

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

The next edition of the CSV  
will be published on **07 August 2024**



## Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

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## Market overview

### Covered Bonds

Authors: Alexander Grenner // Lukas Kühne

#### Primary market: No summer break on the primary market despite French elections

With the markets having been practically glued to the results of the parliamentary elections in France in recent weeks, the results from the second round of voting still leave extensive scope for interpretation. The process of forming a stable government remains uncertain for now and will certainly cause the French president a few sleepless nights. Against this backdrop of a market environment shaped by uncertainty, it should come as no surprise that French issuers have not exactly broken down the door to approach the primary market with new deals recently. As we emphasised in the previous edition of the [Covered Bond & SSA View](#), French issuers accounted for a significant issuance volume in the first half of 2024, meaning that there is in all likelihood no acute need for primary market activities on their part. Nevertheless, in the past five trading days, a German and an Italian issuer did appear on the market, each placing a new covered bond. Münchener Hypothekenbank (DE; ticker: MUNHYP) got the ball rolling on Thursday last week with a covered bond in the amount of EUR 500m. The deal has a term to maturity of seven years and entered into the marketing phase with guidance of ms +30bp area. The final spread was fixed at ms +24bp, which therefore resulted in a computed new issue premium of zero. The Munich-based issuer was last active on the market in January 2024 with a green EUR benchmark. Banca Monte dei Paschi di Siena (IT; ticker: MONTE) also opted for a sustainable format for its primary market appearance in this trading week. For its social benchmark debut (EUR 750m), MONTE selected a term of six years. During the marketing process, the spread was reduced by five basis points (guidance: ms +70bp area). We take a closer look at the social benchmark debut of MONTE and the Italian market for ESG covered bonds later on in this [present edition of our weekly publication](#). While overall things have quietened down slightly on the primary market, we are not yet able to talk about a genuine summer break – as the deals both this week and last week have shown.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Banca Monte dei Paschi	IT	09.07.	IT0005603367	6.0y	0.75bn	ms +65bp	AA- / Aa3 / -	X
Münchener Hypo	DE	04.07.	DE000MHB39J2	7.0y	0.50bn	ms +24bp	- / Aaa / -	-

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

#### Secondary market: France remains in focus while trading activities are muted

The results of the second round of voting in the parliamentary elections in France brought little in the way of new implications for the secondary market. While the spreads on French covered bonds were slightly in decline over the past few trading days, they remain at a significantly higher level than before Macron called the snap elections. Overall, trading activities are rather muted, and many market participants appear to have already headed off on their summer breaks. On balance, fresh supply is still being well received by the market, although we are not seeing any further narrowing with regard to new deals on the secondary market.

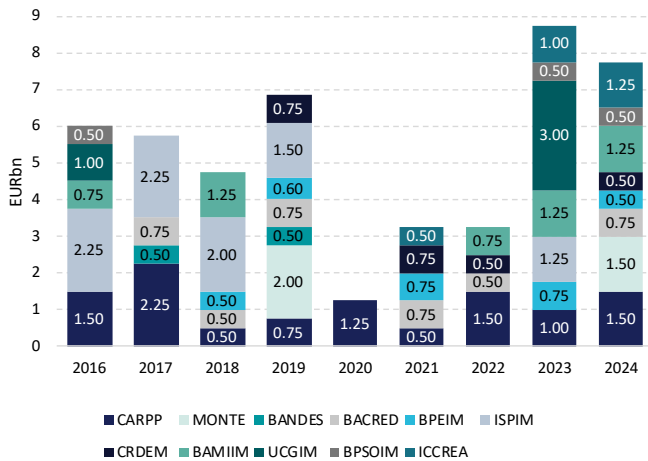
**Moody's I: French covered bonds offer strong buffer against instability**

As is the case with market participants in the secondary market, the risk experts from Moody's also looked at the potential impact of the run-off election results in France as part of a recent report. According to Moody's, a potentially long-lasting deadlock could have negative implications for France's creditworthiness and the business environment in which the country's banks operate. However, the rating experts argue that French covered bonds can serve as a kind of buffer against negative effects on the entire sector owing to their strong credit quality. The programmes rated by Moody's all have solid TPI Leeway values and high OC ratios, while at the same time benefiting from the robust French legal framework. At the end of 2022, the French covered bond market was valued at EUR 367.6bn overall and was responsible for refinancing 19% of all French mortgage loans, making it one of the largest systemically important markets in Europe, according to the rating agency.

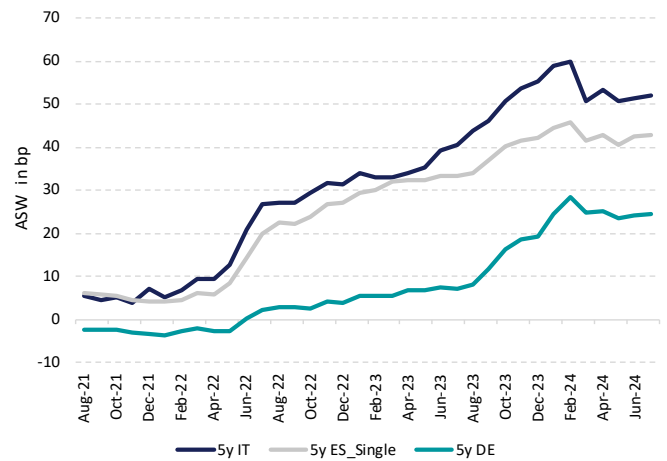
**Banca Monte dei Paschi di Siena announces inaugural social issue**

On Monday this week, Banca Monte dei Paschi di Siena (ticker: MONTE) from Italy announced its intention to place a social bond in EUR benchmark format on the market. Following the announcement on Monday, the bank successfully issued its new bond (term to maturity 6.0y) with a conditional pass-through structure (CPT) the very next day. At present, the bank is the sole remaining issuer in the iBoxx EUR Covered benchmark index with exclusively covered bonds in CPT format outstanding (for further information here, please refer to the [focus article in this edition](#) of our weekly publication). At the same time, this deal marks the first ever ESG benchmark from MONTE. According to its own "[Green, Social and Sustainability Framework](#)" (as at: June 2024), existing and future eligible social assets are to be refinanced through this bond deal. Overall, the Italian ESG market is comparatively small to date. Before the MONTE deal, only three green (two from Credit Agricole Italia and one from Banco BPM) and one social covered bond (Credito Emiliano) have been placed by Italian issuers. Overall, the outstanding volume of Italian ESG covered bonds presently amounts to EUR 3.0bn. Banca Monte dei Paschi di Siena's inaugural ESG benchmark increases the number of issuers active in this segment from this jurisdiction to four. Covered bonds included in the MONTE cover pool are fully covered by Italian mortgage loans and rated by the rating agencies Fitch (AA-), Moody's (Aa3) and DBRS (AA). The bank made its first appearance on the market in April 2024 after an absence of almost five years and successfully issued a covered bond worth EUR 750m, which came with a term to maturity of five years. Italian issuers have been regularly seen on the market for EUR benchmarks to date in 2024. For example, a total of EUR 7.8bn has been placed so far this year. This means that the current issuance volume is already at a similar level to that seen across 2023 as a whole. However, at this juncture we should remind readers that there was a pause in issuance activities (July 2022 to May 2023) on the Italian covered bond market due, among other things, to delays in the final implementation of the European Covered Bond Directive. In addition to a certain "catch-up effect", a highly attractive market environment is, from our point of view, another reason for the lively issuance activity so far this year. Overall, we expect new issuance volumes of EUR 11bn from Italy in 2024, which, with maturities of EUR 8bn set to fall due, corresponds to a net new supply of EUR +3bn.

**Italy: New issues (EUR benchmarks)**



**Comparison of spreads – Italy, Spain and Germany (5y)**



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

**Moody’s II: Danish banks boast strong macro profile**

In their macro profile of the jurisdiction of Denmark published last week, the rating experts at Moody’s once again highlighted the importance of covered bonds for the refinancing activities of the country’s banks. In terms of general economic development, the rating experts attest that the economic environment in Denmark is strong and that the country boasts a high quality of legislative and executive institutions. Conversely, in addition to the current geopolitical situation, Moody’s has also identified potential risks in relation to the fragmented political landscape in Denmark and, in particular, in the context of Danish banks’ dependency on capital market-based funding and the comparatively high level of indebtedness of private households in the country. According to the rating agencies, the high share of capital market-based funding is largely due to the mortgage credit institutions (MSI), which are required by law to refinance all mortgage financing by placing covered bonds on the capital market. Owing to its good historical performance and the relatively low refinancing risk of covered bonds placed in Danish Krone (DKK) at issuer level, Moody’s considers covered bonds to be the preferred funding vehicle for Danish banks. The annually published statistics of the [European Covered Bond Council \(ECBC\)](#) paint a similar picture. At year-end 2022, Denmark had the highest outstanding volume (EUR 463.3bn) of covered bonds among the jurisdictions that form part of our coverage. In our view, this once again underlines the significant relevance of covered bonds in the refinancing of Danish banks. In addition to deals denominated in DKK, three Danish issuers are also active in the EUR benchmark segment with an outstanding volume of EUR 6.5bn. This year, two benchmark issuers, namely Danske Bank and Jyske Realkredit, have already been active on the market. They each opted to issue fresh bonds with a volume of EUR 750m.

**S&P: Covered bonds as a “cheap” and stable source of funding**

As part of a recently published analysis, the rating experts at S&P took the increasing share of covered bonds in the funding mix of European banks since 2022 as an opportunity to look at the positive characteristics for the funding structure and to highlight potential challenges. The rating experts cite stagnating deposit growth at European banks and the need to replace maturing central bank facilities (especially TLTRO III) as key aspects of this development. However, the importance of covered bonds varies considerably depending on the business focus and the extent to which issuers are regionally rooted in Europe. According to S&P, the share of covered bonds in the liabilities of larger banks in the European economic area stands at around 6%, while for some Nordic banks and for specialised issuers the share rises to as much as 50% in some cases. The rating experts identify the greater diversification of funding structures as a positive effect of the increased issuance of covered bonds. In this way, S&P sees the asset class as a reliable source of refinancing for European banks, even in challenging times. According to S&P, the current trend is also supported by a high level of investor demand, which is in itself supported by the attractive spread level of covered bonds in comparison with other asset classes. For a comprehensive overview of the issuers active in the EUR benchmark and EUR sub-benchmark segments, in addition to their respective funding structures, please refer to our [Issuer Guide Covered Bonds](#).

**EBA Risk Assessment Report: High issuance volume expected in H2**

The European Banking Authority (EBA) tackled the same topic as the rating analysts from S&P in the previous paragraph in their half-yearly [Risk Assessment Report](#), which also offers an analysis of the funding plans of European banks. In summary, in its report the EBA forecasts a high volume of covered bond issues over the second half of 2024. It arrives at this conclusion due to the high level of maturities this year, combined with the lower number of new issues in the first half of the year compared with the previous year. At the same time, funding costs for covered bonds have risen less sharply than is the case for unsecured funding such as senior bonds. Banks have been able to place their bonds on the market at comparatively low new issue premiums. As the rating experts at S&P have previously explained, this can be attributed to strong investor demand in the covered bond market. However, a differentiated view of the EBA’s analysis must be applied here: in retrospect, its projections for issuance activity compared with the previous year have consistently proven to be too optimistic in recent years. In addition, there are some debatable points in the methodology of the underlying survey, such as the composition of the sample. Nevertheless, we do agree with the report’s core message, i.e. that a considerable volume of new EUR benchmark issues can be expected on the covered bond market over the rest of this year, and put this down to the aforementioned maturities and issuer funding plans. Our forecast for 2024 is for an overall net new supply of EUR 60bn. With an issue volume to date of EUR 108bn, we expect new issues in the amount of EUR 64bn across the remainder of the year.

**Fitch: Rating buffers continue to rise**

As part of the half-yearly “Protection Dashboard”, the rating experts from Fitch recently commented on developments in relation to covered bond rating buffers. These protect the covered bond rating from downgrades in the event of the Issuer Default Rating (IDR) being downgraded. According to the rating agency, these buffers have increased for 13 out of the 102 covered bond programmes rated by Fitch over the last six months. The reason for the increased rating buffers of one to a maximum of four notches are the improved IDRs of the covered bond issuers. Banks in Australia, Italy, the Netherlands, Portugal and New Zealand were the primary beneficiaries of the upgrades. At the end of May 2024, the rating buffer stood at an average of 3.7 notches, which reflects an increase of 0.1 notches compared with the previous year. However, Fitch states that the rating buffers are unlikely to rise further, as the rating outlooks of the covered bond issuers within the Fitch rating universe do not suggest any further improvement in the IDRs. In addition to the IDR, in the Fitch rating methodology, the OC ratio constitutes the second major protection mechanism against downgrades to a covered bond programme. In comparison with December 2023, this remained constant at 38.9% and is therefore well above the stipulated OC ratio of 8.5% for the respective covered bond rating. Overall, we believe that the constant OC ratios and the increase in the rating buffers are indicative of a positive trend in the covered bond market.

## Market overview

### SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann

#### **ECB will meet on 18 July**

As our readers will know, this is our last issue before the summer break and, for that reason, prior to our extensive ECB preview at the end of this week, we are keen to present below a brief classification of forthcoming events (or non-events, as the case may be). In our view, the ECB definitely showed courage in June when it cut interest rates in the eurozone for the first time since 2019; it was also the very first time that the ECB acted in advance of the Fed. However, that courage could also have undesirable side effects. For the time being, the meeting-by-meeting approach based on data which has long been preached very credibly is a thing of the past, since the data pointed to anything else but an easing of monetary policy of the kind the ECB has ushered in with its decision. Inevitably – and as we have been predicting for some time – all eyes will now be turning towards the second half. In view of the current situation, a maximum of two further rate cuts now seems likely. For this reason, we expect significant restraint at the next meeting on 18 July. It seems much more probable that the next rate cut will be in September, by which time the ECB will have a fresh set of staff projections available. For this reason, all market participants should be more relaxed and assume that nothing will happen in July, and that a second move is likely in September. In addition, the ECB is making progress with quantitative tightening: since 01 July, it is no longer reinvesting in full under the PEPP either; instead, the balance is shrinking by EUR 7.5bn every month. This is the precursor to a complete end to reinvestment from the new year onwards. The spreads of German to French sovereign bonds show the strain under which France currently finds itself in the capital market. Although we would characterise this as a significant tension, since the problems are of France's own making, we see no reason why the ECB should even consider activating the TPI.

#### **Appropos France again: AFL securities now classified as HQLA 1**

The French banking supervisory authority (ACPR) recently published an update of its annual report, which assigns a HQLA 1 qualification to the securities issued by Agence France Locale (AFL), since it puts commitments vis-a-vis French local authorities on a par with those of the central government. AFL was founded in 2013 from 11 French regional and local authorities as a société anonyme (S.A.). The aim was to diversify the funding of French regions, departments and municipalities, following the Scandinavian municipal financing model, to optimise the costs involved and secure access to liquidity. AFL is 99.9999% owned by Agence France Locale – Société Territoriale (AFL – ST), which in turn is 100% owned by French sub-sovereigns (cities, inter-municipal authorities with autonomy in tax matters, departments and regions). The remaining 0.0001% is owned by the metropolitan region of Lyon, which is also home to the only AFL branch. The level of the stake depends on the level of debt and operating incomes. Each paid-in share stays with AFL – ST for at least ten years. A dual guarantee structure is in place to cover AFL's liabilities. Further details can be found in our [Issuer Guide – French Agencies](#).



**Blockchain-based digital bonds and the eWpG**

For those of our readers who might be interested in the subject, we will now look at developments relating to blockchain-based digital bonds. What is that all about? Until the Electronic Securities Act (eWpG) came into force in June 2021, financial instruments issued in Germany normally had to be securitised in writing in the form of a bond certificate. Deutsche Bundesbank along with Deutsche Börse and Germany's Finance Agency already showed in a test run back in the spring of 2021 how securities transactions can be processed using blockchain and/or distributed ledger technology (DLT) and also showed how efficiently DLT-based financial transactions work when using a so-called trigger solution as a bridge to conventional TARGET2 payment transactions in central bank money. In short: DLT describes a technology to document specific transactions. Unlike in the case of the conventional method, where a ledger is usually only managed by one market participant, with a decentralised approach, any number of equal copies of the ledger can be distributed by various actors. Suitable technical measures ensure that any transactions to be added are included in all copies of the ledger and that there is therefore a consensus about the status of the ledger at any time. (Theoretical) advantages: Through the joint database, the DLT promises a higher degree of transparency, operating efficiency, security and resilience, irrespective of intermediaries and the automation of processing.

**KfW: Outlook from the point of view of an issuer**

KfW issued its first blockchain-based digital bond in the form of a crypto security under the eWpG with value date of 04 July, making it the first issuer in this segment in the German banking sector. KfW Treasurer Tim Armbruster sums up the aim of the transaction as follows: "Our aim from the outset was to involve as many market participants as possible in order to learn something new together and try out the innovation which the legislator has enabled through the eWpG together with our banking partners, our core investor [...] and other interested investors. The level of investor participation shows that there is huge interest in the digitalisation of capital market transactions. We now want to use this potential in order to work out scaling-up options for our funding activities." He then drew the following conclusions: sufficient market depth, including extensive secondary market ability would be of key importance for a sustained strengthening of the scalability of blockchain-based digital bonds. To this end, banks and financial institutions in particular, but also investors, would have to be enabled to acquire, manage and trade crypto securities under the eWpG. In tandem with this, the creation of a concrete framework would be essential, e.g. in relation to (as of now) lacking ECB eligibility. It would be of paramount importance for all market participants to understand the impact of a changing (market) infrastructure – not least against the background of the growing momentum in international money and capital markets.

**WIBank and the investor point of view**

After WIBank issued a first digital registered bond of its own in June, the bank has now also participated as investor in the first digital KfW bond. All in all, investors were very keen to get involved as early movers in digitalisation and the use of new technologies (especially DLT). There was said to be equal interest from large, medium-sized and smaller investors across a broad spectrum (asset managers, treasuries, Volksbanken, Sparkassen, etc.).

### German federal budget and KfW

A lot of budget tightening is currently going on at regional and national level: In Stuttgart, for example, Dr Daniel Bayaz has been inviting his ministerial colleagues to a “chat” in which he explains individual plans for the forthcoming twin budget. There were similar rumours from Berlin lately: In concrete terms, the debt brake will not be lifted for the 2025 budget. The Federal Government plans to take on fresh debt of EUR 44bn next year – and will be sticking to the requirements of the debt brake with this additional debt with a total budget volume of EUR 481bn, according to Christian Lindner. Olaf Scholz in turn has announced billions in relief for companies in Germany. Depreciation rules are to be improved; it will be possible to write-off investments against taxes quicker. In addition, the R&D allowance will be increased. There are also plans for KfW to make subsidised loans available in order to better promote economic growth. Scholz also mentioned a reduction in bureaucracy. The Minister for Economic Affairs, Robert Habeck, spoke of a new economic momentum. Only marginal economic growth is expected in Germany this year, he said, but there are plans to reduce bureaucracy every year. Moreover, according to Scholz, the electricity price compensation scheme would be extended until 2030. The government, moreover, is planning measures to reduce network costs. In contrast, the Minister of Defence, Boris Pistorius, was left empty handed as far as the defence budget is concerned – with most of his requests having fallen on deaf ears.

### Primary market

After the elections in France and ahead of the summer break – in view of uncertainty surrounding the outcome of the elections at the weekend, we have no new EUR benchmark deals listed for the past week. At the start of the new week, Italy’s CDP (ticker: CDEP) was the first to break cover. The Italian issuer aimed to raise fresh funds of EUR 750m with a seven-year bond guided at +40bp (area) above the Italian curve. The issue attracted orders of over EUR 2.6bn during the marketing period and final pricing was therefore at BTPS +37bp (roughly ms +116bp). Next on the floor was Rhineland-Palatinate (ticker: RHIPAL), aiming to raise EUR 500m (WNG) via a rarely seen two-year bond. The deal went ahead in line with guidance (though ultimately without area) at ms -7bp. There were no details regarding the order book. France’s BPIFRA also seized the opportunity to approach investors with a EUR 1.25bn bond with a maturity of just under 10 years. With a guidance of OAT +27bp, the bid-to-cover ratio stood at 3.4x; the issue was then priced at OAT +23bp. However, the EU caused a sensation yesterday with its syndicated transaction. The new EUR benchmark issue as part of a dual tranche was in the form of a five-year EUR 5bn bond. The issue attracted orders of over EUR 66bn with a guidance of ms +13bp area, leading to a final tightening of two basis points. The EUR 4bn tap of its 2054 bond with a guidance of ms +105bp area attracted a record order book of EUR 80bn, i.e. the tap was 20 times oversubscribed, which means that there was a final tightening of 2bp. We can also report on an issue from the Spanish capital Madrid last week (ticker: METMAD): a sub-benchmark (WNG) worth EUR 128m. New mandates: EBRD (green EUR BMK, 7y), BADWUR (EUR 500m WNG, FRN, 4y).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EU	SNAT	09.07.	EU000A3L1CN4	5.2y	5.00bn	ms +11bp	AAA / Aaa / AA+	-
BPIFRA	FR	09.07.	FR001400RH06	9.8y	1.25bn	ms +56bp	AA- / Aa2 / -	-
RHIPAL	DE	09.07.	DE000RLP1510	2.0y	0.50bn	ms -7bp	AAA / - / -	-
CDEP	IT	08.07.	IT0005603284	7.0y	0.75bn	ms +116bp	BBB / - / -	-

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

## Covered Bonds

# Repayment structures on the covered bond market: An update

Author: Dr Frederik Kunze

### **Repayment structures for covered bonds**

Deferring maturity, i.e. the option of deferring repayment of the amounts owed under a bond beyond the original maturity date on certain conditions, has been an integral part of a large number of covered bond programmes for several years now. The implementation of the Covered Bond Directive has also left its mark on the covered bond market with regard to the repayment structures coming into effect. The Directive has ultimately given national legislators in the EEA the option of including the deferment of maturity in the official framework for covered bonds. If the option of deferring maturity were included in the context of the standardisation process, this would also be associated with the requirement to define objective triggers for the deferment of maturity in the legal framework. Since no standard approach was chosen by the respective national legislators when implementing the relevant article in the Directive in national legislation, the European covered bond market remains distinctly heterogeneous here. In our opinion, implementation of the Directive provides investors, who focus on the latest possible repayment date for their investment as a fundamental consideration, with the clear benefit that the statutory incorporation of triggers for deferring maturity delivers a greater degree of objectivity, although national implementation varies. In most cases, the option for deferring the maturity date in conjunction with specific triggers was previously included in the programme documentation of the bonds in question or issuance programmes. Implementation of the requirements laid down in the Directive favours a continuation of the trend whereby the hard bullet structures usually relied on in the past are less popular, with soft bullet structures now becoming even more established as the form most frequently chosen for EUR benchmarks. Bonds with a conditional pass-through structure (CPT) also continue to feature on the market occasionally.

### **Basic considerations on deferring maturity**

The aim of deferring maturity is to create opportunities to counteract risks resulting from maturity mismatches and potential shortages of liquidity. To create this option for mitigation in principle, the Covered Bond Directive also stipulates that the responsible national entities are free to permit extendable maturity structures, as mentioned at the beginning. If these are permitted, the event that triggers the extension or deferral of maturity is crucial for these structures. This trigger event was already of relevance before the Directive was implemented, albeit not enshrined in law (see following paragraph on soft bullet structures). As a rule, bond investors are provided with detailed information regarding the trigger, the effects on the maturity structure if the debtor is unable to pay and the role of the supervisory authority and the trustee in the wake of maturity being deferred. Starting from the “old market standard” of hard bullet bonds, we present the different approaches below.

**Hard bullet structures: No option for extending maturity**

Until a few years ago, hard bullet structures were regarded as market practice as far as repayment arrangements for covered bonds were concerned. If the issuer unable to comply with their outstanding payment obligations, the dual recourse mechanism means that investors have access to the covered bond programme's cover pool via the trustee or administrator – regardless of the repayment structure chosen. If repayment of an issue is imminent and the available cash is not sufficient to service this obligation and liquidity cannot be generated by other means, the collateral in the pool will be sold under a hard bullet structure. As a result, investors can firstly expect prompt repayments, while secondly this structure is associated with the risk that discounts on the market values of the cover assets have to be accepted and in the worst case the complete amount to be repaid will not be covered by the proceeds of the sale.

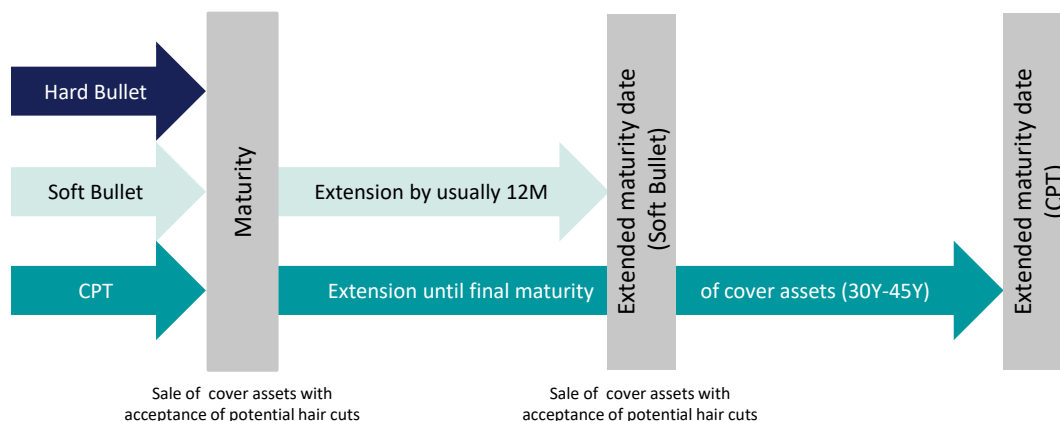
**Soft bullet structures: Maturity deferred through trigger events**

Soft bullet bonds, and in rare cases CPT structures, exist to counter this risk. If investors' claims can be met at the original maturity date, there are no differences between the three repayment structures for investors. Since there were no fundamental requirements regarding the events needed to trigger any deferral of maturity without the Directive, specific information was regularly to be found in the programme documentation and final terms of issuers from those jurisdictions that had not ruled out any deferral of maturity. Various approaches for these triggers took shape on the market. Examples of different models within the soft bullet variant are (i) the issuer becoming insolvent, and redemption being deferred to a later repayment date by an independent trustee or (ii) deferral of the original repayment date by the issuer. With regard to the possible deferral period, a deferral of maturity of twelve months has become established in most cases among the soft bullet structures. Interest payments during the deferral period are largely based on 1M- or 3M-Euribor plus a premium or discount which is, however, also partly defined as a fixed coupon. Trigger events in European Member States will only now be enshrined in law with the implementation of the Covered Bond Directive in national legislation. However, significant differences can be identified in this instance as well. We list the trigger events in the table below.

**Conditional pass-through structures: Actual final maturity is uncertain**

A significantly longer deferral of the original repayment date may occur with bonds that have a CPT structure. At the same time, the refinancing risk is reduced to a minimum as a result. In contrast to the soft bullet structure, the repayments of outstanding covered bond issues will be made firstly depending on the inflows generated from the associated cover assets, but secondly also from the sale of cover assets if this can be affected at adequate market prices following the triggering of the pass-through structure (for which, similarly to soft bullets, there are no standard trigger events). However, unlike the soft bullet structure, the date on which investors can expect the outstanding claims to be met cannot be determined ex ante – in the worst case not until the cover assets with the longest maturity fall due. Rating agencies see a positive influence in the wake of the credit assessment in soft bullet and even more so CPT structures due to the lower refinancing risk.

### Comparison of the different maturity structures



Source: NORD/LB Floor Research

#### Poland – an exception: Soft bullet with the option to convert to CPT

With regard to the maturity structure, Poland can be considered an exception. Covered bonds which cannot be serviced when they mature are initially extended for twelve months. During this extension period, a test is carried out at six-month intervals to determine whether there are sufficient assets to service investors' claims and also sufficient liquidity to service these claims on time. If the tests are not passed, the bond will be transferred to a CPT structure at the end of the twelve-month period. The repayment date will therefore be postponed to the latest date on which the cover assets mature plus three years. However, such an extension can be prevented with a 2/3 majority of the investors. Polish covered bonds are therefore initially soft bullet bonds, for which the final maturity cannot be unequivocally determined in advance because of the possible conversion to a CPT structure, meaning that their repayment structure cannot be clearly assigned to one of the three repayment forms.

#### Slovakia – an exception: Soft bullet with potential second maturity deferral

Slovakia also differs somewhat from the market standards that came into force as a result of a change in the law on 1 January 2018. Accordingly, the new legal framework initially envisages deferring the maturity by twelve months in the event of insolvency. Should any servicing of investors' claims not be foreseeable at the end of the extension period, the programme can be transferred to one or more other Slovakian banks. If such a transfer is not possible within the first extension period, a further deferral of maturity by another twelve months may be approved by the regulator. Both those bonds that were extended because of the first deferral and those where the maturity dates occur in the second 12-month period will be affected by the renewed extension. The Slovakian EUR benchmark covered bonds in the iBoxx EUR Covered are therefore soft bullet issues where the structure differs, however, because of the option to defer maturity twice. In our opinion, Slovakian issues can be clearly assigned to the soft bullet segment (in contrast to issues from Poland), albeit with a maximum extension of 24 months.

**Overview of possible triggers for deferring maturity: Global covered bond market**

Country	Country
Australia	Insolvency, inability to pay by the issuer
Austria	Bankruptcy, resolution of the issuer
Belgium	Bankruptcy, resolution, inability to pay by the issuer
Canada	Insolvency, payment default issuer, additional events
Czech Republic	Bankruptcy, resolution, inability to pay by the issuer, breach of liquidity provisions
Denmark	RO: Refinancing of CB not guaranteed, interest rate increases by 5% or more SDO: Refinancing of CB not guaranteed, interest rate increases by 5% or more SDRO: Refinancing of CB not guaranteed, interest rate increases by 5% or more
Finland	payment default, lack of liquidity
France	OF: Bankruptcy, resolution, payment default, lack of liquidity OH: Bankruptcy, resolution, payment default, lack of liquidity CRH: Bankruptcy, resolution, payment default, lack of liquidity
Germany	Bankruptcy, resolution issuer, lack of liquidity
Hungary	Depending on the design of the programme, lack of liquidity
Iceland	Resolution, prevention of forced sales, payment default
Ireland	Payment default, instruction from the supervisory authority or administrator
Italy	Inability to pay, resolution issuer, Bol measures
Luxembourg	-
Netherlands	Bankruptcy, resolution, inability to pay by the issuer
New Zealand	-
Norway	Bankruptcy, resolution of the issuer
Poland	Insolvency
Portugal	Inability to pay, withdrawal of banking licence
Singapore	Contractually regulated
Slovakia	Insolvency, inability to pay by the issuer, cancellation of the covered bond programme
South Korea	South Korean covered bonds: inability to pay by the issuer KHF covered bonds: -
Spain	Bankruptcy, resolution, lack of liquidity, breach of liquidity provisions
Sweden	FSA permission to avoid bankruptcy
United Kingdom	Bankruptcy, resolution, inability to pay by the issuer

Source: Respective national legislation, market data, NORD/LB Floor Research

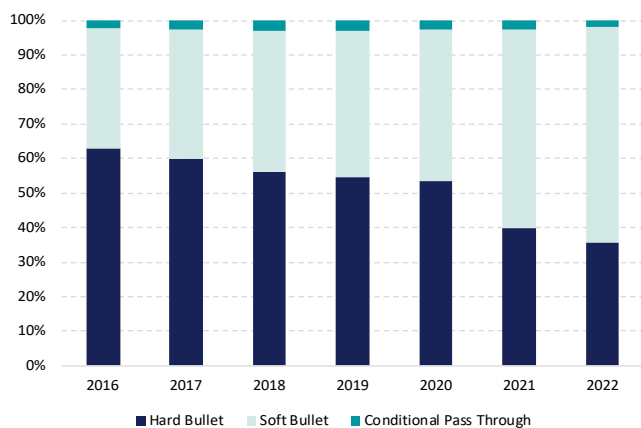
**Soft bullet and CPT bonds in the case of repo transactions**

Covered bonds with a CPT structure are subject to special requirements because of their maturity, which can be very long under certain circumstances. Thus, the ECB recently stopped purchasing covered bonds with such a structure under its CBPP3 programme, but in our understanding also justified this decision with the relatively modest size of the CPT market. CPT bonds also have an additional unique feature in the context of repo transactions with the ECB. Adjustments to the valuation discounts are of relevance for own-use soft bullet or CPT covered bonds. Accordingly, it is not the originally envisaged maturity but the extended one that is used to determine the haircut. Following this approach, the maturity would have to be extended by one year as a rule for a soft bullet structure, while all CPT structures would fall within the maturity range of “>10 years” because of the theoretically very long extension period when calculating the haircut. In December 2022, the ECB [reviewed its risk control framework](#) and, in doing so, also adjusted requirements for discounting collateral as part of repo transactions. Since 29 June 2023, the previous maturity range “>10 years” has been split into the ranges “10 to 15 years”, “15 to 30 years” and “>30 years” for the residual maturity. In our opinion, CPT structures would therefore have to be classified in the category “>30 years”.

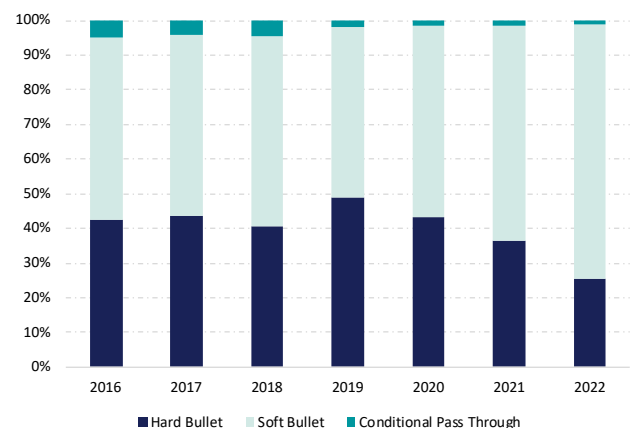
### ECBC – repayment structures: Soft bullets account for the largest share of issues in 2022

On the basis of the ECBC's annual statistics as at 31 December 2022, the market for all outstanding and newly issued covered bonds can be subdivided with regard to their maturity structure. For the first time since this data was recorded in 2016, soft bullet structures accounted for the largest proportion of the volume of outstanding bonds in 2021, at 57% (2020: 44%). This figure rose further to 62% for the current reporting year. In 2021, the amendment of the German Pfandbrief Act transferred all hard bullet structures (2020: EUR 371,947m) to soft bullet structures (2020: – ; 2021: EUR 391,366m). With respect to newly issued covered bonds in 2022, 74% (2021: 62%) are attributable to soft bullet issues and 25% (2021: 36%) to hard bullets. At 2% (outstanding volume) and 1% (new issues in 2022) respectively, the category of CPT bonds accounts for only comparatively minor shares.

Covered bond volume (global) – breakdown



Covered bond issues (global) – breakdown



Source: ECBC, NORD/LB Floor Research

### iBoxx EUR Covered: Influence of EU harmonisation on repayment structures

It is already clear from the comments above that the refinancing risk can be significantly reduced by means of a soft bullet or CPT structure compared with a hard bullet structure. In this respect it is not surprising that soft bullet structures are also especially common in third countries, as the Covered Bond Directive refers to them. Here, in particular, investment in such a covered bond requires detailed analysis of the relevant bond conditions in advance, as the Covered Bond Directive does not apply to "all countries" and was not implemented uniformly either. Therefore, investors must continue checking what happens to interest payments in the extension period when a trigger event occurs. With regard to the refinancing risk following insolvency on the part of the issuer, it must, however, be mentioned that issuers were already in some cases obliged by law to reduce this risk by maintaining a liquidity buffer for hard bullet structures. In the wake of harmonisation, article 16 of the Covered Bond Directive also provides for the fact that the introduction of a liquidity buffer to cover the net liquid outflows for 180 calendar days was mandatory for all jurisdictions subject to the regulation.



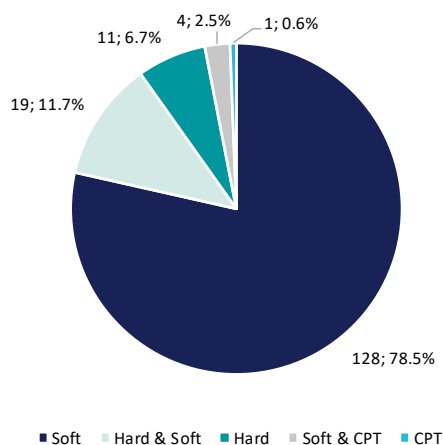
**Composition of the iBoxx EUR Covered: Maturity structures**

While the shifts with regard to the weightings of maturity structures in the iBoxx EUR Covered initially took place generically if anything – the pivot by some issuers in the Netherlands from CPT to soft bullet must be cited as an example – the harmonisation of the European covered bond market added a significant driver. This is clearly recognisable from the example of the German Pfandbrief market. However, the adjustments to the legislation mean that more soft bullet issues are to be expected in other jurisdictions as well. Furthermore, no national legislator has preferred a “big bang” solution along the lines of the adjustments to the Pfandbrief Act and pivoted hard to extendable structures. This is currently the case, in particular, for those countries that have active issuers with both hard bullets and extendable structures. We refer to the composition of the iBoxx in July 2024 below.

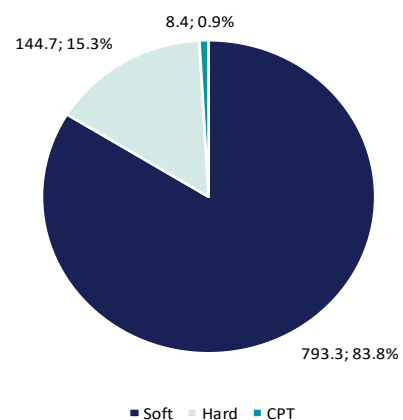
**Pure soft bullet issuers dominate the iBoxx EUR Covered**

With 128 of 163 issuers (79%), the majority of the issuers listed in the iBoxx EUR Covered (excl. Spanish multi-cedulas) are those that currently only have outstanding benchmarks with a soft bullet structure. At present, only 7% (eleven issuers) is attributable to institutions that have exclusively hard bullets. Only one issuer, Banca Monte dei Paschi di Siena, is still a purely CPT institution. As a result, a clear model can be assigned to 86% of the institutions with outstanding EUR benchmarks. In contrast, the remaining 14% is attributable to issuers that have outstanding benchmarks with two different maturity structures. Here, the combination of hard and soft bullets is the most frequent case, at 12% (19 issuers). Knab (formerly Aegon), NIBC Bank, Achmea Bank and Van Lanschot Kempen (all four from the Netherlands) have EUR benchmarks with soft bullet and CPT structures. As a result of the conversion to soft bullets, Australia’s Bank of Queensland now also has outstanding benchmarks with soft bullet and CPT structures. The EUR benchmark of Poland’s PKO Bank Hipoteczny, which is characterized by a hybrid soft bullet and CPT maturity structure, is no longer included in the current composition of the iBoxx EUR Covered due to the residual maturity. For the same reason, the CPT benchmark of Deutsche Bank, which was not placed on the basis of the Pfandbrief Act, is not included in the iBoxx EUR Covered.

**iBoxx EUR Covered: issuers by structure**



**iBoxx EUR Covered: covered bonds by structure**



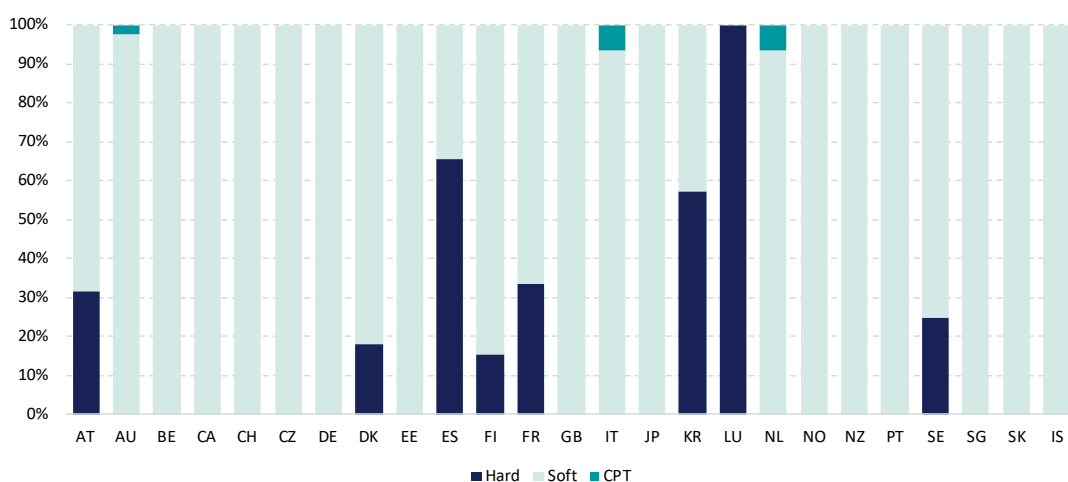
Source: Market data, NORD/LB Floor Research



### Largest outstanding volume attributable to soft bullet EUR benchmarks

At EUR 793.3bn (just under 84%), the largest share of the volume contained in the iBoxx (i.e. excluding Spanish multi-cedulas) by far is now attributable to soft bullet covered bonds. EUR benchmarks with a CPT structure still constitute a niche within the benchmark segment, since only around 1% (EUR 8.4bn) of the iBoxx volume is attributable to bonds with this structure. Traditional hard bullets account for EUR 145bn or around 15% respectively. France accounts for hard bullet issues amounting to EUR 80.2bn, while the next largest amounts are attributable to Spain (EUR 28bn), Austria (EUR 18bn) and Sweden (EUR 6.5bn). In our opinion, it is worth mentioning in this context that France (July 2024: EUR 159.9bn; May 2023: EUR 139.9bn) but also Austria (EUR 39.1bn; May 2023: EUR 29.4bn) and Sweden (EUR 19.6bn; May 2023: EUR 16.6bn) have rapidly rising volumes of soft bullets.

### Repayment structures by jurisdiction (iBoxx EUR Covered)



Source: Market data, NORD/LB Floor Research

### Numerous jurisdictions with different repayment structures

With regard to the dissemination of the three repayment structures at jurisdiction level, it is also apparent that only Luxembourg has EUR benchmarks with solely hard bullet structures represented in the iBoxx. On the other hand, there are numerous jurisdictions, namely Belgium, Canada, Czechia, Estonia, the UK, Ireland, Iceland, Japan, Norway, New Zealand, Singapore, Slovakia and Switzerland, from which only soft bullet benchmarks are included. CPT bonds were also issued from Australia, Italy, the Netherlands and Portugal. For these, we provide a tabular overview of the individual issuers and the maturity models they use below. Here, the fact that, under certain circumstances, repayment structures are also used in the respective jurisdictions – and even by the listed issuers – that may differ from those of EUR benchmarks or are no longer listed in the iBoxx because of their residual term must be taken into account.

**Repayment structures Austria**

	Hard	Soft
BAWAG PSK	X	X
Erste Group Bank	X	X
HYPO NOE		X
Hypo Tirol Bank		X
Hypo Vorarlberg Bank	X	X
Raiffeisen Bank International		X
Raiffeisenlandesbank Niederoesterreich-Wien	X	X
Raiffeisenlandesbank Oberoesterreich	X	X
Raiffeisen-Landesbank Steiermark	X	X
Raiffeisenlandesbank Vorarlberg	X	
Raiffeisen-Landesbank Tirol		X
UniCredit Bank Austria	X	X
Volksbank Wien	X	X

Source: Market data, NORD/LB Floor Research

**Repayment structures Italy**

	Soft	CPT
Banca Monte dei Paschi di Siena		X
Banca Popolare di Sondrio	X	
Banco BPM	X	
Banco di Desio e della Brianza	X	
BPER	X	
Credit Agricole Italia	X	
Credito Emiliano	X	
Intesa Sanpaolo	X	
Mediobanca Banca di Credito Finanziario	X	
Iccrea Banca	X	
UniCredit	X	

**Repayment structures in Austria**

In Austria, EUR benchmarks with a soft bullet structure (EUR 39.1bn) are now dominant. In total, 12 of the 13 Austrian issuers now have outstanding EUR benchmarks with an option to extend the maturity. The volume of hard bullets stands at EUR 18bn (May 2023: EUR 21bn).

**Repayment structures in Italy**

Italy is one of the jurisdictions in which covered bonds with CPT structures are outstanding (EUR 2.8bn), even though bonds with such a structure play a rather subordinate role on the Italian market for publicly placed EUR benchmarks compared with soft bullet bonds (EUR 39.2bn).

**Repayment structures in Denmark**

With regard to the Danish market, we would like to highlight the issues by Danish Ship Finance (Danmarks Skibskredit), since they differ not only because of their cover assets (shipping mortgages) but also the repayment structure (hard bullet). In contrast, Danske Bank and Jyske Realkredit have each placed their EUR benchmarks on the market with soft bullet structures (extension of up to twelve months).

**Repayment structures Denmark**

	Hard	Soft
Danmarks Skibskredit	X	
Danske Bank		X
Jyske Realkredit		X

**Repayment structures Finland**

	Hard	Soft
Aktia Bank		X
Danske Mortgage Bank		X
Nordea Kiinnitysluottopankki	X	X
OP Mortgage Bank		X
Oma Saastopankki		X
SP-Kiinnitysluottopankki		X
S-Pankki		X

Source: Market data, NORD/LB Floor Research

### Repayment structures in Finland

Of the currently outstanding EUR benchmarks placed on the market by Finnish issuers, only the five issues by Nordea Mortgage Bank are bonds with a hard bullet structure. In contrast, the six other issuers only have EUR benchmarks with a soft bullet structure giving the option to extend maturity by twelve months in each case. Nordea Mortgage Bank also issued its first soft bullet bond in 2022, meaning that now all seven Finnish issuers have issued bonds with this structure.

### Repayment structures in France

There are sixteen issuers in total in France, of which there are fourteen issuers that have designed their bonds with a uniform maturity structure, i.e., they have issued solely hard or soft bullet bonds. The majority, namely twelve institutions, are issuers that have the option of extending the maturity of their bonds. There have also been changes in the iBoxx in relation to issuers that placed EUR benchmarks with both hard and soft bullet structures in the past. Only two institutions are now represented in the index with both hard bullets and soft bullets.

#### Repayment structures France

#### Repayment structures Germany

	Hard	Soft		Soft	CPT
Arkea Home Loans SFH		X	Aareal Bank	X	
Arkea Public Sector SCF		X	Bausparkasse Schwaebisch Hall	X	
AXA Bank Europe SCF		X	Bayerische Landesbank	X	
AXA Home Loan SFH		X	Berlin Hyp	X	
BNP Paribas Home Loan SFH		X	Commerzbank	X	
BPCE SFH	X	X	Deutsche Apotheker-und Aertztebank	X	
Caisse de Refinancement de l'Habitat	X	X	Deutsche Bank	X	(X)
Caisse Francaise de Financement Local	X		Deutsche Kreditbank	X	
Cie de Financement Foncier	X		Deutsche Pfandbriefbank	X	
Credit Agricole Home Loan SFH		X	DZ HYP	X	
Credit Agricole Public Sector SCF		X	Hamburg Commercial Bank	X	
Credit Mutuel Home Loan SFH		X	Hamburger Sparkasse	X	
CCF SFH (formerly HSBC SFH France)		X	ING-DiBa	X	
La Banque Postale Home Loan SFH		X	Landesbank Baden-Wuerttemberg	X	
MMB SCF		X	Landesbank Hessen-Thueringen Girozentrale	X	
Societe Generale SFH		X	Muenchener Hypothekenbank	X	
			Landesbank Saar	X	
			Norddeutsche Landesbank-Girozentrale	X	
			Oldenburgische Landesbank	X	
			Santander Consumer Bank	X	
			Sparkasse Hannover	X	
			Sparkasse KoelnBonn	X	
			Sparkasse Pforzheim Calw	X	
			UniCredit Bank	X	
			Wuestenrot Bausparkasse	X	

Source: Market data, NORD/LB Floor Research

### Repayment structures in Germany

The adjustment to the legal basis for issuing Pfandbriefe in Germany implemented maturity extensions for all Pfandbriefe that we consider to be soft bullets. Deutsche Bank has also had a bond with a CPT structure since November 2019. The bond is no longer listed in the current composition of the iBoxx EUR Covered, meaning that Germany is currently one of the jurisdictions with only one maturity structure in the benchmark index.

### Repayment structures in Sweden

In Sweden, all five issuers now rely on covered bonds with the option to extend maturity. While SCBC and Stadshypotek are solely represented in the iBoxx EUR Covered with soft bullet bonds, after LF Hypothek, which placed its first soft bullet issue in May 2022, SEB and Swedbank are now also represented with both repayment structures in the iBoxx. In terms of volume, it is apparent that hard bullet bonds (EUR 6.5bn) have fallen further behind Swedish soft bullet bonds, which have a volume of EUR 19.6bn in the iBoxx.

#### Repayment structures Sweden

#### Repayment structures Portugal

	Hard	Soft		Soft	CPT
Lansforsakringar Hypotek	X	X	Banco BPI	X	
Skandinaviska Enskilda Banken	X	X	Banco Santander Totta	X	
Stadshypotek		X	Novo Banco	X	
Sveriges Sakerstallda Obligationer (SCBC)		X	Montepio		(X)
Swedbank Hypotek	X	X			

Source: Market data, NORD/LB Floor Research

### Repayment structures in Portugal

In addition to Australia, Germany, Italy and the Netherlands, Portugal is also one of the markets to have issued CPT structures. The covered bonds of Caixa Economica Montepio Gera had an option to extend maturity in CPT format, which specifically allowed for a maturity extension of up to 45 years, although this issuer is no longer represented in the iBoxx EUR Covered. Therefore, Portugal is currently one of the jurisdictions with only one maturity structure in the benchmark index.

### Repayment structures in the Netherlands

Following the introduction of the CPT repayment structure by NIBC Bank in 2013, it was followed by four further issuers with bonds in CPT format, namely Achmea Bank, Van Lanschot, Aegon Bank (now Knab) and NN Bank. Currently, there are still three banks with CPT structures, with the Netherlands boasting not only the most CPT issuers but also the most outstanding CPT benchmarks (10 deals). In April 2022, NN Bank put the proposal to convert outstanding CPT bonds to soft bullet structures to a vote in a meeting of bondholders. Achmea Bank then followed suit. At EUR 74.3bn, the volume of soft bullet bonds is many times higher than that of CPT bonds (EUR 5bn). The fact that all four issuers that used CPT structures in the past now issue bonds in soft bullet format means that the preponderance of soft bullets compared with CPT deals will increase further and the CPT format will be a thing of the past for the foreseeable future. The bond with the longest maturity is set to fall due in April 2031.

**Repayment structures Netherlands**

	Soft	CPT
ABN AMRO Bank	X	
Achmea Bank	X	
Knab (formerly Aegon Bank)	X	X
Cooperatieve Rabobank	X	
de Volksbank	X	
ING Bank	X	
Nationale-Nederlanden Bank	X	
NIBC Bank	X	X
Van Lanschot Kempen	X	X

Source: Market data, NORD/LB Floor Research

**Repayment structures Australia**

	Soft	CPT
Australia & New Zealand Banking Group	X	
Bank of Queensland	X	X
Bendigo & Adelaide Bank	X	
Commonwealth Bank of Australia	X	
National Australia Bank	X	
Westpac Banking Corp	X	
Macquarie Bank	X	

**Repayment structures in Australia**

Before the hard bullet covered bond issued by the ANZ Banking Group was repaid some time ago, Australia was the only jurisdiction to periodically have all three maturity structures in the index. At present, one issuer, namely the Bank of Queensland, has bonds in CPT format as well as soft bullet bonds outstanding. The Bank of Queensland made its debut in soft bullet format in May 2024. The last Australian CPT deal is due to mature in June 2027.

**Repayment structures in Spain**

Since the first soft bullet (dual tranche) issued by Banco Santander in September 2022, Spain has also ranked among those jurisdictions in which covered bonds have various maturity structures. Nationwide, there are seven covered bond issuers in the index that have hard bullet bonds outstanding – in total 24 bonds (EUR 28bn) – including Banco Santander. Soft bullet structures are clearly gaining ground as a result of the new legislation. The 24 hard bullets in the iBoxx EUR Covered compare with 14 soft bullet covered bonds (EUR 14.6bn).

**Repayment structures Spain**

	Hard	Soft
Abanca Corp Bancaria	X	
BBVA	X	X
Banco de Sabadell	X	X
Banco Santander	X	X
Bankinter	X	X
CaixaBank	X	
Caja Rural de Navarra	X	X
Cajamar Caja Rural		X
Deutsche Bank SA Espanola	X	X
Eurocaja Rural	X	
Kutxabank	X	
Liberbank	X	

Source: Market data, NORD/LB Floor Research

**Repayment structures South Korea**

	Hard	Soft
Kookmin Bank		X
Korea Housing Finance Corp	X	
KEB Hana Bank		X
Shinhan Bank		X

**Repayment structures in South Korea**

Since the first EUR benchmark issued by Kookmin Bank, South Korea has been one of those jurisdictions in which covered bonds have various maturity structures. While the seven EUR benchmarks issued by KHFC do not include the option to extend maturity and are therefore hard bullet bonds, Kookmin Bank issued its first EUR benchmark in soft bullet format and now has three bonds outstanding. Following the market entry of KEB Hana Bank, there is another South Korean issuer with soft bullet bonds. Shinhan Bank also issues soft bullet bonds, with the result that there are now seven soft bullet bonds from South Korea in the iBoxx.

**Conclusion and outlook**

A glance at the iBoxx EUR Covered index reveals that bonds with soft bullet structures have now clearly overtaken the former dominant form of hard bullet bonds. One of the reasons for this is that many issuers in France and Austria in particular have already switched to this form of maturity structure for their covered bonds, plus the fact that soft bullets are in the ascendency in Spain. The implementation of the European Covered Bond Directive has also facilitated the change from conditions based on programme descriptions to a legal framework. From a supervisory perspective, the focus remains on extendable maturities. Both market developments and opportunities and risks for covered bonds with extendable maturities are part of the Call for Advice that is currently occupying the EBA.

## SSA/Public Issuers

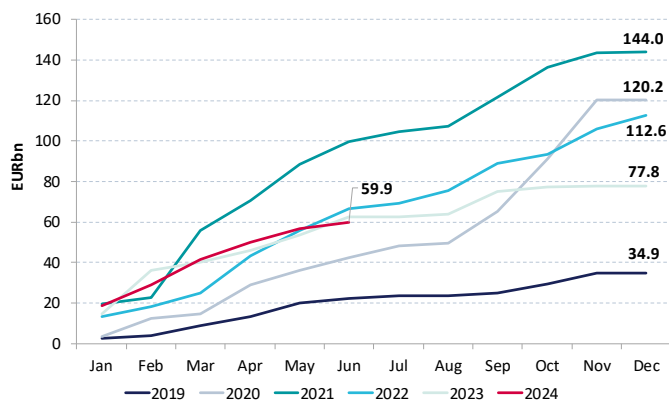
# SSA review: EUR-ESG benchmarks in H1/2024

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann

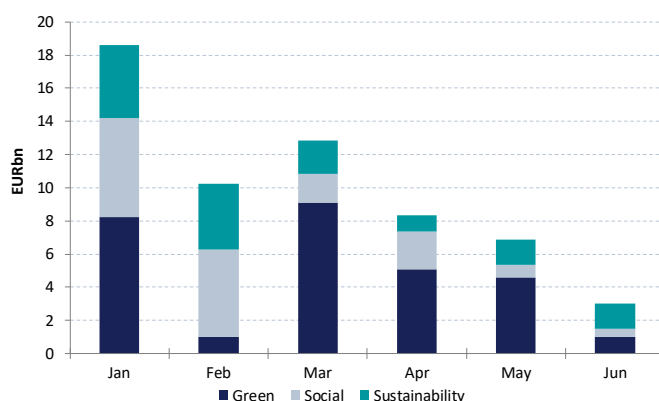
### Introduction

Having looked at the aggregated issuance volume in the first half of the year in our [Covered Bond & SSA View of 03 July](#), we shall focus separately on the ESG segment in our definition of SSAs (i.e. excluding sovereigns) in this publication, in order to give the topic the attention it requires. We last published a report that similarly relates to the global ESG bond market at the beginning of June this year (cf. [NORD/LB Fixed Income Special – ESG Update](#)). In principle, we intend to look at the ESG topic at least once more in the course of the rest of this year and present current market developments on a regular basis. The data used as a basis for the information in this issue was provided by our in-house database, where we record every new EUR benchmark bond issue in the SSA segment. To identify ESG bonds, we refer to data fields made available by the financial data provider Bloomberg, which also allows us to differentiate between green, social and sustainability bonds. In H1/2024, we recorded a total of EUR 59.9bn worth of EUR BMK bond issues with ESG characteristics. If this figure is compared with issuance trends in recent years, it emerges as the lowest volume since 2020 (EUR 42.5bn). Compared with the period under review in the previous year (EUR 62.5bn), H1/2024 reflects a slight decrease. According to our interpretation, the significance and relevance of the ESG segment remains substantial both on the part of issuers and investors. At EUR 18.6bn, January was clearly predominant in terms of bond issues compared with the other five months over the first half of the current year. We recorded a total of 43 new ESG-related bond issues from 34 different issuers in our database. In terms of amount issued in a single transaction, the EU carried out the largest individual issue with a new green bond worth EUR 7bn. The order book for the bond, which has a 25-year maturity, came to a considerable EUR 86.5bn, meaning that the deal was very nearly 12x oversubscribed. It was the EU’s first new green bond issue since November 2022.

Primary market: EUR-ESG BMK issuance trend

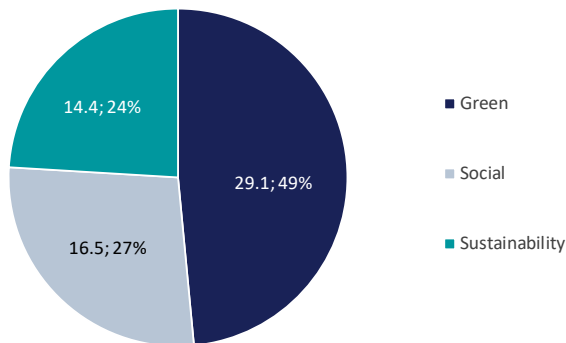


Primary market: EUR-ESG benchmark issues in H1

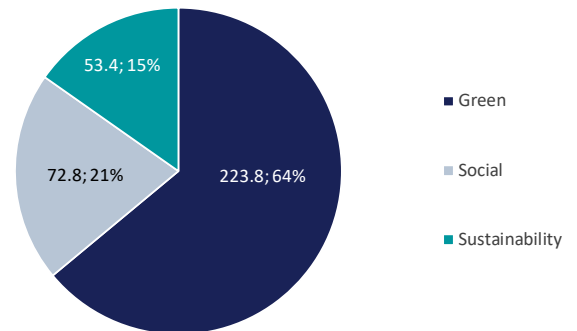


Source: Bloomberg, NORD/LB Floor Research

Breakdown by ESG category (EURbn)



Order books by ESG category (EURbn)



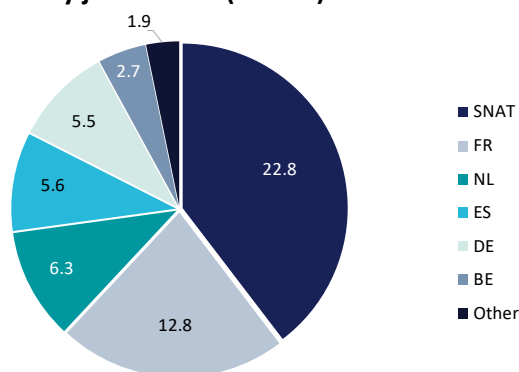
Source: Bloomberg, NORD/LB Floor Research

### Green bonds clearly dominant – supras and the French stand out

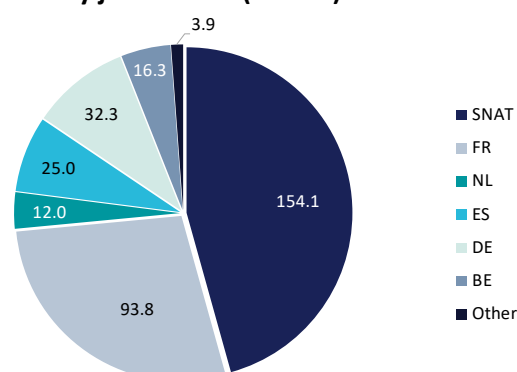
Let us look at the ESG issuance volume to date in greater detail: overall, green bonds were ahead at the end of H1/2024. Their share of the total volume amounted to around 49%, or EUR 29.1bn. Social bonds accounted for a significantly smaller share at approximately 27% (EUR 16.5bn). Meanwhile, sustainability bonds amounted to EUR 14.4bn (24%), with this figure remaining almost unchanged since our last quarterly update in early April this year. Compared with the same period in the previous year, the share of sustainability bonds in the total mix decreased by a further three percentage points, whereas green bonds increased by around seven percentage points. A slight fall of four percentage points was also posted for social bonds. Considering the demand side in the form of aggregated order books, there is an even clearer breakdown in favour of green bonds: at EUR 223.8bn and a share of almost 64%, they are clearly in the lead, followed by social bonds (EUR 72.8bn, or 21%). In contrast, sustainability bonds only generated order book volumes of EUR 53.4bn (15%) in total. The comparison of order books is also always driven by ratings and the general popularity of issuers and is therefore difficult to assess. On top of this, the period under review is relatively short, meaning that individual issuers can influence the overall picture even more obviously. For example, of the total of EUR 223.8bn attributable to green bonds, EUR 86.5bn was accounted for by the only EU transaction in this segment. The situation is similar when it comes to social bonds: the order books for two new issues by CADES (France) accounted for EUR 41.1bn of the EUR 72.8bn attributable to this segment. There is an equally unambiguous picture with regard to the breakdown by jurisdiction. With an issuance volume of EUR 22.8bn, issuers from the supras segment are in the lead. We registered ten new ESG bonds within this group of issuers in H1/2024. The order books for these transactions totalled EUR 154.1bn. To put this into perspective, supras only issued a volume of EUR 13.0bn spread across six deals in the same period of the previous year. The order books were also far smaller, totalling EUR 42.2bn. This comparison makes the influence that the EU exercises in this segment as an issuer more than clear. Besides supras, issuers from France provided new impetus in the ESG segment. A total of EUR 12.8bn was successfully placed in the market by means of seven bond issues. At EUR 93.8bn, the aggregate order books were only about half as large as those for supras. The roles were reversed in the previous year when the jurisdiction of France was ahead of the supras, with an issuance volume of EUR 21.3bn.



## Breakdown by jurisdiction (EURbn)



## Order books by jurisdiction (EURbn)



Source: Bloomberg, NORD/LB Floor Research

## Overview: Top 5 benchmark issuers by ESG category and EUR volume

Issuer	Green (EURbn)	Issuer	Social (EURbn)	Issuer	Sustainability (EURbn)
EU	7.0	CADES	8.0	IBRD	3.0
EIB	6.0	BNG	3.0	IDAWBG	1.8
KFW	4.0	WALLOO	1.5	NEDWBK	1.3
ASIA	1.8	COE	1.3	ANDAL	1.3
IDFMOB	1.0	UNEDIC	1.0	FLEMSH	1.3

Source: Bloomberg, NORD/LB Floor Research

## Individual major players dominate issuance activities

Having looked at issuance activity principally from a bird's eye view, we focus on individual issuers and their primary market activities in the following sections. In view of a relatively weak Q2/2024, the majority of the issuance volume is concentrated on a few issuers, similar to Q1/2024. This is highlighted by the above table. [CADES](#), which we have mentioned previously, stands out, having issued EUR 8.0bn in total spread across two ISINs, making it the most dynamic issuer (based on total amount issued) in the ESG segment during the first half of the year. The bonds concerned were solely social bonds. The aggregated order books amounted to EUR 41.1bn, with both deals therefore being at least 5.0x oversubscribed. Only the Dutch [BNG Bank](#) (ticker: BNG) issued EUR benchmark bond in the ESG format more frequently than CADES – a total of three. In total, the municipal finance provider issued two new social bonds with an aggregate volume of EUR 3.0bn, as well as a sustainability bond issue worth EUR 1.0bn. Also in the sustainable segment, the [International Bank for Reconstruction and Development](#) (ticker: IBRD) and the [International Development Association](#) (IDA, ticker: IDAWBG) provided the largest supply. The IBRD issued a new bond worth EUR 3.0bn with a maturity of ten years at ms +23bp at the beginning of February. Meanwhile, the IDA raised EUR 1.75bn as early as the start of January, with a far longer maturity of 20 years. With regard to green bonds, the EU made a mark in particular. In March, it launched its first green bond issue since November 2022 as part of the third syndicated transaction in 2024. This was met with significant demand from investors, in line with expectations, which was reflected by the impressive order book totalling EUR 86.5bn. This means that the deal was more than 12x oversubscribed. The EU took advantage of these favourable conditions and increased the initially announced total amount to be issued of EUR 6.0bn by another billion in the course of the marketing phase.

**Sub-sovereigns: Fairly stagnant (ESG) market**

Compared with our ESG quarterly overview, there is not much ESG news in the segment of sub-sovereigns to report on in this mid-year review. Over the course of H1/2024, no German Laender presented an ESG bond framework and nor did any established Laender issuers place new ESG bonds in the market. Accordingly, [North Rhine-Westphalia](#) (ticker: NRW), [Baden-Wuerttemberg](#) (ticker: BADWUR), [Hesse](#) (ticker: HESSEN), [Berlin](#) (ticker: BERGER) and [Saxony-Anhalt](#) (ticker: SACHAN) remained the only representatives of their kind in the EUR-ESG segment. However, it is worth taking a look at the more western reaches of southern Europe, which were considerably busier in the ESG primary market during Q2. The Spanish regions of [Madrid](#) (ticker: MADRID), [Andalusia](#) (ticker: ANDAL) and [Galicia](#) (ticker: JUNGAL) have already issued an aggregated amount of EUR 1.6bn of ESG bonds in H1/2024, with all regions selecting the sustainability format. Maturities varied and ranged from a long five years (MADRID) to a long ten years (ANDAL). Turning our thoughts towards Central Europe, we take a look at one of Germany's neighbours, Belgium. The [Belgian regions](#) also feature regularly in the EUR-ESG market. In the second quarter of 2024, we recorded a relevant transaction from [Wallonia](#) (ticker: WALLOO) worth EUR 750m and with a maturity of 30 years.

**Tap issues of existing ESG bonds to date**

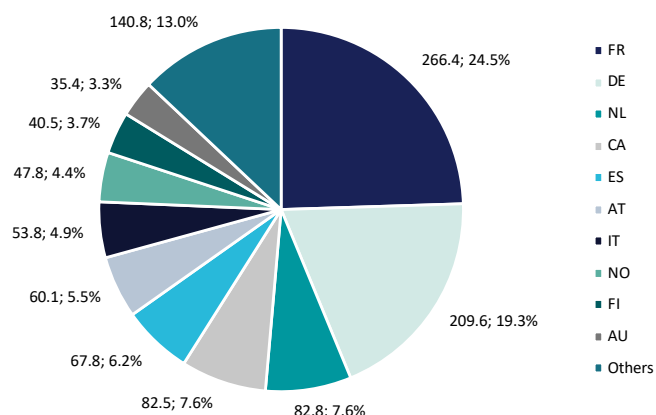
Tap issues are not included in the data up to now, since we intentionally differentiate between new bond issues and tap issues. In H1/2024, our SSA coverage encompassed 35 tap issues. In addition to the four increases of existing ESG bond issues carried out in Q1/2024, a further three had been implemented by the end of June. The EU accounted for two of these and tapped both its green 2033 and its green 2034 bond issues. The total amount tapped was around EUR 4.3bn. In the same period, BPIFRA increased its green 2028 bond to EUR 750m.

**Conclusion and outlook**

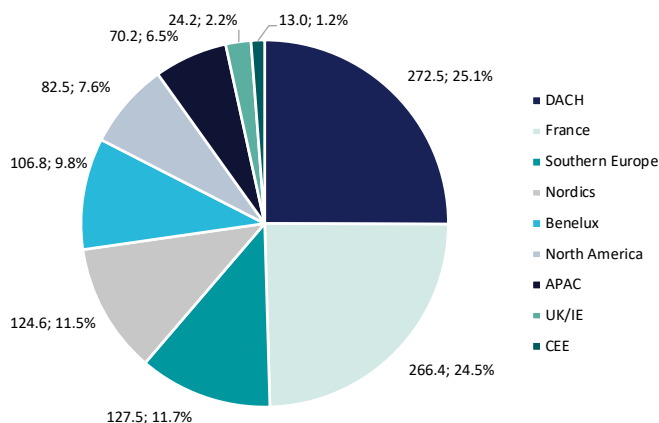
The market for ESG bonds in our SSA definition is strongly driven by individual issuers. Unsurprisingly, this impression is only strengthened by a review period of less than one year. Nevertheless, H1/2024 provided a fair amount to discuss, as is clear from the previous pages. At EUR 59.9bn in total, the new issuance volume was slightly down compared with the same period in the previous year (EUR 62.5bn). In terms of the number of new ESG bond issues, there were fewer at 43 (H1/2023: 51 bond issues). The share of ESG bonds in relation to all new bond issues in the last two quarters (130 bonds) was therefore around 33%. This figure is lower than the corresponding figures for H1/2023 (41%) and H1/2022 (44%). All the same, the data, in our opinion, definitely justifies talk of a strong first quarter in the EUR-ESG segment. Without doubt, there is still headroom in terms of the diversity of EUR issues, since as of yet it has not even been possible to list the top 10 issuers of social bonds. This situation will automatically be adjusted in the remaining months of this year when other issuers launch activities. Across 2023 as a whole, we recorded 43 different issuers in the EUR-ESG market, while this figure stood at 34 in total for H1/2024 (H1/2023: 37). We traditionally wait with anticipation to see what happens in the segment of the German Laender, which did not appear on the EUR-ESG market in the first six months of this year. We would welcome both new ESG bonds and some newly developed ESG bond frameworks from the German Laender, which have been absent in the year to date, in order to drive the market segment further forward.

# Charts & Figures Covered Bonds

EUR benchmark volume by country (in EURbn)



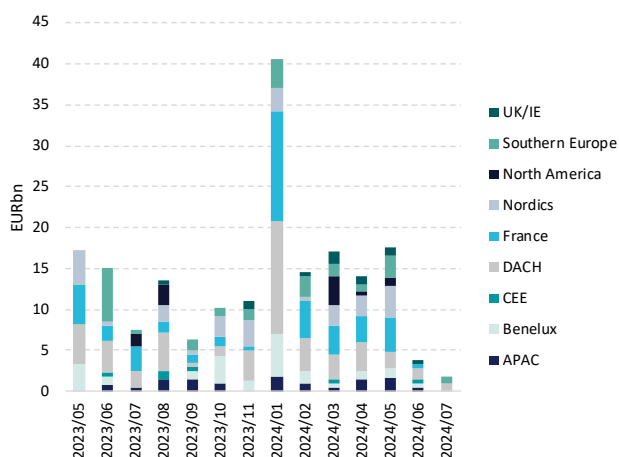
EUR benchmark volume by region (in EURbn)



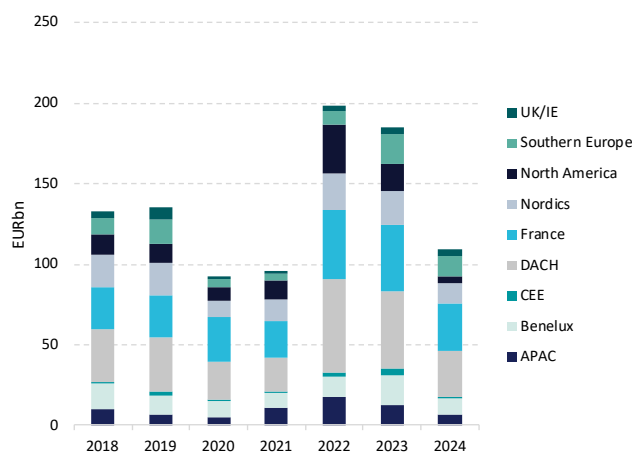
Top-10 jurisdictions

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	266.4	258	26	0.97	9.3	4.8	1.44
2	DE	209.6	297	42	0.65	7.8	4.0	1.44
3	NL	82.8	84	3	0.92	10.5	6.0	1.35
4	CA	82.5	61	1	1.33	5.5	2.6	1.34
5	ES	67.8	53	5	1.16	11.2	3.3	2.16
6	AT	60.1	101	5	0.59	8.1	4.3	1.54
7	IT	53.8	68	5	0.76	8.4	3.7	1.89
8	NO	47.8	58	12	0.82	7.3	3.6	1.03
9	FI	40.5	46	4	0.87	6.9	3.6	1.72
10	AU	35.4	33	0	1.07	7.2	3.4	1.82

EUR benchmark issue volume by month

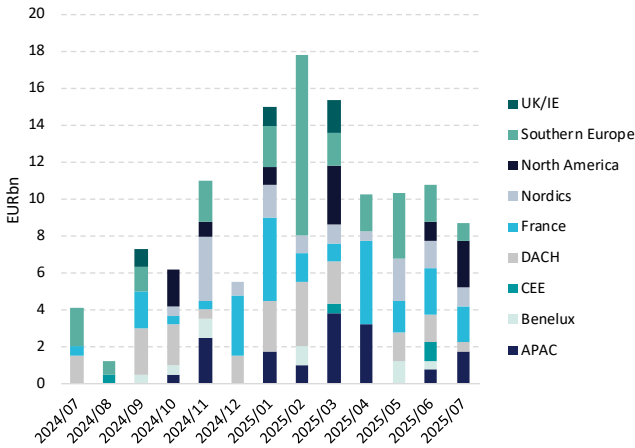


EUR benchmark issue volume by year

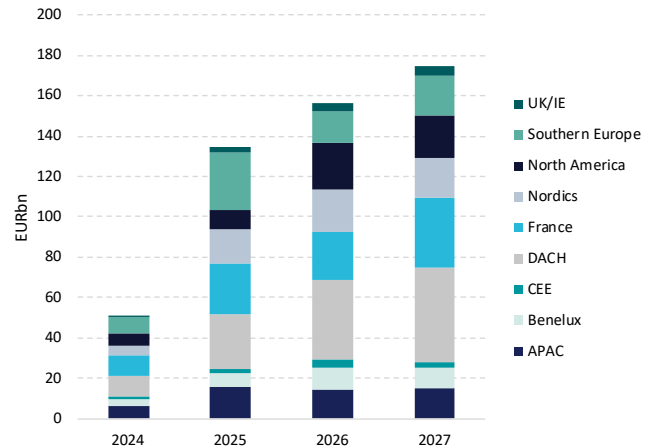


Source: Market data, Bloomberg, NORD/LB Floor Research

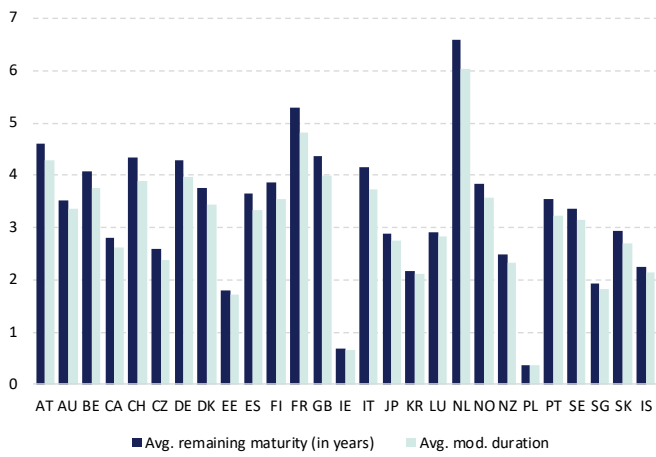
**EUR benchmark maturities by month**



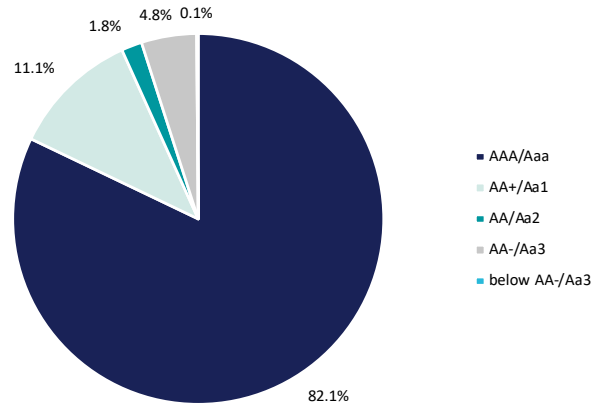
**EUR benchmark maturities by year**



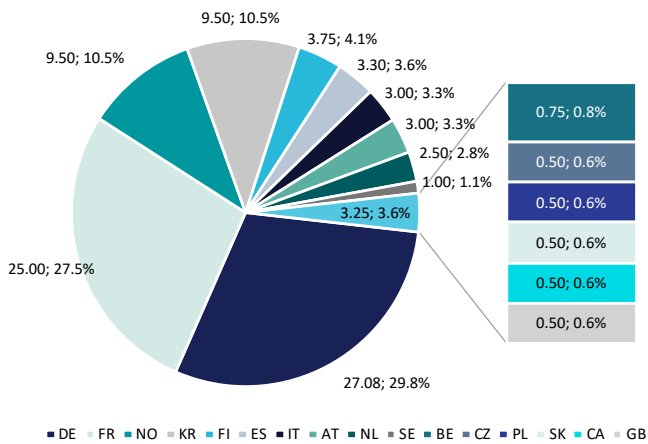
**Modified duration and time to maturity by country**



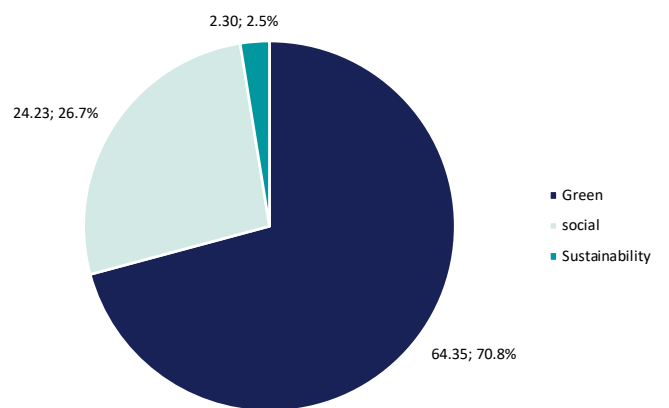
**Rating distribution (volume weighted)**



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

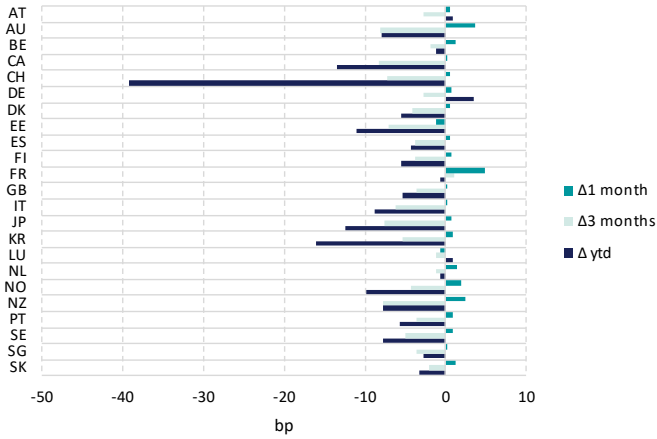


**EUR benchmark volume (ESG) by type (in EURbn)**

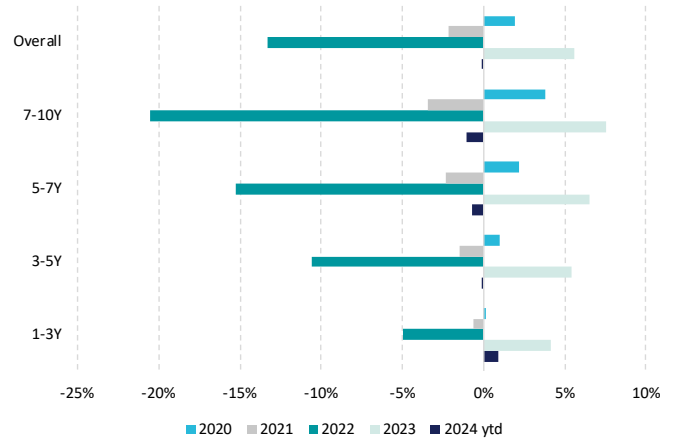


Source: Market data, Bloomberg, NORD/LB Floor Research

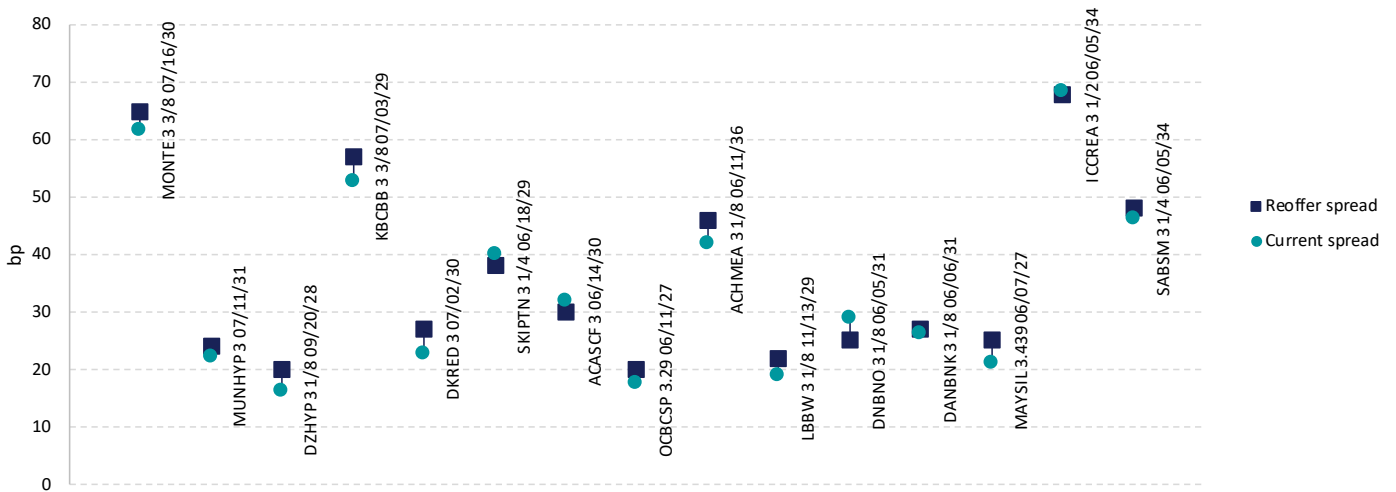
**Spread development by country**



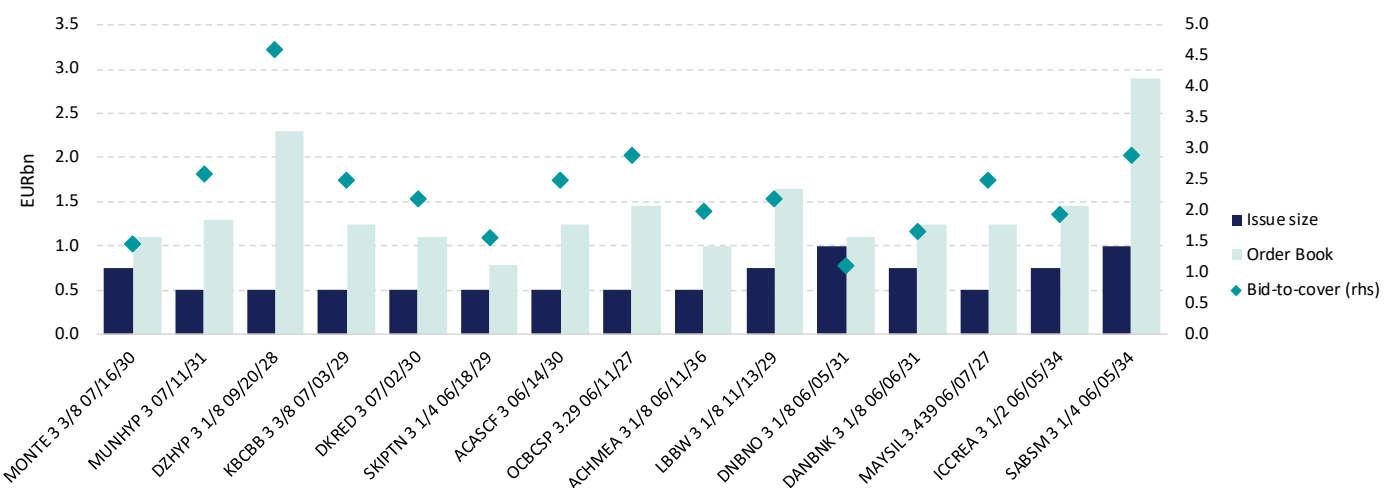
**Covered bond performance (Total return)**



**Spread development (last 15 issues)**

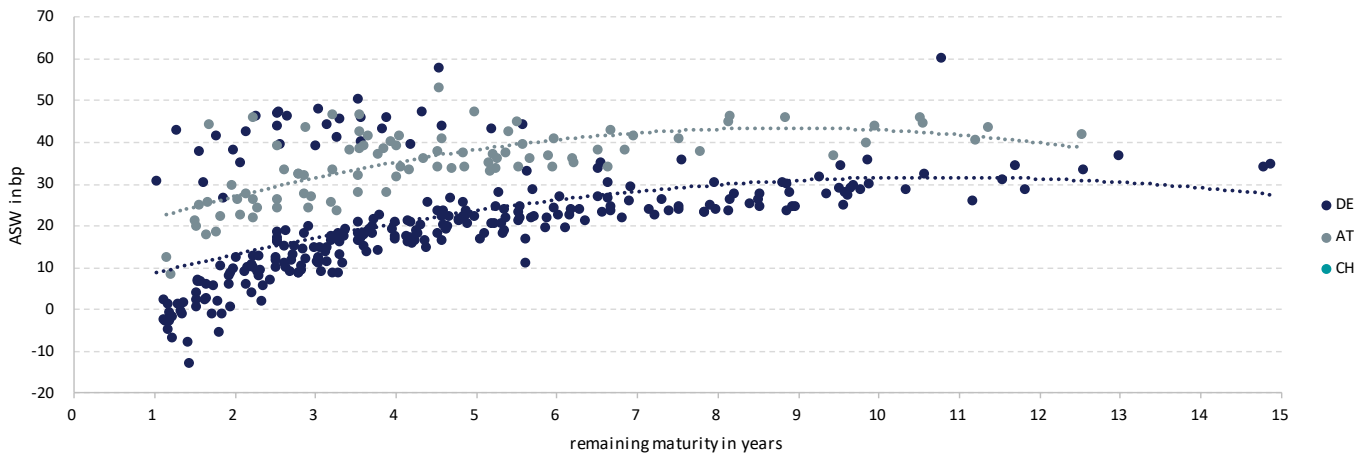


**Order books (last 15 issues)**

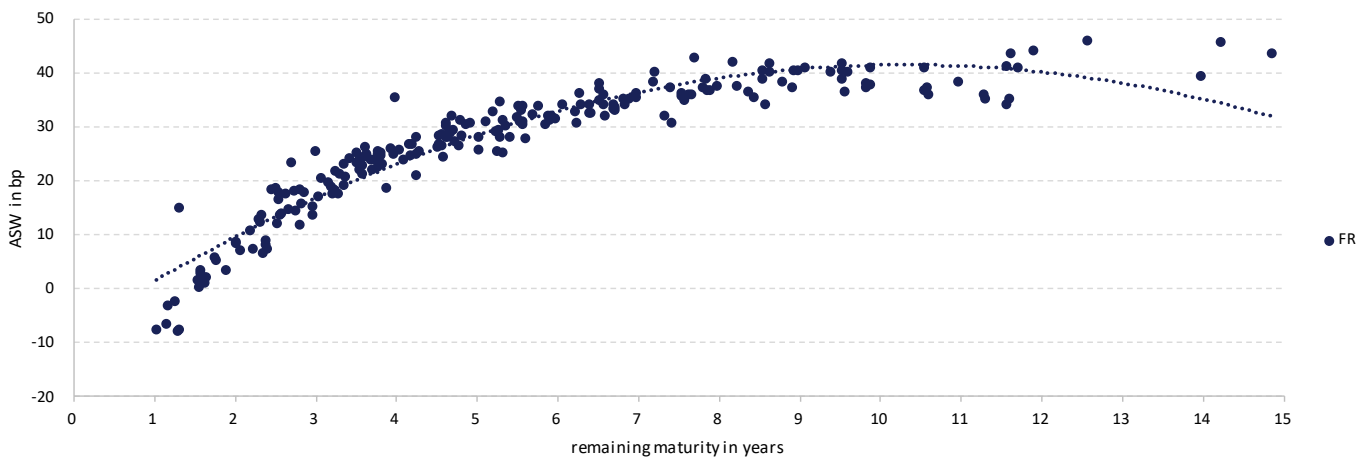


**Spread overview<sup>1</sup>**

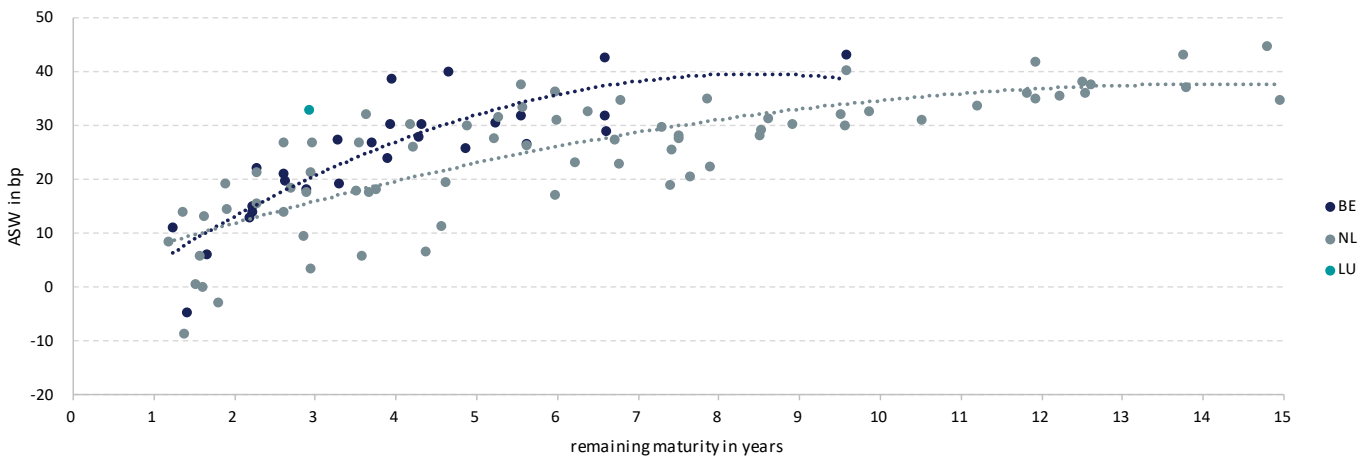
**DACH** 



**France** 

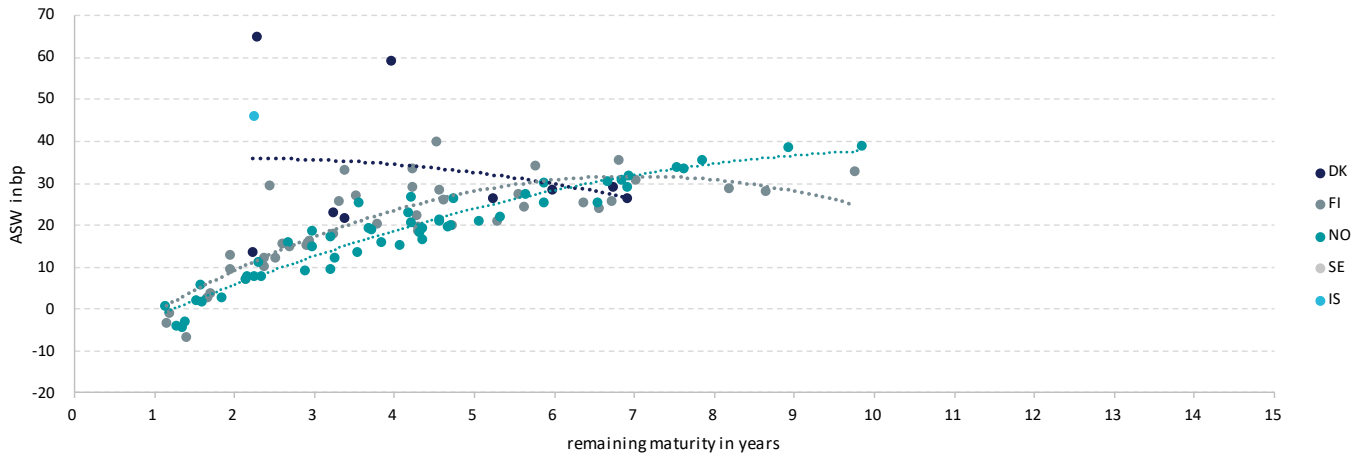


**Benelux** 

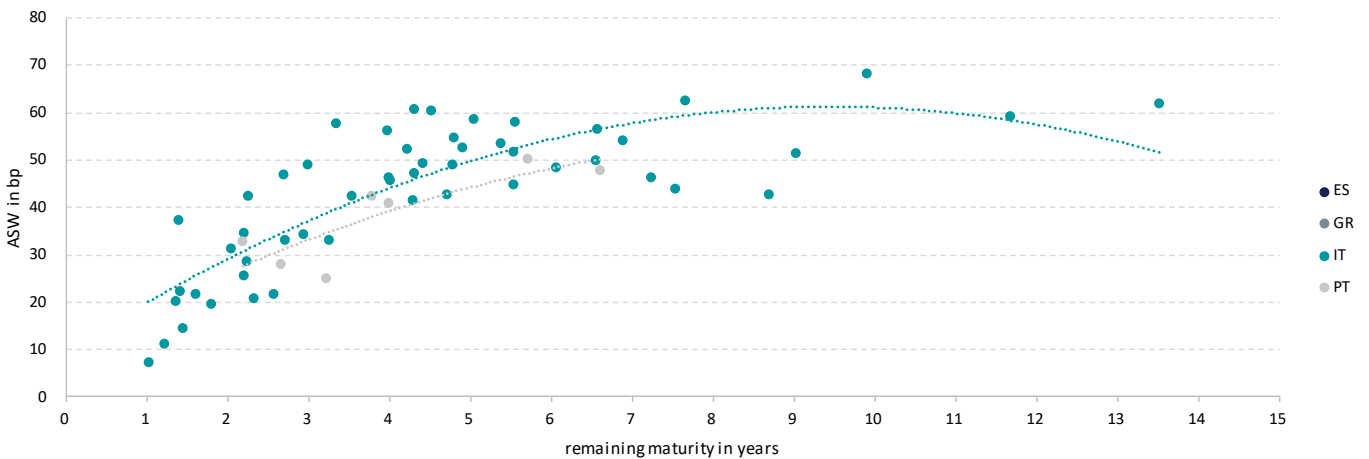


Source: Market data, Bloomberg, NORD/LB Floor Research <sup>1</sup>Time to maturity 1 ≤ y ≤ 15

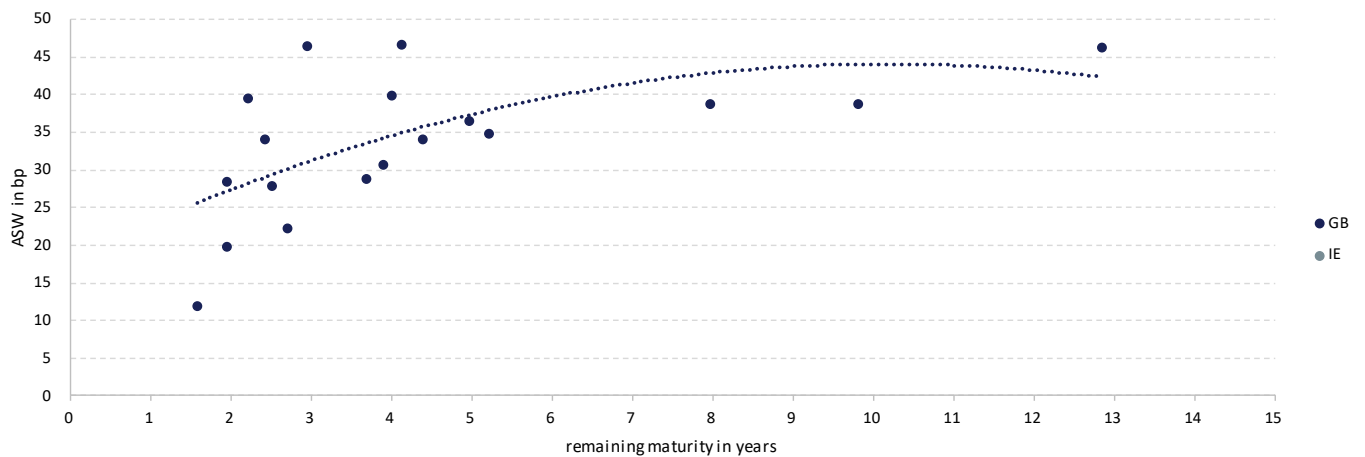
**Nordics** 🇩🇰 🇫🇮 🇳🇴 🇸🇪 🇮🇸



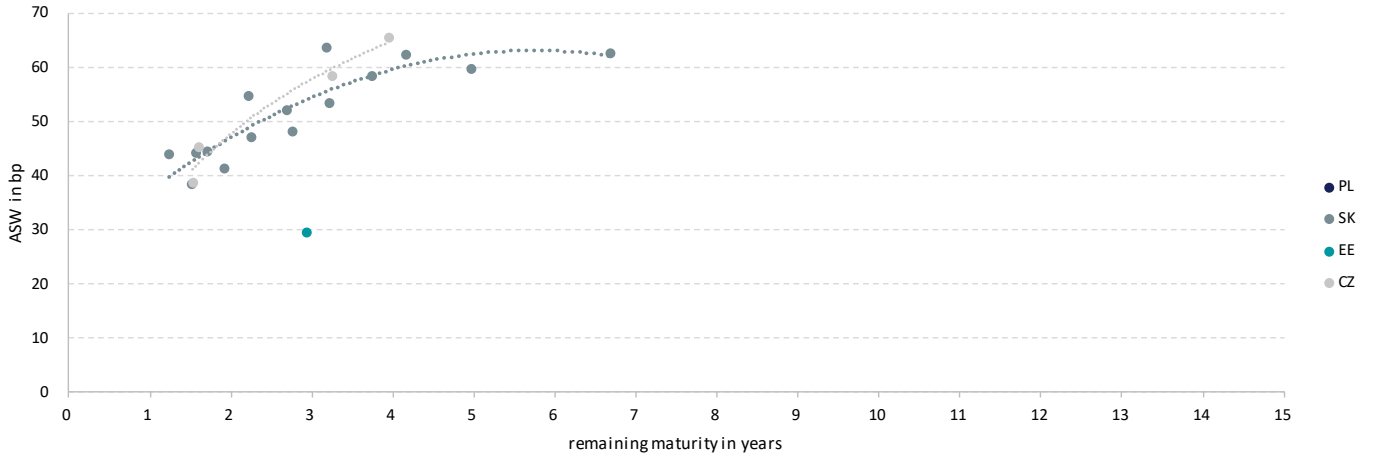
**Southern Europe** 🇪🇸 🇬🇷 🇮🇹 🇵🇹



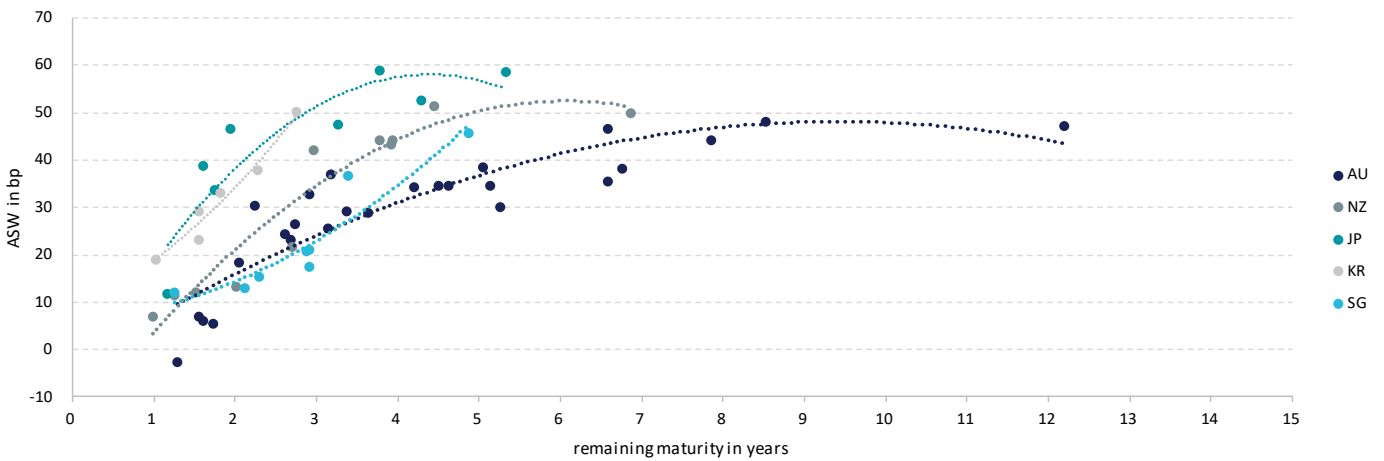
**UK/IE** 🇬🇧 🇮🇪



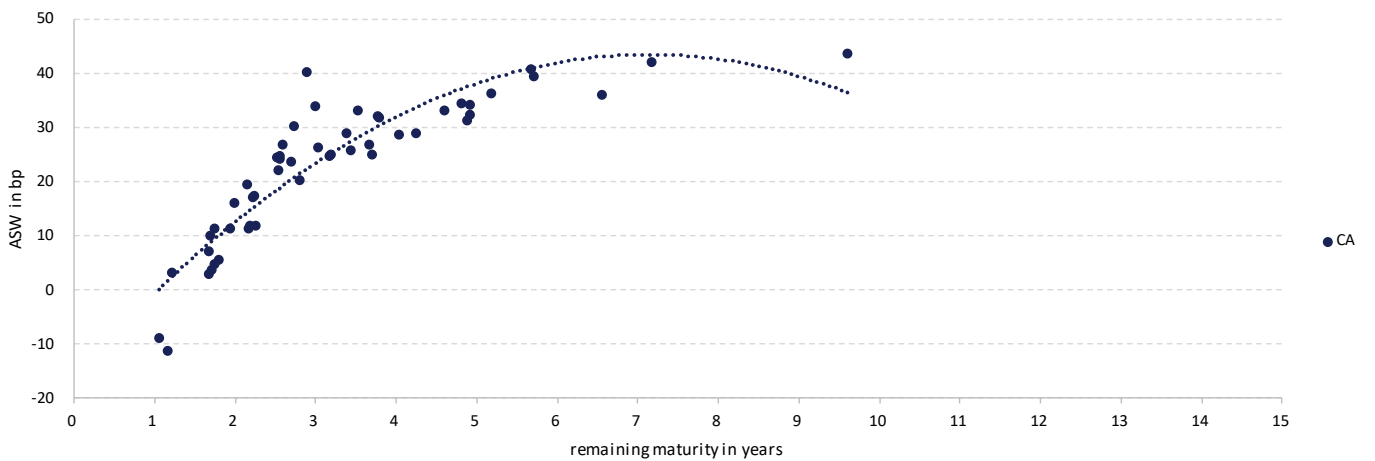
**CEE** 



**APAC** 



**North America** 

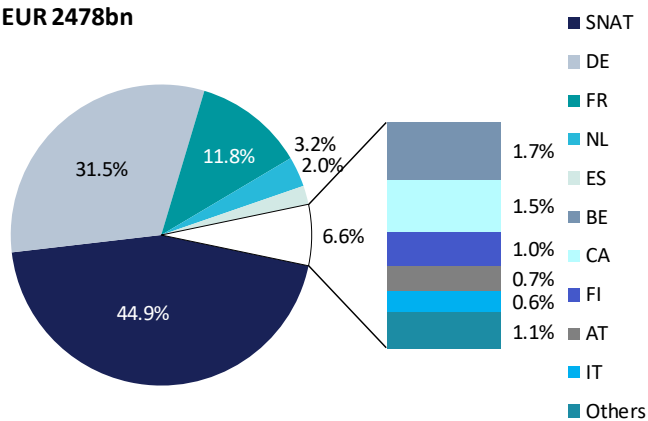




## Charts & Figures SSA/Public Issuers

### Outstanding volume (bmk)

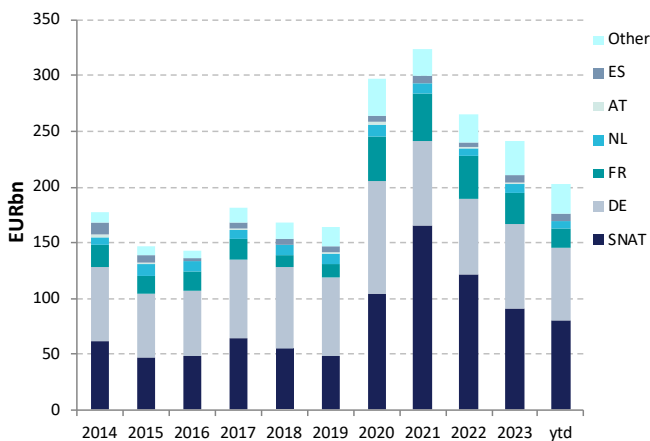
EUR 2478bn



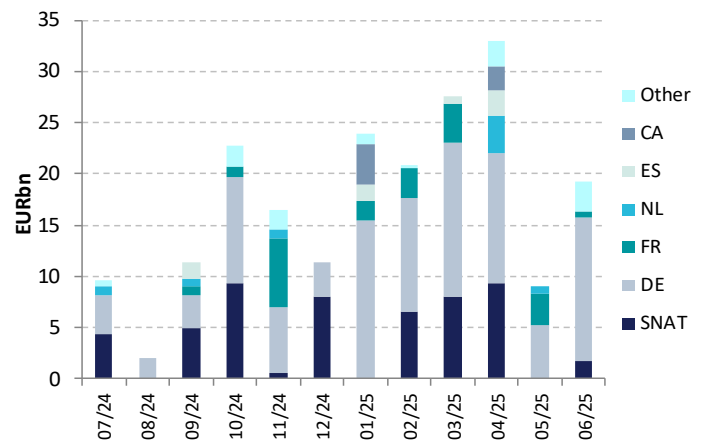
### Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,112.2	238	4.7	8.0
DE	780.0	583	1.3	6.2
FR	293.4	196	1.5	5.9
NL	80.2	68	1.2	6.6
ES	50.0	70	0.7	4.9
BE	41.6	45	0.9	10.6
CA	37.7	28	1.3	5.1
FI	24.1	25	1.0	4.5
AT	17.8	22	0.8	4.0
IT	15.0	19	0.8	4.6

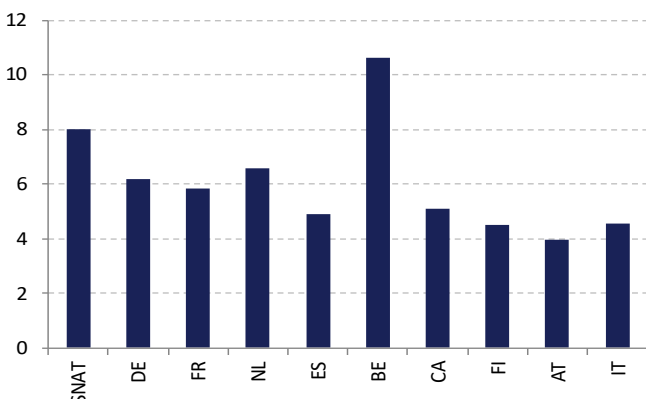
### Issue volume by year (bmk)



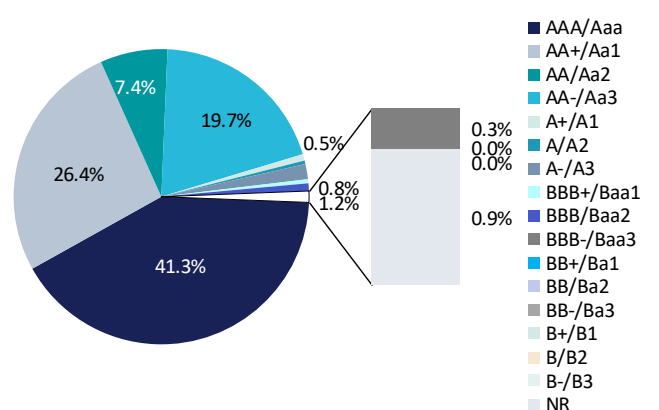
### Maturities next 12 months (bmk)



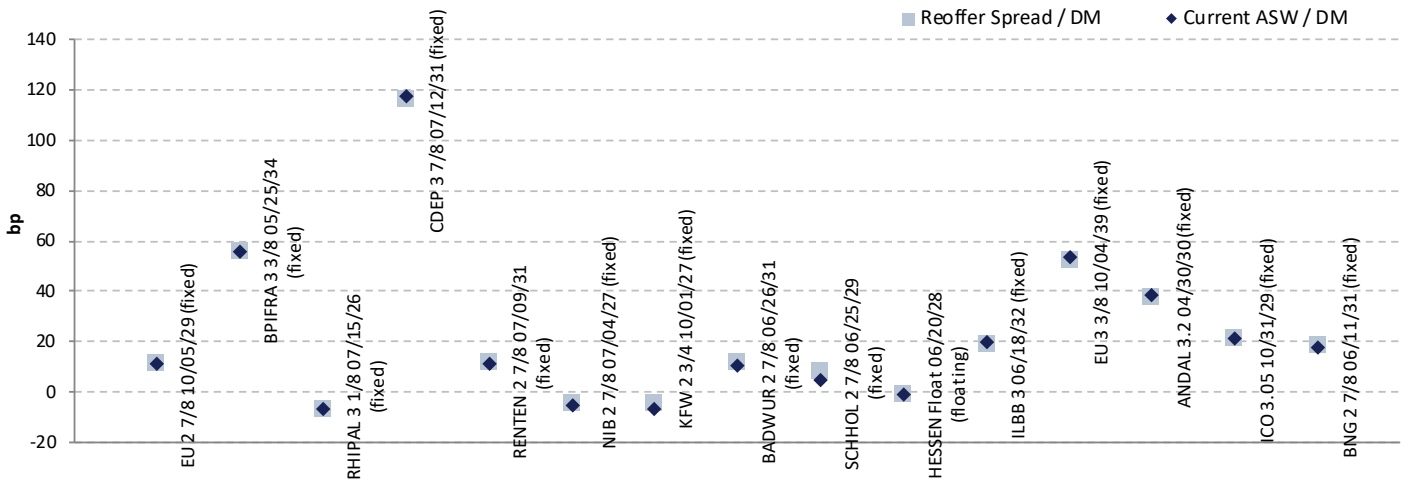
### Avg. mod. duration by country (vol. weighted)



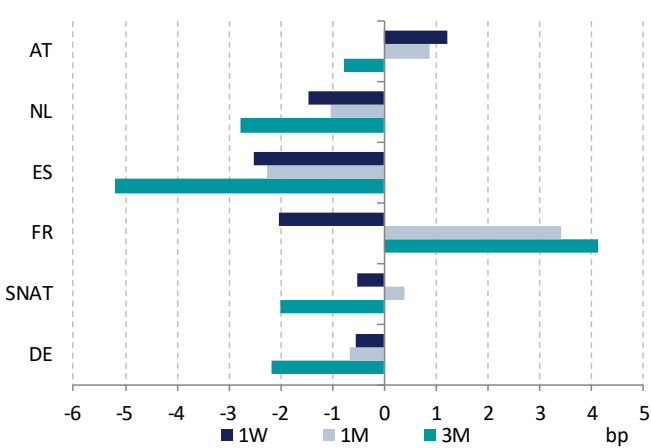
### Rating distribution (vol. weighted)



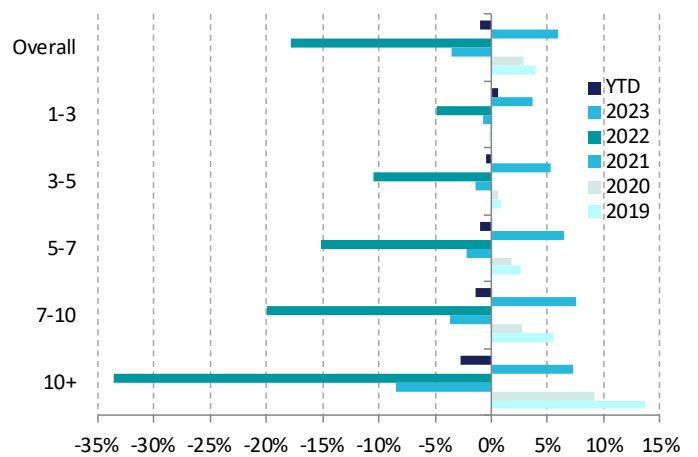
**Spread development (last 15 issues)**



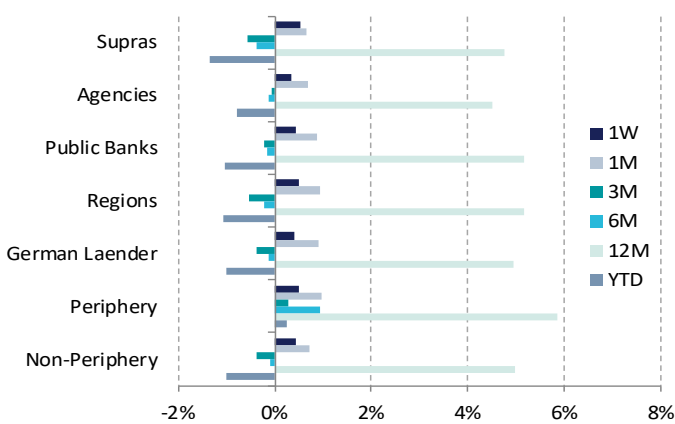
**Spread development by country**



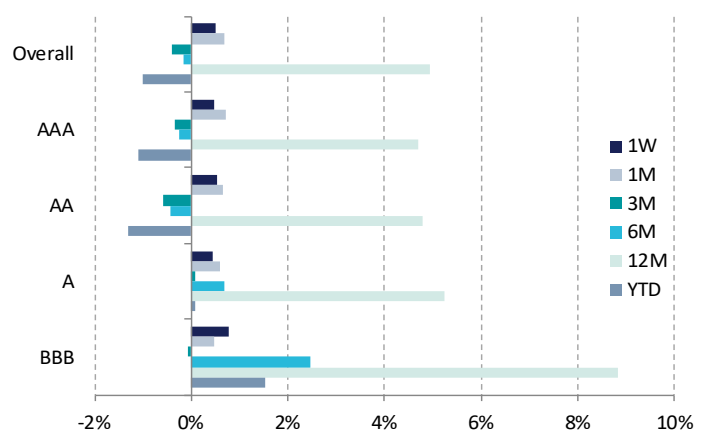
**Performance (total return)**



**Performance (total return) by segments**

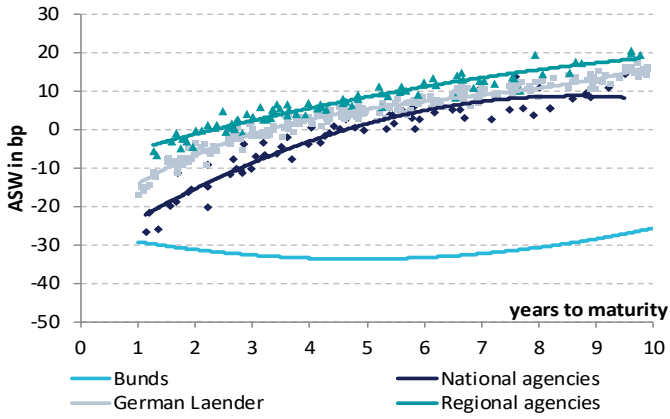


**Performance (total return) by rating**

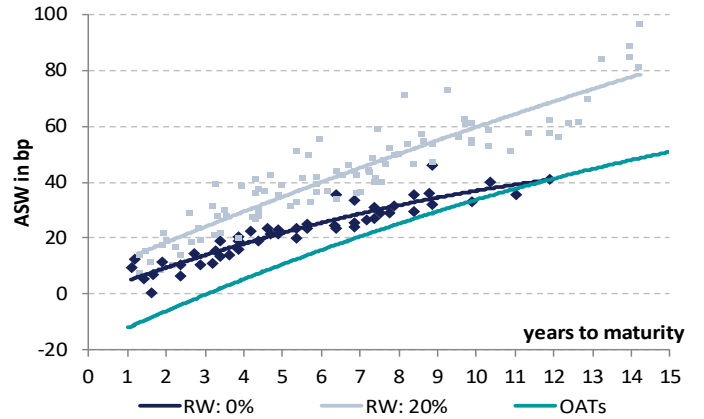


Source: Bloomberg, NORD/LB Floor Research

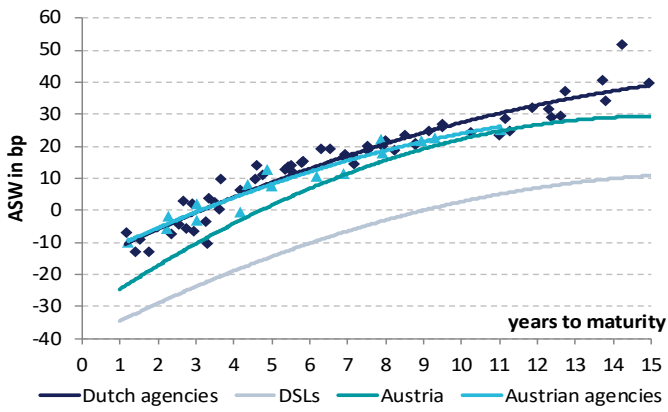
**Germany (by segments)**



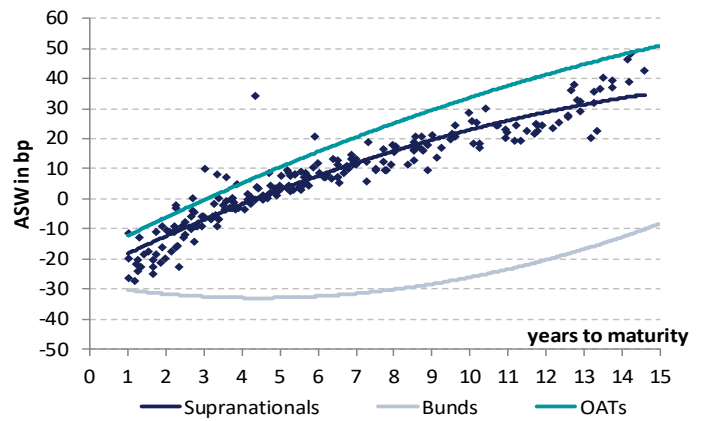
**France (by risk weight)**



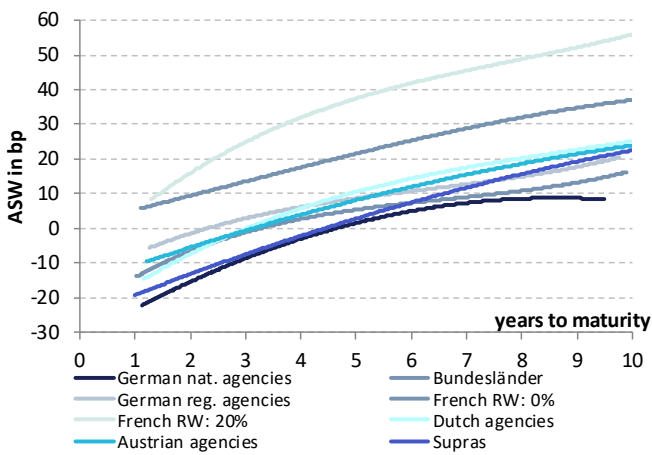
**Netherlands & Austria**



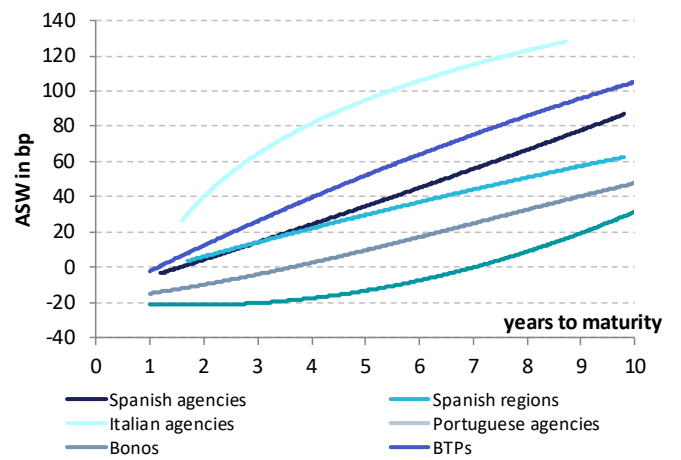
**Supranationals**



**Core**



**Periphery**



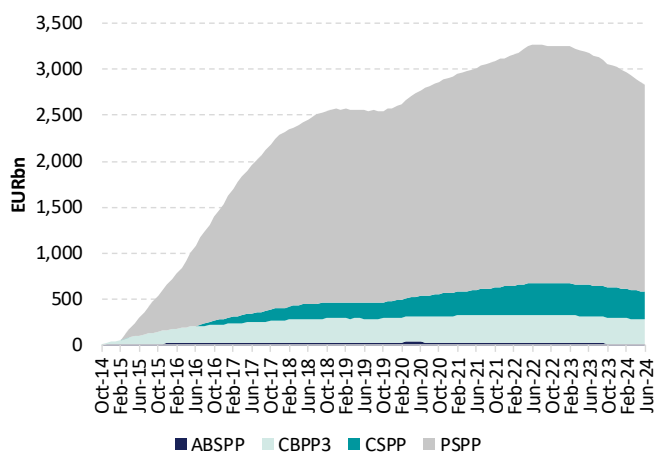
Source: Bloomberg, NORD/LB Floor Research

## ECB tracker

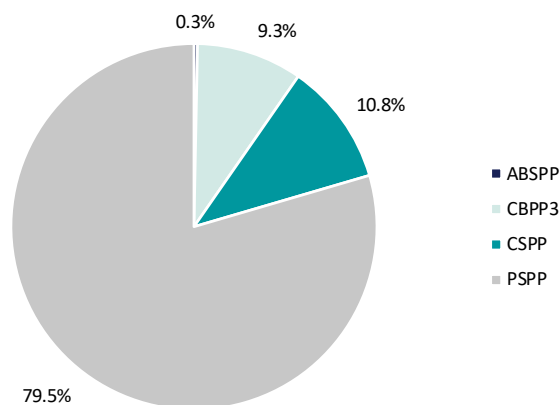
### Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
May-24	9,428	268,850	309,215	2,271,392	2,858,885
Jun-24	9,002	264,960	306,481	2,254,498	2,834,941
Δ	-414	-3,777	-2,555	-15,018	-21,764

#### Portfolio development

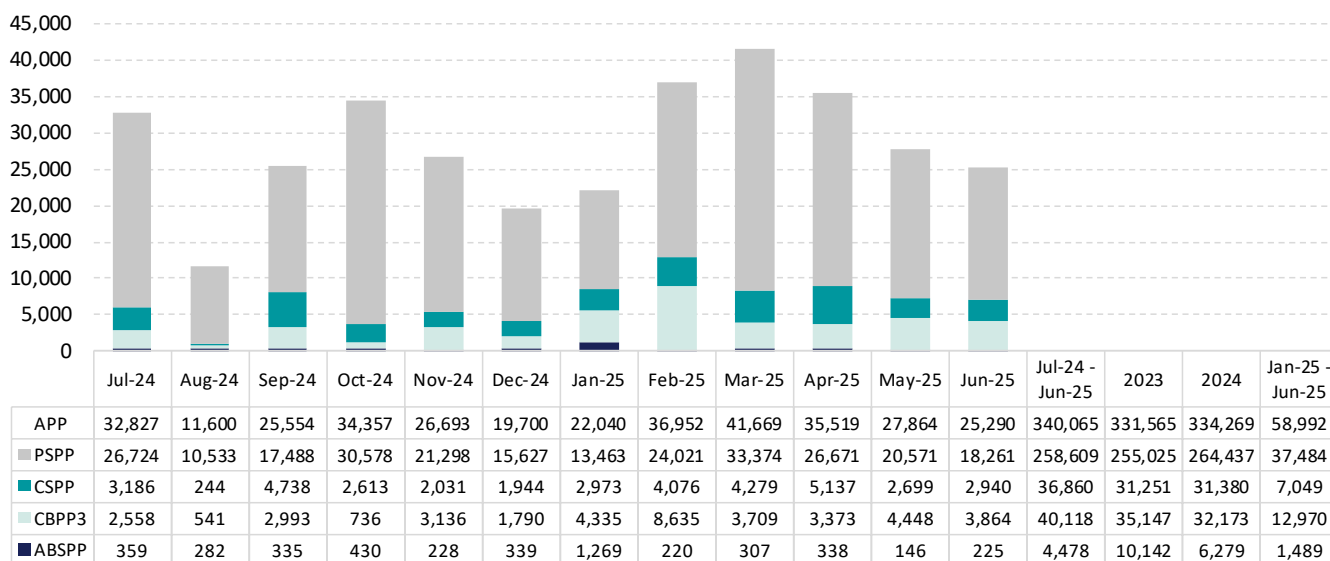


#### Portfolio structure



Source: ECB, NORD/LB Floor Research

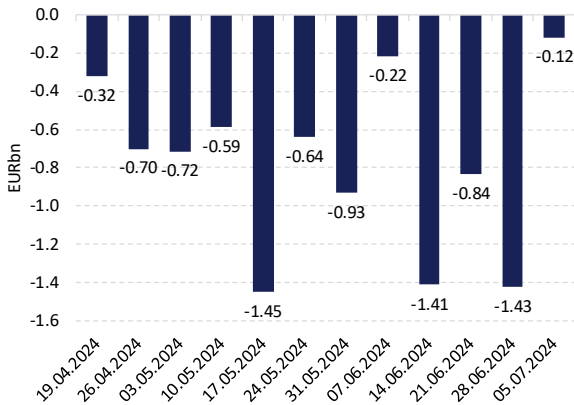
### Expected monthly redemptions (in EURm)



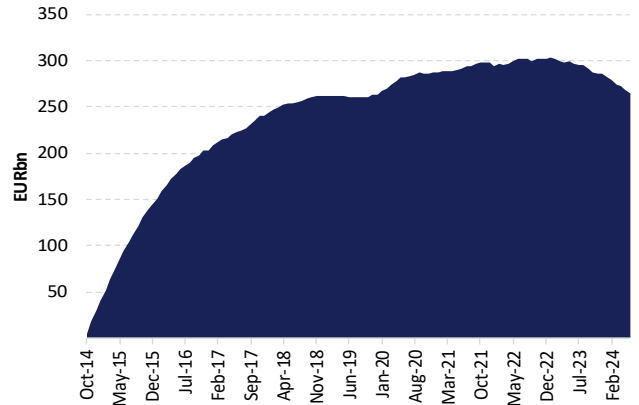
Source: ECB, Bloomberg, NORD/LB Floor Research

### Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

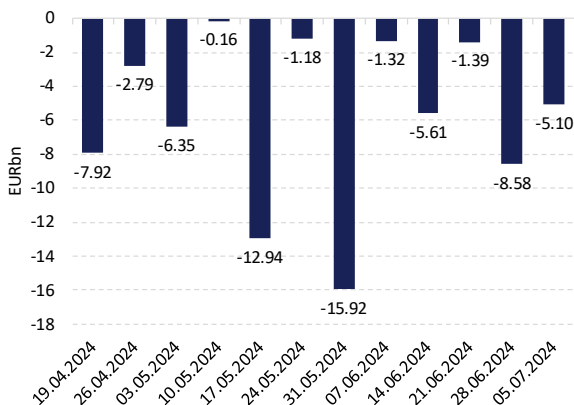


Development of CBPP3 volume

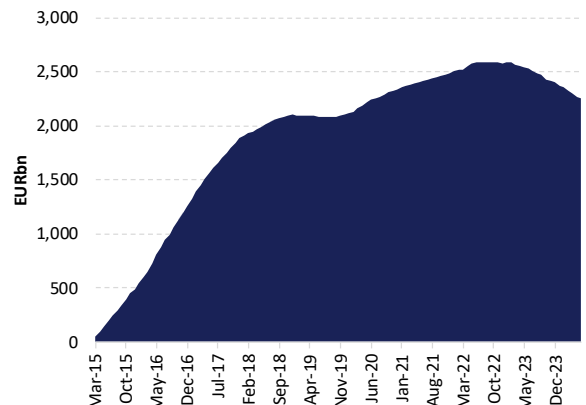


### Public Sector Purchase Programme (PSPP)

Weekly purchases



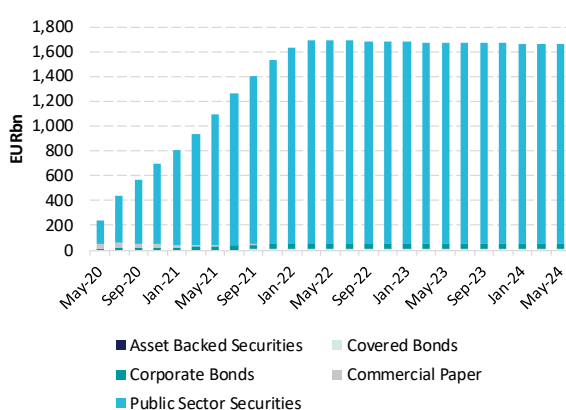
Development of PSPP volume



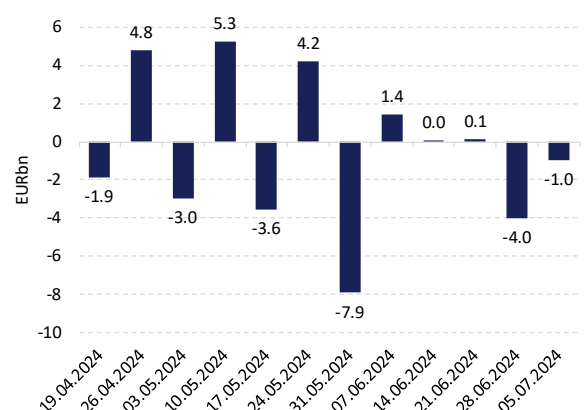
Source: ECB, Bloomberg, NORD/LB Floor Research

### Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

## Appendix

# Overview of latest Covered Bond & SSA View editions

Publication	Topics
<a href="#">22/2024 ♦ 03 July</a>	<ul style="list-style-type: none"> <li>▪ Covereds: Half-year review and outlook for the second half of 2024</li> <li>▪ SSA half-year review 2024</li> </ul>
<a href="#">21/2024 ♦ 26 June</a>	<ul style="list-style-type: none"> <li>▪ The covered bond universe of Moody's: An overview</li> <li>▪ Teaser: Issuer Guide – Austrian Agencies 2024</li> </ul>
<a href="#">20/2024 ♦ 19 June</a>	<ul style="list-style-type: none"> <li>▪ New EUR benchmark issuer from Slovakia</li> <li>▪ ECB repo collateral rules and their implications for Supranationals &amp; Agencies</li> </ul>
<a href="#">19/2024 ♦ 12 June</a>	<ul style="list-style-type: none"> <li>▪ ESG covered bonds: Green deals continue to dominate</li> <li>▪ Teaser: Issuer Guide - Nordic Agencies 2024</li> </ul>
<a href="#">18/2024 ♦ 29 May</a>	<ul style="list-style-type: none"> <li>▪ Transparency requirements §28 PfandBG Q1/2024</li> <li>▪ Development of the German property market (vdp Index)</li> <li>▪ Spotlight on the EU as a mega issuer</li> </ul>
<a href="#">17/2024 ♦ 15 May</a>	<ul style="list-style-type: none"> <li>▪ Standard Chartered Bank Singapore boosts APAC growth</li> <li>▪ Stability Council convenes for 29th meeting</li> </ul>
<a href="#">16/2024 ♦ 08 May</a>	<ul style="list-style-type: none"> <li>▪ Whats happening away from the benchmark?</li> <li>▪ Teaser: Issuer Guide – Dutch Agencies 2024</li> </ul>
<a href="#">15/2024 ♦ 24 April</a>	<ul style="list-style-type: none"> <li>▪ A covered bond view of Portugal: Welcome back!</li> <li>▪ Credit authorisations of the German Laender for 2024</li> </ul>
<a href="#">14/2024 ♦ 17 April</a>	<ul style="list-style-type: none"> <li>▪ Moody's covered bond universe: An overview</li> <li>▪ SSA review: EUR-ESG benchmarks in Q1/2024</li> </ul>
<a href="#">13/2024 ♦ 10 April</a>	<ul style="list-style-type: none"> <li>▪ A review of Q1 in the Covered Bond segment</li> <li>▪ A review of Q1 in the SSA segment</li> </ul>
<a href="#">12/2024 ♦ 27 March</a>	<ul style="list-style-type: none"> <li>▪ Maybank: New covered bond issuer from Singapore</li> <li>▪ A closer look at Export Development Canada (Ticker: EDC)</li> </ul>
<a href="#">11/2024 ♦ 20 March</a>	<ul style="list-style-type: none"> <li>▪ Covered bond jurisdictions “Down Under” in the spotlight</li> <li>▪ Collective Action Clauses (CACs) – An (Italian) update</li> </ul>
<a href="#">10/2024 ♦ 13 March</a>	<ul style="list-style-type: none"> <li>▪ Spotlight on Pfandbrief issuers in the savings bank sector</li> <li>▪ NGEU: Green Bond Dashboard</li> </ul>
<a href="#">09/2024 ♦ 06 March</a>	<ul style="list-style-type: none"> <li>▪ Transparency requirements §28 PfandBG Q4/2023</li> <li>▪ Current LCR classification for our SSA coverage</li> </ul>
<a href="#">08/2024 ♦ 28 February</a>	<ul style="list-style-type: none"> <li>▪ New UK player on the EUR covered bond market</li> <li>▪ Teaser: Issuer Guide – Non-European supras (MDBs) 2024</li> </ul>
<a href="#">07/2024 ♦ 21 February</a>	<ul style="list-style-type: none"> <li>▪ Covered bond jurisdictions in the spotlight: A look at Austria</li> <li>▪ Hope for hybrids? New SSA sub-asset class for MDBs</li> </ul>
<a href="#">06/2024 ♦ 14 February</a>	<ul style="list-style-type: none"> <li>▪ Development of the German property market (vdp Index)</li> <li>▪ Update: Joint Laender (Ticker: LANDER)</li> </ul>

## 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 Q1/2024](#) (quarterly update)

[Transparency requirements §28 PfandBG Q1/2024 Sparkassen](#) (quarterly update)

#### SSA/Public Issuers:

[Issuer Guide – German Laender 2023](#)

[Issuer Guide – German Agencies 2023](#)

[Issuer Guide – Canadian Provinces & Territories 2024](#)

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

[Issuer Guide – Nordic Agencies 2024](#)

[Issuer Guide – Dutch Agencies 2024](#)

[Issuer Guide – Non-European Supranationals \(MDBs\) 2024](#)

[Beyond Bundeslaender: Belgium](#)

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

[Beyond Bundeslaender: Spanish regions](#)

#### Fixed Income Specials:

[ESG-Update 2024](#)

[Decision Day: One swallow does not make an ECB summer!](#)

## Appendix

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