
# Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

# Agenda




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# Market overview
# Covered Bonds

Authors: Dr Frederik Kunze // Henning Walten, CIIA

**Primary market: issuer activity from Norway, Austria, Italy and France**

Over the past five trading days, four issuers from four different jurisdictions were active in the EUR benchmark segment. From Norway, SR-Boligkreditt was first to approach its investors. It successfully placed a benchmark bond at ms +5bp (reoffer yield: +0.048%), which was therefore four basis points below the initial guidance (ms +9bp area) and within its own curve. The issue volume of the ten-year covered bond was EUR 1.0bn, making this the biggest EUR benchmark placement by SR-Boligkreditt to date (order book: EUR 1.5bn). With regard to geographic breakdown, buyers predominantly came from Austria & Germany (57%), followed by investors from the Nordics (12%), France (7%) and the UK & Ireland (7%). Looking at the type of investor, the greatest allocation was to banks (43%), with second and third place featuring almost equal shares for asset managers (28%) and central banks/OI (27%) respectively. As we had mentioned might happen last week, the inaugural environmental, social and governance (ESG) bond from an Austrian issuer in the EUR benchmark segment was also placed in the last calendar week. Hypo Tirol Bank placed a bond with a soft bullet structure (EUR 500m; WNG; 10y), which entered the marketing phase in the region of ms +9bp and was ultimately issued five basis points narrower at ms +4bp (issue yield: +0.045%). In geographic terms, investors from Austria & Germany accounted for the biggest share of 77%. By type of investor, banks made up 54%, followed by asset managers (28%) and central banks/OI (18%). Having been announced by Credit Agricole Italia in the previous week, we saw the placement of a first ESG covered bond from Italy at the beginning of this week (cf. paragraph below). The green format deal started the marketing phase in the region of ms +10bp and was ultimately fixed one basis point narrower – in the single digits – at ms +9bp (reoffer yield: +0.238%). The covered bond of more than EUR 500m with a term of 12 years was able to draw in an order book of EUR 750m. Also on Monday, BPCE from France sought investors for its dual tranche (EUR 500m; 10y & EUR 750m; 20y). The soft bullet bond was placed on the market at ms flat (10y) and ms +4bp (20y), narrowing by four basis points (10y: IPT ms +4bp area) and three basis points (20y: IPT ms +7bp area) against the start of the marketing phase respectively. In both cases, the yield was above zero (10y: +0.034%; 20y: +0.433%). Looking at investor breakdown, comparatively high allocations were registered in the category of central banks/OI (10y: 43%; 20y: 34%), which, in addition to assuming a notable participation by the Eurosystem given the geographic breakdown of the deals, also suggests a significant investment from other central banks and public institutions in Europe and Asia.

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| BPCE SFH | FR | 08.03. | FR0014002FB7 | 10.0y | 0.50bn | ms flat | - / Aaa / AAA | - |
| BPCE SFH | FR | 08.03. | FR0014002FC5 | 20.0y | 0.75bn | ms +4bp | - / Aaa / AAA | - |
| Credit Agricole Italia | IT | 08.03. | IT0005437733 | 12.0y | 0.50bn | ms +9bp | - / Aa3 / - | X |
| Hypo Tirol Bank | AT | 04.03. | AT0000A2QDQ2 | 10.0y | 0.50bn | ms +4bp | - / Aa1 / - | X |
| SR-Boligkreditt | NO | 03.03. | XS2312584779 | 10.0y | 1.00bn | ms +5bp | - / Aaa / - | - |

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

**Oldenburgische Landesbank debuts in EUR sub-benchmark segment**

With Oldenburgische Landesbank, a new player was welcomed to the EUR sub-benchmark segment this week (Bloomberg ticker: LBOLD). The mortgage Pfandbrief (10y; Moody's rating: Aa1) launched into the marketing phase in the region of ms +8bp and was ultimately priced at ms +6bp. Based on the guidance (volume: EUR 250-350m), the biggest possible volume of EUR 350m was placed in the end.

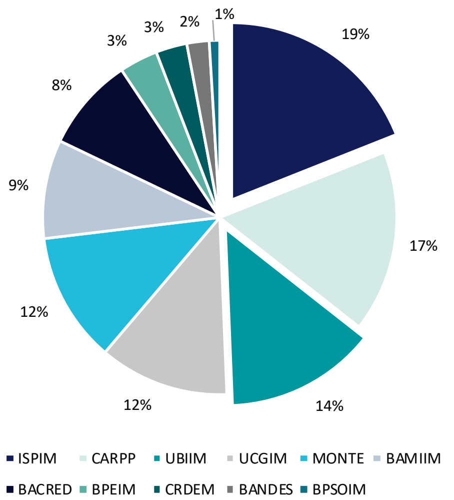
**Italy: Credit Agricole Italia issues inaugural ESG bond**

Credit Agricole Italia (Bloomberg ticker: CARPP) has become the first Italian bank to turn to the ESG covered bond segment. Its covered bond under Italian law – obbligazioni bancarie garantite (OBG) – has consequently become the first ESG covered bond out of the country. The green bond was placed in accordance with the Green Bond Framework of Credit Agricole Italia, which is in turn based on the ICMA Green Bond Principles (GBP). In a Second Party Opinion (SPO), Vigeo Eiris confirmed alignment with the GBP. In the investor presentation from December 2020, the issuer had highlighted the Eligible Green Portfolio with a volume of EUR 835m, comprising 6,635 loans, versus the inaugural green covered bond volume of EUR 500m. We expressly welcome this first sustainable OBG bond and not only regard this development as setting the course for Credit Agricole Italia as an issuer, but also interpret the placement as a key signal for the ESG segment, which is increasingly establishing itself across the board as an integral component of the covered bond market. Until now, the green covered bond market has been dominated by benchmarks from France and Germany.

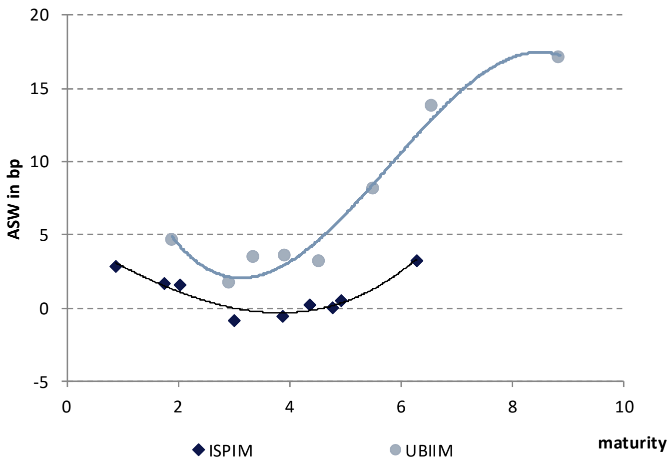
**Italy: bank mergers also have consequences for benchmark segment**

With the merger of the Italian banks Intesa Sanpaolo (Bloomberg ticker: ISPIM; total assets as at 31 December 2020: EUR 1,002bn) and UBI Banca (UBIIM; EUR 131bn), a milestone is being reached with respect to bank consolidation in the country (cf. Intesa Sanpaolo press release following authorisation by the European Central Bank on 3 March 2021). Talks of a takeover by UBI Banca had first commenced back in mid-2020. Based on figures in the annual reports, Intesa Sanpaolo is consequently taking the lead over UniCredit (total assets: EUR 931bn) to become Italy's biggest bank. The merger is likely to be an interim step on the way to further bank consolidation in Italy, and might even be responsible for momentum picking up slightly in this area (cf. paragraph below about Scope report on Italy's banking sector). With Intesa Sanpaolo and UBI Banca, two important covered bond issuers are joining forces. Based on the latest figures available, they together have five covered bond issuance programmes and a covered bond volume of more than EUR 60bn. In relation to the EUR benchmark segment, the two issuers are ranked first (Intesa Sanpaolo: current outstanding volume of EUR 10bn; 9 bonds) and third (UBI Banca: EUR 7.25bn; 8 bonds) and would therefore make up just under 33% of the Italian benchmark segment (EUR 53bn; 61 bonds). In relation to spread movement, we would certainly expect there to be alignment to ASW spreads for the outstanding bonds of both banks over time. In the projection, new issue activity will continue to be defined by the general conditions on the covered bond market, which have also led us to suppose less pronounced momentum for Italy. Alongside basic funding requirements, the available alternatives to covered bonds should also be key – especially TLTRO III and regulatory senior non-preferred issuances.

**EUR benchmark segment: Italy (total: EUR 53bn)**




**Spread landscape ISPIM and UBIIM**




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

**Italy: Scope identifies bank stability in 2020, but challenges remain**

In the context of their latest sector report, the risk experts at Scope also focused on Italy's banking sector. The study authors conclude that banks in Italy are characterised by notable stability in the wake of upheavals related to the coronavirus pandemic. With regard to the risk assessments of loan portfolios, both the fiscal and the statutory/regulatory supports must be included in any assessment. Accordingly, the Scope analysts identify challenges for the banking sector in the third biggest economy in the single currency area, particularly in connection with the expiring moratoriums. Looking to the long term, the study rather concentrates on the need for banks to improve their earning situations. A further key focus of the Scope analysts is on bank consolidation in Italy, with reference made to the comparatively fragmented banking market that consists of 485 banks (as at the end of 2019). In this context, the aforementioned merger of Intesa Sanpaolo and UBI Banca is covered, as consolidations are being greatly driven by synergies in the current climate (including in earnings and cost, but also in the area of bank digitisation). What's more, Scope refers to the EBA (cf. ECB Guide on Supervisory Approach to Consolidation in January 2021) and the Budget Law 2021 in highlighting the regulatory and fiscal appeals for consolidation in the banking sector. With regard to 2021, Scope picks up the current debate and reporting situation with regard to mergers and takeovers, specifically mentioning Monte dei Paschi di Siena (MPS), which is headed for privatisation, alongside UniCredit, BPER and Banco BPM.

**UK budget 2021: Moody's commends measures that focus on property market**

In his presentation of the budget for the United Kingdom (UK Budget 2021) the Chancellor of the Exchequer, Rishi Sunak, also discussed measures implemented by his government relating to the domestic property market. Thus, the Stamp Duty Land Tax (SDLT) holiday for properties worth up to GBP 500,000 was extended for a further three months and will now apply until 30 June 2021, after which there will be tapered relief for another three months. From 1 October 2021, the threshold will revert to GBP 125,000. As another support measure for the property segment, Sunak announced a new mortgage guarantee scheme to help buyers with a 5% deposit get on the property ladder. The mortgage guarantee scheme will be valid for up to seven years after the mortgage is originated and is capped at GBP 3.9bn in total. Risk experts at Moody's see the extension of the tax relief as a boost for the property market, which should ultimately also benefit covered bonds in the UK. With regard to the mortgage scheme, support for bank earnings is highlighted as is the relatively low significance of correspondingly high LTVs for liabilities in the cover pools of issuers. In fact, the announcement does increase the dependency of the UK property market on government support measures.

**Pillar 3-disclosures on ESG risks: EBA publishes consultation paper on technical implementation standards**

On 1 March 2021, the EBA launched a public consultation process regarding technical implementation standards for Pillar 3 disclosures of environmental, social and governance (ESG) risks. The comment period for this consultation ends on 1 June 2021. Information reported by banks should show how climate change may exacerbate other risks within their balance sheets and what mitigating actions they have in place to address those risks, including financing activities that reduce carbon emissions. In the context of achieving the Paris agreement goals, the draft proposes disclosure of a green asset ratio based on the EU taxonomy of green activities. The EBA proposal is certainly not without consequence for covered bonds. For example, a higher green asset ratio might be linked to lower ESG risks in the cover pools. However, the risk experts at Moody's consider this to be a rather more longer-term phenomenon. According to our understanding, it is worth noting in this context that the share of property financing and financed properties which are in harmony with EU taxonomy as it currently stands is low across the board in Europe.

# Market overview
# SSA/Public Issuers
Author: Dr Norman Rudschuck, CIIA

**Brief ECB preview**
We recently commented on the upcoming ECB Governing Council meeting and on the possible non-events that may be on the cards here in 2021. After all, we expect neither an adjustment of interest rates nor ultra-loose monetary policy. Nonetheless, Christine Lagarde is likely to above all face questions on yield and inflation trends. Currently, verbal interventions from various Governing Council members are having an impact – though there are no noticeable increases in asset purchases to be seen in the current data, in any case – and are placating market players. If Lagarde were to nonetheless comment on the topic of issuer limit and blocking minority in relation to the PSPP and PEPP purchase programmes, we would still have a very interesting press conference on our hands.

**In 2020, LfA Bayern saw highest demand since it was founded**
For LfA Förderbank Bayern, 2020 was also an exceptional year. Looking back, it has made a significant contribution to strengthening the Bavarian economy during the pandemic. The specialist promotional bank of Bavaria recorded the highest demand for development loans since it was founded in 1951. According to a press release, medium-sized companies, in particular, were supported with loans of around EUR 3.4bn. This corresponds to an increase of around 44% on 2019. For programme-linked development loans, the volume of commitments rose by almost 50% to around EUR 2.7bn. Of these, around 7,400 loans were granted as part of the Bavarian coronavirus funding programmes made possible by the Free State of Bavaria. The committed credit volume in the special programmes LfA-Schnellkredit (LfA quick loans), Corona-Schutzschirm-Kredit (coronavirus protection loans) and Corona-Kredit – Gemeinnützige (coronavirus loans – non-profit) as well as the optimised programmes Universalkredit mit Haftungsfreistellung (universal credit with release from liability) and Akutkredit (acute credit) totalled more than EUR 835m. In addition, 105 guarantees with a total amount of almost EUR 615m were approved. Together with the approximately 4,900 temporary deferrals of repayments of around EUR 75m on existing loans, the LfA has pledged over EUR 1.5bn in coronavirus support for Bavaria as a business location. Luckily, 2020 was not just about dealing with the pandemic for LfA: demand in the LfA's energy efficiency promotion alone rose to over EUR 300m. Despite the pandemic, the volume of commitments in start-up funding increased to around EUR 480m compared with 2019, with the increase towards the end of the year particularly strong. In total, more than 11,000 companies and municipalities and their jobs benefited from the regular funding programmes and the special coronavirus programmes of the LfA. In addition, instruments such as the Startup Shield Bayern, the Equity Shield SME Bayern, the Growth Fund Bayern 2 or the Transformation Fund Bayern were relaunched in 2020. They help companies to also sustainably strengthen their capital base for future investments, which goes beyond the mere replacement of equity that was consumed during the crisis. "We therefore aim for our financial aid as well as funding and consulting offers to not simply help in overcoming acute crises, but also provide targeted support to the Bavarian economy in seizing the opportunities offered by digitisation and sustainable, innovative technologies," said Bavaria's Minister of Economic Affairs and LfA Board Chairman, Hubert Aiwanger.

**Investitions- und Strukturbank Rheinland-Pfalz (ISB)**

A new issuer is coming to the market: Investitions- und Strukturbank Rheinland-Pfalz (ISB) is the promotional bank of the Bundesland of Rhineland-Palatinate for business and housing development with headquarters in Mainz. It is planning to soon place its inaugural bond of EUR 125m (10y). The core mission of ISB is to strengthen Rhineland-Palatinate as a business location. Pursuant to Section 9 of the Landesgesetzes über die Investitions- und Strukturbank Rheinland-Pfalz (federal state law on ISB; ISBLG), the ISB supports the Bundesland in its financing, economic, housing, urban planning, transport, environment and labour market policy in compliance with the European Union's state aid rules. To this end, it can allocate subsidies. In order to fulfil its mandate, it can also establish and acquire other companies or invest in other companies. The ISB is an institution under public law. The Bundesland of Rhineland-Palatinate is the sole owner. The liabilities of ISB are fully backed by the Bundesland as guarantor. In the area of business promotion, it offers various development programmes to companies in Rhineland-Palatinate. These include granting loans at favourable rates and grants. The institution also participates in regional companies via subsidiaries (venture capital business). In its housing promotion activities, the ISB is tasked with implementing the Bundesland's housing construction programmes. For the investment bank from Rhineland-Palatinate, 2020 was an exceptional year: owing to coronavirus-related lockdowns, the ISB was mandated by the German federal government to pay out emergency aid. Moreover, support measures were expanded with the state programme "Zukunftsfonds Starke Wirtschaft Rheinland-Pfalz" (future funds for a strong economy in Rhineland-Palatinate). By February 2021, around EUR 789m had been paid out in pandemic-related grants and support for the past year. As a result of the support programme, the number of approved applications for business development increased 25-fold to over 97,000. Overall, the segment of business development reported growth of almost 200% in the grant volume to EUR 1.04bn, while the bank's balance sheet total grew by more than EUR 1bn to EUR 9.3bn. According to information from the ISB, the support and grant programmes have helped secure 32,000 jobs in the Bundesland of Rhineland-Palatinate as well as creating 1,000 new jobs. In the previous year, development measures helped secure 17,000 jobs and create 950 new positions. The pandemic will continue to define proceedings for the development bank in 2021, too, with further pay-outs of grants from November and December 2020 approved and other support programmes a work in progress. The area of housing promotion also grew during the pandemic year of 2020. The number of supported units increased from 2,560 in 2019 to 2,848 last year. The promotional volume has increased by around a third to EUR 337.7m.

**Spotlight on Wallonia in our Public Issuer View published yesterday**

We see Wallonia as a role model among Belgian issuers. Despite the fact that the region's debt level was high even prior to the onset of the Covid-19 crisis and now looks set to rise further due to the pandemic, it is still manageable overall. We also assess the long deficit history as negative, while the below-average economic output compared with other Belgian regions, combined with the high level of unemployment, is another weakness in our opinion. The region continues to noticeably suffer from the structural change related to the former strength of its coal and steel industry. From our point of view, zero-based budgeting is a step in the right direction for the future. The recently established debt agency is definitely a positive development for future economic stability. It would appear that the new government is taking this issue (even) more seriously than was previously the case. A more in-depth analysis can be found here.

**Records on the primary market and from the ESM**

Never before has EUR 400bn been issued so quickly across all asset classes in a calendar year (year-to-date). Excluding taps, the benchmark segment for supranationals, sub-sovereigns and agencies alone accounts for EUR 83.8bn. The ESM RfP had barely been released and the new window of the current calendar week opened for transactions when the Luxembourg bank was ready and waiting: the funding target is EUR 2bn per quarter, if no country reaches out or applies for additional coronavirus support from the ESM. The key words in this context are Pandemic Crisis Support (PCS) and Enhanced Conditions Credit Line (ECCL). All members of the Eurozone would be entitled to state support of 2% of their GDP up to the end of 2022. Were every country to apply for this – something we consider to be extremely unlikely – this would amount to EUR 240bn, which would then need to be refinanced over the capital market. Italy is always the first name to be mentioned (just under EUR 40bn). At the moment, it has been a relatively modest EUR 2bn (WNG), which was this week placed with a December 2026 maturity at ms -11bp and proved to be extremely popular (order book: EUR 12.2bn). Versus the guidance (ms -9bp), narrowing of two basis points could be achieved.

**Primary market**

The deal from Saxony-Anhalt was also significantly oversubscribed: EUR 1bn for ten years at ms -2bp what was greeted with great delight (order book: EUR 3.8bn). The guidance had been ms flat. Rhineland-Palatinate planned to issue EUR 500m for 30 years, but ultimately RHIPAL amounted to EUR 600m at ms +8bp. The order books generated EUR 840m, which resulted in narrowing of one basis point. One other Bundesland required EUR 500m, and was able to collect this with a 2030 tap at ms -3bp. NIESA met with demand in the amount of EUR 700m. SAARLD is a rare presence as it does not generally act alone on the market and instead jointly under the LANDER ticker. COVID-19 has changed this, too, with a volume in excess of the cumulative issuance volume since 2014 placed under its ticker in 2020. On this occasion, it opted for EUR 250m with a maturity of 30 years (ms +10bp). The order books amounted to EUR 610m. Following successful mandating of a syndicate, the EU was able to secure a further EUR 9bn for its SURE programme through a social bond. The maturity corresponds to the ideal term that had been communicated by the issuer (15y), while the order books amounted to more than EUR 86bn. We had recently noted that the EU's deals no longer need to be 12 times oversubscribed in order to be seen as a success, as had been the case for the first transactions. Tightening of two basis points was possible against the guidance (IPT: ms -2bp area). The ISB's mandate has already been reflected on in detail above. Currently, neither a Bloomberg ticker nor a rating can be identified. The ticker, at least, will soon be revealed. Other promotional banks (e.g. from Brandenburg) are successfully operating on the market without a rating, although a mandate for an external rating is to be given to the Potsdam-based ILB at some point in 2021. Alongside the mandates from the ISB (10y) and WALLOO (dual tranche: 16y and 50y), CADES (8y, social bond), AGFRNC (15y) and NIESA (5y) are all set to sneak in deals just ahead of the ECB meeting.

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| EU | SNAT | 08.03. | EU000A3KM903 | 15.2y | 9.00bn | ms -4bp | AAA / Aaa / AA | X |
| ESM | SNAT | 08.03. | EU000A1Z99N4 | 5.8y | 2.00bn | ms -11bp | AAA / Aa1 / AAA | - |
| RHIPAL | DE | 04.03. | DE000RLP1270 | 30.0y | 0.60bn | ms +8bp | AAA / - / - | - |
| SACHAN | DE | 03.03. | DE000A3H3D69 | 10.0y | 1.00bn | ms -2bp | AAA / Aa1 / AA | - |

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

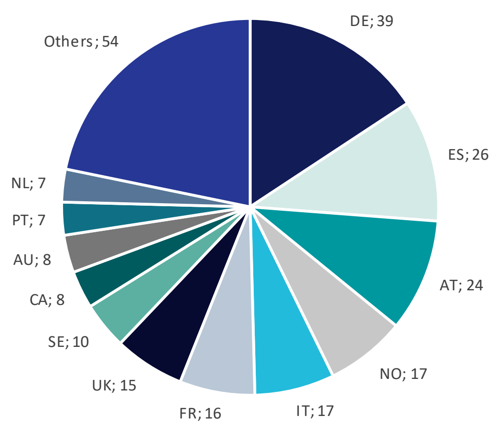
# Covered Bonds
# Moody's covered bond universe – an overview

Author: Henning Walten, CIIA

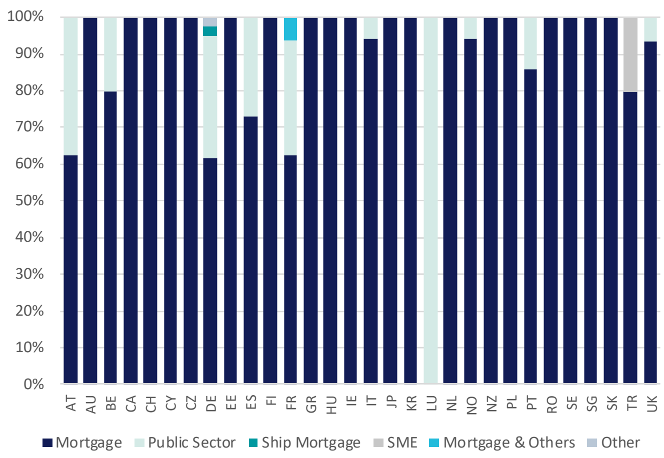
**248 rated covered bond programmes**

The rating agency Moody's has published the quarterly report on its rating activities in the covered bond segment. For this, Moody's mainly referenced rating reports from the third quarter of 2020. Accordingly, ratings were affirmed for a total of 248 covered bond programmes (previous quarter: 251). Making up a total of 203, mortgage-backed programmes accounted for 81.9% of Moody's covered bond universe. Furthermore, Moody's rated 41 public sector programmes (16.5%), which are primarily concentrated in Germany (13 programmes), Austria (9), Spain (7) and France (5). With regard to the distribution by jurisdiction, it can be stated that almost 80% of the programmes are attributable to the 12 countries with at least six rated programmes. The remaining 54 programmes were distributed across a total of 18 jurisdictions, among which the EUR benchmark jurisdiction Japan accounted for only one programme.

**Number of programmes rated by Moody's**




**Distribution of programme types by country**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

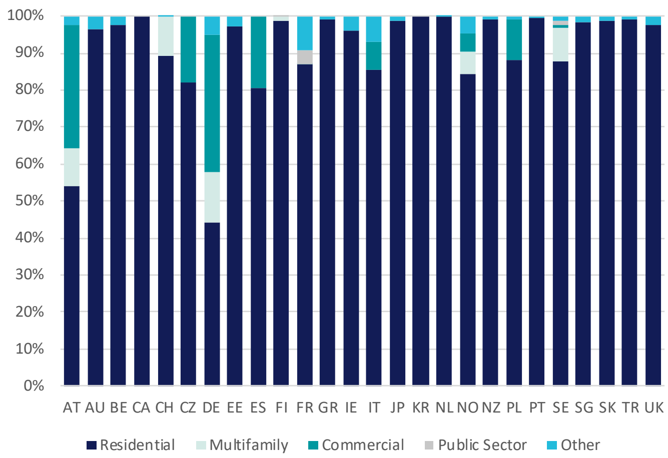
**Focus on mortgage programmes from EUR benchmark jurisdictions**

With regard to Moody's rating universe for covered bonds, a focus on mortgage programmes is evident, without a doubt, with almost all of these programmes originating from EUR benchmark jurisdictions. Only Hungary (2 programmes), Cyprus (1) and Romania (1) currently have no covered bond issues outstanding in the EUR benchmark segment. For these reasons, our analysis below focuses on those mortgage-backed programmes which were set up in EUR benchmark jurisdictions. It should be noted that the programmes considered are not necessarily EUR benchmark bond issues. By specifying this area within Moody's full covered bond universe, the intention is to facilitate comparability of key indicators from the point of view of investors.

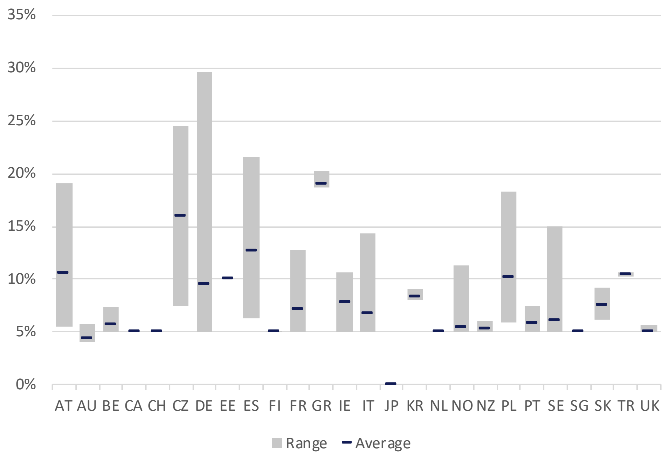
**Majority of mortgage programmes with residential character**

With regard to Moody's categorisation of cover assets for the various programmes, it can be stated that bond issues were covered up to an average of 83.1% by residential assets. Average ratios below 75% were only recorded for Germany (44.1%) and Austria (54.1%). In addition to Germany (13.8%), Switzerland (10.6%) and Austria (10.2%) also had significant shares of multi-family assets. At the same time, the share of commercial assets was particularly high in Germany (37.1%), Austria (33.3%), Spain (19.5%) and Poland (11.1%). Public sector cover assets were only included to an extent worth mentioning in France (3.8%) and Sweden (1.2%). However, in both cases, they only represent a fraction of the total volume of the respective mortgage cover pools.

**Cover pool structure (mortgage programmes)**




**Collateral score by country (mortgage programmes)**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

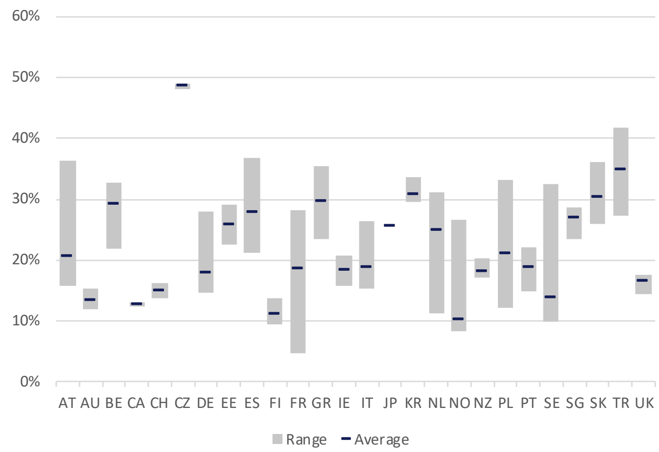
**The collateral score as an indicator of cover pool quality**

The collateral score should be mentioned as an important indicator in Moody's covered bond universe. The rating agency uses it to assess the quality of cover assets, with a low value indicating that the quality of the cover pool is high. In addition to the average collateral score at national level, the above chart illustrates the respective range. With Canada, Switzerland, the Netherlands and Singapore, four jurisdictions have maximum scores of 5%. Additionally, it is evident that the range of collateral scores in these jurisdictions is comparatively narrow. In contrast, the picture at national level is far more heterogeneous for Austria, the Czech Republic, Germany, Spain and Poland in terms of the quality of the covered bond programmes rated. In Greece, the Czech Republic and Spain, the lowest average quality is to be assumed with regard to the assets included in cover pools. At global level, unsurprisingly, a highly differentiated picture emerges. While this heterogeneity is reflected at national level in some jurisdictions, there also are many countries in which the cover pool quality of the programmes rated by Moody's is comparable to a great extent. Japan represents an anomaly in that the SMBC programme comprises covered bonds that are covered by Aaa-rated RMBS.

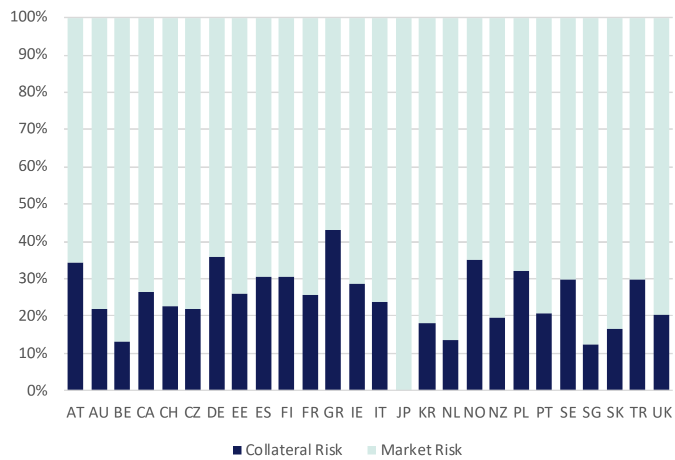
**Cover pool losses as a two-component key indicator**

With the help of cover pool losses (CPL), the rating experts at Moody's reflect the losses expected in the cover pool following issuer default. The risk comprises two components, market risk (funding, interest rate and currency risks) and collateral risk (asset quality and credit risk). Similar to the collateral score, a high degree of heterogeneity is evident in this respect in a global comparison. This is true of both average cover pool losses and the national range in each case. For example, potential cover pool losses in Canada, Finland and Norway are particularly low, whereas they are particularly high in the Czech Republic, South Korea and Turkey. A narrow range is evident for the programmes from Canada, the Czech Republic and Japan, although this is partly owing to the low number of programmes.

**Cover pool losses by country (mortgage programmes)**




**CPL risk components by country (mortgage programmes)**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

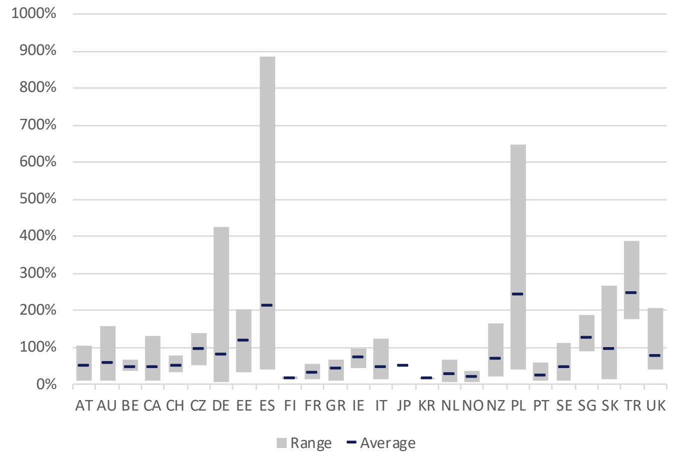
**Funding, interest rate and currency risks determine expected losses**

The chart above on the right illustrates that the contribution of the two components (collateral risk and market risk) varies considerably at national level. For example, the share of collateral risk in cover pool losses is relatively high in Germany, Greece and Norway, in particular. Conversely, a comparatively low share in cover pool losses resulting from a downward trend in the quality of the cover pool in the event of issuer insolvency was recorded for Belgium, Japan and Singapore. The programme from Japan again had a special role: in view of its cover pool structure (exclusively RMBS transactions used as cover assets), there is no collateral risk. In principle, it can be deduced that the majority of cover pool losses are impacted by the market risk, i.e. losses in the event of issuer insolvency can be ascribed to the categories of funding risk, interest rate risk and currency risk to a greater extent than the quality of cover assets.

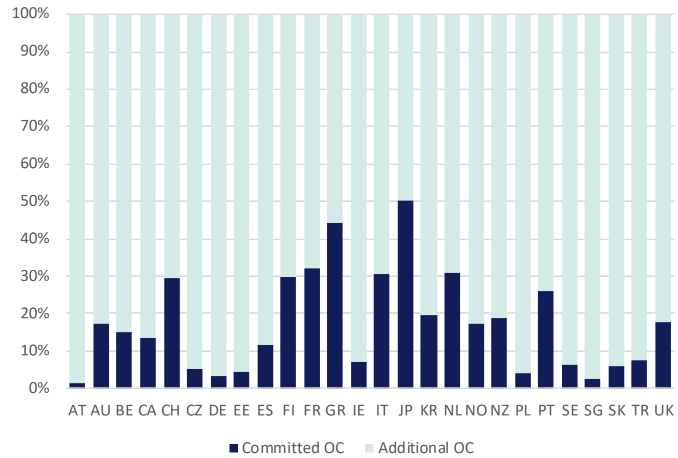
**Overcollateralisation level in Spanish programmes is high and heterogeneous**

With regard to the overcollateralisation levels of the programmes which Moody's rates, unsurprisingly, there are significant differences in an international comparison. National heterogeneity is most marked in Germany, Spain and Poland (only three programmes). The Spanish programme with the lowest OC is overcollateralised by 41.6%, while the OC of the Kutxabank programme amounted to 883.7% in the third quarter of 2020. At the same time, Finland, South Korea and Norway represent jurisdictions where overcollateralisation of the various programmes is at a relatively similar level within a very narrow range.

**Overcollateralisation by country (mortgage programmes)**




**Composition of overcollateralisation (mortgage programmes)**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

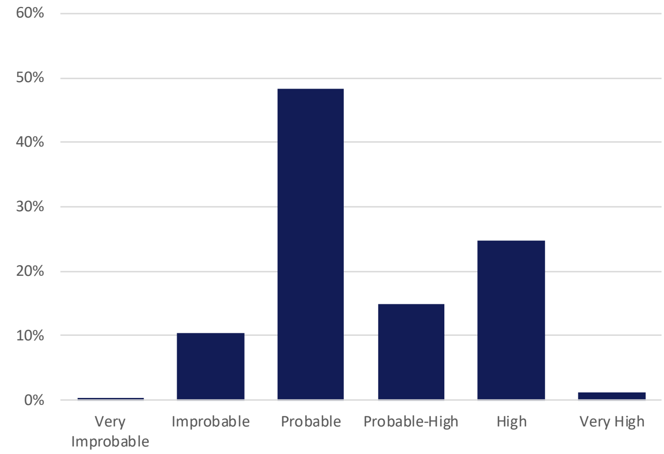
**Committed OC as the starting point of voluntary overcollateralisation**

Overcollateralisation can also be divided into sub-components. OC may have been committed vis-à-vis the rating agency in order to maintain a specific rating, or it may be based on legal requirements. The committed OC may therefore be understood to be a kind of lower limit for overcollateralisation, where the programme cannot readily fall below this limit, or where falling below this limit is not permitted at all. In contrast to this, actual overcollateralisation is only temporary in certain circumstances and may be subject to a certain level of volatility as a result of new bond issues or maturities. With regard to the share of committed OC in the OC levels, it is evident that a high share of overcollateralisation is made available on a voluntary basis, particularly in Austria, Germany and Singapore, and could accordingly be reduced relatively easily. This is partly due to the low requirements regarding committed OC, which in Austria for example amount to only 0.7% on average. In Germany and Singapore, it is 2.7% and 3.0% respectively. Conversely, overcollateralisation in France, Greece and Japan comprises a high share of committed OC. Overall, it can be stated that the higher share of overcollateralisation is made available by issuers on a voluntary basis, although this is certainly due to the low levels of committed OC. Furthermore, a high share of committed OC by no means also results in high overcollateralisation.

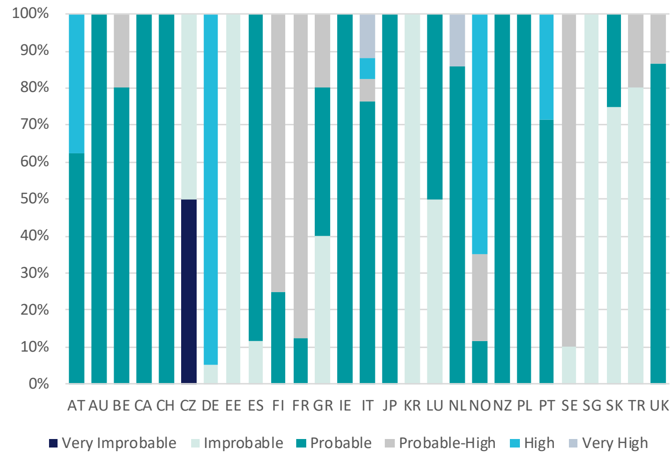
**TPI links covered bond rating to the issuer rating**

The timely payment indicator (TPI) is another key figure Moody's makes available, which provides information about the probability of timely servicing of payment obligations following issuer default. It is differentiated in six levels, ranging from very high to very improbable (see table below). The TPI represents a measure of the potential covered bond rating in terms of the specific number of notches higher than the issuer rating. Conversely, the TPI leeway indicates the number of notches by which the covered bond anchor point may be downgraded without this resulting in a rating downgrade of the covered bond programme because of the TPI methodology. The chart below highlights that around half of all the mortgage programmes rated by Moody's have a TPI of probable. Conversely, the outer limits with shares of 0.4% and 1.2% respectively are not as strongly represented.

**Timely payment indicator (TPI) (mortgage programmes)**




**TPIs by country (mortgage programmes)**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

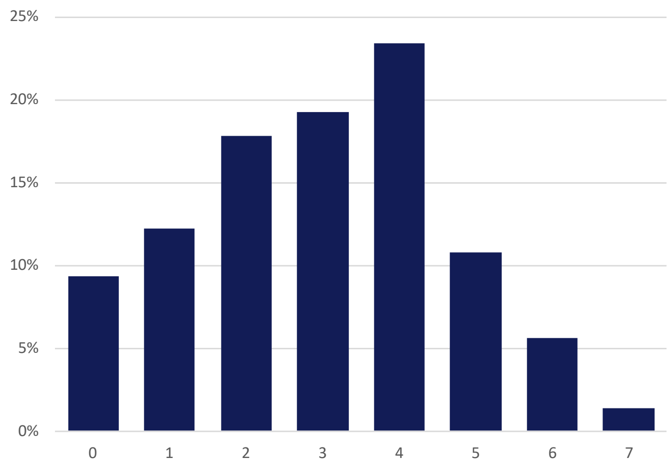
**National assessments often the same**

The programmes in a total of ten EUR benchmark jurisdictions all have just one timely payment indicator (TPI) parameter value. In seven cases, this is probable. The programmes in Estonia, South Korea and Singapore exclusively have TPIs of improbable. Overall, only three programmes (2x IT and 1x NL) have the highest possible TPI parameter, very high. At the lower end (very improbable), only one programme from the Czech Republic was identified. Conversely, at least three different TPI levels occurred only in Greece, Italy and Norway. With regard to Germany, a high probability of timely payment of obligations following issuer default is assumed for 37 of the 39 programmes. The probability is additionally considered to be high for programmes from Norway (11 of 17 programmes) and Austria (9 of 24 programmes), in particular.

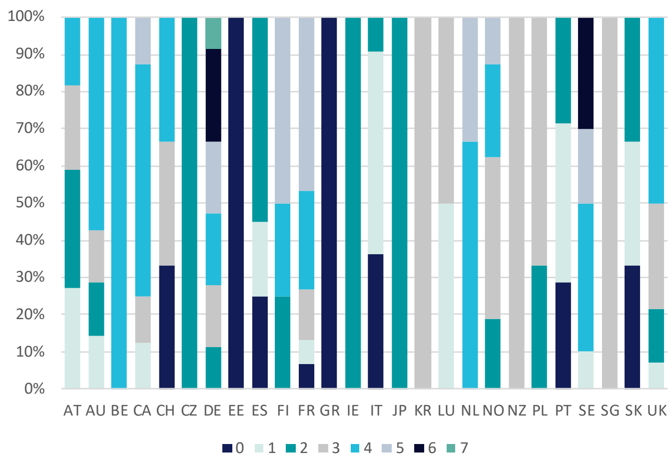
**Buffer sufficient with regard to downgrades**

As mentioned above, in addition to the TPI, another key indicator is the TPI leeway, which indicates by how many notches the relevant covered bond anchor point may be downgraded without this resulting in a rating downgrade under the TPI framework for the relevant covered bond programme. Accordingly, a total of 20 of the covered bond programmes rated by Moody's had no relevant buffer. This means that in the event that the covered bond anchor is downgraded, the direct consequence would be a downgrading of the programme. The highest incidence was a TPI leeway of four (50 programmes). Just over 40% of the programmes are in the two middle categories, which are the most common, of three notches and four notches.

**TPI leeway in notches (mortgage programmes)**




**TPI leeway in notches by country (mortgage programmes)**




Source: Moody's, NORD/LB Markets Strategy & Floor Research

**Germany, France, Sweden and UK with some high buffers**

At the level of national markets, it can be stated time and again that they are very heterogeneous. The programmes rated in Germany and France have at least five different TPI leeway levels. A particularly frequent incidence of high TPI leeway levels and therefore rating buffers is evident in Germany, France and Sweden, where at least five programmes have a TPI leeway of a minimum of five notches. Conversely, in Greece, Italy and Spain, at least four rated programmes have no buffer. In the case of Greece, this applies to all of the programmes rated by Moody's.

**Conclusion**

The latest reporting from the rating agency Moody's once again shows the importance of Moody's ratings for the rating landscape within the EUR benchmark segment. It is hardly surprising that the global picture derived from the data is very heterogeneous in terms of specific key rating indicators. In view of the coronavirus pandemic, buffers of several notches are evident in terms of the rating buffers against downgrades, although at the same time, there is a certain share of programmes which have little leeway or whose ratings are at the country ceiling. With the help of the present article, we want to facilitate better and faster categorisation of the key indicators in both international and national comparisons, in order to enable a tailored analysis of the quality and/or features of covered bond programmes.

# Covered Bonds
# Oldenburgische Landesbank expands sub-benchmark segment

Authors: Dr Frederik Kunze // Henning Walten, CIIA

**Newcomer to the sub-benchmark segment: mortgage Pfandbrief from OLB Bank**

Oldenburgische Landesbank (OLB Bank) was awarded a Pfandbrief licence back in 2018 and made its debut in the form of a private placement of a mortgage Pfandbrief at the start of 2019. In the trading week under review here, the issuer extended the sub-benchmark segment by placing a bond worth EUR 350m. We are keen to use this development as a reason to take a brief look at OLB Bank in its role as a covered bond issuer. With its presence in the sub-benchmark segment, we will also be including OLB Bank in our active coverage for the NORD/LB Issuer Guide for Covered Bonds, which we publish on an annual basis.

**OLB Bank: diversified business model**

Headquartered in Oldenburg in north-west Germany, OLB Bank is divided into three business fields: Private Customers (EUR 8bn in assets, client base of around 645,000 customers), Corporate Clients (EUR 5.6bn; 13,000 customers) and Special Financing (EUR 2.2bn; 1,000 customers). Private Customers represents the largest business unit of OLB Bank and consists of the Retail Banking, Private Banking and Wealth Management sub-segments. In the past two years, the development of the Private Customers segment has been shaped by the acquisition of Wüstenrot Pfandbriefbank and Bankhaus Neelmeyer. While larger customers (corporates) are selectively served on a nationwide basis in the Corporate Clients segment, the bank tends to focus on serving regional SMEs in the north-west of Germany. In addition, OLB Bank is also active in the area of football financing and special financing (acquisition financing with a focus on leveraged buyouts for SMEs, commercial property financing and ship financing). Looking at the bank’s shareholder structure, shares are split relatively evenly between the Teacher Requirement System of Texas (US pension fund; 32.00% stake), Grovepoint Investment Management (private investment manager, UK; 32.28%) and Apollo Global Management (asset management firm, USA; 35.72%). The title of “Landesbank” therefore continues to exist solely on historic grounds.

**Overview of financial metrics and funding**

With total assets in the amount of EUR 21.5bn (reporting date: 31 December 2020), OLB Bank generated post-tax profit for the year of EUR 78.6m in the previous financial year. Return on equity stood at a solid 6.9%, while the cost-income ratio was stated at 65.6%. The bank also boasts solid capitalisation (CET1 ratio: 12.2%; total capital ratio: 14.2%) and therefore comfortably complies with the regulatory minimum requirements. The same goes for the leverage ratio (5.1%) and liquidity requirements (LCR: 143%; NSFR: 105.5%). The funding structure is dominated by client deposits (2020: EUR 12.7bn of a total of EUR 21.5bn), although OLB Bank is making more frequent use of the capital markets for refinancing purposes and is seeking to optimise its structure by way of Pfandbrief issuances. In addition to regular sub-benchmarks in the covered segment, the issuer also sees senior unsecured bonds (preferred and non-preferred) as an additional option at its disposal.

**Moody's offers long-term deposit rating of Baa2 with a stable outlook**

The ratings agency Moody's has awarded a long-term deposit rating of Baa2 to OLB Bank (stable outlook), although the long-term counterparty risk rating (CRR) from Moody's is Baa1. The risk experts have identified challenges in relation to the bank's plans to generate strong growth from its specialised segments, among other aspects. Moreover, the bank – as is the case for its competitors too – is exposed to the uncertainties related to the low interest rate environment. With regard to the strengths of OLB Bank, Moody's highlights the stable capitalisation in addition to low-level dependency on wholesale funding due to the strong deposit basis. Moreover, the bank's share of NPLs within the lending portfolio can be regarded as only moderate, which Moody's attributes to its focus on the domestic market.

**Credit portfolio: Lower Saxony and Bremen account for 64% of exposure**

A breakdown of exposure at default (EaD; EUR 19bn) as at year-end 2020 reveals a focus on Lower Saxony and Bremen (63.7%), followed by North Rhine-Westphalia (8.8%), while the rest of Germany accounts for a share of 19.1%. In total, 8.3% of EaD can be allocated to regions outside of Germany. Overall, it can be said that the regional focus of this issuer's business activities is reflected in this distribution. At 37%, the Retail business segment accounts for the largest share. Significant shares are additionally attributable to the SME (23.1%) and Corporates (21%) segments. The NPL ratio is stated at 2.7%. While this certainly reflects an increase on the previous year's figure (December 2019: 2.5%), it is nevertheless still below the value recorded in 2018 (December 2018: 2.9%). The secured mortgage portfolio (total: EUR 7.8bn) is composed of residential properties (64.6%) and commercial properties (25.3%). In total, 67.3% of the portfolio features an LTV of below 60%.

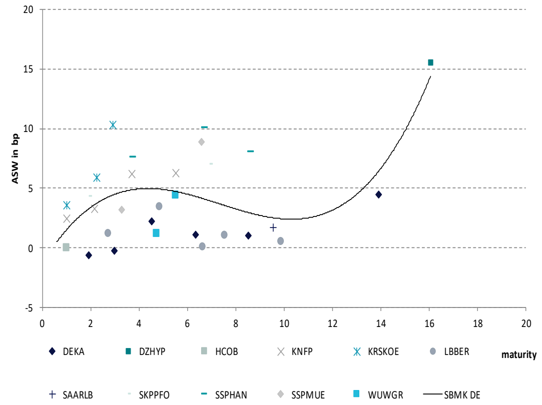
**OLB cover pool: granular cover pool focused on Lower Saxony**

As at the reporting date of 31 December 2020, OLB Bank had an outstanding volume of Pfandbrief issuances totalling EUR 371m. Alongside private placements of EUR 181m, the issuer had EUR 190m in retained issuances, which have since been liquidated and released to the cover pool (c.f. investor presentation from March 2021, among others). In our view, it can be assumed in particular that the retained covered bonds were used as collateral in the context of the ECB Collateral Framework, which allows for the use of self-issued covered bonds, also to make use of TLTRO III tenders. The cover pool of OLB Bank totals EUR 500m – again as at the reference date of 31 December 2020. The primary cover assets are exclusively residential mortgages for properties based in Germany, with the majority of these located in Lower Saxony (92%). A total of 6% can be allocated to North Rhine-Westphalia. The cover pool therefore fundamentally reflects the regional focus of the mortgage-backed portfolio of OLB Bank. As a direct consequence, the cover pool is not exposed to any currency risks due to the fact it contains solely mortgage Pfandbrief issuances denominated in EUR. The granularity of the cover pool can ultimately be seen not least in the number of loans and average loan size of EUR 105,000. Moreover, just 0.93% of primary cover assets can be assigned to the size category "more than EUR 300,000 up to EUR 1m", while the remaining share is allocated to the size category "up to EUR 300,000". The cover pool does not contain any NPLs. The average LTV ratio is also stated at 55.7%.

### Programme data

| 31 December 2020 | Mortgage |
|---|---|
| Covered bonds outstanding | EUR 371m |
| Cover pool volume | EUR 500m |
| Current OC (nominal / legal) | 34.8%/2.0% |
| Type | 100% residential |
| Main country | 100% Germany |
| Main region | 92.0% Lower Saxony |
| Number of loans | 4.600 |
| Average loan size | EUR 105,000 |
| Fixed interest (cover pool / CBs) | 97%/100% |
| Seasoning (cover pool) | 3.7y |
| NPL | 0.0% |
| CB rating (Fitch/Moody's/S&P) | - / Aa1 / - |

### Spread overview (SBMK) – Germany




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

### Regulation and rating

Moody's awards a rating of Aa1 for the mortgage Pfandbriefe issued by OLB Bank. The TPI Leeway score determined by the rating agency amounts to three notches, while the collateral score of 5.0% is strong, even in an international comparison. The covered bonds of OLB Bank also benefit from a preferred risk weighting of 10%. Due to the sub-benchmark format chosen for the latest deal, this would, in our view, be regarded as a Level 2A asset within the framework of LCR management. OLB bank covered bonds are ECB-eligible and can be used as securities within the context of the ECB security framework. Moreover, they can also be acquired under both the CBPP3 and PEPP.

### EUR sub-benchmark segment in Germany: 30 deals outstanding

Prior to the OLB Bank deal, according to our records the EUR sub-benchmark segment in Germany comprised a total of 30 separate issuances totalling EUR 7.84bn. A global volume of EUR 15.74bn therefore means that Germany accounts for the largest share attributable to a single country. The OLB Bank transaction brings the number of German banks with outstanding EUR sub-benchmarks to 12, while the term to maturity of the newly placed bond ranks among the longer-dated issuances.

### Conclusion

With its new bond deal, OLB Bank has extended the EUR sub-benchmark segment, a development which we expressly welcome. Should this new issuance be followed by further public deals, this would, in our view, reflect the consistent implementation of a realigned funding strategy. By choosing a bond in sub-benchmark format, OLB Bank is at the very least addressing an increased circle of investors that also focuses on the liquidity of bonds in making investment decisions.

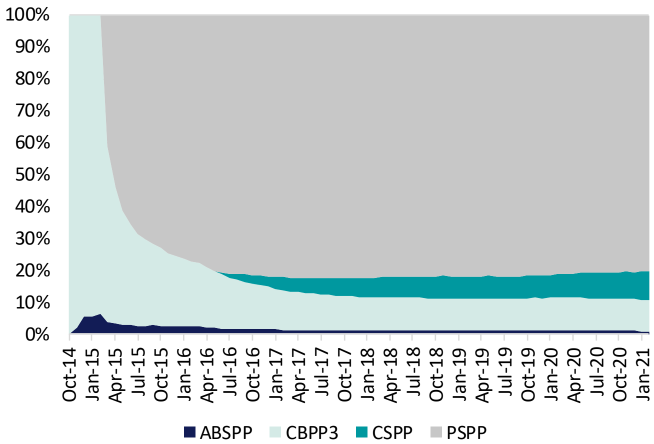
# ECB tracker

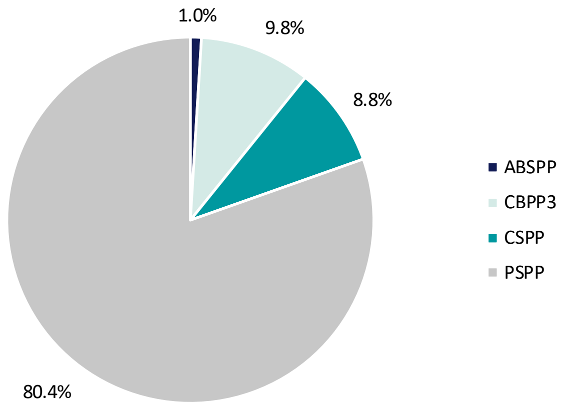
## Asset Purchase Programme (APP)

### Holdings (in EURm)

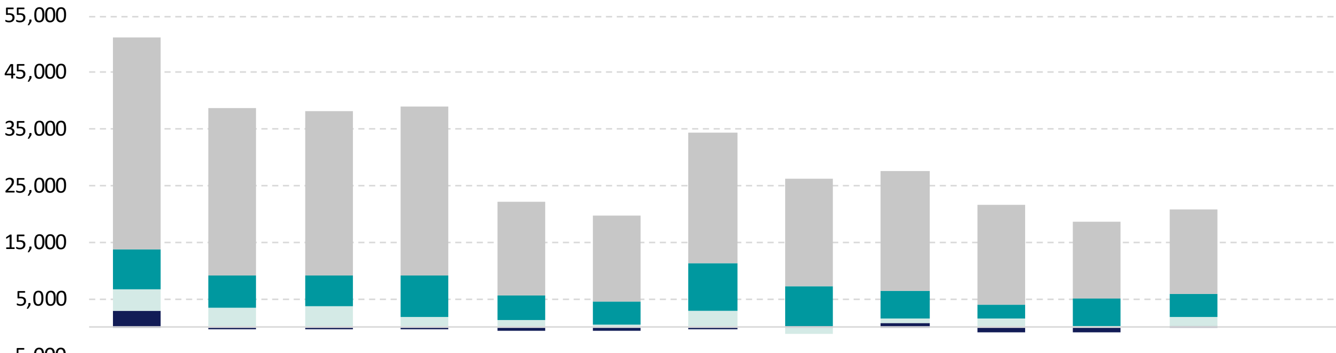
| | ABSPP | CBPP3 | CSPP | PSPP | APP |
|---|---|---|---|---|---|
| **Jan-21** | 28,545 | 287,619 | 255,327 | 2,355,262 | 2,926,754 |
| **Feb-21** | 28,762 | 289,158 | 259,391 | 2,370,392 | 2,947,703 |
| **Δ** | +217 | +1,539 | +4,064 | +15,129 | +20,949 |

### Portfolio structure



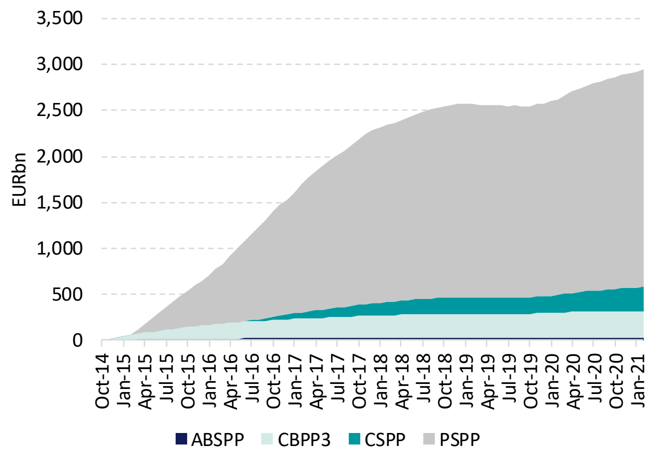

### Monthly net purchases (in EURm)



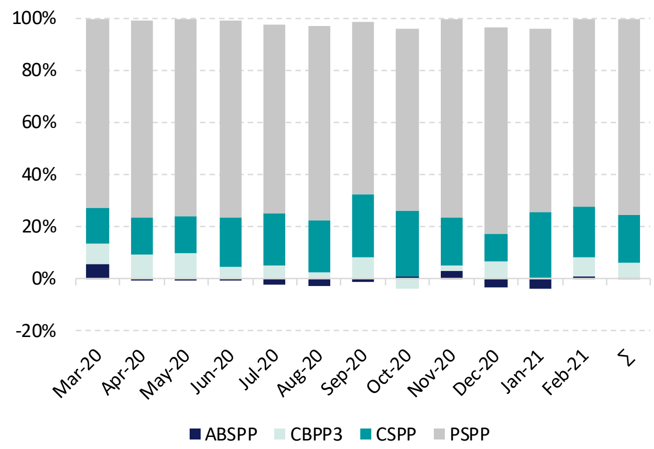

| | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 51,142 | 38,441 | 38,170 | 38,770 | 21,529 | 19,127 | 34,014 | 25,349 | 27,720 | 20,929 | 17,846 | 20,949 | 353,986 |
| PSPP | 37,323 | 29,624 | 28,961 | 29,779 | 16,370 | 15,150 | 23,102 | 19,182 | 21,241 | 17,822 | 13,655 | 15,129 | 267,338 |
| CSPP | 6,965 | 5,560 | 5,438 | 7,515 | 4,502 | 4,004 | 8,496 | 6,983 | 5,009 | 2,378 | 4,924 | 4,064 | 65,838 |
| CBPP3 | 3,931 | 3,582 | 3,785 | 1,731 | 1,198 | 500 | 2,839 | -1,041 | 646 | 1,529 | 74 | 1,539 | 20,313 |
| ABSPP | 2,923 | -325 | -14 | -255 | -541 | -527 | -423 | 225 | 824 | -800 | -807 | 217 | 497 |

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

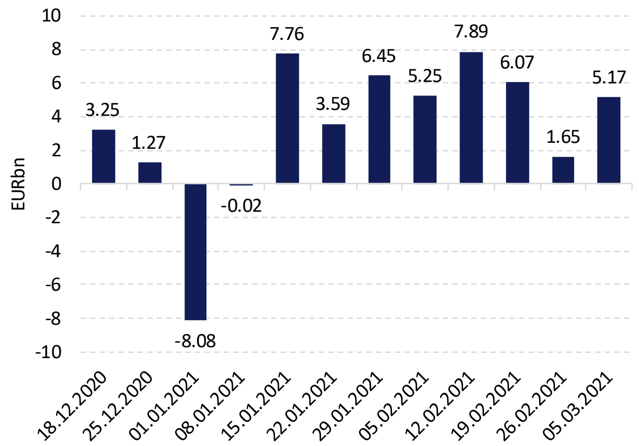
## Portfolio development



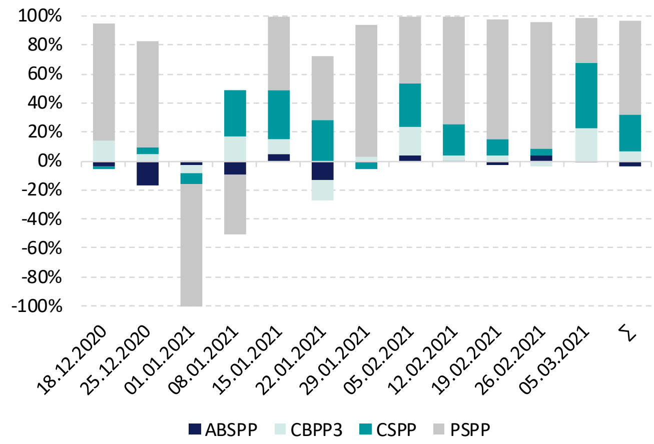

## Distribution of monthly purchases



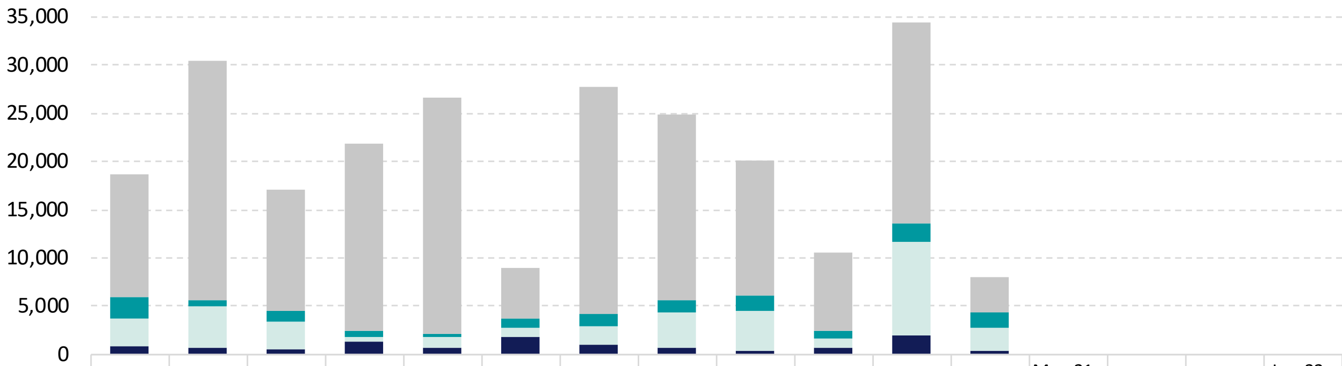

## Weekly purchases




## Distribution of weekly purchases




## Expected monthly redemptions (in EURm)

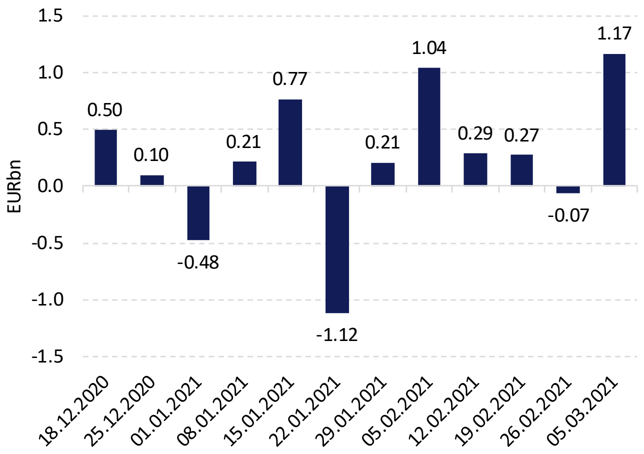



| | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-21 - Feb-22 | 2020 | 2021 | Jan-22 - Feb-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 18,607 | 30,466 | 17,144 | 21,892 | 26,593 | 8,882 | 27,775 | 24,846 | 20,120 | 10,584 | 34,430 | 7,966 | 249,305 | 262,253 | 246,111 | 42,396 |
| PSPP | 12,674 | 24,919 | 12,637 | 19,519 | 24,532 | 5,118 | 23,640 | 19,227 | 13,991 | 8,177 | 20,906 | 3,625 | 188,965 | 201,482 | 189,743 | 24,531 |
| CSPP | 2,265 | 607 | 1,144 | 631 | 334 | 966 | 1,272 | 1,280 | 1,673 | 826 | 1,915 | 1,544 | 14,457 | 18,267 | 15,943 | 3,459 |
| CBPP3 | 2,818 | 4,278 | 2,894 | 367 | 1,132 | 1,002 | 1,902 | 3,716 | 4,039 | 937 | 9,639 | 2,433 | 35,157 | 33,236 | 30,057 | 12,072 |
| ABSPP | 850 | 662 | 469 | 1,375 | 595 | 1,796 | 961 | 623 | 417 | 644 | 1,970 | 364 | 10,726 | 9,268 | 10,368 | 2,334 |

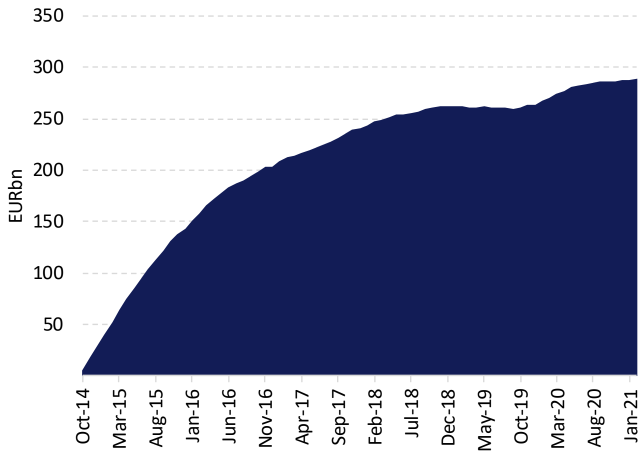
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Covered Bond Purchase Programme 3 (CBPP3)

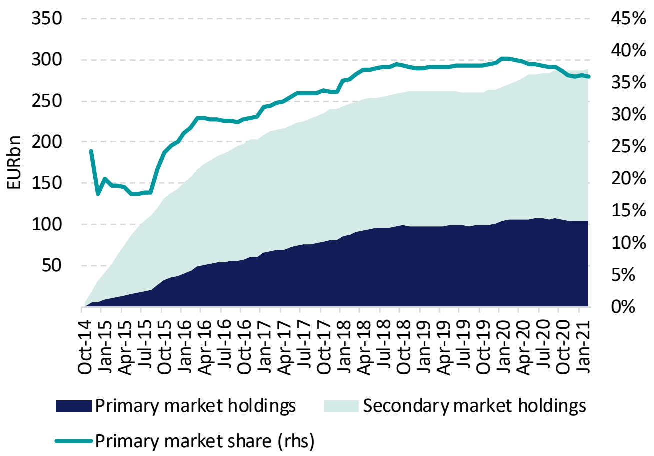
### Weekly purchases



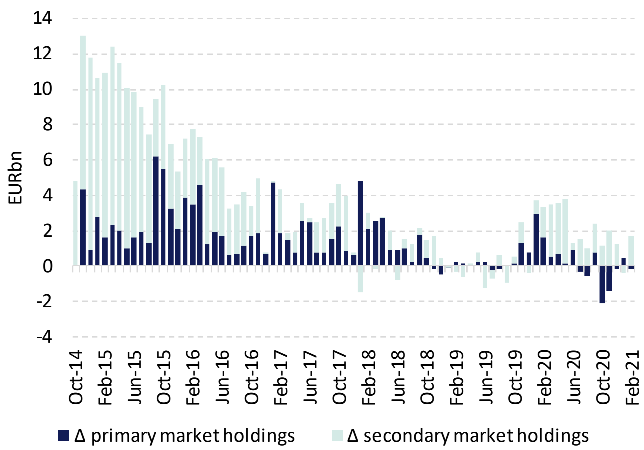

### Development of CBPP3 volume



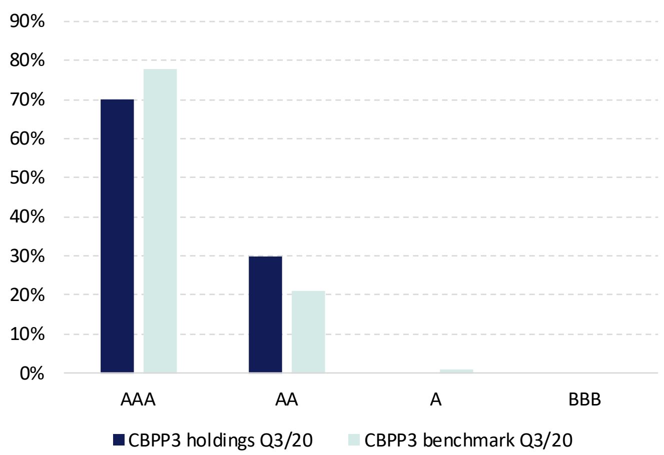

### Primary and secondary market holdings



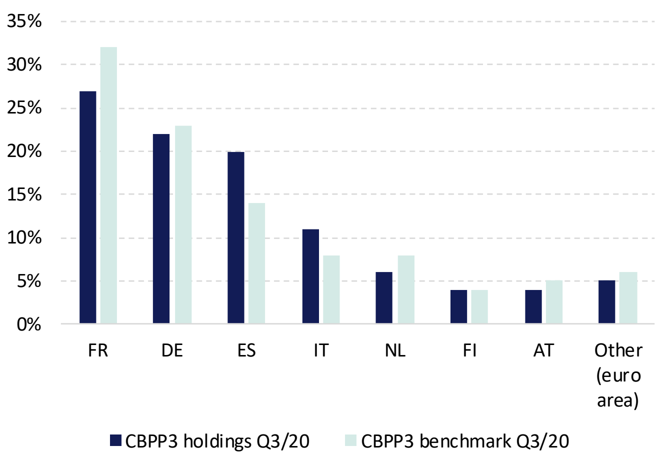

### Change of primary and secondary market holdings




### Distribution of CBPP3 by credit rating



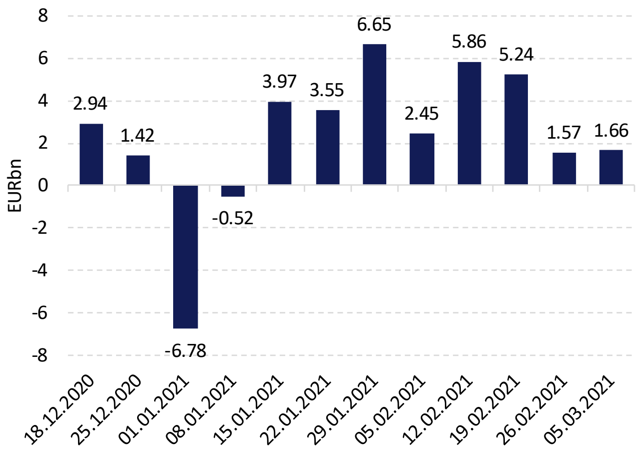

### Distribution of CBPP3 by country of risk



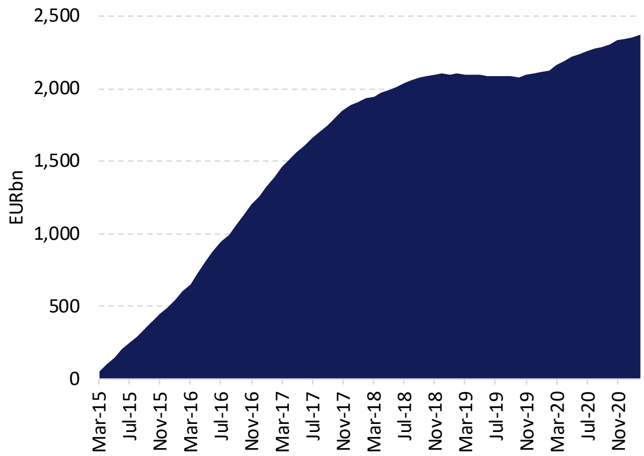

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Public Sector Purchase Programme (PSPP)

### Weekly purchases




### Development of PSPP volume



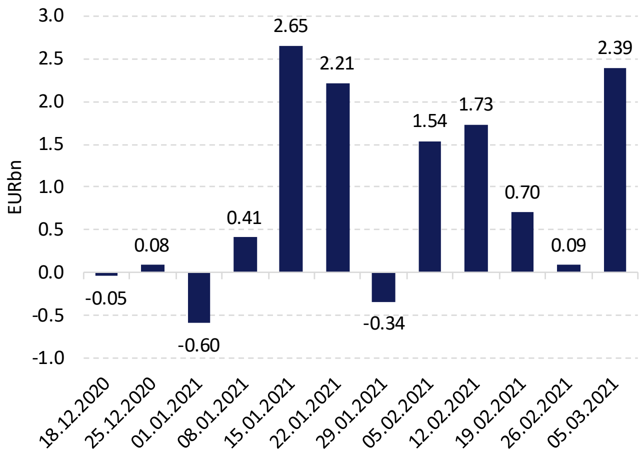

### Overall distribution of PSPP buying at month-end

| Jurisdiction | Adjusted distribution key[1] | Purchases (EURm) | Expected purchases (EURm)[2] | Difference (EURm) | Avg. time to maturity[3] (in years) | Market average[3] (in years)[3] | Difference (in years) |
|---|---|---|---|---|---|---|---|
| AT | 2.7% | 69,357 | 67,307 | 2,050 | 7.8 | 7.8 | 0.0 |
| BE | 3.4% | 87,627 | 83,780 | 3,847 | 8.4 | 10.2 | -1.8 |
| CY | 0.2% | 3,427 | 4,948 | -1,521 | 10.0 | 9.3 | 0.7 |
| DE | 24.3% | 588,192 | 606,206 | -18,014 | 6.5 | 7.6 | -1.1 |
| EE | 0.3% | 324 | 6,478 | -6,154 | 9.7 | 9.7 | 0.0 |
| ES | 11.0% | 292,369 | 274,217 | 18,152 | 8.2 | 8.5 | -0.3 |
| FI | 1.7% | 36,772 | 42,241 | -5,469 | 7.2 | 7.9 | -0.7 |
| FR | 18.8% | 492,681 | 469,676 | 23,005 | 7.0 | 8.1 | -1.1 |
| GR | 0.0% | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 |
| IE | 1.6% | 38,171 | 38,941 | -770 | 8.6 | 9.9 | -1.3 |
| IT | 15.7% | 418,790 | 390,666 | 28,124 | 7.1 | 7.8 | -0.7 |
| LT | 0.5% | 4,683 | 13,309 | -8,626 | 9.5 | 11.3 | -1.8 |
| LU | 0.3% | 3,164 | 7,575 | -4,411 | 5.0 | 6.5 | -1.5 |
| LV | 0.4% | 2,599 | 8,960 | -6,361 | 10.1 | 10.5 | -0.4 |
| MT | 0.1% | 1,222 | 2,412 | -1,190 | 10.1 | 9.2 | 0.9 |
| NL | 5.4% | 119,658 | 134,766 | -15,108 | 7.5 | 8.4 | -0.9 |
| PT | 2.2% | 46,884 | 53,822 | -6,938 | 7.2 | 7.6 | -0.4 |
| SI | 0.4% | 9,041 | 11,073 | -2,032 | 9.4 | 9.3 | 0.1 |
| SK | 1.1% | 15,130 | 26,336 | -11,206 | 8.4 | 8.6 | -0.2 |
| SNAT | 10.0% | 261,812 | 249,190 | 12,622 | 7.2 | 8.3 | -1.1 |
| **Total / Avg.** | **100.0%** | **2,491,902** | **2,491,902** | **0** | **7.2** | **8.1** | **-0.9** |

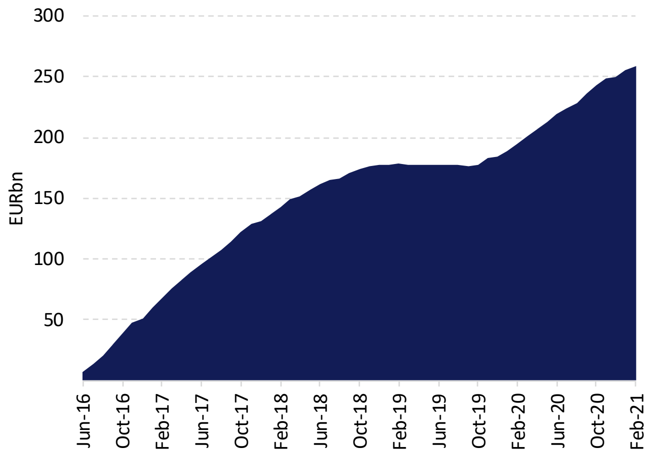
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q3/2020)
Source: ECB, NORD/LB Markets Strategy & Floor Research

## Corporate Sector Purchase Programme (CSPP)

### Weekly purchases

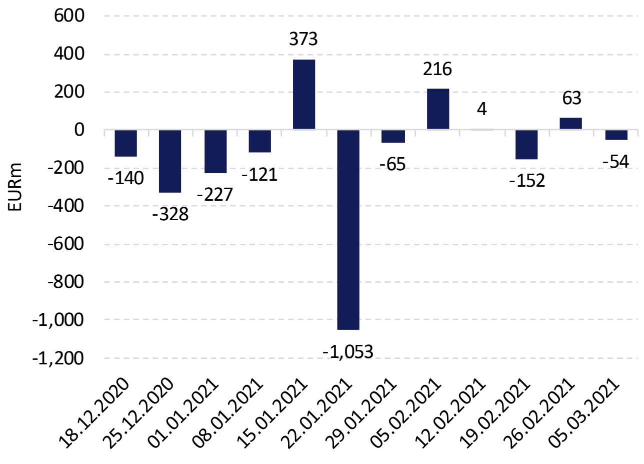



### Development of CSPP volume

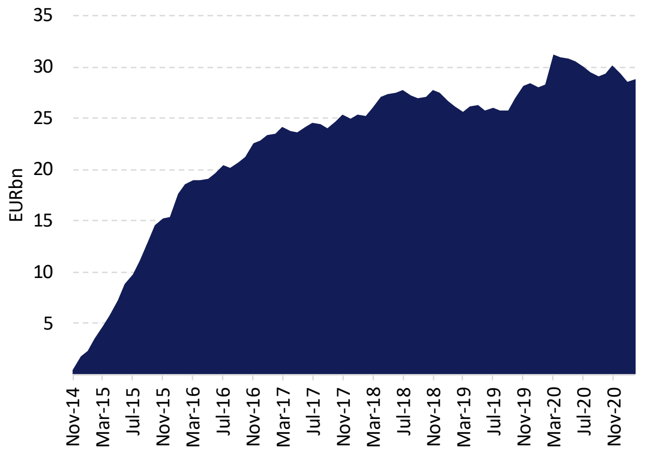



## Asset-Backed Securities Purchase Programme (ABSPP)

### Weekly purchases




### Development of ABSPP volume



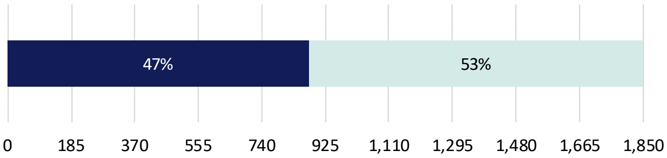

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Pandemic Emergency Purchase Programme (PEPP)

### Holdings (in EURm)

| | PEPP |
|---|---|
| **Jan-21** | 810,212 |
| **Feb-21** | 870,126 |
| **Δ** | +59,914 |

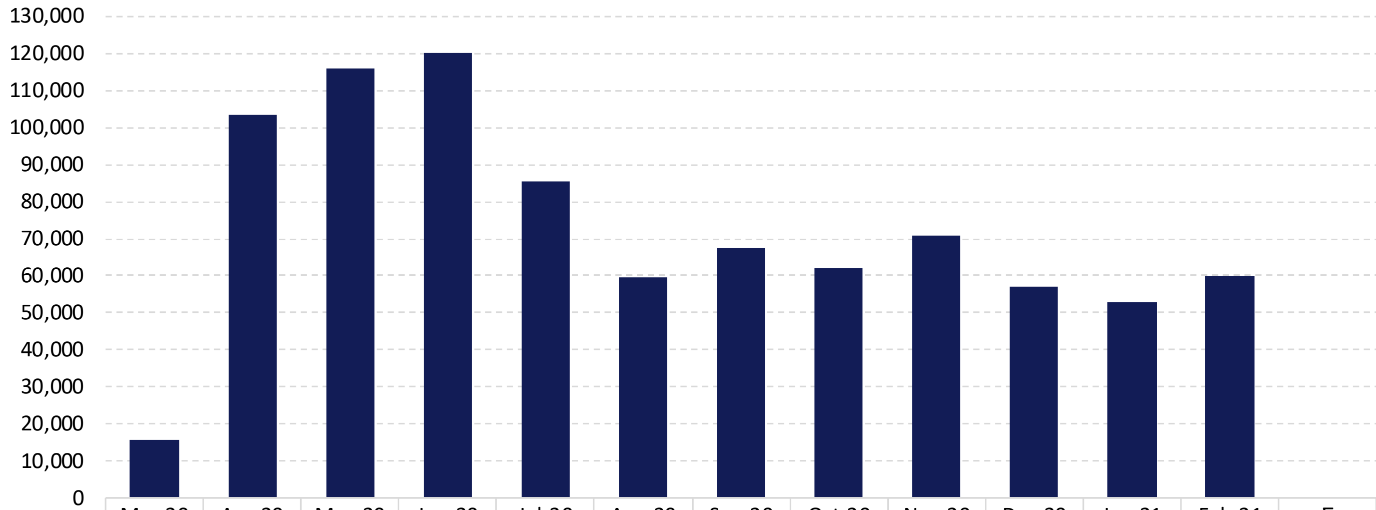
### Volume already invested (in EURbn)




### Estimated portfolio development

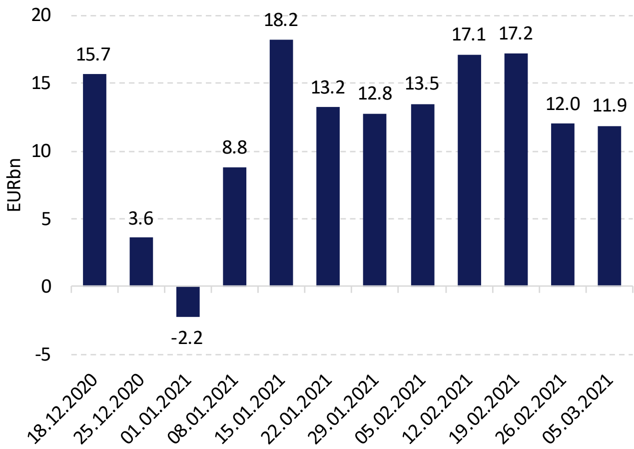
| Assumed pace of purchases | Weekly net purchase volume | PEPP limit hit in … |
|---|---|---|
| Average weekly net purchase volume so far | EUR 17.9bn | 54 weeks (18.03.2022) |

### Monthly net purchases (in EURm)

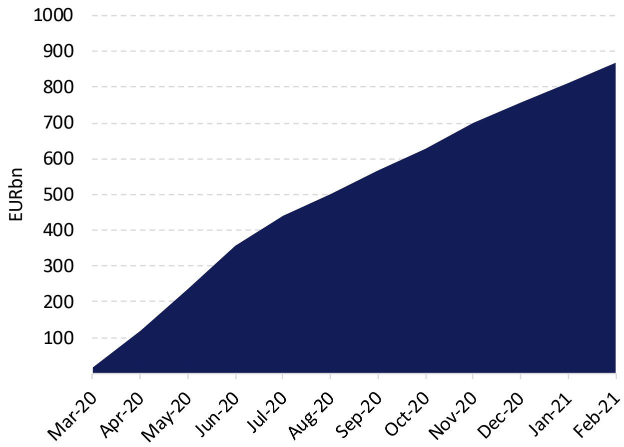



| | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ■ PEPP | 15,444 | 103,366 | 115,855 | 120,321 | 85,423 | 59,466 | 67,308 | 61,985 | 70,835 | 57,163 | 53,046 | 59,914 | 870,126 |

### Weekly purchases




### Development of PEPP volume

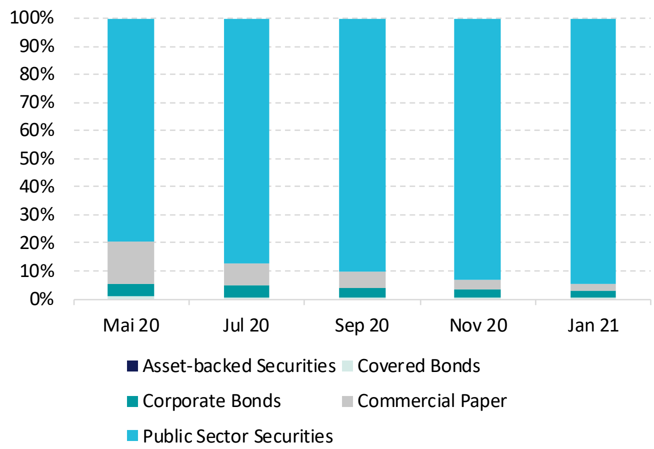


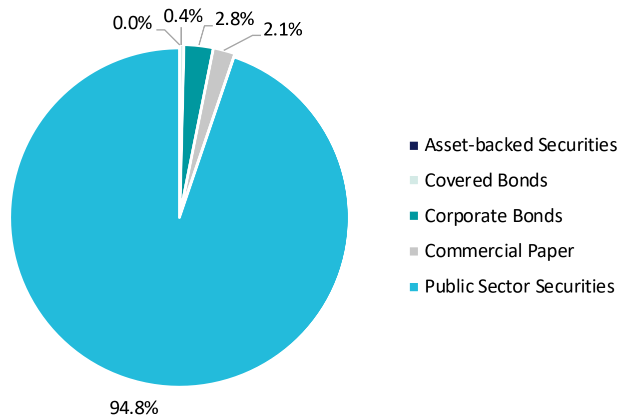

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Holdings under the PEPP (in EURm)

| | Asset-backed Securities | Covered Bonds | Corporate Bonds | Commercial Paper | Public Sector Securities | PEPP |
|---|---|---|---|---|---|---|
| **Nov-20** | 0 | 3,123 | 20,760 | 24,306 | 650,272 | 698,461 |
| **Jan-21** | 0 | 3,120 | 22,315 | 16,611 | 764,710 | 806,756 |
| **Δ** | 0 | -3 | +1,555 | -7,695 | +114,438 | +108,295 |

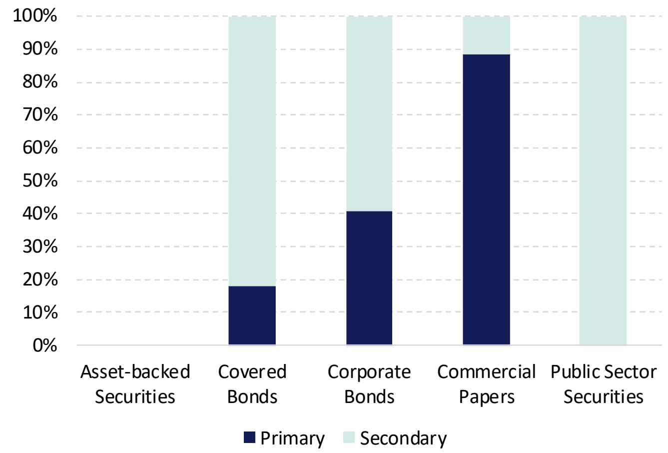
## Portfolio structure




## Portfolio development


## Share of primary and secondary market holdings




## Breakdown of private sector securities under the PEPP as of January 2021

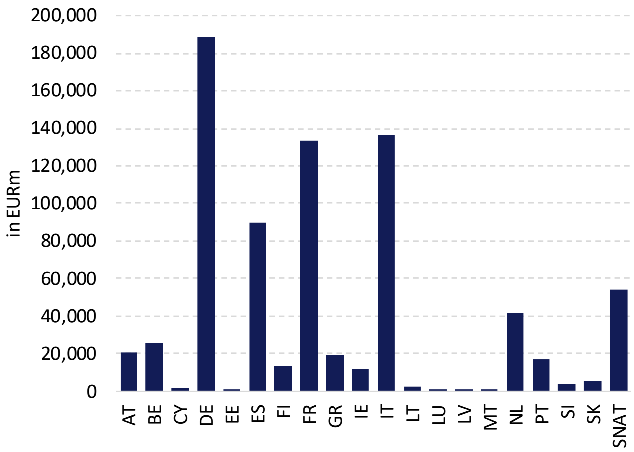
| | Asset-backed securities | | Covered bonds | | Corporate bonds | | Commercial papers | |
|---|---|---|---|---|---|---|---|---|
| | **Primary** | **Secondary** | **Primary** | **Secondary** | **Primary** | **Secondary** | **Primary** | **Secondary** |
| **Holdings in EURm** | 0 | 0 | 557 | 2,563 | 9,092 | 13,223 | 14,663 | 1,948 |
| **Share** | 0.0% | 0.0% | 17.9% | 82.2% | 40.7% | 59.3% | 88.3% | 11.7% |

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

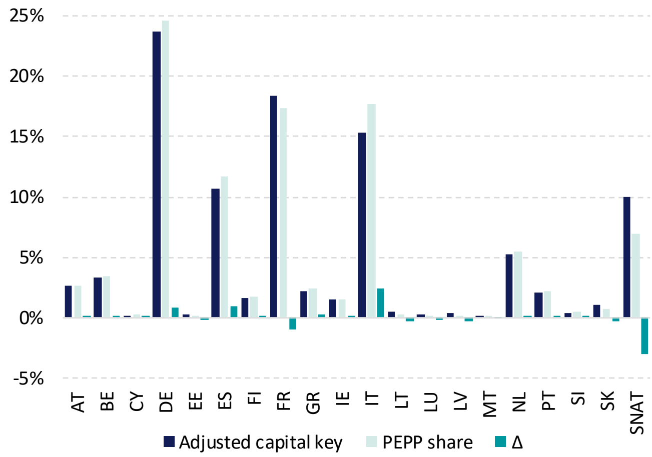
### Breakdown of public sector securities under the PEPP

| Jurisdiction | Holdings (in EURm) | Adj. distribution key[1] | PEPP share | Deviations from the adj. distribution key[2] | ø time to maturity (in years) | Market average[3] (in years) | Difference (in years) |
|---|---|---|---|---|---|---|---|
| AT | 20,692 | 2.6% | 2.7% | 0.1% | 10.0 | 7.1 | 3.0 |
| BE | 26,084 | 3.3% | 3.4% | 0.1% | 6.5 | 9.3 | -2.8 |
| CY | 1,712 | 0.2% | 0.2% | 0.0% | 10.4 | 8.2 | 2.3 |
| DE | 188,751 | 23.7% | 24.6% | 0.8% | 5.1 | 6.7 | -1.6 |
| EE | 211 | 0.3% | 0.0% | -0.2% | 8.9 | 8.2 | 0.8 |
| ES | 89,846 | 10.7% | 11.7% | 1.0% | 8.5 | 7.4 | 1.0 |
| FI | 13,103 | 1.7% | 1.7% | 0.1% | 7.1 | 6.9 | 0.2 |
| FR | 133,594 | 18.4% | 17.4% | -1.0% | 8.4 | 7.3 | 1.1 |
| GR | 18,950 | 2.2% | 2.5% | 0.2% | 8.6 | 9.5 | -0.8 |
| IE | 12,123 | 1.5% | 1.6% | 0.1% | 9.0 | 9.4 | -0.5 |
| IT | 136,310 | 15.3% | 17.7% | 2.5% | 6.8 | 6.9 | -0.1 |
| LT | 2,183 | 0.5% | 0.3% | -0.2% | 11.5 | 10.3 | 1.2 |
| LU | 1,301 | 0.3% | 0.2% | -0.1% | 6.9 | 6.2 | 0.6 |
| LV | 888 | 0.4% | 0.1% | -0.2% | 9.7 | 10.1 | -0.4 |
| MT | 266 | 0.1% | 0.0% | -0.1% | 7.2 | 8.0 | -0.8 |
| NL | 41,956 | 5.3% | 5.5% | 0.2% | 4.4 | 7.8 | -3.3 |
| PT | 17,304 | 2.1% | 2.3% | 0.1% | 6.6 | 6.6 | 0.0 |
| SI | 3,644 | 0.4% | 0.5% | 0.0% | 9.3 | 9.8 | -0.5 |
| SK | 5,381 | 1.0% | 0.7% | -0.3% | 8.6 | 8.2 | 0.4 |
| SNAT | 53,849 | 10.0% | 7.0% | -3.0% | 9.8 | 7.9 | 1.9 |
| **Total / Avg.** | **768,148** | **100.0%** | **100.0%** | **0.0%** | **7.1** | **7.3** | **-0.2** |

### Distribution of public sector assets by jurisdiction




### Deviations from the adjusted distribution key



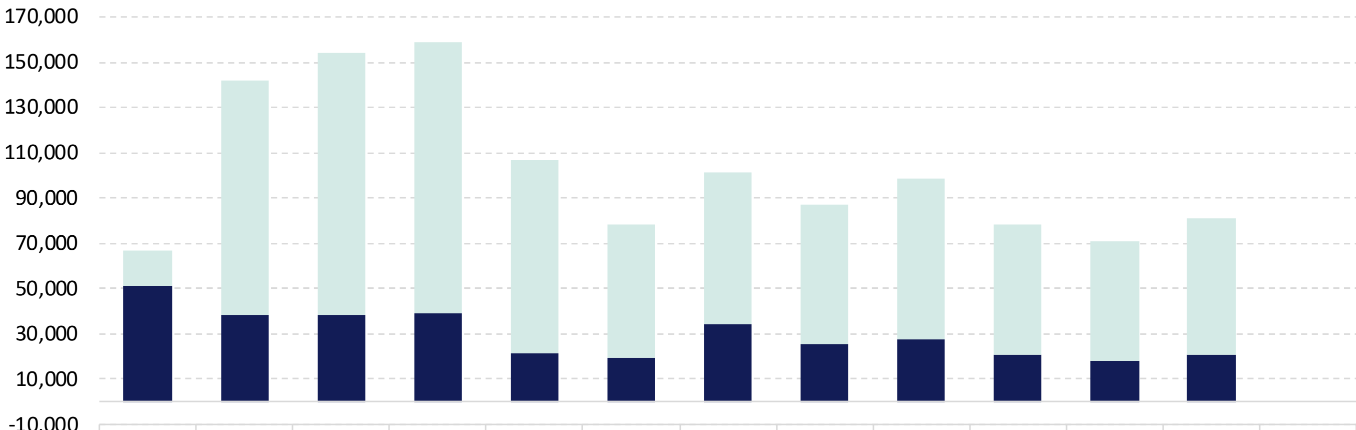

[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

### Aggregated purchase activity under APP and PEPP

**Holdings (in EURm)**

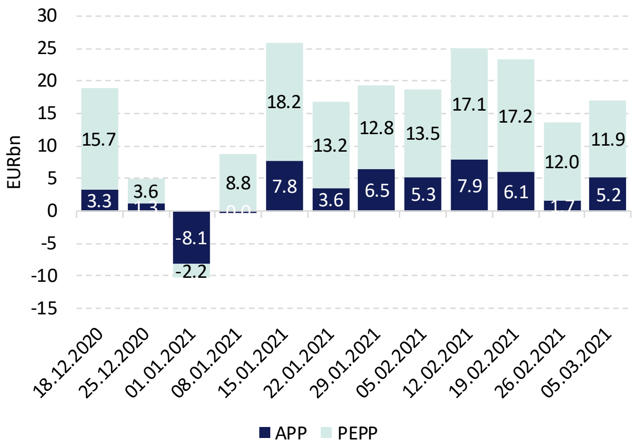
| | APP | PEPP | APP & PEPP |
|---|---|---|---|
| **Jan-21** | 2,926,754 | 810,212 | 3,736,966 |
| **Feb-21** | 2,947,703 | 870,126 | 3,817,829 |
| **Δ** | +20,949 | +59,914 | 80,863 |

**Monthly net purchases (in EURm)**

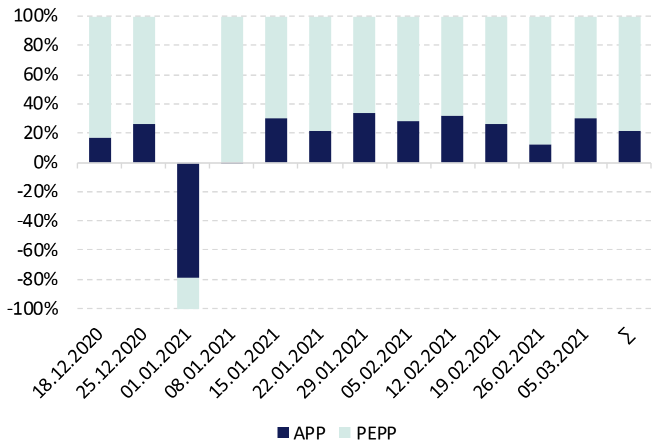



| | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ∑ | 66,586 | 141,807 | 154,025 | 159,091 | 106,952 | 78,593 | 101,322 | 87,334 | 98,555 | 78,092 | 70,892 | 80,863 | 1,224,11 |
| PEPP | 15,444 | 103,366 | 115,855 | 120,321 | 85,423 | 59,466 | 67,308 | 61,985 | 70,835 | 57,163 | 53,046 | 59,914 | 870,126 |
| APP | 51,142 | 38,441 | 38,170 | 38,770 | 21,529 | 19,127 | 34,014 | 25,349 | 27,720 | 20,929 | 17,846 | 20,949 | 353,986 |

**Weekly purchases**



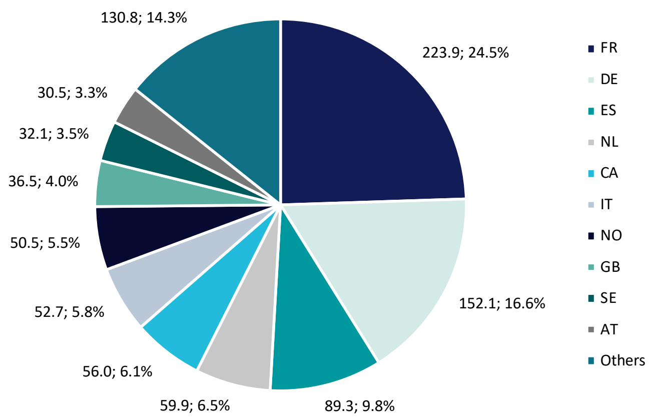

**Distribution of weekly purchases**



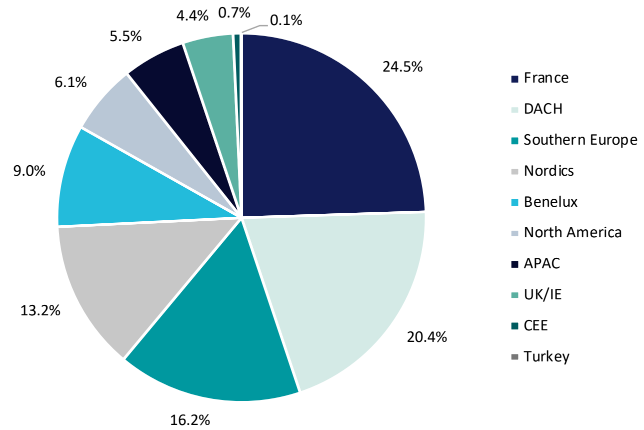

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Charts & Figures
# Covered Bonds

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



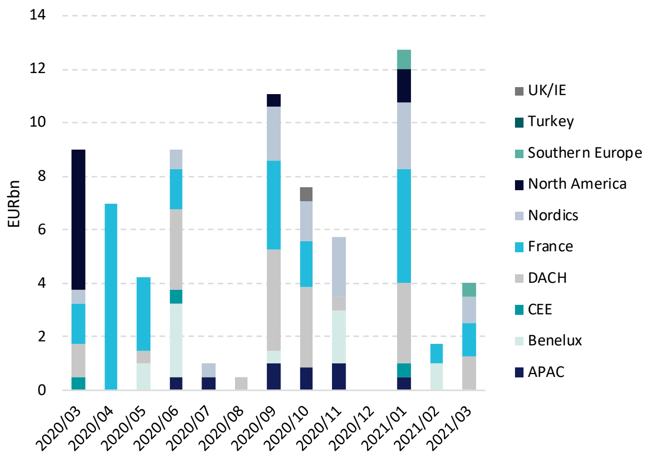

**EUR benchmark volume by region (in EURbn)**



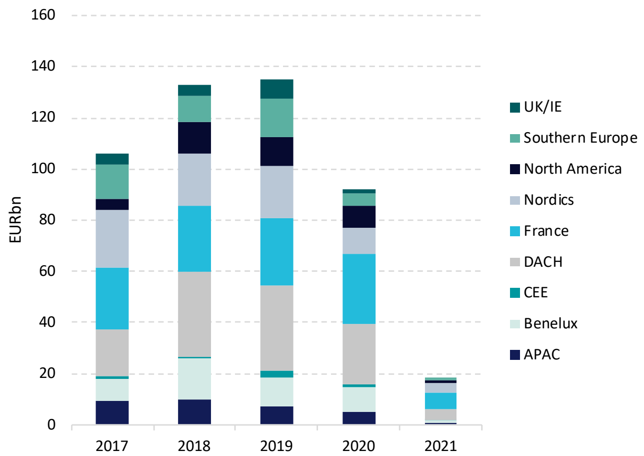

**Top-10 jurisdictions**

| 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 | 223.9 | 206 | 7 | 0.96 | 10.2 | 5.6 | 1.17 |
| 2 | DE | 152.1 | 227 | 12 | 0.60 | 8.3 | 4.7 | 0.47 |
| 3 | ES | 89.3 | 72 | 3 | 1.13 | 11.4 | 3.9 | 1.86 |
| 4 | NL | 59.9 | 59 | 0 | 0.96 | 11.2 | 7.3 | 0.97 |
| 5 | CA | 56.0 | 47 | 0 | 1.16 | 6.0 | 2.9 | 0.30 |
| 6 | IT | 52.7 | 61 | 1 | 0.83 | 9.1 | 4.2 | 1.43 |
| 7 | NO | 50.5 | 57 | 7 | 0.89 | 7.3 | 3.8 | 0.55 |
| 8 | GB | 36.5 | 41 | 0 | 0.90 | 8.4 | 3.2 | 1.12 |
| 9 | SE | 32.1 | 38 | 0 | 0.84 | 7.5 | 3.4 | 0.60 |
| 10 | AT | 30.5 | 56 | 1 | 0.54 | 9.5 | 6.0 | 0.67 |

**EUR benchmark issue volume by month**

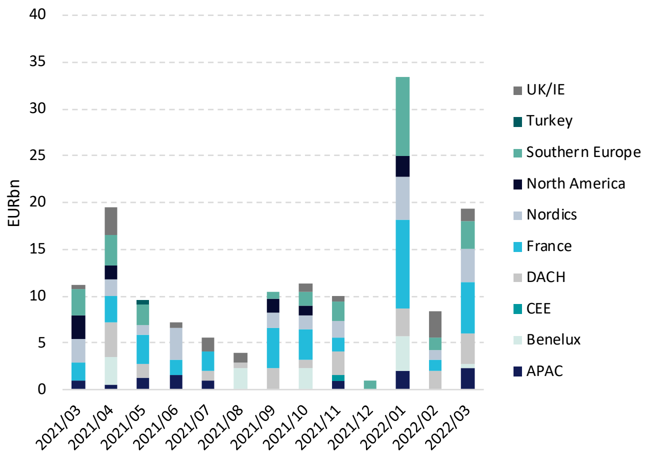



**EUR benchmark issue volume by year**

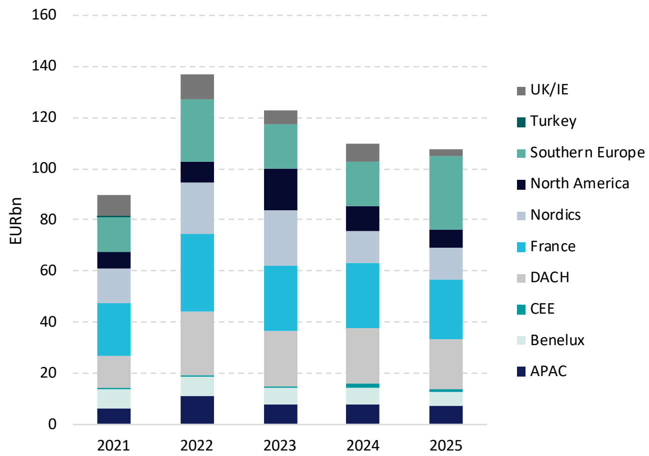



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

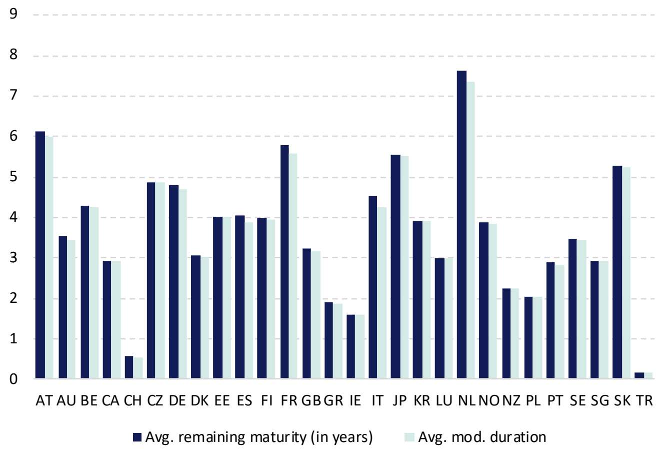
### EUR benchmark maturities by month



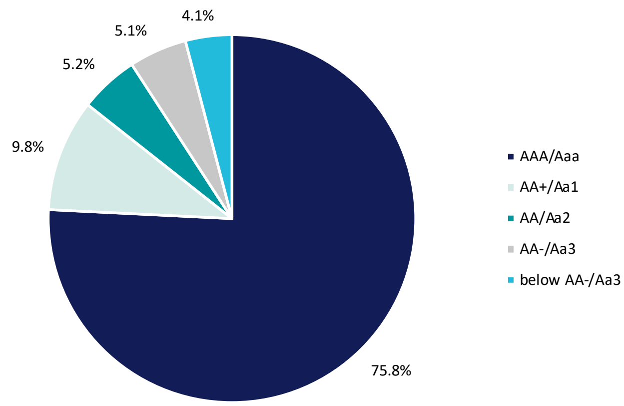

### EUR benchmark maturities by year



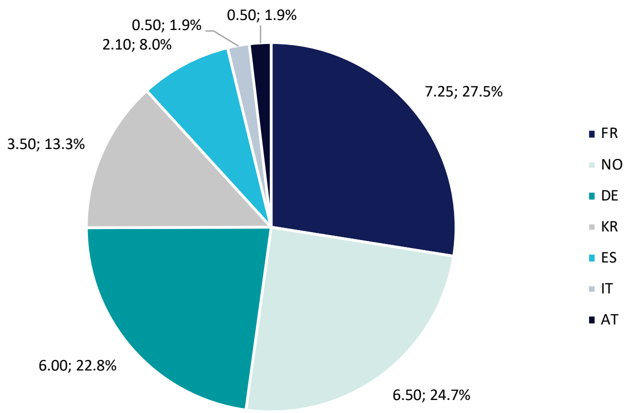

### Modified duration and time to maturity by country



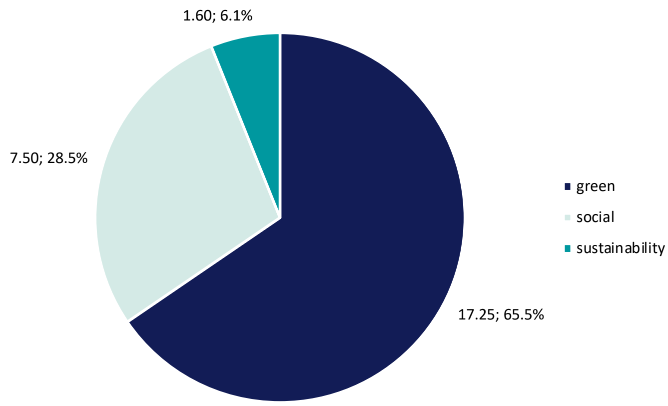

### Rating distribution (volume weighted)




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

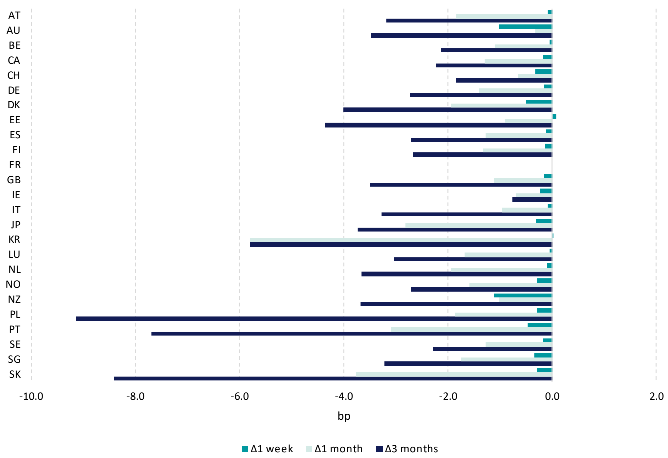



### EUR benchmark volume (ESG) by type (in EURbn)

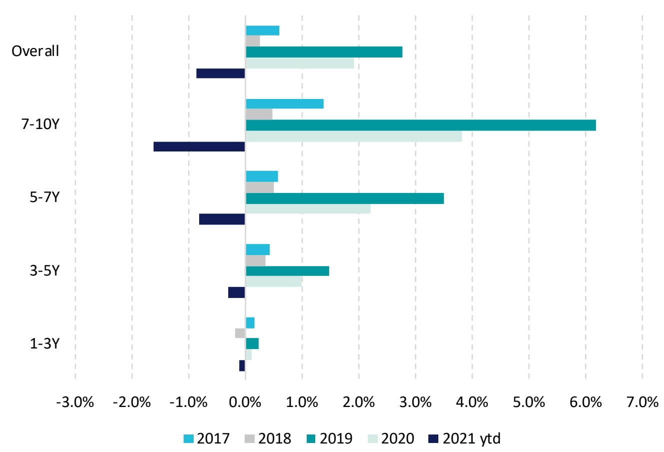



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

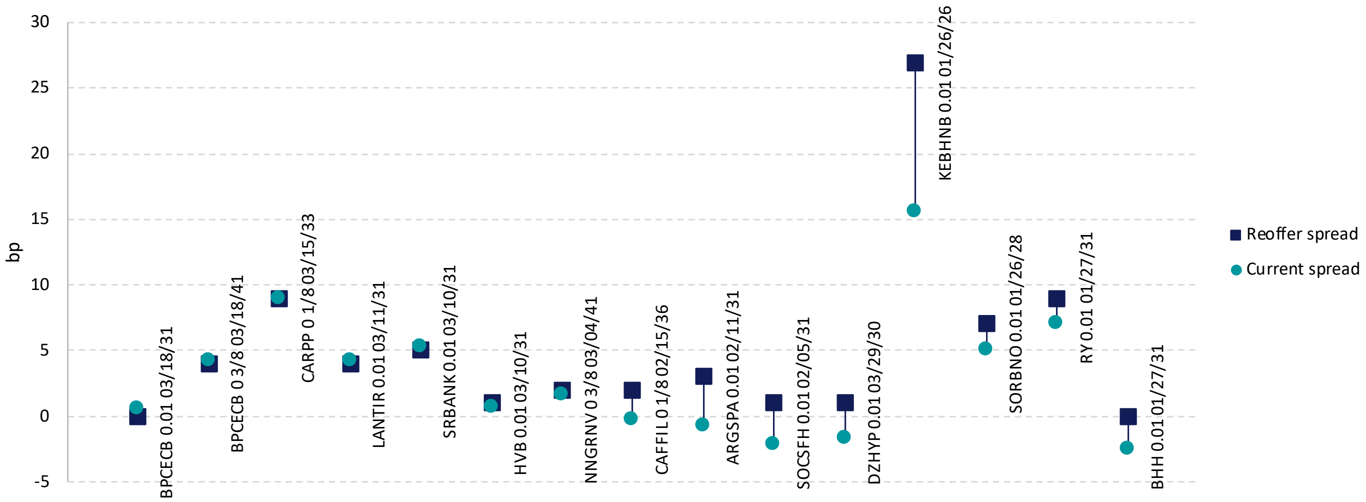
## Spread development by country



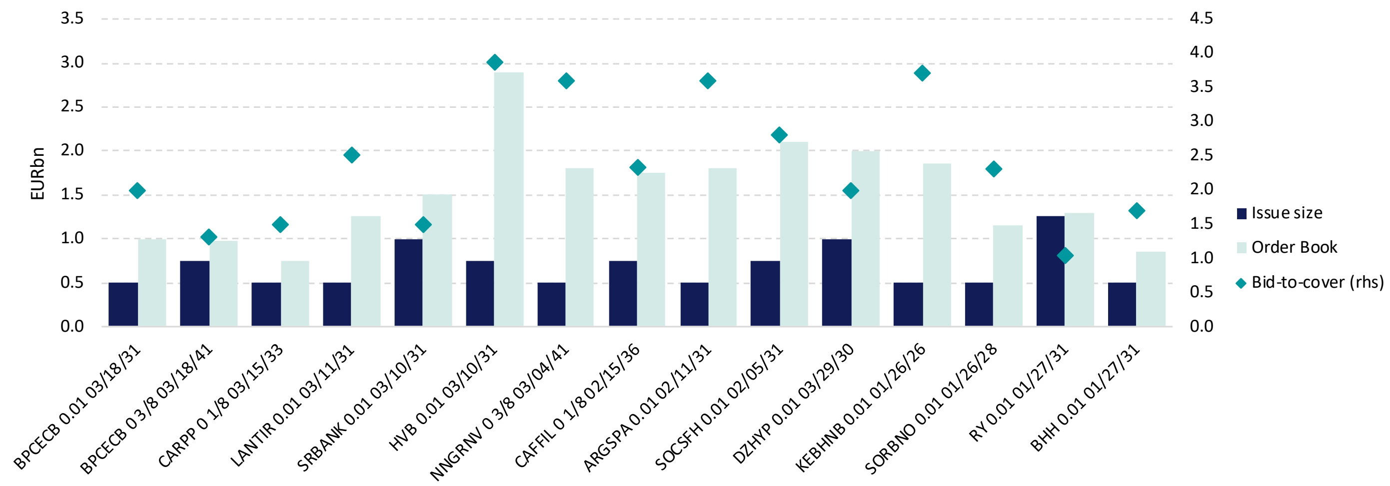

## Covered bond performance (Total return)




## Spread development (last 15 issues)



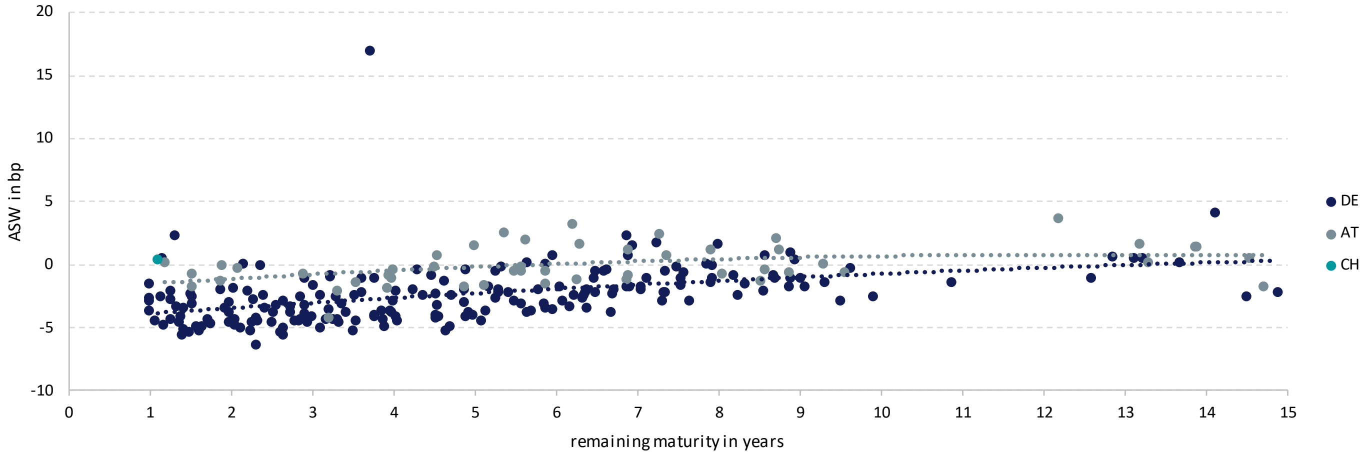

## Order books (last 15 issues)



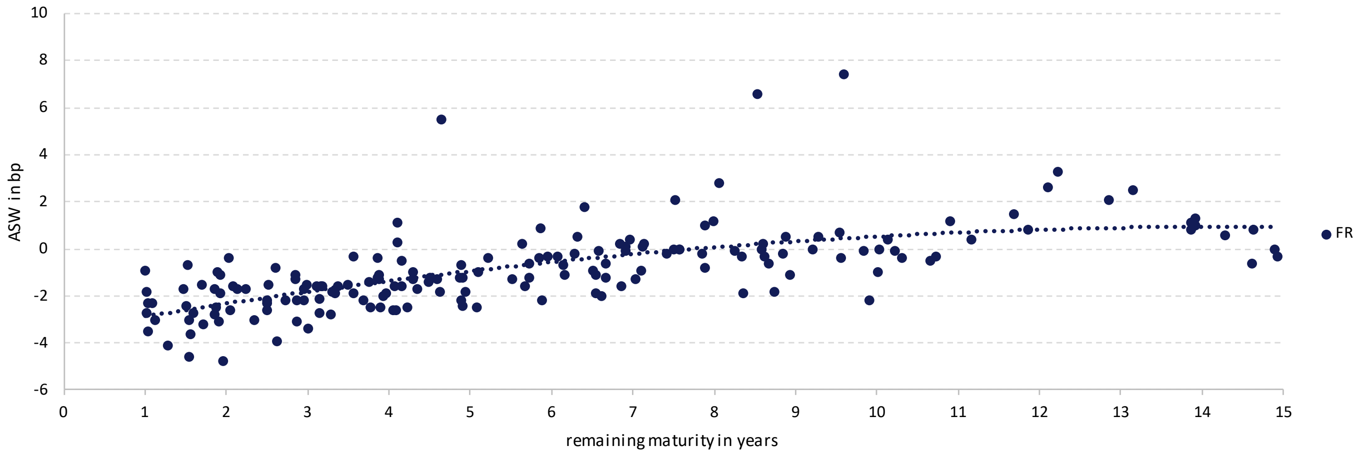

Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

**Spread overview[1]**

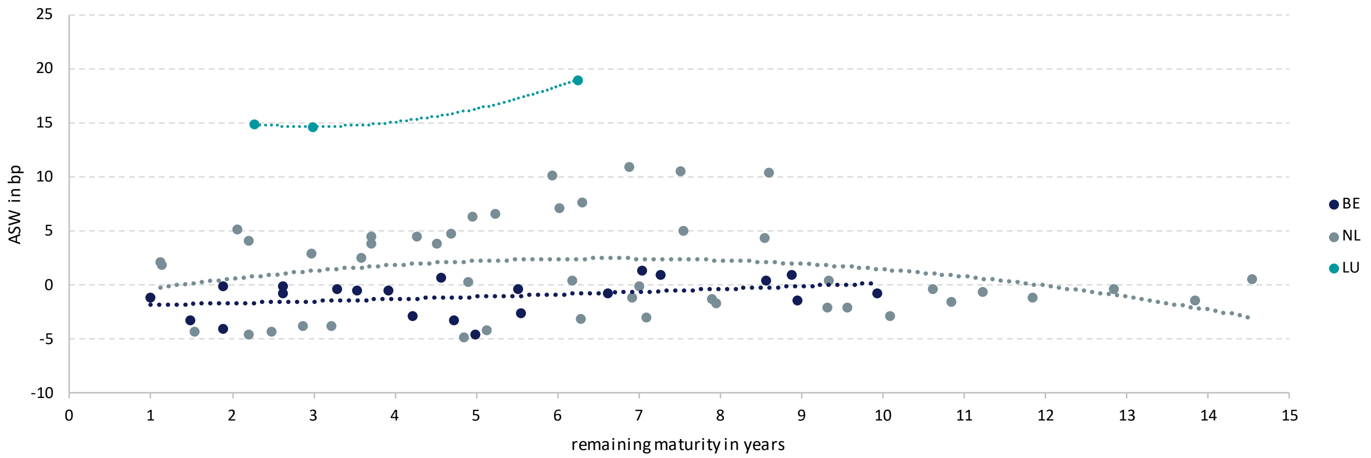
**DACH**




**France**

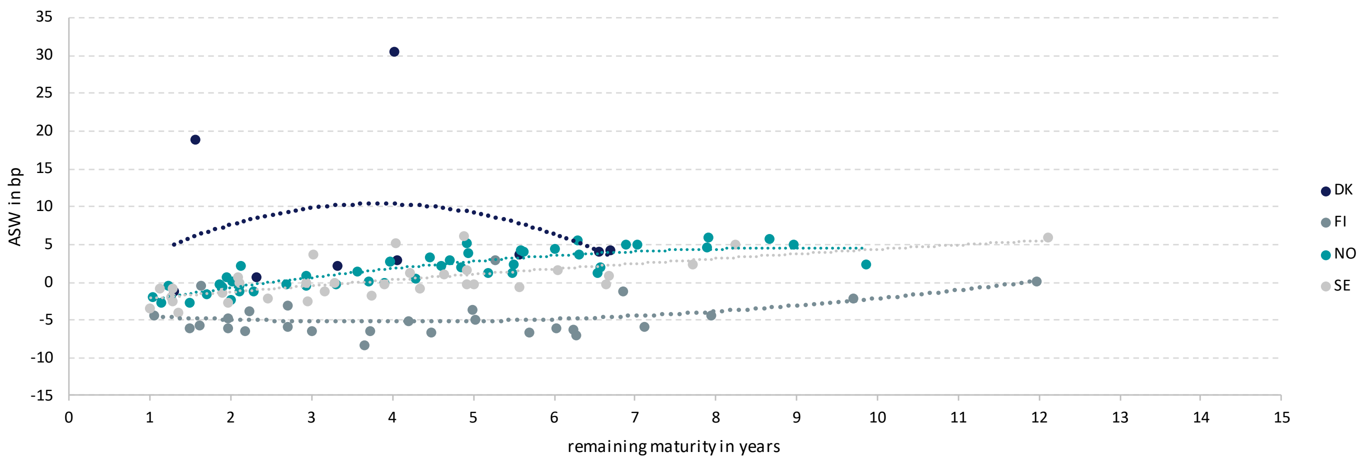



**Benelux**

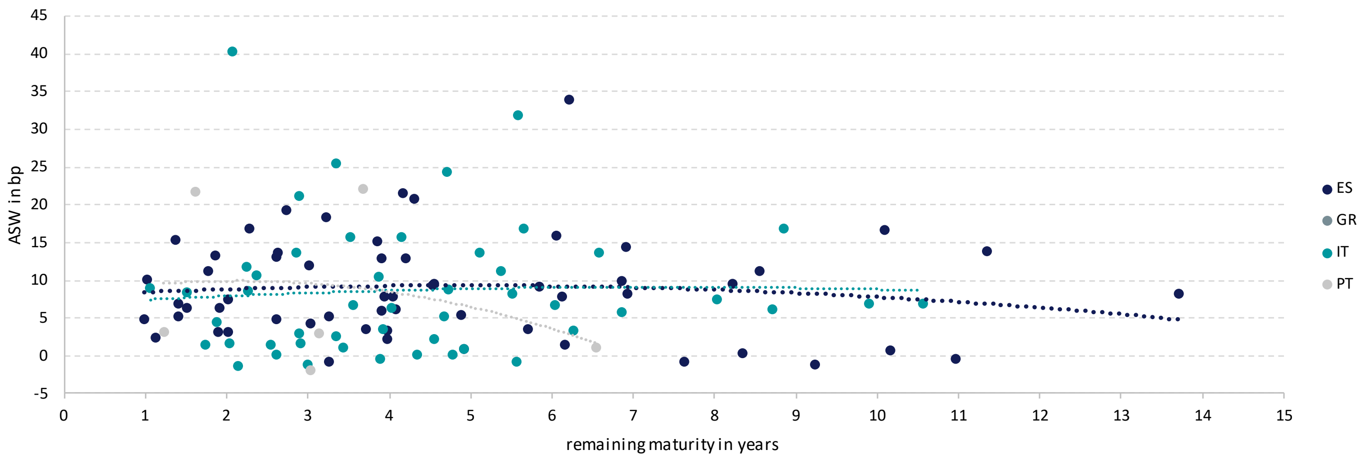



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

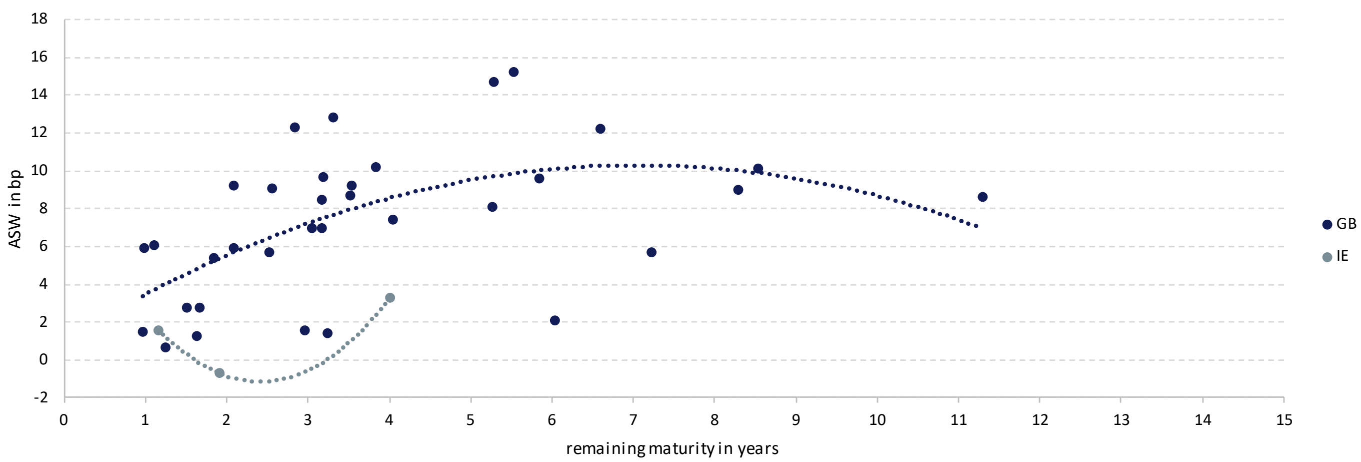
**Nordics**




**Southern Europe**

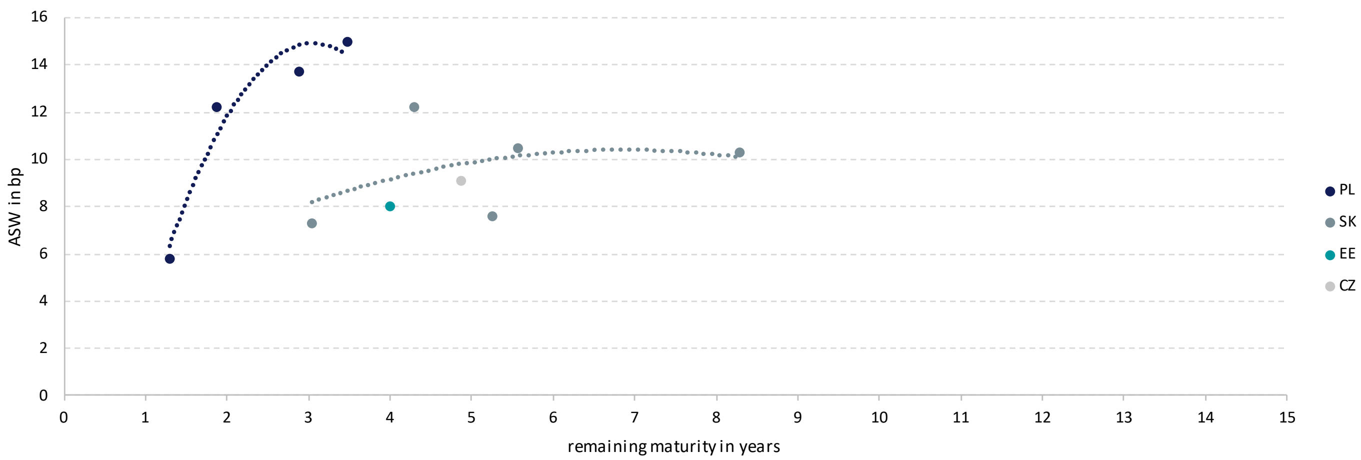



**UK/IE**

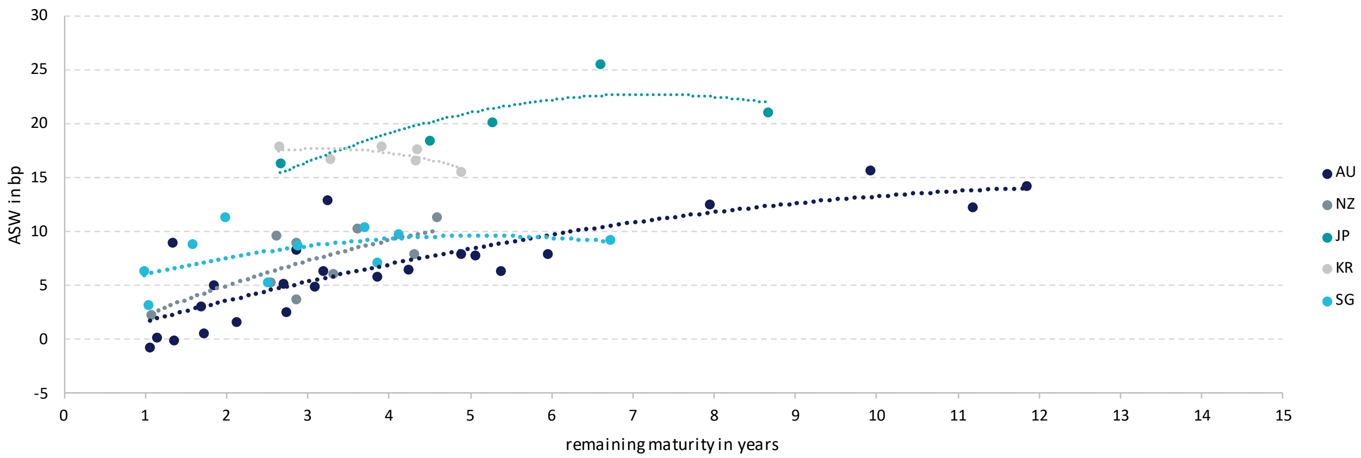



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

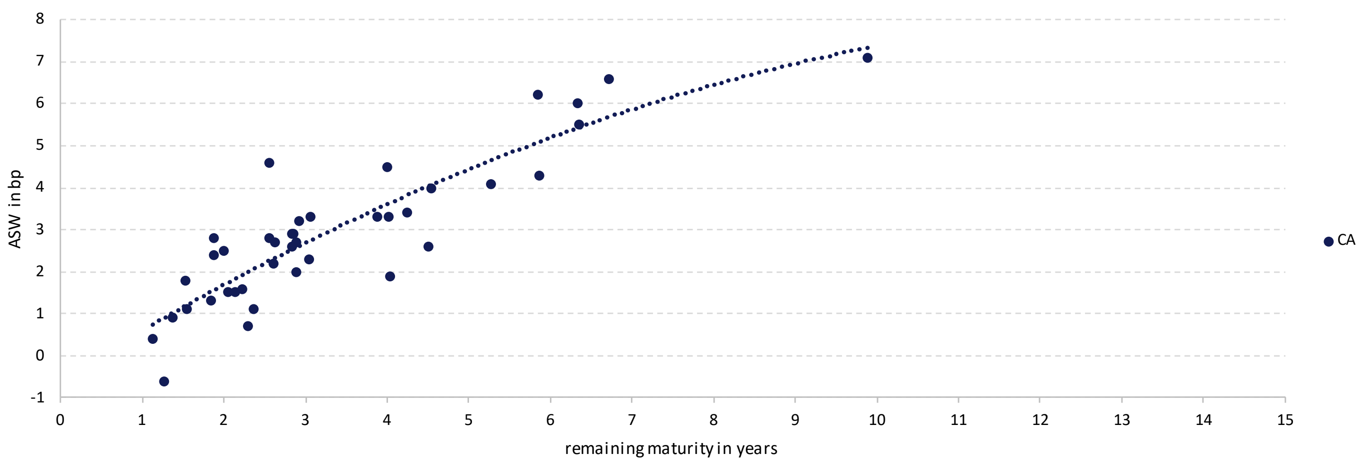
**CEE**




**APAC**



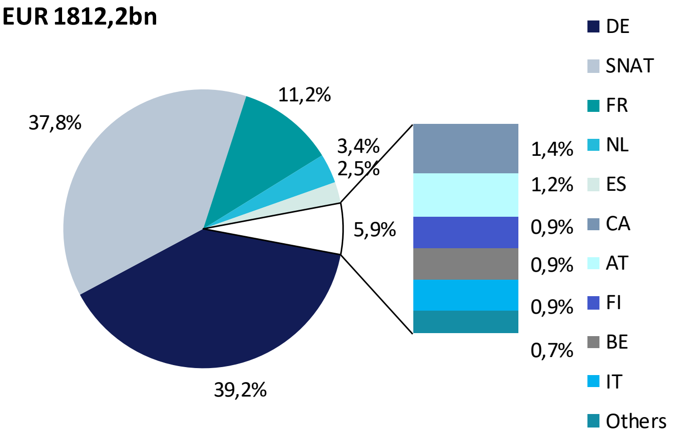

**North America**




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

# Charts & Figures
# SSA/Public Issuers

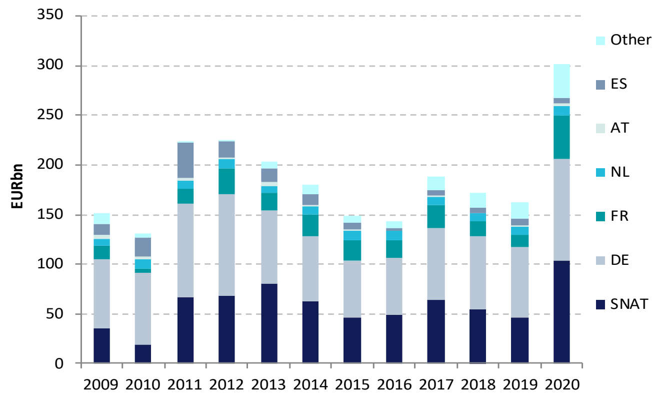
### Outstanding volume (bmk)



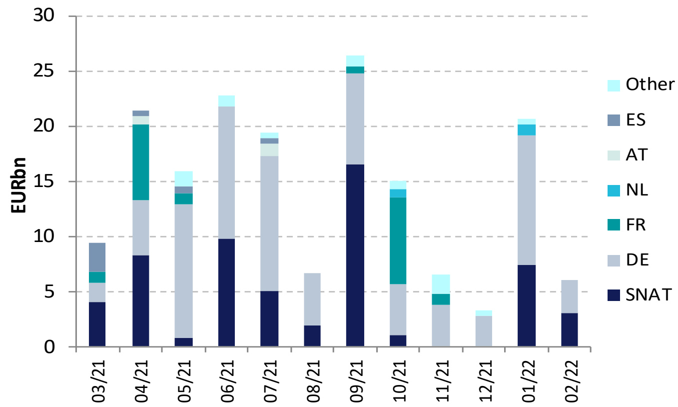

### Top 10 countries (bmk)

| Country | Vol. (€bn) | No. of bonds | ØVol. (€bn) | Vol. weight. ØMod. Dur. |
|---|---|---|---|---|
| DE | 710,4 | 555 | 1,3 | 6,7 |
| SNAT | 685,1 | 180 | 3,8 | 8,0 |
| FR | 202,8 | 140 | 1,4 | 5,3 |
| NL | 61,7 | 63 | 1,0 | 6,5 |
| ES | 44,4 | 53 | 0,8 | 4,8 |
| CA | 25,0 | 18 | 1,4 | 5,5 |
| AT | 22,5 | 24 | 0,9 | 5,2 |
| FI | 16,5 | 21 | 0,8 | 6,1 |
| BE | 16,3 | 19 | 0,9 | 13,9 |
| IT | 15,8 | 20 | 0,8 | 5,9 |

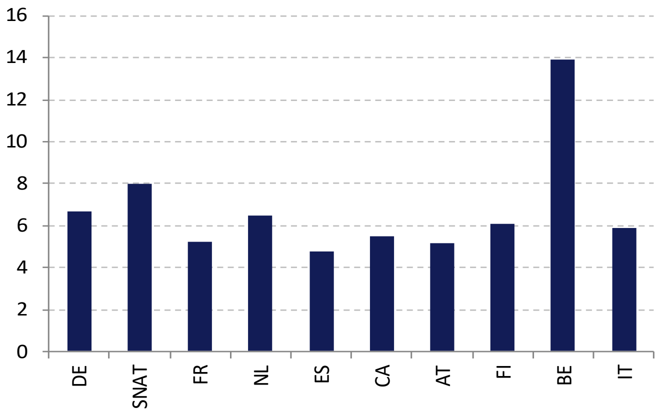
### Issue volume by year (bmk)



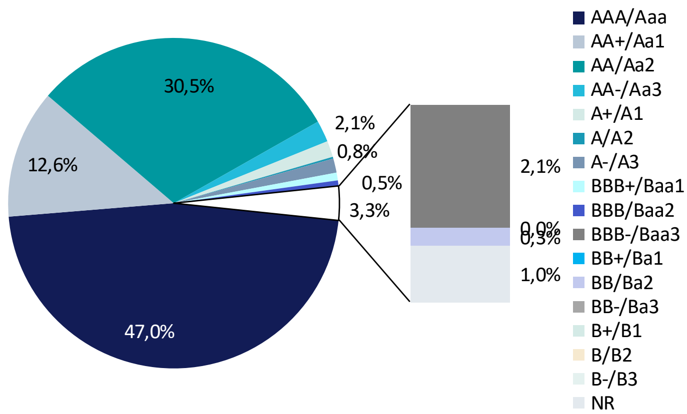

### Maturities next 12 months (bmk)




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



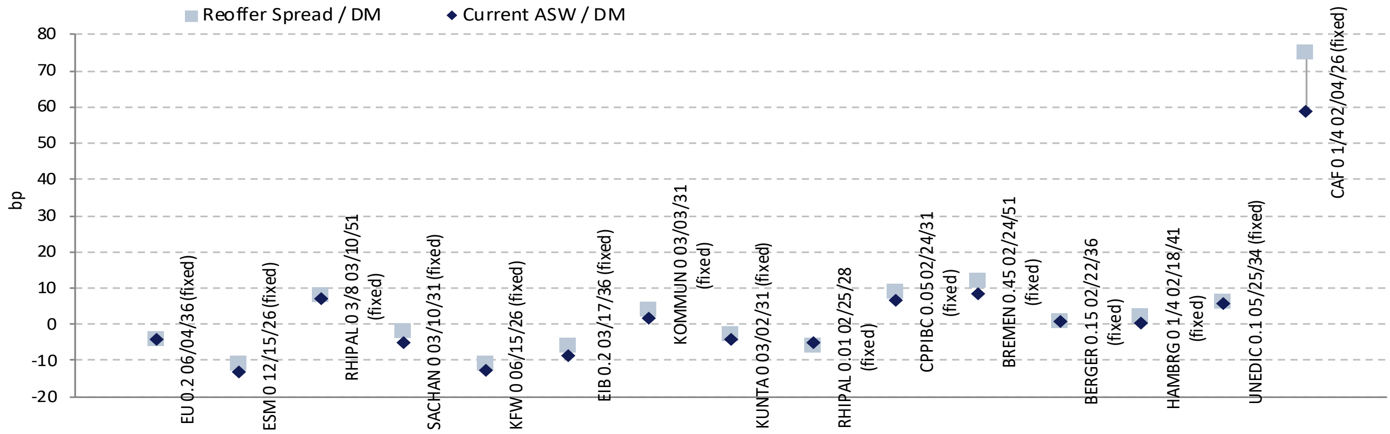

### Rating distribution (vol. weighted)



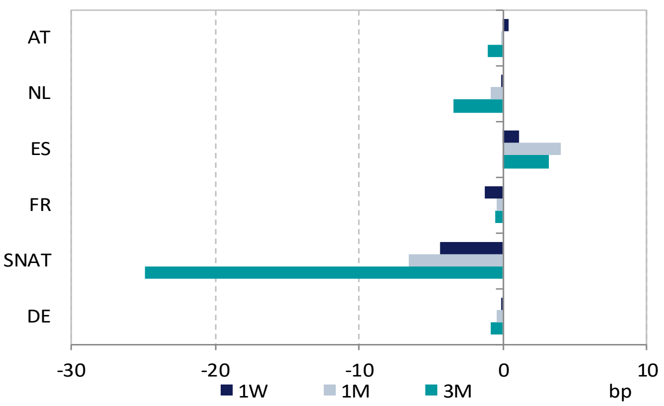

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

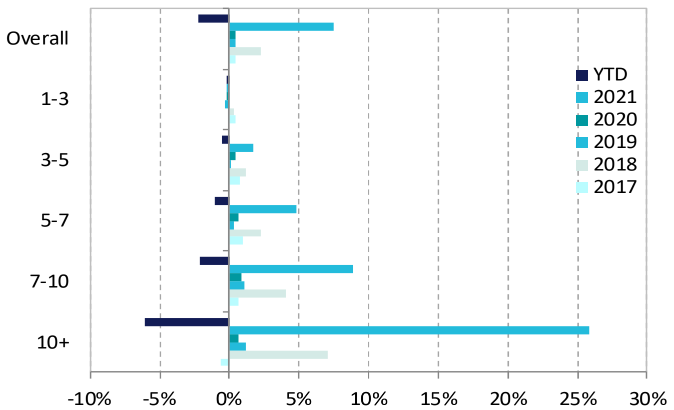
## Spread development (last 15 issues)



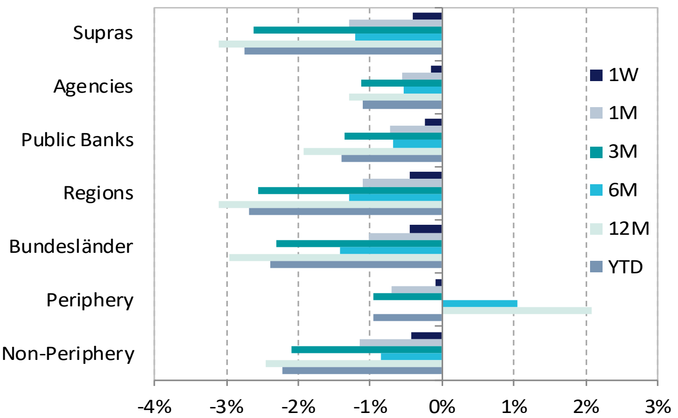

## Spread development by country



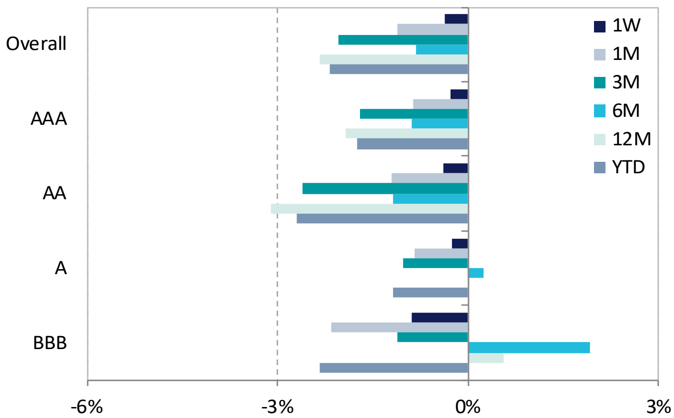

## Performance (total return)




## Performance (total return) by regions

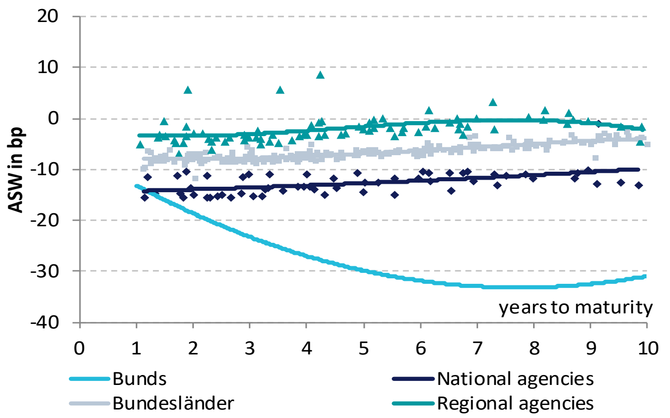



## Performance (total return) by rating

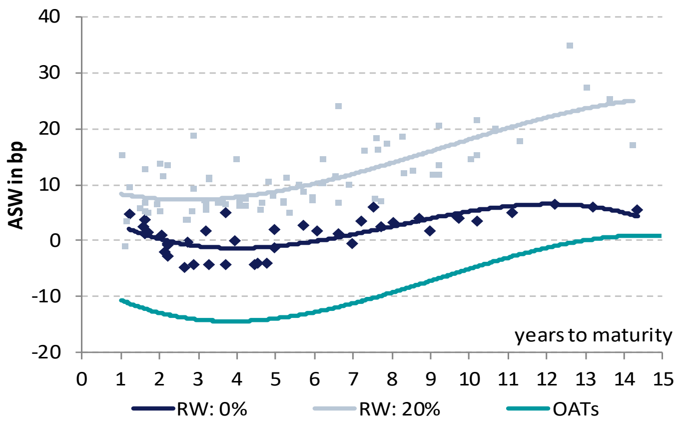



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

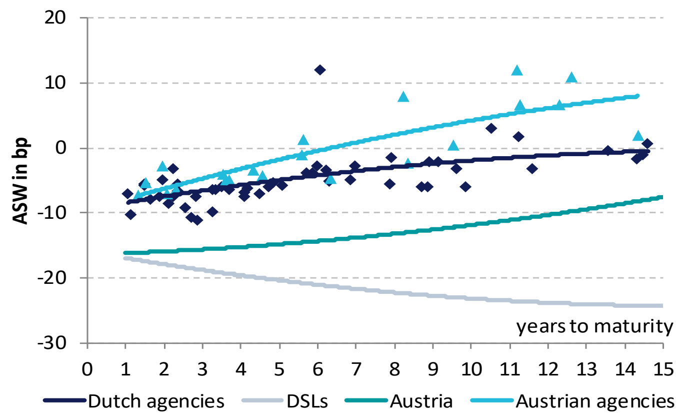
**Germany (by segments)**



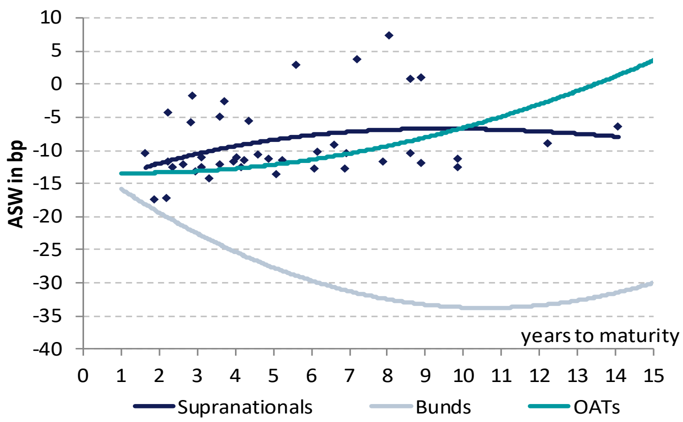

**France (by risk weight)**




**Netherlands & Austria**




**Supranationals**

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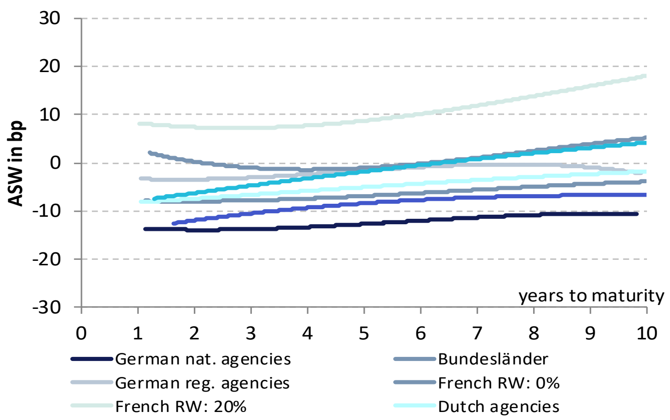
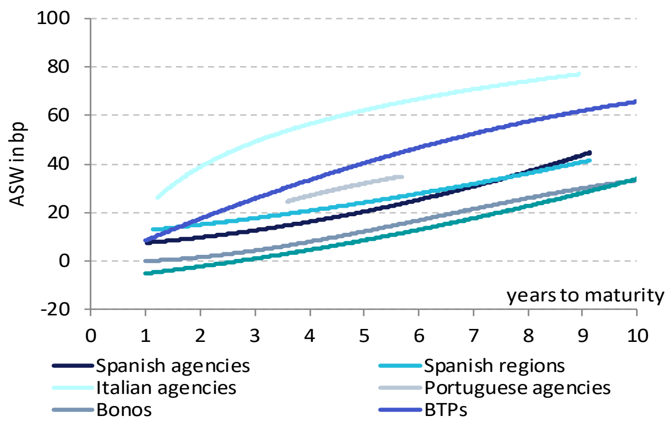



**Periphery**




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

# Appendix
# Overview of latest Covered Bond & SSA View editions

| Publication | Topics |
|---|---|
| 08/2021 ♦ 03 March | ▪ Repayment structures on the covered bond market<br>▪ ECB in a tight spot: litmus test for PEPP flexibility and preview of the second interest rate meeting of the year |
| 07/2021 ♦ 24 February | ▪ An overview of the EUR sub-benchmark segment<br>▪ ECB: crowding-out effects take hold<br>▪ PEPP vs. PSPP: Similarities and differences |
| 06/2021 ♦ 17 February | ▪ Insights into the iBoxx EUR Covered<br>▪ Development of the German property market |
| 05/2021 ♦ 10 February | ▪ PEPP reporting: upswing in public sector assets continues; covered bonds inconsequential |
| 04/2021 ♦ 03 February | ▪ Argenta Spaarbank expands Belgian market for EUR benchmarks<br>▪ An overview of the Fitch covered bond universe<br>▪ January 2021 packs a punch to kick off the new year |
| 03/2021 ♦ 27 January | ▪ An unusual – albeit expected – start to the year?<br>▪ A look at USD benchmarks<br>▪ ESM reform – restructuring continues |
| 02/2021 ♦ 20 January | ▪ Spread considerations – APAC covered bonds riding the wave of ECB purchase programmes?<br>▪ Return of the Danish market for EUR benchmark bond issues<br>▪ 22nd meeting of the Stability Council (Dec. 2020) |
| 01/2021 ♦ 13 January | ▪ EUR benchmark from the Czech Republic: Komerční Banka launches a new covered bond programme<br>▪ New covered bond programme from South Korea: Hana Bank<br>▪ Annual review of 2020 – covered bonds<br>▪ Annual review of 2020 – SSA |
| 48/2020 ♦ 16 December | ▪ TLTRO III: ECB extends tender and also raises the threshold |
| 47/2020 ♦ 09 December | ▪ Fourth and final round of PEPP reporting in 2020<br>▪ Investment alternative: Paris metropolitan area (IDF and VDP) |
| 46/2020 ♦ 02 December | ▪ The ECB ahead of its course-setting meeting for 2021<br>▪ Covered Bonds – Outlook 2021: Waiting for the game changer?<br>▪ SSA – Outlook 2021: Coronavirus and ECB dominate public-sector segment |
| 45/2020 ♦ 25 November | ▪ UOB ends the state of hibernation on Singapore's primary market<br>▪ The covered bond universe of Moody's: an overview<br>▪ Update: Belgium regions as investment alternatives |
| 44/2020 ♦ 18 November | ▪ Primary market 2021: real prospect of Hungarian EUR benchmarks?<br>▪ German Pfandbrief savings banks in Q3 2020<br>▪ Development of the German property market |
| 43/2020 ♦ 11 November | ▪ Newcomer to the benchmark segment: HSBC Bank Canada sets sights on EUR debut<br>▪ OP Mortgage Bank: First green covered bond from Finland<br>▪ Transparency requirements §28 PfandBG Q3/2020 |

# Appendix
# Publication overview

**Covered Bonds:**

[Issuer Guide Covered Bonds 2020]

[Risk weights and LCR levels of covered bonds]

[Transparency requirements §28 PfandBG]

[Transparenzvorschrift §28 PfandBG Sparkassen] **(German only)**

**SSA/Public Issuers:**

[Issuer Guide – Supranationals & Agencies 2019]

[Issuer Guide – Canadian Provinces & Territories 2020]

[Issuer Guide – German Bundeslaender 2020]

[Issuer Guide – Down Under 2019]

**Fixed Income:**

[ESG update]

[Analysis of ESG reporting]

[ECB holds course, but ups the ante – PEPP running until 2022]

[ECB launches corona pandemic emergency]

[ECB responds to corona risks]

# Appendix
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| Sales Sparkassen & Regionalbanken | +49 511 9818-9400 |
| Sales MM/FX | +49 511 9818-9460 |
| Sales Europe | +352 452211-515 |

## Trading

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| Financials | +49 511 9818-9490 |
| Governments | +49 511 9818-9660 |
| Laender/Regionen | +49 511 9818-9550 |
| Frequent Issuers | +49 511 9818-9640 |

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| Origination Corporates | +49 511 361-2911 |

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| Asset Finance | +49 511 361-8150 |

## Treasury

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|---|---|
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| Liquidity Management | +49 511 9818-9620<br>+49 511 9818-9650 |

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**Time of going to press:** 10 March 2021 08:56h (CET)

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| | |
|---|---|
| **Positive:** | 36% |
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| **Negative:** | 14% |

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| Issuer / security | Date | Recommendation | Bond type | Cause |
|---|---|---|---|---|