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Capital Market Conference 2024
Schloss Herrenhausen
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Covered Bond & SSA View

NORD/LB Floor Research

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Agenda

Floor analysts:

Covered Bonds/Banks

Dr Frederik Kunze
frederik.kunze@nordlb.de

Lukas Kühne
lukas.kuehne@nordlb.de

Alexander Grenner
alexander.grenner@nordlb.de

SSA/Public Issuers

Dr Norman Rudschuck, CIIA
norman.rudschuck@nordlb.de

Christian Ilchmann
christian.ilchmann@nordlb.de

Lukas-Finn Frese
lukas-finn.frese@nordlb.de

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
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Market overview Covered Bonds

Author: Dr Frederik Kunze

Primary market: new issue premiums set to rise following the summer break?

After the last issue of our NORD/LB Covered Bond & SSA View on 10 July we took a break for the summer. However, we did in fact note two stragglers still on the hunt for investors in the EUR benchmark segment after this. On 10 July, Aareal Bank (ticker: AARB) placed a mortgage Pfandbrief (EUR 500m; WNG; 4.8y) at ms +52bp (initial guidance: ms +58bp area). With an order book volume of EUR 1.5bn (bid-to-cover ratio: 3.2x), this deal can certainly be considered a success. Given the debate relating to cover pools being dominated by commercial assets that had still been taking place rather intensely at the start of the year, we regard this as a clear sign of a "normalisation" of this sentiment in the market. The most recent deal on the primary market currently is from Credit Mutuel Home Loan SFH (ticker: CMCICB). The French bank placed a benchmark with an impressive volume of EUR 1.5bn on 16 July. The order book ultimately amounted to EUR 3.1bn (bid-to-cover ratio: 2.1x). Over the course of marketing, the deal narrowed significantly from its initial guidance in the region of ms +42bp and was placed at ms +34bp. With regard to new issue premiums, we would tend to see the calculated premiums of +4bp (AARB) and +2bp (CMCICB) for the deals as a starting point for a pick-up in issuing activity after the summer break. On the demand side, higher premiums versus fair value should also be expected given the greater risk aversion amongst investors. In fact, this might prove relevant for high beta names and jurisdictions – to the usual limited extent for covered bonds.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CM Home Loan SFH	FR	16.07.	FR001400RNW0	5.0y	1.50bn	ms +34bp	AAA / Aaa / AAA	-
Aareal Bank AG	DE	10.07.	DE000AAR0421	4.8y	0.50bn	ms +52bp	- / Aaa / -	-

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

Secondary market: covered bonds remain stable on the whole

The teetering of international financial markets triggered by nascent recession fears, geopolitical tensions and interest reduction fantasies did not spare the covered bond markets. Covered bonds did at the same time prove to be comparatively robust, so there were some sales in secondary trading – albeit with no clear discernible trend. Pfandbriefe were the focus of buyers (predominantly asset managers). The bid-offer spread was a little wider again in the wake of turbulence at the start of the trading week and the bid side in general a little softer. At the same time, this by no means comes close to the widening seen in the Seniors segment. The new risk sentiment was evident in both the synthetic indices and the spread corrections in the cash market. How spreads continue to develop will be determined by the extent to which tensions are further resolved going forward. In terms of the market, high issue volumes in the covered bond and/or seniors segments are likely to be triggers for moderate widening.

EUR sub-benchmark segment: taking stock at the end of the summer break

Shortly before the summer break, the EUR sub benchmark segment issuer Südtiroler Volksbank (Banca Popolare dell'Alto Adige; ticker: BPOPAA) approached investors with the placement of EUR 300m at ms +71bp. We still regard the segment as a significant niche market, which is often used as an interim step towards the benchmark segment. However, the sub segment has proved to be somewhat restrained in 2024. So far, EUR 3bn has been placed. In the previous year, EUR 5.2bn had already been posted over the same period (January to July), while the figure for 2022 was EUR 5.3bn. In our view, this development can be explained by the comparatively high share of issuers that are gradually building up their pools in the EUR sub-benchmark segment. This process was also dampened by sluggish new business.

Berlin Hyp Blockchain Pfandbrief placed successfully

At a recent deal-related roadshow on 22 July 2024, Berlin Hyp announced a project to issue its first digital Pfandbrief (cf. investor presentation). With this transaction, the bank is once again positioning itself as a driver of innovation in the German Pfandbrief segment. On 2 August – and so still in the summer break – Berlin Hyp placed its mortgage-backed Blockchain Pfandbrief (volume: EUR 100m; 3.0y) at ms +15bp. The inaugural digital bond in syndicated format will be structured on the basis of the German Electronic Securities Act (eWpG) and Section 8 (3) of the German Pfandbrief Act (PfandBG). The Berlin Hyp Blockchain Pfandbrief is different to other blockchain-based bonds (including KfW's bond on 2 July 2024) because it uses a private blockchain, provided by SWIAT. According to Berlin Hyp, the benefits of a private blockchain versus a public solution include that "the Basel Committee on Banking Supervision sees higher risks for them [public blockchains]".

Technical details and regulatory treatment of the Berlin Hyp transaction

The issuer has determined a preferred risk weighting of 10% for the Berlin Hyp Blockchain Pfandbrief and adds: "In the event that the risk weighting nevertheless changes during the term for regulatory reasons, Berlin Hyp will convert the Blockchain Pfandbrief into a conventional Pfandbrief." The bond does not qualify for LCR purposes on account of its volume – but in our view also due to the lack of trading on a suitable platform in line with the LCR. It is currently not possible to list the bond on a regulated segment, though Berlin Hyp highlights that traditionally the vast majority of secondary trading happens OTC. Secondary market liquidity and OTC tradability will be provided by market makers (DekaBank und LBBW). With regard to ECB eligibility, Berlin Hyp emphasises: "Due to current legislation (eWpG), in contrast to traditional Berlin Hyp Pfandbriefe, the Blockchain Pfandbrief is not ECB-eligible." In its Lessons Learnt presentation, the issuer also identified potential improvements. These above all related to requirements for investors. The time period between the announcement of the bond and the opening of the book was regarded as too tight for the majority of investors requiring a new product process (NPP). The same was true for investors needing to set up sub-custody with the lead managers/market makers (LBBW and DekaBank). At the same time, Berlin Hyp highlights as a special advantage that investors can gain experience by participating in this bond and prepare themselves for this market structure. As a result, benefits can be achieved over the long term.

Deutsche Hypo Real Estate Economic Index: positive trend continues

As regards recent developments on the German property market, we will now take a look at the latest figures in the Deutsche Hypo Real Estate Economic Index. The high Index figure seen in June was sustained in July, meaning positive developments were observed in all asset categories. In the latest monthly survey, the Deutsche Hypo Real Estate Economic Index gained 2.8% month on month to reach 90.9 points. It has therefore exceeded the 90-point mark for the first time since May 2022. This development is above all down to the investment climate (+5.8% M/M to 82.2 points), while the earnings climate remained almost stable. The hotel climate increased by 6.0% month on month to 109.4 points and is therefore at its highest level since February 2020. The retail climate is also notable with its marked increase of 5.7% on the previous month (to 78.1 points). The residential climate also increased for the fourth consecutive month, exceeding the 140-point mark for the first time since April 2022 (+2.9% to 141.5 points). The office climate rose once more and its current level is 68.8 points (+1.0%). The logistics climate was unchanged at 114.2 points. For Ingo Albert, Head of the Frankfurt Office, the stable development is a sign of an increased trust in the markets in the wake of the renewed interest rate cut in June 2024. It is his view that property prices will soon have bottomed out, although “non-performing loans and insolvencies will continue to be observed”. As positives, Ingo Albert highlights the interest of foreign investors in the German commercial property market and forecasts a clear rise in the transaction volume for 2025.

Fitch: Covered Bond Snapshot 2Q24

At the end of July, Fitch’s ratings experts published their latest quarterly report for the global covered bond segment. According to the data, the agency assigns ratings to 98 mortgage and 4 public sector programmes as at 1 July 2024. Furthermore, Fitch rates seven multi-issuer cédulas hipotecaria transactions and two programmes in the “other collateral” category. As at the same reporting date, the number of public programmes rated on the international scale is 103. In the second quarter of 2024, the Bank of Queensland’s soft bullet mortgage covered bond programme was a new addition (rating: AAA). Achmea Bank’s new retained soft bullet covered bond programme (AAA) was also recently added to the coverage. From Poland, the Millennium Bank’s new pass-through programme was assigned the rating of AA+ (since 3 July: AAA). The bonds and cover assets are both denominated only in the domestic currency of Polish złoty. At the start of June, the EUR benchmark programme of Credit Suisse AG was also properly represented. Following the takeover of Credit Suisse by UBS, the AAA rating was confirmed, with the programme then included by Fitch under the label “UBS AG Legacy International Mortgage Covered Bonds”. Fitch therefore has a strong presence in the Swiss covered bond market [programmes: (Corner Banca SA; Mortgage Covered Bonds, Credit Agricole next bank (Suisse) SA; Mortgage Covered Bonds, UBS AG; Mortgage Covered Bonds, UBS Switzerland AG; Mortgage Covered Bonds, UBS Switzerland AG Legacy; Mortgage Covered Bonds, AMAG Leasing AG; Other Collateral Leasing]. In relation to the rating buffers for the 103 programmes rated on the international scale, Fitch found that 11 programmes would require a downgrade in the event of a downgrade of the issuer default rating (IDR). A further seven programmes would be downgraded following an additional downgrade and another seven would see the rating drop a level in the event of a third downgrade. The average difference between the IDR and the covered bond rating was 4.7 notches as at 1 July 2024.

Scope I: relevance of new CRR definitions in the context of property value

A few weeks ago now, Scope risk experts commented on the relevance for the covered bond segment of new definitions in the CRR in relation to residential property values. The “property value” (cf. Article 229 of the CRR, in particular) must be operationalised in all 27 EU member states by 1 January 2025. It could have a notable impact on covered bonds because market values are directly linked to the maximum amount of covered bonds that can be issued. Scope noted that LTVs may go up quite substantially in Southwestern and Eastern European covered bond jurisdictions and therefore have an effect on the (cumulative) volume of eligible assets and finally on overcollateralisation.

Scope II: risk experts expecting rise in issuance of Polish covered bonds

According to Scope, the introduction of a “long-term funding ratio” for residential mortgages by Poland’s financial supervision authority (Komisja Nadzoru Finansowego; KNF) could provide a boost to the country’s covered bond market. Looking at the lending side (the denominator of the funding ratio), the rating experts see a clear incentive for fixed rates. The agency also highlights the importance of green bonds, since they attract – insofar as they comply either with the EU Green Bond Standard or the Green Bond Principles – a preferred (higher) weighting when deriving the funding ratio. The longer the maturity, the higher its weight for the long-term funding ratio. To sum up, Scope identifies clear growth stimulus for covered bonds in this area and highlights the potential of green bonds in the context of new energy efficient residential buildings and renovations to raise energy efficiency standards in older buildings. According to ECBC data, the total volume of the Polish covered bond market is equivalent to EUR 4.5bn (as at 31 December 2022). In the EUR benchmark segment, the outstanding volume amounts to EUR 1.5bn. For 2024, we also expect maturities of EUR 1bn to be balanced by net new supply (forecast for gross supply: EUR 1bn). Furthermore, there are two EUR sub benchmarks outstanding, each with a volume of over EUR 300m.

S&P ratings: covered bond outlook remains stable

Standard & Poor’s already published its ratings outlook in the first half of July, in which it noted that this will continue to remain stable. Among other factors, the agency attributes this to the comprehensive collateral and overcollateralisation of the programmes (key words: credit enhancement) and the unutilised rating uplifts. With regard to a lower issue volume among European institutions, S&P draws parallels with the momentum of loan books. If the trend reversal is confirmed for deposits, given past experience, this would tend to be an indication for sluggish covered bond issuances. When looking at risk, S&P regards credit quality as consistently sound, despite rising inflation rates and interest levels, and justifies this given the competitive labour market, savings of private households and the swing to fixed mortgage rates. In terms of house price developments, S&P paints a differentiated picture. Accordingly, prices are declining in Germany and France, while stabilisation or even trend reversal has already commenced in most other jurisdictions in Europe.

Major UK banks robustly positioned – new bond issuances dominated by other banks in the EUR benchmark segment in 2024

In the context of a detailed sector profile, Moody's risk experts recently explored the profitability, asset quality and capitalisation of the "big four" in terms of the UK banking landscape, namely Lloyds Banking Group, NatWest Group, HSBC UK and Barclays UK. They stated that after an exceedingly strong 2023, a decline in profitability is expected for the current year and has already materialised in the first six months of the year. With regard to asset quality and capitalisation, the risk experts paint a robust picture, which is likely to remain similar over the rest of 2024. While all of the big four maintain covered bond programmes, only Lloyds Banking Group (issuer: Lloyds Bank PLC; ticker: LLOYDS) is currently active in the EUR benchmark segment with four bonds and an outstanding volume totalling EUR 3.8bn. The entire covered bond market in the UK has turned its focus to its domestic currency in recent years. The Lloyds Bank plc Global Covered Bond Programme is also dominated by GBP bonds. With maturities amounting to EUR 8.5bn overall in the EUR benchmark segment in 2024, we anticipate new bond issuances of EUR 6.5bn and so a negative net supply (EUR -2bn). In fact, we assume that new bonds will tend to come from "smaller" institutions in the country. This is true both with regard to already placed deals making up a volume of EUR 4.5bn and the EUR 2bn in the pipeline.

NORD/LB Covered Bond Specials on the transparency regulations under Section 28 of the PfandBG

A few days ago, the Association of German Pfandbrief Banks (vdp) and the Pfandbrief office of the German Savings Banks Association (DSGV) published the latest figures on reporting pursuant to the transparency regulations under Section 28 of the PfandBG. The reporting period for the quarterly figures is the second quarter of 2024. As usual, we have put together publications for each of the reports from the vdp member banks and German savings banks. The data for the NORD/LB Covered Special – Transparency regulations under §28 PfandBG Q2/2024 is derived from reports by the 37 member banks and consequently puts the total market volume of outstanding Pfandbriefe at EUR 383bn (cf. also focus article in this issue). The NORD/LB Covered Special – Transparency requirements §28 PfandBG Q2/2024 Sparkassen relates to data as reported by 44 savings banks. In the second quarter of 2024, the volume of outstanding mortgage Pfandbriefe was EUR 28.6bn. The cover assets amounted to EUR 56.9bn. Over the same reporting period, cover assets for the public sector Pfandbriefe amounting to EUR 3.2bn were offset by Pfandbriefe in a volume of EUR 1.5bn. The lending business that characterises savings banks is also evident in the aggregate view of DSGV data for mortgage Pfandbriefe. All primary cover assets are located in Germany and the majority of these cover assets can be allocated to residential use (EUR 45.2bn or 83.4%). For residential mortgages, the share of single and two-family houses is 51.1%, while the multi-family house category accounts for 28%. The biggest subcategory for commercial cover assets (EUR 9bn) is office buildings (41.8%) and other commercial property (35.7%). The average weighted loan-to-value ratio for all data is 54.1%, i.e. unchanged from the same quarter of the previous year.

Market overview
SSA/Public Issuers

Authors: Christian Ilchmann // Lukas-Finn Frese

ECB-key interest rates: Taylor Swift and the inflation, or…?

In its June decision, the ECB Governing Council moved away for a moment from the data-dependent approach that has become a sort of mantra. It has sworn by this approach for months and faced some justified criticism for doing so. While the data provided no leeway for a rate cut, according to most analysts at least, the ECB had publicly backed itself into a corner with its self-imposed forward guidance. Or was it just the normativity of the counterfactual? What happened in June is well known. Word and deed no longer went hand in hand. In this way, one of a central bank's greatest assets is being played with without need (and very successfully at that): credibility. Whilst compiling our latest ECB commentary, we are reminded again of previous meetings from the days of the interest rate highs: President Lagarde spouting hackneyed phrases without saying very much. Accordingly, the interest rate for the main refinancing operations remains unchanged at 4.25%, while the interest rates for the marginal lending facility (4.50%) and the deposit facility (3.75%) also remain unchanged. No word on the minimum reserve. TPI remains in the drawer. The associated press release refers again to the data-dependent approach. The message should meanwhile have been received by all market players, but can the ECB's words still be trusted? In July, the HVPI (harmonised index of consumer prices) for the eurozone went up by +2.6% year on year, higher than in the previous month (2.5%). You can read about whether this was due to Taylor Swift and the implications for monetary policy in our latest ECB commentary.

French sub-sovereigns now carry a 0% risk weighting

Having reported primarily on negative developments in France in the recent past, such as the rating downgrade by S&P and new elections, there is now a little bit of good news. At the start of July, the French financial regulatory authority, Autorité de Contrôle Prudentiel et de Résolution (ACPR), which in operational terms is directly subordinate to the Banque de France, decided that in future exposure to French sub-sovereigns will be treated in regulatory terms as exposure to the French central government. In line with the standard approach under Regulation (EU) 575/2013 (CRR) this produces a risk weighting of 0% rather than the previous weighting of 20% for local authorities, public institutions for cooperation between local authorities with own taxation, as well as départments and regions in France. This consequently results in Level 1 classification pursuant to the LCR for bonds issued by French sub-sovereigns. From a regulatory point of view, these are now on the equivalent level as bonds issued by the German Laender or Spanish regions, which previously benefited from preferential treatment. In our opinion, this decision is likely to further improve access to and the cost of funding resources for French regional governments and local authorities, which given the considerable need for investment in these days of uncertainty could provide an additional boost. In our coverage, this development particularly affects the issuers Île-de-France (ticker: IDF) and Ville de Paris (ticker: VDP) detailed in our NORD/LB Public Issuer Special – Beyond Bundeslaender: Greater Paris.

CADES publishes Social Bond Allocation Report 2023

The French debt repayment fund Caisse d'Amortisation de la Dette Sociale (ticker: CADES) has published its Allocation Report for 2023 on the use of proceeds from its bonds issued in social format. The report shows that a total of six social bonds with a volume of EUR 22.2bn were issued in 2023. In detail, these comprise three EUR-denominated bonds as well as three USD-benchmarks with maturities of three to eight years. By its own account, CADES therefore remained the world's leading issuer of social bonds in 2023. In addition to the EUR 22.2bn from last year's bond proceeds, a non-allocated sum from 2022 amounting to EUR 5.8bn was also available, putting the total funding for social endeavours at EUR 28bn. The money was used as follows: EUR 21.6bn was allocated to the branch of health insurance companies represented by the Caisse nationale de l'Assurance Maladie (CNAM). Caisse nationale de l'Assurance Vieillesse (CNAV), which is responsible for managing pensions as part of the general social security system received EUR 2.7bn. The remaining sum of EUR 3.7bn has been carried forward to 2024 to repay debt that has been carried forward as well or refinance maturing bonds. CADES has already been active twice in the current year with fresh EUR-benchmark issues and raised an aggregate sum of EUR 8bn. Both transactions attracted a great deal of investor interest with order books 5.0x oversubscribed. For 2024, CADES has set a funding target of EUR 20bn.

Investitionsbank Sachsen-Anhalt: First independent annual report published

After a long transformation process, on 01 March 2023 Investitionsbank Sachsen-Anhalt (IB) was established as a legally independent development bank for the German federal state of Saxony-Anhalt (cf. weekly publication from 27 March). IB has now published its annual report for financial year 2023, which covers a period of ten months. In total, during the period under review, 2,364 grants amounting to EUR 532.2m were approved. The largest portion of EUR 180.1m (153 grants) related to its economic promotional programmes and the quotas available for the "GRW commercial economy" and "GRW infrastructure" programmes were utilised in full during the period under review. Local authority and structural development was the second largest sector with EUR 152.0m (144 grants). Support was provided here for projects relating to the move away from coal and structural transformation projects. In the health sector, 158 grants amounting to EUR 149.8m were approved. In terms of volume and number of approvals, the level of loans was lower than grants: with a total of EUR 146.7m (424 approvals), the lion's share was again attributable to economic development (EUR 88.1m, 139 approvals) and residential building programmes (EUR 46.8m, 279 approvals). Due to last year's spin-off, there are no comparative figures from the year before. Regarding assets and earnings, IB itself talks of a satisfactory result. Net income for the year amounted to EUR 5.5m as at the reporting date. Net interest income from own operations stood at EUR 9.8m. The reimbursement of costs from the federal state of Saxony-Anhalt for implementing the development programmes was another considerable source of revenue for IB. As at year-end 2023, total assets stood at EUR 1.6bn, a rise of +2.5% versus the opening balance sheet.

Primary market

Summer break intermezzo: We start our review with a new four-year EUR 500m floater issued by the federal state of Baden-Wuerttemberg (ticker: BADWUR) at -1bp versus the six-month Euribor. No details were provided regarding the order book. This was followed by Bremen which issued its third EUR benchmark of 2024. The EUR 500m (7y) bond was placed precisely in line with the guidance from the Hanseatic state at ms +13bp (without "area"). Rhineland-Palatinate (ticker: RHIPAL) chose an identical volume and maturity for its new bond issue. However, pricing took place at a slightly lower spread of ms +12bp (guidance: ms +12bp area). The fourth issuer from the German Laender segment to approach investors was Schleswig-Holstein (ticker: SCHHOL). It raised EUR 500m for an eight-year bond placed in line with the initial guidance at ms +14bp. Staying in Germany, our focus turns now to the promotional banks. Here NRW.BANK (ticker: NRWBK) broke cover with a social bond featuring a volume of 1bn (10y), which was finally priced at ms +22bp (guidance: ms +24bp area). We already reported on the second EUR benchmark from French local authority financier Société de Financement Local (ticker: SFILFR) in 2024 back in June. However, the issue was postponed due to difficult market conditions at the time. The green bond with a volume of EUR 1.25bn (5.2y) has now been successfully placed in the market. The final pricing tightened versus the guidance by five basis points at OAT +29bp (roughly corresponds to ms +30bp). At the end of the marketing phase, the order book stood at EUR 4.2bn. The EBRD made an appearance for the first time since October 2019. The issuer from the European supra-segment issued a EUR benchmark in the SSA primary market, providing fresh ESG supply. Its EUR 1bn (7y) bond in green format was finally priced at ms +12bp. A non-European supranational in the shape of the Asian Development Bank (ticker: ASIA) was also active in the market for the fourth time this year. It issued a EUR 1bn (10y) bond at ms +25bp (guidance: ms +26bp area). On the other side of the Atlantic, one Canadian sub-sovereign was also active. In July, the province of Quebec (ticker: Q) raised EUR 1.25bn in the 15-year maturity segment at ms +64bp with its second new issue in EUR benchmark format this year. The European Union (ticker: EU) was also active as part of its first bond auction in H2/2024 (cf. funding plan), consequently increasing the volume of its two bonds EU 2.875% 06/12/2027 and EU 3.375% 04/10/2038. The bond with the shorter maturity was tapped by EUR 2.533bn and the longer-dated bond by EUR 1.9bn.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
SCHHOL	DE	24.07.	DE000SHFM956	8.0y	0.50bn	ms +14bp	AAA / - / -	-
RHIPAL	DE	18.07.	DE000RLP1528	7.0y	0.50bn	ms +12bp	AAA / - / -	-
NRWBK	DE	17.07.	DE000NWB0AW8	10.0y	1.00bn	ms +22bp	AAA / Aa1 / AA	X
ASIA	SNAT	16.07.	XS2865535590	10.0y	1.00bn	ms +25bp	AAA / Aaa / AAA	-
Q	CA	16.07.	XS2865588797	15.0y	1.25bn	ms +64bp	AA- / Aa2 / AA-	-
BREMEN	DE	11.07.	DE000A30V398	7.0y	0.50bn	ms +13bp	AAA / - / -	-
EBRD	SNAT	10.07.	XS2861062425	7.0y	1.00bn	ms +12bp	AAA / Aaa / AAA	X
SFILFR	FR	10.07.	FR001400QY06	5.2y	1.25bn	ms +30bp	- / Aa2 / AA-	X
BADWUR	DE	10.07.	DE000A14JZ53	4.0y	0.50bn	6mE -1bp	- / Aaa / AA+	-

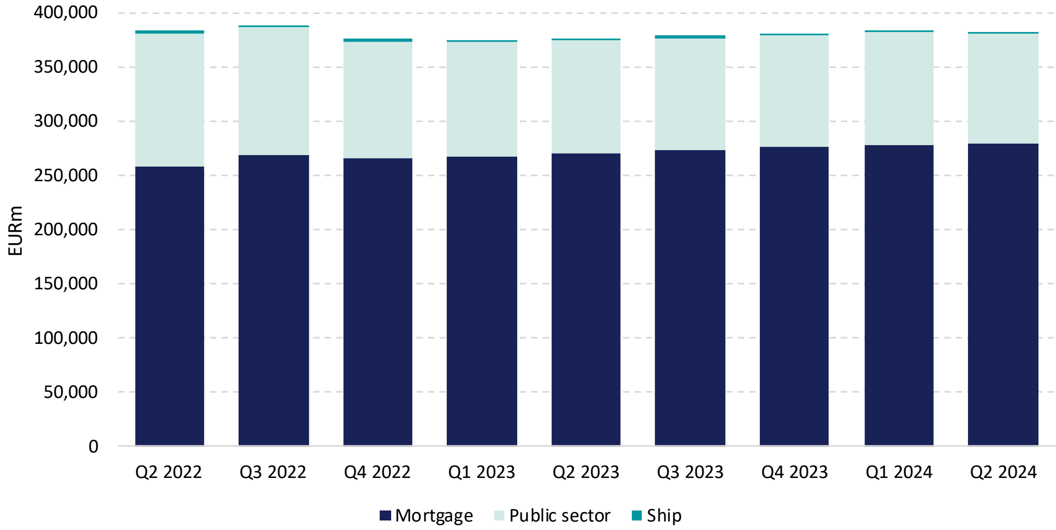
Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody's / S&P)

Covered Bonds
Transparency requirements §28 PfandBG Q2/2024

Authors: Dr Frederik Kunze // Lukas Kühne

Transparency disclosures §28 PfandBG: A look at the German Pfandbrief market
In the current issuance year, German Pfandbrief banks are among the key drivers in the primary market both with regard to the EUR benchmark and the EUR sub-benchmark m segment. In our opinion, a closer look at the composition of the cover pools of the German Pfandbrief issuers also provides a little more clarity in terms of CRE exposure and its prevalence among the Pfandbrief issuers under review. The main focus is on the type of cover assets (residential vs. commercial) as well as the geographical distribution of the real estate assets. In this context, the transparency requirements of §28 PfandBG also provide an important input variable. The reporting obligations for Pfandbrief banks under §28 PfandBG, which were further expanded when implementing the EU Covered Bond Directive, are published quarterly for the majority of issuers by the Association of German Pfandbrief Banks (vdp) as part of the Transparency reports. This database provides us with an important basis for our NORD/LB Covered Bond Special "Transparency requirements §28 PfandBG Q2/2024", which we published this trading week. This includes the cover pool data for 37 mortgage Pfandbrief programmes, 21 public Pfandbrief programmes and two ship Pfandbrief programmes. We have again manually added the cover pool data for Deutsche Bank this quarter which is not reported on the vdp website. In the following, we summarise the key developments and core statements from the transparency reports as of the end of Q2/2024.

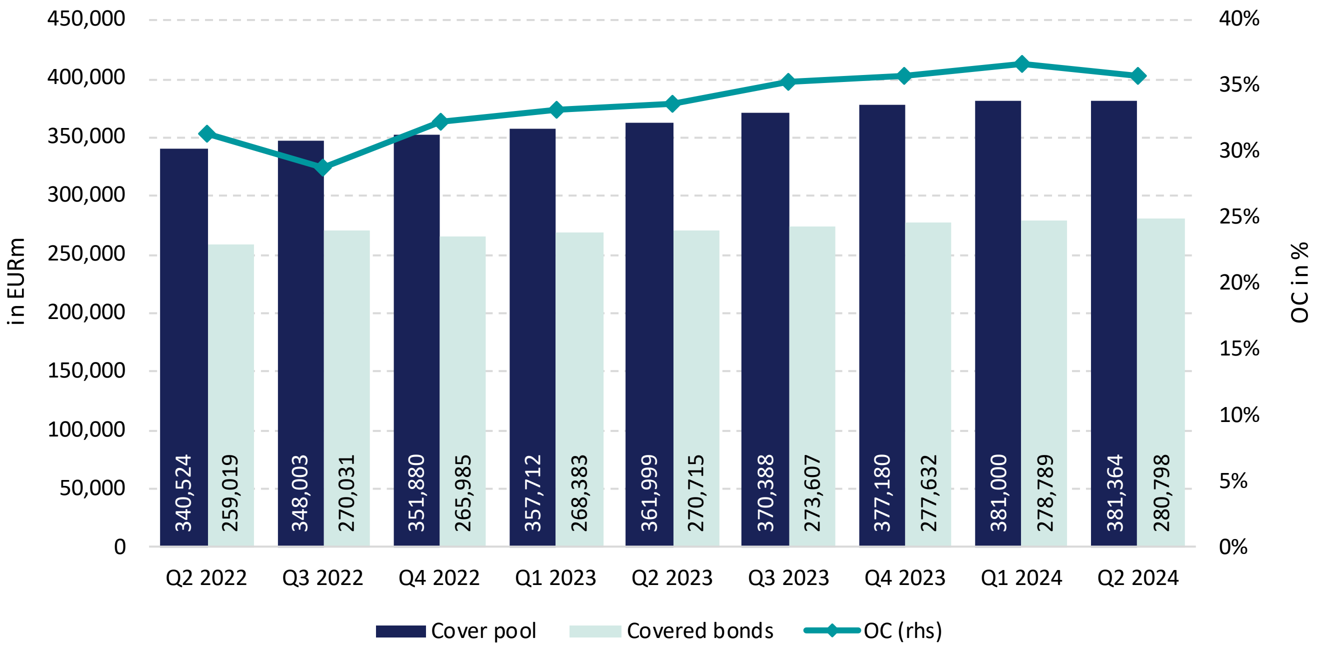
Trend in outstanding Pfandbrief volume



Source: vdp, Deutsche Bank, NORD/LB Floor Research

Outstanding Pfandbriefe: Total volume decreases slightly
At EUR 383.0bn, the total volume of outstanding Pfandbriefe is down slightly on the previous quarter (reporting date 31 March 2024: EUR 383.9bn), which marks the first decrease since Q1/2023. Compared with the previous quarter, the volume of outstanding mortgage Pfandbriefe rose by EUR +2.0bn to EUR 280.8bn. In contrast, the volume of public sector Pfandbriefe declined slightly versus the previous quarter (EUR -2.9bn) to stand at EUR 100.8bn. The volume of outstanding ship Pfandbriefe (Schipfe) remained largely unchanged on the previous quarter and at EUR 1.3bn was only EUR 100m lower than in Q1/2024. At 73.3%, mortgage Pfandbriefe still account for the largest share of the Pfandbrief market as per our definition.

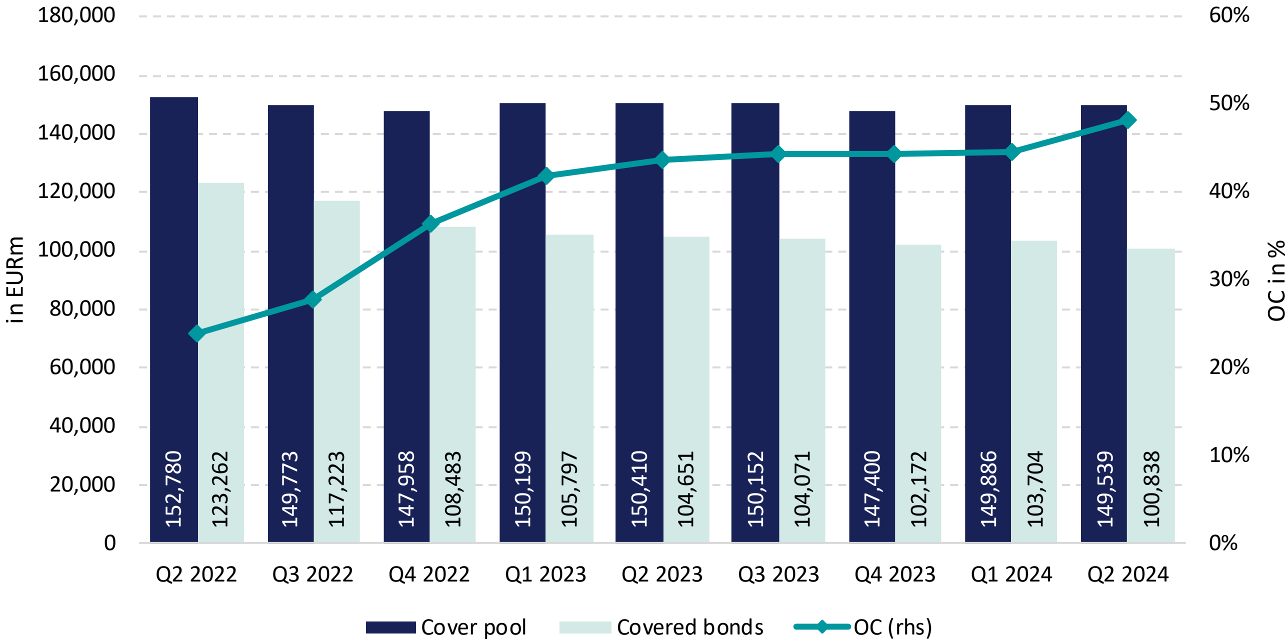
Trend in mortgage Pfandbriefe



Source: vdp, Deutsche Bank, NORD/LB Floor Research

Mortgage Pfandbriefe: OC ratio drops to 35.8%
As already mentioned, the volume of mortgage Pfandbriefe totals EUR 280.8bn. This is countered by a cover pool volume of EUR 381.4bn, producing a calculated OC of EUR 100.6bn, or 35.8% (previous quarter: EUR 102.2bn or 36.7%). In our view, this analysis of average values shows no indication yet of a shortage of cover assets that could impair the issuance potential in the coming quarters. This assessment is based on the rise in the nominal OC ratio of around 10% versus Q2/2023 among other factors. As of the reporting date, at issuer level, Landesbank Baden-Württemberg catches the eye with growth in its outstanding volume of EUR 1.5bn. Landesbank Hessen-Thüringen also recorded an increase of EUR 972m. Compared with the previous year, however, the outstanding volume posted this issuer was down EUR -1.5bn. Moreover, looking at the previous year, there were notable rises at ING-DiBa (EUR +4.0bn) and at Münchener Hypothekenbank (EUR +1.9bn).

Trend in public Pfandbriefe



Source: vdp, Deutsche Bank, NORD/LB Floor Research

Public sector Pfandbriefe: Outstanding volume drops to EUR 101bn

Having recorded the first rise for over two years in the preceding quarter, Q2 2024 saw the volume of outstanding public sector Pfandbriefe drop again. In the current reporting period, the volume of public sector covered bonds totalled EUR 100.8bn (previous quarter: EUR 103.7bn). The volume of cover assets also declined versus the previous period and now stands at EUR 149.5bn, slightly below the previous quarter (EUR 149.9bn). The calculated OC ratio therefore rose to 48.3%. Viewed alone, the significant level of OC is an indication of plentiful issuance potential in the future, which is set to materialise in the EUR benchmark and EUR sub-benchmark segments in particular. This development in issuance volume was largely driven by Landesbank Hessen-Thüringen with a fall in volume of EUR -2.6bn (Q/Q) as well as Bayerische Landesbank with EUR -821m. NORD/LB (EUR -762m) and Deutsche Pfandbriefbank (EUR -574m) also reported declining Pfandbrief volumes. Conversely, at the end of Q2 higher volumes were posted by Landesbank Baden-Württemberg (EUR +957m), Commerzbank (EUR +161m) and DKB (EUR +100m). Despite the fall in the outstanding volume of public sector Pfandbriefe, we believe this sub-segment still harbours potential for future market appearances.

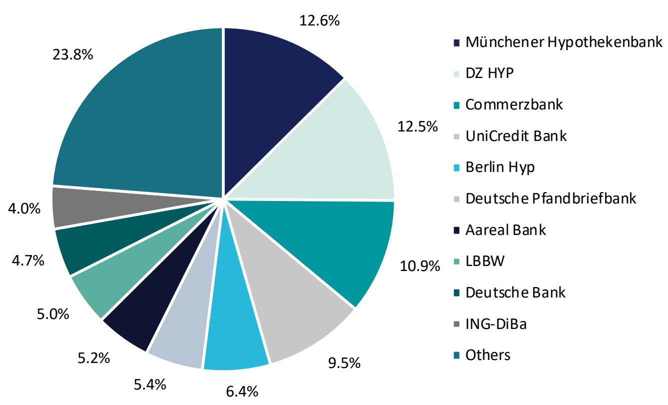
Ship Pfandbriefe continue to remain a niche product

Accounting for 0.4% of the total volume, the ship Pfandbriefe segment continues to remain a niche in the Pfandbrief market. The volume of outstanding ship Pfandbriefe is again practically unchanged on the previous quarter at EUR 1.3bn. Only two institutions have outstanding ship Pfandbriefe – Commerzbank (EUR 49m) and Hamburg Commercial Bank (EUR 1.3bn).

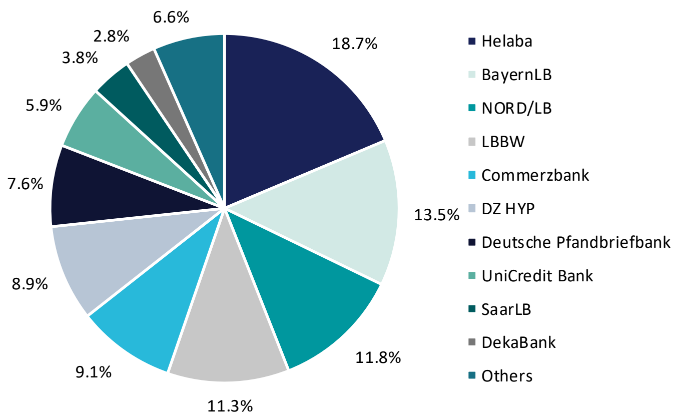
A look at the "top 10"

In terms of the top 10 mortgage Pfandbrief issuers by volume as of the reporting date of 30 June 2024, Münchener Hypothekenbank ranks first with a share of 12.6%, just pipping DZ HYP with 12.5%. These are followed in third and fourth place by Commerzbank (10.9%) and UniCredit Bank (9.5%). The top ten issuers account for 76.2% of the total outstanding volume. With regard to public sector Pfandbriefe, this share is considerably higher at 93.4%. Here the top five spots are taken by Helaba, BayernLB, NORD/LB, LBBW and Commerzbank, followed by DZ HYP and Deutsche Pfandbriefbank in sixth and seventh place.

Market shares – mortgage Pfandbriefe



Market shares – public sector Pfandbriefe



Source: vdp, Deutsche Bank, NORD/LB Floor Research

Additional information on German Pfandbrief market as part of our coverage

Alongside the general overview provided here, a review of individual pools and programmes should not be overlooked. For more detailed information, please refer to our §28 Report. Here, for example, the tabular overview on page 5 shows which mortgage cover pools have a high proportion of commercial assets. The regional breakdown is also shown in this report. For a more international view, please see our NORD/LB Issuer Guide Covered Bonds 2023. In this publication, we provide a comprehensive overview of all issuers active in the EUR benchmark and/or EUR sub-benchmark segments at the time of reporting.

Conclusion

The German Pfandbrief market shrank slightly in Q2/2024, but the outstanding volume remained at a high level historically speaking. While mortgage Pfandbriefe were once again the engine of growth for the Pfandbrief market in the past quarter, the lower volume of public sector Pfandbriefe led to a contracting market overall. We view the reports pursuant to §28 PfandBG as a good basis for analysis, facilitating deeper insights into the data structure of the cover pools of German Pfandbrief issuers. This includes data on OC ratios. In our opinion, these are more than adequate, which means there is nothing set to stand in the way of further growth for the Pfandbrief market.

SSA/Public Issuers
Teaser: Issuer Guide – Spanish Agencies 2024

Authors: Dr Norman Rudschuck, CIIA // Christian Ilchmann // Lukas-Finn Frese // assisted by Maike Maas

Spanish agency market dominated by two large issuers

Today, we are going to take a brief look at the Spanish agencies market. The four Spanish agencies included in our coverage currently have 59 bonds outstanding with a total volume of around EUR 22bn. In a European comparison, the Spanish agency market can therefore be described as relatively small, albeit fairly diverse in nature at the same time. In addition to the promotional bank Instituto de Crédito Oficial (ICO), there is also a securitisation vehicle, a rail network operator and an institution responsible for administering Spain's strategic oil reserves. In the following, we shall be looking in greater detail at Fondo de Amortización del Déficit Eléctrico (FADE), which was founded in 2010 with the aim of securitising claims, or tariff deficit receivables, on the part of Spanish electricity providers against the government. Owing to the regulatory framework conditions, these electricity providers had generated losses, which were to be offset by the government. The purpose of FADE is to ensure that the deficits incurred by the electricity providers are offset more rapidly. The sale of tariff deficit receivables from the utility companies to FADE has since led to the issuance of bonds, some of which have been in benchmark format. The second biggest agency as measured by total assets is Instituto de Crédito Oficial (ICO), the Spanish promotional bank. The importance of ICO increased during the Spanish banking crisis in particular, as many financial institutions reduced their lending activities, in some cases significantly so, on account of recapitalisation and restructuring processes. The promotional bank's influence also increased because market access became more difficult for the Spanish regions. The third agency covered here is Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), which is responsible for administering Spain's strategic oil reserves in its role as a stockholding entity. Founded in 2013, ADIF Alta Velocidad (ADIF-AV) is the largest Spanish agency as measured by total assets. Its remit is to operate Spain's high-speed railway network and has been using the capital market since 2015 as one option of meeting its funding requirements. In comparison with other jurisdictions, attention must always be paid to ratings of Spanish agencies, which are often lower than is the case, for example, for other issuers from Germany, France, the Netherlands and even Austria.

Spanish agencies – an overview

Institution	Type	Owner(s)	Guarantee	Risk weight
Instituto de Crédito Oficial (ICO)	Promotional bank	100% Spain	Explicit guarantee & EPE status	0%
Fondo de Amortización del Déficit Eléctrico (FADE)	Securitisation vehicle	-	Explicit guarantee for all bonds	0%
ADIF Alta Velocidad (ADIF-AV)	Rail network operator	100% Spain	EPE status	0%
Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)	Administrator of strategic oil reserves	-	-	50%

Source: Issuers, NORD/LB Floor Research

Explicit guarantees result in risk weight of 0%

ICO and FADE have explicit guarantees from the Spanish state. As such, a risk weight of 0% is possible according to the standard approach of CRR/Basel III.

Implicit liability due to EPE status with exception of CORES (RW 50%) and ICO

In Spain, the legal status of Entidad Pública Empresarial (EPE; public law institution) exists as a special form of liability mechanism. ICO and the ADIF-AV operate under this legal status, which implies a strong dependency on the central government. EPEs are exempt from insolvency law and can only be liquidated through legislation. If liquidation occurs, the remaining assets and liabilities are transferred to the state or another institution with a comparable legal status. According to our understanding, there consequently exists an implicit guarantee for ADIF-AV, but this is weaker than the comparable liability mechanisms of the French établissement public (EP) status or Gewährträgerhaftung (guarantor liability) in Germany, for example. Conversely, in the case of ICO, the statutes stipulate direct liability on the part of the Spanish state in addition to EPE status. However, in view of the absence of a liability mechanism, a 0% risk weight is not possible in the case of CORES. Under the standard approach of CRR/Basel III, the applicable risk weight is derived from the rating and amounts to 50% at present.

Special case: ADIF-AV

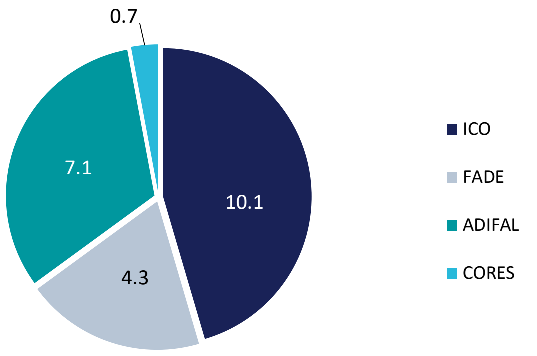
Another special case is that of ADIF-AV. A risk weight of 0% applies for ADIF-AV, even without a corresponding liability mechanism having been put in place. Based on this risk weight of 0%, ADIF-AV bonds also qualify as Level 1 assets under the LCR. In addition, ADIF-AV benefits from an implicit guarantee from the Spanish government due to its status as a government-related issuer.

Spanish agencies – an overview (EURbn/EUR equivalent)

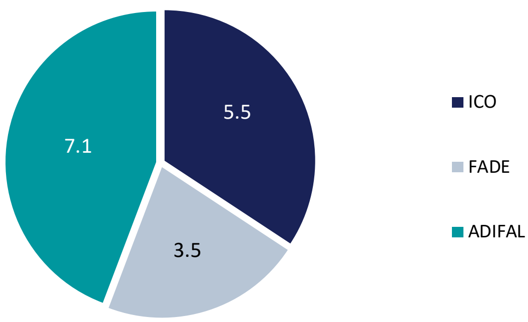
Name	Ticker	Rating (Fitch/Moody's/S&P)	Outstanding Volume	Of which EUR	Funding target 2024	Maturities 2024	Net Supply 2024	Number of ESG bonds	ESG volume
ICO	ICO	A-/Baa1/A	10.1	7.9	5.5	1.5	4.0	9	4.5
FADE	FADE	-/-/-	4.3	4.3	1.0	1.5	-0.5	0	0.0
CORES	CORES	A-/Baa2/-	7.1	7.1	1.1	1.0	0.1	7	4.0
ADIF-AV	ADIFAL	A-/-/A	0.7	0.7	0.0	0.3	-0.3	0	0.0
Total			**22.2**	**20.0**	**7.6**	**4.3**	**3.3**	**16**	**8.5**

NB: Fitch, Moody's and S&P rate FADE's bonds on a par with Spain's credit rating; FADE is not assigned an issuer rating.
Foreign currencies are converted into EUR at rates as at 05 August 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, issuers, NORD/LB Floor Research

Outstanding bond volumes (EURbn)

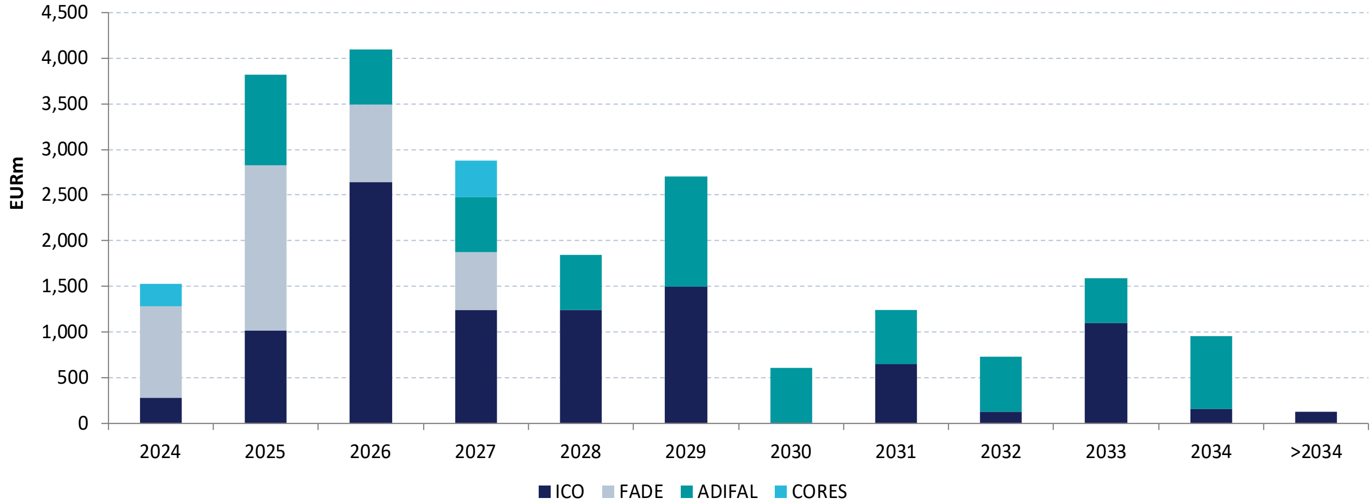


Outstanding EUR benchmarks (EURbn)

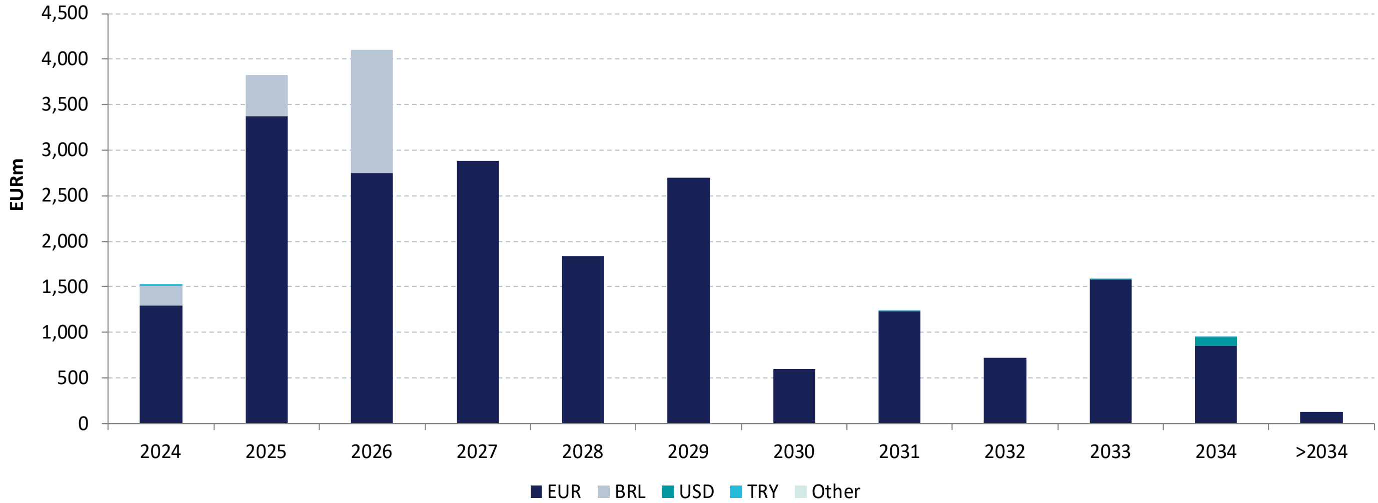


NB: Benchmarks are defined as bonds with a minimum volume of EUR 0.5bn.
Foreign currencies are converted into EUR at rates as at 05 August 2024.
Source: Bloomberg, NORD/LB Floor Research

Spanish agencies: outstanding bonds by issuer



Spanish agencies: outstanding bonds by currency



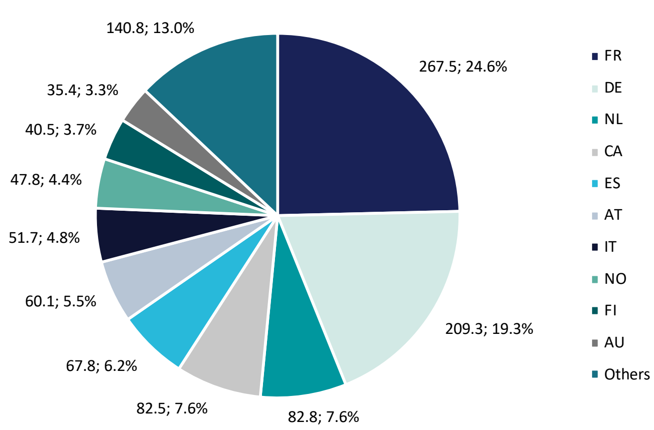
NB: Foreign currencies are converted into EUR at rates as at 05 August 2024.
Source: Bloomberg, NORD/LB Floor Research

Conclusion and comment

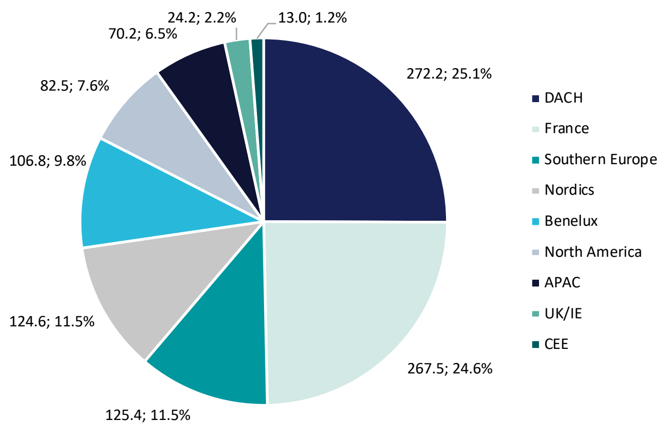
Although fresh supply has been declining for a number of years, the Spanish agency market continues to rank among the active SSA segments within Europe, albeit one that is on the smaller side. We assume that fresh supply will stabilise at lower levels in the coming years, with ICO likely to continue accounting for the lion's share of the funding requirement. Accordingly, at EUR 5.5bn, the promotional bank also has the highest funding requirement for 2024 of the Spanish agencies included here. A not insignificant portion of the refinancing requirement is covered by the issuance of ESG bonds in the green and social subcategories. In addition to ICO, ADIF-AV is also a regular presence in the market for EUR-denominated ESG issues. At times, only bonds with a green label were placed on the market. FADE will continue to refinance existing bonds via new issuances, meaning that the net supply of bonds will amount to a maximum of zero. Supply from CORES is relatively marginal when compared with the other issuers, a situation reflected in the fact that this issuer currently has no EUR benchmark bonds outstanding.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



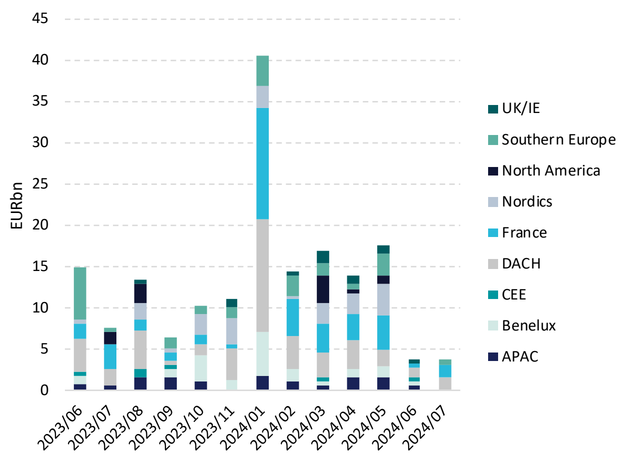
EUR benchmark volume by region (in EURbn)



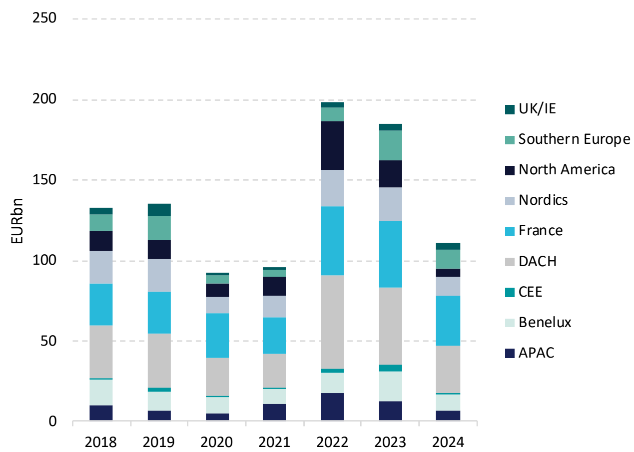
Top-10 jurisdictions

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	267.5	258	26	0.97	9.3	4.8	1.45
2	DE	209.3	296	42	0.65	7.8	3.9	1.45
3	NL	82.8	84	3	0.92	10.5	6.0	1.35
4	CA	82.5	61	1	1.33	5.5	2.6	1.34
5	ES	67.8	53	5	1.16	11.2	3.3	2.16
6	AT	60.1	101	5	0.59	8.1	4.2	1.54
7	IT	51.7	66	5	0.76	8.5	3.8	1.89
8	NO	47.8	58	12	0.82	7.3	3.5	1.03
9	FI	40.5	46	4	0.87	6.9	3.5	1.72
10	AU	35.4	33	0	1.07	7.2	3.3	1.82

EUR benchmark issue volume by month

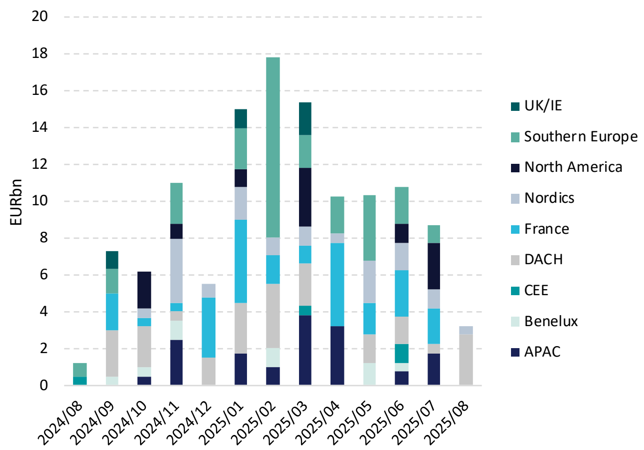


EUR benchmark issue volume by year

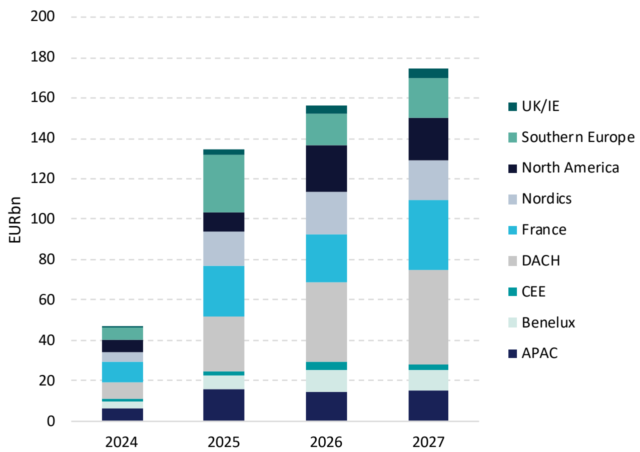


Source: Market data, Bloomberg, NORD/LB Floor Research

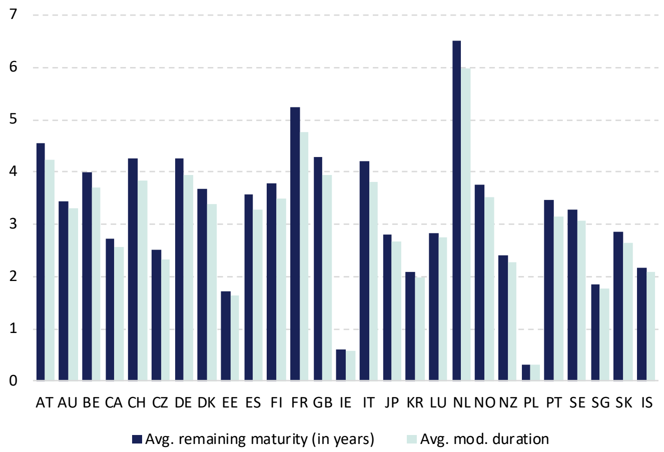
EUR benchmark maturities by month



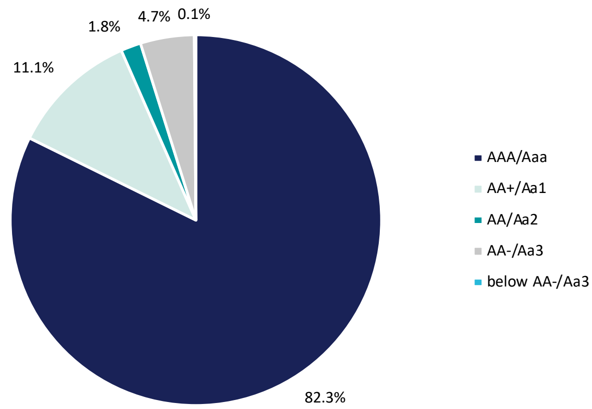
EUR benchmark maturities by year



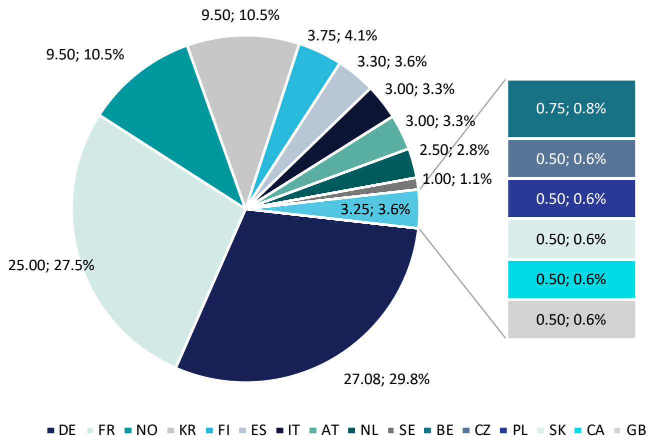
Modified duration and time to maturity by country



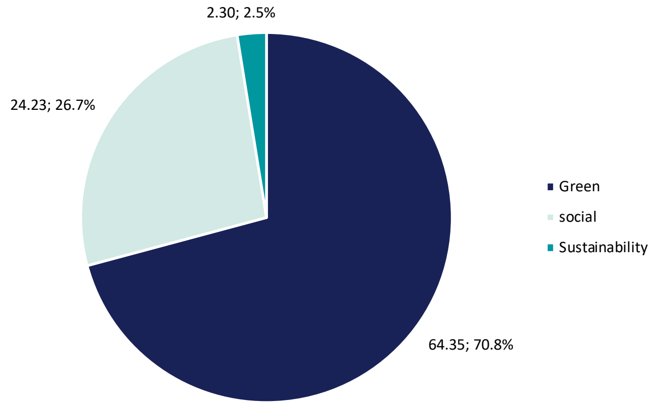
Rating distribution (volume weighted)



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

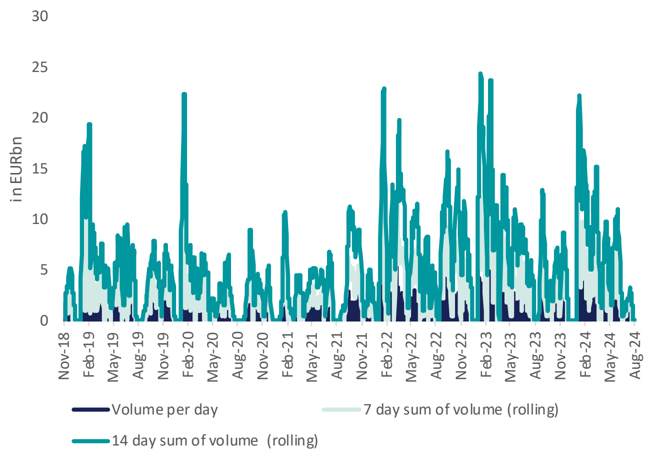


EUR benchmark volume (ESG) by type (in EURbn)

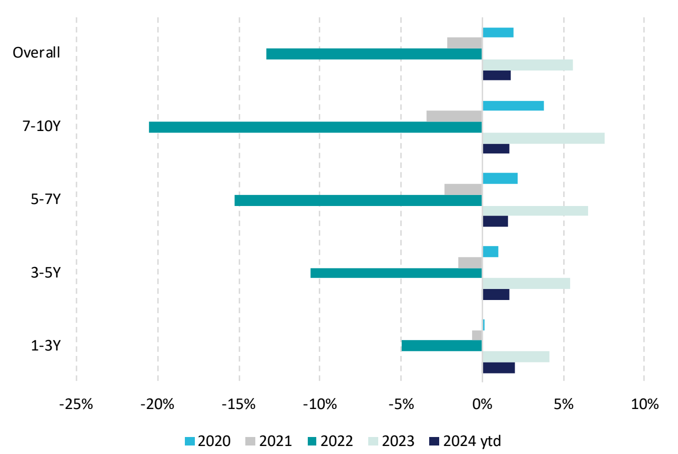


Source: Market data, Bloomberg, NORD/LB Floor Research

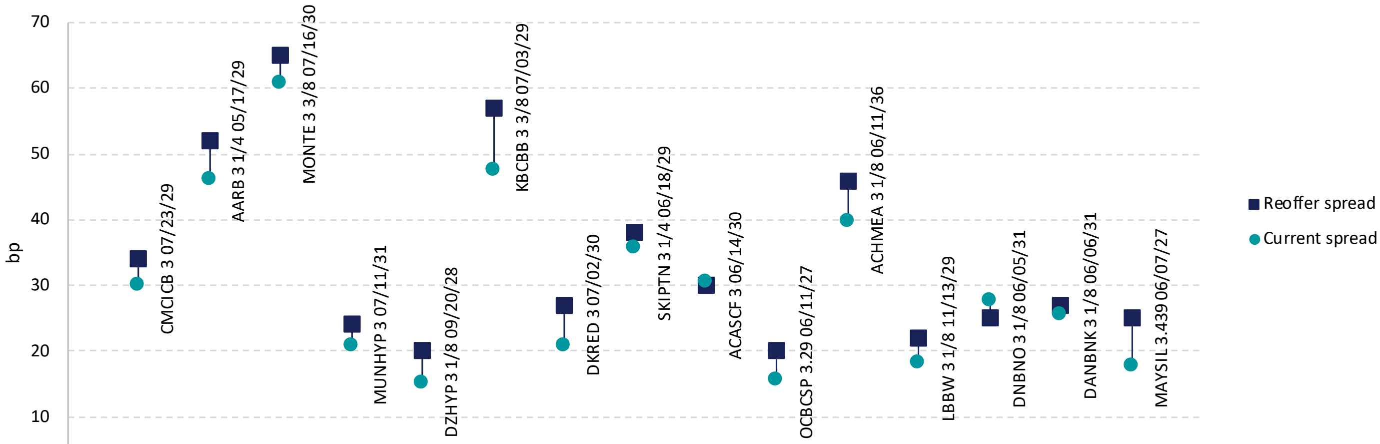
EUR benchmark emission pattern



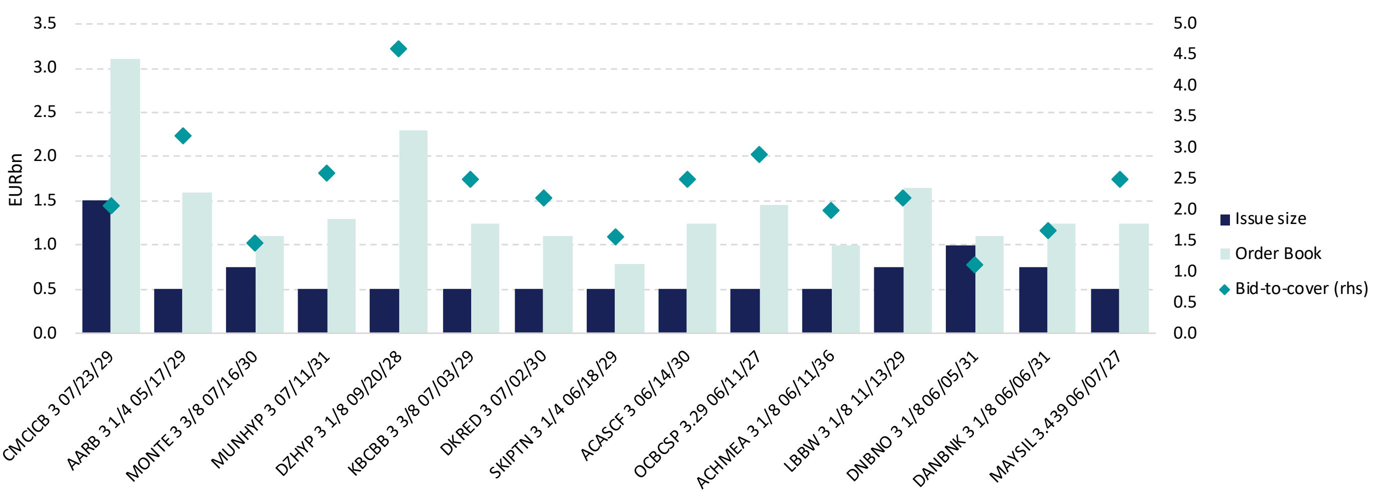
Covered bond performance (Total return)



Spread development (last 15 issues)



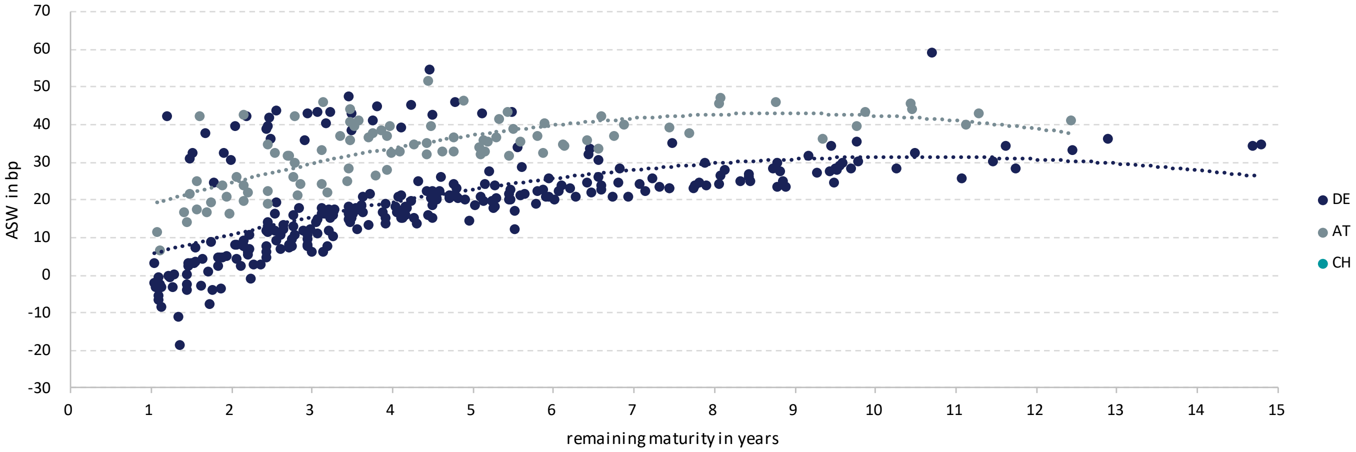
Order books (last 15 issues)



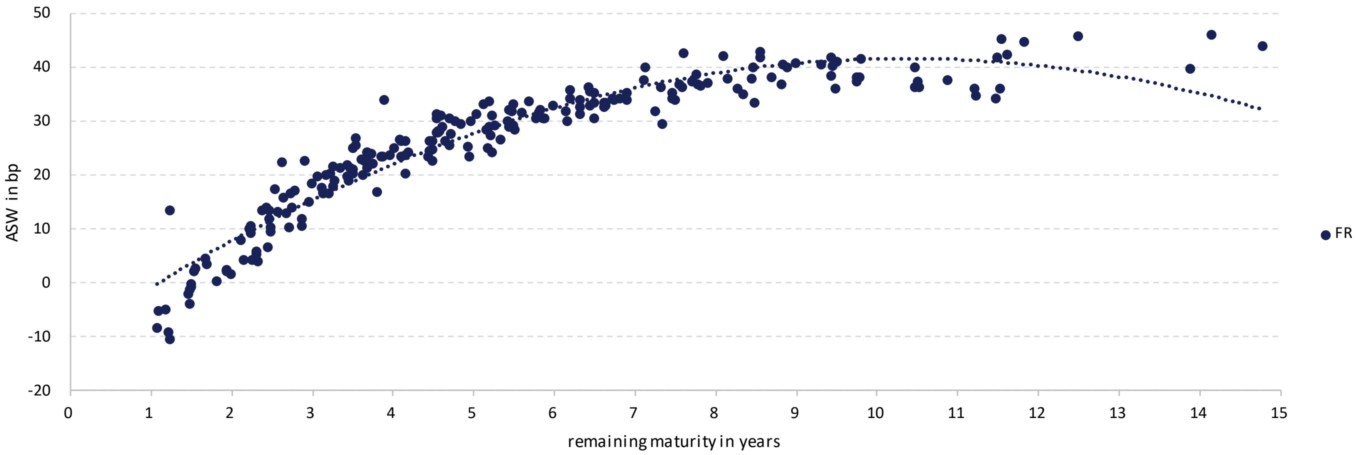
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

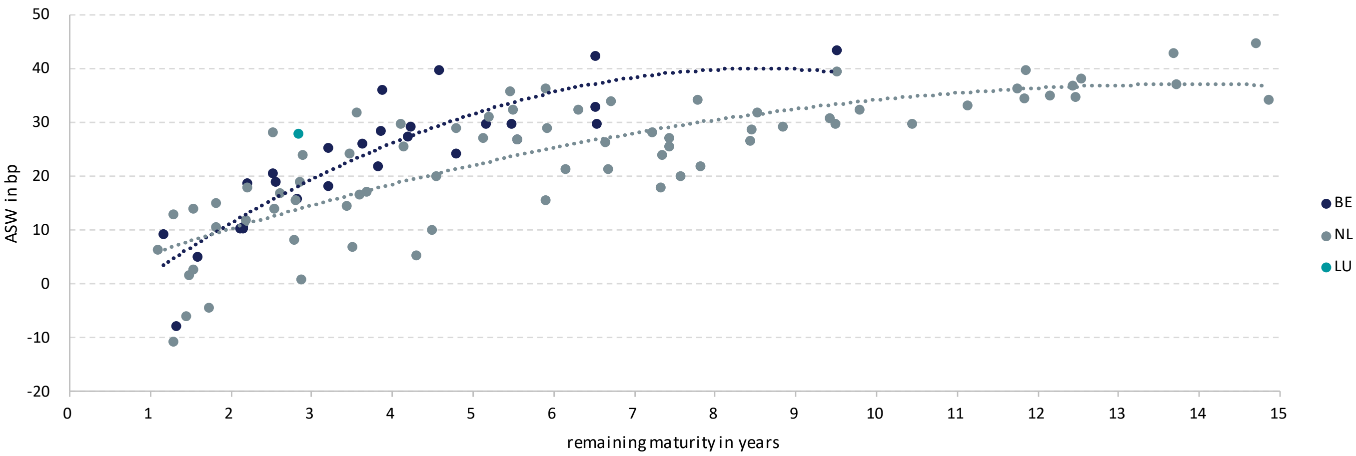
DACH



France

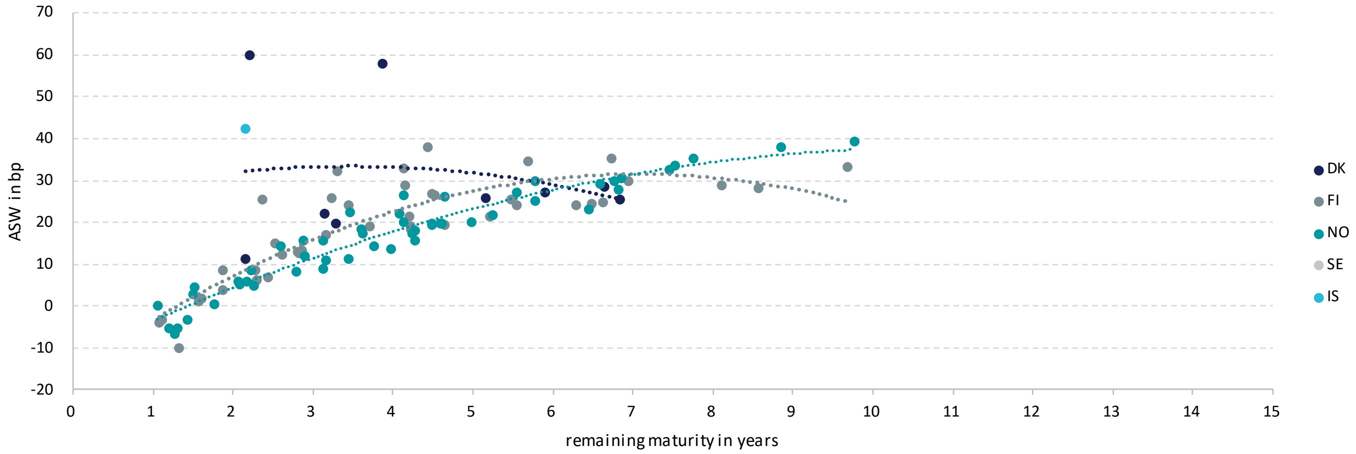


Benelux

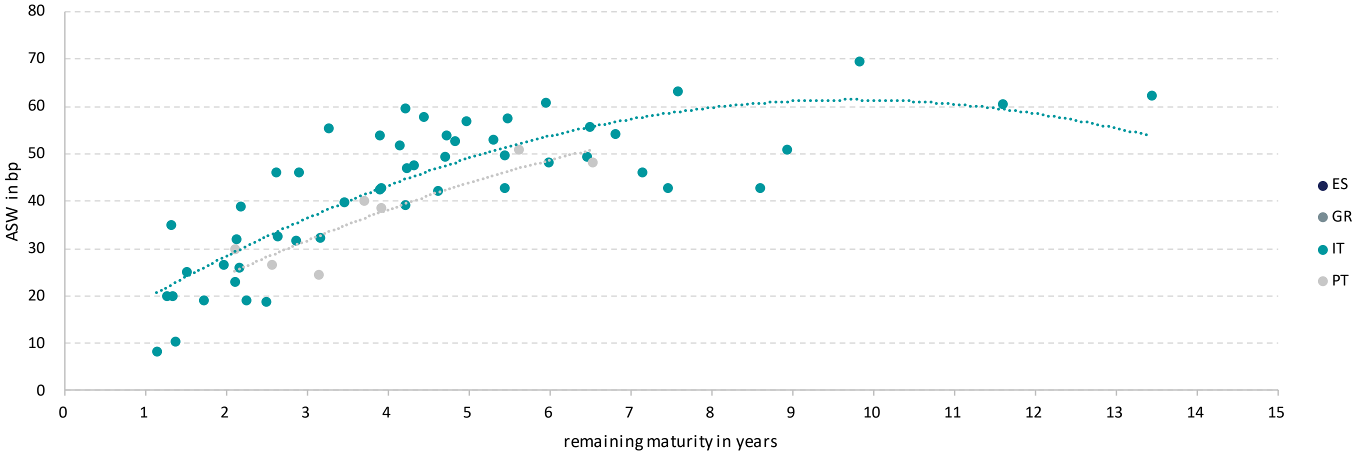


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

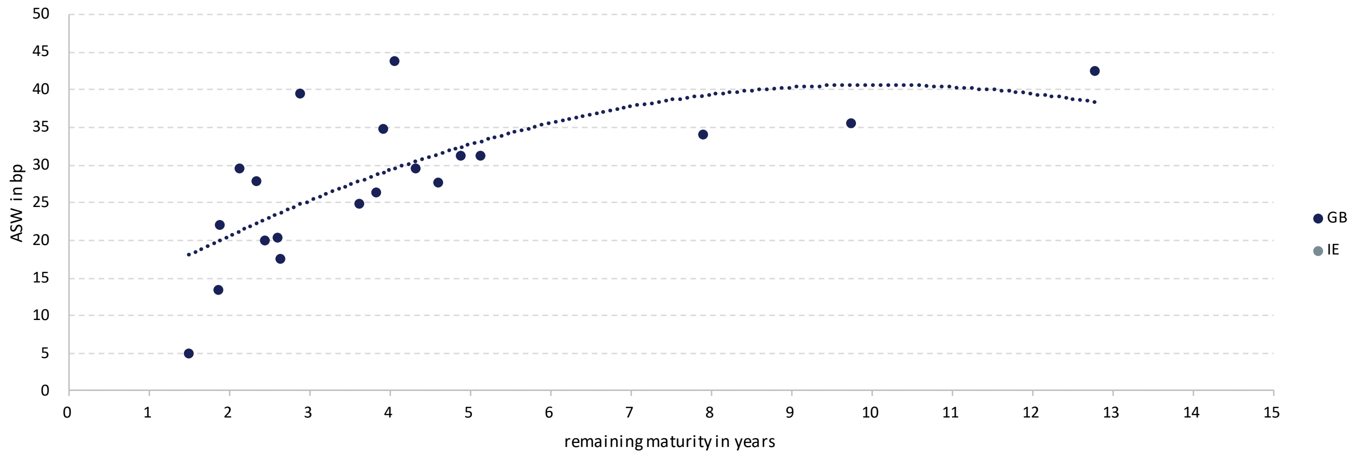
Nordics



Southern Europe

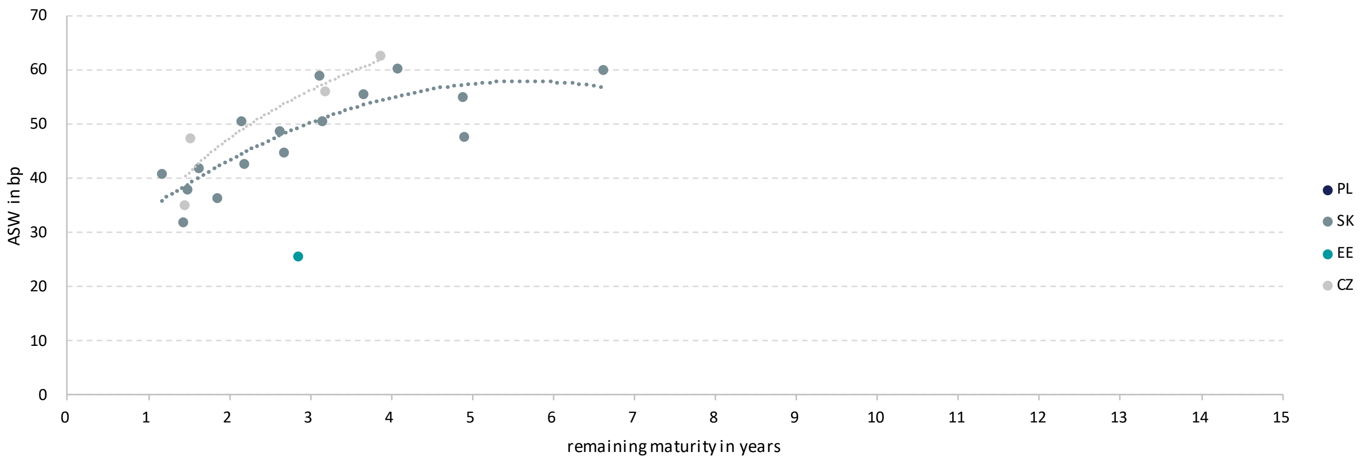


UK/IE

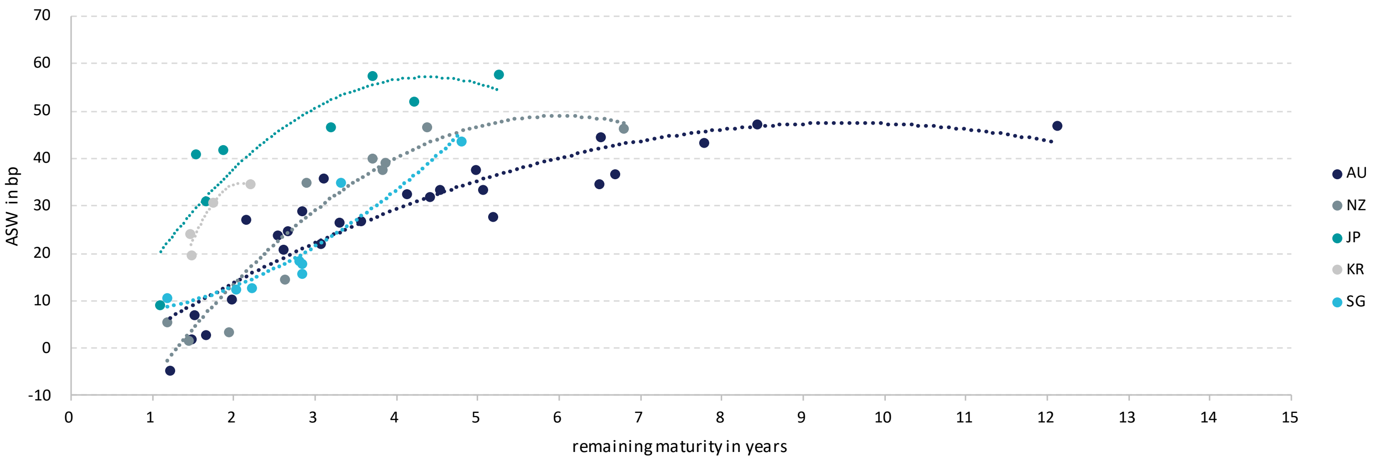


Source: Market data, Bloomberg, NORD/LB Floor Research

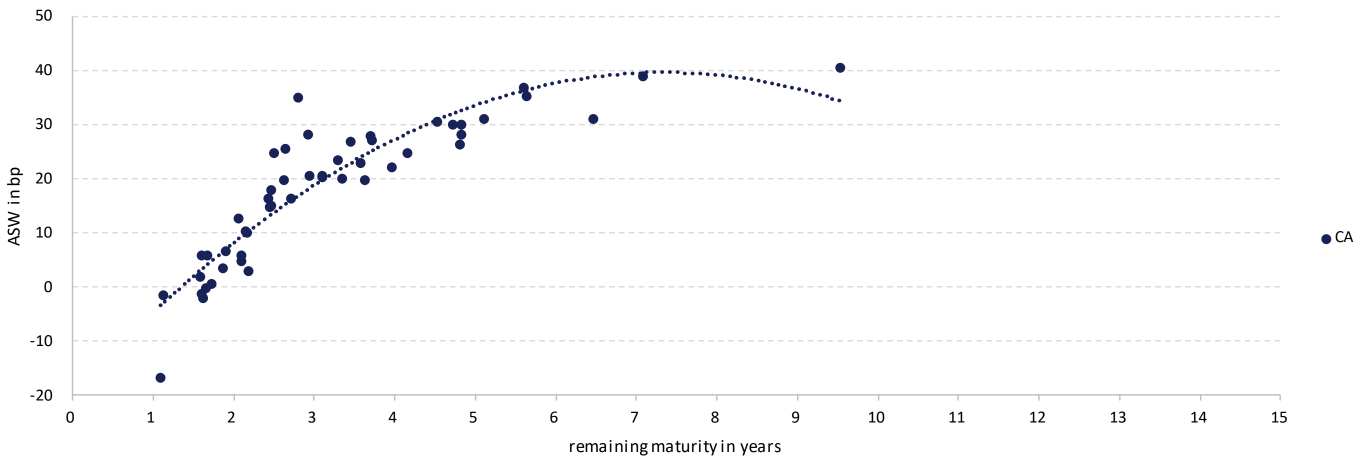
CEE



APAC



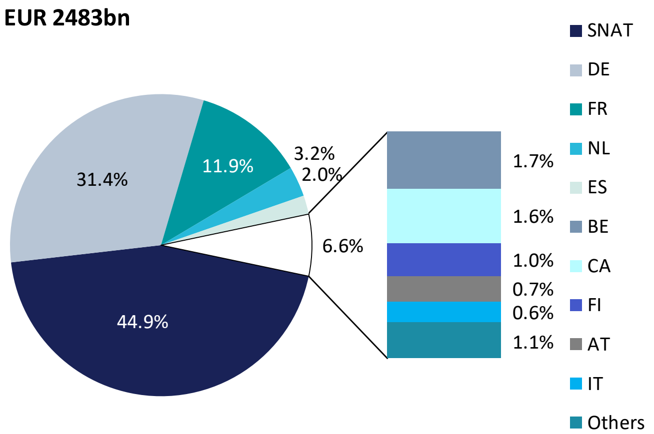
North America



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

Charts & Figures
SSA/Public Issuers

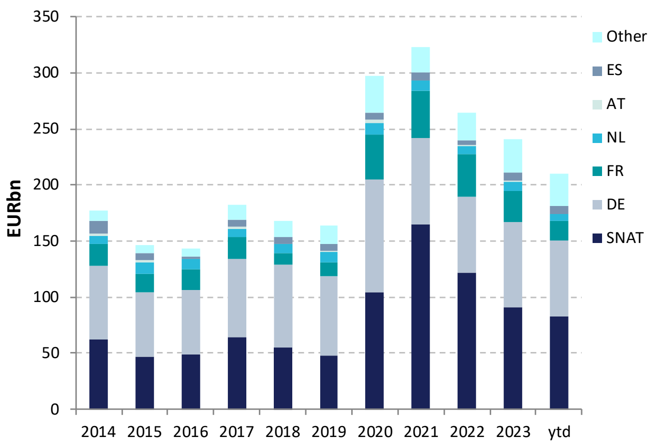
Outstanding volume (bmk)



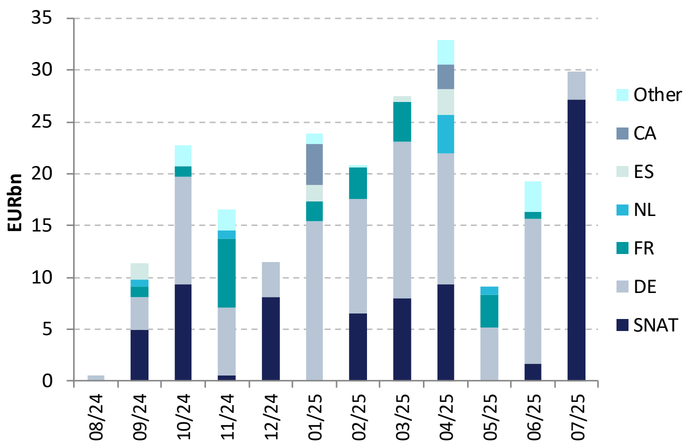
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,114.3	238	4.7	8.0
DE	779.5	583	1.3	6.2
FR	295.2	197	1.5	5.8
NL	80.1	67	1.2	6.6
ES	50.0	70	0.7	4.9
BE	41.6	45	0.9	10.6
CA	38.9	28	1.4	5.2
FI	24.2	25	1.0	4.5
AT	17.8	22	0.8	3.9
IT	15.0	19	0.8	4.5

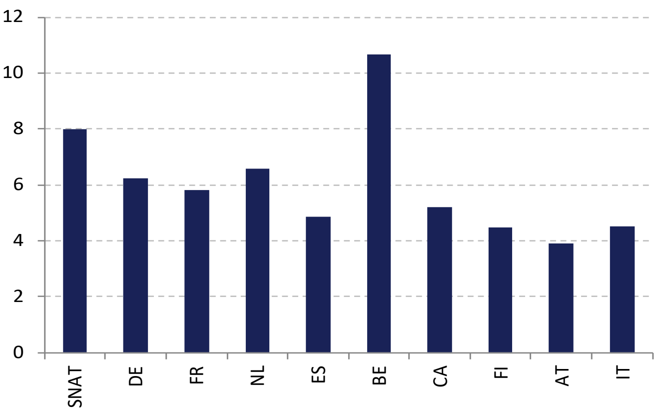
Issue volume by year (bmk)



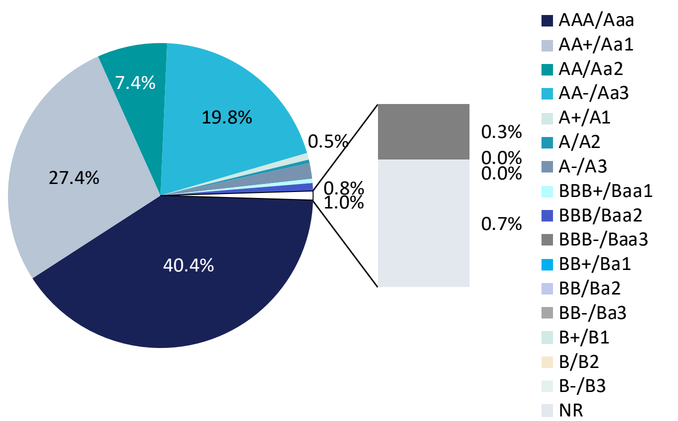
Maturities next 12 months (bmk)



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

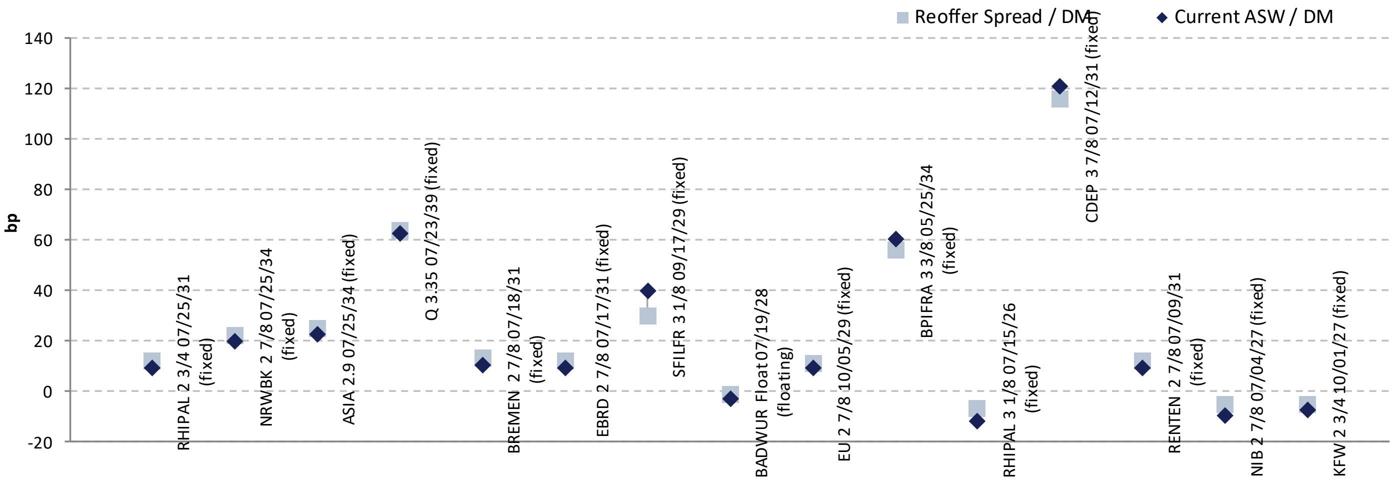


Rating distribution (vol. weighted)

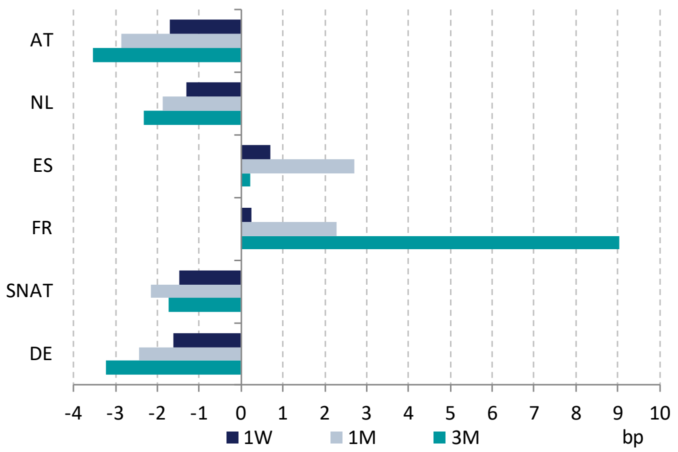


Source: Bloomberg, NORD/LB Floor Research

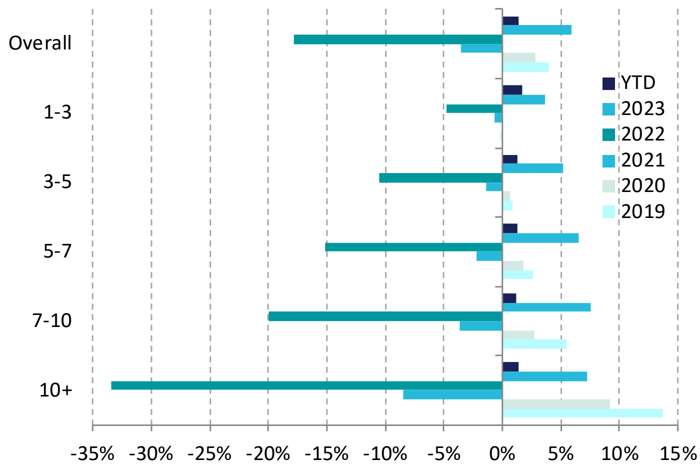
Spread development (last 15 issues)



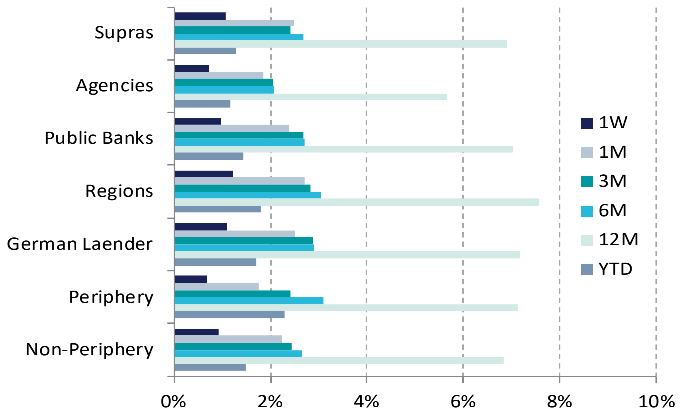
Spread development by country



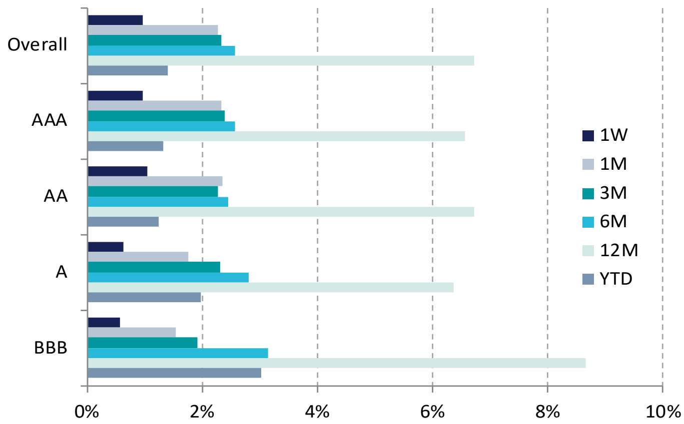
Performance (total return)



Performance (total return) by segments

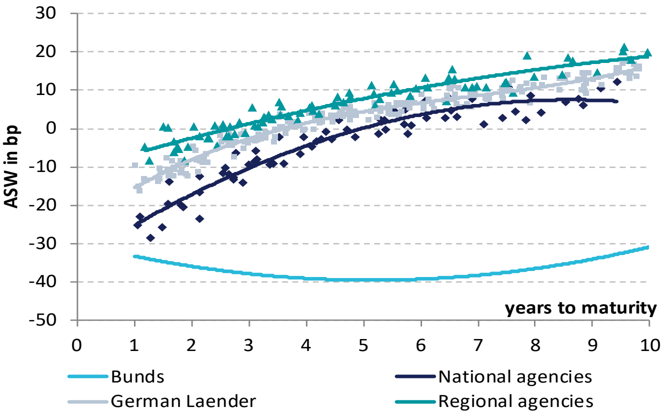


Performance (total return) by rating

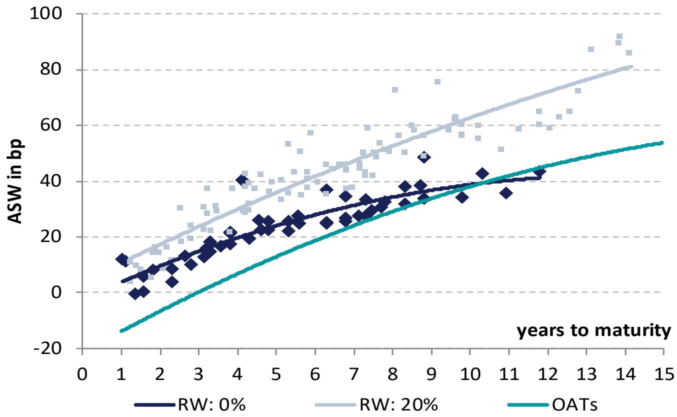


Source: Bloomberg, NORD/LB Floor Research

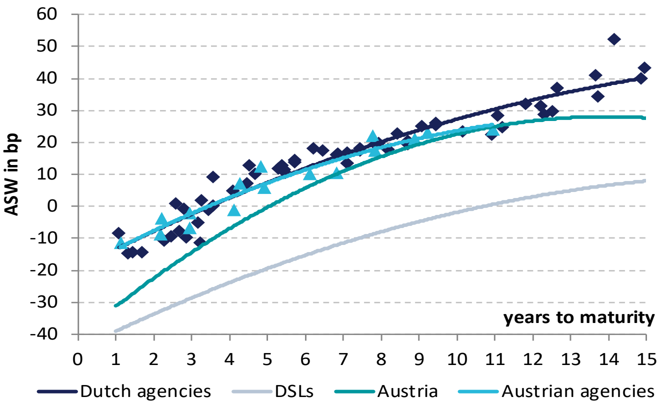
Germany (by segments)



France (by risk weight)



Netherlands & Austria



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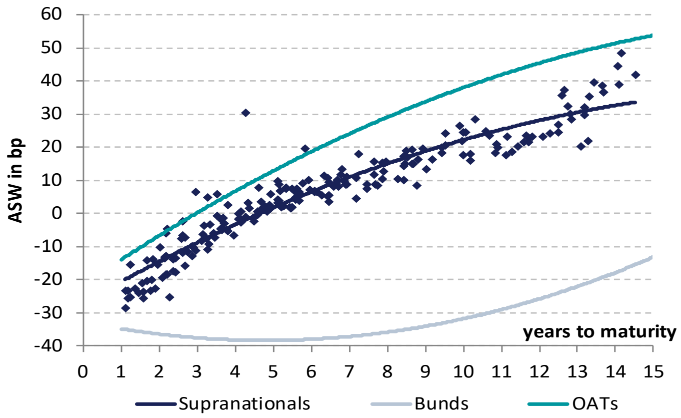
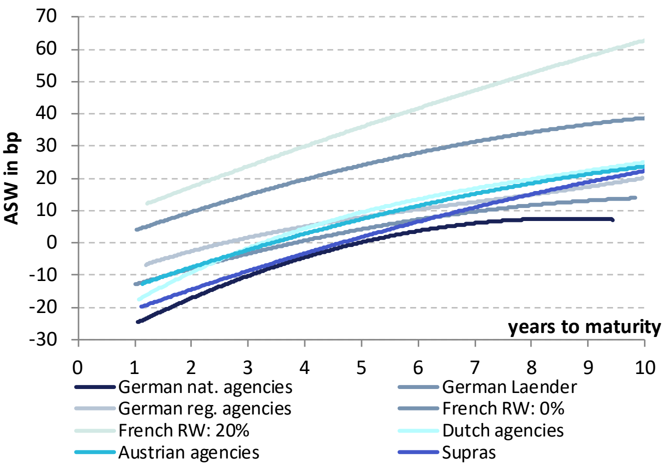
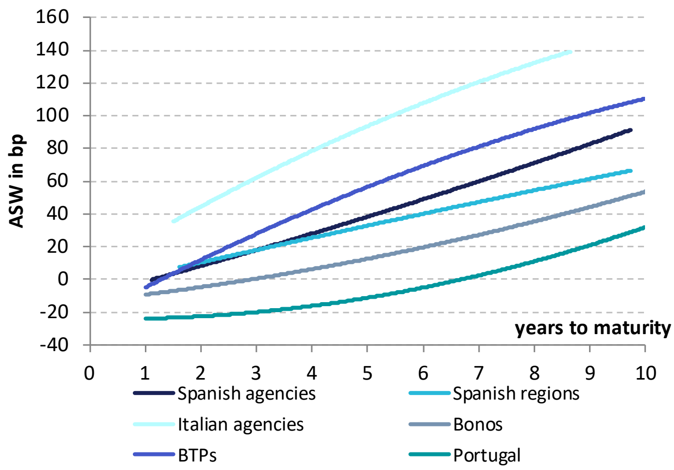


Core



Periphery



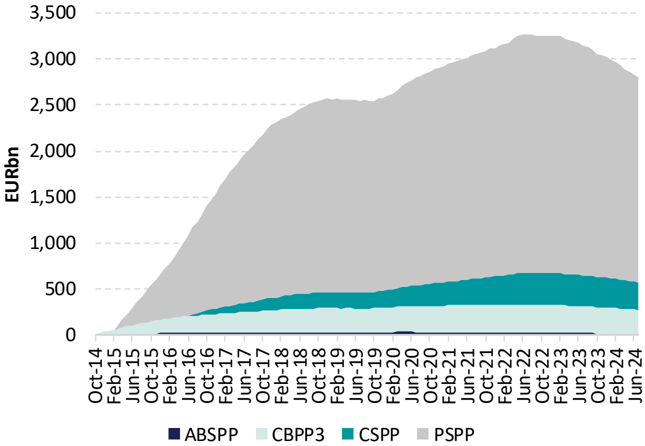
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

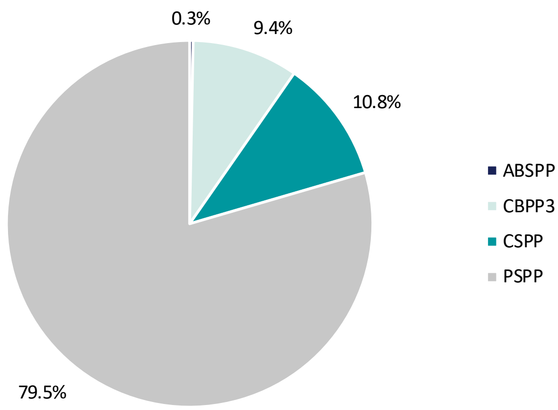
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Jun-24	8,949	264,960	306,481	2,254,498	2,834,888
Jul-24	8,676	262,403	303,010	2,227,758	2,801,847
Δ	-272	-2,558	-3,471	-26,740	-33,041

Portfolio development

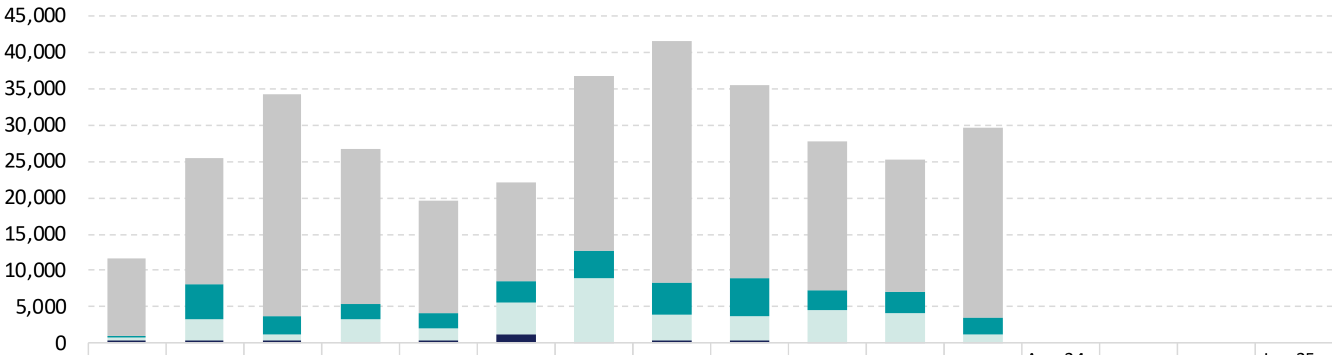


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

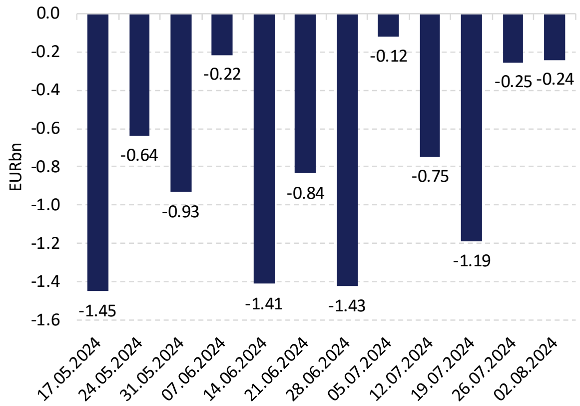


	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-24 - Jul-25	2023	2024	Jan-25 - Jul-25
APP	11,621	25,562	34,353	26,697	19,709	22,038	36,659	41,657	35,539	27,864	25,290	29,618	336,607	331,565	334,283	58,697
PSPP	10,533	17,497	30,578	21,298	15,636	13,463	24,021	33,376	26,671	20,571	18,261	26,161	258,066	255,025	264,465	37,484
CSPP	244	4,738	2,613	2,031	1,944	2,973	3,788	4,279	5,137	2,699	2,940	2,156	35,542	31,251	31,380	6,761
CBPP3	541	2,993	736	3,136	1,790	4,335	8,635	3,709	3,373	4,448	3,864	1,135	38,695	35,147	32,173	12,970
ABSPP	303	334	426	232	339	1,267	215	293	358	146	225	166	4,304	10,142	6,265	1,482

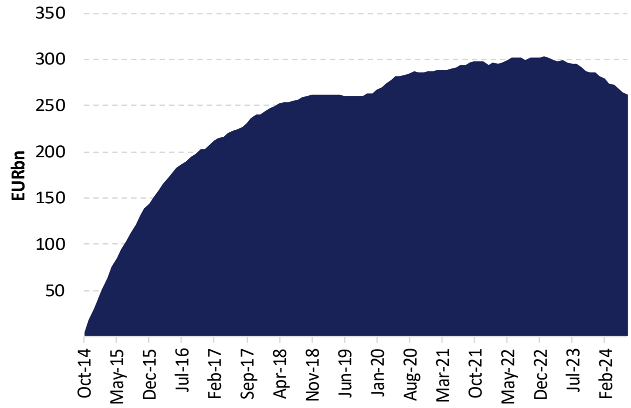
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

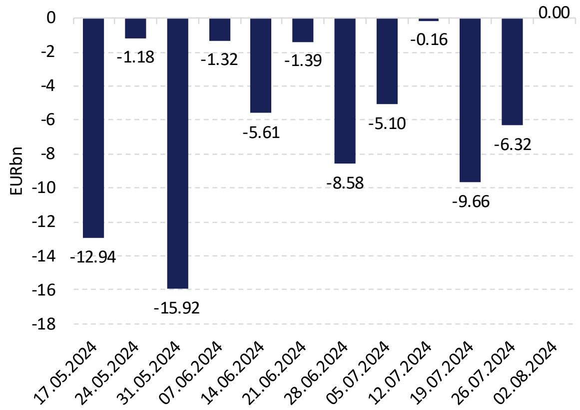


Development of CBPP3 volume

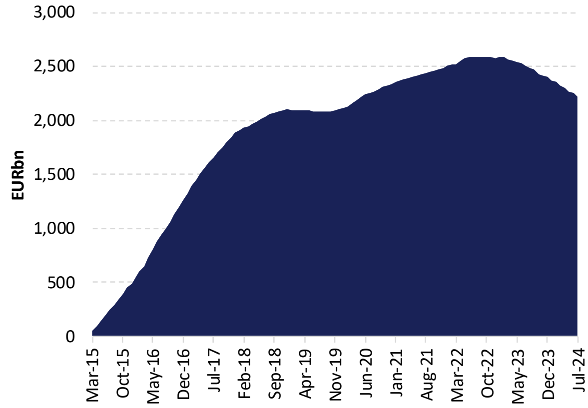


Public Sector Purchase Programme (PSPP)

Weekly purchases



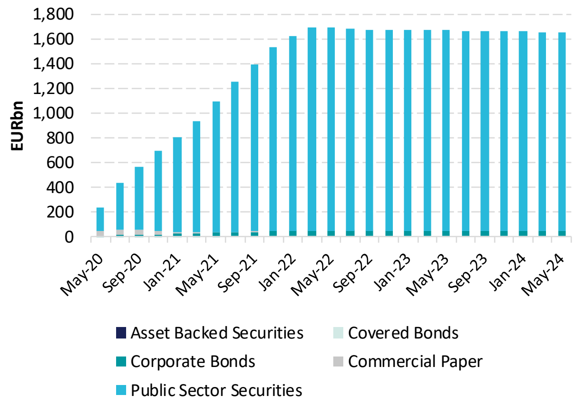
Development of PSPP volume



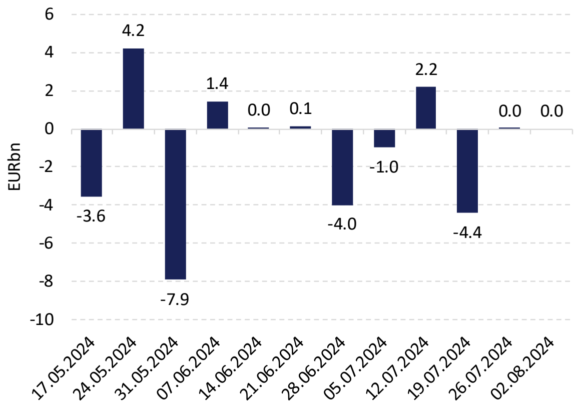
Source: ECB, Bloomberg, NORD/LB Floor Research

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
23/2024 ♦ 10 July	▪ Repayment structures on the covered bond market: An update ▪ SSA review: EUR-ESG benchmarks in H1/2024
22/2024 ♦ 03 July	▪ Covereds: Half-year review and outlook for the second half of 2024 ▪ SSA half-year review 2024
21/2024 ♦ 26 June	▪ The covered bond universe of Moody’s: An overview ▪ Teaser: Issuer Guide – Austrian Agencies 2024
20/2024 ♦ 19 June	▪ New EUR benchmark issuer from Slovakia ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
19/2024 ♦ 12 June	▪ ESG covered bonds: Green deals continue to dominate ▪ Teaser: Issuer Guide - Nordic Agencies 2024
18/2024 ♦ 29 May	▪ Transparency requirements §28 PfandBG Q1/2024 ▪ Development of the German property market (vdp Index) ▪ Spotlight on the EU as a mega issuer
17/2024 ♦ 15 May	▪ Standard Chartered Bank Singapore boosts APAC growth ▪ Stability Council convenes for 29th meeting
16/2024 ♦ 08 May	▪ Whats happening away from the benchmark? ▪ Teaser: Issuer Guide – Dutch Agencies 2024
15/2024 ♦ 24 April	▪ A covered bond view of Portugal: Welcome back! ▪ Credit authorisations of the German Laender for 2024
14/2024 ♦ 17 April	▪ Moody's covered bond universe: An overview ▪ SSA review: EUR-ESG benchmarks in Q1/2024
13/2024 ♦ 10 April	▪ A review of Q1 in the Covered Bond segment ▪ A review of Q1 in the SSA segment
12/2024 ♦ 27 March	▪ Maybank: New covered bond issuer from Singapore ▪ A closer look at Export Development Canada (Ticker: EDC)
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

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

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 Q2/2024 (quarterly update)

Transparency requirements §28 PfandBG Q2/2024 Sparkassen (quarterly update)

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 – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2024

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 2024

ECB: Taylor Swift and the inflation, or...

Appendix
Contacts at NORD/LB

Floor Research

Dr Frederik Kunze
Covered Bonds/Banks

+49 172 354 8977
frederik.kunze@nordlb.de

Lukas Kühne
Covered Bonds/Banks

+49 176 152 90932
lukas.kuehne@nordlb.de

Alexander Grenner
Covered Bonds/Banks

+49 157 851 65070
alexander.grenner@nordlb.de

Dr Norman Rudschuck, CIIA
SSA/Public Issuers

+49 152 090 24094
norman.rudschuck@nordlb.de

Christian Ilchmann
SSA/Public Issuers

+49 157 851 64976
christian.ilchmann@nordlb.de

Lukas-Finn Frese
SSA/Public Issuers

+49 176 152 89759
lukas-finn.frese@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
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

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

Relationship Management

Institutionelle Kunden	rm-vs@nordlb.de
Öffentliche Kunden	rm-oek@nordlb.de

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Time of going to press: 07 August 2024 (08:50)