Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview Covered Bonds

Authors: Melanie Kiene // Stefan Rahaus

Primary market: at EUR 36.95bn, new issue volume for January 2023 exceeds previous year

Primary market activities also continued in recent days. In total, a volume of EUR 10.00bn spread across 11 deals was placed with investors since the previous edition of our weekly publication was published last Wednesday. Only one of these was issued in the form of a public sector covered bond (CAFFIL; 7.0y; bid-to-cover ratio: 1.4x), with all other new deals being mortgage covered bonds. Three bonds were placed in ESG format, namely by Caja Rural de Navarra (CRUNAV; 4.3y; bid-to-cover: 2.8x; green), Deutsche Kreditbank (DKB, 12.0y; bid-to-cover: 2.4x; social) and La Banque Postale Home Loan SFH (LBPSFH; 8.0y; bid-to-cover: 1.3x; social). In this context, it should also be noted that the LBPSFH deal marked this issuer's "social debut". Despite the fact that we have already seen a few covered bonds with a term of ten years so far in 2023, DKB caused a bit of a stir with its 12y bond. With a new issue premium of 7bp, the DKB deal was ranked in mid-table in this regard. For the bonds under consideration here, new issue premiums came in between three (NAB; 3.0y; bid-to-cover: 1.5x) and eleven basis points (CRUNAV). In geographical terms, only Germany was represented three times in the shape of Münchener Hypothekenbank (MUNHYP; 2.7y; bid-to-cover: 3.5x), Commerzbank (CMZB; 3.25y; bid-to-cover: 2.3x) and DKB, with Munich-based issuer's bid-to-cover ratio of 3.5x the highest recorded since the beginning of January. Slovenská Sporiteľňa (SLOSPO; 2.9y; bid-to-cover: 1.2x) placed the fourth bond in its EUR benchmark career on Monday, which also marked the first deal from Slovakia so far this year. We also saw the first covered bond in 2023 from Finland, which was placed with investors by OP Mortgage Bank (OPBANK; 7.0y; bid-to-cover: 1.3x) last Wednesday. In addition to Commerzbank, RLB Oberösterreich (RFLBOB; 3.0y; bid-to-cover: 1.7x) and BNP Paribas Home Loan SFH (BNPPCB; 7.0y; bid-to-cover: 2.8x) were also on the hunt for investors yesterday. With the exception of DKB – which, in addition to tapping the long end, was also active in the ESG segment – investor interest continues to be more focused on the shorter end. This is reflected in what are mostly higher oversubscription rates and slightly lower new issue premiums.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BNP Paribas	FR	24.01.	FR001400FIG8	7.0y	1.00bn	ms +22bp	AAA / - / AAA	-
RLB Oberösterreich	AT	24.01.	AT0000A326M6	3.0y	0.75bn	ms +18bp	- / Aaa / -	-
Commerzbank	DE	24.01.	DE000CZ43ZS7	3.3y	1.00bn	ms -3bp	- / Aaa / -	-
Slovenská sporiteľňa	SK	23.01.	SK4000022398	2.9y	0.50bn	ms +33bp	- / Aaa / -	-
National Australia Bank	AU	23.01.	XS2581397986	3.0y	1.50bn	ms +25bp	AAA / Aaa / -	-
La Banque Postale	FR	23.01.	FR001400FD12	8.0y	1.25bn	ms +27bp	- / - / AAA	X
Deutsche Kreditbank	DE	23.01.	DE000SCB0047	12.0y	0.50bn	ms +22bp	- / Aaa / -	X
CAFFIL	FR	20.01.	FR001400FFW1	7.0y	1.00bn	ms +24bp	- / Aaa / AA+	-
Caja Rural de Navarra	ES	18.01.	ES0415306	4.3y	0.50bn	ms +36bp	- / Aa1 / -	X
Münchener Hypo	DE	18.01.	DE000MHB33J5	2.7y	1.00bn	ms -9bp	- / Aaa / -	-
OP Mortgage Bank	FI	18.01.	XS2580224082	7.2y	1.00bn	ms +20bp	- / Aa1 / -	-

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

Secondary market: hardly impacted by high volume of new issues

The primary market remains receptive to new issues and for the first time this year the maturity segment of longer than ten years (DKB: 12y) has now been tapped. With a new issuance volume of EUR 36.95bn overall in January this year, the value of EUR 27.75bn (spread across 29 deals) recorded in the same month of the prior year has now been exceeded. Secondary market spreads remain largely unchanged week on week, or have only widened by around 1bp. As already explained in the primary market section, the short end remains the preference of investors, a situation which is also true of the secondary market, although longer maturities are being selectively sought as well. Turnover on the secondary market is comparatively low. Due to the high level of fresh supply, most activity is concentrated on these “new” bonds, which in turn leads to increased secondary market demand for such deals. This is not least due to the fact that primary market supply features correspondingly higher coupons. In particular, “older” bonds have underperformed in recent weeks. The trend towards a distinction again being made in the spread according to jurisdiction and issuer is also continuing, with risks being more strongly differentiated and priced in as well.

vdp discusses ECON vote on banking package: criticism directed towards mortgage financing

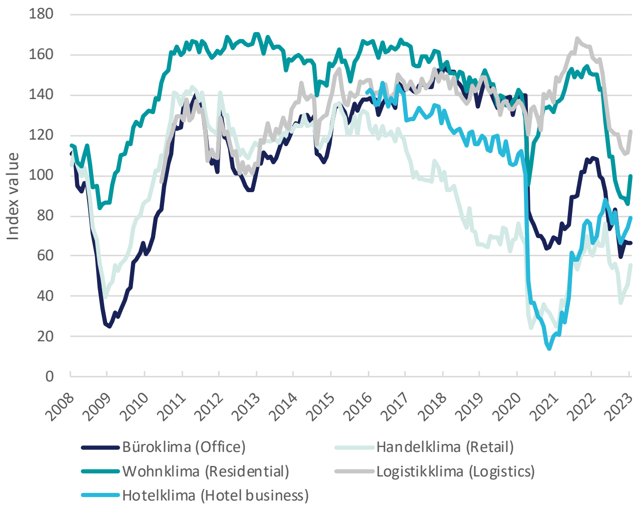
Yesterday, the Association of German Pfandbrief Banks (vdp) issued a statement on the vote of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament. Although the vdp sees some relief for the banking industry, this mainly relates to the transitional regulations. Jens Tolckmitt, Chief Executive of the vdp, is quoted in the press release: “On the other hand, we are troubled by the fact that it was only possible to agree on transitional arrangements in these areas and that the privileged treatment does not appear to cover low-risk first-ranking commercial real estate financing as well. This does not do justice to the safety of this asset class. Overall, real estate financing risks being inappropriately treated.” The ECON vote essentially concerns the draft law that the European Commission presented in autumn 2021. The potential relief measures are transitional periods (under certain conditions) on the output floor for financing of companies that are not rated by an external agency, in addition to mortgage loans for residential properties. The focus here is on the reduction of the risk weighting from 20% to 10%, whereby the capital relief is only set to apply until 2032. According to ECON's proposal, this time frame could be extended by a further four years, but not permanently. Furthermore, criticism is directed at the fact that energy-efficient property refurbishments (so-called ADC financing - acquisition, development and construction) are to be assigned a risk weight of 150% in the Basel III framework in the case of commercial real estate. This is a clear contradiction of the stated aims of the “green transformation”. For example, the risk weight of 150% is also used for defaulted loans. Conversely, such a risk weight would make financing for energy-related refurbishments significantly more expensive. The banking package will also be a key topic at our NORD/LB Regulatory Update Conference on 16 February 2023 in Hanover. Among other aspects, vdp Chief Executive Jens Tolckmitt will be in attendance to shed further light on this topic. If you are interested in taking part in the conference, please contact your customer advisor or register at markets@nordlb.de.

Deutsche Hypo real estate climate January 2023: positive trend continues

The mood of approximately 1,200 real estate experts surveyed for the real estate climate also improved in the first month of 2023, after a counter-movement had already occurred across the two previous months as part of the downturn recorded since November 2021. The overall index of the Deutsche Hypo real estate climate rose from 69.8 points in the previous month by 8.4% to its current level of 75.7 points. The positive trend since the low of 64.8 points in October 2022 has therefore continued. In November 2021, however, this value was still as high as 108.3 points. The current movement was reflected in both the investment climate (+10.9% to 55.7 points) and the earnings climate (+7% to 97.4 points). In the case of the sub-indices, the retail climate (+20.6% to 55.2 points) and the residential climate, which improved for the first time since April 2022 with an increase of 15.9% to 99.9 points, both stood out. Frank Schrader, Head of Deutsche Hypo – NORD/LB Real Estate Finance, takes a cautiously optimistic view of the real estate market in 2023: “The risk of a gas shortage seems to have subsided for the time being, while the labour market remains robust and the latest economic data suggests that a recession will not occur this winter.” At present, we share this perspective on the situation. In particular, despite better-than-expected economic data, rising interest rates seem to have been stopped in their tracks for the time being due to declining inflation figures. The yield on 10Y German sovereign bonds has fallen from over 2.50% to less than 2.10% and should ensure that the interest rates for residential and commercial real estate financing are relaxed to some extent. Regarding the value of assets in covered bond cover pools, the development of the German Hypo real estate climate confirms our view that there is currently no risk of downgrades by rating agencies for Pfandbriefe based on a sustained deterioration in the quality of the cover assets.

Deutsche Hypo real estate climate

Deutsche Hypo real estate climate by segment

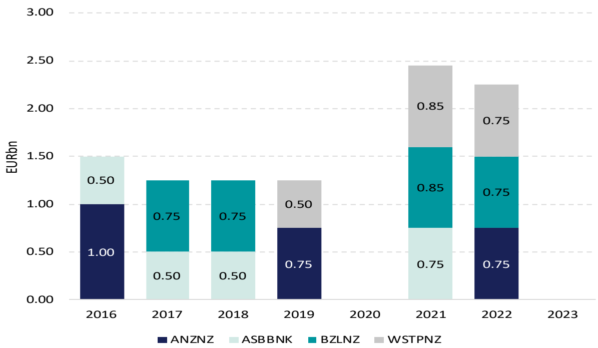


Source: Deutsche Hypo, bulwiengesa, NORD/LB Markets Strategy & Floor Research

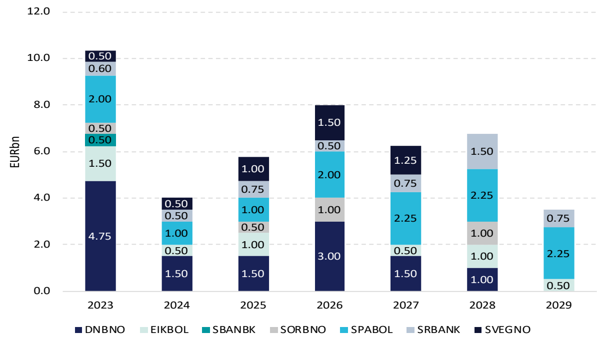
Fitch: Increased interest rates have no impact on the ratings for banks in New Zealand

Despite the increase in New Zealand's key interest rate from 0.25% in October 2021 to the current level of 4.25%, the AAA ratings awarded by the rating agency Fitch for mortgage covered bonds from major banks in New Zealand have remained stable. Due to the high proportion of fixed mortgage interest rates, Fitch analysts take the view that the credit quality of the cover pool will only deteriorate due to higher interest rates for borrowers with a certain degree of time lag. Additionally, declining buyer sentiment has caused house prices in New Zealand to fall. Nevertheless, the cover pools are well-placed to absorb the impact as mortgage loans have built up significant equity through repayments or low LTVs. After adjusting its covered bond rating criteria at the end of last year, the rating agency Fitch increased the "AAA breakeven asset percentage" for all New Zealand programmes. This change improves the ALM loss component and reinforces the AAA rating. In the period between 2016 and 2022, the issuance activity on the part of New Zealand banks averaged EUR 1.85bn, with 2021 and 2022 resulting in significantly higher volumes of EUR 2.45bn and 2.25bn respectively. In 2023, no EUR benchmark deal has yet been recorded from New Zealand. We have calculated a total of EUR 1.5bn in maturities for the current year and expect new issuances to total EUR 4.0bn, which would result in a positive net supply of EUR +2.5bn from New Zealand.

New Zealand: EUR BMK issuance volume



Norway: EUR BMK maturities



Source: market data, NORD/LB Markets Strategy & Floor Research

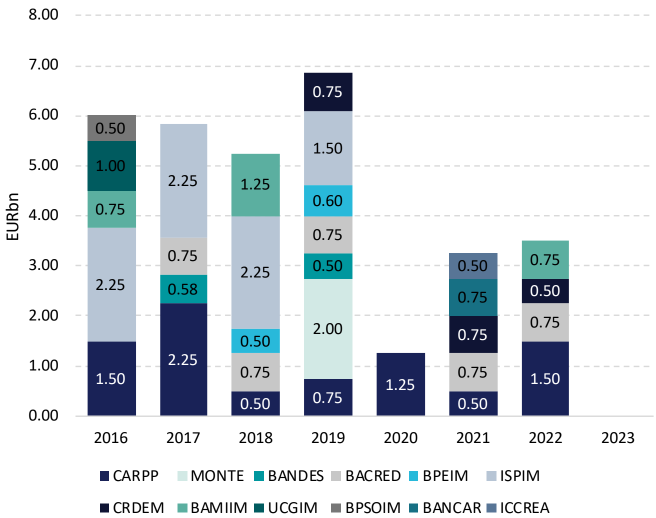
Moody’s presents updated analysis on Norwegian covered bond legislation

The rating agency Moody’s has updated its analysis of the Norwegian legal framework following the implementation of the EU directive. In the wake of the changes adopted to Norwegian covered bond legislation, the Moody’s analysts now see the following strengths of the new legal framework: issuers are specialist credit institutions with a limited scope of activities, meaning that they would be able to survive an insolvency on the part of the parent or sponsoring company. Interest rate stress tests with both parallel and curve shifts reduce the risk of interest rate mismatches. As the Norwegian issuers are not deposit-taking institutes and the law excludes netting, borrowers cannot offset deposits with the parent company against cover pool loans. However, weaker features include the fact that the unsecured claim against the issuer is limited, as there are usually few assets outside the cover pools. Furthermore, the law now enables issuers to set up programmes that are secured by cover pool assets that were previously regarded as unorthodox. So far this year, Norwegian issuers have not been active on the market (2022: EUR 8.25bn). We expect new issuance activity from Norway to total around EUR 9.0bn in 2023 (maturities: EUR 10.35bn). You can find our last look at the Norwegian covered bond market here.

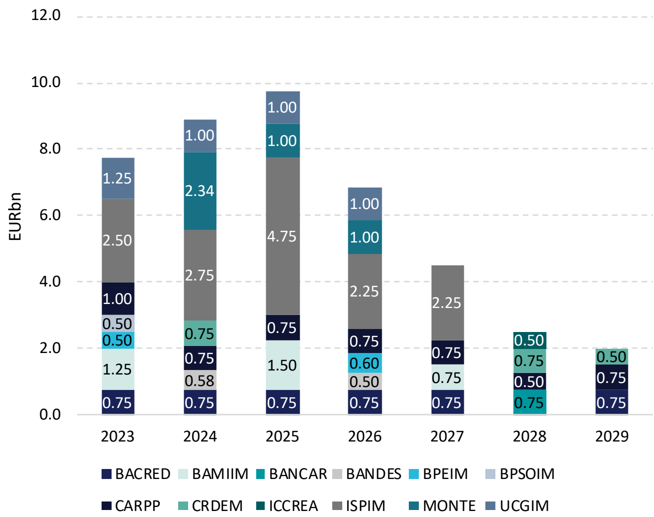
Italian banks still unable to issue "European Covered Bonds"

The European Covered Bond Directive has already been implemented into national legislation in Italy, but the Italian central bank, Banca d'Italia, has still failed to provide detailed regulations for practical implementation that would allow Italian issuers to place new EUR benchmark issues in the European Covered Bond format on the public market. On 12 January 2023, Banca d'Italia published a consultation paper with the relevant details, which market players are able to comment on until 11 February. It is therefore likely to be some time before the corresponding covered bond programmes are finally implemented and adjusted, especially since certain deadlines still have to be met before fresh covered bonds can be issued (as we understand it, Banca d'Italia should be notified of planned issues 60 days in advance, among other aspects). We do not expect the first issues to come from Italy until the second quarter of 2023 at the earliest, which represents a significant disadvantage for the country's banks. With a disproportionately high volume of bonds set to fall due over the next three years (on average: EUR 8.8bn per year), and with an average of just EUR 4.56bn having been issued per year by Italian issuers over the past seven years, this is all more pertinent. We assume that once the detailed regulations are introduced, various Italian issuers will enter the market with fresh deals. Accordingly, we expect a new issuance volume of EUR 9.0bn from Italy in 2023.

Italy: EUR BMK issuance volume



Italy: EUR BMK maturities



Source: market data, NORD/LB Markets Strategy & Floor Research

Market overview
SSA/Public Issuers

Authors: Jan-Phillipp Hensing // Dr Norman Rudschuck, CIIA

LfA development loans in 2022

The promotional bank for the Free State of Bavaria – LfA Förderbank Bayern (ticker: BAYLAN) – granted loans totalling around EUR 2.6bn last year. Programme-linked development loans accounted for just over EUR 2.1bn of this total amount. Demand for loans was highest in the two development areas of start-ups and growth, with a combined volume of EUR 1.6bn. Starting loans alone for establishing businesses and corporate succession saw growth in commitments of more than 12% to almost EUR 528m. Almost half of this amount was used for company handovers, in order to secure the long-term success of the relevant business location. The volume of commitments also rose in terms of further financing for expansion and modernisation projects, particularly for small and medium-sized enterprises (SME), and by more than 11% to approximately EUR 384m. Although Bavaria's promotional bank ceased its coronavirus-related programmes in mid-2022, it has since launched two loan programmes intended to help mitigate the consequences of the current energy crisis that resulted from Russia's war in Ukraine. For example, Energiekredit Regenerativ (regeneration energy loan) supports investment in generating electricity and heat as well as refrigeration on the basis of renewable energy. To date, development loans amounting to EUR 79m in total have been granted for this purpose. In addition, the Energieliquiditätskredit (energy cost-related liquidity loan) was launched in December 2022 for liquidity difficulties in view of higher energy prices, which is aimed at supporting companies with an annual turnover of up to EUR 500m. The granting of this type of loan is unbureaucratic via the respective house bank. Dr Bernhard Schwab, Chairman of the Management Board of LfA Förderbank Bayern, explained: "LfA will actively continue to assist Bavarian businesses with development loans that meet their requirements, especially in future growth segments such as innovation and digitisation, renewable energy and energy efficiency." Overall, around 4,500 companies and local authorities took up LfA services last year.

NRW.BANK launches first digital bond issue

Following the same-day and paperless processing of a bonded loan via blockchain in 2019 and after implementing its own first issue of a blockchain-based, fully digital and legally secure bonded loan in the subsequent year, NRW.BANK launched its first ever digital bond issue last week. The bond with a volume outstanding totalling EUR 20m has a 2y maturity and features a 2.875% coupon. Similar to the digital bond issue of KfW (cf. Issue #39 2022), the NRW.BANK bond issue was settled via the digital D7 post-trade platform of Deutsche Börse. The basis for digital issuance was established in summer 2021 by means of the Gesetz über elektronische Wertpapiere (eWpG, German Electronic Securities Act). With digital bond issues, issuers no longer need to deposit certificates with Clearstream. The digital issuance register also replaces analogue checking and safekeeping.

KfW Credit Market Outlook – sharp growth in new business in the third quarter of 2022

In the third quarter of 2022, new lending business at Germany's banks and savings banks to companies and the self-employed increased by a record value of 36.1%, according to the results of the latest KfW Credit Market Outlook. In addition to the quarterly change in total lending (Bundesbank figures on loans by German banks to domestic companies and the self-employed, excluding home loans and loans to financial institutions and the insurance industry), KfW uses a simulation of scheduled repayment behaviour to determine new lending business. The presentation is published as the rate of change in new business determined in this manner against the previous quarter, with the rate of change expressed as the moving two-quarter average. Growth in new loans was once again up by 15% on the previous quarter. It is assumed that growth in the credit market will begin to slow down by year-end. What caused this substantial increase in the lending volume? Last year was predominantly marked by a high level of economic uncertainty. The following factors caused an expansion in borrowing requirements: on the one hand, ongoing supply chain problems resulted in more warehousing and therefore higher costs and/or or a higher financing requirement. On the other hand, the war in Ukraine produced significant distortion of market prices, directly affecting a broad cross-section of the corporate sector through considerably higher energy prices. This in turn had indirect effects, such as costlier primary products. Finally, the loans guaranteed by the German government (Bund) to safeguard gas supply via the national development bank, KfW, also contributed to the perceptible rise in new loans. According to KfW, the growth in new lending business recorded suggests that the corporate sector's access to borrowing is currently intact. It is expected that the quality of borrowers will become increasingly important in the coming quarters. The decisive factor was stated as being the extent to which the economic slowdown will impact on the credit standing of the corporate sector in the course of this year. Furthermore, KfW expects that a trend reversal in the credit market is likely to result primarily via the supply side, since the ongoing geopolitical tensions are also reflected in loan interest. The KfW forecast currently anticipates growth in new lending business of around 28% for the fourth quarter of 2022 and of 15% in the first quarter of 2023.

WIBank – first EUR benchmark bond issue since 2020

On 19 January 2023, Wirtschafts- und Infrastrukturbank Hessen (WIBank; ticker: WIBANK) placed its first large-volume EUR bond issue this year. This means that the number of EUR benchmark bond issues to date has increased to seven since the end of 2012. The bond proceeds of EUR 600m are used to fund a municipal rescue package. The bond has a maturity of ten years and a 2.625% coupon (issuing yield: 2.74%). Within just over one hour, the order book was multiple times oversubscribed at in excess of EUR 3.2bn. Compared with the guidance in the ms +11bp area, tightening of three basis points to ms +8bp was achieved in the marketing phase. The order book comprised a total of 88 orders, with investors from Germany accounting for 52% and other European and international investors accounting for 48%. In line with expectations, banks were the most represented group of investors. As always, please refer to the table below for other hard facts.

Primary market

Another round of placements in a busy month for bond issues this January: in the last edition of this publication, we already commented on the mandate instructions by the federal state of Brandenburg (ticker: BRABUR). The order book opened on Wednesday after last week's edition was published. The 6y bond worth EUR 500m was placed at ms -5bp. The guidance was in the ms -6bp area and the order book totalled EUR 900m. The bond features a coupon of 2.5%. Nordic Investment Bank (ticker: NIB), a supranational issuer, also launched a bond worth EUR 500m. However, it has a maturity of seven years and is in ESG format. Marketing started at an initial guidance in the ms -3bp area, which was quickly revised to ms -4bp area. The bond was eventually priced at ms -5bp. The relevant order book amounted to EUR 875m. On the previous page, we already described the EUR benchmark bond issue of WIBank (EUR 600m at ms +8bp). The federal state of Lower Saxony (ticker: NIESA) was present in the capital market for the second time this year, with a further benchmark bond issue. As was also the case on 2 January 2023, a total of EUR 750m was raised, although this time with a shorter maturity. The bond issue placed at the start of the year has a maturity of ten years, whereas the maturity of this most recent bond issue is eight years. The guidance for the deal started in the ms flat area before tightening by one basis point to ms -1bp in the course of the marketing phase. The order book of EUR 1.15bn produced a bid-to-cover ratio of 1.53x. The French Île-de-France region (ticker: IDF) also approached investors. The issuer – who is regularly portrayed in our Beyond Bundeslaender product series – raised EUR 600m by means of a sustainability bond with a maturity of eight years. The order book amounted to EUR 2.3bn. Compared with the guidance in the OAT +50bp area, tightening of four basis points to OAT +46bp was achieved. This is the equivalent of approximately ms +14bp at the relevant time. In the trading week under review, the European Union (unsurprisingly) recorded the biggest order book. This "mega issuer" increased EU 3% 03/04/53 by EUR 5bn (WNG). The tap issue was more than ten times oversubscribed (order book: EUR 51.9bn). The guidance for this tap issue was in the ms +88bp area, and the bond was eventually priced at ms +86bp. In addition, several mandates for investor calls and meetings have been announced. The Asian Infrastructure Investment Bank (ticker: AIIB) is planning to place a sustainability bond and is conducting investor meetings for this purpose. The Council of Europe Development Bank (ticker: COE) currently is also conducting talks with investors to inform them of the planned developments for the bank. Furthermore, the federal state of Berlin is conducting investor talks on its intended first issue of a sustainability bond. This would result in an increase in the number of German federal states with ESG bonds outstanding to four. In addition, we expect Île-de-France Mobilités (ticker: IDFMOB) to place not one but two green bond issues in the (very) near future. The maturities for these have already been set in stone at ten and twenty years respectively. Furthermore, the federal state of North Rhine-Westphalia (NRW) has given the mandate for a dual tranche with maturities of nine and thirty years respectively. Finally, the next EU bond auction will also be taking place this coming Monday.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
IDF	FR	23.01.	FR001400FG43	8.3y	0.60bn	ms +14bp	AA / Aa2 / -	X
NIESA	DE	20.01.	DE000A30V8Q7	8.0y	0.75bn	ms -1bp	AAA / - / -	-
WIBANK	DE	18.01.	DE000A3SJZT2	10.0y	0.60bn	ms +8bp	- / - / AA+	-
NIB	SNAT	18.01.	XS2580868482	7.0y	0.50bn	ms -5bp	- / Aaa / AAA	X
BRABUR	DE	17.01.	DE000A3E5SL5	6.0y	0.50bn	ms -5bp	- / Aaa / -	-

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

Cross Asset
ECB preview: all eyes and ears on the press conference

Authors: Dr Frederik Kunze // Dr Norman Rudschuck, CIIA

ECB meeting on 2 February: new year, old rates trajectory?

Next week, the Governing Council of the ECB will meet for the first regular meeting of the new year to discuss key interest rates. The February meeting definitely offers a broad range of possible surprises. In this regard, however, we are not by any means thinking merely of the official statement regarding the size of the next interest rate hike, but also of the specific choice of parameters to reduce the APP securities purchase programme and – it has to be said, with some suspense – of the press conference that will follow the meeting. Comments from ECB President Christine Lagarde have too frequently "proved market participants wrong" in the recent past, having stoically read out the ECB's statement. In our opinion, it can also be stated that Madame Lagarde has recently managed repeatedly to add a level of sentiment to the sobriety of the written record of the decision on interest rates, the influence of which must not be underestimated by any means. What do we base this on among other things? For us, the best example of this is the inconsistency of first propagating the "meeting by meeting" approach and immediately afterwards giving market participants something akin to hawkish guidance at a meta level.

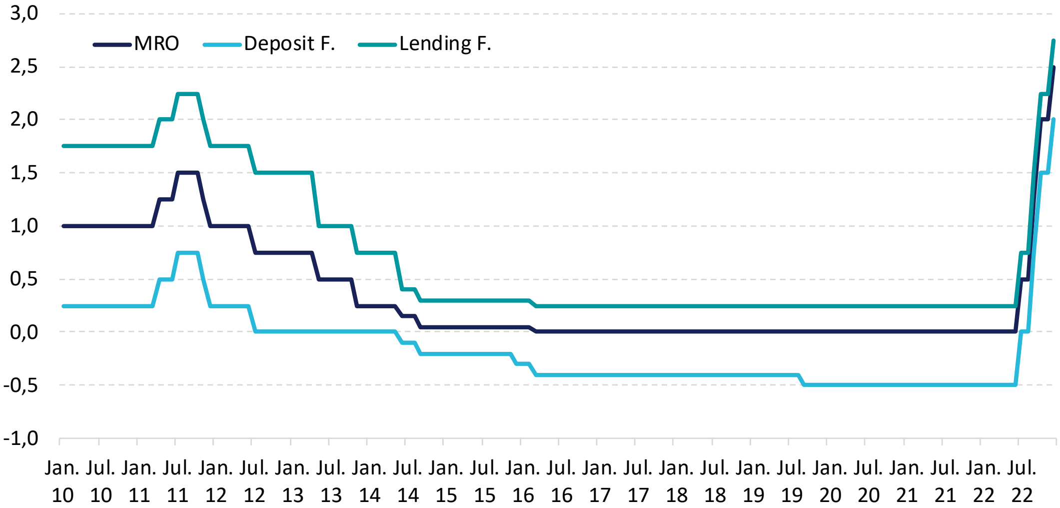
Opinions from ECB circles: the scream of hawks!

Although they are endowed with a proper degree of personal opinion and are therefore more an indication for the general debate within the Governing Council than a prior decision, attention has recently been focused once more on the individual comments of members of the Governing Council. Klaas Knot stuck to his hawkish line in this context. For the next two meetings (in February and March), the president of the Dutch central bank believes that hikes of 50 basis points are needed in each case and expects this monetary policy to continue into the summer. Olli Rehn also recently provided similar "forward guidance." The Finn, who is more easily included in the "neutral camp" with Lagarde, made clear in a TV interview that he still expects two significant hikes in winter and spring, respectively, in order to make decisions subsequently (purely!) on the basis of data. In this respect, it is not surprising that an acknowledged hawk, such as Robert Holzmann still considers "several such hikes" (+50 basis points) appropriate for the first half of the year. The president of the Austrian central bank had already argued for a more restrictive pace in the past and also supported a more rapid and determined approach with regard to reducing the vast expansion in the ECB's balance sheet to fund the securities purchase programmes. For Holzmann, the focus is clearly on the core inflation rate, and he warned repeatedly against being misled by the decline in the general inflation rate. However, dealing with the volatility in energy and food prices and the general outlook for prices is not quite as simple as some hawks may think. When talking of the mild weather and energy prices among other factors, the ECB's Chief Economist Philip R. Lane at least told the Financial Times that this was a simple example of why we cannot be so confident either of the direction in which interest rates must move. Another member of the Governing Council, Ignazio Visco, was less "hawkish" in his comments than his colleagues. He warned of "errors" in both directions. Accordingly, he is "not convinced" that it is better to risk tightening monetary policy too much.

Minutes of the December meeting: not <u>what</u> was said but <u>how</u> it was said

On 19 January, the ECB published the minutes of the December meeting. If evidence of a hawkish tone underlying the European central bank's current monetary policy was still needed, a glimpse into these minutes is all that it takes. The minutes state: "A large number of members initially expressed a preference for increasing the key ECB interest rates by 75 basis points, as inflation was clearly expected to be too high for too long and prevailing market expectations and financial conditions were plainly inconsistent with a timely return to the ECB's 2% inflation target." From what we hear, some of these supporters were persuaded, in particular, of the merits of another larger hike by the hawkish guidance, which was reinforced not least by Lagarde at the press conference. With regard to the APP, it is clear from the minutes that some members were in favour of reducing the portfolio more rapidly or even suspending reinvestments entirely. Here, however, the risks to financial stability posed by moving too rapidly were emphasised at another place. With the decision taken in December, the Governing Council has therefore also given itself the option of evaluating investors' reactions or of adjusting the tempo, if necessary. In relation to financing conditions in the single currency area and the interpretation of this development in the Governing Council, it must be noted that "easing" is seen as an undesirable development and was classified as incompatible with the significant deterioration in the inflation prospects for the Eurozone. Accordingly, the outlook that the ECB wanted to give market participants for "financial conditions" also constituted a very significant role in the December statement. Following the start to 2023 that we have observed on international money and capital markets, the Governing Council of the ECB will in our opinion be even less able to move away from its hawkish tone. Madame Lagarde stated in December that "Anyone who believes that this is a turning point for the ECB is mistaken." In our opinion, this sentence is likely to apply even more than in the aftermath of the last rise in the ECB's key interest rates in 2022. Do we find this surprising? No, not really.

ECB key interest rates (in %)



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Our expectations: +50bp and details of the APP schedule

Even though we have been surprised by the ECB Governing Council on one or more occasions in the past, we view a hike of 50 basis points as extremely likely. In relation to reducing the APP portfolios, the details from December (reduction of EUR 15bn on average per month up to the end of Q2 2023 plus a subsequent reassessment of the situation then) should be confirmed initially. In the event of further specific parameters being chosen, we do not expect significant "shifts" between the programmes, which would lead to an imbalance among the reinvestment that is still to be undertaken. The portfolio is also likely to "breathe" in future, in other words, shifts between jurisdictions for maturities and purchases are just as desirable in the short term as between the PSPP and CBPP3, for example. As far as the future tempo is concerned, we consider it to be rather unlikely that a binding schedule up to the end of reinvestments will be forthcoming next week. The ECB is known to favour being vague and rarely excludes options prematurely. Ultimately, the ECB will first want to see how market participants react. The all-important question will be when and whether the ECB really will concentrate on its meeting-by-meeting approach again or whether the press conference following the statement will trigger upheavals in the market. Not including a "quid pro quo" in the decision but postponing it until the Q&A session with the press seems "strange", to put it mildly, but unsettling at least. We do not expect any surprises of any kind with regard to the PEPP. In view of the first line of defence, we consider any deviation from the approach to date – to reinvest maturing bonds up to the end of 2024 – as extremely unlikely.

Upcoming ECB decision: impact on public sector issuers (SSA)…

We are firmly convinced that the imminent decision on interest rates will not have too negative an impact on the order books of supranationals, Bundeslaender or KfW, for example, either. While supras do not operate in the vacuum of the above-mentioned interest rate hikes, if order books are in fact to be several times oversubscribed, it will be here in this sub-segment. The ten-year EIB bond was 4.5 times oversubscribed (EUR 5bn was placed compared with an order book of EUR 22.5bn). The coupon achieved was 2.875%. Furthermore, the imminent interest rate hike of at least +50bp is already expected by most market participants and has therefore been priced in. Certainly, the current wave of issues shows that it makes sense ideally for issuers to achieve their first funding success in January. This does not of course imply that there will be no more deals on the primary market in the eleven months remaining after the interest rate hike. The German Bundeslaender are currently only keeping a low profile in some cases, since one or two issues were successfully carried out in recent trading weeks. To have seen NIESA twice already with issues of EUR 750m each was particularly noteworthy. The coupon for ten years was 3.0%, while that for the eight-year deal was 2.75% (see Market Overview above). SAARLD and BRABUR also made an appearance in the first three weeks of trading, whereas NRW did not. The shift in interest rates towards the "new normal" may affect other European regions (i.e. those included in our "Beyond Bundeslaender" series) differently. For some issuers, tax revenues may not be so lavish, and others are subject to greater budgetary constraints than German Laender. Once January is over and market participants can pause for breath after the interest rate decision on 2 February - our focus in this article – is made, our attention will turn to looking at the trading events of the whole of January in peace and comparing this against previous years. This information will be provided in our issue on 8 February.

…and on the covered bond market

The covered bond market will experience change, in particular, through the upcoming reduction in the APP, which will be felt on both the primary and the secondary market. We are therefore eagerly awaiting specific details regarding this. However, the ECB is obviously not proceeding rashly and does not seem to want to change this either. The primary market order ratio still stands at 20%. Of course, we expect this to be adjusted downwards (initially to 10% and not necessarily as early as February). However, the market has already prepared for this, although short-term “swings” are to be expected. Even though the pivot in ECB monetary policy is not unexpected, we shall continue to observe the effects over the next few weeks and months. Ultimately, the covered bond market is digesting an abandonment of distorting influences both in terms of supply and demand in a period in which banks as issuers are also exposed to a greater degree of uncertainty. Market participants will continue to focus on spread as the slider of the invisible hand and as the differentiating factor between jurisdictions and maturities.

Conclusion and outlook

All eyes and ears on the press conference? What will it be this time: counsel, advice or scaremongering on our part? In recent times, the ECB has taught us again and again not to judge prematurely and at the same time unfortunately to weigh every word carefully. Unfortunately, it contradicts itself every now and then because of prior decisions, although that is in and of itself a breach of the self-imposed course on the frequently cited meeting-by-meeting approach. At the last press conference in December, we asked ourselves whether it might be a verbal trial run. How will market participants react to the mere statement on the one hand and then to the chatter during the subsequent press conference? This time we also see a certain potential for surprises. A further +50 basis points seems to be priced in for March and for May we are expecting a further +25 basis points. But what are all the ominous interest rate cuts currently under discussion on this side and the other side of the Atlantic in 2023 about? The deposit rate would then stand at 3.25% in May. Various clients considered this target value completely impossible in November and December 2022, as they told us in face-to-face meetings. We were unable to give any guarantee that this is precisely how it would turn out, but were utterly convinced that we should issue warnings for the first three monetary policy meetings in 2023. Accordingly, we do not think much of interest rate cuts in the second half of 2023 either. However, the ECB may also surprise us here and threaten to overshoot the target. The classification of the apparent easing of financing conditions, which central bankers described as “unwelcome” in the minutes of discussions at the last monetary policy meeting, militates against this. An examination of the risks of recession also provides a degree of clarity. Yes, we will experience a recession but – at least this is the view of the ECB – we are looking at a relatively short, shallow recession. Let us hope that the ECB’s forecasts here are more accurate than their predictions for the trend in inflation.

Covered Bonds
Successful start to the year for EUR sub-benchmarks as well

Author: Melanie Kiene, CIIA

EUR sub-benchmark bonds – Austria kicked off the 2023 issuance year

As part of our weekly publication, from time to time, we also take a look at the EUR sub-benchmark segment for covered bonds. We analyse bond issues ranging from a minimum of EUR 250m to less than EUR 500m. They represent the second branch of the market for publicly placed EUR-denominated bonds, which is why issuers with EUR sub-benchmark bonds outstanding are also included in our Issuer Guide Covered Bonds. In light of this and in view of the fact that this market generally receives less attention than the EUR benchmark bond segment, a brief up-to-date overview of the market for EUR sub-benchmark bonds is provided in the following. In addition to the group of issuers, we examine regulatory differences compared with the EUR benchmark bond segment.

EUR sub-benchmark segment – volume outstanding of EUR 26.35bn

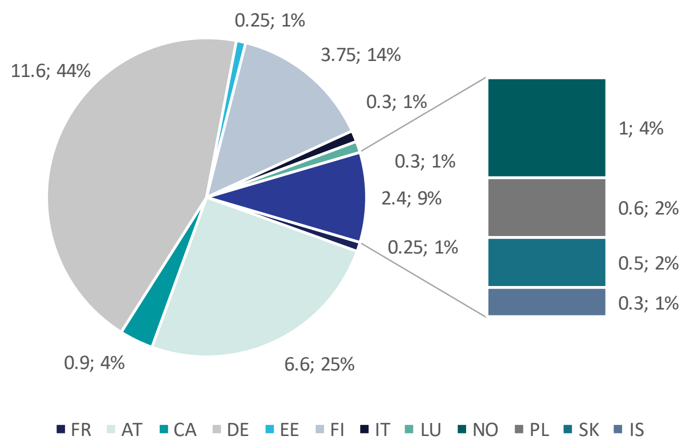
With a volume of bonds outstanding totalling EUR 26.35bn, the market for EUR sub-benchmark bond issues can definitely be described as a niche market. In terms of size, it approximately corresponds to the Swedish EUR benchmark bond segment. At the same time, its share of the market for publicly placed covered bonds denominated in euros as a whole (ECBC statistics as at the end of 2021: EUR 1,856.1bn) is a single-digit percentage, compared with the benchmark segment (20 January 2022: EUR 986.5bn). At present, the universe comprises 96 sub-benchmark bond issues outstanding from 34 financial institutions in twelve jurisdictions. Around 38% of the volume outstanding are attributable to issuers from Germany (45 sub-benchmark bond issues), followed by banks from Austria with a share of 32% (22 bond issues) and Finnish financial institutions (17%, or 12 bond issues). Accordingly, these three jurisdictions account for around 87% (EUR 21.65bn) of the market. Deals are typically issued in a volume of EUR 250m (around 60% of new bond issues) and EUR 300m (around 30%) respectively.

Many of the new bond issues are from Austria

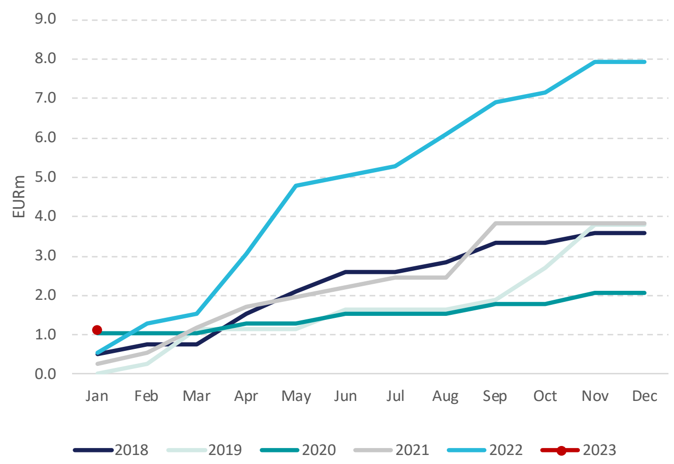
Last year, the new issuance volume in the EUR sub-benchmark category amounted to EUR 7.95bn in total, across six jurisdictions. This, in our view, certainly makes it possible to state that the segment for EUR sub-benchmark bond issues has developed into an increasingly relevant market in recent years. For 2023, we can already confirm after only a short time that the segment has enjoyed a successful start to the year. In the year to date, four issuers from two jurisdictions have placed four EUR sub-benchmark bond issues worth EUR 1.1bn in total (13.01. RFVORA: EUR 300m; 16.01. DEKA: EUR 250m; 17.01. OBLB: EUR 250m; and 23.01. LANTIR: EUR 300m). The chart below illustrates that this has been the strongest start to a year since 2020, when the equivalent value was at EUR 1.05bn – and the month of January is not even over yet. Landesbank Berlin (DE) and Bausparkasse Wüstenrot (AT), a German issuer and an Austrian issuer respectively, were also the first of the year with deals in the EUR sub-benchmark segment in the previous issuing year. These two countries delivered a significant amount of the fresh supply in 2022.

EUR sub-benchmark segment set for ongoing dynamic development in 2023
The volume of EUR sub-benchmark bonds outstanding currently amounts to EUR 26.35bn. At the end of 2021, the relevant figure was EUR 14.5bn and a year earlier EUR 10.65bn. Looking ahead, we see indications that the importance of this sub-segment, in which currently eleven jurisdictions have activities, will continue to grow in 2023 and beyond. This assessment is partly based on the implications of the EU's Covered Bond Directive. Following the introduction of minimum standards and the adjustment of covered bond legislation, including in what are less "traditional" jurisdictions with regard to secured funding by the banking sector, the sub-benchmark segment in particular may become increasingly popular.

EUR SBMK – volume by country (EUR bn)



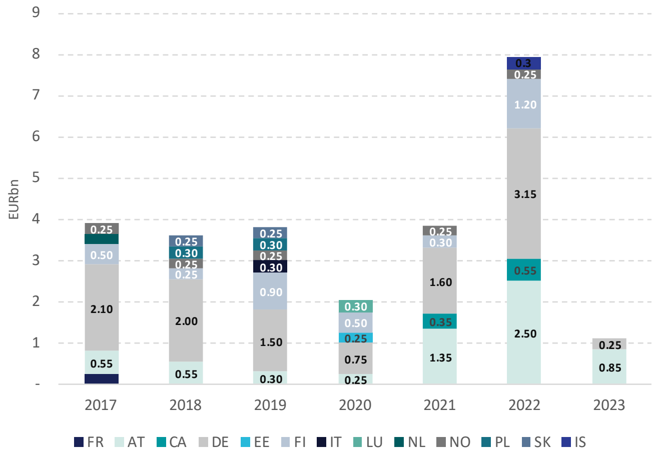
EUR SBMK – issuance progress



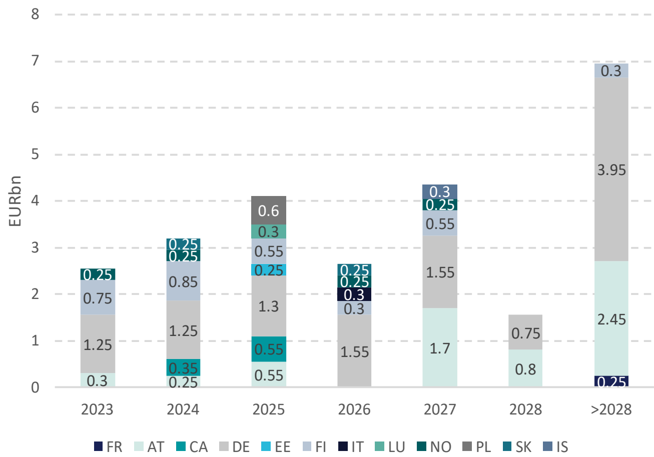
Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

EUR SBMK and EUR BMK – switching between sub-segments certainly an option
We define as sub-benchmark issuers those financial institutions which have sub-benchmark bond issues outstanding but are not at the same time active in the benchmark bond segment. Just as in the EUR benchmark bond segment, tap issues are also available in the sub-benchmark segment. In the past, fourteen of the ISINs outstanding were increased on the basis of tap issues. For seven of the bond issues, the tap issues were of a volume that pushed what originally were bonds issued in the sub-benchmark segment into the EUR benchmark bond segment. With the exception of one bond issue, these seven bond issues are meanwhile included in the iBoxx EUR Covered. At this point, it should also be noted that no corresponding index exists for the EUR sub-benchmark bond segment. In addition to switching from the sub-benchmark segment to the benchmark segment, vice versa is also possible, although much rarer.

EUR SBMK – bonds issued since 2014 (EUR bn)



EUR SBMK – maturities (EUR bn)



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Regulatory – at best 10% risk weighting but maximum LCR Level 2A

The regulatory treatment of EUR sub-benchmark bond issues, particularly those from regions that form part of the EEA, deserves separate consideration. While EUR benchmark bond issues are best placed to benefit from preferential treatment in regulatory terms, this only partly applies to EUR sub-benchmark bond issues. Since the volume outstanding is not relevant in determining the risk weighting of covered bonds, sub-benchmark bond issues which meet the relevant requirements of Article 3 (1) of the Covered Bond Directive as well as those securities which were issued prior to 8 July 2022 and that fulfil Article 54 (4) of the UCITS Directive, including Article 129 (7) CRR applicable at that time, may benefit from a preferential risk weighting of 10%, similar to benchmark bond issues. The prerequisite is that they are in the credit quality step 1 (AAA to AA-) category. With regard to the LCR Level of EUR sub-benchmark bond issues, the situation is different because the categorisation partly depends on the volume outstanding. Accordingly, sub-benchmark bond issues are not eligible as Level 1 assets, given their volume of less than EUR 500m. Conversely, categorisation as Level 2A or 2B asset is possible, depending on the rating. EUR sub-benchmark bond issues from third countries, Canada for example, may at best be recognised as Level 2B assets. In addition to credit quality step 1 (CQS 1), this means the issuer must meet the requirements of Article 14 of the Covered Bond Directive (transparency requirement, adequate supervision). The share of Level 2 assets in the LCR portfolio is limited to 40%, with Level 2B assets not permitted to account for more than a maximum of 15% of the entire portfolio. Furthermore, covered bonds from third party countries within the meaning of European regulations may at best be assigned a risk weighting of 20%. For further information on how risk weighting and/or LCR Levels are determined, please refer to our NORD/LB Covered Bond Special – the risk weighting and LCR Level of covered bonds. Furthermore, the Issuer Guide Covered Bonds also provides details on the regulatory levels regarding covered bonds from EUR sub-benchmark issuers. The following table lists all issuers that have placed EUR sub-benchmark bonds, some of whom also have EUR benchmark bond issues outstanding.

NORD/LB

Overview of issuers with outstanding EUR sub-benchmark bonds

Issuer	Country	BBG Ticker	Cover Pool (in EURm)	Amount outst. (EUR m)	OC	Ratings	Type
Bausparkasse Wuestenrot AG**	AT	BSWUES	1,635.2	1,266.9	29.1%	- / - / AAA	M
Hypo Tirol Bank AG**	AT	LANTIR	2,811.5	2,507.9	12.1%	- / Aa1 / -	M
Kommunalkredit Austria AG**	AT	KA	1,275.0	1,134.0	12.4%	- / - / A+	P
Oberbank AG**	AT	OBERBK	3,427.2	1,977.0	73.4%	- / - / AAA	M
Oberoesterreichische Landesbank AG*	AT	OBLB	2,717.0	2,354.0	15.4%	- / - / AA+	M
Raiffeisen Landesbank Vorarlberg mit Revisionsverband eGen*	AT	RFVORA	3,459.3	2,655.5	30.3%	- / Aaa / -	M
Raiffeisen-Landesbank Tirol AG*	AT	RFLBTI	3,189.9	2,226.9	43.2%	- / Aaa / -	M
Raiffeisenverband Salzburg eGen**	AT	RFVBSA	1,777.3	1,370.5	29.7%	- / Aaa / -	M
Equitable Bank*	CA	EQBCN	1,082.6	866.4	25.0%	AA / - / -	M
DekaBank Deutsche Girozentrale**	DE	DEKA	1,163.7	695.0	67.4%	- / Aaa / -	M
	DE	DEKA	4,574.5	5,055.3	-9.5%	- / Aaa / -	P
DZ HYP AG**	DE	DZHYP	12,467.8	9,910.1	25.8%	- / Aaa / AAA	P
Kreissparkasse Koeln**	DE	KRSKOE	6,333.4	1,235.5	412.6%	- / Aaa / -	M
Landesbank Berlin AG*	DE	LBBER	5,862.2	4,098.0	43.1%	- / Aaa / -	M
Landesbank Saar**	DE	SAARLB	3,905.8	3,052.2	28.0%	AAA / - / -	P
Natixis Pfandbriefbank AG*	DE	KNFP	1,600.3	1,306.0	22.5%	- / Aaa / -	M
Oldenburgische Landesbank AG*	DE	LBOLD	1,190.1	1,061.0	12.2%	- / Aa1 / -	M
Sparkasse Hannover*	DE	SSPHAN	2,617.5	1,397.6	87.3%	AAA / - / -	M
	DE	SSPHAN	1,306.0	586.1	122.8%	AAA / - / -	P
Sparkasse Pforzheim Calw*	DE	SKPPFO	2,978.8	2,373.1	25.5%	AAA / - / -	M
Stadtsparkasse Muenchen*	DE	SSPMUE	1,357.5	715.0	89.9%	AA+ / - / -	M
Wuestenrot Bausparkasse AG*	DE	WUWGR	3,241.5	2,826.6	14.7%	- / - / AAA	M
LHV Pank AS***	EE	LHVGRP	461.2	350.0	31.8%	- / Aa1 / -	M
Alandsbanken Abp*	FI	AABHFH	1,384.0	1,050.0	31.8%	- / - / AAA	M
Oma Saastopankki Oyj*	FI	OMASST	2,100.1	1,550.0	35.5%	- / - / AAA	M
POP Asuntoluottopankki Oyj**	FI	POPBGR	330.0	250.0	32.0%	- / - / AAA	M
SP-Kiinnitysluottopankki Oyj**	FI	SPMTBK	2,200.9	1,800.0	22.3%	- / - / AAA	M
Suomen Hypoteekkiyhdistys****	FI	SUOHYP	2,100.0	1,600.0	25.5%	- / - / AAA	M
AXA Bank Europe SCF**	FR	AXASA	11,606.5	9,250.0	25.5%	- / Aaa / -	M
Islandsbanki HF***	IS	ISLBAN	2,570.5	2,056.1	25.0%	- / - / A	M
Banca Popolare dell'Alto Adige SpA**	IT	BPOPAA	437.6	300.0	45.9%	AA / - / -	M
NORD/LB Luxembourg SA Covered Bond Bank**	LU	NDB	4,157.1	3,345.2	24.3%	- / Aa2 / -	P
Moere Bolikreditt AS**	NO	MOREBO	2,723.8	2,238.0	21.7%	- / Aaa / -	M
mBank Hipoteczny SA**	PL	MBKHIP	1,987.0	1,422.7	39.7%	- / Aa1 / -	M
Slovenska Sporitelna AS**	SK	SLOSPO	5,314.1	2,801.4	89.7%	- / Aaa / -	M
Tatra Banka as**	SK	TATSK	2,369.3	1,948.0	21.6%	- / Aaa / -	M

*12/2022; **09/2022; ***11/2022; ****06/2022

Source: issuers, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research (Ratings: Fitch / Moody's / S&P)

Conclusion

The EUR sub-benchmark bond segment as a sub-market of publicly placed covered bond issues remains on course for growth and is becoming increasingly important. After 2022 ended with a record volume of new bond issues, 2023 has started with a record new issuance level for the month of January. We expect the EUR sub-benchmark segment to be robust once again throughout 2023 as a whole. This is partly due to the implementation of the Covered Bond Directive in national legal frameworks. It has enabled countries with smaller banks and banking markets, which previously had no covered bond legislation, to issue covered bonds on the basis of legislation. We therefore anticipate new banks and markets to be represented in the EUR sub-benchmark segment. Overall and in view of the typical size of sub-benchmark bond issues as well as the comparatively small group of issuers, the sub-benchmark segment only represents a fraction of the volume of the market for EUR denominated benchmark bond issues. However, as a rule, it offers opportunities for generating a pick-up with regard to the spread and yield environment. For issuers, this submarket is a particularly favourable option when a regular presence (e.g. every 12 to 18 months) in the EUR benchmark bond segment is not a possibility, for example, because of the availability of cover assets or the primary funding requirement. This is just one of the reasons why the financial institutions with activities in this sub-market have been part of our Issuer Guide Covered Bonds for several years. With one exception (a Canadian issuer), all the outstanding EUR sub-benchmark bond issues were placed by EEA issuers.

Covered Bonds
ESG covered bonds from France: La Banque Postale SFH issues inaugural social covered bond

Author: Stefan Rahaus

La Banque Postale extends its ESG funding to the social covered bonds segment

On Monday this week, La Banque Postale Home Loan SFH (ticker: LBPSFH) from France successfully issued its first covered social bond. The eight-year bond with a soft bullet maturity structure was issued as a European Covered Bond (Premium) at ms +27bp in the amount of EUR 1.25bn (guidance: ms +30bp area; order book: EUR 1.6bn). The net proceeds from the social bond deal will be used solely to (re)finance the portfolio of suitable social loans in accordance with the framework programme for the environment, society and sustainability established by La Banque Postale in April 2019. We shall look more closely at the issuer, the deal in question and the ESG environment in France over the course of the following article.

La Banque Postale SA: corporate profile

La Banque Postale SA (LBP), which is based in Paris, was established at the end of 2005 and is a 100% subsidiary of Le Groupe La Poste, which is 66% owned by Caisse des Dépôts and 34% by the French government. While LBP focused on deposit-taking and lending when it first started business, the bank evolved into a provider of a broad range of products over the following years. In 2020, LBP became the largest shareholder in CNP Assurance (CNP). In June 2022, LBP acquired the remaining shares in CNP Assurance and subsequently had the company delisted. As a result, LBP is expanding its activities in French and international insurance business. Through the acquisition, the share of the retail segment will decline in favour of the insurance business, with the aim being to increase commission income. The bank operates in 18 countries, including its principal market France, where it has some 20 million private customers. The bank has a very strong local presence through La Poste's post office network and also has a public service mission to provide basic banking services. LBP organises its business activities through numerous subsidiaries and investments, which are assigned to the four core business areas "Bancassurance France", "International Bancassurance", "Corporate and Investment Banking" plus "Wealth and Asset Management". The strategic plan up to 2025 pursues ambitious growth and ESG plans. Environmental and social targets are of paramount importance in its business model.

La Banque Postale SA: rating and financial data

La Banque Postale SA has a long-term rating from all three leading rating agencies: Fitch A (outlook stable), Moody's A2 (outlook stable) and Standard & Poor's A+ (outlook negative). At the end of June 2022, the balance sheet total stood at EUR 752bn with EUR 90.1bn of risk-weighted assets. Customer loans (net) stood at EUR 136bn; deposits were reported at EUR 241bn. The pre-tax profit in the first half of 2022 came in at EUR 880m, while the core CET1 ratio stood at 16.2% and the NPL ratio amounted to 0.6%. As at June 2022, the liquidity coverage ratio was quoted at 166% in the investor presentation published in January 2023, while the NSFR was 137%.

La Banque Postale Home Loan SFH issued its first green covered bond in 2022
La Banque Postale SA has been involved in the ESG segment since 2019, when it issued an inaugural green bond based on its Green, Social & Sustainability Bond Framework with a focus on renewable energies in April 2019. The first social bond (affordable housing and projects for essential services) followed in June 2021. The covered bond subsidiary La Banque Postale Home Loan SFH made its debut in the ESG segment in May 2022 with a green covered bond, which was 4.7x oversubscribed at that time. A first covered bond for social causes has now been successfully placed with investors this Monday.

Loans for social housing are the focus of the first social covered bond
As is clear from the current investor presentation (January 2023) and La Banque Postale's ESG framework, suitable social loans include the categories "affordable housing", "access to essential services" (healthcare) and "sustainable and inclusive financing". Assets in the cover pool of the first social covered bond issued by La Banque Postale Home Loan SFH come from the "affordable housing" segment, i.e., loans to finance social owner-occupied housing. Suitable assets include "Prêt à l'Accession sociale" (PAS - loan for social owner-occupied housing), which are for the acquisition or construction of a primary residence subject to compliance with the eligibility criteria specified in the French Finance Act of 2003 (including income limits). Loans to landlords of social housing are excluded. The PAS social loan for owner-occupied housing is a government regulated mortgage loan for people on low incomes, who can acquire both new and existing housing. Loans are repaid over between five and 30 years and 100% of the costs of the property transaction can be financed, while no fees are charged for the granting of the loan and legal fees are reduced. PAS loans are linked to income limits, household size and the location of the property. In total, 71% of the outstanding social portfolio is attributable to properties in regions characterised by a significant imbalance between supply and demand for housing. The objective is to promote access to housing with the social benefit of creating more owner-occupied property for low-income population groups. By doing this, LBPSFH makes a significant contribution to the UN Sustainable Development Goals (SDG) No.1 "No poverty", and No.10 "Reduced inequalities". Moody's ESG Solutions provided the second party opinion and confirmed in the Social Bonds Annual allocation & impact report 2021 that La Banque Postale's framework is consistent with the criteria for green and social bonds of the International Capital Market Association (ICMA).

Portfolio overview of the first social covered bond issued by La Banque Postale
As at 31 December 2022, the outstanding loan volume of the social portfolio amounts to EUR 1.331bn spread across 9,009 loans, resulting in an average loan volume of EUR 147,774. The purchase price of the property for which finance was provided averaged EUR 245,371 for apartments and EUR 284,178 for houses, whereby an average of 2.9 people occupy each housing unit and 23,338 people in total received assistance. Without exception, the social mortgage loans have a fixed interest rate. Moreover, they feature an LTV ratio of 78% (indexed: 70%), have been running for 2.2 years and have a debt coverage ratio of 29% (all average values). In total, 58% of the loans are used to acquire houses, with 42% attributable to the acquisition of apartments.

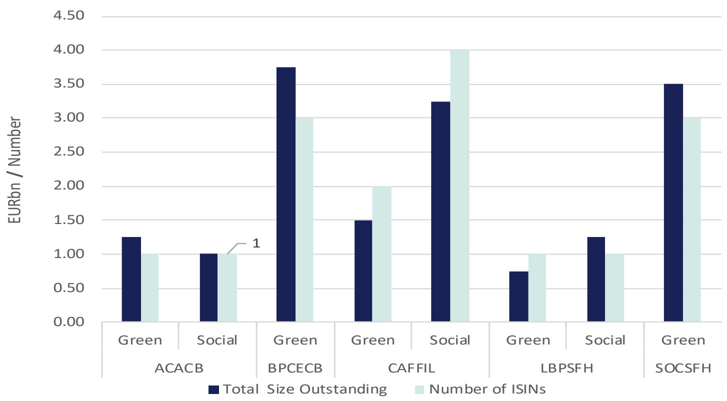
Mortgage-backed LBPSFH cover pool worth EUR 25.550bn

As at the reporting date of 30 November 2022, the cover pool of La Banque Postale SFH was worth EUR 25.550bn. It was matched by covered bonds issued in the amount of EUR 18.966bn, resulting in a mathematical overcollateralisation ratio of 34.7%. The investor presentation also refers to the "minimum contractual overcollateralisation" of 8.1%, which exceeds the statutory OC of 5%. Both the cover pool assets and the outstanding covered bonds feature fixed interest agreements in every case, meaning that the interest rate risks are comparatively low. All assets are denominated in euro, and all are located in France but are widely distributed across the various regions. The cover pool consists of 318,295 mortgage loans amounting to EUR 80,300 on average. The NPL ratio is stated as 0%.

Programme data

30 November 2022	Mortgage
Covered bonds outstanding	EUR 18,966m
Cover pool volume	EUR 25,550m
Current OC (nominal / consistent /legal)	34.7% / 5.0%
Type	100% residential
NPL	0.0%
Main country	100% France
Main region	25.7% Ile-de-France
ØLTV / LTV (indexed)	66.9% / 55.7%
Fixed interest (Cover Pool / CBs)	100% / 100%
WAL (Cover Pool / CBs)	8.0y / 5.8y
CB Rating (Fitch / Moody's / S&P)	- / - / AAA

Overview of ESG deals from France



Source: issuer, rating agency, Bloomberg, NORD/LB Markets Strategy & Floor Research

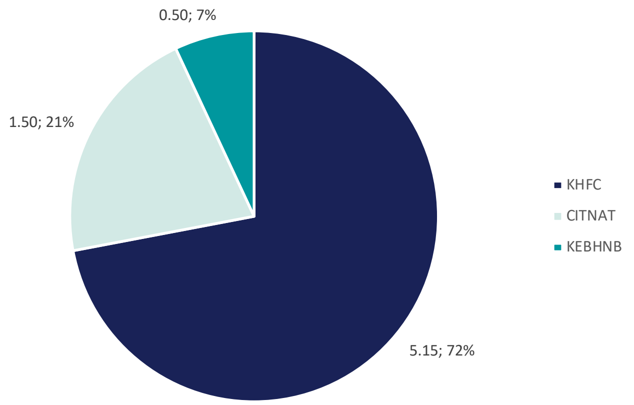
Covered bonds issued by LBPSFH given AAA rating by S&P

The covered bonds issued by La Banque Postale Home Loan SFH have been given the top rating AAA by Standard & Poor's. The new social issue was marketed with the "European Covered Bond (Premium)" label. In our opinion, this gives it a preferential risk weighting of 10% and an LCR Level 1. The new social covered bond was issued with a soft bullet maturity, but the issuer also has hard bullet structures outstanding.

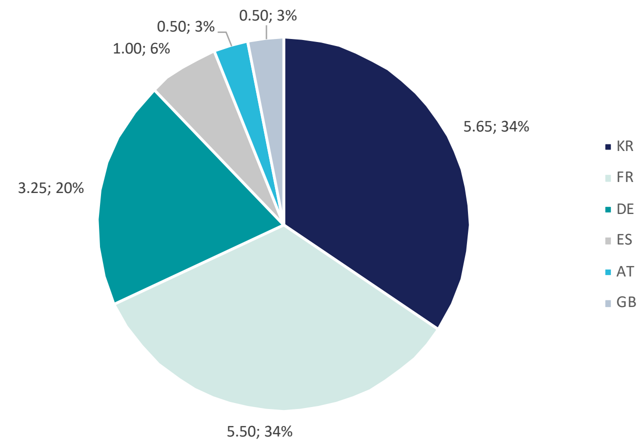
Outstanding ESG volume in France now stands at EUR 16.25bn

Following CAFFIL in 2019 and Crédit Agricole (ACACB) in 2021, Banque Postale Home Loan SFH has now expanded its funding spectrum in the ESG segment to include social covered bonds in the EUR benchmark segment as well. We now have outstanding ESG bonds from France amounting to EUR 16.25bn, of which a total of EUR 5.5bn is attributable to the social segment and EUR 10.75bn to the green segment. CAFFIL tops the ranking on EUR 4.75bn (six bonds), followed by BPCE on EUR 3.75bn (three bonds). SOCGEN SFH has outstanding green covered bonds amounting to EUR 3.5bn (three deals), while ACACB has EUR 2.25bn (two) and LBPSFH has EUR 2.0bn (two bonds) of outstanding ESG covered bonds.

France: outstanding ESG volume (BMK; EUR bn)



ESG: outstanding volume of social covered bonds (BMK; EUR bn) worldwide



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

The global market for social covered bonds: France now just behind South Korea

In the international context, France ranks second with six outstanding social covered bonds in benchmark format (total: EUR 5.5bn). The largest volume of EUR 5.65bn, spread across nine separate issues, is attributable to South Korea. However, the Asian country is unusual in that the market is dominated by Korea Housing Finance Corporation (KHFC), a state-owned company with a social mandate, (EUR 5.15bn; eight bonds). With six issues, Germany ranks on a par with France in terms of number of deals, but the volume issued (EUR 3.25bn) is far lower because the average issue size of German social Pfandbriefe is far lower, at EUR 542m, than that of French social covered bonds, at EUR 917m. Kutxabank (issue in 2015) is the only issuer in Spain, while in Austria, Hypo Tirol Bank (March 2021) is active in the market for social covered bonds in EUR benchmark format, where it has been joined by the UK's Yorkshire Building Society since November 2021.

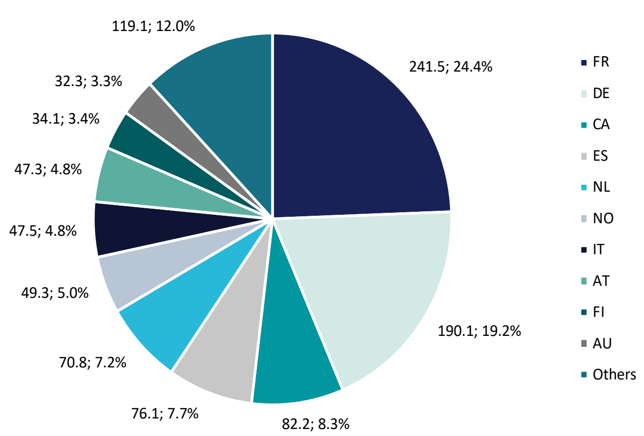
Conclusion

With its successful placement of a social covered bond, La Banque Postale Home Loan SFH has enlarged the French market for sustainable covered bonds that also covers the social segment. The issuer is therefore expanding its ESG funding profile and now offers bonds in green and social format that are both unsecured and covered. In relation to the framework, which constitutes a major challenge for social bonds in our opinion, LBPSFH focuses on the contribution to the UN's Sustainable Development Goals. Here, the category "promoting access to housing" with the social benefit of creating more owner-occupied housing for low-income population groups makes a significant contribution to SDG No.1 "No poverty" and No.10 "Reduced inequalities". The market for social covered bonds is gradually expanding but lags behind the green segment somewhat in purely quantitative terms. Nevertheless, it is possible that growth here will also become slightly more dynamic.

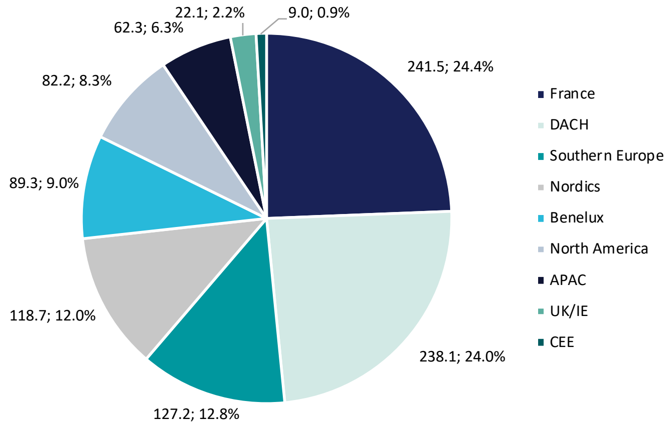
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



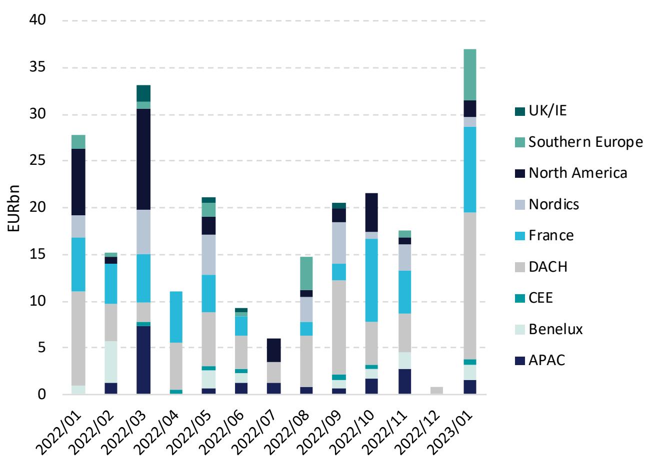
EUR benchmark volume by region (in EURbn)



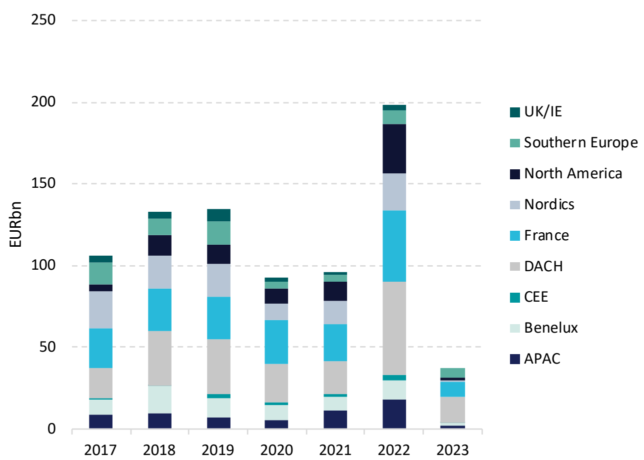
Top-10 jurisdictions

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	241.5	232	16	0.96	9.7	5.2	1.03
2	DE	190.1	272	31	0.64	8.1	4.4	0.82
3	CA	82.2	63	0	1.27	5.6	2.9	0.58
4	ES	76.1	60	6	1.16	11.2	3.6	1.84
5	NL	70.8	72	1	0.92	11.2	6.9	0.87
6	NO	49.3	59	11	0.83	7.3	3.7	0.53
7	IT	47.5	58	2	0.79	9.2	3.7	1.24
8	AT	47.3	82	3	0.57	8.8	5.6	1.03
9	FI	34.1	36	3	0.94	7.3	3.7	0.80
10	AU	32.3	32	0	1.01	7.6	3.9	1.19

EUR benchmark issue volume by month

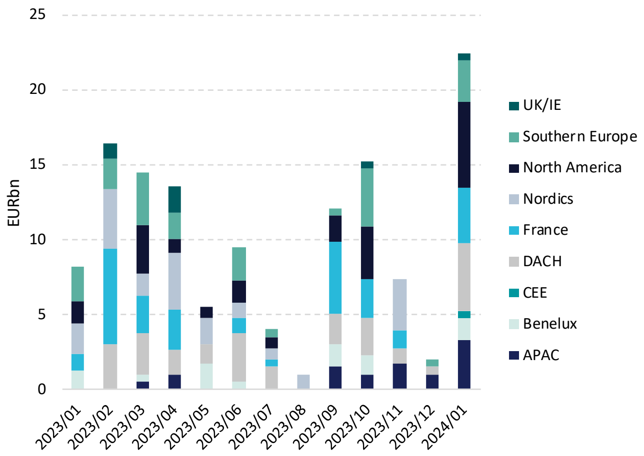


EUR benchmark issue volume by year

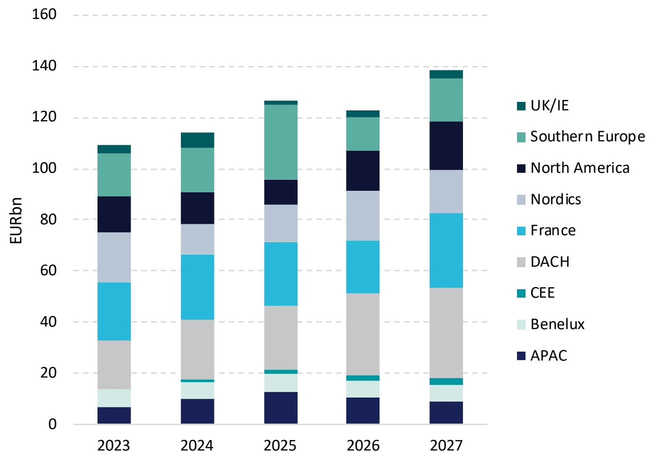


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

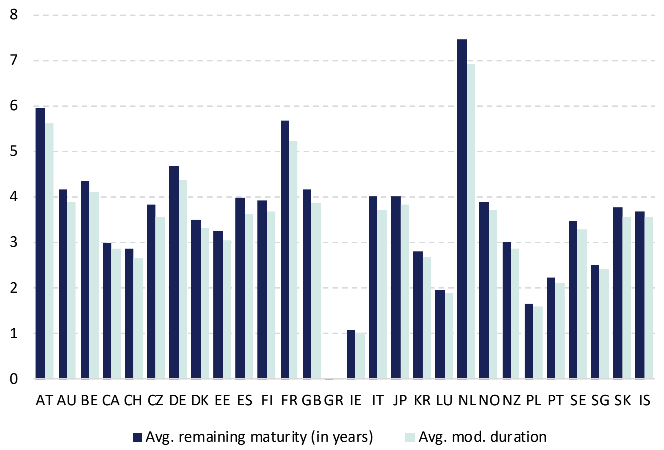
EUR benchmark maturities by month



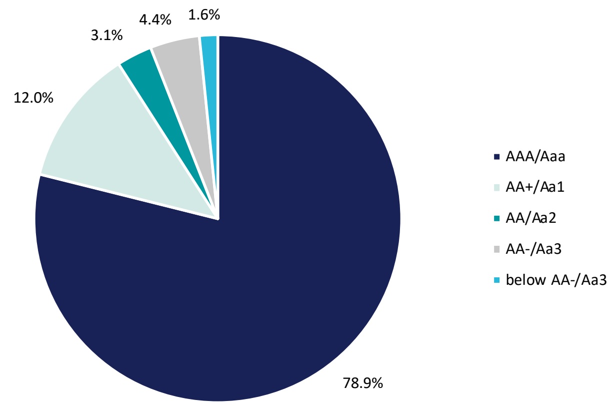
EUR benchmark maturities by year



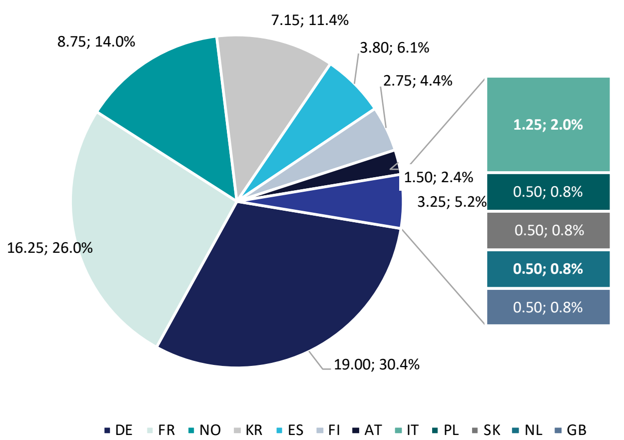
Modified duration and time to maturity by country



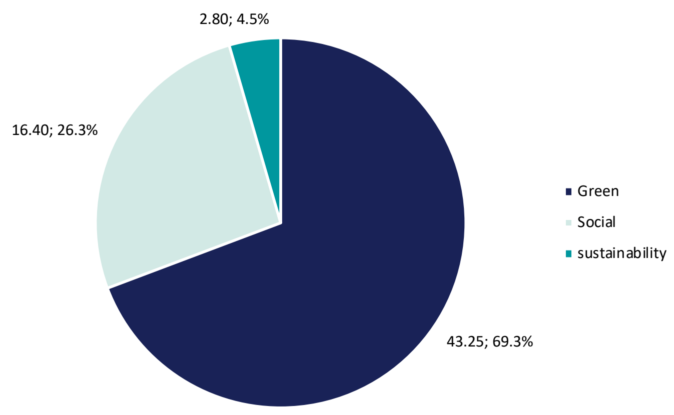
Rating distribution (volume weighted)



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

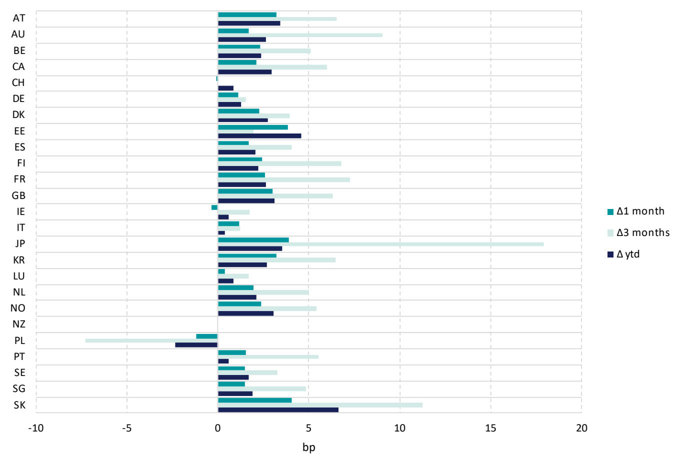


EUR benchmark volume (ESG) by type (in EURbn)

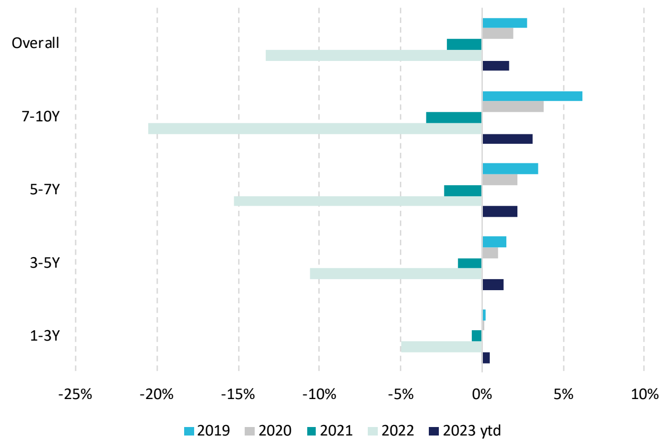


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

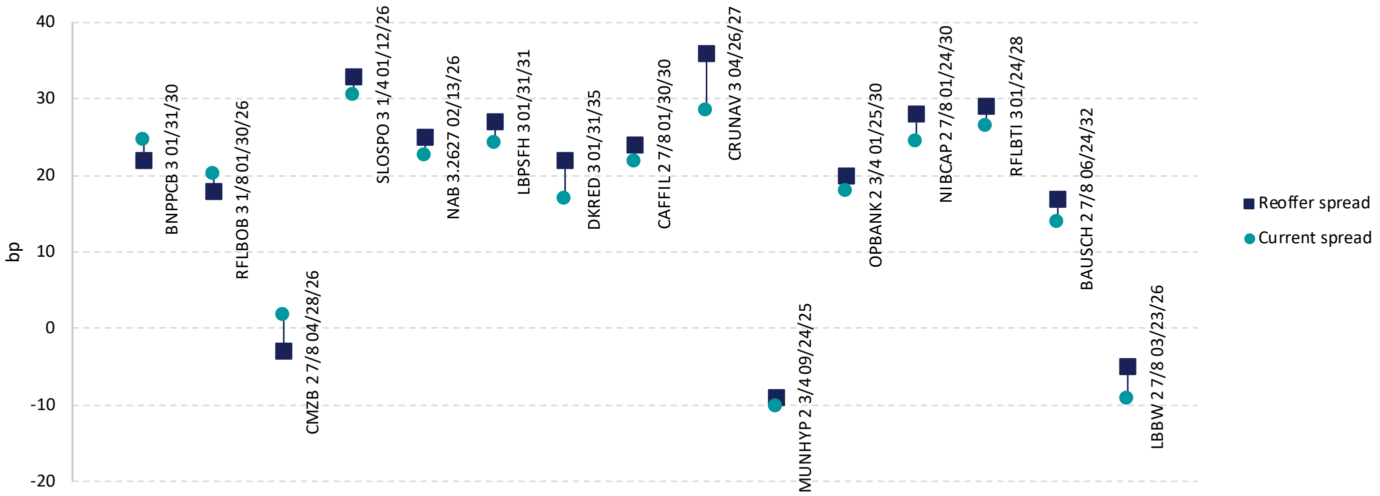
Spread development by country



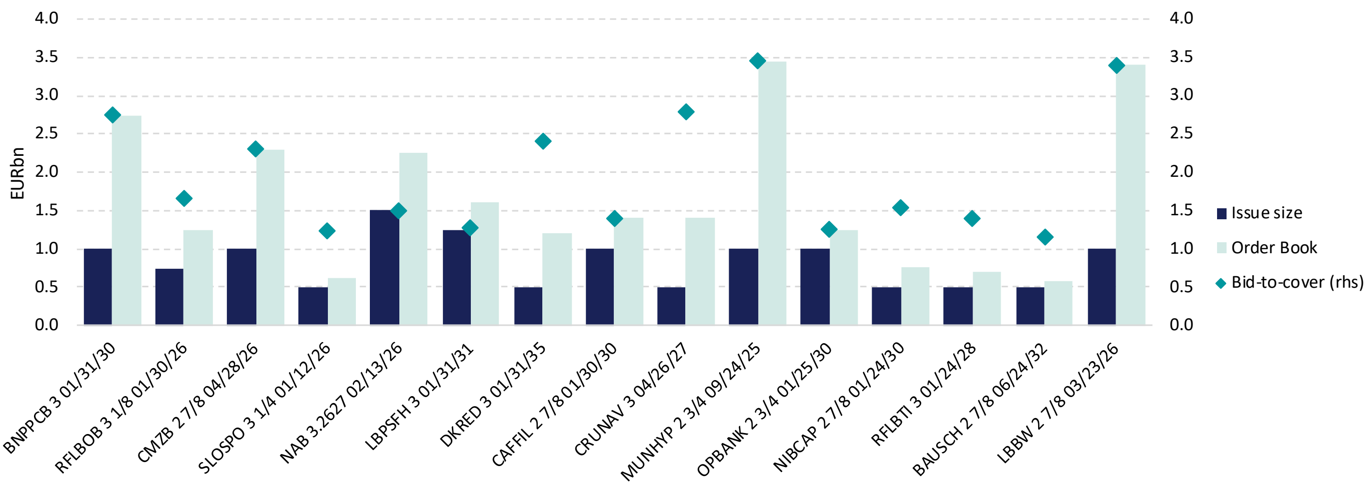
Covered bond performance (Total return)



Spread development (last 15 issues)



Order books (last 15 issues)

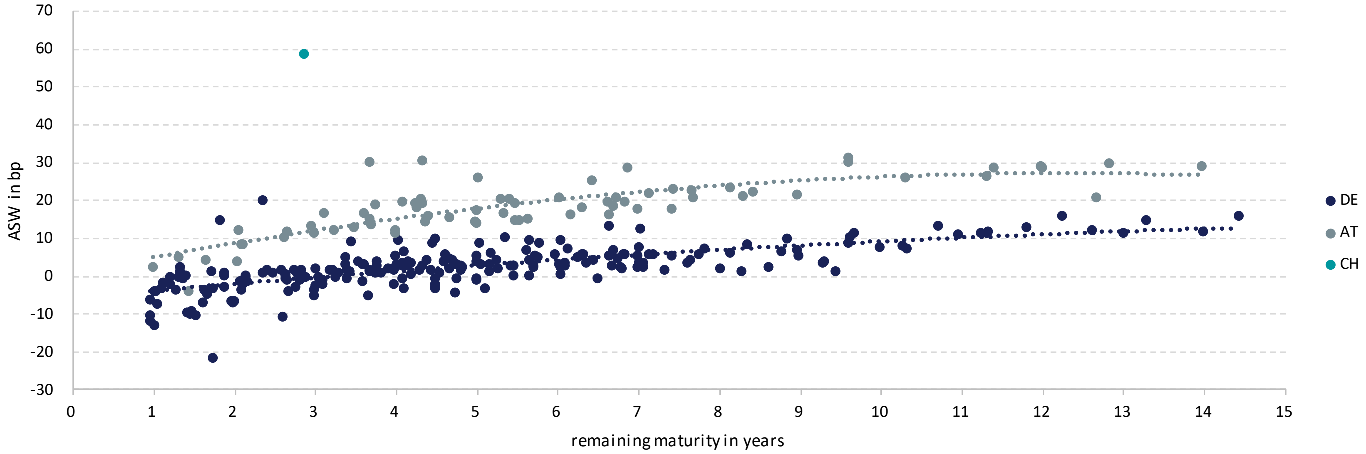


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

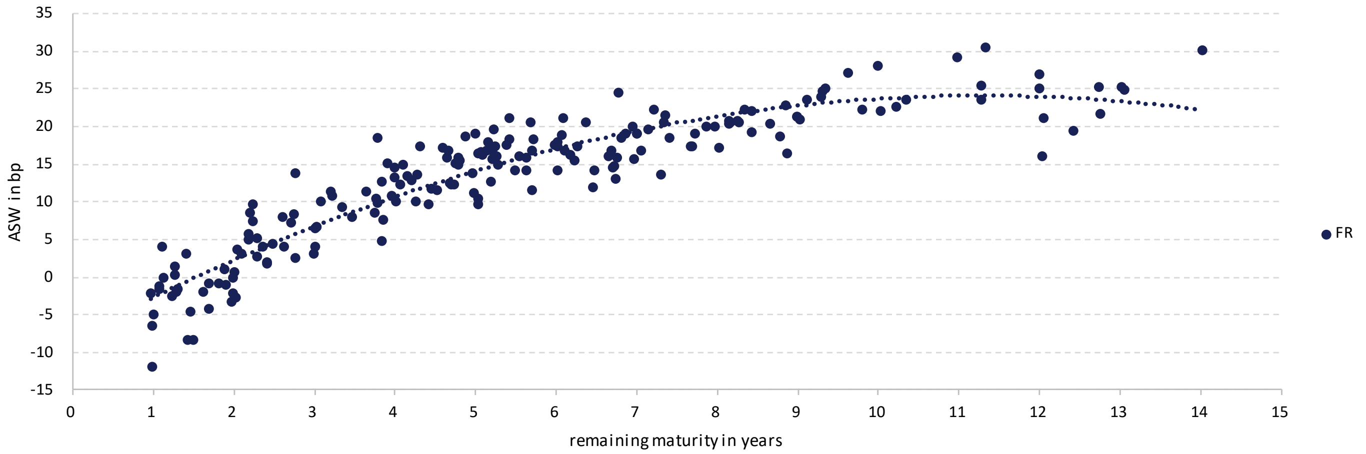
NORD/LB

Spread overview[1]

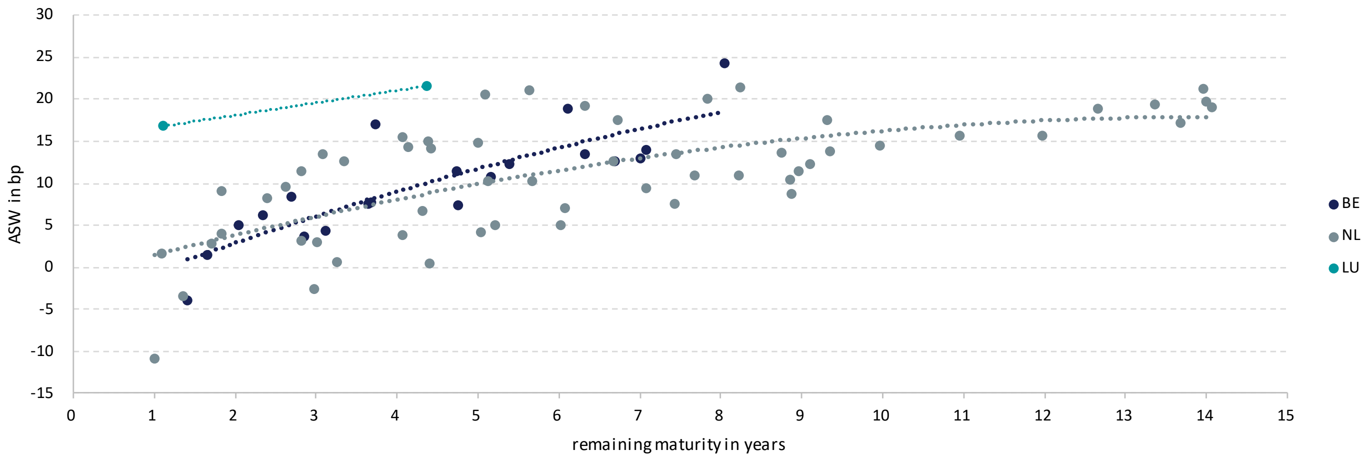
DACH



France

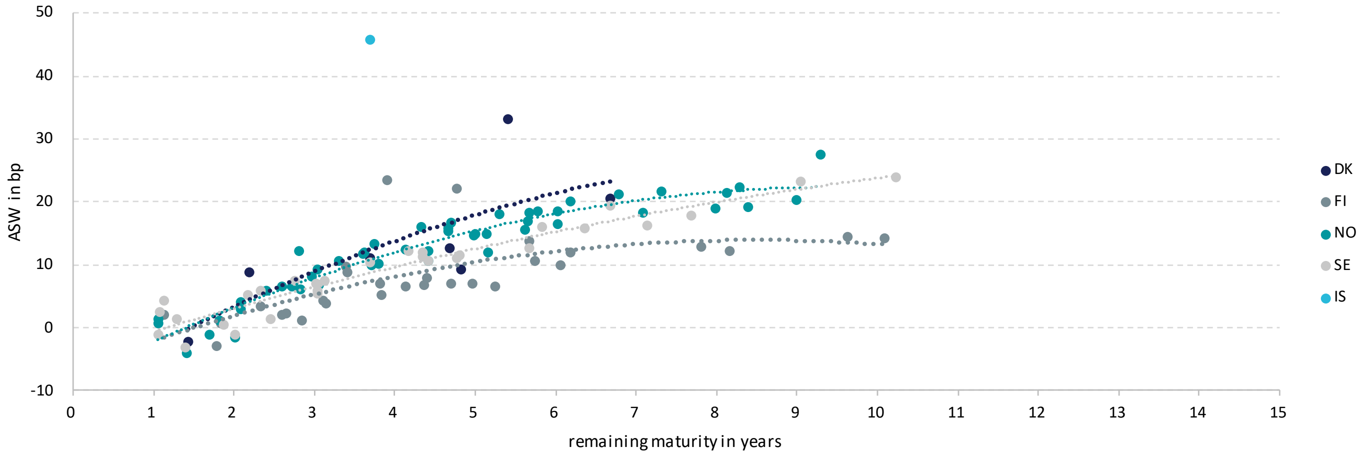


Benelux

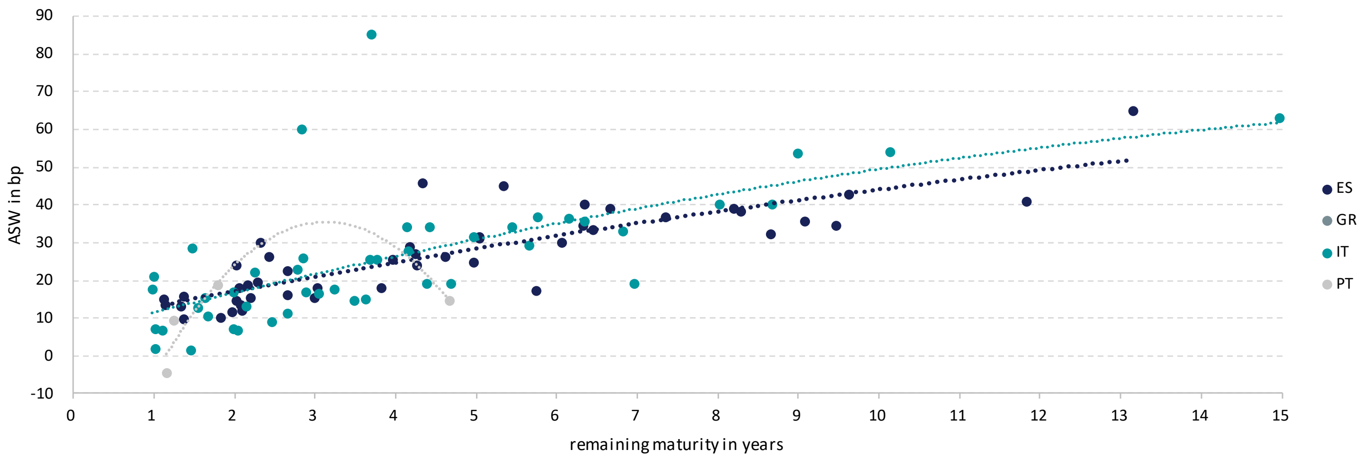


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

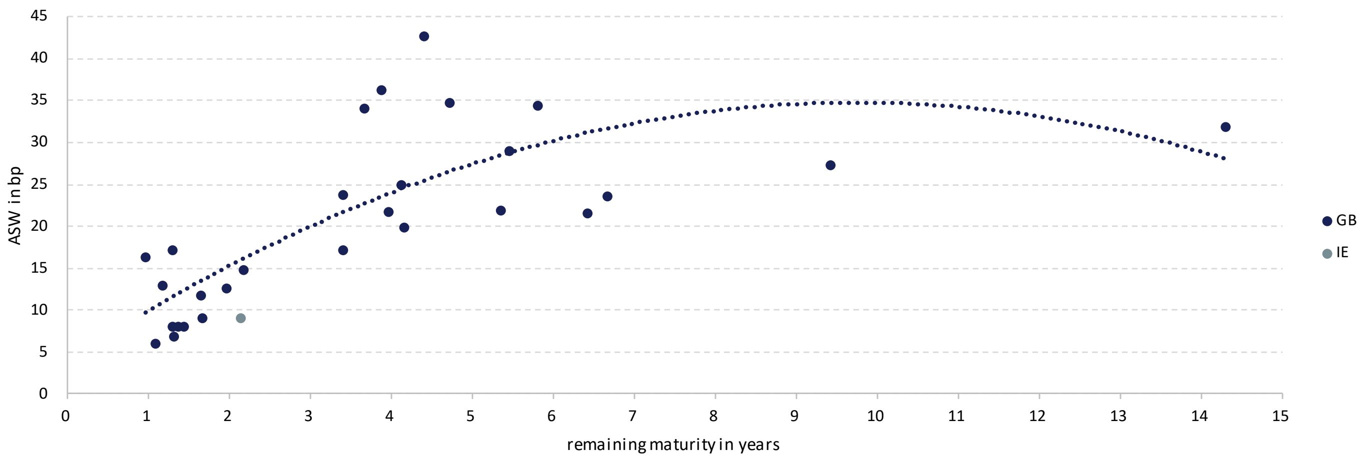
Nordics



Southern Europe

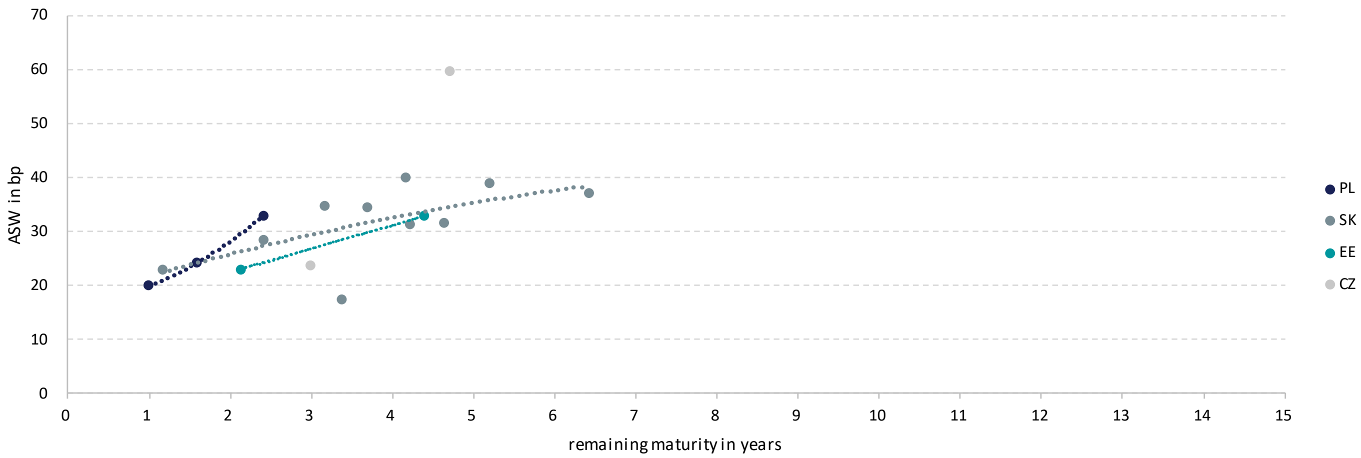


UK/IE

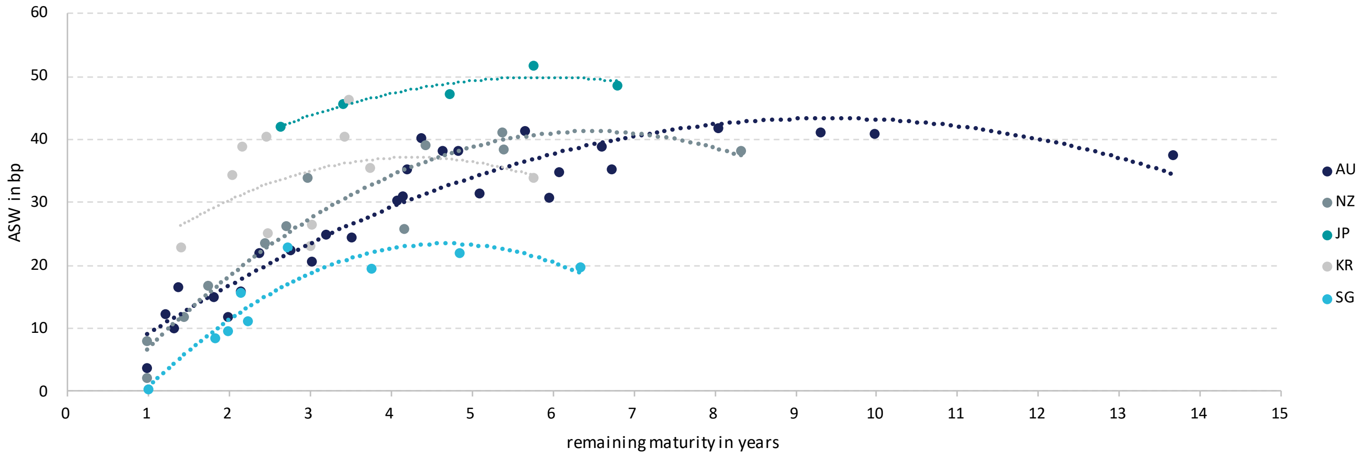


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

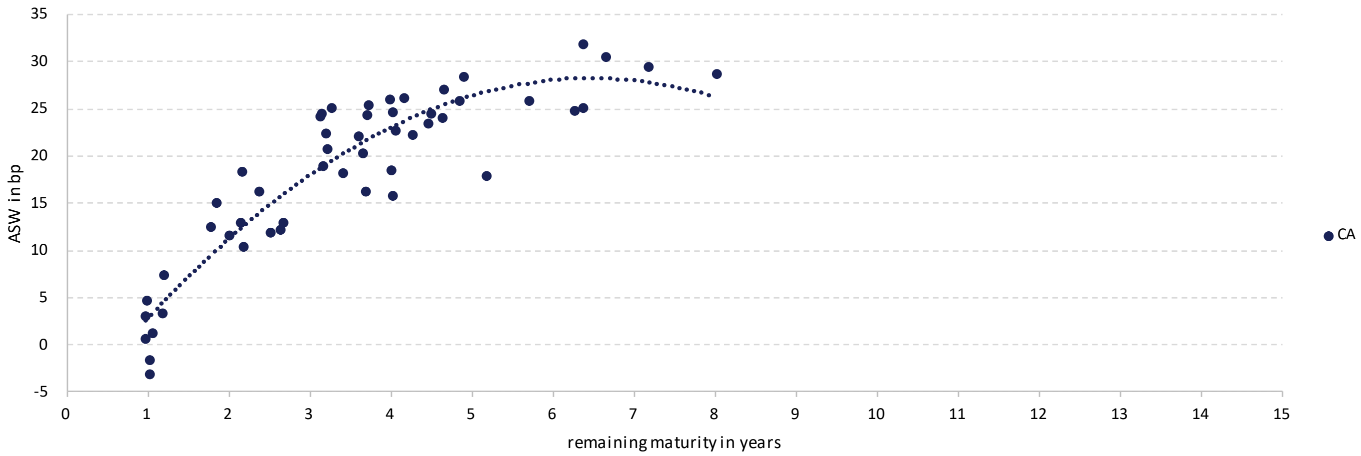
CEE



APAC



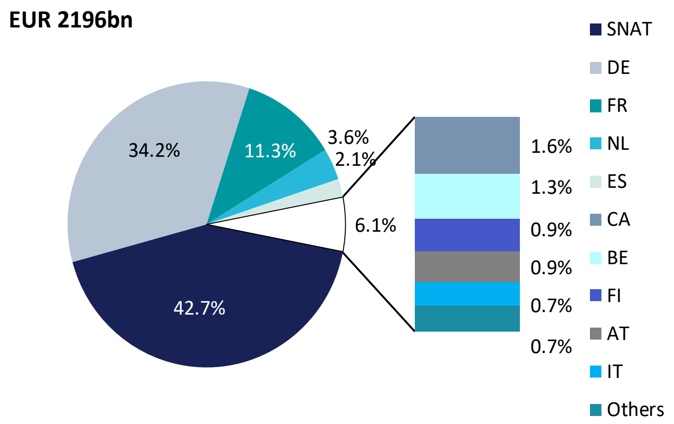
North America



Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

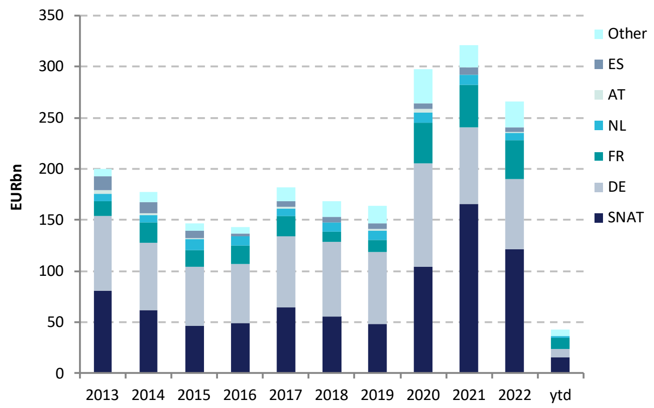
Outstanding volume (bmk)



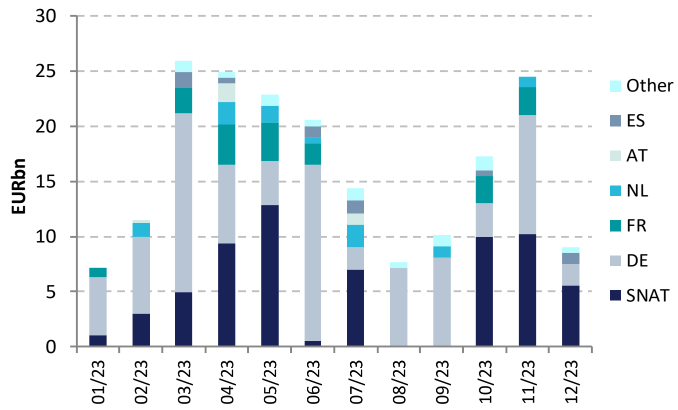
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	937.6	223	4.2	8.2
DE	751.9	559	1.3	6.3
FR	248.4	162	1.5	6.5
NL	78.1	70	1.1	6.6
ES	45.6	60	0.8	4.6
CA	35.7	25	1.4	4.6
BE	28.0	31	0.9	11.8
FI	20.0	23	0.9	5.3
AT	19.8	23	0.9	4.4
IT	15.0	19	0.8	4.9

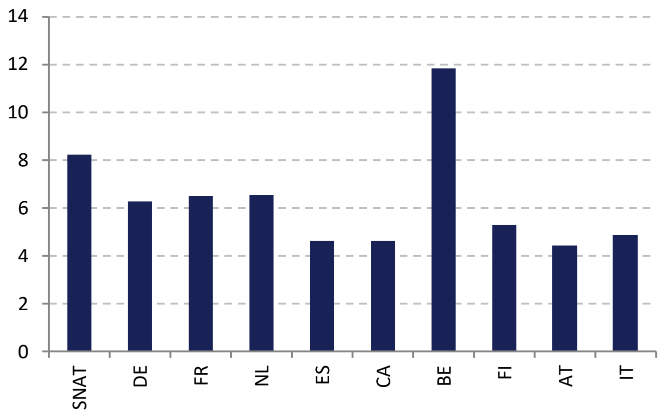
Issue volume by year (bmk)



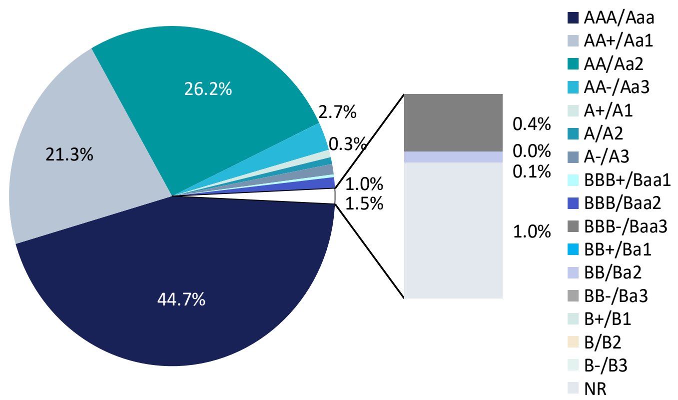
Maturities next 12 months (bmk)



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

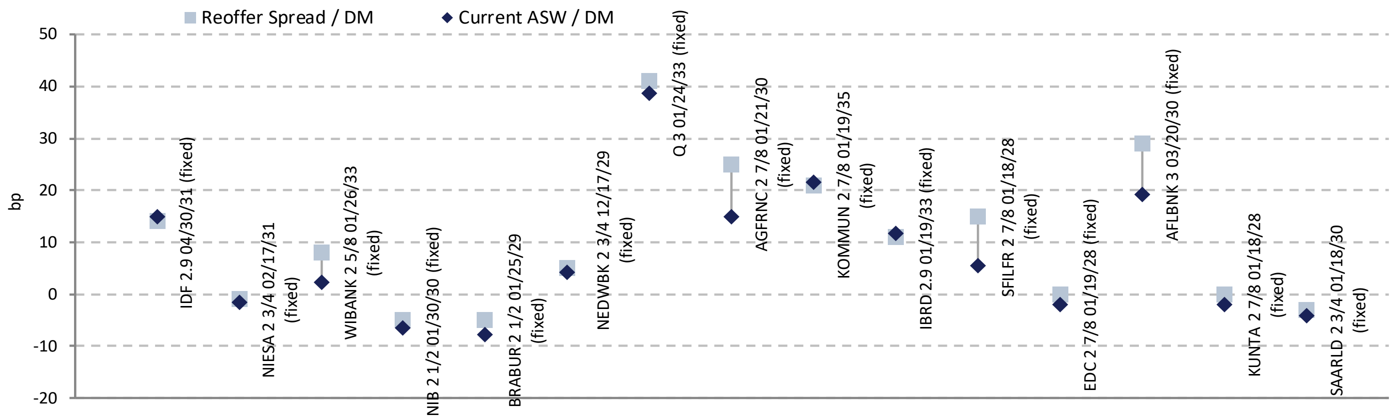


Rating distribution (vol. weighted)

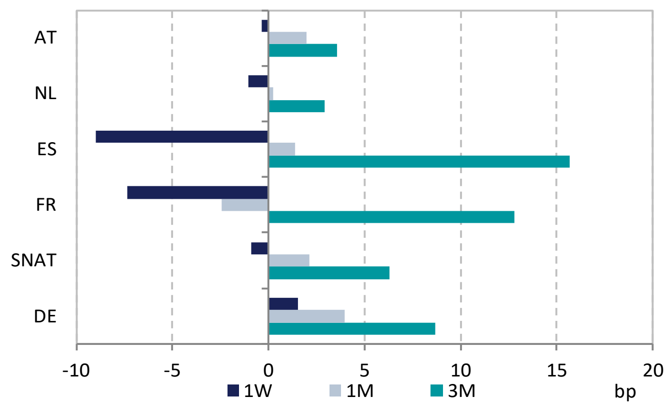


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

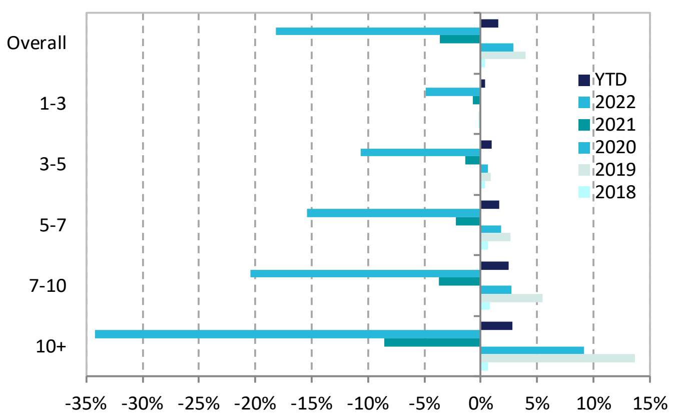
Spread development (last 15 issues)



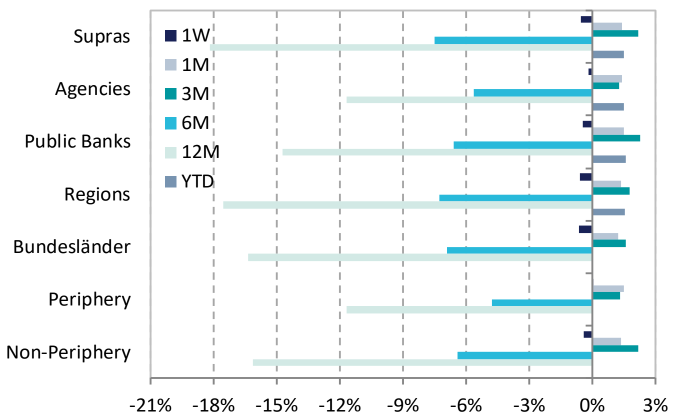
Spread development by country



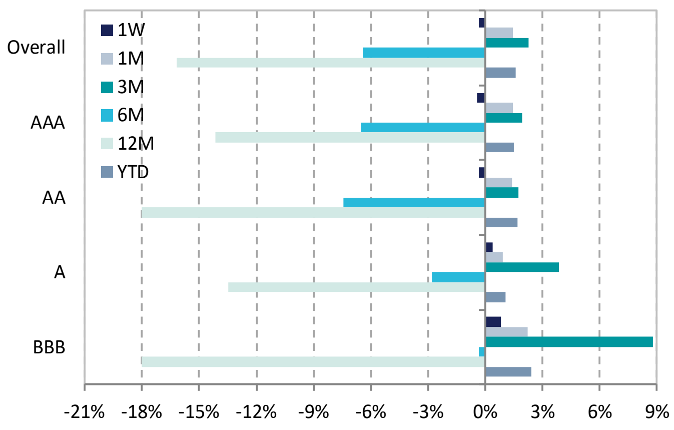
Performance (total return)



Performance (total return) by segments

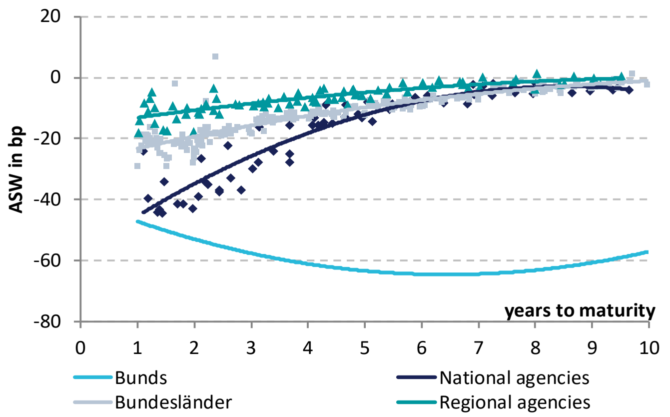


Performance (total return) by rating

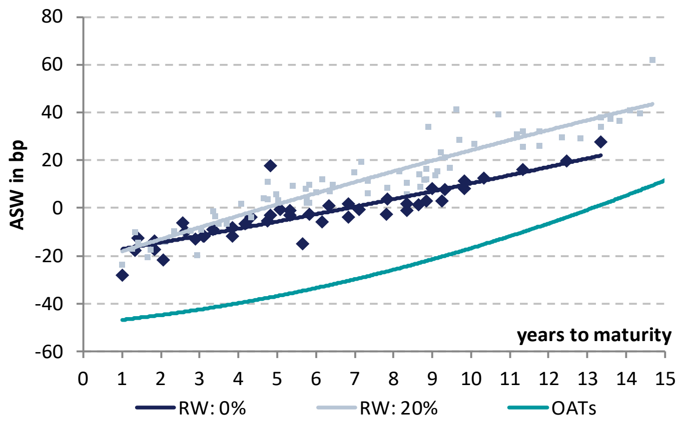


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

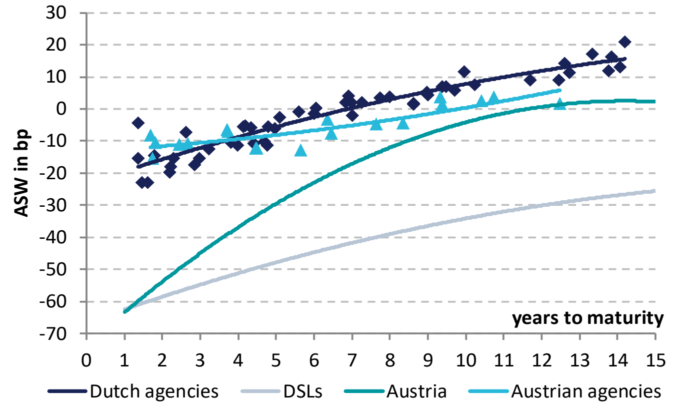
Germany (by segments)



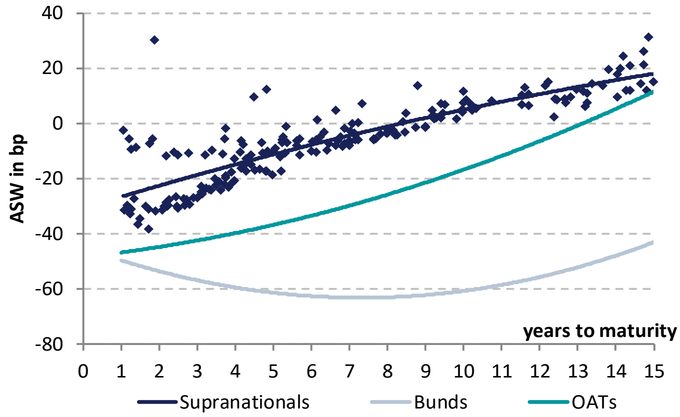
France (by risk weight)



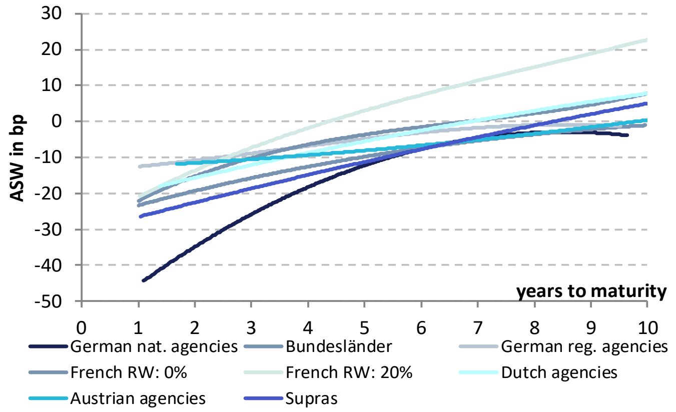
Netherlands & Austria



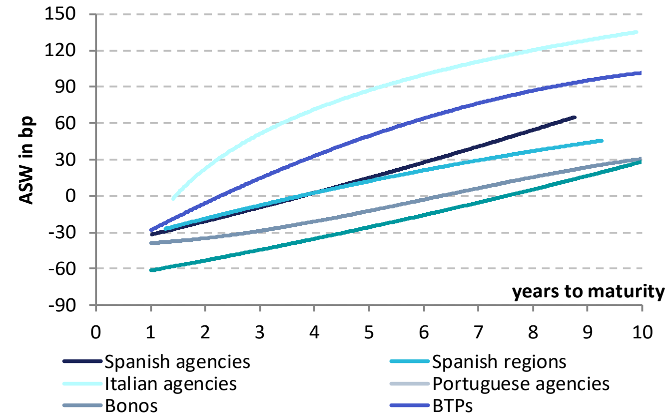
Supranationals



Core



Periphery



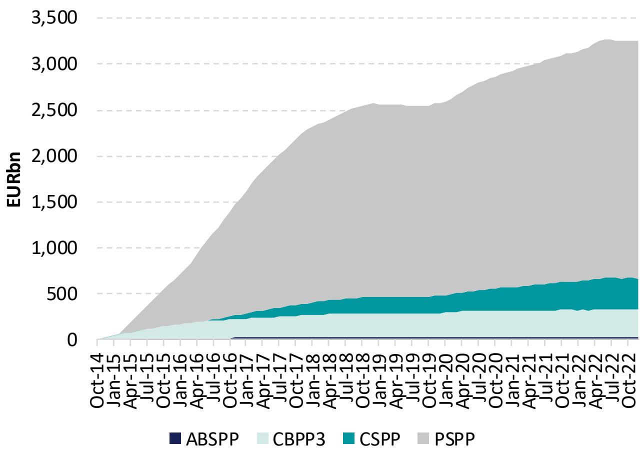
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

ECB tracker

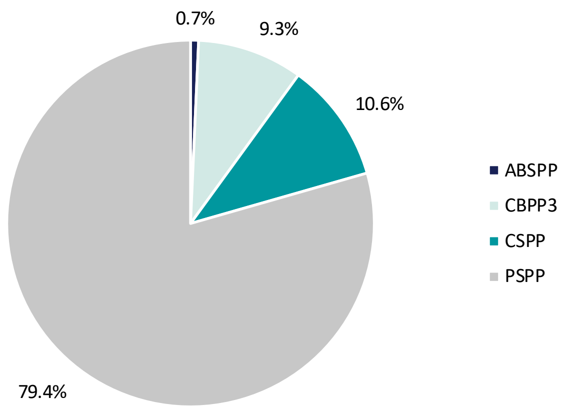
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Nov-22	23,822	302,482	345,039	2,585,720	3,257,063
Dec-22	22,915	301,973	344,119	2,584,666	3,253,673
Δ	-893	-269	-609	+1,398	-373

Portfolio development

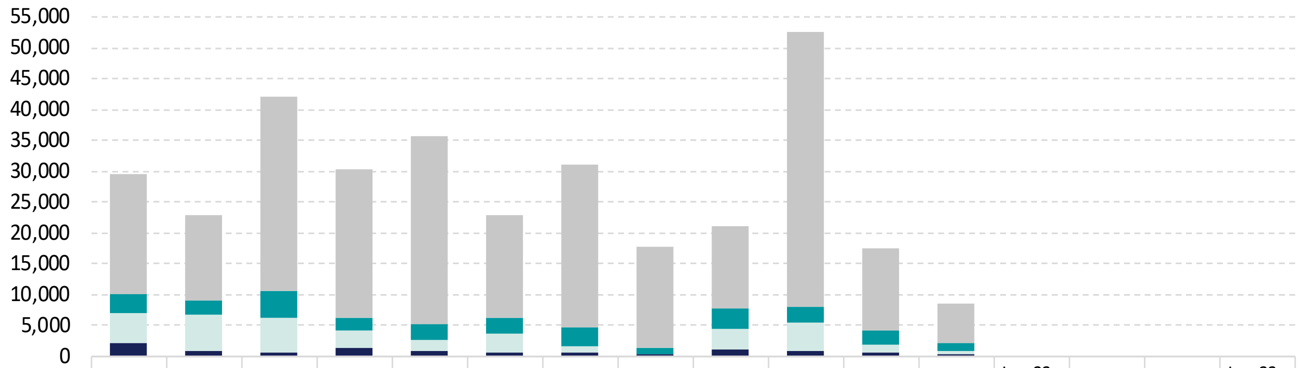


Portfolio structure



Source: ECB, NORD/LB Markets Strategy & Floor Research

Expected monthly redemptions (in EURm)

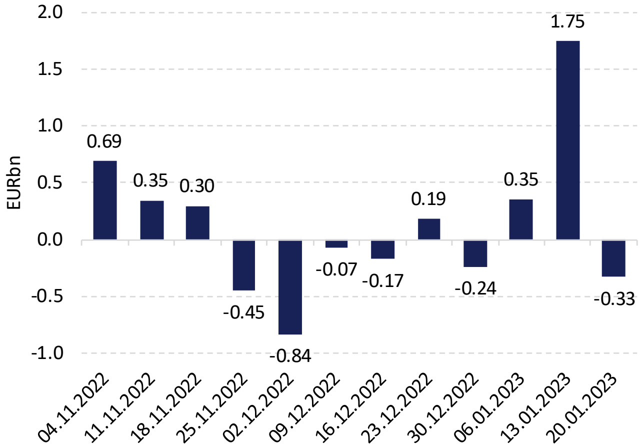


	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23 - Dec-23	2021	2022	Jan-23 - Dec-23
APP	29,406	22,745	42,019	30,201	35,807	22,842	30,999	17,811	21,185	52,718	17,421	8,512	331,666	247,069	299,122	331,666
PSPP	19,469	13,625	31,494	23,889	30,559	16,619	26,287	16,445	13,367	44,729	13,259	6,336	256,078	188,494	228,585	256,078
CSPP	3,010	2,352	4,219	2,162	2,579	2,557	3,038	986	3,362	2,616	2,342	1,336	30,559	17,134	17,670	30,559
CBPP3	4,786	6,065	5,631	2,937	1,874	3,112	1,170	0	3,346	4,465	1,351	408	35,145	30,143	41,244	35,145
ABSPP	2,141	703	675	1,213	795	554	504	380	1,110	908	469	432	9,884	11,298	11,623	9,884

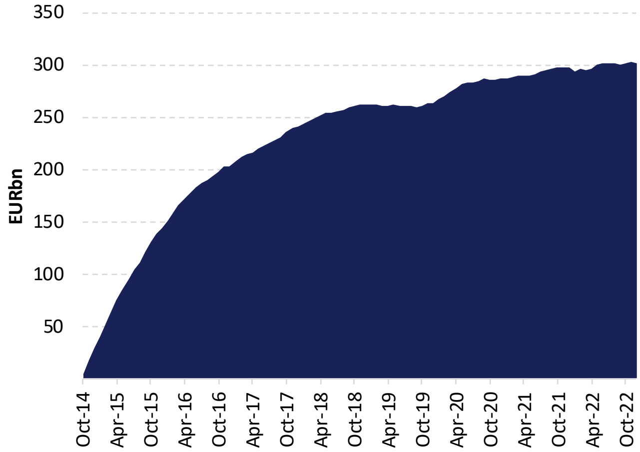
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

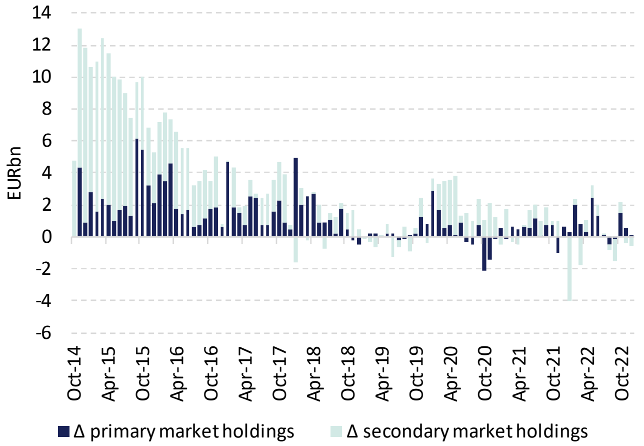
Weekly purchases



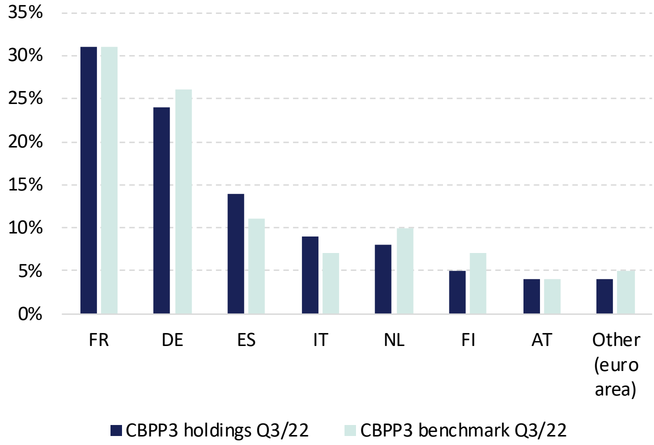
Development of CBPP3 volume



Change of primary and secondary market holdings

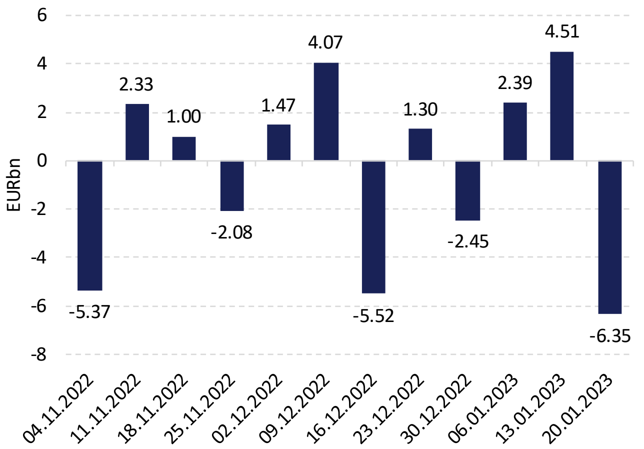


Distribution of CBPP3 by country of risk

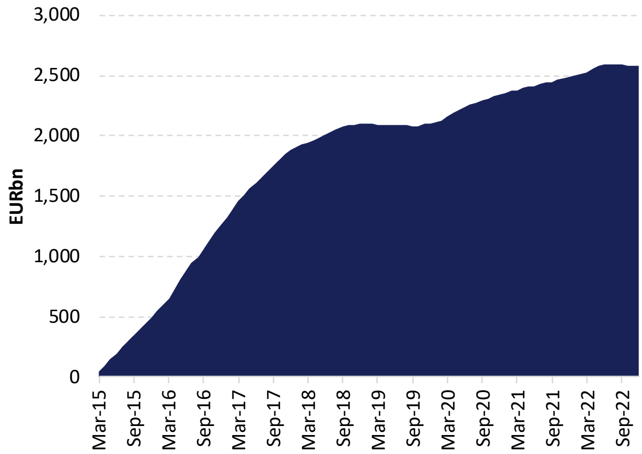


Public Sector Purchase Programme (PSPP)

Weekly purchases



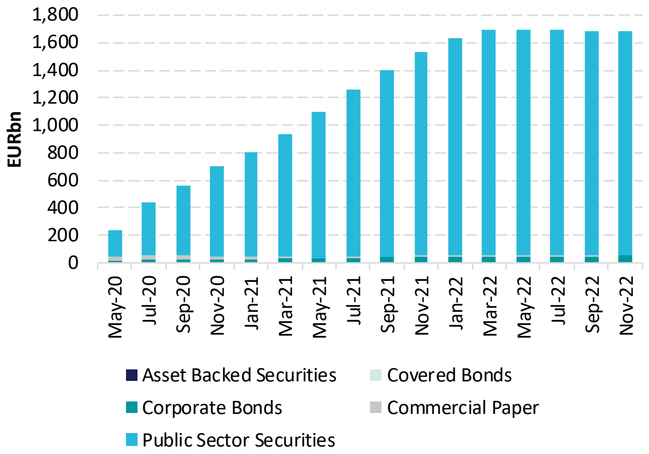
Development of PSPP volume



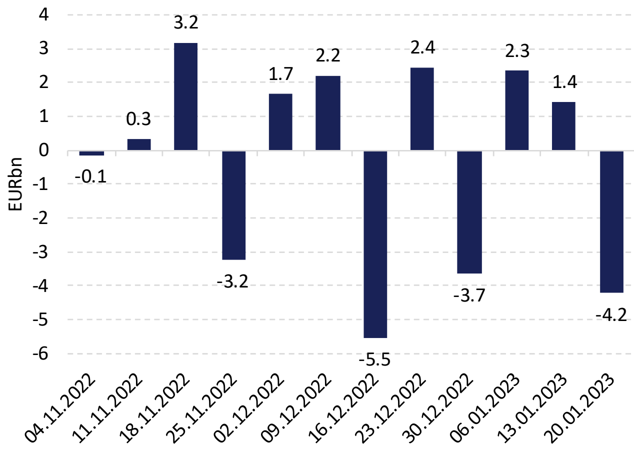
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Δ Holdings previous period	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	Current WAM[3] (in years)	WAM of eligible universe[4] (in years)
AT	43,449	-304	2.6%	2.6%	0.0%	7.7	7.3
BE	56,175	-185	3.3%	3.4%	0.1%	6.4	9.5
CY	2,487	19	0.2%	0.1%	0.0%	8.4	8.3
DE	397,704	-3,060	23.7%	24.0%	0.2%	6.8	6.8
EE	256	0	0.3%	0.0%	-0.2%	7.5	7.5
ES	194,758	-200	10.7%	11.7%	1.0%	7.4	7.4
FI	26,208	-1,073	1.7%	1.6%	-0.1%	7.6	7.7
FR	299,751	1,970	18.4%	18.1%	-0.3%	7.8	7.7
GR	39,607	-888	2.2%	2.4%	0.2%	8.2	9.6
IE	25,825	324	1.5%	1.6%	0.0%	8.8	9.7
IT	287,027	-1,243	15.3%	17.3%	2.0%	7.2	6.9
LT	3,222	-27	0.5%	0.2%	-0.3%	9.7	8.9
LU	1,898	14	0.3%	0.1%	-0.2%	6.0	6.7
LV	1,890	0	0.4%	0.1%	-0.2%	8.1	7.7
MT	606	2	0.1%	0.0%	-0.1%	10.6	8.8
NL	84,558	128	5.3%	5.1%	-0.2%	7.7	8.6
PT	34,425	177	2.1%	2.1%	0.0%	6.8	7.2
SI	6,586	25	0.4%	0.4%	0.0%	8.7	9.1
SK	7,966	0	1.0%	0.5%	-0.6%	8.3	7.9
SNAT	145,915	2	10.0%	8.8%	-1.2%	10.4	8.8
Total / Avg.	**1,660,313**	**-4,320**	**100.0%**	**100.0%**	**0.0%**	**7.6**	**7.6**

[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Current WAM of public sector securities holdings under the PEPP [4] WAM of eligible universe of public sector securities holdings under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
02/2023 ♦ 18 January	▪ Focus on covered bond jurisdictions: Belgium in the spotlight ▪ The Moody's covered bond universe: an overview ▪ Beyond Bundeslaender: focus on Belgian issuers
01/2023 ♦ 11 January	▪ ECB review: 2022 entailed all manner of monetary policy action ▪ Covered Bonds Annual Review 2022 ▪ SSA: Annual review of 2022
39/2022 ♦ 14 December	▪ Our view of the covered bond market heading into 2023 ▪ SSA outlook 2023: ECB, NGEU and the debt brake in Germany
38/2022 ♦ 07 December	▪ ECB preview – next hike but total assets (finally) reduced?! ▪ Covered bond jurisdictions in the spotlight: a look at Spain
37/2022 ♦ 30 November	▪ Transparency requirements §28 PfandBG Q3 2022 ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
36/2022 ♦ 23 November	▪ ESG covered bonds - another record year ▪ Current LCR classifications for our SSA coverage
35/2022 ♦ 16 November	▪ Covered bond jurisdictions in the spotlight: a look at Austria ▪ Development of the German property market ▪ EIB goes Blockchain… again!
34/2022 ♦ 09 November	▪ Covered bond jurisdictions in the spotlight: a look at Norway ▪ Tenth edition of the NORD/LB Issuer Guide Covered Bonds ▪ SSA primary stats ytd before the final sprint
33/2022 ♦ 26 October	▪ Repayment structures on the covered bond market: EU harmonisation project consigns hard bullets to the shadows ▪ The debt brake at Laender level
32/2022 ♦ 19 October	▪ ECB preview: +75bp and the balance sheet question ▪ EBA Risk Dashboard paints a robust picture in Q2 2022 ▪ An overview of the German Laender
31/2022 ♦ 12 October	▪ The covered bond rating approach of S&P ▪ Benchmark indices for German Laender
30/2022 ♦ 28 September	▪ Focus on covered bond jurisdictions: Singapore in the spotlight ▪ German Laender: more ESG issues on the horizon?
29/2022 ♦ 21 September	▪ ECBC publishes annual statistics for 2021 ▪ Update: Gemeinschaft deutscher Laender (Ticker: LANDER)
28/2022 ♦ 07 September	▪ Primary market: A little more to come! ▪ ECB: PEPP visibly active as first line of defence
27/2022 ♦ 31 August	▪ ECB rate hikes: minimum of +100bp still to come by year-end ▪ Australia: Macquarie returns to the EUR benchmark segment
26/2022 ♦ 24 August	▪ Development of the German property market ▪ Transparency requirements §28 PfandBG Q2/2022

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Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2022

Covered Bond Directive: Impact on risk weights and LCR levels

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

Transparency requirements §28 PfandBG Q3/2022 (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2022

Issuer Guide – German Agencies 2022

Issuer Guide – Dutch Agencies 2022

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Spotlight on Spanish regions

Fixed Income Specials:

ESG-Update 2022

ECB interest rate decision: delivered as expected?

ECB acts as the 'House of Hikes' - or: Winter is coming!

ECB frontloads rate hike by +50bp and breaches pre-commitment

ECB ready for lift-off: Every journey starts with a first step

NORD/LB:	**NORD/LB:**	**NORD/LB:**	**Bloomberg:**
Markets Strategy & Floor Research	Covered Bond Research	SSA/Public Issuer Research	RESP NRDR <GO>

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