Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

Floor analysts:

Covered Bonds/Banks

Dr Frederik Kunze
frederik.kunze@nordlb.de

Lukas Kühne
lukas.kuehne@nordlb.de

SSA/Public Issuers

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

Christian Ilchmann
christian.ilchmann@nordlb.de

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

NORD/LB:
Floor Research

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Covered Bond Research

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Market overview
Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: please don’t stop the music!

The primary market still has plenty to offer even as we approach the end of the second trading month of a still nascent 2024. This applies in particular to the composition of the fresh supply on the market. After primary market activities were initially characterised by deals from Germany and France, the issuance mix is now far more varied, as shown by the six deals from six different jurisdictions over the past five trading days. Last Wednesday, Credit Agricole Home Loan SFH got the ball rolling in our coverage this week with a fresh benchmark deal (EUR 1.5bn; 6.8y). The bond was priced at ms +39bp and generated a final order book of EUR 2.7bn. The calculated new issue premium (-1bp) should certainly be highlighted here, as it indicates pricing within the issuer’s own curve. On the same day, Hamburger Sparkasse did not shy away from a slightly challenging market environment for German Pfandbriefe by successfully approaching its investors with a mortgage Pfandbrief priced at ms +34bp (EUR 500m; WNG; 7.0y). A third Portuguese deal in the current year hints at a bit of a comeback for this southern European jurisdiction: Novo Banco generated a final order book of EUR 4.9bn for its benchmark deal worth EUR 500m (WNG; 3.0y), which resulted in a bid-to-cover ratio of 9.8x. The final re-offer spread stood at ms +45bp, which was ten basis points tighter than the initial guidance. After two trading days without any issuance activities, TSB Bank (cf. Covered Bond focus article) was the first issuer to come to market in the current trading week, proving that covered bond deals from the UK certainly also generate interest among investors. A digital roadshow was launched for this transaction (EUR 500m; WNG; 5.0y) in the previous week. The books for this EUR benchmark debut opened at an exceptionally generous ms +60bp area, before the spread tightened by eight basis points to ms +52bp during the marketing phase. In the end, the order book reached a total of EUR 4.3bn. UBS from Switzerland then added to the colourful mix of deals. Its structured covered bond was the first Swiss benchmark since December 2022, when Credit Suisse (which has in the meantime been acquired by UBS) awoke the Swiss market from a prolong dormant state lasting more than eight years. The fresh bond (EUR 1.0bn; 5.0y) was placed at ms +48bp and generated a final order volume of EUR 7.4bn. Iccrea Banca's successful transaction also demonstrates that the show goes on in Italy (cf. Issuer View). Ultimately, the Italian issuer raised a sum of EUR 500m (WNG; 8.0y) at a re-offer spread of ms +80bp (guidance: ms +92bp area). The high level of demand was reflected in an order book totalling EUR 5.0bn.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Iccrea Banca	IT	27.02.	IT0005584880	8.0y	0.50bn	ms +80bp	- / Aa3 / -	-
UBS Switzerland	CH	27.02.	CH1331113469	5.0y	1.00bn	ms +48bp	AAA / - / -	-
TSB Bank	GB	26.02.	XS2774411016	5.0y	0.50bn	ms +52bp	- / Aaa / -	-
Novo Banco	PT	21.02.	PTNOFOM0009	3.0y	0.50bn	ms +45bp	- / Aaa / -	-
Credit Agricole HL	FR	21.02.	FR001400OCT6	6.8y	1.50bn	ms +39bp	- / Aaa / AAA	-
Hamburger Sparkasse	DE	21.02.	DE000A351256	7.0y	0.50bn	ms +34bp	- / Aaa / -	-

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

Secondary market: now that's impressive!
Over on the secondary market, the performance of recently placed new deals has been, in our view, pretty impressive in some cases – although at the same time, this does not really come as a surprise in view of the strong oversubscription ratios. Even if we have to assume that spreads are also being driven to a significant extent by "fast money accounts", a large part of the demand can also be attributed to the real money segment. This view of the situation is also based on the fact that customer inquiries are predominantly coming from the buyer side. However, there are exceptions to this rule. For example, when there is activity at the short end (less than three years), sellers tend to dominate proceedings. It is also clear that the number of buyers has thinned out, which can be a precursor to saturation tendencies. In the current market environment, we do not expect any change in momentum without a strong external impulse. On balance, we certainly see potential for spreads to narrow over the medium and long term.

Moody's I: French banking sector in the spotlight
Last week, the rating experts from Moody's published an annual update covering the developments on the French banking market. According to Moody's, the five largest French banks increased net revenues by 6% in financial year 2023, although their aggregated pre-tax profit fell by eleven percentage points. The rating experts put this decline down to the imbalance caused by a sharp increase in interest charges from the retail banking business, which higher interest income was unable to make up for. For 2024, Moody's expects that the pressure on interest margins will slowly ease off as a result of a gradual repricing of assets. Conversely, interest charges from state-regulated customer deposits are expected to remain stable until 2025. Despite a significant decline in new lending, the rating experts at Moody's attest to the fact that French banks continue to benefit from their well-diversified business models. In our opinion, the developments in the area of new lending are not yet having a negative impact on the issuing activities of French covered bonds. Accordingly, eight French issuers have been active in the EUR benchmark market since the beginning of the year, placing 16 deals with a total volume of EUR 18.0bn in the process.

Rare guest seen on the covered bond market: structured covered bonds from Switzerland
Last Monday, UBS Switzerland mandated a banking consortium for the issuance of its inaugural EUR benchmark under this entity, which was successfully completed on Tuesday. This is a structured soft bullet covered bond with a term to maturity of five years. The "detour" via structured covered bonds is necessary because only two specific "Pfandbrief centres" in Switzerland are permitted to issue covered bonds under the Swiss Pfandbrief Act. Structured covered bonds are a bit of an outlier, although as Japanese issuers have shown, they are no longer a rarity on the market. At present, Credit Suisse is the only other entity from Switzerland with a EUR-denominated covered bond in benchmark format outstanding. In the wake of the takeover by UBS and the decision to integrate, Credit Suisse's covered bond programme will be transferred to UBS in the future. In addition to a covered bond programme for "foreign currency deals", UBS Switzerland also operates a programme for the issuance of covered bonds in its domestic currency. As at 31 January 2024, UBS reported an outstanding volume of covered bonds worth CHF 6.3bn, which are exclusively attributable to the Swiss Covered Bond programme operated by UBS. The only issuance placed as part of the International Covered Bond programme is the deal worth EUR 1.0bn that was issued on Tuesday.

Moody's II: Canadian mortgage market

In their latest report on the Canadian covered bond market, the risk experts at Moody's have identified floating-rate loans as the main reason for the overall rise in mortgage rates. From February 2022 to the end of 2023, the average interest rate on a Canadian mortgage loan increased from 2.4% to 4.2%. At the same time, interest rates on outstanding variable-rate mortgages rose from a low in February 2022 to 6.6% at the end of 2023. In September 2022, approximately 35% of all mortgage loans in Canada featured a variable rate, which compares against an average of just 23.3% over the preceding five years. Despite these increased financial burdens on households, mortgage arrears have only risen marginally. Early-stage arrears status (30-59 days overdue) rose by just 0.02 basis points to 0.10% as at year-end 2023 (compared with 0.08% at the end of 2022). According to Moody's, this is thanks to the fact that borrowers tend to have strong levels of equity built up in their properties, which accounts for a significant share of the Canadian mortgage market. These borrowers have therefore been able to more easily adapt their budgets to cope with higher mortgage payments. This speaks to the attractiveness of Canadian covered bonds, as their cover pools are more than solidly positioned even under more challenging market conditions and they still represent a safe investment instrument for potential investors.

Fitch: quarterly update on APAC covereds

In a recent quarterly update, the rating experts at Fitch have commented on developments pertaining to the covered bond markets in the APAC region. In this report, the rating experts state that the trend towards issuing deals in a wide variety of currencies among issuers from APAC jurisdictions continued in the fourth quarter of 2023. According to Fitch, during this period, around 75% of all covered bond issues from this region were placed in currencies outside of the euro. In the view of the rating experts, the preference for terms of three to five years can be explained by high levels of investor demand in this maturity segment. Longer maturities have also been issued from the APAC countries, albeit in smaller volumes (EUR <250 million) and, again, outside of the euro. From our perspective, a pleasing aspect that was highlighted by Fitch was the inaugural EUR benchmark placed by Bendigo and Adelaide Bank (AU), which approached investors in October 2023 with a three-year deal. We took a closer look at this issuer as part of a focus article in a previous edition of our Covered Bond & SSA View.

Internal matters: our next highlight for 2024 – the Regulatory Update on 29 February – follows hot on the heels of a successful Pfandbrief Breakfast last week

At this juncture, we would like to take the opportunity to thank everyone who took part in the Pfandbrief Breakfast (German link) last week and made it such a successful event. The challenges on the Pfandbrief market, including in particular the distortions in the CRE markets and their influence on the cover pools of German Pfandbrief issuers, were the focus of spirited debate. While this topic is not the focus of our Regulatory Update in Hanover this coming Thursday, it will undoubtedly still provide material for discussion. In addition to the challenges of the ESG environment, the Regulatory Update will seek to shine a light on market-relevant developments in the area of banking regulations. We look forward to lively discussions and exciting talks with various guests from the fields of science, the market environment and rating agencies. You can find an overview of the focus topics that will be covered this Thursday on the event website (in German).

Market overview
SSA/Public Issuers

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

Debts are everywhere

According to provisional calculations from the German Federal Statistical Office (Destatis), the financial deficit of the Bund (federal government) amounted to EUR 87.4bn in 2023. According to the press release, although it remained high, the deficit was down by EUR 9.5bn against the previous year since government revenues (+4.4% at EUR 1,901.8bn) rose faster than expenditures (+3.7% to EUR 1,989.2bn). Measured as a percentage of GDP at current prices, the deficit ratio for 2023 was 2.1%. This means that the 3% reference value of the European Stability and Growth Pact, which remained suspended in 2023, would have been met. We recently looked at the Maastricht criteria in the context of this weekly publication. As was already the case in 2022, the statewide financial deficit was mainly the result of the financial deficit of the Bund (EUR 79.0bn). There was a sharp reduction of EUR 45.3bn against 2022, reflecting the end of measures in connection with the COVID-19-pandemic and the energy crisis. The Laender and local governments also reported deficits for 2023 (EUR 6.4bn and EUR 12.1bn respectively), mainly attributable to a reduction in transfers from the federal government at a time when providing for people in need of protection is an ongoing financial burden. These two government sub-sectors had still managed to generate a surplus in 2022. There was a slight increase in the financial surplus to EUR 10.0bn for the social security funds in 2023. The last time the other Maastricht criterion (public debt must not exceed 60% of GDP) was met was in 2019 (59.6%).

Debt relief; yes or no? NRW and municipalities versus Lindner

After an in-depth look at the Bund, we will now turn our attention to the debt of the municipalities in North Rhine-Westphalia (NRW): these have been the subject of a debate that has been rumbling on since mid-2023. At the time, Federal Minister of Finance Christian Lindner (FDP) rejected the demand by NRW for the legacy municipal debt to be taken over by the Bund. According to comments made by Lindner in an interview with the *Rheinische Pos*t in mid-2023, “the NRW model does not meet federal government expectations. Taking over their debt would be a burden on municipalities that have budgeted carefully and would be a false incentive.” The NRW government is planning to provide relief for those municipalities that have been overindebted for a longer period and, from mid-2024, it will transfer half the municipalities’ legacy debts amounting to EUR 9.85bn to the federal state's debt. At the same time, NRW's Minister President Hendrik Wüst (CDU) had stressed back then that NRW was making preliminary investments and that it was now the federal government's turn to step up with a contribution. In mid-February of this year, Lindner remained reticent about resolving legacy municipal debts in NRW. He stressed in an interview with the *Neue Westfälische* that the German government was still prepared to work on a solution, but only under certain conditions. These would include the CDU/CSU Bundestag group supporting the solution, which, according to *Der Neue Kämmerer*, would be imperative in any case in view of the two-thirds majority required in the Federal Council. However, apart from NRW, only Laender with legacy municipal debts would receive funds – although Lindner made it clear that he had to report doubts as regards support from Markus Söder, Minister President of Bavaria (CSU). Another condition for the federal government becoming involved was the creation of a municipal "debt brake".

Laender stand up against Bavaria's challenge to financial equalisation

An issue from last year still concerns us in 2024. As a reminder: in July 2023, Bavaria filed a constitutional complaint against the German financial equalisation system (LFA). The LFA has been a bone of contention for many years and has therefore been revised. The issue is moreover a key element in our annual Issuer Guide - German Laender (2023 edition). The Free State of Bavaria is now calling for a new arrangement, since it has been by far the biggest contributor to the equalisation scheme for years. According to the latest figures, Bavaria remains undisputedly the biggest payer in the system. Last year, the Free State paid around EUR 9.1bn into the Laender pot. Although this is EUR 800m less than in 2022, it still makes up the lion's share in the Laender equalisation scheme, according to Bavaria's Minister of Finance Albert Füracker (CSU) in response to a question from Bayerische Rundfunk. According to Füracker, Bavaria's share once again makes up around half of the total equalisation amount, which stood at around EUR 18.3bn in 2023. Other payers aside from Bavaria were Baden-Württemberg, Hesse, Hamburg and Rhineland-Palatinate. The other 11 Laender were all recipients. Füracker added that Bavaria stands in solidarity with the other Laender, but that the legal questions and unfairness raised in the complaint need to be addressed in the Federal Constitutional Court. In the words of Minister President Markus Söder in 2023, Bavaria's money would be better invested in the Free State than in Berlin or Bremen. Back then, the opposition spoke of an electoral campaign manoeuvre. Markus Söder described one of the "evils" of the financial equalisation system as being "city state privilege", whereby the citizens of Hamburg, Bremen and Berlin are better off than their counterparts in Munich, Nuremberg and Augsburg, and emphasised that this is not acceptable. According to Söder, in 2020, Bavaria still agreed to the rules of the LFA. Back then, the federal government had pumped money into the system, but real structural reforms had failed to materialise. Söder stated that Bavaria had agreed with the system because "it eased the burden on us". The complaint was then withdrawn. Markus Söder justified this latest move by saying that, unfortunately, the gulf between the Laender had since widened even further. Bavaria's strength was also a responsibility. "After all, we in Bavaria ultimately weaken ourselves if Germany as a whole functions less well", warned Tim Pargent, financial expert of the Green party in the Landtag. He stated that a Laender fiscal equalisation scheme was important because Germany could not afford a two-tier society concerning education and security. As a reminder once again: when the complaint was submitted in March 2013, heads of government Seehofer (CSU) and Bouffier (CDU Hesse) had spoken of an "act of political self-defence". At the time, the Free State was still paying around EUR 4bn per annum into the system and already felt that this was too much and unfair. Why are we now going back to a topic from July 2023? On 19 February, 12 Laender submitted their views to the Constitutional Court. Bavaria's complaint could become an "existential threat" to Bremen as a city state, according to Bremen's Senator of Finance Björn Fecker (Green). "We will do everything together with the other Laender to maintain the status quo." The case also involves the Laender of Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg-Western Pomerania, Lower Saxony, Rhineland-Palatinate, Saarland, Saxony, Saxony-Anhalt, Schleswig-Holstein and Thuringia. Constitutional law expert Stefan Korioth from the Law Faculty of the Ludwig Maximilian University of Munich is representing the Laender in question before the Federal Constitutional Court. Among lawyers, this is called a "judicial review against the German financial equalisation system". Bremen's Ministry of Finance does not expect a ruling from Karlsruhe until next year at the earliest. In summary: the German financial equalisation system aims to create the necessary financial conditions to ensure equal living conditions and comparable public services across the entire German territory in accordance with constitutional requirements.

MuniFin: publication of financial statement for 2023

The municipal financier Municipality Finance (MuniFin; ticker: KUNTA) again supported regional government and local authorities along with public sector housing in Finland by providing affordable funding. The agency has now published its official financial statement for 2023. Net interest income has increased by 7.5% against 2022 to EUR 259m at the end of 2023 (2022: EUR 241m). Net operating profit excluding unrealised fair value changes also did well, ending at EUR 176m, which is 3.2% higher than in 2022 (EUR 170m). There was a slight year-on-year decline of 0.1% for new long-term customer financing, among other things. Green finance for environmentally sustainable investments accounted for EUR 4.8bn of all long-term customer financing as at the end of 2023, and social finance for investments to promote equality and communality accounted for EUR 1.7bn based on the Sustainability Agenda published in October 2023. Considering funding activities, MuniFin raised EUR 10.1bn in new long-term funding in total through 87 transactions. As at the end of financial year 2023, the issuer therefore had a total volume outstanding of EUR 43.3bn.

Landwirtschaftliche Rentenbank: 2023 was a challenging year

Landwirtschaftliche Rentenbank (Ticker: RENTEN) has reported a marked fall in demand for the bank's promotional loans last year. According to the 2023 report, the new promotional business with affordable programme loans fell by 13.6% across all segments to EUR 5.9bn (2022: EUR 6.9bn). The Agriculture division (EUR 1.6bn; -21.1%) and Renewable Energies (EUR 850m; -46%) showed the sharpest absolute decline. This reflects the fact that farmers are investing less in farm buildings and machinery along with dwindling demand for wind power financing. In contrast, there was an increase in new business in the Rural Development division of 33.8% to EUR 2.7bn, driven mainly by much higher demand from the Laender development banks for global loans. These are used especially to finance municipal infrastructure measures in rural areas, including public mass transit, buildings (administrative and schools) along with waste and water management measures. On balance, the overall promotional business fell by 6.7% to EUR 10.7bn (2022: EUR 11.5bn). In spite of the contraction in the new business segment, total assets rose slightly (+0.4%) to around EUR 97.8bn (2022: EUR 94.4bn). Net interest income amounted to EUR 309.9m at year-end (+15.3%). Capital ratios were virtually unchanged: the Common Equity Tier 1 ratio stood at 31.3% (2022: 31.7%), while the leverage ratio amounted to 10.3% (2022: 10.4%). Both ratios are therefore still above the minimum regulatory requirements applicable to Rentenbank. On the funding side, Rentenbank reduced the funds it had raised in the medium and long maturity segments in 2023 to a volume of EUR 10.5bn (2022: EUR 11.8bn). Hardly surprisingly, the euro remained the main issuance currency with a share of 66%. Nikola Steinbock, Chairwoman of Rentenbank's Management Board, summed up a challenging year as follows: "The mood among farmers is not good. As shown by the results of the latest Agrar economic barometer, many farmers are unsettled by the lack of government engagement and are therefore putting off investments. This trend is also affecting our promotional lending business. Nevertheless, our promotional loans continue to provide key support to the agricultural sector."

France: Board of Directors of AFD approves 2024 funding program

At the end of January, the Board of Directors of Agence Française de Développement (AFD; ticker: AGFRNC) officially approved the French development bank's funding program. The target for 2024 is therefore EUR 9bn. Last year, the agency raised EUR 8bn in total on the capital market through eleven issues. These trades were carried out oer six public transactions, of which three were EUR-denominated bonds with a total volume of EUR 4bn. Two of these bonds moreover came with a sustainable label. For 2024, AFD is planning new issues at the middle and long end of the spectrum, including at least two EUR benchmarks and at least one USD benchmark. Moreover, the agency is committed to raising around 50% of its funding volume through sustainable bonds. AFD has already been active in the EUR market once in 2024. In January, the agency issued a ten-year EUR 2bn bond at OAT +42bp. The issue attracted orders totalling EUR 6.7bn, which means that it was more than 3.0x oversubscribed.

Primary market

Last week, the primary market enjoyed its first, minor break. However, issuers in our SSA universe were by no means entirely idle, and we can now report on three new issues, including two debuts in 2024, with a total issuance volume of EUR 6bn. In our last report, we already commented on two mandates for which marketing began promptly last Wednesday: BayernLabo (ticker: BYLABO) made its first appearance in the market in 2024 with a 7y social bond worth EUR 500m. The issue attracted orders of EUR 850m, allowing tightening of one basis point against the guidance and the bond was finally priced at ms +17bp. We published research to accompany the transaction. We had also already mentioned the mandate from Erste Abwicklungsanstalt (ticker: ERSTAA), which also went ahead on Wednesday. The agency was seeking to raise EUR 500m for a short term of three years. The issue attracted orders amounting to EUR 1.15bn and the deal was finally priced at ms +4bp (guidance: ms +5bp area). Yesterday (Tuesday), the European Investment Bank (ticker: EIB) made its third appearance in the EUR market this year in order to raise fresh capital via an EARN transaction. The EIB had no trouble in raising EUR 5bn for a term of just over five years. Hardly surprisingly, there was strong investor interest and the order book at the end of the marketing phase amounted to a substantial EUR 32bn. Backed by strong demand, there was an effortless tightening of two basis points against the initial guidance of ms +7bp area. Consequently, the transaction was ultimately priced at ms +5bp. We also wish to mention a mandate: Land Schleswig-Holstein (ticker: SCHHOL) is planning to issue a 7y EUR-denominated benchmark. It will be the first new bond deal from the North Germans this year. In addition, the third EU bond auction of 2024 takes place this Monday. We shall report back in the usual manner next week.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EIB	SNAT	27.02.	EU000A3LVAL6	5.3y	5.00bn	ms +5bp	AAA / Aaa / AAA	-
ERSTAA	DE	21.02.	DE000EAA06D8	3.0y	0.50bn	ms +4bp	AAA / Aa1 / AA	-
BYLABO	DE	21.02.	DE000A161RX6	7.0y	0.50bn	ms +17bp	- / Aaa / -	X

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

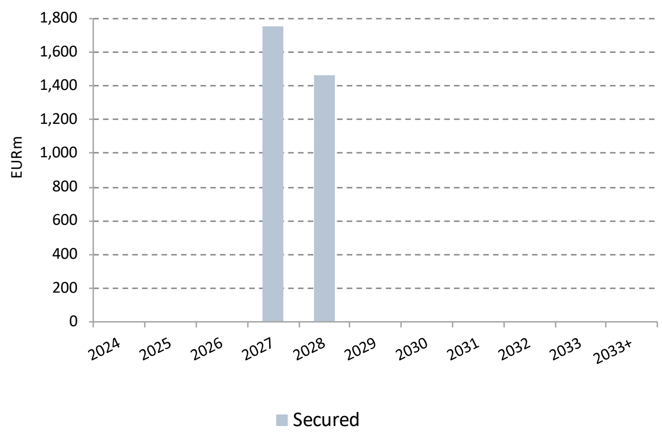
Covered Bonds
New UK player on the EUR covered bond market

Authors: Dr Frederik Kunze // Lukas Kühne

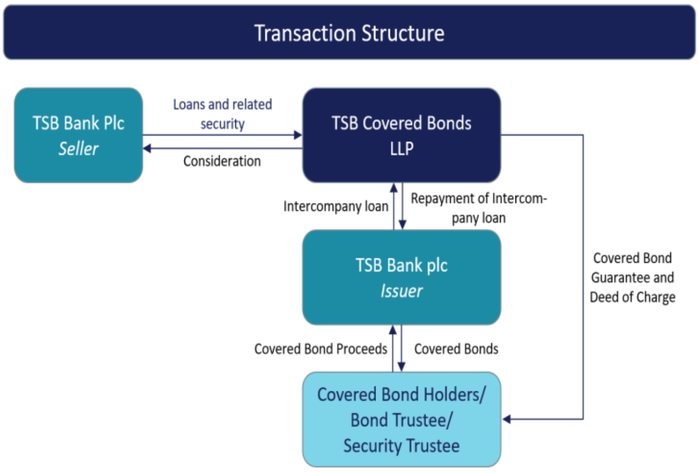
TSB Bank issues an inaugural EUR benchmark

This week, TSB Bank opened the covered bond market in the United Kingdom, where no activity had previously been recorded to date in 2024, with its first deal in the EUR benchmark segment. In our opinion, however, this is not really surprising, since UK issuers can resort to their domestic currency and other sources of funding in addition to EUR-denominated issues. Accordingly, we forecast a new issuance volume in the EUR benchmark segment of EUR 6.5bn for the UK in 2024. It is all the more gratifying to welcome a newcomer to the EUR benchmark segment in the form of TSB. Until it approached investors with a benchmark worth EUR 500m (WNG; 5y) last Monday, the bank had only issued covered bonds in GBP. We take this issue as an opportunity to look at the new issuer in greater detail.

TSB Bank redemption profile



TSB Bank covered bond transaction structure



Source: Bloomberg, issuer, NORD/LB Floor Research

Focus on TSB Bank

TSB Bank (an operating subsidiary of the TSB Banking Group) is a retail and commercial bank based in Edinburgh, whose roots reach back to the 19th century and which operates throughout the UK. The TSB Banking Group has been a 100% subsidiary of Banco de Sabadell (Spain) since 2015. The bank closed the 2023 financial year with a net profit of GBP 237.2m (approximately EUR 277m), which was the highest annual profit since 2013. The bank’s funding consists primarily of deposits from retail customers and SMEs. As at the reporting date of 31 December 2023, 76% of the funding mix was attributable to retail customers. Furthermore, 87% of its deposits were protected by the FSCS (Financial Services Compensation Scheme) in the year 2023. At 203%, the bank’s LCR exceeds regulatory requirements, with the liquidity buffer of GBP 7.9bn largely consisting of cash and central bank reserves.

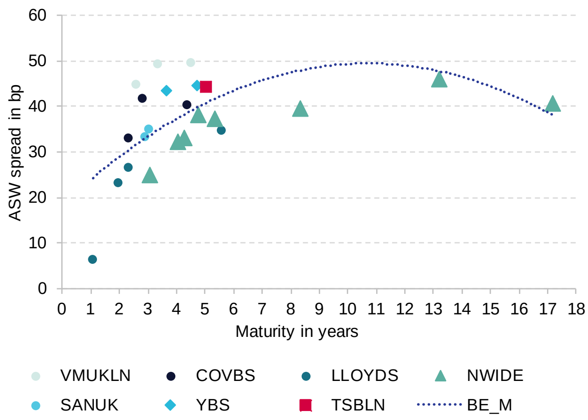
Moody's: positive outlook for the banking group's rating

In February 2023, the risk experts at Moody's confirmed the bank's long term issuer rating of Baa3 but raised the outlook from "stable" to "positive". In its rating report, the agency highlights the bank's improved profitability, in particular, as well as progress with regard to its strategic transition plan to optimise its cost structure, which led to the update. Moody's also views its solid risk capital and a high-quality credit portfolio (mainly mortgages backed by first class collateral) as positives. In terms of challenges, the rating report cites poor efficiency compared with other UK retail banks and the fact that the business model is concentrated solely on UK residential mortgages. In addition to the issuer, the rating experts at Moody's also rate the TSB Bank covered bond programme. This has a top rating of Aaa and was not affected by the rating update.

Programme data

31 December 2023	**Mortgage**
Covered bonds outstanding	GBP 3,250m (EUR 3,808m)
Cover pool volume	GBP 4,645m (EUR 5,794m)
Current OC (nominal / legal)	52.2% / 8.0%
Type	100% Residential
Main country	100% UK
Main region	18.9% South East
Number of loans	66,096
Share top 10 exposures	0.2%
NPL	0.0%
Fixed interest (Cover Pool / CBs)	0.0% / 89.4%
WAL (Cover Pool / CBs)	19.4y / 3.4y
CB Rating (Fitch / Moody's / S&P)	- / Aaa / -

Spread overview (BMK) – United Kingdom



Source: Issuer, rating agencies, Bloomberg, NORD/LB Floor Research

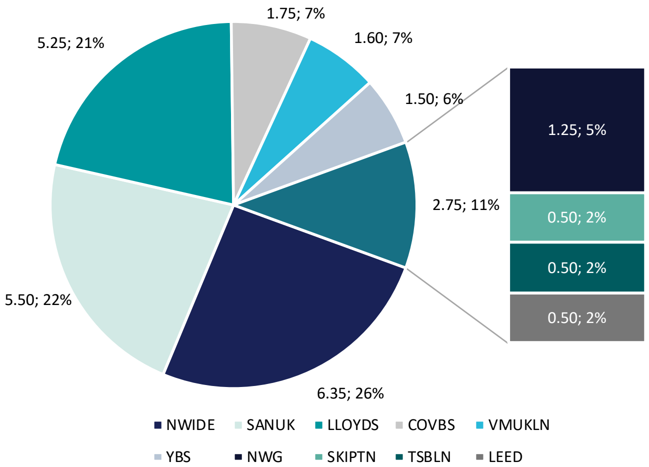
TSB Bank has been issuing covered bonds since 2017

The bank's covered bond programme was established in 2017. As at 31 December 2023, the cover pool, which consists solely of first-class, owner-occupied residential mortgages and has an OC of 52.2%, totalled GBP 4.9bn. With regard to the regions, it must be noted that the largest proportion of the assets in the cover pool was attributable to the South East (18.9%), followed by London (13.7%) and Scotland (10.7%). The fact that TSB Bank has opted to become a member of the European Covered Bond Label and therefore also discloses its cover pool assets in accordance with the reporting standard of the Harmonised Transparency Template is also of interest here. From our point of view, the current composition of the cover pool also allows scope for additional new issues above and beyond its first EUR benchmark. At present, TSB Bank has four outstanding covered bonds totalling GBP 2.7bn. The first issue dates back to 2019, followed by a transaction in 2021. Last year, the bank was more active on the market, issuing two bonds at the same time. Moody's gives the quality of the collateral a score of 4.0% and puts the collateral risk at 2.7%. In the opinion of the rating experts, the TPI leeway amounts to two notches.

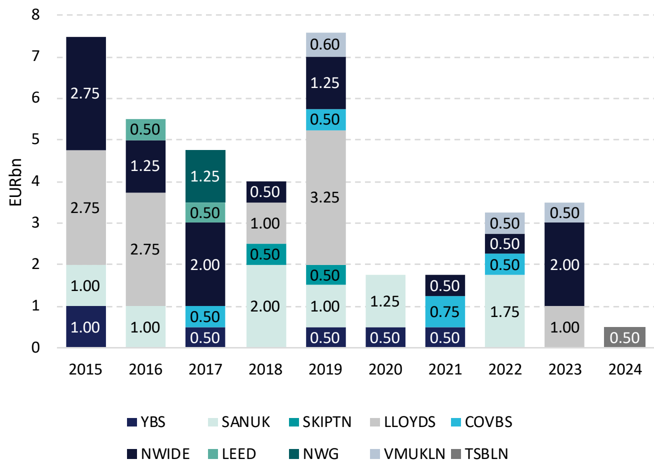
Overview of the EUR covered bond market in the UK

Apart from TSB Bank, the market for EUR covered bonds in the UK has been very quiet so far this year. Nevertheless, there are currently still 32 outstanding benchmarks worth EUR 24.7bn overall. The Nationwide Building Society (NWIDE) with nine outstanding covered bonds amounting to EUR 6.4bn must be highlighted, in particular, but also Santander UK (SANUK) and Lloyds Bank (LLOYDS) with EUR 5.5bn and EUR 5.25bn, respectively, which each account for just over a quarter of the total volume. In 2023, three issuers approached investors with a total of four deals, namely NWIDE (two deals each of EUR 1.0bn and 5.0y), Lloyds Bank PLC (EUR 1.0bn; 3.0y) and Clydesdale Bank PLC (EUR 500m; 5.0y). For 2024, we expect an issuance volume in the EUR benchmark segment of EUR 6.5bn. With maturities of EUR 8.5bn, this will result in a negative net supply of EUR -2.0bn. From our point of view, then, the EUR benchmark segment in the UK continues to shrink.

UK: Outstanding volume (EUR bn)



UK: New issues (EUR bn)



Source: Market data, NORD/LB Floor Research

Conclusion

Even though there had previously been no activity on the primary market for UK EUR covered bonds in the year to date, it is all the more gratifying that TSB Bank, a first-time issuer of EUR benchmark bonds, was the one to open the market. We expect other issuers from the United Kingdom to follow suit this year and target investors with new deals. In conclusion, we believe that it can be said that this transaction combined with the attractive market environment shows that even issuers from the United Kingdom can successfully place a covered bond on the market in this market phase. It was not for no reason that TSB Bank enjoyed a successful debut transaction in the EUR benchmark segment; this is clear both from the substantial order book and its performance in the secondary market, which is not entirely independent of this.

SSA/Public Issuers
Teaser: Issuer Guide – Non-European supras (MDBs) 2024

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese // assisted by Justin Hoff

Multilateral development banks dominate the non-European supras market

Besides the Supranationals at European level that form part of our coverage, there are other international issuers that are also continuously present in the EUR BMK segment and which we would like to look at separately as part of this publication. The seven issuers under review are without exception multilateral development banks (MDBs), the significance of which has risen sharply in recent years as a result of the more restrictive lending policies adopted by private banks in the wake of the financial and economic crisis. Their outstanding bond volume is assessed at the equivalent of EUR 630.1bn, which is spread across 2,571 bonds. Non-European MDBs therefore account for a share of around a third of the global supras market. Not surprisingly, the EUR supply takes a backseat here: the outstanding EUR bond volume totals “only” EUR 69.6bn spread across 272 bonds. The European single currency therefore accounts for a share of 11%. Despite the superficial structural homogeneity of non-European MDBs, there are significant differences in terms of ownership structure, geographic activity and callable capital. Capital increases led in part to the growth of individual supras stabilising or expanding. This indicated the importance that shareholders attach to MDBs. The significance and advantages of MDBs, such as from cheaper funding and alternative forms of bonds, are increasingly being recognised in all parts of the world. Hybrid bonds (recently launched by the AfDB) and CAT bonds (IBRD) must be mentioned in this context.

Non-European supranationals – an overview

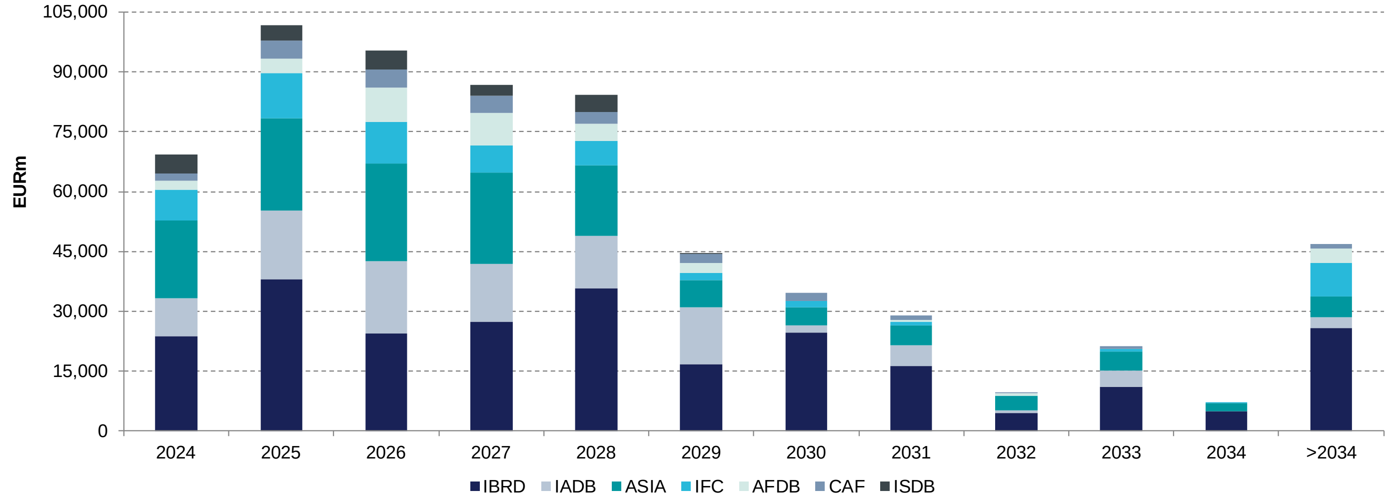
Institution	Type	Owner(s)	Guarantee	Risk weight
International Bank for Reconstruction and Development (IBRD)	Promotional bank	189 countries	Callable capital: USD 296.0bn	0%
Inter-American Development Bank (IADB)	Promotional bank	48 countries	Callable capital: USD 164.9bn	0%
Asian Development Bank (ADB)	Promotional bank	68 countries	Callable capital: USD 134.8bn	0%
International Finance Corporation (IFC)	Promotional bank	186 countries	-	0%
African Development Bank (AfDB)	Promotional bank	81 countries	Callable capital: UA 138.8bn*	0%
Corporación Andina de Fomento (CAF)	Promotional bank	99.9% held by 21 countries and 0.1% by commercial banks	Callable capital: USD 1.6bn	20%
Islamic Development Bank (IsDB)	Promotional bank	57 countries	Callable capital: USD 54.4bn	0%

* UA = Unit of Account.
Source: Issuers, NORD/LB Floor Research

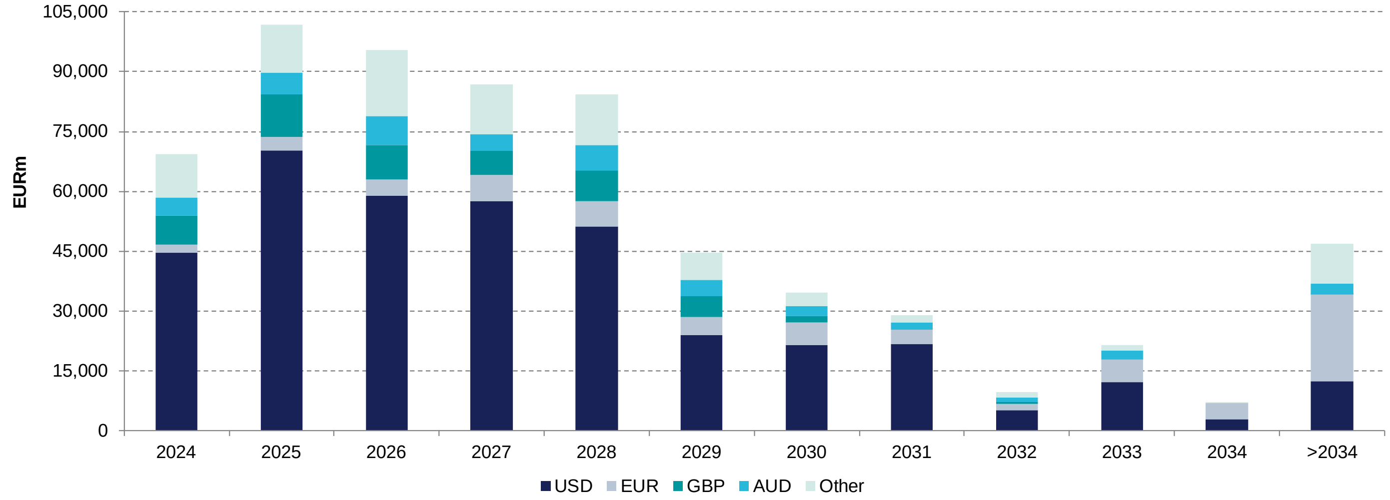
No 0% risk weight for CAF

The risk weight of supranational issuers is based on Articles 117 and 118 CRR. Here, the MDBs and international organisations, for which a risk weight of 0% is possible, are explicitly listed. This applies to all of the issuers covered in this publication with the exception of Corporación Andina de Fomento (CAF). The risk weight for CAF results from the provisions governing institutions' risk weights in Article 119 CRR. Here, the rating or the issuer's corresponding rating class is referred to. Given this, a risk weight of 20% must be applied to CAF bonds in our opinion.

Non-European supranationals: outstanding bonds by issuer



Non-European supranationals: outstanding bonds by currency

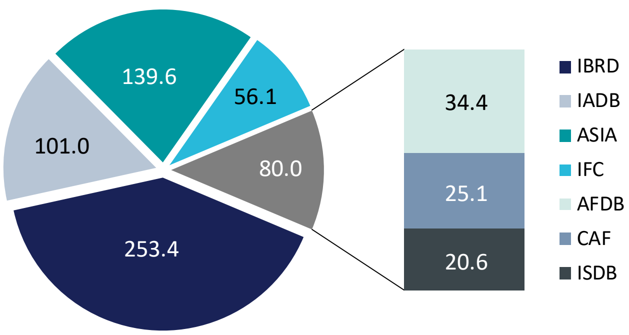


NB: Foreign currencies are converted into EUR at rates as at 27 February 2024.
Source: Bloomberg, NORD/LB Floor Research

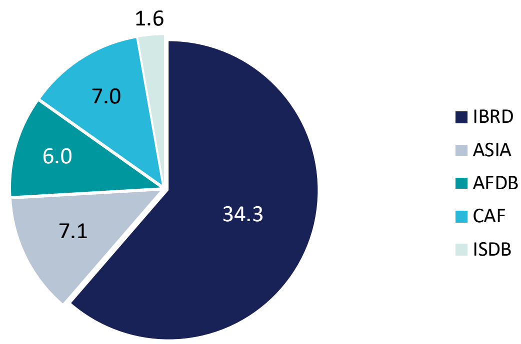
Wide range of maturities and USD dominance

A wide range of supply can be found in virtually all maturities on the non-European supranational market. Although the focus is still on the shorter maturity segment, the outstanding volumes in the long maturity segment should not be underestimated by any means. The vast majority of outstanding bonds issued by non-European MDBs are denominated in USD. The EUR plays are more subordinate role, account for a share of just 11% of the outstanding bond volumes overall. In total, 52 different foreign currencies are used for funding by the seven MDBs under review here.

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 27 February 2024.
Source: Bloomberg, NORD/LB Floor Research

Overview of non-European supranationals (EURbn/EUR equivalent)

Name	Ticker	Rating* (Fitch/Moody's/S&P)	Outstanding Volume	EUR volume	Funding target 2024	Maturities 2024	Net Supply 2024	Number of ESG bonds	ESG volume
IBRD	IBRD	AAAu/Aaa/AAA	253.4	42.8	45.2	24.4	20.8	622	199.6
IADB	IADB	AAAu/Aaa/AAA	101.0	0.1	17.6	15.7	1.9	58	24.9
ADB	ASIA	AAA/Aaa/AAA	139.6	7.9	28.9	24.4	4.5	123	20.7
IFC	IFC	-/Aaa/AAA	56.1	0.8	11.8	8.7	3.0	489	53.4
AfDB	AFDB	AAA/Aaa/AAA	34.4	7.1	5.9	3.8	2.0	31	8.8
CAF	CAF	AA-/Aa3/AA	25.1	8.1	4.1	2.8	1.3	11	2.6
IsDB	ISDB	AAA/Aaa/AAA	20.6	2.8	5.4	5.0	0.4	3	4.5
Total			**630.1**	**69.6**	**118.9**	**84.9**	**33.9**	**1,337**	**314.5**

Foreign currencies are converted into EUR at rates as at 27 February 2024.
On account of the issuer's individual funding mix, the values for "funding target" and "net supply" in particular may deviate from reality.
Source: Bloomberg, issuers, NORD/LB Floor Research

Focus on ESG bonds

With respect to the number of ESG bonds issued and the volumes associated with this subsegment, many readers will probably be rubbing their eyes in disbelief or suspecting that the authors have made a typing error: 622 bonds with ESG characteristics concentrated on one sole issuer is really a one-off. As part of the World Bank Group, the IBRD issues bonds in both green and sustainable format. In 2023 alone, it successfully conducted 196 sustainable development bond transactions worth USD 43bn (equivalent to circa EUR 39bn) and used 20 different currencies in doing so. Added to this are over 200 green bonds issued since 2008.

Hope for hybrids?

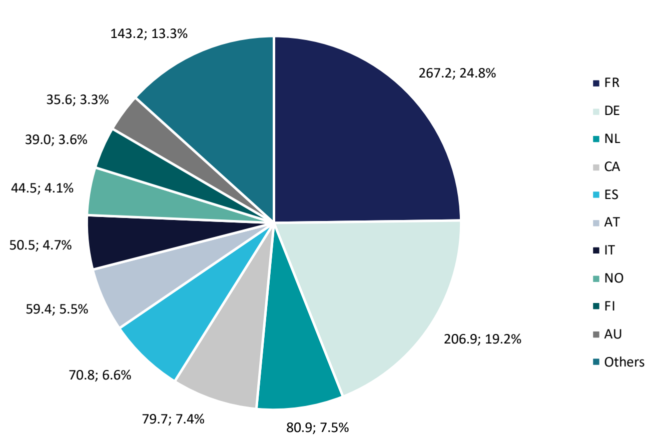
Hybrid bonds and hybrid capital as the general term offer institutions the option of increasing their lending capacity effectively and, through its classification as capital, also imply some regulatory advantages. The initial experiment started extremely successfully with the AfDB transaction at the end of January 2024. The attractive risk-reward profile led to correspondingly strong demand and we expect further MDBs to make use of hybrid bonds as a source of funding in the future. Naturally, a key criterion for us is always the choice of currency. Here, we assume that the USD will be the dominant means for the foreseeable future, as MDBs traditionally make more use of the greenback for funding purposes and the EUR plays a more subordinate role. In addition to the opportunities, the risks should by no means be disregarded either. A long planning phase and complex pricing process could see issuers opting to remain on the sidelines at first. Under certain circumstances, there is also the cheaper alternative of raising hybrid capital from the shareholders. For further information on the subject of hybrid bonds and their increasing significance for MDBs, we refer at this point to our weekly publication dated 21 February.

Conclusion and comments

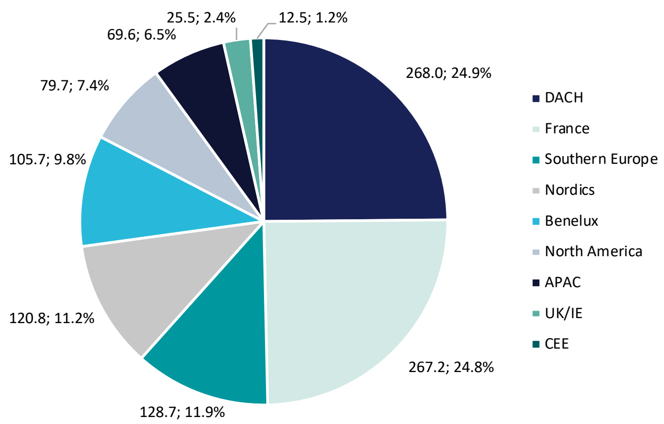
The non-European supranational market offers a wide range of bonds with different maturities, the majority of which are, however, denominated in USD. The supply of EUR bonds is very small relatively speaking, since non-European supras mainly raise funding in the world’s leading currency. In absolute figures, the outstanding volume of EUR 630.1bn must not – compared with other markets – be underestimated in any way. Especially the largest MDB in our coverage, the International Bank for Reconstruction and Development (IBRD), features regularly as an issuer of EUR benchmarks. In view of global risks, such as post-war reconstruction and climate change, we expect that non-European MDBs will continue to have substantial funding requirements in the next few years. The latter is also apparent from the steadily increasing number of ESG bonds. As at the reporting date, there are a total of 1,337 ESG bonds with an outstanding volume equivalent to EUR 314.5bn in circulation. The upward trend is expected to continue in the future!

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



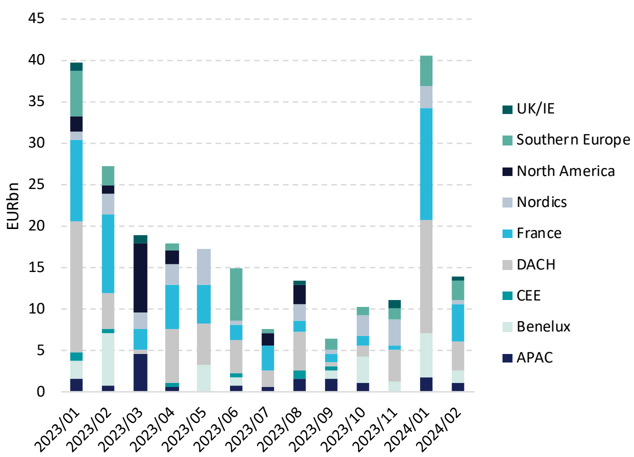
EUR benchmark volume by region (in EURbn)



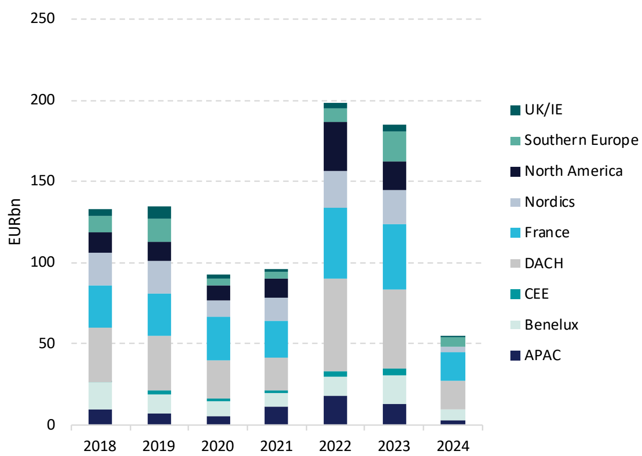
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	267.2	257	24	0.97	9.3	4.8	1.38
2	DE	206.9	295	39	0.65	7.8	4.0	1.33
3	NL	80.9	81	3	0.94	10.5	6.2	1.25
4	CA	79.7	59	0	1.33	5.5	2.7	1.17
5	ES	70.8	56	5	1.15	11.0	3.2	2.05
6	AT	59.4	100	5	0.58	8.0	4.5	1.47
7	IT	50.5	63	4	0.77	8.5	3.7	1.72
8	NO	44.5	54	12	0.82	7.4	3.7	0.84
9	FI	39.0	43	4	0.89	6.9	3.6	1.56
10	AU	35.6	34	0	1.05	7.2	3.3	1.60

EUR benchmark issue volume by month



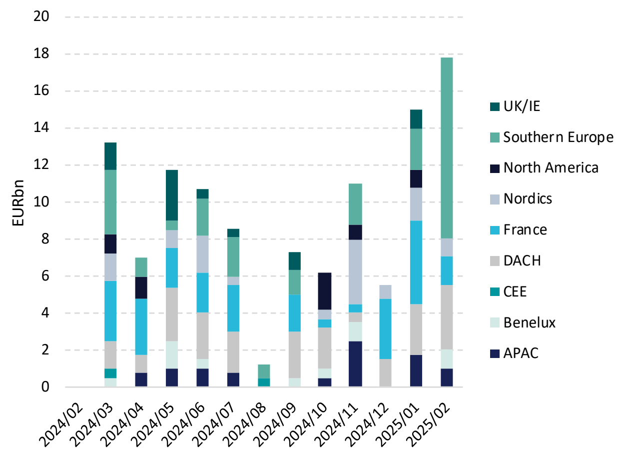
EUR benchmark issue volume by year



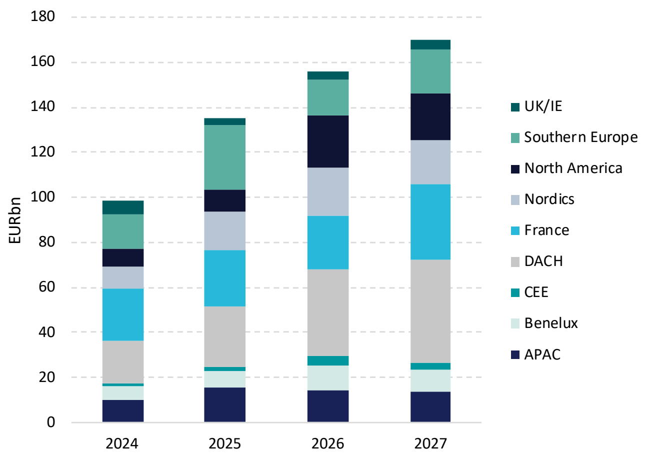
Source: market data, Bloomberg, NORD/LB Floor Research

NORD/LB

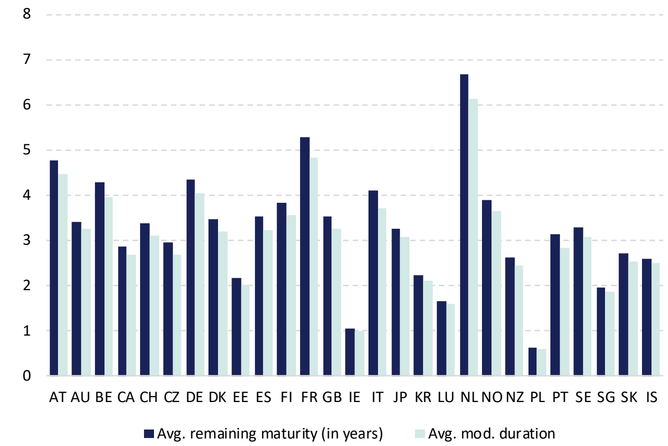
EUR benchmark maturities by month



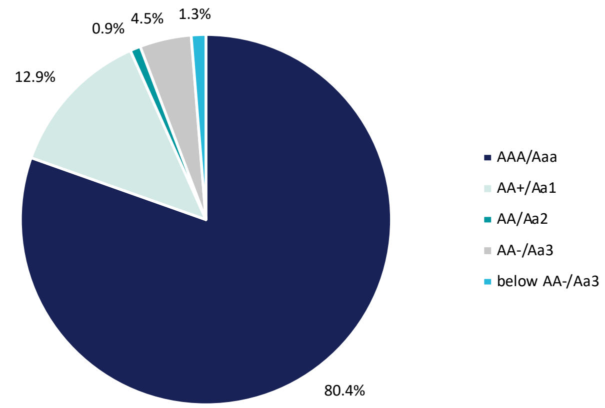
EUR benchmark maturities by year



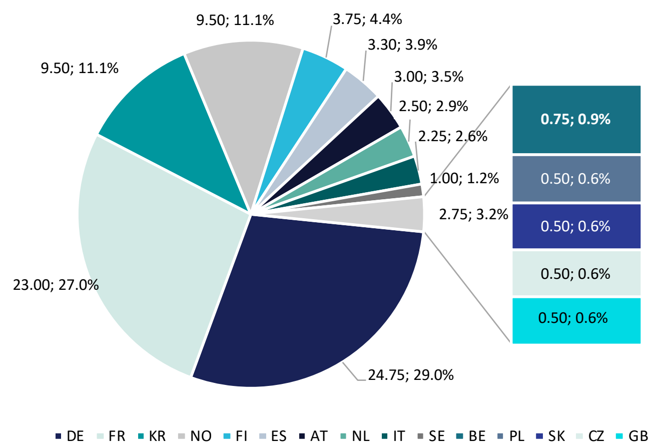
Modified duration and time to maturity by country



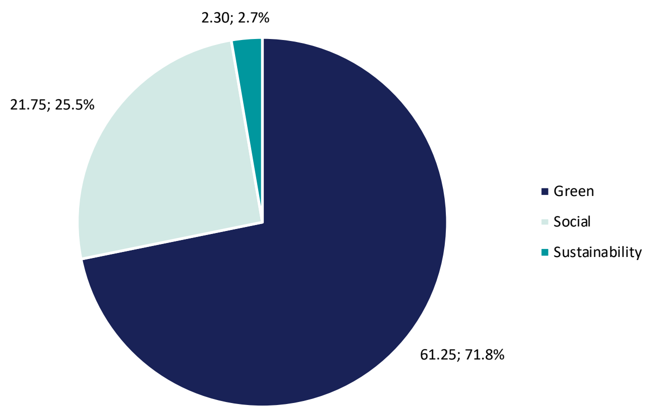
Rating distribution (volume weighted)



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

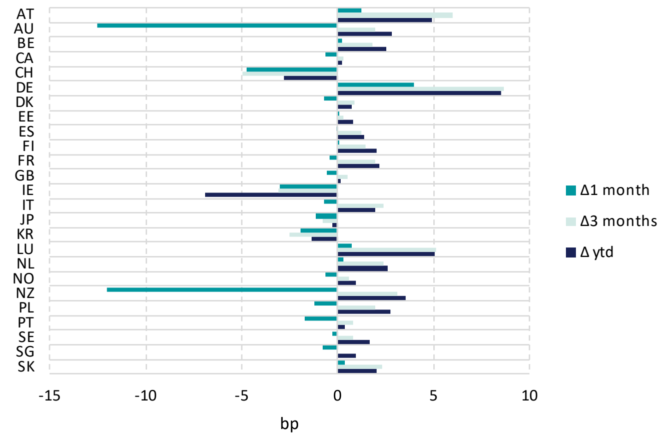


EUR benchmark volume (ESG) by type (in EURbn)

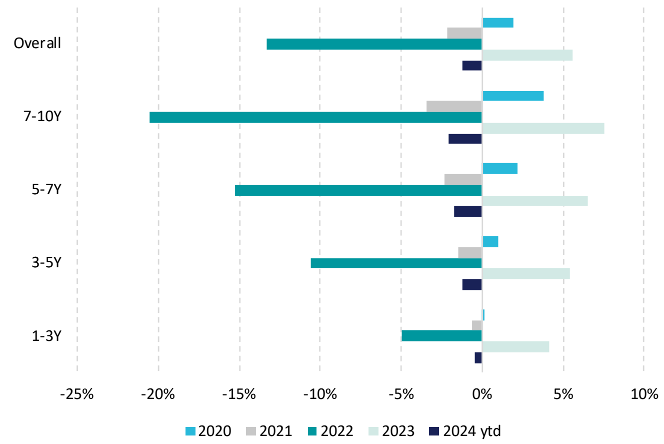


Source: market data, Bloomberg, NORD/LB Floor Research

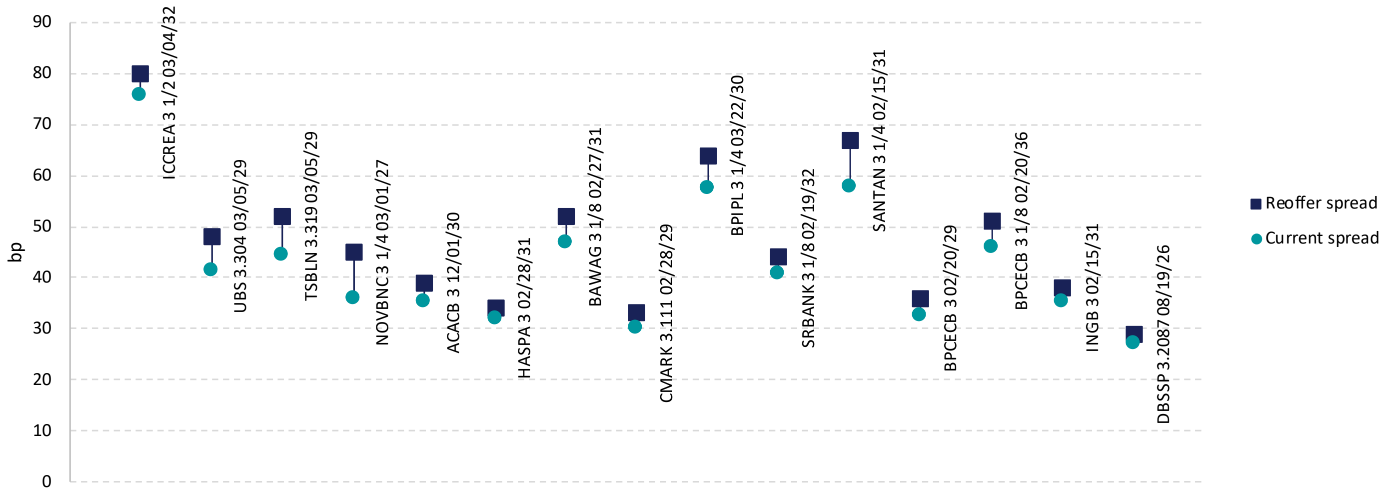
Spread development by country



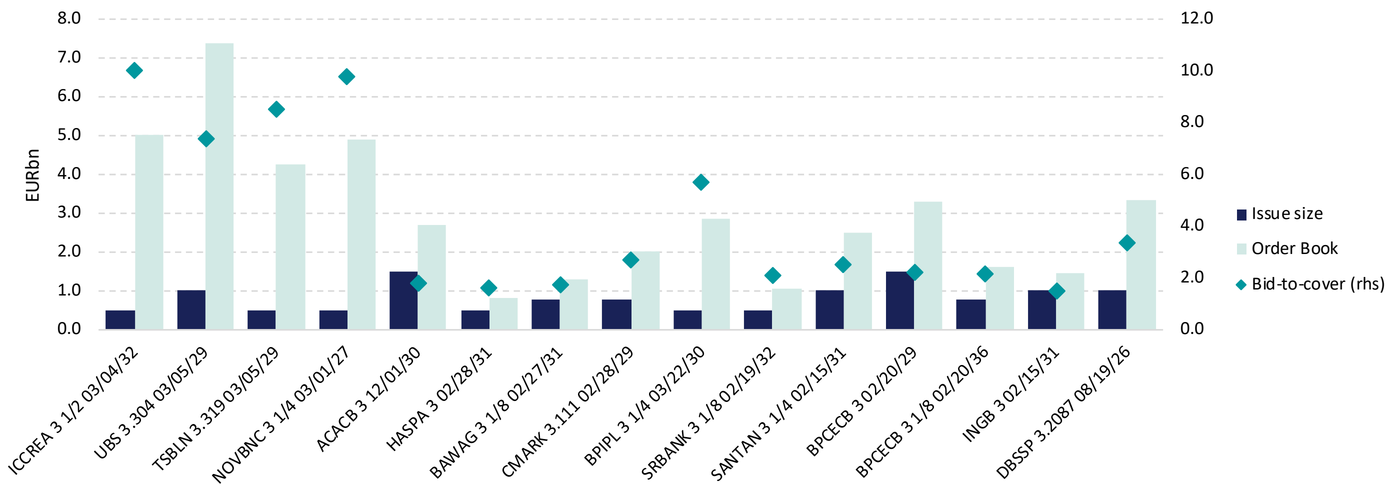
Covered bond performance (Total return)



Spread development (last 15 issues)



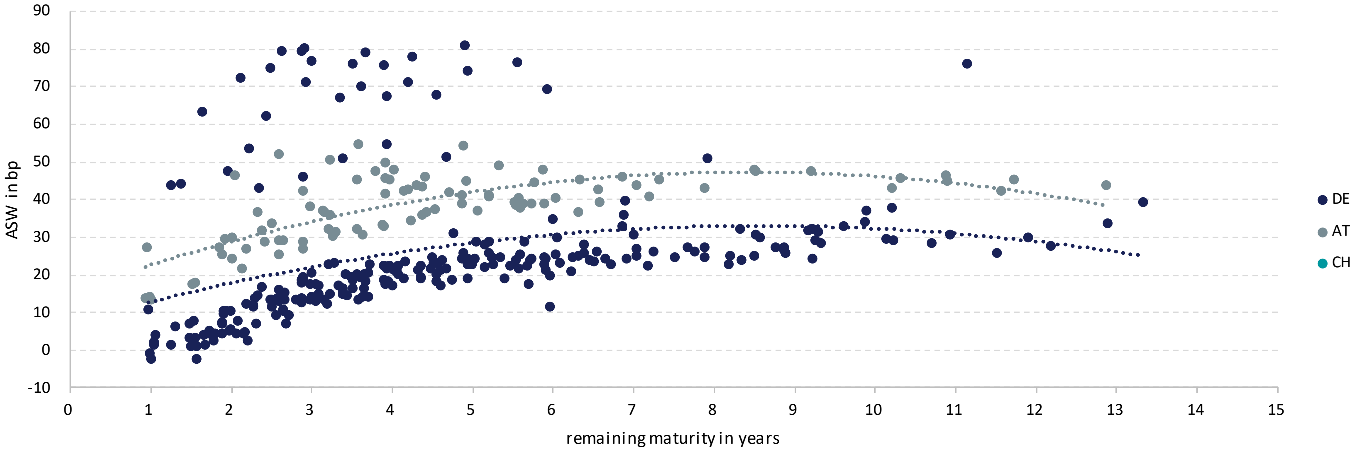
Order books (last 15 issues)



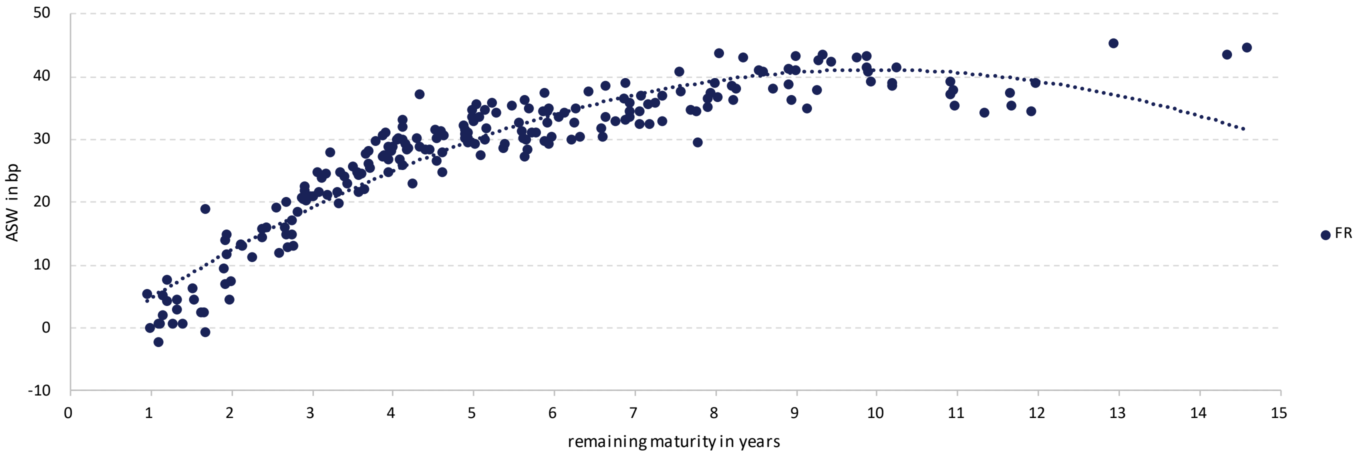
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

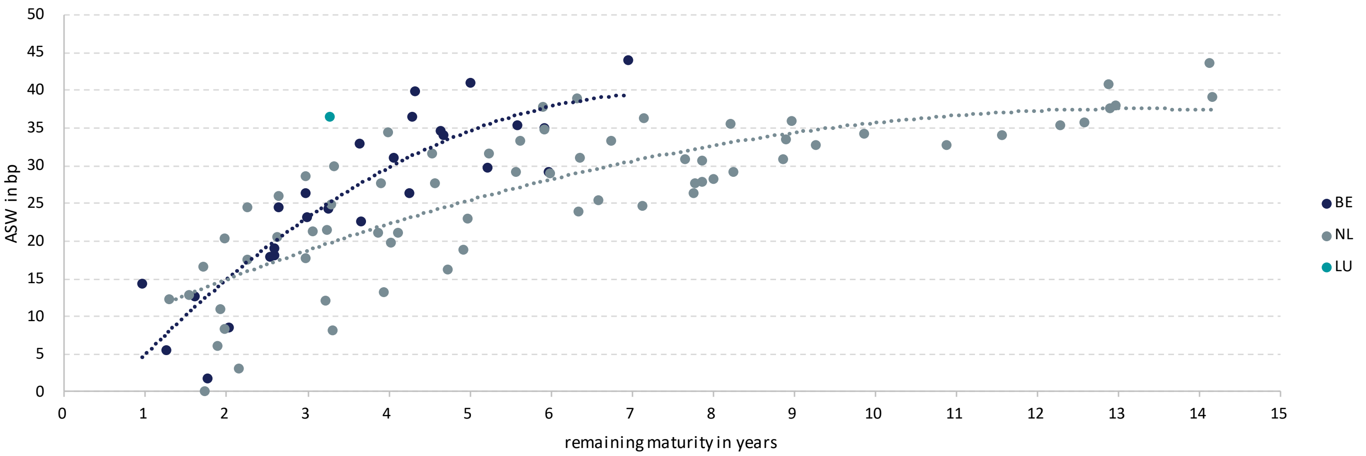
DACH



France

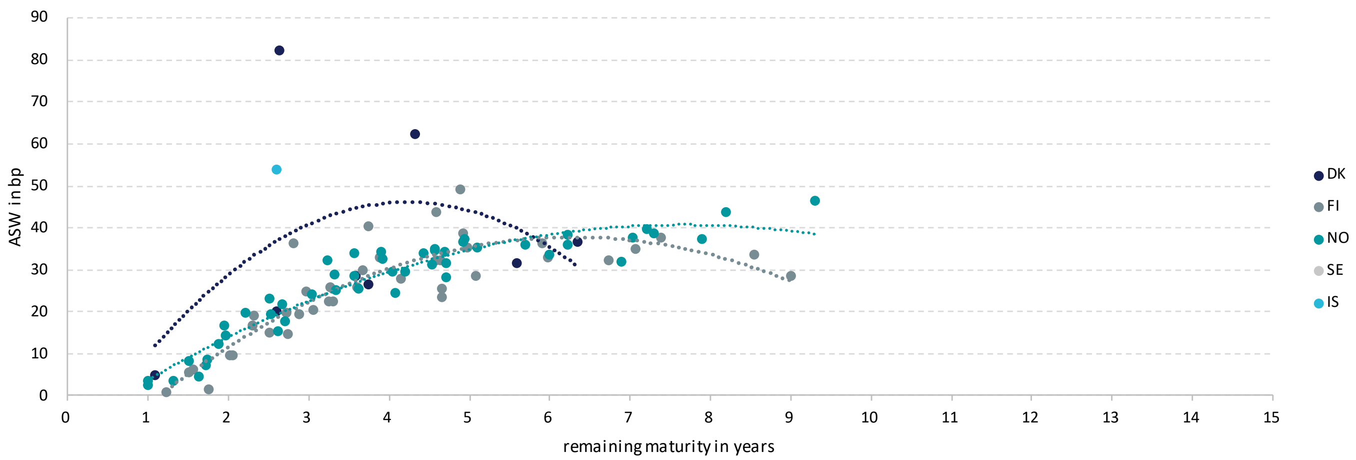


Benelux

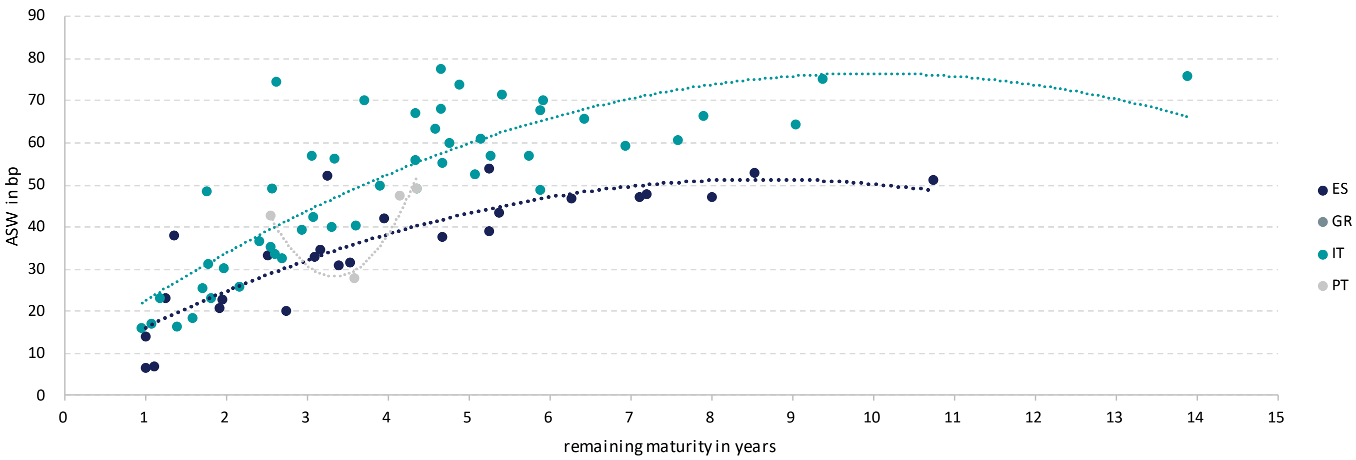


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

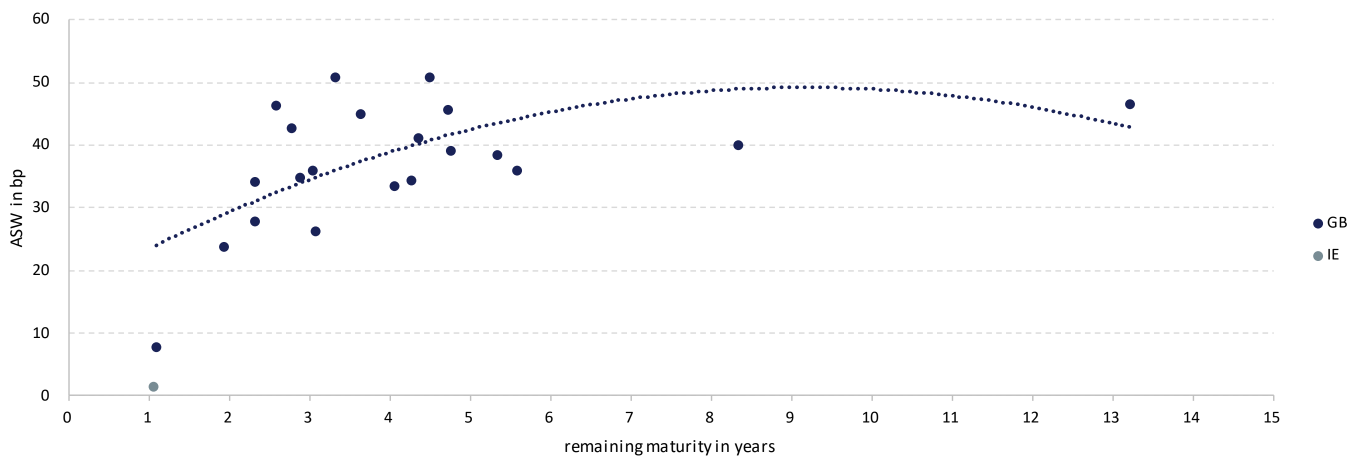
Nordics



Southern Europe

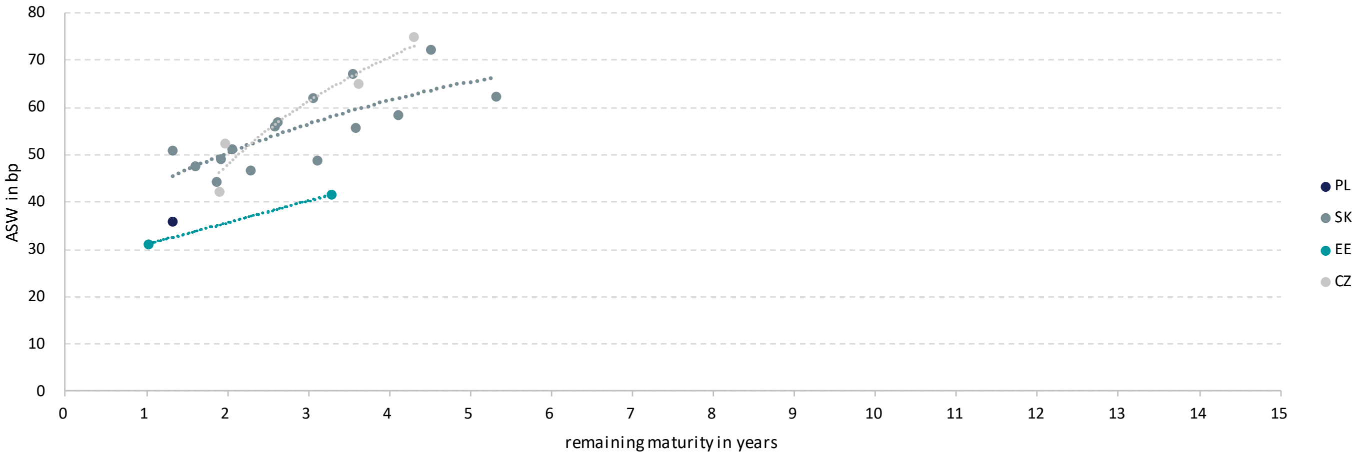


UK/IE

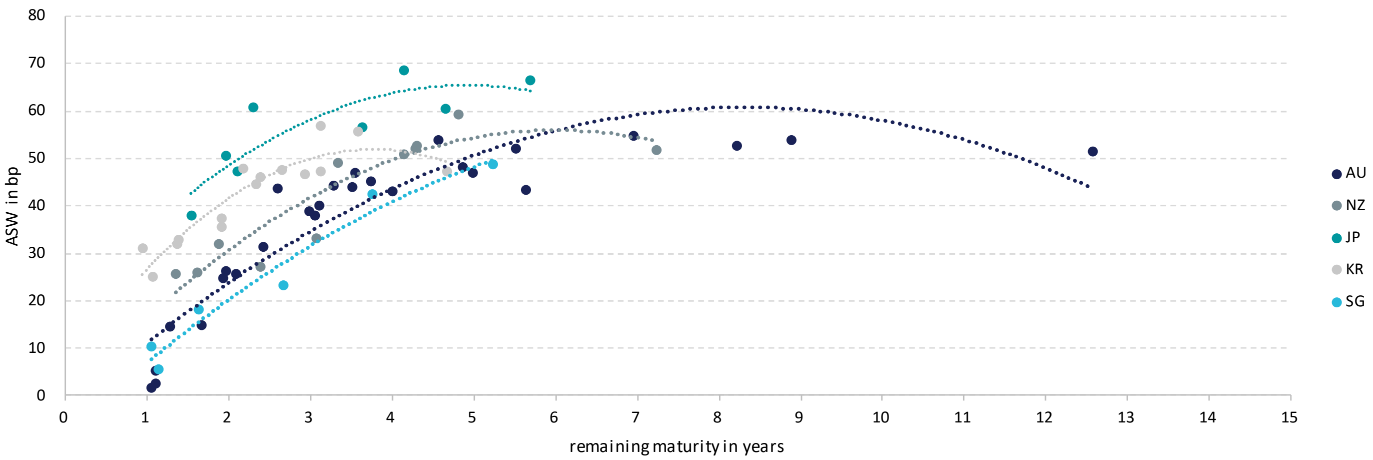


Source: market data, Bloomberg, NORD/LB Floor Research

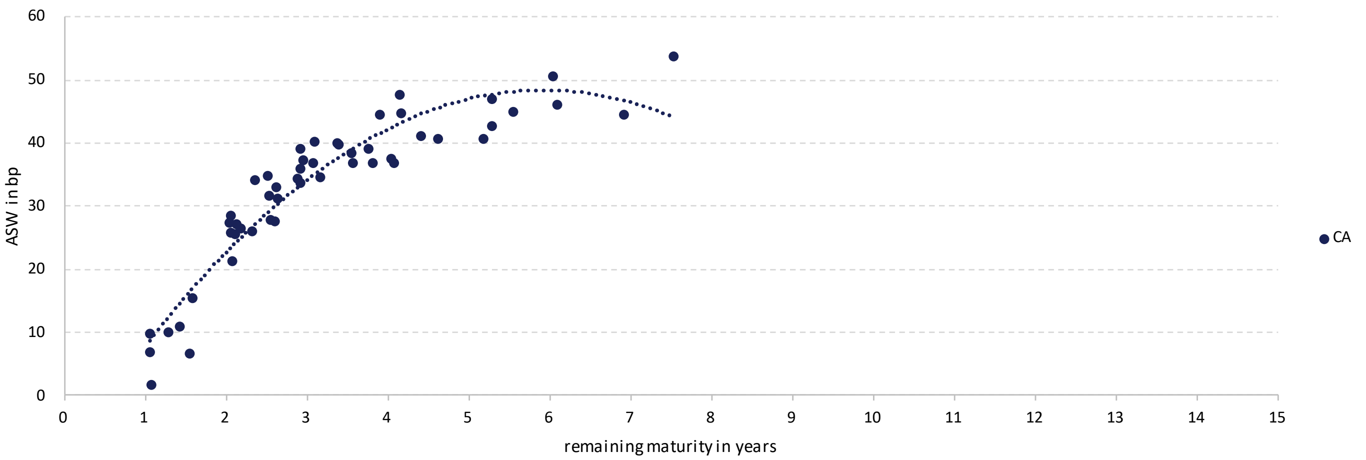
CEE



APAC



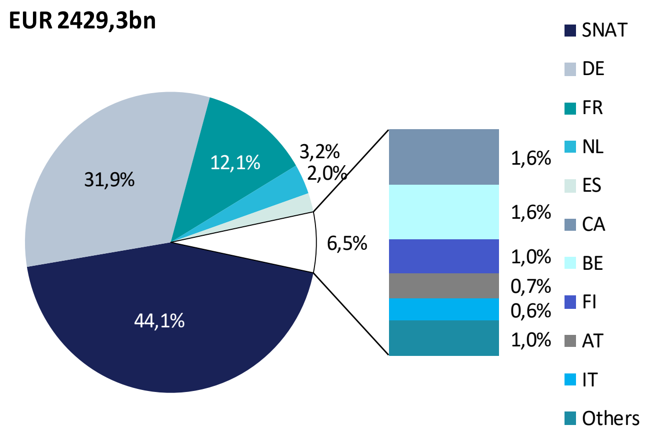
North America



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

Charts & Figures
SSA/Public Issuers

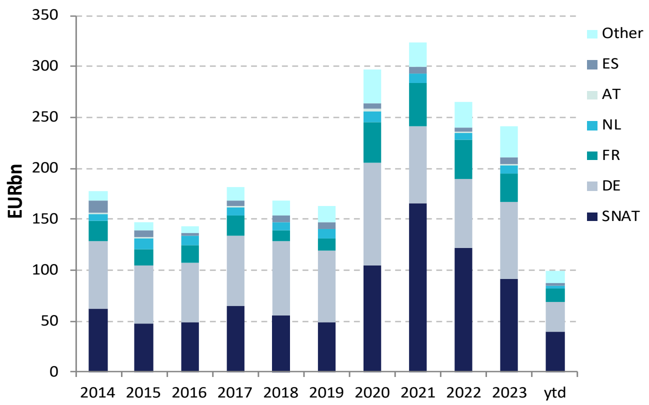
Outstanding volume (bmk)



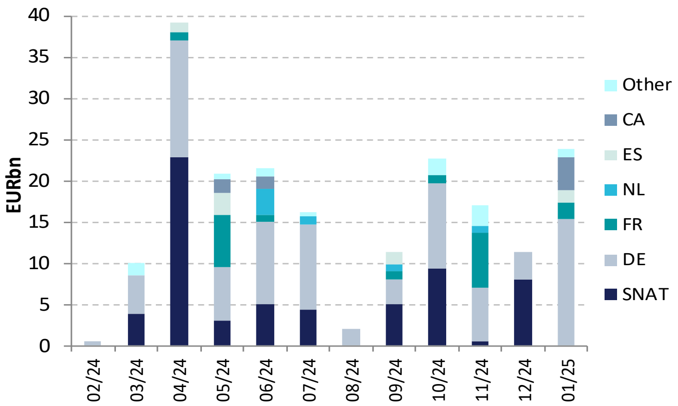
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1.072,3	233	4,6	7,9
DE	775,9	578	1,3	6,2
FR	295,2	198	1,5	6,0
NL	78,4	67	1,2	6,6
ES	49,6	67	0,7	4,7
CA	38,8	27	1,4	4,4
BE	37,8	41	0,9	10,6
FI	23,5	25	0,9	4,7
AT	17,8	22	0,8	4,3
IT	15,2	19	0,8	4,4

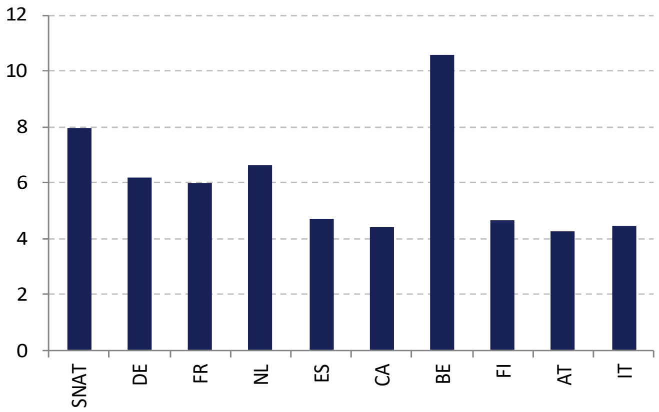
Issue volume by year (bmk)



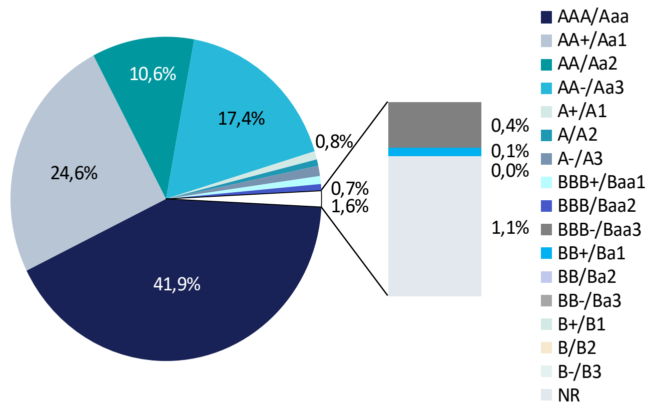
Maturities next 12 months (bmk)



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



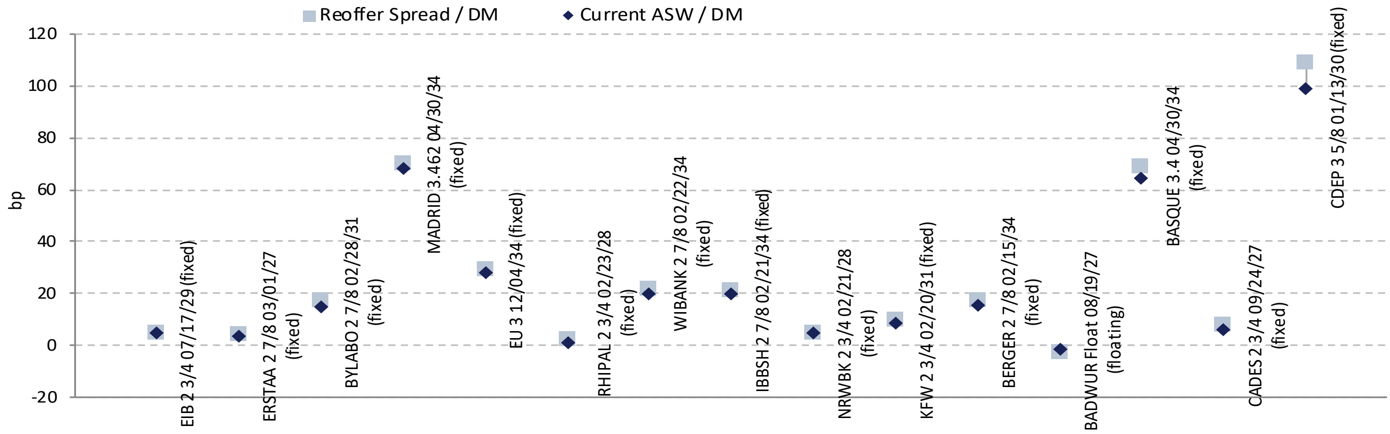
Rating distribution (vol. weighted)



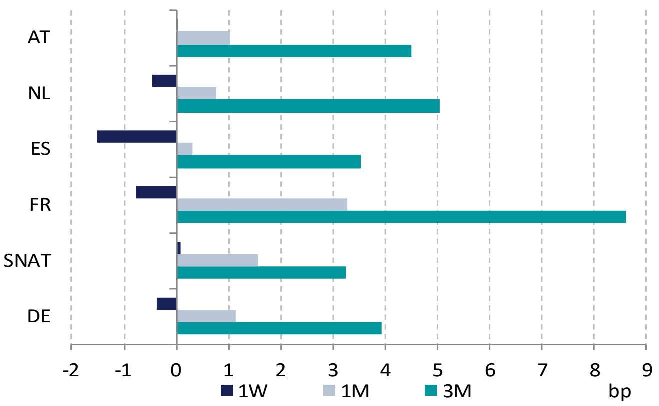
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

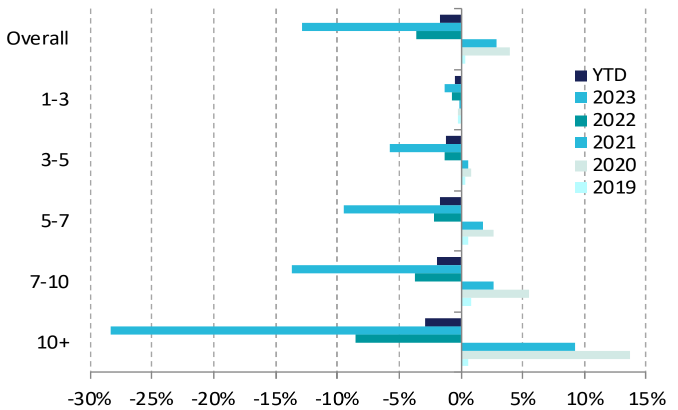
Spread development (last 15 issues)



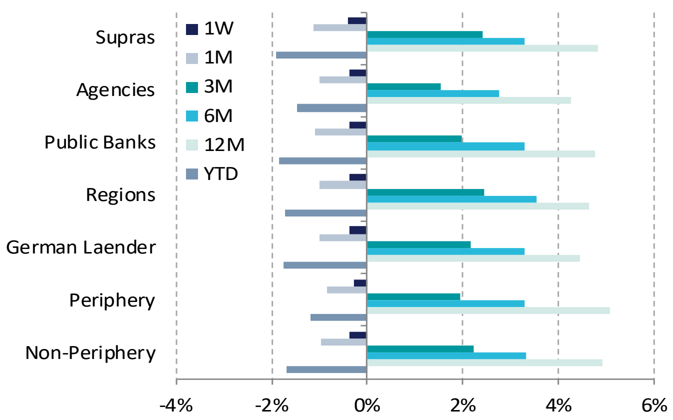
Spread development by country



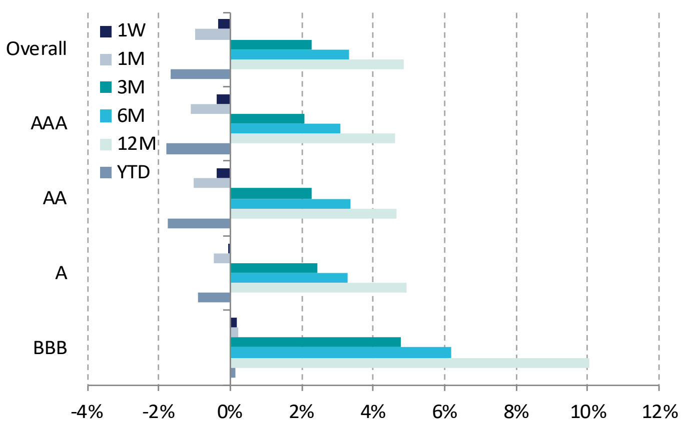
Performance (total return)



Performance (total return) by segments

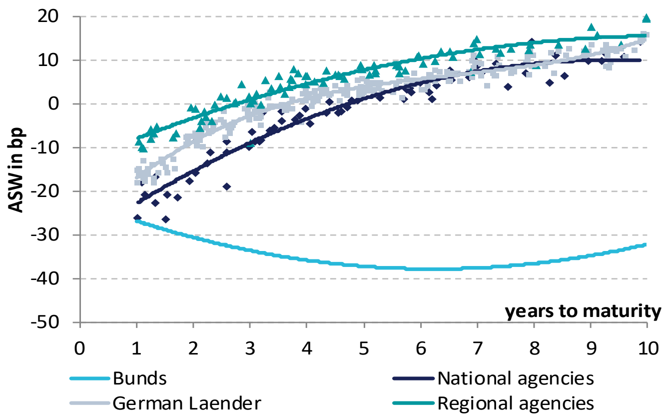


Performance (total return) by rating

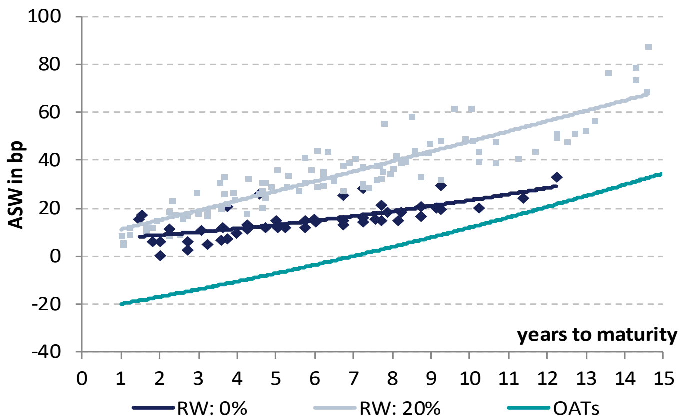


Source: Bloomberg, NORD/LB Floor Research

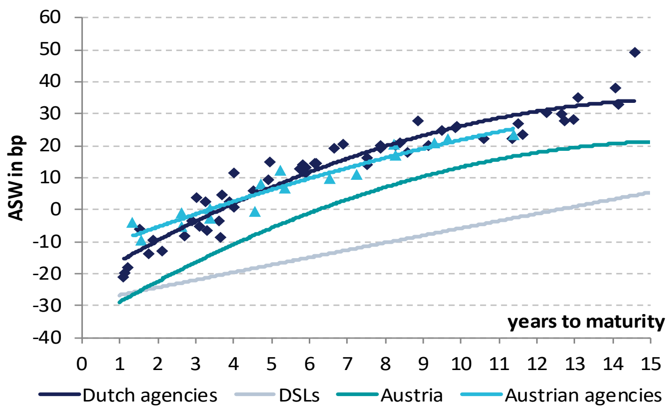
Germany (by segments)



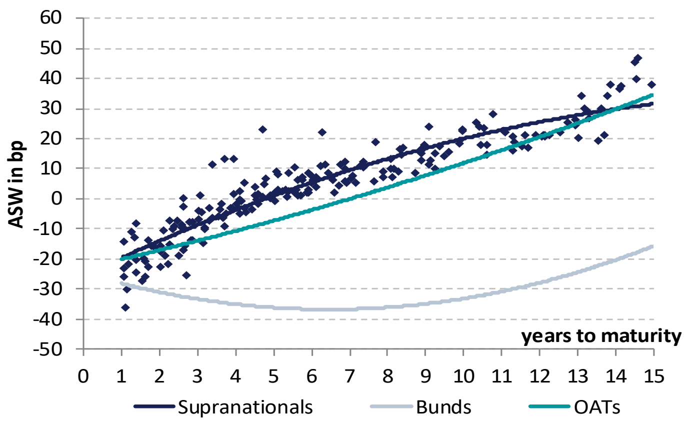
France (by risk weight)



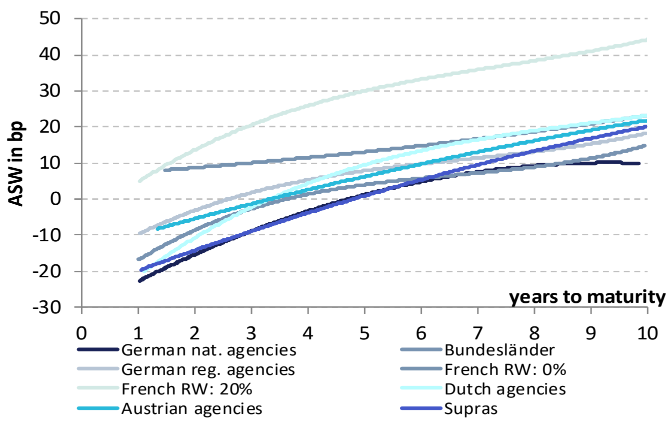
Netherlands & Austria



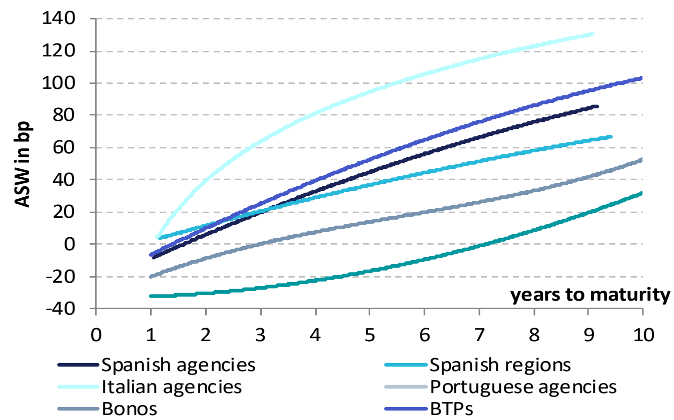
Supranationals



Core



Periphery



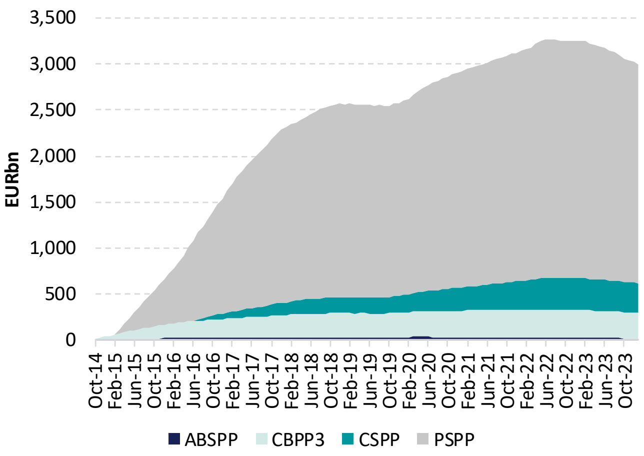
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

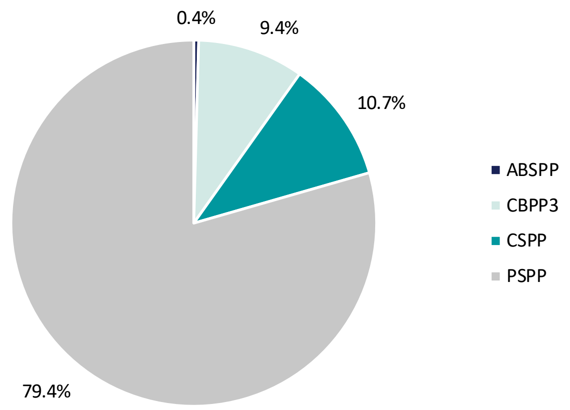
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-23	13,348	285,620	323,921	2,403,035	3,025,924
Jan-24	12,896	281,510	320,763	2,377,495	2,992,664
Δ	-452	-4,109	-3,159	-25,539	-33,259

Portfolio development

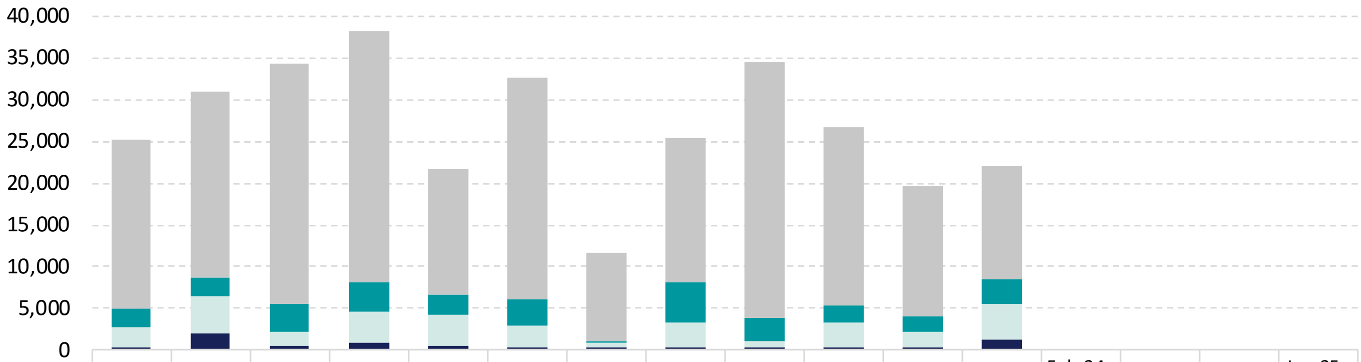


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

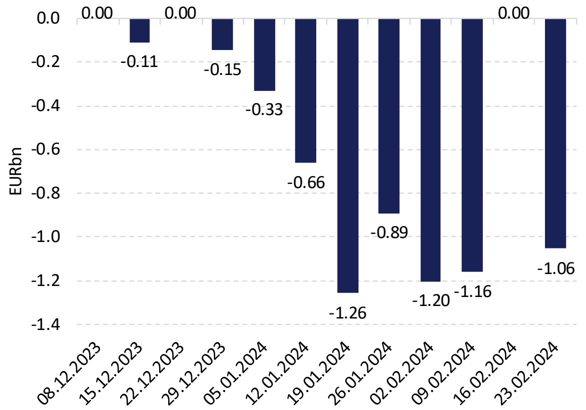


	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-24 - Jan-25	2023	2024	Jan-25 - Jan-25
APP	25,254	31,039	34,262	38,283	21,632	32,721	11,589	25,493	34,447	26,697	19,618	22,056	323,091	331,565	334,221	334,221
PSPP	20,372	22,413	28,712	30,194	14,974	26,620	10,533	17,416	30,578	21,298	15,557	13,463	252,130	255,025	264,191	264,191
CSPP	2,075	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	1,944	2,973	31,358	31,251	31,486	31,486
CBPP3	2,449	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	1,790	4,335	32,399	35,147	32,173	32,173
ABSPP	358	2,004	420	790	419	339	271	346	413	232	327	1,285	7,204	10,142	6,371	6,371

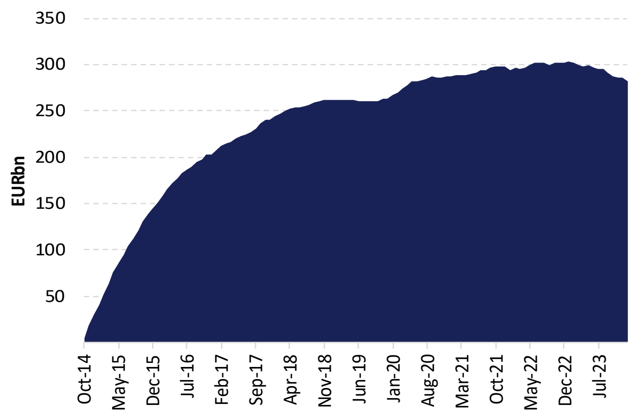
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

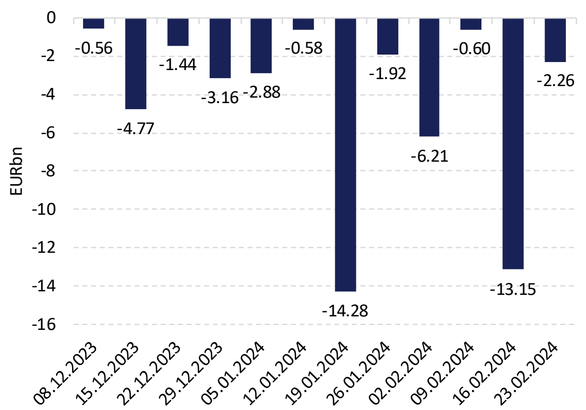


Development of CBPP3 volume

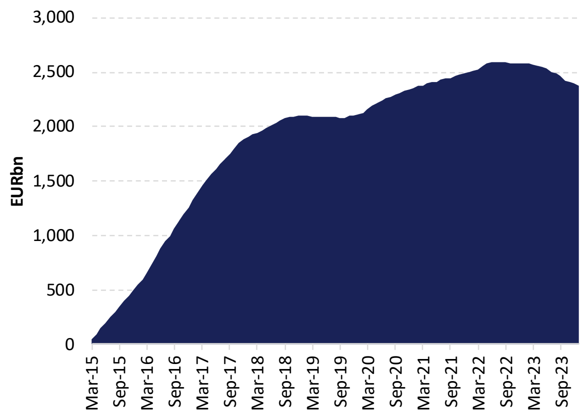


Public Sector Purchase Programme (PSPP)

Weekly purchases



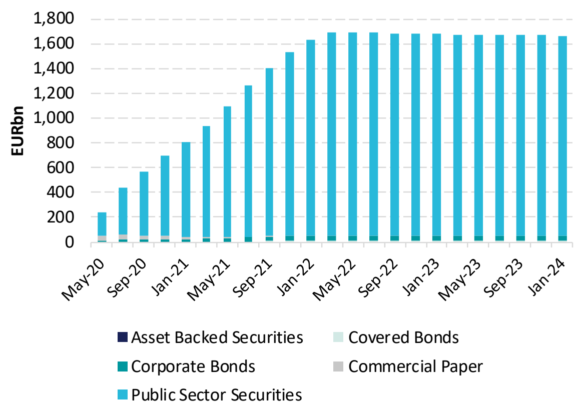
Development of PSPP volume



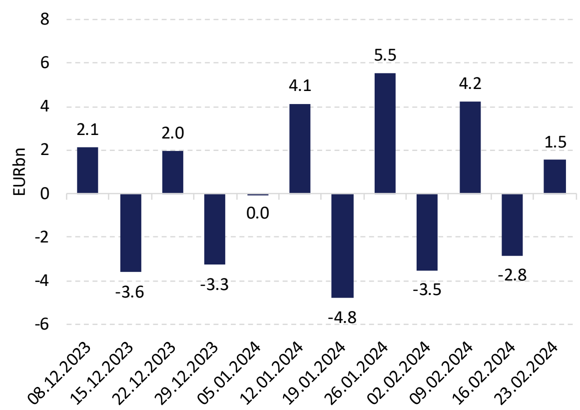
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
07/2024 ♦ 21 January	▪ Covered bond jurisdictions in the spotlight: A look at Austria ▪ Hope for hybrids? New SSA sub-asset class for MDBs
06/2024 ♦ 14 February	▪ Development of the German property market (vdp Index) ▪ Update: Joint Laender (Ticker: LANDER)
05/2024 ♦ 07 February	▪ January 2024: Record start to the new covered bond year ▪ SSA January recap: issuance volume at record level
04/2024 ♦ 31 January	▪ The Pfandbrief market at the start of 2024: caution thrown to the wind ▪ Teaser: Issuer Guide - Other European Agencies 2024
03/2024 ♦ 24 January	▪ The “V” in the LTV calculation: Differing approaches persist despite EU Directive ▪ 28th meeting of the Stability Council (December 2023)
02/2024 ♦ 17 January	▪ Pfandbrief market: potential newcomer Evangelische Bank ▪ Review: EUR-ESG benchmarks 2023 in the SSA segment
01/2024 ♦ 10 January	▪ ECB: Annual review of 2023 – no end to high rates? ▪ Covered Bonds: Annual review of 2023 ▪ SSA: Annual review of 2023
37/2023 ♦ 13 December	▪ Our view of the covered bond market heading into 2024 ▪ SSA outlook 2024: ECB, NGEU and the debt brake in Germany
36/2023 ♦ 06 December	▪ The covered bond universe of Moodys: an overview ▪ Teaser: Issuer Guide – Nordic Agencies 2023
35/2023 ♦ 29 November	▪ ESG covered bonds: a look at the supply side ▪ Current risk weight of supranationals & agencies
34/2023 ♦ 22 November	▪ Transparency requirements §28 PfandBG Q3/2023 ▪ Teaser: Issuer Guide – German Agencies 2023
33/2023 ♦ 15 November	▪ Development of the German property market ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	▪ 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	▪ Banks in Europe: the EBA Risk Dashboard in Q2 2023 ▪ Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	▪ A covered bond view of Belgium ▪ Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	▪ The covered bond universe of Moody’s: an overview ▪ Update on DEUSTD – Joint German cities (bond No. 1)

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

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Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 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 Q3/2023 (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2023

Issuer Guide – German Agencies 2023

Issuer Guide – European Supranationals 2023

Issuer Guide – French Agencies 2023

Issuer Guide – Dutch Agencies 2023

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2023

ECB preview: Delays in operations or full focus on June?

ECB decision: Council versus market

ECB preview: New year, new luck?!

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

Appendix
Contacts at NORD/LB

Floor Research

Dr Frederik Kunze
Covered Bonds/Banks

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

Lukas Kühne
Covered Bonds/Banks

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

Dr Norman Rudschuck, CIIA
SSA/Public Issuers

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

Christian Ilchmann
SSA/Public Issuers

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

Lukas-Finn Frese
SSA/Public Issuers

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

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 9818-9460
Fixed Income Relationship Management Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Treasury

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

Relationship Management

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

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Time of going to press: 28 February 2024 (08:37)