

MON, 11 December 2023 (3pm CET)
Our digital outlook 2024

The ECB and the bond markets in 2024 –
supervised detox or cold turkey?



Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

22 November 2023 ♦ 34/2023

Marketing communication (see disclaimer on the last pages)

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Market overview

Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: active ESG issuances in the EUR benchmark segment

Despite the fact that the end of 2023 is inching ever closer, the market for EUR benchmarks remains open to new issuances and was particularly active over the past seven days, when a total of five deals were placed. Surprisingly, green covered bond issuers were especially active, with three such issues observed over the past week. Last Wednesday, Rabobank (5y) and Münchener Hypothekenbank (5y) both approached investors with green deals. Rabobank successfully placed an inaugural green covered bond (EUR 1.25bn) at a reoffer spread of ms +20bp, while the Münchener Hypothekenbank was able to place a green Pfandbrief worth EUR 500m (WNG; guidance: ms +24bp area; re-offer spread: ms +19bp) on the very same day. Also making its green benchmark debut yesterday (21 November) was Bausparkasse Wüstenrot, with the issuer opting for a volume of EUR 500m (WNG; guidance ms +32bp area) for its mortgage Pfandbrief. The deal was eventually priced precisely in line with the guidance at a re-offer spread of ms +32bp. Nationwide Building Society also chose a term of five years when successfully raising EUR 1.0bn from investors with its second EUR benchmark this year. The order books were 1.8x oversubscribed, meaning that the spread tightened by four basis points during the marketing phase (guidance ms +45bp area). After Moody's confirmed Italy's country rating (Baa3) with a stable outlook last week, the Italian issuer BPER Banca approached investors yesterday (21 November) with the offer of a five-year covered bond (guidance: ms +80bp area). The deal was priced five basis points tighter (ms +75bp), with the result that EUR 750m was allocated for this bond. For further information on the issuer and its covered bond programme, please refer to our recently published [Issuer View](#).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BPER Banca	IT	21.11.	IT0005571952	4.9y	0.75bn	ms +75bp	- / Aa3 / -	-
Bausparkasse Wüstenrot	DE	21.11.	DE000WBPOBK9	5.0y	0.50bn	ms +32bp	- / - / AAA	X
Nationwide	GB	20.11.	XS2725234954	5.0y	1.00bn	ms +41bp	AAA / - / AAA	-
Rabobank	NL	15.11.	XS2722858532	5.0y	1.25bn	ms +20bp	- / Aaa / -	X
Münchener Hyp	DE	15.11.	DE000MHB37J6	5.0y	0.50bn	ms +19bp	- / Aaa / -	X

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

EUR sub-benchmark segment: Sparkasse Hannover issues public sector Pfandbrief

Another reputable Pfandbrief issuer in the form of Sparkasse Hannover has approached investors in the EUR sub-benchmark segment. The bank mandated a syndicate last week to place a public sector Pfandbrief. The rating for its public sector Pfandbrief was announced on 15 November 2023 by the rating agency Fitch as AAA (Exp) with a stable outlook (cf. [press release](#) and [Rating Report](#) from Fitch). The deal worth EUR 250m (WNG; 5.0y) started the marketing phase at an initial guidance of ms +30bp and was priced at this level.

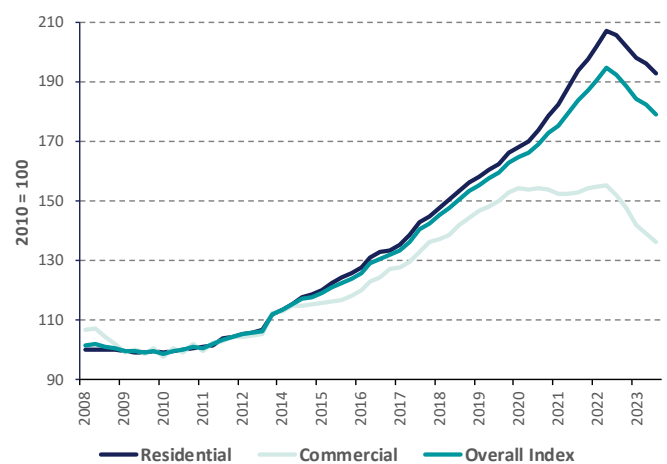
Deutsche Hypo real Estate climate index: mood remains depressed

After we focused on the developments on the German property market in the third quarter of 2023 as part of a focus article published in the previous edition of our [Covered Bond & SSA View](#) last week, the recently published Deutsche Hypo real estate climate index also allows us to gauge the current mood on the market. While the mood among the surveyed real estate experts did pick up slightly in November, it remains very gloomy overall. The Deutsche Hypo real estate climate index currently stands at 71.2 points (October 2023: 66.4 points). There was a slight improvement in the mood of all sub-indices, but they remain at a low level overall. In percentage terms, the values for the Hotel (+10.5% M/M) and Office (+8.8%) climates recorded the most notable improvements. The real estate experts at Deutsche Hypo attribute the continued depressed sentiment to problems among project developers, the subdued transaction market and numerous discontinued projects. As with the vdp property price index, the Deutsche Hypo real estate climate index paints a similarly bleak picture of the real estate market. Moreover, Deutsche Hypo does not anticipate any rapid recovery of the real estate market. Nevertheless, in terms of the quality of the assets in the cover pools of German Pfandbriefe, we do not believe that current developments on the real estate market represent any kind of jeopardy.

Deutsche Hypo real estate climate index



vdp property price index



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

Publications in the context of §28 PfandBG disclosures

In our recent comments on primary market activity, we have repeatedly highlighted that investors have been operating more selectively. For some investors, cover pool composition is becoming an increasingly important factor. In this context, the database on §28 PfandBG disclosures compiled by the Association of German Pfandbrief Banks (vdp), which provides a uniform overview of the German Pfandbrief segment, can be regarded as playing an important role in efforts to ensure transparency. We regularly use vdp data to compile our [Covered Bond Special on transparency disclosures](#) and go into detail regarding certain overall market trends as part of our [Covered Bond focus article](#) in this edition of our weekly publication. From our perspective, the content of the data offers more than simply a segmentation between commercial and residential cover assets, with the intrinsic value of the active Pfandbrief programmes as a whole underlined by the array of information offered.

Fitch: peer review for Spanish covereds

In a recently published analysis of the Spanish covered bond market, the rating experts at Fitch honed in on the trend which has seen issuers in this jurisdiction increasingly opt for soft bullet structures in relation to covered bond deals. Following the implementation of the Covered Bond Directive (July 2022), Spanish issuers have also had the option of issuing soft bullet bonds in addition to covered bonds with a hard bullet structure. According to the rating experts at Fitch, since this time practically all new deals (97%) have featured a soft bullet structure. Fitch also explains that if a majority of the outstanding covered bond volume is structured in this manner, an improvement in the covered bond rating is possible. In particular, maturity deferrals or extensions (12 months as a general rule) are assessed positively by the rating agency. The rating experts do not expect the average share of soft bullet covered bonds to exceed 50% (at present: 15%) of the total issuance volume from Spain before 2030.

Scope sees Italian banks as well equipped

A few days ago, the rating agency Scope, which was recently welcomed into the exclusive circle of ECAF institutes, presented its quarterly report on the Italian banking sector. Scope publicly reports the ratings for Banco Popolare di Sondrio and IBL Banca, with re-restricted ratings provided for Intesa Sanpaolo, UniCredit, Banco BPM and Mediobanca Banca di Credito di Finanziaro. Overall, Scope believes the banks are well equipped. In the recent past, increased margins and low provisions have kept bank profits on the high side, while financial metrics are also robust. Cost efficiencies are also providing an additional boost here, and these serve to brighten the outlook for 2024 as well. Nevertheless, there are also challenges for the Italian banks to overcome, including tensions on the BTP market and discussions surrounding additional profit taxes on banks. In this context, Scope identifies support in the form of asset quality and capital resources for the former, while retained profits could also help to improve the picture with regard to the latter.

Covered Bond Label: S-Bank expands circle of issuers to 137 banks

After Mediobanca from Italy became the last bank to expand the members circle of the Covered Bond Label Foundation ([CBLF](#)), another Finnish issuer in the form of S-Bank has now also joined the CBLF. The label now comprises 137 issuers from 24 jurisdictions. Luca Bertalot, Secretary General of the ECBC, was delighted to welcome the fifth Finnish issuer to the label and highlighted the transparency of the Harmonised Transparency Templates (HTT). In addition to S-Bank, at present there are four other Finnish banks that form part of the CBLF and publish quarterly reports in line with the HTT. On 19 September 2023, S-Bank issued its first ever covered bond with a volume of EUR 500m. As the issuer announced, this deal was issued under its covered bond programme capped at EUR 3.0bn. Moving forward, S-Bank is also planning additional covered bond issuances for the period 2023-2025 (for further details, please refer to this [press release](#)).

Market overview

SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann

Federal Constitutional Court judgement: no COVID-19 money for climate funds

In 2021, the German government passed a supplementary budget in the wake of COVID-19, which increased permitted borrowing by EUR 60bn. This was in response to an extraordinary emergency and was therefore a permissible exception to the requirement for a balanced budget enshrined in the German constitution. Ultimately, the funds were not needed to combat the pandemic and its consequences. The federal government eventually reallocated the funds – with the consent of the Bundestag and retroactive effect – to the Climate and Transformation Fund. An ostensibly win-win situation, which was, however, scotched by the constitutional judges on 15 November on the basis that it was in breach of the German constitution. The Federal Chancellor, Olaf Scholz, who is embroiled in the fraught negotiations surrounding next year's budget, and the government are now faced with a financial shortfall of EUR 60bn. Meanwhile, even the German Council of Economic Experts is diametrically opposed as to how to deal with the situation: for instance, Monika Schnitzer suggests, "A transparent solution could be to use the impact of the energy crisis to justify a further exception to the requirement to balance the budget." Veronika Grimm takes a different view: "Suspending the debt brake by emergency rule requires an emergency" and this would be "difficult to argue." As things stand at present, the German Ministry of Finance has imposed a spending freeze on all departments, which will especially affect commitment appropriations.

KfW climate barometer 2023: rise in climate protection investment

On 15 November, Kreditanstalt für Wiederaufbau (ticker: KfW) presented the KfW climate barometer, which provides insights into German companies' activities in relation to climate protection and energy transition, for the second time. We summarise the key results below: almost two thirds of all companies in Germany had enshrined climate protection in their corporate strategy in part at least in 2022, which is an increase of around ten percentage points on the previous year. In this respect, stronger growth was reported among small and medium-sized enterprises (SMEs) in particular. However, there is still room for improvement as far as operationalising climate protection strategies is concerned: around 70% of companies have not developed any concrete plans to reduce greenhouse gas emissions to date, for example. Meanwhile only 15% of all companies have set their own target for achieving climate neutrality (previous year: 10%). Despite the economic headwinds, German companies' investment in climate protection increased significantly, by 31%, in 2022 (in nominal terms; adjusted for inflation: +18%) to EUR 72bn in total. As a result, one in seven euros (15%) of the corporate sector's investment was spent on climate protection in 2022. Most frequently, companies invested in climate-friendly mobility, followed by the expansion of renewable energies and the refurbishment of existing buildings to improve their energy efficiency. Regarding the estimated investment of around EUR 120bn per year required by the private corporate sector to achieve climate-neutrality in Germany by the middle of the century, the investment shortfall fell slightly last year but still needs to be increased significantly. Chief Economist Fritzi Köhler-Geib drew a positive conclusion: "Climate protection has become quantifiably more relevant as an investment area [...]." But there is still much to do "to close the gap long-term."

EIB awards EUR 9.3bn for transport, business, energy, water and cities

On 15 November, the Board of Directors of the European Investment Bank (ticker: EIB) approved new financing of EUR 9.3bn. The funds are intended for sustainable transport, research and development in companies, water-related projects as well as urban infrastructure in Europe and the rest of the world. They are expected to support the reconstruction of schools, hospitals, bridges and drinking water infrastructure in Ukraine. The funds will probably be financed via the “EU for Ukraine” funds. Werner Hoyer, President of the EIB, commented: “Today, we gave the green light for key investments that will improve European competitiveness. Our renewed support will also help Ukraine rebuild the infrastructure that has been destroyed and will mitigate the suffering that Russia’s invasion has caused the people in that country. In two weeks, climate partners from throughout the world will meet in Dubai at COP28. In the meantime, the EIB has confirmed that it is on course to provide climate investment of one trillion euros by the end of the decade. It is now promoting new investments that will allow companies and households to cut their energy consumption and use more renewable energies.” To provide some background context, the EIB had adopted its “Climate Bank Roadmap 2021-2025” as long ago as 2020, with the aim of implementing its transformation into the EU’s climate bank and, by doing so, stepping up its support for the European Green Deal and a just transition to low carbon, climate-resilient and environmentally sustainable development throughout the world. With this roadmap, the EIB also committed to aligning all its financing to the principles and targets of the Paris Agreement. It also dedicates itself to the plan to award at least 50% of its annual resources to climate protection and environmental sustainability beginning in 2025. The analysis of the preliminary results confirmed that the EIB Group is well on course to achieve these targets: in 2022, 58% of EIB resources were already used for climate protection and environmental sustainability. Here, we should also remember who issued the world’s first green bond: in 2007, the European Investment Bank (EIB) issued the first Climate Awareness Bond, although it should be noted that “CAB” is the EIB’s own abbreviation and is not used by anybody else on the market in relation to ESG bonds.

NIESA: despite higher tax revenues, scarcely any financial leeway

For the current year, our home state of Lower Saxony (ticker: NIESA) is expecting more tax revenue than it had originally planned. Accordingly, the anticipated tax surplus amounts to around EUR 680m, although this still leaves hardly any financial leeway. Just under EUR 100m of the additional revenues are provided by the German government and must be passed directly to the municipalities this year. They are expected to finance accommodation for refugees. The state will retain the remaining part of the funds to finance additional expenses, such as increased wage costs. The state’s ongoing construction projects are also becoming more expensive, which is why Lower Saxony cannot earmark the funds for new projects. For the Lower Saxon municipalities, existing expectations for the period from 2023 to 2027 are also being revised upwards. Accordingly, an increase of EUR 106m compared with the May tax estimate is expected, while an increase of EUR 229m is expected for 2024. This is due to additional revenues from trade tax. “The current tax estimate largely confirms our previous assumptions. It does not provide any additional leeway – either for additional expenditure or for substantial tax cuts,” said Minister of Finance Gerald Heere.

CEB approves 14 new loans totalling EUR 1.1bn

On 17 November, the Council of Europe Development Bank (ticker: COE) approved 14 new loans amounting to EUR 1.1bn for a variety of international projects. The new loans also include the first loan (of EUR 100m) for Ukraine, which concentrates on the reconstruction of healthcare infrastructure. “The loans approved today affirm our sustained commitment to the promotion of resilient and inclusive societies, whereby we focus particularly on meeting the urgent need for medical services facilities with our first loan to Ukraine,” explained CEB Governor Carlo Monticelli. We provide a brief summary of other selected projects below: EUR 250m will go to the Bruxelles Capitale region and will be used to co-finance investment in modernised, more environmentally friendly public transport, which is expected to reduce the carbon footprint per passenger kilometre. A total of EUR 150m will go to Slovakia as loans to (co)finance projects to revitalise and modernise public infrastructure, to improve public services and to renovate residential units, supporting urban, rural and regional development in the process. In total, EUR 80m will go to the Swedish city of Malmö to support investment in inclusive, fair, high-quality school education. Another EUR 69.7m or so will go to the Sankt Georg city hospital in Leipzig for the construction of a new hospital building that will run on renewable energy.

Primary market

Following an eventful week last week, the pace on the primary market in the SSA segment slowed recently – this may be due firstly to a slowdown in economic activity in Europe, while secondly, many issuers have already achieved their funding targets for 2023. Today, we can report on a new EUR benchmark and two taps. The state of North Rhine-Westphalia (ticker: NRW) kicked off proceedings, aiming to raise new funding of EUR 1bn. With a guidance of ms -7bp area, the bid-to-cover ratio amounted to 1.08x, meaning that the deal was consequently finalised at a spread of ms -7bp. It was then followed by the first tap from the city state of Berlin (ticker: BERGER), which increased its 2031 bond by EUR 250m. The order books surged to EUR 600m, meaning that, at a spread of ms +7bp, a tightening of one basis point was achieved compared with the guidance (ms +8bp area). Remaining in the German capital: yesterday (Tuesday), Investitionsbank Berlin (ticker: IBB) approached the capital market with a tap for its 2033 bond. It aimed to raise EUR 500m (WNG); the guidance was ms +17bp area. Having received orders of EUR 1.35bn, it ultimately closed two basis points tighter. As announced in the previous week, Eurofima (ticker: EUROF) ventured onto the market, albeit in the USD segment, with a benchmark of USD 600m. The slightly oversubscribed deal was ultimately concluded at 45 basis points above SOFR (reference: T 4.625% 11/15/26). We do not currently have any new mandates to report on but would like to remind you of the upcoming EU bond auction on Monday, 27 November. According to the announcement, this will be the last auction this year, as the EU will not make use of the optional date in December.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
NRW	DE	15.11.	DE000NRW0N91	3.0y	1.00bn	ms -7bp	AAA / Aa1 / AA	-

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

Covered Bonds

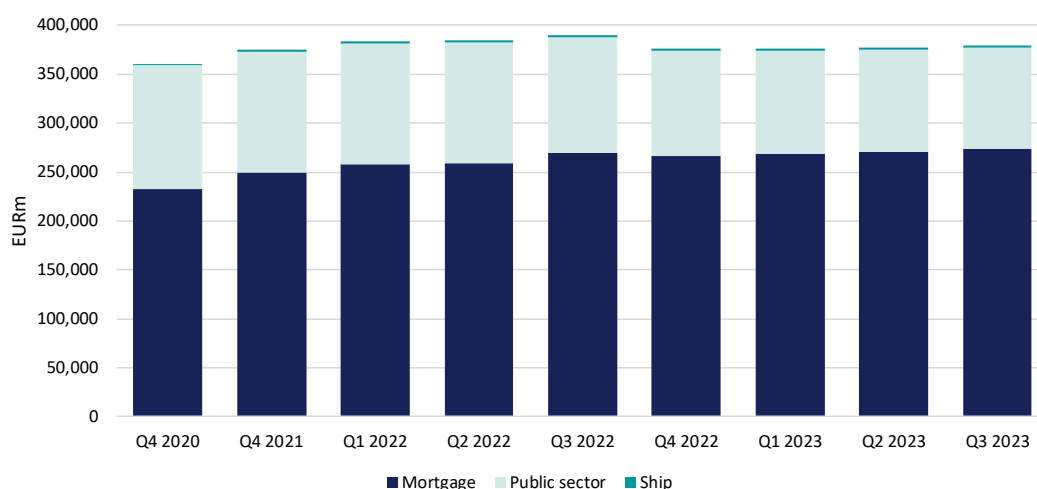
Transparency requirements §28 PfandBG Q3/2023

Authors: Dr Frederik Kunze // Lukas Kühne

Transparency disclosures pursuant to §28 PfandBG: A look at the German Pfandbrief market

In the current issuance year, German Pfandbrief banks are once again among the key drivers on the primary market, in terms of both the EUR benchmark segment and the EUR sub-benchmark segment. In our view, the composition of the cover pools is also becoming an increasingly important factor in the current ongoing repricing phase and given increased investor restraint. The main focus here is on both the type of cover (residential vs. commercial) and the geographical distribution of the properties. In this context, at present the transparency requirements of §28 PfandBG also represent an important input variable. The reporting obligations for Pfandbrief banks required in this context in accordance with §28 PfandBG, which have been extended once again in the course of implementing the EU Covered Bond Directive, are fulfilled for the majority of issuers by the Association of German Pfandbrief Banks (vdp), as part of the [transparency reports](#) on a quarterly basis. This database also provides us with a very important basis for our NORD/LB Covered Bond Special “[Transparency requirements §28 PfandBG Q3/2023](#)”, which we published at the beginning of this trading week. The cover pool data for 37 mortgage Pfandbrief programmes and 21 public sector Pfandbrief programmes, as well as two ship Pfandbrief programmes, are presented here. In the quarter under review, we have again manually added the information on Deutsche Bank’s cover pool that is not reported on the vdp website. In the following article, we summarise the main developments and key messages from the transparency reports at the end of Q3 2023.

Development of outstanding Pfandbrief volume

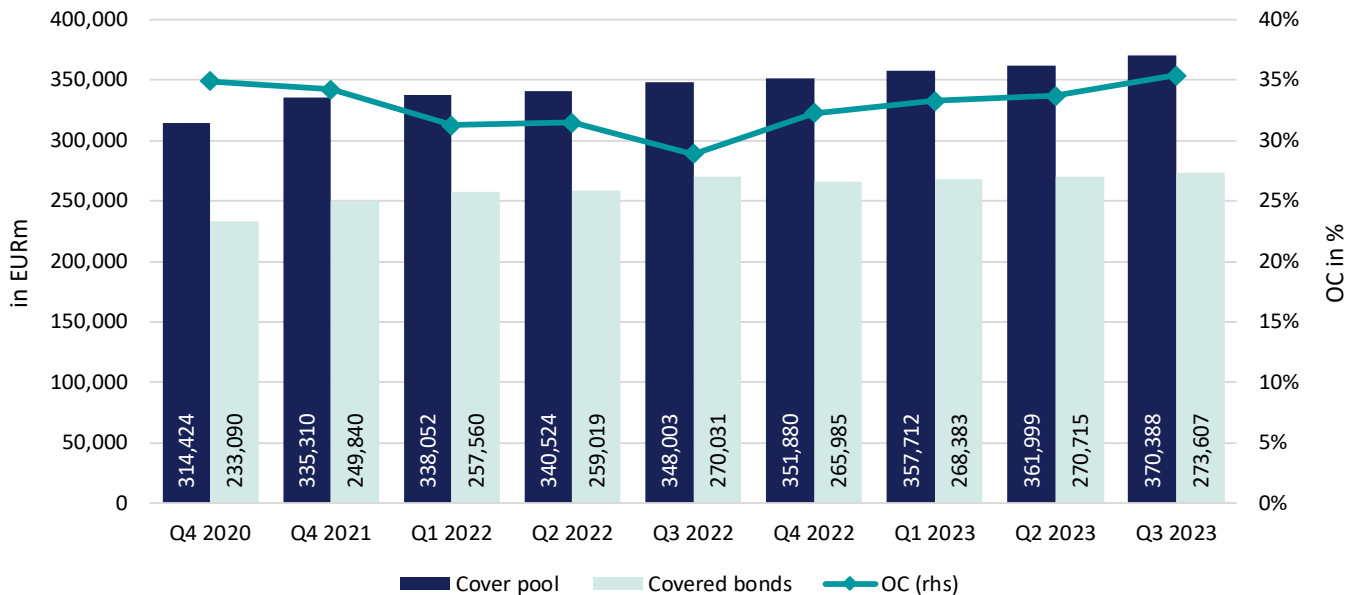


Source: vdp, Deutsche Bank, NORD/LB Markets Strategy & Floor Research

Pfandbrief circulation: total volume up again

With EUR 379.4bn in outstanding Pfandbriefe, the total volume rose again compared with the previous quarter (reporting date 30 June 2023: EUR 377.2bn). This marks the third increase in a row. Compared with the previous quarter, the outstanding mortgage Pfandbrief volume increased by EUR 2.9bn to EUR 273.6bn. The absolute increase of EUR 3.6bn versus the same quarter in 2022 is quite considerable. The volume of public sector Pfandbriefe fell again (EUR -580m or -0.6% Q/Q) to EUR 104.1bn. The volume of outstanding ship Pfandbriefe (Schipfe) fell by EUR 100m to EUR 1.8bn. At 72.1%, mortgage Pfandbriefe therefore continue to account for the largest share of the Pfandbrief market in the definition considered here.

Development of mortgage Pfandbriefe

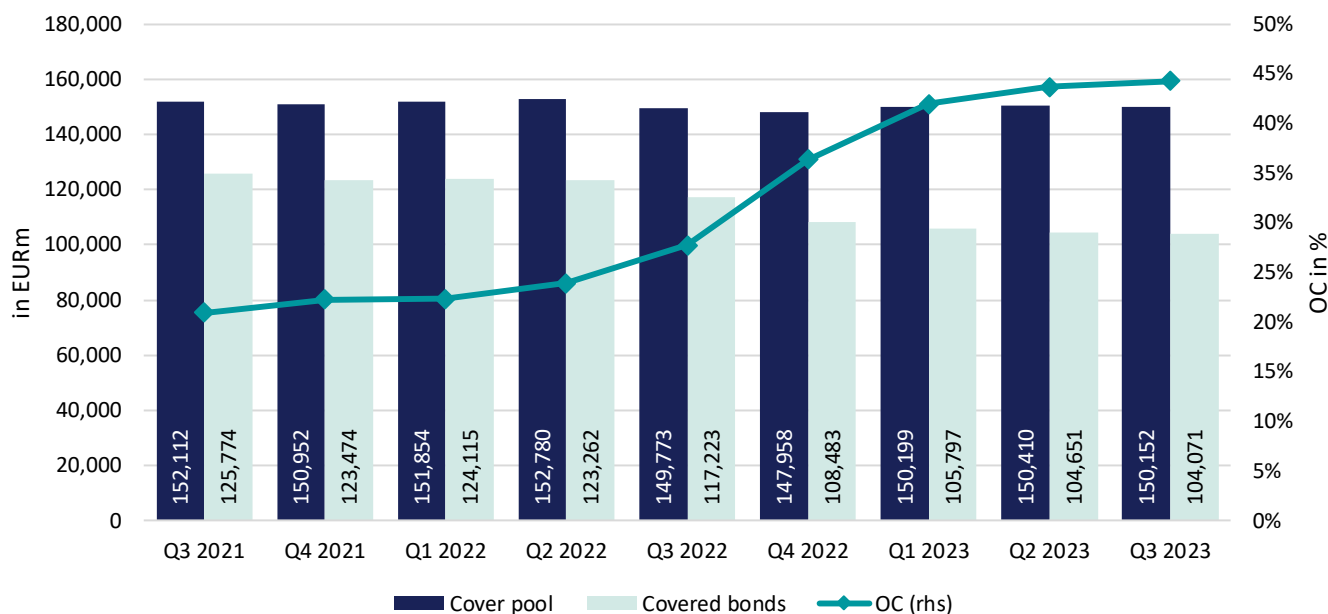


Source: vdp, Deutsche Bank, NORD/LB Markets Strategy & Floor Research

Mortgage Pfandbriefe: OC ratio increased to 35.4%

As already mentioned, the volume of mortgage Pfandbriefe totalled EUR 273.6bn. This contrasts with a cover pool volume of EUR 370.4bn, resulting in an arithmetical overcollateralisation (OC) of EUR 96.8bn or 35.4% (previous quarter: EUR 91.3bn or 33.7%). In our opinion, this average analysis therefore does not yet indicate a shortage of cover assets that may impact the issuance potential in the coming quarters. On the contrary, issuers were able to increase the OC ratio overall, despite the fact that the outstanding volume rose as well. At issuer level, the increase in DZ HYP's outstanding volume of EUR 947m (EUR +1,126m compared with the previous year) stands out in the reporting date analysis. Deutsche Pfandbriefbank also recorded an increase of EUR 769m. Compared with the same quarter of the previous year, however, there was a decrease of EUR 353m. A comparison with the same quarter of the previous year shows strong growth at Commerzbank (EUR +3,882m) and a significant decline at Deutsche Apotheker- und Ärztebank (EUR -3,966m).

Development of public sector Pfandbriefe



Source: vdp, Deutsche Bank, NORD/LB Markets Strategy & Floor Research

Public sector Pfandbriefe: declining volume continues in the third quarter

The public sector Pfandbriefe segment maintained its downward trend in the third quarter. In the current reporting period, the volume of bonds amounted to EUR 104.1bn (previous quarter: EUR 104.7bn). The volume of cover assets, in contrast, remains almost on a par with the previous period and now stands at EUR 150.2bn (previous quarter: EUR 150.4bn). The arithmetical OC ratio therefore amounts to 44.3%, which represents a continuation of the upward trend. In this isolated consideration of the growing cover pools, we identify an indication of adequate issuance potential for the future. We at least stand by our assessment that the decline in the outstanding volume of public sector Pfandbriefe will not necessarily continue at the same rate as we have seen in recent years. In our opinion, this should also materialise in the EUR benchmark segment and the EUR sub-benchmark segment. At issuer level, the increase at Landesbank Hessen-Thüringen is striking. Outstanding Pfandbriefe increased here by EUR 683m in comparison with the previous quarter. However, this figure must clearly be placed into context in view of the sharp decline in the same quarter of the previous year (EUR -4,381m). In the case of the Deutsche Kreditbank (EUR -2,140m), Bayerische Landesbank (EUR -1,521m) and Commerzbank (EUR -1,521m), there were also significant declines.

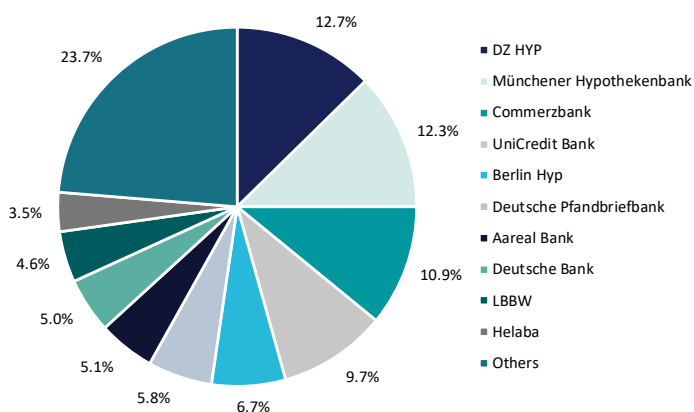
Ship Pfandbriefe remain a niche product

With a share of 0.5% of the total volume, the ship Pfandbrief segment is still a niche market within the Pfandbrief market. Outstanding ship Pfandbriefe (Schipfe) decreased further from EUR 1,859m in the previous quarter to EUR 1,759m (-0.6% Q/Q). Just two banks, namely Commerzbank (EUR 59m) and Hamburg Commercial Bank (EUR 1,700m), still have outstanding ship Pfandbriefe.

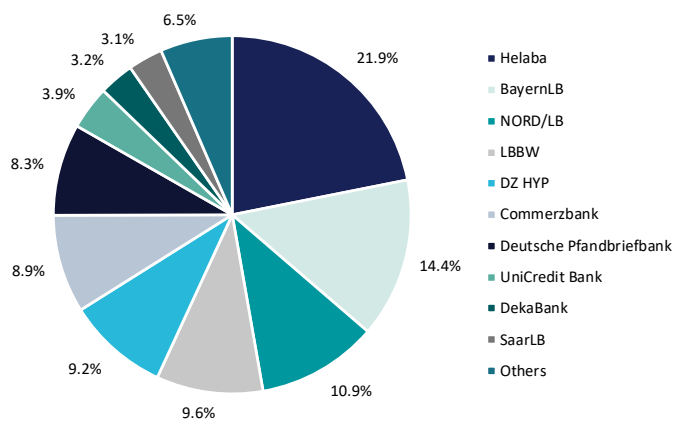
A look at the top 10

DZ HYP (share: 12.7%) remains the top dog on the German Pfandbrief market in terms of the top 10 largest mortgage Pfandbrief issuers by outstanding volume, followed by Münchener Hypothekbank (12.3%) and Commerzbank (10.9%). The ten largest issuers account for a total of 76.3% of the outstanding volume. This share is 93.5% for public sector Pfandbriefe. Helaba, BayernLB, NORD/LB, LBBW and DZ HYP continue to share the top five spots, followed by Commerzbank and Deutsche Pfandbriefbank.

Market shares – mortgage Pfandbriefe



Market shares – public sector Pfandbriefe



Source: vdp, Deutsche Bank, NORD/LB Markets Strategy & Floor Research

Additional information on the German Pfandbrief market as part of our coverage

In addition to the largely macro assessment made here, it is important not to overlook developments at the level of individual pools or programmes. For a more detailed description, we again refer you – with regard to the German market – to our “[§28 study](#)”. For example, the overview table on page five shows which mortgage cover pools have a high proportion of commercial assets, while geographical distribution is also part of the publication. For a more international view, please refer to the [NORD/LB Issuer Guide Covered Bonds 2023](#). In this publication we provide a comprehensive overview of all issuers active in the EUR benchmark segment and/or EUR sub-benchmark segment at the time of going to print. In July 2023, we also presented a special report on the “[Pfandbrief market in 2023](#)”. We also regularly address the topic of ESG and Pfandbriefe – for example in the external publication “[Bond Guide](#)”. We would also like to draw your attention to the increasing importance of green and social Pfandbriefe, whose market development is also supported and driven by the [vdp](#).

Conclusion

The German Pfandbrief market remains on its growth trajectory in the third quarter of 2023. This development is being driven by mortgage Pfandbriefe. Therefore, despite the decline in the volume of mortgage lending on the part of Pfandbrief banks that has characterised the recent developments on the property market, we do not yet see any signs of a dip.

SSA/Public Issuers

Teaser: Issuer Guide – German Agencies 2023

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann

Promotional banks shape the German agency market alongside winding-up vehicles

The German agency market is the largest of its kind in Europe. As at the reporting date, the volume of outstanding bonds amounts to the equivalent of EUR 667.0bn overall. The issuers within this market can essentially be divided into three categories: national promotional banks (e.g. KfW) and regional institutions (e.g. NRW.BANK), as well as winding-up agencies (e.g. EAA). While the promotional banks have played a highly significant role in the management of economic policy at the levels of federal government (Bund) and the individual Laender, the winding-up agencies only came into existence a few years ago. Founded in the wake of the financial crisis, the role of these institutes has been to systematically reduce assets that were hived off as part of state-backed support measures. Regional promotional banks round off this market, although in some cases they differ considerably with regard to their primary market activities. As the largest of the 17 regional development banks, NRW.BANK is one of the most important issuers on the German agency market.

German agencies – an overview

Institution	Type	Owner(s)	Guarantee	Risk weight
Kreditanstalt für Wiederaufbau (KfW)	Promotional bank	80% Germany, 20% Laender	Explicit guarantee & institutional liability	0%
Landwirtschaftliche Rentenbank	Promotional bank	-	Explicit guarantee & institutional liability	0%
FMS Wertmanagement (FMS-WM)	Winding-up vehicle	100% Sonderfonds Finanzmarktstabilisierung (SoFFin)	Explicit guarantee & loss absorption mechanism	0%
Erste Abwicklungsanstalt (EAA)	Winding-up vehicle	~48.2% NRW, ~25.0% RSGV, ~25.0% SVWL, ~0.9% LVR, ~0.9% LWL	Loss absorption mechanism	0%
NRW.BANK	Promotional bank	100% North Rhine-Westphalia	Explicit guarantee, institutional liability & guarantor liability	0%
Landeskreditbank Baden-Württemberg – Förderbank (L-Bank)	Promotional bank	100% Baden-Wuerttemberg	Explicit guarantee, institutional liability & guarantor liability	0%
Wirtschafts- und Infrastrukturbank Hessen (WIBank)	Promotional bank	100% Helaba	Explicit guarantee & guarantor liability	0%
LfA Förderbank Bayern (LfA)	Promotional bank	100% Free State of Bavaria	Explicit guarantee, institutional liability & guarantor liability	0%
Investitionsbank Schleswig-Holstein (IB.SH)	Promotional bank	100% Schleswig-Holstein	Explicit guarantee, institutional liability & guarantor liability	0%
Bayerische Landesbodenkreditanstalt (BayernLabo)	Promotional bank	100% BayernLB Holding AG	Explicit guarantee & guarantor liability	0%
Investitionsbank Berlin (IBB)	Promotional bank	100% Berlin	Explicit guarantee & institutional liability	0%
Investitionsbank des Landes Brandenburg (ILB)	Promotional bank	50% Brandenburg, 50% NRW.BANK	Explicit guarantee, institutional liability & guarantor liability	0%
Sächsische Aufbaubank (SAB)	Promotional bank	100% Free State of Saxony	Explicit guarantee, institutional liability & guarantor liability	0%
Investitions- und Strukturbank Rheinland-Pfalz (ISB)	Promotional bank	100% Rhineland-Palatinate	Explicit guarantee, institutional liability & guarantor liability	0%
Hamburgische Investitions- und Förderbank (IFBHH)	Promotional bank	100% Free and Hanseatic City of Hamburg	Explicit guarantee, institutional liability & guarantor liability	0%

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

Institutional liability (Anstaltslast)

Institutional liability is a special feature of the German agency market. It comprises the legal obligation on the part of the guarantor to secure the financial basis for the institution. Furthermore, functionality must be maintained. In this respect, any financial shortfalls must be settled through subsidies or by some other means. The institutional liability is an obligation on the guarantor to provide the institution with the resources it needs to function properly. This means that, de facto, it is equivalent to a liquidity guarantee, although the institution does not have to bear any costs in this regard. The legal commitment between institution and guarantor is governed by the institutional liability as far as their internal relationship is concerned. As a result, if there are any liquidity shortfalls, only the institution can assert a claim against the guarantor. Investors do not have the right to claim against the guarantor. The institutional liability is not limited either in amount or time and is regarded as a general principle of law. However, it is only relevant for investors under certain circumstances: all German agencies with institutional liability have an explicit guarantee (see below).

Guarantor liability (Gewährträgerhaftung)

Like institutional liability, guarantor liability is a special feature of the German agency market and implies an obligation of the guarantor to step in should the institution become insolvent. It comprises the guarantor's unlimited legal liability for the institution's liabilities in the event of insolvency or liquidation. An institution's creditors therefore have a direct claim against the guarantor if the institution's assets are insufficient to service the creditors' claim. Liquidation and the occurrence of liability are not necessarily closely linked in terms of time. There is no amount or time limit on guarantor liability and, as in the case of institutional liability, it is not associated with any costs. Unlike institutional liability, however, it is not regarded as a general principle of law. Instead, it requires a legal basis, such as legislation or a regulation. Again, guarantor liability is only relevant for investors under certain circumstances: all German agencies with guarantor liability also feature an explicit guarantee in parallel to this.

Explicit guarantee

The explicit guarantee is expressly laid down in the relevant laws establishing the particular agency and, as a consequence, it can only be revoked by an amendment to the law. If an agency runs into payment difficulties, this form of guarantee offers investors a direct and unconditional claim against the guarantor. As such, it is the strongest form of state support. Consequently, the explicit guarantee represents the ultimate criterion for a risk weighting of 0% under [CRR](#) and Basel III.

Loss absorption mechanism

With the creation of winding-up agencies around 2009/10, a new form of liability was added to the existing guarantee arrangements of German agencies. This form of liability is regulated under Article 7 of the statutes of FMS Wertmanagement and Erste Abwicklungsanstalt and contains an obligation on the part of the liable parties to offset all losses. The liable parties are also required to provide the institution with the funding needed to settle its liabilities (liquidity guarantee) at any time. Ultimately, the loss absorption mechanism therefore equates to an implicit guarantee.

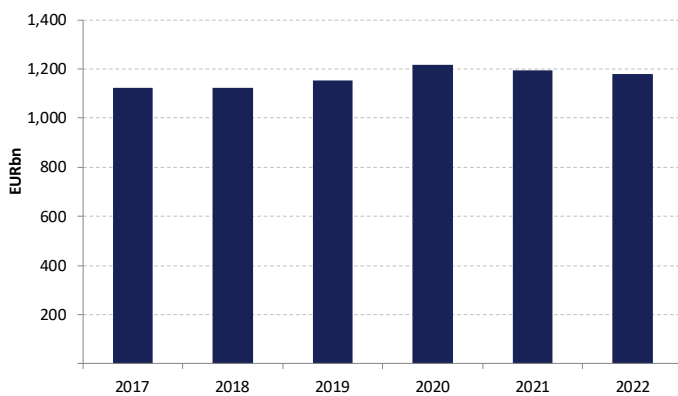
Strong liability mechanisms result in a 0% risk weighting

Strong support from the respective guarantors, which is inherent in all forms of liability, means that a risk weighting of 0% is applicable under [CRR](#)/Basel III to all bonds issued by agencies of this kind.

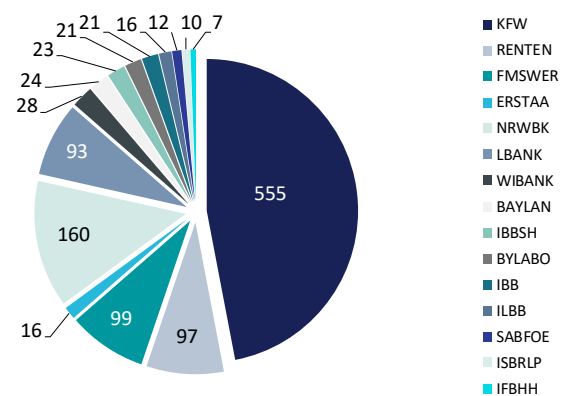
Close links to the federal government and respective Laender

Last but not least, the guarantee mechanisms result in very close ties between the agencies and the German federal government or respective Laender. The promotional banks, in particular, are a key tool in implementing economic policy. An analysis of the Laender, whose creditworthiness is crucial to a large number of the agencies examined here, is available in the most recent version of our [Issuer Guide – German Laender 2023](#).

Aggregated balance sheet totals of German agencies



Comparison of balance sheet totals (EURbn)

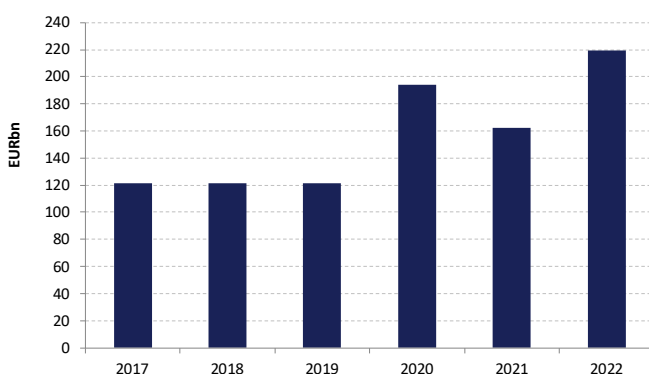


Source: Issuers, NORD/LB Markets Strategy & Floor Research

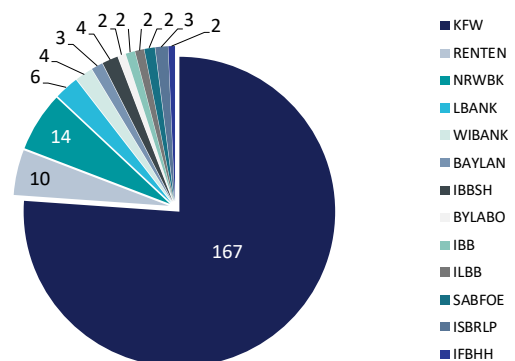
Slight contraction in balance sheet totals and sharp rise in volume of new commitments

After the aggregated balance sheet total of German agencies was characterised by an increase from 2017 to 2020, the declining trend that first appeared in 2021 continued in 2022. In comparison, a decline of -1.2% to EUR 1,180.4bn was recorded. The reason for this is the winding-up vehicles, as they are gradually reducing their portfolio holdings. The largest absolute decline of EUR -25.3bn Y/Y to EUR 99.0bn was recorded by FMS-WM. At the same time, this represented the highest relative balance sheet contraction in our coverage (-20.4%). None of the promotional banks recorded a significant decline in their balance sheet total compared with the previous year; the majority actually increased their assets. NRW.Bank, for example, recorded an increase in its balance sheet (EUR +6.8bn Y/Y to EUR 160.0bn). The volume of new commitments in 2022 rose to EUR +219.3bn (EUR +56.8bn Y/Y) on an aggregated basis. This was mainly due to KfW, whose new commitments increased by EUR +59.9bn or +56.0% year on year. KfW accounted for more than 76% of the volume of new commitments attributable to German promotional banks.

New commitments of German agencies*



Comparison of new commitments* (EURbn)



* Excluding FMS-WM and EAA.

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

German agencies – an overview (EURbn/EUR equivalent)

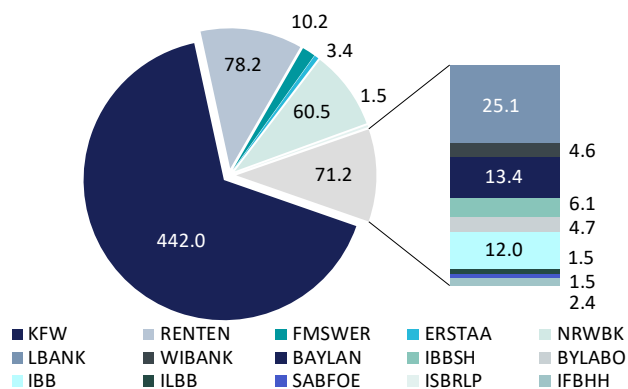
Name	Ticker	Rating (Fitch/Moody's/S&P)	Outstanding Volume	EUR volume	Funding target 2023	Maturities 2023	Net Supply 2023	Number of ESG bonds	ESG volume
KfW	KFW	AAAu/Aaa/AAA	442.0	284.9	90.0	70.8	19.2	48	57.2
Rentenbank	RENTEN	AAA/Aaa/AAA	78.2	45.2	11.0	9.6	1.4	13	6.2
FMS-WM	FMSWER	-/Aaa/AAA	10.2	5.5	6.0	6.3	-0.3	0	0.0
EAA	ERSTAA	AAA/Aa1/AA	3.4	0.7	2.0	4.3	-2.3	0	0.0
NRW.BANK	NRWBK	AAA/Aa1/AA	60.5	47.5	12.0	10.1	1.9	20	12.2
L-Bank	LBANK	AAAu/Aaa/AA+	25.1	10.3	6.0	5.7	0.3	0	0.0
WIBank	WIBANK	AAA/Aaa/AA+	4.6	4.6	2.9	0.0	2.9	0	0.0
LfA	BAYLAN	-/Aaa/-	13.4	13.4	2.8	1.6	1.2	0	0.0
IB.SH	IBBSH	AAA/-/-	6.1	6.1	1.3	0.4	0.9	0	0.0
BayernLabo	BYLABO	-/Aaa/-	4.7	4.7	1.1	0.7	0.4	2	1.0
IBB	IBB	AAA/-/-	12.0	12.0	2.8	1.7	1.1	2	1.0
ILB	ILBB	AAA/-/-	1.5	1.5	1.5	0.0	1.5	1	0.1
SAB	SABFOE	-/-/AAA	1.5	1.5	0.8	0.0	0.8	0	0.0
ISB	ISBRLP	AAA/-/-	1.5	1.5	0.5	0.0	0.5	0	0.0
IFBHH	IFBHH	AAA/-/-	2.4	2.4	0.8	0.1	0.5	2	0.4
Total			667.1	441.8	141.5	111.3	30.0	88	78.1

Foreign currencies are converted into EUR at rates as at 20 November 2023.

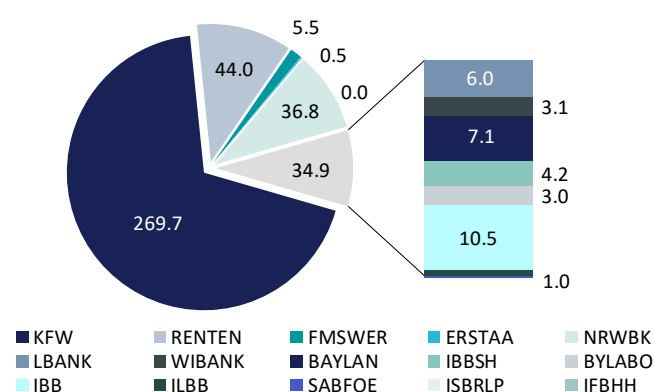
On account of the issuer's individual funding mix, the values for "funding target" and "net supply" in particular may deviate from reality.

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

Outstanding bond volumes (EURbn)



Outstanding EUR benchmarks (EURbn)

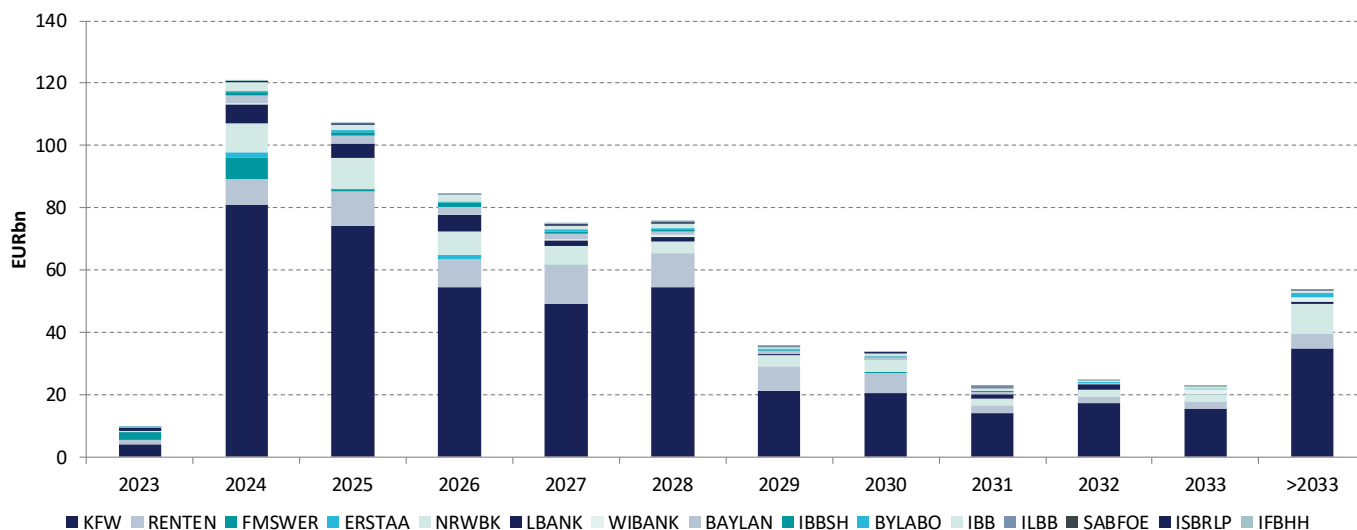


NB: Benchmarks are defined as bonds with a minimum volume of EUR 0.5bn.

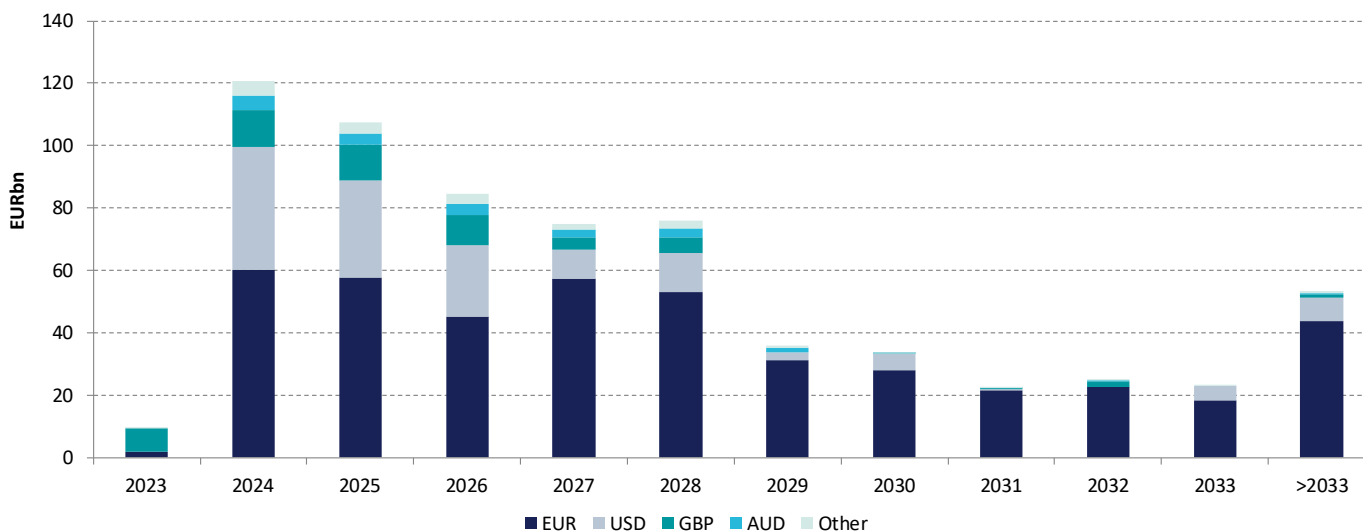
Foreign currencies are converted into EUR at rates as at 20 November 2023.

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

German agencies: outstanding bonds by issuer



German agencies: outstanding bonds by currency



NB: Foreign currencies are converted into EUR at rates as at 20 November 2023.

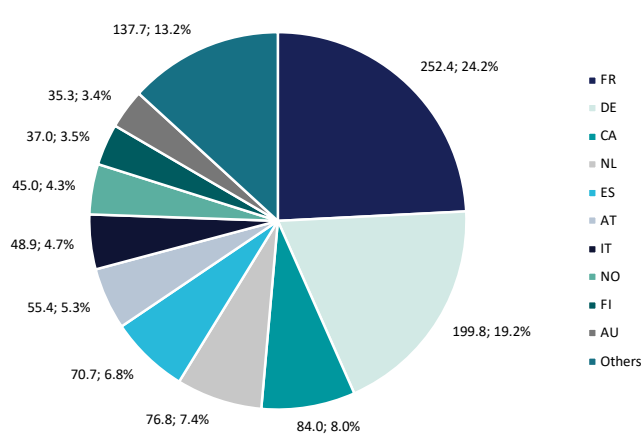
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Conclusion and comment

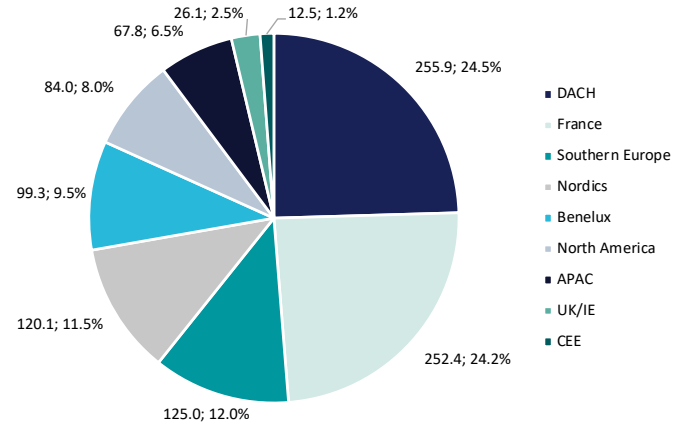
The German agency market offers a very wide range of bonds, especially in the maturity segment up to 2026. There is a substantial volume of outstanding bonds, of which a large number are benchmark bonds, particularly in EUR. Overall, a total of EUR 225.3bn of the outstanding volume is denominated in 16 foreign currencies, with the USD clearly at the forefront of the FX offering. With its very high supply of EUR and foreign-currency bonds, the German agency market is the largest of its kind in Europe. The supply of new bonds, which includes a large number of EUR benchmark bonds in particular, is high. This means that the bonds of German agencies are spread along the entire maturity range. On account of the major importance of the individual banks, and taking into consideration their respective guarantee and liability mechanisms, all issuers benefit from a risk weighting of 0% from our perspective.

Charts & Figures Covered Bonds

EUR benchmark volume by country (in EURbn)



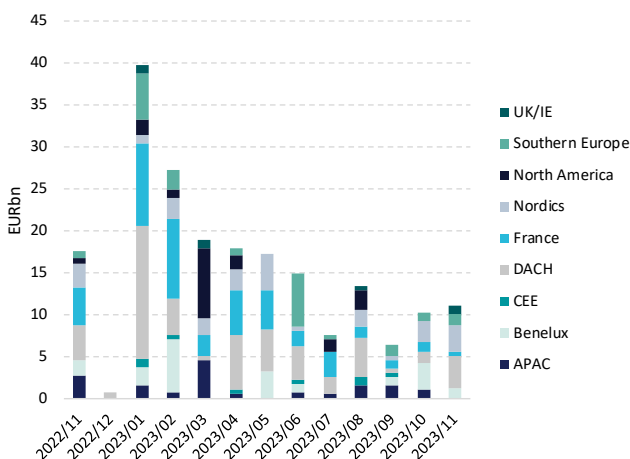
EUR benchmark volume by region (in EURbn)



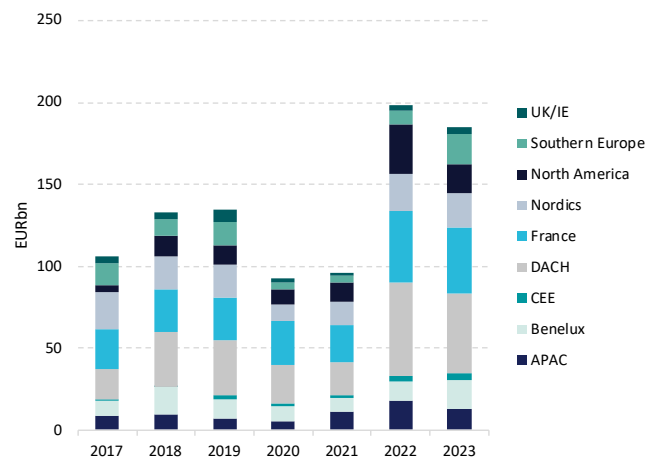
Top-10 jurisdictions

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	252.4	244	22	0.96	9.4	4.9	1.27
2	DE	199.8	284	37	0.65	7.9	4.1	1.20
3	CA	84.0	62	0	1.33	5.5	2.8	1.12
4	NL	76.8	78	3	0.92	10.5	6.2	1.16
5	ES	70.7	56	6	1.15	11.1	3.4	2.00
6	AT	55.4	94	4	0.58	8.2	4.7	1.37
7	IT	48.9	59	2	0.80	8.7	3.6	1.60
8	NO	45.0	55	12	0.82	7.3	3.7	0.78
9	FI	37.0	41	4	0.89	6.9	3.7	1.49
10	AU	35.3	34	0	1.04	7.1	3.5	1.53

EUR benchmark issue volume by month

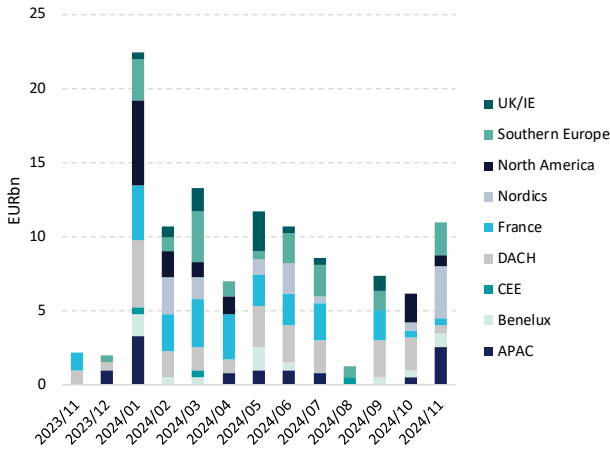


EUR benchmark issue volume by year

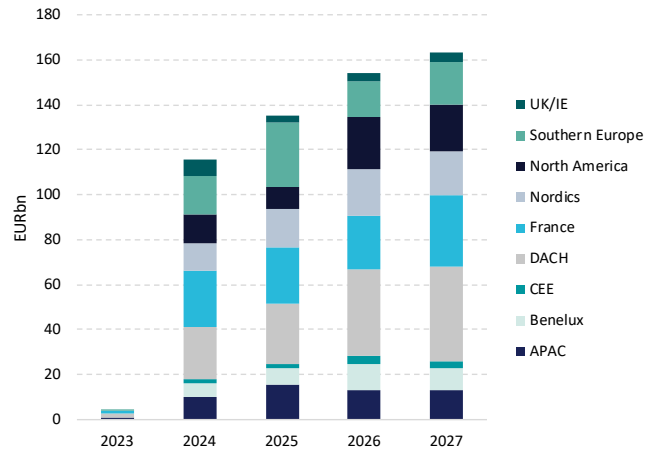


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

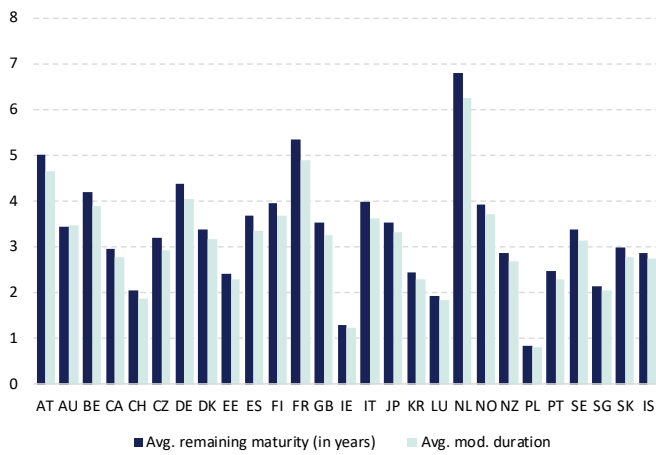
EUR benchmark maturities by month



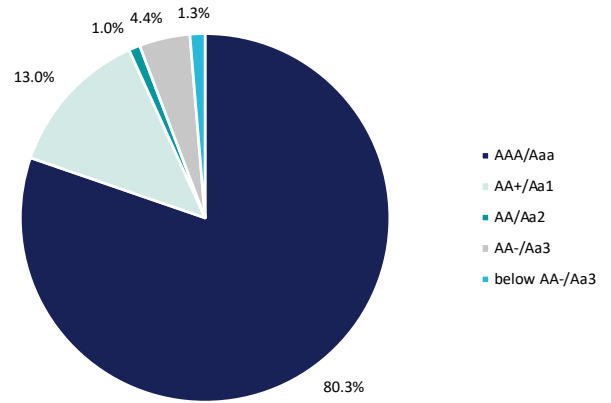
EUR benchmark maturities by year



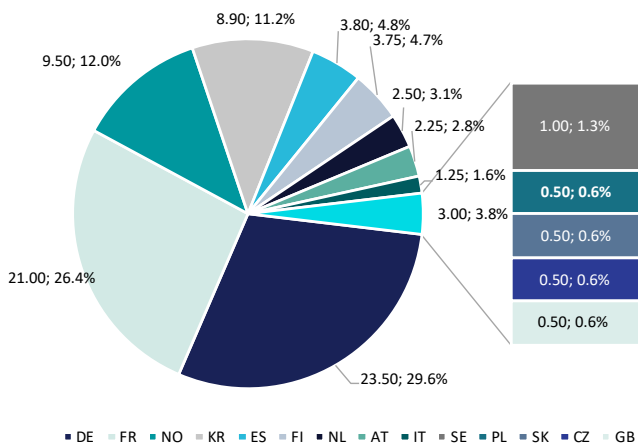
Modified duration and time to maturity by country



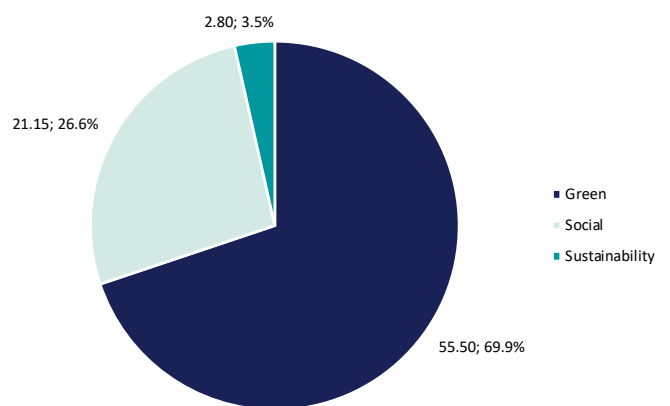
Rating distribution (volume weighted)



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

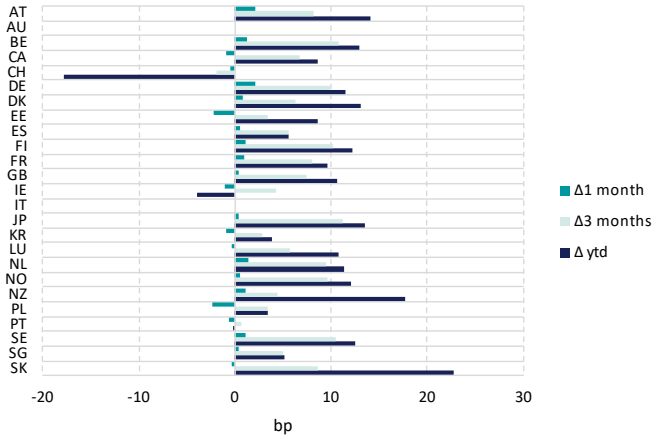


EUR benchmark volume (ESG) by type (in EURbn)

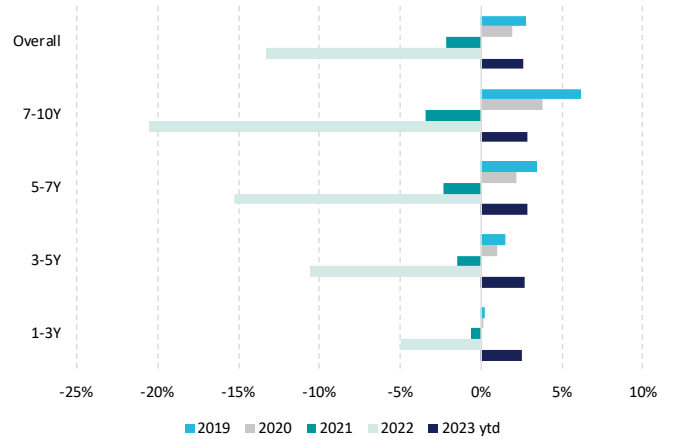


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

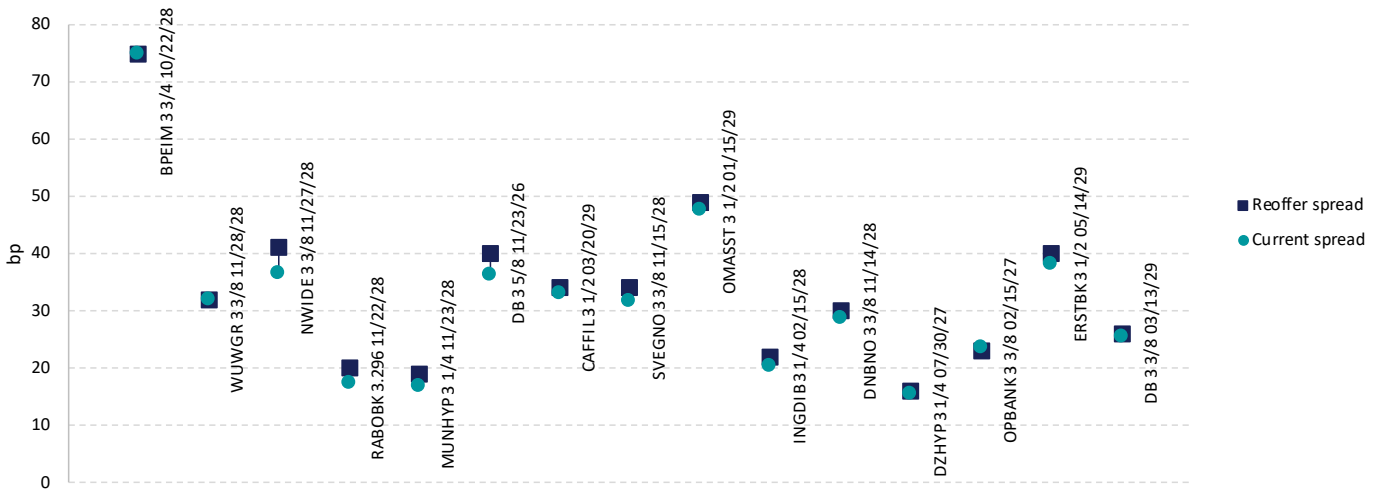
Spread development by country



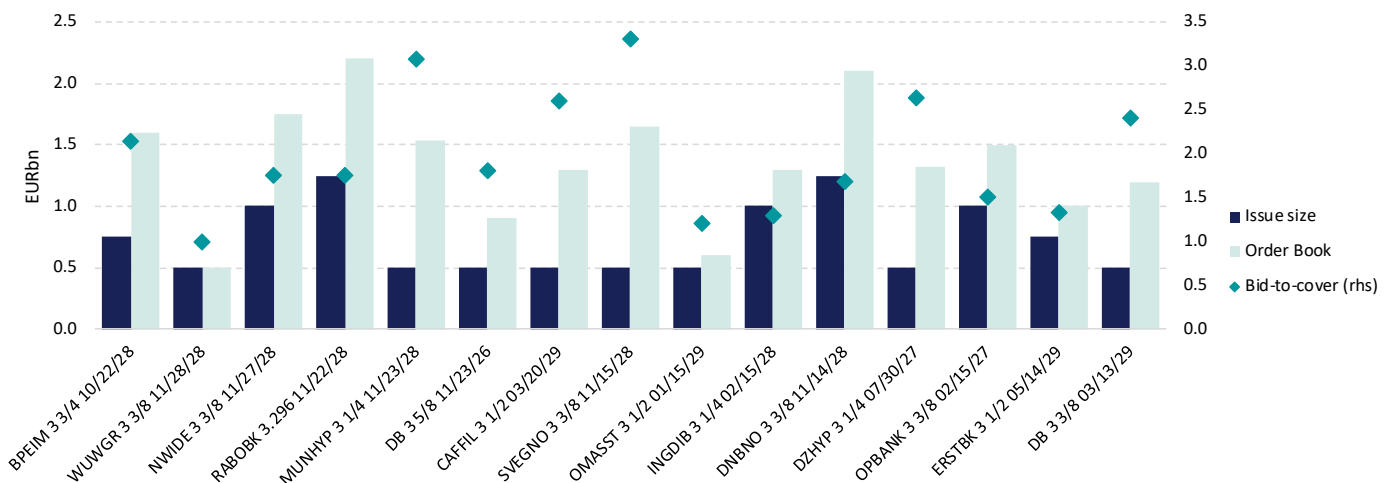
Covered bond performance (Total return)



Spread development (last 15 issues)

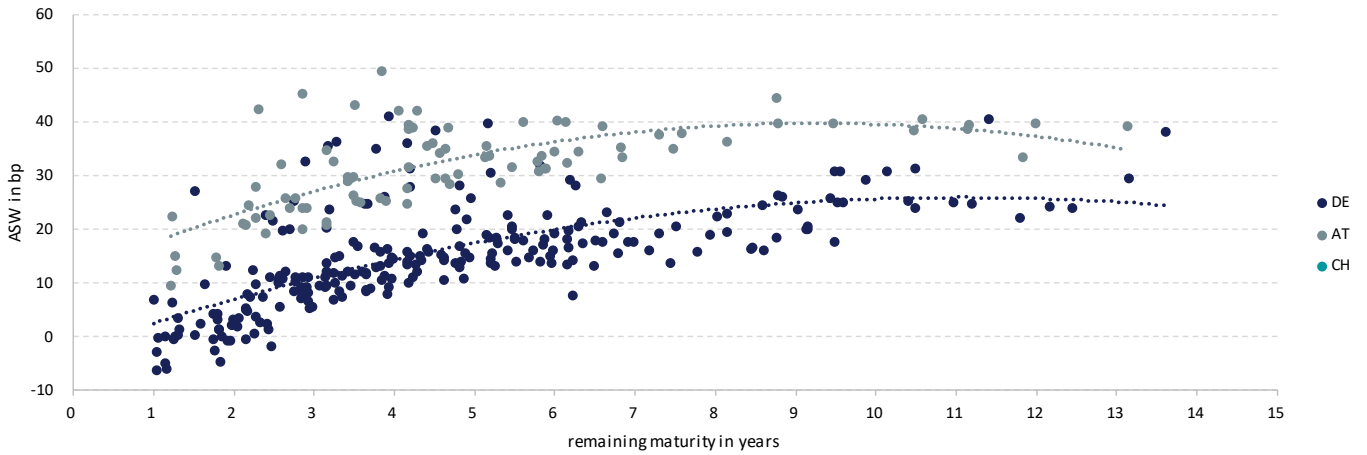


Order books (last 15 issues)

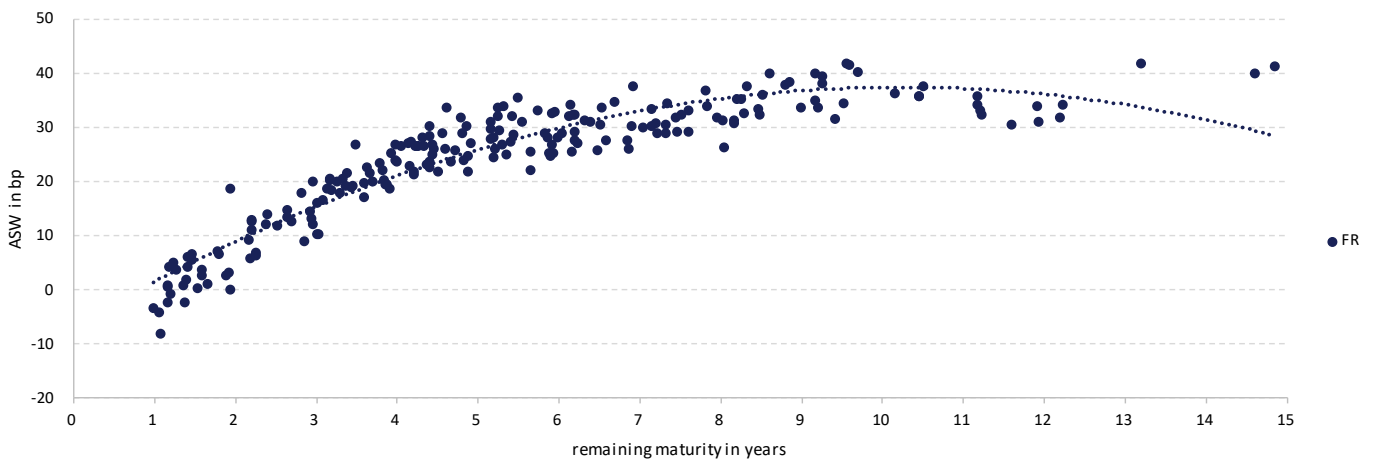


Spread overview¹

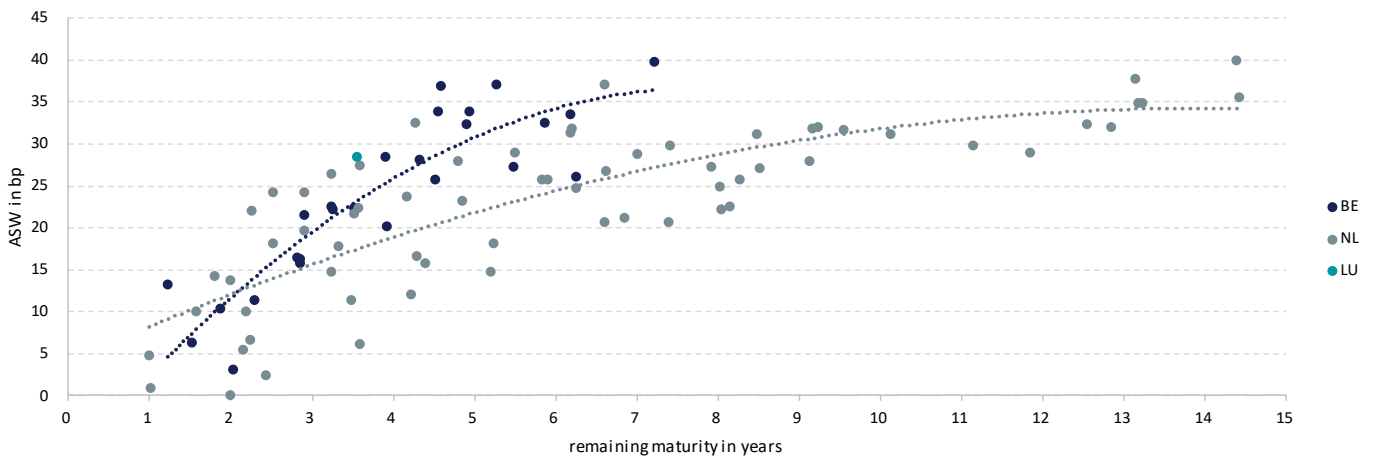
DACH 



France 

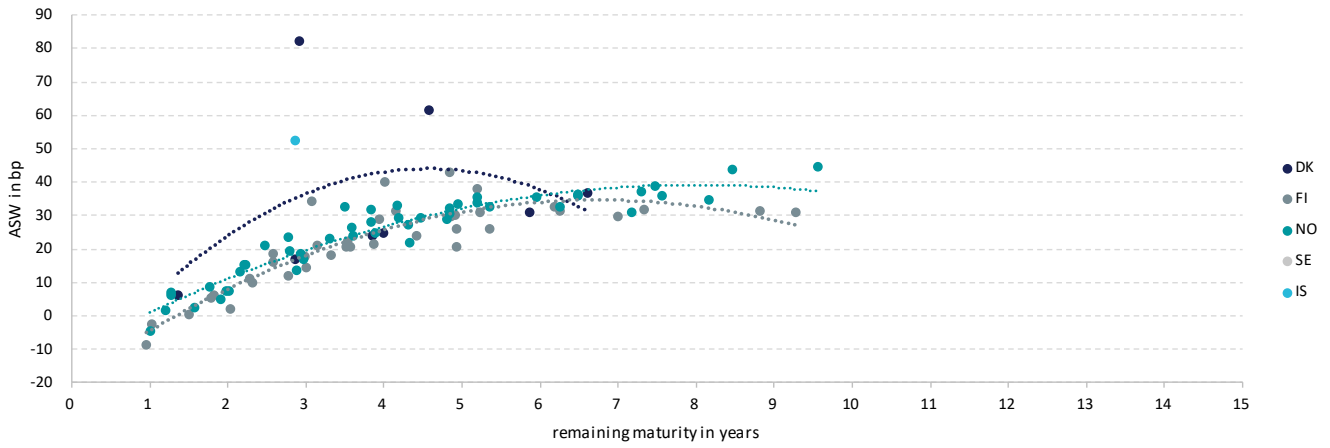


Benelux 

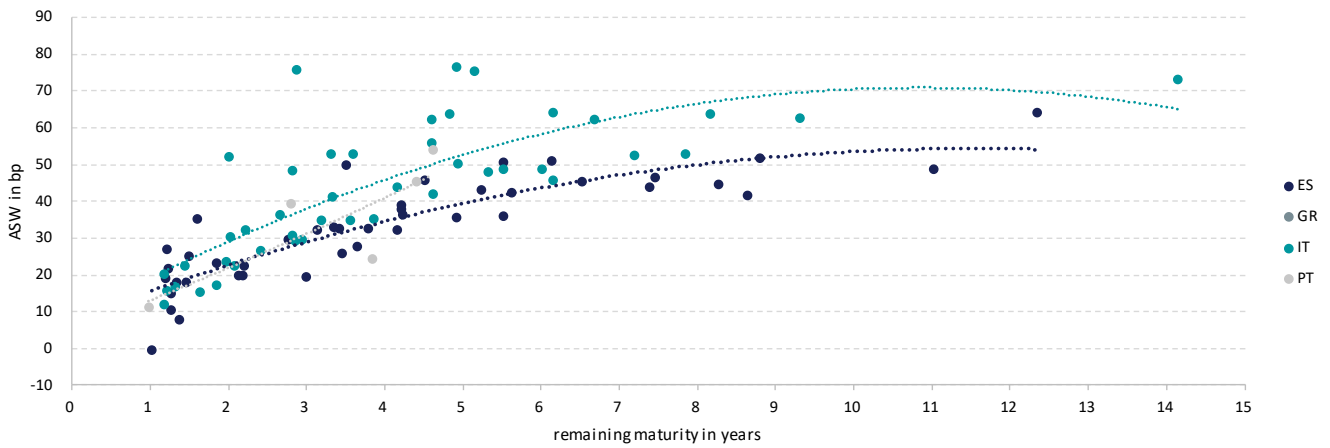


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research ¹Time to maturity 1 ≤ y ≤ 15

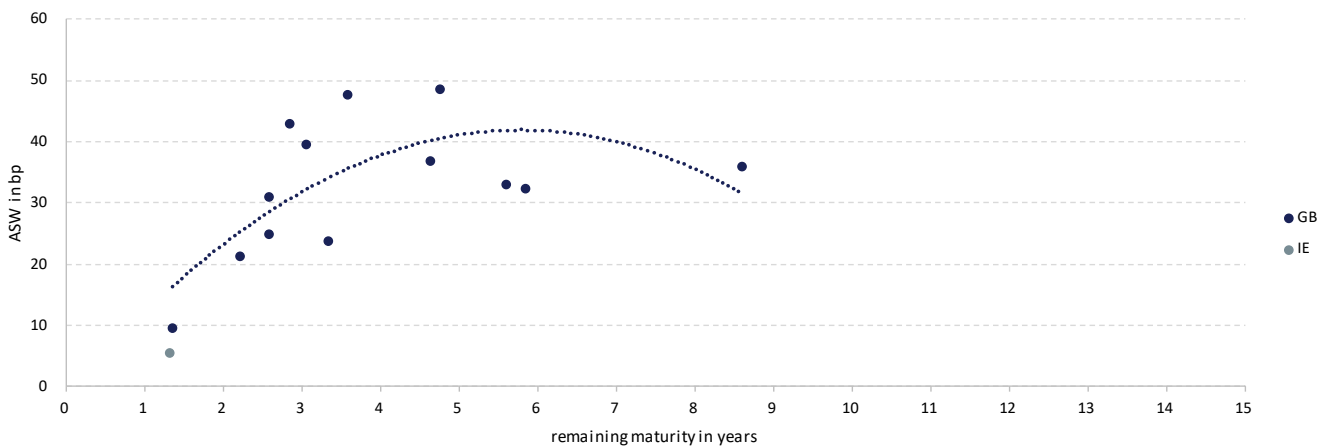
Nordics 🇩🇰 🇸🇪 🇫🇮 🇳🇴 🇮🇸



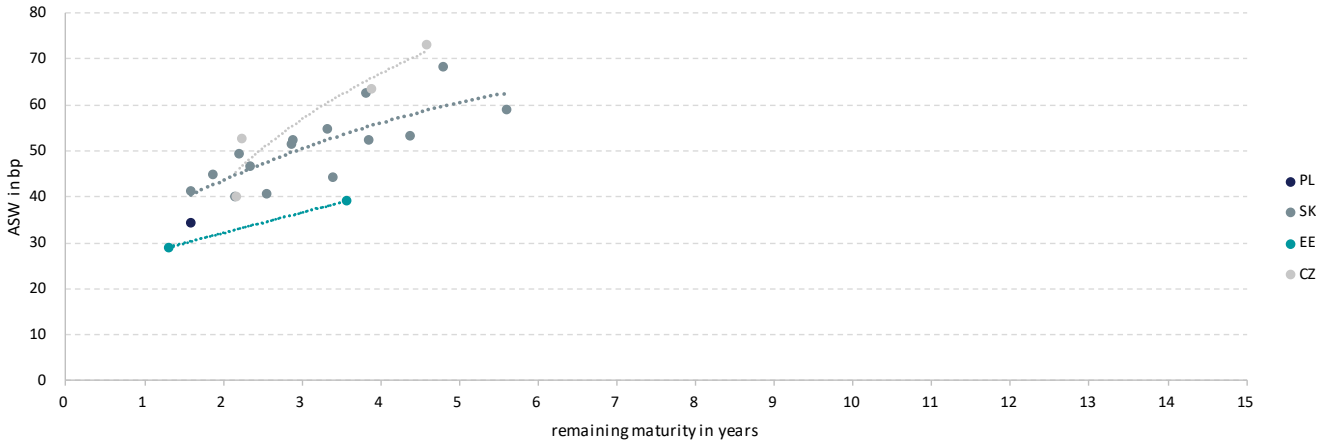
Southern Europe 🇪🇸 🇬🇷 🇮🇹 🇵🇹



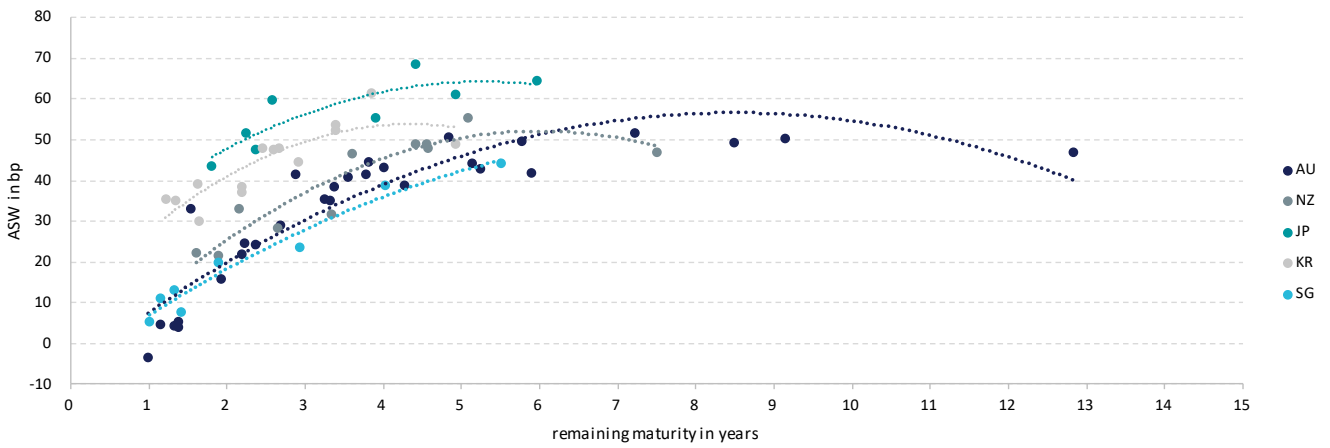
UK/IE 🇬🇧 🇮🇪



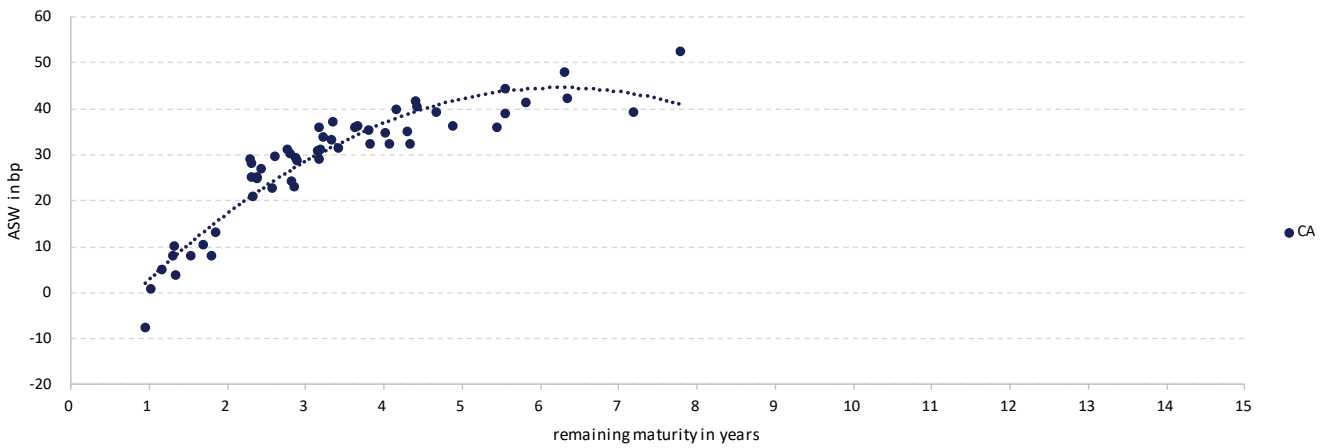
CEE 



APAC 



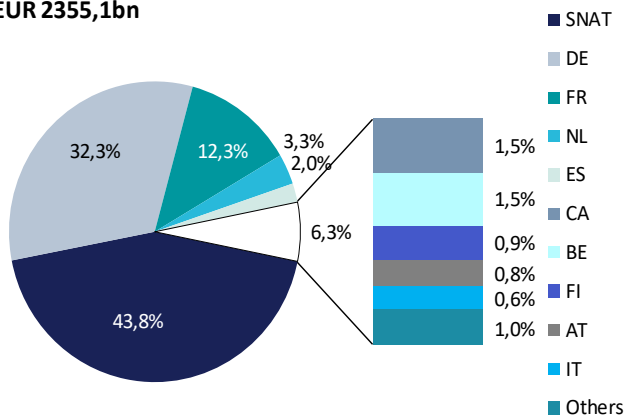
North America 



Charts & Figures SSA/Public Issuers

Outstanding volume (bmk)

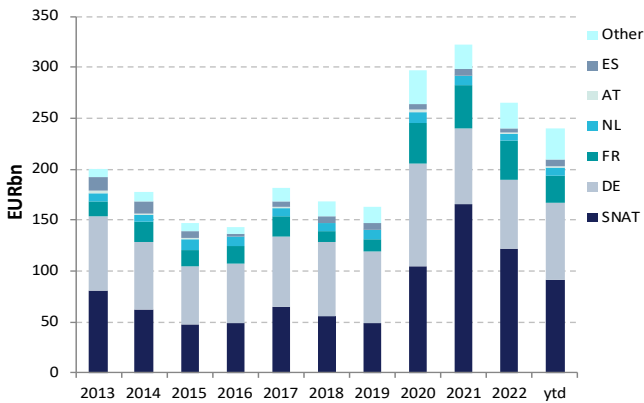
EUR 2355,1bn



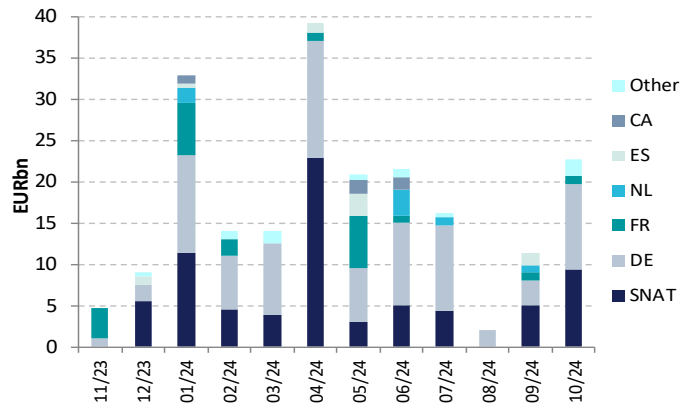
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1.031,0	228	4,5	8,0
DE	759,8	568	1,3	6,2
FR	290,0	197	1,5	5,9
NL	77,3	67	1,2	6,6
ES	48,0	65	0,7	4,6
CA	35,6	25	1,4	4,1
BE	35,2	38	0,9	10,7
FI	22,3	24	0,9	4,7
AT	17,8	22	0,8	4,5
IT	15,0	19	0,8	4,6

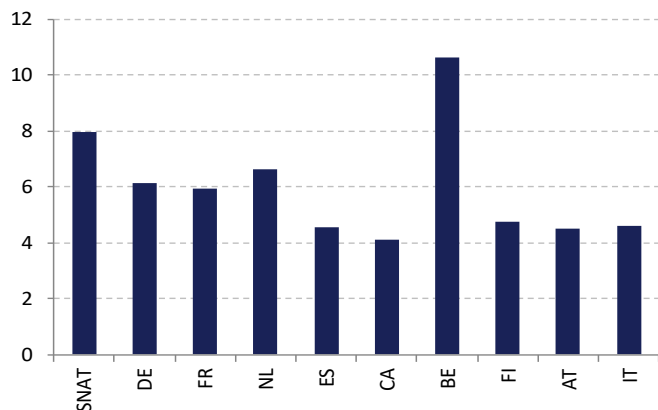
Issue volume by year (bmk)



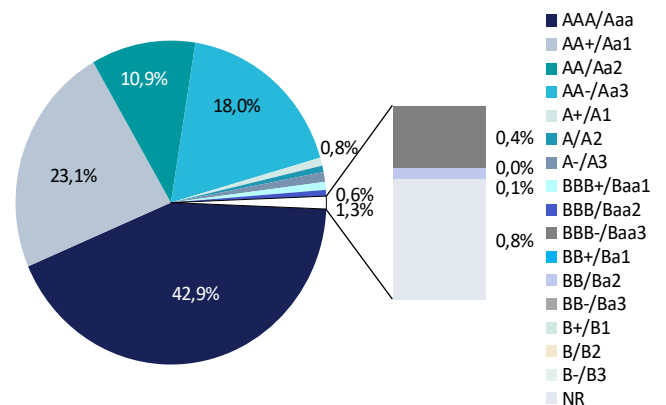
Maturities next 12 months (bmk)



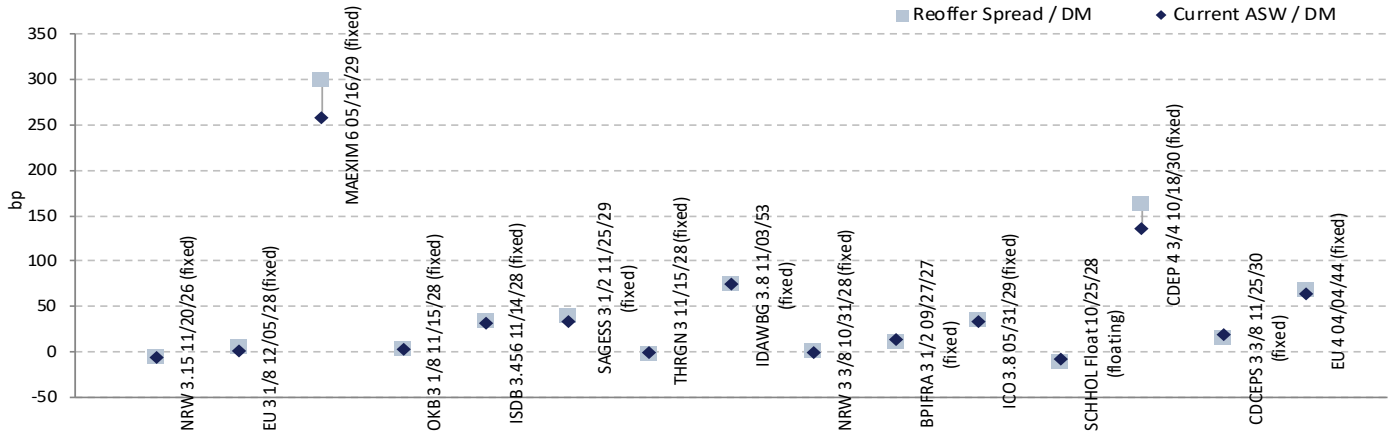
Avg. mod. duration by country (vol. weighted)



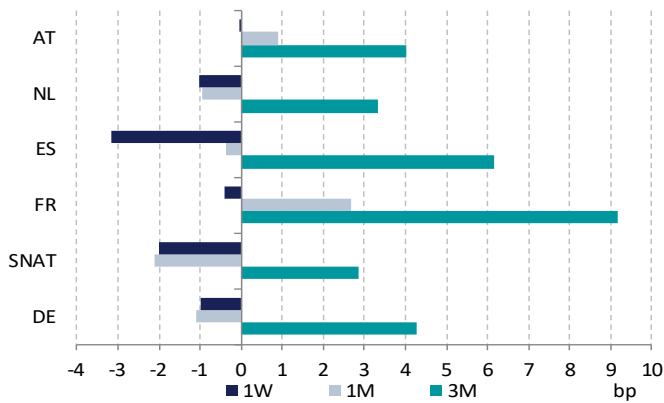
Rating distribution (vol. weighted)



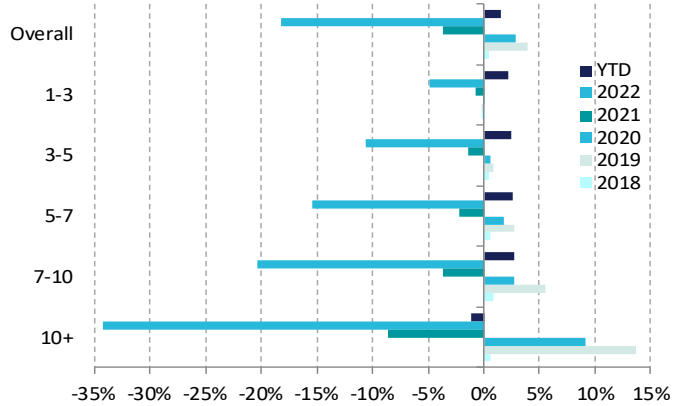
Spread development (last 15 issues)



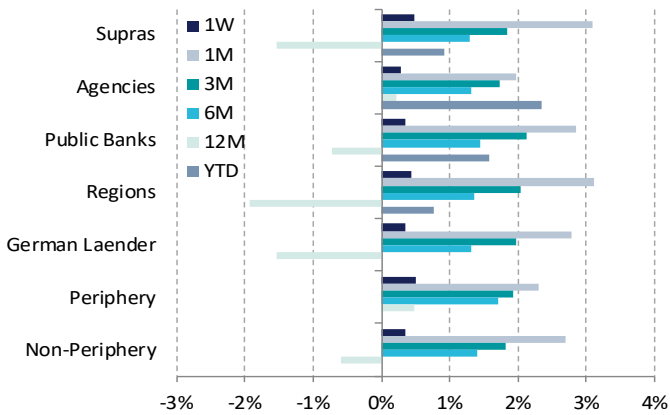
Spread development by country



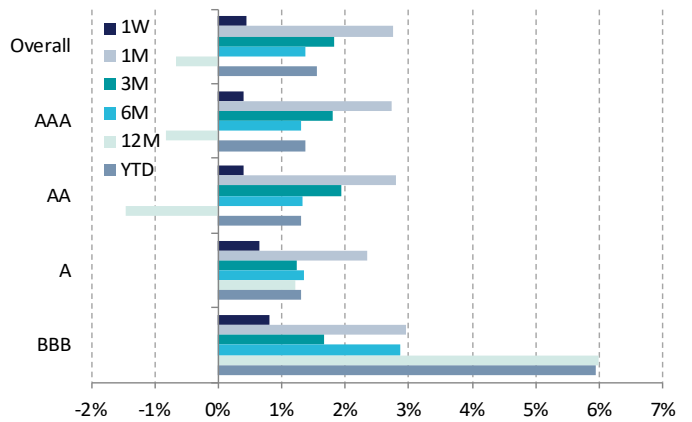
Performance (total return)



Performance (total return) by segments

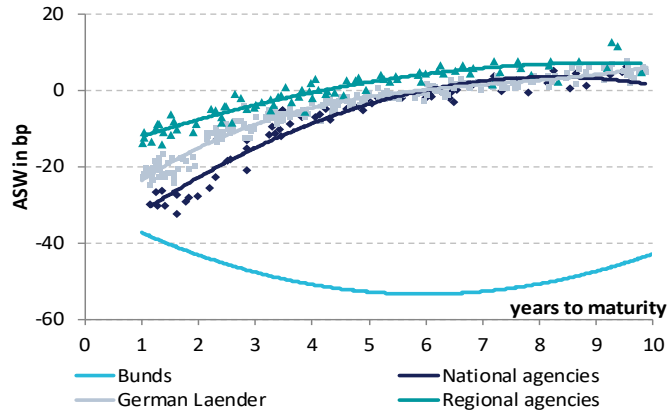


Performance (total return) by rating

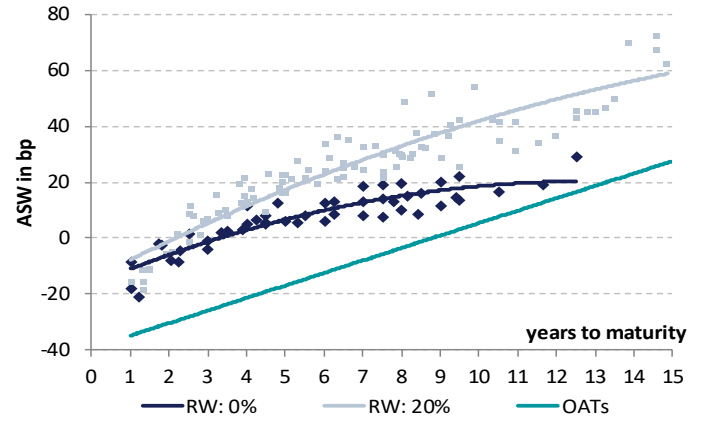


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

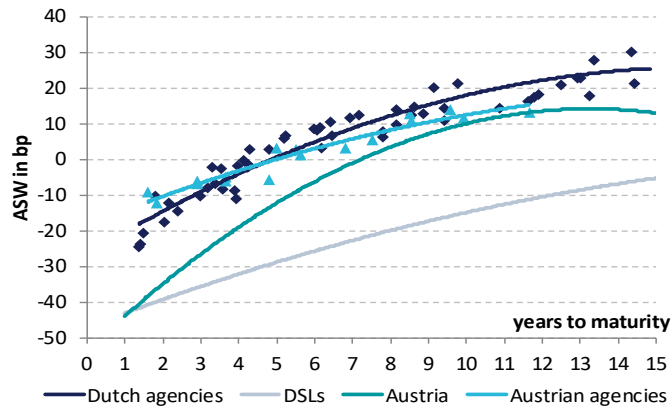
Germany (by segments)



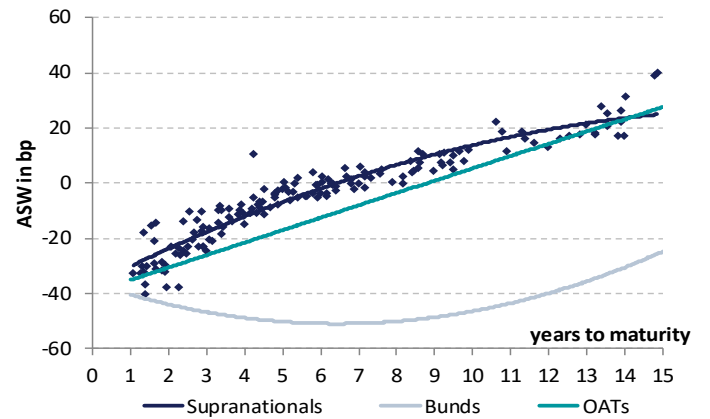
France (by risk weight)



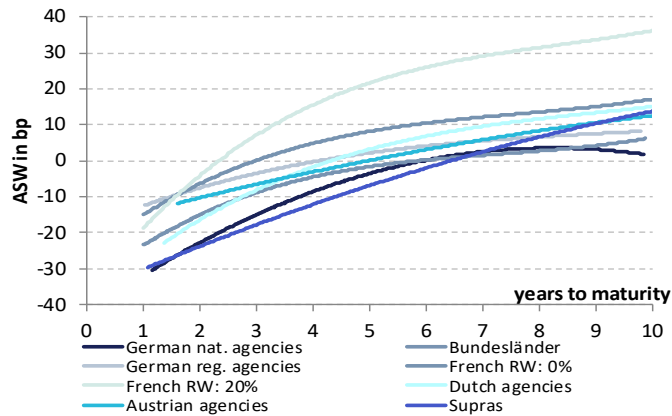
Netherlands & Austria



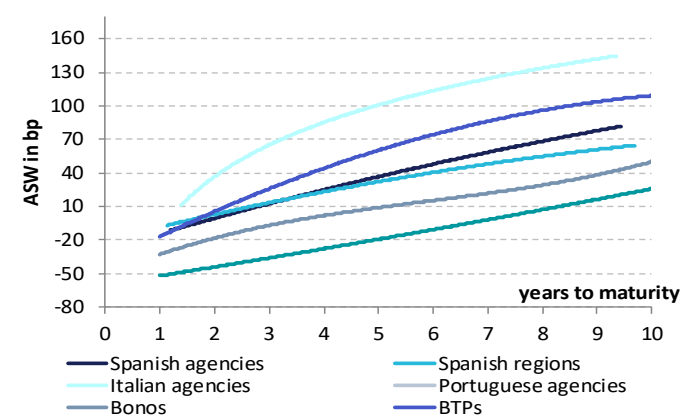
Supranationals



Core



Periphery



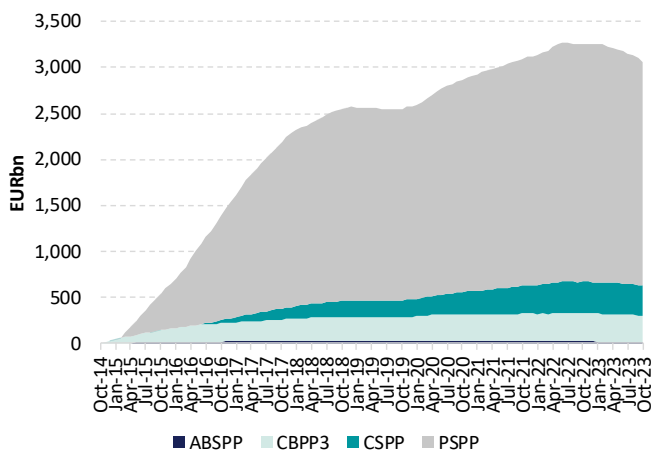
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

ECB tracker

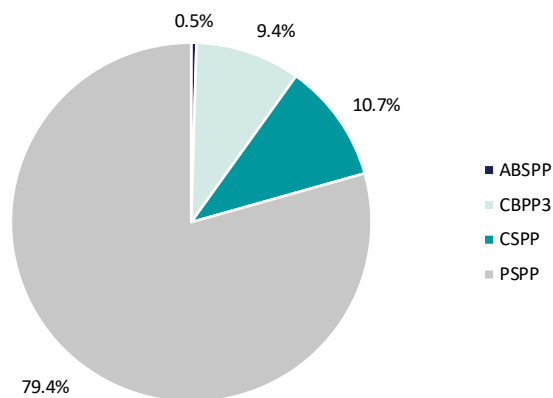
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Sep-23	15,312	291,992	331,155	2,470,598	3,109,057
Oct-23	14,350	287,525	328,193	2,426,355	3,056,423
Δ	-962	-4,467	-2,962	-44,243	-52,634

Portfolio development

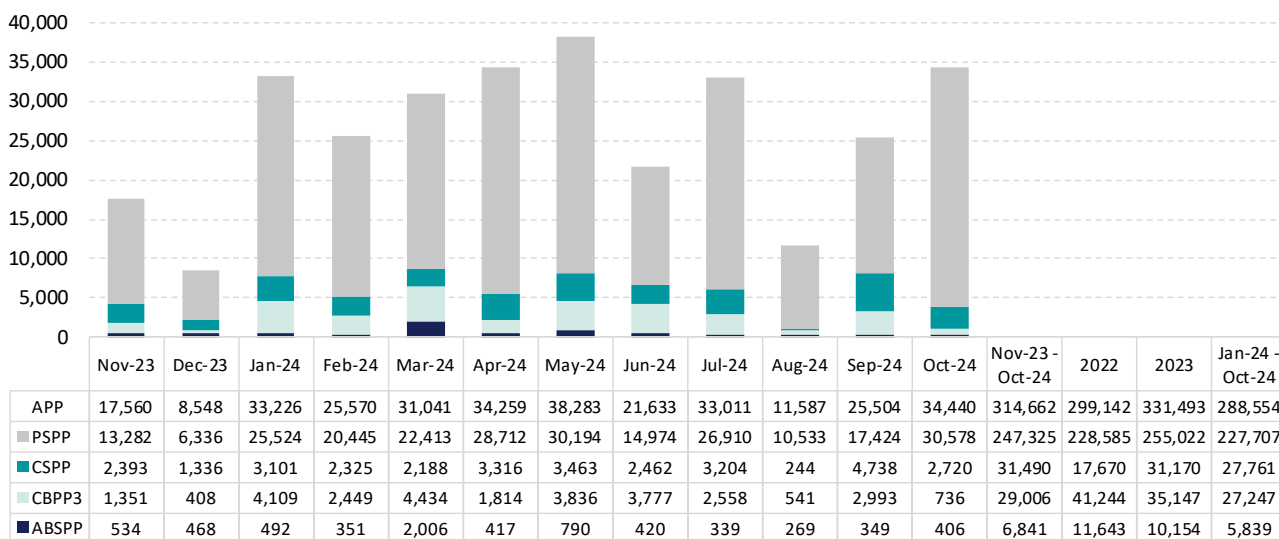


Portfolio structure



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

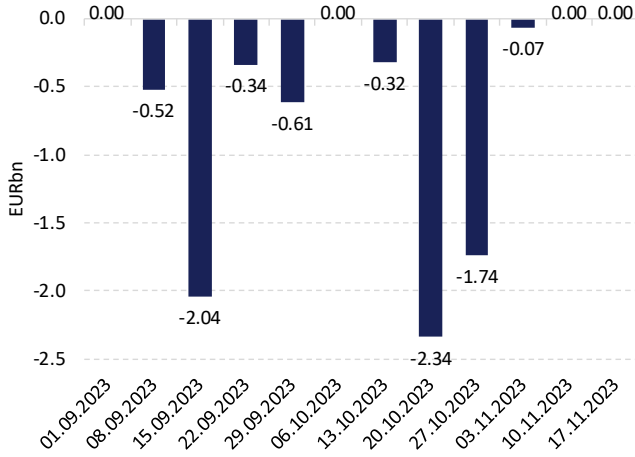
Expected monthly redemptions (in EURm)



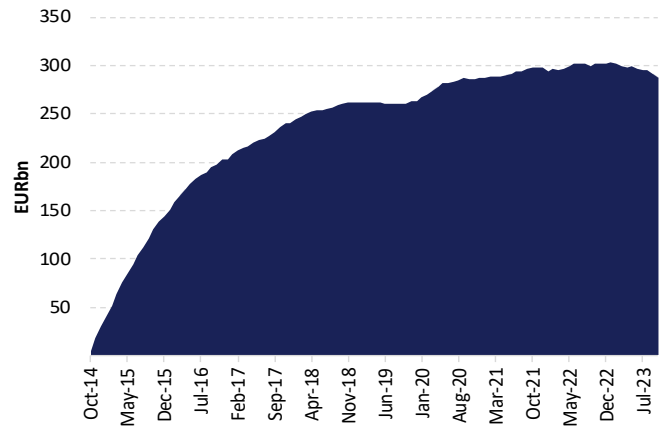
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

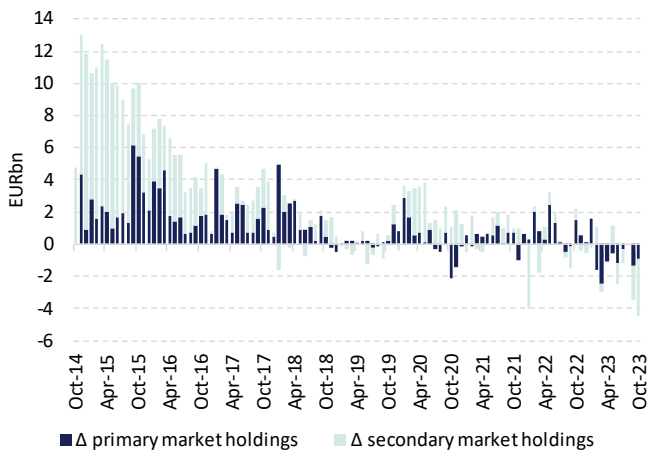
Weekly purchases



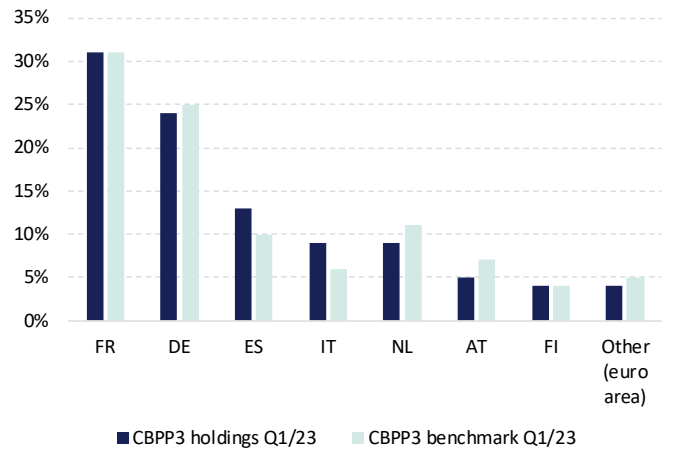
Development of CBPP3 volume



Change of primary and secondary market holdings

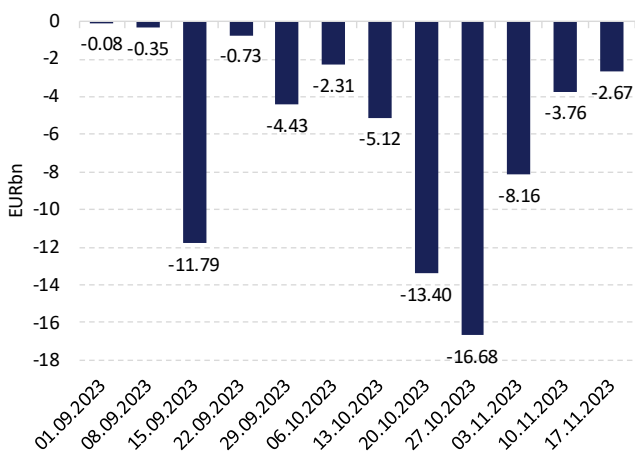


Distribution of CBPP3 by country of risk

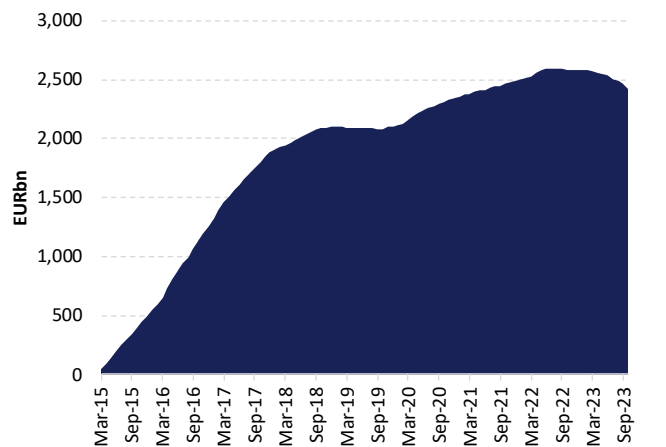


Public Sector Purchase Programme (PSPP)

Weekly purchases

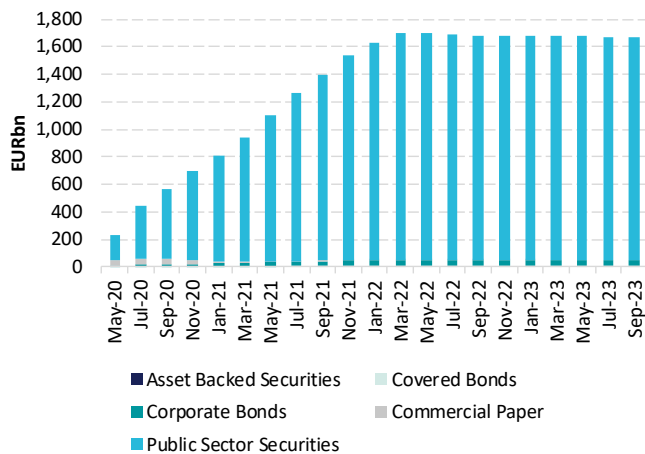


Development of PSPP volume

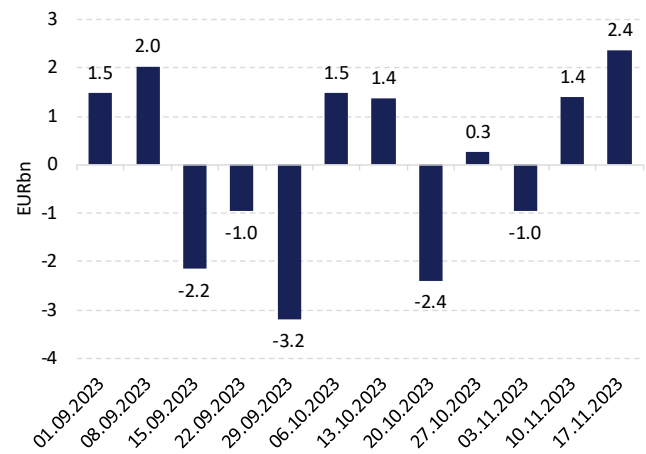


Pandemic Emergency Purchase Programme (PEPP)

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	44,129	-1,028	2.6%	2.7%	0.0%	7.2	7.8
BE	56,941	-610	3.3%	3.4%	0.2%	6.0	9.4
CY	2,423	-156	0.2%	0.1%	0.0%	8.4	8.2
DE	393,313	1,135	23.7%	23.7%	0.0%	6.7	7.0
EE	256	0	0.3%	0.0%	-0.2%	6.7	6.5
ES	193,041	-2,722	10.7%	11.6%	0.9%	7.2	7.4
FI	25,953	565	1.7%	1.6%	-0.1%	7.5	7.7
FR	298,322	1,717	18.4%	18.0%	-0.4%	7.3	7.8
GR	38,260	-172	2.2%	2.3%	0.1%	8.5	9.1
IE	25,541	133	1.5%	1.5%	0.0%	8.8	9.2
IT	292,198	938	15.3%	17.6%	2.3%	7.0	6.9
LT	3,145	-2	0.5%	0.2%	-0.3%	9.3	8.6
LU	1,858	-110	0.3%	0.1%	-0.2%	6.0	8.3
LV	1,843	23	0.4%	0.1%	-0.2%	7.9	7.5
MT	604	-4	0.1%	0.0%	-0.1%	9.8	8.5
NL	80,598	-2,269	5.3%	4.9%	-0.4%	7.6	8.9
PT	33,921	127	2.1%	2.0%	-0.1%	7.0	7.7
SI	6,493	44	0.4%	0.4%	0.0%	8.4	8.8
SK	8,040	65	1.0%	0.5%	-0.5%	7.9	8.3
SNAT	153,089	2,000	10.0%	9.2%	-0.8%	9.9	9.0
Total / Avg.	1,659,970	-327	100.0%	100.0%	0.0%	7.4	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

Appendix

Overview of latest Covered Bond & SSA View editions

Publication	Topics
33/2023 ♦ 15 November	<ul style="list-style-type: none"> Development of the German property market ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	<ul style="list-style-type: none"> Norway: creation of SpareBank 1 Sor-Norge ECB: PEPP versus TPI – or: (re)investing where others like to go on holiday
31/2023 ♦ 25 October	<ul style="list-style-type: none"> Banks in Europe: the EBA Risk Dashboard in Q2 2023 Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	<ul style="list-style-type: none"> Focus on covered bond jurisdictions: Canada in the spotlight A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	<ul style="list-style-type: none"> A covered bond view of Belgium Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	<ul style="list-style-type: none"> The covered bond universe of Moody's: an overview Update on DEUSTD – Joint German cities (bond No. 1)
27/2023 ♦ 20 September	<ul style="list-style-type: none"> Newcomer to the EUR benchmark segment: Bendigo and Adelaide Bank set to expand issuer base in Australia Teaser: Issuer Guide – Austrian Agencies 2023
26/2023 ♦ 13 September	<ul style="list-style-type: none"> ECBC publishes annual statistics for 2022 Teaser: Issuer Guide – Dutch Agencies 2023
25/2023 ♦ 06 September	<ul style="list-style-type: none"> Covered bond market on the growth path: OLB looks set to join the ranks of EUR benchmark issuers NORD/LB Issuer Guide German Laender 2023 published
24/2023 ♦ 19 July	<ul style="list-style-type: none"> Banks in Europe: EBA Risk Dashboard in Q1 2023 ECB repo collateral rules and German Laender
23/2023 ♦ 12 July	<ul style="list-style-type: none"> Covereds: Half-year review and outlook for the second half of 2023
22/2023 ♦ 28 June	<ul style="list-style-type: none"> Special publication on LCR classification and risk weights: a (regulatory) overview of the EUR benchmark segment ESG bonds of German Laender – significant further development
21/2023 ♦ 21 June	<ul style="list-style-type: none"> ESG covered bonds: a look at the supply side Increasing exposure of E-supras to Ukraine
20/2023 ♦ 14 June	<ul style="list-style-type: none"> Moody's covered bond universe – an overview Beyond Bundeslaender: Spanish regions
19/2023 ♦ 07 June	<ul style="list-style-type: none"> ECB Preview: ECB's 25th anniversary and is still going strong Focus on legal requirements for covered bonds
18/2023 ♦ 24 May	<ul style="list-style-type: none"> Repayment structures on the covered bond market: an update Stability Council convenes for 27th meeting
17/2023 ♦ 17 May	<ul style="list-style-type: none"> ESG update 2023 in the spotlight Development of the German property market Transparency requirements §28 PfandBG Q1/2023
16/2023 ♦ 10 May	<ul style="list-style-type: none"> The ECB and the covered bond market: influences old and new Update: Joint Laender (Ticker: LANDER)

Appendix

Publication overview

Covered Bonds:

[Issuer Guide Covered Bonds 2023](#)

[Covered Bond Laws](#)

[Covered Bond Directive: Impact on risk weights and LCR levels](#)

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

[Transparency requirements §28 PfandBG Q2/2023](#) (quarterly update)

[Covered bonds as eligible collateral for central banks](#)

SSA/Public Issuers:

[Issuer Guide – German Laender 2023](#)

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

[Issuer Guide – Dutch Agencies 2023](#)

[Issuer Guide – German Agencies 2022](#)

[Beyond Bundeslaender: Belgium](#)

[Beyond Bundeslaender: Greater Paris \(IDF/VDP\)](#)

[Beyond Bundeslaender: Spanish regions](#)

Fixed Income Specials:

[ESG-Update 2023](#)

[ECB: Now is not the time for forward guidance!](#)

[ECB preview: Wait and see without calling it a pause](#)

[ECB: This rate terminates here – 99.9% sure](#)

Appendix

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Time of going to press: Wednesday, 22 November 2023 (08:45)