21	0	6,079	39,871	4,032	1,485,526	1,535,508
Jan-22	0	6,073	40,301	3,857	1,580,547	1,630,779
Δ	0	0	+467	-172	+99,193	+99,488

Portfolio structure

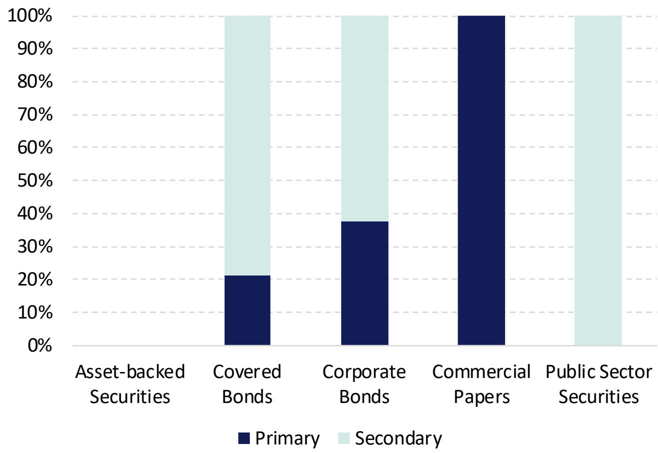




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

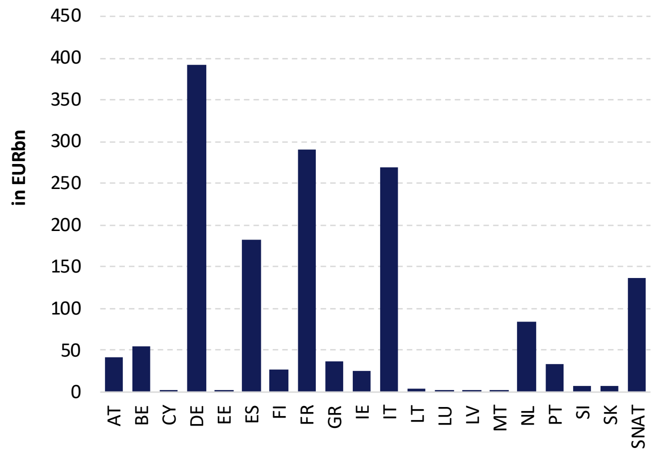
Jan-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	1,298	4,775	15,101	25,200	3,857	0
Share	0.0%	0.0%	21.4%	78.6%	37.5%	62.5%	100.0%	0.0%

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

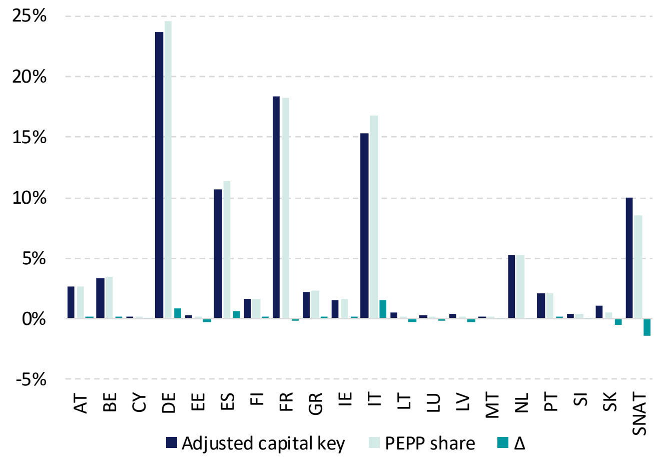
Breakdown of public sector securities under the PEPP

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	42,272	2.6%	2.6%	0.0%	8.2	7.0	1.2
BE	54,203	3.3%	3.4%	0.1%	6.6	9.2	-2.6
CY	2,514	0.2%	0.2%	0.0%	8.6	8.1	0.5
DE	392,570	23.7%	24.6%	0.9%	6.2	6.8	-0.6
EE	256	0.3%	0.0%	-0.2%	8.4	8.4	0.0
ES	181,624	10.7%	11.4%	0.6%	7.7	7.5	0.2
FI	26,807	1.7%	1.7%	0.0%	6.9	7.5	-0.7
FR	291,113	18.4%	18.2%	-0.2%	8.1	7.5	0.6
GR	36,876	2.2%	2.3%	0.1%	8.9	9.6	-0.7
IE	25,332	1.5%	1.6%	0.1%	8.9	9.5	-0.6
IT	268,405	15.3%	16.8%	1.5%	7.1	6.9	0.2
LT	3,129	0.5%	0.2%	-0.3%	10.5	10.1	0.4
LU	1,914	0.3%	0.1%	-0.2%	6.3	6.3	0.0
LV	1,710	0.4%	0.1%	-0.2%	9.3	9.2	0.0
MT	544	0.1%	0.0%	-0.1%	10.8	9.0	1.9
NL	83,893	5.3%	5.3%	0.0%	7.6	8.5	-0.9
PT	33,857	2.1%	2.1%	0.0%	6.9	7.3	-0.4
SI	6,311	0.4%	0.4%	0.0%	9.2	9.2	0.0
SK	7,605	1.0%	0.5%	-0.6%	9.2	8.4	0.8
SNAT	136,399	10.0%	8.5%	-1.5%	10.1	8.5	1.5
Total / Avg.	**1,597,334**	**100.0%**	**100.0%**	**0.0%**	**7.5**	**7.5**	**0.1**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



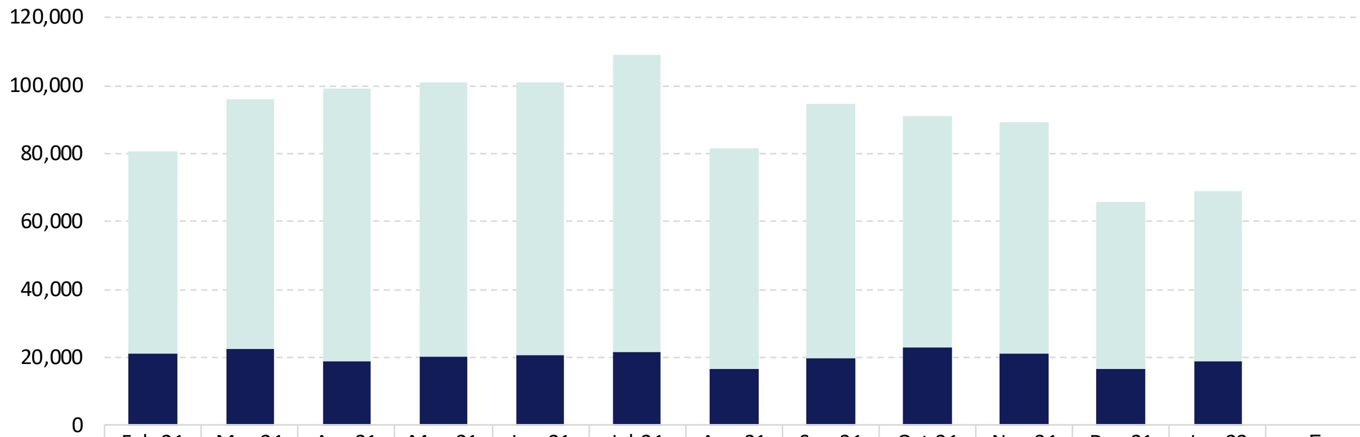
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

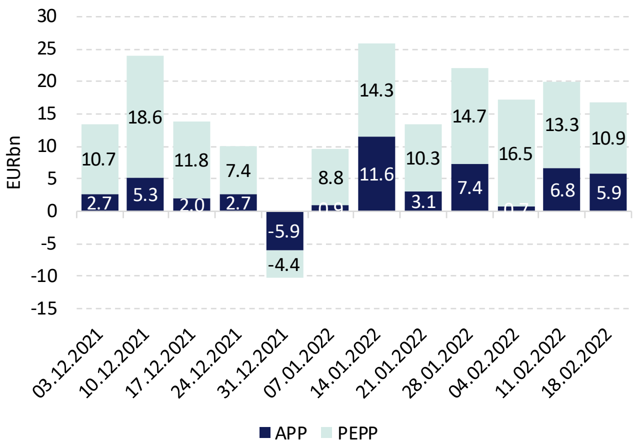
	APP	PEPP	APP & PEPP
Dec-21	3,123,382	1,597,565	4,720,947
Jan-22	3,142,221	1,647,678	4,789,899
Δ	+18,838	+50,113	+68,951

Monthly net purchases (in EURm)

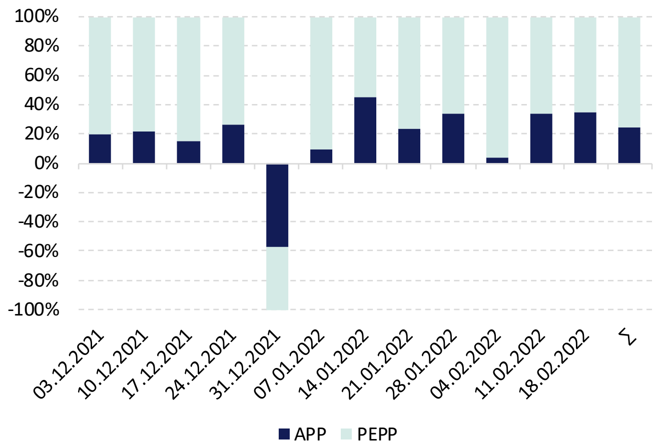


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	∑
∑	80,829	96,082	99,036	100,841	100,808	109,154	81,799	94,710	90,872	89,245	65,971	68,951	1,078,29
PEPP	59,914	73,521	80,118	80,700	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	837,467
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831

Weekly purchases



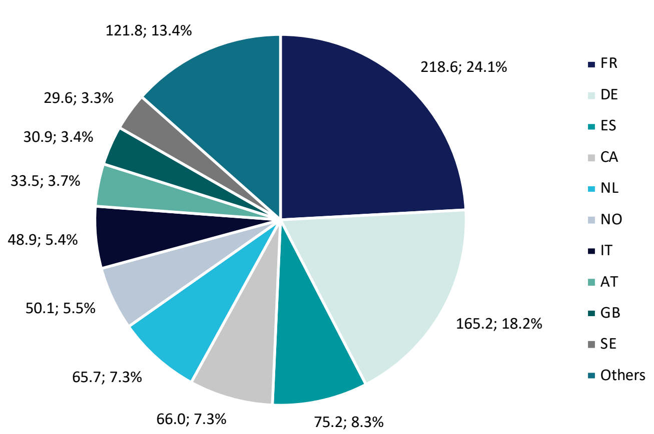
Distribution of weekly purchases



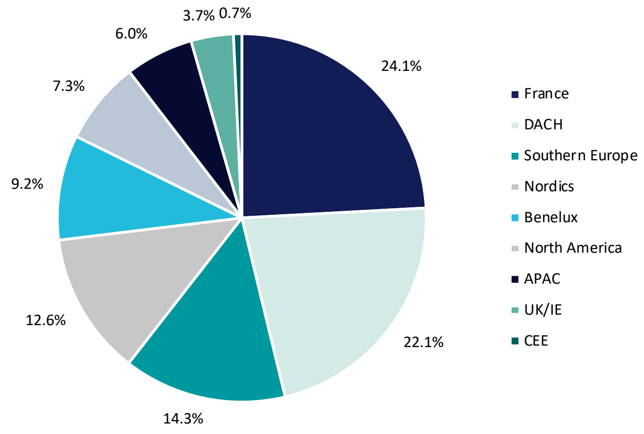
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



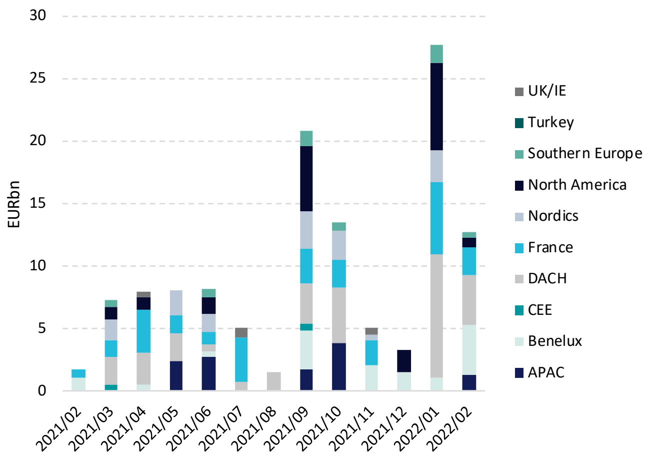
EUR benchmark volume by region (in EURbn)



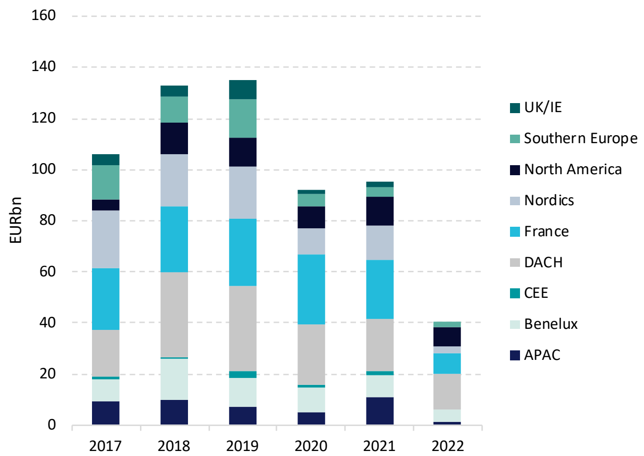
Top-10 jurisdictions

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	218.6	210	11	0.93	10.1	5.6	0.81
2	DE	165.2	241	17	0.63	8.4	4.6	0.41
3	ES	75.2	61	5	1.13	11.7	3.8	1.74
4	CA	66.0	55	0	1.16	6.0	3.3	0.21
5	NL	65.7	67	0	0.93	11.6	7.8	0.71
6	NO	50.1	58	9	0.86	7.4	4.0	0.38
7	IT	48.9	58	1	0.81	9.3	4.4	1.25
8	AT	33.5	62	2	0.54	9.9	6.4	0.53
9	GB	30.9	37	1	0.86	8.5	3.4	0.91
10	SE	29.6	36	0	0.82	7.6	3.3	0.41

EUR benchmark issue volume by month

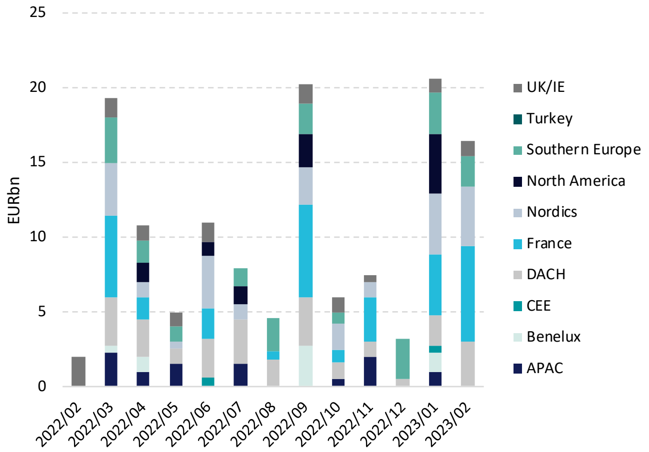


EUR benchmark issue volume by year

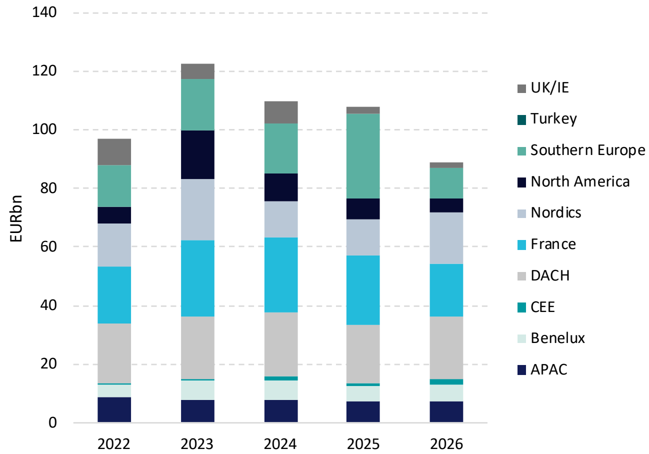


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

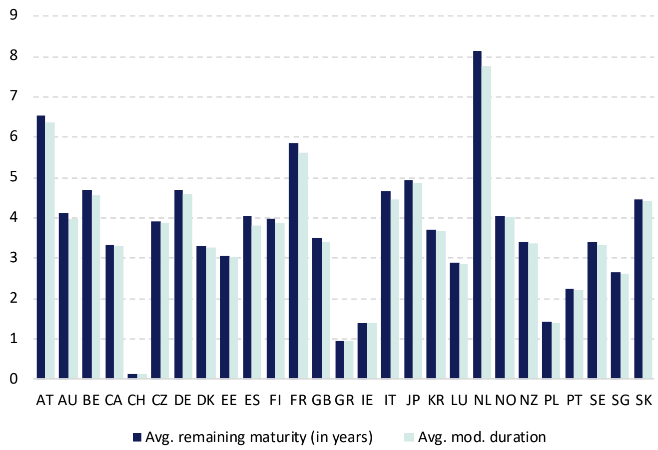
EUR benchmark maturities by month



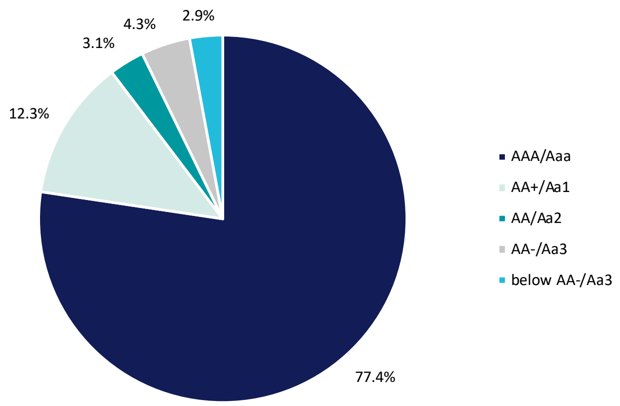
EUR benchmark maturities by year



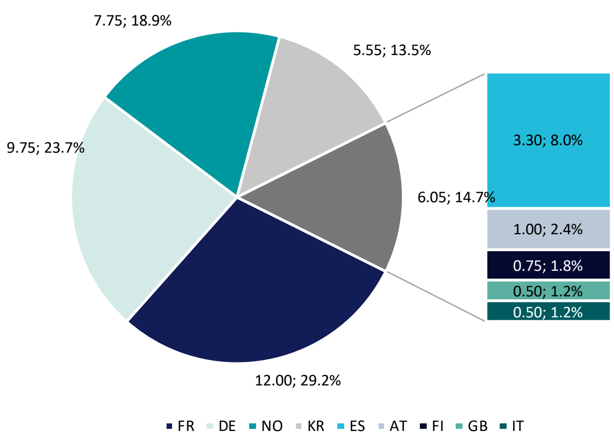
Modified duration and time to maturity by country



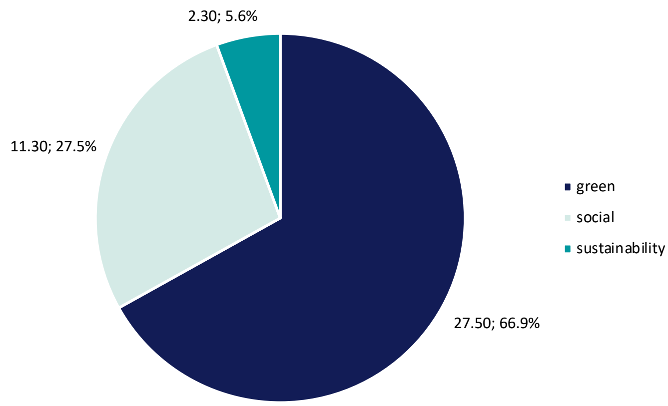
Rating distribution (volume weighted)



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

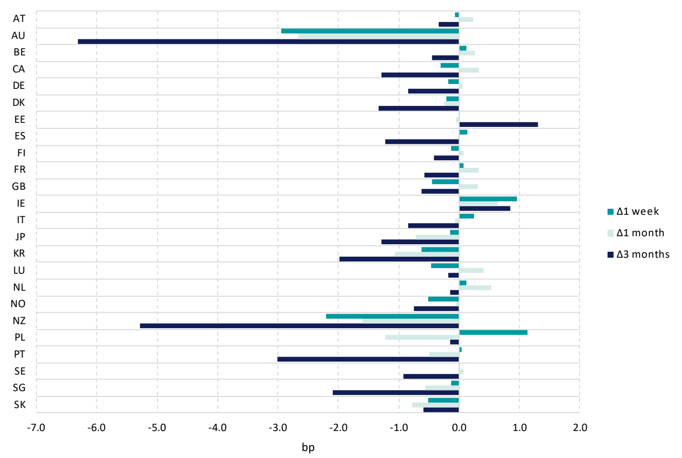


EUR benchmark volume (ESG) by type (in EURbn)

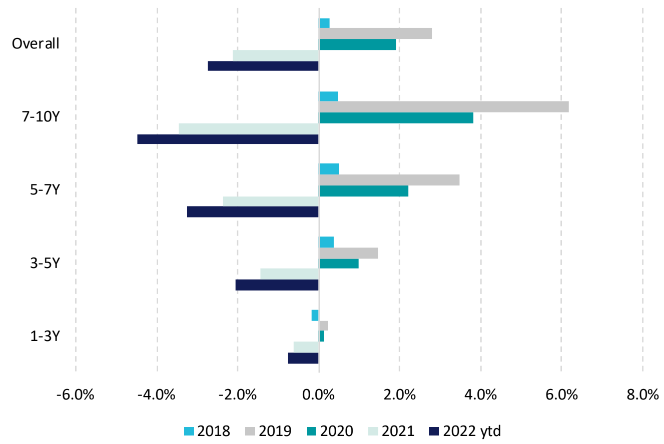


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

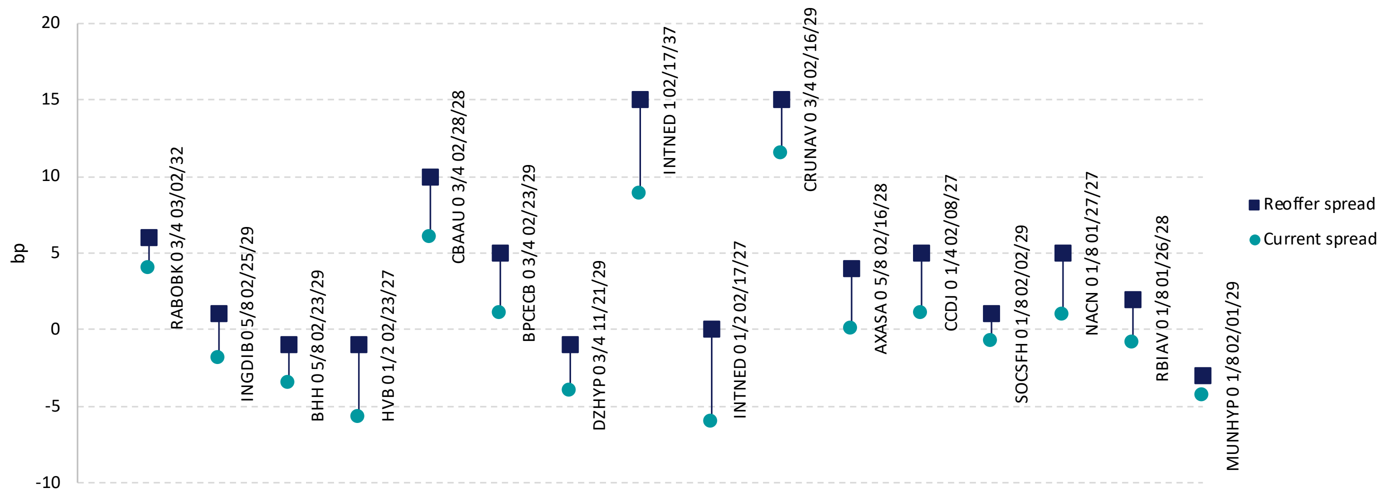
Spread development by country



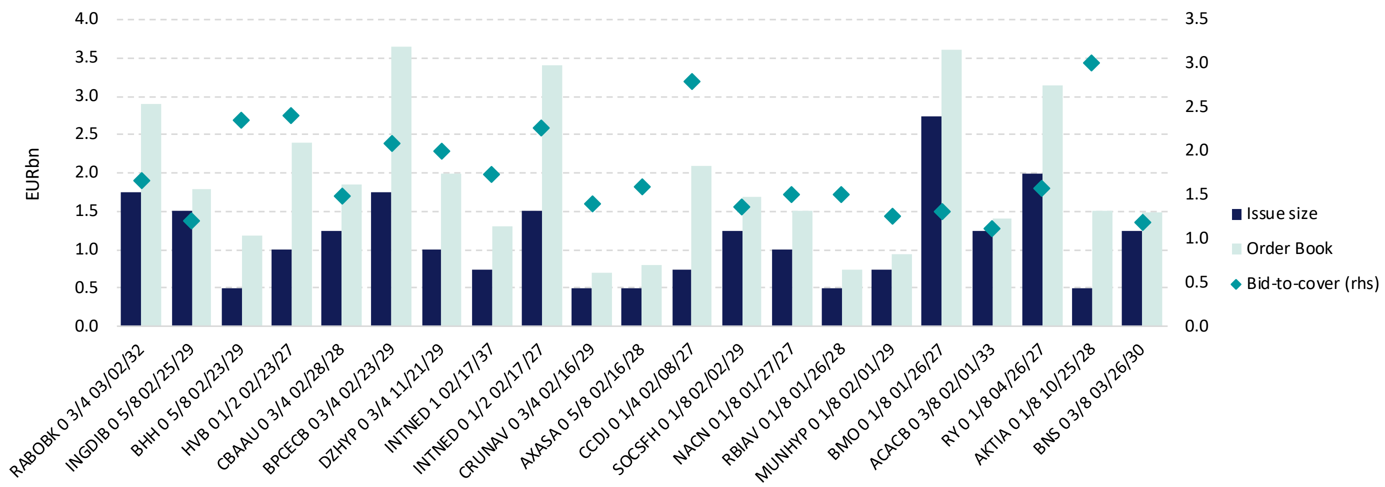
Covered bond performance (Total return)



Spread development (last 15 issues)



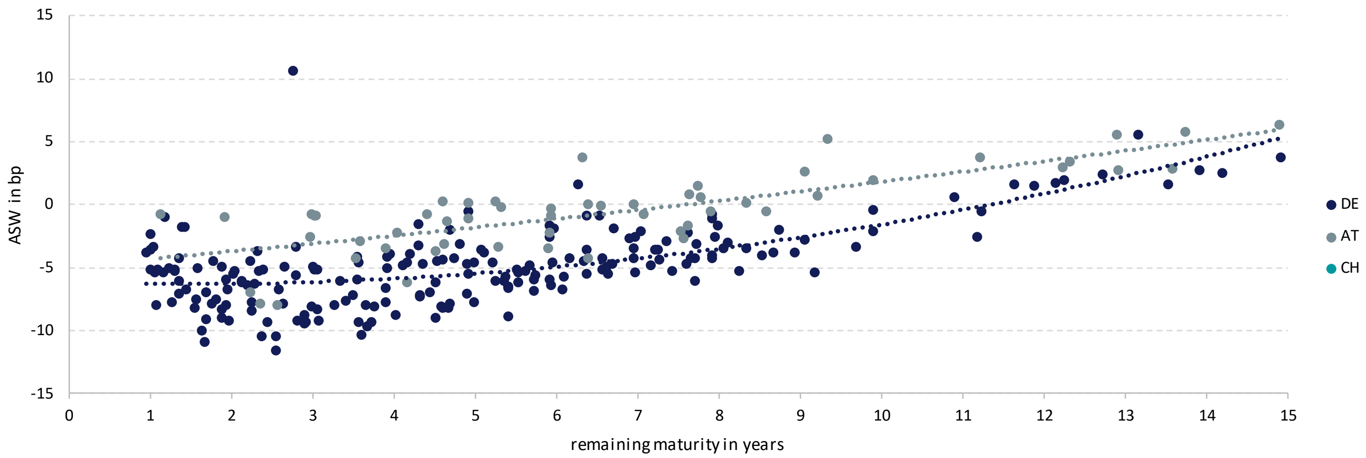
Order books (last 15 issues)



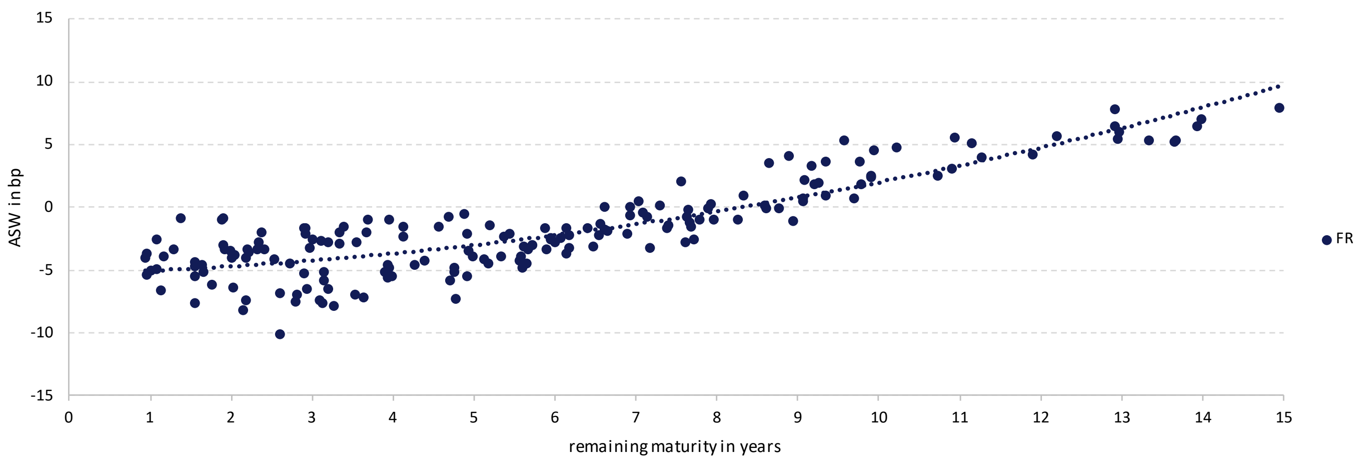
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

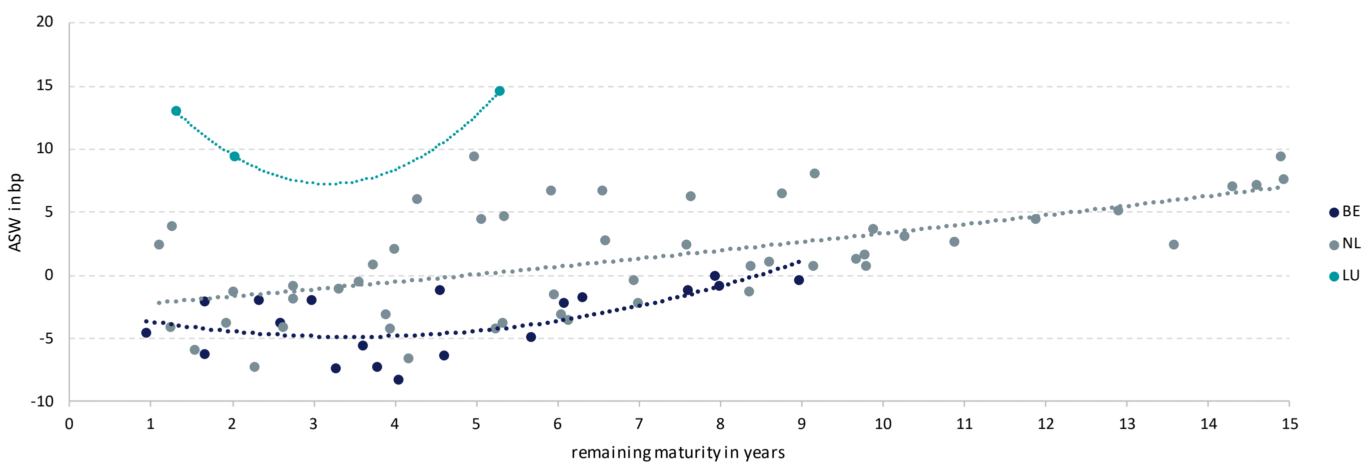
DACH



France

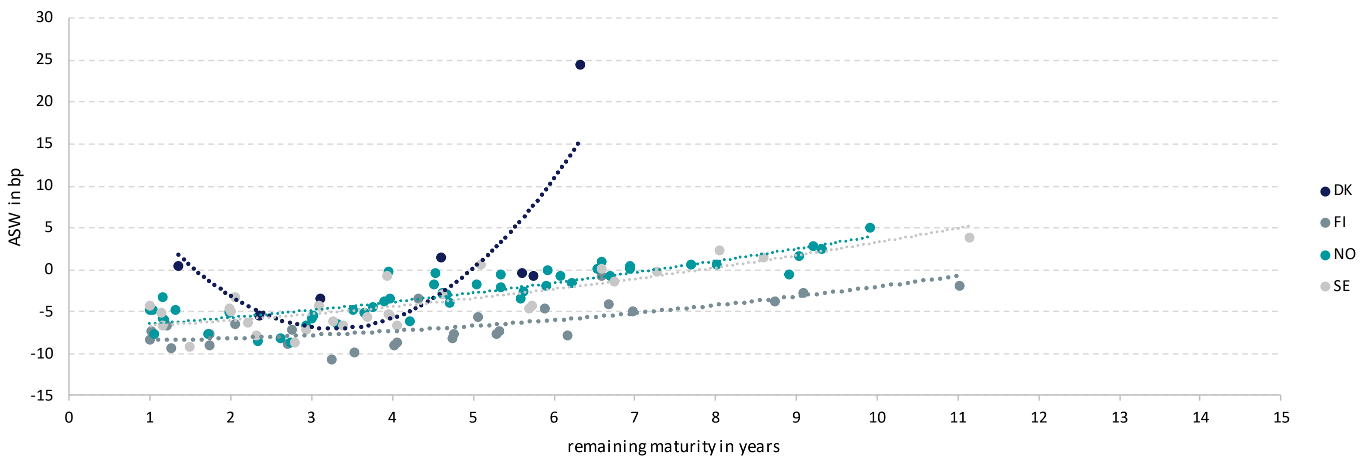


Benelux

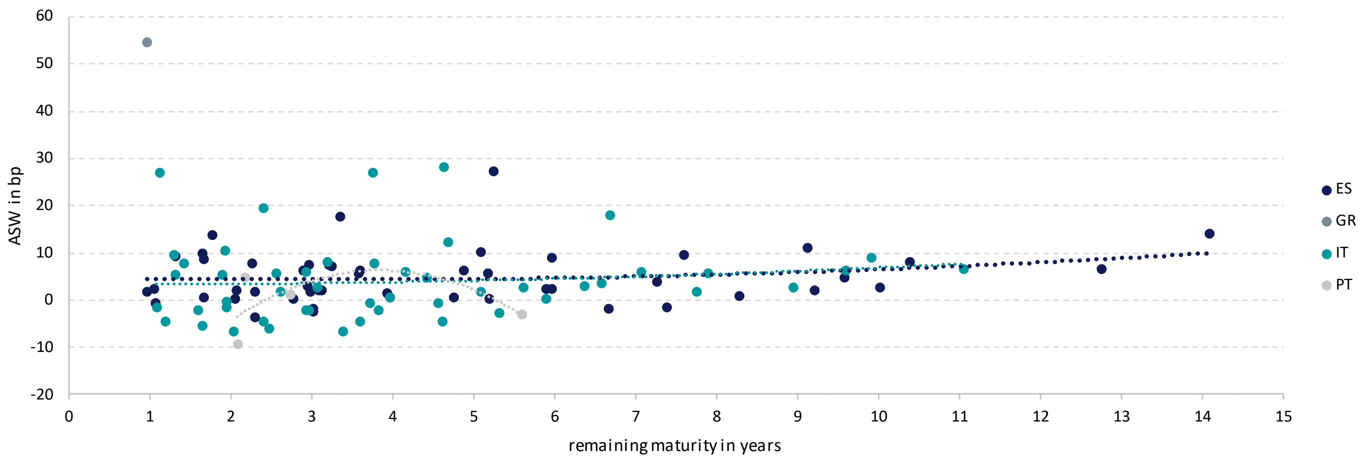


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

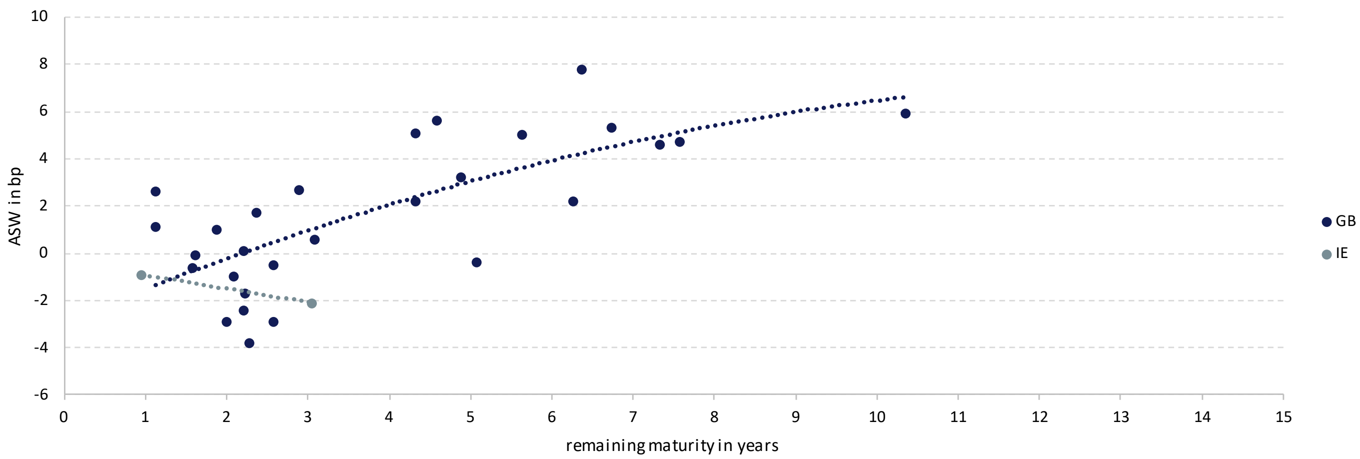
Nordics



Southern Europe

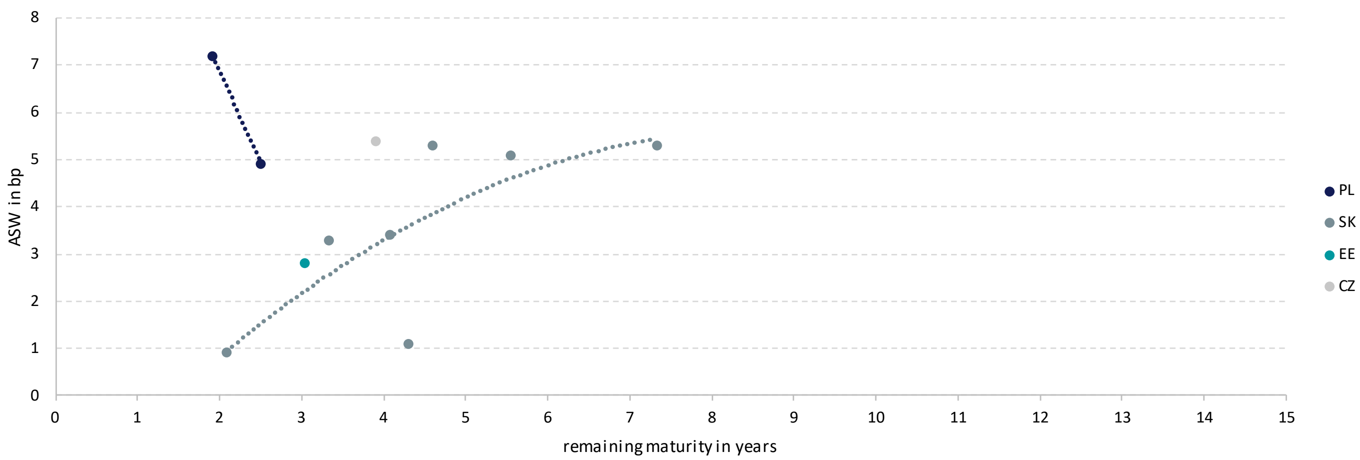


UK/IE

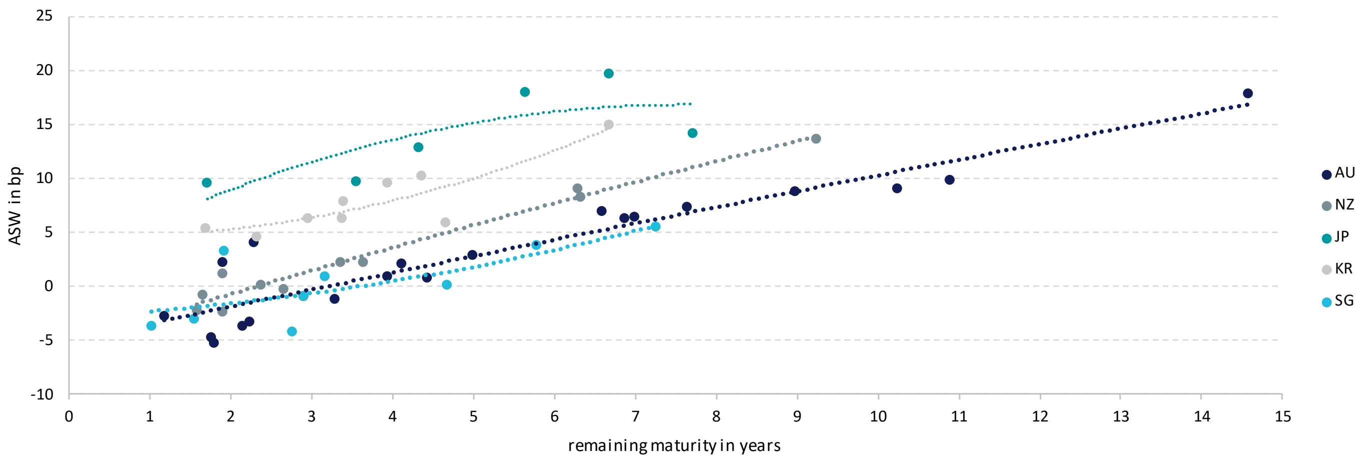


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

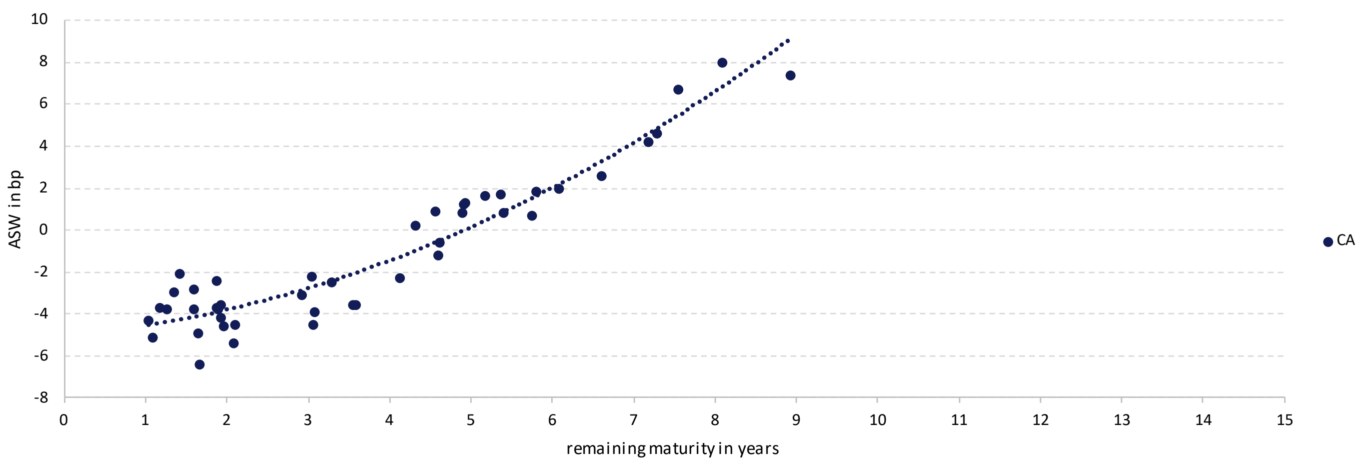
CEE



APAC



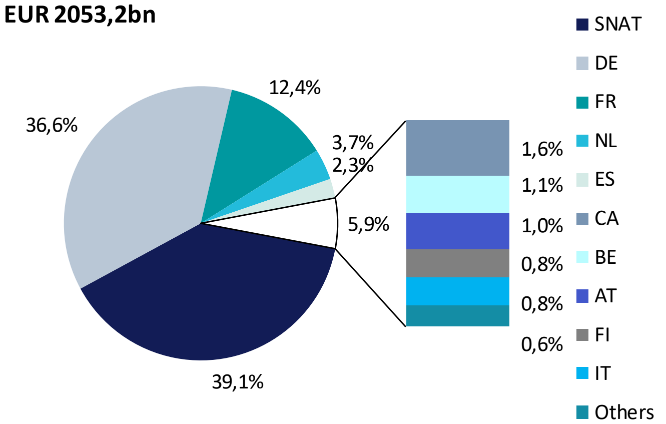
North America



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

Charts & Figures
SSA/Public Issuers

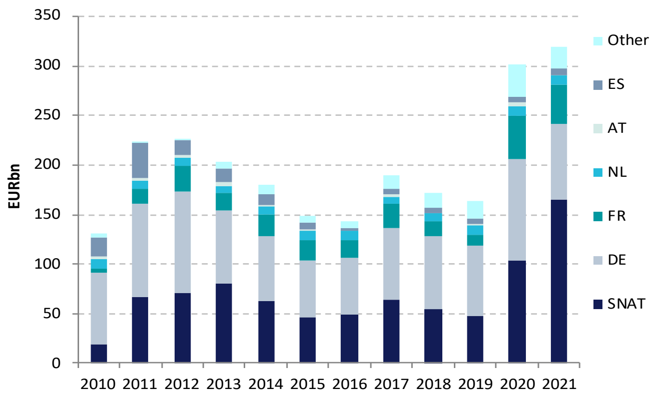
Outstanding volume (bmk)



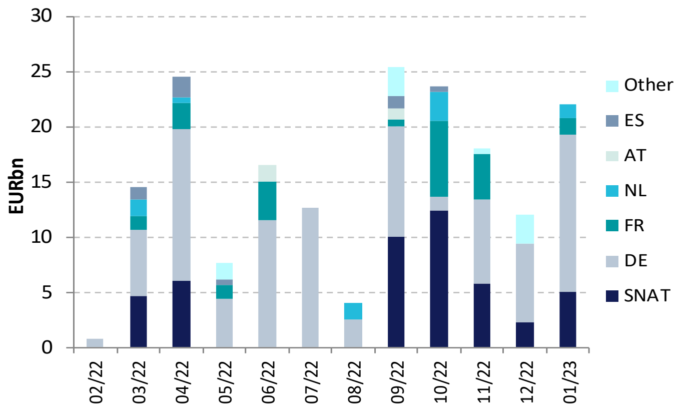
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	803,4	197	4,1	8,6
DE	750,7	576	1,3	6,8
FR	255,3	174	1,5	6,5
NL	75,2	69	1,1	6,6
ES	46,8	59	0,8	4,9
CA	33,2	22	1,5	5,4
BE	21,7	25	0,9	13,5
AT	21,2	23	0,9	4,8
FI	17,1	21	0,8	6,1
IT	16,8	20	0,8	5,4

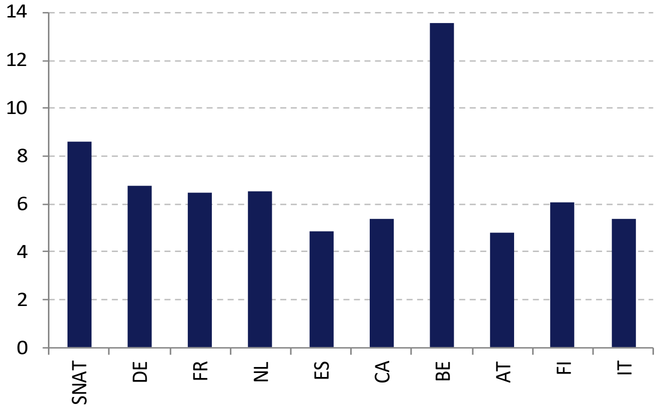
Issue volume by year (bmk)



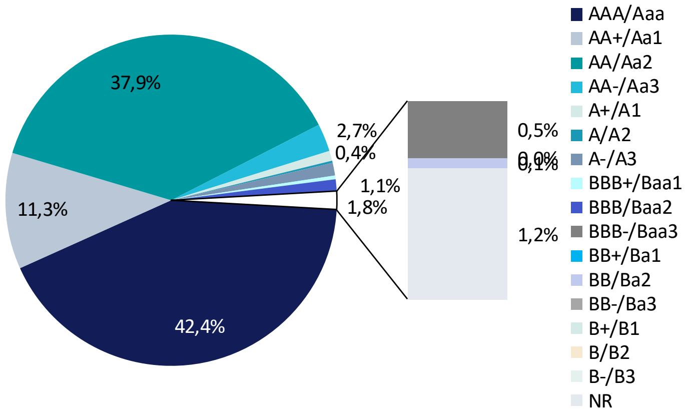
Maturities next 12 months (bmk)



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



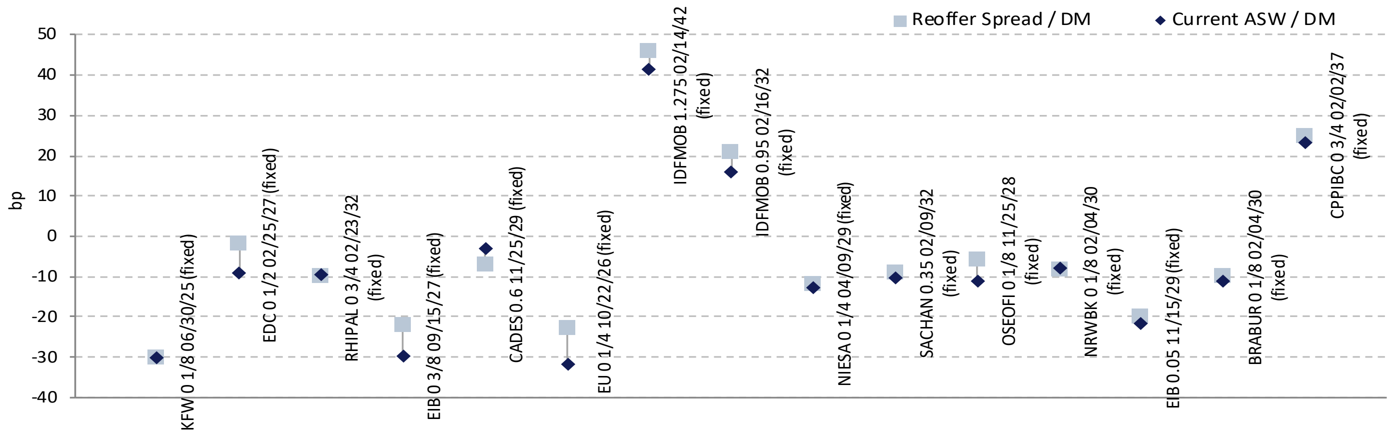
Rating distribution (vol. weighted)



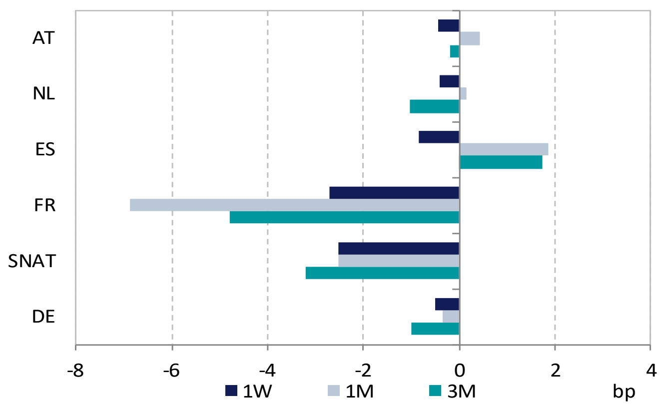
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

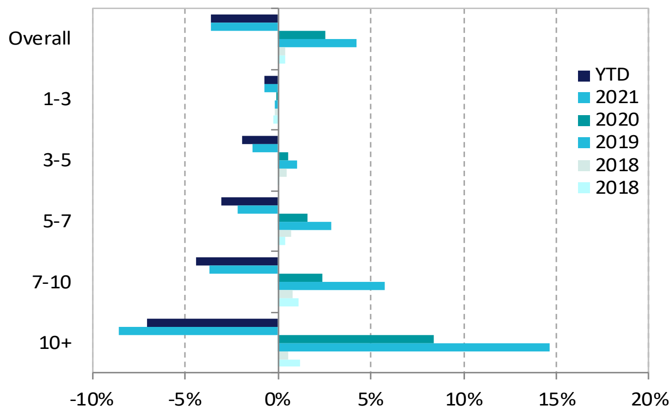
Spread development (last 15 issues)



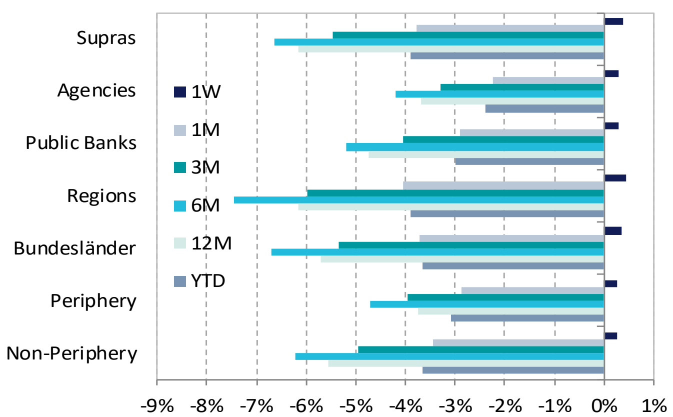
Spread development by country



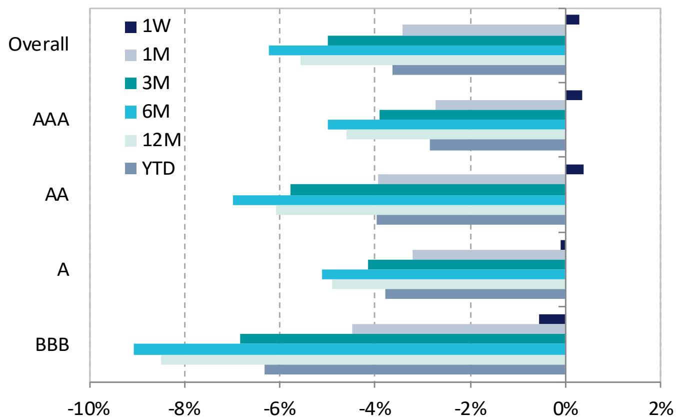
Performance (total return)



Performance (total return) by regions

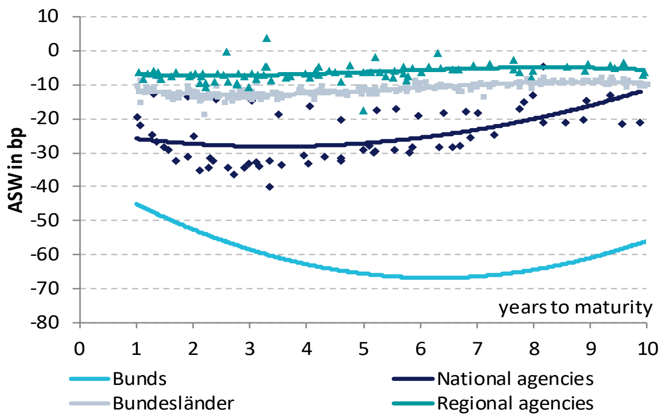


Performance (total return) by rating

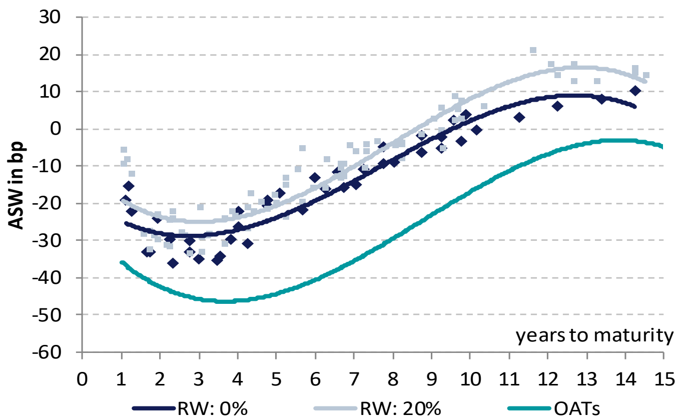


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

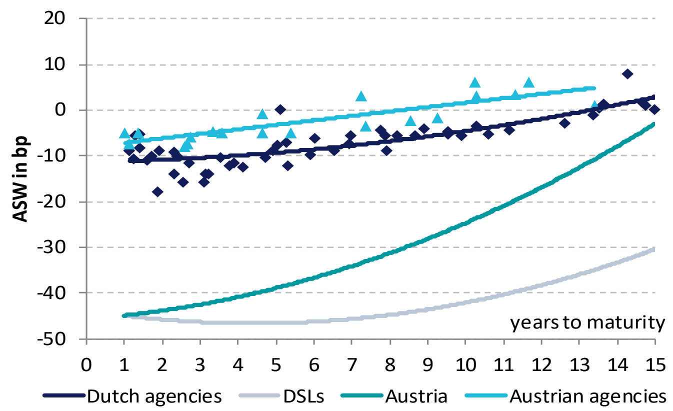
Germany (by segments)



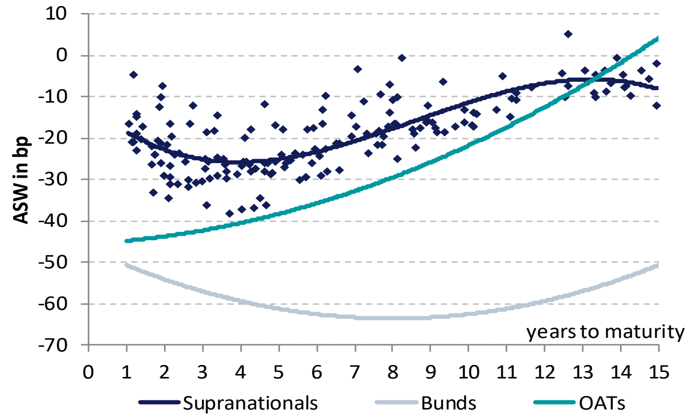
France (by risk weight)



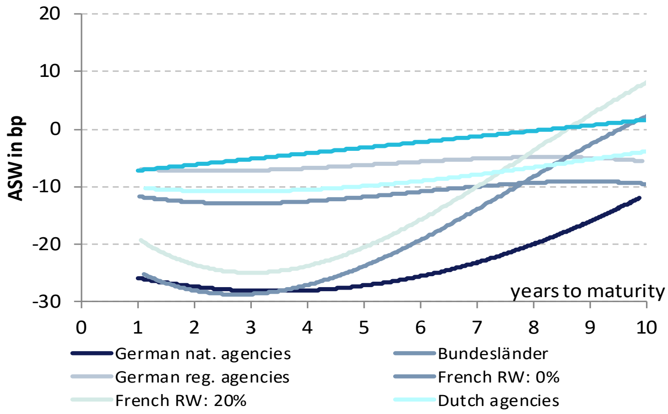
Netherlands & Austria



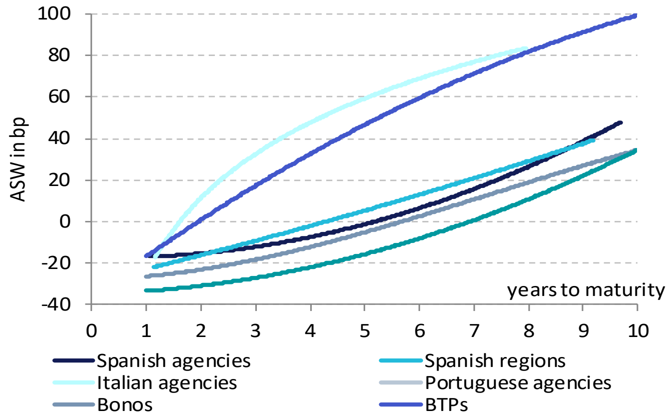
Supranationals



Core



Periphery



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

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
06/2022 ♦ 16 February	▪ PEPP reporting: Finish line in sight, but no photo finish expected ▪ DZ HYP issues inaugural green Pfandbrief: ESG market in Germany continues its growth trajectory
05/2022 ♦ 09 February	▪ ECB: full speed, throttling, U-turn – or wrong turn? ▪ Insurance companies as covered bond investors: the bank-insurer nexus
04/2022 ♦ 02 February	▪ Covered Bonds – Review of January 2022: a reversion to old patterns does not always have to be bad ▪ SSA – New year, new hope? Less oomph to kick off the new year
03/2022 ♦ 26 January	▪ ECB preview: 10y Bund spotted in positive terrain. What's next? ▪ EUR benchmark segment in Canada: our supply forecast already null and void
02/2022 ♦ 19 January	▪ Spotlight on the EUR benchmark segment: a look at the covered bond markets in Belgium and the Netherlands ▪ 24th meeting of the Stability Council (Dec. 2021)
01/2022 ♦ 12 January	▪ Covered Bonds Annual Review 2021 ▪ The Moody's covered bond universe – an overview ▪ SSA Annual Review 2021: Record after record
40/2021 ♦ 15 December	▪ ECB preview: End of PEPP, booster for APP?! ▪ Our view of the covered bond market in 2022 ▪ SSA Outlook 2022: Public sector caught between ECB & COVID
39/2021 ♦ 08 December	▪ The ECB, monetary policy and covered bond market: Hypothetical "What if...?" considerations ▪ The Moody's rating approach
38/2021 ♦ 01 December	▪ United Kingdom: Spotlight on the EUR benchmark segment ▪ Beyond Bundeslaender: Region Pays de la Loire (PDLL)
37/2021 ♦ 24 November	▪ Benchmark deals outside the euro: momentum has returned! ▪ Transparency regulations under Section 28 of the Pfandbriefgesetz (PfandBG - German Pfandbrief Act) Q3 2021 ▪ Beyond Bundeslaender: Auvergne-Rhône-Alpes Region (ARA)
36/2021 ♦ 17 November	▪ Primary market forecast 2022: time for a comeback? ▪ Development of the German property market ▪ Beyond Bundeslaender: Spotlight on Belgian regions
35/2021 ♦ 10 November	▪ PEPP approaching notional end – will the APP be pepped up? ▪ Spain's major move – will the amended covered bond legislation breathe new life into the market?
34/2021 ♦ 03 November	▪ Repayment structures on the covered bond market: EU harmonisation is already leaving its mark ▪ Beyond Bundeslaender: Spanish regions in the spotlight
33/2021 ♦ 27 October	▪ Insurance firms as covered bond investors: A look at Solvency II and EIOPA statistics ▪ The Scope rating approach
32/2021 ♦ 20 October	▪ ECB preview: interim step before a landmark December? ▪ ECBC publishes annual statistics for 2020 ▪ Covered bonds in the context of the ECB collateral framework

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2021

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

Transparenzvorschrift §28 PfandBG Sparkassen (German only)

SSA/Public Issuers:

Issuer Guide – German Bundeslaender 2021

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB decision: PEPP benched for now, APP comes in as Point Guard

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

ECB launches corona pandemic emergency

Appendix
Contacts at NORD/LB

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Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Laender/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Additional information
Time of going to press: 23 February 2022 08:50h (CET)

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Issuer / security	Date	Recommendation	Bond type	Cause