We wish all our readers a cracking, but relaxing summer break!

The next edition of the CSV will be published on **06 August 2025**

Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

Floor analysts:

Covered Bonds/Banks

Lukas Kühne
lukas.kuehne@nordlb.de

Alexander Grenner
alexander.grenner@nordlb.de

SSA/Public Issuers

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

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

Tobias Cordes, CIIA
tobias.cordes@nordlb.de

NORD/LB:	**NORD/LB:**	**NORD/LB:**	**Bloomberg:**
Floor Research	Covered Bond Research	SSA/Public Issuers Research	RESP NRDR <GO>

Market overview Covered Bonds

Author: Alexander Grenner

Primary market: continuation of subdued trend

As we reported in the previous edition of our weekly publication, the issuance air on the primary market for covered bonds in EUR benchmark format is becoming increasingly thin. The exceptionally high issuance momentum from June (EUR 20.4bn – the highest value since our records began) has not been replicated in July. In our view, this is far from unusual, with many issuers appearing to have already entered holiday mode, as is traditional around this time of year. In addition, it was very close to the US President Donald Trump's deadline for introducing new trade tariffs, which could be another explanation for the caution we have seen on the part of issuers. After reporting on two new issues last week, just a single issuer approached investors with fresh supply on this occasion. However, this took the form of a dual tranche: the Spanish issuer Banco Santander launched the marketing phase with guidance of ms +38bp area for its four-year deal and ms +53bp area for the eight-year bond. The new deal, which is rated Aa1 by Moody's, was met with exceptionally lively investor interest, with the result that the order books filled up to an eye-catching total of EUR 10bn. Ultimately, the issuer opted for issuance volumes of EUR 1.25bn (reoffer spread: ms +31bp; bid-to-cover ratio: 4.9x) and EUR 1bn (reoffer spread: ms +46bp; bid-to-cover ratio: 3.9x). Following this successful dual tranche, the issuance volume from Spain in the current year has now risen to EUR 3.25bn, after Caja Rural de Navarra and Banco Santander (covered bond secured by the state Export Credit Agency, as we reported at the time) were active on the market in January and May respectively. We are taking this as an opportunity to slightly revise our forecast for the southern European jurisdiction upwards and now expect additional new issuances in the amount of EUR 1bn across the remainder of the year. At the same time, we are intrigued to see whether the primary market still has something up its sleeve for us before the summer break takes full effect. However, in this case we would only expect the odd deal – if any at all! Last year, the final issuer to approach investors before the primary market entered a summer break lasting almost a month was recorded on 16 July.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Banco Santander SA	ES	07.07.	ES04139000B5	8.0y	1.00bn	ms +46bp	- / Aa1 / -	-
Banco Santander SA	ES	07.07.	ES04139000A7	4.0y	1.25bn	ms +31bp	- / Aa1 / -	-

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

Secondary market: high transaction level persists

As has been the case in recent weeks, the strong sentiment on the secondary market was sustained, while primary market activities continued to dwindle. In this context, the buy side was at times clearly dominant, with demand focused on both the medium and long-term maturity segments. There was a particular emphasis on the core jurisdictions of Germany and France in this regard. For the next few weeks, the expectation is for spreads to narrow on account of further diminishing supply.

vdp Issuance Climate: more muted outlook following strong first half on the Pfandbrief market

For the sixth time, the Association of German Pfandbrief Banks (vdp) has conducted its survey on the outlook for Pfandbrief sales over the next six months. According to this, the experts surveyed from the member institutions anticipated subdued demand for Pfandbriefe (score -5) and unsecured bank bonds (score -20) in the second half of the year. The overall score, which measures sentiment in the market for Pfandbriefe and the capital market for the coming six months, in addition to the prior six-month period and the present, is in positive territory for the first time since the survey was first carried out in December 2022, at a value of +1. With scores of -1 for Pfandbriefe and +5 for unsecured bank bonds, the assessments for the various asset classes have converged since the last survey. In each case, the range extends from -100 to +100 points. Over the past six months, a positive upward trend has been seen in relation to investor demand sentiment on the Pfandbrief markets. For example, the indicator of market activity for the past six months showed a score of +65, while the experts assess the current situation at +89. The strong Pfandbrief sales recorded by vdp member institutions compared with the same period last year (+5%; volume: EUR 31.5bn) is consistent with this market sentiment. In contrast, many European covered bond markets have registered lower sales (down by 20%-30%) compared with the same period last year. To summarise, according to the survey, the main reason for the cautious outlook across the second half of the year is an asset swap spread level deemed to be unfavourable for refinancing activities (score -40). Even though the positive trend seen in the first half of the year would appear to be losing momentum, Sascha Kullig, Management Board member at vdp, viewed the situation on the Pfandbrief market this year as positive, noting that demand for these bonds has been strong right across the maturity spectrum.

European Banking Authority publishes Risk Assessment Report Spring 2025

The European Banking Authority (EBA) recently published its latest Risk Assessment Report (RAR), which looks at the current developments in the European banking sector and evaluates potential risks and vulnerabilities. According to the report, while falling interest rates are boosting economic growth and real estate markets, the current uncertainties surrounding trade policy and geopolitical tensions remain key risks. Due to their occasionally significant dependency on exports, European economies are vulnerable to potential trade tariffs. At the same time, significantly rising defence spending could hamper fiscally weaker countries in particular, leading to increased capital requirements over the long term. In 2024, Eurozone banks recorded increased profits of approximately 9%, whereby declining net interest income was offset by growth in fee incomes. Slight growth was recorded in lending to households and businesses, with the ratio of NPLs also rising marginally, specifically in relation to household loans. The asset quality of European banks is particularly impacted by climate risks, although the extent of the impact here does vary considerably depending on the bank and jurisdiction in question. In terms of current refinancing trends, the EBA is projecting that the shares of repos, long-term unsecured debt securities and customer deposits are likely to rise most sharply. Other emerging trends, such as advances in digital assets and blockchain, are offering banks opportunities to develop new services. However, these also pose risks in relation to aspects such as cybersecurity and data protection. The RAR is based on a sample of 161 banks from 30 EEA countries that submit regulatory reporting data to the EBA authorities each quarter. In terms of total assets, this covers more than 80% of the EU and EEA banking sector.

Market overview SSA/Public Issuers

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

ECB Forum in Sintra: ECB Governing Council sticks to symmetrical inflation target of 2%

Representatives of central banks and the worlds of science and industry met for the annual ECB Forum from 30 June until 02 July to discuss current economic and monetary policy developments. The monetary policy of the ECB Governing Council was also scrutinised, as announced in advance. This analysis concluded that the framework, tools and approach are still appropriate – even allowing for structural changes such as increasing geopolitical and economic fragmentation. Accordingly, the monetary policy of the ECB Governing Council enables it to react effectively to changes in inflation. However, given the challenging environment, it is uncertain how inflation will develop. In fact, it could become far more volatile in future. Deviations from the symmetrical inflation target of 2%, which will be retained in future – contrary to the expectations of some market participants – could therefore be more marked in both directions, which will make implementation of monetary policy more complex. To achieve the goal of price stability, the monetary policy instruments available to the ECB are to be retained in their entirety in the future but will be used more flexibly. When deciding on monetary policy, the Governing Council will, in addition to the most likely trends in inflation and the economy, continue to take the risk environment and existing uncertainty into consideration through the use of scenario and sensitivity analyses, among other tools. The consequences of climate change for price stability are also to be reflected more accurately in monetary policy. The next review of monetary policy is planned for 2030. There were, however, no major announcements from the group of European central bankers with regard to the upcoming monetary policy meeting on 24 July. According to the recently published (provisional) figures, the inflation rate in the eurozone increased slightly to 2% in June and is therefore precisely in line with the ECB's target, while core inflation remains above the inflation target, at 2.3%. We still assume that rates will remain unchanged in July – predominantly in view of the various uncertainties (cf. Fixed Income Special).

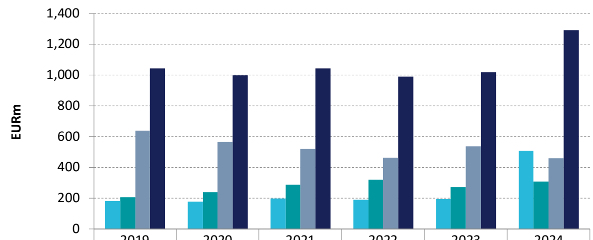
Fitch provides outlook for supranational segment in H2/2025

The rating experts at Fitch have presented their assessment of developments in the supranational segment in the second half of the year, in which they expect the environment to deteriorate in comparison with 2024. The outlook, which was downgraded from "neutral" to "deteriorated" at the end of 2024 in accordance with the different rating categories for sectors, is therefore consistent with the prospects for global sovereign bonds and reflects their expectation of more difficult macroeconomic conditions – caused predominantly by uncertainties regarding US economic policy. The changes in the USA's position, following Trump's announcement that he was reviewing the USA's participation in international organisations, are also having an adverse impact on the outlook. Fitch expects the USA to seek reforms and be more selective in providing financial support to ensure that the interests of the USA are adequately reflected. The supranationals rated by Fitch, which are also included in our coverage (including the EU, ESM, EFSF) all benefit from a stable outlook. We will present our outlook for the SSA segment in the second half as part of a digital Spotlight in August.

Bremer Aufbau-Bank – promotional bank for the two-city state in the spotlight

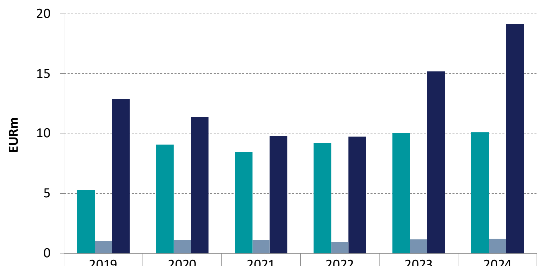
Bremer Aufbau-Bank (BAB) is the central promotional bank for the Free Hanseatic City of Bremen, providing support for the cities of Bremen and Bremerhaven with development, structural, economic and housing policy. In addition to grants and loans, BAB's offering also includes investments and guarantees. As far as business development is concerned, job retention and creation, support for business start-ups and financing of infrastructure projects are paramount. Promotion of affordable, modern housing also plays a key role for the inhabitants of Bremen. Likewise, sustainability and the energy revolution are right at the top of BAB's agenda. The vast majority of promotional programmes are awarded in collaboration with other banks and savings banks. In doing so, BAB provides refinancing on reasonable terms and acts as a competitively neutral risk partner. In financial year 2024, BAB increased its balance sheet total (incl. trust assets and liabilities) by EUR +274.3m to EUR 1.3bn. Meanwhile, business volume increased by EUR +311.4m to EUR 1.5bn. In terms of earnings, interest income increased by circa +26% to EUR 19.1m. The Free Hanseatic City of Bremen is explicitly liable for BAB's liabilities incurred as part of its promotional activities in accordance with §5a of the *Gesetz zur Übertragung von Aufgaben staatlicher Förderung auf juristische Personen des privaten Rechts* (Act on the Transfer of the Government's Promotion-Related Tasks to Legal Entities incorporated under Private Law). While BAB does not have its own rating, we do analyse its guarantor, Bremen (ticker: BREMEN; rating: AAA / - / -) on a regular basis as part of our Issuer Guide – German Laender, which was most recently published in 2024. In terms of its refinancing activities, the bank primarily focuses on SSD deals, while large volume bonds are not currently part of its funding strategy. With regard to classification in the relevant regulatory frameworks, BAB bonds would benefit from the same advantages as those of the Free Hanseatic City of Bremen: under the CRR, it therefore qualities for a risk weight of 0% for corresponding risk exposures. This results in classification as a Level 1 asset according to the LCR. It would also benefit from preferential classification in the context of Solvency II. Moreover, BAB bonds would be accepted as eligible collateral for ECB repo transactions. However, the bank's SSD transactions explicitly do not qualify as eligible collateral, whereas those issued by the Free Hanseatic City of Bremen are accepted as collateral for ECB liquidity.

Balance sheet development



	2019	2020	2021	2022	2023	2024
Balance sheet total	1,042	998	1,041	991	1,016	1,290
Claims against credit institutions	638	564	521	462	534	459
Claims against customers	206	236	289	320	269	307
Trust assets	181	176	196	187	195	507

Earnings development



	2019	2020	2021	2022	2023	2024
Interest income	13	11	10	10	15	19
Commission income	1	1	1	1	1	1
Other operating income	5	9	8	9	10	10

Source: Issuer, NORD/LB Floor Research

Hamburg seeks to relax debt brake; Schleswig-Holstein presents supplementary budget
Hamburg (ticker: HAMBRG) has become the first among the German Laender to outline its intention to amend its constitution to allow it to make use of the option of additional structural borrowing of 0.35% of nominal GDP: following submission of an application to this effect by the red-green coalition, the Hamburg Parliament resolved the changes to the constitution required for this purpose in a first reading with a two thirds majority. The second reading in which there will be a final vote on the changes is planned for the parliamentary meeting on 16 July. Meanwhile, there is to be no deviation from the principle of a balanced budget. This makes Hamburg a pioneer in Germany. We assume that other Laender will follow its example at the end of the summer break and make use of the additional financial leeway. Planning for the regional budgets, and consequently discussions about whether to raise new debt, are, however, not yet complete in many Laender. In our opinion, it does not seem as though all Laender will opt to follow Hamburg's example in the current year. For example, Thuringia and Berlin have announced that they do not wish to make use of the opportunities to borrow more until next year. The government of Schleswig-Holstein (ticker: SCHHOL) has meanwhile produced its draft supplementary budget for 2025 and, in doing so, announced that it wishes to use the scope for additional borrowing this year in connection with a further amendment to reschedule the emergency loans from 2024.

Scope: higher defence spending will increase government borrowing
Following the formal decision by the NATO member states to put 5% of GDP per annum towards defence spending by 2035 at the latest, the rating agency Scope has analysed the possible consequences for government budgets and the member states' debt levels. The risk experts have concluded that the planned increase in defence spending will increase budget deficits and government borrowing throughout the EU and could have an adverse impact on the creditworthiness of the respective states unless expenses are reduced or taxes increased. Germany will be particularly affected by this: while the federal republic previously only spent around 10.5% of the budget (1.2% of GDP) on defence and set up the special fund for the armed forces worth EUR 100bn to boost defence capability in 2022, it would have to spend around 17% of government revenue on defence to achieve the new NATO target without raising new debt. This is reportedly far higher than France (8%), Italy (7%) or the UK (3%). Although the reforms to the debt brake since March 2025 allow more scope for borrowing, Scope states that the funding requirement would increase to over EUR 100bn per year without significant reallocation of budget funds. Forecasts suggest that Germany's debt could grow to more than 70% of GDP by 2030 (2024: 63%). Conversely, Germany is one of the few member states that is able, fiscally speaking, to meet the NATO requirements on time – together with the states that already meet the adjusted target or come close to it (such as Greece, Poland and the Baltic states). For countries that have difficulty in complying with the Maastricht criteria or are already subject to deficit procedures (France, Belgium and Italy, among other), increased defence spending is likely to make it even more difficult to consolidate their budgets.

European Commission plans joint borrowing instrument for crisis episodes

According to the Financial Times, the European Commission is planning to introduce a new instrument for joint borrowing, which would permanently allow the EU to issue EUR-denominated bonds in times of crisis with the aim of financing grants or loans to Member States by this means. This mechanism, which is still in draft status, will reportedly be included in the multiannual financial framework (MFR) from 2028, the draft version of which is set to be published in mid-July 2025. While Member States would have to approve its use in each case, it would, however, create the structural basis for joint borrowing – a step that would be viewed critically by Germany, Sweden and the Netherlands, in particular, and rejected accordingly. Besides repayment of COVID-19 reconstruction aid, discussions have recently focused primarily on increased defence spending (see above), the financing of which is likely to cause financial issues for some EU sovereigns. Discussions about joint borrowing are likely to gather momentum against the backdrop of the upcoming compilation of the long-term EU budget over the next few weeks.

Primary market

There are (still) no signs of a summer break on the SSA primary market: the Asian Development Bank (ticker: ASIA) got the ball rolling in the trading week under review here, placing a green bond worth EUR 1bn (3y) at ms +7bp (guidance: ms +9bp area). While North Rhine-Westphalia (ticker: NRW) raised EUR 1.25bn (5y) at ms +21bp (bid-to-cover ratio: 6.2x) via a sustainability bond the following day, the Inter-American Investment Corporation (ticker: IDBINV) also met its funding requirements on the same day by issuing a green bond worth EUR 500m (7y). It was priced at ms +37bp (guidance: ms +39bp area). Another issuer from Germany, namely KfW (ticker: KFW), approached investors yesterday (Tuesday) and placed EUR 3bn (3y) at ms +4bp (order book: EUR 19bn). The promotional bank had only recently confirmed its funding target of EUR 65-70bn for 2025. For the second half, KfW plans to raise around EUR 20bn on the capital market. However, the highlight of the week was the EU's first syndicated transaction in H2/2025: the EU raised an aggregate of EUR 9bn, of which EUR 5bn through a benchmark (7y) priced at ms +35bp (order book: EUR 62bn), with a further EUR 4bn raised by tapping the 2045 bond at ms +95bp (guidance: ms +97bp area). Another issuer from Germany, this time Investitions- und Strukturbank Rheinland-Pfalz (ticker: ISBRLP), ventured onto the market with a sub-benchmark, issuing EUR 250m (8y) at ms +35bp (order book: EUR 390m). Landwirtschaftliche Rentenbank (ticker: RENTEN) followed yesterday with a floater (7y, EUR 300m). It was priced at +20bp versus the 3M Euribor. Moreover, the marketing phase for the first blockchain-based digital bond from NRW.BANK (ticker: NRWBK) is currently underway. The issuer is aiming to raise EUR 100m (2y), with the spread already fixed at ms +15bp. In contrast, Agence France Locale (ticker: AFLBNK) opted for a tap and increased the amount of its 2038 bond by EUR 250m at OAT +16bp. Mandates for upcoming deals: INVITA (EUR 350m, 5y, social) and BOSNIA (5y).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EU	SNAT	08.07.	EU000A4ED0K0	7.4y	5.00bn	ms +35bp	AAA / Aaa / AA+	-
KFW	DE	08.07.	DE000A4R2L42	3.1y	3.00bn	ms +4bp	- / Aaa / AAA	-
IDBINV	SNAT	03.07.	XS3113472842	7.0y	0.50bn	ms +37bp	AAA / Aa1 / AA+	X
NRW	DE	03.07.	DE000NRW0P57	5.0y	1.25bn	ms +21bp	AAA / Aa1 / AA	X
ASIA	SNAT	02.07.	XS3112831543	3.0y	1.00bn	ms +7bp	AAA / Aaa / AAA	X

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

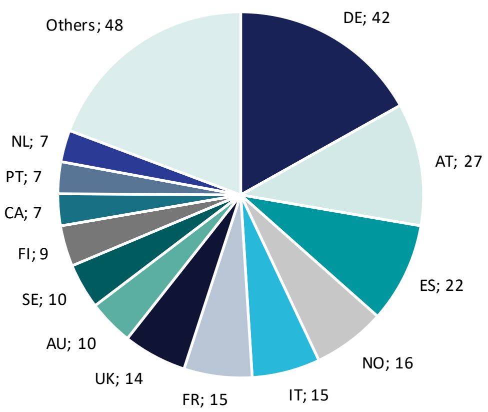
Covered Bonds
The covered bond universe of Moody's: an overview
Author: Alexander Grenner

Moody's presents "Covered Bond Sector Update" Q2/2025
At the end of June, the rating agency Moody's presented a new "Covered Bond Sector Update" as part of its regular series. The Q2/2025 edition refers to all the covered bonds assessed by Moody's with the relevant information for the fourth quarter of 2024. With its ratings and detailed figures on a total of 249 covered bond programmes from 29 countries, the rating experts cover a significant proportion of the global covered bond market. At present, the majority of the programmes come from Germany (42), followed by Austria (27) and Spain (22). In each case, the top ten countries have nine or more programmes, which together account for 72.3% (180 programmes) of the total number. The remaining 27.7% (69 programmes) are split between 19 jurisdictions with seven or fewer programmes. Mortgage-backed programmes, of which there are 210 (84.3%), account for the bulk of the programmes rated by Moody's. The agency also rates 37 public sector programmes (14.9%) from nine countries. These are chiefly concentrated in the jurisdictions of Germany (13 programmes), Austria (9), Spain (6) and France (4). Moody's also covers one ship Pfandbrief programme and one programme assigned to the "other" category from Germany. In this present edition of our weekly publication, we intend, as per usual, to take a more detailed look at a selection of key figures. This makes sense not least because Moody's has the most extensive market coverage in terms of covered bond ratings out of all rating agencies.

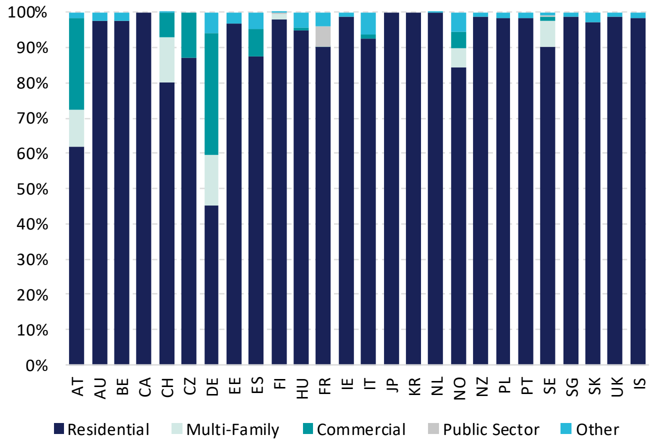
Focus on mortgage programmes from EUR benchmark jurisdictions
As regards the Moody's rating universe, its focus is clearly on mortgage programmes, which are located virtually entirely in EUR benchmark jurisdictions. The only countries from which we currently register no outstanding covered bond issues in the EUR benchmark segment are Greece (4 programmes), Ireland (2) and Cyprus (1). Our following analysis will concentrate on those mortgage-backed programmes which have been established in EUR benchmark jurisdictions. It is worth bearing in mind, however, that the programmes under consideration do not necessarily have to have issued EUR benchmarks at present.

Overwhelming majority of mortgage programmes are residential
On average, 84.6% of all cover assets in the individual mortgage programmes rated by Moody's are residential assets. The proportion of commercial assets in the overall volume is also comparatively high in Germany (34.6%), Austria (26.1%), Czechia (12.6%), Spain (7.8%) and Switzerland (7%). In addition, multi-family assets account for significant shares of the programmes in Germany (14.5%), Switzerland (12.9%) and Austria (10.6%). With the exception of the aforementioned countries plus Norway (84.6%), residential assets make up a share of at least 90% in the cover pools of the programmes in all the remaining jurisdictions. It is only the programme from Luxembourg that does not include any mortgage assets.

Number of programmes with a Moody's rating



Cover pool structure (mortgage programmes)



Source: Moody's, NORD/LB Floor Research

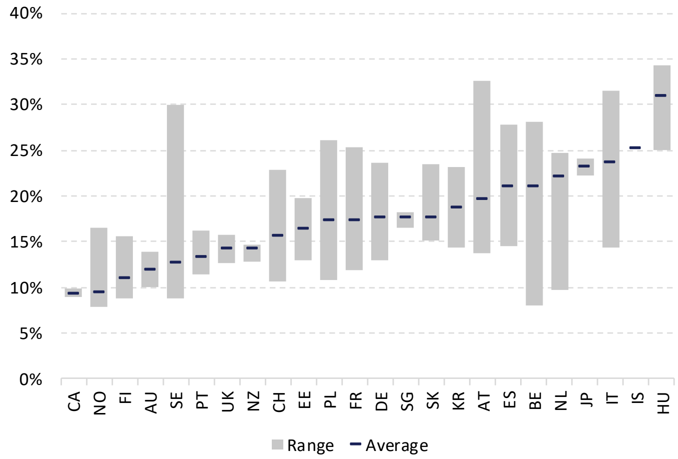
Collateral score as an indicator of cover pool quality

We use the Moody's collateral score as one of the most important metrics in our analysis of cover pool quality. A lower figure in this respect implies a higher quality of cover assets. More specifically, the score is a measure of the credit deterioration of the assets in the cover pool in conjunction with the theoretically highest possible rating in the country in question. In this context, we regard it as adequate to compare collateral scores across programmes and jurisdictions as well, even though a number of specific features might have to be taken into account. For example, Moody's provides for 4% as a lower limit for the collateral score of most mortgage-based programmes. Some "smaller" covered bond jurisdictions, such as Iceland (12.8%), Greece and Cyprus (10% each), in particular have higher floors. With the exception of Japan, where collateral scores as low as 0% are applied in view of the RMBS structure of the respective programmes, only France (2%) and the Netherlands (3.7%) have collateral scores of less than 4%. Issuers from Iceland (12.8%) as well as Germany and Greece (10.2% in each case) register the highest average collateral scores. At the same time, Germany and Austria show the greatest fluctuations around the mean value. As we mentioned earlier, issuers from Germany and Austria have a comparatively high proportion of commercial assets in their cover pools. As a result, it would appear that a high proportion of commercial cover assets goes hand in hand with a higher collateral score.

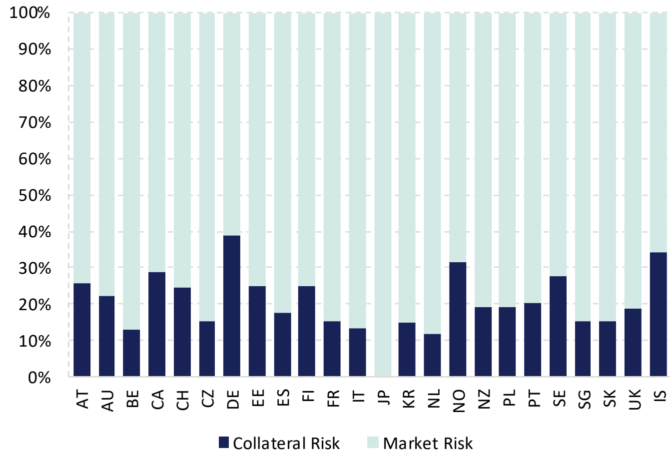
Cover pool losses as an indicator of expected losses in the cover pool

Moody's uses cover pool losses (CPL) as an indicator to reflect the losses which can be expected in the cover pool following a covered bond anchor event (CBAP; issuer default). In this case, the risk comprises two components, namely market risk (cover pool losses as a result of funding, interest rate and/or currency risk) and collateral risk (cover pool losses resulting from a deterioration in the credit quality of cover assets). Similar to the collateral score, there is a great disparity here by global comparison. This is true not only in relation to average cover pool losses, but once again in respect of the national range of variation in each case as well. CPLs are especially low in Canada and Norway (9.4% each); in contrast, they are comparatively high in Czechia (33%) and Hungary (31%).

Cover pool losses by country*



Cover pool losses: market & collateral risk by country*

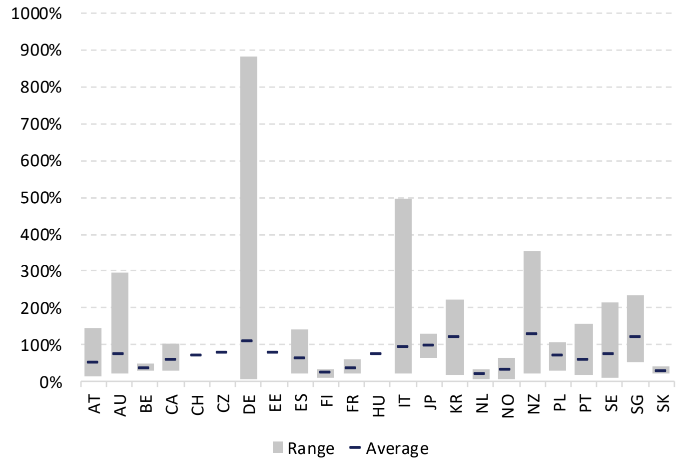


Source: Moody's, NORD/LB Floor Research

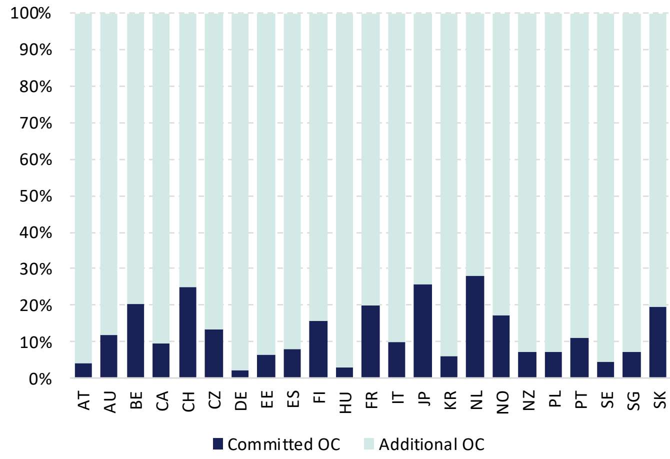
Cover pool losses: refinancing, interest rate and currency risk most widespread

The ratio of collateral and market risks to cover pool losses varies considerably across jurisdictions. However, as we can see from the upper-right chart, market risks quite clearly dominate. These risks include those relating to the insolvency of the issuer, e.g. refinancing, interest rate or currency risks. The two covered bond programmes from Japan have no collateral risk whatsoever since, as mentioned earlier, they exclusively have RMBS transactions as cover assets.

OC by country*



Composition of OC*



* mortgage programmes in each case

Source: Moody's, NORD/LB Floor Research

Wide range of overcollateralisation levels

With regard to the overcollateralisation levels, there are significant differences in an international comparison. High average OC ratios (>100%) are evident in the covered bond jurisdictions of New Zealand, Singapore and South Korea, which have a lower number of rated programmes in each case. The jurisdictions of Germany and Italy currently have the largest ranges, although this is due to individual programmes that currently have very high OC ratios, for example resulting recently maturing bonds.

Committed OC as lower limit for overcollateralisation

Overcollateralisation can also be divided into sub-components. For example, OC may have been committed against third parties in order to maintain a specific rating, or it may be based on legal requirements. Committed OC may therefore be understood as a kind of lower limit for overcollateralisation, where the programme cannot readily fall below this limit, or where falling below this limit is not permitted at all. In contrast, actual overcollateralisation is only temporary in certain circumstances and may be subject to a certain level of volatility as a result of new bond issues and/or maturities. Overall, it can be stated that the higher share of overcollateralisation continues to be provided by issuers on a voluntary basis, although this may well be due to lower levels of committed OC. It is also true that a high proportion of committed OC by no means also results in high voluntary overcollateralisation.

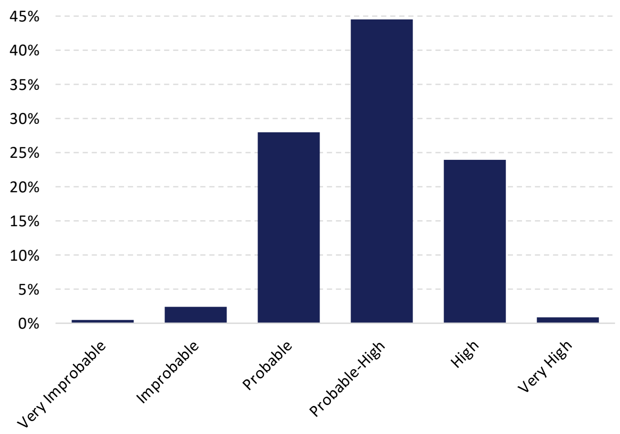
TPI restricts rating upgrades of covered bonds in relation to issuer rating

TPI rules restrict the potential covered bond rating to a specific number of notches above the issuer rating. Moody's uses the Timely Payment Indicator (TPI) here. It provides information about the probability of timely servicing of payment obligations following a potential issuer default. This is broken down into six assessment levels, ranging from "very high" to "very improbable". Over 96% of the mortgage programmes rated by Moody's are assigned to the "probable", "probable-high" or "high" categories, which in our view is a sign of stable values. In contrast, the outer limits are represented to a far lesser extent, with shares of 0.4% (very improbable) for the programme in Iceland and 0.8% (very high) for one programme each in Italy and Portugal. In 14 of the 26 EUR benchmark jurisdictions covered by Moody's, there are programmes that all have one and the same timely payment indicator (chart: TPI by country). In Germany (40 of 42 programmes) and Norway (9 of 16 programmes), the majority of the programmes rated are allocated to the category "high" in each case.

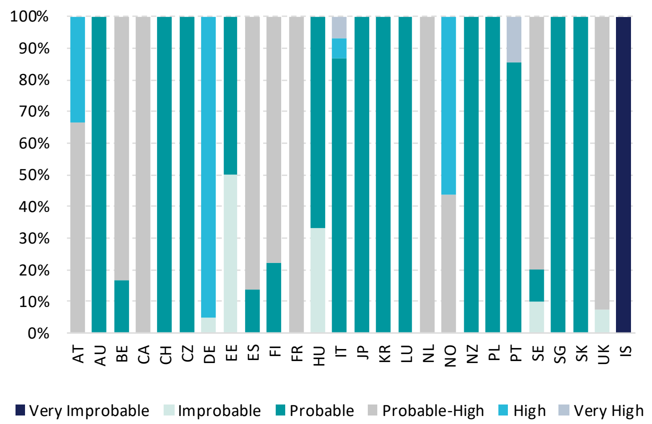
TPI Leeway defines the buffer in relation to downgrades

Apart from the TPI, the TPI Leeway is another key metric. It denotes the number of notches by which the relevant covered bond anchor could be downgraded without it leading to a deterioration in the rating in the context of the TPI framework for the issuer's covered bond programme. Two (0.9%) of the covered bond programmes in the Moody's rating universe have no such buffer, which means in the event of a downgrade of the covered bond anchor the programme itself would be directly downgraded as a consequence. Overall, 58 programmes (25.8%) feature a TPI Leeway of four notches. The maximum of seven notches is only achieved by programmes from Germany (9 programmes; 4%). In total, 17 covered bond programmes have a TPI Leeway of six notches (7.6%), of which 13 are attributable to Germany, two to Sweden and one each to Canada and Norway.

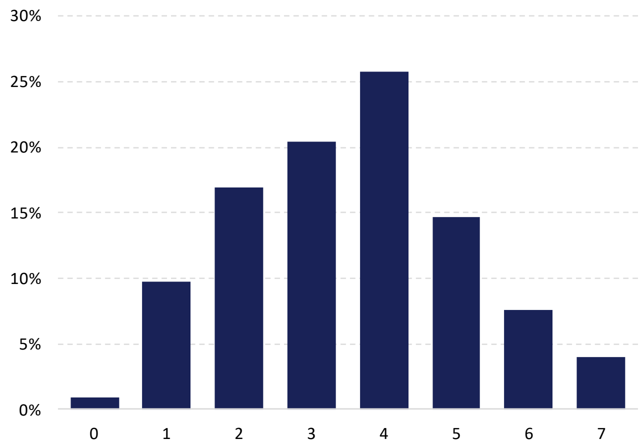
Timely Payment Indicator (TPI)*



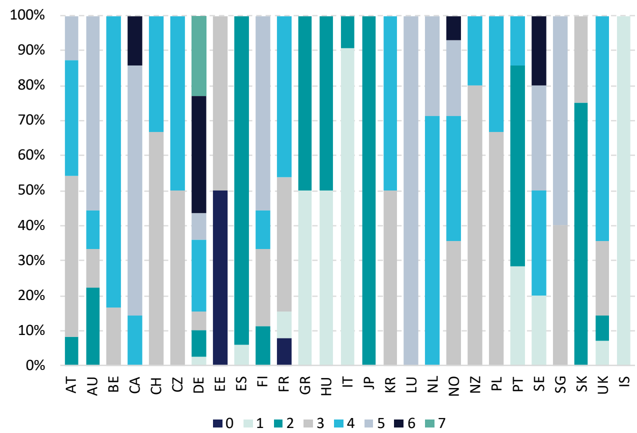
TPIs by country*



TPI Leeways in notches*



TPI Leeways in notches by country*



* mortgage programmes in each case
Source: Moody's, NORD/LB Floor Research

Conclusion

Moody's latest update as well as the data on which it is based once again reflect the heterogeneity that exists in the covered bond market at jurisdiction level. For several years now, Moody's parameters have been providing important insights into the relevant countries, particularly regarding the occurrence of a credit event on the issuer side. However, as the case of Germany highlights, differentiation within each jurisdiction is also necessary. In the context of evaluating and analysing covered bond ratings, we always recommend looking beyond the dataset outlined here as well. Taking the recent downgrade of France as an example, we consider the country ceiling to be a particularly relevant factor. This gives the best possible covered bond rating depending on a jurisdiction's sovereign rating. In the case of France, this currently stands at Aaa, whereas Moody's rating for the French state is Aa3 at present. The country ceiling is therefore three notches above this Aa3 rating. In this purely mechanistic view, the maximum uplift for France is six notches, meaning that the buffer for the covered bond rating still constitutes three downgrades.

SSA/Public Issuers
Spotlight on the EU as a mega issuer

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

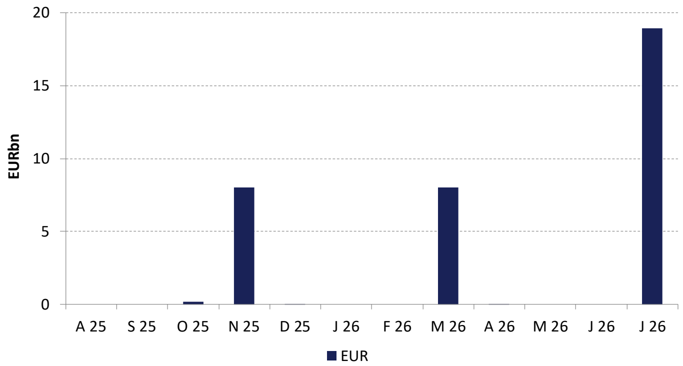
Introduction

The European Union (ticker: EU) has been nothing less than the largest issuer in our SSA coverage since the COVID-19 pandemic. Today, 27 sovereigns are part of a globally unique economic and political entity with its own parliament, executive and judiciary. The EU has a common budget, which is decided collectively by the European Commission, European Council and European Parliament. The budget plan of each year defines the amounts available that can be spent within the spending limits agreed in advance in the Multiannual Financial Framework (MFF). In addition, the EU budget provides a guarantee for liabilities taken on via the capital market. Since the European Council is also explicitly named as a body in Art. 323 of the Treaty on the Functioning of the EU (TFEU), we see this implicitly as an obligation on the part of the Member States. We thereby assume an implicit guarantee in the form of a maintenance obligation, which in this instance is comparable with callable capital.

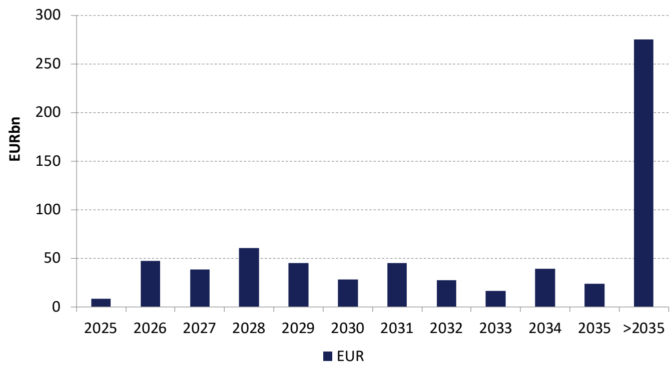
Capital market

The European Commission, acting under the authorisation of EU treaties, functions as a debtor on the capital market on behalf of the EU. The European Commission uses a variety of refinancing instruments to raise funds under its unified funding approach. In addition to long-term bonds and short-term bills, it also issues NGEU Green Bonds and, until December 2022, bonds with a social label as part of the SURE programme. Currently, the outstanding bond volume amounts to EUR 652.2bn distributed over 82 bonds, with the long maturities of these liabilities being a particularly striking feature. For example, almost 42% of the currently outstanding volume will be due in 2035. Regarding the currency, the EU does not diversify: the total volume is denominated exclusively in EUR. In order to ensure a high degree of transparency, the EU publishes semi-annual funding plans (cf. funding plan for July-December 2025), in which it schedules both intended bond auctions and syndicated transactions for the next six months.

Maturity profile in the next 12 months



Maturity profile by currency

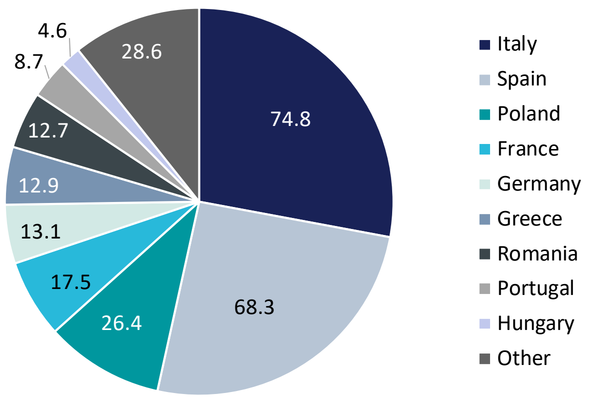


Source: Bloomberg, NORD/LB Floor Research

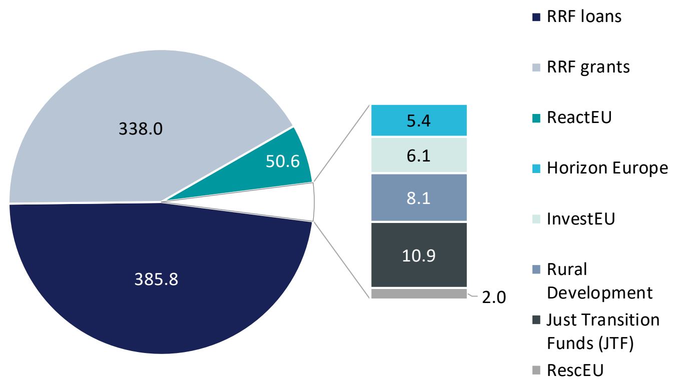
NGEU: facing the future with increased strength

The NextGenerationEU (NGEU) programme is a key measure to help repair an economy weakened by COVID-19. It was formally adopted by the European Council in December 2020 and is set to expire at the end of 2026. The temporary recovery instrument has a volume of EUR 750bn at 2018 prices, which is equivalent to EUR 806.9bn at current prices. Its aim has been to support the economic recovery of EU Member States so that they can emerge stronger from the pandemic. It is also intended to help build a greener, more digital and more resilient future in the EU. The centrepiece of NGEU is the Reconstruction and Resilience Facility (RRF), which provides financial support to Member States in the form of grants and loans for investment and reforms. The maximum scope of this programme is EUR 723.8bn, divided into EUR 385.8bn for loans and EUR 338bn for grants (both at current prices). Only the loans have to be repaid. To receive support from the RRF, Member States must submit detailed Recovery and Resilience Plans (RRPs) outlining how they intend to utilise funds to achieve climate neutrality and digital transformation goals by 2026. Allocation is based on a predetermined distribution key. The remaining EUR 83.1bn from the NGEU funds will be distributed between the ReactEU, Horizon Europe, InvestEU, Rural Development, Just Transition Fund and RescEU programmes. These are intended to promote research, renewable energies and medical equipment, among other things. In order to finance the expenditure for NGEU, the European Commission raises funds on the capital market for the maximum programme volume of EUR 806.9bn. Although the EU budget must be financed entirely from its own resources pursuant to Art. 311(2) of the TFEU, the Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union classifies loans taken under the NGEU programme as other revenue sources, so this borrowing is possible due to being considered exceptional. Borrowing is permitted from mid-2021 to the end of 2026 with an estimated annual issuance of EUR 150-200bn. The financial instruments include bonds with medium and long maturities, and at least 30% of these bonds should be designated as green bonds. So far, EUR 75.1bn has been raised through green securities. However, delays in the disbursement of funds are now having a noticeable impact on the European Commission's liquidity management: due to rising interest rates, the unexpected accumulation of large cash holdings over a longer period of time is starting to cause net liquidity costs for the EU budget and loan recipients.

Green bond-eligible investments (as per ARP; EURbn)



Breakdown of NGEU promotional funds (EURbn)



Source: European Commission, NORD/LB Floor Research

The EU – an (increasingly) sovereign issuer?

The EU's presence on the capital markets has changed substantially in recent years. In the past, the EU was traditionally regarded as a supranational by the market. Given the EU's small issuance volume and fragmented issuance curve, the market had little reason to treat EU bonds differently from comparable SSA bonds. However, in recent years, ever more market players have come to perceive EU bonds as part of the Govies market instead. Primarily, it should be borne in mind that the EU has always played an unusual role in the SSA market due to its unique institutional structure. The EU has a budget-based financial structure that relies heavily on the contributions from its Member States, similar to how national budgets are funded by taxpayer contributions. The EU also differs on account of the euro, its common currency for the Eurozone, and the ECB, its own independent central bank. Furthermore, the EU has recently evolved into a completely different market player. This started with the outbreak of the COVID-19 pandemic in 2020, when the EU was tasked with stepping up its bond operations to finance two multi-billion-euro loan programmes, SURE and NGEU. Following Russia's invasion of Ukraine, the EU has also utilised bond issuances to provide crucial support to Ukraine through programmes such as Macro-Financial Assistance Plus (MFA+) and the Ukraine Facility set up specifically for this purpose. In response to these increased funding needs, the EU has introduced a new funding approach. This is characterised by the use of multiple instruments, different issuance techniques (syndications and auctions), the support of a network of 37 primary dealer banks and structured communication with the markets through half-yearly funding plans. With the introduction of the unified funding approach, another important instrument was added at the beginning of 2023. As part of this, all EU issues will be consolidated under a single "EU bonds" label, ending the fragmentation of programmes and helping to maintain a liquid, homogeneous EU bond curve for the future.

Repo facility and bond futures round off EU product range

On 07 October 2024, the EU launched its long-planned repurchase agreement (repo) facility to help market players trade their bonds. Under the instrument, the European Commission makes its securities available on a temporary basis, helping EU primary dealers to maintain liquidity in EU bonds. In addition, "Euro-EU Bond Futures" will be available for trading on Eurex for the first time from 10 September 2025. These measures further differentiate the EU's market presence from that of other typical SSA issuers. They also represent a financial market offering of liquid and EUR-denominated assets that complement the large supply of established government bonds. A growing number of market players are already making use of this offer and treating EU bonds more like part of the Govies segment. These include, above all, the ECB, which in June 2023 classified EU bonds in haircut category I as part of its repo collateral rules, which also includes debt instruments issued by EU Member States (cf. weekly publication of 15 November 2023). Ongoing discussions about the use of the EU curve as a pricing benchmark as opposed to swaps and the possible inclusion of EU bonds in government bond indices make this an interesting topic for the future.

Latest funding plan for H2/2025 now published

On 23 June, the EU presented its semi-annual issuance calendar for the six months from July to December 2025. The European Commission intends to issue up to EUR 70bn in new funding through bonds and taps over this period, with tap transactions expected to make up the bulk of this. The funding plan builds on the refinancing requirements of EUR 90bn communicated for the first half of the year, bringing the EU's total issue volume to EUR 160bn. The funds in the second half of 2025 are to be raised over six bond auctions and four syndicated transactions. In the context of the auctions, the EU will continue to offer "3-leg auctions", which it conducted for the first time in the second quarter of 2025. This means that investors will have three different bonds available for bidding offers. From September, the EU will also implement the "greenshoe option" (overallotment option), a mechanism more commonly known from government bonds, among others. If demand is correspondingly high, it allows the Commission to allocate an extra 20% of the original allocated bond volume to the primary dealers as additional capital on the day following the bond auction. In this way, the EU is creating further conditions that bring it closer to its desired classification as a Govies issuer. For the period up to the end of 2030, the EU has also communicated a cumulative funding requirement of EUR 700bn, so that the presence on the capital market is likely to remain high even once NGEU ends.

SAFE programme – EUR 150bn for the defence of Europe

At the end of May, the European Council formally adopted a regulation setting up the SAFE (Security Action For Europe) programme. SAFE is part of the ReArm Europe/Readiness 2030 plan presented by the European Commission in March 2025. Through the financial instrument, loans of up to EUR 150bn will be disbursed to interested Member States upon demand and on the basis of national plans. To ensure economies of scale and interoperability, and to reduce possible fragmentation of the European Defence Technological and Industrial Base (EDTIB), beneficiary Member States will have to carry out, in principle, common procurements involving at least two participating countries to qualify for the loans. However, in response to the current geopolitical situation and urgent need for massive investment in defence equipment, procurement involving only one Member State will be allowed for a limited period of time. The programme will also open up a new chapter in the defence cooperation with third countries: accordingly, countries outside the bloc, including Ukraine and the EFTA states belonging to the European Economic Area (EEA), will also have access to the funds – and will be treated on the same terms as EU sovereigns. Not only will they be able to join common procurements, but it will also be possible to buy defence equipment from their industries. The eligible activities financed are divided into two categories of products: while the first category includes ammunition, artillery systems, ground combat capabilities, soldier equipment, cybersecurity and critical infrastructure protection, the second covers air and missile defence systems, maritime surface and underwater capabilities, and drones and anti-drone systems. Defence products belonging to category 2 will be subject to stricter eligibility conditions. For both categories of the products, procurement contracts will have to ensure that the cost of the components originating outside the EU, EEA-EFTA sovereigns and Ukraine is not higher than 35% of the estimated cost of the components of the end-product. SAFE is just one pillar of the EU's ReArm Europe/Readiness 2030 plan, which aims to mobilise defence spending totalling more than EUR 800bn overall. Other pillars include boosting national defence funding by activating the Stability and Growth Pact's escape clause as well as contributions from the European Investment Bank to complement public funding.

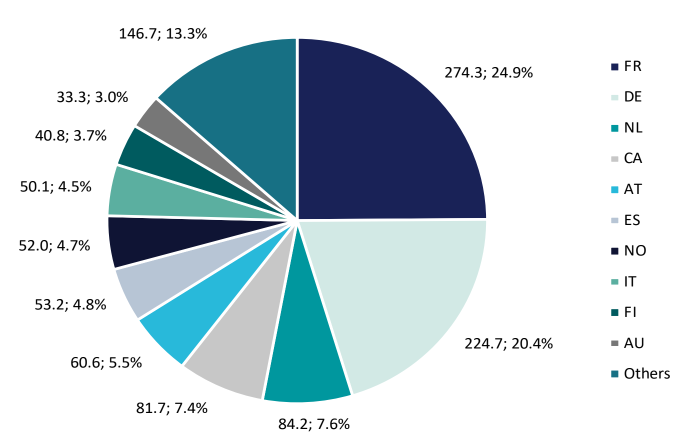
Conclusion and outlook

As a mega issuer, the EU is and remains the most important player in our SSA coverage. With its volume of over EUR 800bn, the NGEU programme alone can be described as simply historic. The EU combines the necessary (economic development) with the useful (climate protection and digital transformation). Achieving the goals of the Paris Climate Agreement is a challenge across all countries. The bloc's aim of steering investment into green and sustainable channels through NGEU is therefore all the more desirable. To date, EUR 75.1bn has already been raised through EU Green Bonds. However, it has been some time since the last new issue, which took place back in March 2024 (cf. weekly publication dated 20 March 2024). In the context of our SSA outlook 2025 we assumed a funding target of EUR 155-165bn on the part of the EU. As the European Commission recently announced, the funding target for the second half of 2025 is EUR 70bn. With EUR 90bn in the first half of the year, funding for the year as a whole is therefore likely to reach EUR 160bn, which more than confirms our forecast. For the future, the EU has some opportunities in relation to classification as an issuer in the Govies segment. However, in order to take full advantage of these prospects, market players themselves will have to make some changes. These include amending internal risk and benchmark guidelines in order to be able to treat EU bonds in the same way as government bonds. However, for a prudent and sustainable alignment, we also see the need for the bloc to maintain its established bond curve even after the expiry of the existing programmes, above all NGEU. The EU is represented by a whole host of other issuers in our Issuer Guide – European Supranationals, an update to which is in the pipeline for this year.

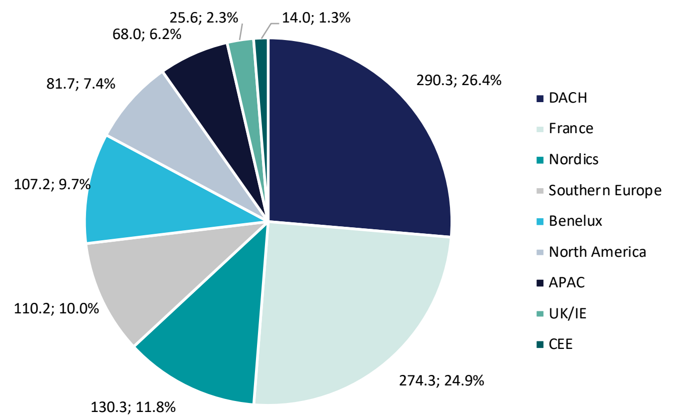
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



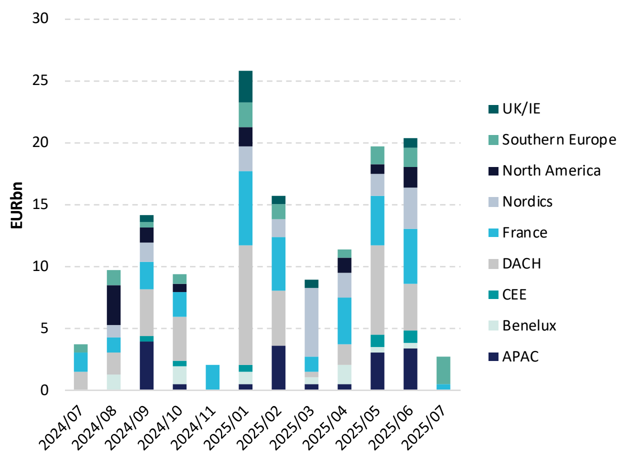
EUR benchmark volume by region (in EURbn)



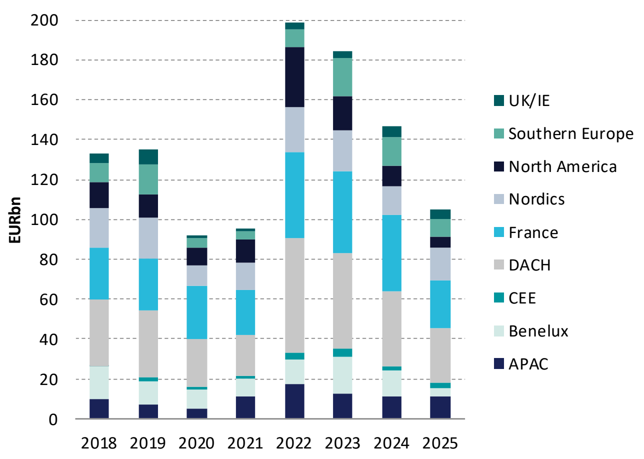
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	274.3	265	34	0.97	9.1	4.6	1.69
2	DE	224.7	314	49	0.66	7.7	3.7	1.70
3	NL	84.2	85	4	0.93	10.3	5.4	1.48
4	CA	81.7	60	1	1.34	5.5	2.4	1.61
5	AT	60.6	100	5	0.60	8.0	3.8	1.65
6	ES	53.2	46	5	1.05	10.1	3.5	2.24
7	NO	52.0	63	11	0.83	7.0	3.3	1.37
8	IT	50.1	65	6	0.75	8.2	3.8	2.12
9	FI	40.8	47	5	0.85	6.6	3.0	1.84
10	AU	33.3	33	0	1.01	7.2	3.5	1.92

EUR benchmark issue volume by month

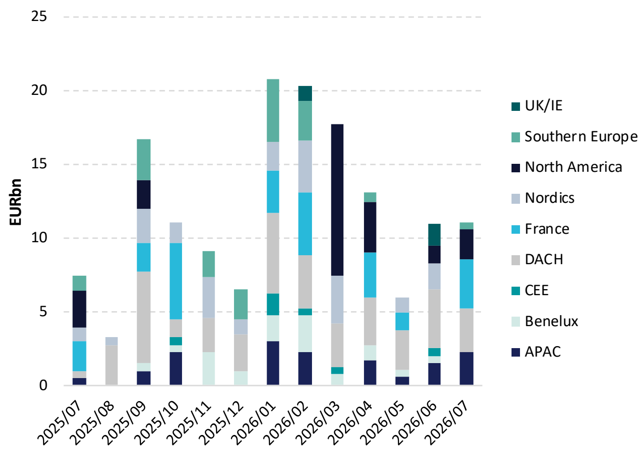


EUR benchmark issue volume by year

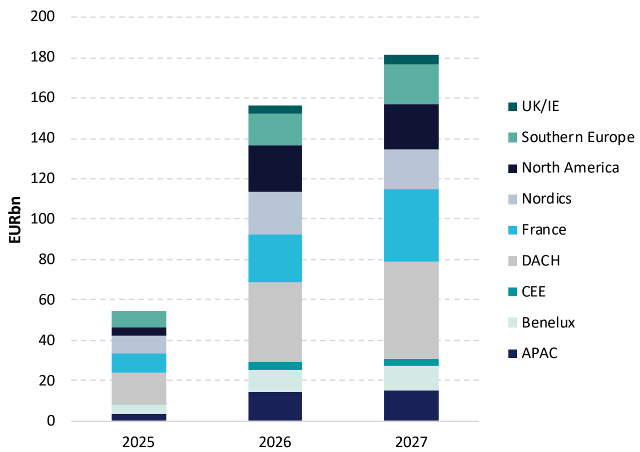


Source: Market data, Bloomberg, NORD/LB Floor Research

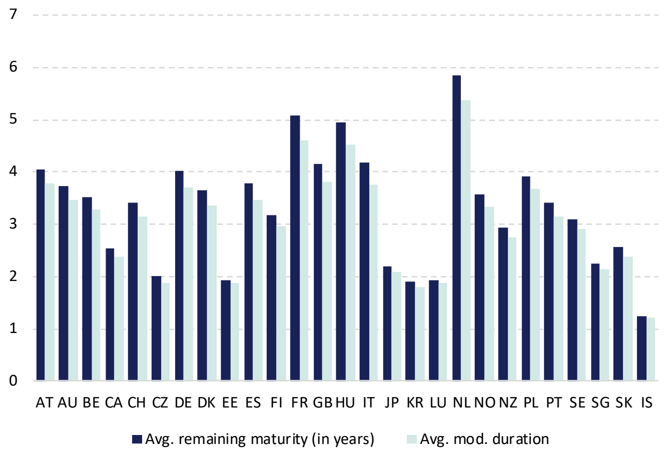
EUR benchmark maturities by month



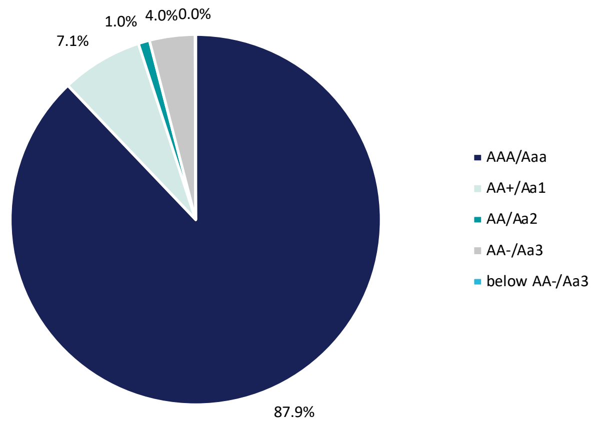
EUR benchmark maturities by year



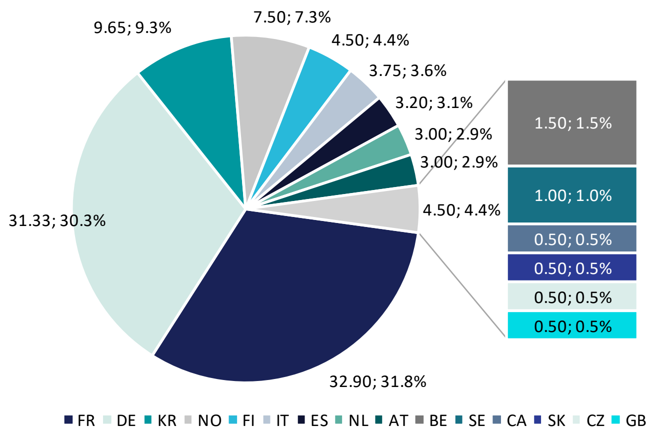
Modified duration and time to maturity by country



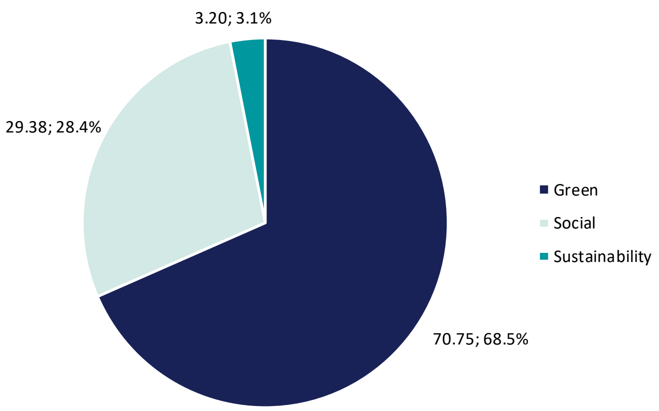
Rating distribution (volume weighted)



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

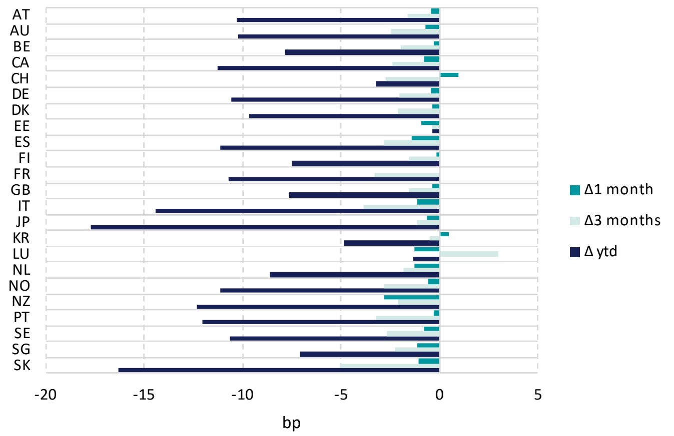


EUR benchmark volume (ESG) by type (in EURbn)

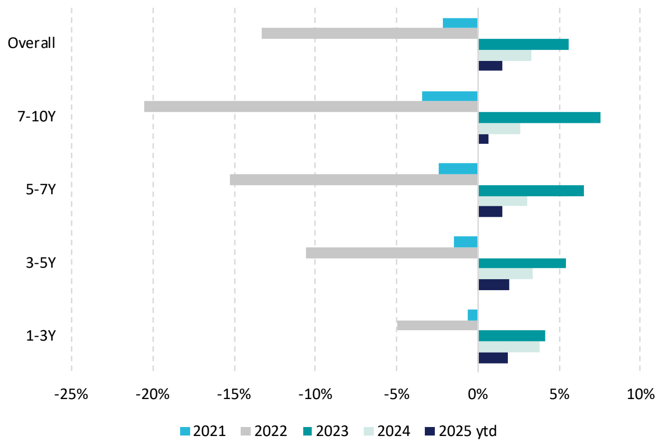


Source: Market data, Bloomberg, NORD/LB Floor Research

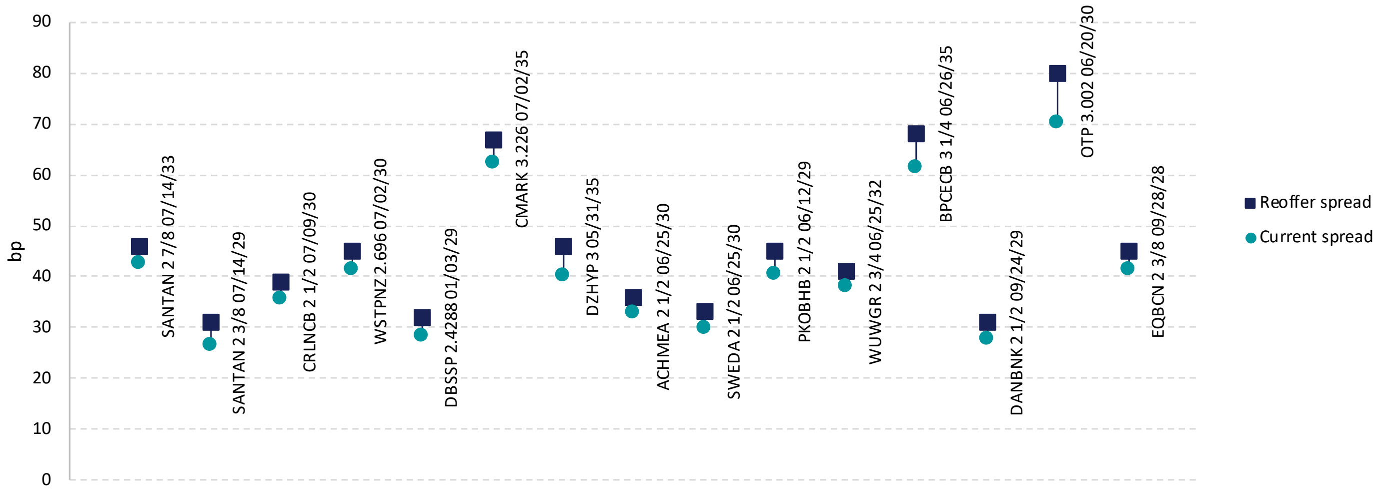
EUR benchmark emission pattern



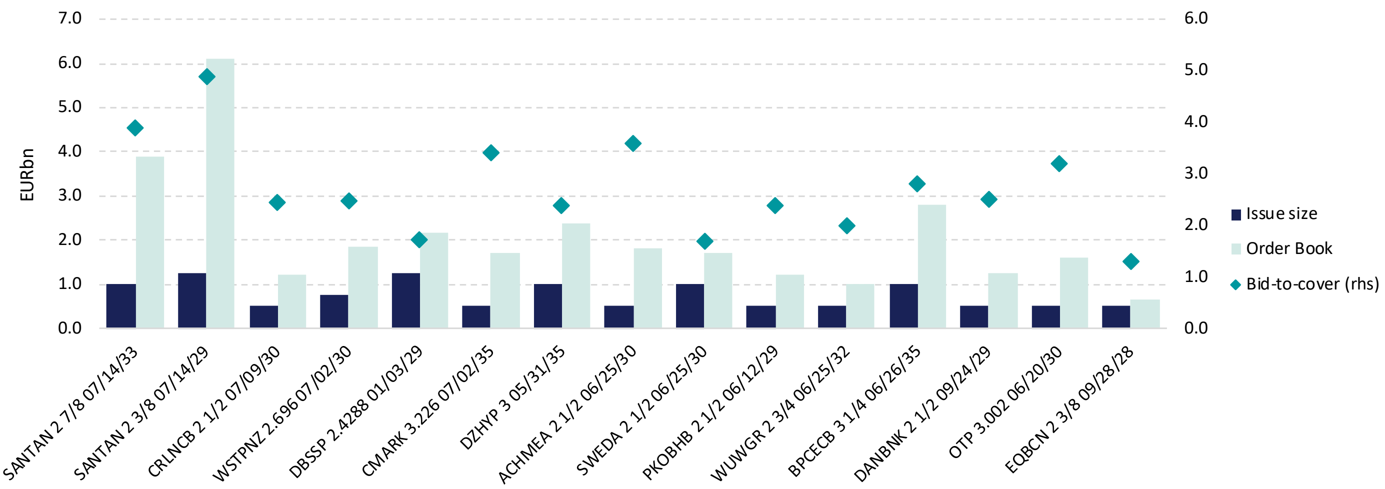
Covered bond performance (Total return)



Spread development (last 15 issues)



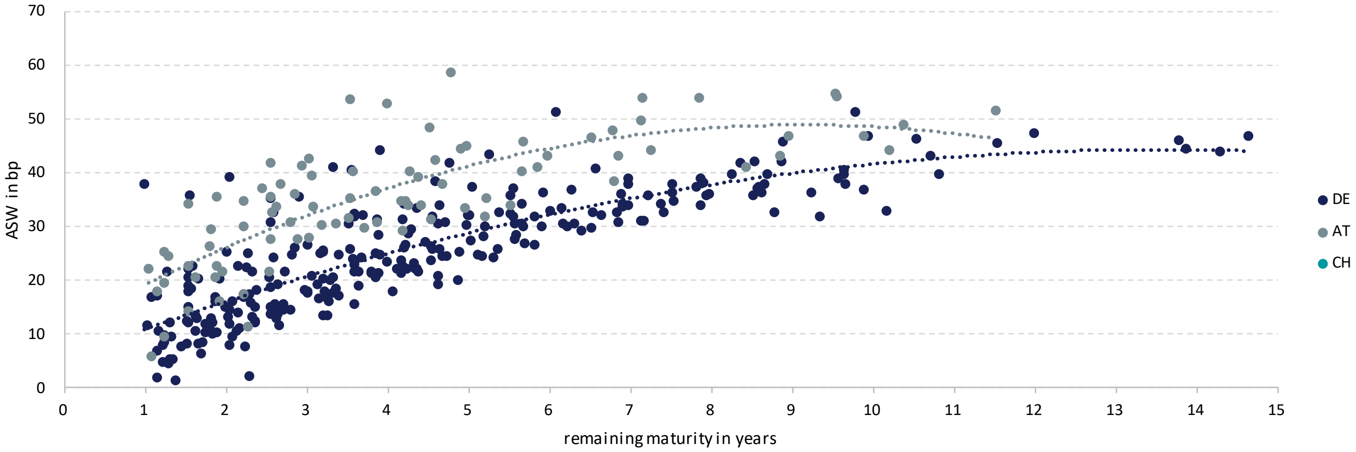
Order books (last 15 issues)



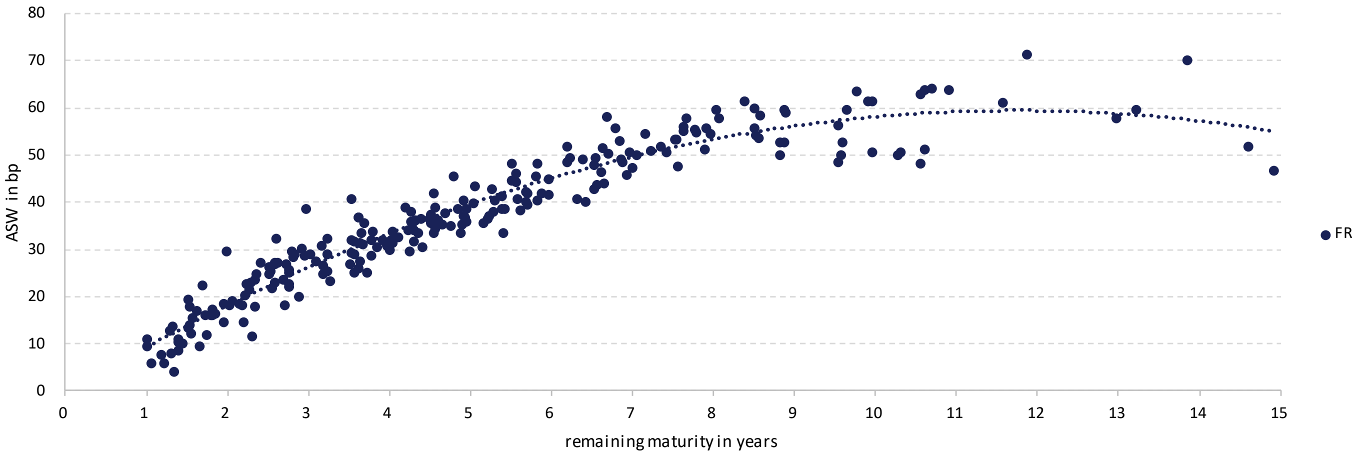
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

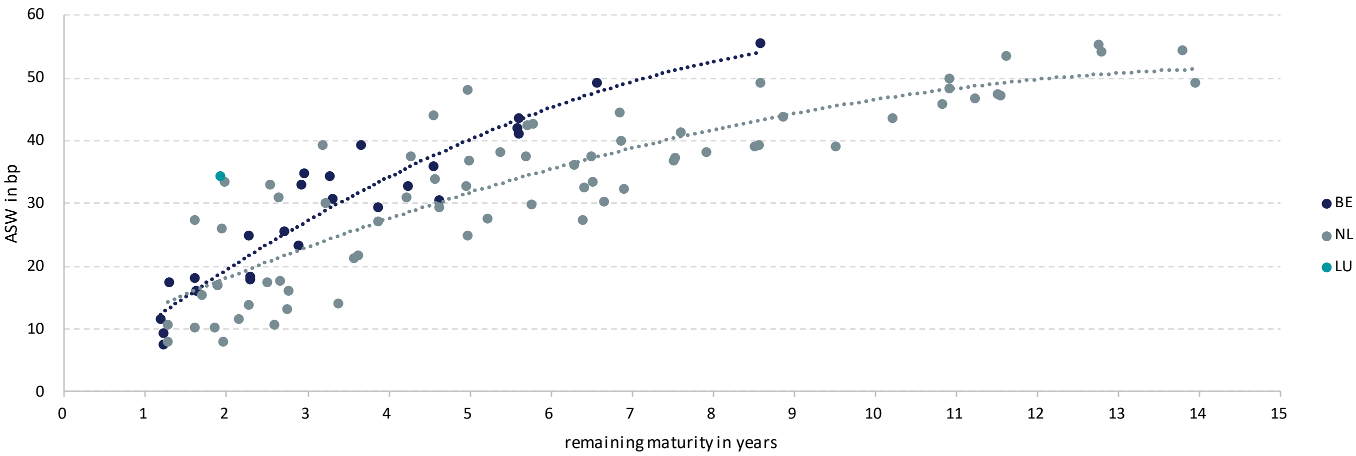
DACH



France

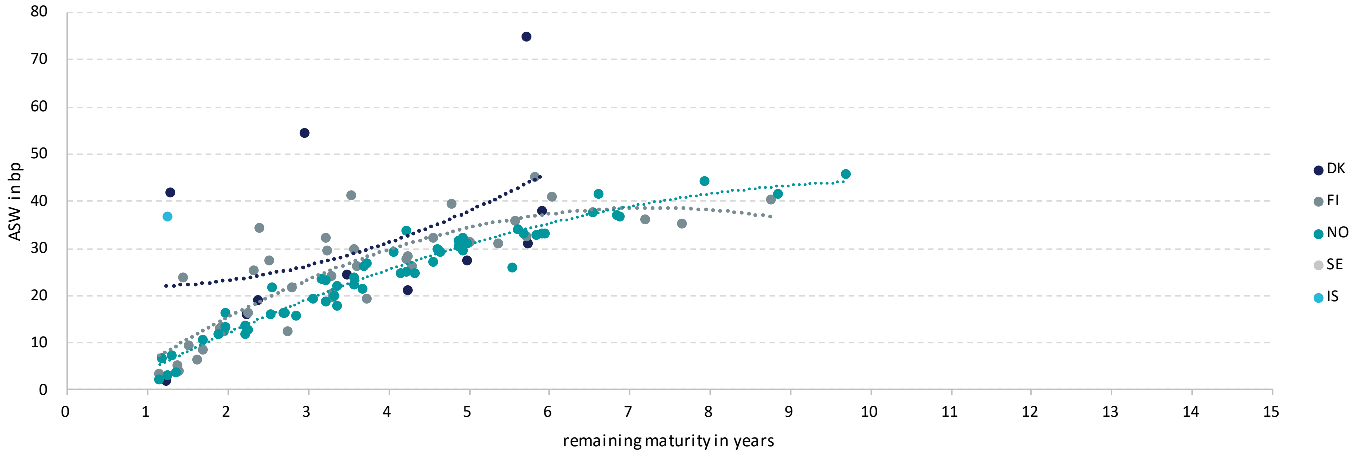


Benelux

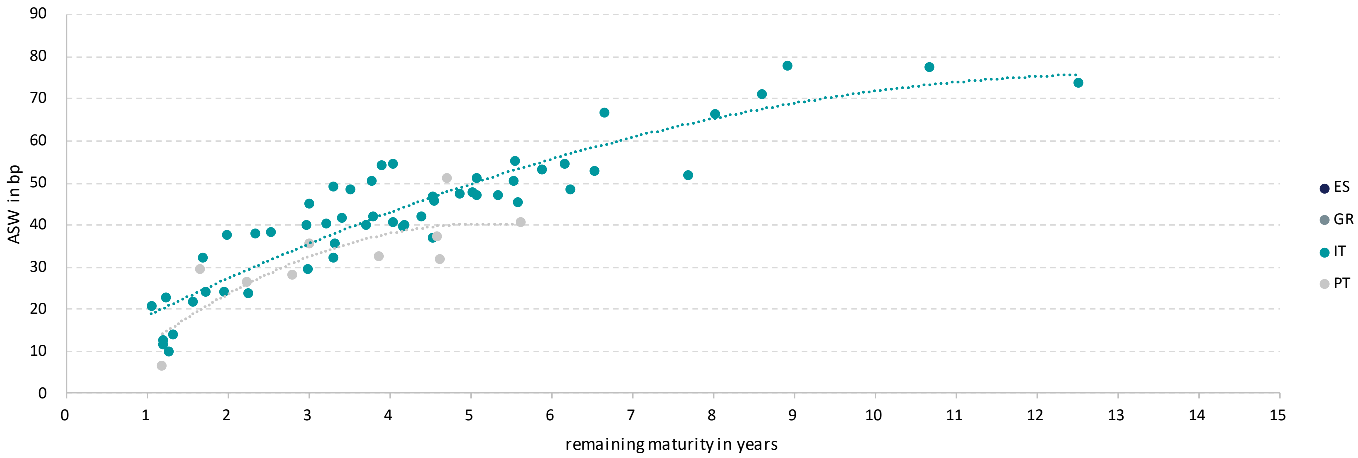


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

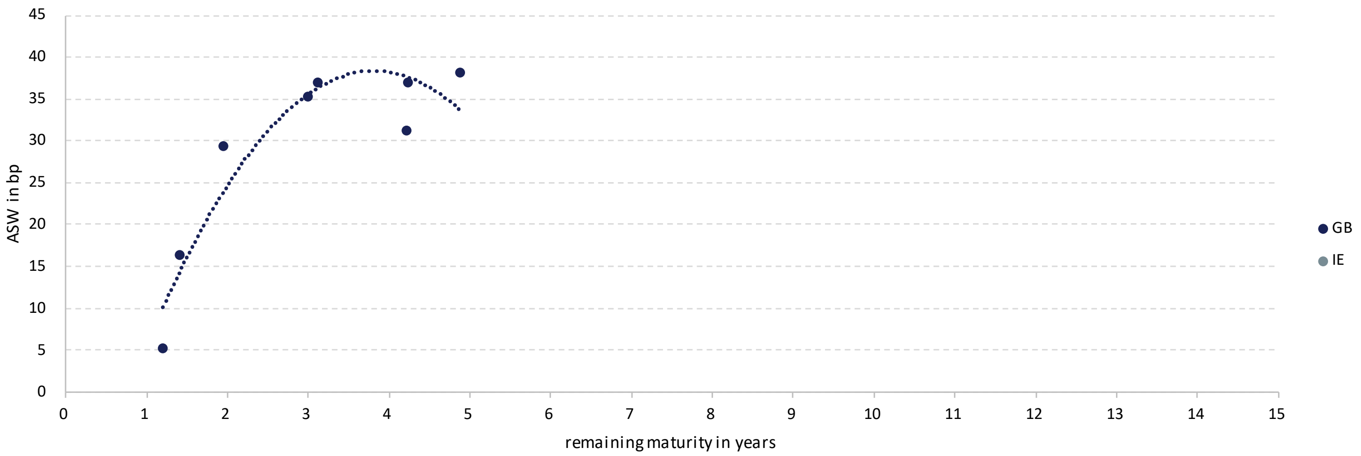
Nordics



Southern Europe

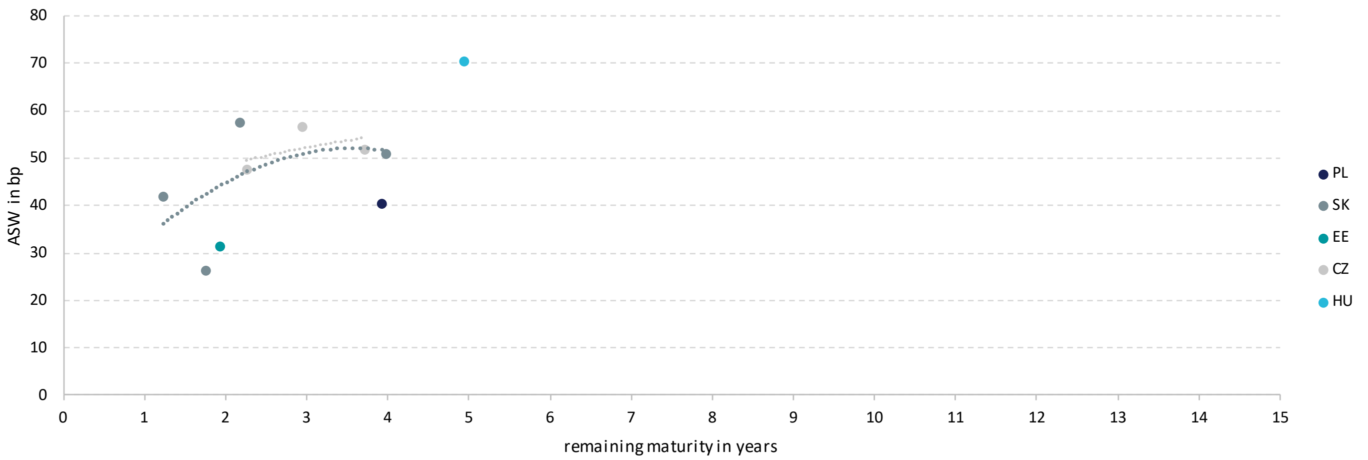


UK/IE

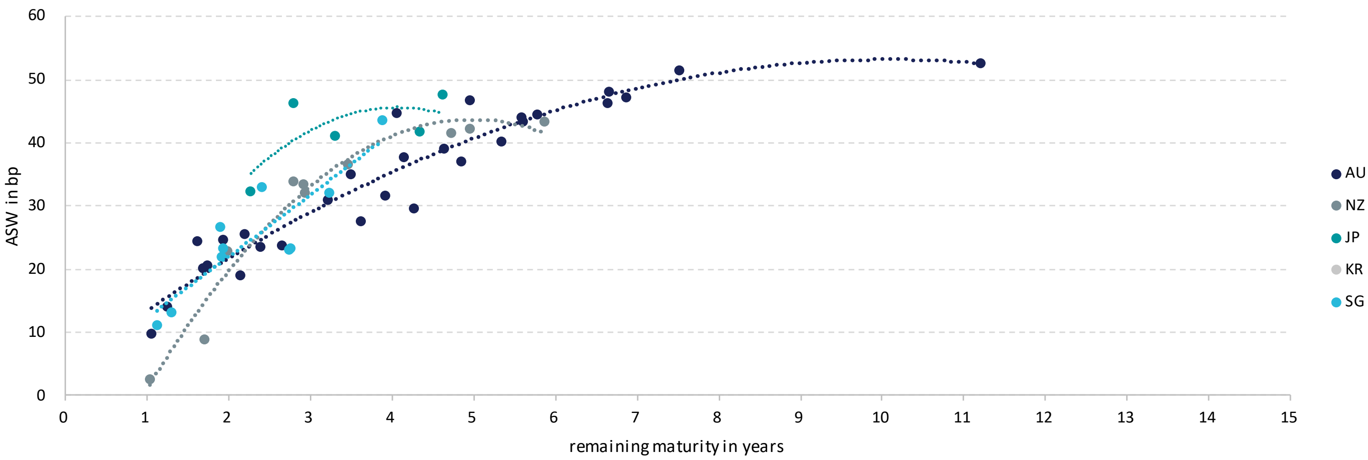


Source: Market data, Bloomberg, NORD/LB Floor Research

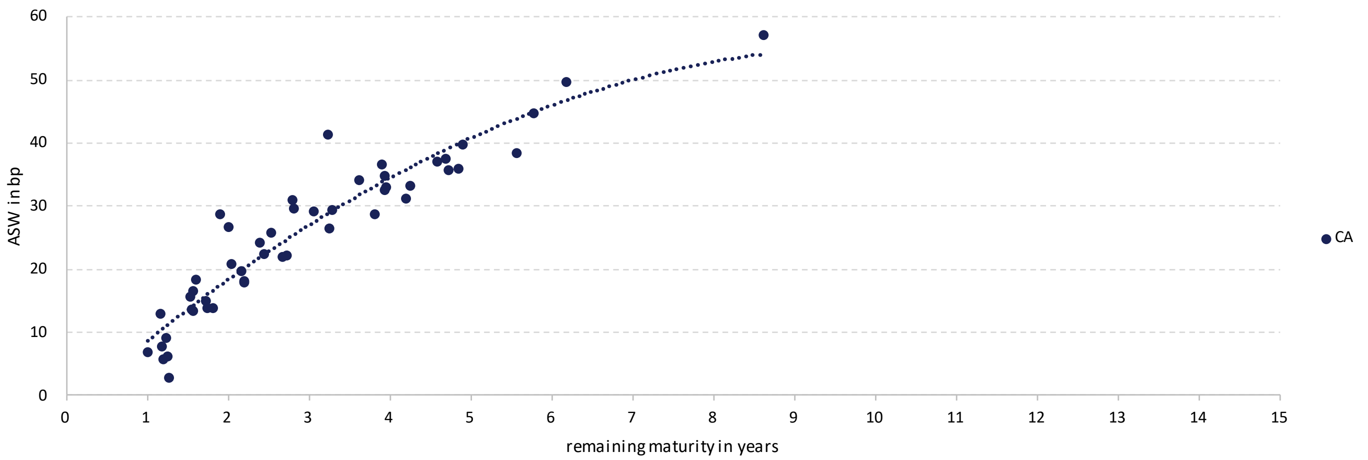
CEE



APAC



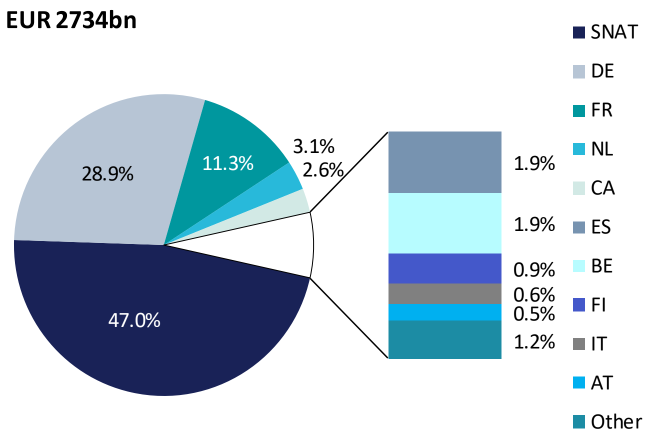
North America



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

Charts & Figures
SSA/Public Issuers

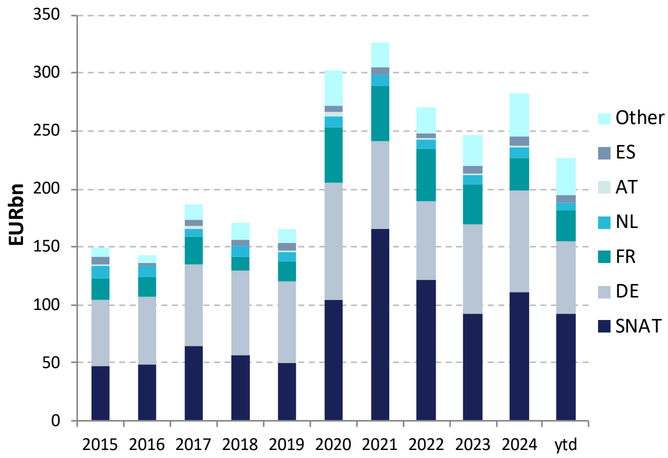
Outstanding volume (bmk)



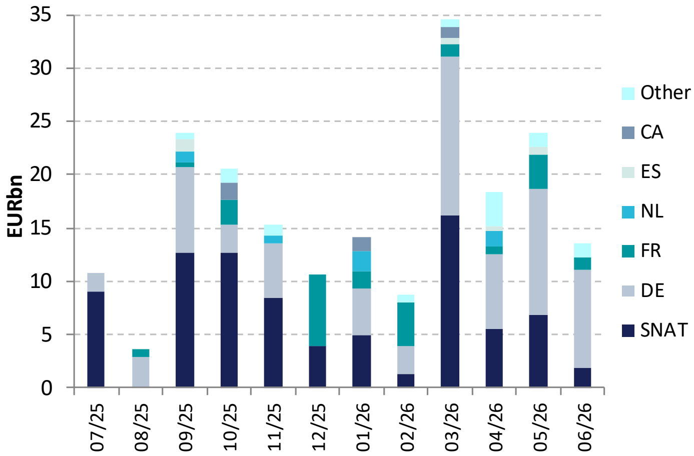
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,286.0	262	4.9	7.6
DE	790.4	598	1.3	6.0
FR	310.0	207	1.5	5.5
NL	85.8	68	1.3	6.2
CA	70.7	63	1.1	6.1
ES	52.1	75	0.7	5.0
BE	51.2	49	1.0	10.0
FI	25.0	26	1.0	4.2
IT	16.6	21	0.8	4.3
AT	14.5	20	0.7	4.8

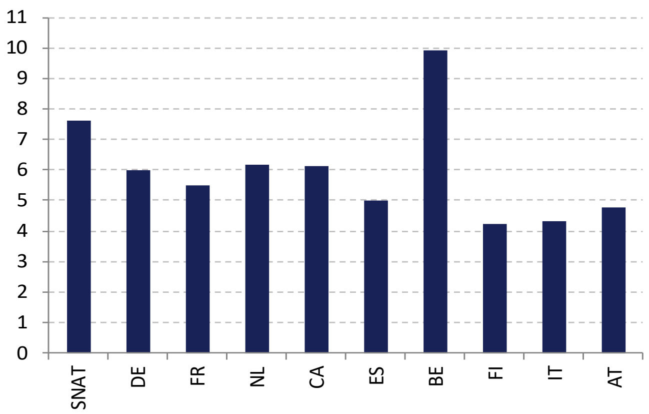
Issue volume by year (bmk)



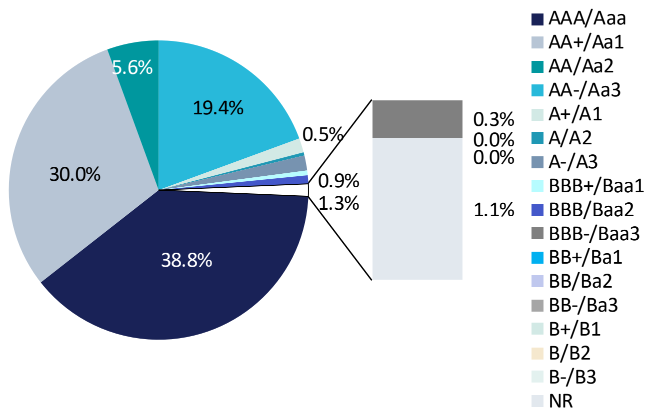
Maturities next 12 months (bmk)



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



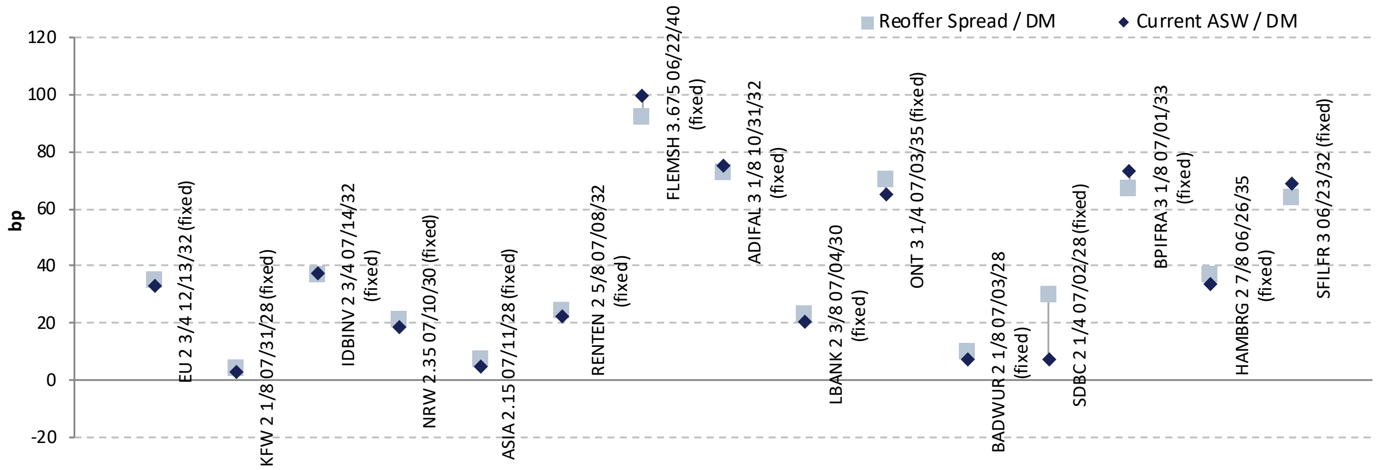
Rating distribution (vol. weighted)



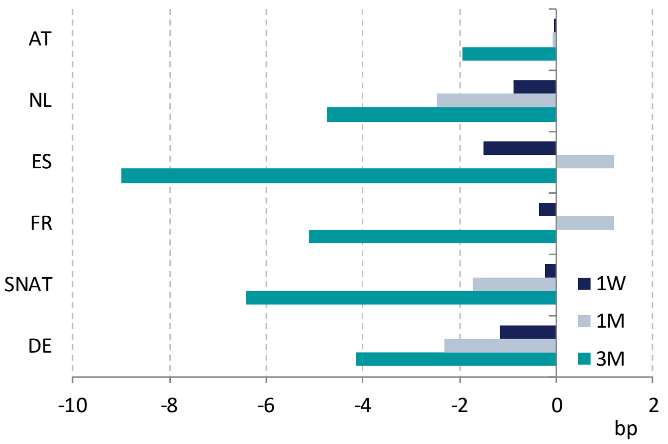
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

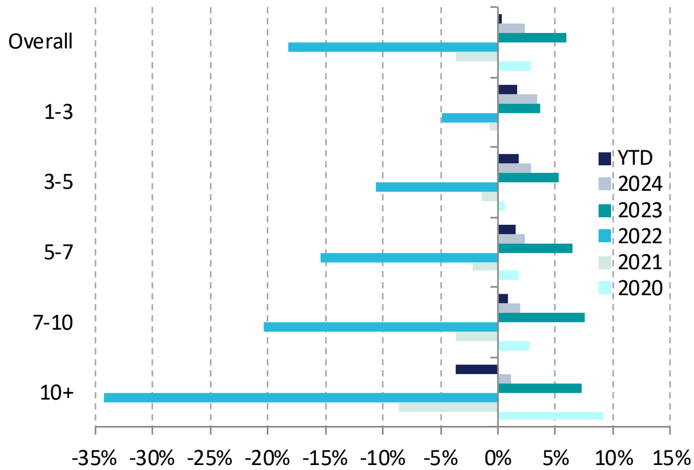
Spread development (last 15 issues)



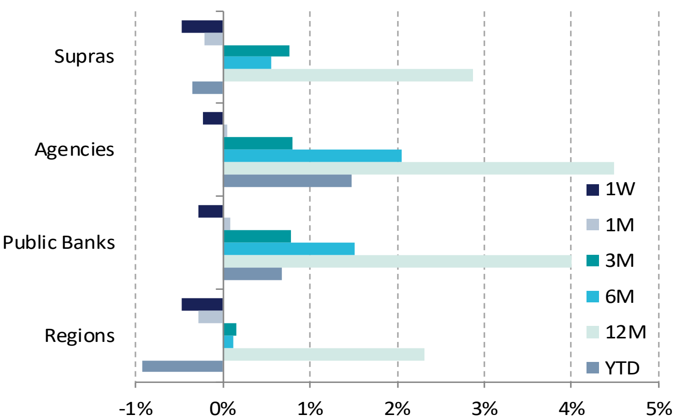
Spread development by country



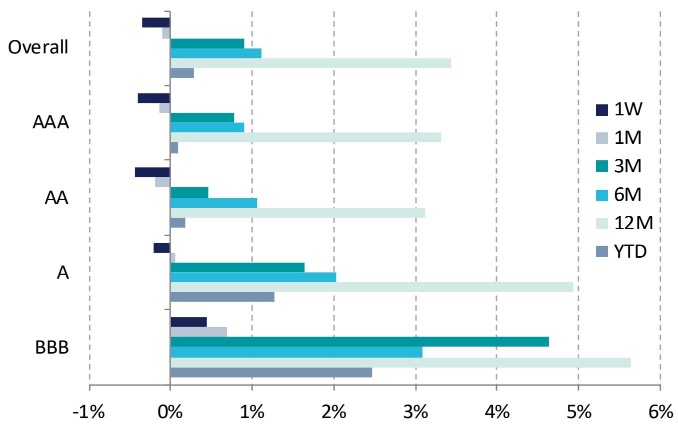
Performance (total return)



Performance (total return) by segments

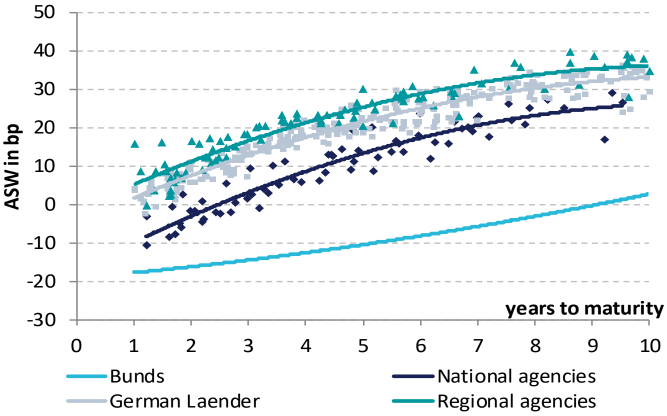


Performance (total return) by rating

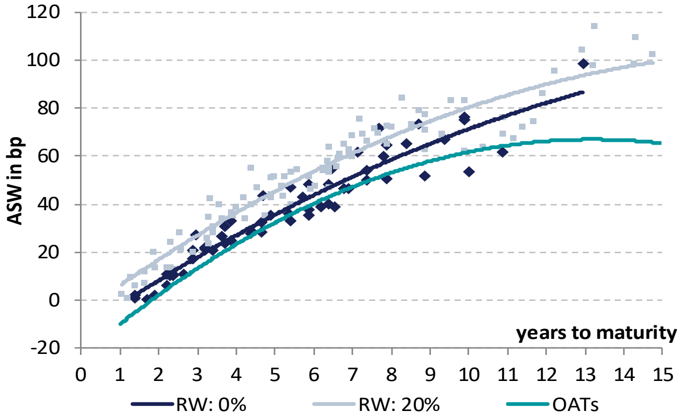


Source: Bloomberg, NORD/LB Floor Research

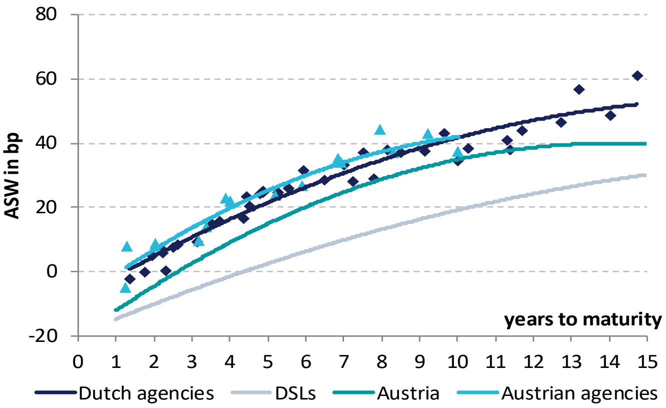
Germany (by segments)



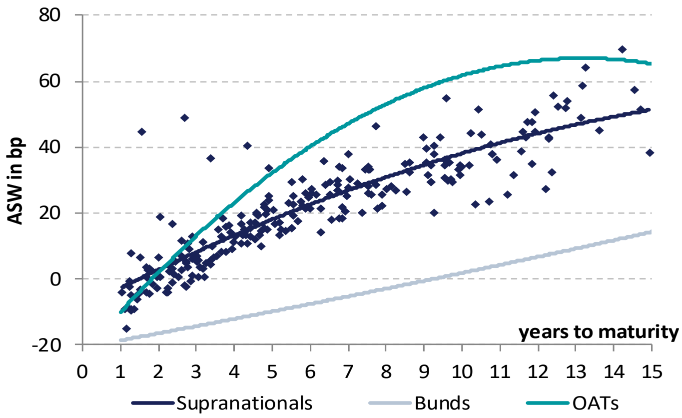
France (by risk weight)



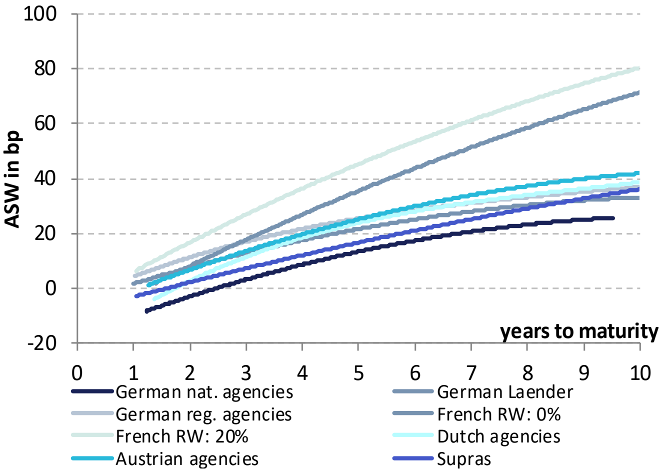
Netherlands & Austria



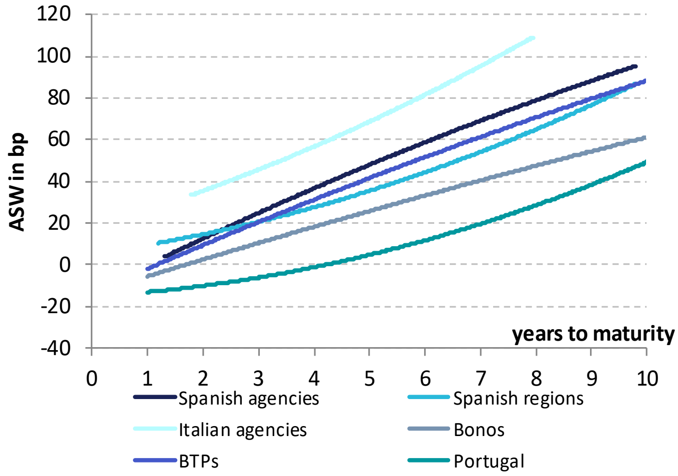
Supranationals



Core



Periphery

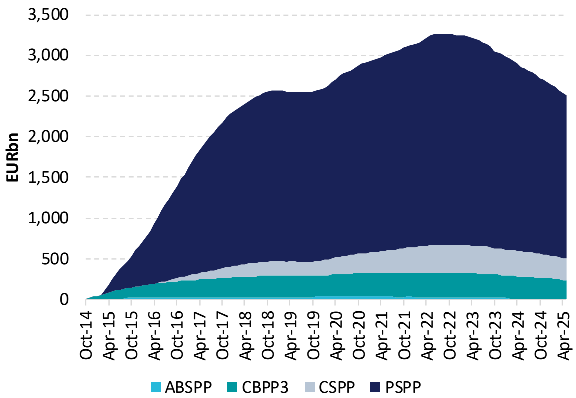


Source: Bloomberg, NORD/LB Floor Research

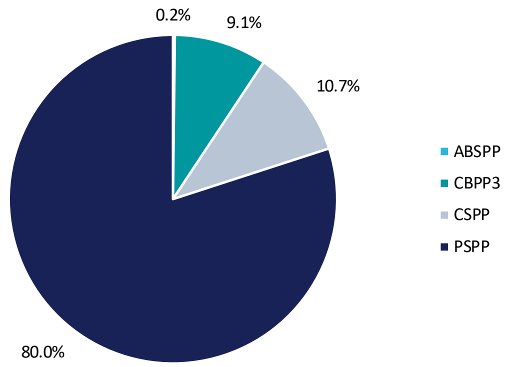
Charts & Figures
ECB tracker

Asset Purchase Programme (APP)

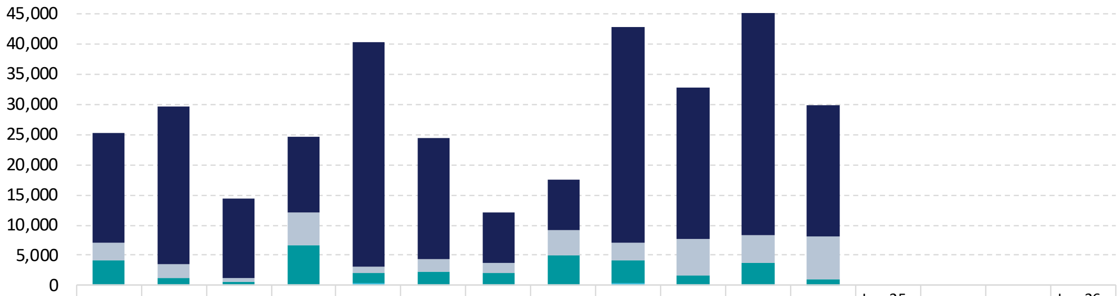
APP: Portfolio development



APP: Portfolio structure

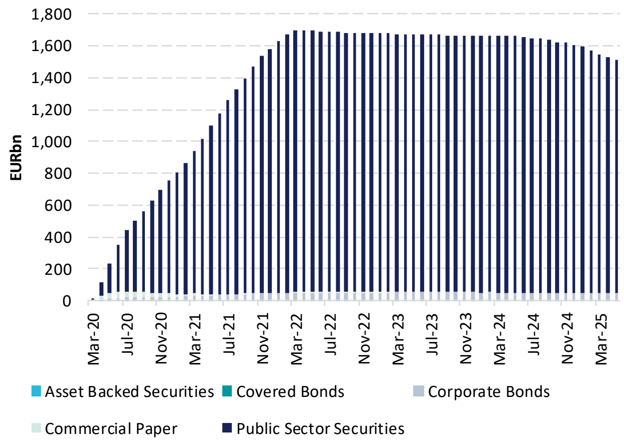


Expected monthly redemptions (in EURm)

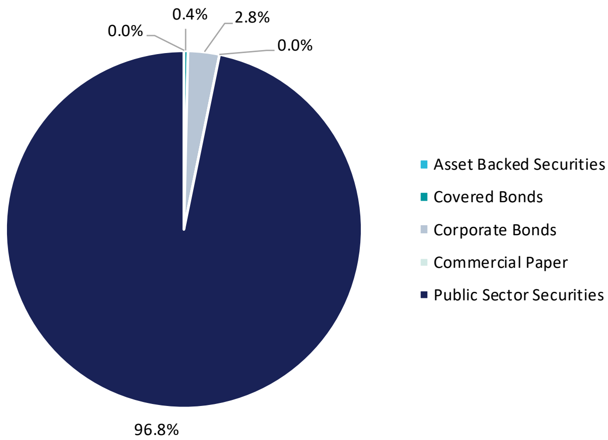


	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-25 - May-26	2024	2025	Jan-26 - May-26
APP	25,290	29,618	14,310	24,596	40,249	24,445	12,017	17,538	42,791	32,768	50,965	29,919	344,506	334,302	334,255	29,919
PSPP	18,261	26,161	13,114	12,568	37,073	20,060	8,274	8,318	35,650	25,077	42,520	21,748	268,824	264,480	253,586	21,748
CSPP	2,940	2,156	562	5,259	1,005	2,008	1,693	4,212	2,926	5,946	4,673	7,111	40,491	31,380	34,499	7,111
CBPP3	3,864	1,135	468	6,492	1,864	2,106	1,903	4,740	3,911	1,575	3,685	1,003	32,746	32,173	42,332	1,003
ABSPP	225	166	166	277	307	271	147	268	304	170	87	57	2,445	6,269	3,838	57

PEPP: Portfolio development



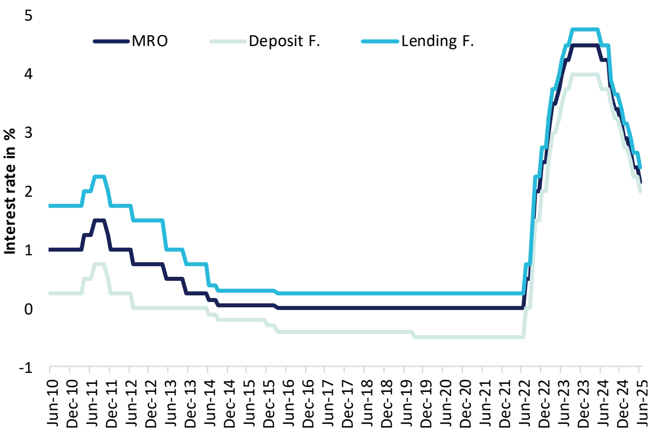
PEPP: Portfolio structure



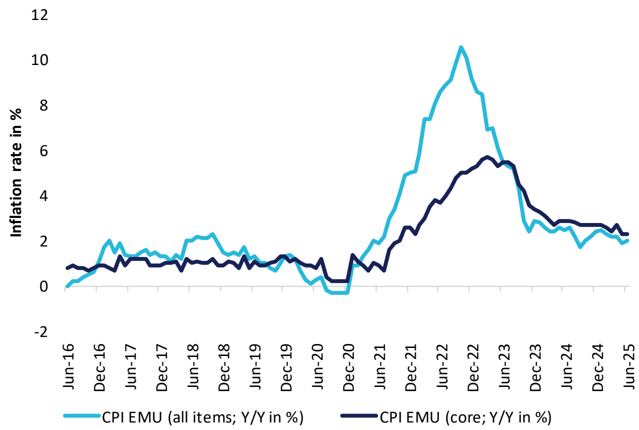
Source: ECB, NORD/LB Floor Research

Charts & Figures
Cross Asset

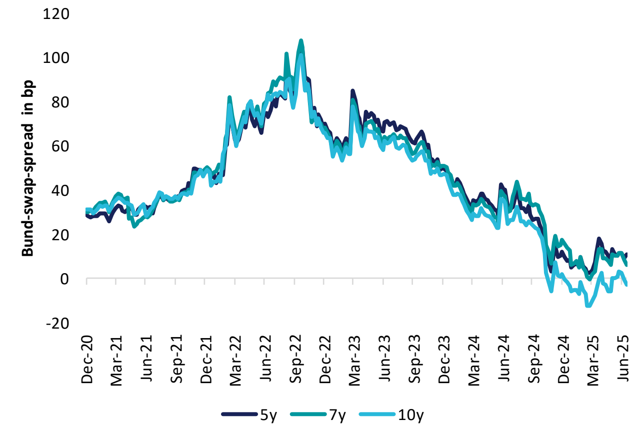
ECB key interest rates



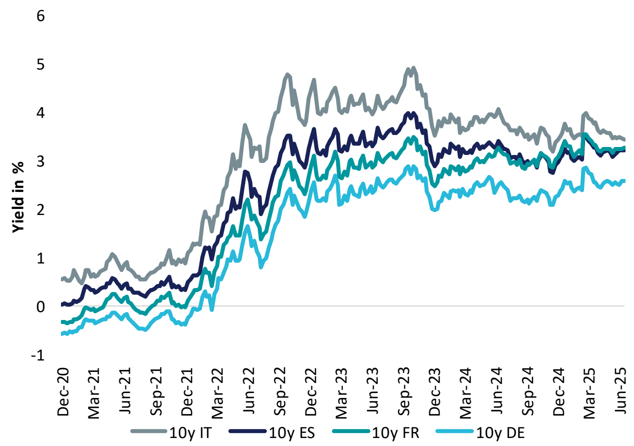
Inflation development in the euro area



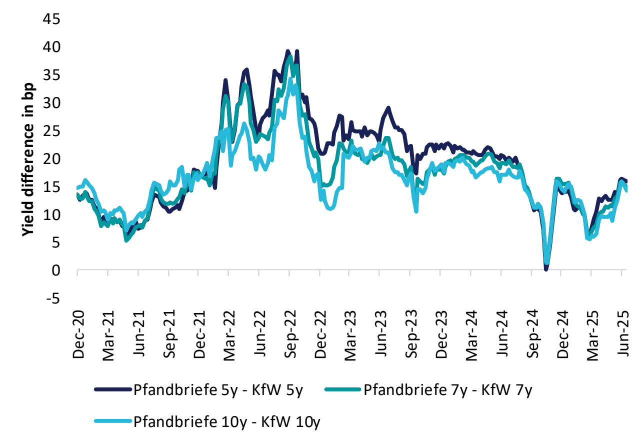
Bund-swap-spread



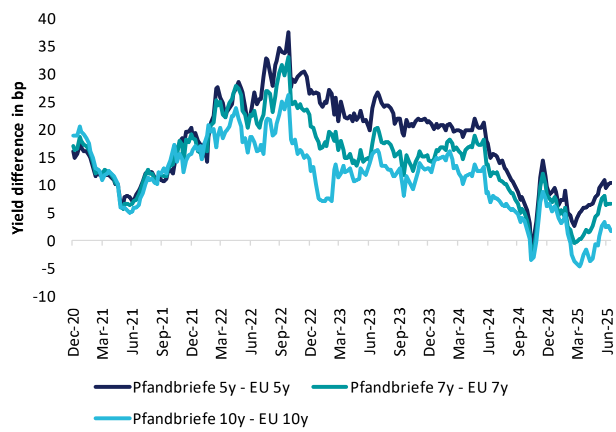
Selected yield developments (sovereigns)



Pfandbriefe vs. KfW



Pfandbriefe vs. EU



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
24/2025 ♦ 02 July	▪ Covereds: Half-year review and outlook for second half of 2025 ▪ SSA half-year review 2025 and outlook
23/2025 ♦ 25 June	▪ The ratings approach of Scope ▪ Classification of Supranationals and Agencies under Solvency II
22/2025 ♦ 18 June	▪ The UK covered bond market ▪ Stability Council convenes for 31st meeting
21/2025 ♦ 11 June	▪ Moody’s: rating approach Covered Bonds ▪ Teaser: Issuer Guide – Austrian Agencies 2025
20/2025 ♦ 28 May	▪ Cross Asset // Teaser: ESG update 2025 – Focus on greenium and socium+
19/2025 ♦ 21 May	▪ Development of the German property market (vdp index) ▪ Teaser: Issuer Guide – Nordic Agencies 2025
18/2025 ♦ 14 May	▪ Transparency requirements §28 PfandBG Q1/2025 ▪ Current LCR classification for our SSA coverage
17/2025 ♦ 07 May	▪ Fitch: rating approach covered bonds ▪ Credit authorisations of the German Laender for 2025
16/2025 ♦ 30 April	▪ Special report on LCR classification and risk weights: a (regulatory) look at the EUR benchmark segment ▪ Teaser: Issuer Guide – Dutch Agencies 2025
15/2025 ♦ 16 April	▪ Cross Asset: Relative value – What is the state of play?
14/2025 ♦ 09 April	▪ The covered bond universe of Moody’s: an overview ▪ SSA review: EUR-ESG benchmarks in Q1/2025
13/2025 ♦ 02 April	▪ Review of the first quarter in the covered bond segment ▪ A review of Q1/2025 in the SSA segment
12/2025 ♦ 26 March	▪ A look at the Danish covered bond market ▪ Teaser: Issuer Guide – Non-European Supras (MDBs) 2025
11/2025 ♦ 19 March	▪ Eligibility of covered bonds for repo transactions ▪ Current risk weight of supranationals & agencies
10/2025 ♦ 12 March	▪ Covereds vs. sovereign bonds: A question of attractiveness ▪ NGEU: Green Bond Dashboard
09/2025 ♦ 05 March	▪ Transparency requirements §28 PfandBG ▪ Teaser: Issuer Guide – Non-European Agencies 2025
08/2025 ♦ 26 February	▪ Overseas Covered Bonds – A Brave New Spread World? ▪ Update: Joint Laender – Laender jumbos
07/2025 ♦ 19 February	▪ An overview of the EUR sub-benchmark segment ▪ Export Development Canada – spotlight on EDC
06/2025 ♦ 12 February	▪ Development of the German property market (vdp index) ▪ Occitania – spotlight on OCCTNE

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Floor Research	Covered Bond Research	SSA/Public Issuers Research	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 Q1/2025 (quarterly update)
- Transparency requirements §28 PfandBG Q1/2025 Sparkassen (quarterly update)
- Covered bonds as eligible collateral for central banks

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) 2025
- Issuer Guide – German Agencies 2024
- Issuer Guide – French Agencies 2024
- Issuer Guide – Nordic Agencies 2025
- Issuer Guide – Dutch Agencies 2025
- Issuer Guide – Austrian Agencies 2025
- Beyond Bundeslaender: Belgium
- Beyond Bundeslaender: Greater Paris (IDF/VDP)
- Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

- ESG-Update 2025
- ECB Council meeting: Last round in the interest rate cut carousel?

NORD/LB:	**NORD/LB:**	**NORD/LB:**	**Bloomberg:**
Floor Research	Covered Bond Research	SSA/Public Issuers Research	RESP NRDR <GO>

Appendix
Contacts at NORD/LB

Floor Research

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

Lukas-Finn Frese
SSA/Public Issuers

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

Tobias Cordes, CIIA
SSA/Public Issuers

+49 162 760 6673
tobias.cordes@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

Liquidity Management/Repos	+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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