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

The next edition of the CSV will be published on **06 September 2023**

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview Covered Bonds

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Primary market: summer recess knocking at the door

Without any doubt, the primary market for EUR benchmark covered bonds was not at its most dynamic over the past five trading days. This comes as no surprise as we continue our inexorable slide towards the summer recess. At the same time, however, we are not necessarily expecting an excessively protracted period of quiet if the experiences of recent years are anything to go by. We presented our expectations for the EUR benchmark segment beyond the summer period in last week's edition of our weekly publication on 12 July. ECB monetary policy will continue to play an important (albeit different) role for the covered bond segment. The distortions unleashed by the TLTRO III and CBPP3 are slowly disappearing and the focus is narrowing on announcements with regard to key rates. In July, we expect a further hike of 25 basis points (cf. NORD/LB Fixed Income Special dated 18 July). Anyway, returning to the primary market: last Monday, Societe Generale SFH (FR) appeared on the market with a dual tranche worth EUR 2.5bn overall (EUR 1.25bn; 3.0y & EUR 1.25bn; 7.0y). Both bonds tightened considerably against the initial guidance, with the 3y deal being placed at ms +8bp (guidance: ms +13bp area) and the 7y deal priced at ms +29bp (guidance: ms +34bp area). From our point of view, the tightening observed over the course of the marketing phase was also possible due to the fact that the deals still offered adequate new issue premiums at final reoffer spreads of +5bp (3.0y) and +7bp (7.0y). In the meantime, such levels have come to represent the rule rather than the exception on the market. Royal Bank of Canada (RBC) can also look back with a high degree of satisfaction on a successful placement (cf. NORD/LB Issuer View from 18 July). Yesterday's deal from RBC (EUR 1.5bn; 5.0y) kicked off the marketing phase with an initial guidance of ms +38bp area, before eventually settling at a final re-offer spread of ms +34bp. At 1.4x, the bid-to-cover ratio for a bond of this volume is certainly considerable, while the new issue premium of +5bp fits the current picture.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Royal Bank of Canada	CA	18.07.	XS2656481004	5.0y	1.50bn	ms +34bp	AAA / Aaa / -	-
Societe Generale SFH	FR	17.07.	FR001400JHS7	7.0y	1.25bn	ms +29bp	AAA / Aaa / -	-
Societe Generale SFH	FR	17.07.	FR001400JHR9	3.0y	1.25bn	ms +8bp	AAA / Aaa / -	-

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

EUR sub-benchmark segment: Landesbank Berlin issues mortgage Pfandbrief

The last EUR sub-benchmark deal we reported on as part of our weekly publication dates back to 6 June 2023. At this time, Natixis Pfandbriefbank (DE) approached investors with a transaction in the amount of EUR 250m (2.5y). With the issuance dynamic having ebbed away since this time, during the past trading week Landesbank Berlin finally ended the period of silence from this market segment, which is slowly but steadily gaining in importance (cf. NORD/LB Issuer View from 12 July). The issuer opted for a term to maturity of 4.8 years for its sub-benchmark (EUR 250m; WNG), while the re-offer spread came in at ms +10bp (guidance: ms +13bp). With a bid-to-cover ratio of 1.9x, the transaction was practically twice oversubscribed.

Covered Bonds from Sparkasse Oberösterreich awarded top rating by Moody's
In terms of issuance volume in the EUR benchmark segment alone, Austria has been one of the most dynamic jurisdictions over the past 12 months to two years. However, it should also be noted that some Austrian issuers are also well-established on the market for EUR sub-benchmarks. From our perspective, Sparkasse Oberösterreich is a possible newcomer to the market for publicly placed covered bonds in EUR sub-benchmark format. The bank recently announced that its mortgage Pfandbriefe had been awarded the top rating of Aaa by the rating agency Moody's. According to the bank's investor presentation, the Austrian regional bank has a cover pool of EUR 1,105.5m on the basis of total assets in the amount of EUR 15.4bn and a Tier 1 capital ratio of 16.6% (both as at 31 December 2022). On the same reporting date, these cover assets were offset by issuances in the amount of EUR 704.6m. In total, 54.6% of the loans carry a fixed rate of interest, while the share of non-performing loans (NPLs) in the overall portfolio stands at 0.0%. Overall, the share of the financed real estate assets used for residential purposes amounts to 85.0%. As soon as the issuer is active on the market with a EUR sub-benchmark (or even EUR benchmark), we will include them in our regular coverage concerning the relevant covered bonds. In this vein, the issuer and associated cover pool would feature at least once per year in our NORD/LB Issuer Guide Covered Bonds.

EMF Quarterly Review: review of the mortgage markets in Q1 2023
The European Mortgage Federation (EMF) recently presented its latest Quarterly Review of European mortgage markets (reporting period: Q1 2023). Unsurprisingly, the review indicates restrained dynamics, which can be put down to persistently high inflation and rising interest rates. Gross lending fell by -16.0% year on year, which comes on the back of a decline of -18.4% year on year in the fourth quarter of 2022. The house price index for the EMF database (currently: 150.6 points) also fell and therefore drifted further away from its peak in the third quarter of 2022, when it stood at 160.7 points. The weakening momentum on European mortgage and property markets has recently continued, which is likely to also be reflected in subsequent EMF Quarterly Reviews. Moving forward, we believe that the data basis, which relates to the EU27 plus the UK, will provide valuable insights into the differing developments on European mortgage and property markets – even if this is "only" in retrospect.

Fitch comments on Swiss covered bond programmes
The Swiss covered bond market is characterised by the fact that, due to the legal requirements, commercial banks make use of "contractual" programmes as the basis for their issuances. The risk experts at Fitch recently commented on six such issuance programmes (five mortgage-backed programmes and one backed by automotive leasing receivables). Even against the backdrop of the new interest rate landscape, Fitch considers the rating for all six programmes (AAA) to be stable. In terms of the EUR benchmark segment, a look at the programmes of UBS and Credit Suisse is particularly relevant. Credit Suisse (Switzerland) AG was most recently active with a EUR benchmark in December 2022. On 12 June 2023, the UBS takeover of Credit Suisse was finalised, a development which will lead to a significant change in the funding structure. We assume that the "new" UBS Group will continue to be active in the EUR benchmark segment for covered bonds at some point in the future.

Market overview SSA/Public Issuers

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SEK: half-year update – high net interest income despite difficult times

On 14 July, the Swedish Export Credit Corporation (ticker: SEK) presented its report on the first half of 2023. In the first two quarters, net income rose by 179% to the equivalent of around EUR 45m, while net interest income grew by 37% in the same period to approximately EUR 119m. Profitability was 4.7% for the first six months. The self-imposed target of 5% is therefore within striking distance and 1.9 percentage points higher than in the same period last year. Meanwhile, the loan portfolio grew by only about 5% in the first half of the year (after 11% in H1/2022) to a total of around EUR 25bn. New lending even halved to the equivalent of about EUR 3bn. Reasons for this are summarised by Magnus Montan, CEO of SEK, as follows: “High inflation and high interest rates have resulted in many companies choosing to defer some investments, which affects our new lending for exports and project financing.” SEK’s business model is being oriented more and more towards sustainable projects. This is both a matter of course and a particular focal point for SEK in its future business model. For this reason, ESG-compliant lending grew in the second quarter by approximately EUR 400m. Magnus Montan sees this as the strongest growth factor in the future: “This spring’s Export Credit Trends Survey found that seven out of ten Swedish exporters plan to invest in measures to reduce climate impact over the next 12 months, despite increasingly expensive financing. We view this positively at SEK, both from a climate perspective and due to its contribution to increasing the companies’ competitiveness.” SEK was not idle on the funding side either. In the second quarter, large benchmark transactions were carried out in EUR as well as in USD for diversification reasons. As regular readers of our SSA Primary Market may still dimly recall, the SEK issued a three-year senior preferred bond as a benchmark in early April in the amount of EUR 1.25bn at ms +3bp, and the order books were well filled at EUR 2.1bn at the time. Furthermore, two major USD issues have also been carried out. The first bond was issued at the end of April with a term of just over two years, while the second followed at the beginning of June with a term of five years. The volumes amounted to USD 1.25bn and USD 1bn respectively. In addition, a bond in the amount of AUD 500m and another tranche of a green bond in the amount of SEK 1.6bn were issued in the second quarter. So far this year, SEK has issued SEK 80bn, equivalent to around EUR 7bn, in bonds with maturities of more than one year. This is approximately double the amount of the same period last year. It will be interesting to see what the second half of the year has in store for SEK.

EBRD: sustainability and resilience

It has been an eventful July so far at the European Bank for Reconstruction and Development (ticker: EBRD). Let's start chronologically: as announced on 4 July, Mongolia joined the EBRD's Green Economy Financing Facility (GEFF) as its newest member. Together with the Green Climate Fund (GCF), a facility worth the equivalent of almost EUR 122m was set up to support Mongolia in the green transformation of its economy, facilitate access to green technologies for private companies and households, and promote higher energy efficiency standards. GEFF follows the much smaller Mongolian Sustainable Energy Financing Facility (MonSEFF), which existed between 2014 and 2019 and which, with the use of a total of around EUR 22m, has already contributed to energy savings of 255,000 MWh and a reduction in CO_2 emissions of more than 94,000 tonnes per year. To date, the EBRD has financed 136 projects in Mongolia with a total value of EUR 2.3bn. Next, on 5 July, it was announced that the EBRD had granted a sustainability-linked loan of EUR 75m to the Żabka Group in Poland. This is intended to make retail and value chains in Poland more environmentally friendly, for example by promoting the efficient and low-emission operation of shops and by taking measures to minimise food waste. To date, the EBRD has lent around EUR 12.5bn to Poland, about 80% of which was used to finance sustainability-related projects. Next up, on 17 July the EBRD provided the Egyptian Banque Misr with the equivalent of EUR 88m to support the resilience of the Egyptian real economy. The funds are to be (on)lent mainly as loans to local micro, small and medium-sized enterprises, especially outside of the Greater Cairo area. Since the start of operations in Egypt in 2012, the EBRD has already financed 164 projects there with a total value of EUR 10bn. In the course of the last seven days, three reports related to Ukraine also appeared on the screen. Firstly, nearly EUR 23m was allocated to the Ukrainian postal service provider Ukrposhta to enable it to diversify its logistical structures and therefore maintain its operational capacity despite the turmoil of war. Next, a loan of around EUR 10m was granted to the Ukrainian agricultural company Agrosem for the expansion of a railway terminal on the Polish border. This, as well as the development of a grain handling complex with an annual capacity of 400,000 tonnes, is intended to secure or even increase the country's grain exports. Ukraine's agricultural sector was also the focus of the latest report. The EBRD provides guarantees of EUR 20m to OTP Leasing, Ukraine's largest leasing company. OTP Leasing, with strong operations in the agricultural sector, will be able to support private companies involved in agriculture and other critical industries, from food processing to retail, logistics and pharmaceuticals. Its declared aim is initially to secure livelihoods in Ukraine and, in addition, to support investments by micro, small and medium-sized enterprises in the long term. The EBRD has committed to invest a total of EUR 3bn in Ukraine in 2022 and 2023, of which EUR 1.7bn was already disbursed in the first year of the war.

KfW sells shares in German energy firm dena

In a development that was hardly covered by the mainstream media, KfW announced on 13 July that it had sold its 26% stake in Deutsche Energie-Agentur GmbH (dena) to the very same company. As a result, dena increases its own share to 50%, with the federal government holding a further 50%. The sale of KfW's shares and the takeover by dena had been planned for some time; the purchase agreement was signed on 10 July, followed by the payment to KfW. As a result, KfW loses its blocking minority in what it describes as a thinktank for the challenges of a climate-neutral society and for achieving energy and climate policy goals. At the time of going to press, we had no information regarding an agreed purchase price deviating from the book value.

NIB: various green projects in "The North"

The first in a series of green projects with Nordic Investment Bank (ticker: NIB) participation was a cooperation with the Danish Ringkjøbing Landbobank on 30 June. To finance the expansion of renewable energies in small and medium-sized enterprises in Denmark, a loan package of EUR 67m was put together. It continued together with the Latvian energy supplier Rīgas Siltums. A ten-year contract worth EUR 20m was concluded to expand and modernise the aging district heating network in Latvia dating back to the 1960s. Furthermore, the funds are to be used to improve energy production from renewable resources, such as biomass, and to increase production efficiency. For the latter, financing from the proceeds of the NIB environmental bonds will be considered once all necessary environmental permits have been granted. In Finland, as announced on 5 July, NIB participated in the financing of 100 electric buses for public transport in the Helsinki area with a five-year contract worth EUR 18.5m - this corresponds to about 44% of the total amount of the project. In addition to consistent bus connections, the project will lead to a significant emission reduction of about 4,850 tonnes of CO_2 equivalent or 25 tonnes of NO_x per year. The eight-year loan agreement with the Swedish real estate company Catena AB amounting to the equivalent of roughly EUR 37m is the provisional conclusion of the green series. According to the information, a BREEAM-certified, green logistics facility is to be built in Jönköping, Sweden, and will bring Catena AB a good step closer to operating on a fully carbon-neutral basis by 2030.

Primary market

The fabled summer slump hit the markets faster than expected. Only the state of Brandenburg ventured onto the primary market in the EUR-denominated SSA segment last week. A total of EUR 500m (WNG) was announced in the 10y segment; guidance was ms +1bp area. At the end of the day, EUR 1.0bn was on the books with a spread in line with the guidance. In view of the general lull, this was probably a pleasing outcome for all involved.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BRABUR	DE	12.07.	DE000A30V6X7	10.0y	0.50bn	ms +1bp	- / Aaa / -	-

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

NORD/LB

Covered Bonds
Banks in Europe: EBA Risk Dashboard in Q1 2023

Author: Dr Frederik Kunze

EBA Risk Dashboard in Q1 2023

The European Banking Authority (EBA) presented current figures for its highly regarded "Risk Dashboard" (RDB) on 13 July 2023 (reporting period: Q1 2023). The database includes a large number of indicators (including capital resources and liquidity, asset quality and profitability), which comprise commercial banks' reports to the supervisory authorities. According to the information from the EBA, the results of the latest risk assessment questionnaire (RAQ), which was conducted in spring this year in tandem with 85 banks, also provides an additional basis for the publication. Having been made available for the first time in the previous quarter, data on fulfilment of the minimum requirements for own funds and eligible liabilities (MREL) was also provided for the second time. In this context, enhanced information – in addition to the annual EBA MREL Quantitative Monitoring Report and Impact Assessment – is also published. However, this is published with a delay of one quarter, meaning that the latest reporting date here is 31 December 2022. The EBA notes in its report that banks' profitability has increased once more. Capital, financing and liquidity ratios at banks are also sound. In its press release, the EBA also stressed the fact that the issuance of bank bonds (covered and uncovered) had resumed after a temporary hiatus caused by the turbulence triggered by Silicon Valley Bank (SVB) and Credit Suisse (CS). Liquidity and financing ratios are trending downwards due to repayments of the TLTRO III tender. The EBA Risk Dashboard is a significant source of information for us. In our opinion, the publication not only provides key insights into the state of the European banking sector, but also refers to the banks' funding behaviour. Here, the changes to the ECB's monetary policy mean that a paradigm shift is emerging, in the wake of which covered bonds will become more important once again (cf. EBA Asset Encumbrance Report dated 17 July 2023).

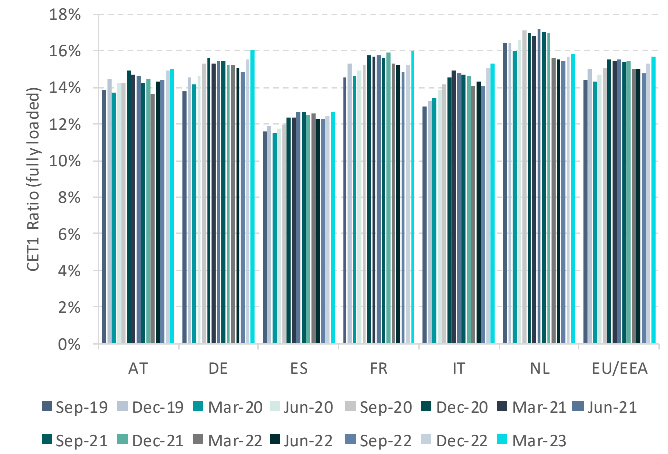
Profitability improved initially…

According to the assessment by the EBA, the EU's economic situation is characterised by weak growth and a sustained high inflation rate in the case of consumer prices in Q1 2023. In addition, it sees significant downside risks as far as the outlook for (global) economic activity is concerned, which were justified, in particular, by geopolitical uncertainties. In the context of publishing the current data for its Risk Dashboard, the EBA also finds that banks' profitability was initially supported by higher interest rates. However, the repricing of bank deposits will also put net interest income under additional pressure in the opinion of the supervisory and regulatory authority. On the cost side, the EBA also highlights falls in the cost-to-income ratio (EU average <60.0%). The indicator fell below the 60.0% marker for the first time since June 2015. The downward trend is also continuing, as the EU average was still as high as 71.7% in March 2020.

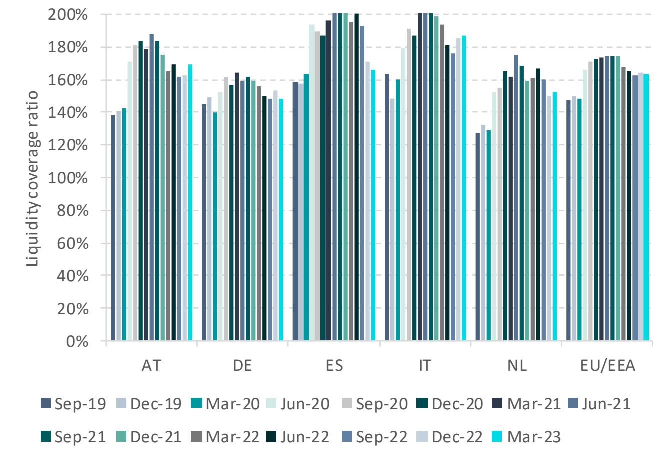
…but "deposit betas" and rising credit risk could prove problematic in future

For the moment, the EU average for the return on equity (RoE) still stands at 10.4%. A RoE result in "double-digit" territory was therefore reported for the first time since the global financial crisis. The expectation on the part of commercial banks that rising interest rates should further boost profitability over the next twelve months is based on the RAQ. However, in this context, the EBA also cites the fact that banks would have to deal with new challenges here. One reason for this can be found in rising "deposit betas". These reflect the sensitivity of banks' deposit rates with regard to money market rates. One cause of the rising deposit betas is investor reaction to the new interest environment. Together with rising market rates, which also increase banks' refinancing costs, this development argues in favour of a fall in net interest income at European investment banks in future. The EBA also thinks that rising credit risks will pose additional problems.

Risk Dashboard: CET1 ratio (fully loaded)



Risk Dashboard: LCR (in %)



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

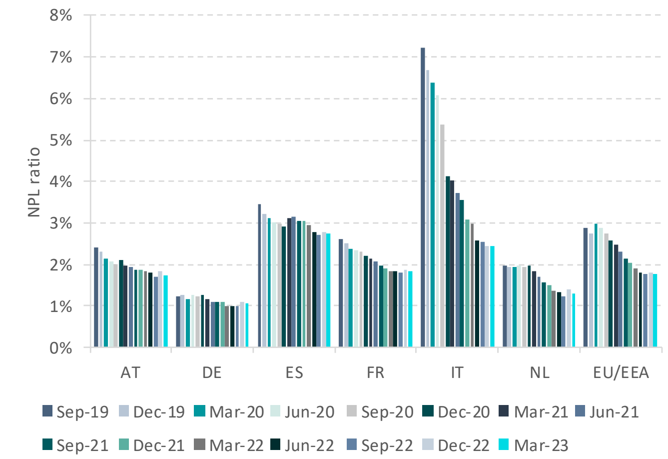
Capital and liquidity ratios in Q1 2023

In its current statement, the EBA also says that the banks have strong liquidity ratios on average (LCR: 163.7%, NSFR: 126.0%). However, it must be noted here that the LCR recorded a modest fall (-0.9% points), which was attributable to outflows, in particular. With regard to liquidity, the EBA again refers to the TLTRO III tenders set to fall due over the next few quarters. As far as capital ratios are concerned, the CET1 ratio (fully loaded) increased by 0.3 percentage points compared with the previous quarter to stand at 15.7%. In terms of the numerator, capitalisation ratios benefited from higher earnings, while the denominator was characterised by virtually stable risk-weighted assets (RWA).

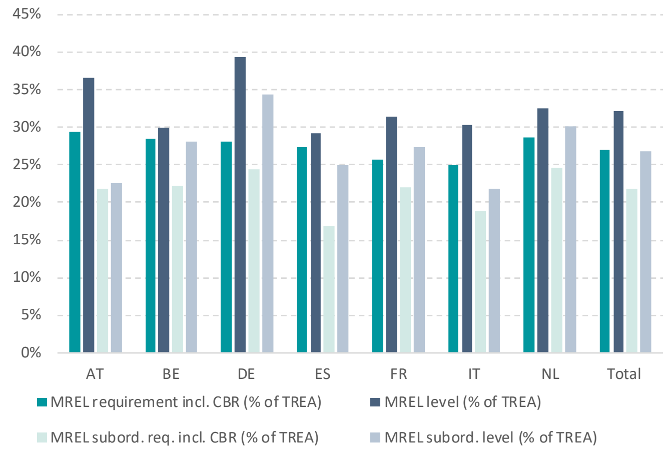
Credit quality: (still) no rising NPL ratios

In its comments, the EBA makes clear that the challenging macroeconomic conditions are not yet reflected in banks' asset quality indicators. Non-performing loans totalled a sound EUR 347bn (1.8% of total loans). However, the RAQ results show that the commercial banks surveyed expect a deterioration in asset quality (across all segments) over the course of the next twelve months.

Risk Dashboard: ratio of NPLs and advances (in %)



MREL Dashboard: external MREL requirement and level (% of TREA)



Source: EBA, NORD/LB Markets Strategy & Floor Research; TREA = Total Risk Exposure Amount

MREL Dashboard shows a further decline in the MREL shortfall

The second issue of the MREL Dashboard shows an MREL shortfall of EUR 29.1bn at the end of December 2022 (Q3 2022: EUR 40.8bn) across the countries and banks under consideration, which equates to a share of 1.2% of the entire requirement. The supervisory authorities are monitoring the development and have already given some banks longer periods in which to comply with the requirement. The PIIGS countries are still those with the highest shortfalls. According to the current EBA survey, over 70% of the banks questioned use senior non-preferred / HoldCo bonds as their main source of funding to fulfil or retain their MREL requirement. With regard to the increase in funding costs, banks are, however, increasingly relying on their deposits too. Accordingly, 55.0% (+15.0 percentage points compared with Q4 2022) of banks used deposits to cover their funding. Nevertheless, senior non-preferred / senior HoldCo and senior preferred will remain the preferred funding instrument, at 40% and 45% respectively, over the next twelve months according to the RAQ.

Conclusion

The EBA Risk Dashboard shows that European commercial banks are in good shape in Q1 2023 too. This is true both in terms of capitalisation and liquidity as well as with regard to the quality of the assets on bank balance sheets. Nevertheless, the picture looks less positive for banks over the next twelve months, or so it seems at least from the EBA's spring questionnaire (risk assessment questionnaire). The capital ratios could also be put under pressure by a risk-induced increase in RWA positions. An increase in the number of non-performing loans must also be expected, which could drive NPL ratios higher from the low starting values. Overall, however, we believe the banking sector in Europe is still in good shape and view the deterioration in the outlook as a logical consequence of the current market environment. We do not think that the credit quality of European covered bonds is jeopardised in any way and also expect the momentum in covered refinancing to be sustained.

SSA/Public Issuers
ECB repo collateral rules and German Laender

Author: Dr Norman Rudschuck, CIIA // assisted by Lukas-Finn Frese and Christian Ilchmann

Fine-tuning the ECB repo collateral rules

Within the scope of its Statutes, access to ECB liquidity is only possible on a collateralised basis. The general conditions on which the ECB and national central banks (NCBs) are prepared to conduct lending, including the preconditions for determining the central bank eligibility of collateral for this, are specified in the Guideline (EU) 2015/510 of the European Central Bank (ECB/2014/60). In certain cases, this results in significant differences in the admission as collateral for sub-sovereign issuers in particular. On 29 June – following the end of the coronavirus-related, time-limited reduction in valuation haircuts – the opportunity to adjust the details presented itself (we had already hinted at this development). We sum up the initial situation, which is presumably well-known, below and present the adjustments in detail.

Precise definition of possible collateral

In accordance with Part 4, Title II, Chapter 1, Article 62 of the General Framework, the ECB accepts bonds with fixed, unconditional nominal volume as collateral (in contrast to convertible bonds, for example). The bonds must carry a coupon that could not result in negative cash flows. In addition, bonds without a coupon payment (zero coupons), with fixed or variable interest payments based on a reference interest rate, are also eligible. Bonds designed so that the coupon payment changes in line with a rating upgrade or downgrade, or inflation-linked bonds, are also eligible for use as collateral. Special rules apply to ABS with regard to the first condition (fixed, unconditional nominal volume). The ECB generally divides collateral into two groups: marketable and non-marketable assets, which differ primarily in terms of their acceptance criteria. ECB-eligible collateral is subdivided in turn into five haircut categories (see table below), which differ from each other with regard to issuer classification and the type of collateral. The haircut category decides the valuation haircuts to which certain debt instruments are subject. The haircuts also differ according to the residual term and coupon structure.

What is changing and why?

The following changes in the new version are noteworthy: the valuation haircuts for bonds with floating coupons will match those of fixed income bonds (in the respective category) with immediate effect. The aim is to appropriately map the risks of marketable collateral with floating interest rates and improve the risk protection of the Eurosystem. The Governing Council of the ECB also decided that, since the risk profile of Jumbo Pfandbriefe is similar to that of other covered bonds regulated by law and multi-cédulas (Spanish covered community bonds) from its perspective, the same valuation haircuts in haircut category II would apply to all the above-named in future. The references to Jumbo Pfandbriefe were consequently deleted from the Guideline. All debt instruments issued by the European Union will be assigned to haircut category I (previously II) with immediate effect.

Haircut categories – an overview

Category I	Category II	Category III	Category IV	Category V
Central government debt instruments	Regional and local authority debt instruments	Debt instruments issued by non-financial corporates, companies active in the government sector or non-bank institutions that do not fulfil the quantitative criteria defined in Annex XIIa of Directive (EU) 2015/510 (ECB/2014/60).	Unsecured debt instruments issued by banks or institutions that are banks that do not fulfil the quantitative criteria defined in Annex XIIa of Directive (EU) 2015/510 (ECB/2014/60)	ABS
Debt instruments issued by the European Union	Debt instruments placed by issuers (banks and non-banks) that are classified by the Eurosystem as institutions with a public development mission and that fulfil the quantitative criteria defined in Annex XIIa of Directive (EU) 2015/510 (ECB/2014/60))		Unsecured debt instruments issued by financial corporations other than banks	
ECB bonds	Debt instruments issued by multilateral development banks and international organisations other than the European Union			
Bonds issued by the national central banks in their respective Member State prior to introduction of the euro	Legally regulated covered bonds			
	Multi-cédulas			

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

Bundeslaender bonds still in the second highest haircut category but …

The listing of haircut categories below shows that German Laender as regional governments are assigned to the same level as, for example, agencies such as KfW that are recognised by the ECB. This means that Bundeslaender bonds receive the second-best treatment under the repo rules, after instruments issued by central governments and central banks. The ECB’s definitions of collateral therefore provide for further preferential treatment of Laender from a regulatory viewpoint. In contrast, and to pick up the “but” in the subheading for this section, the fact that instruments with the longest residual term of more than ten years are located in three new categories (10-15 years, 15-30 years and 30+ years) is new. As a result, and in conjunction with the decision to apply a term-related theoretical valuation correction, the granularity of the risk coverage of this theoretical valuation is expected to be improved, which is of relevance for instruments with longer maturities in particular.

Haircuts by haircut category and rating – an overview

Credit quality	Residual maturity (years)(*)	Haircut category								
		Category I		Category II		Category III		Category IV		Category V
		Fixed/ floating coupon	Zero coupon	Fixed/ floating coupon	Zero coupon	Fixed/ floating coupon	Fixed/ floating coupon	Zero coupon	Fixed/ floating coupon	
AAA to A-	0-1	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	7.5%	7.5%	4.0%
	1-3	1.0%	2.0%	1.5%	2.5%	2.0%	3.0%	10.0%	11.5%	5.0%
	3-5	1.5%	2.5%	2.5%	3.5%	3.0%	4.5%	12.0%	13.0%	7.0%
	5-7	2.0%	3.0%	3.5%	4.5%	4.5%	6.0%	14.0%	15.0%	9.0%
	7-10	3.0%	4.0%	4.5%	6.5%	6.0%	8.0%	16.0%	17.5%	12.0%
	10-15	4.0%	5.0%	6.5%	8.5%	7.5%	10.0%	18.0%	22.5%	18.0%
	15-30	5.0%	6.0%	8.0%	11.5%	9.0%	13.0%	21.0%	25.0%	20.0%
	>30	6.0%	9.0%	10.0%	13.0%	11.0%	16.0%	24.0%	31.5%	22.0%
BBB+ to BBB-	0-1	5.0%	5.0%	5.5%	5.5%	6.5%	6.5%	11.5%	11.5%	Not permissible
	1-3	6.0%	7.0%	7.5%	10.5%	9.5%	12.0%	18.5%	20.0%	
	3-5	8.5%	10.0%	11.0%	16.0%	13.0%	18.0%	23.0%	27.0%	
	5-7	10.0%	11.5%	12.5%	17.0%	15.0%	21.5%	25.5%	29.5%	
	7-10	11.5%	13.0%	14.0%	21.0%	17.0%	23.5%	26.5%	31.5%	
	10-15	12.5%	14.0%	17.0%	25.5%	19.5%	28.0%	28.5%	35.0%	
	15-30	13.5%	15.0%	20.0%	28.5%	22.0%	31.0%	31.5%	39.0%	
	>30	14.0%	17.0%	22.0%	32.5%	25.0%	35.5%	34.5%	43.0%	

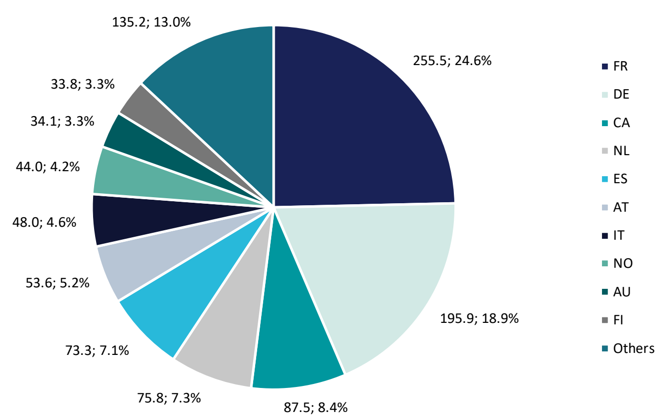
(*), i.e. [0-1) residual maturity less than 1 year, [1-3] residual maturity equal to or greater than 1 year and less than 3 years, etc.
Source: ECB, NORD/LB Markets Strategy & Floor Research

What is left following the coronavirus crisis?

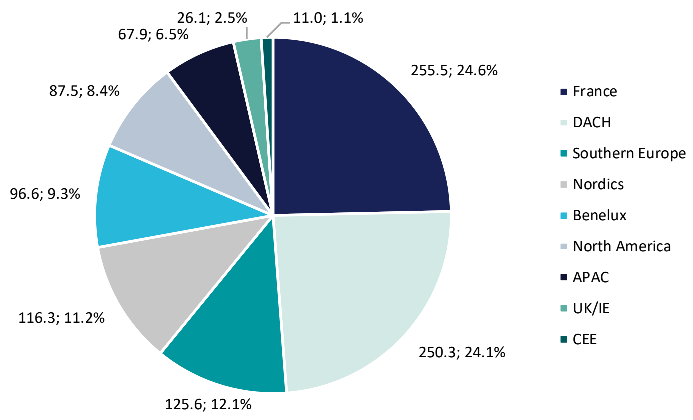
As a result of the coronavirus crisis, the ECB announced comprehensive, temporary adjustments to the collateral framework on 7 April 2020, which focused on mitigating possible shortages of liquidity on the financial markets in the Eurozone. Originally, the temporary adjustment envisaged a general reduction in the collateral haircuts of 20% up to September 2021 (subsequently up to June 2022). This was gradually concluded by the resolution of the Governing Council of the ECB on 23 March 2022: from 8 July 2022 until the end of June 2023, a flat rate reduction in the haircuts of 10% applied. The new table shown above, which by treating bonds with fixed and floating coupons equally, as mentioned above, evidently simplifies matters systematically, has applied since July 2023. However, the fact that the valuation haircuts for bonds with floating coupons (with a maturity of >1 year) were consistently less than their fixed coupon equivalents before Covid-19 must be mentioned. In the new reality, this regularly results in a doubling of the reduction rates. The creation of three new categories for maturities of ten years or more, which we mentioned before, also leads to larger haircuts for longer maturities. Instead of the “gradual approach” to “gradually lower the Eurosystem’s risk tolerance to the level preceding the pandemic” that had been announced, the ECB will ultimately be tightening the regulations once again.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



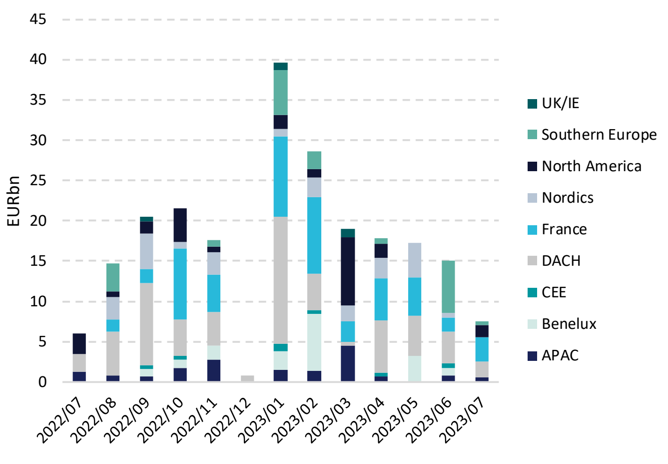
EUR benchmark volume by region (in EURbn)



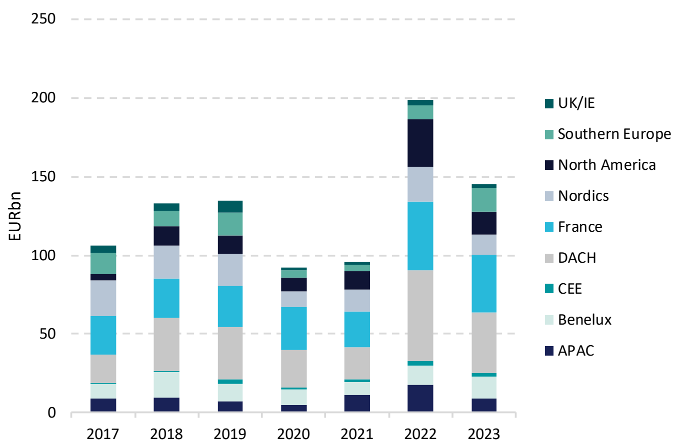
Top-10 jurisdictions

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	255.5	245	19	0.97	9.5	5.1	1.23
2	DE	195.9	280	33	0.65	8.0	4.3	1.07
3	CA	87.5	65	0	1.32	5.5	2.8	0.97
4	NL	75.8	76	2	0.93	10.9	6.6	1.08
5	ES	73.3	58	6	1.15	11.2	3.5	1.95
6	AT	53.6	91	4	0.58	8.3	5.0	1.30
7	IT	48.0	58	2	0.80	8.9	3.8	1.46
8	NO	44.0	53	12	0.83	7.4	3.9	0.62
9	AU	34.1	33	0	1.03	7.3	3.5	1.35
10	FI	33.8	37	3	0.89	7.2	3.8	1.10

EUR benchmark issue volume by month



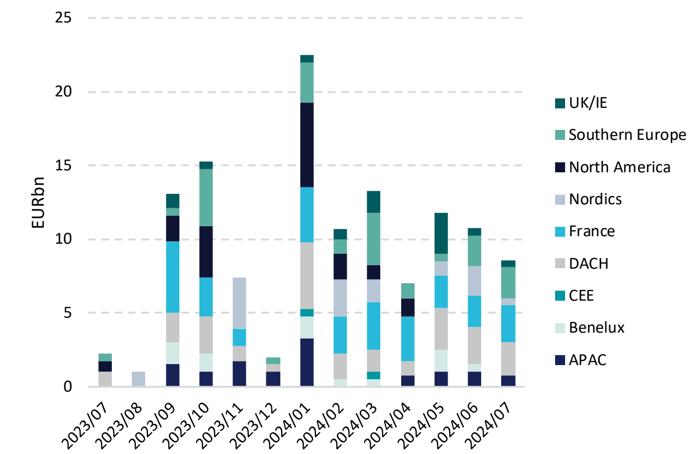
EUR benchmark issue volume by year



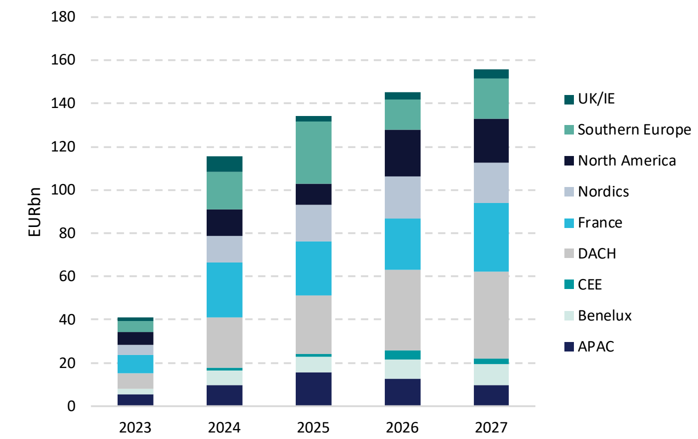
Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

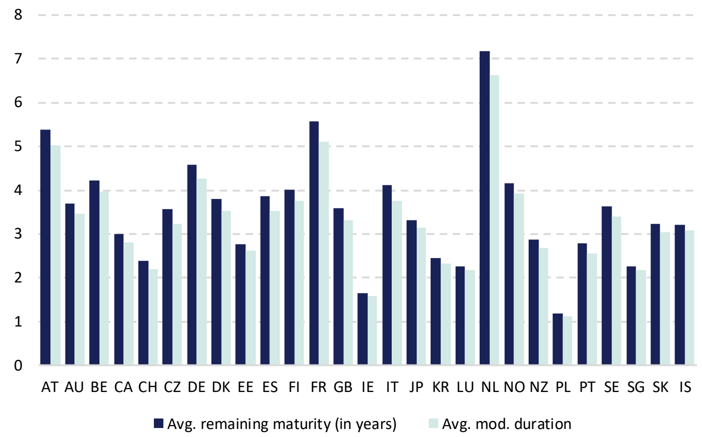
EUR benchmark maturities by month



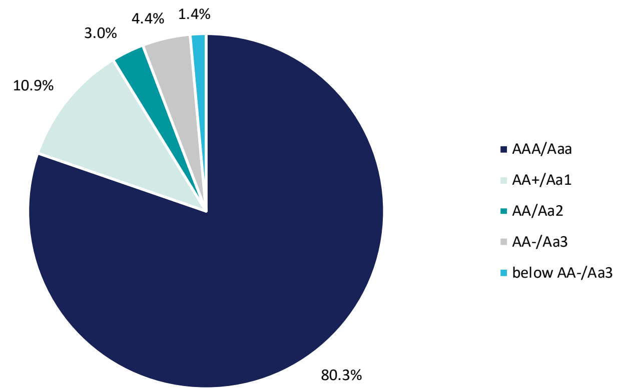
EUR benchmark maturities by year



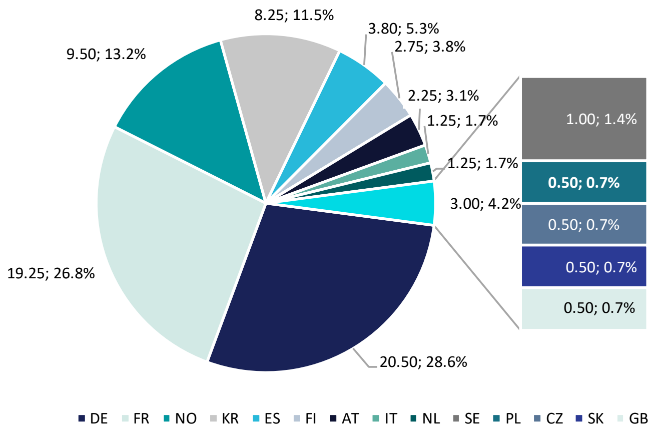
Modified duration and time to maturity by country



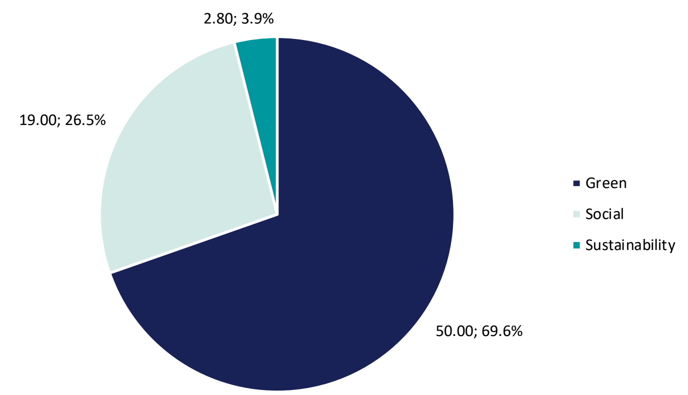
Rating distribution (volume weighted)



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

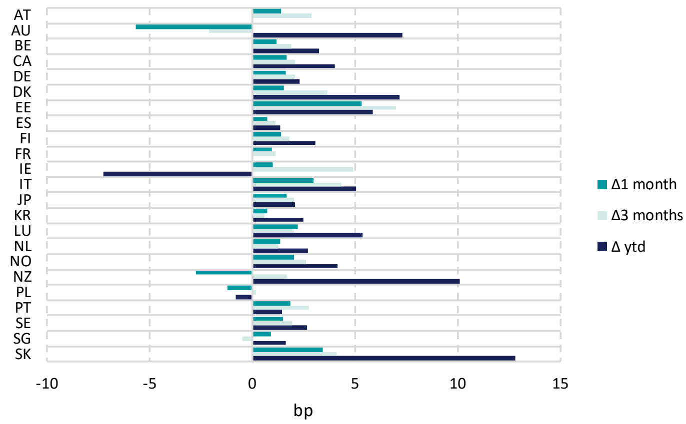


EUR benchmark volume (ESG) by type (in EURbn)

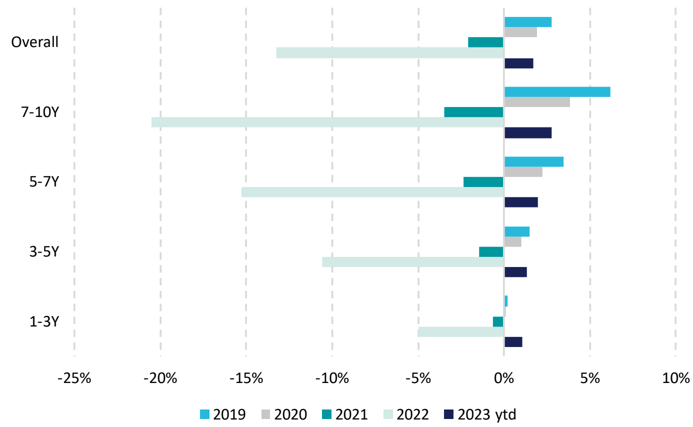


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

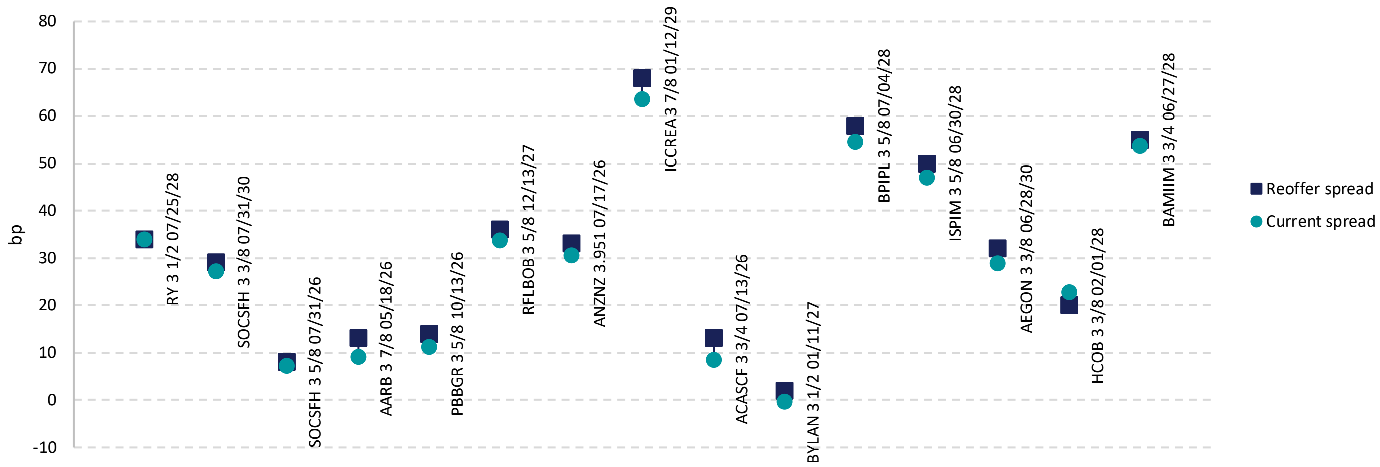
Spread development by country



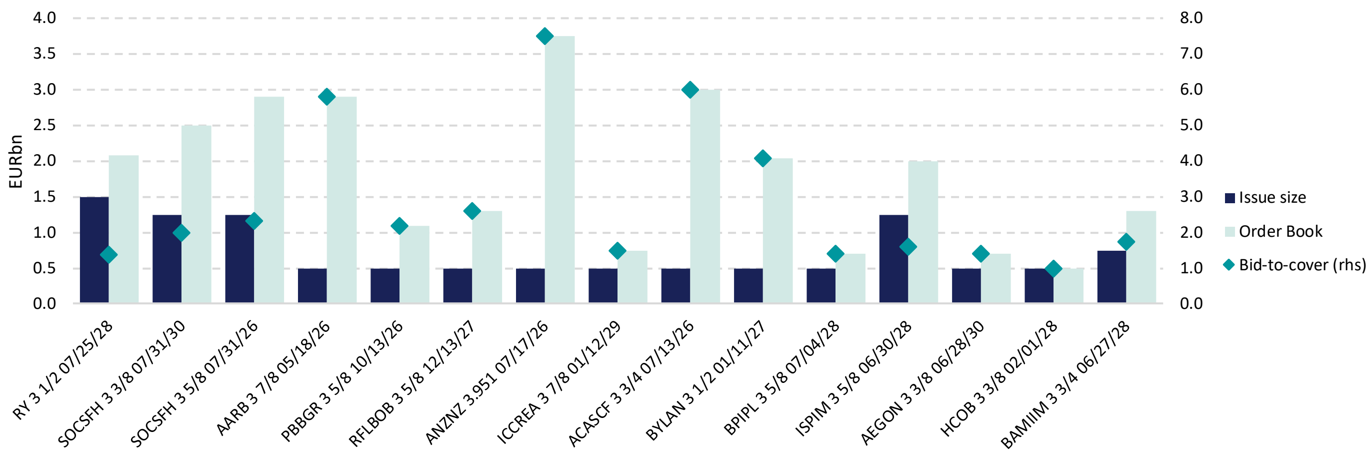
Covered bond performance (Total return)



Spread development (last 15 issues)



Order books (last 15 issues)

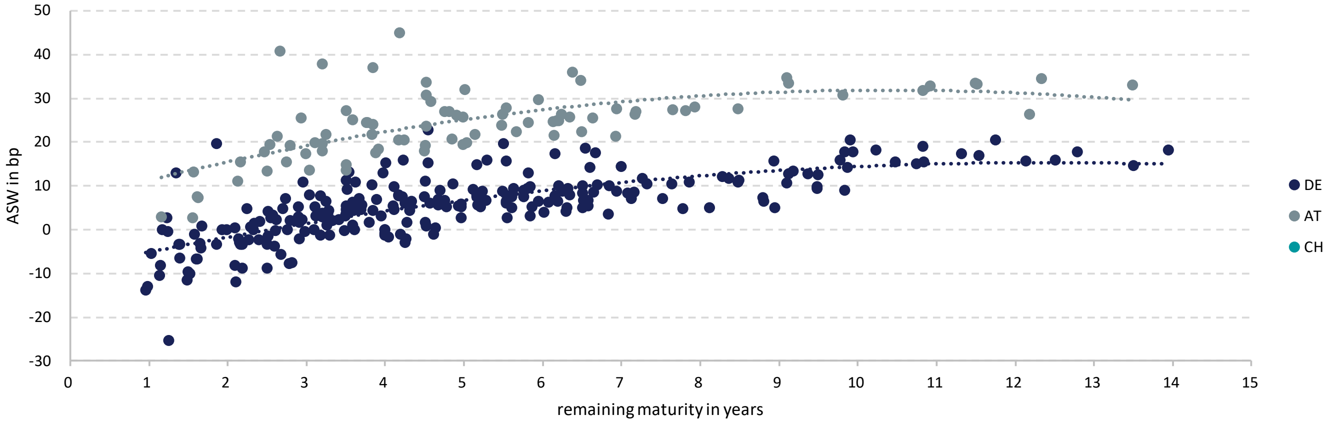


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

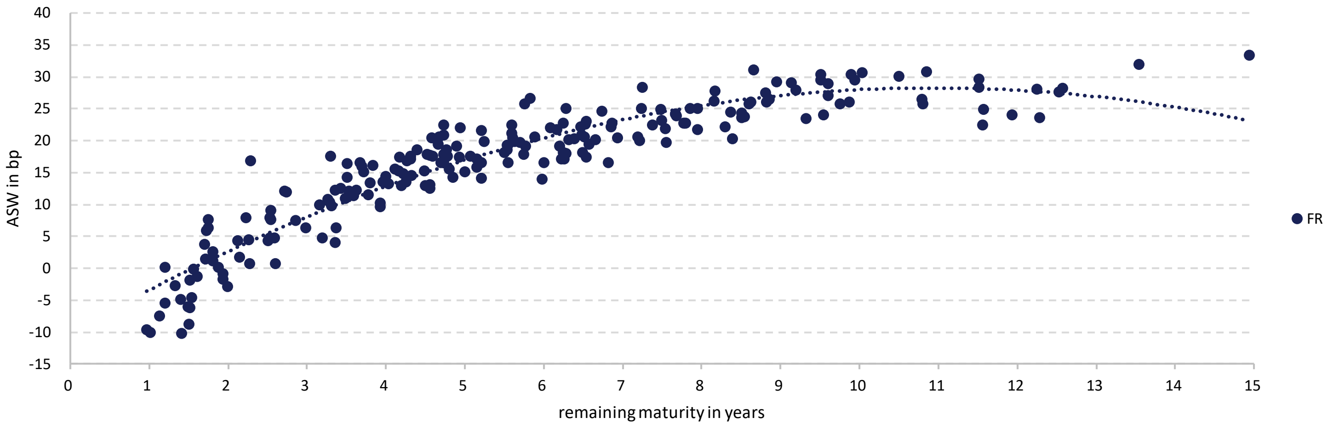
NORD/LB

Spread overview[1]

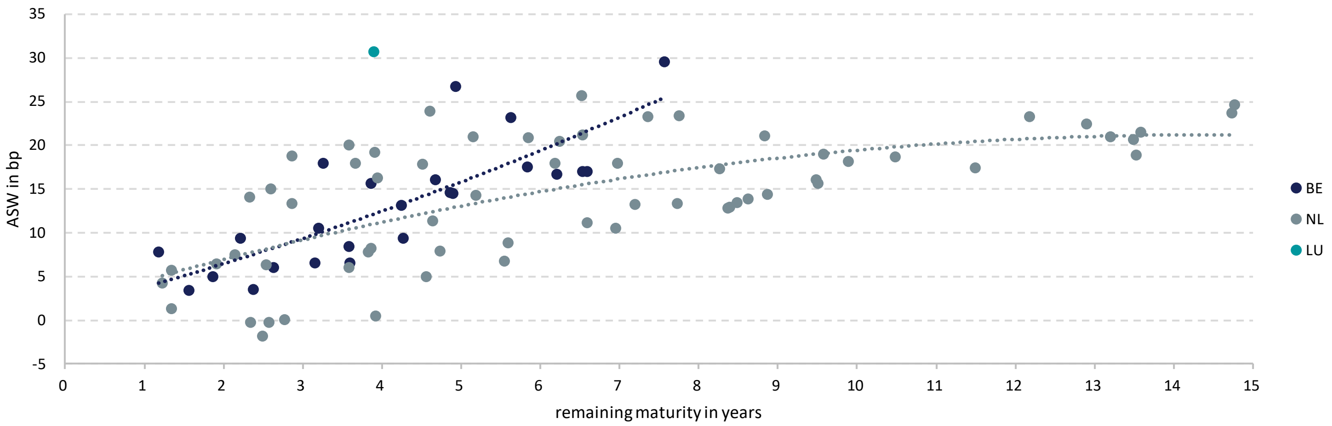
DACH



France

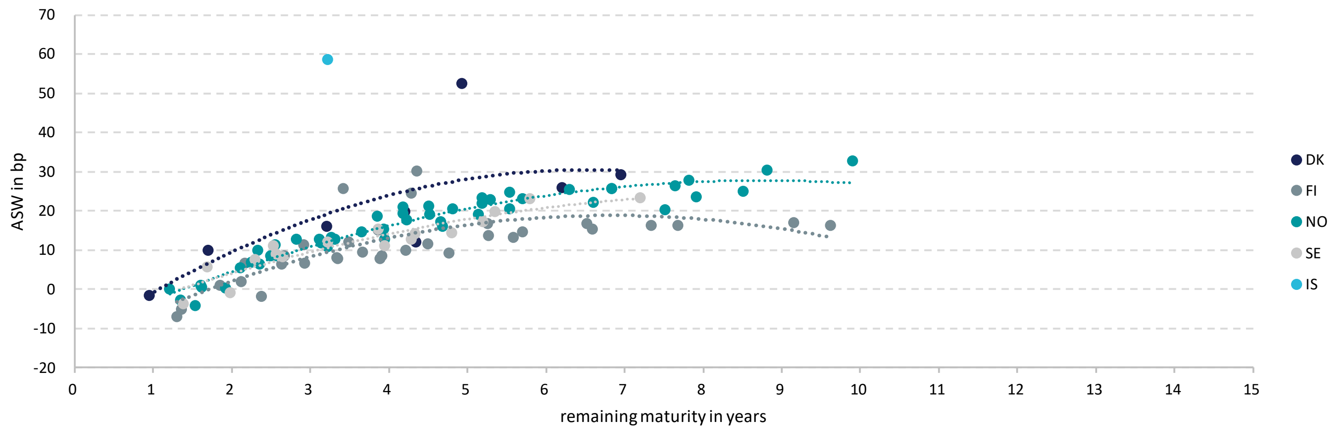


Benelux

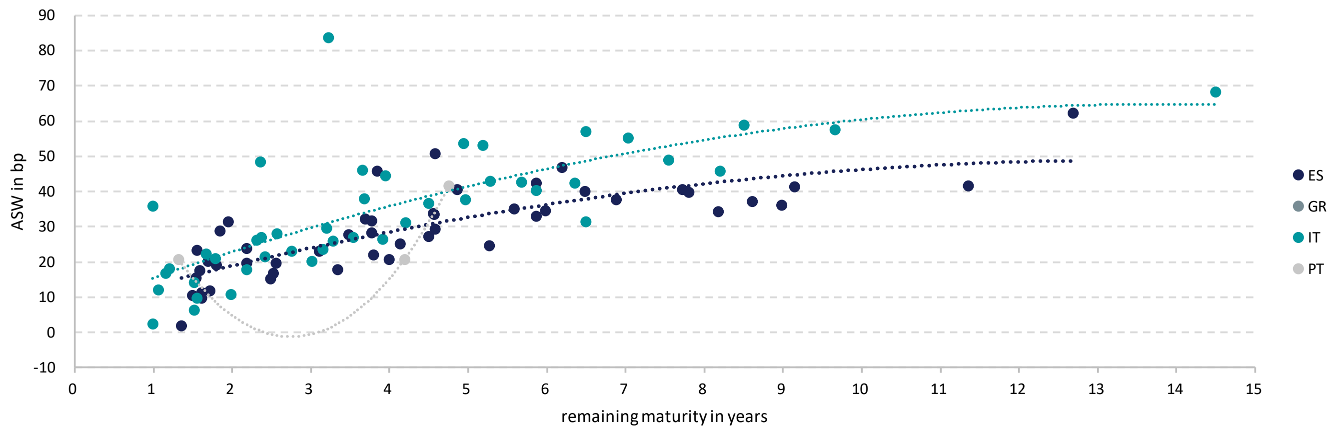


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

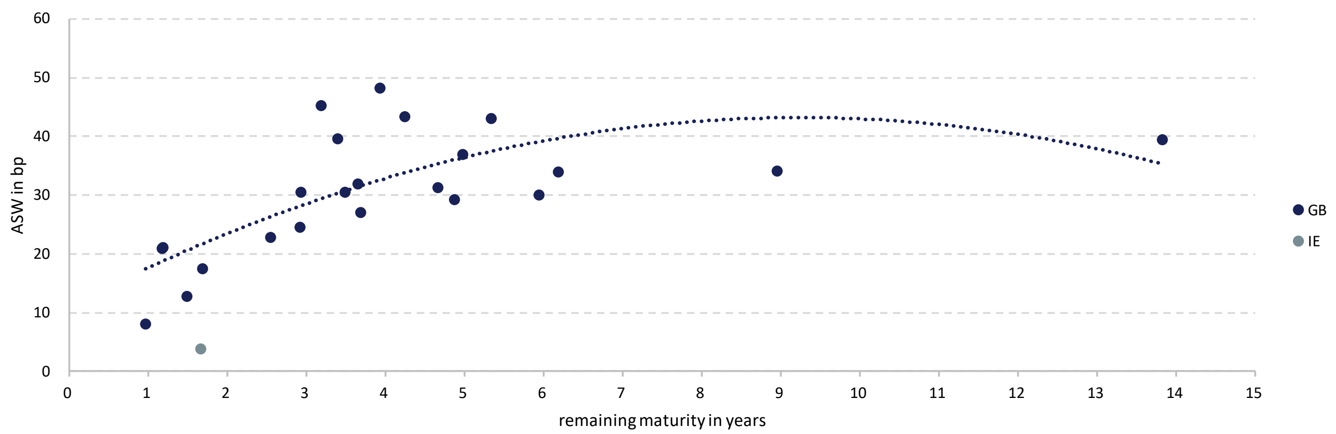
Nordics



Southern Europe

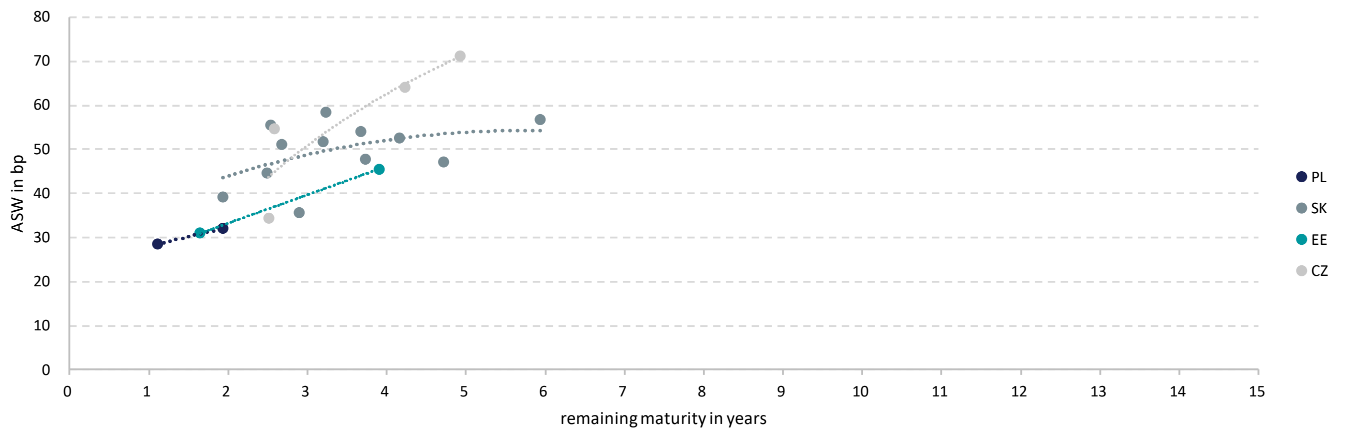


UK/IE

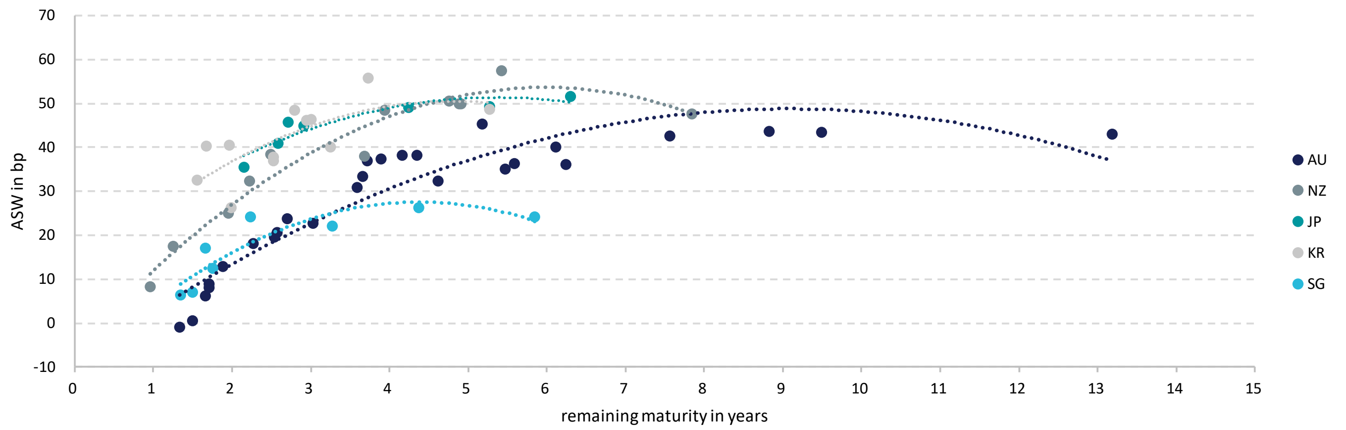


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

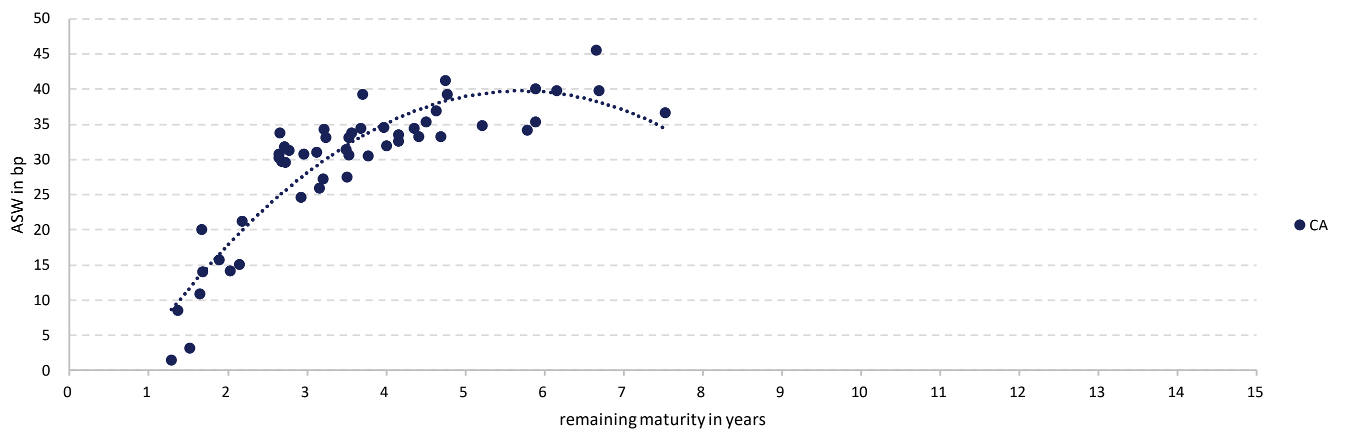
CEE



APAC



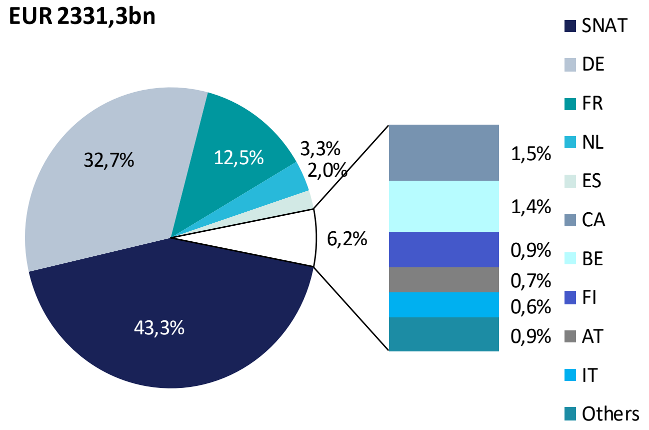
North America



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

Charts & Figures
SSA/Public Issuers

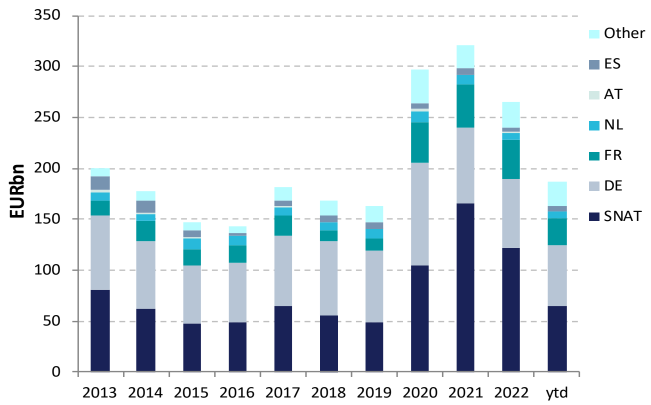
Outstanding volume (bmk)



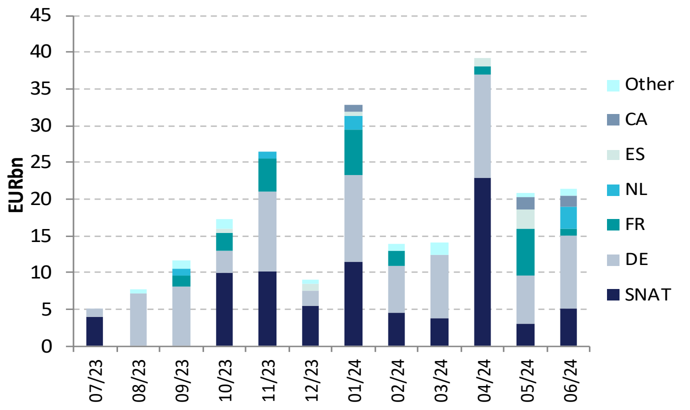
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1.009,7	226	4,5	8,1
DE	762,9	566	1,3	6,3
FR	290,5	195	1,5	6,2
NL	77,4	67	1,2	6,8
ES	47,5	65	0,7	4,9
CA	35,5	25	1,4	4,4
BE	32,5	36	0,9	11,1
FI	22,1	24	0,9	5,1
AT	16,8	20	0,8	4,7
IT	15,0	19	0,8	4,8

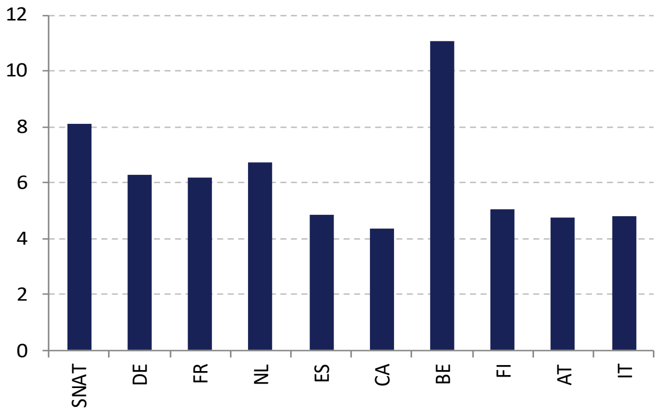
Issue volume by year (bmk)



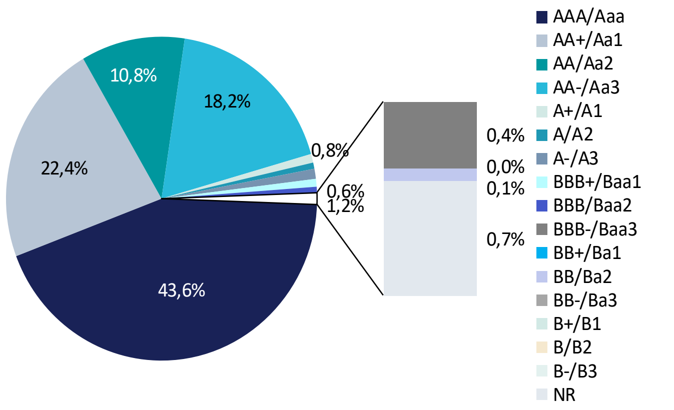
Maturities next 12 months (bmk)



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



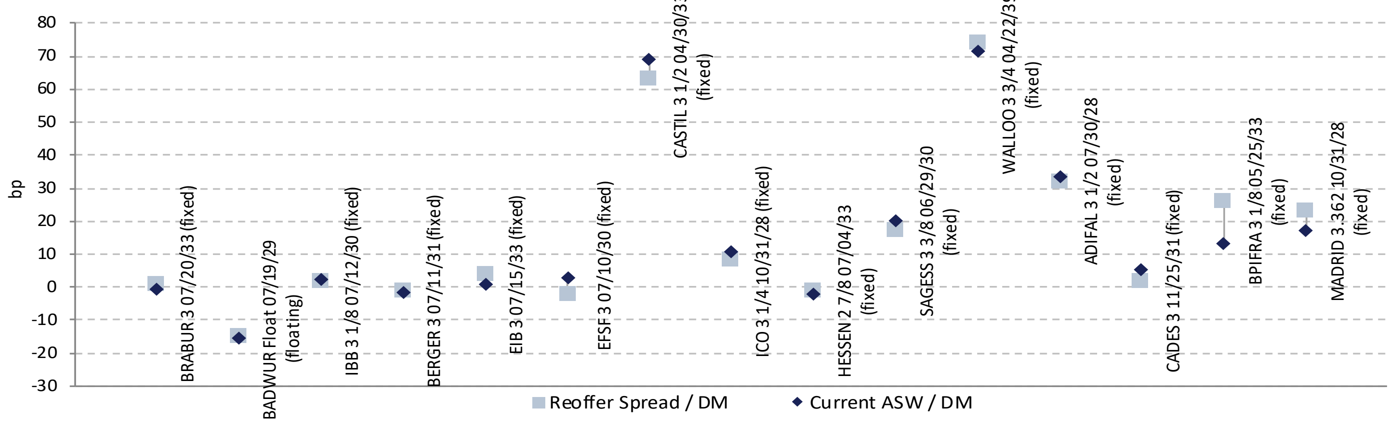
Rating distribution (vol. weighted)



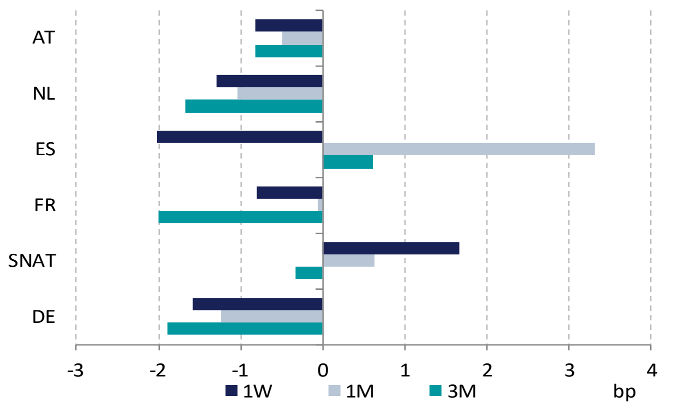
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

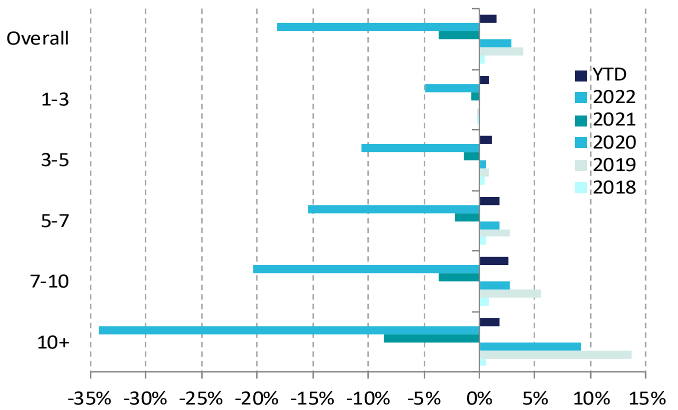
Spread development (last 15 issues)



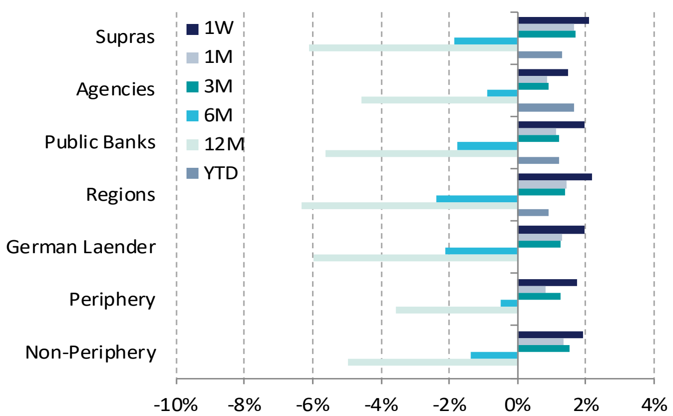
Spread development by country



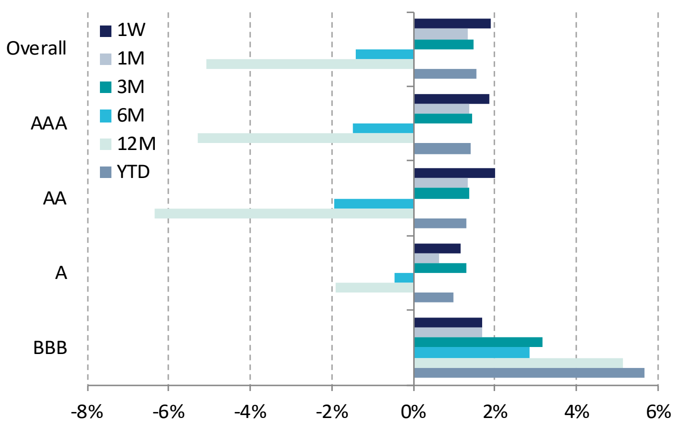
Performance (total return)



Performance (total return) by segments

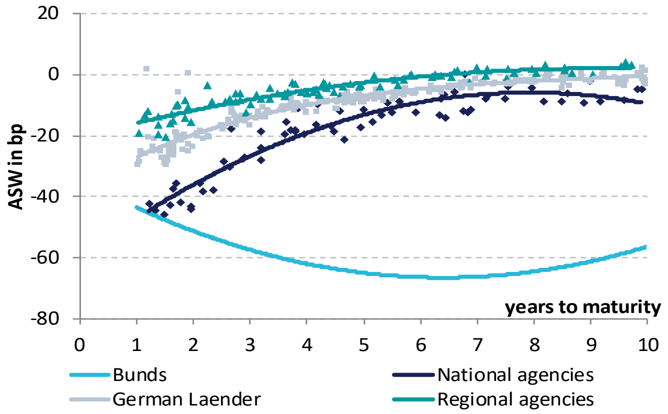


Performance (total return) by rating

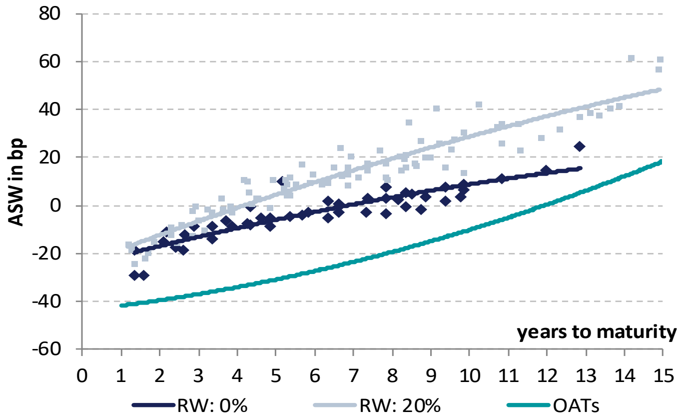


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

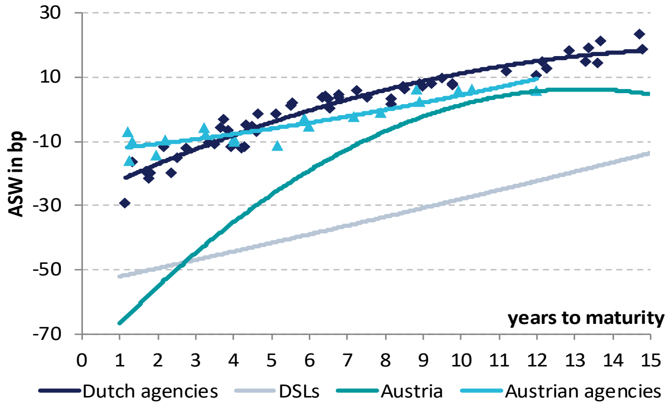
Germany (by segments)



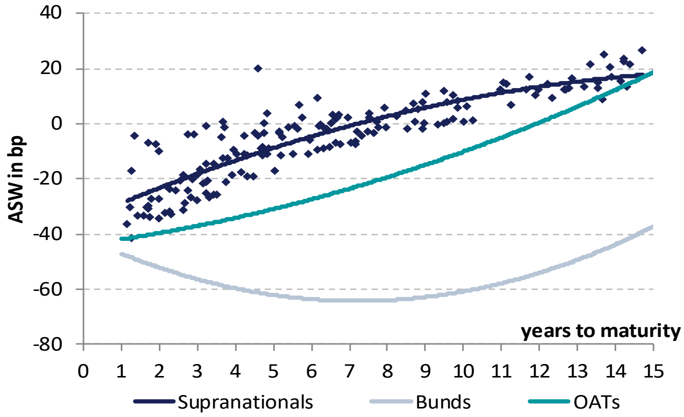
France (by risk weight)



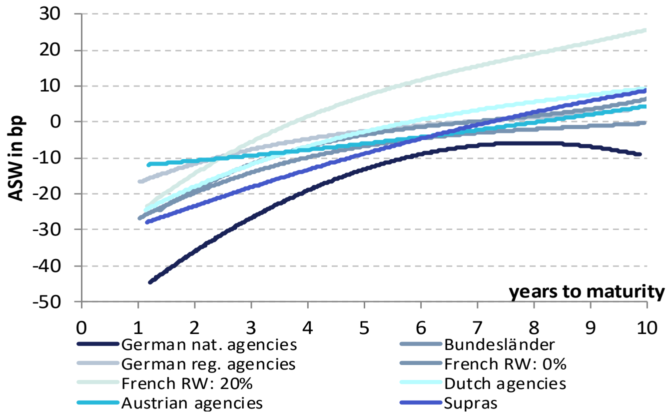
Netherlands & Austria



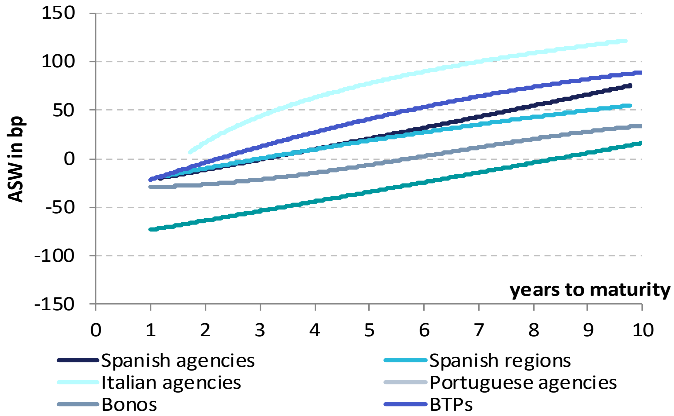
Supranationals



Core



Periphery



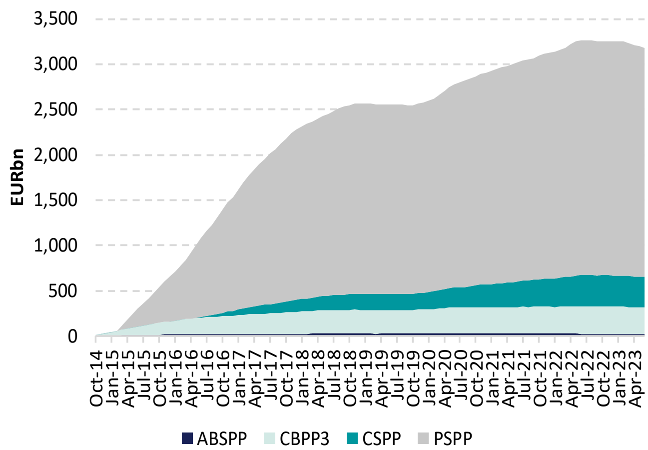
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

ECB tracker

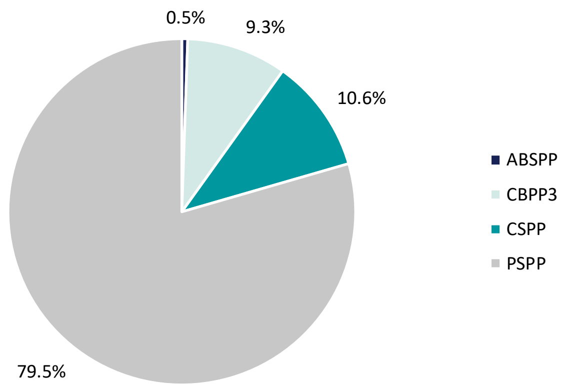
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
May-23	17,818	299,134	341,010	2,543,603	3,201,565
Jun-23	17,414	296,673	338,882	2,530,923	3,183,892
Δ	-381	-2,284	-1,896	-10,469	-15,030

Portfolio development

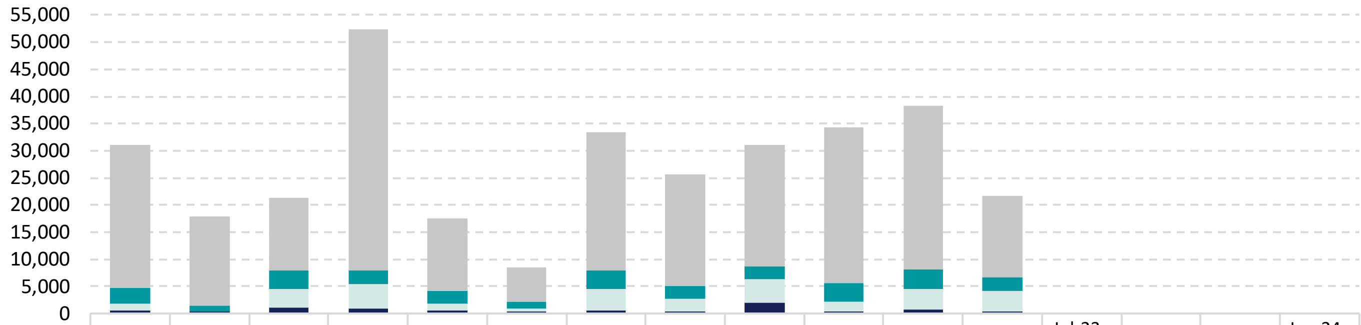


Portfolio structure



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

Expected monthly redemptions (in EURm)



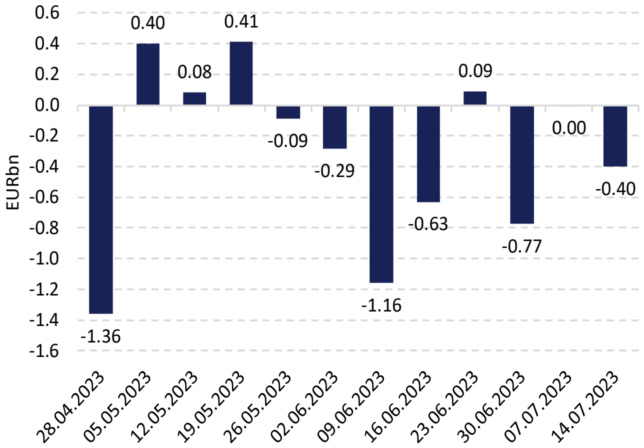
	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-23 - Jun-24	2022	2023	Jan-24 - Jun-24
APP	31,043	17,856	21,308	52,321	17,533	8,546	33,479	25,610	31,016	34,251	38,277	21,625	332,865	299,142	331,288	184,258
PSPP	26,247	16,445	13,427	44,340	13,275	6,336	25,524	20,470	22,413	28,712	30,194	14,974	262,357	228,585	255,164	142,287
CSPP	3,038	986	3,377	2,589	2,393	1,336	3,363	2,325	2,188	3,316	3,463	2,462	30,836	17,670	30,797	17,117
CBPP3	1,170	0	3,346	4,467	1,351	408	4,109	2,449	4,434	1,814	3,836	3,777	31,161	41,244	35,147	20,419
ABSPP	588	425	1,158	925	514	466	483	366	1,981	409	784	412	8,511	11,643	10,180	4,435

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

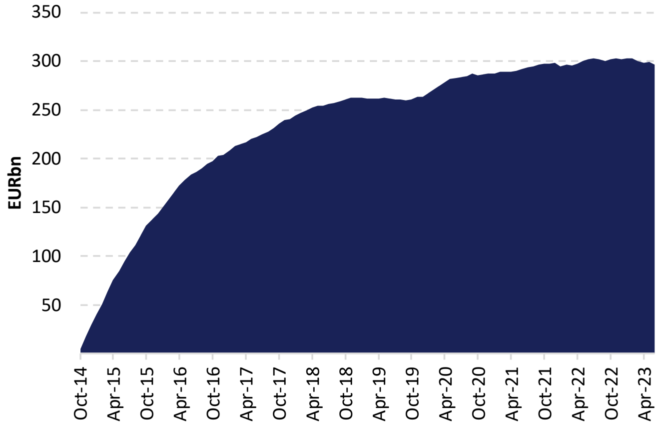
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

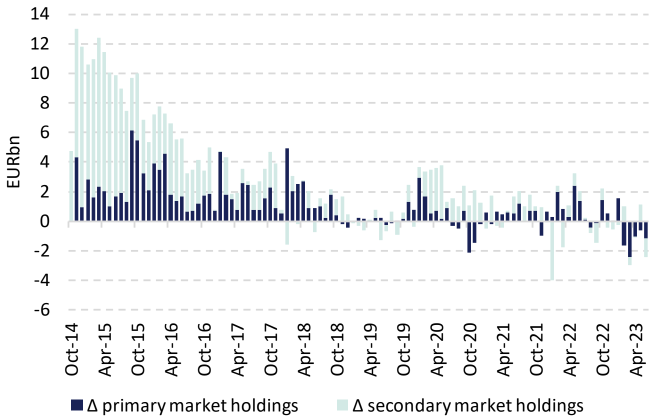
Weekly purchases



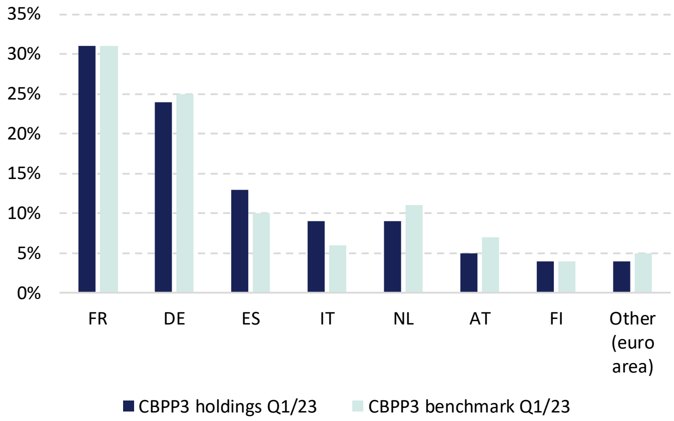
Development of CBPP3 volume



Change of primary and secondary market holdings

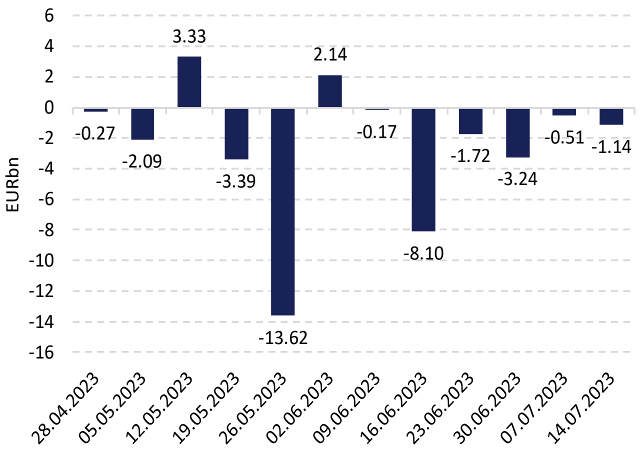


Distribution of CBPP3 by country of risk

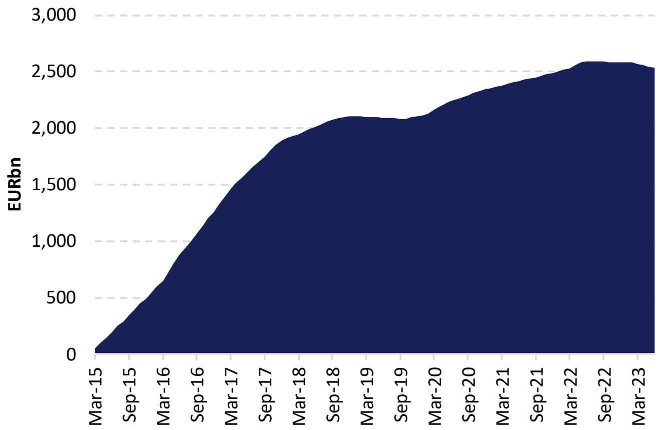


Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume

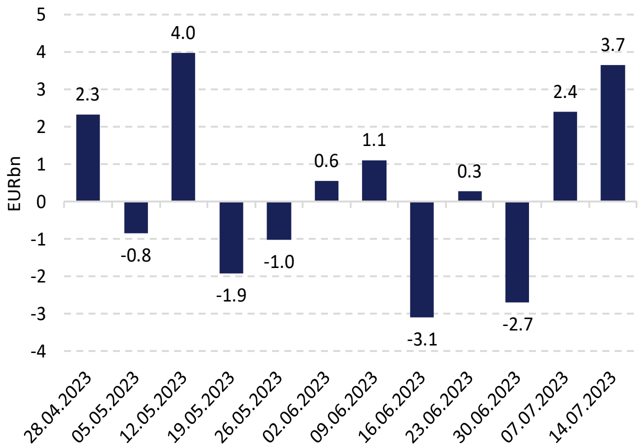


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development

Weekly purchases



Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Δ Holdings previous period	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	Current WAM[3] (in years)	WAM of eligible universe[4] (in years)
AT	44,688	1,070	2.6%	2.7%	0.1%	7.3	7.8
BE	57,078	630	3.3%	3.4%	0.2%	6.1	9.4
CY	2,543	0	0.2%	0.2%	0.0%	8.0	8.5
DE	396,449	627	23.7%	23.9%	0.1%	6.8	7.0
EE	256	0	0.3%	0.0%	-0.2%	7.0	7.0
ES	194,312	2,502	10.7%	11.7%	1.0%	7.3	7.4
FI	26,195	-64	1.7%	1.6%	-0.1%	7.6	7.7
FR	294,956	-4,954	18.4%	17.8%	-0.6%	7.6	7.8
GR	38,150	-34	2.2%	2.3%	0.1%	8.4	9.2
IE	25,280	-893	1.5%	1.5%	0.0%	9.1	9.7
IT	292,896	2,069	15.3%	17.6%	2.3%	7.1	6.9
LT	3,237	49	0.5%	0.2%	-0.3%	9.3	8.7
LU	1,955	19	0.3%	0.1%	-0.2%	5.7	8.6
LV	1,801	44	0.4%	0.1%	-0.2%	8.3	7.6
MT	607	0	0.1%	0.0%	-0.1%	10.1	8.5
NL	81,957	-1,771	5.3%	4.9%	-0.3%	7.7	9.1
PT	33,861	54	2.1%	2.0%	-0.1%	7.0	7.5
SI	6,406	-283	0.4%	0.4%	0.0%	8.7	9.1
SK	7,918	-192	1.0%	0.5%	-0.6%	8.2	8.4
SNAT	150,090	1,000	10.0%	9.0%	-1.0%	10.1	9.0
Total / Avg.	**1,660,635**	**-127**	**100.0%**	**100.0%**	**0.0%**	**7.5**	**7.7**

[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Current WAM of public sector securities holdings under the PEPP [4] WAM of eligible universe of public sector securities holdings under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
23/2023 ♦ 12 July	▪ Covereds: Half-year review and outlook for the second half of 2023
22/2023 ♦ 28 June	▪ Special publication on LCR classification and risk weights: a (regulatory) overview of the EUR benchmark segment ▪ ESG bonds of German Laender – significant further development
21/2023 ♦ 21 June	▪ ESG covered bonds: a look at the supply side ▪ Increasing exposure of E-supras to Ukraine
20/2023 ♦ 14 June	▪ Moody's covered bond universe – an overview ▪ Beyond Bundeslaender: Spanish regions
19/2023 ♦ 07 June	▪ ECB Preview: ECB's 25th anniversary and is still going strong ▪ Focus on legal requirements for covered bonds
18/2023 ♦ 24 May	▪ Repayment structures on the covered bond market: an update ▪ Stability Council convenes for 27th meeting
17/2023 ♦ 17 May	▪ ESG update 2023 in the spotlight ▪ Development of the German property market ▪ Transparency requirements §28 PfandBG Q1/2023
16/2023 ♦ 10 May	▪ The ECB and the covered bond market: influences old and new ▪ Update: Joint Laender (Ticker: LANDER)
15/2023 ♦ 26 April	▪ ECB preview: caught in two minds? ▪ EBA Risk Dashboard paints solid picture of Q4 2022
14/2023 ♦ 19 April	▪ Lending in the Eurozone and Germany ▪ The French agency market – an overview
13/2023 ♦ 05 April	▪ Supply forecast requires no great adjustment ▪ Current risk weight of supranationals & agencies
12/2023 ♦ 29 March	▪ The Moody's covered bond universe – an overview ▪ NGEU: Green Bond Dashboard
11/2023 ♦ 22 March	▪ Covered Bonds: Under the spell of the banking crisis and ECB hawks? ▪ ESG: EUR-benchmarks 2023 in the SSA segment (ytd)
10/2023 ♦ 15 March	▪ Transparency requirements §28 PfandBG Q4/2022 ▪ Credit authorisations of the German Laender for 2023
09/2023 ♦ 08 March	▪ ECB preview: Soft landing lets ECB play hard ball with key rates ▪ Where does the Pfandbrief stand within the covered bond universe?
08/2023 ♦ 01 March	▪ The covered bond market and the ECB: a gradual farewell? ▪ Beyond Bundeslaender: Focus on Greater Paris (IDF and VDP)

NORD/LB:
Markets Strategy & Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuer Research

Bloomberg:
RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2022

Covered Bond Laws

Covered Bond Directive: Impact on risk weights and LCR levels

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

Transparency requirements §28 PfandBG Q1/2023 (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2022

Issuer Guide – German Agencies 2022

Issuer Guide – Dutch Agencies 2022

Issuer Guide – European Supranationals 2023

Issuer Guide – French Agencies 2023

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2023

ECB rates: We can fly so high that we can touch the sky

ECB interest rate decision: All new in May... Or: The force of past rate hikes!

ECB interest rate decision: Backbone in times of turmoil?!

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Appendix
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