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Creating true value.

We wish all our readers a cracking Easter break!

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Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

NORD/LB

Agenda

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NORD/LB: Covered Bond Research

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Market overview Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: A pause for breath before the Easter break!

Compared to the previous edition of our weekly publication, in which we reported on an extremely active primary market, there were no new issues recorded over the past five trading days. As such, we shall take this as an opportunity to briefly review events on the primary market so far in 2024. As expected, January started strong. In fact, the opening month of the new year was so busy that a new record was set, with total issuances in the amount of EUR 40.6bn. This even topped January 2023, an exceptionally busy month in its own right with an issuance volume in the amount of EUR 39.7bn. In contrast, February was rather quieter, with new issues in the amount of EUR 14.5bn. Compared with the previous year, the issuance volume in February was nearly halved (February 2023: EUR 27.25bn). At the time of going to print, March had come in more or less on par with the previous year, with issues totalling EUR 17.0bn. Overall, the volume issued so far this year comes to EUR 71.1bn. In terms of jurisdictions, the primary market is still dominated by issuers from the German-speaking DACH (Germany, Austria and Switzerland) region and France. Positive news has also arrived from Southern Europe, with issuers from Italy and Portugal in particular being highly active on the market with eight and three new deals respectively. So far, issuers from Canada have been rather reluctant to get involved on the market. In fact, it is only Toronto Dominion Bank that has approached investors, ultimately raising a volume of EUR 3.5bn in a fresh dual tranche deal. The volume of new issues from Australia and New Zealand in the current year can also be described as rather below average. Many of the new deals placed this year generated well-filled order books, meaning that spreads have tightened significantly in some cases during the marketing process. The average bid-to-cover ratio across all deals placed on the primary market in 2024 to date stands at 3.2x (2023 average: 2.1x), which we take as a sign of very strong demand from investors at present. The positive development of the primary market is also reflected in low new issue premiums at present – in certain cases, these have even slipped into negative territory. At the start of the year, new issue premiums were still significantly positive. Looking ahead, however, from our perspective it remains to be seen to what extent this situation will continue on the primary market. We anticipate that repricing on the covered bond market must have at least come to an end, which could ultimately restrain demand to some degree.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

Secondary market: A picture of calm in the absence of new deals

Due to the lack of fresh supply on the primary market, the secondary market is also enjoying a period of relative tranquillity. Demand on the secondary market remains high, particularly among real money investors. Although the core jurisdictions of the EUR benchmark segment do not seem to be the focus of significant investor attention right now, we have still observed solid demand for covered bonds from Germany and France with terms of ten years.

Moody’s I: Credit quality on the European real estate market remains at risk

In a recent analysis, the risk experts from Moody’s offered a glimpse of a future in which the European real estate market is subject to increased credit risks. This applies to the CRE segment in particular. Despite an improvement in sentiment, the main reasons for increased risk on the part of companies with high CRE exposures over the next 12 to 18 months include high financing costs in tandem with challenging conditions and declining valuations, weak transaction markets and emerging refinancing needs, Moody’s writes. In the view of the Moody’s experts, meeting this refinancing requirement will become more difficult due to the fact that banks will be more cautious in terms of their lending activities on account of high-profile bankruptcies (e.g. SIGNA). Moody’s also expects operating performance to be more closely aligned with the quality or characteristics of the properties, so that owners of top class, modern commercial properties will perform better than those of older and subordinated CRE assets. On the covered bond market, some German issuers with high CRE shares in their cover pools were affected in particular by significantly more marked spread widening movements, as concerns about engagements in the US office building market, where the proportion of vacant properties is significantly higher than in Europe, grew ever larger. However, we do not take the view that this development will have a lasting impact on the covered bond market as a whole. This view of the situation is down to the fact that issuers’ cover pools are diversified with a high proportion of first-class residential assets overall. Demand on the primary market for EUR benchmarks also remains consistently strong overall.

Moody’s II: Basel 3.1 will reduce the risk of real estate boom and bust cycles

The successful implementation of the Basel 3.1 reforms into EU legislation will reduce the risk of real estate boom and bust cycles by making it more difficult for banks to lend at cyclical peaks, according to a recent report published by Moody’s. A new property valuation methodology now requires banks to differentiate between high and low-risk commercial and residential mortgages more accurately, in addition to demonstrating more capital during cyclical peaks, which at the same time leads to fewer loans being granted and higher borrowing costs. According to Moody’s, these measures have a positive impact on the creditworthiness of banks and covered bonds. Firstly, the measures serve to increase the asset quality and need for capital on the part of banks, while at the same time reducing the volatility of capital requirements. Secondly, covered bonds stand to benefit from an “improvement” in the credit quality of the issuing banks. In contrast, however, CRE companies and CMBS will be negatively impacted in the short term as lending to their sector becomes more difficult during peak periods. Nevertheless, over the long term, Moody’s expects them to benefit as markets and credit conditions will be less cyclical. In terms of short-term lending, the rating experts anticipate that lenders outside of the regulated banking sector will replace banks, as these are not subject to the rules governing capital market activities. However, excessive growth in the poorly regulated private lending business could lead to more significant systemic risks over the long term. The new regulations are set to enter into force on 1 January 2025, with Moody’s having identified additional introduction and implementation challenges owing to the tight time frame and the lack of regulatory guidelines.

Moody's III: Banca d'Italia proposes introduction of capital buffer for systematic risks
Banca d'Italia, the Italian central bank, has proposed the introduction of a capital buffer for systematic risks (SyRB) for banks domiciled in the country. According to the plans, banks in Italy would have to set aside additional Common Equity Tier 1 (CET1) capital amounting to 0.5% of domestic weighted exposures as at 31 December 2024 and 30 June 2025. According to the rating experts at Moody's, this measure is intended to serve as a buffer against unexpected shocks and credit risks that could potentially arise largely as a result of economic weakness in the Italian economy. In addition, Italian households and small businesses would suffer from weakening creditworthiness as a result of the high interest rates. Macroprudential instruments such as SyRB or CCyB (countercyclical capital buffers) have been implemented in all EU member states – with the exception of Spain, Greece and Poland. These serve to minimise systematic risks that have not yet been adequately mitigated by other capital buffers. According to Moody's, Italian banks are in a good position to meet the new capital requirements on account of their historically high capital ratios (CET1 ratio of around 15% in 2023, as against an average requirement of 9%) and falling new lending business (which leads to a reduction in risk-adjusted assets, and in turn supports CET1 ratios and capital buffers). On the other hand, Moody's is of the view that Italian banks could slightly increase their bond issuance activities in order to finance the new regulations, which would also increase the scope for new covered bonds from Italy.

Deutsche Hypo Real Estate Economic Index: Positive trend does not last long
Following the recent positive news in February, when sentiment improved markedly, the latest news from the Deutsche Hypo Real Estate Economic Climate has been altogether more sobering. In the current monthly survey, the index declined by -1.7% month on month and now stands at 75.9 points. Although the Earnings climate remained practically stable, the decline in the Investment climate (-3.8% M/M to 61.1 points) bears the bulk of the responsibility for this negative development. Sentiment in the Office and Residential climates also declined significantly. However, the development in the Hotel climate can be assessed positively, with the 90-point mark having now been exceeded for the first time since March 2020 following an increase of +3.9% versus the previous month. The Logistics climate recorded the most significant increase, at +4.1% month on month (currently: 108.3 points). According to Harald Nolterieke, head of the Munich office, the general mood can be described as unpredictable. With a turnaround in interest rates not expected until later in the year, an accurate forecast in relation to bolstered transaction and rental markets cannot currently be offered with any degree of reliability. However, there is also some good news, such as a significant reduction in construction costs and, in some cases, dynamic rental price developments, which could provide a green light allowing projects to be realised.

Moody's IV: Outlook for the banking systems in Austria and Finland

After publishing a comprehensive update on banking systems in Europe (cf. previous edition of our weekly publication), the rating experts at Moody's have now also issued an update for the jurisdictions of Austria and Finland. The outlook was adjusted from "stable" to "negative" for both countries. Following a recession last year, the Austrian economy continues to struggle with weak business figures, with a return to growth additionally expected to be a slow process. Even in the event that private consumption increases, Austrian businesses will come under greater pressure due to wage inflation and lower spending. With interest rates having now stabilised at a high level, Moody's expects that credit performance will continue to decline, especially after the peak in 2023. The profitability of banks is secured by stable operating performances, even if the quality of assets starts to deteriorate. Finnish banks are also struggling to cope with a weak economic situation, and asset quality is likewise declining due to higher unemployment and interest rates that remain at a high level. Profitability is also expected to come under slight pressure, although internal capital generation remains stable. According to Moody's, banks in both countries have a broad network of diverse funding tools at their disposal, with well-developed covered bond markets playing a particularly important role in this context.

Market overview
SSA/Public Issuers

Authors: Christian Ilchmann // Lukas-Finn Frese

Nordics: updated recommendations for green bond reporting

A group of the largest public sector issuers from the Nordics has published an updated guide for reporting on green bonds, which contains revisions of the critical metrics for quantifying impacts and new recommendations to take account of the most recent market developments. The fourth issue of the Nordic Position Paper on Green Bonds Impact Reporting is now available. “To ensure sustainable bonds retain and reinforce their credibility as useful instruments for financing the transformation, it is vital that market participants proceed with due care and transparency when issuing and reporting on such bonds”, says Björn Bergstrand, Head of the Sustainability Department at Kommuninvest (Sweden) (ticker: KOMINS) and coordinator of the Nordic collaboration. The collaboration within the public sector to harmonise and encourage reporting on green bonds dates back to the early days of issuing green bonds in Nordic countries. The paper, which was developed as a practical guide and entry point for issuers, was first published in 2017 and subsequently updated in 2019 and 2020. The key changes in the 2024 update include revised emission factors for electricity and district heating as well as recommendations for annual reporting, regulations, ESG strategy and risk management. The signatories welcome the fact that the position paper is also used by issuers in the private sector. It was developed with the primary aim of assisting Scandinavian public sector issuers in reporting on the environmental impacts of their investments and of harmonising the reporting methods to the benefit of investors in green bonds. Besides Kommuninvest, the group of issuers who published the position paper also includes Kommunalbanken, which also operates as a municipal financier (ticker: KBN, Norway), KommuneKredit (ticker: KOMMUN, Denmark) and MuniFin (ticker: KUNTA, Finland) as well as the export financier Svensk Exportkredit (ticker: SEK, Sweden) and a series of Swedish municipal and regional issuers.

BNG publishes first results for the 2023 financial year

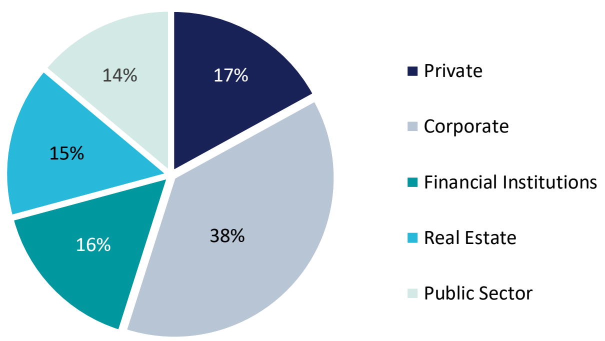
The Dutch municipal financier BNG Bank (ticker: BNG) provided a first insight into the financial result for the 2023 financial year as part of a press release. Accordingly, net interest income came to EUR 563m, which amounts to an increase of EUR +82m year on year. Longer terms for the loans granted – the average term amounted to 23 years – and interest rate hikes contributed to this increase. Despite the positive trend in net interest income, BNG Bank reported a fall in net profit to EUR 254m (2022: EUR 300m), due to a fall in earnings from financial transactions in the liquidity portfolio. The portfolio of long-term loans rose by EUR 1.2bn to EUR 89.2bn, with new long-term loans of EUR 11.3bn being awarded to customers in the process. The capital position of BNG Bank remained strong in 2023 too with a CET1 ratio of 43%. The complete annual report will be published on 29 March.

KfW: annual financial statements and 2023 allocation report for green bonds published
KfW (ticker: KFW) published its figures for the 2023 financial year last week and can again look back on a strong promotional year in which promotional loans or new business totalled EUR 111.3bn (2022: EUR 166.9bn). Meanwhile promotional lending within Germany returned to normal levels at EUR 77.1bn (2022: EUR 136.1bn) in 2023. This decrease was due to sharply falling amounts of mandated transactions for energy companies, which now stand at EUR 11.5bn (2022: EUR 54.2bn) and far lower German government funding commitments to make buildings more energy efficient. As far as the latter is concerned, the switch from broad-based promotion to focused promotion with more demanding promotional conditions led to a downturn to EUR 16.1bn (2022: EUR 37.4bn). Despite uncertainties in the geopolitical and macroeconomic environment, the KfW Group achieved a gratifying consolidated result. At EUR 1.56bn, the consolidated profit was slightly up on the average for the last five years and well up on the previous year's result. This was attributable, in particular, to a strong operating result and a positive valuation result. Stefan Wintels, CEO of KfW, commented, "This annual result shows that KfW has performed very well and maintained its profitability, even under challenging underlying conditions. At the same time, it has further improved its capitalisation and risk-bearing capacity. KfW is thus in a strong position as it enters 2024. This positive result is important and necessary; it enables us to continue to support transformation effectively in the future." KfW's balance sheet total increased moderately by EUR 6.1bn to EUR 560.7bn. This change was primarily attributable to the increase in cash and cash equivalents, which was offset by a fall in net credit volume. As at year-end 2023, KfW's regulatory capital ratios remained at a high level with a total capital ratio and a (hard) core capital ratio of 27.9% in each case. They increased significantly year on year as a result of the postponed recognition of earnings for the second half of 2022 and the first half of 2023 as well as the decline in the total risk exposure amount (31 Dec. 2022: 25.2% and 25.0%, respectively). By contrast, the beginning of 2024 was rather lukewarm: at the end of February, KfW's new business amounted to only EUR 10.9bn (02/2023: EUR 30.0bn). The fall in new business volume in the first two months of the year was largely attributable to a non-recurring effect in the previous year: in the comparable period in 2023, prolongations of mandated transactions for energy companies on behalf of the German government in new business within Germany reached a figure of EUR 16.5bn. Promotional business within Germany (02/2023: EUR 26.1bn) returned to normal levels in the first two months and reached a figure of EUR 6.9bn. The allocation report for the Green Bonds – Made by KfW issued in the 2023 financial year was also published last Thursday. An amount equal to the total net proceeds of the green bonds issued in 2023 (EUR 12.9bn) was allocated in its entirety to climate protection projects in the categories of renewable energies, energy efficiency and sustainable mobility. In this context, 71.5% of all applications for payment were attributable to energy efficiency, 27.1% to renewable energies and 1.4% to sustainable mobility. Geographical analysis showed that 95.7% of the issuance proceeds were allocated to projects within Germany. The remainder was attributable to other OECD countries. Last year, KfW issued 22 green bonds in total in nine different currencies. The volume-weighted average term of the new bonds amounts to 7.5y. The net proceeds achieved accounted for approximately 14% of the promotional bank's total capital market funding.

Investitionsbank Sachsen-Anhalt: one year of (legal) independence

Investitionsbank Sachsen-Anhalt (IB) is a public law institution (Anstalt des öffentlichen Rechts - AöR) and, as the central promotional institution, supports Saxony-Anhalt with promotional functions for corporate, private sector and public sector customers. To this end, IB offers grants, loans and trusteeships as well as its own promotional services. The financial institution, which is now independent, was established in 1991 as a Landestreuhandstelle. It then became the Landesförderinstitut Sachsen-Anhalt – a division of Norddeutsche Landesbank (NORD/LB) in 1992 and a "Anstalt in der Anstalt" of NORD/LB in 2004. In 2022, the German Association of Public-Sector Banks (VöB) accepted IB as a full member. On 1 March 2023, it was finally spun-off from the NORD/LB Group. IB's current responsibilities can be divided into three areas of business: grants (61%), banking products (22%) and quasi-promotional services (17%), with banking products supplementing public sector funds in its financing activities. An example of IB's activities is provided by "GRW" promotion (Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur – joint scheme for improving regional economic structures), the promotion of research and development and the "Förderprogramm Ressourceneffizienz KMU" (programme to improve SMEs' resource efficiency). In 2022, total promotional funding of approximately EUR 960m (2021: EUR 916.1m) was approved, of which EUR 689.7m in grants and EUR 185m in the form of loans. Financing is provided by funds from the EU, the German government and the Land itself. In particular, the European "Just Transition Fund" and the European Regional Development Fund (ERDF) support the promotion of many projects. IB also works with 16 cooperation partners, mainly commercial banks and building societies. IB does not have its own rating, however, we analyse its guarantor, Saxony-Anhalt (AAA/AA1/ -) on a regular basis as part of our Issuer Guide – German Laender 2023. The Land therefore not only has unlimited but also direct liability for IB's liabilities. This is why Saxony-Anhalt brought housing promotion loans into the bank in 2004, with the aim of guaranteeing liable equity capital ("endowment capital") of at least EUR 100m. In 2022, IB achieved a financing surplus of EUR 93.8m (2021: EUR 94.2m). We expect a positive performance for Saxony-Anhalt's central promotional institution in the future, both in terms of its promotional volume and its overall economic situation, even after its hived-off from NORD/LB.

Financing by segment 2022



Trend in approved promotional funding

Source: Issuer, NORD/LB Floor Research

Primary market

The past trading week was already overshadowed by the upcoming Easter holiday, meaning that the SSA primary market was correspondingly quieter. Nevertheless, we can report on four new issues with an aggregated volume of EUR 8bn in today's edition of our weekly publication. Last week, we had already drawn attention to the mandate issued by the federal state of Bremen (ticker: BREMEN) and it all started last Wednesday with the issue of a new ten-year bond in the amount of EUR 500m (WNG) and a coupon of 2.875%. The order book finally reached EUR 600m, meaning that the bond was priced at ms +19bp in line with guidance. It was the second issue by the north German state this year. We also commented on the mandate issued by the Belgian region of Flanders in our last issue. It was represented by the Ministeries van de Vlaamse Gemeenschap (ticker: FLEMSH), which approached investors with a dual tranche consisting of two bonds of EUR 1.25bn last Wednesday: an initial guidance of OLO +37bp area was announced for the shorter dated bond with a term of just over ten years and a coupon of 3.125%, which was then revised to OLO +34bp over the course of the book-building process. Due to a strong order book of EUR 10bn, the final spread ultimately tightened to OLO +32bp (corresponds to circa ms +49bp). The longer dated bond featured a sustainable label in addition to a maturity in excess of 20 years and a coupon of 3.5%. Here, a guidance of OLO +31bp was announced in advance, which was revised down by three basis points in the marketing phase. There was significant interest from investors for this bond as well, which manifested itself in an order book of EUR 10bn again. This meant that the final spread tightened to OLO +26bp (corresponds to circa ms +90bp). Both deals therefore had an identical bid-to-cover ratio of 8.0x. Having remained quiet for the rest of the trading week, another heavyweight, namely Kreditanstalt für Wiederaufbau (ticker: KFW) ventured onto the market yesterday (Tuesday): with its fourth issue this year, the German promotional bank sought new funding of EUR 5bn to be raised for a period of five years. As expected, demand from investors for the bond, which featured a coupon of 2.625%, was substantial, and the order book reached a considerable EUR 18.9bn, meaning that the deal was finally completed two basis points lower at ms +3bp (guidance: ms +5bp area). In the near future, we are also expecting another mandate: the Dutch municipal financier BNG Bank (ticker: BNG) is planning to issue a social bond in EUR benchmark format. The maturity is expected to amount to five years. Before we take our leave for the two-week Easter holiday, we would like to draw your attention somewhat in advance to the next bond auction by the European Union (ticker: EU), which will take place on 8 April. We wish you a very enjoyable Easter holiday and will report in depth, as usual, on the activities in the SSA primary market in our next issue in April.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
KFW	DE	26.03.	DE000A382475	5.1y	5.00bn	ms +3bp	AAAu / Aaa / AAA	-
FLEMSH	BE	20.03.	BE0390122852	21.3y	1.25bn	ms +90bp	AA / Aa3 / -	X
FLEMSH	BE	20.03.	BE0390121847	10.3y	1.25bn	ms +49bp	AA / Aa3 / -	-
BREMEN	DE	20.03.	DE000A30V380	10.0y	0.50bn	ms +19bp	AAA / - / -	-

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

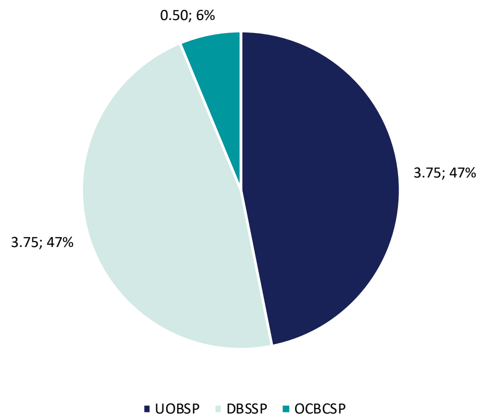
Covered Bonds
Maybank: New covered bond issuer from Singapore

Authors: Dr Frederik Kunze // Lukas Kühne

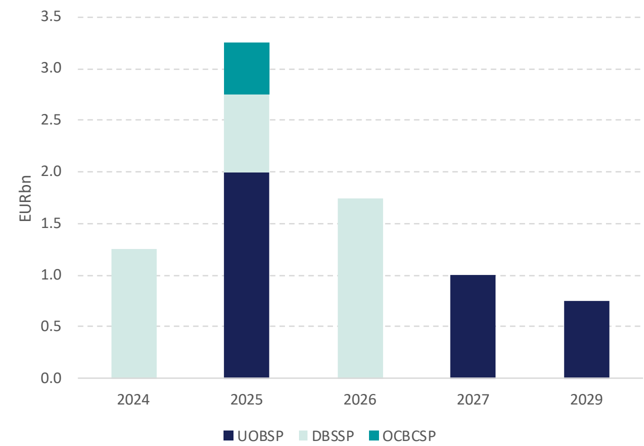
EUR benchmark issuers from Singapore: An overview

Last Monday, Maybank from Singapore published its first covered bond programme and announced that it would be going on a non-deal related roadshow across Europe. The rating experts from Moody's and Standard & Poor's had previously published an initial rating report for Maybank's covered bond programme. We are taking this news as an opportunity to take a closer look at the Singapore covered bond jurisdiction in general and the future issuer Maybank in particular. At present, three issuers from Singapore, namely United Overseas Bank (UOB), DBS Bank (DBS) and Oversea-Chinese Banking Corporation (OCBC), are active in the EUR benchmark segment. The outstanding volume of EUR benchmark deals in Singapore totals EUR 8.0bn. Around 94% of the outstanding volume is attributable to the issuers UOB and DBS, which have each placed covered bonds in the amount of EUR 3.8bn on the market. With no issuers from Singapore active on the market last year, DBS ended this stalemate by successfully issuing a covered bond amounting to EUR 1.0bn in February of this year.

Outstanding EUR benchmarks SG (EURbn)



EUR benchmarks SG (maturities; EURbn)

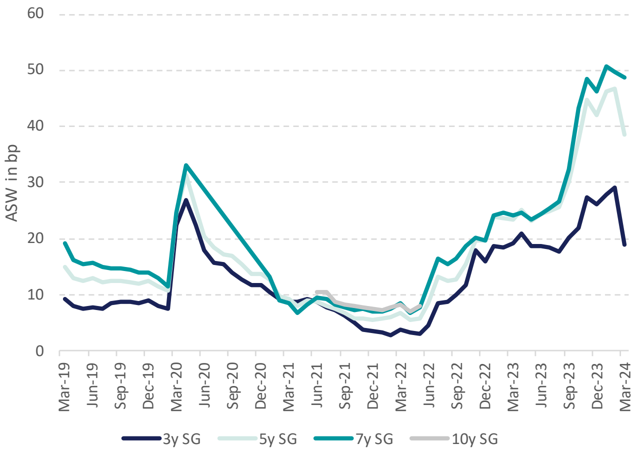


Source: Market data, NORD/LB Floor Research

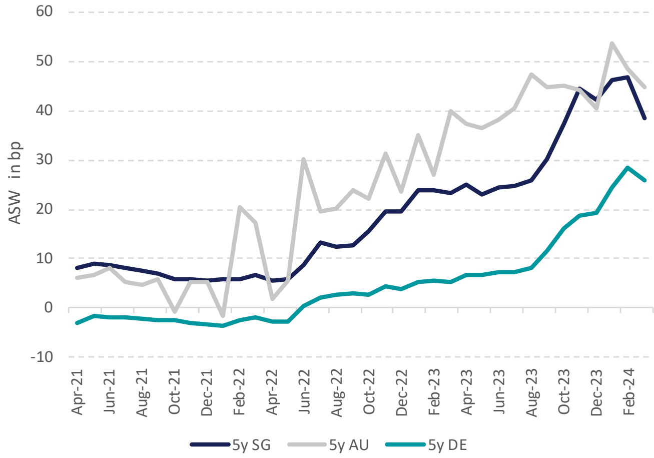
Spread development: repricing more pronounced in the longer maturity segment

Singapore issuers were also unable to escape the general rise in interest rates and the repricing movement on the covered bond market closely linked to this. Spreads increased accordingly across all maturity segments. The spread increase in the five and seven-year maturity segment was much more pronounced than in the three-year covered bond spreads. A comparison of jurisdictions shows that five-year covered bonds currently have a pick-up of around 13 basis points versus German Pfandbriefe, but are still trading below the spreads of Australian covered bonds.

ASW spreads: Singapore (generic)



ASW spreads: SG, AU, DE (generic)



Source: Market data, NORD/LB Floor Research

Newcomer in the covered bond market: Maybank

Maybank Singapore Limited (MSL) is a wholly owned subsidiary of Malayan Banking Berhad (Maybank Group) and operates in Singapore with a full banking licence. With about 2,600 branches in 18 countries, the Maybank Group is one of the most important banks in Southeast Asia and the largest bank in Malaysia in terms of total assets (EUR 202.7bn). The Maybank Group has been active in Singapore since the 1960s, where it operates its global banking business with corporate and institutional clients. The Maybank Group has been recognised as a domestic systemically important bank (D-SIBs) in Singapore since 2015. Within the Group, MSL serves consumers and SMEs based in Singapore. MSL offers its customers all the services of a universal bank across 18 branches. At the end of December 2022, the market share for loans in Singapore stood at around 3%. The rating experts from Moody's and S&P emphasise that one of the bank's particular strengths is the high quality of its assets, which are mainly located in Singapore, as well as the bank's robust capitalisation, which in the opinion of the rating agencies provides a sufficient buffer against unexpected losses. The rating experts see the moderate profitability and moderate funding of the bank as challenging. Overall, the rating agencies give MSL a Bank Deposits Rating of A1 (Moody's) and an Issuer Credit Rating of A (S&P). The institutions from Singapore currently active in the EUR benchmark segment are summarised below, supplemented by the Maybank programme.

Issuer (SG)[1]	Cover Pool (SGDm)	Outst. Volume (SGDDm)	OC (%)	LCR level / Risk weight[2]	LTV (unindexed; %)	Moody's Collateral Score[3]	Number of loans	Long-Term Issuer rating (Fitch / Moody's / S&P)[4]	Covered Bond rating (Fitch / Moody's / S&P)
DBS Bank	24,506	12,682	93.2	2A / 20%	53.1	5.0%	32,957	AA-/ Aa1 / AA-	AAA / Aaa / -
OCBC	7,066	917	670.8	2A / 20%	50.4	5.0%	11,849	AA-/ Aa1 / AA-	AAA/ Aaa / -
United Overseas Bank	11,952	7,404	61.4	2A / 20%	52.8	5.0%	19,279	AA-/ Aa1 / AA-	-/ Aaa / AAA
Maybank Singapore	*2,089*	-	*187.1*	*2A / 20%*	*57.3*	*5.3%*	*2,630*	*- / A1 / A*	*- / Aaa / AAA*

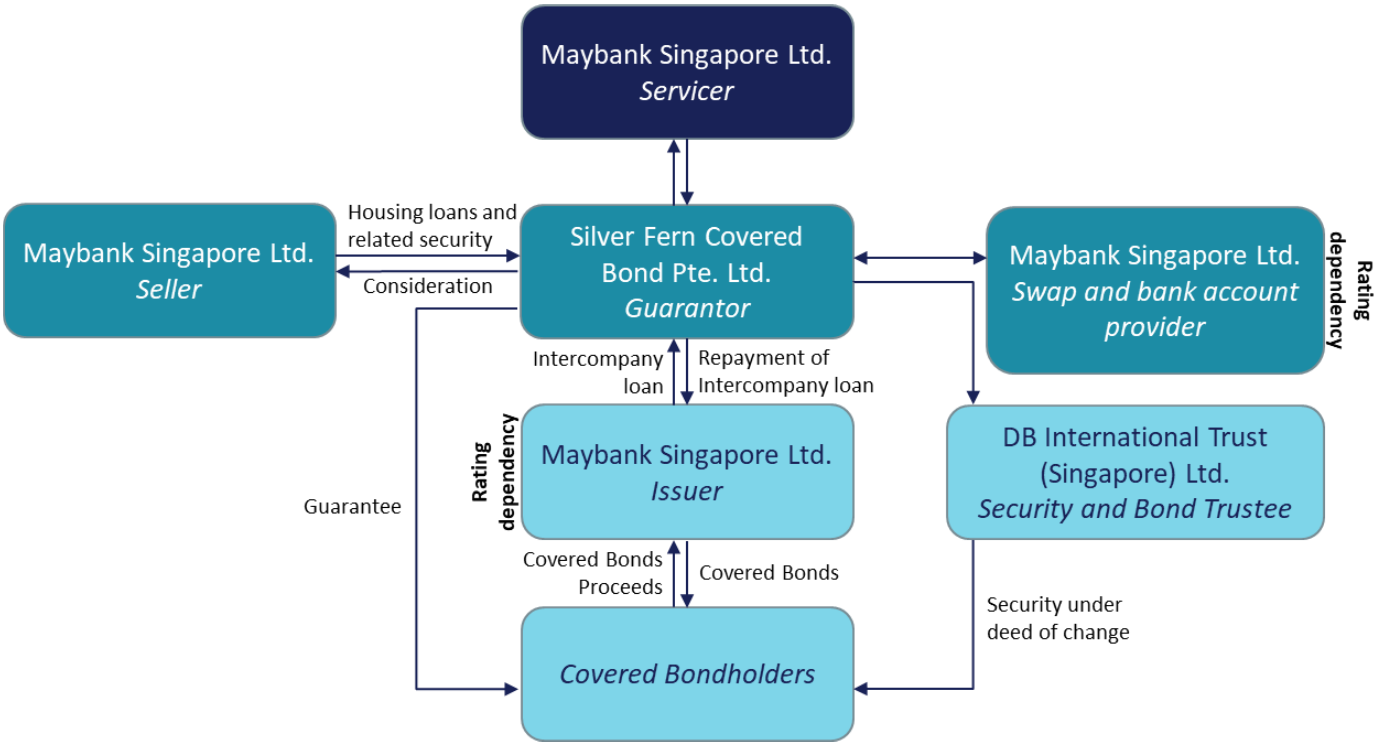
Source: Banks, rating agencies, NORD/LB Floor Research

[1] Cover pool data as at 31 December 2023; [2] Regulatory treatment of EUR benchmarks; [3] from: Moody's Covered Bonds Sector Update – Q4 2023;
[4] Rating definitions: Fitch (Long-Term Issuer Default Rating), Moody's (LT FC Bank Deposits Rating), S&P (LT FC Issuer Credit Rating)

The Maybank covered bond programme

Last week, rating experts from both Moody's and S&P published a rating report on the new covered bond programme (volume: USD 10.0bn) of MSL. Both rating agencies award the covered bond programme the top rating of Aaa (Moody's) and AAA (S&P). As at 31 December 2023, the indicative MSL cover pool contained 2,630 residential mortgage loans, all of which are located in Singapore. The indicative cover pool volume totalled SGD 2.1bn as at the same reporting date, resulting in an overcollateralisation ratio (OC) of 187.1%. While the future covered bond issuer guarantees an OC of 14.7% on a "commitment" basis, an OC of 5.9% is sufficient to maintain the Aaa rating according to Moody's. The receivables contained in the cover pool have a weighted average age of 2.6 years and a weighted average remaining term of 22 years. The weighted non-indexed LTV, based on the current value of the cover pool assets, was stated at 57.3% as at 31 December 2023. Moody's puts the collateral score of the covered bond programme at 4.0% and refers to the next issue of its Covered Bond Sector Update for the publication of further key figures. According to the rating experts at S&P, a rating downgrade of MSL by one notch would not yet lead to a downgrade of the covered bond rating (number of unused notches uplift: one). Given the volume of the MSL cover pool, we believe that the future covered bond issuer definitely has the potential to place EUR benchmarks on the market. In our view, a benchmark transaction in EUR of this kind would be suitable as a Level 2A asset in the context of LCR management. In addition, a risk weight of 20% would be applicable based on the rating for the issuer's EUR benchmarks in accordance with CRR.

Structure of Maybank's covered bond programme



Source: Issuer, NORD/LB Floor Research

Programme structure and legal requirements in Singapore

The covered bonds issued under MSL's covered bond programme meet all the requirements of the Monetary Authority of Singapore (MAS) and MAS Notice 648 of the Banking Act. By law, the sum of the cover pool assets must exceed the volume of covered bonds issued by at least three per cent. The cover pool assets of MSL consist of 100% assets used for residential purposes (as at 31 December 2023), but can also be supplemented by other cover pool assets, e.g. Singaporean government bonds. These may only exceed a share of 15% of the cover pool volume in exceptional cases. The LTV ratio for mortgage cover pool assets in Singapore is 80% – there is no statutory geographical restriction on the assets. As at 31 December 2023, all of MSL's cover pool assets were located in Singapore. In addition, MSL is obliged to submit a cover pool report at least once a quarter, in which the characteristics of the cover pool and the results of the asset coverage test must be disclosed.

Conclusion and outlook

Overall, the covered bond market in Singapore, with three issuers and an outstanding volume of EUR 8.0bn in the EUR benchmark segment, is one of the smaller jurisdictions by global standards. With three new issues in the past couple of years, the new supply of Singapore issuers has been quite limited. For this year, we expect new issues totalling EUR 2.5bn from Singapore in the EUR benchmark segment. With maturities of EUR 1.3bn, this would result in a net new supply of EUR 1.2bn. Accordingly, we see it as a positive signal that another Singapore institution in the shape of Maybank has fulfilled the formal conditions with its first covered bond programme in order to be able to place covered bonds in the EUR benchmark segment in the future. We also consider it quite plausible that MSL will join the ECBC Covered Bond Label and thus fulfil the uniform reporting standard. Compliance with the requirements of the label guarantees conformity with Article 14 of the Covered Bond Directive. Accordingly, in our opinion, the covered bond market in Singapore is set for growth.

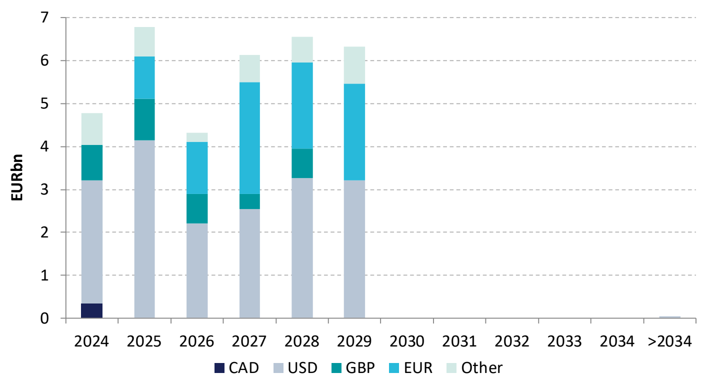
SSA/Public Issuers
A closer look at Export Development Canada (Ticker: EDC)

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

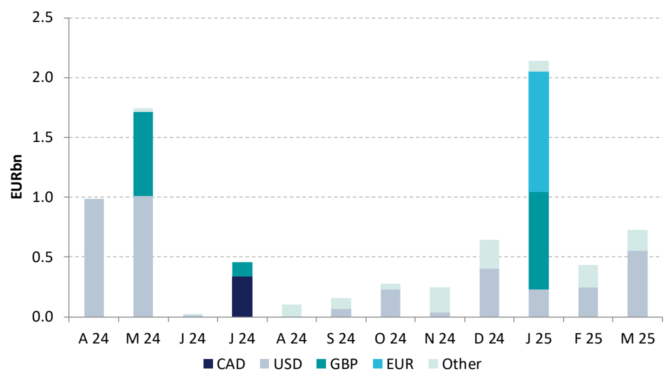
Export Development Canada: a classification

Export Development Canada (ticker: EDC) was originally founded in 1944 to revitalise the economy and exports in the aftermath of the Second World War. Today, EDC has the task of supporting exports and direct investments at home and abroad with insurances and loans. The aim is to help SMEs in particular to finance their foreign business. EDC enjoys a liability mechanism known as “Agent of His Majesty in right of Canada”, which is unique to Canada. This serves as an explicit guarantee for the bank’s operations in line with its public mandate. Furthermore, all of EDC’s assets and liabilities are treated like those of the central government. To refinance its lending activities, the equivalent of approximately EUR 11.8bn in liabilities is to be raised on the capital market in the 2024 financial year. The USD is currently the most important currency for refinancing operations. This also applies to the five green bonds issued up to 2021, only two of which were issued in the domestic currency CAD. This year, EDC has already used the EUR market to achieve its funding target, namely in January 2024, when a total of EUR 2.25bn was raised with a maturity of five years in a fresh deal. The order book for the bond carrying a coupon of 2.625% filled to EUR 4.25bn, meaning that the deal was almost 1.9x oversubscribed. The final spread stood at ms +11bp. EDC has an “AAA” rating from Moody's and S&P. The loan portfolio is widely spread across various industries. In previous years, financing for the oil and gas sector has accounted for a large proportion of this. EDC is pursuing the goal of being climate-neutral in all its activities and business areas by 2050. The focus is on various segments, including reducing operational emissions, calculating financed emissions, developing sustainable financial solutions and supporting clean energy. In the wake of the increased US import tariffs on steel and aluminium in 2018, the Canadian government approved aid amounting to CAD 1.7bn. The support was distributed to affected companies in the form of loans from Business Development Canada as well as EDC.

Maturity profile by currency



Bond amount maturing in the next 12 months



NB: Foreign currencies are converted into EUR at rates as at 25 March 2024.
Source: Bloomberg, NORD/LB Floor Research

Regulatory details

Risk weighting according to CRR/Basel III (standard approach)	Liquidity category according to Liquidity Coverage Ratio (LCR)	Haircut category according to ECB repo rules	Leverage ratio / BRRD
20%	Level 1	IV	Does not apply

Relative Value

Attractiveness vs. Bunds (G-spread; in bp)*			Attractiveness vs. Mid-Swap (ASW-spread; in bp)*			Index weighting	
Minimum	Median	Maximum	Minimum	Median	Maximum	iBoxx € Sub-Sovereigns	iBoxx € Agencies
24	39	44	-6	4	11	0.4%	1.4%

Funding & ESG (EURbn/EUR equivalent)

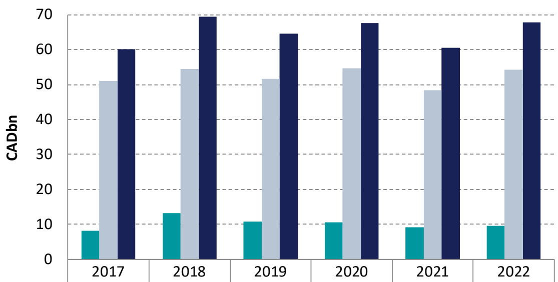
Target 2024	Maturities 2024	Net Supply 2024	Funding instruments	Central bank access	No. of ESG bonds	ESG volume
11.8	7.7	4.1	Benchmarks, ESG bonds, other public bonds, PP, CP	-	1	0.3

Outstanding volume (EURbn/EUR equivalent)

Total	of which in EUR	No. of EUR benchmarks**	of which in USD	No. of USD benchmarks**	of which in other currencies
34.9	9.1	5	18.3	5	7.6

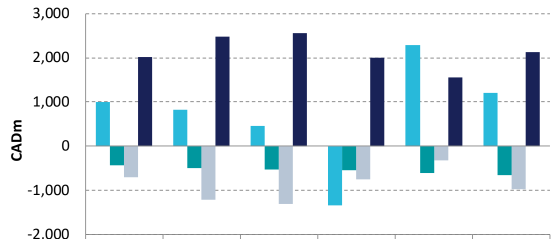
* Residual term to maturity >1 year and <10 years; outstanding volume at least EUR 0.5bn.
** Bonds with a minimum volume of EUR 0.5bn or USD 1.0bn. Foreign currencies are converted into EUR at rates as at 25 March 2024.
On account of the issuer's individual funding mix, the values for "funding target" and "net supply" in particular may deviate from reality.
Source: Bloomberg, issuer, NORD/LB Floor Research

Balance sheet development



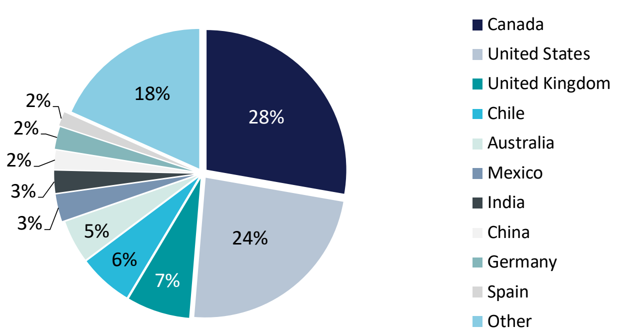
	2017	2018	2019	2020	2021	2022
Total assets	60	69	65	68	61	68
Loans receivable	51	55	52	55	48	54
Marketable securities	8	13	11	11	9	10

Earnings development

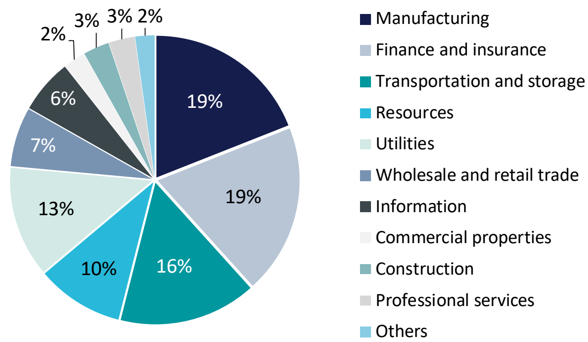


	2017	2018	2019	2020	2021	2022
Total revenue	2,017	2,473	2,557	2,009	1,560	2,132
Interest expense	-715	-1,219	-1,307	-760	-324	-973
Administrative expenses	-431	-497	-538	-556	-619	-659
Net income	997	830	462	-1,352	2,287	1,209

Loan portfolio by country



Loan portfolio by sector



Source: Issuer, NORD/LB Floor Research

Strengths/Chances

+ Explicit guarantee from a country with a high credit rating
+ Broadly diversified credit portfolio by sector

Weaknesses/Risks

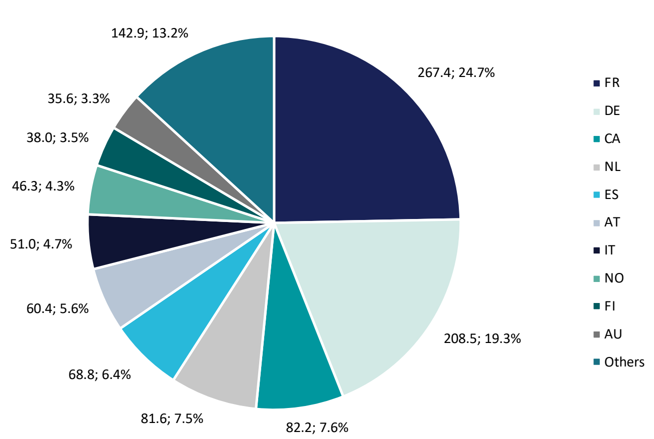
– Major dependency on (North) American sales markets

Conclusion and outlook

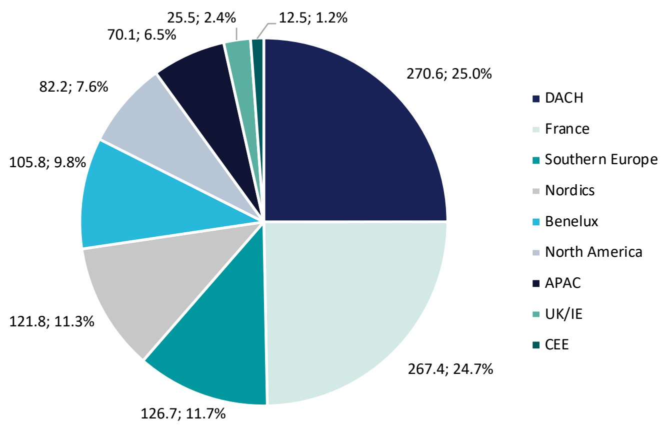
Although EDC is admittedly a rather infrequent issuer on the EUR market, it is nevertheless a regular issuer in its own way. Since 2019, with a break in 2021, we have registered and commented on one new issue in the EUR benchmark segment per year, each of which fell in the first quarter of the respective year. In terms of new issuance activities, the Canadian issuer therefore appears to have identified the beginning of a new calendar year as the ideal window for their own funding activities in the European single currency. EDC has stringently stuck with terms of five years for its last four transactions. The deals are always highly popular too. The best example of this was the issue in February 2022, in which investor interest resulted in an order book of EUR 15bn (cf. Covered Bond & SSA View of 23 February 2022). As previously mentioned, EDC intends to raise a volume in the range of EUR 10.8bn and EUR 12.7bn this year (on average: EUR 11.8bn) in long-term debt securities in various currencies via the capital market. The USD currently plays by far the most important role, with more than half of the outstanding bond volume currently denominated in the greenback, followed by the EUR in second place with a volume of EUR 9.1bn, which in turn accounts for just under 50% of the USD volume. Other important currencies include the GBP and the AUD. A glance at the upcoming maturities leads us to conclude that further opportunistic EDC transactions can be expected in the EUR benchmark segment in future. However, on account of the aforementioned seasonal issuing pattern and the successfully completed deal in January, we believe that the chances of a further transaction in this market segment this year are quite small. However, as we all know, nothing can be ruled out and a possible shift in policy towards the end of the year in Washington, D.C. could lead the Canadian export industry to adopt a focus more towards Europe and thus also have implications for the funding activities of EDC. As part of our SSA coverage, EDC is included in a segment with other non-European agencies such as the Export-Import Bank of Korea (ticker: EIBKOR) and the Development Bank of Japan (ticker: DBJJP). We plan to update our Issuer Guide for this group of issuers in H1/2024. For further information on Canadian issuers active in the sub-sovereign sector, please refer to the recently published fifth edition of our NORD/LB Issuer Guide – Canadian Provinces & Territories, in which we also take a closer look at the Canadian export economy.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



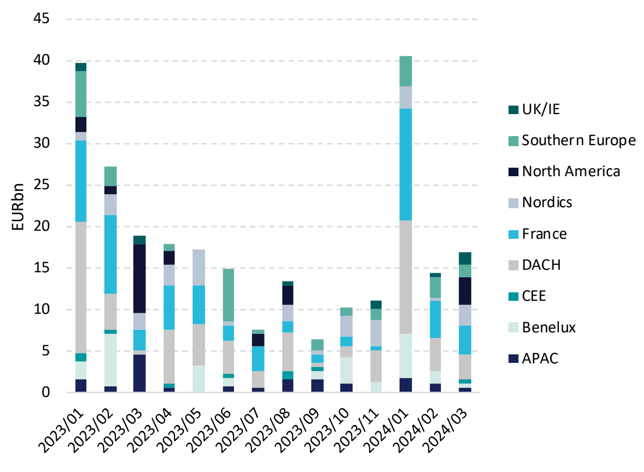
EUR benchmark volume by region (in EURbn)



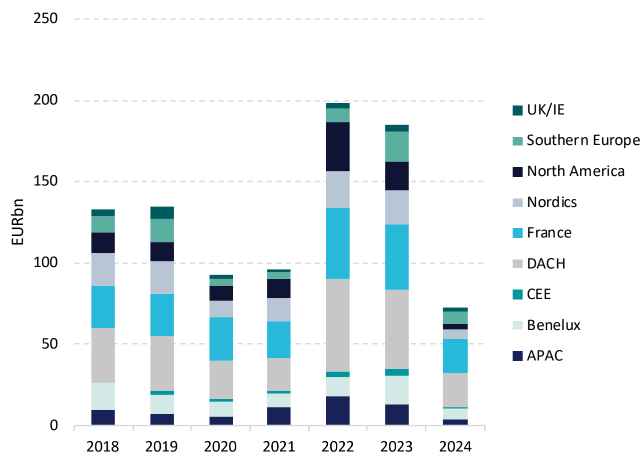
Top-10 jurisdictions

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	267.4	258	25	0.97	9.3	4.8	1.39
2	DE	208.5	297	40	0.65	7.9	4.0	1.36
3	CA	82.2	60	0	1.35	5.6	2.8	1.26
4	NL	81.6	82	3	0.93	10.4	6.1	1.27
5	ES	68.8	54	5	1.15	11.2	3.3	2.07
6	AT	60.4	101	5	0.59	8.1	4.4	1.49
7	IT	51.0	64	4	0.77	8.5	3.9	1.79
8	NO	46.3	56	12	0.83	7.3	3.6	0.91
9	FI	38.0	42	4	0.89	6.9	3.6	1.59
10	AU	35.6	34	0	1.05	7.2	3.2	1.60

EUR benchmark issue volume by month

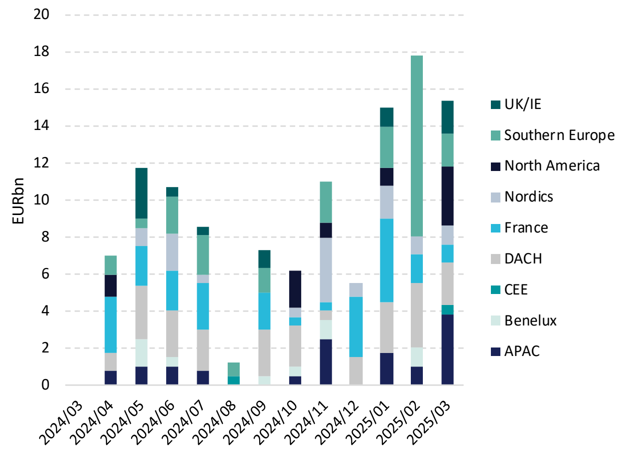


EUR benchmark issue volume by year

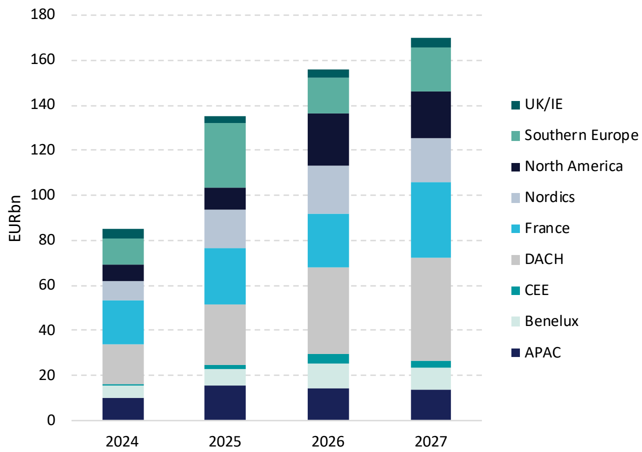


Source: market data, Bloomberg, NORD/LB Floor Research

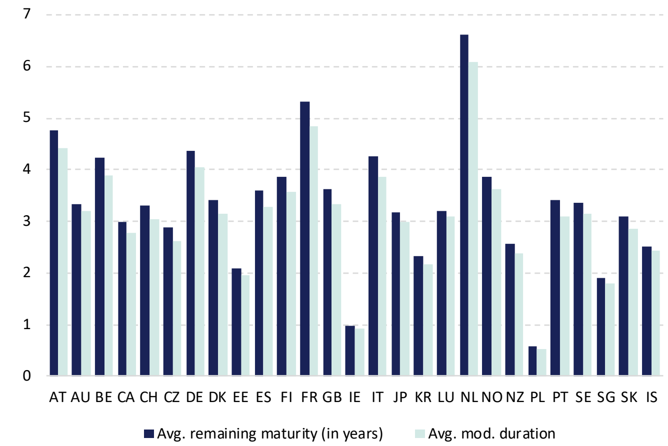
EUR benchmark maturities by month



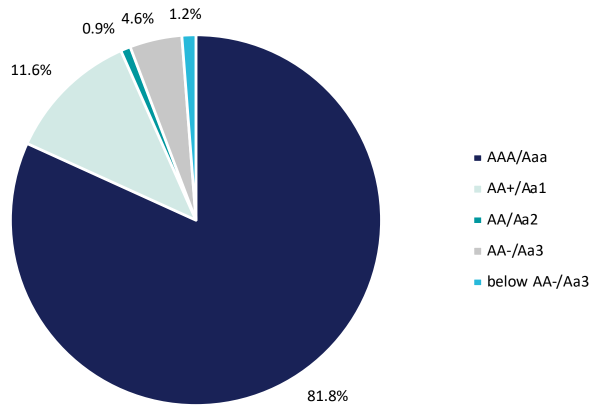
EUR benchmark maturities by year



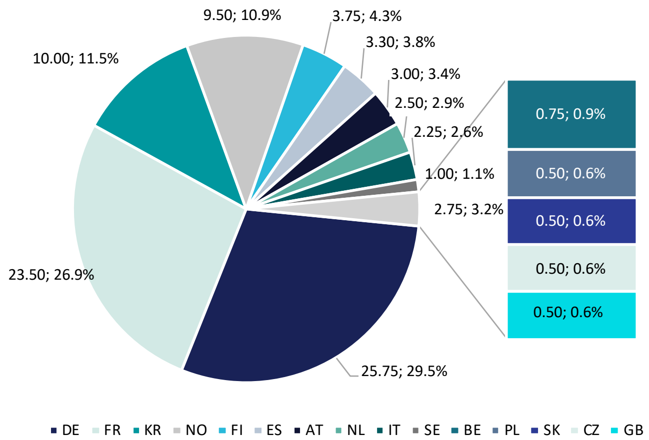
Modified duration and time to maturity by country



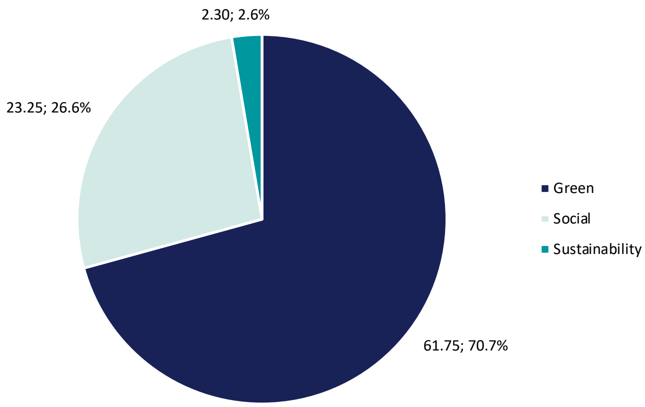
Rating distribution (volume weighted)



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

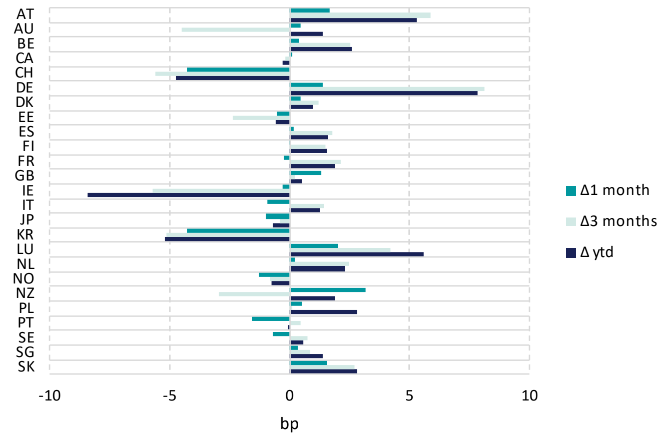


EUR benchmark volume (ESG) by type (in EURbn)

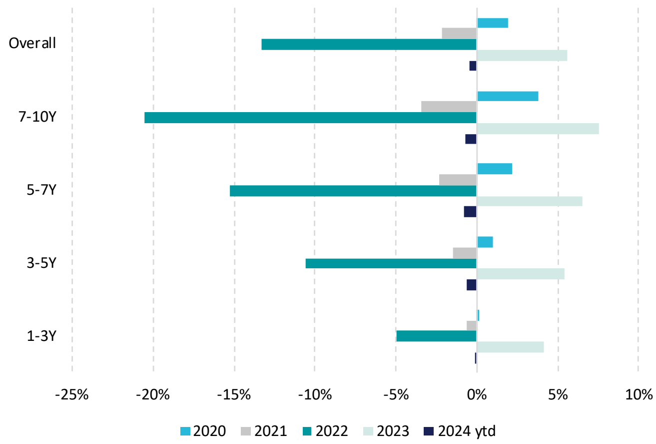


Source: market data, Bloomberg, NORD/LB Floor Research

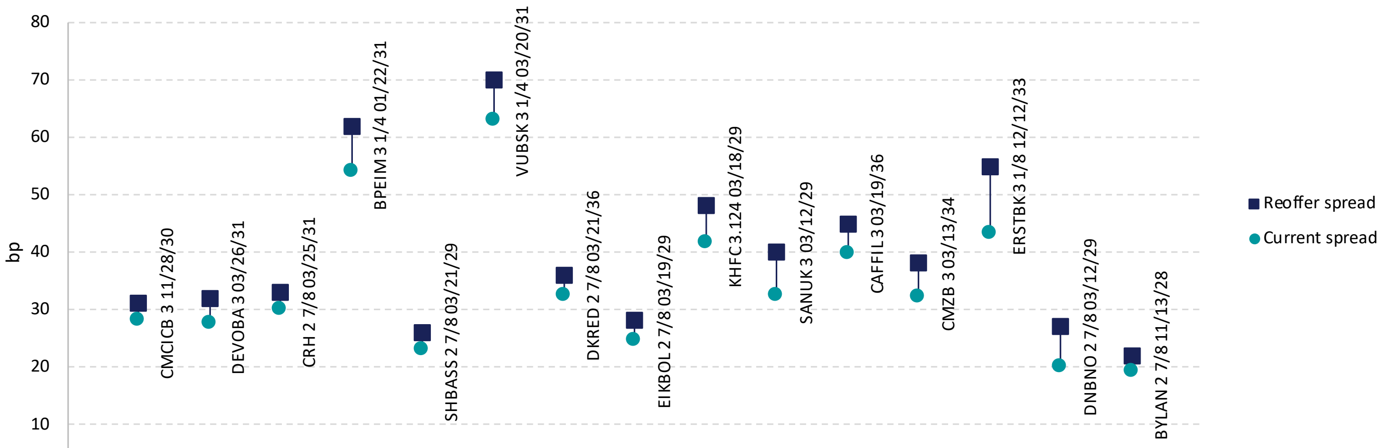
Spread development by country



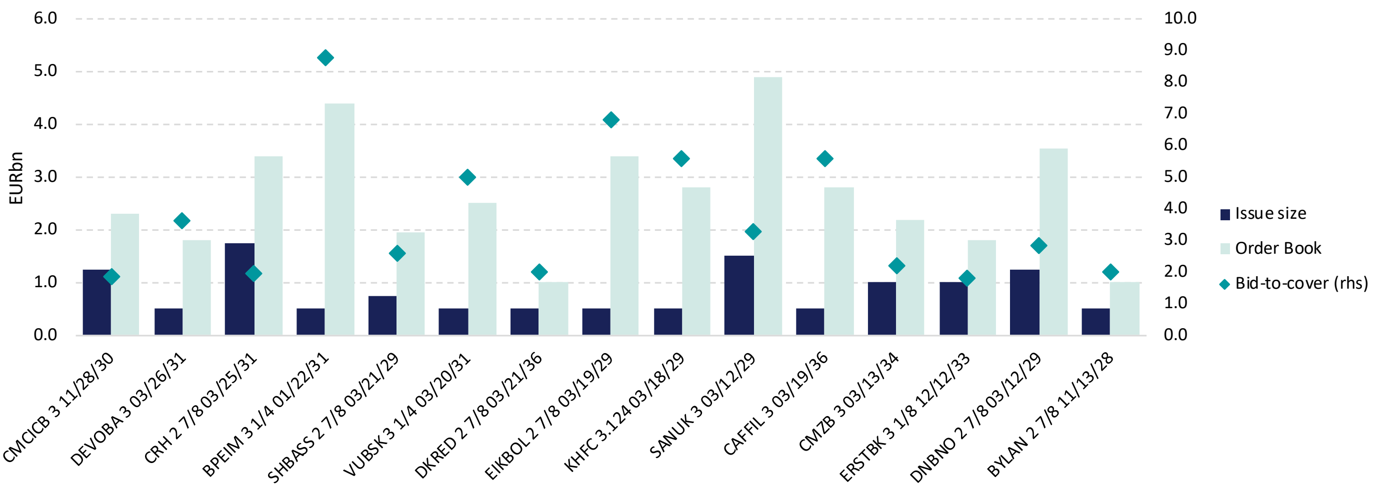
Covered bond performance (Total return)



Spread development (last 15 issues)



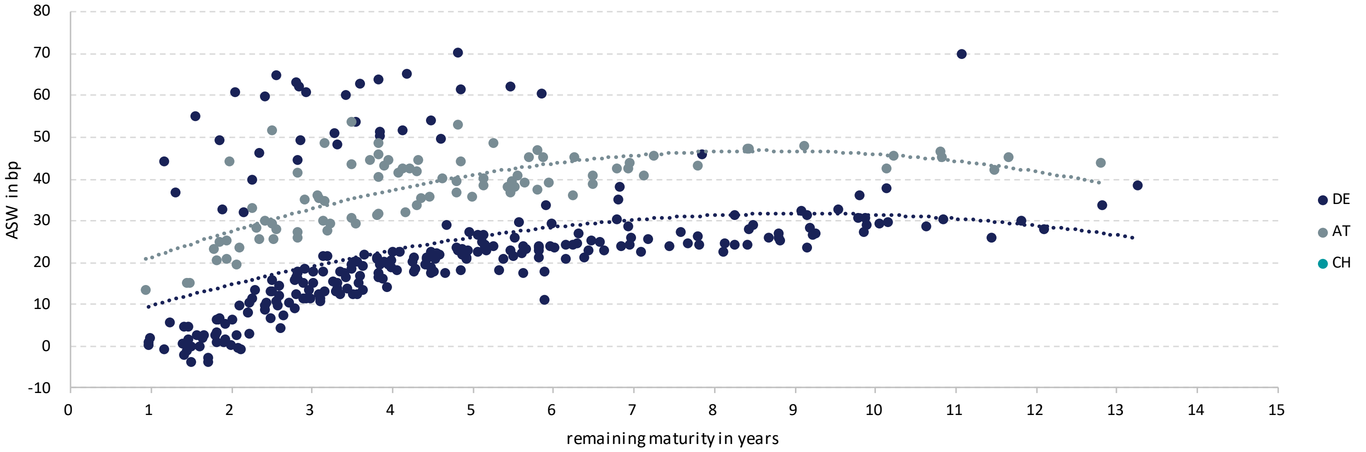
Order books (last 15 issues)



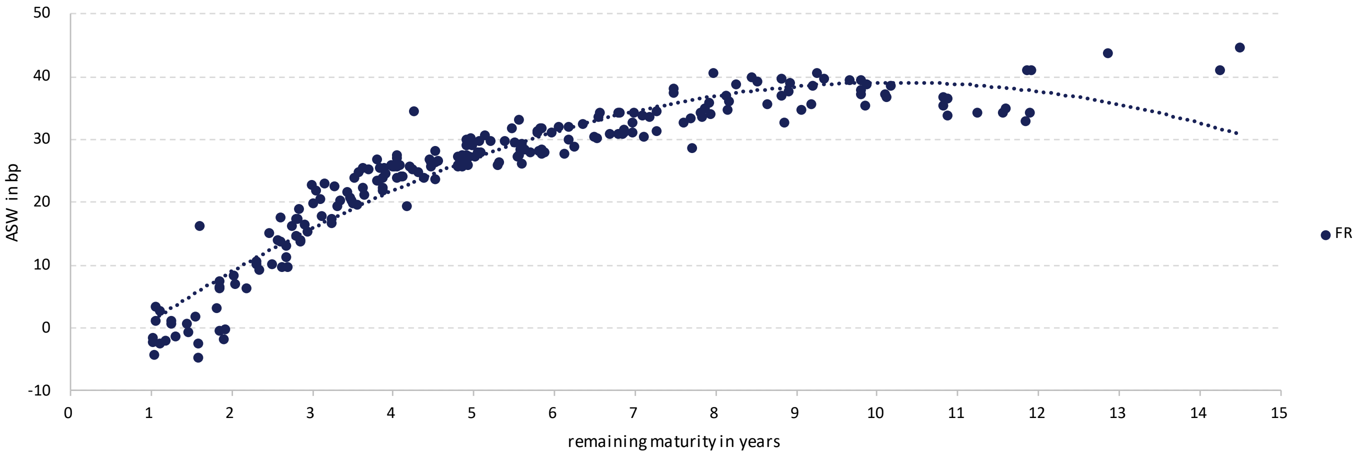
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

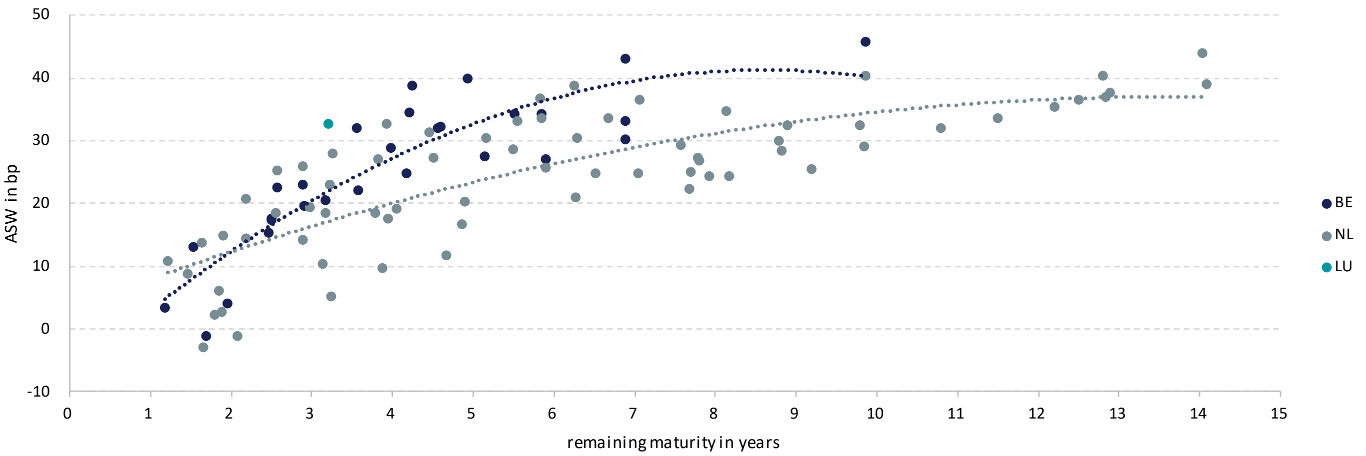
DACH



France

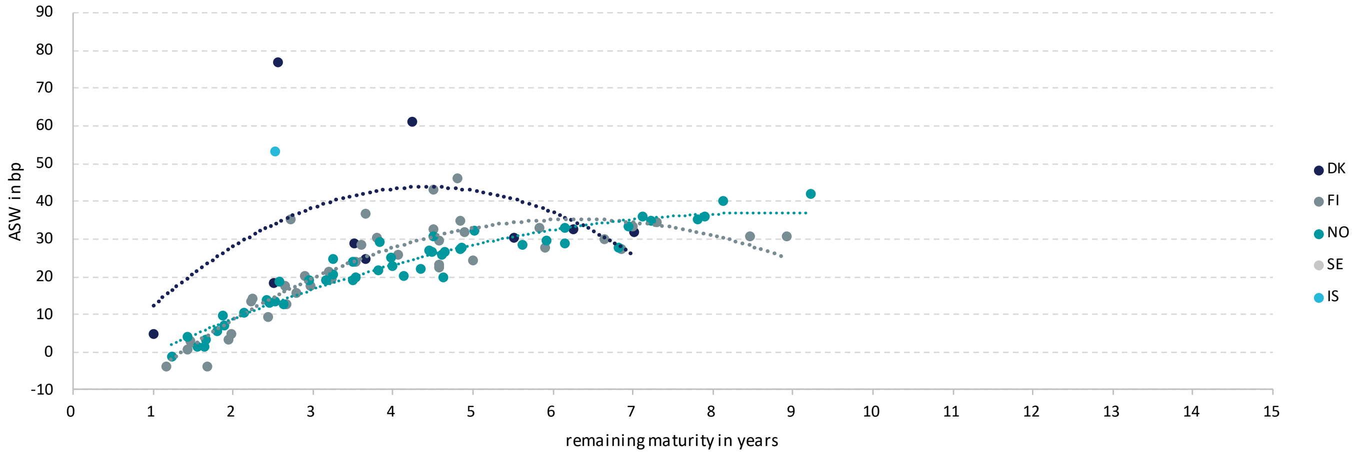


Benelux

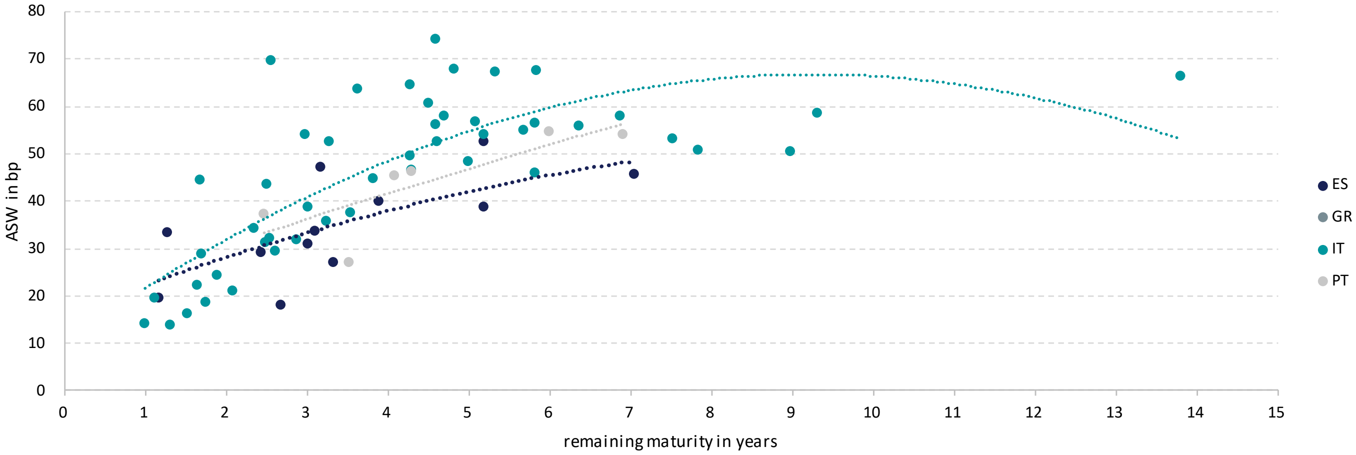


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

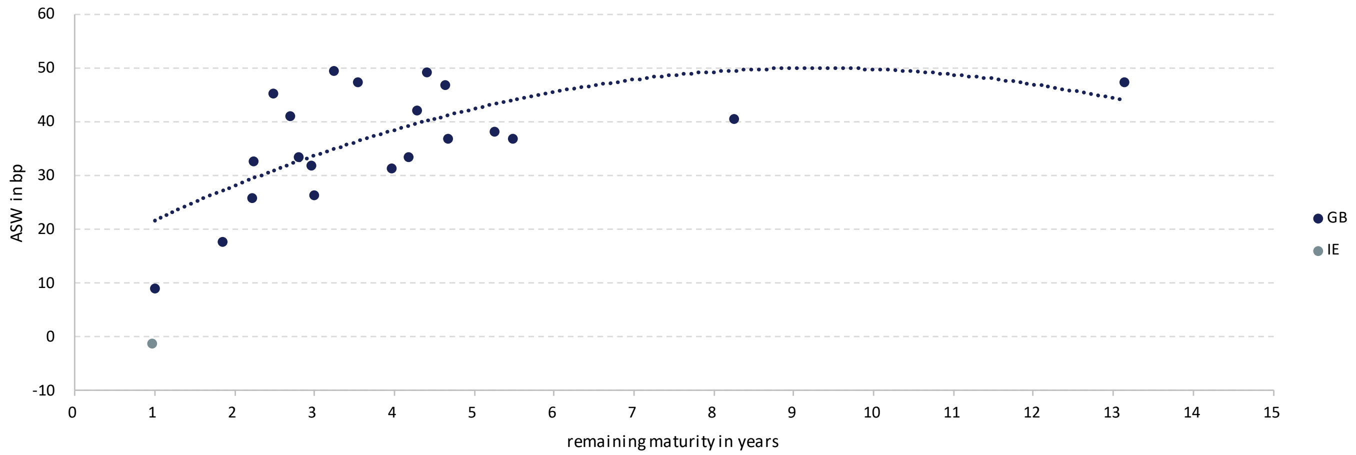
Nordics



Southern Europe

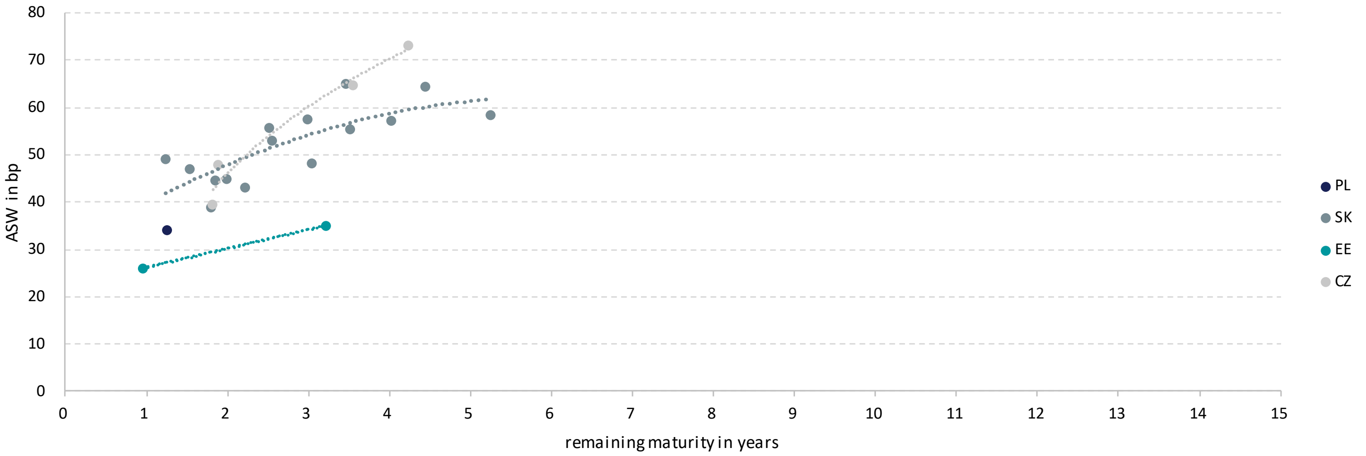


UK/IE

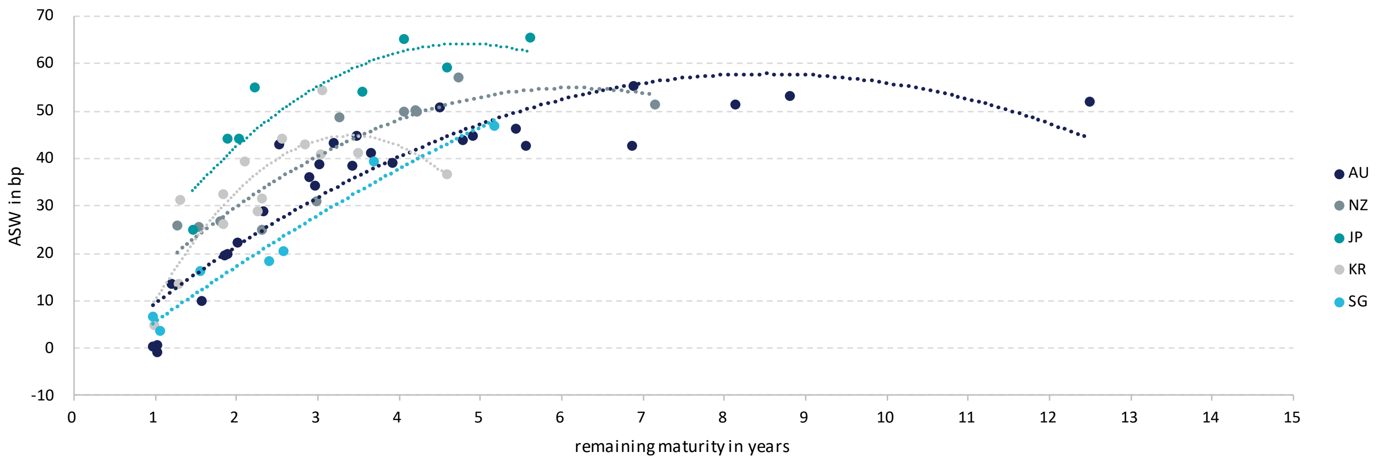


Source: market data, Bloomberg, NORD/LB Floor Research

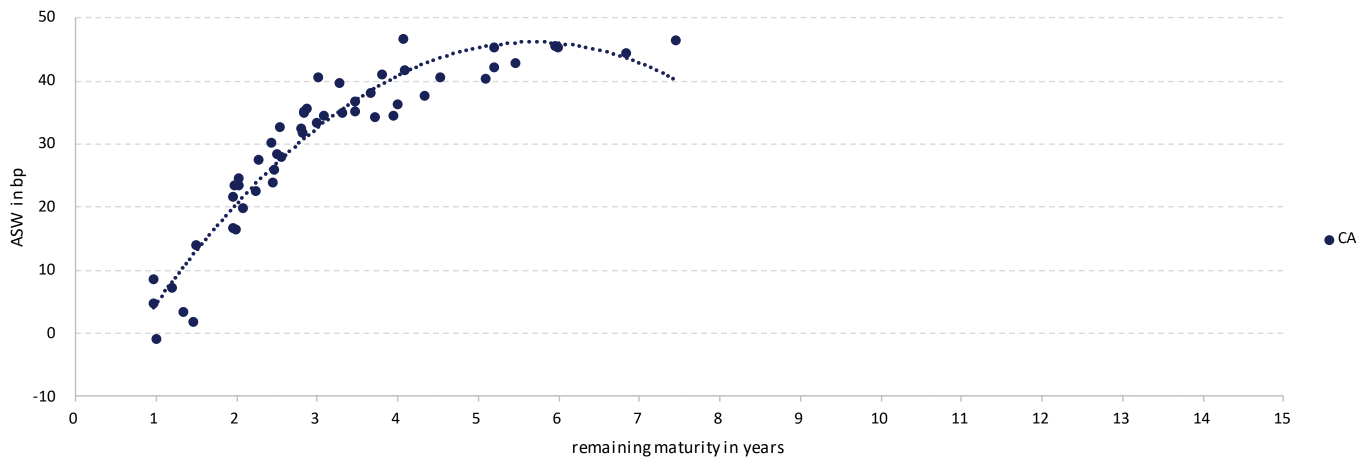
CEE



APAC



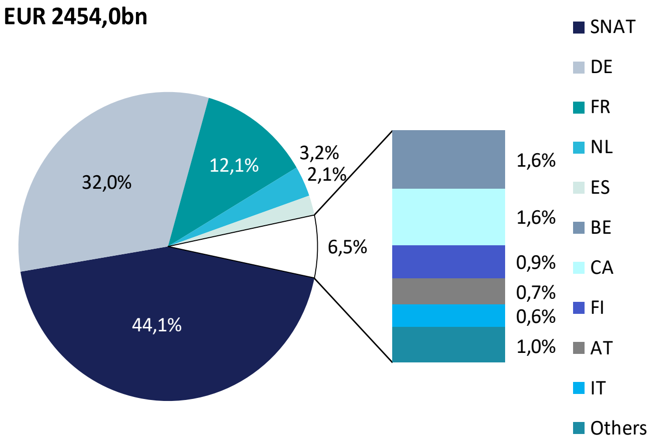
North America



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

Charts & Figures
SSA/Public Issuers

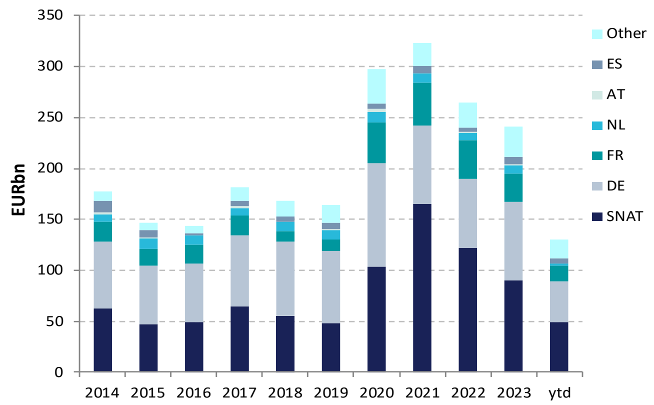
Outstanding volume (bmk)



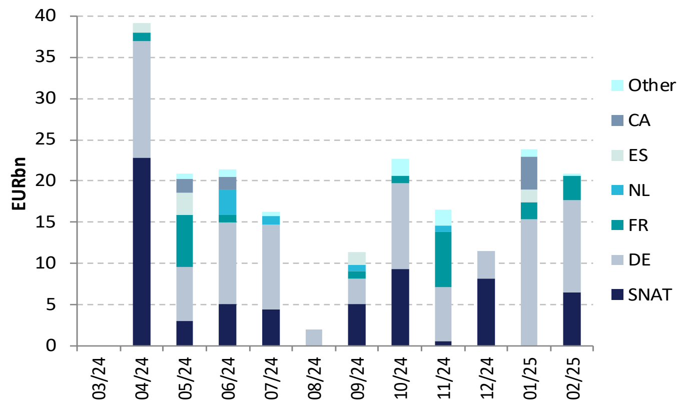
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1.082,8	235	4,6	8,0
DE	785,5	582	1,3	6,2
FR	296,2	199	1,5	6,0
NL	78,4	67	1,2	6,6
ES	50,8	69	0,7	4,7
BE	40,3	43	0,9	10,6
CA	39,2	28	1,4	4,5
FI	22,9	24	1,0	4,8
AT	17,8	22	0,8	4,2
IT	15,2	19	0,8	4,4

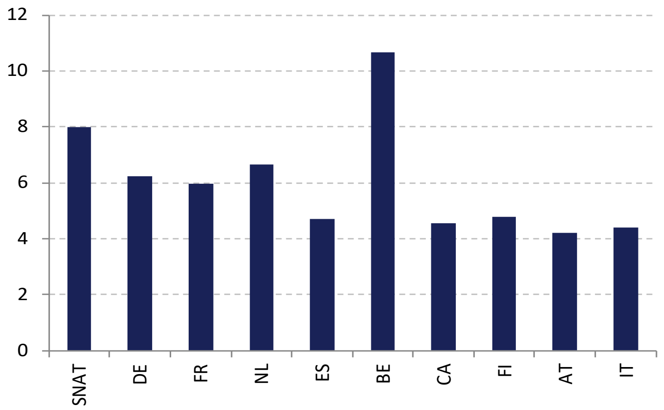
Issue volume by year (bmk)



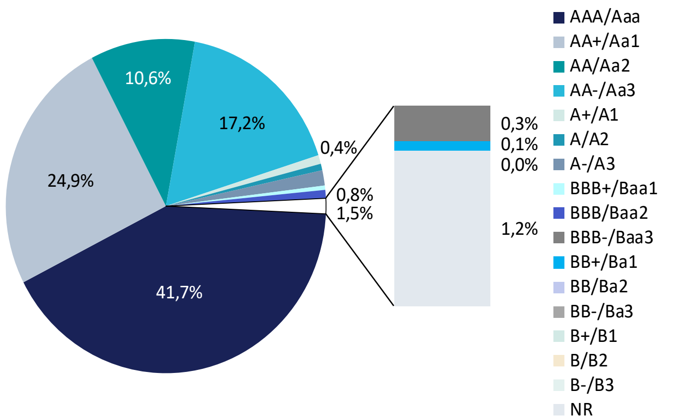
Maturities next 12 months (bmk)



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

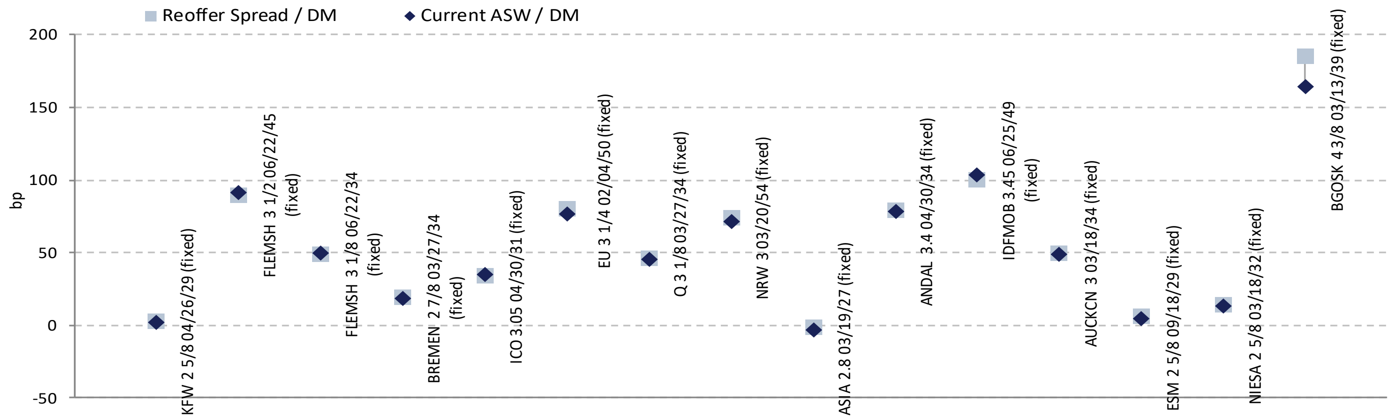


Rating distribution (vol. weighted)

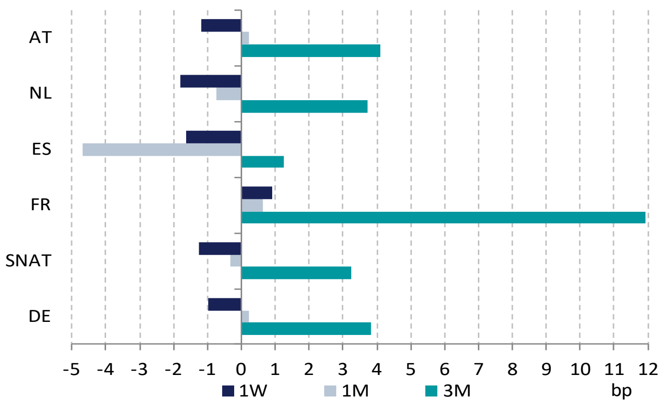


Source: Bloomberg, NORD/LB Floor Research

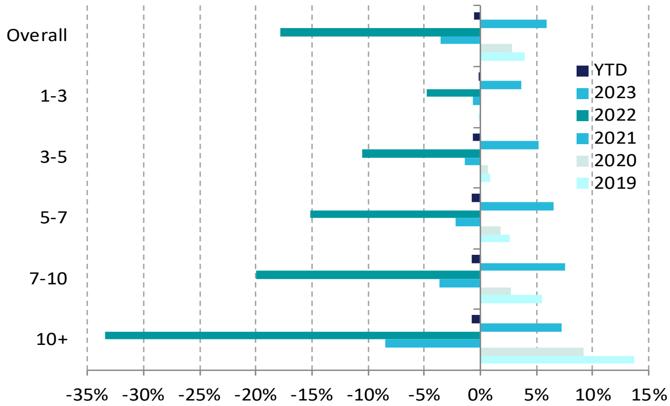
Spread development (last 15 issues)



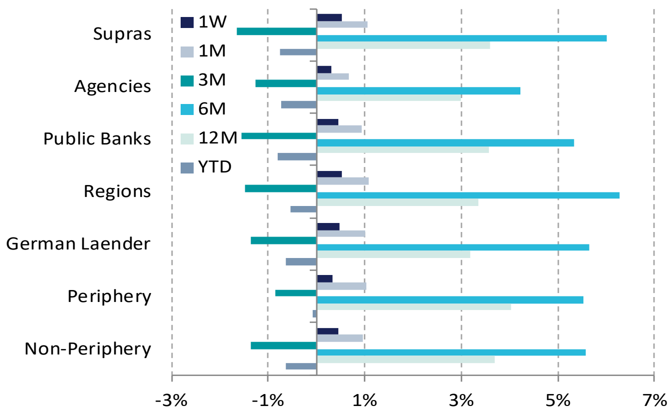
Spread development by country



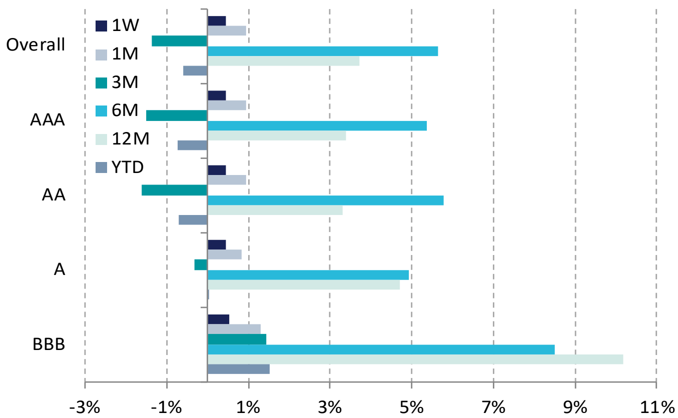
Performance (total return)



Performance (total return) by segments

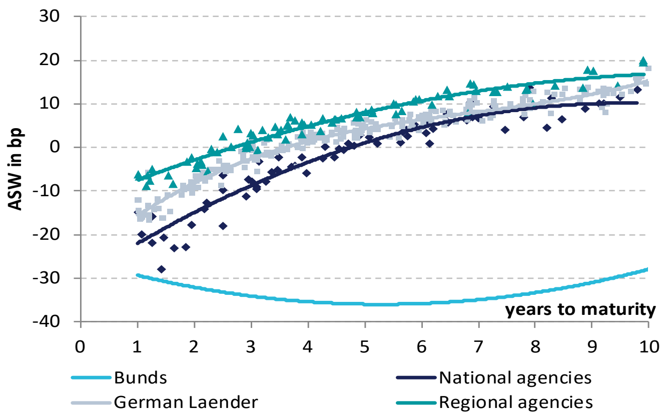


Performance (total return) by rating

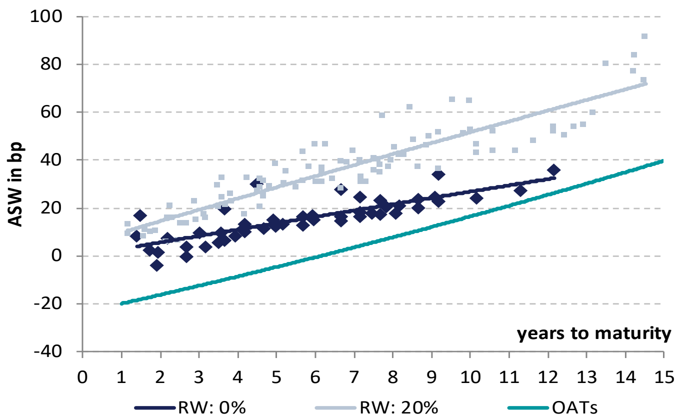


Source: Bloomberg, NORD/LB Floor Research

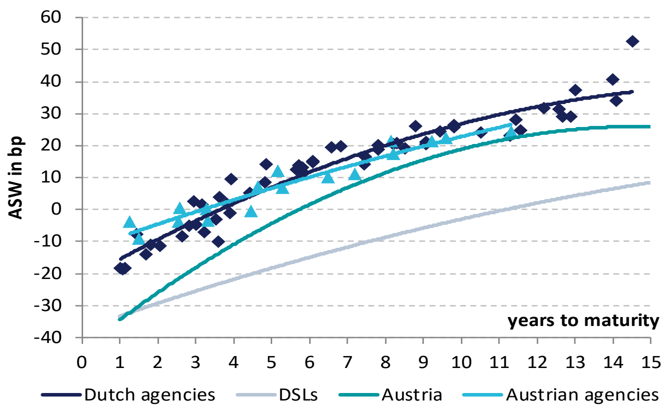
Germany (by segments)



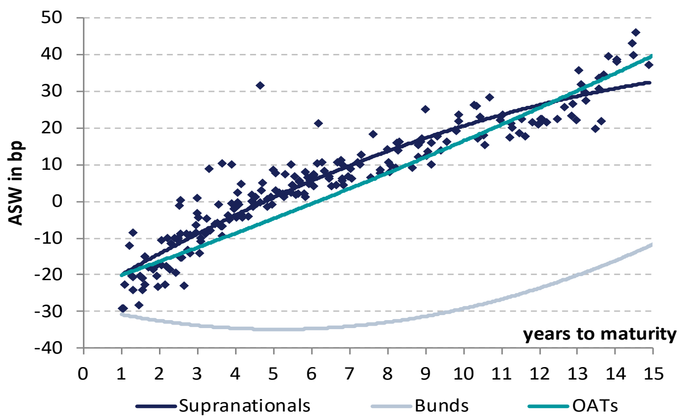
France (by risk weight)



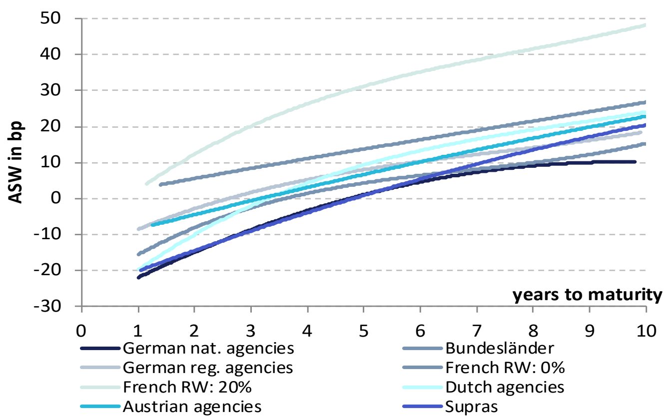
Netherlands & Austria



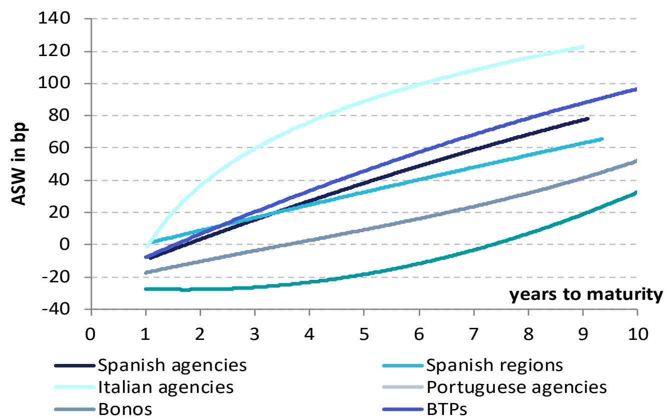
Supranationals



Core



Periphery



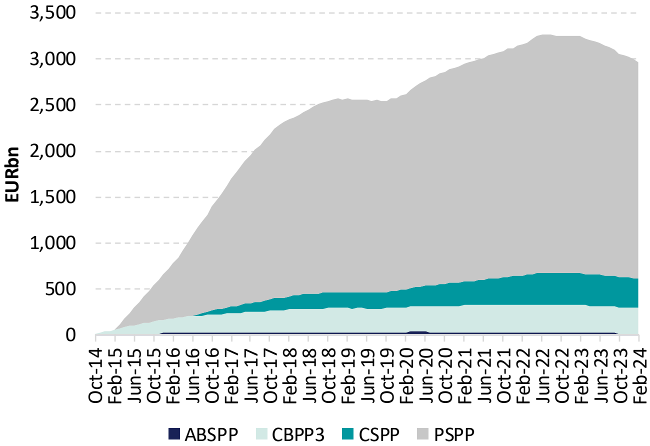
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

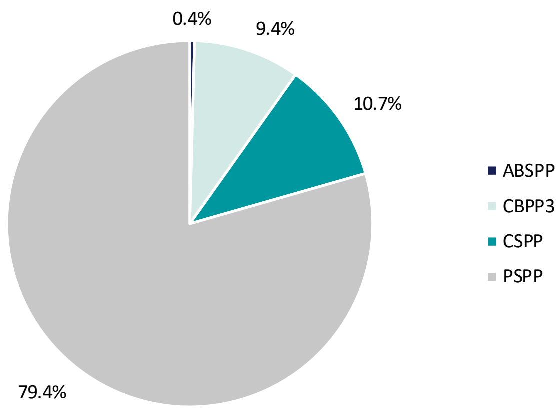
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Jan-24	12,895	281,510	320,763	2,377,495	2,992,663
Feb-24	12,547	279,061	318,688	2,356,971	2,967,267
Δ	-347	-2,449	-2,075	-20,524	-25,395

Portfolio development

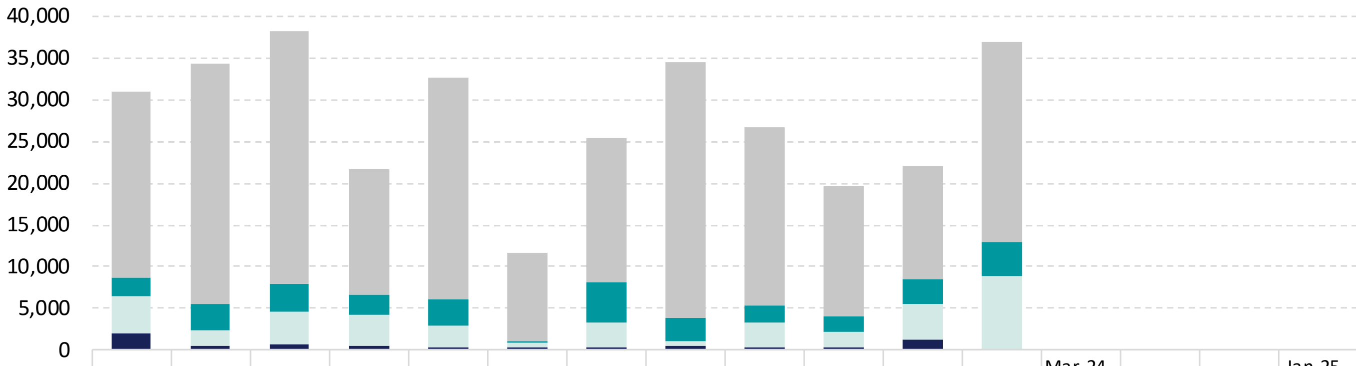


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

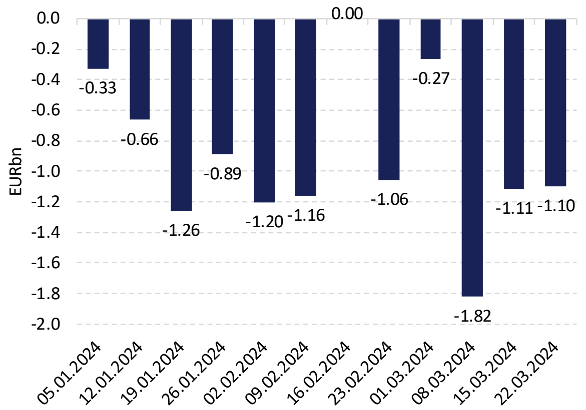


	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-24 - Feb-25	2023	2024	Jan-25 - Feb-25
APP	31,050	34,329	38,225	21,636	32,733	11,592	25,500	34,452	26,697	19,630	22,057	36,945	334,846	331,565	334,274	59,002
PSPP	22,413	28,712	30,194	14,974	26,628	10,533	17,421	30,578	21,298	15,561	13,463	24,021	255,796	255,025	264,208	37,484
CSPP	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	1,944	2,973	4,076	33,359	31,251	31,486	7,049
CBPP3	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	1,790	4,335	8,635	38,585	35,147	32,173	12,970
ABSPP	2,015	487	732	423	343	274	348	418	232	335	1,286	213	7,106	10,142	6,407	1,499

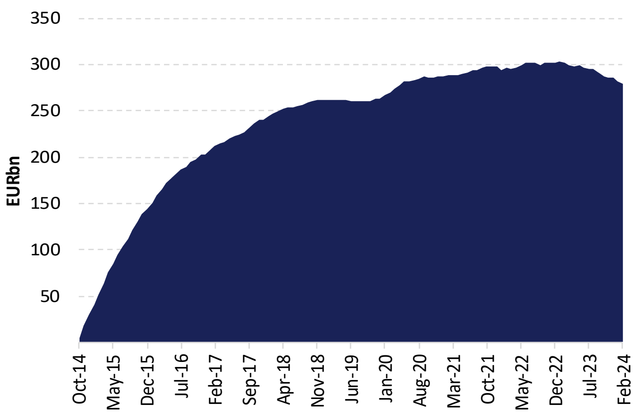
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

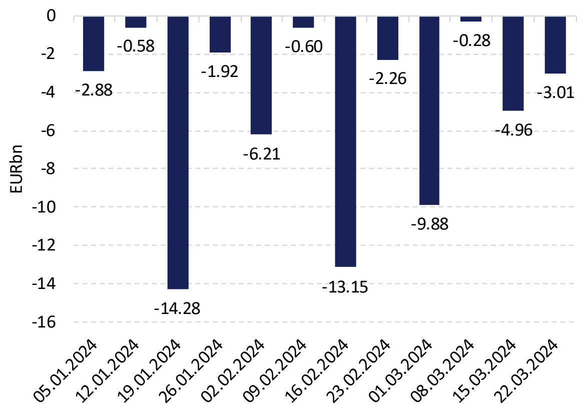


Development of CBPP3 volume

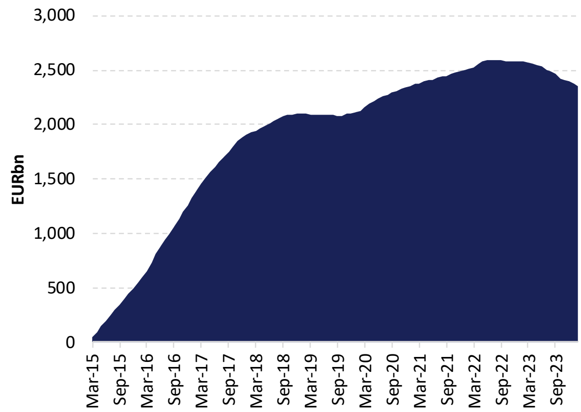


Public Sector Purchase Programme (PSPP)

Weekly purchases



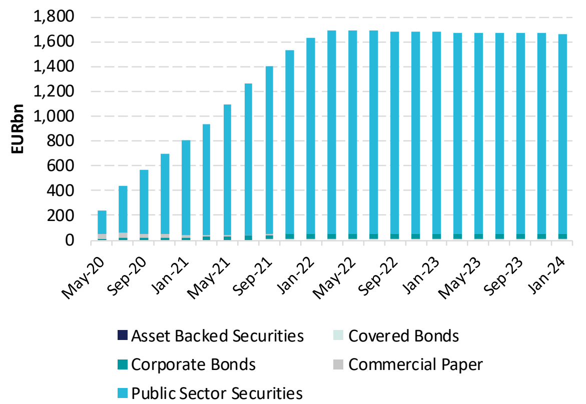
Development of PSPP volume



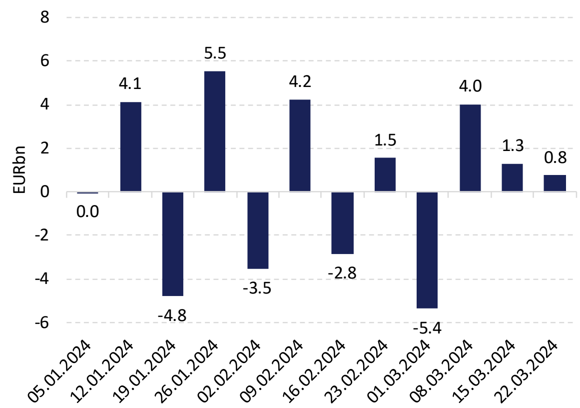
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
11/2024 ♦ 20 March	▪ Covered bond jurisdictions "Down Under" in the spotlight ▪ Collective Action Clauses (CACs) – An (Italian) update
10/2024 ♦ 13 March	▪ Spotlight on Pfandbrief issuers in the savings bank sector ▪ NGEU: Green Bond Dashboard
09/2024 ♦ 06 March	▪ Transparency requirements §28 PfandBG Q4/2023 ▪ Current LCR classification for our SSA coverage
08/2024 ♦ 28 February	▪ New UK player on the EUR covered bond market ▪ Teaser: Issuer Guide - Non-European supras (MDBs) 2024
07/2024 ♦ 21 February	▪ Covered bond jurisdictions in the spotlight: A look at Austria ▪ Hope for hybrids? New SSA sub-asset class for MDBs
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

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
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 Q4/2023 (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 – Canadian Provinces & Territories 2024

Issuer Guide – European Supranationals 2023

Issuer Guide – French Agencies 2023

Issuer Guide – Dutch Agencies 2023

Issuer Guide – Non-European Supranationals (MDBs) 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2023

ECB decision: The council thinks game-by-game

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

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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

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Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Time of going to press: 27 March 2024 (08:38)