NORD/LB

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)

Finanzgruppe

Agenda

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Market overview
Covered Bonds

Authors: Melanie Kiene, CIIA // Dr Frederik Kunze

Attack on Ukraine also leaves the primary market in a state of paralysis

Despite the fact that the primary market has been characterised by repeated "risk off" phases over recent weeks, covered bond issuers have still consistently managed to successfully place deals on the market. In particular, medium maturities of five to seven years have proven to be in demand. The fresh EUR benchmarks placed over the past five trading days all date back to 23 February 2022. This means that the deals were initiated before the dramatic turning point signalled by Russia's attack on Ukraine that also paralysed the primary market. Last Wednesday, we welcomed the first deal of the year from Belgium, when Argenta Spaarbank placed its third EUR benchmark overall. This bond worth EUR 500m means that each of the last three benchmarks from Belgium are all attributable to the same issuer. The initial guidance for this deal was in the area of ms +10bp, although the final spread tightened to ms +7bp during the marketing phase. An order book of EUR 880m also produced an oversubscription ratio of 1.8x. In terms of the geographical allocation, the largest share went to accounts from Germany and Austria (41%), followed by the Benelux countries (25%) and France (14%). Banks dominated the breakdown by investor group, at 49%, with notable shares also going to Central Banks/OI (26%) and Funds (24%). Also on Wednesday, Credit Mutuel Home Loan successfully placed a dual tranche on the market. The bonds worth EUR 1.5bn (5y) and EUR 500m (10y) brought the issuance volume from France in the year to-date to EUR 10bn. Both the order books of EUR 2.35bn (5y) and EUR 720m (10y) and respective bid-to-cover ratios of 1.6x (5y) and 1.4x (10y) signalled substantial demand for the deals, which started off the marketing phase in the area of ms +5bp (5y) and ms +11bp (10y). The reoffer spreads of ms flat (5y) and ms +8bp (10y) indicate new issue premiums of +1bp (5y) and +4bp (10y). At 34% (5y) and 32% (10y), French investors were responsible for the highest shares of the geographical allocation for both tranches of this deal. In terms of the distribution by investor group, Central Banks/OI left other categories trailing in their wake with shares of 50% (5y) and 46% (10y). These elevated shares are due to the significant involvement of the Eurosystem.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Argenta Spaarbank	BE	23.02.	BE6333477568	7.0y	0.50bn	ms +7bp	- / - / AAA	-
CM Home Loan	FR	23.02.	FR0014008RP9	5.0y	1.50bn	ms +0bp	AAA/Aaa/AAA	-
CM Home Loan	FR	23.02.	FR0014008RV7	10.0y	0.50bn	ms +8bp	AAA/Aaa/AAA	-

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

EUR SBMK segment: Kommunalkredit Austria takes advantage of open issuance window

As was the case for the two issuers above, Kommunalkredit Austria also successfully took advantage of the open issuance window last Wednesday. Its EUR sub-benchmark worth EUR 250m generated an order book of EUR 695m (bid-to-cover: 2.8x). The final spread of ms +17bp came about following tightening of three basis points versus the original guidance (ms +20bp area). The high level of investor interest was not least the result of a significant new issue premium (+5bp) as well as the maturity selected (5y).

Increased uncertainty: implications of the escalation in the Ukraine conflict for the primary and secondary markets

Following the outbreak of war, issuers, investors and traders alike all understandably switched from more active players into the role of market observers. Against the backdrop of the current situation, it should hardly come as a surprise to learn that the EUR benchmark deals originally announced on 23 February for the near future from Hypo NOE (EUR 500m; 7y; WNG) and Banco BPM (expected volume of EUR 500m; 5y; inaugural green deal) have not yet appeared on our screens. In any case, we expressly welcome the fact that Banco BPM from Italy offered the prospect of its first and only the second-ever green OBG with its deal. Accordingly, we are devoting a focus article to the issuer and its sustainable framework in today's issue of our weekly publication. On the secondary market, sales dropped sharply amid significantly increased uncertainty, as is usual in other crises. There was also a tendency towards spread increases for covered bonds, although the fundamental informative value of the screen prices should be assessed with a certain degree of caution. In this conflict situation, widening driven by general sentiment cannot be ruled out at all. Moreover, we expect a modest increase in new issue premiums, although this should be more pronounced for maturities of more than ten years. This assessment applies to all jurisdictions without exception. The secondary market is at least likely to follow suit in this regard. However, for higher new issue premiums to materialise, the primary market must first actually get back down to business. In our view, this could possibly still happen over the course of the current trading week. In terms of a "first mover", we could imagine a major core issuer announcing a deal in the maturity range of five to seven years. Significant support should come from the Eurosystem when the market reopens. It can be assumed that the ECB will not adjust its order behaviour on the primary market. In this way, its "customary" initial order size of 40% of the bond volume seen up to this point would not be scaled back. As has been the case in the past, this order volume significantly reduces the execution risk, although it does not represent a cast-iron, 100% guarantee and does not protect against spread levels deemed to be unfavourable or disadvantageous. In our view, this increases the likelihood that an issuer with a broad investor basis will be the first to reopen the primary market. Once a successful deal is placed, smaller issuers may then also feel the time is right to make a move.

War in Ukraine and sanctions on Russia: a look at the banking landscape

The war in Ukraine and the sanctions against Russia will also have an impact on the landscape of the banking and financial sector. For covered bonds, we believe that the direct risks are limited overall. This assessment is based not least on the composition of cover assets. At the same time, however, there is heightened risk potential at some banks and benchmark issuers, as the market response indicates. Accordingly, we shall seek to briefly highlight a handful of banks directly and indirectly impacted by the conflict in Ukraine (cf. focus article).

Let's talk: NORD/LB Capital Market Spotlight at 3.30 pm on 03 March

When we originally issued invitations to our NORD/LB Capital Market Spotlight event "Just hitting the brakes or breaking the habit?", the dramatic escalation of events in Ukraine was not foreseeable. The ECB is likely to remain the centre of attention as far as the markets are concerned, although conditions have been fundamentally altered overnight. Under these circumstances, too, we feel it is important to discuss the current situation and outlook in connection with covered bonds together with you. If you did not receive an invite but are keen to take part, please do not hesitate to get in touch with us at event-markets@nordlb.de.

Market overview
SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

Review: NORD/LB Spotlight on Monday on the Russia escalation

Last Monday at 2:30 pm, we spontaneously assessed Russia's latest military actions against Ukraine and the resulting implications for our two asset classes (directly covered bonds and SSA, indirectly of course also financials). This took place in cooperation with our chief economist, who assessed the macro situation. Since last Thursday, the world has been a different place and we did not price in such an escalation in our weekly publication seven days ago. In many quarters, it has been said that we woke up in another world on Thursday. We have of course observed an increased level of uncertainty since then. Deals that had already been announced were stuck in the "pipeline" (no gas and oil pun intended!), and the issuing window for covered bonds was sealed shut up to and including Monday. Even North Rhine-Westphalia had to postpone a floater syndication (USD 400m) due to the escalation in the conflict last week. On Monday, Rentenbank acted almost like a can opener with its announced benchmark (5y). On the secondary market, we naturally tended to see spread widening, although the informative value of the screen prices in such extreme situations must be taken with a hefty pinch of salt at least. The market tended towards illiquidity, although risk was priced-in to a greater extent and some names widened driven by sentiment (e.g. iTraxx Financials). We still believe that the ECB will move to scale back its bond programmes (PEPP) and will stick to sequencing. At the same time, we see a heightened alert level coupled with the necessary flexibility for further QE from April (keyword: APP). This is and remains our monetary policy baseline scenario. The ECB cannot and will not redefine on a daily basis the further course of its monetary policy strategy due to short-term military actions. It will be interesting to see the new inflationary developments, which do not yet price in any escalation in Ukraine.

Teaser: NORD/LB Capital Market Spotlight on Thursday

In retrospect, since the ECB was first established, there have not been many key interest rate decisions where the official statement and the subsequent press conference seem to come from different worlds. At the first meeting in 2022, ECB President Lagarde certainly caused some speculation. This is not least due to those statements that she did not repeat in comparison with the final meeting of 2021. Will the ECB initiate an interest rate turnaround this year and what does that mean for the fixed income markets? Under the heading **"Just hitting the brakes or breaking the habit?"** we would like to discuss these and other issues with you as part of our digital NORD/LB Capital Market Spotlight format on Thursday, 3 March 2022 (3.30pm CET). In addition to ECB monetary policy, the focus will also be on the effects on the public sector/SSA and covered bond asset classes. One week later, the ECB Governing Council meeting will take place, for which so far it is only clear that there will be new growth and inflation forecasts, but not how and whether the ECB will revise its decisions from December 2021 and February 2022. In addition, its relevance has once again increased here, since war is never desirable anyway, but it comes at an inopportune time in terms of monetary policy. If you are interested in taking part in this event, please get in touch with your Sales Contact or send us an email at: event-markets@nordlb.de.

Selected issuers with suspected Russia exposure

In our Spotlight event on Monday, we also took a brief look at three issuers from the SSA segment, namely KfW, EIB and IIB. According to the investor relations page of the KfW banking group, its business in Russia has been in sharp decline since 2014, is not very high overall and is well collateralised. In addition, the sanctions situation is being continuously monitored. In addition, the Ukraine business of KfW banking group is also not very substantial and mostly well collateralised. Information is publicly available on KfW IPEX Bank GmbH and DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH. IPEX supports German exports to Russia as well as German investments in Russia and CIS countries. More than 5,000 German companies are currently active in Russia, with investments totalling more than EUR 18bn. KfW IPEX's representative office in Moscow sees itself as the competence centre for the local market and the first point of contact for local customers. As part of its mandate, the representative office maintains contact with existing business partners, government agencies and other institutions, although it does not conduct any banking business of its own. Its sole function is to support KfW's headquarters in Frankfurt. KfW DEG has been active in Russia and neighbouring countries since the mid-1990s. The focus of its activities is on the financial sector (long-term loans, equity capital or mezzanine financing). It also has a strong presence in the manufacturing industry. Customers in this sector are mainly German companies. According to its website: "More than 270 million people live in Russia and the CIS states, some of which are linked in a common economic area through the Eurasian Economic Union. Favoured by its economic position as an important global energy supplier and with a domestic market of 145 million inhabitants, Russia accounts for by far the largest share of intraregional direct investments in the CIS." DEG and KfW IPEX Bank work closely together in Moscow. Another big European player is, of course, the European Investment Bank. Outside the EU, the EIB supports projects contributing to economic development in countries which have signed association or cooperation agreements with the European Commission. Since 2002, the EIB has signed framework agreements with Russia, Ukraine, Moldova, Georgia, Azerbaijan and Armenia. These agreements cover all lending activities that the Bank is - or may in the future additionally be - authorised to carry out in these countries. These include the European Neighbourhood Policy, the EU-Russia Strategic Partnership, the Eastern Europe Energy Efficiency and Environmental Partnership (E5P), the Helsinki Commission (HELCOM) and the Barents Euro-Arctic Council. The basis for relations between the EU and Russia is the Partnership and Cooperation Agreement (PCA). The PCA was signed in 1994 and entered into force on 1 December 1997 for an initial period of ten years. In June 2008, talks were launched with Russia on a new agreement to strengthen the EU-Russia Strategic Partnership, replacing the existing Partnership and Cooperation Agreement and addressing new developments. At the end of 2020, the EIB had total assets of EUR 455bn. Its Russia exposure totalled EUR 0.02bn, the Ukraine exposure was at EUR 1.49bn. An additional total of EUR 4.5bn has been agreed in Ukraine, although this has not yet been paid out. The International Investment Bank had already moved its headquarters to Budapest before the pandemic, i.e. within the EU. It originates from Moscow, where there is still a branch office that looks after the market there as well as carrying out back-office activities. In the past, the IIB was officially exempt from any sanctions. The loan book in Russia is 15% (but shrinking). An announced Global Investor Call for tomorrow has been cancelled. We currently assume that no sanctions are to be expected for the IIB.

Primary market

By launching the invasion of Ukraine on 24 February, Russian President Vladimir Putin has sent the international community into a state of shock. Market participants in the SSA segment first had to process and assess this awful - to use any other term would not do justice to the situation - news before new issues could be prepared. However, two issuers still managed to secure some time in the spotlight a day before the invasion. The Bundesland of Thuringia (ticker: THRGN) placed EUR 500m in the form of a seven-year bond at ms -13bp on the market. The bond has a coupon of 0.5% and yields 0.611% per annum. The order book amounted to EUR 750m, which corresponds to a bid-to-cover ratio of 1.5x. The second issuer comes from our neighbours to the west, France. Agence Française de Développement (ticker: AGFRNC), which focuses on promoting development in overseas territories and developing countries, issued a 15-year bond at OAT +27bp. An interpolation of FRTR 1.25% 05/25/36 and FRTR 0.5% 05/25/40 was used as a benchmark. According to our calculation, the relative value to the mid-swap curve at the time of pricing is ms +17bp. On the same day, Action Logement Services (ticker: ALSFR) mandated a sustainability dual tranche. However, as a result of Russia's war of aggression against Ukraine, which began the following day, no issue was possible - as expected - and a suitable issuance window had not yet been found for the ALSFR deal by the time this edition went to print. The same situation could be observed with the Bundesland of North Rhine-Westphalia, which postponed its announced USD 400m tap (FRN) due to the tense market situation. All eyes were therefore on Rentenbank when it announced a mandate for a five-year EUR benchmark on Monday. The guidance for this deal was initially in the area of ms -20bp, before being revised to ms -22bp area shortly afterwards. During the marketing phase, the spread even narrowed to ms -25bp. With books worth EUR 7.75bn, the issue generated a great deal of interest from investors. We were also able to find taps this week: the EU increased its EU 0% 07/06/2026 by EUR 2.5bn as planned. The outstanding volume of the bond therefore now amounts to EUR 13.995bn. With an order book of EUR 3.336bn, the oversubscription was unusually low and, in our opinion, can be blamed on the market environment. To recap, the EU offers an auction every fourth Monday of the month. It would have been easy for the issuer to cancel this appointment at short notice. We do not want the comparatively small oversubscription to be misunderstood; the EU will probably be inundated with orders in subsequent deals. In a break from tradition, we will also comment on Germany's tap, which increased its DBR 0% 08/15/52 at DBR +3.5bp by EUR 4.0bn via the Finance Agency. With books worth a whopping EUR 21bn, this can be taken as a signal that the primary market will continue to gain momentum in the following days. This is illustrated, among other things, by the mandate announced yesterday by Lower Saxony for a EUR 500m (WNG) tap of its NIESA 0.01% 11/25/27.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
RENTEN	DE	28.02.	XS2453958766	5.0y	2.00bn	ms -25bp	AAA / Aaa / AAA	-
AGFRNC	FR	23.02.	FR0014008SA9	15.0y	0.75bn	ms +17bp	AA / - / AA	-
THRGN	DE	22.02.	DE000A3MQQT9	7.0y	0.50bn	ms -13bp	AAA / - / -	-

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

Cross Asset
ECB: Not everyone can get their act together at a turning point

Authors: Dr Norman Rudschuck, CIIA // Dr Frederik Kunze

ECB meeting on 10 March: Monetary policy change in the wake of the "turning point"?
Just less than four weeks ago, on 3 February to be exact, the ECB held its first regular meeting of the year. Formally speaking, our forecast regarding the specific facts and above all new decisions was 100% accurate. In her opening statement, Christine Lagarde stuck by all the comprehensive decisions taken back in mid-December 2021. Nevertheless, the further course of the press conference overshadowed this statement and came as a real surprise to many market observers. A striking indication of a much more "hawkish" ECB was above all reflected in what was not said or achieved. For example, Lagarde neither reiterated that interest rate hikes in 2022 were "very unlikely", nor was she able to convince market participants that price trends were not causing a headache for the Council. Based on this meeting and press conference, the focus of market participants turned to 10 March and possible adjustments by the ECB on that day. The central question was how far the ECB might deviate from the present framework for 2022 – PEPP to end on 31 March 2022, moderate pace of purchases until then and, according to our calculations, the envelope of EUR 1,850bn will not be used in full, adjustment of the APP in 2022 with staggered pace of purchases (booster), no decisions on TLTRO IV or tiering, a rate hike only after the currently open-ended APP is brought to a close (sequencing). However, the focus is no longer on the question of how the ECB's policymakers will initiate the turnaround in monetary policy, but rather on the implications of the turnaround triggered by the escalation in Ukraine for real economic activity, price developments and the stability of the financial markets as a whole.

Escalation in Ukraine and comments from ECB members
The dramatic developments in Ukraine and the associated consequences have also come to the attention of the ECB's monetary policy decision-makers in recent days. This is indicated not least by the latest statements from the members of the ECB Governing Council. Last Friday, Christine Lagarde made it clear that everything would be done to ensure price stability but also financial market stability in the common currency area. For ECB Governing Council member Mario Centeno, the danger of stagflation cannot be regarded as averted, which would also have implications for the ECB's own monetary policy. Ultimately, the attack on Ukraine has increased the upside risks to price developments and at the same time the downside risks to growth. Centeno sees a loss of gas supplies as a "worst case scenario". However, Centeno also believes that the monetary policy turnaround can continue. This view of the situation is also essentially in line with the statements of other Governing Council members, such as Robert Holzmann, for whom a delay or slowdown of the policy change is conceivable as a consequence of the war, but not a fundamental departure from this path. However, we do not see unity. In view of the conflict, Yannis Stournaras spoke in favour of continuing net purchasing activity until the end of the year at least.

New framework conditions for the ECB's key interest rate decision on 10 March?

In fact, given recent events in Ukraine, but also as a consequence of the decisions taken with regard to sanctions measures, the question arises as to the changing framework conditions upon which the ECB Governing Council will base its decision-making. A reassessment of the situation includes not only the expected negative effect on real economic activity in the currency area, but above all the impact on the energy markets. In addition, Ukraine can also be called the "breadbasket of Europe". This may be less eye-catching than building a pipeline through the Baltic Sea, but it has at least as much relevance for daily life. The renewed danger of rising prices for everyday necessities (food, heating, fuel) must be included in the calculation accordingly, even though they are not yet likely to be part of the ECB's new projections to be presented on 10 March. The ECB's projections appear to have already been calculated and thus do not yet include the highest level for a barrel of Brent crude from last Thursday (above USD 105; highest level since August 2014). This should give the forecasts, which will then be updated again in June at the latest, another upward revision for the current year – or even beyond. Additional upward pressure on prices and a generally sharp increase in uncertainty represent new framework conditions, but do not necessarily have to take effect by next Thursday. Monetary policymakers will also look to fiscal measures to address the crisis, as they have in the past.

ECB projections still valid: Inflation revised upwards for all years

In terms of the ECB staff projections, our focus is once again on the assumptions regarding inflationary developments on 10 March. These updates from the ECB are due quarterly. Ultimately, these expectations serve as a guide for the monetary policy stance in Frankfurt. As expected, these were revised upwards for the years 2021, 2022 and 2023, in some cases significantly. For 2021, the central bank last forecast an inflation rate of 2.6% in December (previously 2.2%), while the ECB projections for 2022 are 3.2% (previously: 1.7%) and 1.8% for 2023 (previously 1.5%). For the year 2024, 1.8% is also expected. Three months ago, the ECB therefore painted a clear picture with regard to its own assumptions on future price developments and anticipates a temporary increase in inflation rates, which will peak in 2022. In this context, however, Lagarde's assessment at the press conference that there were also significant upward revisions in the projections further into the future should be emphasised. Nevertheless, inflation expectations would have remained largely stable at the level at the time of the October meeting. When assessing the risks, rising wages but also a return to full utilisation of economic capacities could drive up inflation. Here, oil prices, increases in grain prices and war in Europe have not yet been an issue – and, as we understand it, will not be this time either.

ECB purchase programmes: PEPP has kept plenty of powder dry

The PEPP ending on 31 March currently stands at EUR 1,669.7bn. This is a long way off the target value of EUR 1,850bn, so we have been postulating for several months that the "envelope" will not be fully utilised. But what if the Russian invasion of Ukraine were to jeopardise the transmission mechanism on the markets and the ECB were forced to act? In purely mathematical terms, they could still spend more than EUR 40bn a week to calm the markets. This would correspond to a level that would be huge even compared to the start of the PEPP in spring 2020. The highest weekly value at the time exceeded EUR 34bn.

ECB purchase programme: conceivable paths and announcements

Agreed-on path

- By end of Q1: Discontinuation of PEPP, EUR 1,850bn not exhausted
- Q1 2022: APP is at EUR 20bn per month
- Q2 2022: APP doubles to EUR 40bn per month
- Q3 2022: APP is reduced to EUR 30bn per month
- Q4 2022: APP returns to current level (EUR 20bn)
- H1 2023: First interest rate hike by 25 basis points

Total APP 2022: **EUR 330bn**

Conceivable new path: Scenario 1

- *April/May: APP doubles to EUR 40bn per month*
- *June/July: APP is reduced to EUR 30bn per month*
- *August/September: APP back at EUR 20bn and expires*
- *Q4 2022: First interest rate hike by 25 basis points*

Total APP 2022: **EUR 240bn**

… Scenario 2

- *Q2 2022: APP remains EUR 20bn per month*
- *Q3 2022: APP is reduced to EUR 10bn per month*
- *Q4 2022: First interest rate hike by 25 basis points*

Total APP 2022: **EUR 150bn**

… Scenario 3

- *Q2 2022: APP is lowered to EUR 15bn per month*
- *Q3 2022: APP is reduced to EUR 10bn per month*
- *Q4 2022: APP is reduced for the last time to EUR 5bn per month*
- *Q1 2023: First interest rate hike by 25 basis points*

Total APP 2022: **EUR 150bn**

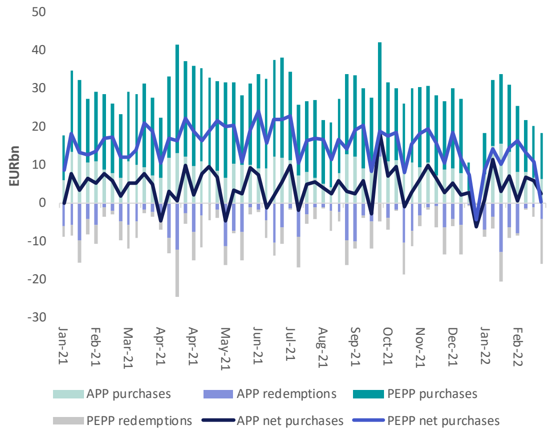
… Scenario 4

The ECB has been postulating the greatest possible flexibility for several months now. So why should it beat itself up, so to speak, with monthly targets? The PEPP has shown how it can be done. The ECB could also present an envelope for the APP on 10 March or at the subsequent meeting on 14 April, which it intends to target at the end of the purchase programme. This could, for example, be at the lower end of the scenarios outlined above (EUR 150bn) or at the upper end (EUR 330bn). This would mean a scenario of six to nine months of APP with a target value of EUR 150-330bn and an average of EUR 25bn to EUR 37bn monthly. In addition, this scenario would include the trump card "flexibility" of being more accommodative until the summer and then only flanking the market to prepare for an interest rate turnaround. Moreover, this would grant all degrees of freedom to respond to the dynamic war situation between Russia and Ukraine and, if necessary, cautiously vary the pressure on the gas pedal. We are therefore very happy to quote Siegfried Wache, illustrator and author, at this point: "Not everyone can get their act together at a turning point". May President Lagarde fare significantly better at this than President Putin.

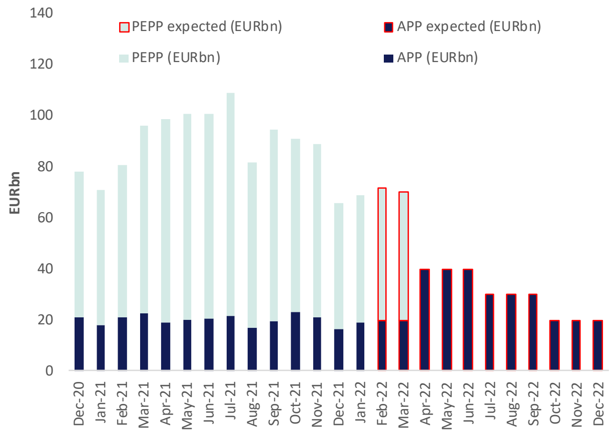
Total APP 2022 as corridor or envelope: **EUR 150-330bn**

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

Purchases under the PEPP and the APP (since 2021)



APP and PEPP: monthly purchases // baseline scenario



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

ECB calendar: It's all a question of timing – ECB Governing Council meetings 2022

The ECB regularly publishes non-binding calendars for the Eurosystem's regular tender operations and reserve maintenance periods, as well as its meeting dates for the current year. Based on the scenarios shown, this schedule also suggests that the ECB would have a maximum of two meetings at the end of 2022 to satisfy the rate hike expectations on the part of market players. In this case, 27 October and 15 December stand out. Should one of the scenarios outlined above actually materialise, an end to the APP in September 2022 would mean that there would still be a maximum of two Council meetings to implement a rate hike in Q4.

- 10 March (new ECB projections)
- 14 April
- 9 June (new ECB projections)
- 21 July
- 8 September (new ECB projections)
- 27 October
- 15 December (new ECB projections, first time for 2025)

Conclusion and comments

The geopolitical turning point represents a new factor of uncertainty and another major challenge that the ECB Governing Council has to deal with. Once again, monetary policy decision-makers will have to balance growth risks and inflationary pressures, with a greater focus on financial market stability. Uncertainty about the further course of the war of aggression as well as its effects on the economy and the price level are, in our view, also likely to reinforce the already existing disunity in the Governing Council. Moreover, we should not ignore the fact that the spillover effects and economic collateral damage associated with both the war in Ukraine and extensive sanctions measures will not be equally distributed within the Eurozone. This is true not least due to the different economic and financial ties with Ukraine – and especially with Russia. Likewise, a renewed rise in inflation rates could further exacerbate an existing imbalance and also fuel conflict in the ECB Governing Council. After all, not every voting member is likely to assess the relevance of (potential) upward pressure on prices, growth risks and financial market stability in the same way or give them equal weight in their decision.

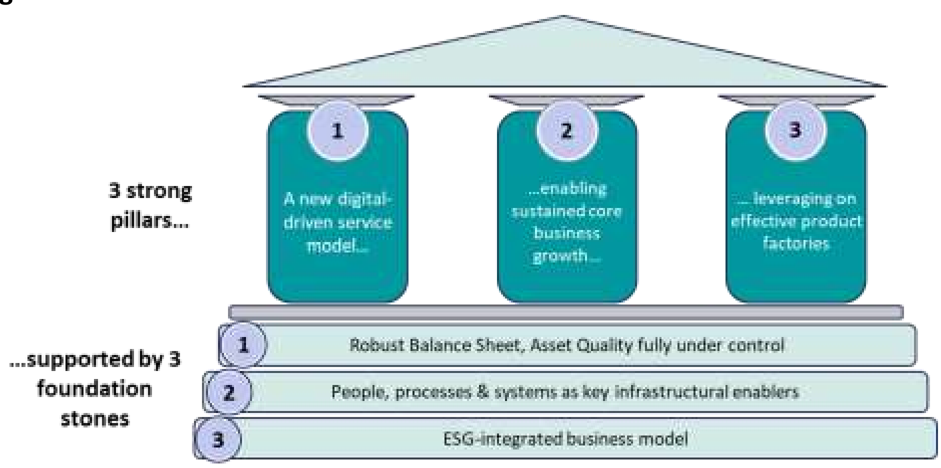
Covered Bonds
Welcome expansion of the covered bond ESG universe: Banco BPM green covered bond

Author: Dr Frederik Kunze

Banco BPM offers the prospect of its first green EUR benchmark
Banco BPM from Italy already announced the mandate for its first green covered bond last week. In its Investor presentation from February 2022, Banco BPM has held out the prospect of a deal for at least EUR 500m with a maturity of five years and an Aa3 (Moody's) rating. As regards the regulatory rating, the new Banco BPM benchmark is also expected to benefit from a risk weight as per CRR of 10%, while, in our view, this bond would have to be treated as a Level 1 asset in the context of the LCR framework. On balance, we welcome the announcement not only as a further sign of life from the Italian EUR benchmark segment, which has so far produced two bonds in the form of the dual tranche from Crédit Agricole Italia (CARPP; EUR 500m & EUR 1bn), but also as an enrichment for the ESG subsegment. From our perspective, it is a foregone conclusion that current market developments will only delay this deal. Accordingly, we propose to present the issuer along with its ESG framework in the following article.

Banco BPM: strategic plan for the years 2021 to 2024
Banco BPM is the third largest banking group in Italy based on total assets. It is rated as a domestic systemically important bank (D-SIB), serving around four million customers with over 1,150 branches. In 2021, Banco BPM revised the targets from its old plan (2020-23) in the context of its Strategic Plan 2021-2024. It is now aiming for net income of EUR 1,050m in 2024. The targets for Return on Tangible Equity (ROTE) and the CET1 ratio are >9% and ~14.4% respectively against figures of 6.9% (ROTE) and 13.4% (CET1) respectively as per 31 December 2021. In addition, there are plans for a further reduction in non-performing exposures (gross NPE; target: <5% vs. 5.6% as per 31 December 2021).

Banco BPM: Strategic Plan 2021-2024



Source: Banco BPM; NORD/LB Markets Strategy & Floor Research

Banco BPM well on track to reach its targets

Based on operating results presented at year end, the bank is on a more than solid course to reach its own targets. Notably, there has been a marked improvement in asset quality, which is ahead of projections. This also applies to the capital and liquidity base. As per the end of 2021, Banco BPM was reporting liquidity ratios of 209% (LCR in December 2021) and >100% (NSFR; Q4 2021). The ESG topic is also of great importance in the current Strategic Plan and is included by Banco BPM as one of the three basic pillars of the group wide strategy programme. The five milestones of the ESG strategy in turn consist of the following segments: Business, Risk & Credits, People Strategy, Environment and Community. The Green, Social and Sustainability Framework presented in July 2021 as the basis for the forthcoming green covered bond benchmark is included together with the first social bond (senior unsecured format) as one of the milestones reached. Banco BPM's ESG objectives are also ambitious. Altogether, the proportion of green or low transition risk sectors in relation to new debt in the period from 2021 to 2024 is expected to be over 65%. New business in the Green Residential Mortgages segment is expected to amount to a total of EUR 4bn. As regards format, Banco BPM is planning green and social bonds amounting to EUR 2.5bn (2021-2024).

Banco BPM: five milestones of the ESG strategy

Source: Banco BPM; NORD/LB Markets Strategy & Floor Research

Green, Social and Sustainability Framework and Second Party Opinion from ISS ESG

Based on its own framework, Banco BPM is able to issue both secured and unsecured green, social and sustainable bonds. Whereas Banco BPM has already made its social bond debut in the unsecured segment, it will now be launching a covered bond as its first green issue. In our view, this is not at all surprising, not least in view of the structure of the issuer's credit portfolio. As is customary in the sector, the framework is based on ICMA Principles (Social and Green) and on the Guidelines (Sustainability) and accordingly consists of the following core elements: 1. Use of Proceeds, 2. Project Evaluation & Selection, 3. Management of Proceeds and 4. Reporting. As part of its Second Party Opinion (SPO), ISS ESG confirmed Banco BPM's alignment with the Green/Social Bond Principles and Guidelines.

Green Obbligazioni Bancarie Garantite

Whereas Banco BPM's framework certainly addresses a broad spectrum of sustainability goals (13 UN Social Development Goals), the parameters for green covered bonds (Obbligazioni Bancarie Garantite; OBG) have a much narrower focus. Under Italian legislation, green covered bonds can only relate to green buildings – UN SDG 11 (Sustainable cities and communities) and 13 (Climate action) – and therefore only one of a total of nine categories of suitable assets (apart from green buildings: renewable energy, energy efficiency, pollution prevention & control, sustainable water infrastructure, low carbon transportation, SMEs and COVID loans, third and public sector and healthcare facilities). In fact, the scope of assets for the green covered bond is limited even further to financings for residential housing. When selecting and identifying assets, Banco BPM uses the methodology of the Climate Bond Initiative. A distinction is made between selecting assets based on the EPC Label (A, B or C) and on year of construction (new buildings built between 2016 and 2020).

Use of Proceeds: Green Covered Bond Banco BPM

Eligible Green Loan Category		Criteria
Green Buildings	Residential	Loans to finance acquisition of new or existing residential housing aligned with current environmental regulation and belonging to the top 15% in Italy of the most carbon efficient buildings (kg CO_2e/sqm) Loans to finance the renovation of buildings if the renovation works produce the improvement of at least two energy classes, or a Global Non-renewable Energy Performance Index at least 30% lower than that resulting from the pre-works EPC.

Source: Banco BPM, NORD/LB Fixed Income & Macro Research

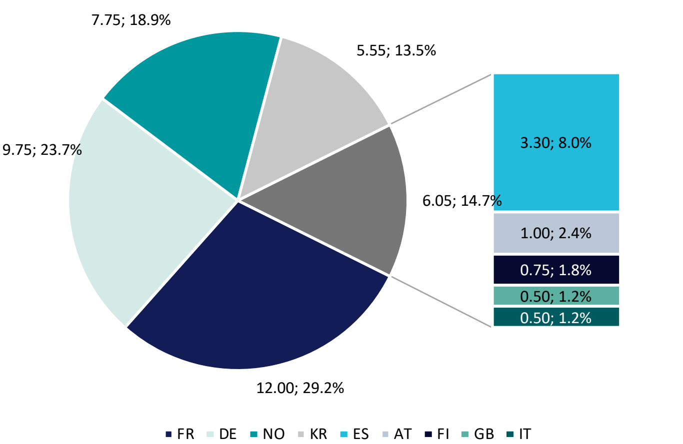
Green covered bond: portfolio of eligible assets amounts to EUR 1.2bn

Banco BPM currently puts the portfolio of green mortgage financings at EUR 2.8bn, of which EUR 1.189bn were classified as suitable for the Green Covered Bond. The amount of EUR 1.189bn is split between 9,091 loans. There are already EUR 917m of suitable green assets in the cover pool. A breakdown by selection criteria shows that eligible assets as per the EPC Label account for EUR 730m and construction year for EUR 458m. In regional terms, Lombardy accounts for the bulk of the financings (54%), followed by Venice (12%) and Piedmont (10%). The north of the country accounts for 86% of the portfolio. Apartment financings make up the largest chunk at 84%.

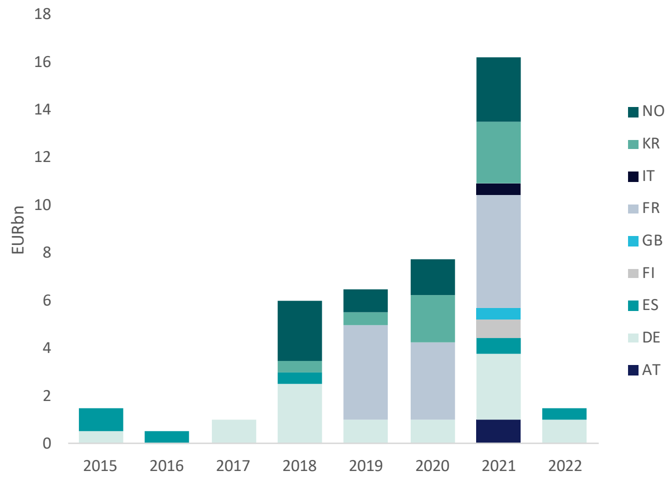
ESG covered bonds in EUR benchmark format

Covered bond issues in ESG format have been a firm part of the EUR benchmark segment for some years. Looking back at the last three to four years, the sub-market for sustainable covered bonds has definitely shown strong growth, even though this is still a niche market. We regard the increase in the number of issuers and jurisdictions as a welcome development. The volume outstanding of ESG benchmarks (EUR 41.1bn) is currently split between nine countries. Green covered bonds are still in the lead (EUR 27.5bn) in relation to ESG categories, with social issues in second place (EUR 11.3bn); the rest comes under the sustainability sub-segment heading (EUR 2.3bn). Whereas 2021 can be seen as the record year so far (issue volume of EUR 16.25bn), only two issuers have been active so far in 2022 with a green benchmark each. CRUNAV opened the sub-market with a deal of EUR 500m and was then followed by DZ HYP with a green Pfandbrief deal for EUR 1.0bn.

EUR benchmarks: ESG by jurisdiction (EUR bn)



EUR benchmarks: ESG issues over time (EUR bn)

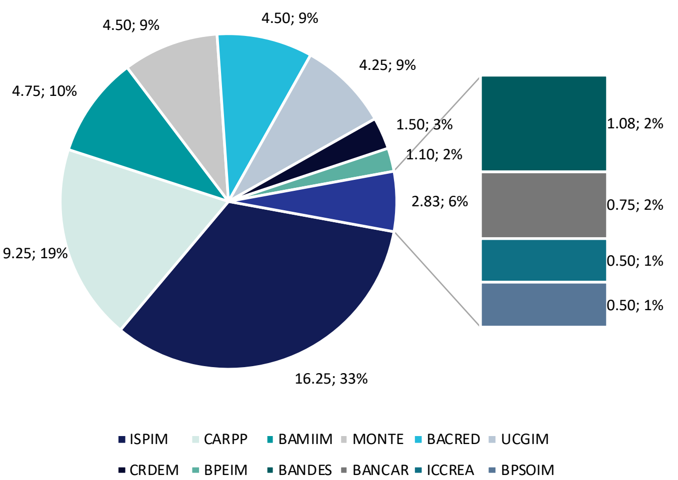


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

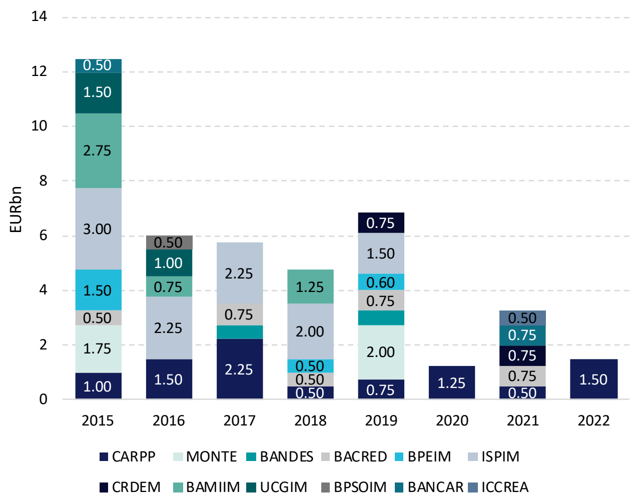
EUR benchmark segment Italy

The only issue so far of an Italian EUR benchmark in ESG format can be attributed to Crédit Agricole Italia (CARRP). The bank successfully placed a EUR 500m green OBG in the market in March 2021. Overall, we see significant potential for further ESG issues in Italy. After all, the volume of outstanding EUR benchmarks from Italy currently amounts to EUR 48.9bn. Banco BPM (BAMIIM) is the country's third largest benchmark issuer with EUR 4.75bn (6 bonds) after Intesa Sanpaolo (EUR 16.25bn; 16 bonds) and CARPP (EUR 9.25bn; 13 bonds). However, in reality, we would not count on any particularly strong dynamics in the primary market, and not just in relation to the ESG segment. We expect issues amounting to EUR 4.5bn in the full year 2022. This amount will then be counterbalanced by maturities of EUR 7.8bn, which would lead to a further negative net supply for the full year. However, a figure of EUR 4.5bn would be much bigger than was the case in 2021 (EUR 3.25bn) and 2020 (EUR 1.25bn).

EUR benchmarks IT: breakdown (EUR bn)



EUR benchmarks IT: issues over time (EUR bn)

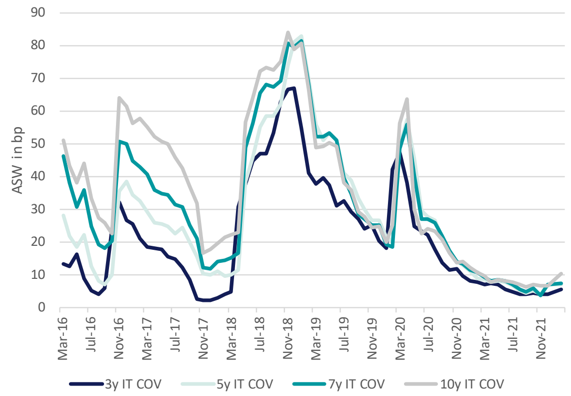


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

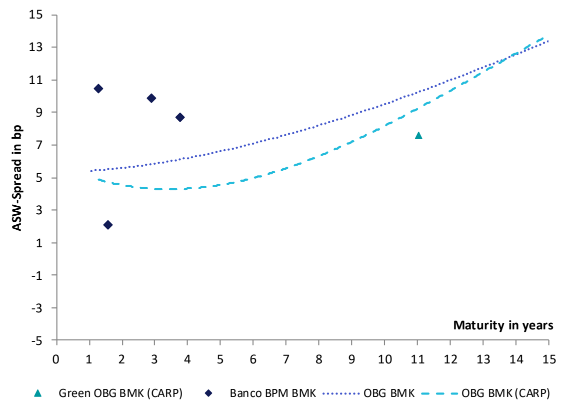
Spread development

As regards the spread development, the combination of high ECB demand and depressed supply has also encouraged a tightening of spreads in the case of OBGs. The latest developments first in relation to the ECB's direction of travel and secondly in the context of the escalation of the situation in Ukraine are inevitably having an impact. At this point, screen prices and spreads have to be treated with a certain degree of caution since trading activities have now been noticeably hampered by a high degree of uncertainty. Irrespective of this, we still anticipate OBG spreads to remain relatively stable in view of solid fundamentals, or at least no lasting deterioration in fundamentals on the cover pool front but also in relation to issuers. In this instance, we see the general widening of the absolute spread between BTPs and OBGs as an indication of this. In earlier periods of heightened uncertainty on the markets, Italian sovereign bonds are/were also subject to fluctuations. Looking ahead to the next few months, barring any further escalation in the situation in Ukraine and with a political de-escalation of the conflict, we would expect a slight widening of the OBG spread, in line with our expectations for the entire EUR benchmark segment. As per 30 June 2022, we see a spread for Italian ten-year benchmarks of 16bp (currently 10bp). The increase in spread of around six basis points at the mid-point of the year follows a previous increase in 2022 of just under three basis points. As part of this process, technical analysis (negative net supply) and fundamental data should continue to have a supporting effect. As regards the recent green Banco BPM benchmark, the correlations observed for other jurisdictions should also materialise here, as soon as market conditions have normalised. In this context, we would assume that the green issue would tend to trade within the "conventional" curve. In our view, this can be explained especially in light of an extended circle of potential investors.

IT: covered bond spreads



IT: Spread landscape (EUR BMK; residual maturity ≥1y)



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

Conclusion

Banco BPM will be the second Italian bank to issue a green benchmark bond. We wholeheartedly welcome this debut, which fits in very well with the issuer's group wide ESG strategy. The issuer has already successfully launched an unsecured social bond based on its sustainable framework. Based on its ambitious goals in relation to the expansion of its green loan portfolio and in light of its green funding objectives for 2021-2024, we assume that Banco BPM will extend its own curve with the addition of further green deals.

Covered Bonds
War in Ukraine and sanctions on Russia: spotlight on the European banking landscape

Authors: Melanie Kiene, CIIA // Dr. Frederik Kunze

European banks not immune to war and sanctions

Until a week ago, the focus of attention of market observers and the subject of our comments was more on the return to profitability of the European banking sector after the pandemic and on the banks' solid capital base. Now the war against Ukraine started by Russia has turned the spotlight onto a geopolitical risk driver which could also become a major factor for a number of institutions in the European banking landscape. Banks could be hit by both direct and indirect factors. In our view, a direct impact on the covered bond segment should be strictly limited. Nevertheless, there are issuers who will not be able to escape the negative repercussions of market conditions characterised by war and sanctions. As part of the present article, we therefore propose to discuss the direct links to a number of lending institutions. Among other aspects, we shall look at the exposure of the banks covered in this publication to Ukraine and Russia.

Exposures and presence of foreign banks in Ukraine…

In the first instance, we have used statistics from the countries reporting to the Bank for International Settlements (BIS) as our database for a comparison of risks positions. Claims vis-à-vis Ukrainian residents total USD 9.0bn (as per the end of September 2021) based on BIS data on "total bank exposure". However, there are liabilities amounting of USD 15.4bn. These figures are well below the level for Russia. The banks’ exposure involving "residents" from Russia therefore consists of receivables of USD 88.9bn and liabilities of USD 127.7bn. Nevertheless, these figures also have to be put into context insofar as they reflect the total amount for many countries and as a result are of lesser consequence at national level. Whereas direct exposures on a macro level can therefore be described as manageable, the risk potential for second and third round effects remains considerable. There could be a marked deterioration in the creditworthiness and asset quality of local banks and this could have a knock-on effect on neighbouring countries, which in turn could spill over to the lending institutions maintaining customer and business relationships in those countries. In this respect, rising energy and raw material prices should only be seen as one factor on the downside risk front. From the European Economic Area, banks from France and Austria are the biggest lenders to Ukraine. All in all, therefore, only a few European banking groups have a meaningful local presence in Ukraine. These institutions include Raiffeisen Bank, BNP Paribas and PKO, whereby RBI has the strongest presence and largest stake (31.8%) through Raiffeisen JSC.

… and in Russia

In Russia, too, creditworthiness and asset quality potentially face a significant deterioration, a fact which is mainly attributable to sanctions and their negative impact on economic activity. Banks from Italy and France are among the most important EU lenders in Russia. UK banks also have large exposures in both Russia and Ukraine. Banking groups with subsidiaries in Russia include notably RBI, Société Générale and UniCredit. A uniform set of data is only available as per the end of 2020 when the total assets of the three institutions in Russia stood at EUR 15-17bn; in this case also, loans were largely covered by deposits. In addition, there is a sizeable asset management segment in Russia. According to BIS data, the reporting banks, especially those from France and Switzerland, have positions amounting to around EUR 25bn and EUR 24bn respectively.

Countries with the biggest bank exposures to Russia

	Claims				**Liabilities**			
	All sectors		**Of which: non-banks**		**All sectors**		**Of which: non-banks**	
USDm	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits
Total	**88,868**	**72,249**	**59,599**	**53,363**	**127,658**	**123,871**	**37,660**	**35,988**
UK	13,686	11,639	8,749	7,062	14,551	14,551	4,929	4,929
Italy	9,244	6,648	5,817	5,720	1,574	1,324	269	269
France	8,689	5,209	4,180	3,254	24,983	24,003	1,423	1,423
Germany	7,390	NA	NA	NA	8,501	NA	NA	NA
Luxembourg	4,585	4,507	4,182	4,125	1,196	1,775	1,363	1,361
Austria	4,122	2,270	1,664	1,682	5,641	4,995	2,185	2,184
Japan	3,453	NA	2,611	NA	179	NA	34	NA
Switzerland	2,778	2,417	2,041	1,852	23,233	21,400	12,498	10,955
Netherlands	1,472	875	827	716	1,642	NA	NA	NA
Ireland	1,425	1,425	1,415	1,415	196	196	1	1

Countries with the biggest bank exposures to Ukraine

	Claims				**Liabilities**			
	All sectors		**Of which: non-banks**		**All sectors**		**Of which: non-banks**	
USDm	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits	All instruments	Of which: loans and deposits
Total	**8,985**	**4,784**	**4,680**	**3,699**	**15,366**	**15,047**	**4,970**	**4,834**
France	1,177	630	524	460	825	825	98	98
UK	1,083	490	1,061	469	1,002	1,002	132	132
Austria	909	424	401	305	1,586	1,525	372	371
Germany	649	NA	NA	NA	1,828	NA	NA	NA
Netherlands	411	258	254	256	88	NA	15	15
Switzerland	395	390	309	303	2,470	2,355	2102	1990
Japan	114	NA	114	NA	62	NA	2	NA
Chinese Taipei	93	NA	93	NA	1	1	1	1
Italy	85	36	21	21	106	106	31	31
Spain	52	52	52	52	267	267	145	145

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

RBI has a large branch network in Russia and Ukraine

The branch footprint in Ukraine and Russia is of high importance, especially in the case of RBI (cf. following table based on data from Standard & Poor's). According to S&P, RBI has set aside risk provisions and indicated that its banks in Russia and Ukraine are well capitalised and self-financing. Hedging of foreign currency exposure has subsequently been increased.

Geopolitical situation will be the decisive factor

Ongoing developments will be of paramount importance for RBI's Russian and Ukrainian subsidiaries. Although they are fundamentally in a sound position, the changes in conditions could shake even solid banks. In the worst-case scenario, therefore, regional banks could be allowed to become insolvent, in order to avoid contagion effects with the rest of the banking group.

Selected banks and their activities in Russia and Ukraine

Name	Country	Branches in Russia	Branches in Europe
Société Générale	FR	518	4,692
OTP Bank	HU	135 (Q3/21)	1,866
RBI	AT	181	2,185
UniCredit	IT	93	3,678
Intesa Sanpaolo	IT	28	4,719 (12/21)

Name	Country	Branches in Ukraine	Branches in Europe
RBI	AT	456	2,185
ProCredit Holding	GE	30	146
OTP Bank	HU	85 (Q3/21)	1,866
BNP Paribas	FR	301	4,461
PKO Bank Polski	PL	82	1,578
Intesa Sanpaolo	IT	45 (12/21)	4,719 (12/21)
Piraeus	GR	17	701
Crédit Agricole	FR	144	8,200

All data without a date based on the end of 2020
Source: S&P Global Markets Intelligence, banks, NORD/LB Markets Strategy & Floor Research

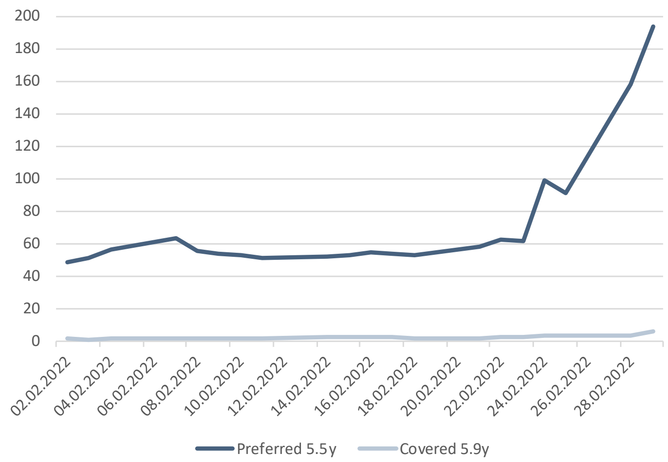
Covered bonds once again prove relatively stable in a crisis

Even though a number of banks have a significant presence in Russia and Ukraine, we believe it is fair to say that the exposures and risks arising from positions should be manageable for the moment in relation to the overall size of the respective banking group. Moreover, loans from Russia and Ukraine are not normally included in the cover pools of covered bonds, not even in the case of RBI. This reflects among other things the fact that loans in these countries are normally excluded as cover assets by law. Even though RBI's cover assets include a relatively high proportion of cover assets domiciled in eastern Europe at around 15%, nevertheless, as things stand at present, we see no concrete reason to call into question the quality or sustainable value of these assets. Most issuers moreover concentrate on assets from their home country (home bias). Covered bond issuers from Ukraine and Russia are in any case not active in the market, and therefore, any current widening in spreads in this asset class is driven by sentiment and in line with the general market trend.

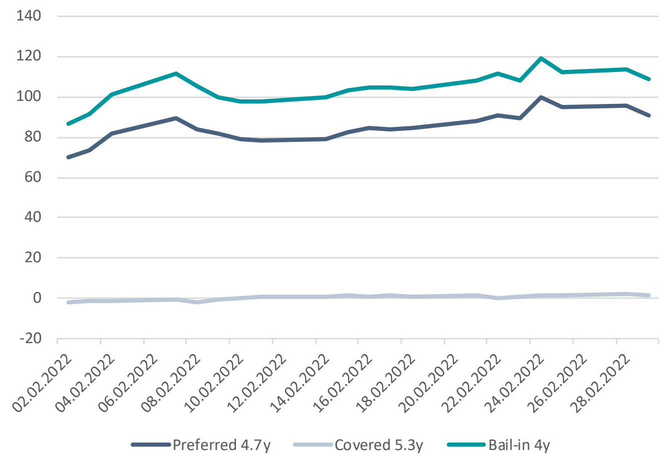
Risks reflected in unsecured bonds

As mentioned above, we do not see any heightened credit risks for the covered bonds of European banks which would be justified based on fundamentals. This is also reflected by the latest movements in ASW spreads. If anything, the risks which may arise or be derived from the activities of banks named in this article will impact the spreads of unsecured covered bonds. Therefore, the spreads of senior unsecured bonds have widened visibly since the outbreak of the war – irrespective of whether these are senior preferred (SP) or senior non-preferred bonds (NPS). Obviously, NPS issues are hit harder. The widening of RBI spreads makes this picture especially clear. Whereas the covered bond has been able to escape widening spreads by and large, RBI's SP (no outstanding NPS in EUR benchmark format) has widened massively. In contrast, Intesa Sanpaolo bonds selected as examples were not spared the impact of spread widening, although the widening was much more moderate. In addition, in our view, Intesa NPS spread movements show that the risk premiums have increased far less, and therefore the difference in relation to SP has remained largely stable.

RBI: spread performance of selected EUR benchmarks; coverreds vs seniors



Intesa Sanpaolo: spread performance of selected EUR benchmarks; coverreds vs seniors

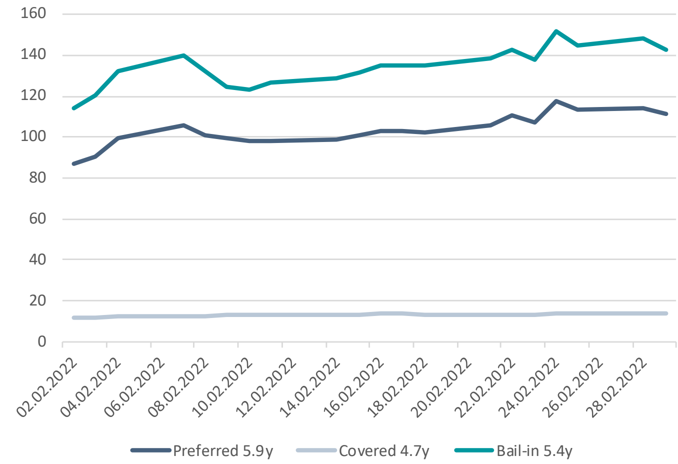


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

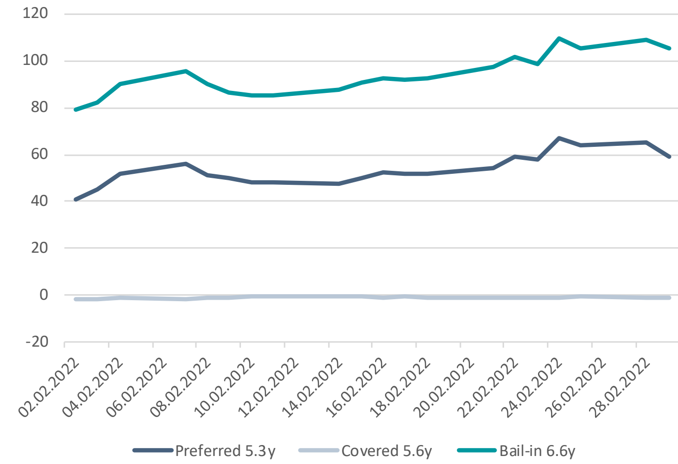
UniCredit and SocGen benefiting from their involvement in other countries

The spread performance/situation at UniCredit and SocGen looks slightly different. Although the selected covered bonds also show a relatively stable sideways movement, investors nevertheless seem to estimate the risks applying to the issuers (loss of profits, losses, etc.) as heightened – a fact which is evident from a widening of spreads, at least in the case of senior bonds, whereby the widening was more pronounced in the case of NPS. As regards UniCredit, one can now be glad that management previously decided against any further involvement in Russia. In January of this year, a takeover of Otkritie Bank was still being considered. We estimate that UniCredit's total exposure in Russia is manageable in relation to the size of the group overall. SocGen also presents a similarly robust overall picture. According to the bank, at EUR 18bn, the Russia exposure compared with the group is small and therefore amounts to just 2% of the total exposure at default (EAD). In the case of RBI, the share of EAD for Russia stands at 9.9% and for Ukraine at 1.9%.

UniCredit: spread of selected EUR benchmarks; covereds vs seniors



Société Générale: spread of selected EUR benchmarks; covereds vs seniors



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

Conclusion

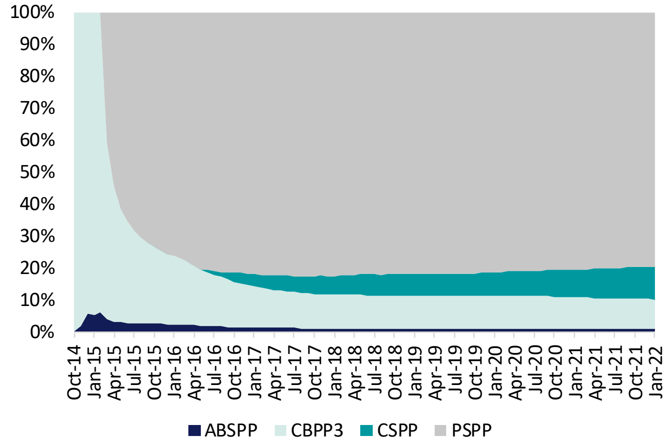
In this article, we have sought to classify the impact of the current geopolitical crisis on the European banking market, focusing particularly on covered bond issuers. The direct implications for covered bonds are still manageable for the moment, as reflected in the current spread movement. Nevertheless, this does not apply without qualification to the relevant issuers themselves, since we detect significant risks in some cases. Overall, the risks can be put into context to a large extent in a concrete quantification, but they are not necessarily negligible. Increases in spreads in the case of unsecured bonds in SP or NPS format in an illustrative analysis definitely reflect this. In the mid to long term, moreover, potential risks could materialise for other banks from second or third-round effects, should the conflict escalate further or the current situation involving military dispute and sanctions become long drawn out. Then, however, the focus would turn increasingly towards the ECB and monetary policy decision-makers in Europe.

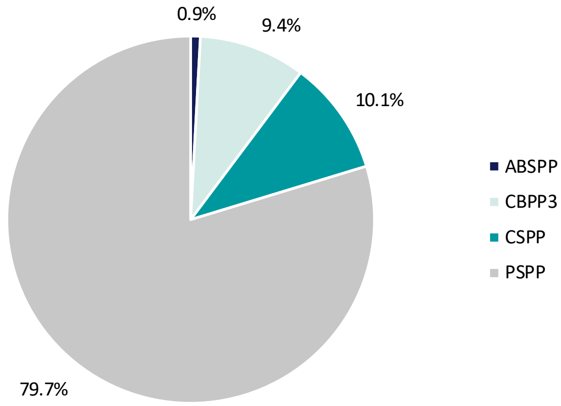
ECB tracker

Asset Purchase Programme (APP)

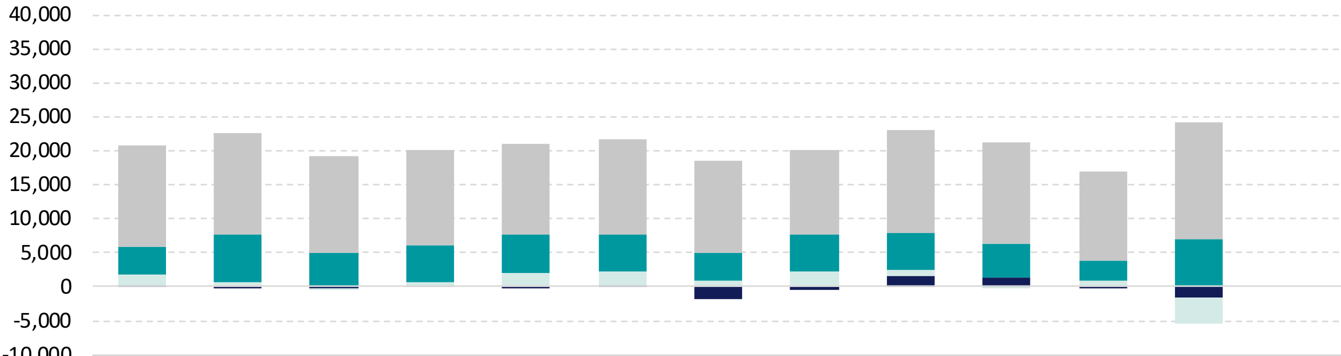
	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-21	28,403	298,167	309,676	2,487,136	3,123,382
Jan-22	26,740	294,407	316,646	2,504,428	3,142,221
Δ	-1,663	-3,761	+6,970	+17,292	+18,838

Portfolio structure





Monthly net purchases (in EURm)

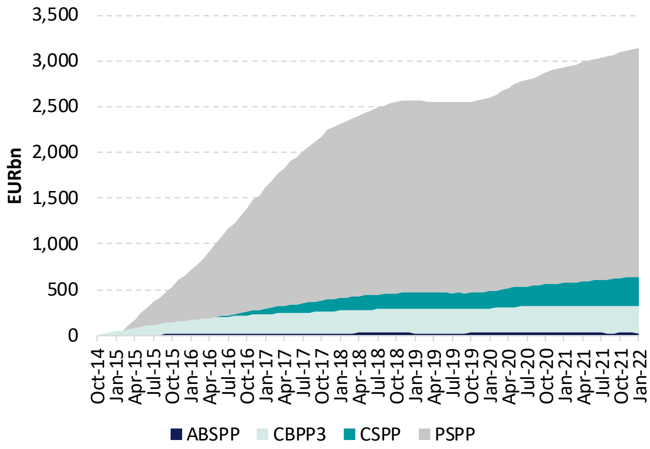


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	∑
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831
PSPP	15,129	14,955	14,186	13,973	13,320	13,943	13,563	12,423	15,038	14,815	12,989	17,292	171,626
CSPP	4,064	6,929	5,015	5,394	5,602	5,502	3,936	5,590	5,481	5,142	3,007	6,970	62,632
CBPP3	1,539	684	-5	686	2,037	2,011	999	2,184	1,008	-12	942	-3,761	8,312
ABSPP	183	-7	-278	88	-319	141	-1,749	-538	1,490	1,255	-342	-1,663	-1,739

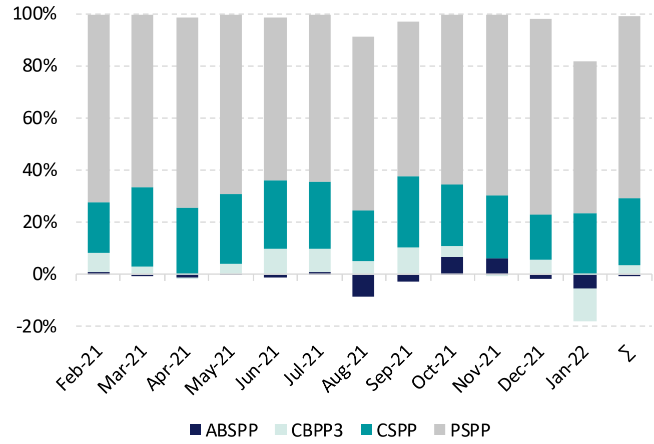
Source: ECB, NORD/LB Markets Strategy & Floor Research

NORD/LB

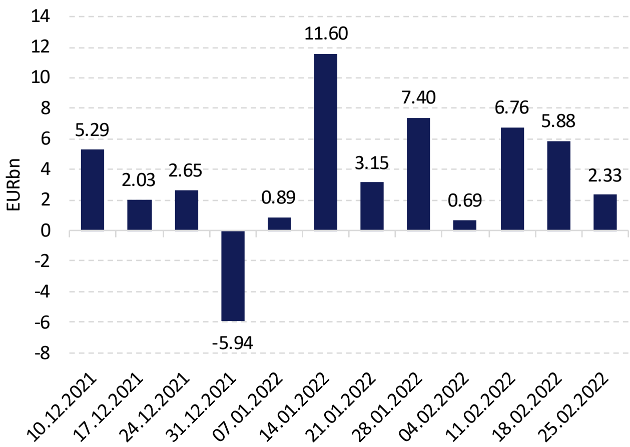
Portfolio development



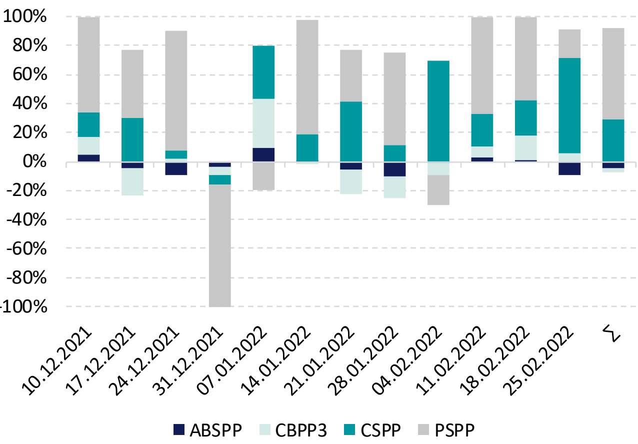
Distribution of monthly purchases



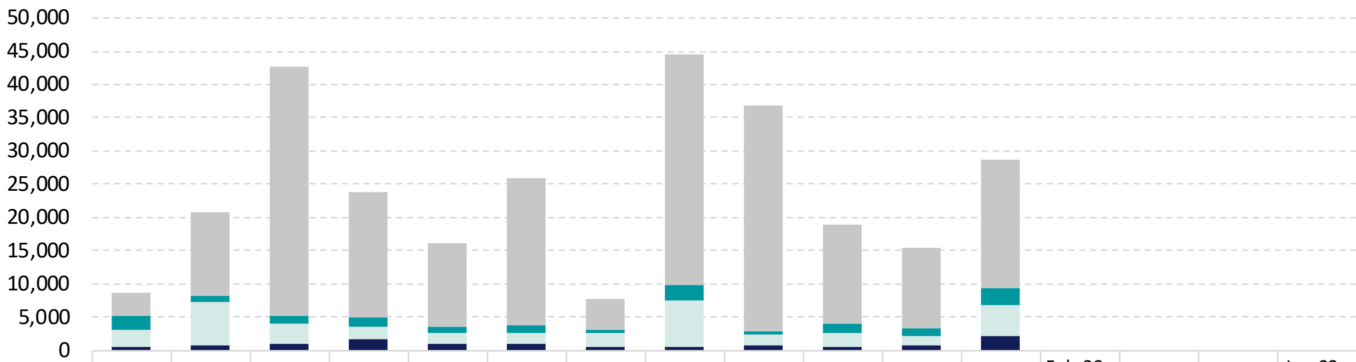
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)



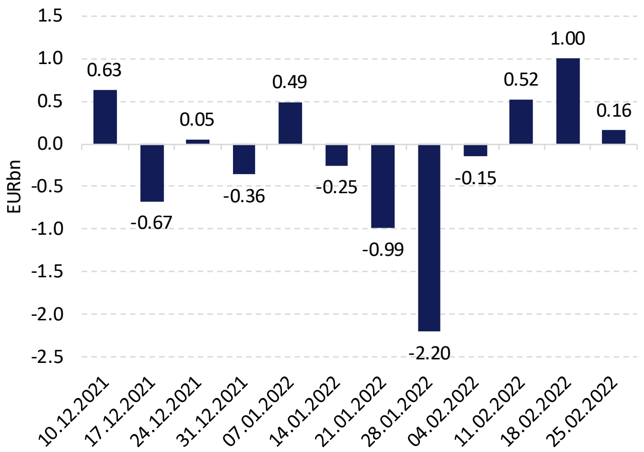
	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-22 - Jan-23	2021	2022	Jan-23 - Jan-23
APP	8,750	20,883	42,709	23,836	16,193	25,963	7,816	44,440	36,849	18,867	15,430	28,815	290,551	247,069	296,544	28,815
PSPP	3,625	12,603	37,532	18,999	12,638	22,218	4,841	34,554	34,003	14,945	12,016	19,469	227,443	188,494	228,880	19,469
CSPP	2,093	1,030	1,093	1,250	1,017	1,198	280	2,431	549	1,332	1,156	2,482	15,911	17,134	15,435	2,482
CBPP3	2,524	6,419	3,019	1,866	1,582	1,618	2,227	6,866	1,645	2,165	1,408	4,783	36,122	30,143	41,139	4,783
ABSPP	508	831	1,065	1,721	956	929	468	589	652	425	850	2,081	11,075	11,298	11,090	2,081

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

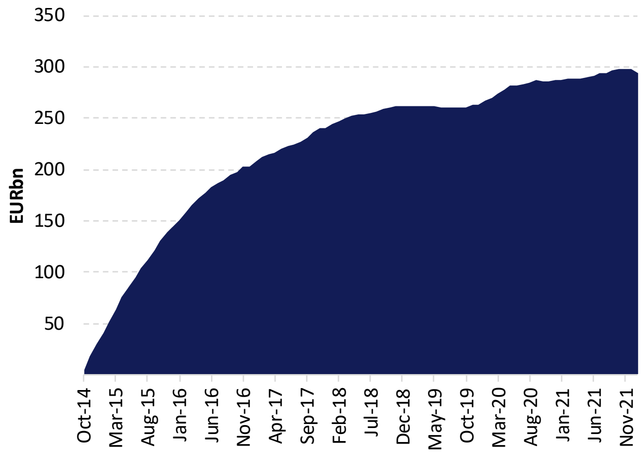
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

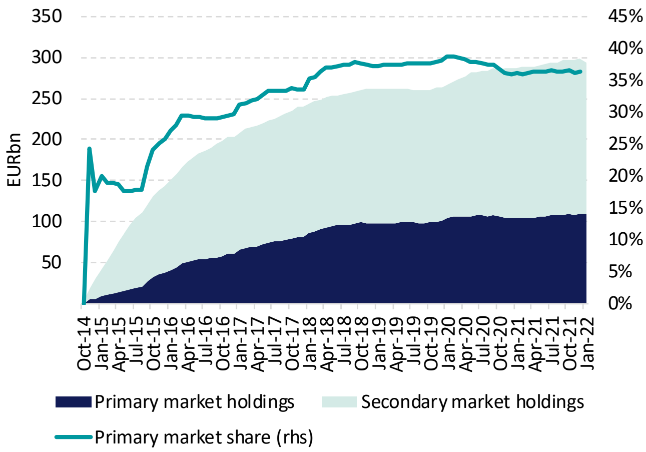
Weekly purchases



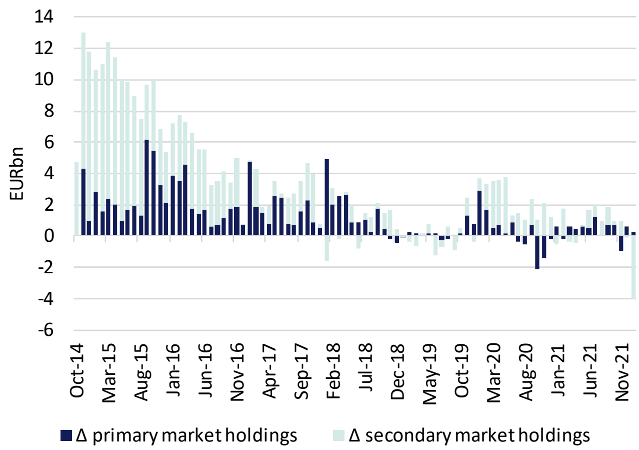
Development of CBPP3 volume



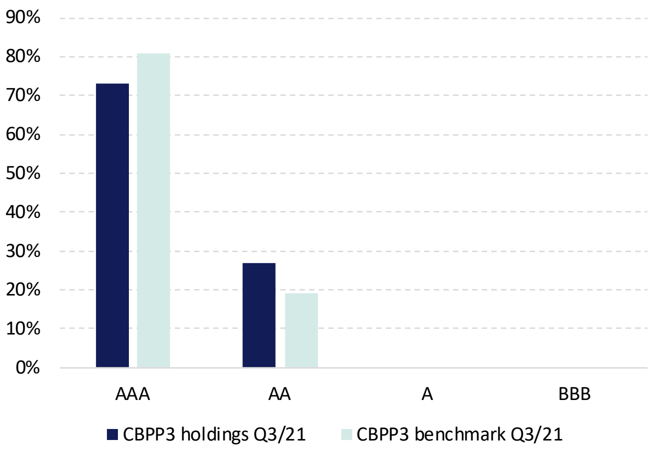
Primary and secondary market holdings



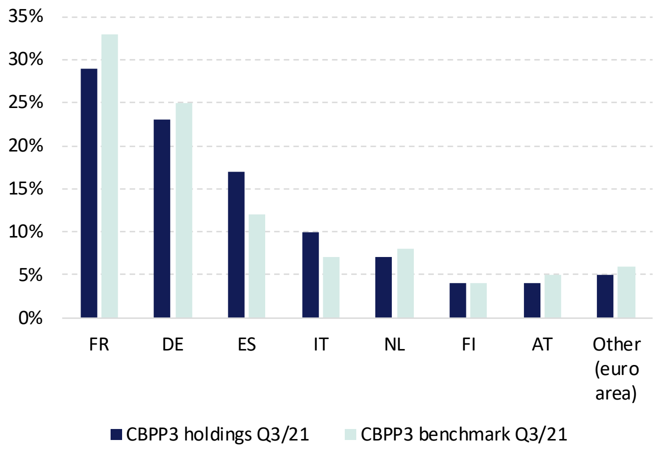
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



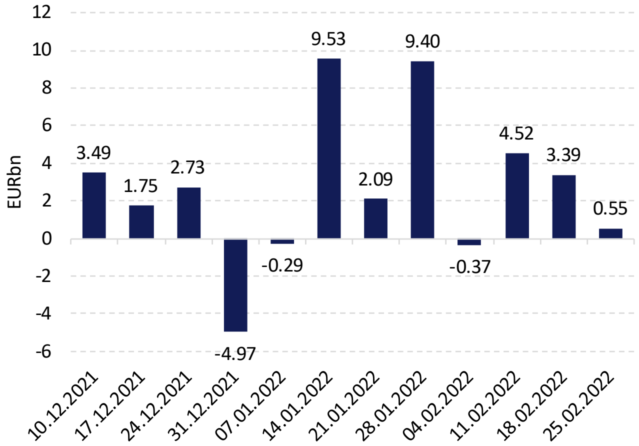
Distribution of CBPP3 by country of risk



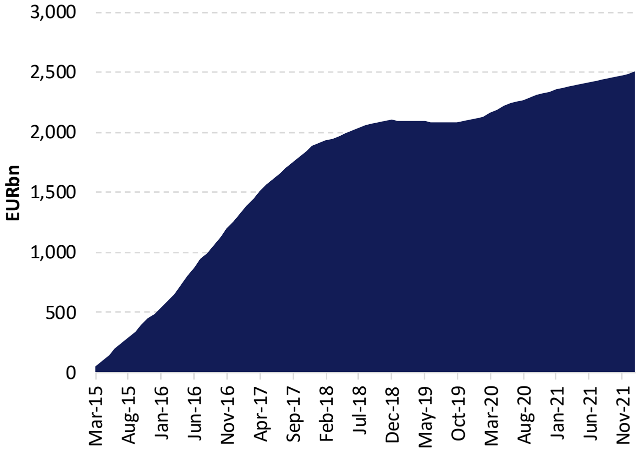
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



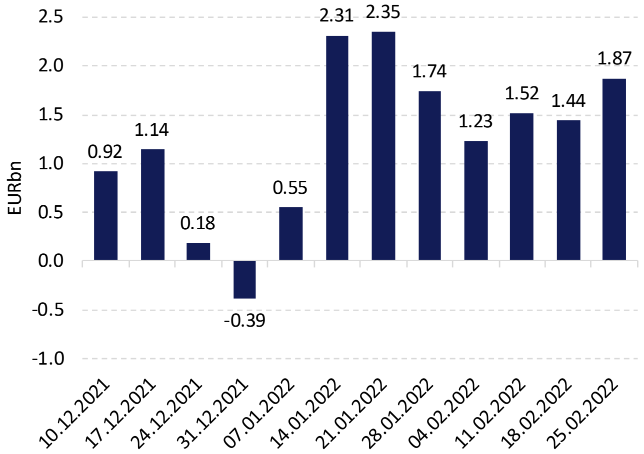
Overall distribution of PSPP buying at month-end

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%	73,533	71,534	1,999	7.5	7.6	-0.1
BE	3.4%	92,162	89,041	3,121	8.0	10.2	-2.2
CY	0.2%	4,231	5,259	-1,028	9.9	8.8	1.1
DE	24.3%	636,820	644,277	-7,457	6.6	7.6	-1.0
EE	0.3%	412	6,885	-6,473	9.2	7.5	1.7
ES	11.0%	304,289	291,438	12,851	8.0	8.4	-0.4
FI	1.7%	42,029	44,893	-2,864	6.9	7.7	-0.8
FR	18.8%	522,717	499,173	23,544	7.2	8.1	-0.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	41,707	41,386	321	8.5	10.1	-1.6
IT	15.7%	435,606	415,201	20,405	7.1	7.9	-0.8
LT	0.5%	5,595	14,145	-8,550	10.2	10.6	-0.4
LU	0.3%	3,900	8,051	-4,151	5.6	7.2	-1.7
LV	0.4%	3,386	9,523	-6,137	11.3	10.4	0.9
MT	0.1%	1,363	2,563	-1,200	9.5	9.2	0.3
NL	5.4%	123,586	143,229	-19,643	7.7	9.0	-1.4
PT	2.2%	51,757	57,202	-5,445	7.0	7.2	-0.2
SI	0.4%	10,474	11,768	-1,294	9.9	10.2	-0.3
SK	1.1%	17,208	27,990	-10,782	8.2	8.3	-0.1
SNAT	10.0%	277,625	264,840	12,785	7.7	8.9	-1.2
Total / Avg.	**100.0%**	**2,648,399**	**2,648,399**	**0**	**7.3**	**8.2**	**-0.9**

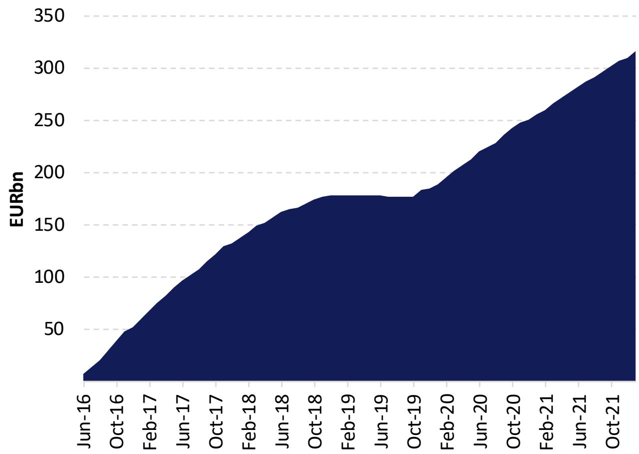
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

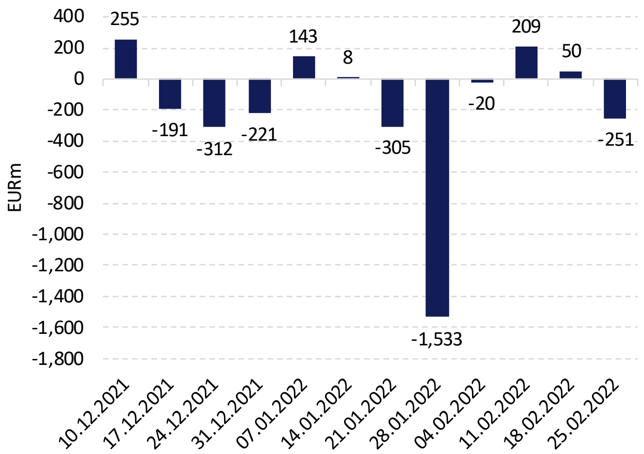


Development of CSPP volume

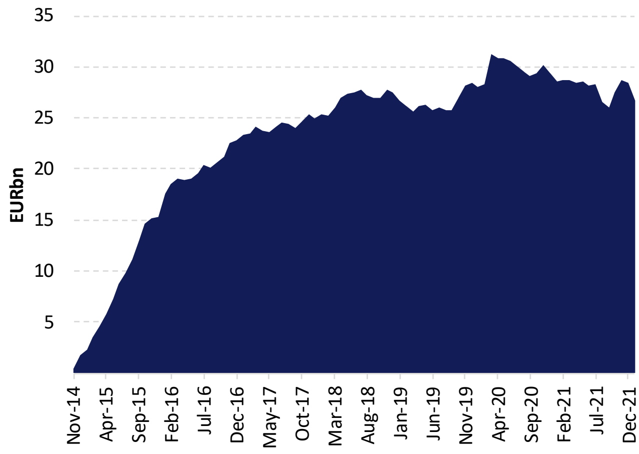


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



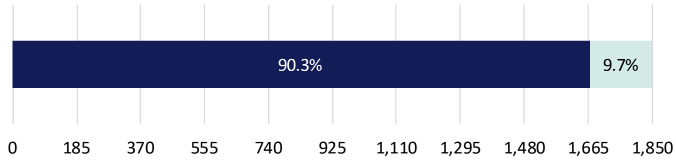
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Dec-21	1,597,565
Jan-22	1,647,678
Δ	+50,113

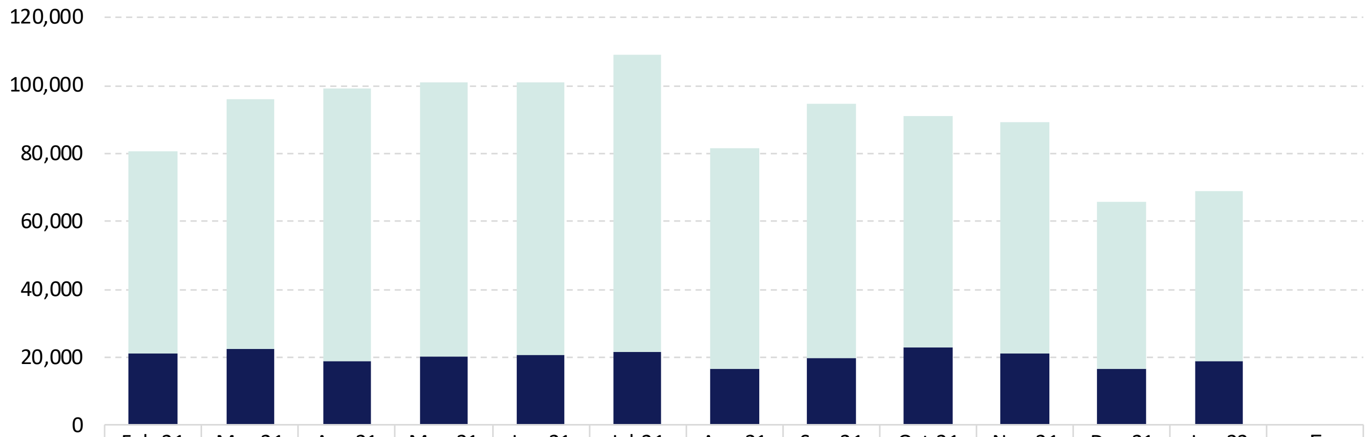
Volume already invested (in EURbn)



Estimated portfolio development

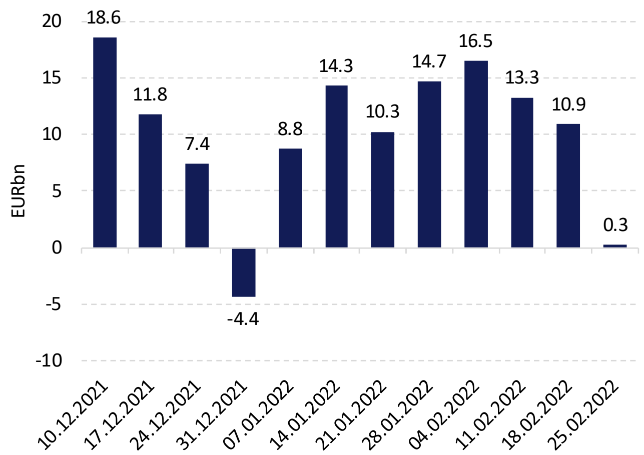
Assumed pace of purchases	Weekly net purchase volume	PEPP (theoretically) limit hit in ...
Average weekly net purchase volume so far	EUR 16.7bn	11 weeks (13.05.2022)

Monthly net purchases (in EURm)

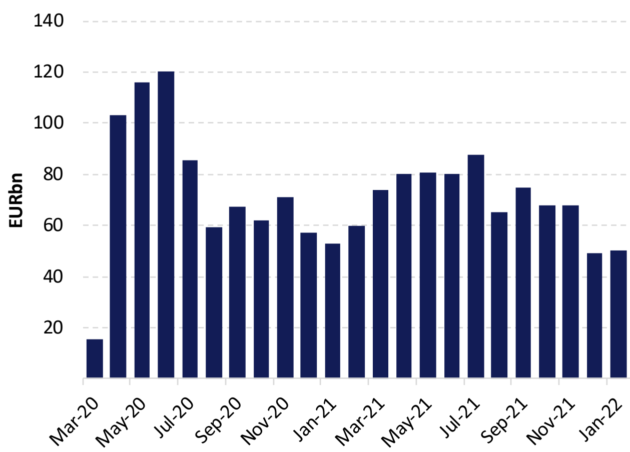


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	∑
∑	80,829	96,082	99,036	100,841	100,808	109,154	81,799	94,710	90,872	89,245	65,971	68,951	1,078,29
PEPP	59,914	73,521	80,118	80,700	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	837,467
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831

Weekly purchases



Development of PEPP volume

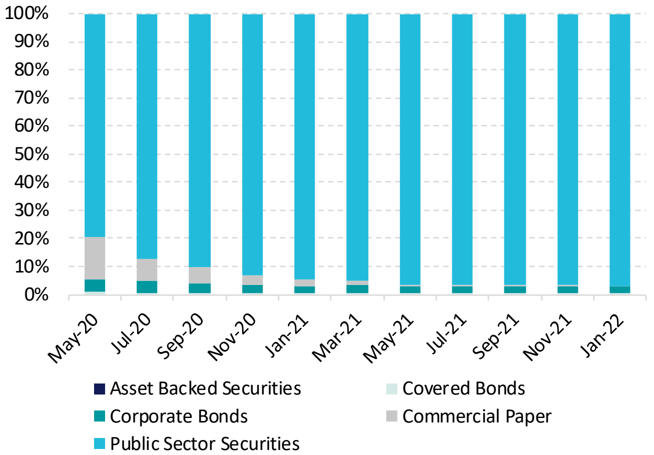


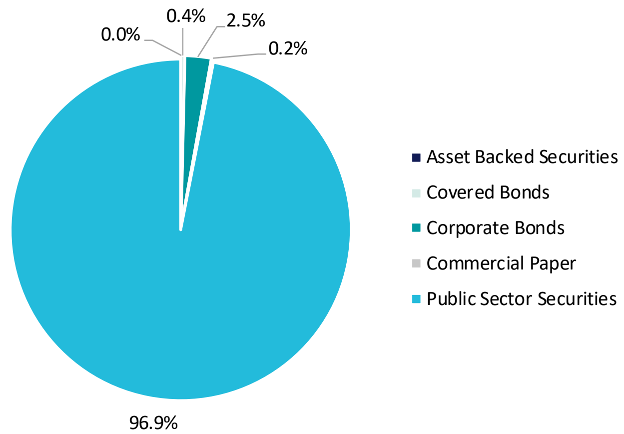
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

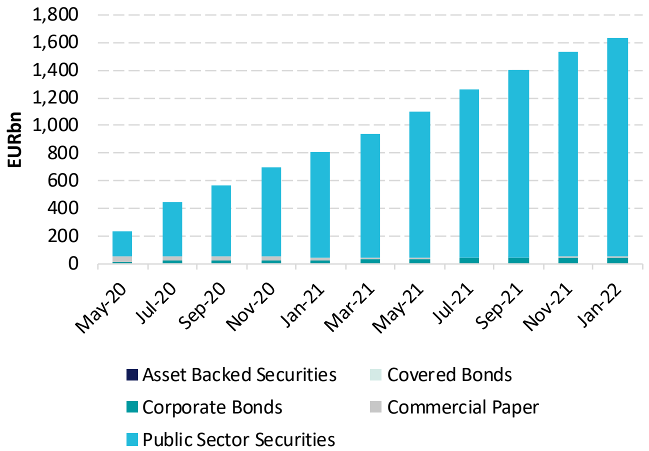
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Nov-21	0	6,079	39,871	4,032	1,485,526	1,535,508
Jan-22	0	6,073	40,301	3,857	1,580,547	1,630,779
Δ	0	0	+467	-172	+99,193	+99,488

Portfolio structure

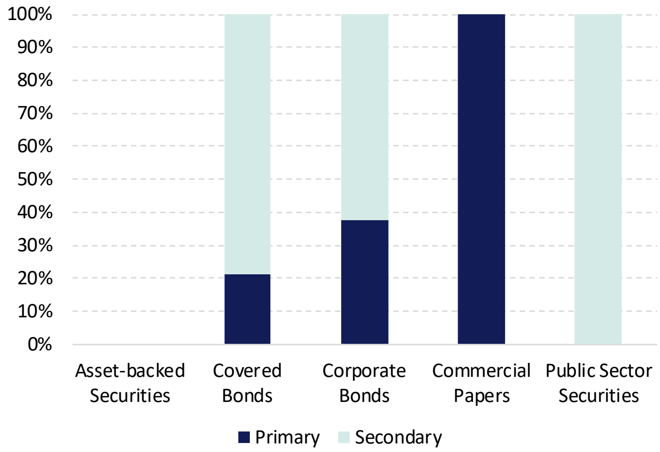




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

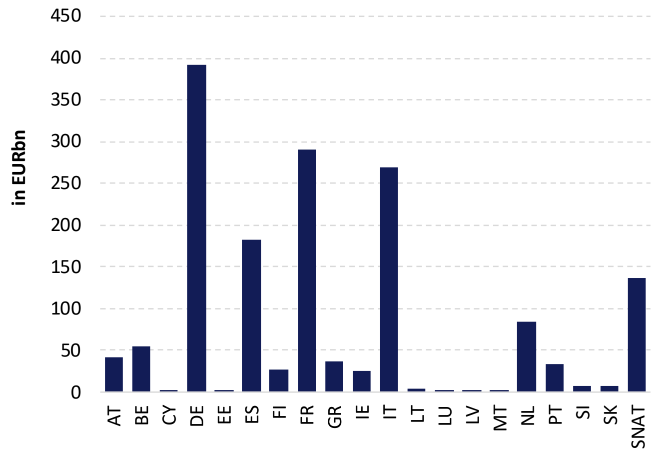
Jan-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	1,298	4,775	15,101	25,200	3,857	0
Share	0.0%	0.0%	21.4%	78.6%	37.5%	62.5%	100.0%	0.0%

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

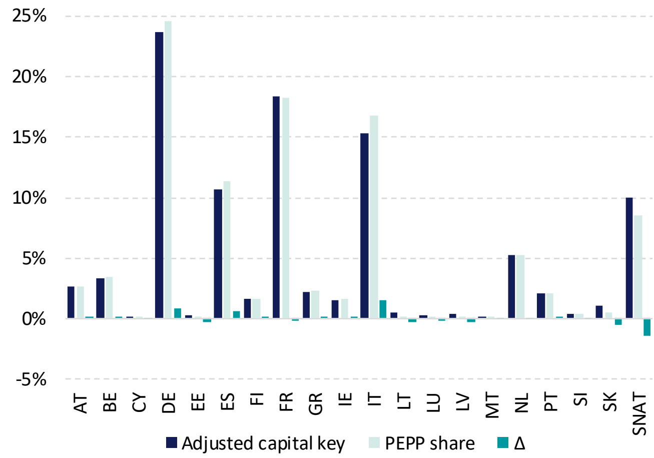
Breakdown of public sector securities under the PEPP

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	42,272	2.6%	2.6%	0.0%	8.2	7.0	1.2
BE	54,203	3.3%	3.4%	0.1%	6.6	9.2	-2.6
CY	2,514	0.2%	0.2%	0.0%	8.6	8.1	0.5
DE	392,570	23.7%	24.6%	0.9%	6.2	6.8	-0.6
EE	256	0.3%	0.0%	-0.2%	8.4	8.4	0.0
ES	181,624	10.7%	11.4%	0.6%	7.7	7.5	0.2
FI	26,807	1.7%	1.7%	0.0%	6.9	7.5	-0.7
FR	291,113	18.4%	18.2%	-0.2%	8.1	7.5	0.6
GR	36,876	2.2%	2.3%	0.1%	8.9	9.6	-0.7
IE	25,332	1.5%	1.6%	0.1%	8.9	9.5	-0.6
IT	268,405	15.3%	16.8%	1.5%	7.1	6.9	0.2
LT	3,129	0.5%	0.2%	-0.3%	10.5	10.1	0.4
LU	1,914	0.3%	0.1%	-0.2%	6.3	6.3	0.0
LV	1,710	0.4%	0.1%	-0.2%	9.3	9.2	0.0
MT	544	0.1%	0.0%	-0.1%	10.8	9.0	1.9
NL	83,893	5.3%	5.3%	0.0%	7.6	8.5	-0.9
PT	33,857	2.1%	2.1%	0.0%	6.9	7.3	-0.4
SI	6,311	0.4%	0.4%	0.0%	9.2	9.2	0.0
SK	7,605	1.0%	0.5%	-0.6%	9.2	8.4	0.8
SNAT	136,399	10.0%	8.5%	-1.5%	10.1	8.5	1.5
Total / Avg.	**1,597,334**	**100.0%**	**100.0%**	**0.0%**	**7.5**	**7.5**	**0.1**

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

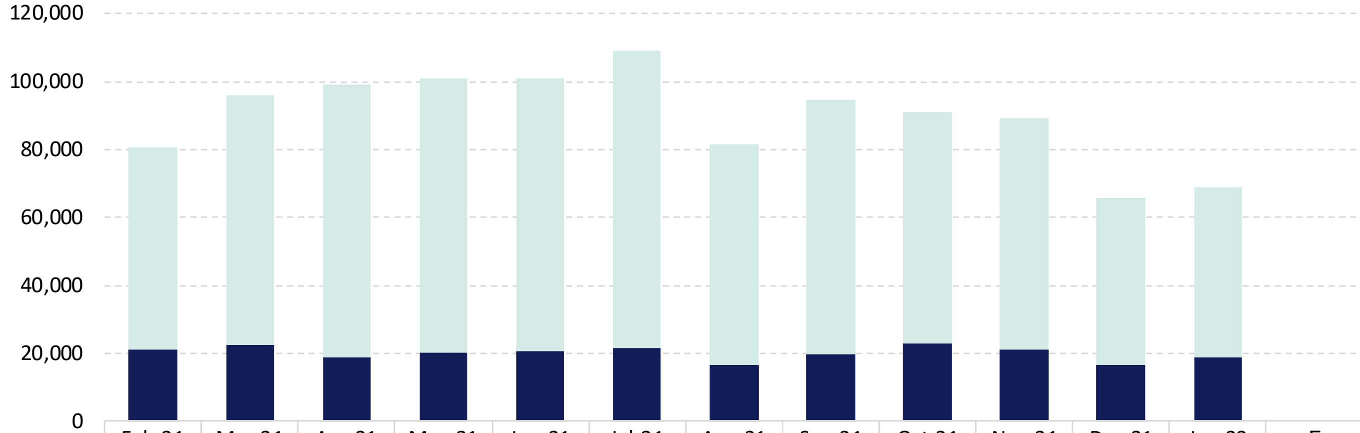
NORD/LB

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

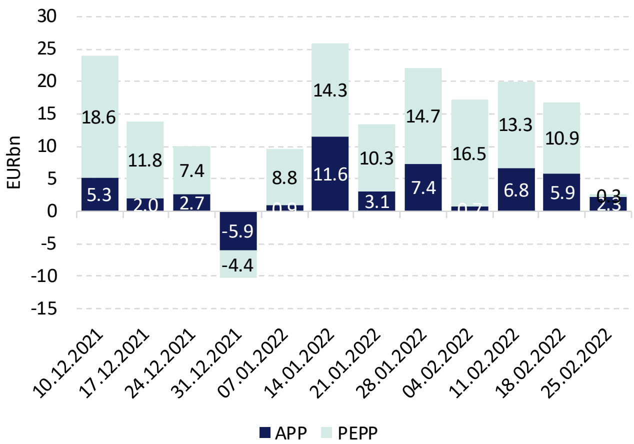
	APP	PEPP	APP & PEPP
Dec-21	3,123,382	1,597,565	4,720,947
Jan-22	3,142,221	1,647,678	4,789,899
Δ	+18,838	+50,113	+68,951

Monthly net purchases (in EURm)

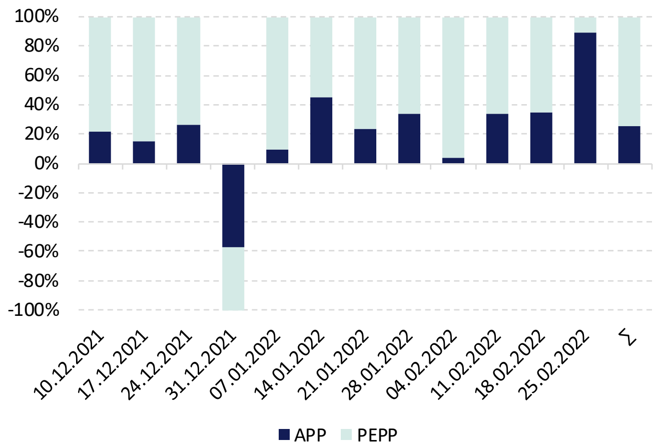


	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	∑
∑	80,829	96,082	99,036	100,841	100,808	109,154	81,799	94,710	90,872	89,245	65,971	68,951	1,078,29
PEPP	59,914	73,521	80,118	80,700	80,168	87,557	65,050	75,051	67,855	68,045	49,375	50,113	837,467
APP	20,915	22,561	18,918	20,141	20,640	21,597	16,749	19,659	23,017	21,200	16,596	18,838	240,831

Weekly purchases



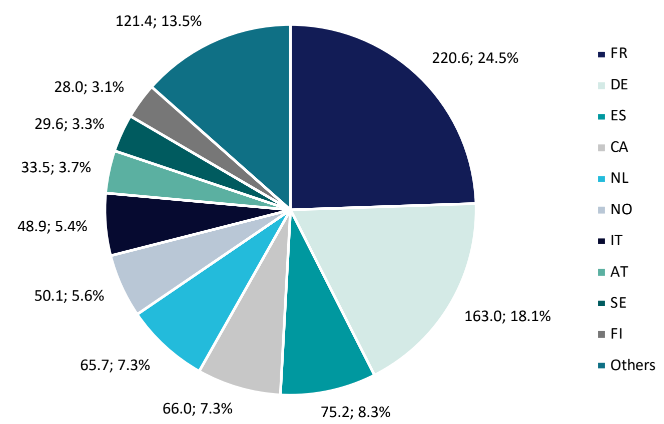
Distribution of weekly purchases



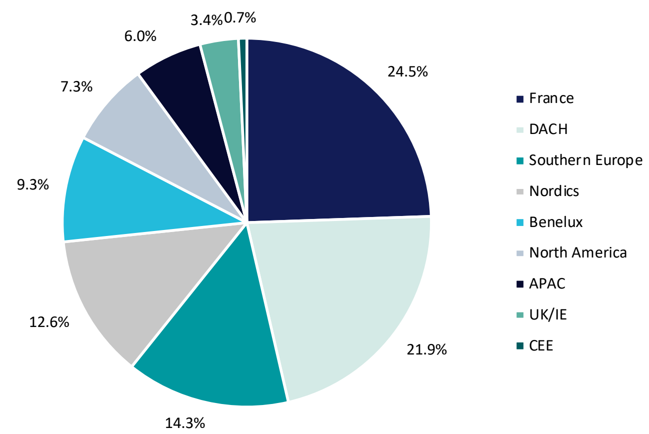
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



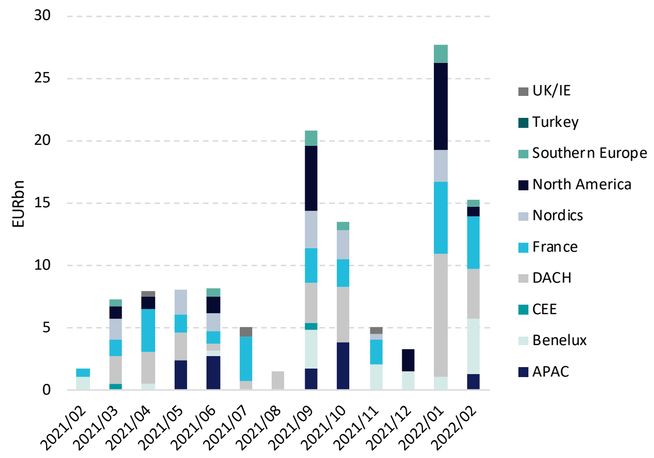
EUR benchmark volume by region (in EURbn)



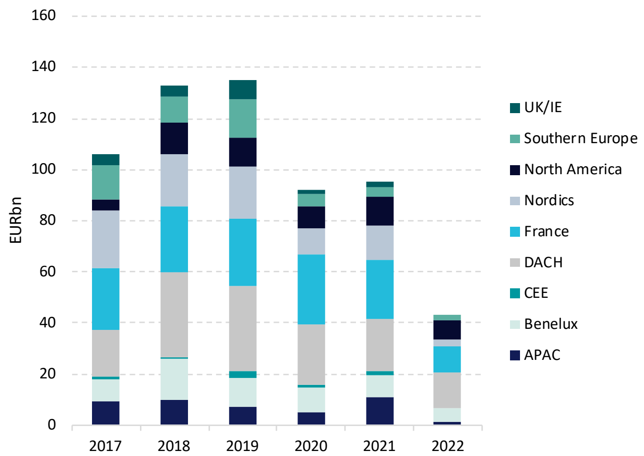
Top-10 jurisdictions

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	220.6	212	11	0.94	10.1	5.6	0.81
2	DE	163.0	238	17	0.62	8.4	4.6	0.41
3	ES	75.2	61	5	1.13	11.7	3.8	1.74
4	CA	66.0	55	0	1.16	6.0	3.3	0.21
5	NL	65.7	67	0	0.93	11.6	7.8	0.71
6	NO	50.1	58	9	0.86	7.4	4.0	0.38
7	IT	48.9	58	1	0.81	9.3	4.4	1.25
8	AT	33.5	62	2	0.54	9.9	6.4	0.53
9	SE	29.6	36	0	0.82	7.6	3.3	0.41
10	FI	28.0	31	1	0.90	7.7	3.9	0.36

EUR benchmark issue volume by month

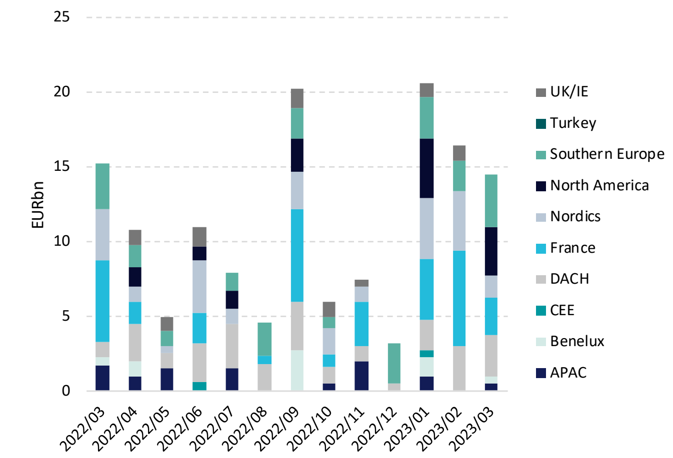


EUR benchmark issue volume by year

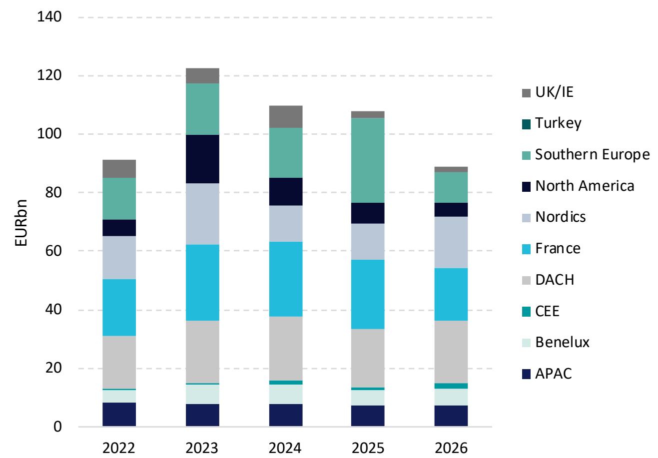


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

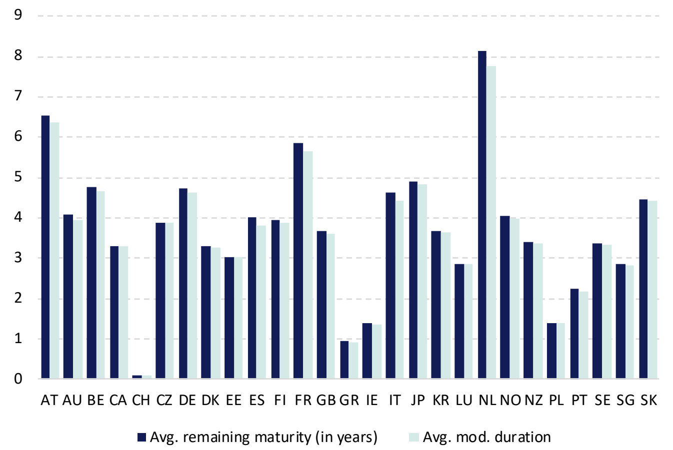
EUR benchmark maturities by month



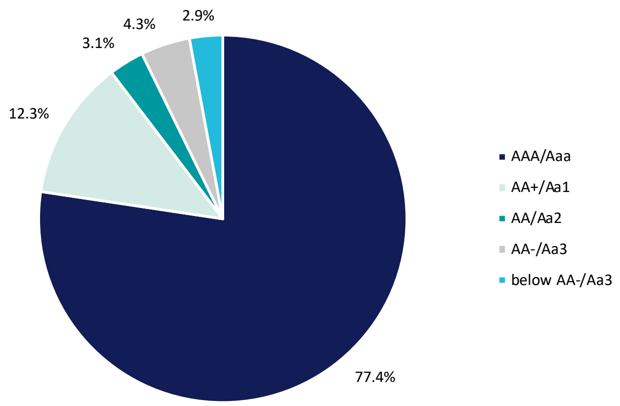
EUR benchmark maturities by year



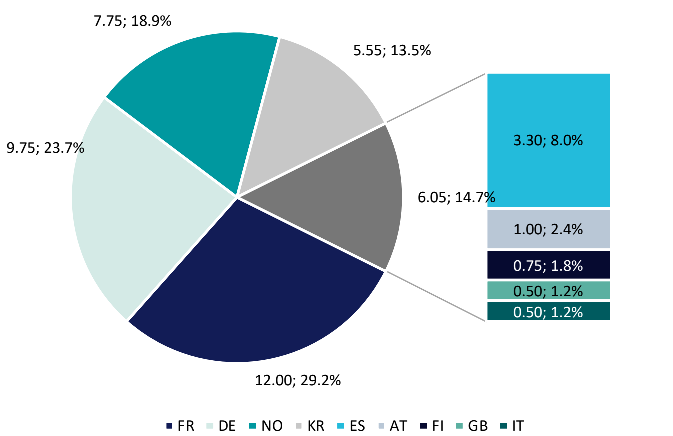
Modified duration and time to maturity by country



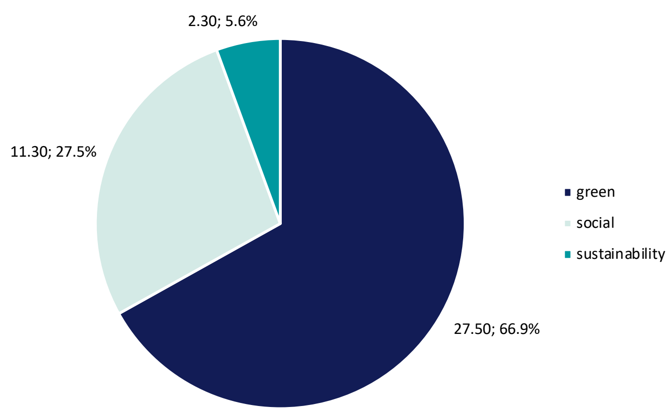
Rating distribution (volume weighted)



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

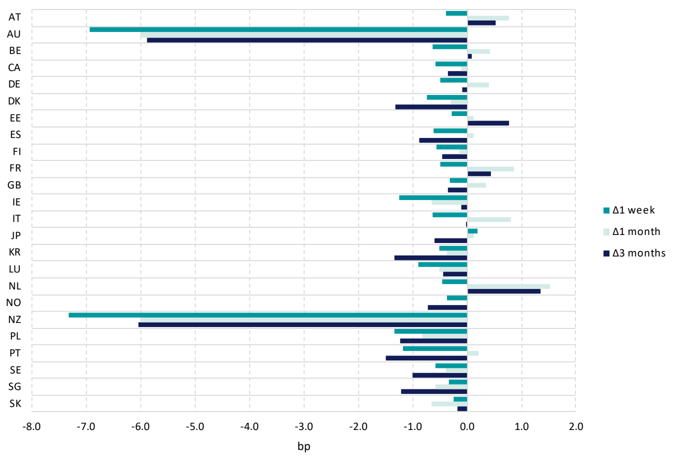


EUR benchmark volume (ESG) by type (in EURbn)

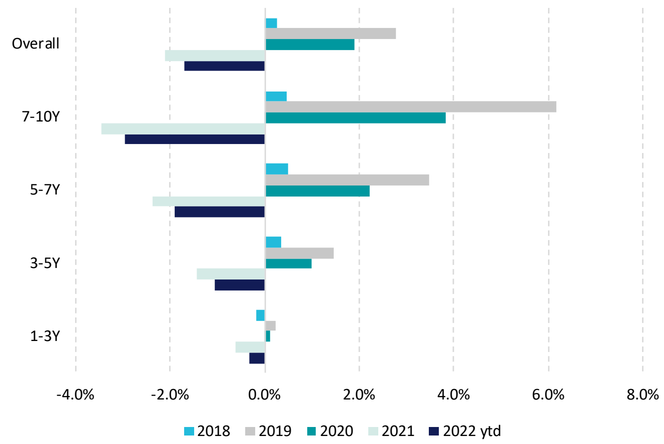


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

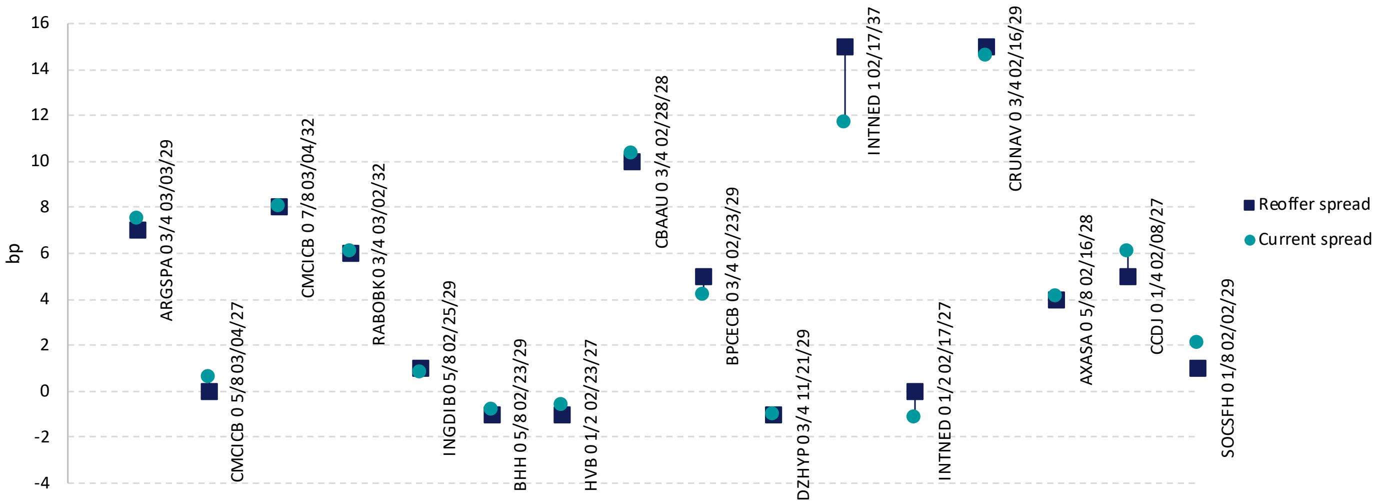
Spread development by country



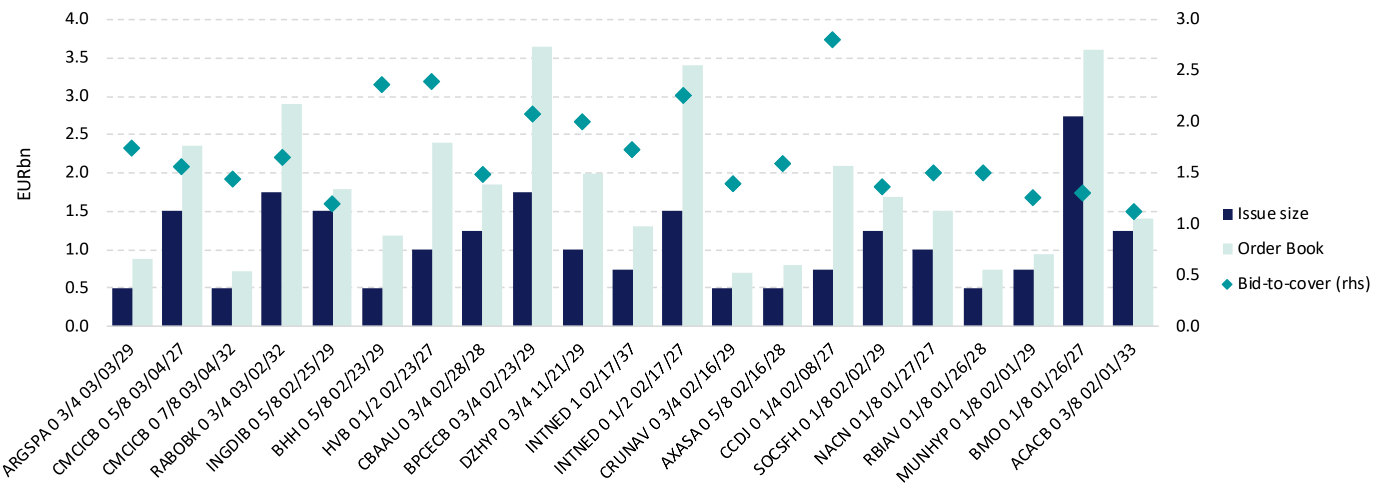
Covered bond performance (Total return)



Spread development (last 15 issues)



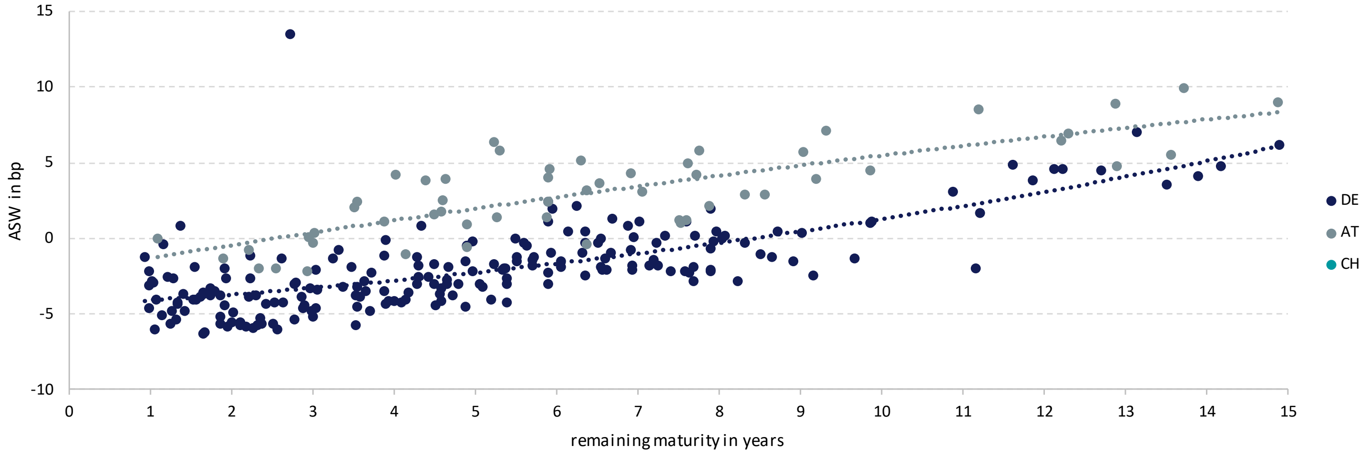
Order books (last 15 issues)



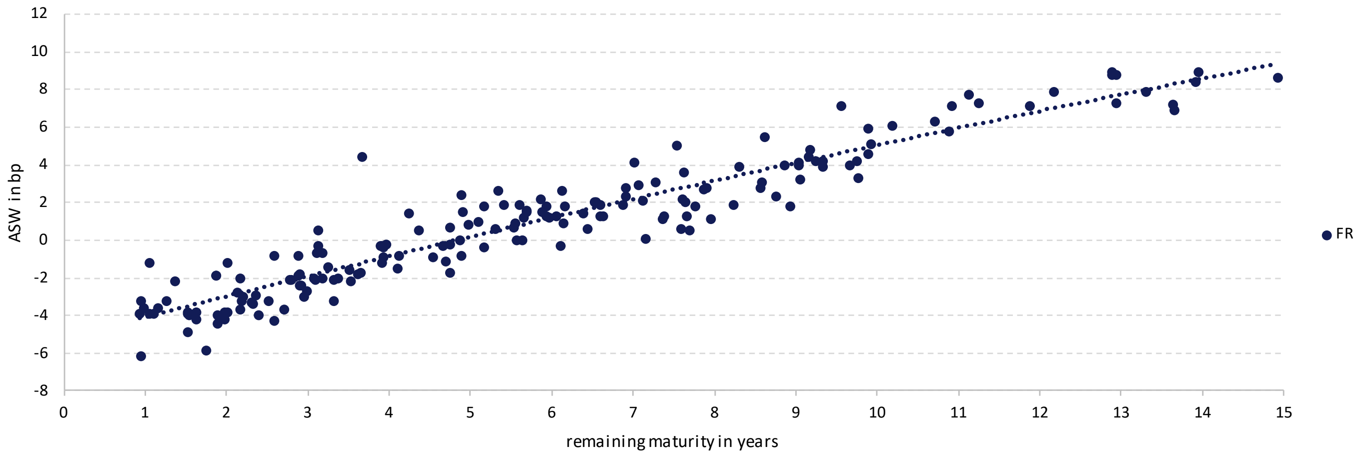
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

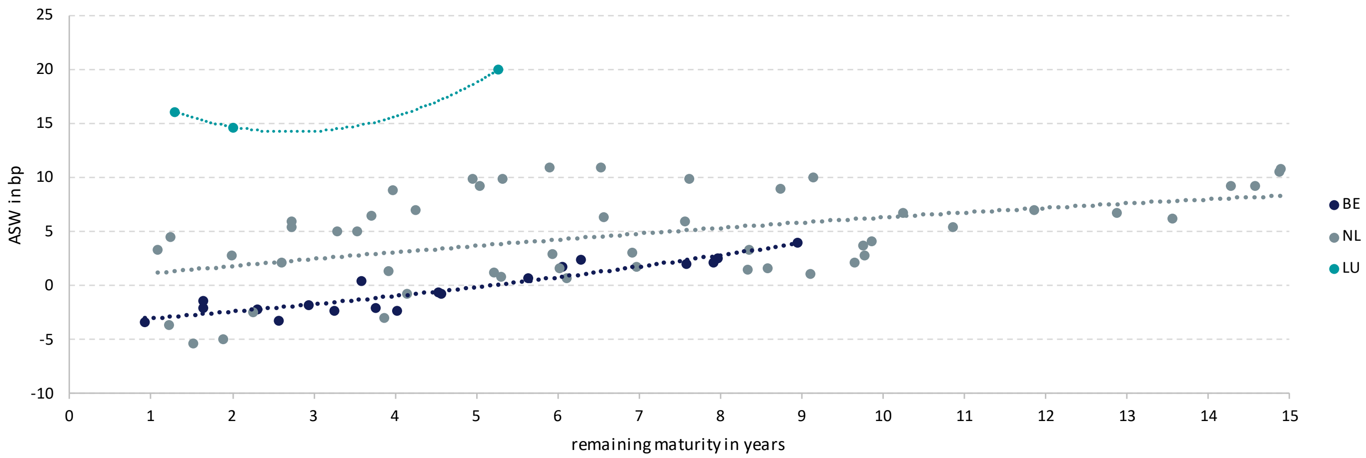
DACH



France

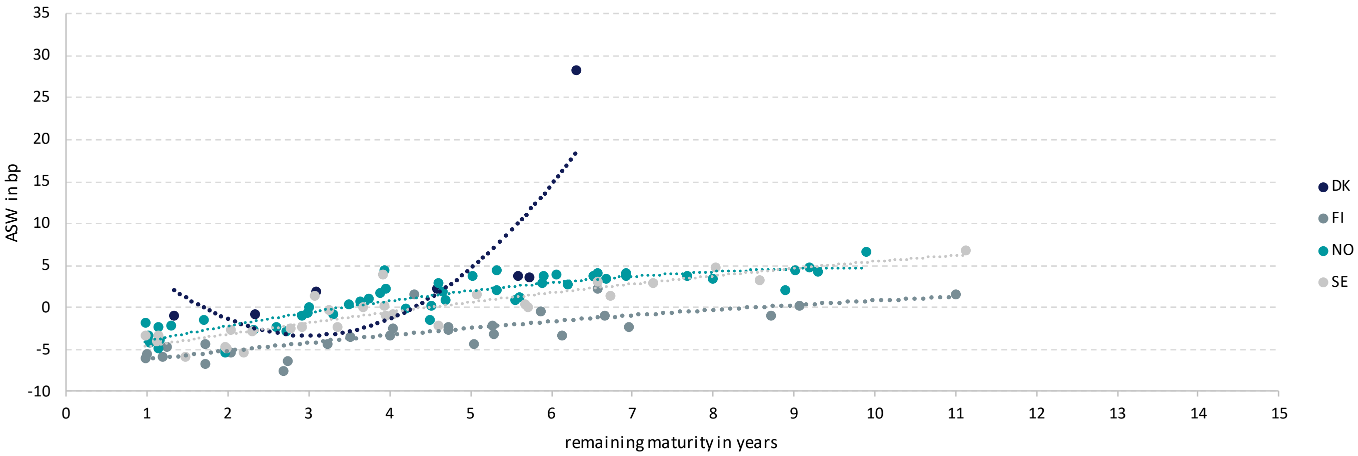


Benelux

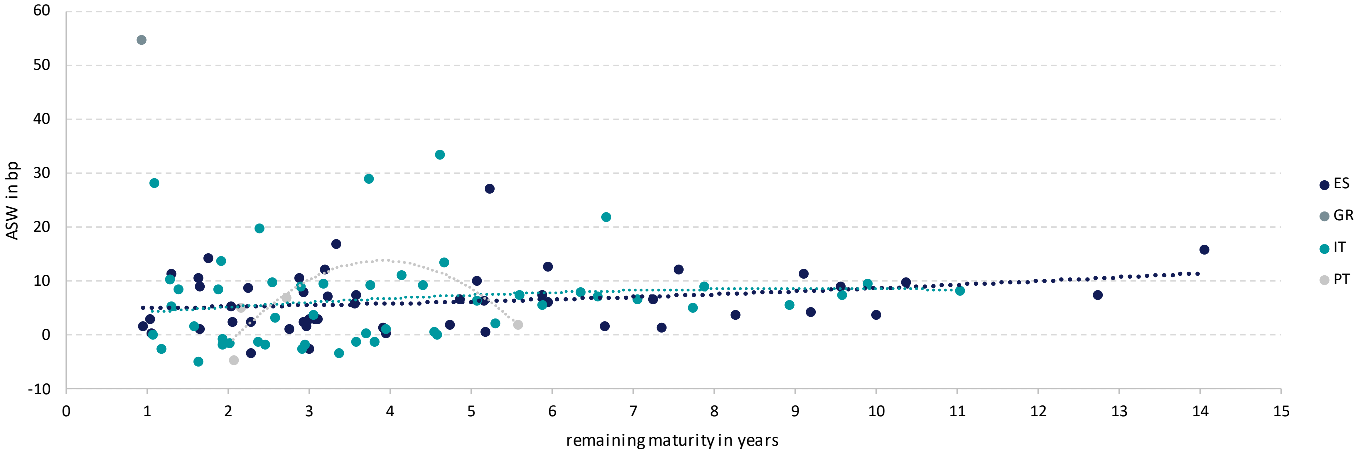


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

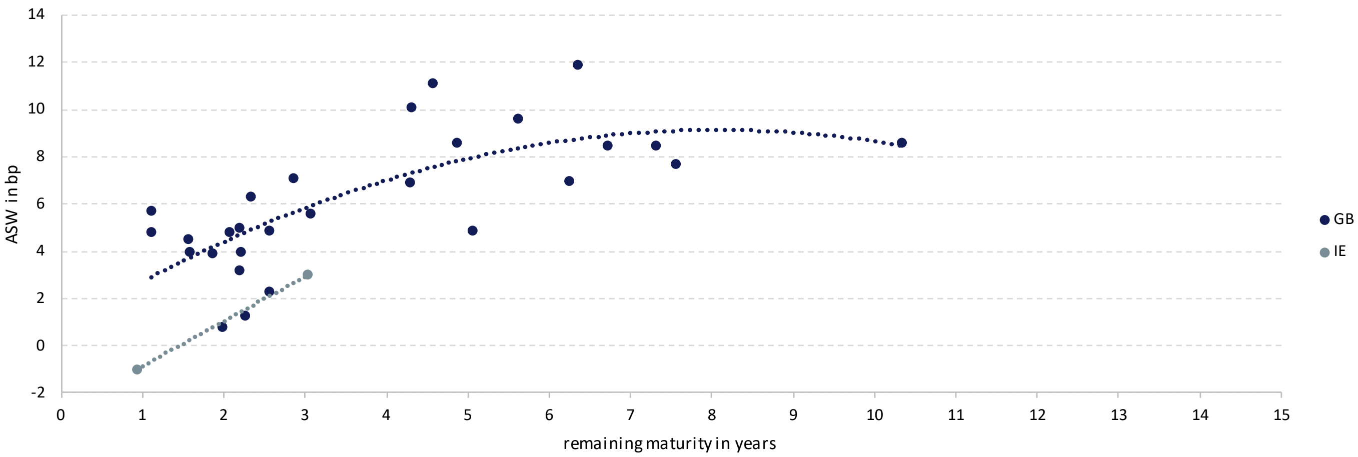
Nordics



Southern Europe

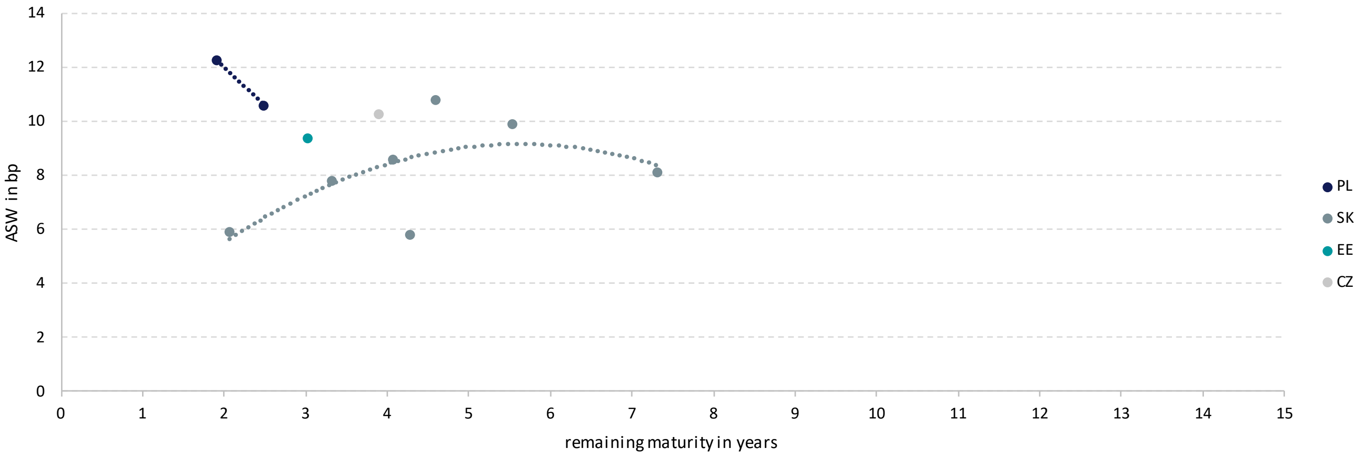


UK/IE

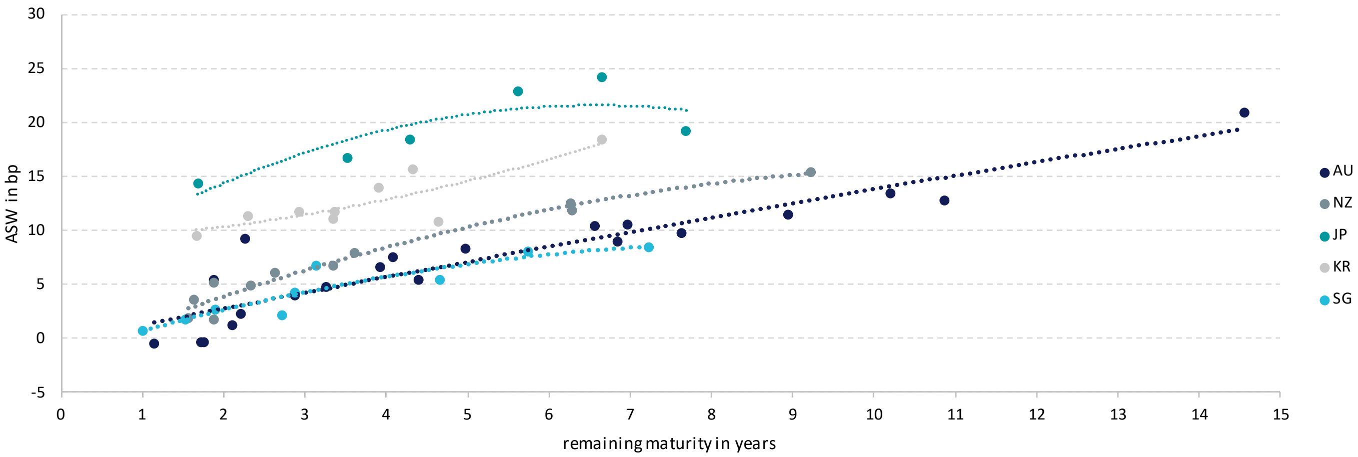


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

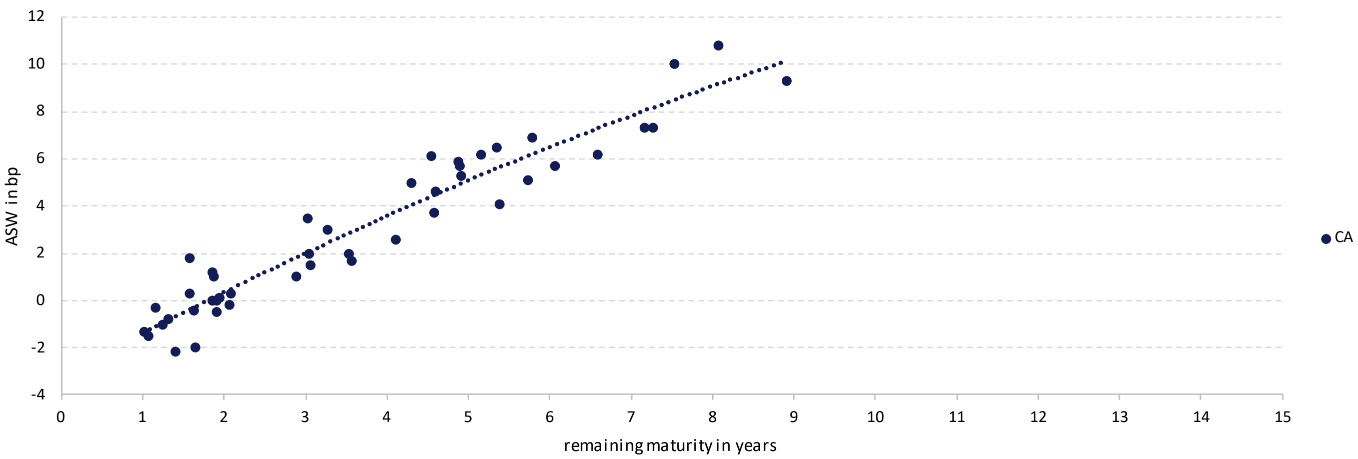
CEE



APAC



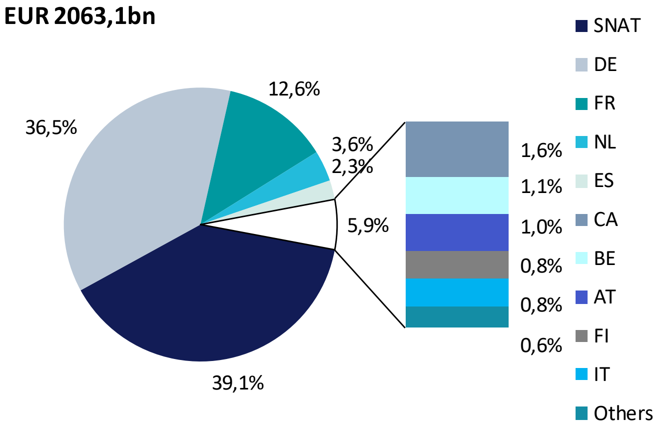
North America



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

Charts & Figures
SSA/Public Issuers

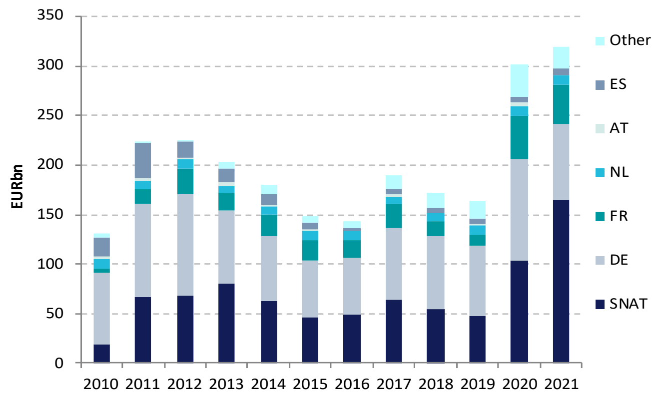
Outstanding volume (bmk)



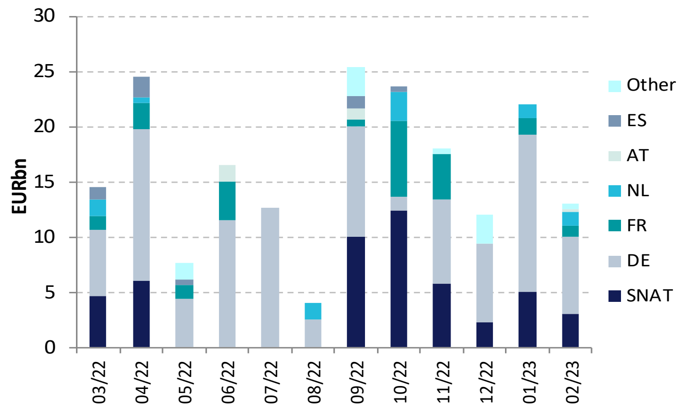
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	806,1	197	4,1	8,6
DE	753,3	577	1,3	6,8
FR	259,9	182	1,4	6,6
NL	75,2	69	1,1	6,6
ES	46,8	59	0,8	4,9
CA	33,2	22	1,5	5,3
BE	21,7	25	0,9	13,6
AT	21,2	23	0,9	4,8
FI	17,1	21	0,8	6,1
IT	16,8	20	0,8	5,4

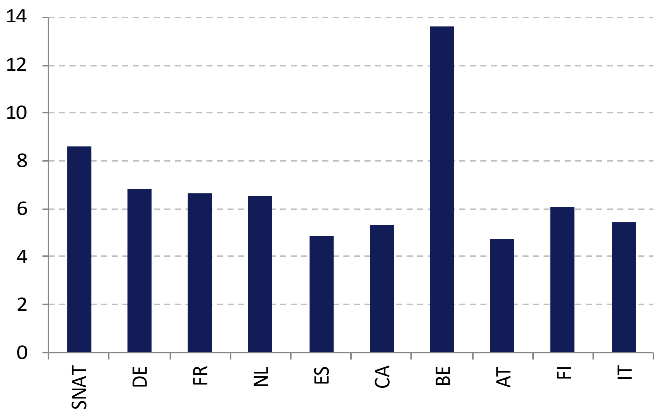
Issue volume by year (bmk)



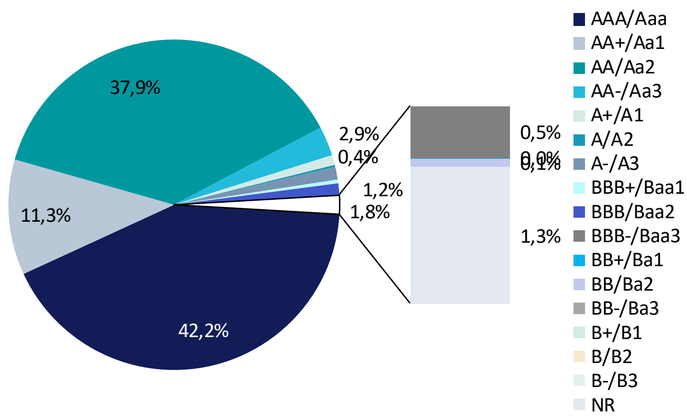
Maturities next 12 months (bmk)



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

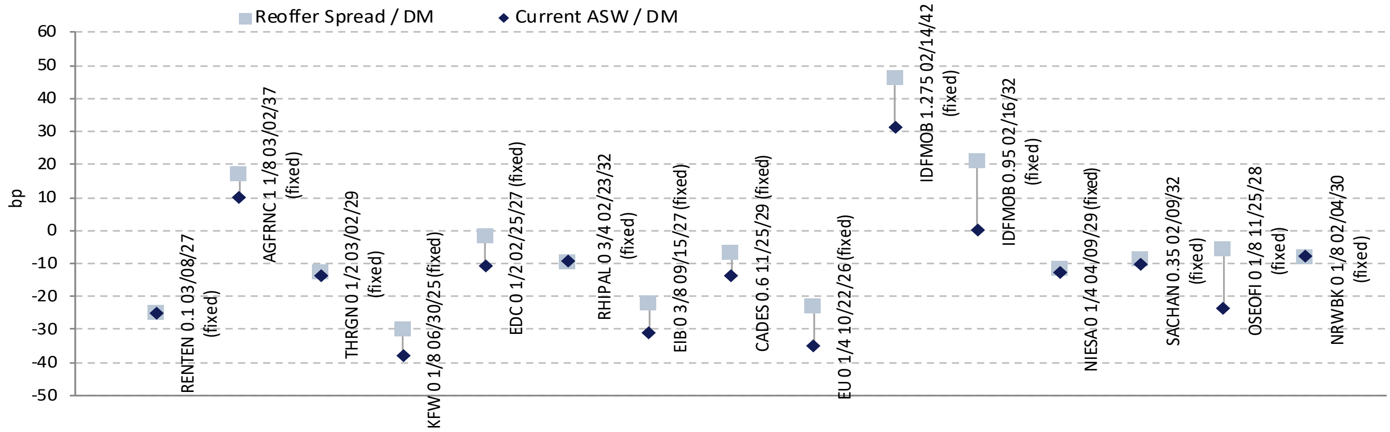


Rating distribution (vol. weighted)

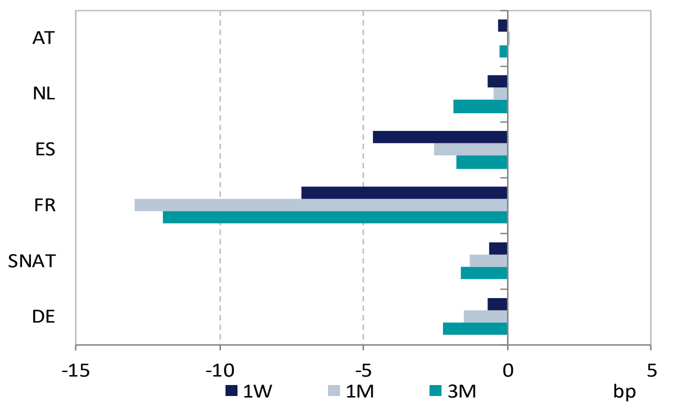


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

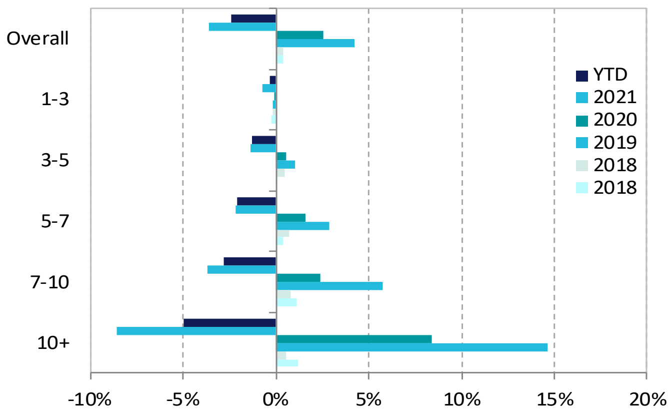
Spread development (last 15 issues)



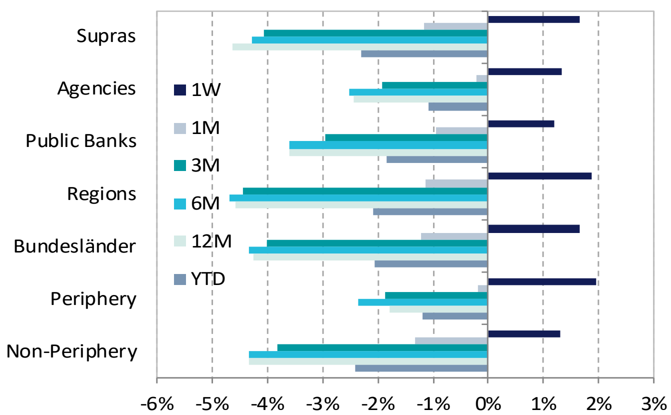
Spread development by country



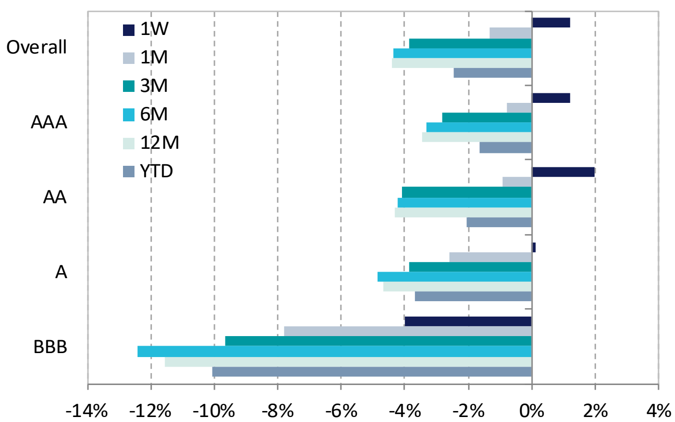
Performance (total return)



Performance (total return) by regions

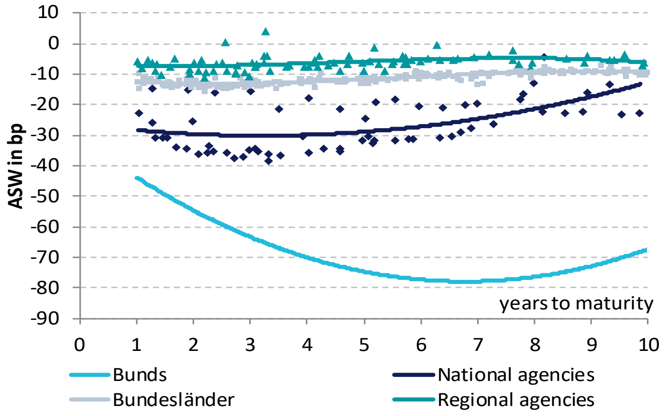


Performance (total return) by rating

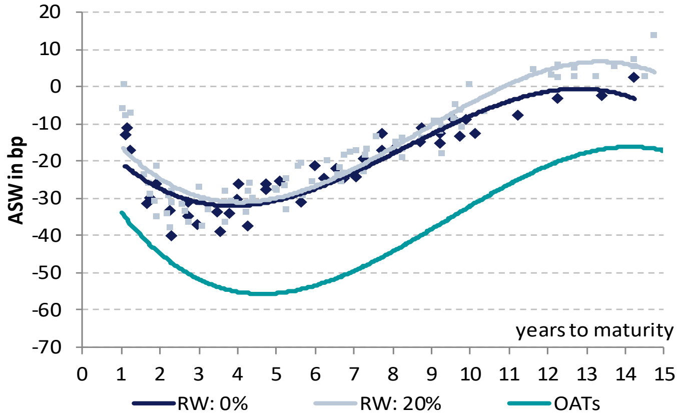


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

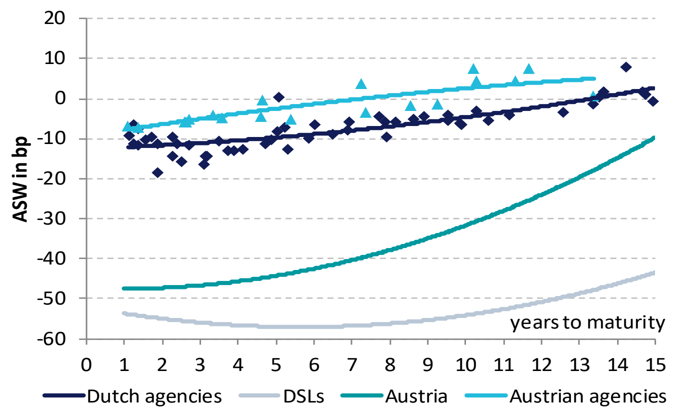
Germany (by segments)



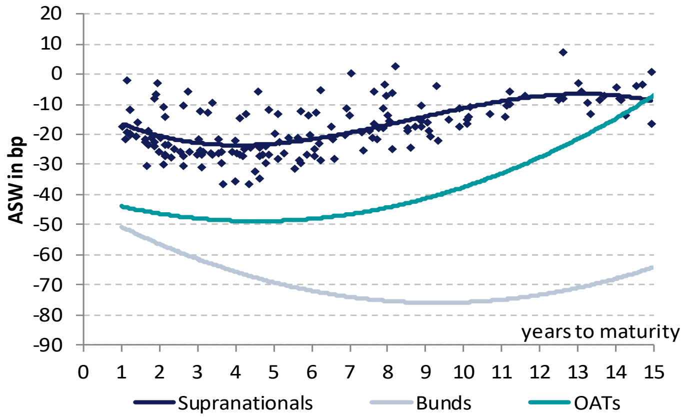
France (by risk weight)



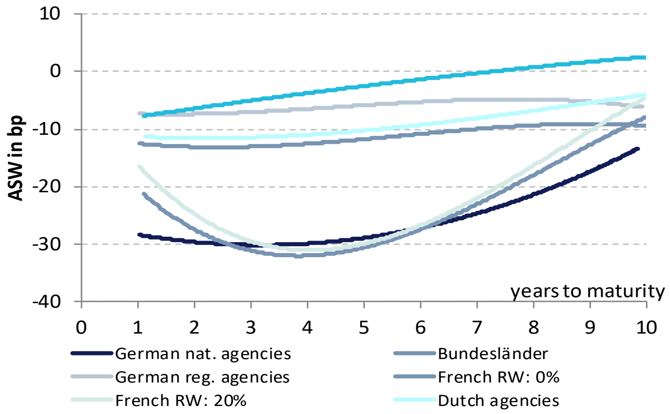
Netherlands & Austria



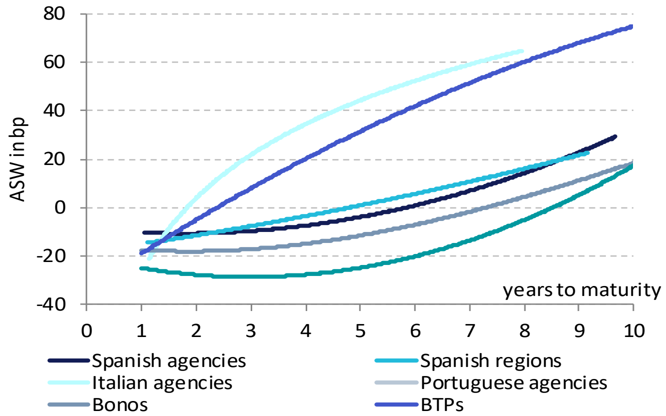
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
07/2022 ♦ 23 February	▪ ECB banking regulator also views the residential real estate market as a potential risk driver for banks ▪ Development of the German property market ▪ Beyond Bundeslaender: Paris metropolitan area (IDF and VDP)
06/2022 ♦ 16 February	▪ PEPP reporting: Finish line in sight, but no photo finish expected ▪ DZ HYP issues inaugural green Pfandbrief: ESG market in Germany continues its growth trajectory
05/2022 ♦ 09 February	▪ ECB: full speed, throttling, U-turn – or wrong turn? ▪ Insurance companies as covered bond investors: the bank-insurer nexus
04/2022 ♦ 02 February	▪ Covered Bonds – Review of January 2022: a reversion to old patterns does not always have to be bad ▪ SSA – New year, new hope? Less oomph to kick off the new year
03/2022 ♦ 26 January	▪ ECB preview: 10y Bund spotted in positive terrain. What's next? ▪ EUR benchmark segment in Canada: our supply forecast already null and void
02/2022 ♦ 19 January	▪ Spotlight on the EUR benchmark segment: a look at the covered bond markets in Belgium and the Nether-lands ▪ 24th meeting of the Stability Council (Dec. 2021)
01/2022 ♦ 12 January	▪ Covered Bonds Annual Review 2021 ▪ The Moody's covered bond universe – an overview ▪ SSA Annual Review 2021: Record after record
40/2021 ♦ 15 December	▪ ECB preview: End of PEPP, booster for APP?! ▪ Our view of the covered bond market in 2022 ▪ SSA Outlook 2022: Public sector caught between ECB & COVID
39/2021 ♦ 08 December	▪ The ECB, monetary policy and covered bond market: Hypothetical "What if...?" considerations ▪ The Moody's rating approach
38/2021 ♦ 01 December	▪ United Kingdom: Spotlight on the EUR benchmark segment ▪ Beyond Bundeslaender: Region Pays de la Loire (PDLL)
37/2021 ♦ 24 November	▪ Benchmark deals outside the euro: momentum has returned! ▪ Transparency regulations under Section 28 of the Pfandbriefgesetz (PfandBG - German Pfandbrief Act) Q3 2021 ▪ Beyond Bundeslaender: Auvergne-Rhône-Alpes Region (ARA)
36/2021 ♦ 17 November	▪ Primary market forecast 2022: time for a comeback? ▪ Development of the German property market ▪ Beyond Bundeslaender: Spotlight on Belgian regions
35/2021 ♦ 10 November	▪ PEPP approaching notional end – will the APP be pepped up? ▪ Spain's major move – will the amended covered bond legislation breathe new life into the market?
34/2021 ♦ 03 November	▪ Repayment structures on the covered bond market: EU harmonisation is already leaving its mark ▪ Beyond Bundeslaender: Spanish regions in the spotlight
33/2021 ♦ 27 October	▪ Insurance firms as covered bond investors: A look at Solvency II and EIOPA statistics ▪ The Scope rating approach

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2021

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

Transparenzvorschrift §28 PfandBG Sparkassen (German only)

SSA/Public Issuers:

Issuer Guide – German Bundeslaender 2021

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB decision: PEPP benched for now, APP comes in as Point Guard

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

ECB launches corona pandemic emergency

Appendix
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Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

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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

Origination & Syndicate

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Origination Corporates	+49 511 361-2911

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Asset Finance	+49 511 361-8150

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Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Additional information
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None

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Issuer / security	Date	Recommendation	Bond type	Cause