Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Author: Lukas Kühne

Primary market continues to be dominated by high level of demand

After issuance dynamics temporarily ground to a halt at the start of the previous trading week, primary market activities have noticeably ramped back up again over the past five trading days. In total, five issuers from four jurisdictions successfully placed fresh bonds totalling EUR 4.6bn on the market. Before the end of last week, both Credit Agricole Home Loan SFH (Credit Agricole) and Sumitomo Mitsui Banking Corp (Sumitomo; cf. Issuer View) approached investors on the primary market. While the Japanese issuer fixed the size of the deal at EUR 500m (WNG) when announcing the guidance (ms +63bp area), the French deal started out in the marketing phase without the volume being publicised in advance (guidance: ms +57bp area), before eventually issuing a covered bond with a final volume of EUR 1.25bn. The two deals were met with high demand, with the result that the re-offer spread tightened by nine (Credit Agricole) and ten basis points (Sumitomo) versus the respective guidance. At the start of the new week, another French issuer, Caisse de Refinancement de l'Habitat (CRH), caused something of a stir on the market with its new deal (7.0y). At EUR 1.75bn, the CRH deal featured what is the highest issuance volume seen so far this year in the EUR benchmark segment. At the same time, the final spread in the marketing phase was reduced by nine basis points to ms +56bp compared to the initial guidance (ms +65bp area). From our perspective, the high level of demand overall for the new issues comes as a result of the continued attractive spread level. This can also be seen in the new deals placed by TSB Bank (5.0y) and Sparebanken Soer Boligkreditt (6.0y) and is reflected in the bid-to-cover ratios of 2.1x and 3.6x in particular. Eventually, TSB placed its covered bond in the amount of EUR 600m, while Sparebanken Soer Boligkreditt settled on a final volume of EUR 500m (WNG) for its green covered bond at the beginning of the marketing phase.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
TSB Bank	GB	11.02.	XS3000970494	5.0y	0.60bn	ms +44bp	- / Aaa / -	-
Sparebanken Soer	NO	11.02.	XS3004243179	6.0y	0.50bn	ms +40bp	- / Aaa / -	X
CRH	FR	10.02.	FR001400XFS2	7.0y	1.75bn	ms +56bp	AAA / Aaa / -	-
SMBC	JP	06.02.	XS2984119896	5.0y	0.50bn	ms +53bp	- / Aaa / -	-
Credit Agricole SFH	FR	06.02.	FR001400XC78	6.0y	1.25bn	ms +48bp	AAA / Aaa / AAA	X

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

Secondary market: purchase interest remains high

The bigger picture on the secondary market remains unchanged. Market players are focused on new deals, with high demand from a broad range of customers and low trading volumes on the banks' books. The primary market deals, which are now often being placed in the absence of a new issue premium, can continue to perform on the secondary market, which is not least due to the high level of demand.

Activities remain dynamic in the EUR sub-benchmark segment too

Two issuers were active in the EUR sub-benchmark segment in the shape of Raiffeisenverband Salzburg (cf. Issuer View) and Sparkasse Pforzheim Calw (cf. Issuer View). The successful deals amounting to EUR 250m and EUR 300m respectively have ensured that the dynamics in this sub-market remain high, meaning that from our point of view additional newcomers can be expected to become active here (cf. next paragraph).

Coop Pank from Estonia joins Covered Bond Label

At the start of February, Coop Pank from Estonia announced that it would be expanding the group of banks that form part of the Covered Bond Label Foundation (CBLF) by joining as the 150th member (cf. press release). As a member of the CBLF, Coop Pank commits to preparing its cover pool reporting in accordance with the requirements of the Harmonised Transparency Template (HTT). Luca Bertalot (Secretary General of the CBLF) is proud to support the development of the Baltic markets with the Covered Bond Label and points out, among other aspects, the high relevance of transparency in the context of covered bonds. Paavo Truu (CFO of Coop Pank) sees CBLF membership as part of the preparations leading up to an inaugural issuance of a covered bond in the EUR sub-benchmark segment, which the bank plans to carry out in the next few months. He highlights in particular the fact that reporting in line with the HTT is a mark of quality and, in his view, a mandatory part of the preparations ahead of a first sub-benchmark transaction. At present, just LVH Pank from Estonian covered bond issuer, namely LVH Pank, is active in the EUR sub-benchmark segment.

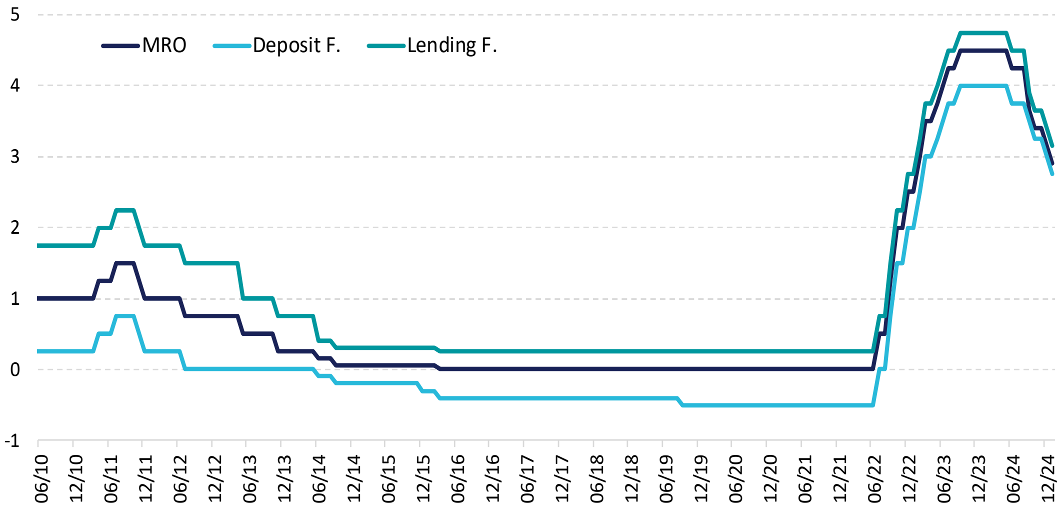
S&P: Around 94% of rated banks in Europe with a stable or positive outlook

In the past few weeks, rating experts from S&P presented their Banking Outlooks 2025, including for the European covered bond jurisdictions that are important in terms of outstanding volume: Germany, France, Spain and Italy. Across all European countries, 75% of all banks rated by S&P have a stable rating outlook, with as many as 19% boasting a positive rating outlook. In particular, this can be put down to the banks' ability to take advantage of favorable credit conditions to strengthen their financial and business position. Looking ahead to 2025 as a whole, the rating experts at S&P expect that the profitability, capitalisation and liquidity positions of European banks should continue to develop solidly. In this context, the banks are focusing on credit growth, cost controls and commission income. According to S&P, challenges for banks could arise in connection with geopolitical risks or potential changes in trade or tax policy and the associated deterioration in economic conditions that these would potentially entail. Banks with a smaller market presence or a more challenging business model would accordingly be impacted to a greater extent by negative economic developments. In order to diversify their business model and secure growth in existing or new business areas, some European banks are seeking to achieve inorganic growth in the form of acquisitions and partnerships. According to the rating experts, in 2025 supervisory authorities will be focusing on geopolitical risks as well as the topics of liquidity and operational resilience. In addition to the risks outlined for European banks, the rating agency sees potential challenges arising from a further market correction in the commercial real estate sector, particularly for banks in Germany. In the event of liquidity problems, market players could be forced to sell larger volumes at significantly discounted rates and therefore contend with losses. On balance, however, S&P awards a stable rating outlook to the German banking sector. We provide an overview of price developments on the German property market in the fourth quarter of 2024 as part of our article entitled "Development of the German property market (vdp index)", which is included in this present edition of our Covered Bond & SSA View.

ECB discusses uncertainties in relation to the natural rate of interest (r*)

As part of its "Economic Bulletin" publication series, the ECB published a focus article in which the prevailing uncertainties with regard to the natural rate of interest (r*) are again outlined. The authors focus on the quantitative estimates of the interest rate, which in theory neither curbs growth nor provides expansionary impetus. The discussion of this interest rate level, which also balances out inequalities between the aggregated amounts of savings and investments and therefore the inflationary or disinflationary tendencies as well, is certainly nothing new. Nevertheless, even in the context of the ECB's current monetary policy course, the quantitative question with regard to the approximation of r* seems sensible to us. Based on the ECB's most recent interest rate decision and press conference that followed, we concluded that the Council is set to continue its current course. Further interest rate cuts are therefore likely to follow (the next one as soon as the next meeting on 6 March; cf. NORD/LB Fixed Income Special from 30 January). The central bankers should not be guided directly by the estimates for r* recently presented by ECB authors (i.e. 1.75% to 2.25% based on the data currently under consideration). After all, this range, which is at least not quite as wide as older estimates (previously: 1.75% to 3%), still reveals a high degree of uncertainty. In actual fact, it indicates a fundamental degree of "leeway" for further reductions. We would also subscribe to the theory that the process of looking into the factors influencing r* alone helps to gain a better understanding of the situation and, in theory, should therefore "improve" interest rate decisions. However, as the authors also state, this should not lead to r* being viewed as a "real-time" instrument for ECB monetary policy. As we previously alluded to, we expect the next interest rate cut in the euro area to come at the next ECB Governing Council meeting scheduled for 6 March. By then, the staff projections will have been updated again; these are likely to be of great importance when it comes to the Governing Council's line of argument for its key interest rate decision. From our point of view, there is a great deal of evidence pointing towards four interest rate cuts overall this year, with the latest "estimate" of r* not representing an obstacle to this.

ECB key interest rates (%)



Source: ECB, Bloomberg, NORD/LB Floor Research

NORD/LB

Market overview SSA/Public Issuers

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

KfW – start of 2025: focus on Germany as a business location

Kreditanstalt für Wiederaufbau (KfW, ticker: KFW) is planning to focus its business activities even more on strengthening the competitiveness of Germany's economy in 2025. Here, the agency is also relying on its own financial strength as it aims to use at least EUR 500m of its own funds. "KfW is strengthening its focus on Germany as a business location. In the coming years, we will examine our activities even more closely to see whether they provide impetus for Germany's competitiveness […]," said Stefan Wintels, CEO of KfW, at the annual start-of-year press conference in Frankfurt last Wednesday. "We need an investment offensive in our infrastructure and education, less red tape, and significantly improved regulatory and tax conditions. The main aim is to ensure that German companies are competitive on the international sales markets as well." Already last year, KfW not only provided extensive budget funds as part of its promotion but also put EUR 500m of its own funds towards improving the conditions of promotional products for customers in its domestic business, thereby creating additional investment incentives. As described above, KfW plans to use own funds of at least this volume again in the current and coming years. The bank also used the start-of-year press conference to provide a review of 2024, which was another strong promotional year. At EUR 112.8bn, the volume of new business was marginally higher than the previous year's level (2023: EUR 111.3bn). Overall, domestic promotional business grew slightly to EUR 79.0bn (2023: EUR 77.1bn). Development varied in the segments Private Clients (EUR 22.4bn compared to EUR 18.8bn), SME Bank (EUR 13.4bn compared to EUR 20.4bn), as well as Public Clients and Customised Finance (EUR 41.6bn compared to EUR 35.9bn).

CEB closes capital increase and approves further social infrastructure projects

At its 345th meeting the Administrative Council of the Council of Europe Development Bank (CEB, ticker: COE) announced the successful closing of the subscription period for the CEB's seventh capital increase since the bank's inception. The subscription period closed on 31 December 2024, following the historic approval of the bank's Administrative Council in December 2022 of a first-ever increase with paid-in capital. With a shareholder participation rate of over 95%, the CEB's subscribed capital will rise to EUR 9.6bn and the paid-in capital to EUR 1.8bn. Such a high participation rate demonstrates the shareholders' strong confidence in the CEB's social mandate, equipping the bank to deliver on its strategic framework, including in relation to projects in Ukraine. The Administrative Council has also approved nine new loans totalling EUR 843m to support social infrastructure projects in education, housing, health and social care as well as microfinance. The CEB also presented a new approach to gender equality in the projects financed by the bank aimed at further aligning internal methodology with internationally recognised standards.

Hesse: cabinet approves Hessenfonds and additional measures in economic policy

In the face of economic challenges, the Hessian government decided to promote more targeted support to businesses for their transformation projects and to provide longer term funding for innovation. This is the purpose of the Hessenfonds in particular, approved by the cabinet on 29 January. “The year 2025 will be a year of modernisation for the state, the economy and society. With our Hessenfonds, we are establishing powerful support for Hessian businesses as we support them in adapting to new challenges […]”, explained Minister President Boris Rhein. He added: “The Hessenfonds is based on two pillars: innovation and transformation. These overlap, to promote exciting ideas and to help foster industrial change. Access to the promotional funds with a total volume of EUR 1bn is to be streamlined, to make it easier and more efficient.” Support will take the form of low interest loans as well as investments. Up to and including 2028, low interest rate loans will be granted through WIBank with a term of ten years generally. Investments will be made until 2034. Hesse’s Economic Minister, Kaweh Mansoori, explained: “Hesse is a strong business and industrial location. Yet our businesses are currently facing substantial challenges in the form of high energy costs, an enormous amount of red tape, technological change and skilled staff shortages. In these challenging times, to give companies the necessary confidence that we can overcome them together, the state must provide the right type of economic support. The Hessenfonds approved by the cabinet is a key element as an effective industrial and innovation fund […]” The cabinet also approved additional measures to strengthen Hesse as a business location. These include, for example, further expansion of the digital infrastructure to facilitate access to fast and reliable internet services for rural companies. The cabinet also passed resolutions focused on cutting red tape, using promotional funds and easing the burden on the agricultural industry.

Kommuninvest presents quarterly report on municipal debt management

The Swedish municipal financier Kommuninvest (ticker: KOMINS) has presented its quarterly report on municipal debt management in Sweden for Q4/2024. This report is based on the loans and transactions of Kommuninvest, which were registered by local authorities and regions as well as their businesses in Kommunivest’s debt management tool “KI Finans”. The data set for Q4/2024 comprises 9,155 loans, certificates and borrowings with a total value of SEK 685bn (equates to around EUR 58.5bn) as well as 1,632 derivatives with a value of SEK 202bn. The report shows that the average term of the outstanding loans of Swedish municipalities has risen from 2.3 years in the previous quarter to around 2.5 years. Furthermore, 27% of the loan portfolio falls due within the next 12 months. This relatively short term means that debt-financed investments are usually refinanced several times. After financing costs for the municipal sector rose considerably in the last year, financing conditions improved for the second time in succession in Q4/2024: the average interest rate including derivatives dropped by seven basis points to 2.38%. Looking at the coming years, however, the cost of financing is expected to rise. “A recent projection of the average interest rate in the sector does however point toward higher lending costs over the following years. There are still loans and derivatives yet to transition to the new, higher rates. The projection forecasts the average interest rate in the sector to be around 3% by 2028”, said Victor Johansson, an analyst at Kommuninvest.

AFD presents funding programme for 2025

On 30 January, the Board of Directors of the French promotional development bank Agence Française de Développement (AFD, ticker: AGFRNC) approved the funding programme for the current year and set the refinancing target at EUR 9bn. In line with its obligations towards the market and depending on conditions and the requirements of investors, AFD intends to issue at least two EUR-benchmarks and one or two USD-benchmarks in the medium to long term. This year, the agency has already raised almost EUR 3bn via one EUR benchmark with a ten-year maturity (cf. weekly publication dated 15 January) and one USD benchmark with a five-year maturity. In addition, AFD is obliged to issue more than 50% of its funding programme for 2025 through SDG bonds. Depending on the demand from investors, both tap issues for existing bonds and the issue of floating rate notes in public or private form are possible. Regarding the new issuance volume per ISIN, the AFD is planning to place at least EUR 2bn in new bonds. Private placements are set to complement the refinancing strategy and contribute to currency diversification. Last year, the promotional development bank placed a total of around EUR 8bn via 18 new issues. Of these, 56% were financed through SDG bonds.

British Columbia: positive growth prospects in uncertain times

The impacts of potential US tariffs are adding uncertainty to Canadian growth prospects in particular. Forecasts from the private sector in British Columbia (ticker: BRCOL), however, show that the province is well positioned to overcome the imminent challenges. At its annual meeting with Finance Minister Brenda Bailey on 31 January, the Economic Forecast Council (EFC), which comprises 13 independent experts from Canada's private sector, noted that like all the other provinces, the economic prospects of British Columbia will be affected by global and domestic forces, including federal immigration targets. However, in the meantime it has not yet been possible to fully include the impact of US trade tariffs in the calculations. The EFC stressed the diverse export network and resource-rich environment in British Columbia, which gives the province an advantage over other Canadian sub-sovereigns. The experts estimate that British Columbia's GDP grew by +1.2% in real terms in 2024, which is higher than was projected back in autumn of last year. For 2025, the Council calculates GDP growth in real terms of +1.9%, which chimes with the Finance Ministry's forecast, as well as steady economic growth of +2.0% on average up to 2029. Again, these projections do not yet take the impact of possible US tariffs into account in full. "We are in times of significant global uncertainty, and we can expect this instability to continue through the next four years," said Brenda Bailey. "Our approach is to stand up for British Columbians by strengthening our economy, and continuing to diversify our trading network, while supporting the people that need it most." The EFC forecasts play an important role for the province when preparing the next budget. This is set to be published on 04 March. For further information on the economic performance and debt situation for Canadian sub-sovereigns, please see our NORD/LB Issuer Guide – Canadian Provinces & Territories.

Primary market

Momentum in the SSA primary market remained high in the past trading week as well. The German federal state of Baden-Wuerttemberg (ticker: BADWUR) got the ball rolling with a EUR 1bn bond (10y). Pricing was finalised at ms +37bp. Another federal state approaching investors was Saxony-Anhalt (ticker: SACHAN). The five-year bond worth EUR 750m was finally priced at ms +25bp. The next issuer in line was the Free State of Saxony (ticker: SAXONY): its EUR 500m (7y) bond was priced in line with the guidance at ms +29bp. Remaining in Germany, there was also activity from the promotional bank segment: Wirtschafts- und Infrastrukturbank Hessen (ticker: WIBANK) entered the market for the first time in 2025, issuing a fresh EUR 500m bond (10y) with a final price of ms +42bp. On the same day, NRW.BANK (ticker: NRWBK) also came out of the woodwork with fresh ESG supply. The EUR 750m green bond has a seven-year maturity and was placed at ms +33bp. Also active in the ESG segment was the autonomous community of Madrid (ticker: MADRID). The Madrileños opted for a EUR 1bn sustainability bond (10y), which was placed at a final price of SPGB +11bp (equates to approx. ms +78bp). From France meanwhile came Caisse des Dépôts et Consignations (ticker: CDCEPS) with a EUR 1bn deal (10y) at OAT +7bp (equates to approx. ms +80bp). Also stepping up to the plate was Dexia (ticker: DEXGRP) with a new EUR 1.75bn bond (3y) placed at ms +32bp. Turning towards Scandinavia, Norway's municipal financier Kommunalbanken (ticker: KBN) raised EUR 1bn (7y) at ms +40bp. At supranational level, the European Investment Bank (ticker: EIB) was active with a EUR 5bn deal. The reoffer spread for the five-year bond amounted to ms +23bp. There were also two new issues in EUR benchmark format from outside our current regular coverage. CDP Financial Inc. (ticker: CADEPO), the issuance vehicle of the Canadian pension fund Caisse de Dépôt et Placement du Québec, made an appearance on our screens with a EUR 1.5bn bond (7y) placed at ms +56bp. Sharjah (ticker: SHJGOV), a sub-sovereign from the United Arab Emirates, also came to the EUR market, raising a fresh EUR 500m (7y) at a remarkable spread of ms +245bp. Yesterday (Tuesday), the European Union (ticker: EU) was also active with two tap issues, raising a combined EUR 11bn. The taps increased the 2031 bond by EUR 6bn at ms +37bp and the green 2050 bond by EUR 5bn at ms +108bp. There was an interesting new mandate from Investitionsbank Schleswig-Holstein (ticker: IBBSH; cf. Public Issuer View), which intends to issue a ten-year deal in the amount of EUR 500m (WNG).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
DEXGRP	FR	11.02.	XS3004571850	3.1y	1.75bn	ms +32bp	BBB+ / Baa3 / BBB-	-
CDCEPS	FR	10.02.	FR001400XFB8	10.3y	1.00bn	ms +80bp	AA- / Aa3 / AA-	-
SAXONY	DE	10.02.	DE0001789394	7.0y	0.50bn	ms +29bp	- / - / AAA	-
NRWBK	DE	06.02.	DE000NWB0AY4	7.0y	0.75bn	ms +33bp	AAA / Aa1 / AA	X
SACHAN	DE	06.02.	DE000A4DE9Z0	5.0y	0.75bn	ms +25bp	AAA / Aa1 / -	-
WIBANK	DE	06.02.	DE000A3SJZ50	10.0y	0.50bn	ms +42bp	- / - / AA+	-
MADRID	ES	05.02.	ES00001010Q5	10.2y	1.00bn	ms +78bp	A-u / Baa1 / A	X
EIB	SNAT	05.02.	EU000A4D6KN5	5.3y	5.00bn	ms +23bp	AAA / Aaa / AAA	-
KBN	Nordics	05.02.	XS2999676468	7.0y	1.00bn	ms +40bp	- / Aaa / AAA	-
BADWUR	DE	05.02.	DE000A3H2507	10.0y	1.00bn	ms +37bp	- / Aaa / AA+	-

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

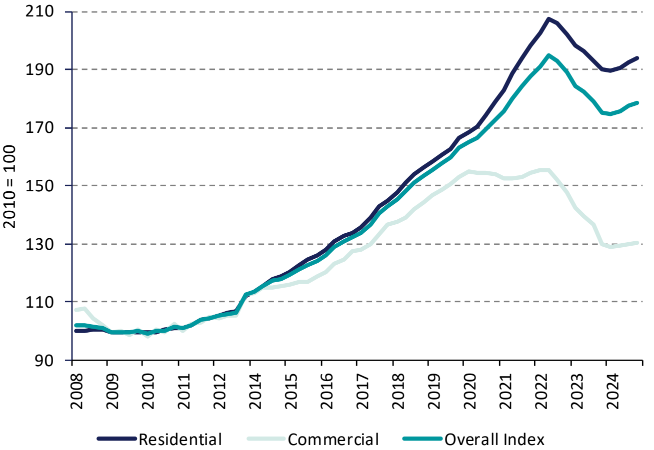
Covered Bonds
Development of the German property market (vdp index)

Author: Lukas Kühne

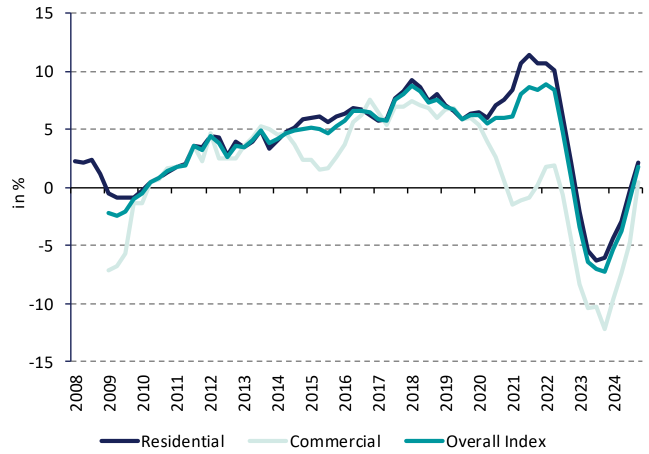
vdp: upward trend in property prices continues

The latest figures on the development of property prices on the German market were presented at the start of this week. The latest figures from the vdp property price index, which attracts considerable attention, relate to the fourth quarter of 2024. The vdp property price index is based on real transaction data and therefore reflects actual purchase prices and rents. The data is based on information from more than 700 credit institutions in Germany. In the fourth quarter of 2024, the overall index rose for the third consecutive quarter (+0.6% Q/Q) to its current level of 178.4 points (baseline year 2010 = 100 points). The overall index was therefore 3.2 points or 1.8% above the level for the fourth quarter of 2023. The main driver of the year-on-year price increase was the positive development in residential property prices (+2.1%), while prices for commercial properties also grew, albeit to a lesser extent (+0.5%). From the third to the fourth quarter of 2024, the rate of growth was also higher for residential properties (+0.7%) than for commercial properties (+0.3%). In our view, the sustained upward trend suggests a lasting stabilisation of the German property market, following declines in property prices across the board as recently as 2023. The signs of recovery tend, at present, to be stronger for residential property prices.

Index level: overall, residential and commercial



Year-on-year change: all, residential and commercial



Source: vdp, NORD/LB Floor Research

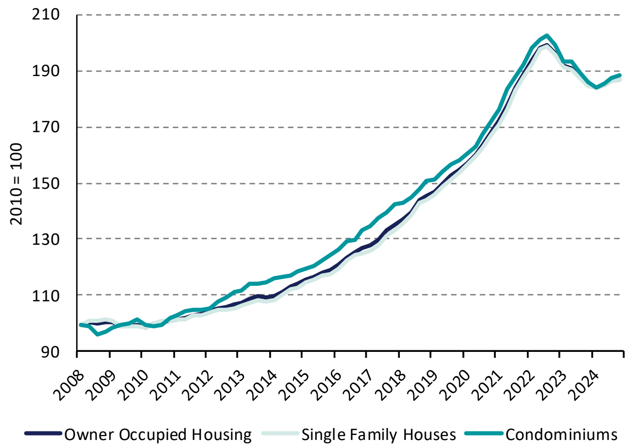
Residential properties: prices rise by 0.7% Q/Q

Residential property prices rose by 0.7% from the third to the fourth quarter of 2024 (+2.1% Y/Y). Quarter on quarter, the greatest growth rate of 1.1% was recorded for the category of multi-family housing, while owner-occupied homes came in at 0.3%. The upward trend was therefore sustained across all property categories in the fourth quarter, too. A similar picture emerges in these two categories for the year-on-year comparison, with prices for multi-family housing advancing by 2.9%, with a rate of 1.2% recorded for single-family housing and condominiums.

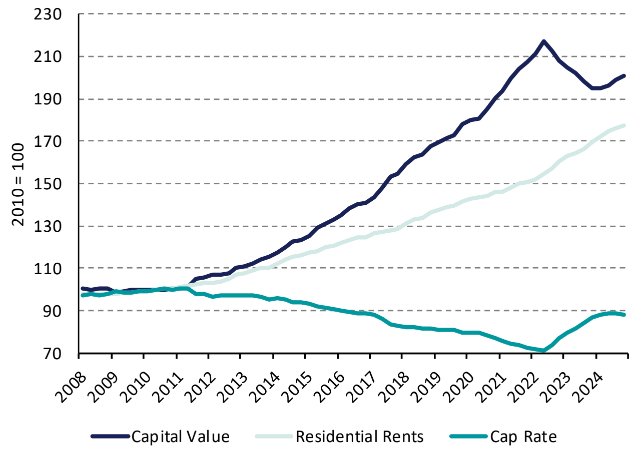
No reason for excessive optimism, despite rising property prices

In the latest press release, vdp Chief Executive Jens Tolckmitt highlighted the positive trend in property prices, but nonetheless warned against excessive optimism. He said that price development was "again positive across the board, but there is still no sign of a dynamic upward trajectory". According to Tolckmitt, this trend is "quite remarkable" given the overall economic and geopolitical conditions. He takes a critical view ahead of the upcoming Bundestag election: "it is utterly incomprehensible that housing policy is playing only a minor role in the election campaign". The new federal government will have to address the ever-increasing housing shortage in Germany by "swiftly implementing far-reaching and targeted measures to stimulate housing construction, particularly in large cities". Given this shortage, a renewed rise in rents under new contracts for multi-family housing was observed, by 1.0% quarter on quarter and 4.6% year on year.

Owner-occupied housing



Multi-family housing



Source: vdp, NORD/LB Floor Research

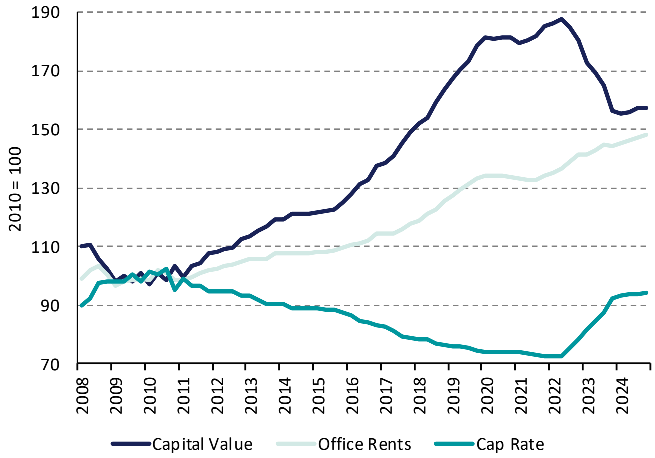
Top 7 housing markets: positive price trend in all cities

The separate index for the performance of the residential property market in the top 7 cities rose by 0.9% Q/Q and 2.3% Y/Y, in line with the overall index. None of the seven metropolitan areas registered price declines for either of the reference periods. The greatest rises versus the preceding quarter were achieved in Cologne and Munich, which were each up 1.4%. However, in a year-on-year comparison, a varied picture continues to emerge between the different cities. While prices rose only marginally in Stuttgart (+0.3%), growth was most pronounced in Cologne (+3.8%).

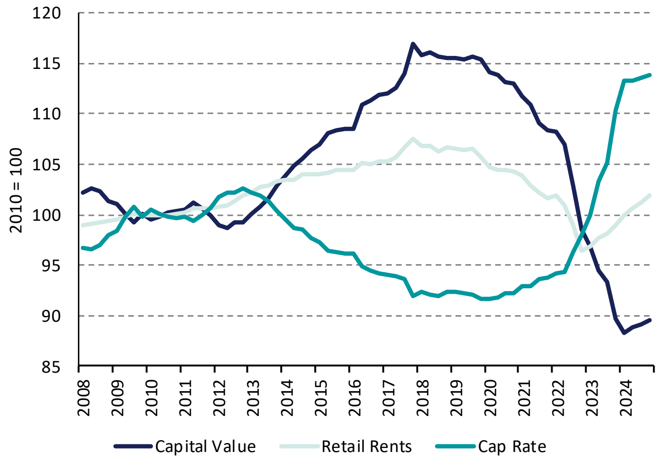
Commercial property prices increase further in the fourth quarter of 2024

In the fourth quarter of 2024, commercial property prices continued to increase. This sub-index grew by 0.5% compared with the corresponding quarter one year earlier and by 0.3% versus the immediately preceding quarter. Above all, this price increase on an annual basis was mainly due to the rise in office property prices (+0.7% Y/Y). This was the first year-on-year increase in prices for office premises since the third quarter of 2022. In contrast, prices for retail property fell by 0.2% Y/Y in the same period.

Office buildings



Retail buildings



Source: vdp, NORD/LB Floor Research

Conclusion

The picture of the German property market reflected in the vdp data analysis has once again improved in the fourth quarter of 2024. A positive trend appears to have cemented itself in the property market over the past year. However, although we would say the stabilisation has solidified at present, it is too soon to speak of a dynamic upward trajectory. The weakening economic forecast in Germany and geopolitical tensions continue to be risk factors for the property market but are not yet having a negative impact on price levels. In addition, the market for commercial real estate continues to be characterised by restraint, which will tend to be reflected in a lateral movement for commercial real estate prices. We are somewhat more positive about the development of the residential property market. A sustained upward trajectory in the price level seems to have set in here, which is driven by significant excess demand in the cities, in particular. In the medium term, a lasting upswing in property prices should result in lower mortgage lending values of assets in the cover pools of German Pfandbrief issuers. With regard to the CRE crisis, it can be said that the situation has stabilised, which can be interpreted as a positive sign in particular for Pfandbrief issuers who are strongly focused on this segment.

SSA/Public Issuers
Occitania – spotlight on OCCTNE

Authors: Dr Norman Rudschuck, CIIA // Tobias Cordes // assisted by Maximilian Lingenfelser

The region – an introduction

The French region of Occitania (ticker: OCCTNE) was formed in 2016 after the former Midi-Pyrénées and Languedoc-Roussillon regions were merged. Spanning an area of more than 73,400km², the sub-sovereign is the second largest administrative region of France. Its largest cities include Toulouse, the regional capital and also the fourth largest city in the country, and Montpellier. With around 6.2m inhabitants, Occitania is also one of the most populous regions in France. However, the demographic structure shows an ageing society, as almost 44% of the population living there is over 50 years old, which is above the national average of 42%. Located in the south of France, Occitania borders Spain, Andorra and the Mediterranean Sea. The region impresses with its scenic diversity: from the Pyrenees and Cévennes mountain ranges in the west to the Mediterranean coast in the east, it boasts a variety of natural landscapes and cultural offerings. Of particular note are the protected areas, including seven regional nature parks and two national parks.

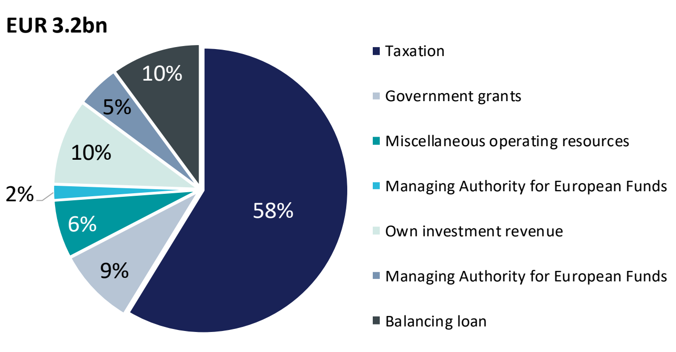
Political leadership and regional competences

Since the region was established in 2016, Carole Delga (Socialist Party) has been serving as the President of the Regional Council. She was re-elected in 2021 with 58% of the vote and is leading a left-wing coalition in her second term. A major reason for the growing popularity of her government is the pronounced possibility of citizen participation. The government actively promotes consultations and votes in which residents can voice their opinions, select projects and have a say in the use of public funds. Selected projects are financed and supported by the government and their progress is communicated transparently. The Regional Council, which has 158 seats, consists of a majority of left-wing members, an opposition right and a smaller number of independently elected representatives. This political structure allows the government to implement ambitious projects in areas such as sustainable mobility, energy independence and education. There is also a particular focus on promoting tourism, which is a key pillar of the economy. In addition, the coalition pursues policies that are strongly geared towards social justice, ecological transformation and regional economic development. France's administrative system is multi-level and decentralised, which is also reflected in the structure of the Occitania region, which maintains close links both with the central and regional authorities in terms of its political work. At national level, the central government and the national parliament, which consists of two chambers, are superordinate. The two chambers – the National Assembly and the Senate – function similarly to the British bicameral system. Below this come the regions, which play a central role in the administration of France. The political scope of the regional parliament is comparable to that of a German state parliament, meaning that education, infrastructure and economic development are among its main responsibilities. A region is subdivided into smaller administrative units called "départements", which are further divided into "communes" (municipalities), whereby the duties and legislative scope are again similar to the German system.

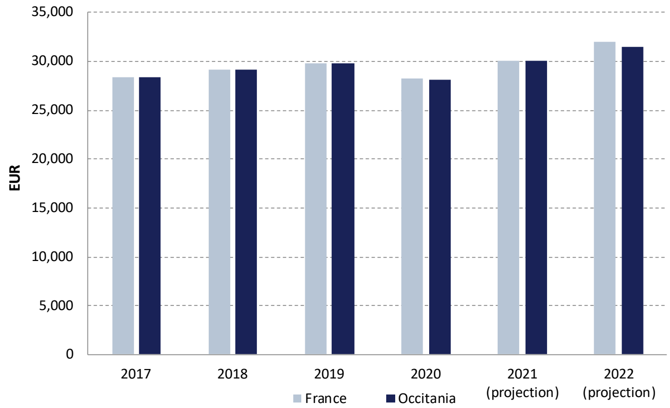
Caught between economic potential and structural challenges

In terms of area, the region is larger than Switzerland and Belgium combined as well as being bigger than the Free State of Bavaria. Despite this enormous expanse, its size is only partially reflected in the economic indicators. The estimated GDP per capita in 2022 was around EUR 31,500, putting it as low down as ninth place among the French regions. While GDP per capita has risen by 10% since 2017, the sub-sovereign still only ranks tenth in this respect. In addition, a challenge is posed by the comparatively high unemployment rate, which stood at 8.9% (Q3/2024) and therefore above the national average of 7.2% (Q3/2024). However, with around 2.2m employees subject to social security contributions (2022), Occitania does rank fourth among the French regions. Agriculture, tourism and the aerospace industry are especially well represented, with Toulouse considered a global centre for the latter, in particular. Numerous companies, including Airbus, have formed a cluster in the "Aerospace Valley" and shape the economy of the region. With 86,000 direct jobs (2022) in aviation, Occitania is the leading region in Europe in this sector. The sub-sovereign has set itself the ambitious goal of becoming a leading force in the use of renewable energy by 2050. It is the first French region to develop a comprehensive strategy for hydrogen, which includes the expansion of infrastructure, the promotion of research and innovation, and integration into transport and industry. It also ranks first in terms of potential for floating offshore wind farms, second in photovoltaic and hydropower production, and comes in third place for wind energy. Thanks in part to an extensively expanded tourist infrastructure comprising ten airports, 70 marinas, 220km of Mediterranean coast and the cities of Toulouse and Montpellier, the sub-sovereign places fourth in the tourism ranking of the French regions, with 56.2m overnight stays (2023). Moreover, Occitania is the second largest region in France in terms of the number of people employed in agriculture, with 140,000 active employees in this sector (2022). The region is a pioneer in ecological agriculture, especially viticulture and animal husbandry, and ranks first in these areas. On the subject of agriculture, it is worth mentioning that Occitania particularly benefits from EU subsidies: the budget for 2024 earmarks 6% of income as coming from European funds, with a large part benefiting agriculture. In addition to other income, dominated by tax revenues, Occitania also finances its budget selectively through capital market financing activities under its EMTN programme.

Planned budget income 2024



Development of nominal GDP per capita



Source: Eurostat, NORD/LB Floor Research

Partnership for sustainability: collaboration between two SSA

The European Investment Bank (EIB), which we have examined in more detail as part of our Issuer Guide – European Supranationals 2024, plays a central role in the implementation of sustainable projects in Occitania. Its financial support is enabling the region to expand renewable energies, build a hydrogen corridor and modernise rail transport. One example of this is a credit facility in the amount of EUR 400m, which has been made available by the EIB to a local project company founded by the Nouvelle-Aquitaine and Occitania regions to purchase new energy-efficient trains and, in this way, to modernise regional public transport.

Rating in line with that of the Republic of France

Given the backdrop of increased national debt, the rating agency Fitch saw just cause to downgrade France’s credit rating from AA to AA- back in 2023. In October 2024, Fitch also revised France’s outlook from to negative from stable. As expected, the rating of the Occitania region was subsequently aligned with the rating of the sovereign – accordingly, Fitch currently also rates OCCTNE’s creditworthiness at AA- with a negative outlook. In their explanation, the risk experts make it clear that when the region is considered individually the standalone credit rating is better at “aa”, but that the long-term rating and outlook are based on France’s sovereign rating, which therefore represents the ceiling. Fitch is currently the only rating agency to assess the creditworthiness of OCCTNE.

Liability mechanism and regulation

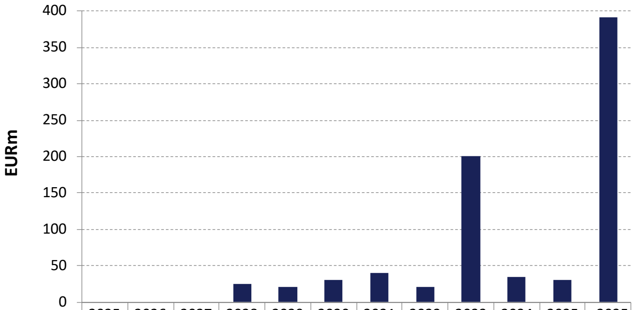
Although the French state does not explicitly guarantee the debt of regions or local authorities, in the course of the constitutional revision of France in 2003, a system of financial equalisation which provides for both horizontal and vertical financial equalisation was enshrined in the constitution (as regulated by Article 72-2 of the Constitution of France). According to the current legal situation, it is also not possible for regions to become insolvent. In this respect, the region – as outlined above – has good creditworthiness despite the rating downgrade. In June 2024, the French financial regulatory authority, the 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 (cf. weekly publication dated 7 August). In line with the standard approach under Regulation (EU) 575/2013 (CRR), this produces a risk weighting of 0% for OCCTNE. This consequently results in Level 1 classification pursuant to the LCR as well as a corresponding NSFR classification of 0%. This results in regulatory equivalence with bonds issued by the German Laender, for example. A preferred classification under Solvency II already existed – irrespective of the changed regulatory treatment.

Regulatory summary for Occitania and French regions

Risk weight	0%
LCR classification	Level 1 (EBA-list)
NSFR classification	0%
Solvency II classification	Preferred (0%)

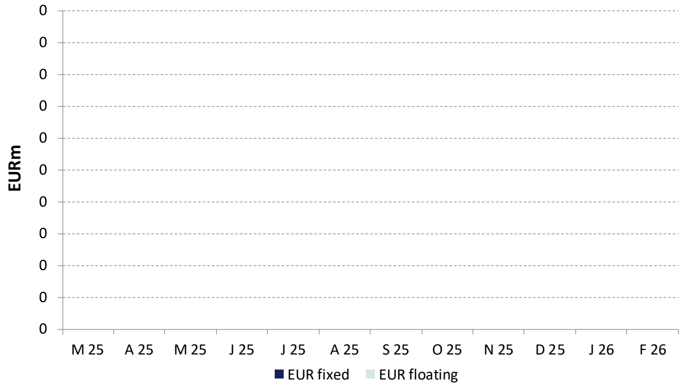
Source: Regulation (EU) No. 575/2013, Delegated Regulation (EU) 2015/61, Delegated Regulation (EU) 2015/35, NORD/LB Floor Research

Maturity profile by currency and coupon type



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
EUR floating	0	0	0	0	0	0	0	0	0	0	0	0
EUR fixed	0	0	0	25	20	30	40	20	200	35	30	391

Bond maturities in the next 12 months



Source: Bloomberg, NORD/LB Floor Research; data from 11 February 2025

Occitania – outstanding volumes

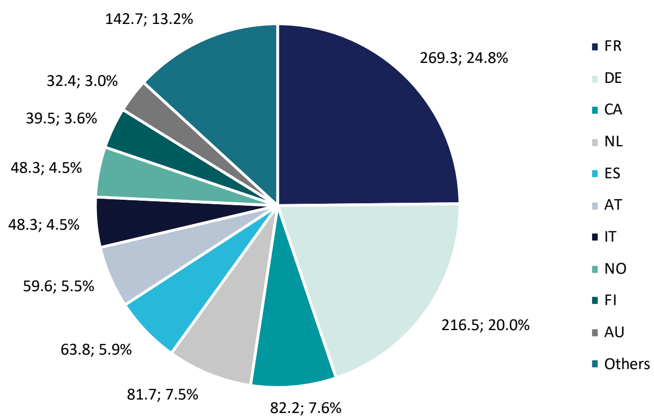
The outstanding bond volume under the ticker OCCTNE totals EUR 791m, divided into 26 different ISINs. Of this, EUR 391m (49%) will only mature after 2035 and no bonds will be maturing in the next three years. The longest outstanding bond is the EUR 20m issue placed in December 2021, which will mature in December 2046. What's more, OCCTNE issued the first bond in green and social format in 2018. This bond of EUR 200m also has the highest volume of all bonds outstanding. The issued volumes of the individual bonds range from EUR 6m to EUR 200m and all outstanding bonds feature a fixed coupon. There is no diversification via foreign currencies, as all outstanding bonds are currently denominated in EUR. The medium and long-term refinancing on the capital market is provided under the EUR 1.5bn EMTN programme, which allows the region to flexibly place bonds in different maturities on the European bond market and diversify funding sources.

Conclusion

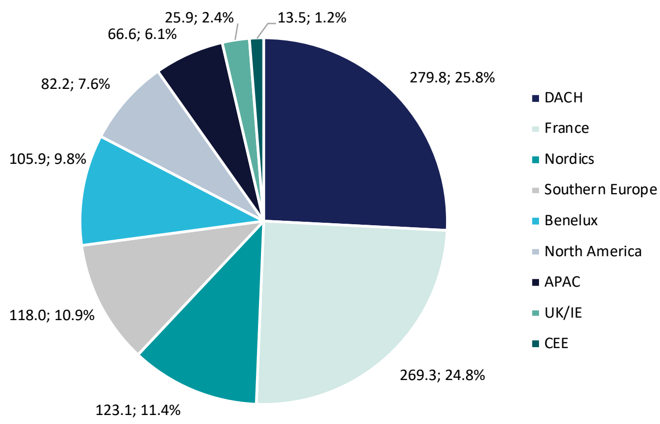
Occitania is one of France's most populous and largest regions in terms of area. However, due to the relatively high unemployment rate in some départements, it is very much ranked in mid-table when it comes to economic strength compared with other French sub-sovereigns. Economically, Occitania and its capital Toulouse are characterised to a significant degree by the aerospace industry, making it one of the leading regions in Europe in this sector. Thanks to the two cities of Toulouse and Montpellier as well as the diverse landscape with long stretches of coastline, the sub-sovereign occupies fourth place in the French tourism ranking. The region is also a pioneer in the field of ecological agriculture. With its comprehensive hydrogen strategy, the region has positioned itself for the future. This, in combination with the standalone rating of "aa", also contributes to the attractiveness of the region from an investor perspective. The general changes in regulatory treatment in 2024 will also benefit the region and, in our opinion, improve the framework conditions for future refinancing activities on the capital markets.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



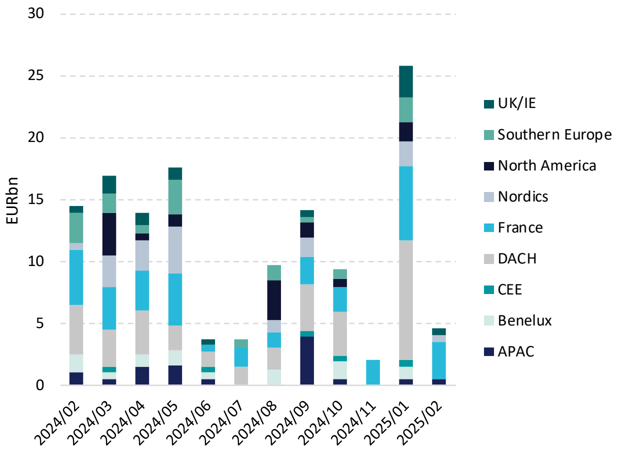
EUR benchmark volume by region (in EURbn)



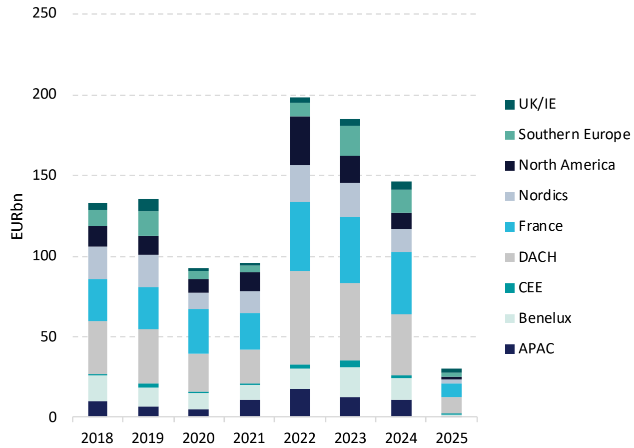
Top-10 jurisdictions

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	269.3	258	30	0.98	9.2	4.7	1.56
2	DE	216.5	303	47	0.66	7.7	3.8	1.59
3	CA	82.2	60	1	1.35	5.6	2.5	1.46
4	NL	81.7	82	3	0.93	10.5	5.7	1.40
5	ES	63.8	51	6	1.12	11.0	3.1	2.22
6	AT	59.6	99	5	0.59	8.0	4.0	1.59
7	IT	48.3	62	5	0.76	8.4	3.9	2.03
8	NO	48.3	59	12	0.82	7.2	3.3	1.18
9	FI	39.5	45	4	0.86	6.7	3.2	1.77
10	AU	32.4	31	0	1.05	7.2	3.8	1.83

EUR benchmark issue volume by month

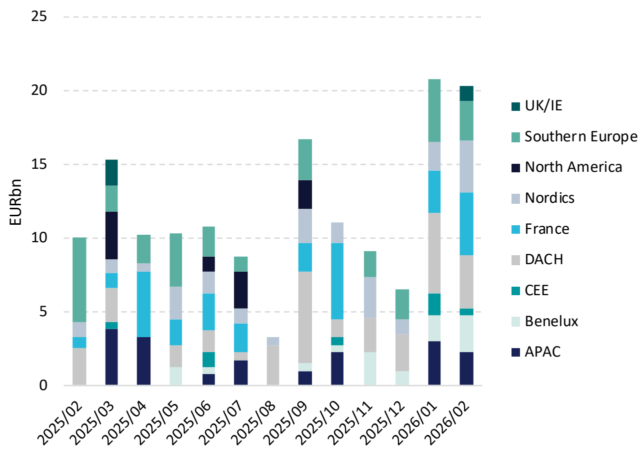


EUR benchmark issue volume by year

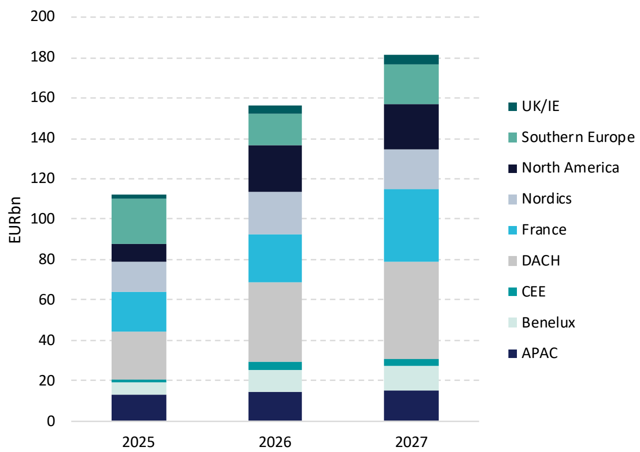


Source: Market data, Bloomberg, NORD/LB Floor Research

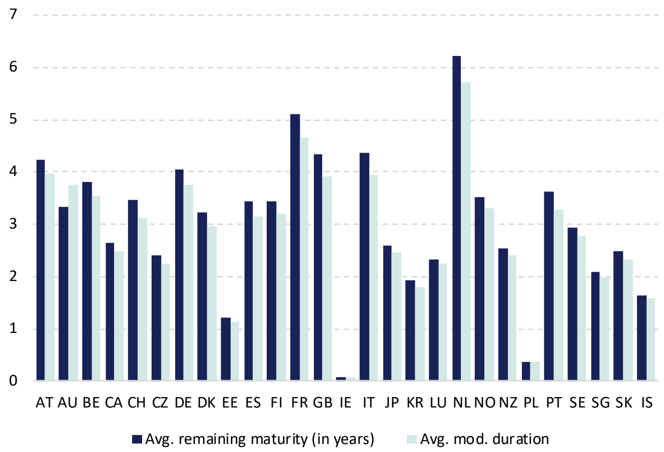
EUR benchmark maturities by month



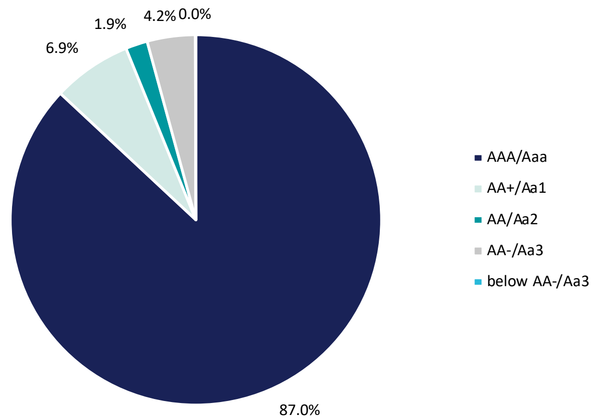
EUR benchmark maturities by year



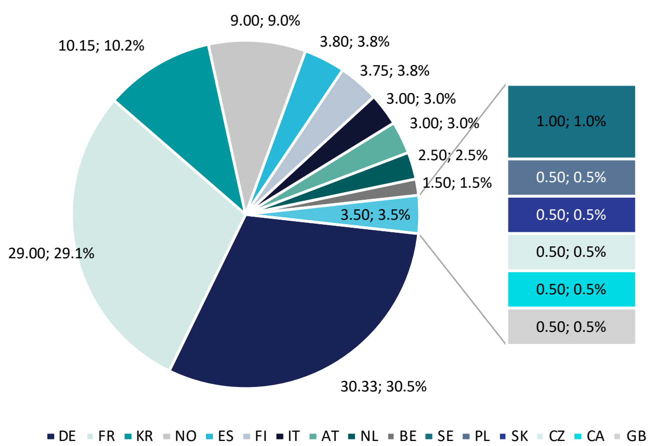
Modified duration and time to maturity by country



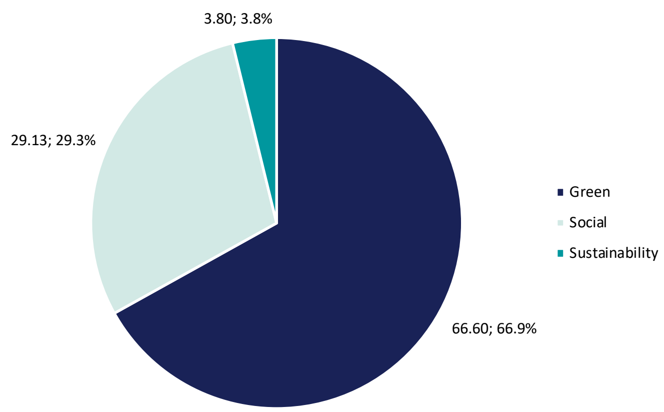
Rating distribution (volume weighted)



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

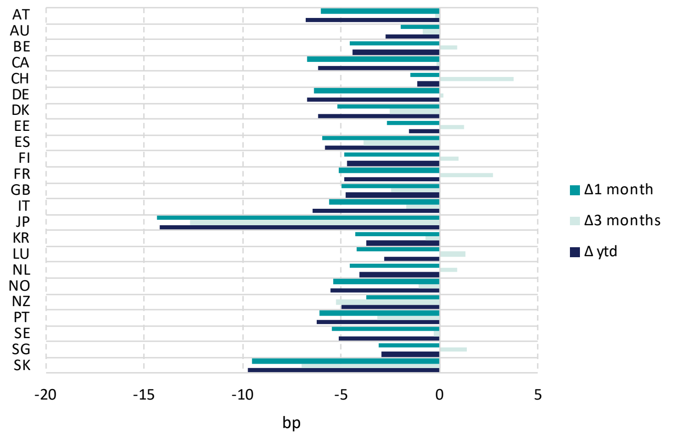


EUR benchmark volume (ESG) by type (in EURbn)

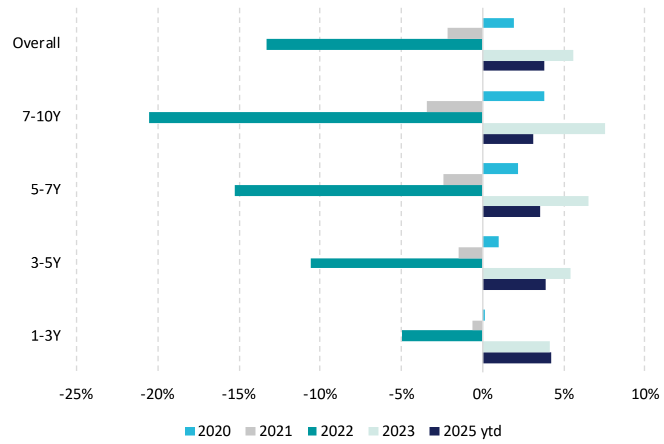


Source: Market data, Bloomberg, NORD/LB Floor Research

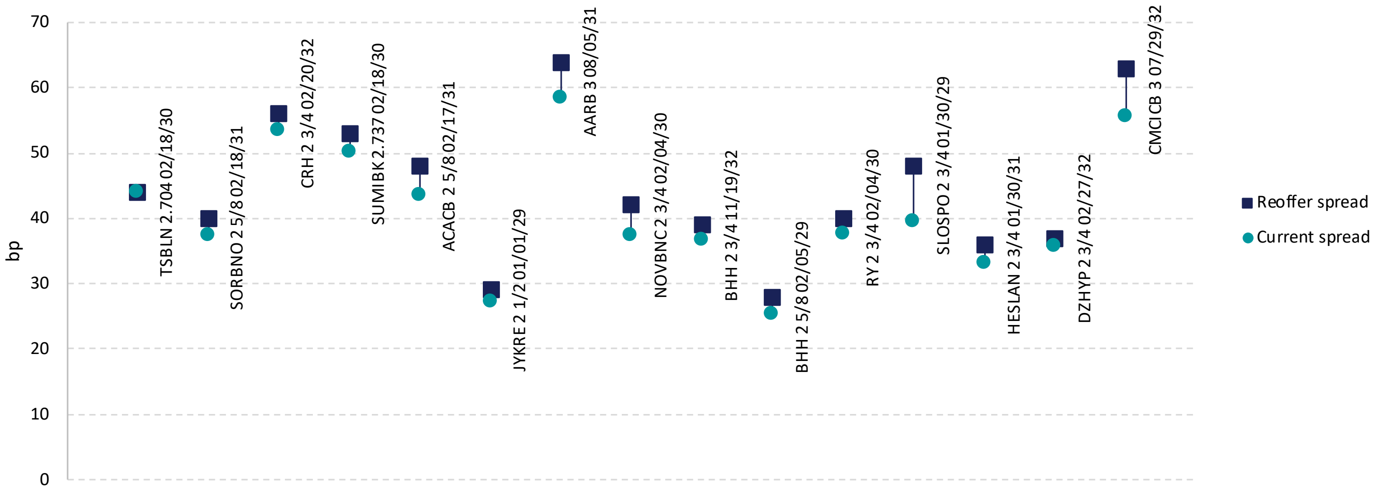
EUR benchmark emission pattern



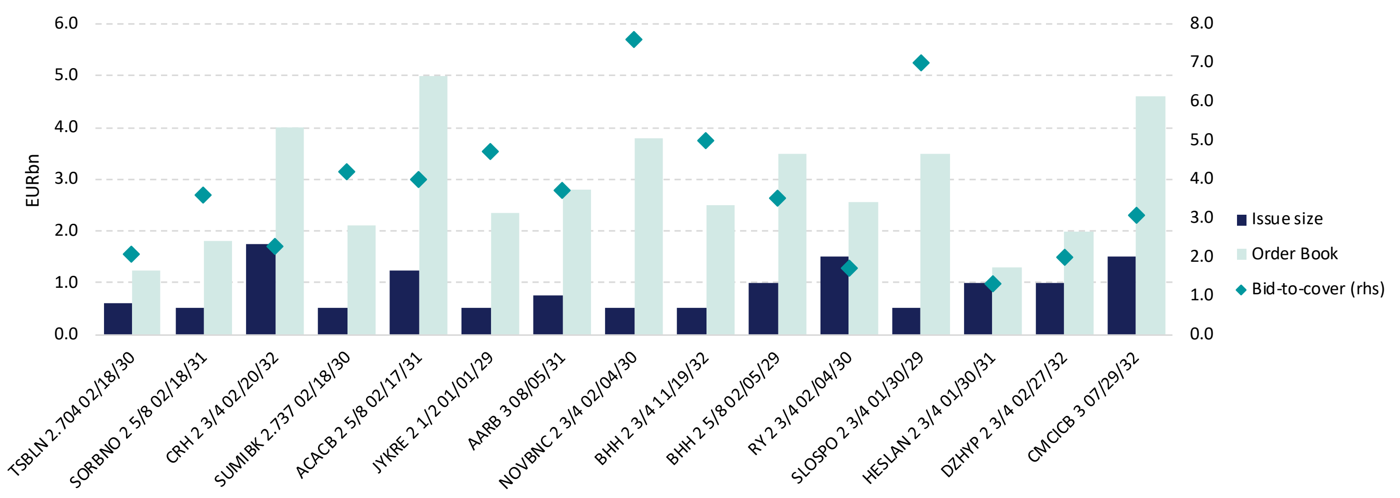
Covered bond performance (Total return)



Spread development (last 15 issues)



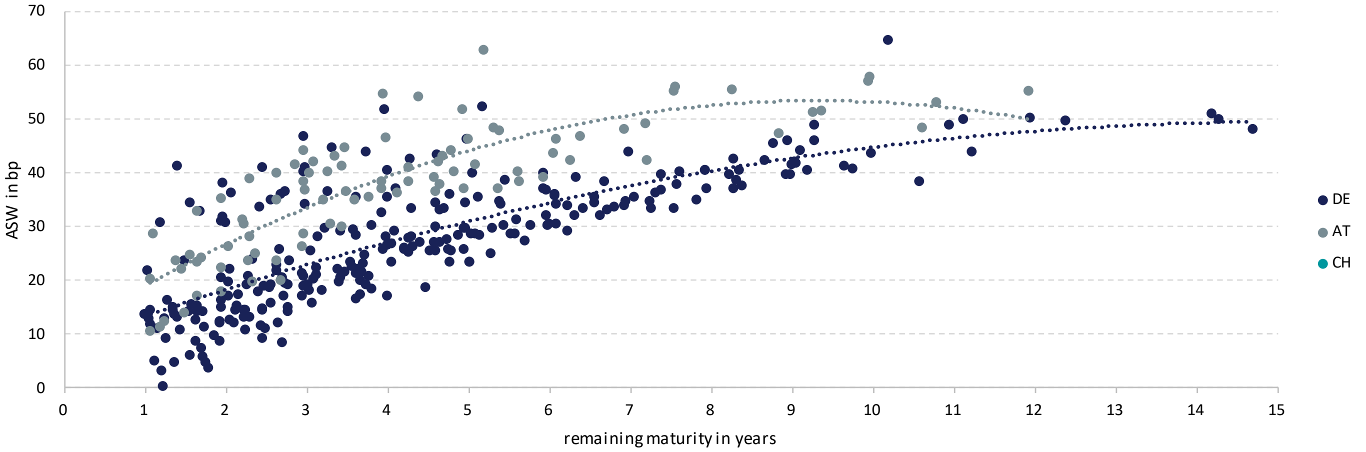
Order books (last 15 issues)



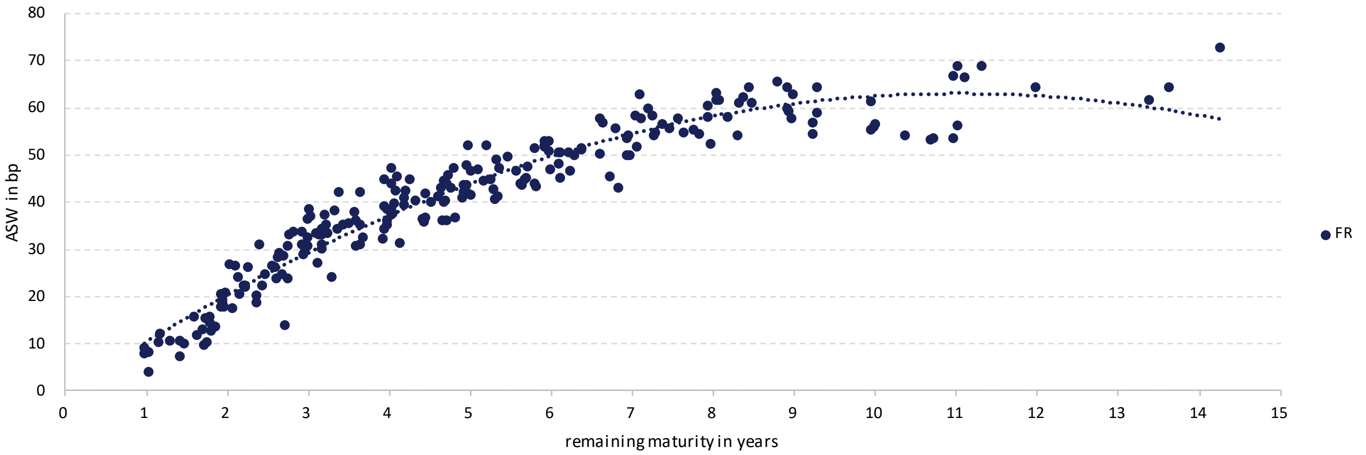
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

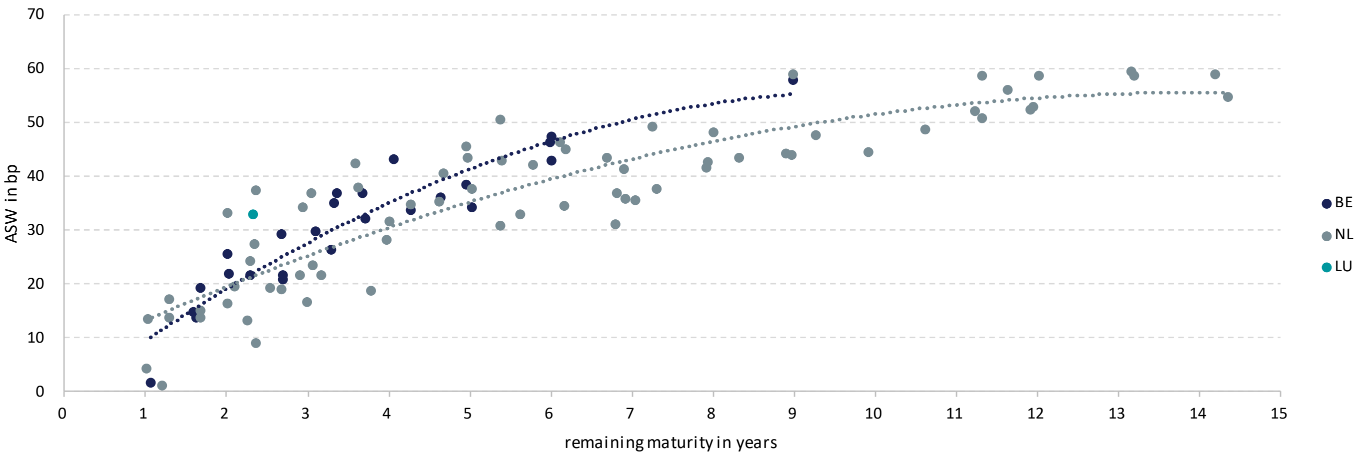
DACH



France

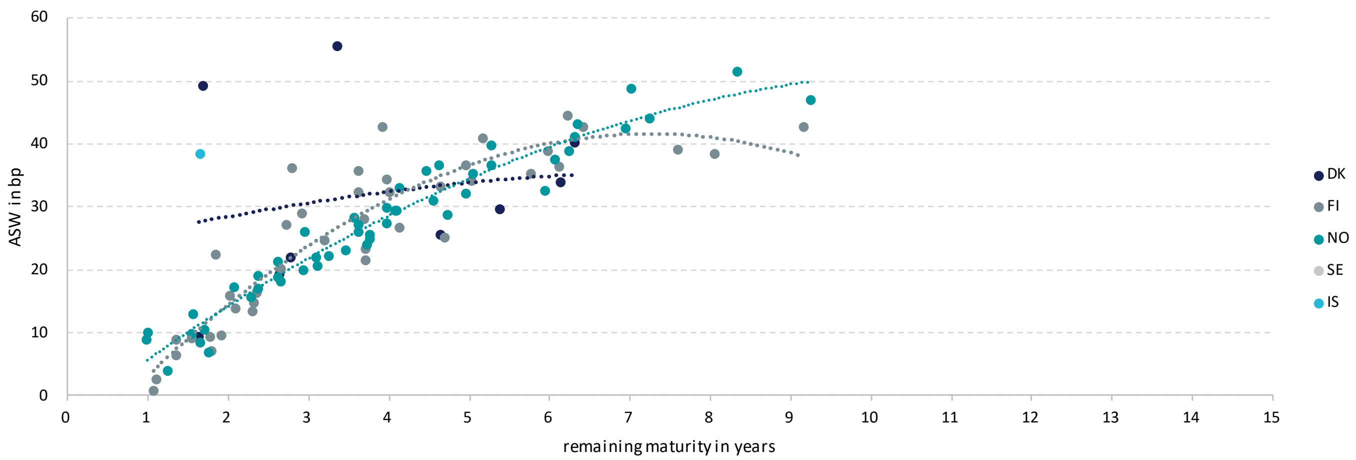


Benelux

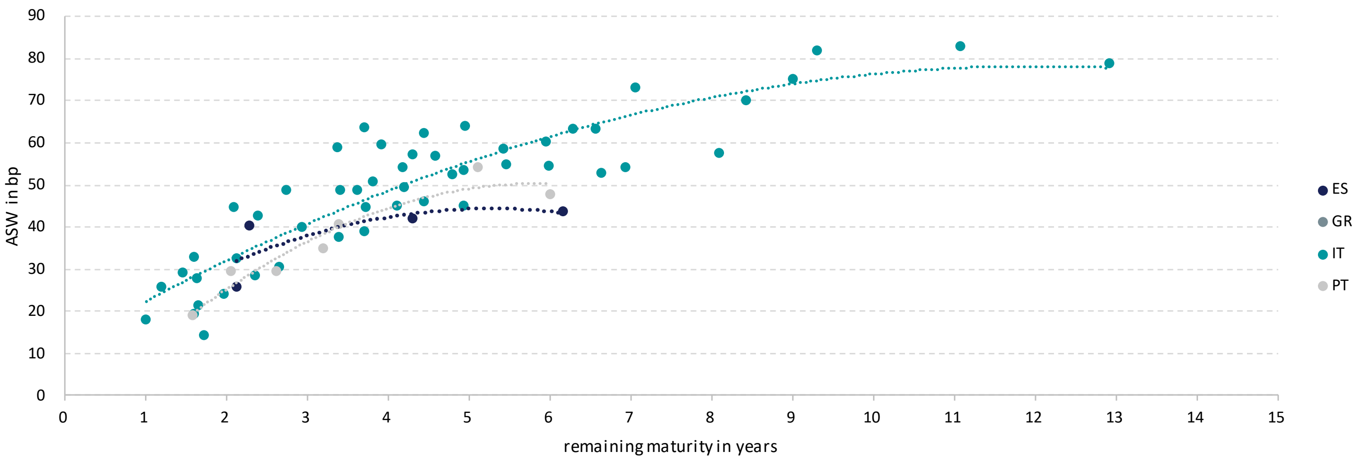


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

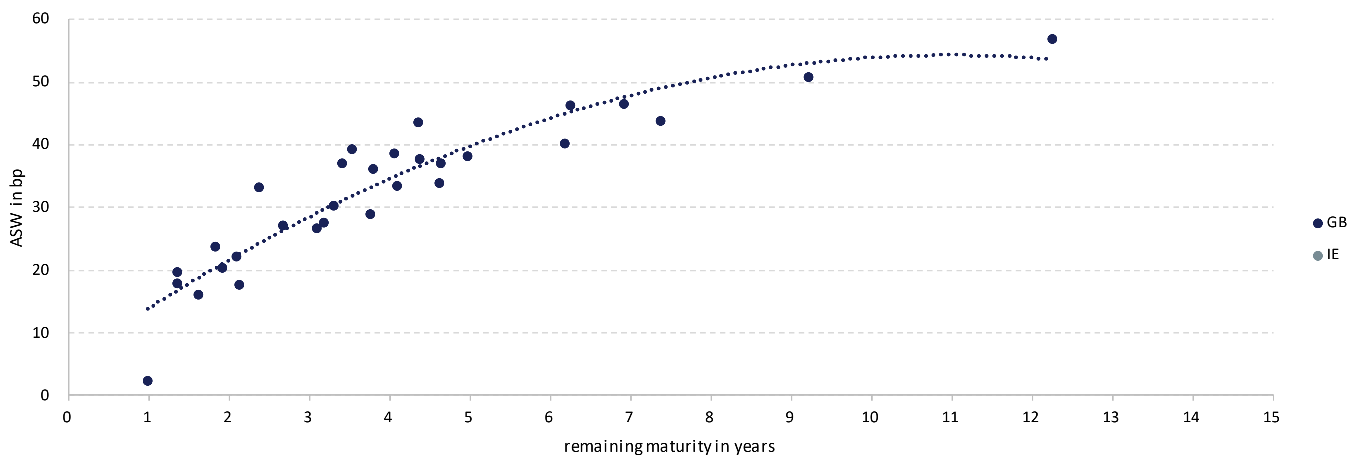
Nordics



Southern Europe

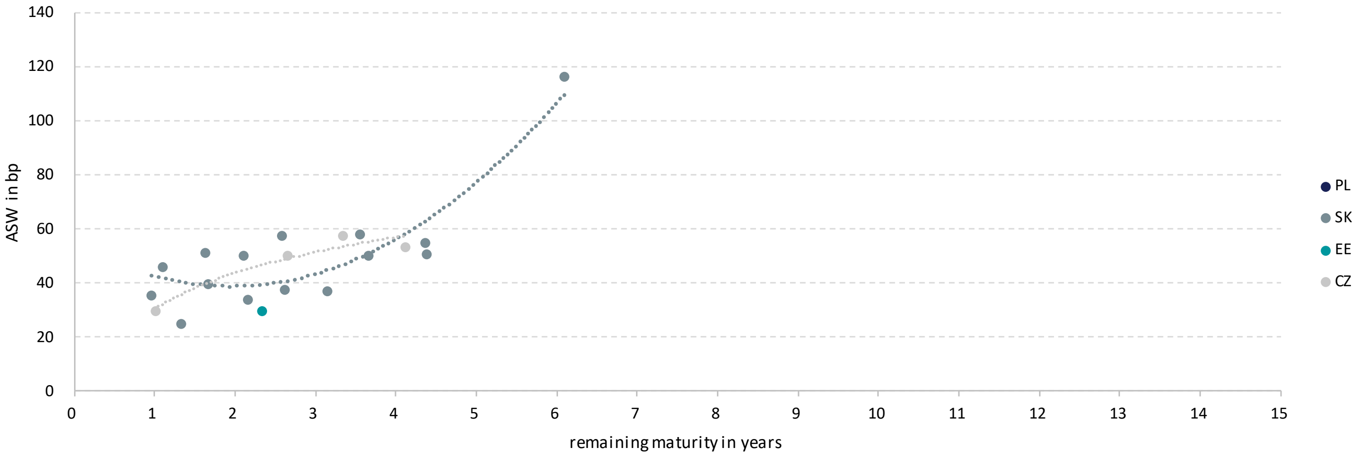


UK/IE

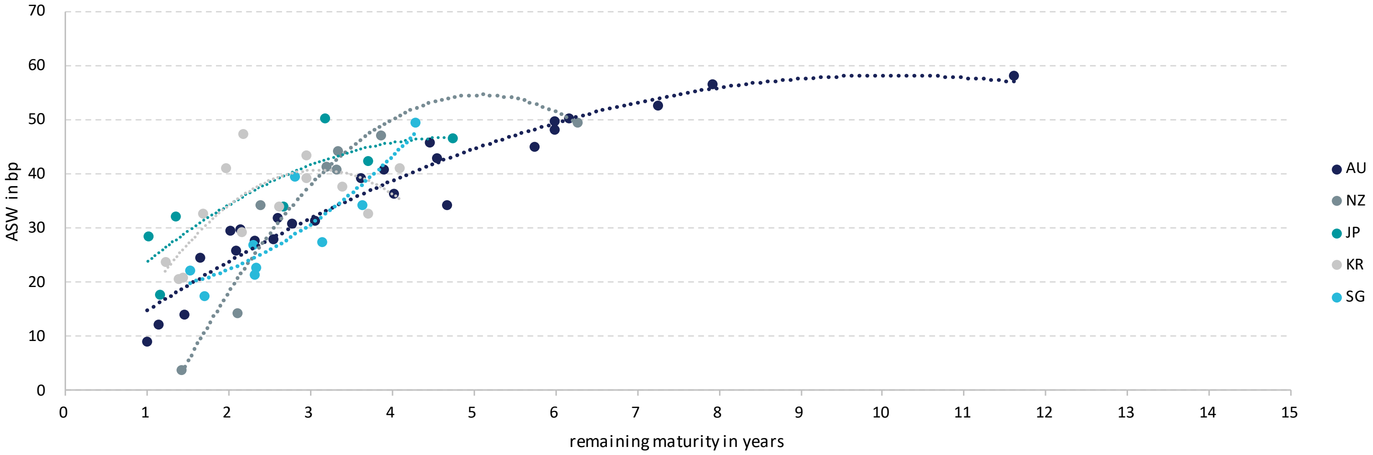


Source: Market data, Bloomberg, NORD/LB Floor Research

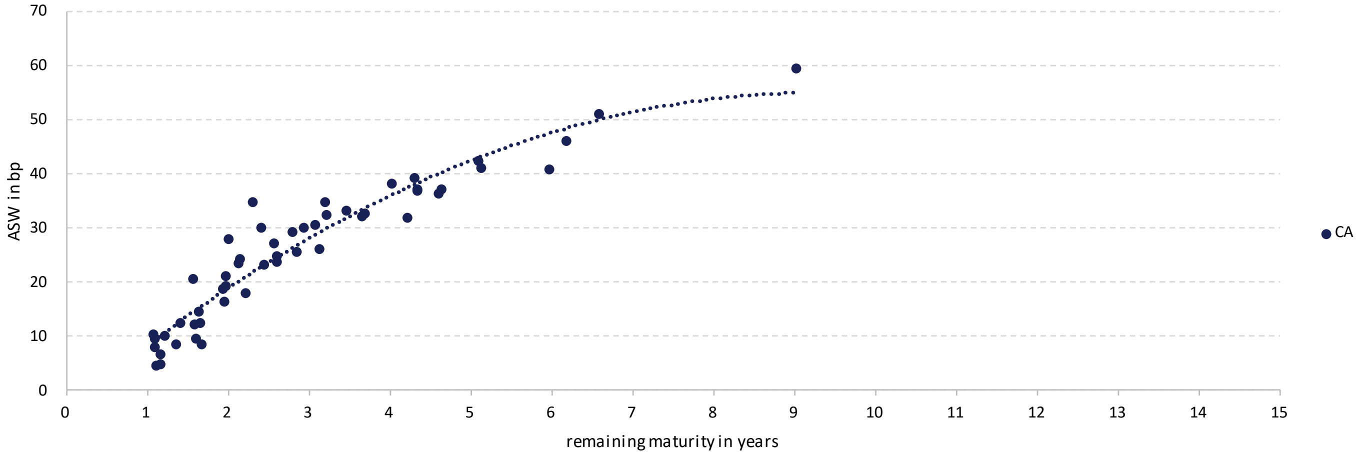
CEE



APAC



North America

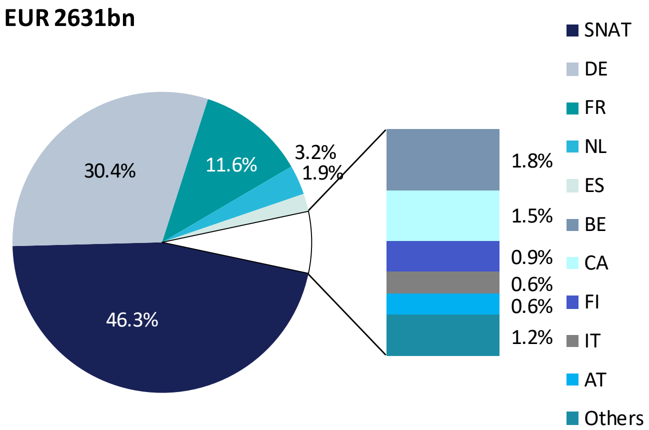


Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

Charts & Figures
SSA/Public Issuers

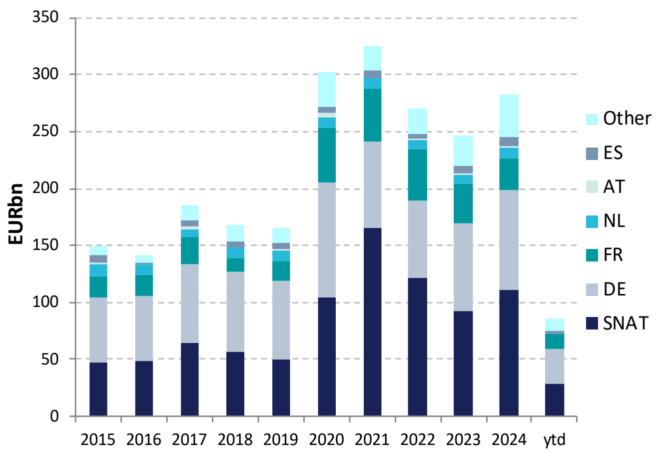
Outstanding volume (bmk)



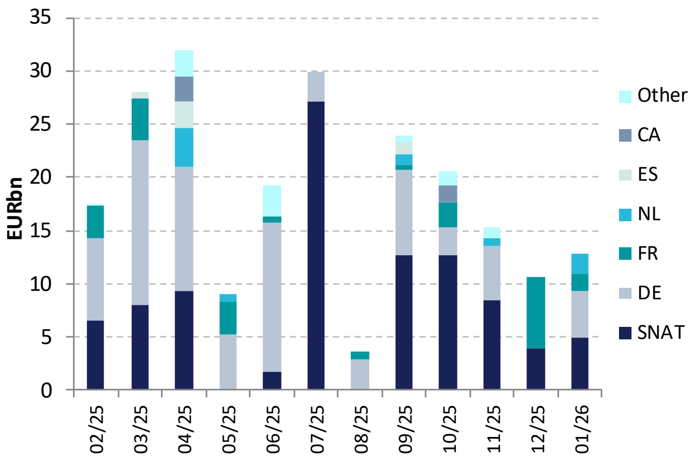
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,218.0	248	4.9	7.7
DE	799.1	596	1.3	6.1
FR	306.0	206	1.5	5.6
NL	83.6	67	1.2	6.2
ES	50.4	70	0.7	4.8
BE	47.1	48	1.0	9.9
CA	38.6	26	1.5	5.4
FI	24.6	26	0.9	4.4
IT	16.8	21	0.8	4.3
AT	16.0	21	0.8	4.7

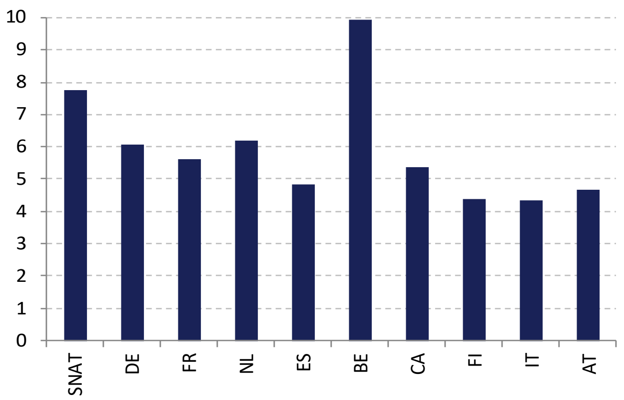
Issue volume by year (bmk)



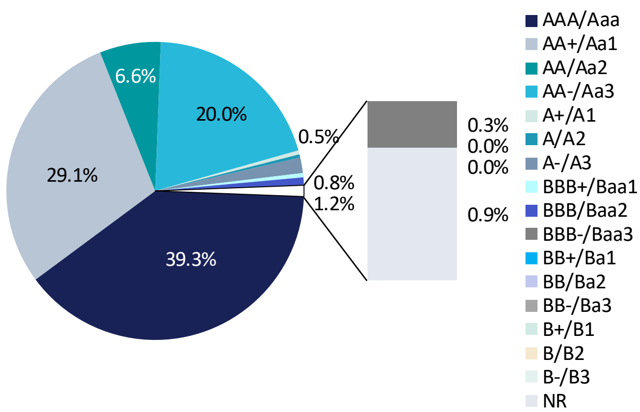
Maturities next 12 months (bmk)



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

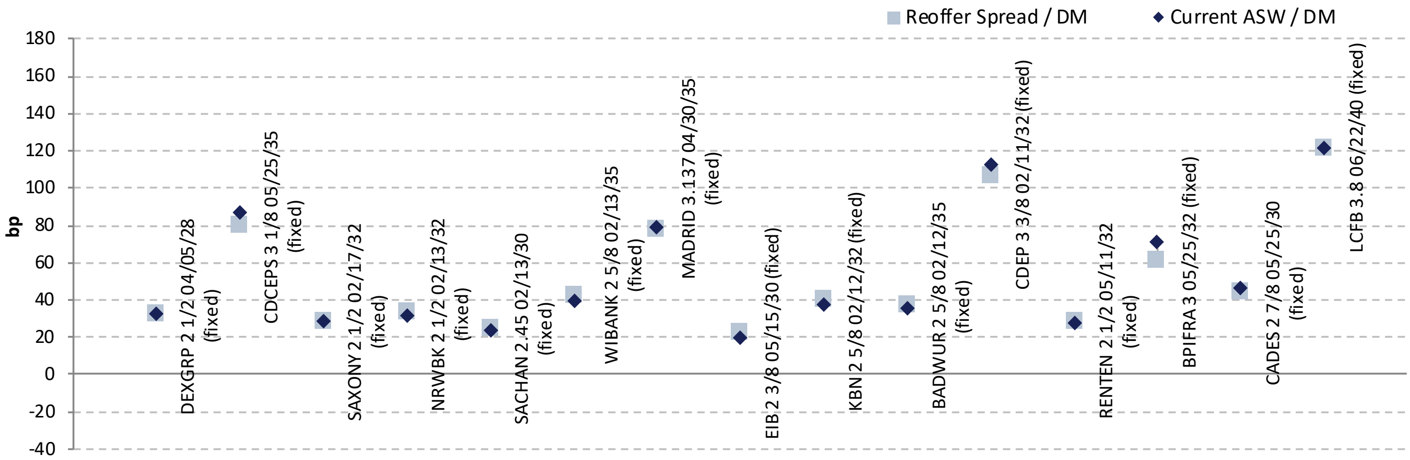


Rating distribution (vol. weighted)

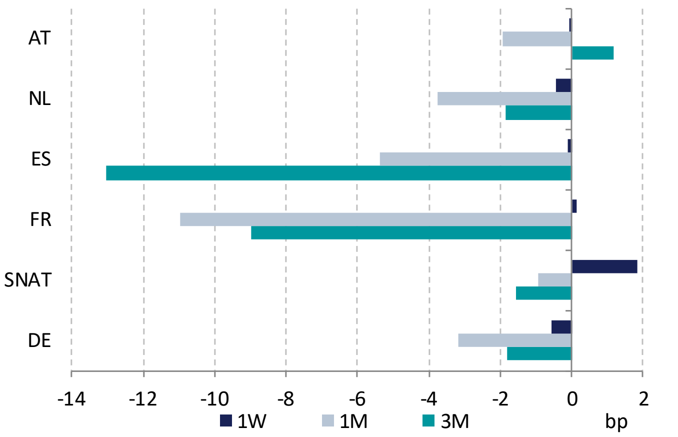


Source: Bloomberg, NORD/LB Floor Research

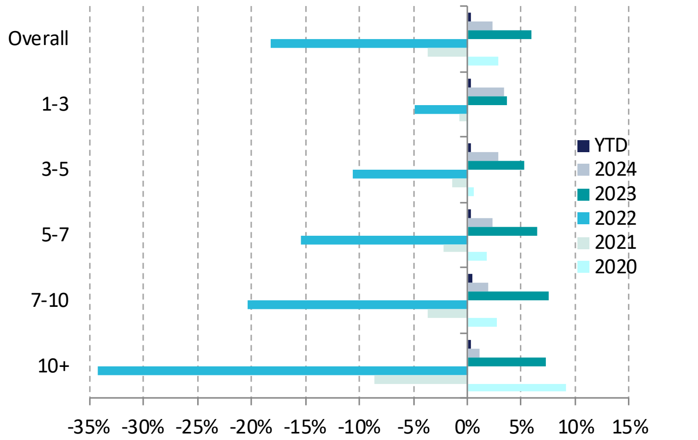
Spread development (last 15 issues)



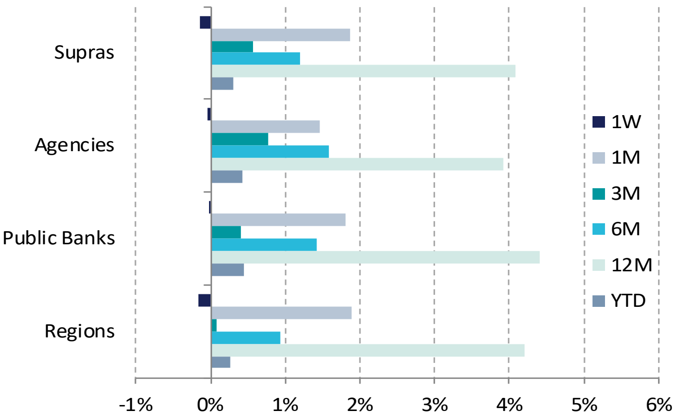
Spread development by country



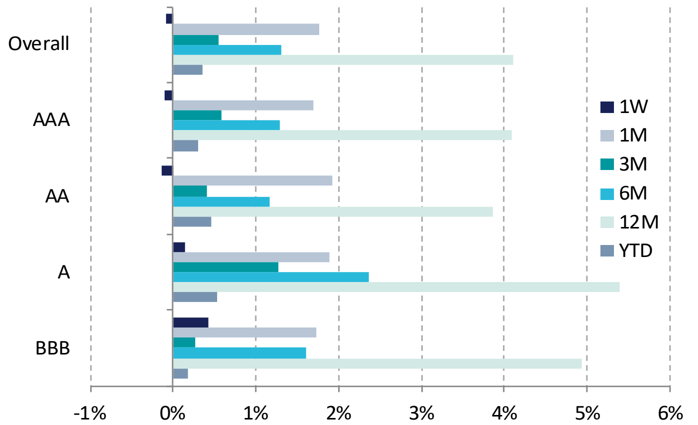
Performance (total return)



Performance (total return) by segments

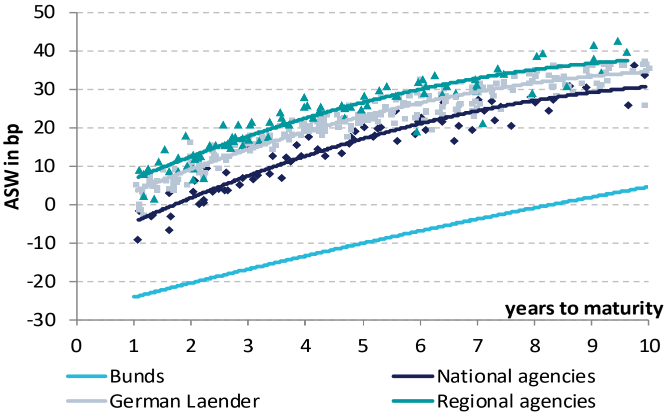


Performance (total return) by rating

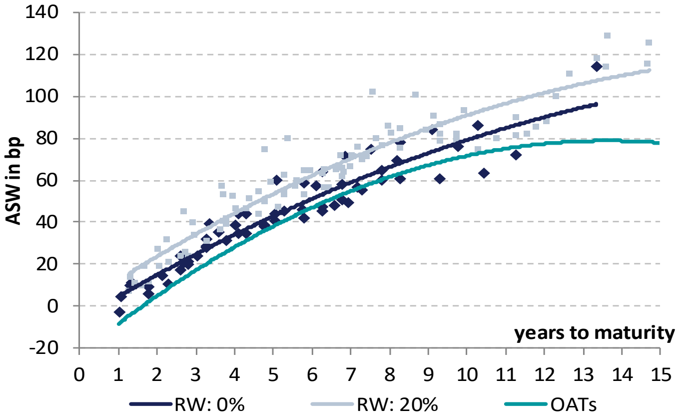


Source: Bloomberg, NORD/LB Floor Research

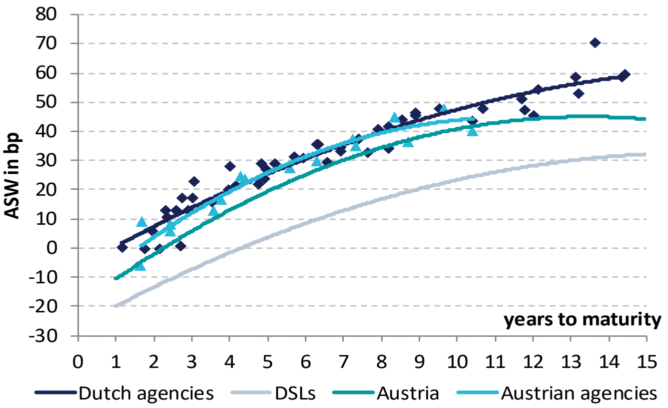
Germany (by segments)



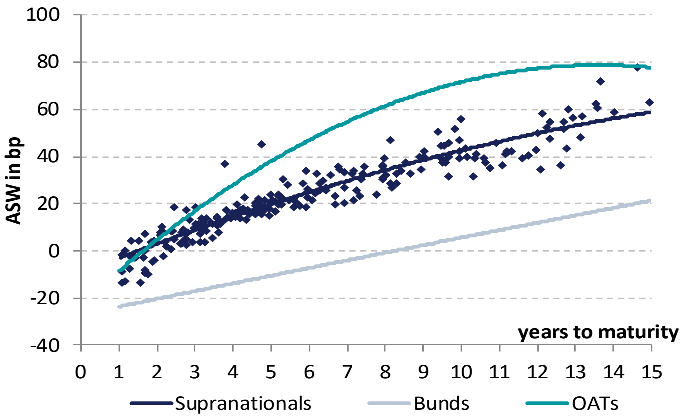
France (by risk weight)



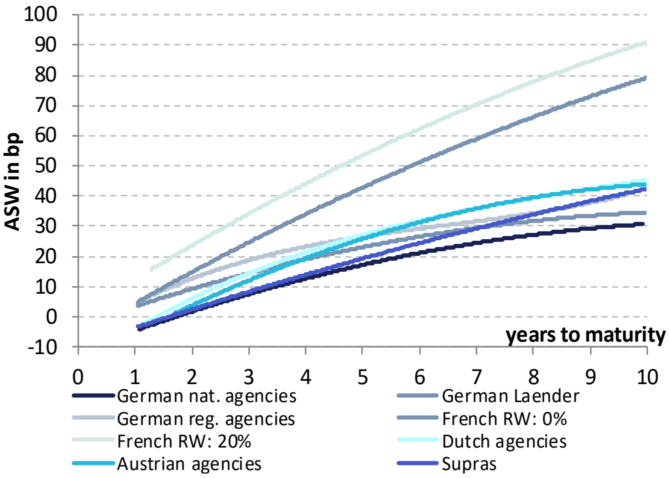
Netherlands & Austria



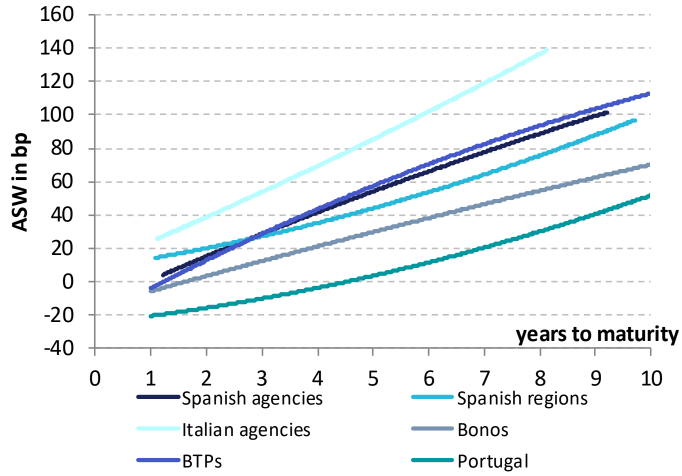
Supranationals



Core



Periphery

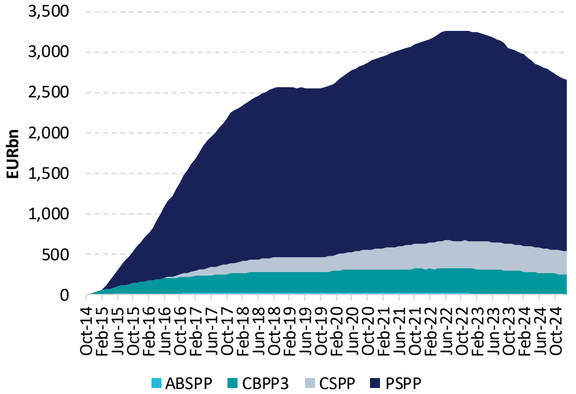


Source: Bloomberg, NORD/LB Floor Research

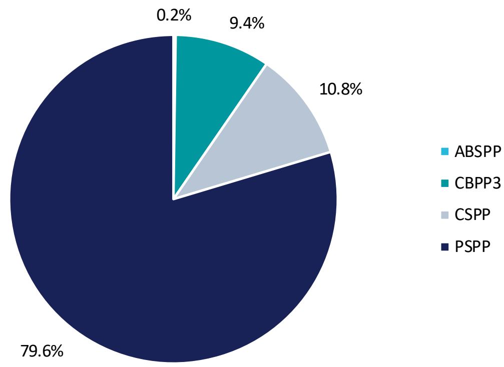
Charts & Figures
ECB tracker

Asset Purchase Programme (APP)

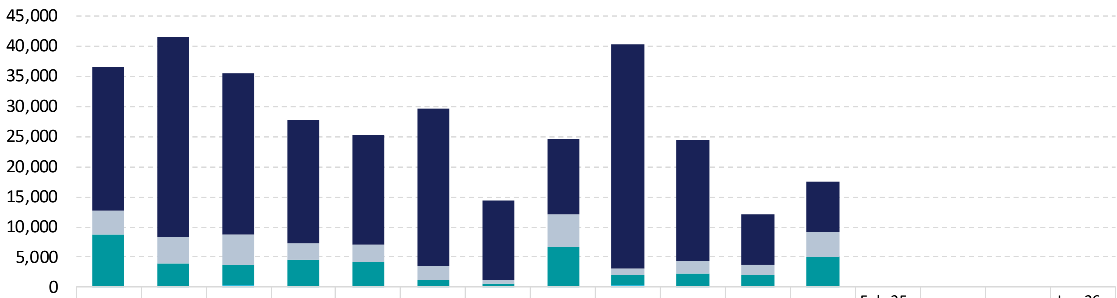
APP: Portfolio development



APP: Portfolio structure

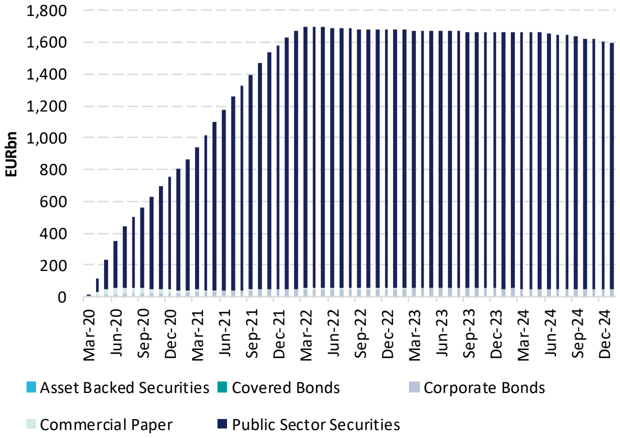


Expected monthly redemptions (in EURm)

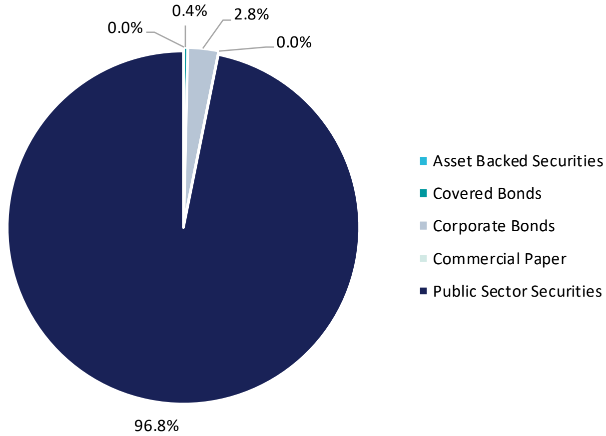


	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-25 - Jan-26	2024	2025	Jan-26 - Jan-26
APP	36,658	41,660	35,527	27,846	25,290	29,618	14,310	24,596	40,249	24,445	12,017	17,538	329,754	334,302	334,255	17,538
PSPP	24,021	33,379	26,671	20,541	18,261	26,161	13,114	12,568	37,073	20,060	8,274	8,318	248,441	264,480	253,586	8,318
CSPP	3,788	4,279	5,137	2,699	2,940	2,156	562	5,259	1,005	2,008	1,693	4,212	35,738	31,380	34,499	4,212
CBPP3	8,635	3,709	3,373	4,448	3,864	1,135	468	6,492	1,864	2,106	1,903	4,740	42,737	32,173	42,332	4,740
ABSPP	214	293	346	158	225	166	166	277	307	271	147	268	2,838	6,269	3,838	268

PEPP: Portfolio development



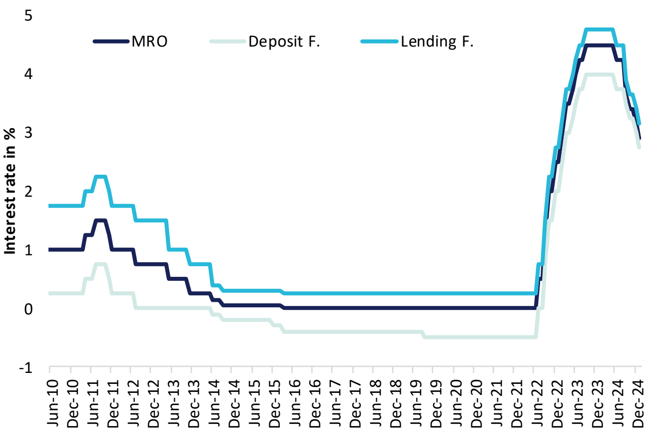
PEPP: Portfolio structure



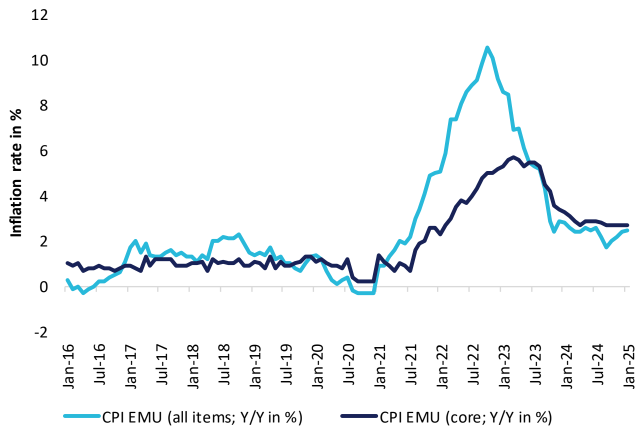
Source: ECB, NORD/LB Floor Research

Charts & Figures
Cross Asset

ECB key interest rates

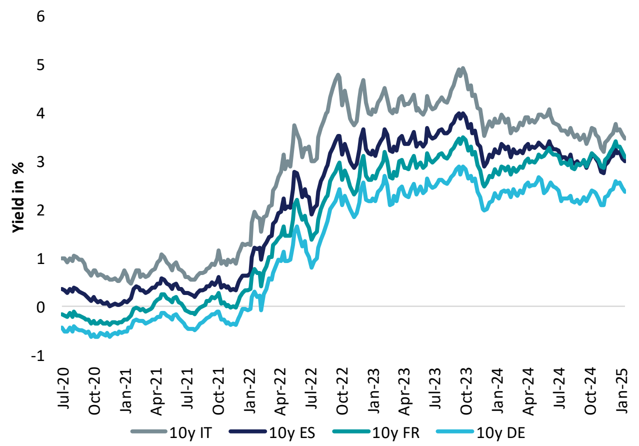


Inflation development in the euro area

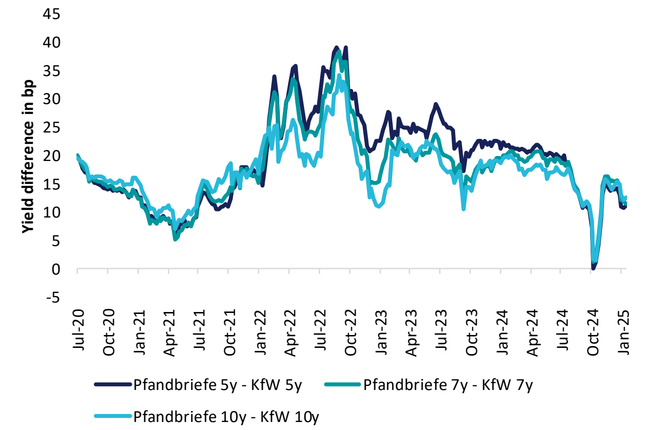


Bund-swap-spread

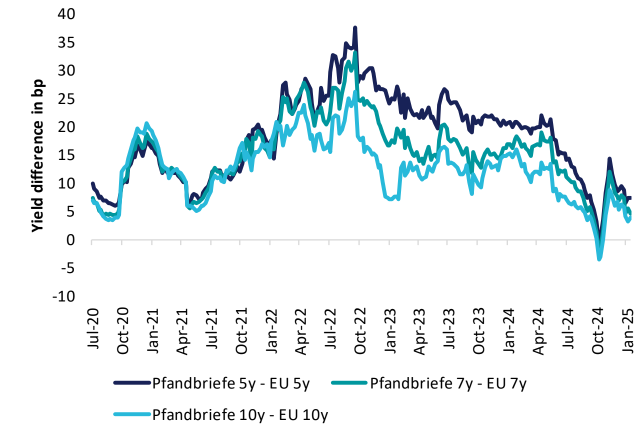
Selected yield developments (sovereigns)



Pfandbriefe vs. KfW



Pfandbriefe vs. EU



Source: ECB, Bloomberg, NORD/LB Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
05/2025 ♦ 05 February	▪ Crelan Home Loan plans return to the covered bond market ▪ SSA January recap: record start to 2025
04/2025 ♦ 29 January	▪ Cross Asset – ESG pilot project: First EU Green Bond in our coverage
03/2025 ♦ 22 January	▪ Focus on the banking sector: EBA Risk Dashboard in Q3/2024 ▪ 30th meeting of the Stability Council (December 2024)
02/2025 ♦ 15 January	▪ The Moody's covered bond universe – an overview ▪ Review: EUR-ESG benchmarks 2024 in the SSA segment
01/2025 ♦ 08 January	▪ Annual review of 2024 – Covered Bonds ▪ SSA: Annual review of 2024
42/2024 ♦ 18 December	▪ A regulatory look at the iBoxx EUR Covered ▪ Teaser: Beyond Bundeslaender – Belgium
41/2024 ♦ 11 December	▪ Focus on France: Covered bond view of Groupe CCF ▪ Teaser: Issuer Guide – French Agencies 2024
40/2024 ♦ 04 December	▪ Our outlook for the covered bond market in 2025 ▪ SSA Outlook 2025: Risk premiums are back in town
39/2024 ♦ 27 November	▪ What's going on outside of the EUR benchmark segment? ▪ Teaser: Issuer Guide – Down Under 2024
38/2024 ♦ 20 November	▪ Transparency requirements §28 PfandBG Q3/2024 ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
37/2024 ♦ 13 November	▪ Development of German property market (vdp index) ▪ Auvergne-Rhône-Alpes Region – spotlight on REGRHO
36/2024 ♦ 06 November	▪ ESG covered bonds: Benchmark segment on a growth trajectory ▪ Current LCR classification for our SSA coverage
35/2024 ♦ 30 October	▪ Maturities the future driver in the primary market? ▪ German-speaking Community of Belgium – spotlight on DGBE
34/2024 ♦ 23 October	▪ A relative value investigation of covered bonds ▪ Current risk weight of supranationals & agencies
33/2024 ♦ 16 October	▪ The covered bond universe of Moody's: an overview ▪ Teaser: Issuer Guide – European Supranationals 2024
32/2024 ♦ 09 October	▪ A look at the CEE covered bond market ▪ NGEU: Green Bond Dashboard
31/2024 ♦ 02 October	▪ A review of Q3 in the Covered Bond segment ▪ Teaser: Beyond Bundeslaender – Spanish Regions
30/2024 ♦ 25 September	▪ The EUR benchmark segment after the summer break ▪ Update on German municipality bonds: DEUSTD and NRWGK

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 2024]

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q3/2024 (quarterly update)

Transparency requirements §28 PfandBG Q3/2024 Sparkassen (quarterly update)

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – Down Under 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – Non-European Supranationals (MDBs) 2024

Issuer Guide – German Agencies 2024

Issuer Guide – French Agencies 2024

Issuer Guide – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2024

Issuer Guide – Austrian Agencies 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2024

ECB Council meeting: 2025 begins as 2024 ended – cutting rates

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Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

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Time of going to press: 12 February 2025 (08:34)