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Covered Bond & SSA View

NORD/LB Floor Research

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NORD/LB

Agenda

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Market overview Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: merely a pause for breath?

Following the hectic issuance weeks at the start of the new year, the primary market has recently started to cool down significantly. For example, just a single new benchmark deal was placed in the second half of the previous trading week. Here, Banco BPI became the latest Portuguese issuer to approach investors. The marketing phase for the covered bond with a volume of EUR 500m (WNG; 6.1y) started out with guidance in the area of ms +70bp. After the books closed, the issue generated total orders of EUR 2.9bn and a re-offer spread of ms +64bp (new issue premium: +4bp). The first deal seen in the new trading week was placed by Arkea Public Sector SCF (FR) last Monday. This was a benchmark with an initial term of five years. The bond was initially expected to amount to EUR 500m, although this was ultimately increased to EUR 750m, with the books opening at an initial guidance in the area of ms +40bp. The final re-offer spread for this larger than expected covered bond came to ms +33bp, which was just above the fair value (new issue premium: +1bp). And yesterday, on Tuesday, we saw the final deal of the previous five trading days issued by BAWAG (AT). The public sector covered bond with a final size of EUR 750m was placed at ms +52bp (guidance: ms +58bp). Therefore, the issuance volume from Austria so far in 2024 amounts to EUR 4.0bn spread across six bonds. As part of a Covered Bond focus article in this present edition of our weekly publication we deal with the Austrian market in some detail. We see the recent slowdown in issuance activity more as the primary market taking a breather against the backdrop of numerous projects being announced on the market. In fact, we are now anticipating the first Pfandbrief deal since LBBW on 7 February with a certain degree of interest.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BAWAG	AT	20.02.	XS2773068676	7.0y	0.75bn	ms +52bp	- / Aaa / -	-
Arkea Public Sector SCF	FR	19.02.	FR001400O9E0	5.0y	0.75bn	ms +33bp	AAA / Aaa / -	-
Banco BPI	PT	15.02.	PTBPIZOM0035	6.1y	0.50bn	ms +64bp	- / Aaa / -	-

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

Secondary market: are new issue premiums set to rise again soon?

Looking at the trading activities on the secondary market, we would continue to describe the covered bond segment as intact overall. However, demand for Pfandbriefe is down somewhat, which comes as a slight surprise given the recent spread levels. For example, the longer maturities (12.0y) seen on the market have evidently remained just as attractive to many buyers as bonds with a seven-year term. With regard to individual jurisdictions, we are struck by the fact that the periphery was most recently in demand. Illiquidity in the secondary market for Canadian covered bonds, which is likely to be a consequence of the lack of primary market activity from this jurisdiction so far this year, is also noteworthy. Market players would likely welcome a first appearance in 2024 from North America. Issuers can probably expect a little less "goodwill" in terms of pricing, but a renewed spate of primary market activities should at least also lead to an increase in new issue premiums.

Moody's: focus on legal framework for Canadian covered bonds...

As part of its regular risk-focused assessment of covered bond legislation, Moody's recently looked in some detail at the legal framework in Canada and simultaneously updated its 2018 publication. As usual, the analysis offers a comprehensive overview of both the strengths and weaknesses of the legislative framework. Ultimately, Moody's awards a score in the individual categories of the legislation (strong – average – weak). The rating agency highlights in particular the assets eligible for the cover pool (consisting exclusively of senior, conventional Canadian residential mortgage loans and securities backed by the Canadian government) as strong factors in the Canadian legal framework, in addition to emphasising the great degree of flexibility with which guarantors can obtain liquidity in the event of an issuer default (e.g. by selling or refinancing assets). Another strength is the protection available to creditors in connection with issuer default scenarios, including safeguards against mixing, clawbacks, moratoriums and set-offs in relation to the cover assets. However, in terms of negative aspects related to payment defaults, Moody's highlights the fact that creditors are only entitled to overcollateralisation (OC) up to the promised amount, with anything above this limit going back to the issuer. According to the report, another weakness concerns the guarantor in the context of managing the cover pool after an issuer default event. This is merely an SPV with limited resources and it is unclear exactly how the supervisory and governance functions are defined in such cases. Specific changes compared with the last report concern, for example, the assessment of the statutory excess OC requirements (legal minimum OC = 3%). In this case, the score was adjusted from "average" to "weak". Our understanding of this situation is that this change is exclusively the result of a "relative" evaluation, with the legal minimum OC in Canada remaining unchanged in law. The adjusted CRR stipulates a minimum of 5% for covered bonds, which has led to many jurisdictions adopting this value in their legal framework. In terms of quality and the legal minimum OC, the rating experts have adjusted their score from "average" to "weak". In this context, we believe it should also be highlighted that the majority of Canadian issuers are committed to higher OC levels than the legal minimum of their own accord. Conversely, Moody's sees an improvement in the management of currency and offsetting risk (from "average" to "strong"), for example, as well as in relation to the "asset coverage" category (from "weak" to "average").

...and Canadian issuers continue to be conspicuous by their absence

Canada is one of those jurisdictions that, in addition to a robust legal framework, also has high market standards. On the investor side, purchase arguments are also likely to be centred around the stability of the banking sector and the lack of CRE exposure in the cover pools. However, fresh supply has been missing so far in 2024, with not a single EUR benchmark having yet been placed by a Canadian issuer in the year to date. Nevertheless, we are sticking with our supply forecast for the full year and expect an issuance volume of EUR 17.5bn from the jurisdiction of Canada (net supply: EUR 5.0bn). Although the forecast risk has increased on the back of the first few trading weeks, we basically believe that the underlying issuance potential is unchanged, which we would put down to more than just the upcoming maturities. After all, Canadian issuers often take advantage of market opportunities "en bloc" – i.e. one follows the other in quick succession. This applies to both the number of issuers or bonds and the respective volumes. Accordingly, any signs of a catch-up movement could also provide impetus for the repricing process beyond Canadian borders, although in our opinion other third countries are, in particular, likely to feel this force.

Upward trend in the Real Estate Economic Index

In the past week, the monthly Deutsche Hypo Real Estate Economic Index was published. Based on the survey of around 1,200 real estate experts, sentiment has improved again. Compared with January, the Deutsche Hypo Real Estate Economic Index has increased by +6.8% (M/M) to 77.2 points, which is the highest value since August 2022. In particular, with increases of +9.6% (M/M) to 63.5 points and +4.7% (M/M) to 91.6 points respectively, the investment climate and earnings climate contributed the most significantly to this positive development. A look at the individual asset classes confirms this trend: only the logistics climate suffered a slight decline at -2.5% (M/M), otherwise developments were consistently positive, including the office climate (+9.4% M/M), which has been very much bringing up the rear in recent times. According to Ingo Albert, Head of Frankfurt Office, Deutsche Hypo, the decline in long-term interest rates and prospect that the ECB could well start to lower interest rates in the not-so-distant future were the main drivers of this positive trend in sentiment. He expects an increase in the transaction volume by the end of the year or the beginning of 2025 at the latest, although the dynamics will in all likelihood continue to lag below pre-crisis levels. In terms of the situation on the office property market, Albert explains that the situation remains challenging, as there are currently hardly any transactions in this segment. In our view, the conservative requirements for determining LTV ratios and provisions of the Pfandbrief Act give rise to a fundamentally stable credit quality of cover assets within the German Pfandbrief segment. In the case of individual Pfandbrief issues with cover pools that contain a high proportion of commercial assets, certain “headline risks” cannot be totally ruled out in terms of spread drivers.

Internal matters: NORD/LB and vpd to host “Pfandbrief Breakfast” on 22 February…

The “Pfandbrief Breakfasts”, which we host together with the Association of German Pfandbrief Banks (vdp), are a firmly established fixture on the capital market. As such, we are pleased to invite you to the latest instalment of the NORD/LB & vdp Pfandbrief Breakfast, which is set to take place in Hanover tomorrow (Thursday 22.02.). We are looking forward to interesting talks and lively panel discussions during the event. The “Changing Pfandbrief” agenda alone promises to touch upon some hot topics that should certainly give rise to a wealth of different perspectives. The speakers will address both challenges and demands in relation to the Pfandbrief, in addition to the CRE financing market.

...and the NORD/LB Regulatory Update 2024 takes place 29 February as well

There is also not long to wait until the NORD/LB Regulatory Update 2024. During the event, we shall again be taking a look at current and market-relevant developments in the field of banking regulations. Moreover, another focal point will be the comparatively new requirements in the ESG space. We are pleased to be able to offer you an interesting mix of expert contributions and insights obtained from applied practice. We would also like to thank the speakers from the worlds of science and research, industry associations, the banking industry and consulting firms, who are sure to make the Regulatory Update an unmissable event. You can access the event’s homepage via this link.

Market overview SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

Compromises agreed on EU debt rules

On 1 November 2023, the Treaty of Maastricht celebrated the 30th anniversary of its coming into force – a milestone in the process of European integration. Why are we reporting on this today? The Treaty remains in force but must adapt to the circumstances of the new millennium, as it contains rigid limits; it also defines the “Maastricht criteria”, which express thresholds for debt levels, deficits, inflation, exchange rates and interest rates. All states that have joined, or those that wish to join, the Eurozone must comply with these. For example, they state that annual new borrowing must not exceed 3% of GDP, while total debt may not exceed 60% of GDP. Deficit procedures will be initiated against member states that fail to comply with these criteria. A few days ago, negotiators from the EU states and the European Parliament agreed in principle on new rules. In the future, targets for reducing excessive deficits and debts should take greater account of the individual situations in these countries. At the same time, there are to be clear minimum requirements for the reduction in debt ratios (structural improvement of at least 0.5% of GDP) in highly indebted countries. The aim is to facilitate investment and at the same time prevent individual member states incurring too much debt. The 3% and 60%, respectively, remain cast in stone. In particular, highly indebted countries, such as France and Italy, insisted on more flexibility. However, Germany imposed minimum requirements for reducing deficits and debt. The German Minister of Finance, Christian Lindner, spoke of “safety lines for lower deficits and debt reductions” in December. The agreement that has been reached still needs final approval from both member states and the European Parliament. However, “debt-financed expenditure must be limited to new investment,” states an ifo analysis. All other government expenditure must be covered by equivalent income in the budget. During economic crises, however, debt-financed support measures that are not covered by the definition of investment should still be possible. This is reminiscent of the discussions surrounding the German debt brake. According to other experts, the new rules will prevent EU states from undertaking key investments in environmentally friendly technologies and the European defence industry. During the COVID-19 pandemic, the EU temporarily suspended the Stability and Growth Pact to allow member states billions in aid. The old rules have been temporarily reinstated since January.

Adjustments to the multiannual financial framework (MFF) also agreed

Additional resources were also approved for 2024-2027. In addition to aid for Ukraine – the Ukraine facility totals EUR 50bn in loans (EUR 30bn) and grants (EUR 17bn) – the “Strategic Technologies for Europe Platform” (STEP) is to receive long-term support, with “EUR 1.5bn being used specifically for its defence investment component”. An additional EUR 9.6bn is to be spent on migration and foreign relations, while an additional EUR 3.5bn was allocated to crisis preparations and measures to enhance the EU budget’s flexibility. A new mechanism is to be introduced to manage the “escalating costs” for repaying the NGEU economic programme resulting from higher interest rates.

Morningstar DBRS for SSA/Public Issuers

As loyal readers, you are familiar with Fitch, Moody's and S&P in our analyses. In response to current events, we have only recently considered Scope Ratings, which was recently included as the fifth external service provider for ECAF proposes by the European Central Bank (ECB), with full integration set to be completed in the future. You will be rightly asking what is going on with number 4: DBRS (once Dominion Bond Rating Service, now part of Morningstar). Morningstar DBRS is a global rating agency, which was established in Toronto in 1976. The takeover of DBRS by the global financial services company Morningstar, Inc. took place in 2019. Morningstar DBRS, which has branches in Toronto, New York, Chicago, London, Mumbai, Frankfurt am Main and Madrid, is the fourth largest rating agency (global market share: 2-3%). DBRS consists of four operating Group companies – DBRS Limited, DBRS Inc., DBRS Ratings Limited and DBRS Ratings GmbH. The company is one of the rating agencies that was formally recognised by the ECB (as long ago as 2007). This classification characterises agencies whose ratings can be used by the ECB to determine creditworthiness as part of its ECAF requirements. Since we are currently working on our update for Canadian Provinces, we have been working more closely with DBRS. There were no grounds for external discussions here, such as recently included issuers or similar. DBRS became more prominent in the middle of the European sovereign debt crisis, as the monetary watchdogs at the ECB only accept bonds with a specific minimum rating for their financial transactions. The ECB follows a simple rule: The best rating in each case is used to assess a security. Had Portugal lost its "investment grade" rating at that time, the ECB would not have been allowed to buy any of the country's bonds under its statutes. Portuguese government securities would no longer have been accepted as security in financial transactions with Portuguese banks either. However, the Portuguese government would scarcely have been able to raise funds at acceptable rates either. Since, as you know, sovereigns are left out of our considerations within the SSA universe, here is a brief reminder of the sub-segments, where we overlap with DBRS in looking at issuers:

- **Supranationals:** EU, EFSF/ESM, EIB etc.
- **Sub-sovereigns:** No German Laender, however, international issuers such as MADRID and GENCAT in Spain or AZORES and GOVMAD in Portugal. These are significantly supplemented by the Canadian Provinces, which is why we are focusing on DBRS today.
- **Agencies:** None from Germany. From Europe, for example, CADES and SFIL (France) and ICO (Spain).

ESM announces an EUR Commercial Paper Programme

On 9 February, the European Stability Mechanism (ticker: ESM) announced the start of its new EUR Commercial Paper (ECP) programme. The Luxembourg-based issuer's mandate requires the ESM to be able to raise funding under all market conditions. The ECP programme is a key component of the ESM's strategy of having a wide range of funding instruments to support the Eurozone countries. It has already been awarded the STEP label of the Short-Term European Paper Initiative, meaning that one of the criteria needed for the securities to be eligible with the ECB has been met. The programme amounts to EUR 20bn in total and will be used in addition to traditional bond issues and bills. Kalin Anev Janse, ESM CFO and sponsor of the project is convinced the programme will be a success: "The positive interest rates at the short end of the curve make it an attractive product. It will be a positive addition for our balance sheet management." The first issue is planned for Q1 2024.

Primary market

Following sustained high levels of activity since the beginning of the year, the SSA primary market remained buoyant in the past trading week. In total, EUR 10.25bn spread across six deals from six different issuers has been successfully placed on the market since last Wednesday, which attracted a cumulative order book of EUR 74.1bn. Moreover, this included some first appearances in 2024, while we also have a tap to report on. In chronological order, we shall start by looking at the mandates announced in our last issue: NRW.BANK (ticker: NRWBK) kicked off proceedings on 14 February. North-Rhine Westphalia's promotional bank placed a new benchmark with a four-year maturity in the amount of EUR 750m. It had originally planned to issue EUR 500m, but with a final order book of EUR 925m, the bank decided to seize the opportunity to increase the amount. At the same time, it achieved a tightening of one basis point compared with the guidance of ms +6bp area. We had also drawn attention to the mandate issued by Investitionsbank Schleswig-Holstein (ticker: IBBSH), which approached investors for the first time this year with a bond worth EUR 500m for a ten-year maturity. Supported by a final order book of EUR 880m, the deal tightened by two basis points to ms +21bp compared with the guidance during the marketing phase. Wirtschafts- und Infrastrukturbank Hessen (ticker: WIBANK), another German promotional bank, was the next issuer to venture onto the market for the first time this year. Hessen also issued an EUR benchmark in the amount of EUR 500m with a ten-year maturity. The order book finally reached EUR 718m, meaning that the deal could be priced one basis point tighter at ms +21bp. We remain in Germany and switch from the promotional banks to the Laender: Rhineland-Palatinate joined the first timers, appearing on the market with a four-year bond (EUR 500m), of which EUR 200m was retained by the issuer. The deal was completed at ms +2bp in line with the guidance. The highlight of the week came from the supra segment, namely the European Union (ticker: EU), which ventured onto the floor yesterday (Tuesday). Within the framework of its second syndicated transaction this year (see funding plan for H1 2024), the EU issued its long awaited first bond this year worth EUR 7bn (10y) at ms +29bp. The order book reached a whopping EUR 60bn, meaning that the deal was more than 9.5x oversubscribed. The autonomous region of Madrid also got down to business. The Madrilenians chose a sustainable format to raise EUR 1bn over ten years. The deal was more than 4.0x oversubscribed, meaning that the initial guidance of SPGB +22bp area was first revised to SPGB +18bp area (comparison bond: SPGB 3.25% 4/2034) before eventually being priced at SPGB +16bp. Finally, we observed a tap in our coverage: Lower Saxony (ticker: NIESA) opted to increase its NIESA 2.625% 01/09/2034, which was issued at the beginning of the year, by EUR 500m at ms +17bp (guidance: ms +18bp area; order book: EUR 1.1bn). The following issuers also announced mandates for the first time in 2024: BYLABO (EUR 500m, WNG, 7y, social, Issuer View) and the EAA (EUR 500m, WNG, 3y).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
MADRID	ES	20.02.	ES00001010M4	10.2y	1.00bn	ms +70bp	- / Baa1 / A	X
EU	SNAT	20.02.	EU000A3K4ES4	10.8y	7.00bn	ms +29bp	AAA / Aaa / AA+	-
RHIPAL	DE	16.02.	DE000RLP1452	4.0y	0.50bn	ms +2bp	AAA / - / -	-
WIBANK	DE	15.02.	DE000A3SJZZ9	10.0y	0.50bn	ms +22bp	- / - / AA+	-
IBBSH	DE	14.02.	DE000A30VNS3	10.0y	0.50bn	ms +21bp	AAA / - / -	-
NRWBK	DE	14.02.	DE000NWB2TA0	4.0y	0.75bn	ms +5bp	AAA / Aa1 / AA	-

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

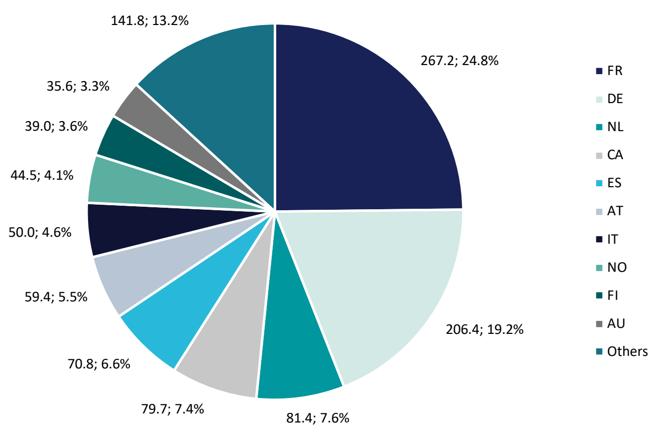
Covered Bonds
Covered bond jurisdictions in the spotlight: A look at Austria

Authors: Dr Frederik Kunze // Lukas Kühne

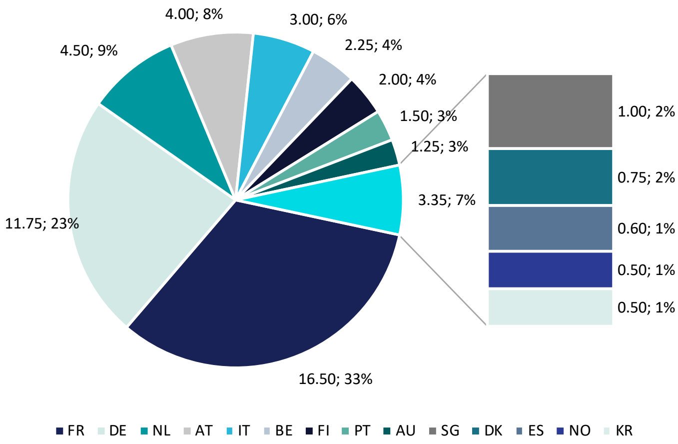
A look at the covered bond market in Austria

Austria is one of the national economies with the biggest mortgage covered bond markets in relation to the country's GDP. However, it must be noted that Denmark was in top spot for this metric in 2022, with a volume of mortgage covered bonds amounting to 117.1% of the country's economic output. Sweden followed suit at 40.1% and then Norway at 24.1%. Austria came in eighth place at 16.7%, considerably ahead of Germany (7.3%) and France (9.3%). In this respect, it is hardly surprising that Austria is among the established covered bond jurisdictions, measured in terms of the volume of total covered bonds outstanding. According to the current ECBC statistics (reference date of 31 December 2022), Austria was ranked in 11th place with a volume outstanding of EUR 101.3bn. This puts Austria behind Norway (EUR 135.0bn) but ahead of the United Kingdom (EUR 90.9bn). Covered bonds with a fixed coupon were the dominant variant. Consequently, the systemic importance of covered bonds in Austria is beyond question. Based on the ECBC statistics at the end of 2022, bond issues in foreign currency accounted for only EUR 698m, which again is unsurprising in view of the primary funding requirement. It should be highlighted that, on the basis of these statistics, 63.5% of the covered bonds outstanding as at the end of 2022 had been placed without the option of a maturity extension (hard bullet) and 36.5% with the option of extending the time to maturity (soft bullet). At 73.6%, mortgage Pfandbriefe dominate Austria's domestic market, followed by public sector Pfandbriefe at 21.0%. Under the country's Pfandbrief Act, the only other cover assets permitted in Austria would be in the form of ship mortgages.

Volume of EUR benchmark bonds outstanding by jurisdiction (EUR bn)



Volume of EUR benchmark bonds – primary market ytd by jurisdiction (EUR bn)

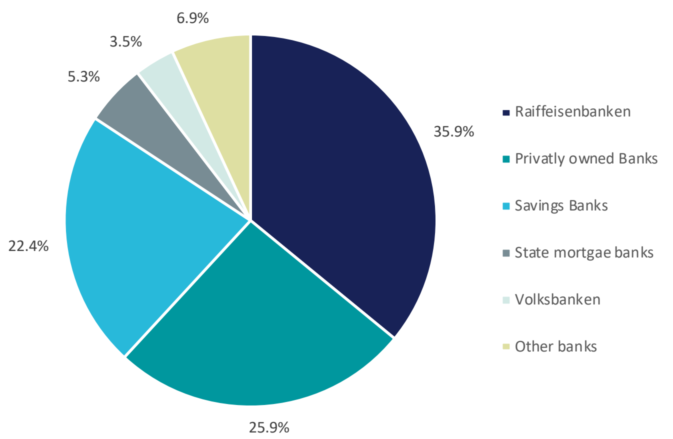


Source: Market data, Bloomberg, NORD/LB Floor Research

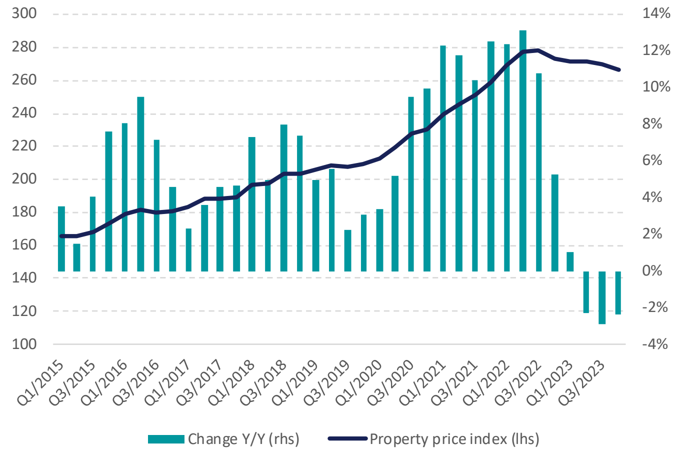
The Austrian banking market – regional focus and fierce competition

Austria's banking market is dominated by savings banks (Sparkassen), credit unions (Volksbanken) and agricultural credit cooperatives (Raiffeisenbanken). Together, they account for more than 63% of total assets in the Austrian banking sector. A very similar picture emerges with regard to deposits and the credit market. Of the total of almost 300 independent financial institutions, the group of agricultural credit cooperatives accounts for the highest share in terms of their number. However, the combined balance sheets of this group only account for 5.3% of all assets in the banking system. By way of example, this ratio reflects the typically regional focus of some Austrian financial institutions. In terms of size, the Austrian banking market is above the EU average when it comes to total assets in relation to economic output (measured on the basis of GDP) at 227% (FY 2022). In addition to Austria, certain banking markets in the CESEE countries (Central, Eastern and Southeastern Europe) are highly relevant for some Austrian banks. Rating experts Moody's consider characteristics such as fierce competition, a dense branch network and high operating costs as challenges the Austrian banking sector faces.

AT – distribution of assets by banking category



AT – OeNB property price index



Source: Austrian National Bank (OeNB), NORD/LB Floor Research

Impact of SIGNA insolvency and CRE exposure of Austrian banks

Similar to many other European jurisdictions, the price trend in the Austrian property market has been negative since the end of 2022. However, this adjustment should not obscure the fact that property prices remain at a historically high level. The price trend varies considerably, depending on the type of property. With regard to commercial property, the SIGNA Group's insolvency certainly caused considerable turmoil and directed the overall focus primarily on the exposure of Austrian and German banks to this counterparty, and increasingly also their general exposure in the CRE segment. Against this backdrop, it comes as no surprise that the rating agencies have issued statements on this topic. Moody's put total lending to SIGNA by Austrian banks at EUR 2.2bn, which represented a share of 0.3% of the total loan volume of all banks in Austria as at 30 September 2023. S&P estimated the SIGNA exposure of the eleven Austrian and German banks it rates at EUR 2.7bn. In proportional terms, this exposure represents between 0.1% and 1.5% of total lending to customers by the banks concerned.

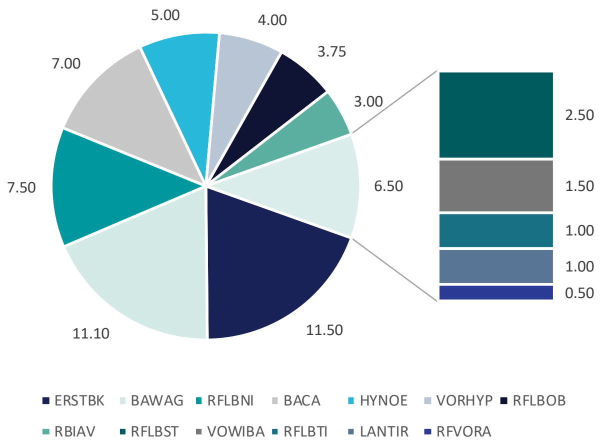
Risk-mitigating characteristics of Austrian cover pools

The consequences of the SIGNA insolvency as well as the general situation in the market for commercial property was not without consequences for the covered bond issuers 'affected'. Nevertheless, the comprehensive risk mitigating factors of Austrian covered bonds must also be taken into account in this context, which highlight the asset quality of both cover pools and bond issues outstanding. In this connection, rating experts Moody's, for example, also commented, citing the possible effects of the SIGNA insolvency on the cover pools of the relevant banks. Moody's particularly underlined the high overcollateralisation ratios in the cover pools as well as the credit quality of the assets used as cover, assessing these as rating positive. According to Moody's, these features provide effective protection against corrections in the commercial property market and, according to the rating experts, also apply to the covered bond issuers with the greatest exposure to SIGNA, including Hypo Vorarlberg Bank, Raiffeisenlandesbank Niederösterreich-Wien, UniCredit Bank Austria, Raiffeisen Bank International and Raiffeisenlandesbank Oberösterreich. Rating experts S&P also came to a similar conclusion and assessment. They did not see a significantly increased credit risk in the cover pools for Austrian covered bonds as a result of SIGNA's insolvency. Consequently, the insolvency has no perceptible impact on covered bond ratings, according to S&P. However, potential general repricing of commercial property, triggered by the winding up of companies and forced sales, could impact on the composition of cover pools, according to the rating experts. The most important key figures relating to Austrian cover pools and bond issues outstanding are summarised below.

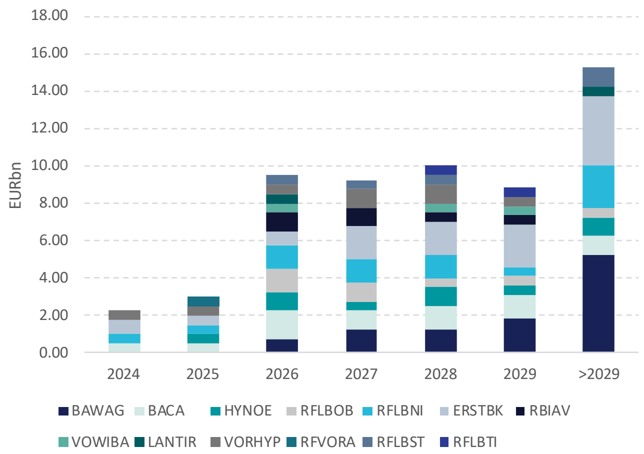
EUR benchmark bond segment in Austria – 13 active issuers with a volume outstanding totalling EUR 59.4bn

With regard to our focus, the EUR benchmark bond segment, Austria is one of top ten issuing countries. In this respect, it is ranked in sixth place, measured in terms of the volume outstanding (EUR 59.4bn). This volume is currently divided between 13 issuers, which account for 100 outstanding bonds overall. Austria is therefore ranked lower than Spain (EUR 70.9bn) but higher than Italy (EUR 50.0bn). Based on the number of EUR benchmark bond issues outstanding, Austria actually is in third place, ranked between France (257) and the Netherlands (82). The biggest issuer in Austria is Erste Group Bank, with a total amount issued of EUR 11.50bn and 14 benchmark bond issues outstanding. It is followed by BAWAG (EUR 11.10bn; 17) and Raiffeisenlandesbank Niederösterreich-Wien (RLB NÖ-Wien; EUR 7.5bn, 12). Furthermore, Austria – along with Germany, Belgium and France – is among the few markets where in addition to mortgage benchmark bond issues, there are also benchmark bond issues outstanding that are backed by public sector assets. The latter category comprises only seven (EUR 4.75bn, four issuers). The issuers are BAWAG, Hypo NOE, RLB NÖ-Wien and UniCredit Bank Austria. In the current year, new Pfandbriefe worth a total of EUR 4.0bn have already been placed in the market by six issuers.

AT – EUR BMK volume outstanding (EUR bn)



AT – EUR BMK maturity profile (EUR bn)



Source: Market data, Bloomberg, NORD/LB Floor Research

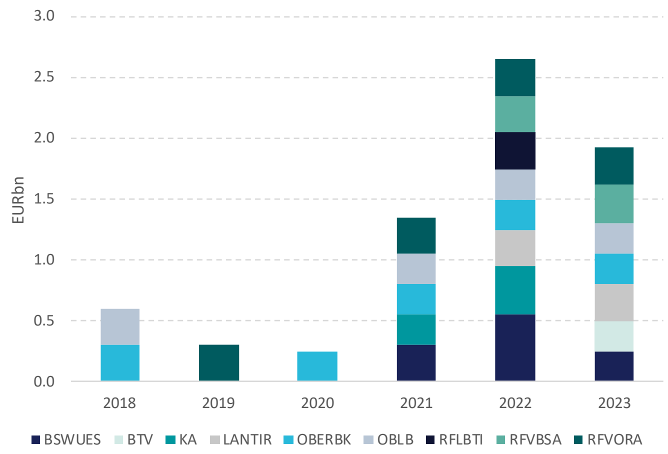
Austria, along with Germany, is a jurisdiction with an established EUR sub-benchmark bond segment that is experiencing dynamic growth

After Germany (volume outstanding of EUR 13.9bn across 50 bonds), Austria is the second biggest sub-market for EUR sub-benchmark bond issues with 31 bond issues worth EUR 9.0bn. In 2024 to date, the issuance volume in this market segment for publicly placed covered bond issues totalling a minimum of EUR 250m but less than EUR 500m already amounts to EUR 1.1bn (four bond issues). Almost all of the bonds placed were from Austrian issuers (EUR 800m, three bond issues). Accordingly, Austria's EUR sub-benchmark bond segment can certainly be described as having had a lively start to the new year, following the placement of bond issues worth EUR 2.2bn in total last year. Despite a slight downward trend in issuing activities in Austria in 2023, we have observed an uninterrupted growth trend in the covered bond market for sub-benchmark bond issues and look forward to welcoming further bond issues in this market in the near future.

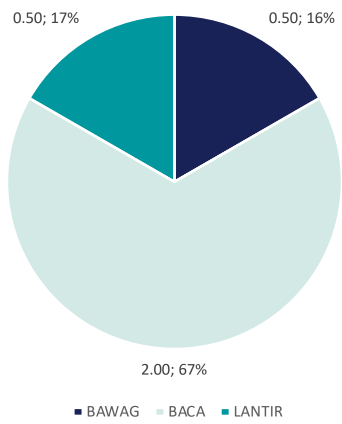
Austria's EUR sub-benchmark bond segment in 2023 and 2024

In 2023, seven Austrian issuers were present in the market for sub-benchmarks, each with one bond issue. Bank für Tirol und Vorarlberg increased the number of issuers that exclusively launched EUR sub-benchmark bond issues in 2023 to seven. A further four issuers have Pfandbriefe outstanding in both benchmark and sub-benchmark format. At the current count, Raiffeisenverband Salzburg, Oberbank and Raiffeisen Landesbank Vorarlberg mit Revisionsverband have already approached investors in 2024, each with one sub-benchmark sized deal. In the growth segment of ESG bond issues, two Austrian sub-benchmark issuers have one Pfandbrief issue outstanding each. For their first green covered bonds in sub-benchmark format, Oberbank and Oberösterreichische Landesbank both opted for transactions worth EUR 250m each. Other active issuers in the market, which exclusively have EUR sub-benchmark bond issues outstanding, include Bausparkasse Wüstenrot, Hypo Oberösterreich and Kommunalkredit Austria.

AT – EUR SBMK bond issues by issuer (EUR bn)



AT – ESG BMK bond issue volume by issuer (EUR bn)



Source: Market data, Bloomberg, NORD/LB Floor Research

ESG covered bonds from Austria

With regard to covered bonds in EUR benchmark format that are assigned to one of the ESG categories, only UniCredit Bank Austria was active in the market in 2023. The bank placed a green EUR benchmark bond (6.6y) worth EUR 750m with investors in February 2023. The deal was supplemented by a green bond issue each of Oberbank and Oberösterreichische Landesbank in the EUR sub-benchmark segment. In 2024 so far, UniCredit Bank Austria again accounts for the only Austrian ESG benchmark bond issue. Following an initial guidance in the ms +55bp area, the order book was abundantly filled during the marketing stage. The bond then was eventually placed at ms +47bp in a total amount of EUR 750m. The volume of ESG benchmark bonds outstanding totals EUR 85.3bn. Of this, Austria currently accounts for EUR 3.0bn. The biggest jurisdiction in this sub-market is Germany with EUR 24.8bn, followed by France with EUR 23.0bn. Austria currently accounts for a 3.5% share of the market as a whole. Theoretically, this means that there is still potential for Austrian issuers to catch up when it comes to ESG bond issues.

Cover pools with high overcollateralisation ratios across the board

In the following, we present the thirteen EUR benchmark and six EUR sub-benchmark issuers in the covered bond segment in table format, providing excerpts from their official covered bond reporting. It is evident that the overcollateralisation ratios are in the double-digit range, with one exception, and in many cases exceed 20%. This implied the opportunity for some issuers to place new bond issues. The overview also indicates the standard regulatory categorisation of benchmark bond issues (RW: 10%, LCR Level 1) and sub-benchmark bond issues (RW: 20%, LCR Level 2A) respectively.

Cover pools with high overcollateralisation ratios across the board[1]

Issuer	Type	Cover Pool (EURm)	Outst. Volume (EURm)	OC (%)	LCR level / Risk weight	Maturity Type	Covered Bond rating (Fitch / Moody's / S&P)	Anteil CRE (%)	EUR (S)BMK 2024ytd	EUR (S)BMK 2023	EUR (S)BMK 2022
									EURbn / Number of deals		
BAWAG Group	M	11,662	10,866	7.3	1 / 10%	HB & SB	- / Aaa / -	2.6	0.50 / 1	1.6 / 2	4.0 / 5
	P	2,953	795	271.5	1 / 10%	HB & SB	- / Aaa / -	-			
Erste Group Bank AG	M	30,406	22,961	32.4	1 / 10%	HB & SB	- / Aaa / -	45.1	1.00 / 1	2.75 / 3	2.25 / 3
HYPO NOE	M	3,067	2,582	18.8	1 / 10%	SB	- / Aa1 / -	28.4	0.50 / 1	1.00 / 2	1.00 / 2
	P	4,789	3,469	38.1	1 / 10%	SB	- / Aa1 / -	-			
Hypo Tirol Bank	M	2,710	2,447	10.8	1 / 10%	SB	- / Aa1 / -	30.9	- / -	- / -	- / -
Hypo Vorarlberg Bank	M	5,749	4,511	27.4	1 / 10%	HB & SB	- / Aaa / -	45.5		0.50 / 1	1.00 / 2
Raiffeisen Bank International	M	4,200	3,525	19.2	1 / 10%	SB	- / Aa1 / -	64.8		1.00 / 2	1.50 / 3
RLB Niederösterreich-Wien	M	10,658	7,502	42.1	1 / 10%	HB & SB	- / Aaa / -	41.8	0.50 / 1	1.50 / 2	2.50 / 3
	P	2,654	2,138	24.1	1 / 10%	SB	- / Aaa / -	-			
RLB OÖ (Cover Pool 1)	M	6,660	4,787	39.1	1 / 10%	HB & SB	- / Aaa / -	22.6		1.25 / 2	1.00 / 2
RLB Tirol	M	3,580	2,303	55.4	1 / 10%	SB	- / Aaa / -	41.5	0.50 / 1	0.50 / 1	- / -
RLB Steiermark	M	8,017	5,411	48.2	1 / 10%	HB & SB	- / Aaa / -	27.9		1.00 / 2	- / -
RLB Vorarlberg	M	3,808	2,786	36.7	1 / 10%	HB	- / Aaa / -	23.8	0.25 / 1	- / -	- / -
UniCredit Bank Austria	M	17,502	7,941	120.4	1 / 10%	HB & SB	- / Aaa / -	21.6	0.75 / 1	1.75 / 2	1.00 / 2
Volksbank Wien	M	5,229	3,196	63.6	1 / 10%	HB & HB	- / Aaa / -	25.9		0.50 / 1	- / -

EUR sub-benchmark issuers from Austria[1]

Issuer	Type	Cover Pool (EURm)	Outst. Volume (EURm)	OC (%)	LCR level / Risk weight	Maturity Type	Covered Bond rating (Fitch / Moody's / S&P)	Anteil CRE (%)	EUR (S)BMK 2024ytd	EUR (S)BMK 2023	EUR (S)BMK 2022
Bank für Tirol und Vorarlberg	M	792	488	62.3	2A / 10%	HB	- / - / AAA	26.8		0.25 / 1	-
Bausparkasse Wüstenrot	M	2,045	1,585	29.0	2A / 10%	HB	- / - / AAA	-		0.25 / 1	0.55 / 2
HYPO Oberösterreich	M	2,790	2,392	16.6	2A / 10%	HB	- / - / AA+	2.7		0.50 / 2	-
Kommunalkredit Austria	P	1,196	1,058	13.5	2A / 20%	HB	- / - / A+	-			0.25 / 1
Oberbank	M	3,798	2,327	63.3	2A / 10%	HB & SB	- / - / AAA	22.4	0.25 / 1	0.25 / 1	0.25 / 1
Raiffeisenverband Salzburg	M	2,431	1,526	59.4	2A / 10%	HB & SB	- / Aaa / -	29.3	0.25 / 1	0.33 / 1	0.30 / 1

Source: Banks, rating agencies, NORD/LB Floor Research

[1] Cover pool data as at the reference date of 31.12.2023

EU Covered Bond Directive resulted in significant standardisation in Austria

Similar to all other EEA member states, Austria was also required to implement the EU Covered Bond Directive (EU 2019/2162) in national law by 8 July 2021 and make it applicable from 8 July 2022. The National Council of Austria (Nationalrat) complied with this requirement at the end of 2021, creating a uniform legal basis for covered bonds at the same time. It replaced the previous three pertinent national laws (Mortgage Bank Act (Hypothekenbankgesetz), Act on Pfandbriefe and related bonds of public sector banks (Gesetz über die Pfandbriefe and verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten) and the Austrian Covered Bond Act (Gesetz betreffend fundierte Bankschuldverschreibungen)), some aspects of which were inconsistent. We examined the 'new' Pfandbrief Act in detail in the Covered Bond & SSA View of 11 May 2022. On its website, the Austrian Financial Market Authority (Österreichische Finanzmarktaufsicht, FMA) indicates the country's issuers which may use the quality labels 'European Covered Bond' and/or 'European Covered Bond (Premium)' for covered bonds issued after 7 July 2022.

Overview and comparison of Austrian and German legislation

	Austria	Germany
Designation	Pfandbriefe (Mortgage Pfandbriefe, Public Pfandbriefe, Ship Pfandbriefe)	Mortgage Pfandbriefe, Public-, Ship- & Aircraft Pfandbriefe
Short form	-	Hypfe, Öpfe, Schipfe, Flupfe
Special bank principle	No	No
Owner of assets	Issuer	Issuer
Public supervision / Regulator	Finanzmarktaufsicht (FMA)	Federal Financial Supervisory Authority (BaFin)
Cover assets (if applicable incl. substitute cover)	Mortgage loans, Public sector loans, Ship loans, Bank loans	Mortgage, Ship and Aircraft loans, Public sector loans, Bank loans
Substitute assets	Yes	Yes
Limit of substitute assets	15%	CQS1; 15% Öpfe, 20% Hypfe, Schipfe, Flupfe
Derivatives as cover assets	Yes	Yes
Geographical scope – Mortgage loans	EWR, CH, UK	EWR, CH, US, CA, JP, AU, NZ, SG, UK, Schipfe and Flupfe worldwide
Geographical scope – Public sector loans	EWR, CH, UK	EWR, CH, US, CA, JP, UK[1]
Loan to value – Mortgage loans	Residential: 80%, Commercial: 60%, Ships: 60%	60% of the mortgage lending value
LTV calculation	Mortgage lending value	Mortgage lending value pursuant to Mortgage Lending Value Regulation
Minimum OC	2% nominal value	Hypfe/Öpfe: 2% (nominal + stressed present value), Schipfe/Flupfe: 5% (nom. val.)
Cover pool register	Yes	Yes
Asset encumbrance	No issue if primary coverage below 85%	-
Deferral of maturity	Yes, optional	Yes, mandatory
Trigger Deferral of maturity	Insolvency, Resolution of the Issuer	Insolvency, Resolution
CRD compliant	Yes	Yes (does not apply to aircraft Pfandbriefe)
ECB eligible	Yes	Yes

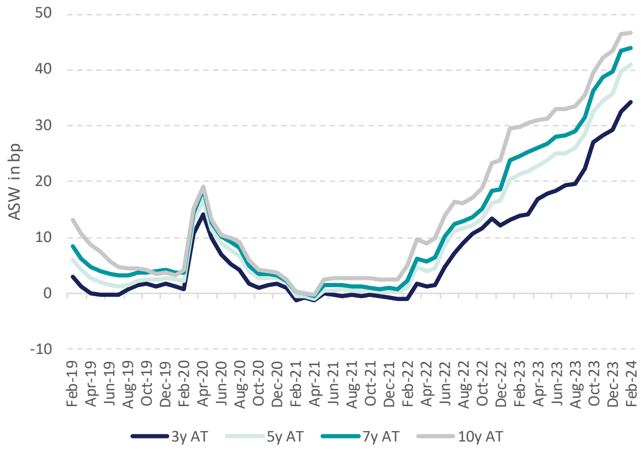
Source: National legislation, ECBC, NORD/LB Floor Research

[1] Non-EEA assets are capped at 10% unless security is guaranteed

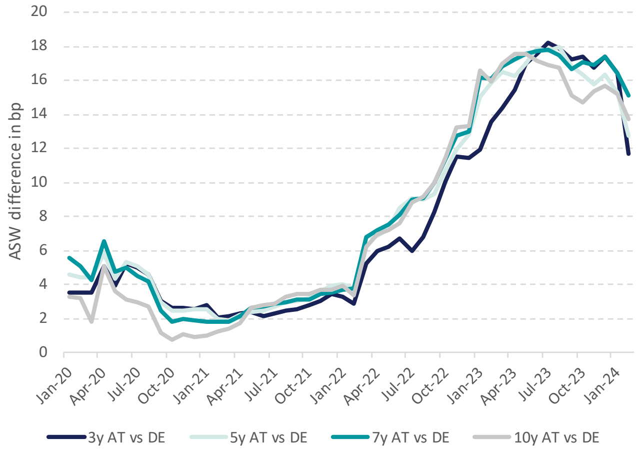
Spread differences in maturities barely existed intermittently

With the interest rate rebound and tapering of its purchase programmes, the ECB started a process of normalisation in the covered bond market. Accordingly, spread differences between various jurisdictions, issuers and maturity ranges were far more evident again. The absolute spread level for Austrian covered bonds also rose significantly in the past few months. In January 2024, ASW spreads widened further until a stable base slowly began to emerge in February. A differentiated view of jurisdictions highlighted that the gap between German and Austrian ASW spreads increased considerably last year. In our opinion, this reflects the preference of German investors for Pfandbriefe, where fundamental differences in the cover pools are less important. However, there seems to be a gradual reversal of this trend, with Pfandbrief spreads slightly tightening again versus ASW spreads on Austrian covered bonds. The partial decrease of spread differences currently is ostensibly attributable to the increased Pfandbrief spreads of some German issuers with a higher CRE exposure in the USA.

AT – spread curve (generic)



Cross-country spread – AT vs DE (generic)



Source: Market data, Bloomberg, NORD/LB Floor Research

Spread trend and issuing forecast for 2024

Some Austrian issuers have already been active in the market at the start of 2024, placing a total of eight bond issues worth EUR 4.1bn with investors. In addition to five covered bonds in benchmark format, three deals in sub-benchmark format were placed. With regard to the future supply, we expect an issuance volume of EUR 9.5bn from Austria in the EUR benchmark segment by year-end 2024. In total, maturities in 2024 amount to EUR 2.3bn, which according to our forecast produces net growth of EUR 7.3bn. With regard to spreads at mid-year 2024, we anticipate only minor widening starting from the current level. However, the medium maturity band of 5y is set to widen only slightly less than the long and short maturities segments. In these segments, we expect spread widening of around 3bp for 5y and 10y. Towards the end of the second half of the year, we believe that modest tightening is probable.

Conclusion

In view of the size of the Austrian covered bond market as a whole, the country's EUR benchmark bond segment seems well positioned. Austria is also one of the established EUR benchmark jurisdictions. We expect further primary market activities by Austrian issuers and estimate growth of EUR 7.3bn in this market for 2024. In principle, a solid picture emerges for the covered bonds of Austrian issuers. A very high share of covered bonds in the EUR benchmark segment has an Aaa rating from Moody's. Although the situation in the property market, partly due to the turnaround in interest rates, coupled with a rapid upsurge in prices, is to be considered as challenging, it is likely to ensure a steady picture of covered bond ratings for the time being. As a result of strong market growth in recent years, Austria has strengthened its position in the EUR benchmark segment. From our point of view, it is highly probable that some investors will appreciate this expansion of the issuer universe.

SSA/Public Issuers
Hope for hybrids? New SSA sub-asset class for MDBs

Authors: Lukas-Finn Frese // Dr Norman Rudschuck, CIIA

Focus on hybrid bonds

In today's edition of our weekly publication, we would like to focus in detail on a funding instrument that is, or was previously, unknown to the issuers in our coverage, but which has recently become more significant (see next section) by discussing hybrid bonds. Even though these developments are so far restricted to the USD market, we would nevertheless like to look at "hybrids", as the currency is a minor matter in relation to the basic structure. Fundamentally, the structure of a hybrid bond is significantly less complex than a "traditional" bond such as a German government bond (Bunds) or German government debt obligation (Bobl). This is because hybrids represent a mixed form ("hybrid") of bonds and shares. They either have a very long maturity or are unlimited (perpetual bond) and grant the issuer special rights of termination. Similarly to bonds, they have a coupon, but payment thereof can be suspended or postponed subject to certain previously defined conditions, mostly depending on the issuer's profit and business development. The coupon payments are divided into a fixed interest margin and a period with variable interest. The amount of the variable coupon consists of a reference rate plus a risk premium. The transition between the periods is characterised by a cancellation date specified by contract. At this date, the issuer is entitled but not obliged to repay the loan in full. If the issuer does not cancel the loan, the maturity is extended in accordance with the specified conditions until the next defined cancellation date. As a result, the average weighted maturity of the bond may increase. Hybrid bonds are also subordinate debt instruments, meaning that these bonds will only be serviced once all other non-subordinate debt instruments (senior bonds) have been serviced, which results in an increased risk of loss but also offers a significantly higher return. The developments surrounding hybrid bonds are now affecting an important segment of the market for us: for some years, the G20 group of the leading economies has been trying to find new means, such as multilateral development banks (MDBs), to increase their funds for helping developing countries with crises such as climate change. The issue of hybrid bonds could be a major step, as firstly the attractive risk-reward profile will make new investors aware of the product and secondly it offers issuers the option of optimising their capital structure and costs as well as meeting regulatory requirements. A key feature of hybrid bonds is that they are classified as equity according to the International Financial Reporting Standards (IFRS), similarly to shares. On the other hand, the issuer may deduct interest payments as expenditure against tax, which contrasts with the tax treatment of dividends. Despite all the advantages, we would also like to highlight significant disadvantages, especially for investors. We have already mentioned one, namely subordination. There is another risk in that investors would suffer potential losses if the issuer had made use of its cancellation right while the price of the hybrid bond was listed above par at this time.

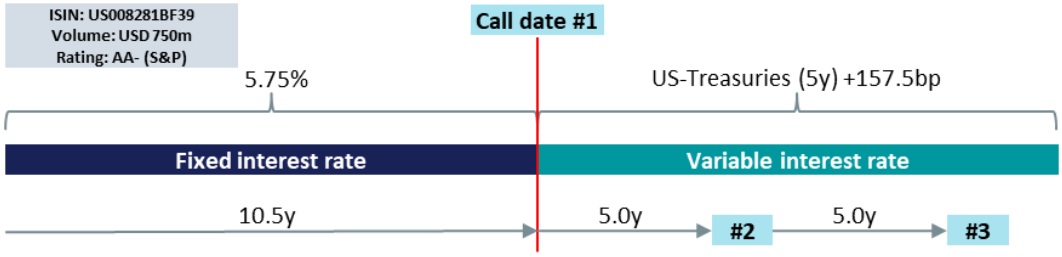
African Development Bank successfully places the first hybrid bond

At the end of January 2024, the African Development Bank (ticker: AFDB) successfully placed the first long awaited hybrid bond from an MDB. The AfDB had organised a roadshow for this transaction in September 2023 but postponed the issue in response to unfavourable market conditions. The subordinate debt-adjacent equity instrument in sustainable format comprises a volume of USD 750m (equivalent to approx. EUR 678m) with a coupon of 5.75% and does not have a maturity date. The order book totalled USD 5.1bn at the end of the marketing phase. There was interest from more than 275 investors in total, of which 190 were successful in receiving allocations. The lion's share of the allocations went to hedge/specialised funds (54.8%) and asset managers (27.8%). With regard to jurisdictions, demand from the UK was strongest (51.1%). The security is rated AA- by S&P, which is lower than the normal AAA bonds issued by the AfDB.

Bond conditions – an overview

The first cancellation date comes after an initial period of 10.5 years from the issue, when the AfDB will pay the yield on US treasures (5y) plus +157.5bp from this date for the next period of five years instead of the fixed coupon. The issuer may also make use of its contractually guaranteed cancellation right from this date and repay the loan prematurely, even within a period of three months after each cancellation date. The coupon payments must be suspended if the ratio of assets to paid-in capital plus reserves exceeds a value of 7.5x on the date the audited annual financial statements appear. The contractual conditions of the hybrid bond allow the capital to be permanently written down if the AfDB should encounter financial difficulties and arranges for a capital increase from the shareholders, although coupon payments may not be omitted. The issue proceeds are accounted for as equity in their entirety in accordance with International Financial Reporting Standards (IFRS). Hassatou Diop N'Sele, Vice President for Finance and Chief Financial Officer of the AfDB Group, emphasised its pioneering role: "This ground-breaking transaction was received with great enthusiasm by a broad range of investors. It will make it easier for the African Development Bank and other multilateral development banks with AAA ratings to further strengthen their capital base and to increase their support for Africa and developing countries, which have to deal with numerous crises and long-term development challenges in the face of a lack of development resources." No details of future issuance plans were provided. However, we expect to see further transactions in this format. In November last year, the Acting Director of the Treasury Department of the AfDB, Omar Sefiani, referred to the bank's capacity to issue USD 4-5bn annually in the form of hybrid bonds. However, it is realistic to expect one or two transactions per year, depending on the valuation of the success of the first deal. On the basis of this successful issue, we assume that further issuers, particularly from the non-European supras segment will follow the successful example of the AfDB in the future. Unfortunately, however, we view the issue of an EUR denominated hybrid bond in the foreseeable future as less realistic, since non-European institutions, which generally have smaller volumes in the European single currency, are driving developments for the moment. We are currently working on an update to our Issuer Guide for these issuers (last published in 2019), which solely consist of MDBs in our coverage.

Diagram of a hybrid bond based on the example of the AfDB transaction



Source: Issuer, NORD/LB Floor Research

Outlook

For the AfDB transaction to have a sustained impact on the SSA segment and, in particular, the capital market activities of MDBs, other institutions must opt for this form of funding in the future. We provide a realistic assessment of the possibilities but cannot avoid emphasising the difficulties facing the relevant issuers beforehand. For instance, the innovative nature of the product for MDBs means that a broad and enthusiastic investor base must first be created, which can generate a correspondingly high demand for the transaction finally to take place at an appropriate spread level for the issuer too. The search for an adequate price was the central question during the AfDB roadshow, since the MDB itself did not have any outstanding bonds in the ten-year maturity which could have served as a sensible benchmark. The bond’s subordination proved an additional difficulty in the pricing process. Ultimately the new issue went well for the AfDB, although the drawn-out preparation period of three years could persuade other issuers to observe developments in this segment from the sidelines initially and weigh the economic benefit with the (opportunity) costs. Besides the issue of hybrid bonds, MDBs are always able to rise hybrid capital through private placements via their shareholders and therefore avoid the route via the capital market and potentially higher costs. The World Bank opted for such a scenario in September 2023 when it raised EUR 305m from Germany in the form of hybrid capital. The World Bank had previously declared its intention to use more hybrid capital in the future in a press release. The issue of a hybrid bond is also already under discussion.

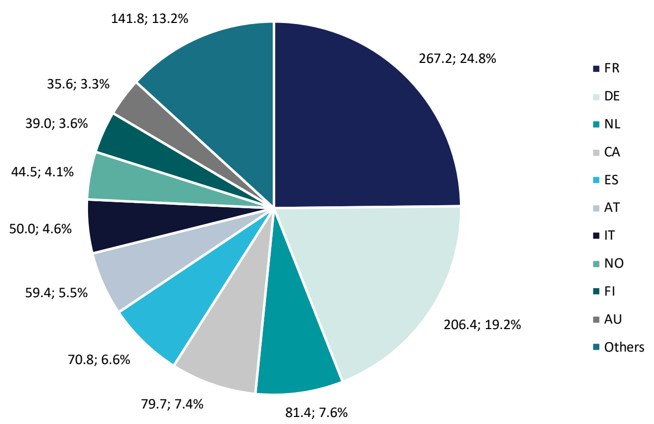
Conclusion

Hybrid bonds and hybrid capital as the general term offer institutions the option of increasing their lending capacity effectively and, through its classification as capital, also imply some regulatory advantages. The initial experiment started extremely successfully with the AfDB transaction at the end of January 2024. The attractive risk-reward profile led to correspondingly strong demand and we expect further MDBs to make use of hybrid bonds as a source of funding in the future. Naturally, a key criterion for us is always the choice of currency. Here, we assume that the USD will be the dominant means for the foreseeable future, as MDBs traditionally make more use of the greenback for funding purposes and the EUR plays a more subordinate role. In addition to the opportunities, the risks should by no means be disregarded either. In particular, a long planning phase and complex pricing process could see issuers opting to remain on the sidelines at first. Under certain circumstances, there is also the cheaper alternative of raising hybrid capital from the shareholders.

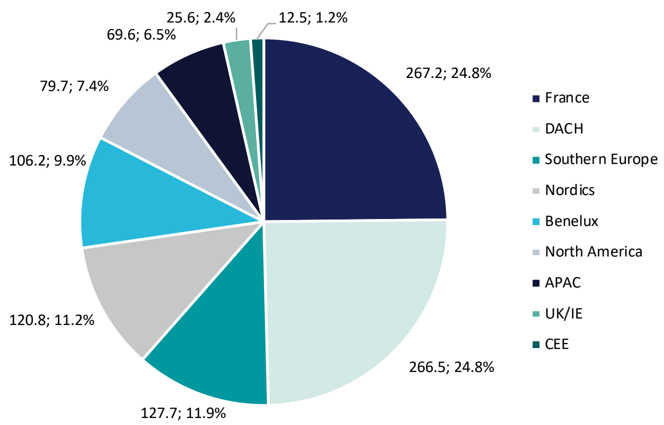
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



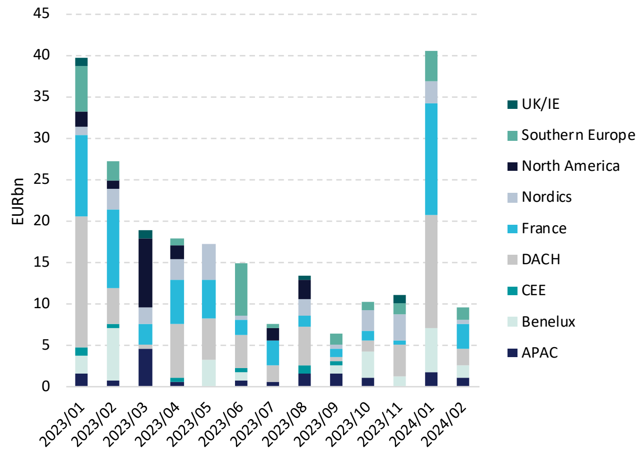
EUR benchmark volume by region (in EURbn)



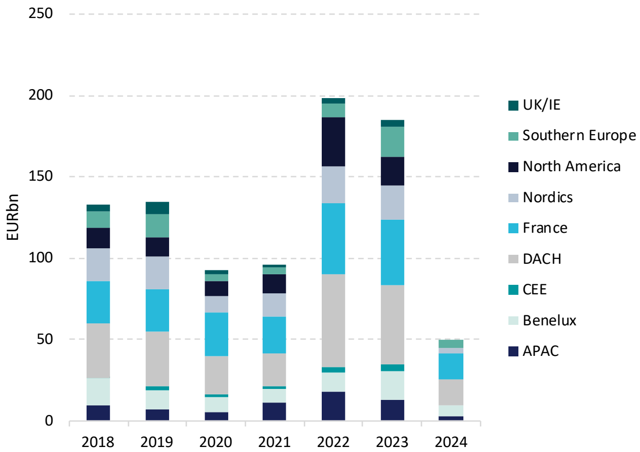
Top-10 jurisdictions

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	267.2	257	24	0.97	9.3	4.8	1.37
2	DE	206.4	294	39	0.65	7.8	4.1	1.33
3	NL	81.4	82	3	0.93	10.4	6.1	1.24
4	CA	79.7	59	0	1.33	5.5	2.7	1.17
5	ES	70.8	56	5	1.15	11.0	3.2	2.05
6	AT	59.4	100	5	0.58	8.0	4.5	1.47
7	IT	50.0	62	4	0.78	8.5	3.7	1.69
8	NO	44.5	54	12	0.82	7.4	3.7	0.84
9	FI	39.0	43	4	0.89	6.9	3.6	1.56
10	AU	35.6	34	0	1.05	7.2	3.4	1.60

EUR benchmark issue volume by month

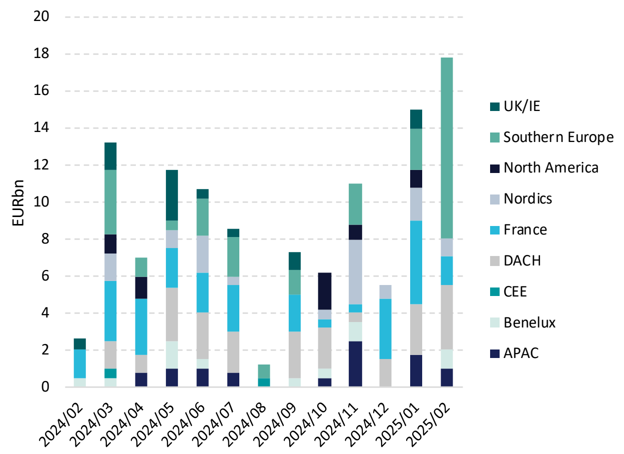


EUR benchmark issue volume by year

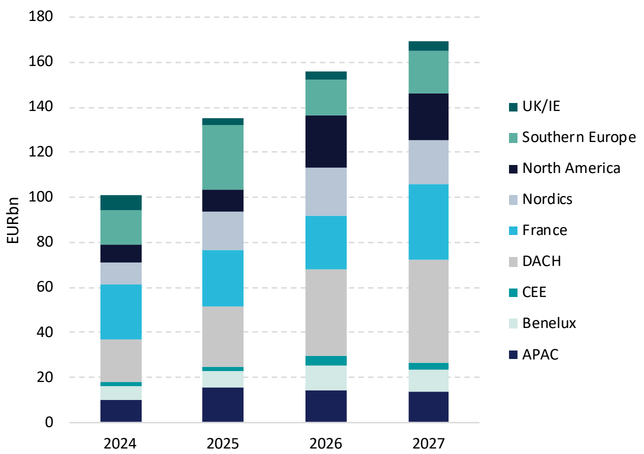


Source: market data, Bloomberg, NORD/LB Floor Research

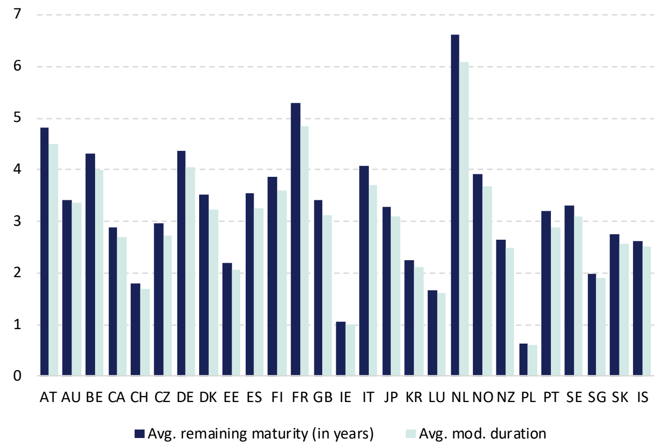
EUR benchmark maturities by month



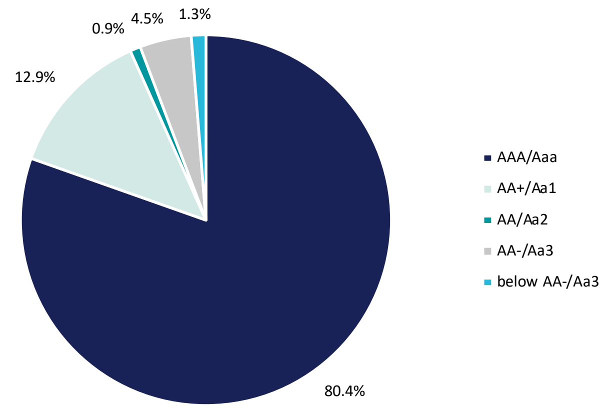
EUR benchmark maturities by year



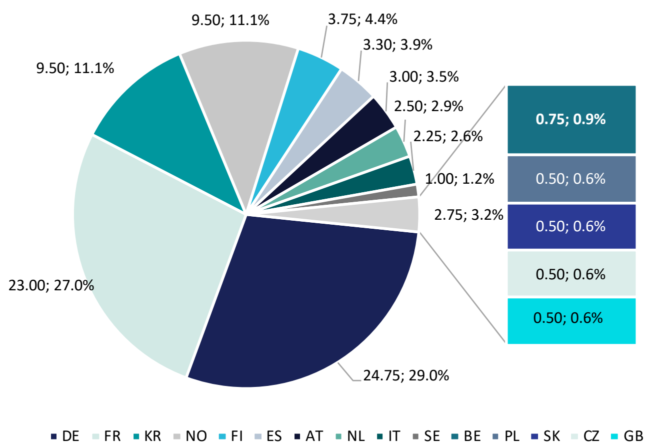
Modified duration and time to maturity by country



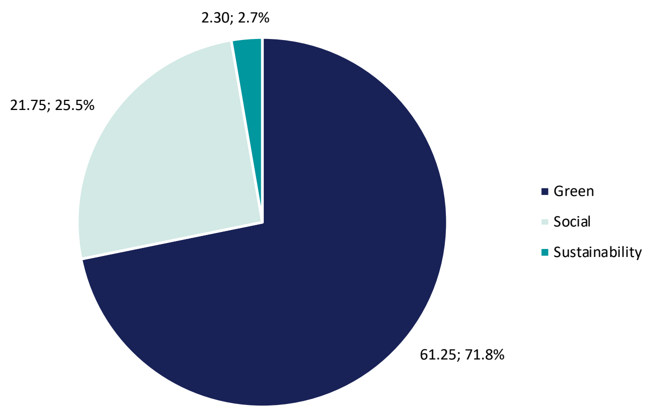
Rating distribution (volume weighted)



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

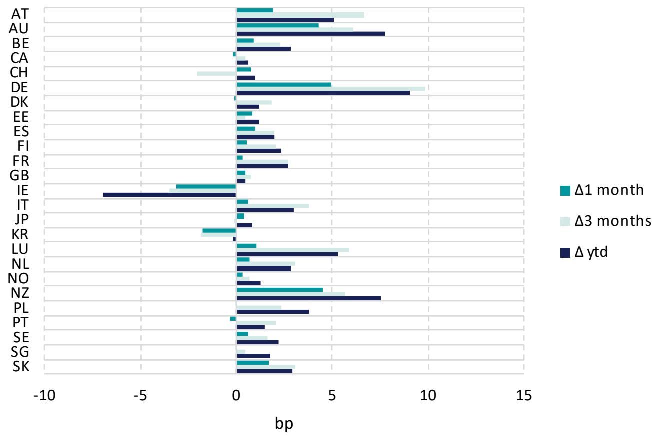


EUR benchmark volume (ESG) by type (in EURbn)

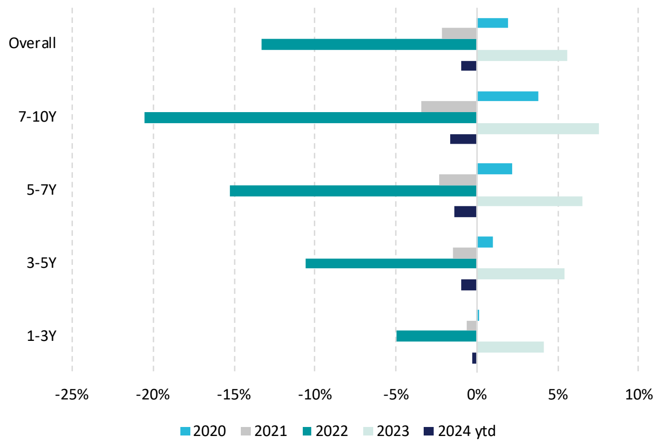


Source: market data, Bloomberg, NORD/LB Floor Research

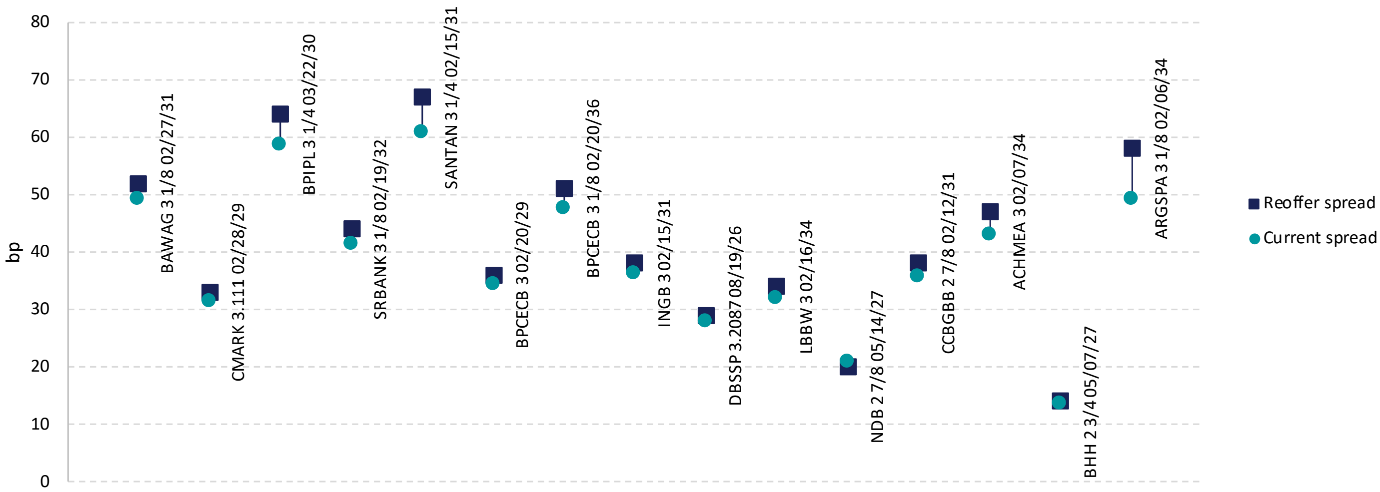
Spread development by country



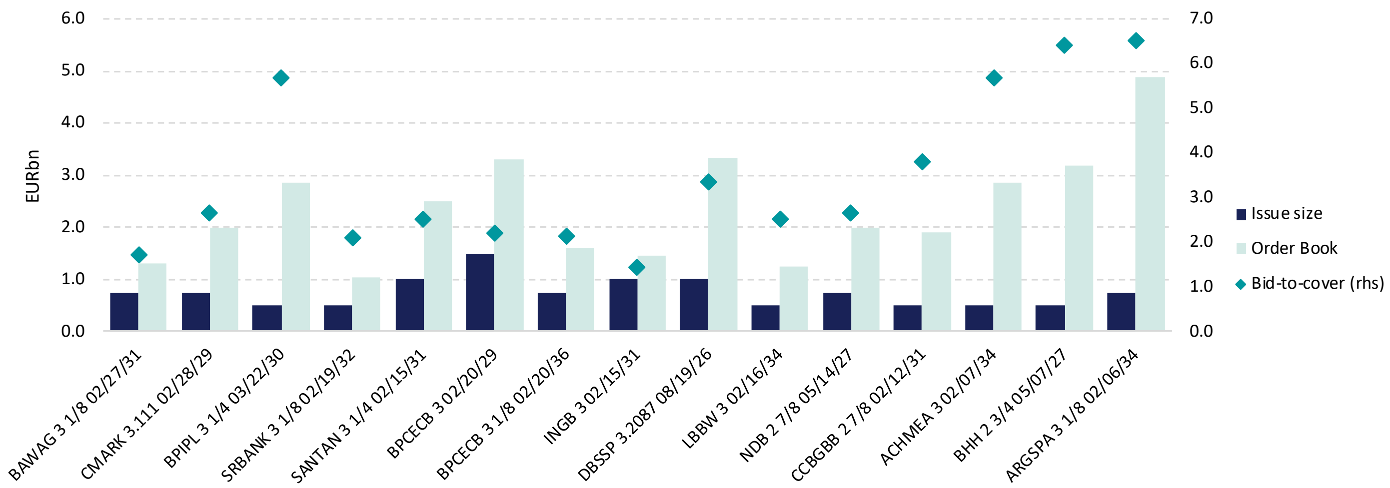
Covered bond performance (Total return)



Spread development (last 15 issues)



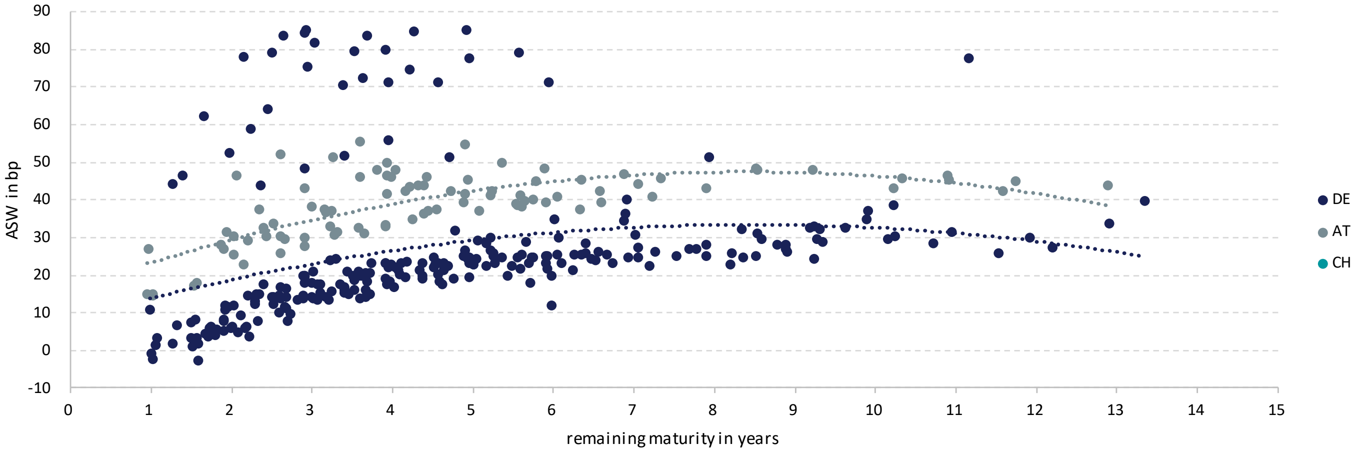
Order books (last 15 issues)



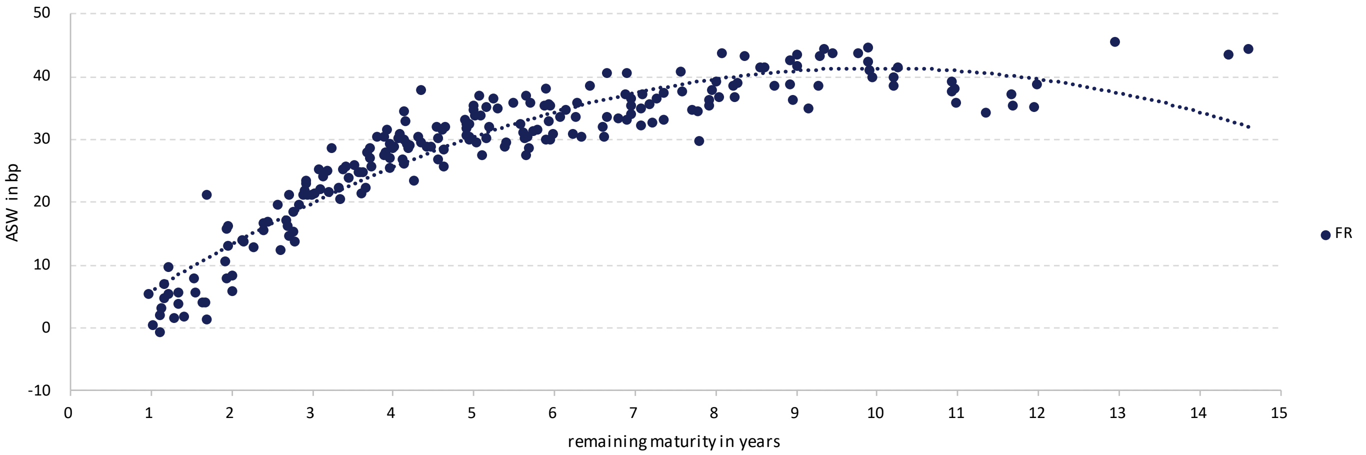
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

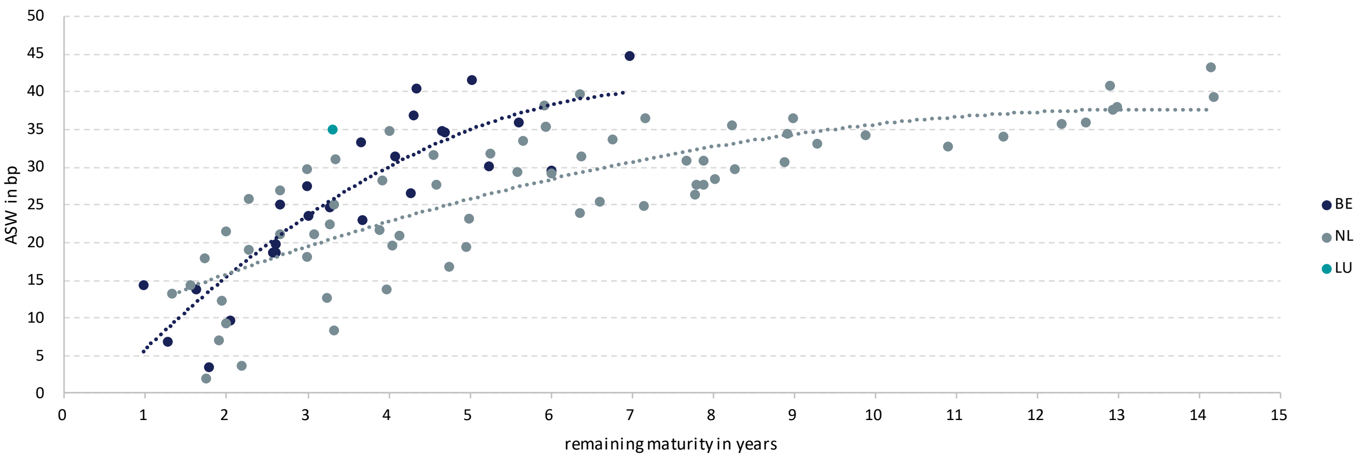
DACH



France

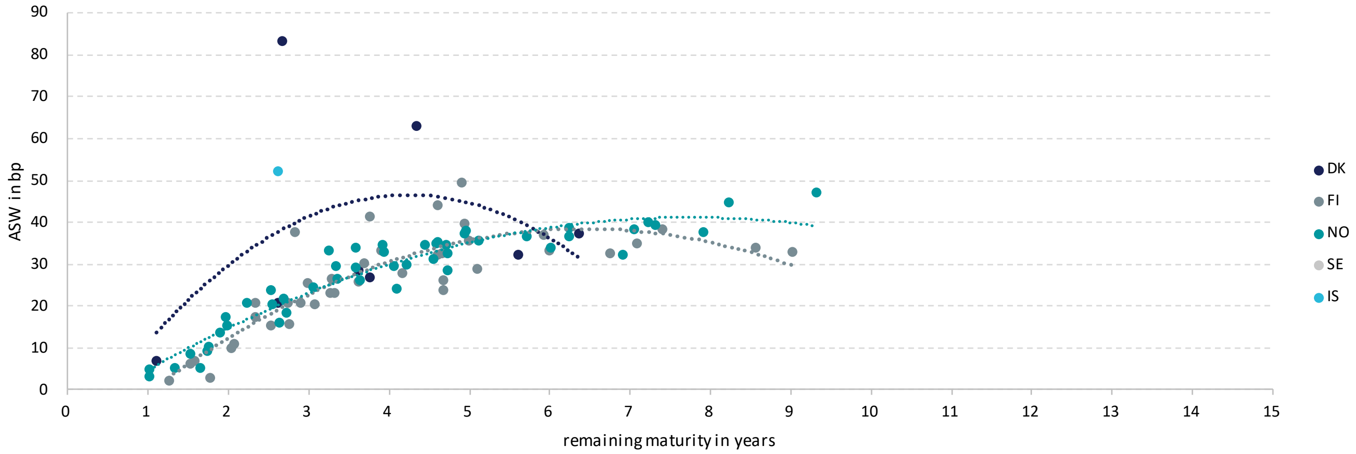


Benelux

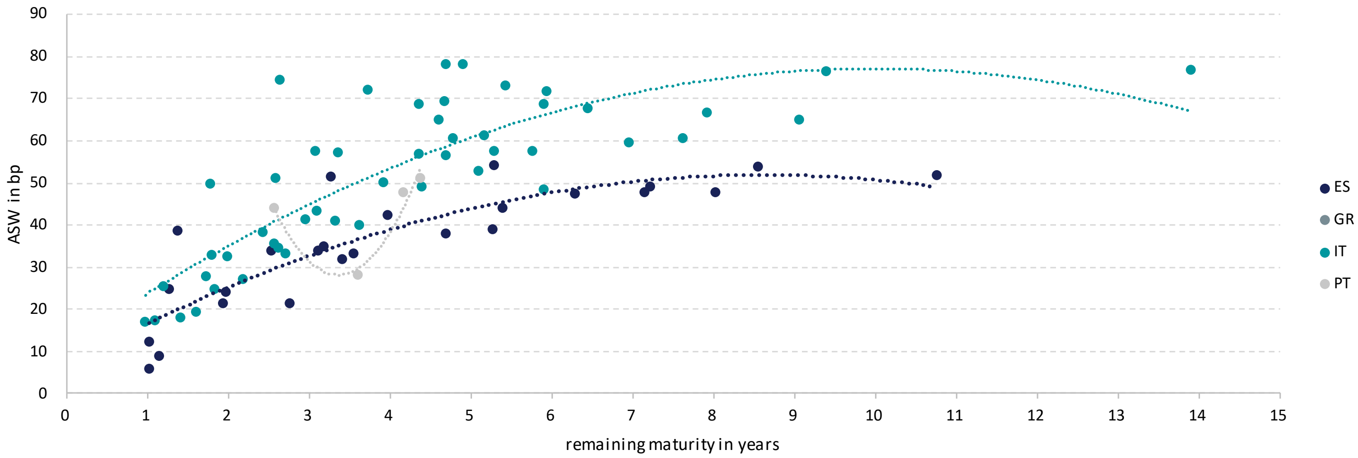


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

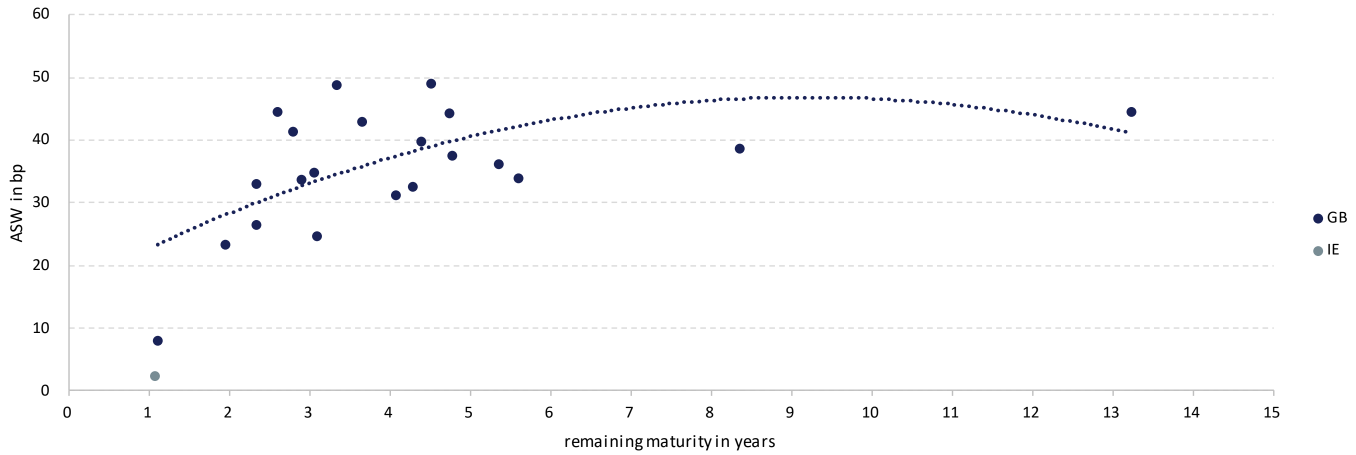
Nordics



Southern Europe

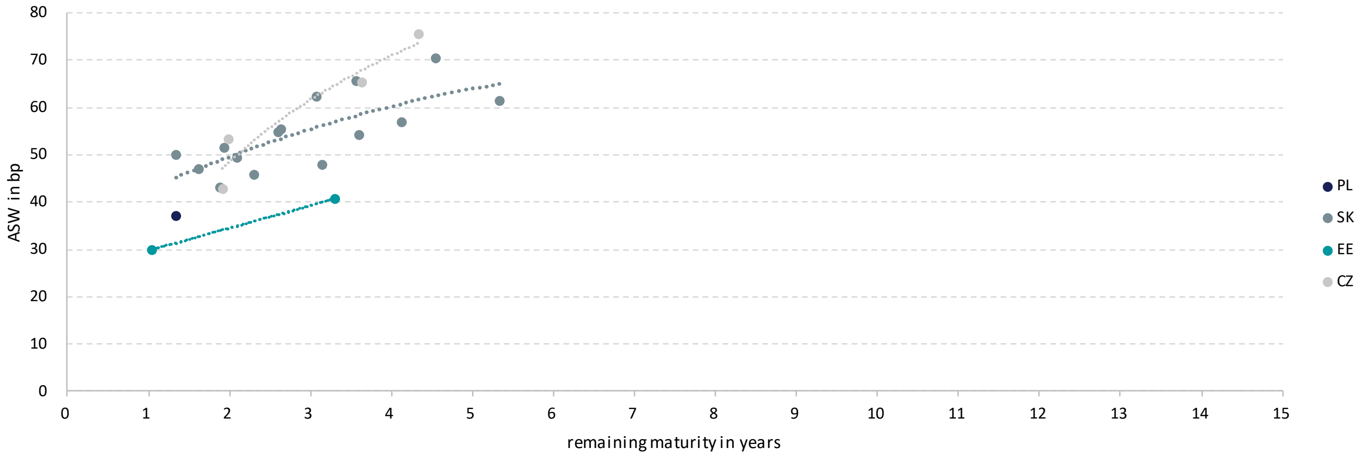


UK/IE

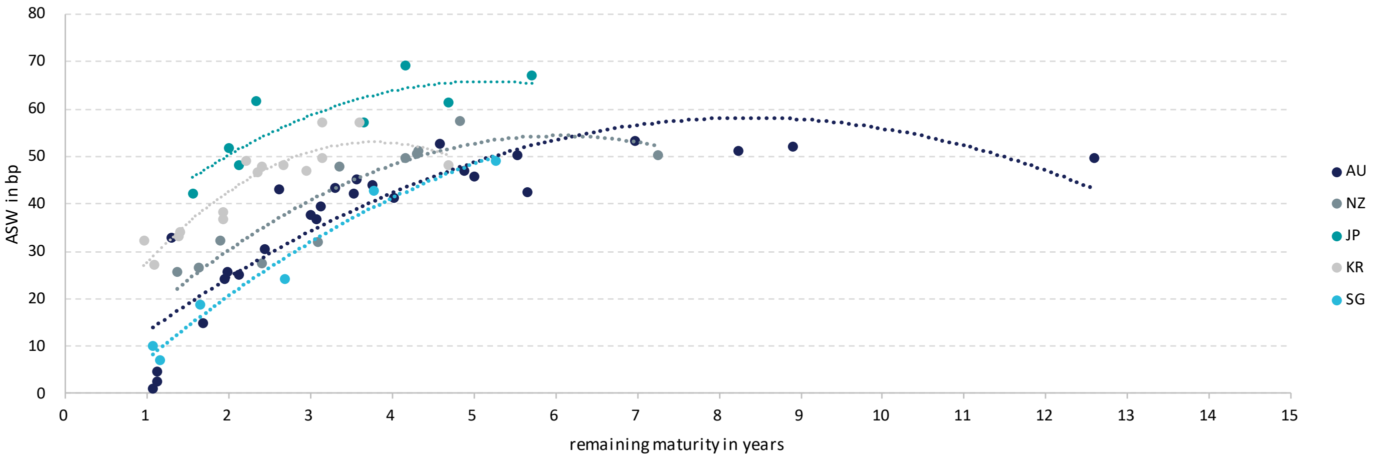


Source: market data, Bloomberg, NORD/LB Floor Research

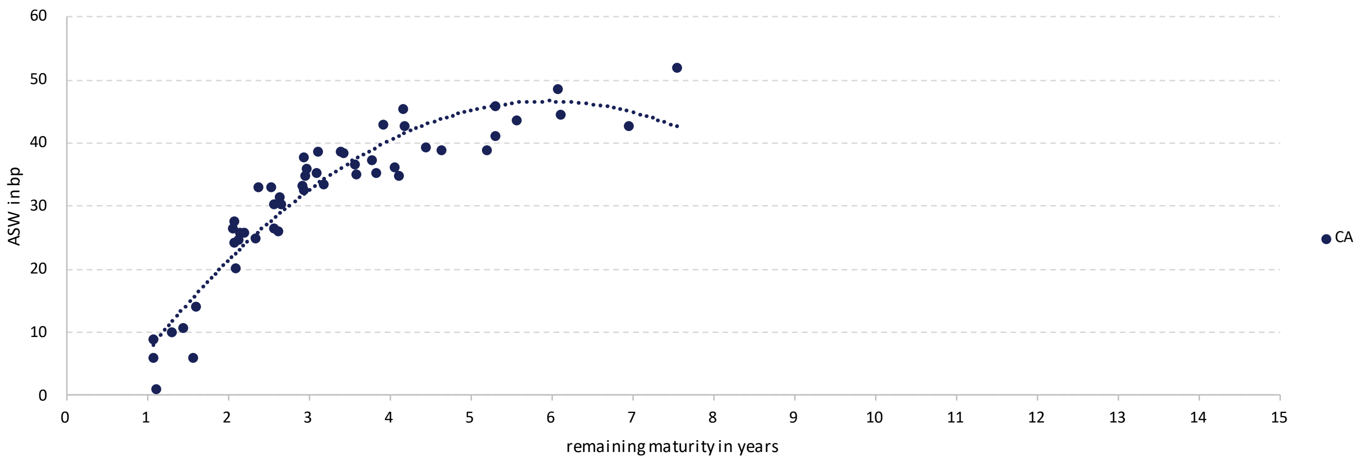
CEE



APAC



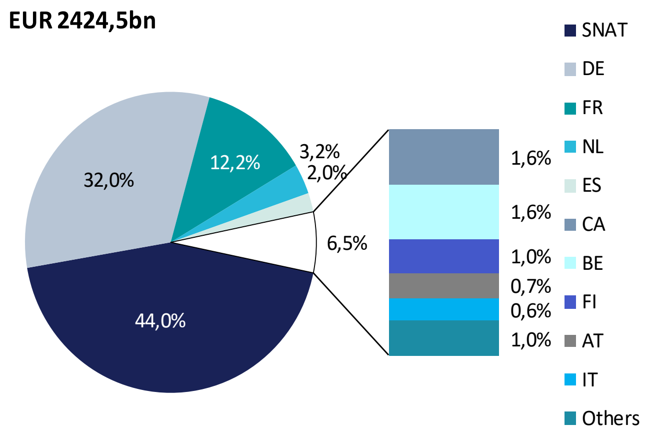
North America



Source: market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

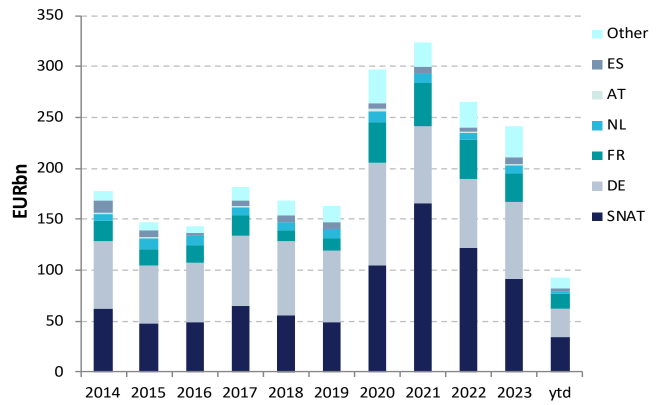
Outstanding volume (bmk)



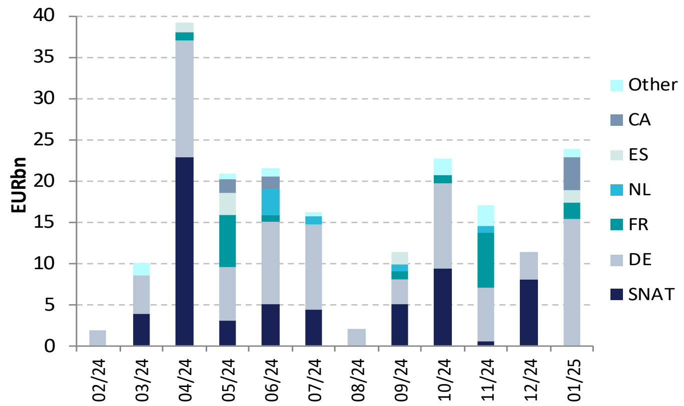
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1.067,3	232	4,6	8,0
DE	776,2	578	1,3	6,2
FR	295.2	198	1,5	6,0
NL	78.3	67	1,2	6,6
ES	49,6	67	0,7	4,7
CA	38.8	27	1,4	4,5
BE	37.8	41	0,9	10,6
FI	23.5	25	0,9	4,7
AT	17.8	22	0,8	4,3
IT	15.2	19	0,8	4,5

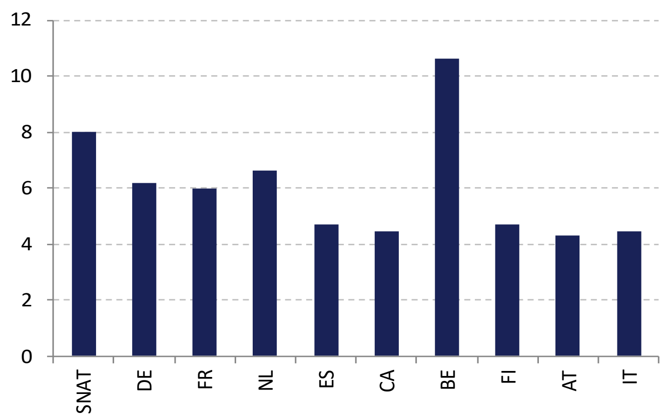
Issue volume by year (bmk)



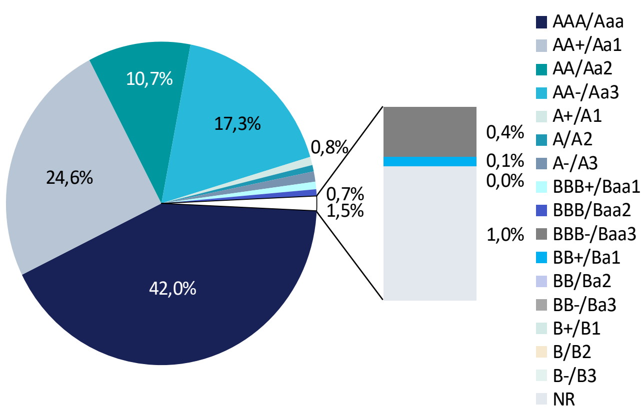
Maturities next 12 months (bmk)



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

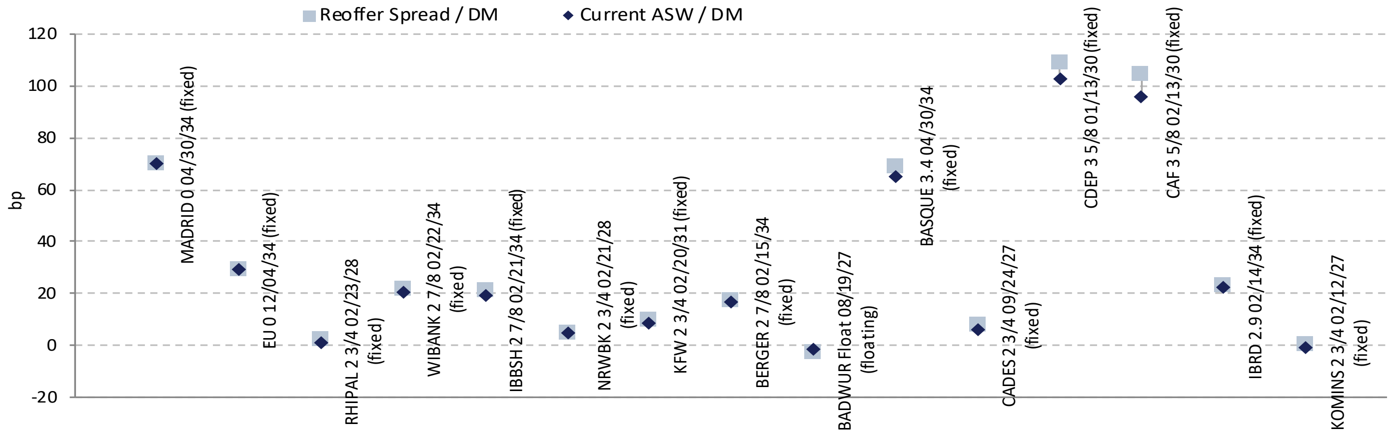


Rating distribution (vol. weighted)

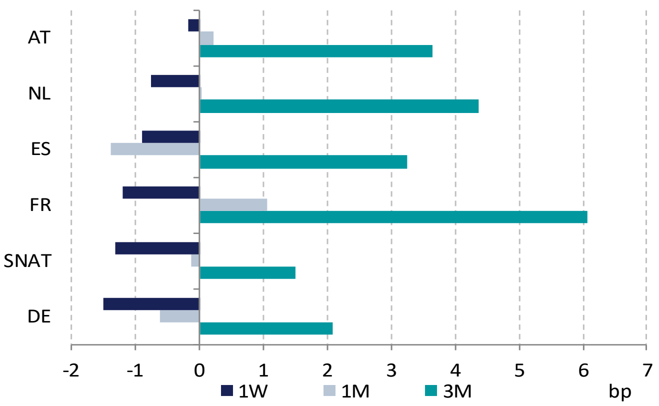


Source: Bloomberg, NORD/LB Floor Research

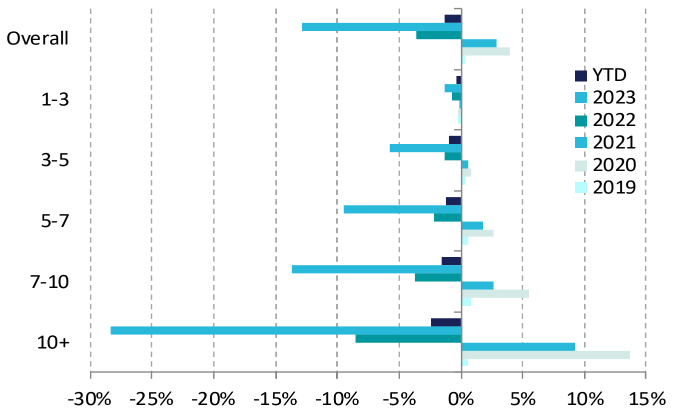
Spread development (last 15 issues)



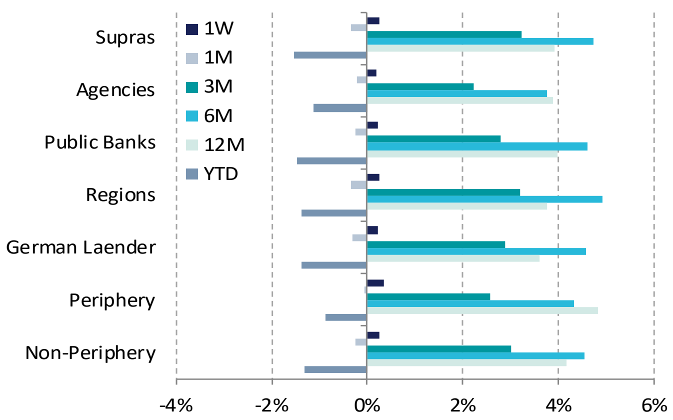
Spread development by country



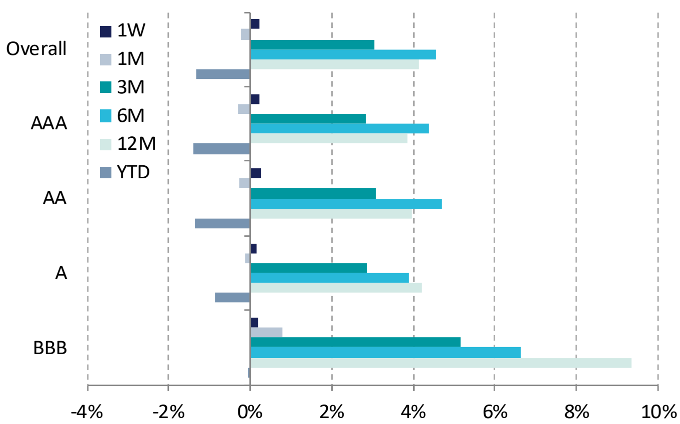
Performance (total return)



Performance (total return) by segments

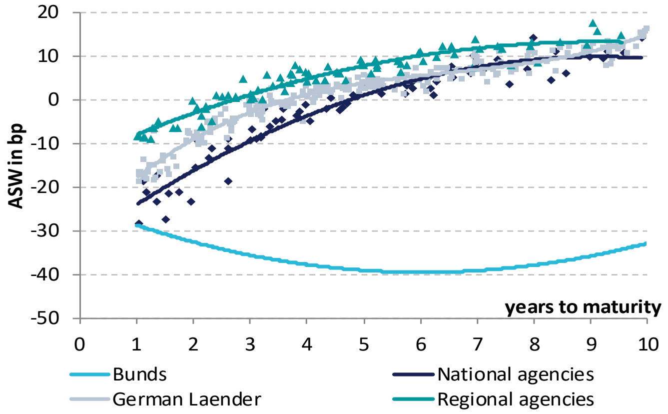


Performance (total return) by rating

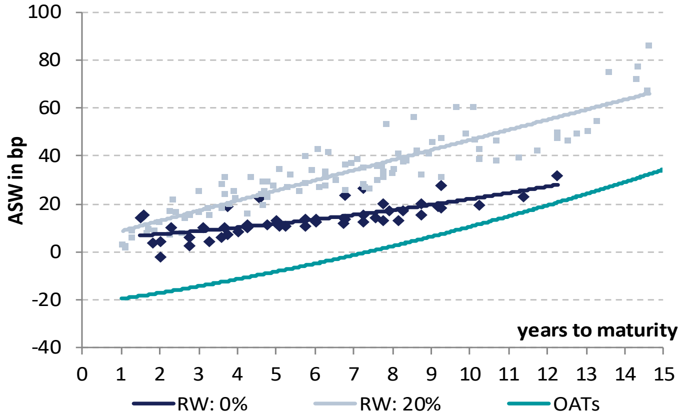


Source: Bloomberg, NORD/LB Floor Research

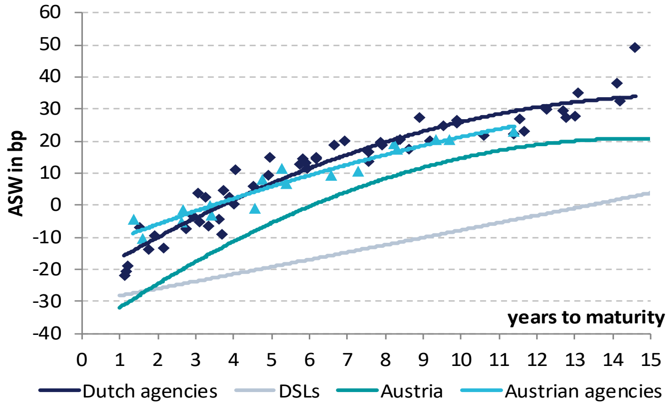
Germany (by segments)



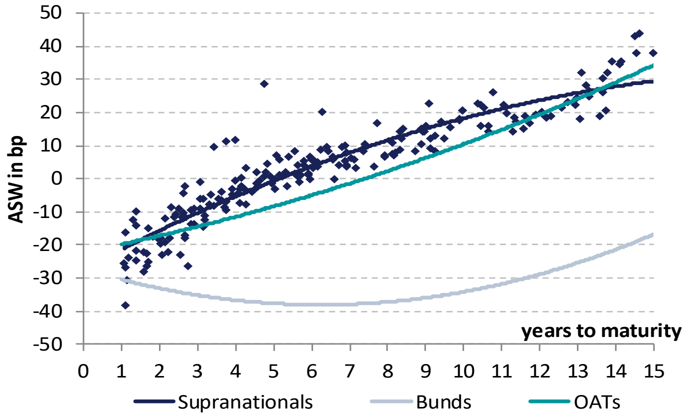
France (by risk weight)



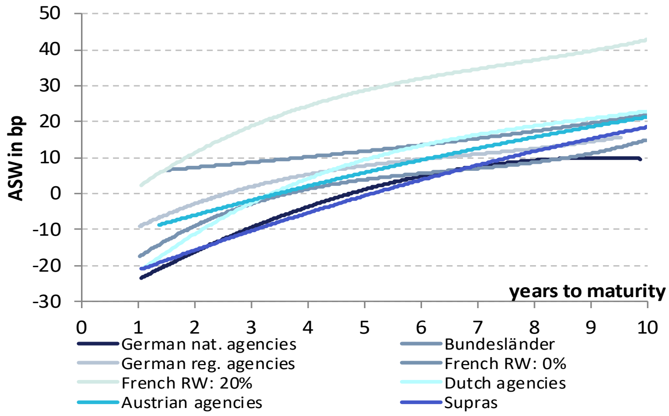
Netherlands & Austria



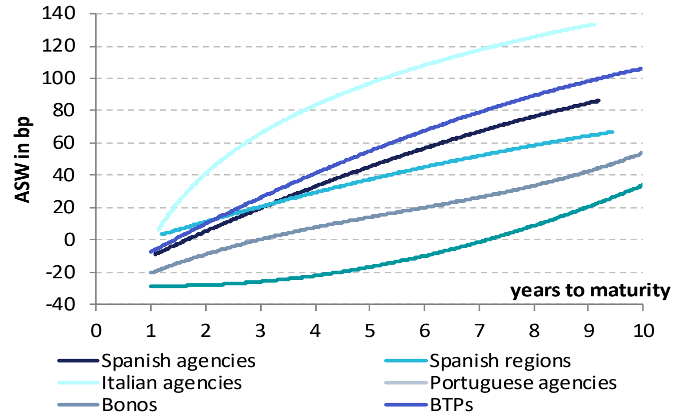
Supranationals



Core



Periphery



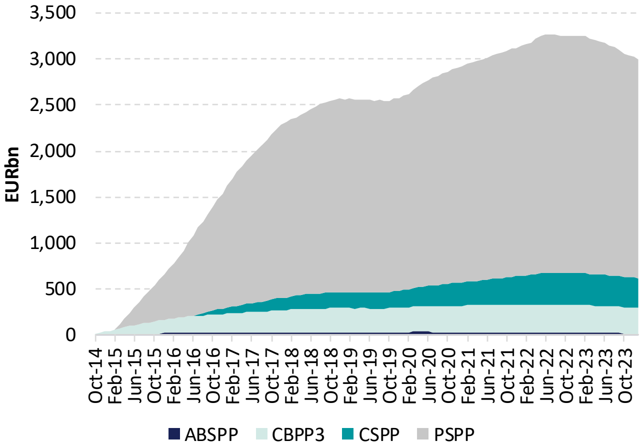
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

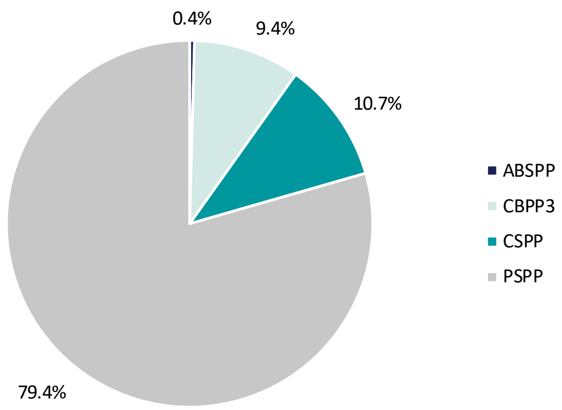
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-23	13,348	285,620	323,921	2,403,035	3,025,924
Jan-24	12,896	281,510	320,763	2,377,495	2,992,664
Δ	-452	-4,109	-3,159	-25,539	-33,259

Portfolio development

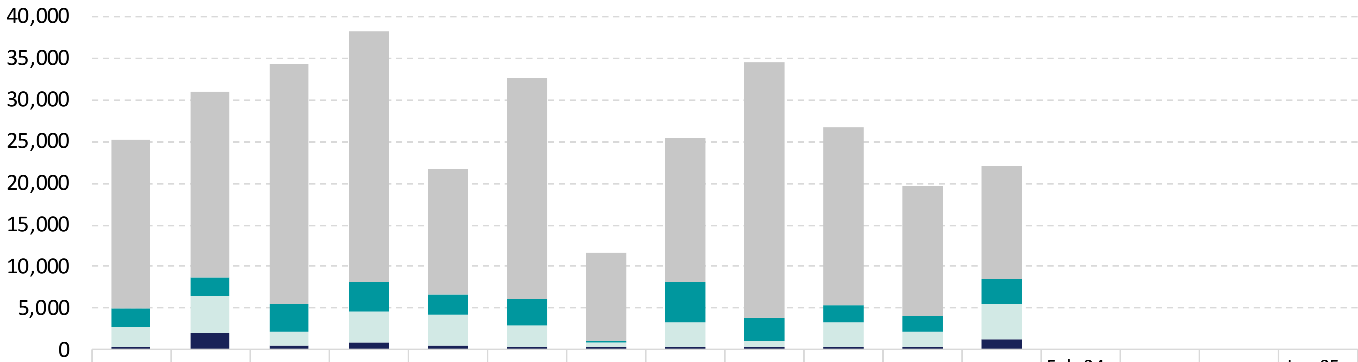


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

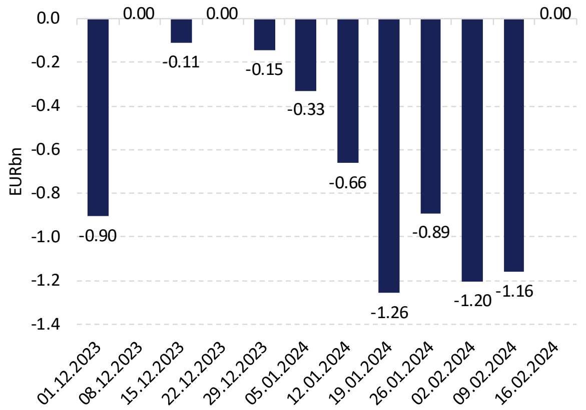


	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-24 - Jan-25	2023	2024	Jan-25 - Jan-25
APP	25,254	31,039	34,262	38,283	21,632	32,721	11,589	25,493	34,447	26,697	19,618	22,056	323,091	331,565	334,221	334,221
PSPP	20,372	22,413	28,712	30,194	14,974	26,620	10,533	17,416	30,578	21,298	15,557	13,463	252,130	255,025	264,191	264,191
CSPP	2,075	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	1,944	2,973	31,358	31,251	31,486	31,486
CBPP3	2,449	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	1,790	4,335	32,399	35,147	32,173	32,173
ABSPP	358	2,004	420	790	419	339	271	346	413	232	327	1,285	7,204	10,142	6,371	6,371

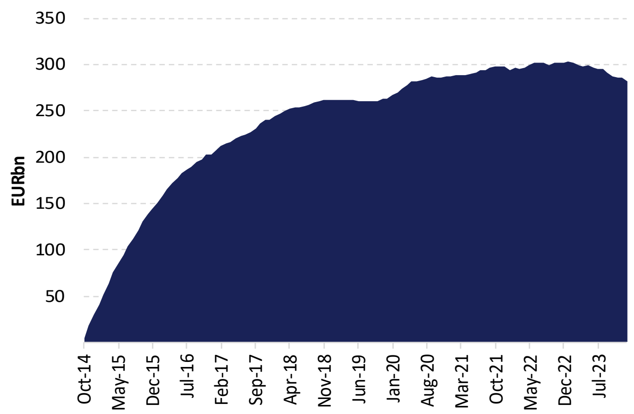
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

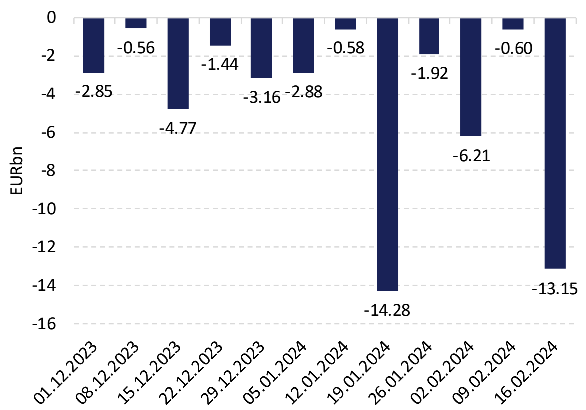


Development of CBPP3 volume

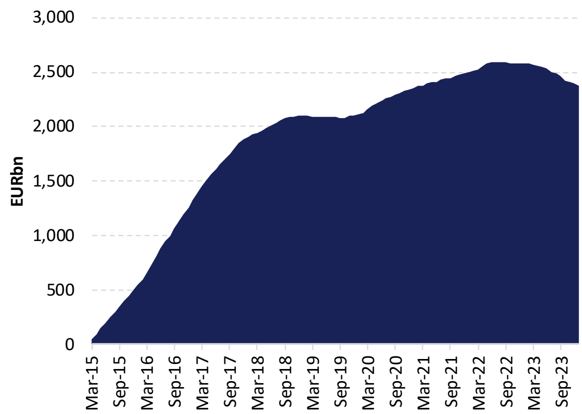


Public Sector Purchase Programme (PSPP)

Weekly purchases



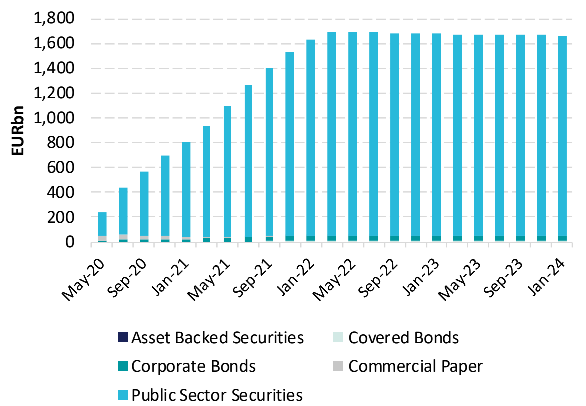
Development of PSPP volume



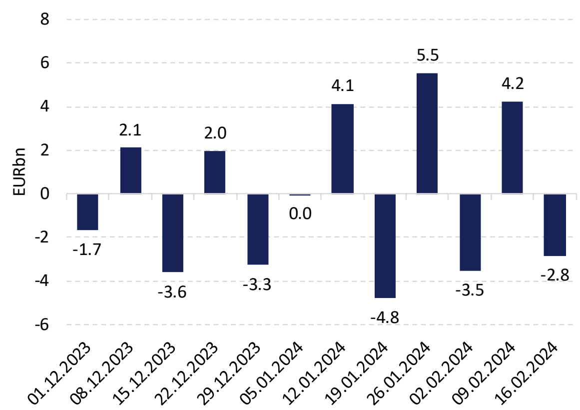
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
06/2024 ♦ 14 February	▪ Development of the German property market (vdp Index) ▪ Update: Joint Laender (Ticker: LANDER)
05/2024 ♦ 07 February	▪ January 2024: Record start to the new covered bond year ▪ SSA January recap: issuance volume at record level
04/2024 ♦ 31 January	▪ The Pfandbrief market at the start of 2024: caution thrown to the wind ▪ Teaser: Issuer Guide - Other European Agencies 2024
03/2024 ♦ 24 January	▪ The “V” in the LTV calculation: Differing approaches persist despite EU Directive ▪ 28th meeting of the Stability Council (December 2023)
02/2024 ♦ 17 January	▪ Pfandbrief market: potential newcomer Evangelische Bank ▪ Review: EUR-ESG benchmarks 2023 in the SSA segment
01/2024 ♦ 10 January	▪ ECB: Annual review of 2023 – no end to high rates? ▪ Covered Bonds: Annual review of 2023 ▪ SSA: Annual review of 2023
37/2023 ♦ 13 December	▪ Our view of the covered bond market heading into 2024 ▪ SSA outlook 2024: ECB, NGEU and the debt brake in Germany
36/2023 ♦ 06 December	▪ The covered bond universe of Moodys: an overview ▪ Teaser: Issuer Guide – Nordic Agencies 2023
35/2023 ♦ 29 November	▪ ESG covered bonds: a look at the supply side ▪ Current risk weight of supranationals & agencies
34/2023 ♦ 22 November	▪ Transparency requirements §28 PfandBG Q3/2023 ▪ Teaser: Issuer Guide – German Agencies 2023
33/2023 ♦ 15 November	▪ Development of the German property market ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	▪ Norway: creation of SpareBank 1 Sor-Norge ▪ ECB: PEPP versus TPI – or: (re)investing where others like to go on holiday
31/2023 ♦ 25 October	▪ Banks in Europe: the EBA Risk Dashboard in Q2 2023 ▪ Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	▪ A covered bond view of Belgium ▪ Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	▪ The covered bond universe of Moody’s: an overview ▪ Update on DEUSTD – Joint German cities (bond No. 1)
27/2023 ♦ 20 September	▪ Newcomer to the EUR benchmark segment: Bendigo and Adelaide Bank set to expand issuer base in Australia ▪ Teaser: Issuer Guide – Austrian Agencies 2023

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NORD/LB:
Covered Bond Research

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SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

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Appendix
Publication overview

Covered Bonds:

- Issuer Guide Covered Bonds 2023
- Covered Bond Laws
- Covered Bond Directive: Impact on risk weights and LCR levels
- Risk weights and LCR levels of covered bonds (updated semi-annually)
- Transparency requirements §28 PfandBG Q3/2023 (quarterly update)
- Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

- Issuer Guide – German Laender 2023
- Issuer Guide – German Agencies 2023
- Issuer Guide – European Supranationals 2023
- Issuer Guide – French Agencies 2023
- Issuer Guide – Dutch Agencies 2023
- Beyond Bundeslaender: Belgium
- Beyond Bundeslaender: Greater Paris (IDF/VDP)
- Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

- ESG-Update 2023
- ECB decision: Council versus market
- ECB preview: New year, new luck?!
- ECB: Scarf, dry cough and with less liquidity unwell into 2024

Appendix
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Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 9818-9460
Fixed Income Relationship Management Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
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

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