



## 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: Dr Frederik Kunze // Lukas Kühne // Alexander Grenner

#### Primary market: all calm ahead of the ECBC Conference and ECB meeting

Having reported on brisk primary market activities in the previous edition of our weekly publication, this time around there is little in the way of news to discuss. Given that the ECBC Conference is set to take place in Porto this week, in addition to an interest rate decision from the ECB, it is certainly likely to be the case that the majority of issuers brought forward their funding activities to last week or are perhaps waiting for the impacts of these two events to become clear. We have outlined our expectations of this week's meeting of the ECB Governing Council in detail as part of a [Fixed Income Special](#), in which we discussed the three most likely scenarios. Nevertheless, we can report some good news in relation to a debut on the covered bond market for EUR sub-benchmarks: as we explain in greater detail as part of a [focus article](#) in this present edition of our weekly publication, Banca Sella from Italy was active in this sub-segment of the market with a covered bond in the amount of EUR 400m (maturity: 4.3y). The deal performed respectably and tightened by four basis points from the original guidance of ms +68bp area to a final spread of ms +64bp (bid-to-cover ratio: 1.8x). As far as the breakdown of the allocation is concerned, there was huge interest from Italy (51%) and the Nordics (19%), while banks constituted the most significant investor category with a share of 55%.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

#### Secondary market: activity thin on the ground

Over on the secondary market, there is little in the way of turnover to report this week owing to the impending interest rate decision and ECBC Conference. Deals from last week have performed only marginally, while spreads have mostly been at the re-offer level or have narrowed slightly. Accordingly, up to now no clear spread trend has emerged following the end of the summer break and many investors seem to still be playing a waiting game in the expectation that the coming week will see a return to a period with significantly higher market dynamics, including numerous new issues.

#### Moody's I: risk assessments for APAC covered bond markets

Within the framework of a recent Sector Profile, the risk experts from Moody's recently also commented on their coverage of the covered bond growth markets in the Asia-Pacific (APAC) region. Overall, covered bonds in Australia, New Zealand, Japan, Singapore and South Korea are characterised by high credit quality, which is reflected in the strength of the corresponding sovereign ratings and the creditworthiness of the issuing banks. In terms of risk factors for residential mortgages, the risk experts highlight aspects including elevated interest rates, stubborn inflation, volatile real GDP growth and rising unemployment. Covered bonds in the APAC region all have the top rating of Aaa.

**Scope: achievements of the Covered Bond Directive and outlook for ESNs**

In a recent commentary, risk experts from the rating agency Scope outlined the achievements of the European Covered Bond Directive and also focused on European Secured Notes (ESN). In terms of the covered bond rating methodology adopted by Scope, the majority of jurisdictions now benefit from the best possible “governance support uplift”, which is also due to the implementation of the directive. Scope’s risk experts also make it clear that the ESN concept could contribute to improve refinancing conditions for banks – particularly in relation to lending to small and medium-sized enterprises (SMEs). However, the rating agency does also point out that this would not necessarily lead to an increase in the total volume of financing for SMEs. On the risk side, Scope additionally makes it clear that ESNs – in contrast to securitisations – do not free up capital, but rather tie it up. As a rating agency, Scope ranks among External Credit Assessment Institutions (ECAI) approved for the Eurosystem Credit Assessment Framework (ECAF). As such, Scope ratings can be used to meet the credit requirements for marketable assets in the context of Eurosystem monetary policy operations.

**Moody’s II: a look at the six largest banks in Spain**

With an outstanding volume totalling EUR 68bn (incl. multi-credulas), Spain is among the five largest covered bond jurisdictions in the EUR benchmark segment. In the year to date, a total of EUR 2.1bn has been placed by Spanish issuers. The risk experts from Moody’s recently focused on the six largest Spanish banks and emphasised that they reported aggregated net income of EUR 16.1bn (+25% Y/Y) for the first half of 2024. For 2024, the risk experts expect profitability to improve again compared with 2023, even if earnings momentum is likely to weaken slightly in the second half of the year. In its report, Moody’s states that capital and liquidity resources are strong overall. In the view of the risk experts from Moody’s, liquidity coverage will remain high even when TLTRO III repayments, which will be boosted not least by growth on the deposit side, are factored into the equation. The banks in the spotlight here, Banco Bilbao Vizcaya Argentaria (BBVA), Banco Santander, CaixaBank, Banco Sabadell, Unicaja Banco and Bankinter, together account for an outstanding volume of benchmark bonds in the amount of EUR 49.8bn. For the jurisdiction as a whole, we expect a gross issuance volume of EUR 4bn in 2024, which, taking into account maturities of EUR 6.3bn, would result in a negative new net supply for the year. In conjunction with the current spread landscape and the trend towards improved credit quality of Spanish issuers as a result of newly implemented legislation in Spain, we take the view that new issues placed over the next few months are likely to come with scarcity premiums to a certain degree.

## Market overview

### SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann // Lukas-Finn Frese

#### **ECB preview: Caution – rate cut at the gates**

So it continues in September: the interest rate turnaround that can be characterised as “good things come in small packages”. We will continue to refer to the often-quoted meeting-by-meeting approach even beyond 2024. In our opinion, this was neglected in June and, contrary to the eternal preaching (key mantra: “We never pre-commit!”), a reduction was decided on far too early. The second cut is very likely to follow in September: an expanded database plus new staff projections indicate this. An added challenge this time is that the ECB’s Governing Council decided to make changes to its monetary policy framework in March 2024. The interest rate for the main refinancing operations (MROs) will be adjusted so that the gap between the interest rate for the MROs and the deposit rate is reduced from the current 50 basis points to 15 basis points. The rate for the marginal lending facility will also be adjusted so that the gap between the rate for the marginal lending facility and the interest rate for the MROs remains unchanged at 25 basis points. In [our current ECB preview](#) we present three possible scenarios for the ECB’s decision tomorrow (Thursday 12.09.). We think the most likely scenario is that the ECB cuts the interest rate for the deposit facility (DFR) from the current 3.75% to 3.5%. Then the rate of the main refinancing operations (MRO) would fall from the current 4.25% to 3.65% in order to meet the new conditions of the corridor. The marginal lending facility (MLF) rate would also be reduced by 60bp to 3.9% from the current level of 4.5%. We greatly anticipate all meetings at which new staff projections come into play. The most likely timetable includes at most one further reduction in 2024, probably in December.

#### **Baden-Wuerttemberg officially mandates Scope**

The federal state of Baden-Wuerttemberg (ticker: BADWUR) has officially mandated the European rating agency Scope Ratings GmbH, based in Berlin, to evaluate its creditworthiness. Previously, only the US agencies S&P and Moody’s had given BADWUR a mandated rating. To recap: while Scope had already prepared a publicly available rating for the German sub-sovereign in advance, this was not a mandated basis from the federal state. Baden-Wuerttemberg therefore became the sixth issuer from the German Laender segment to officially commission Scope to prepare a credit rating (cf. [weekly publication from 08 May](#)). It sees this as an opportunity to strengthen the position of a European rating agency. “Until now, the rating market has been dominated by the big US agencies. A European rating agency is therefore a sensible addition. A further rating is also an advantage for us when communicating with the capital market,” as Baden-Wuerttemberg finance minister Dr Danyal Bayaz explains in reference to this decision. Scope issues ratings for all 16 German Laender. However, a distinction must be made as to whether the issuer has officially mandated the agency and the rating is therefore publicly accessible. Baden-Wuerttemberg was the only German federal state to date for which a publicly accessible rating was available without a mandate.

**NRW.BANK: Social housing promotion increased significantly in the first half of the year**

The German regional promotional bank NRW.BANK (ticker: NRWBK) has presented its promotional funding figures for H1/2024. As detailed in the corresponding press release, in the first six months of the current year, NRW.BANK granted funding with a total volume of EUR 4.2bn. The volume of new commitments is therefore just below the level of H1/2023 at EUR 4.5bn, although developments in the individual funding areas were very mixed. While social housing promotion in the first half of 2024 saw an increase of +37% compared with the same period in the previous year (H1/2024: EUR 1.3bn; H1/2023: EUR 932.5m), committed funding in the field “Economy” fell by -20% (H1/2024: EUR 1.2bn; H1/2023: EUR 1.5bn). In the promotional field “Infrastructure/Municipalities”, the demand for new financing in the first six months of 2024 fell significantly overall by -17% to EUR 1.7bn (H1/2023: EUR 2.1bn). The welcome rise in housing promotion is mainly due to the stronger demand in the two programmes “NRW.BANK.Nachhaltig Wohnen” for sustainable housing and “NRW.BANK.Wohneigentum” for home ownership. Both programmes were particularly attractive because of the discounted interest conditions. According to NRW.BANK, the decline in economic development described above illustrates the ongoing normalisation of the promotional business to pre-pandemic levels. Nevertheless, programmes aimed at the future viability of companies in North Rhine-Westphalia developed positively: In H1/2024, a total of EUR 71.1m was granted via the “NRW.BANK.Effizienz kredit” (efficiency loans) programme, representing an increase of +34% compared with the same period in the previous year. The “NRW.BANK.Digitalisierung und Innovation” (digitalisation and innovation) programme even posted increased demand of +96% (H1/2024: EUR 73.7m; H1/2023: EUR 37.6m).

**KfW: Further milestone in digital bond segment**

At the end of August, Kreditanstalt für Wiederaufbau (KfW; ticker: KFW) successfully issued a digital bond in the form of a crypto security in accordance with the German Electronic Securities Act (eWpG). In so doing, blockchain technology was used to process the transfer of central bank money for the first time. The transaction took place as part of the European Central Bank’s (ECB) exploration phase to test new technologies for the processing of distributed ledger technology (DLT)-based financial market transactions in central bank money. With its bond, which was settled on 28 August 2024 – just one day after final pricing – KfW tested the monetary processing of the issue of a blockchain-based digital bearer bond using the Trigger Solution of the German Bundesbank. The KfW bond has a volume of EUR 50m, a fixed coupon of 3.46% and a three-month maturity. Setting the maturity of the bond before completion of the ECB exploration phase at the end of November ensures that the entire life cycle of the security is mapped using the Trigger Solution. Gaetano Panno, Head of Transaction Management at KfW, comments: “The involvement as an issuer in the ECB trials enables us to test automated payment processing and a delivery-versus-payment transaction, i.e. an immediate ‘bond-versus-payment’ transaction, in the processing of a blockchain-based digital bond for the first time. The use of the Trigger Solution significantly speeds up processing for securities issuance, reduces operational risks and increases efficiency.” The largest German promotional bank had issued its first blockchain-based digital bond in accordance with the German Electronic Securities Act in [July](#). The processing was carried out in central bank money without any interaction between the blockchain technology and the payment system.

**MuniFin publishes Half Year Report 2024**

The Finnish municipal financier Municipality Finance (MuniFin; ticker: KUNTA) has published its Half Year Report for the months January to June 2024. As stated in the corresponding press release, MuniFin maintained steady operations in the first half of 2024 despite the challenges in the operating environment. The net operating profit excluding unrealised fair value changes of the Finnish institution amounted to EUR 89m, exceeding the previous year's figure by +9.6% (H1/2023: EUR 81m). The increase in net operating profit was boosted mostly by rising short-term market rates and lower expenses than in the comparison period. As such, net interest income grew by +3.4% and amounted to EUR 129m (H1/2023: EUR 124m). New long-term customer financing increased between January and June 2024 to stand at EUR 2.4bn. Long-term customer financing (long-term loans and leased assets) excluding unrealised fair value changes totalled EUR 34.3bn at the end of June 2024, reflecting an increase of +4.0% across the reporting period (H1/2023: EUR 32.9bn). The total amount of green finance aimed at environmentally sustainable investments and social finance aimed at investments promoting equality and communality increased by +15.7% during the reporting period. The ratio of green and social finance to long-term customer financing excluding unrealised fair value changes grew to 23.7%. At the end of June 2024, total funding amounted to EUR 44.5bn. On the refinancing side, MuniFin raised EUR 4.9bn in new (long-term) funding on the international capital markets in the reporting period. New issues included two bonds in EUR benchmark format with an aggregated volume of EUR 2bn. MuniFin intends to raise around EUR 9.5bn in new funding this year.

**NWB: Increase in investments in Dutch public sector**

The Dutch agency Nederlandse Waterschapsbank (NWB; ticker: NEDWBK) posted an increase in its loan portfolio in the first half of the current year to a new record level of EUR 55.9bn. A total of EUR 4.4bn in funding was made available to customers in the Dutch public sector in the period under review (January to June). This was significantly more than in the first six months of last year (EUR 2.8bn). According to NWB, in particular it recorded strong growth in demand for loans from housing associations. This growth is closely linked to the necessary investments to improve the sustainability of the existing housing stock and new builds, which will largely result from the national performance agreements concluded in 2022 between the housing sector, the Woonbond (organisation representing tenants), the municipalities and the Dutch government. The net profit of the municipal financier for the first half of 2024 amounted to EUR 58m, compared with EUR 72m in the first half of 2023. Profit is lower than last year, when a better result from financing transactions was achieved. Meanwhile, net interest income amounted to EUR 122m and is slightly below the level of H1/2023, when it amounted to EUR 124m. In terms of capital market activities, NWB raised EUR 6.1bn in long-term funding across the reporting period. Around 60% of this (EUR 3.9bn) was raised via the issuance of ESG bonds ([Water Bonds](#) and [SDG Housing Bonds](#)). As at the reporting date, more than 40% of NWB's outstanding volume was attributable to ESG bonds.

### Primary market

During the past trading week that we shall be covering in this section, there continued to be brisk activity on the SSA primary market. In this issue, we can report eight new issues in benchmark format totalling EUR 11.85bn. Let's start in chronological order: the marketing phase for the mandate of a fresh benchmark with a volume of EUR 500m from the federal state of Schleswig-Holstein (ticker: SCHHOL), which we already commented on in our last publication, got underway immediately on Wednesday. The bond with a term of six years finally came in at ms +13bp in line with guidance. It was followed by the Nordic Investment Bank (ticker: NIB) with an [Environmental Bond](#) in the five-year maturity segment. Compared with the guidance, the EUR 750m bond was priced one basis point narrower at ms +8bp. The Development Bank of Japan (ticker: DBJJP) was also active in the ESG segment with its first new issue in EUR benchmark format this year: the Japanese bank approached investors with a [sustainability bond](#) that featured a volume of EUR 600m and a four-year term. The desired amount was raised at a final spread of ms +30bp (guidance: ms +32bp area). At the end of the marketing phase, the order book had filled up to EUR 1.5bn. Nederlandse Waterschapsbank (ticker: NEDWBK) from the Netherlands put its money where its mouth is: a total of EUR 1.75bn landed in investors' securities accounts as part of a bond deal with a term of three years at a final spread of ms +9bp (guidance: ms +10bp area). Yesterday, the Spanish promotional bank Instituto de Crédito Oficial (ticker: ICO) took to the trading floor for the third time this year: it was on the hunt for a fresh EUR 1bn, which was to be raised over a term in excess of six years. The reoffer spread was finally fixed at SPGB +10bp (corresponds to approximately ms +36bp). At the end of the marketing phase, the order book had filled up to EUR 1.9bn. The Spaniards were followed by the Polish promotional bank Gospodarstwa Krajowego (ticker: BGOSK) with a dual tranche totalling EUR 2.25bn. The desired volume amounted to EUR 1.5bn across a term of more than ten years with a reoffer spread of ms +150bp (guidance: ms +155bp area) as well as EUR 750m over 20 years, the final price for which was fixed at ms +195bp (guidance: ms +200bp area). However, the highlight of the past trading week was undoubtedly yesterday's second syndicated transaction by the European Union (ticker: EU; please refer to the [H2/2024 funding plan](#) for further details). This EU deal arrived on our screens in the form of a dual tranche comprising a EUR benchmark and a tap with a total volume of EUR 10bn. The fresh EUR 5bn bond with a term in excess of seven years was finally priced two basis points tighter at ms +24bp. The order book amounted to EUR 54bn, meaning that the deal was more than 10x oversubscribed. In addition, the EU increased its EU 3.25% 02/04/50 [green bond](#) issued in March by EUR 5bn at ms +90bp (order book: EUR 77bn). In other news, we can report on some interesting mandates for the very near future: CCCI (EUR 500m, WNG, 3y) and SOGRPR ([ESG](#), 20y).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BGOSK	Other	10.09.	XS2902087423	10.5y	1.50bn	ms +150bp	A- / A2/ -	-
BGOSK	Other	10.09.	XS2902088314	20.0y	0.75bn	ms +195bp	A- / A2/ -	-
ICO	ES	10.09.	XS2902091292	6.1y	1.00bn	ms +36bp	A- / Baa1 / A	-
EU	SNAT	10.09.	EU000A3L1DJ0	7.2y	5.00bn	ms +24bp	AAA / Aaa / AA+	-
NEDWBK	NL	04.09.	XS2898886754	3.0y	1.75bn	ms +9bp	- / Aaa / AAA	-
DBJJP	Other	04.09.	XS2883451044	4.0y	0.60bn	ms +30bp	- / A1 / A	X
NIB	SNAT	04.09.	XS2898821033	5.0y	0.75bn	ms +8bp	- / Aaa / AAA	X
SCHHOL	DE	04.09.	DE000SHFM964	6.0y	0.50bn	ms +13bp	AAA / - / -	-

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



## Covered Bonds

# Banca Sella joins the EUR sub-benchmark segment

Author: Lukas Kühne

### Banca Sella makes its debut on the market for EUR sub-benchmarks

Banca Sella approached investors with its first deal in the EUR sub-benchmark segment at the end of last week. Besides Banca Sella, two further Italian issuers, namely Banca Popolare dell'Alto Adige (Volksbank Südtirol) and Banco di Desio e della Brianza (Banco Desio) have issued covered bonds in this segment of the market in the last couple of years. At present, we can report four outstanding EUR sub-benchmarks worth EUR 1.25bn from Italy. Only Volksbank Südtirol has raised funding from this market segment ahead of Banca Sella this year, having successfully issued a sub-benchmark worth EUR 300m. Overall, the EUR sub-benchmark segment in Italy remains poised for further growth.

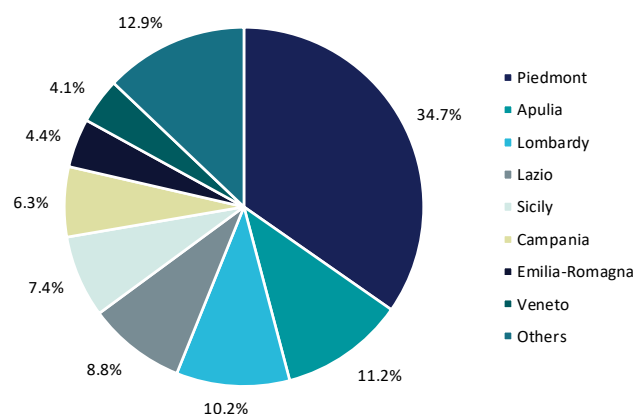
### Banca Sella: a universal bank with a focus on Piedmont

Banca Sella is an Italian universal bank based in Biella and is a subsidiary of the Sella Group. In addition to its original banking business, the bank also offers its customers insurance, leasing, asset management and private banking services, some of which are offered via other members of the Sella Group. In geographical terms, the bank focuses on Northern Italy with its 285 branches in total (FY 2023), in particular, on the Piedmont region. As at 30 June 2024, the bank's credit portfolio consisted largely of unsecured loans (39%) and mortgage loans (31%). In regional terms, the private mortgage loans were mainly attributable to Piedmont (H1/2024: 38.3%), Lombardy (10.2%) and Lazio (10.1%). The bank's funding consists largely of deposits (H1 2024: 86% of the funding mix), which is supplemented by targeted placements on the capital market. As part of its efforts to promote sustainability, the bank placed its first green bond worth EUR 100m on the market under its green bond framework in March 2023.

### Programme data

July 2024	Mortgage
Covered bonds outstanding	-
Cover pool volume	EUR 556.7m
Current OC (nominal / legal)	- / 5.0%
Type	100% Residential
Main country	100% Italy
Main region	34.7% Piedmont
Number of loans / Borrowers	6,713 / 6,670
LTV (based on market value; indexed)	52.2%
NPL	0.0%
Fixed interest (Cover Pool / CBs)	85.9% / -
WA Remaining Terms (Cover Pool)	17.8y
CB Rating (Fitch / Moody's / S&P)	- / Aa3 / -

### Geographical breakdown of cover assets



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

**Banca Sella cover pool – an overview**

In the wake of its sub-benchmark debut, Banca Sella published the cover pool data for its covered bond programme for the first time. On 31 July 2024, the cover pool assets totalled EUR 556.7m. These consist exclusively of residential mortgages, which are located 100% in Italy. Geographically speaking, the largest shares of the cover pool are attributable to Piedmont (34.7%), Apulia (11.2%) and Lombardy (10.2%). Following its first EUR sub-benchmark bond, the OC ratio would amount to 39.2% assuming that the cover pool remained constant. The average value of mortgage loans in the cover pool amounted to around EUR 83,000 as at the reporting date of 31 July 2024. Pro rata, mortgage loans valued at EUR 100,000-300,000 constitute the main group, accounting for 45.9% of the cover pool. At the end of July, the bank reported an indexed LTV-ratio (based on market values) of 52.2%. At 51.4%, the unindexed LTV-ratio is slightly lower than the indexed figure.

**Covered bond programme has been awarded a provisional rating of Aa3**

In February 2024, the risk experts at Moody's published a long-term bank deposit rating for Banca Sella for the first time. Previously only Banca Sella Holding (Sella Group) had a rating. Moody's rated the bank's long term bank deposit rating at Baa3 with a stable outlook. In its rating report, the agency highlighted the substantial proportion of private customer deposits in the funding mix and the high amount of liquid assets as positive factors, in particular. Among other aspects, the rating report highlighted the high proportion of small and medium-sized enterprises in the loan portfolio and the bank's lower capitalisation ratios compared with its peers as challenges. In addition to the issuer, the rating experts at Moody's also rate Banca Sella's covered bond programme. It has a provisional rating of Aa3 and a collateral score of 4.9%. The covered bonds also benefit from a preferred risk weighting under the CRR of 10%. In our opinion, the EUR sub-benchmark deals can also be used as Level 2A assets as part of LCR management. The issuer's newly placed deals based on Italian covered bond legislation may also carry the "European Covered Bond (Premium)" label.

**Conclusion**

Banca Sella's sub-benchmark bond has increased the number of Italian banks operating in the EUR sub-benchmark segment from two to three. From our point of view, the increase in Italian issuers since 2023 points to sustained growth in this market segment in particular, while we also believe that the issue size of EUR 400m for an inaugural sub-benchmark also suggests that Banca Sella might issue a benchmark bond in the future. With this issuance volume, a tap that would increase the EUR sub-benchmark to benchmark size cannot be ruled out either. Banco Desio, which has meanwhile increased its two sub-benchmark transactions from 2023 to benchmark size (each has an outstanding amount of EUR 500m), could serve as something of a blueprint in this regard. Although the path is not yet certain following a successful debut, we do not see any serious impediments to Banca Sella making another appearance on the primary market either.

## SSA/Public Issuers

### Teaser: Beyond Bundesländer – Autonomous Portuguese regions

Authors: Dr Norman Rudschuck, CIAA // Christian Ilchmann // Lukas-Finn Frese // assisted by Maike Maas

#### **Introduction: spotlight on the autonomous regions of Portugal**

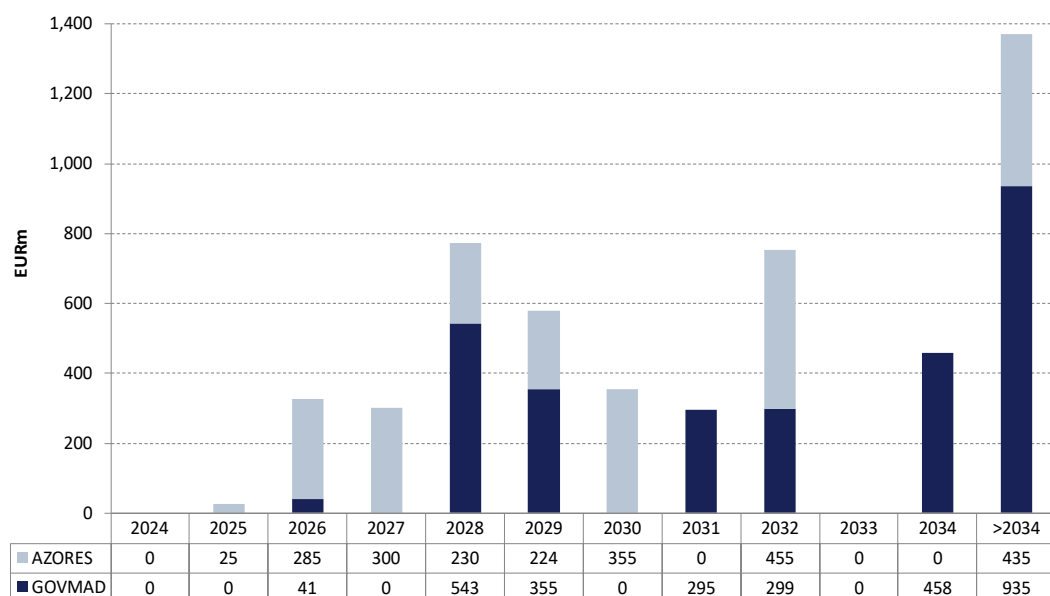
After having already updated our studies on sub-sovereign markets away from the [German Länder](#) in the form of publications covering [Belgium](#), [Canada](#) and [Greater Paris](#) (Ville de Paris and Île-de-France) earlier this year, we shall be taking a look at the sub-national issuers in Portugal with relevance for the capital market: Madeira (ticker: GOVMAD) and the Azores (ticker: AZORES). As part of this teaser article, we shall be providing a brief overview of both issuers, which we cover in far greater detail in terms of economic, political and regulatory aspects as part of the full study, which is set for publication in the near future.

#### **Structure of Portugal**

Portugal is a decentralised unitary state, which is in reality highly centralised in its organisational structure. The Portuguese mainland is divided into 18 districts (distritos) at the highest level, which are each named after their capital, and in turn sub-divided into 308 counties (municípios) and 3,092 municipalities (freguesias). In contrast, the groups of islands that form the focus of this teaser article have the status “autonomous region” (região autónoma) and therefore have their own administration. In addition, Portugal is divided into five regions, but these are only of statistical significance.

#### **Current political situation**

The current head of state, Marcelo Rebelo de Sousa, has been President since 2016. As a member of the “Partido Social Democrata” (PSD), he won the election against an independent opponent Antonio Sampaio da Nova in the first round with 52% of the votes cast. In 2024, the cabinet headed up by António Costa of the Socialist Party was replaced by a government led by the newly elected Prime Minister Luís Montenegro with the centre-right alliance Social Democratic Party (PSD). This minority government consists of twelve PSD ministers and five independent ministers. Since taking office, President Rebelo de Sousa has advocated overcoming the social divide resulting from the debt crisis and associated austerity measures. As a result of the financial crisis in 2008/09, Portugal encountered payment difficulties in the years that followed owing to its substantial government debt. In May 2011, the Portuguese government received a bail-out in the amount of EUR 78bn from the euro rescue package. During the peak in 2014, government debt amounted to 132.9% of nominal GDP (average in the EU: 93.5%). The measures to reduce the debt burden envisaged tough reforms, which were associated with far-reaching cuts for the population. Since 2015, the economy has largely stabilised. Between 2019 and 2023, GDP rose by an average of +1.9% year on year. Portugal was hit hard by the COVID-19 pandemic and suffered a decline in GDP of -8.3% year on year in 2020. Since 2013, unemployment has been steadily falling and amounted to 6.6% in 2023.



Source: Bloomberg, NORD/LB Floor Research

### Outstanding volumes on the Portuguese sub-sovereign market

The Portuguese sub-sovereign market amounts to approximately EUR 5.2bn in outstanding maturities overall. The volumes are split between GOVMAD (EUR 2.9bn; 12 bonds) and AZORES (EUR 2.3bn; 11 bonds). We have been unable to find any evidence of foreign currency diversification; accordingly, the FX segment plays no part in the composition of the liabilities. A total of around EUR 935m (32% of the outstanding volume) attributable to Madeira will not mature until after 2034, while the equivalent value for the Azores is EUR 435m (18.8%). The two largest bonds were both issued by GOVMAD (EUR 458m and EUR 455m), while the smallest bonds are worth EUR 9.4m and EUR 16m (both AZORES). Madeira was the last region to venture onto the primary market in May 2024, when it raised a total of EUR 175m with a term of 14 years. As at 28 May 2024, the spread on this bond came in at ms +75bp with a corresponding yield of around 3.6%. The rating (Baa+ / Ba1 / -) is largely responsible for this, which at least provides an initial indication of the spread for the segment under consideration here.

### Fixed coupons dominate issuance activities of Portugal's holiday islands

Fixed coupons account for by far the largest share of the outstanding bonds issued by the autonomous regions of Portugal. Of the bonds we have analysed (23), a total of 19 bonds featured a fixed coupon, while four are classified as "floating".

### Autonomous regions yet to issue benchmarks

Given the lack of benchmark bonds, we have opted not to carry out any detailed analysis of spreads or a comparison with peers such as the [German Laender](#), [Belgian](#) and [Spanish regions](#) or [Canadian provinces](#). Moreover, the bonds are not listed in the iBoxx universe either, as this contains deals starting with outstanding bond volumes of EUR 1bn per ISIN. Nevertheless, GOVMAD and AZORES do offer a pick-up for investors, especially due to their ratings and their limited liquidity. In addition, both issuers are likely to be open to private placements and certain expectations in terms of yield on the part of institutional investors.

**Liability mechanism**

The Portuguese government does not provide an explicit guarantee for the autonomous regions. However, in the event that Madeira or the Azores were to encounter payment difficulties, Moody's, for example, believes that it is highly likely that government support would be forthcoming (implicit guarantee). Although official support for Madeira from the national government ended in December 2015 upon completion of a cost-cutting plan for the region, financing is still exposed to the Portuguese treasury. The national government approves Madeira's new borrowing and has guaranteed the region's bond issues since 2017. The Portuguese government's guarantee associated with a 0% risk weight and a Level 1 classification under the LCR only applies to these bonds. Four of the currently outstanding bonds were issued prior to this date (exclusively floaters); however, a certain degree of caution would be advisable here when selecting investment opportunities.

**ECB purchase programmes**

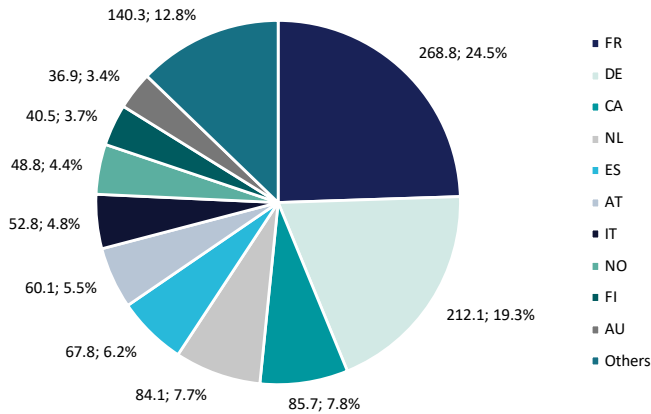
With regard to the Eurosystem's purchasing activities under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), it is striking that – regardless of the fact that there are no benchmark bonds – bonds issued by both AZORES and GOVMAD have been purchased. Under its purchase programmes, the Eurosystem has, over time, acquired nine ISINs from AZORES and four from GOVMAD for its portfolio through purchases carried out by the Portuguese central bank.

**Conclusion**

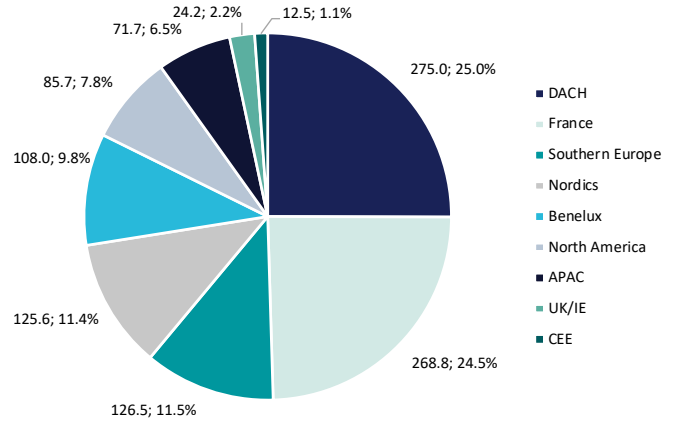
Even after the period of favourable financing conditions on the part of the ECB has come to an end, we are seeing increasing interest in investment opportunities in the niche markets which we refer to as "Beyond Bundeslaender". Our study on mainland Portugal (politics and economy) and its autonomous regions (issuers) must also be interpreted in this light. The traditional SSA portfolio is being supplemented in terms of maturity and/or yield and is becoming increasingly diversified. The resilience of the Portuguese economy, which was built up in the wake of the sovereign debt crisis in 2014, reached a high point in 2023, when total revenues exceeded expenditure for the first time since 2013. The reduction in national debt is also testament to the country's economic and fiscal policy efforts. The autonomous regions of Madeira and the Azores, whose budgets have developed solidly, are also benefiting from this. The debt levels of both regions are well below 100% of nominal GDP, with the Azores' debt level of just under 60% of GDP standing out particularly positively. In our view, tourism, which is being promoted in equal measure with the modernisation of infrastructure, harbours additional growth potential in particular. The rating experts at Fitch and Moody's also rate both regions very positively. For example, in comparison with their Spanish peers, the ratings are converging again, which serves to underline once again the positive development of the Portuguese autonomous regions even during the phase of high inflation. Nevertheless, the difference between explicit and implicit guarantees for the regions and/or individual bonds is key for investors. As a point of criticism, we believe that the autonomous regions could improve the quality of their investor relations presentations, particularly with regard to keeping information up to date.

# Charts & Figures Covered Bonds

EUR benchmark volume by country (in EURbn)



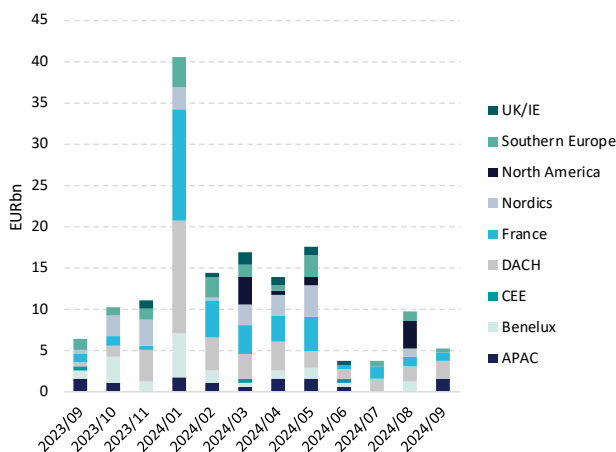
EUR benchmark volume by region (in EURbn)



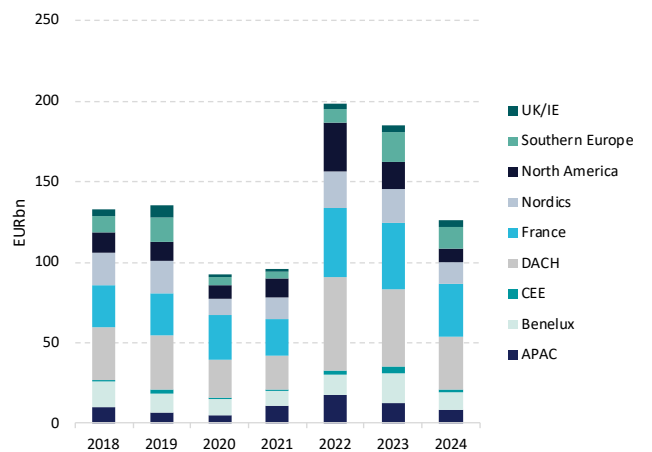
Top-10 jurisdictions

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	268.8	259	26	0.98	9.3	4.7	1.46
2	DE	212.1	299	43	0.65	7.8	3.9	1.48
3	CA	85.7	63	1	1.34	5.5	2.5	1.38
4	NL	84.1	85	3	0.93	10.4	5.9	1.37
5	ES	67.8	53	5	1.16	11.2	3.2	2.16
6	AT	60.1	101	5	0.59	8.1	4.2	1.54
7	IT	52.8	68	5	0.76	8.4	3.8	1.95
8	NO	48.8	59	12	0.83	7.3	3.4	1.06
9	FI	40.5	46	4	0.87	6.9	3.4	1.72
10	AU	36.9	34	0	1.09	7.1	3.3	1.85

EUR benchmark issue volume by month

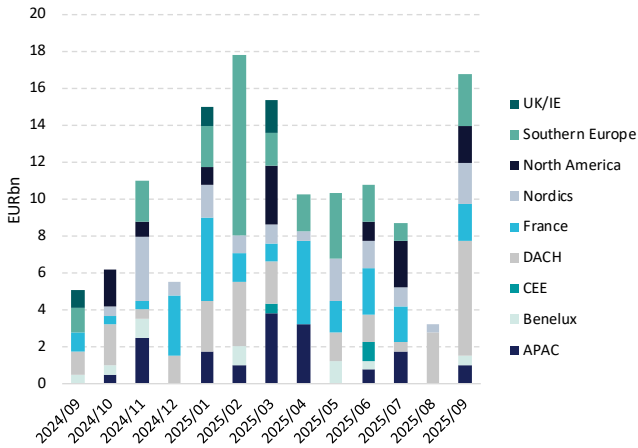


EUR benchmark issue volume by year

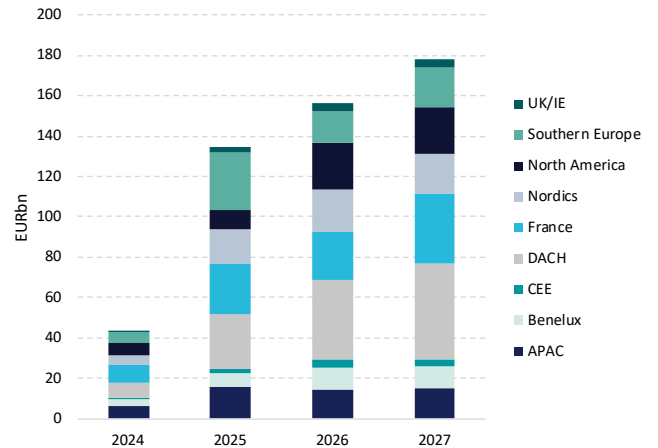


Source: Market data, Bloomberg, NORD/LB Floor Research

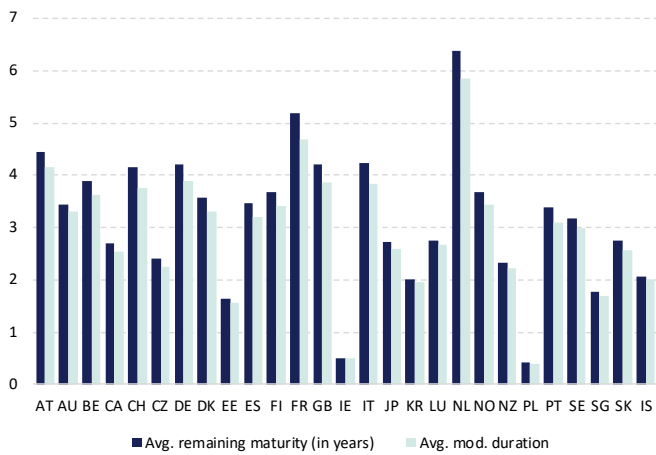
**EUR benchmark maturities by month**



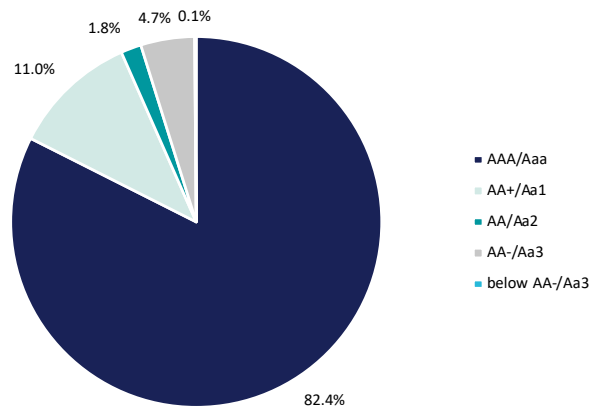
**EUR benchmark maturities by year**



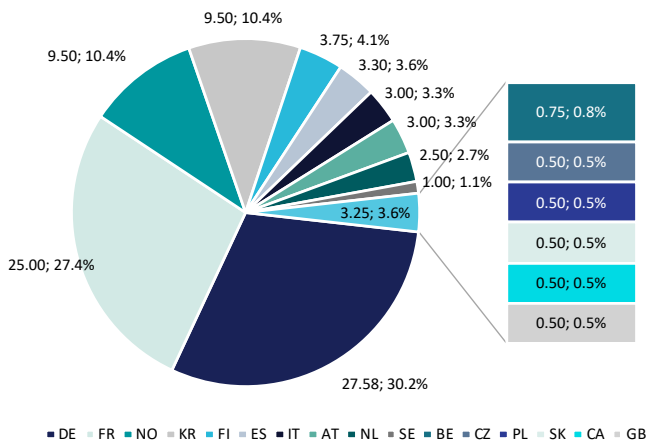
**Modified duration and time to maturity by country**



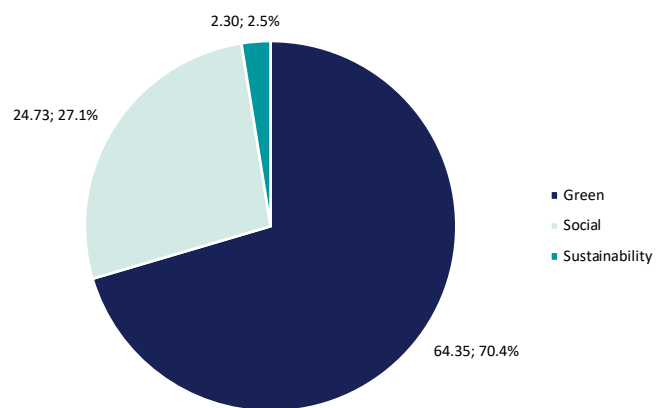
**Rating distribution (volume weighted)**



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

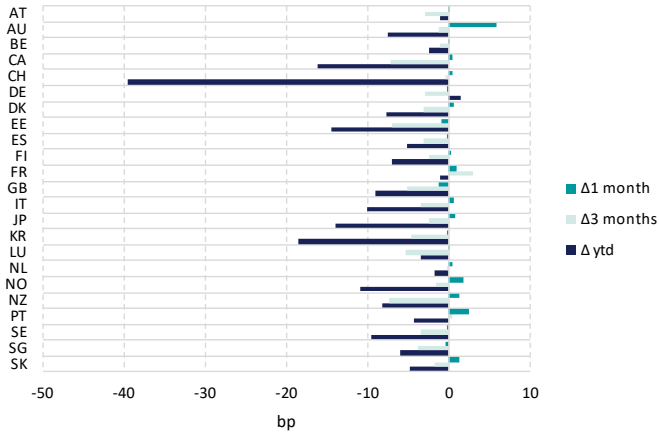


**EUR benchmark volume (ESG) by type (in EURbn)**

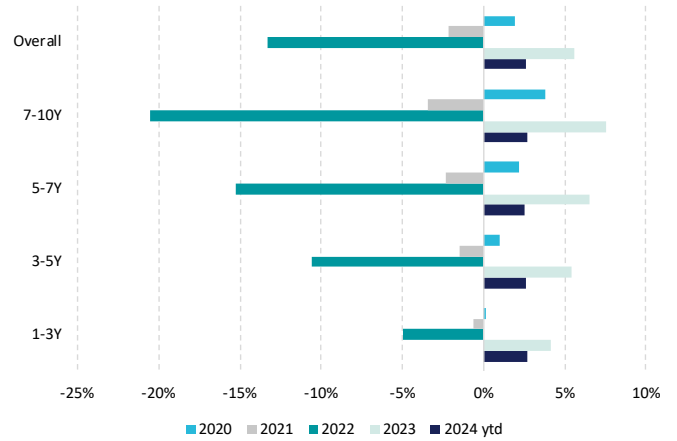


Source: Market data, Bloomberg, NORD/LB Floor Research

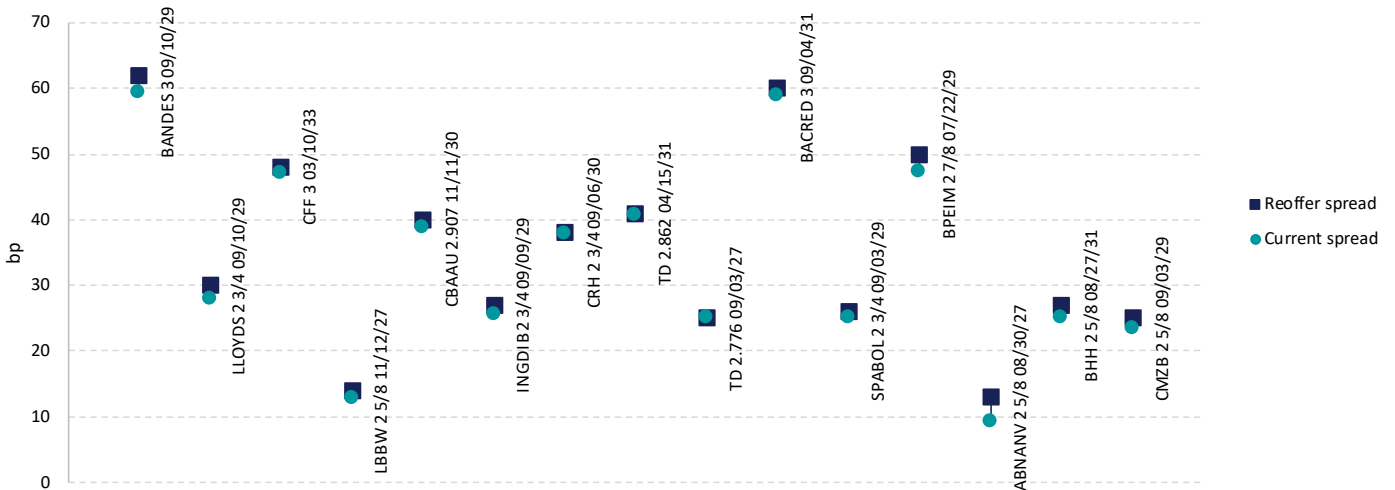
**EUR benchmark emission pattern**



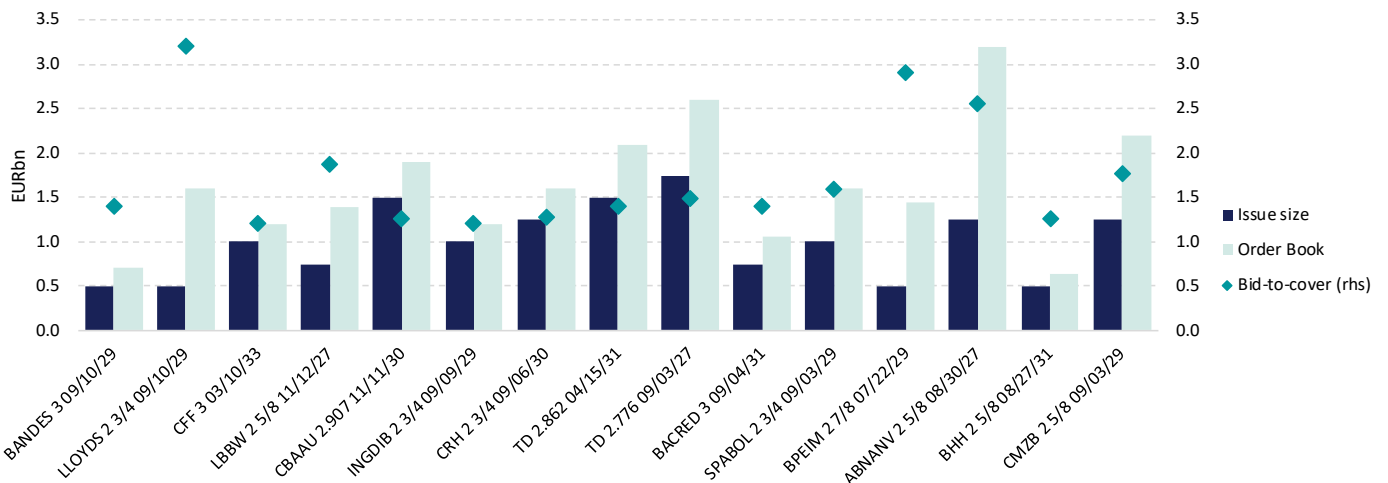
**Covered bond performance (Total return)**



**Spread development (last 15 issues)**



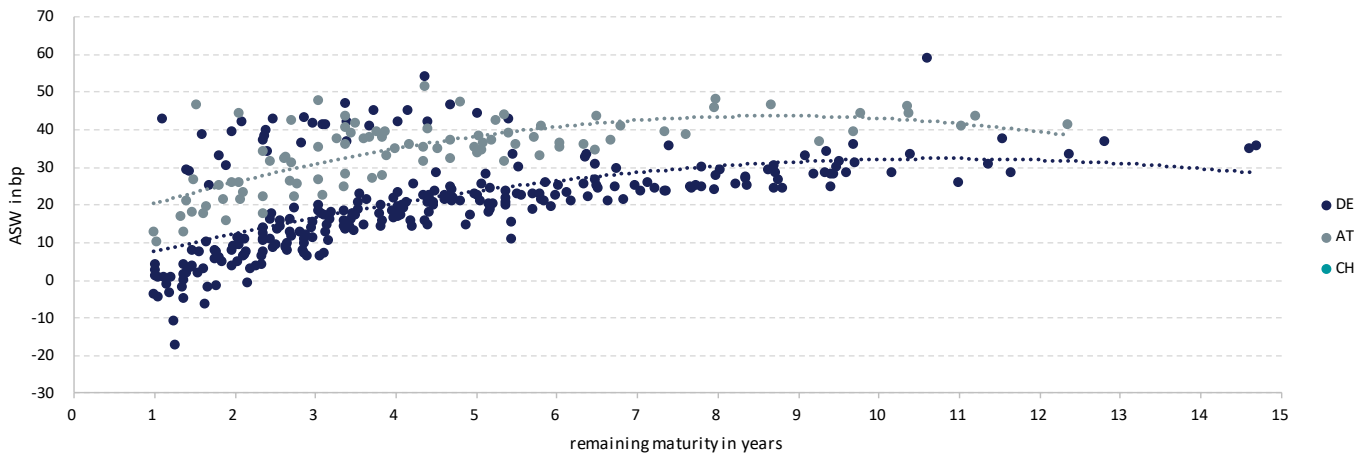
**Order books (last 15 issues)**



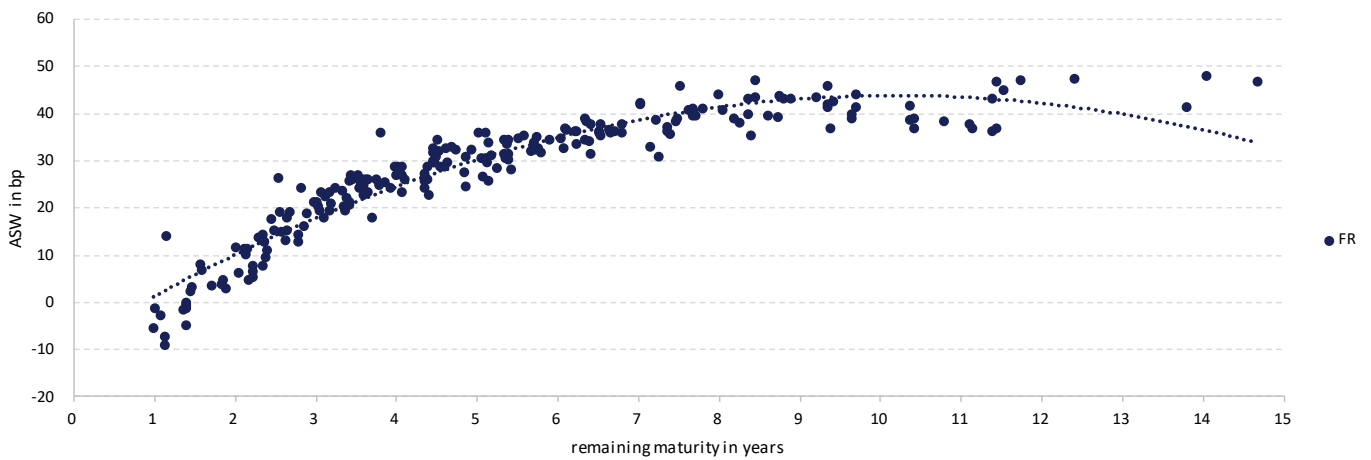


**Spread overview<sup>1</sup>**

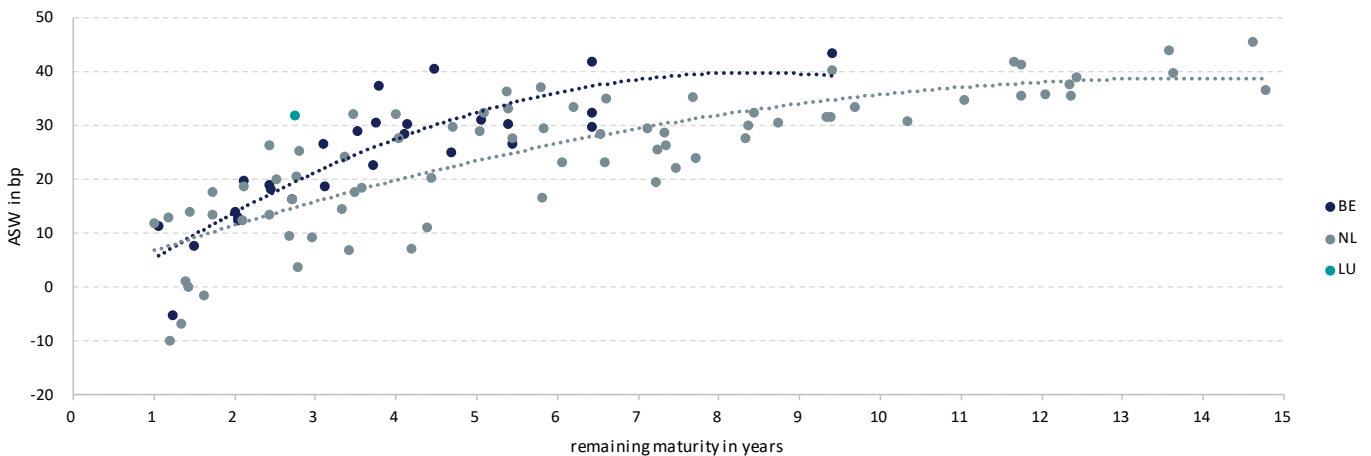
**DACH** 



**France** 

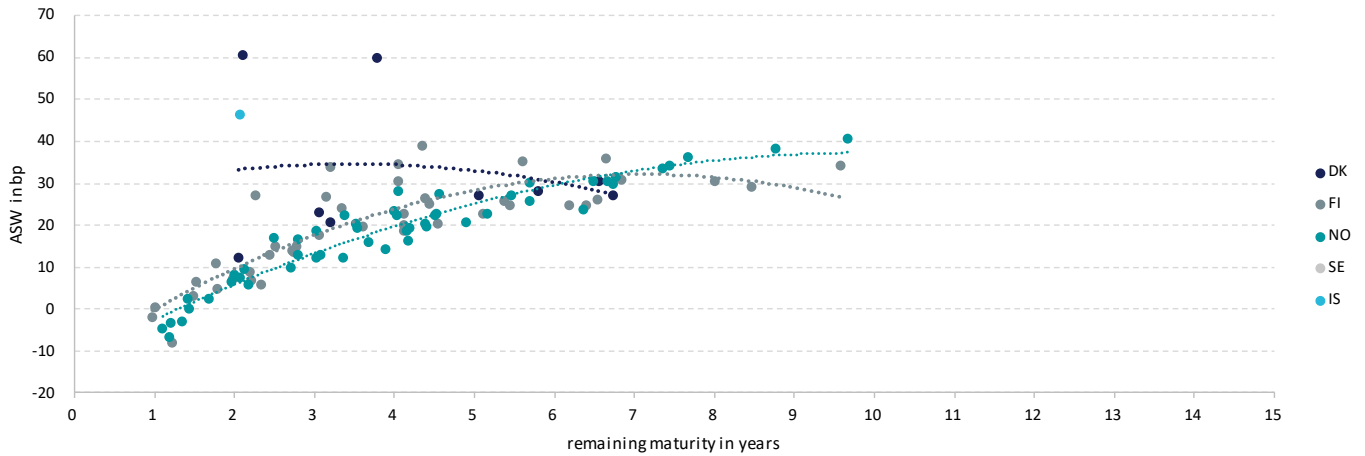


**Benelux** 

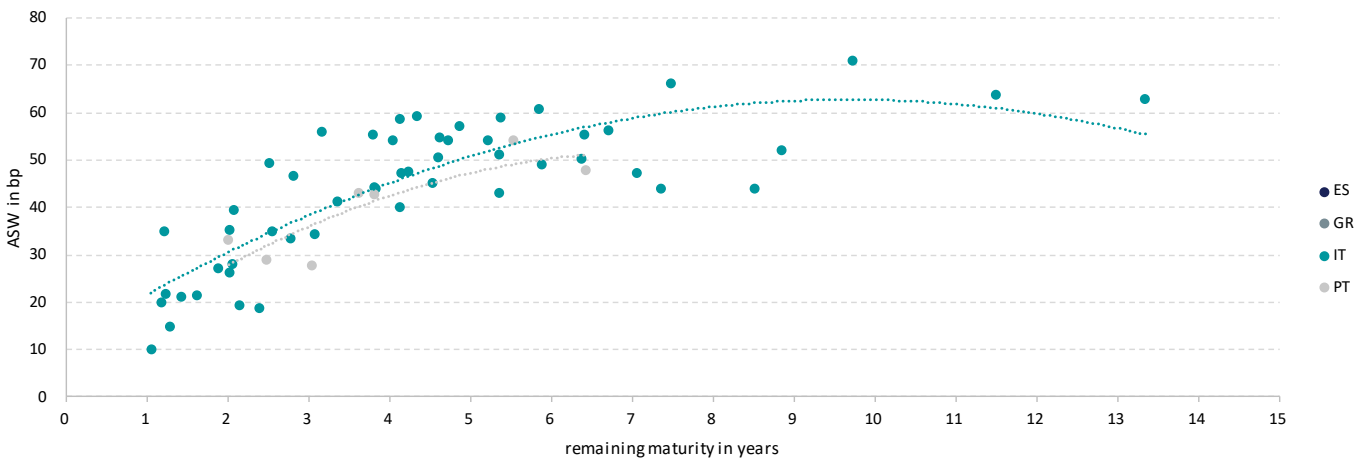


Source: Market data, Bloomberg, NORD/LB Floor Research <sup>1</sup>Time to maturity 1 ≤ y ≤ 15

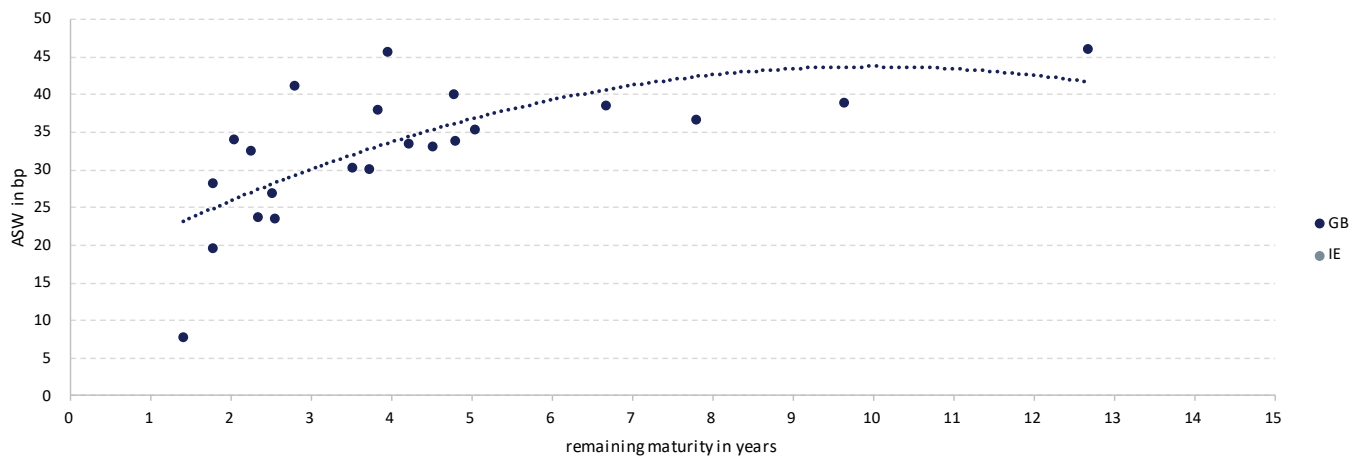
**Nordics** 🇩🇰 🇫🇮 🇳🇴 🇸🇪 🇮🇸



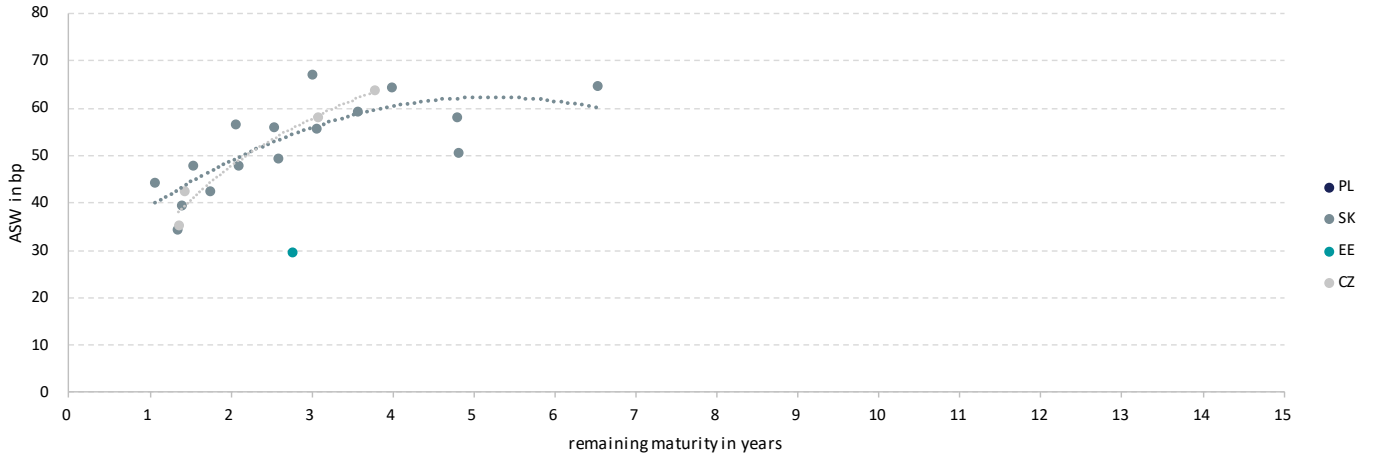
**Southern Europe** 🇪🇸 🇬🇷 🇮🇹 🇵🇹



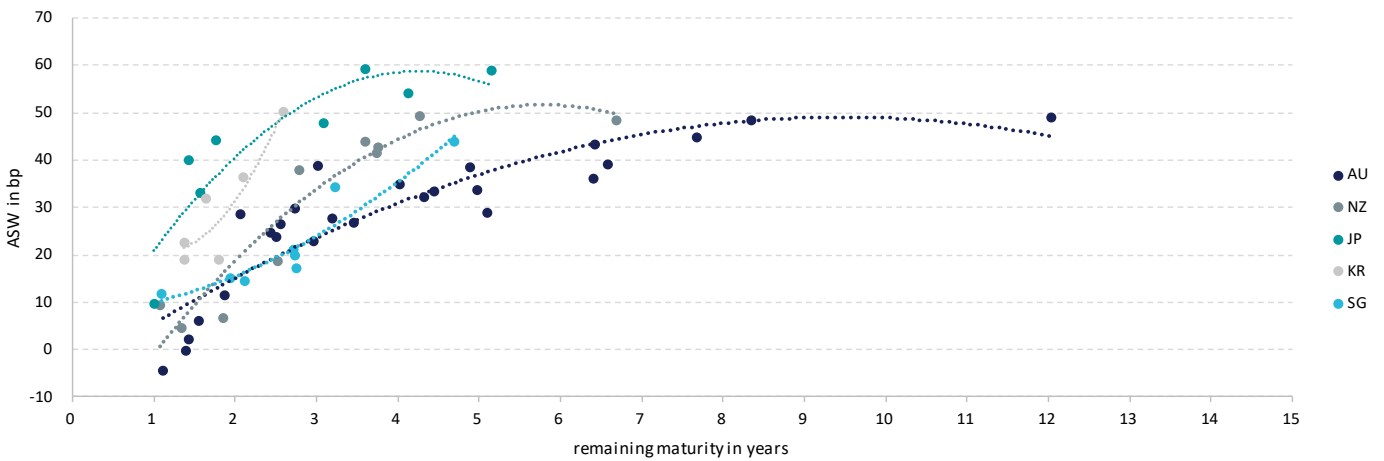
**UK/IE** 🇬🇧 🇮🇪



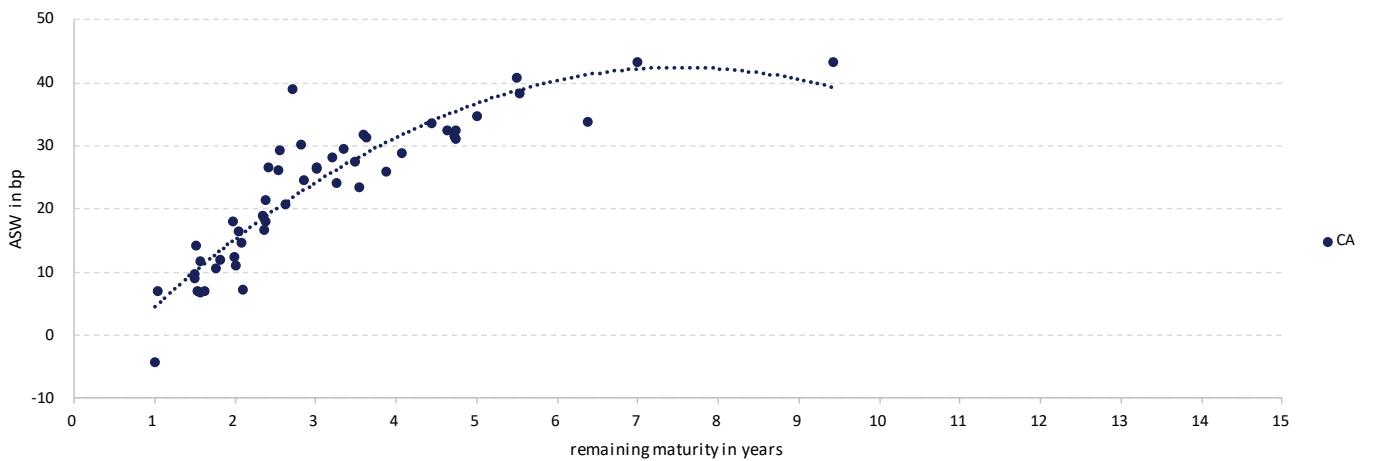
**CEE** 



**APAC** 



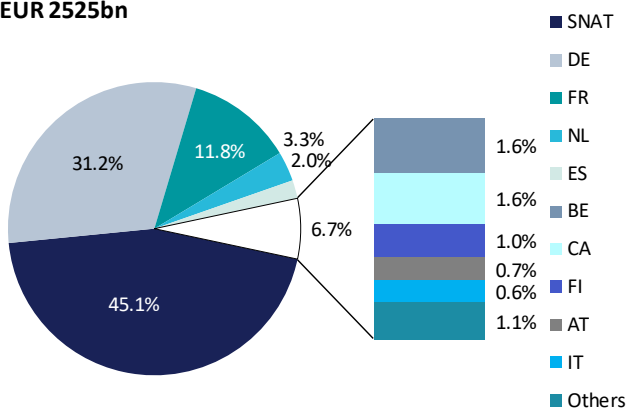
**North America** 



# Charts & Figures SSA/Public Issuers

## Outstanding volume (bmk)

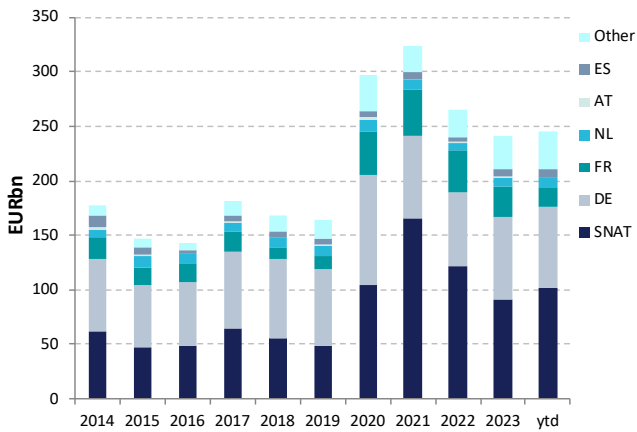
EUR 2525bn



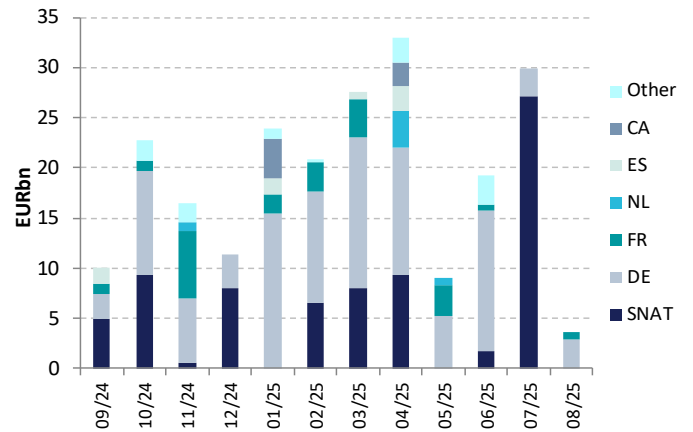
## Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,139.2	243	4.7	7.9
DE	787.4	589	1.3	6.2
FR	296.9	198	1.5	5.7
NL	82.8	68	1.2	6.5
ES	51.0	71	0.7	4.8
BE	41.6	45	0.9	10.6
CA	39.5	28	1.4	5.2
FI	25.2	26	1.0	4.4
AT	17.8	22	0.8	3.8
IT	15.6	20	0.8	4.5

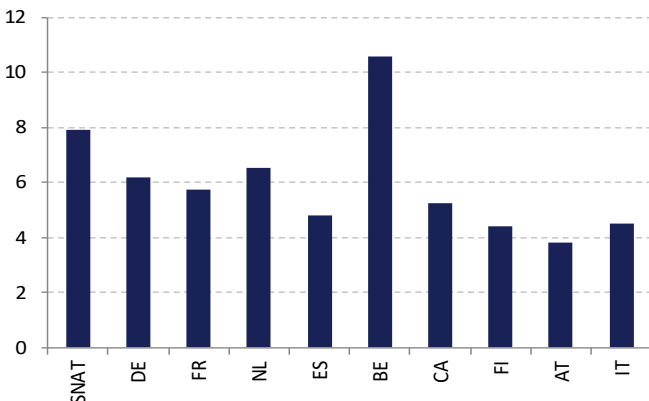
## Issue volume by year (bmk)



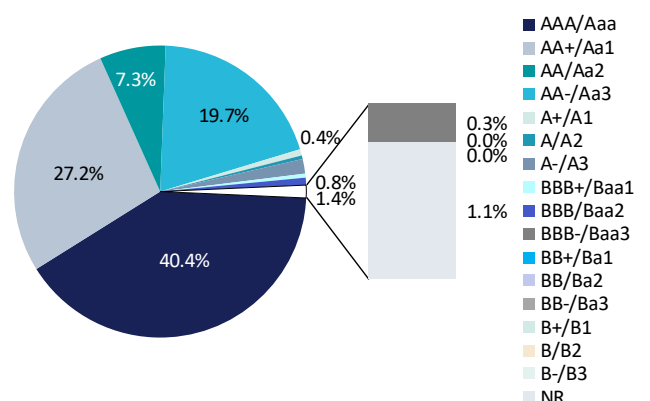
## Maturities next 12 months (bmk)



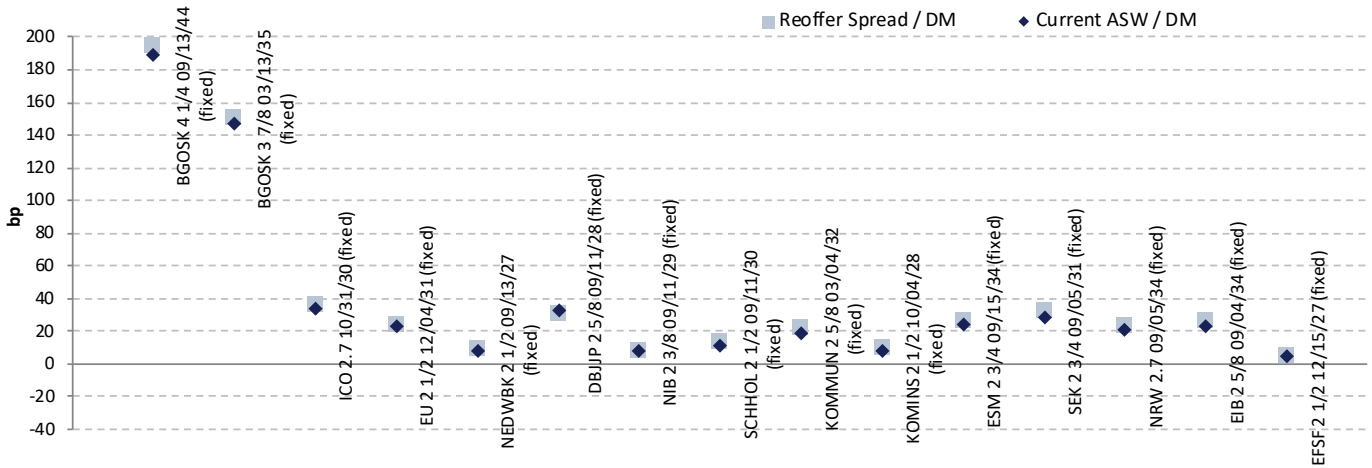
## Avg. mod. duration by country (vol. weighted)



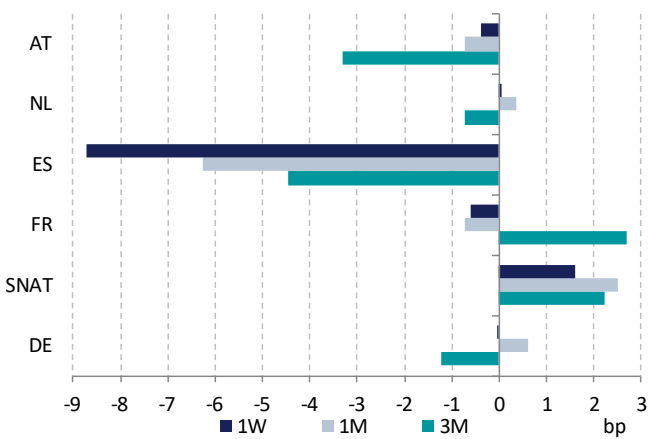
## Rating distribution (vol. weighted)



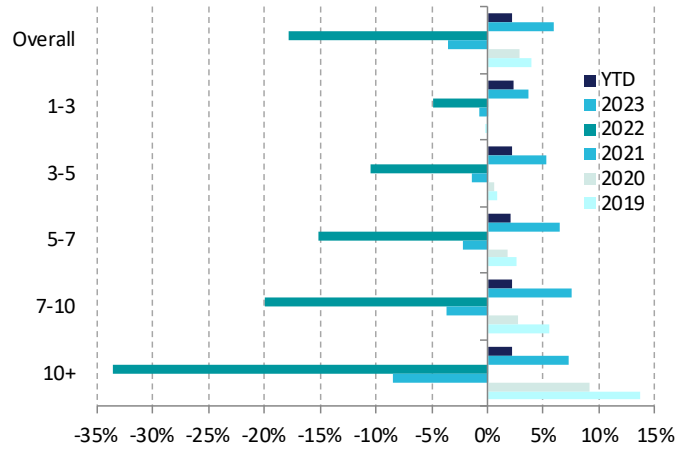
### Spread development (last 15 issues)



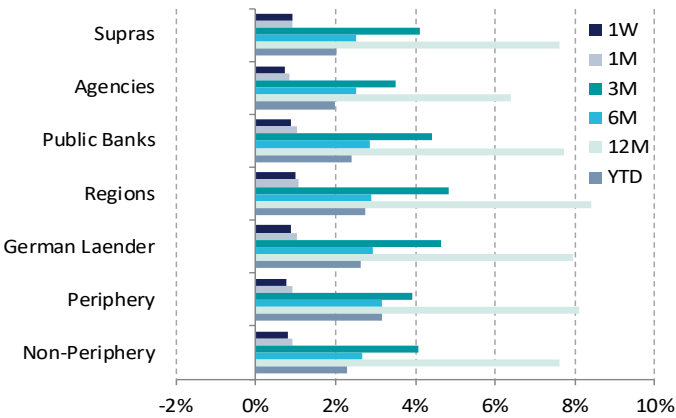
### Spread development by country



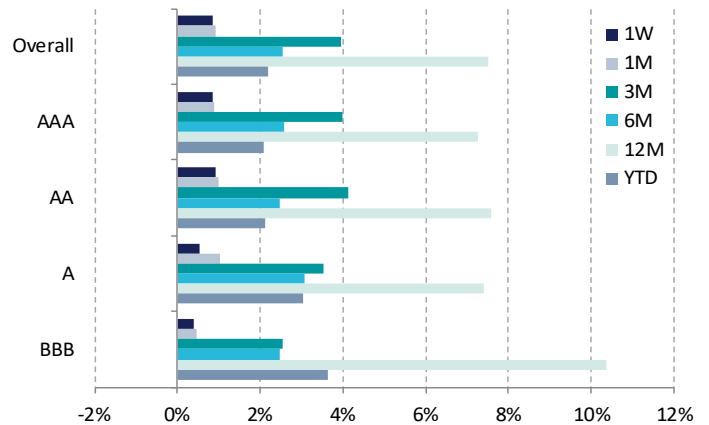
### Performance (total return)



### Performance (total return) by segments

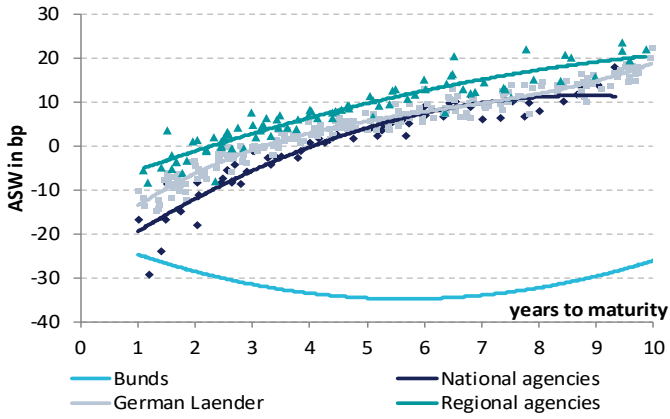


### Performance (total return) by rating

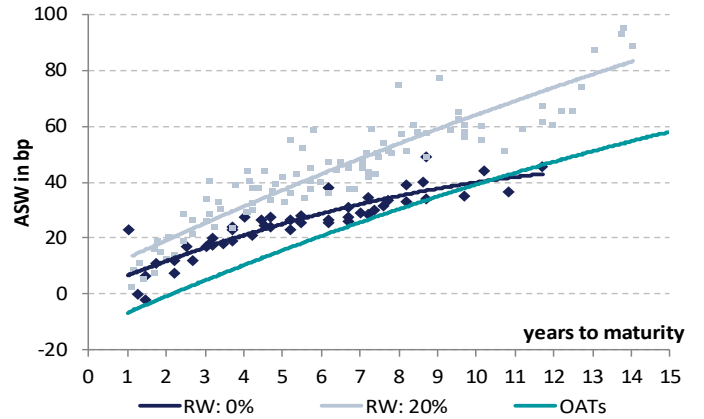


Source: Bloomberg, NORD/LB Floor Research

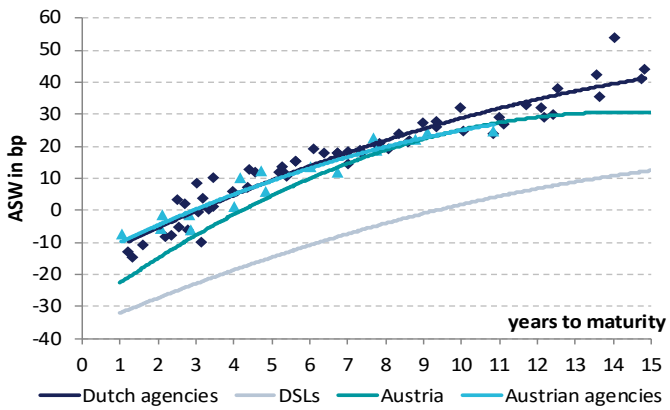
**Germany (by segments)**



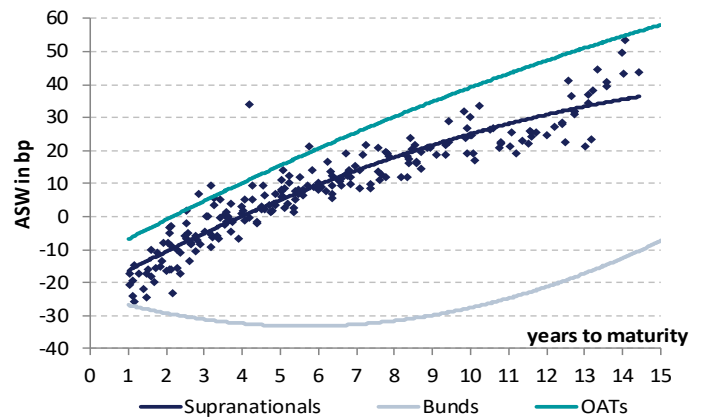
**France (by risk weight)**



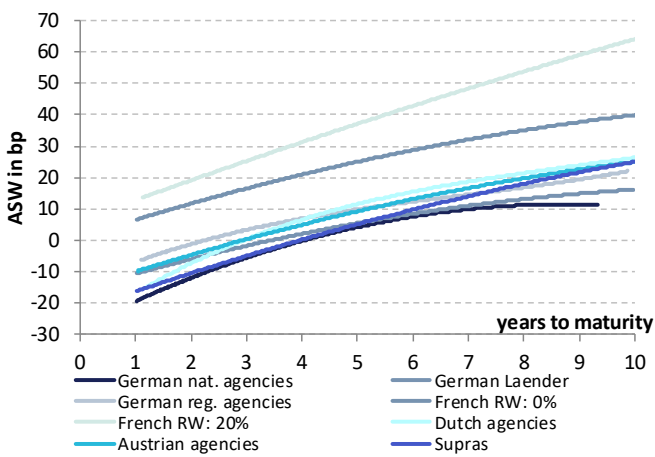
**Netherlands & Austria**



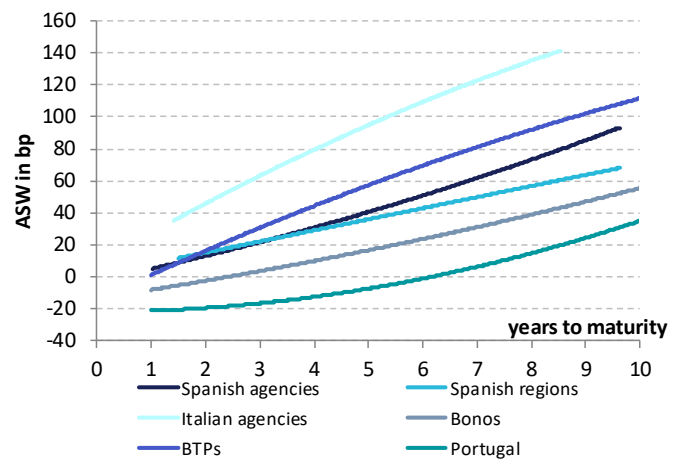
**Supranationals**



**Core**



**Periphery**



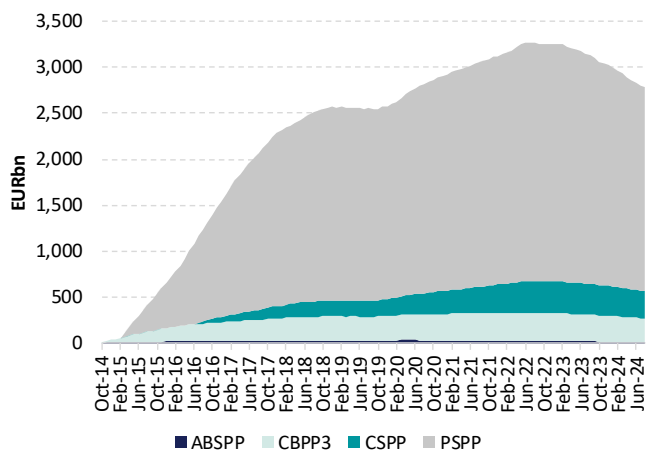
Source: Bloomberg, NORD/LB Floor Research

## ECB tracker

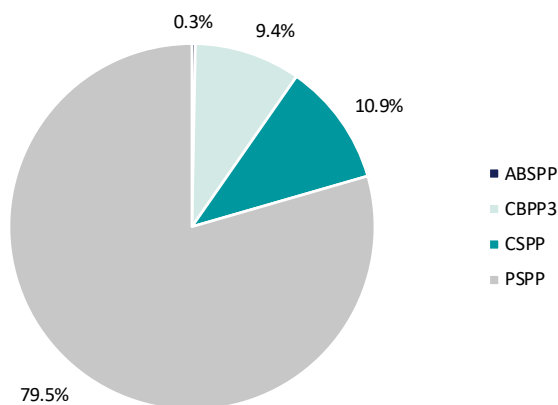
### Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Jul-24	8,641	262,403	303,010	2,227,758	2,801,812
Aug-24	8,398	261,861	302,758	2,217,196	2,790,213
Δ	-243	-541	-252	-10,562	-11,598

### Portfolio development

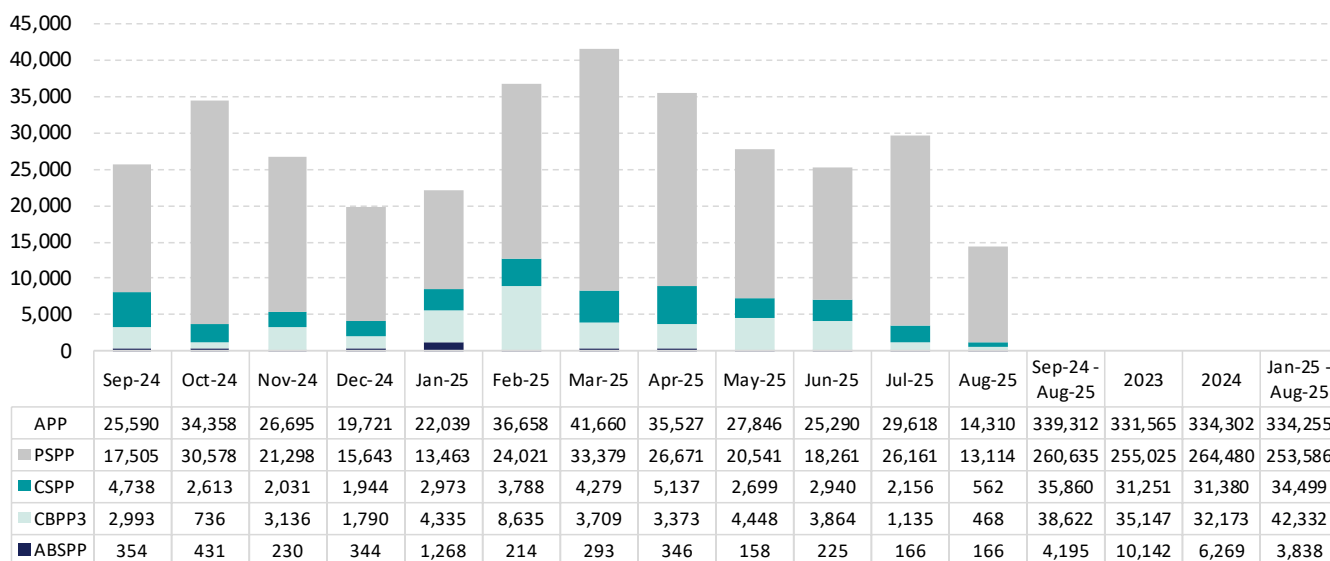


### Portfolio structure



Source: ECB, NORD/LB Floor Research

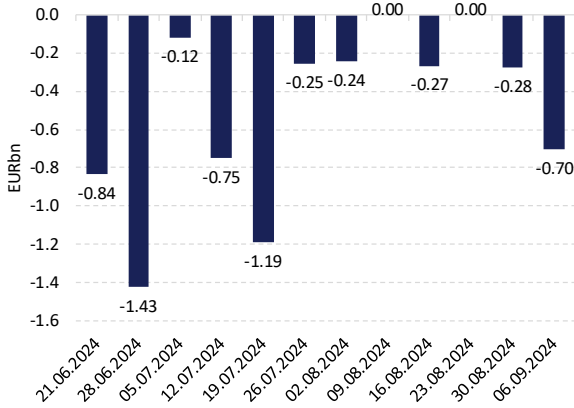
### Expected monthly redemptions (in EURm)



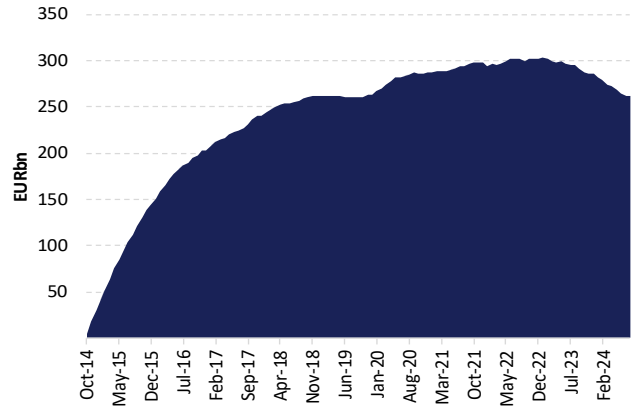
Source: ECB, Bloomberg, NORD/LB Floor Research

### Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

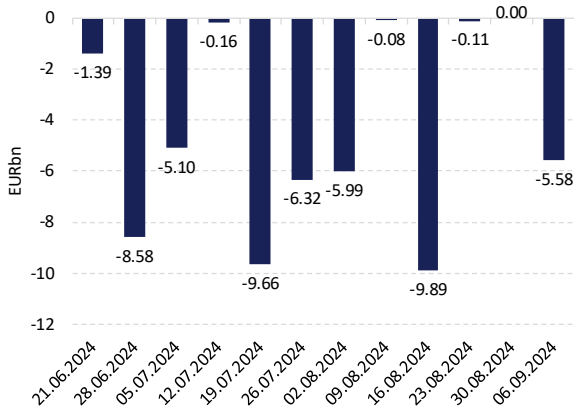


Development of CBPP3 volume

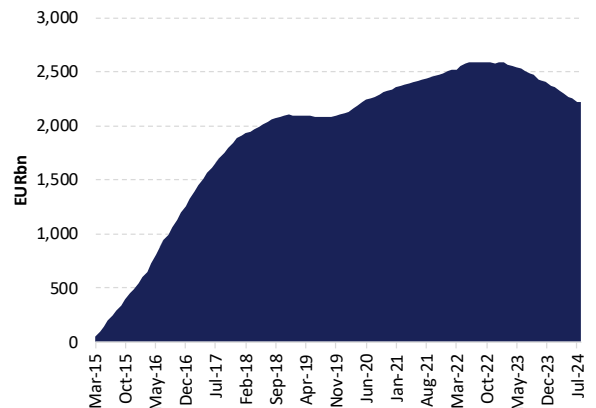


### Public Sector Purchase Programme (PSPP)

Weekly purchases



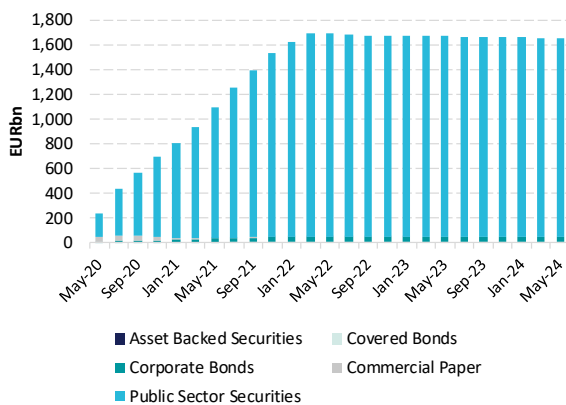
Development of PSPP volume



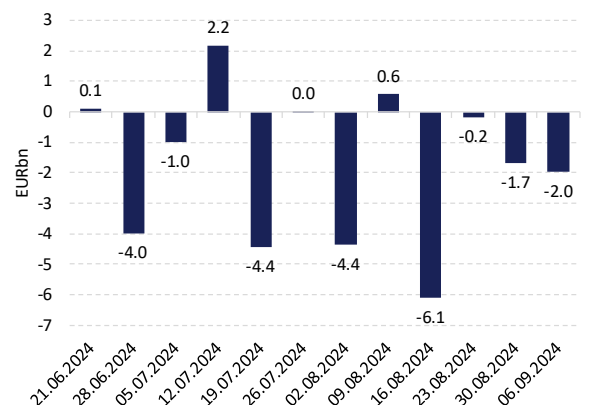
Source: ECB, Bloomberg, NORD/LB Floor Research

### 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="#">27/2024 ♦ 04 September</a>	<ul style="list-style-type: none"> <li>▪ New Pfandbrief issuer: Lloyds Bank GmbH</li> <li>▪ Agencies and resolution instruments of the BRRD</li> </ul>		
<a href="#">26/2024 ♦ 21 August</a>	<ul style="list-style-type: none"> <li>▪ Central bank eligibility of covered bonds</li> <li>▪ Teaser: Issuer Guide – German Agencies 2024</li> </ul>		
<a href="#">25/2024 ♦ 14 August</a>	<ul style="list-style-type: none"> <li>▪ Development of the German property market (vdp index)</li> <li>▪ Classification of Supranationals and Agencies under Solvency II</li> </ul>		
<a href="#">24/2024 ♦ 07 August</a>	<ul style="list-style-type: none"> <li>▪ Transparency requirements §28 PfandBG Q2/2024</li> <li>▪ Teaser: Issuer Guide – Spanish Agencies 2024</li> </ul>		
<a href="#">23/2024 ♦ 10 July</a>	<ul style="list-style-type: none"> <li>▪ Repayment structures on the covered bond market: An update</li> <li>▪ SSA review: EUR-ESG benchmarks in H1/2024</li> </ul>		
<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>		
<b>NORD/LB:</b> <a href="#">Floor Research</a>	<b>NORD/LB:</b> <a href="#">Covered Bond Research</a>	<b>NORD/LB:</b> <a href="#">SSA/Public Issuers Research</a>	<b>Bloomberg:</b> <a href="#">RESP NRDR &lt;GO&gt;</a>

## Appendix

### Publication overview

#### Covered Bonds:

[Issuer Guide – Covered Bonds 2023](#)

[Covered Bond Laws](#)

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

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

[Transparency requirements §28 PfandBG Q2/2024](#) (quarterly update)

[Transparency requirements §28 PfandBG Q2/2024 Sparkassen](#) (quarterly update)

#### SSA/Public Issuers:

[Issuer Guide – German Laender 2024](#)

[Issuer Guide – German Agencies 2024](#)

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

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

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## Appendix

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#### Origination & Syndicate

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

#### Treasury

Liquidity Management/Repos	+49 511 9818-9620 +49 511 9818-9650
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#### Trading

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