

We are happy to see you next week at our Capital Market Conference 2024!

The next weekly publication will be released on **04 September 2024**.



Covered Bond & SSA View

NORD/LB Floor Research

21 August 2024 ♦ 26/2024

Marketing communication (see disclaimer on the last pages)

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Market overview

Covered Bonds

Author: Dr Frederik Kunze

Primary market: Commerzbank marks the end of the summer recess

Just in time for the assumption of trading activity this week, Commerzbank opened the books for its third EUR benchmark of the current year, marking the end of the summer recess on the primary market. Neither the timing of the issue nor the origin of the door opener was a surprise. For the issue announced as a benchmark with an initial residual maturity of five years, a guidance of ms +30bp was chosen for the start of the marketing phase. Commerzbank finally placed EUR 1.25bn at ms +25bp (final order book: EUR 2.2bn; almost 90 investors). The majority of the deal was allocated to Germany and Austria (46%) – followed by Benelux (15%), the Nordics (12%) and France (10%). Banks were the largest investor group with a share of 50%. Investor demand for the mortgage Pfandbrief is also likely to have been fuelled by the high percentage of residential mortgages (around 95% of the pool). At +1bp, the new issue premium was comparatively low, which is generally in line with our expectation that the reopening of the primary market after the summer break would not initially lead to a sharp upward movement in the demanded pick-ups versus fair value. Nevertheless, we are sticking to our basic assessment that over the further course of issuance activity a discreet widening (initially also in new issue premiums) should materialise. Yesterday, Tuesday, Berlin Hyp also went to market. Its mortgage Pfandbrief (EUR 500m; WNG; 7.0y), which was already announced on Monday, started the marketing phase at ms +31bp area and was finally priced at ms +27bp. Following a green Pfandbrief in January, the issuer has opted for a social format and now has an outstanding volume of social Pfandbriefe totalling EUR 2.25bn (spread over four bonds).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Berlin Hyp	DE	20.08.	DE000BHY0SD6	7.0y	0.50bn	ms +27bp	- / Aaa / -	X
Commerzbank	DE	19.08.	DE000CZ45YX5	5.0y	1.25bn	ms +25bp	- / Aaa / -	-

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

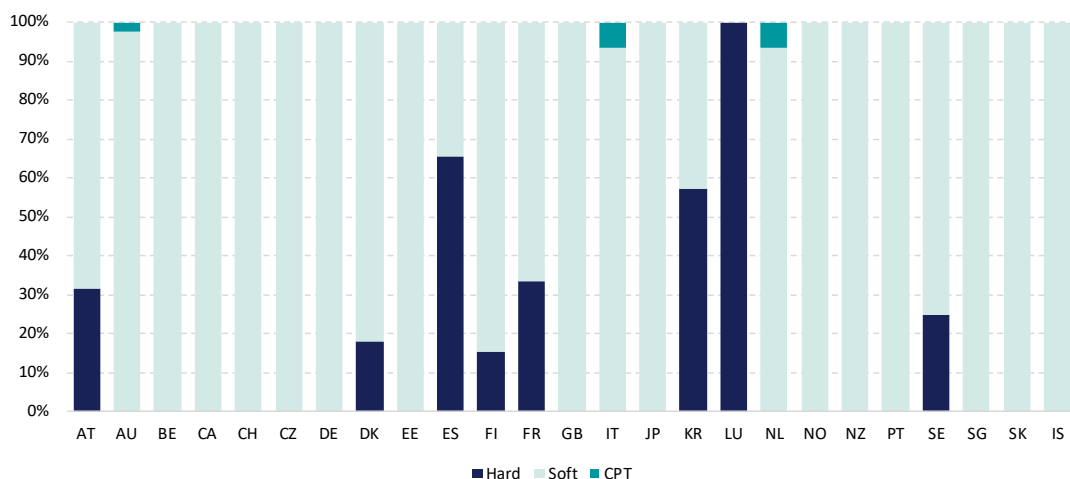
Secondary market: Successful market launch, but sales still have room for improvement

The market launch by Commerzbank can be considered a success. The deal can also perform on the secondary market. Spreads in the market as a whole remain stable overall, although sales are still thin on the ground. The focus of trading is still on Pfandbriefe for now. With new names and jurisdictions, but also the return of more and more market participants to their trading desks, the frequency should also increase in the other sub-markets and jurisdictions. However, a lively primary market could initially become a stumbling block for secondary market activity. Some accounts are likely to maintain their wait-and-see stance for the time being. The availability of liquidity also differs depending on the type of investor, which limits the scope for “bad decisions”. Overall, spreads are likely to show some improvement in the coming weeks and months – in line with the NIPs.

Deferral of maturity: soft bullet covered bonds dominate the market

The European Covered Bond Directive has given the growing market of covered bonds with deferred maturities a stronger rule-based framework. In our view, this development has also helped to ensure greater acceptance (particularly of soft bullets) by investors. In our weekly publication on [10 July](#), we recently published a comprehensive overview of the standard repayment structures for covered bonds. At just under 84%, the largest share of the volume contained in the iBoxx (i.e. excluding Spanish multi-credulas) by far is now attributable to soft bullet covered bonds. The share of hard bullet structures is continuing to decline. The EBA is still tasked with assessing the issue of maturity deferrals from a risk perspective until mid-2025.

Repayment structures by jurisdiction (iBoxx EUR Covered)



Source: Market data, NORD/LB Floor Research

Moody’s presents risk assessments on maturity deferrals

In a recent paper, the rating experts at Moody’s also commented on the risk aspects of maturity deferrals. The authors conclude in the report, among other things, that the growth of covered bonds with deferred maturities has reduced the overall credit risk. The reason for this is both a reduced refinancing risk and a less pronounced link between the issuer risk and the default risk of a covered bond. Risk experts consider the risks in terms of a negative impact on the credit quality as a whole to be limited. In regard to reducing potential asset liability mismatches, Moody’s also clarifies that a significant reduction in mismatches between the maturities of cover assets and covered bonds outstanding cannot be achieved by postponing maturity, which is limited in most cases by law or contractually, to a maximum of twelve months.

Moody's: State of global investment and universal banks in Europe

The risk experts have also commented on the state of global investment and universal banks based in Europe. For the institutions Barclays PLC, BNP Paribas, Deutsche Bank AG, HSBC Holdings plc, Societe Generale and UBS Group AG, the agency notes, among other things, that the capitalisation ratios (average CET1 ratio: 13.9%; median: 13.6%) are solid and the liquidity ratios (average LCR: 145%) are at a high level. In these assessments, Moody's refers to the current quarterly figures (Q2 2024) and compares them with the corresponding prior year period. The agency anticipates a moderate decline in CET1 ratios (10 to 20 basis points) for the remainder of the year and expects liquidity coverage ratios to remain strong. As part of the sector profile, the risk experts also note that operating costs have risen significantly, which is due to wage development, restructuring costs (in particular at UBS) and litigation fees (Deutsche Bank). In terms of asset quality and credit defaults, Moody's attests a stable and flat development. For the major European banks analysed here, the risk experts also conclude that earnings growth was driven by the momentum in the capital market business. In particular, the Equities Income and Investment Banking Income segments were responsible for this. Of the institutions under review here, BNP Paribas, Deutsche Bank, Societe Generale and UBS are active issuers in the EUR benchmark segment and are therefore part of our regular coverage as well as the NORD/LB Issuer Guide Covered Bonds. By rejoining the EUR benchmark segment in 2024 and acquiring the Credit Suisse legacy pool, UBS has two programmes with outstanding EUR benchmarks (three issues in total). Deutsche Bank is represented in the benchmark segment from Germany with its mortgage Pfandbriefe and the CPT covered bond, which is not based on the Pfandbrief Act. The contractual programme (CPT) has only one outstanding benchmark (DB 0.05 11/20/24), which matures this year and was placed in November 2019. From Spain, Deutsche Bank also maintains a covered bond programme based on local legislation, from which two benchmarks are currently outstanding. The last corresponding issue was in November 2023.

Market overview

SSA/Public Issuers

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

Hamburg's budget during H1/2024: Investments stepped up

On 14 August 2024, the Senate of the Free and Hanseatic City of Hamburg (ticker: HAMBRG) presented its report on budgetary developments in the first half of this year. According to the report, the overall trend in Hamburg's budget was positive during the first six months of 2024, despite difficult general economic conditions. The Hanseatic City closed the second quarter of 2024 with a surplus in its results for the year (the balance of income and expenses) of around EUR 1.3bn. Based on the information provided, the trend in tax revenue was in line with expectations. Compared with the same period in the previous year, investments of EUR 646.5m in H1/2024 almost doubled (H1/2023: EUR 328.3m). On the expenses side, staff costs were slightly up on the previous year's level as a result of the pay settlement and a higher allocation to pension provisions. The expenses relating to transfers should be highlighted. They rose by EUR 350m, mainly due to an increase in social security benefits. According to the information provided, the Hanseatic City's budget will also have to manage these charges in the remaining months of this year. Dr Andreas Dressel, Hamburg's Finance Senator, commented on the report as follows: "All in all, we are pleased with the budget performance for the first six months of this year, given the difficult overall situation. When it comes to investment in our city's infrastructure, we certainly stepped things up a good deal in the first half of this year. We are continuing to strengthen our city's own companies as a fundamental investment in Hamburg's future."

Nordic Investment Bank: Lending activities impacted by InvestEU

In the first six months of 2024, the Nordic Investment Bank (ticker: NIB) signed new loan agreements totalling EUR 2.6bn and already disbursed EUR 1.9bn of that amount. At the end of H1/2024, the promotional bank's outstanding loans amounted to EUR 22.2bn in total. This was the information gleaned from the bank's financial report for the first six months, published in mid-August. Net profit for H1/2024 rose by +12.3% year on year, from EUR 127m to EUR 143m, compared with the same period in 2023. This increase in net profit was mainly attributable to a higher net interest income, which was up by +15.8% year on year to EUR 162m (H1/2023: EUR 139m). In the period from January to June 2024, new loans were granted in various sectors and different countries, including NIB's first disbursements under InvestEU. Starting with this year, NIB has become the implementing partner for InvestEU guarantees to the countries of Norway and Iceland. As a result, two non-EU countries are now participating in the programme for the first time ever. NIB's lending capacity as part of InvestEU increased to EUR 994m (cf. [weekly publication of 07 February](#)). To cover demand for financing, NIB had raised fresh funds of EUR 6.4bn in total on the international capital markets as at 30 June 2024 (H1/2023: EUR 4.7bn). According to information provided by the supranational issuer, this already represents around 70% of the NIB's funding target for 2024. The new bonds issued included two bond issues in EUR benchmark format.

Landwirtschaftliche Rentenbank: Ongoing hesitation to invest by the agricultural sector

Landwirtschaftliche Rentenbank (ticker: RENTEN) presented its figures for the first half of 2024 on 08 August 2024. According to the press release, demand for promotional loans decreased significantly compared with the same period in the previous year. New business in H1/2024 amounted to EUR 1.5bn, representing a decline of around -51% year on year versus H1/2023, when EUR 3.2bn was achieved. Investing restraint affected almost all development segments. The sharpest fall was recorded in demand for loans in the category of renewable energy, with a decrease of -88% year on year. In addition to currently muted expectations of the future in the agricultural sector, the high interest rate level in the eurozone impacted negatively on demand for loans, according to the Rentenbank. Compared with the first six months of the previous year, only a minor change in total assets was reported (H1/2024: EUR 97.2bn, H1/2023: EUR 97.4bn). At EUR 4.8bn, on-balance sheet equity was also almost at the previous year's level. Operating results before risk provisions and valuation amounted to EUR 97.5m in the period under review (H1/2023: EUR 103.9m). The bank stated that the reduction resulted from higher administrative expenses. Conversely, high interest rates had a positive effect on the trend in net interest income. Overall, results exceeded Rentenbank's expectations. Regarding the balance sheet ratios, the promotional bank reported a core capital ratio of 37.2% and a leverage ratio of 10.2% (year-end 2023: 31.3% and 10.3% respectively). On the funding side, Rentenbank raised additional medium-term and long-term funds of 4.9bn in the international capital markets during H1/2024 (H1/2023: EUR 7.4bn). In this respect, the USD was the most important issuing currency and accounted for a share of the funds raised amounting to 53%, followed by the EUR at 27% (H1/2023: 25% and 65% respectively). For the current year, Rentenbank's planning is based on a funding target of EUR 10bn in total.

LfA Förderbank Bayern: Half-year report presented

On 01 August 2024, LfA Förderbank Bayern (ticker: BAYLAN) presented its figures for H1/2024. The press release stated that LfA supported the economy of the Free State of Bavaria with loans totalling EUR 710m in the first half of 2024. The promotional bank made commitments in excess of EUR 560m as part of its standardised loans. Overall, more than 1,500 small and medium-sized enterprises and municipalities benefited from LfA's products and services. Nevertheless, total demand for development products and services was more restrained than in the same period of the previous year. Demand was strongest for development programmes in the segment of start-ups and succession (around EUR 170m) as well as growth-related projects including modernisation measures (more than EUR 275m). With its start-up and growth loan (Gründungs- und Wachstumskredit, GuW), LfA pooled its previously separate specialised programmes for start-up financing and growth financing in a single product at the turn of the year. According to LfA, the trend in demand for this new product was very pleasing in H1/2024. GuW loan commitments amounted to more than EUR 308m. Dr Bernhard Schwab, Chairman of the LfA Management Board, summarised the bank's half-year results as follows: "LfA is a steady and reliable financial partner to the economy in times of uncertainty. Restrained demand for our development products and services in the first half of this year reflects difficult economic conditions. It is all the more important that we continue to support companies with modern and effective development products and services. After all, every modernisation project represents an investment in the future."

KBN: Positive trend in green lending continues

Kommunalbanken (ticker: KBN), the Norwegian low-cost finance provider to the local government sector, published its report on the second quarter and the first six months of 2024 at the beginning of August this year. Based on the information provided, the Norwegian bank's results from mainstream banking services amounted to NOK 330m (EUR equivalent: EUR 29.3m) in Q2/2024, compared with NOK 360m in the same period of the previous year. KBN achieved an increase in net interest income (Q2/2024: NOK 550m, Q2/2023: NOK 507m), which was essentially attributed to ongoing high interest rates. Overall, profit of NOK 493m was reported for the second quarter of 2024. Regarding the figures for H1/2024, income from core business was slightly lower than in the comparative period at NOK 638m (H1/2023: NOK 640m), despite a minor increase in net interest income based on higher interest rates in combination with growth in lending business (H1/2024: NOK 1.1bn, H1/2023: NOK 1.0bn). The earnings performance over the first six months of the year was also positive. KBN achieved profit of NOK 884m, compared with NOK 669m for the same period in the previous year. The bank's loan portfolio totalled NOK 358bn as at the end of H1/2024. At the same time, total lending to customers amounted to NOK 361bn. In this context, the trend in green loans was particularly important for the Norwegian bank, with a pleasing development of this segment reported in the period under review. The portfolio of green loans rose by NOK 0.6bn in Q2/2024 and stood at NOK 54.9bn as at the end of H1/2024. This means that the green loan portfolio accounted for around 16% of KBN's total loan portfolio. In terms of refinancing, the Norwegian bank concluded its funding activities in H1/2024 in line with its planning. Overall, KBN raised fresh capital of around NOK 62bn (EUR equivalent: EUR 5.5bn) by means of 22 bond issues in eight different currencies. They included a new bond issue in EUR benchmark format worth EUR 500m (5y), which was launched in April this year and priced at ms +11bp. For the current year, KBN indicated a funding target equivalent to EUR 8.6bn. For further information, please refer to our [Issuer Guide – Scandinavian Agencies \(Nordics\) 2024](#).

Primary market

The summer break is over, and the pace is accelerating in the SSA primary market. Accordingly, we can report on four new EUR-BMK bond issues worth an aggregated EUR 6bn. Mecklenburg-Western Pomerania (ticker: MECVOR) led the way last week when it launched a new bond issue worth EUR 500m (9y). In line with the guidance, the funds were raised at ms +17bp. Geographically located further south, the federal state of Hesse (ticker: HESSEN) opted for a 10y maturity and a bonds worth a substantial EUR 1.5bn. Pricing was one basis point tighter compared with the guidance at ms +20bp. Dutch BNG Bank (ticker: BNG) and the World Bank via the IBRD (ticker: IBRD) ensured fresh supply in the ESG segment. BNG placed a [social bond](#) amounting to EUR 1.5bn (10y) at ms +33bp and IBRD a sustainability bond ([Sustainable Development Bond](#)) in a volume of EUR 2.5bn (7y), eventually priced at ms +16bp. In addition, we mention the first EU bond auction in [H2/2024](#), which is scheduled for next Wednesday. Furthermore, KfW issued a mandate (5y, [ESG](#)), as expected.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
BNG	NL	20.08.	XS2887172067	10.0y	1.50bn	ms +33bp	AAA / Aaa / AAA	X
IBRD	SNAT	20.08.	XS2887897200	7.0y	2.50bn	ms +16bp	AAAu / Aaa / AAA	X
HESSEN	DE	19.08.	DE000A1RQEX0	10.0y	1.50bn	ms +20bp	- / - / AA+	-
MECVOR	DE	14.08.	DE000A383GE9	9.0y	0.50bn	ms +17bp	AAA / - / -	-

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

Covered Bonds

Central bank eligibility of covered bonds

Author: Dr Frederik Kunze

Covered bonds as eligible collateral: Bank of England reacts to developments in the benchmark segment by adjusting the minimum volume

The provision of collateral is an important criterion for credit institutions when borrowing from central banks. Here, central banks attach a great deal of importance to covered bonds. Not least for this reason, we regularly focus in our coverage on developments with regard to “repo treatments” of covered bonds in the context of the Eurosystem and other central banks. A national central bank, namely the Bank of England, has recently communicated changes to eligibility criteria, which in addition to UK issues also affect covered bonds from Germany and France (see [press release from 16 August](#)). According to this, for “Level B Collateral” (see [BoE Level B Collateral Set](#)) in the “[Sterling Monetary Framework](#)” a minimum size of GBP 500m or EUR 500m (previously GBP 1bn or EUR 1bn) for the securities category “UK, French or German Regulated Covered Bonds” will apply from 1 September 2024. According to the Bank of England, the reduced minimum issue volume is in response to developments in the issue size for covered bond benchmark transactions. In addition to Level B collateral, Level C collateral also includes covered bond issues as collateral. With regard to use as collateral, Level B or Level C collateral cannot be used for all the Bank of England’s monetary policy operations or facilities (see also table below).

Bank of England: [Collateral eligible for operations and facilities](#)

Collateral	Level A	Level B	Level C
Intraday Liquidity	Y	N	N
Operational Standing Facility	Y	N	N
Liquidity Facility in Euros (LiFE)	Y	Y	Y
US Dollar Repo	Y	Y	Y
Indexed Long-Term Repo	Y	Y	Y
Short-Term Repo	Y	N	N
Discount Window Facility	Y	Y	Y
Contingent Term Repo Facility	Y	Y	Y
TFSME	Y	Y	Y

Source: Bank of England, NORD/LB Floor Research

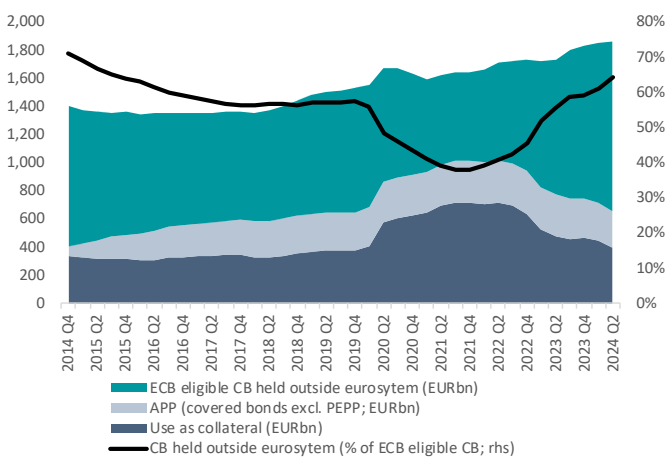
Covered bond focus article in this issue

This focus article looks briefly at the central bank eligibility of covered bonds in the context of the Eurosystem. In addition, the tabular overview at the end of this article schematically presents the main criteria for ECB eligibility and compares them to the criteria that apply in other currency zones. We have already adopted the Bank of England’s adjustments, even though they are not applicable until 1 September 2024.

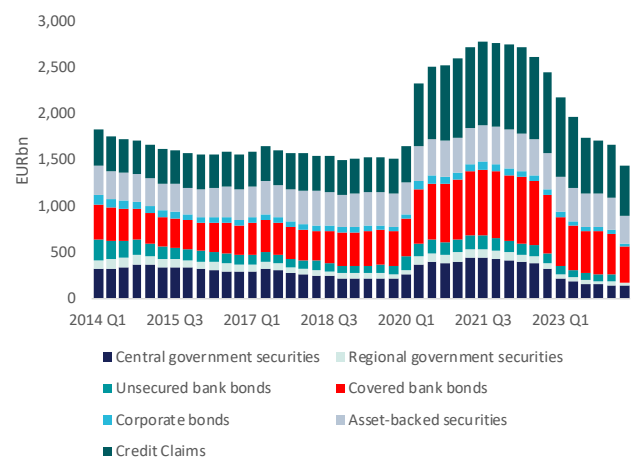
ECB: covered bonds as eligible collateral

In fact, the eligibility criteria for eligible collateral vary significantly internationally depending on the issue currency, rating, volume issued, coupon and jurisdiction of origin, among other factors ([see overview table](#)). The different approaches lead to specific haircuts when recognising collateral. In addition, specific transparency requirements apply for covered bonds. In the context of the Eurosystem, covered bonds have become very important in recent years due to an increased need for eligible collateral. This was partly due to the fact that retained covered bonds in the eurozone (own use) can also generally be used as collateral in the Eurosystem [with additional haircuts in accordance with [Directive \(EU\) 2016/65](#)]. In principle, central bank eligibility applies to legally regulated, euro-denominated investment grade covered bonds from the EEA. This specification will be expanded to include the currencies USD, GBP and JPY on the basis of the ECB’s Temporary Guidelines. In addition, covered bonds from G10 jurisdictions can be submitted as collateral as a softening of the EEA restriction. In practice, this expansion only includes covered bonds from Canada and the UK. The ECB provides information on its website with regard to a list of eligible collateral. In the [download area](#), you can access the entire database as well as the changes compared to the previous working day. You can also enquire on a [query basis](#) whether a security is recognised as collateral. Furthermore, aggregated data is provided that enables us to identify trends in the covered bond market. We can, therefore, generally observe that the use of covered bonds (“Use of Collateral”) has declined noticeably in recent quarters, which is in particular due to the repayment of TLTRO III tenders. This development – together with a reduction in CBPP3 holdings – is an explanatory variable for the repricing process that was observed in 2023 and had already begun in 2022. We see the decline in the use as collateral as a return to normality after the ultra-expansionary monetary policy, which was also accompanied by an increased demand for eligible collateral, led to pronounced distortions in this sub-segment.

ECB: Influence on the covered bond market



ECB: “Use of Collateral”



Source: ECB, NORD/LB Floor Research

Table: Central bank eligibility of covered bonds¹

	Eurozone	United Kingdom		Switzerland	United States	
	European Central Bank	Bank of England		Swiss National Bank	Federal Reserve Bank	
Eligibility criteria	link	link		link	link	
Eligible securities	link	link		link		
Category	Category II	Level B	Level C	L2A, L2A CHF	German Jumbo Pfandbrief	
Rating requirements	Min. BBB-/Baa3	AAA/Aaa equivalent	A-/A3 equivalent	Min. AA-/Aa3	AAA/Aaa	
Rating agencies	ECAI (accepted for ECAF, at present: DBRS, Fitch, Moody's, S&P, Scope ²)	-	-	Fitch, Moody's, S&P	-	
Rating treatment	First best	-	-	Second best	lowest	
Min. volume (home currency)	✗	GBP 500m	-	CHF 100m	German Jumbo Pfandbrief	
Min. volume equivalent (foreign currency)		EUR 500m	-	CHF 1.0bn		
Own-use	✓	✗	✓	✗	-	
Haircuts based on	TtM	✓	✓	✗	✓	
	Coupon	✓	✓	✗	✓	
	Currency	✓	✓	✗	✓	
	...	Own-use	-	-	-	-
Currencies	EUR	✓	✓	✓	✓	
	USD	✓	✓	✓	✓	
	GBP	✓	✓	✓	✓	
	JPY	✓	✗	✗	✗	✓
	CHF	✗	✓	✓	✓	✓
	SEK	✗	✓	✓	✓	✓
	NOK	✗	✗	✗	✓	✗
	DKK	✗	✗	✗	✓	✓
	CAD	✗	✓	✓	✗	✓
	AUD	✗	✓	✓	✗	✓
	NZD	✗	✗	✗	✗	✗
	PLN	✗	✗	✗	✗	✗
	Country of issuance	EU	✓	-	✓	✓ (non CHF-Bonds)
EEA		✓	-	✓	✓ (non CHF-Bonds)	-
G10		✓	-	✗	✗	-
others		-	UK, DE, FR	US, UK	UK (non CHF-Bonds), CH; CHF bonds: no limitations	DE

¹ The table serves to compare the requirements for eligible collateral and therefore does not address possible special/individual cases. To determine the central bank eligibility of securities, a case-by-case assessment is therefore essential and cannot be carried out solely on the basis of this table, ² Scope in the implementation process; see [press release dated 10 November 2023](#)

Table: Central bank eligibility of covered bonds¹ (continued)

	Sweden	Norway	Denmark	Poland	
	Sveriges Riksbank	Norges Bank	Danmarks Nationalbank	Narodowy Bank Polski	
Eligibility criteria	link	link	link	link	
Eligible securities	link	link	link	link	
Category	Category 2	Category 2,3 & 4	Category 2 & 3	Mortgage Bonds	
Rating requirements	Min. AA-/Aa3	Min. BBB-/Baa3	-	Min. BBB-/Baa3	
Rating agencies	Fitch, Moody's, S&P	Fitch, Moody's, S&P, Scope	-	Fitch, Moody's, S&P	
Rating treatment	≥ two ratings: at least two min. AA-/Aa3	Second best	-	-	
Min. volume (home currency)	SEK 100m	NOK 300m	Category 2: EUR 1bn (or equivalent in DKK) Category 3: -	PLN 10m	
Min. volume equivalent (foreign currency)	SEK 100m	EUR 100m		✗	
Own-use	✗	✓		-	
Haircuts based on	TtM	✓	✓	✓	
	Coupon	✓	✓	✓	
	Currency	✓	✓	✓	✗
	...	Theoretical and/or old price	Own-use	Theoretical price	-
Currencies	EUR	✓	✓	✓	✗
	USD	✓	✓	✗	✗
	GBP	✓	✓	✗	✗
	JPY	✓	✓	✗	✗
	CHF	✗	✓	✗	✗
	SEK	✓	✓	✗	✗
	NOK	✓	✓	✗	✗
	DKK	✓	✓	✓	✗
	CAD	✗	✓	✗	✗
	AUD	✗	✓	✗	✗
	NZD	✗	✓	✗	✗
	PLN	✗	✗	✗	✓
Country of issuance	EU	-	✓	-	-
	EEA	-	✓	-	-
	G10	✓	-	✗	✗
	others	SE, NO, DK, FI, AT, LU, IE, PT, ES, GR, AU, NZ	NO, AU, NZ, US, CA, CH, GG, JE, KY, UK	DK	PL

¹ The table serves to compare the requirements for eligible collateral and therefore does not address possible special/individual cases. To determine the central bank eligibility of securities, a case-by-case assessment is therefore essential and cannot be carried out solely on the basis of this table.

Table: Central bank eligibility of covered bonds¹ (continued)

	Canada	Australia	New Zealand	
	Bank of Canada	Reserve Bank of Australia	Reserve Bank of New Zealand	
Eligibility criteria	link	link	link	
Eligible securities		link	link	
Category	Covered Bonds	ADI Bonds	Covered Bonds	
Rating requirements	AAA equivalent	Minimum average rating: BBB-	AAA/Aaa	
Rating agencies	-	Fitch, Moody's, S&P	Acceptable rating agencies	
Rating treatment	-	At least two ratings	at least two ratings; more than two ratings: at least two AAA/Aaa and no rating lower than AA+/Aa1	
Min. volume (home currency)	CAD 1m	-	-	
Min. volume equivalent (foreign currency)	x	-	-	
Own-use	x	x	x	
Haircuts based on	TtM	✓	✓	
	Coupon	x	x	
	Currency	✓	x	
	...	-	Average credit rating	
Currencies	EUR	x	x	
	USD	✓	x	
	GBP	x	x	
	JPY	x	x	
	CHF	x	x	
	SEK	x	x	
	NOK	x	x	
	DKK	x	x	
	CAD	✓	x	
	AUD	x	✓	
	NZD	x	x	✓
	PLN	x	x	x
Country of issuance	EU	x	x	
	EEA	x	x	
	G10	x	x	
	others	CA	AU	NZ

¹ The table serves to compare the requirements for eligible collateral and therefore does not address possible special/individual cases. To determine the central bank eligibility of securities, a case-by-case assessment is therefore essential and cannot be carried out solely on the basis of this table.

SSA/Public Issuers

Teaser: Issuer Guide – German Agencies 2024

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

Promotional banks shape the German agency market alongside winding-up vehicles

The German agency market is the largest of its kind in Europe. As at the reporting date, the agencies covered here issued 1,502 bonds with a total volume equivalent to around EUR 674bn. The issuers within this market can essentially be divided into three categories: national promotional banks (e.g. KfW) and regional institutions (e.g. NRW.BANK), as well as winding-up agencies (e.g. EAA). While the promotional banks have traditionally played a highly significant role in the direction of economic policy at the level of both federal government (Bund) and the individual Laender, the winding-up agencies only came into existence a matter of years ago. Founded in the wake of the global financial crisis, the role of these institutes has been to systematically reduce assets that were hived off as part of state-backed support measures. Regional promotional banks round off this market, although in some cases they differ considerably with regard to their primary market activities.

German agencies – an overview

Institution	Type	Owner(s)	Guarantee	Risk weight
Kreditanstalt für Wiederaufbau (KfW)	Promotional bank	80% Germany, 20% Laender	Explicit guarantee & institutional liability	0%
Landwirtschaftliche Rentenbank	Promotional bank	-	Explicit guarantee & institutional liability	0%
FMS Wertmanagement (FMS-WM)	Winding-up vehicle	100% Sonderfonds Finanzmarktstabilisierung (SoFFin)	Explicit guarantee & loss absorption mechanism	0%
Erste Abwicklungsanstalt (EAA)	Winding-up vehicle	~48.2% Federal State of NRW, ~25.0% RSGV, ~25.0% SVWL, ~0.9% LVR, ~0.9% LWL	Loss absorption mechanism	0%
NRW.BANK	Promotional bank	100% Federal State of North Rhine-Westphalia	Explicit guarantee, institutional liability & guarantor liability	0%
Landeskreditbank Baden-Württemberg – Förderbank (L-Bank)	Promotional bank	100% Federal State of Baden-Wuerttemberg	Explicit guarantee, institutional liability & guarantor liability	0%
Wirtschafts- und Infrastrukturbank Hessen (WIBank)	Promotional bank	100% Helaba	Explicit guarantee & guarantor liability	0%
LfA Förderbank Bayern (LfA)	Promotional bank	100% Free State of Bavaria	Explicit guarantee, institutional liability & guarantor liability	0%
Investitionsbank Schleswig-Holstein (IB.SH)	Promotional bank	100% Federal State of Schleswig-Holstein	Explicit guarantee, institutional liability & guarantor liability	0%
Bayerische Landesbodenkreditanstalt (BayernLabo)	Promotional bank	100% BayernLB Holding AG	Explicit guarantee & guarantor liability	0%
Investitionsbank Berlin (IBB)	Promotional bank	100% Federal State of Berlin	Explicit guarantee & institutional liability	0%
Investitionsbank des Landes Brandenburg (ILB)	Promotional bank	50% Federal State of Brandenburg, 50% NRW.BANK	Explicit guarantee, institutional liability & guarantor liability	0%
Sächsische Aufbaubank (SAB)	Promotional bank	100% Free State of Saxony	Explicit guarantee, institutional liability & guarantor liability	0%
Investitions- und Strukturbank Rheinland-Pfalz (ISB)	Promotional bank	100% Federal State of Rhineland-Palatinate	Explicit guarantee, institutional liability & guarantor liability	0%
Hamburgische Investitions- und Förderbank (IFBHH)	Promotional bank	100% Free and Hanseatic City of Hamburg	Explicit guarantee, institutional liability & guarantor liability	0%

Source: Issuers, NORD/LB Floor Research

Institutional liability (Anstaltslast)

Institutional liability is a special feature of the German agency market. It comprises the legal obligation on the part of the guarantor to secure the financial basis for the institution. Furthermore, functionality must be maintained. In this respect, any financial shortfalls must be settled through subsidies or by some other means. Specifically, institutional liability represents an obligation on the guarantor to provide the institution with the resources it needs to function properly. This means that, de facto, it is equivalent to a liquidity guarantee, although the institution does not have to bear any costs in this regard. The legal commitment between institution and guarantor is governed by the institutional liability as far as their internal relationship is concerned. As a result, if there are any liquidity shortfalls, only the institution can assert a claim against the guarantor. Investors do not have the right to claim against the guarantor. The institutional liability is not limited either in amount or time and is regarded as a general principle of law. However, it is only relevant for investors under certain circumstances: all German agencies with institutional liability also have an explicit guarantee (see below).

Guarantor liability (Gewährträgerhaftung)

Like institutional liability, guarantor liability is a special feature of the German agency market and implies an obligation on the part of the guarantor to step in should the institution become insolvent. It comprises the guarantor's unlimited legal liability for the institution's liabilities in the event of insolvency or liquidation. An institution's creditors therefore have a direct claim against the guarantor if the institution's assets are insufficient to service the creditors' claims. Liquidation and the occurrence of liability are not necessarily closely linked in terms of time. Guarantor liability is not limited in either amount or time, and as in the case of institutional liability, it is not associated with any costs. Unlike institutional liability, however, it is not regarded as a general principle of law. Instead, it requires a legal basis, such as legislation or a regulation. Again, guarantor liability is only relevant for investors under certain circumstances: all German agencies with guarantor liability also feature an explicit guarantee in parallel to this.

Explicit guarantee

The explicit guarantee is expressly laid down in the relevant laws establishing the particular agency and, as a consequence, it can only be revoked by an amendment to the law. If an agency runs into payment difficulties, this form of guarantee offers investors a direct and unconditional claim against the guarantor. As such, it is the strongest form of state support. Consequently, the explicit guarantee represents the ultimate criterion for a risk weight of 0% under CRR and Basel III.

Loss absorption mechanism

With the creation of winding-up agencies around 2009/10, a new form of liability was added to the existing guarantee frameworks of German agencies. This form of liability is regulated under Article 7 of the statutes of FMS Wertmanagement and Erste Abwicklungsanstalt and contains an obligation on the part of the liable parties to offset all losses. The liable parties are also required to provide the institution with the funding needed to settle its liabilities (liquidity guarantee) at any time. Ultimately, the loss absorption mechanism therefore equates to an implicit guarantee.

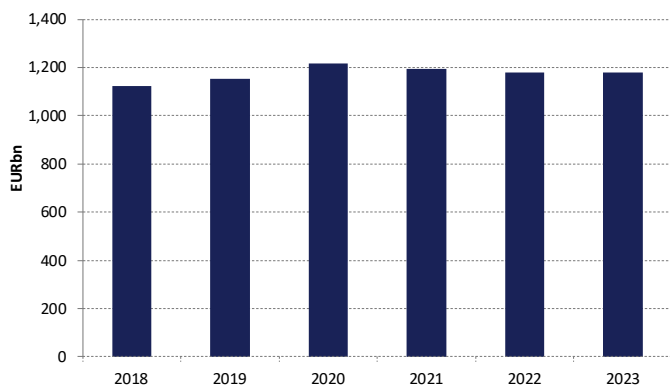
Strong liability mechanisms result in a 0% risk weight

Strong support from the respective guarantors, which is inherent in all forms of liability, means that a risk weight of 0% is applicable under [CRR](#)/Basel III to all bonds issued by agencies of this kind.

Close links to the federal government and respective federal state

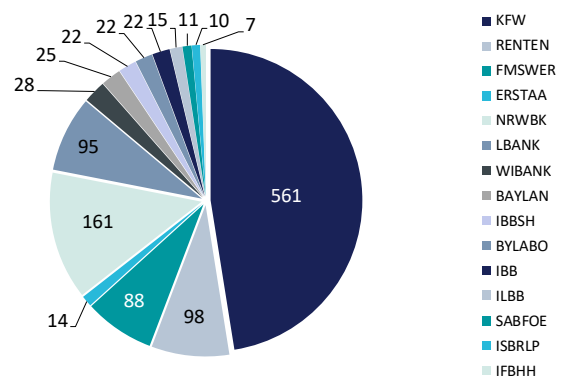
Last but not least, the guarantee mechanisms result in very close ties between the agencies and Bund (federal German government) and/or respective federal state in Germany. The promotional banks, in particular, are a key tool in implementing economic policy. An analysis of the Laender, whose creditworthiness is crucial to a large number of the agencies examined here, is available in the most recent version of our [Issuer Guide – German Laender 2024](#).

Aggregated balance sheet totals of German agencies



Source: Issuers, NORD/LB Floor Research

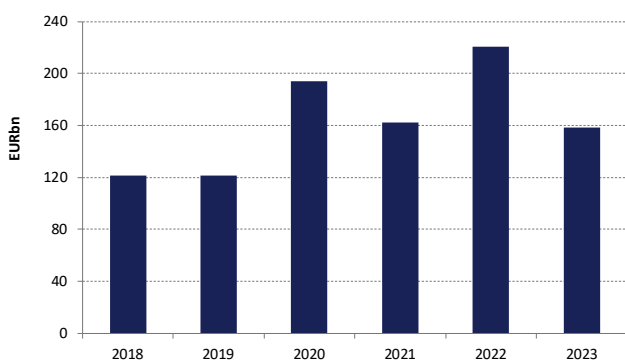
Comparison of balance sheet totals (EURbn)



Slight rise in total assets and significant decline in volume of new commitments

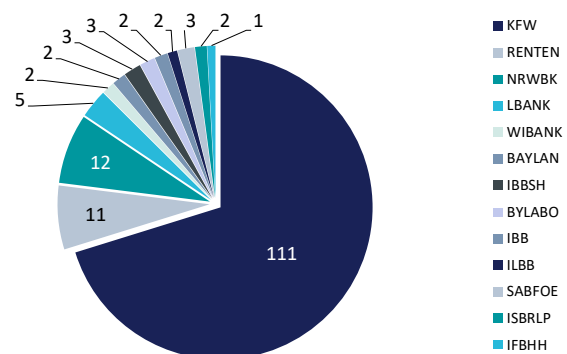
With the aggregated balance sheet totals of German agencies covered here having been in decline since 2020, in 2023 slight growth was recorded again in comparison with the previous year. In the end, aggregated total assets increased by EUR +0.3bn to EUR 1,180.7bn (2022: EUR 1,180.4bn). Despite the winding-up vehicles (FMS-WM and EAA) consistently reducing their portfolio holdings, the majority of the promotional banks recorded an increase in their respective total assets. While FMS-WM reported the sharpest decline in absolute terms of EUR -10.6bn (-11.1% Y/Y) to EUR 88bn, KfW posted the strongest absolute growth of EUR +6.1bn (+1.1% Y/Y) to EUR 561bn. In addition, Investitionsbank Berlin recorded balance sheet expansion of +6.8% (EUR +1.4bn). The aggregated volume of new commitments fell to EUR 158.5bn (EUR -61.9bn) in the previous financial year. The primary driver of this decline was KfW, where new commitments were down by EUR -55.6bn (-33.3% Y/Y) in 2023. Only three German agencies increased their volume of new commitments in 2023 (BayernLabo: EUR +0.8bn; IBB: EUR +0.1bn; SAB: EUR +0.5bn).

New commitments of German agencies*

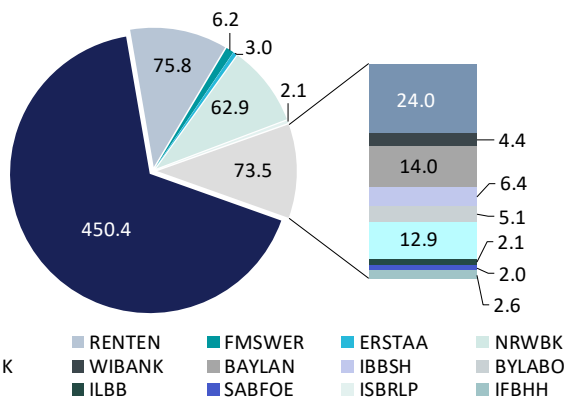


*Excluding FMS-WM and EAA.
Source: Issuers, NORD/LB Floor Research

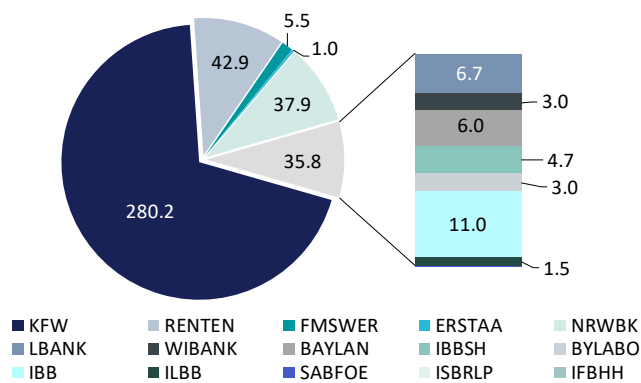
Comparison of new commitments* (EURbn)



A comparison of outstanding bond volumes (EURbn)



A comparison of outstanding EUR benchmarks (EURbn)



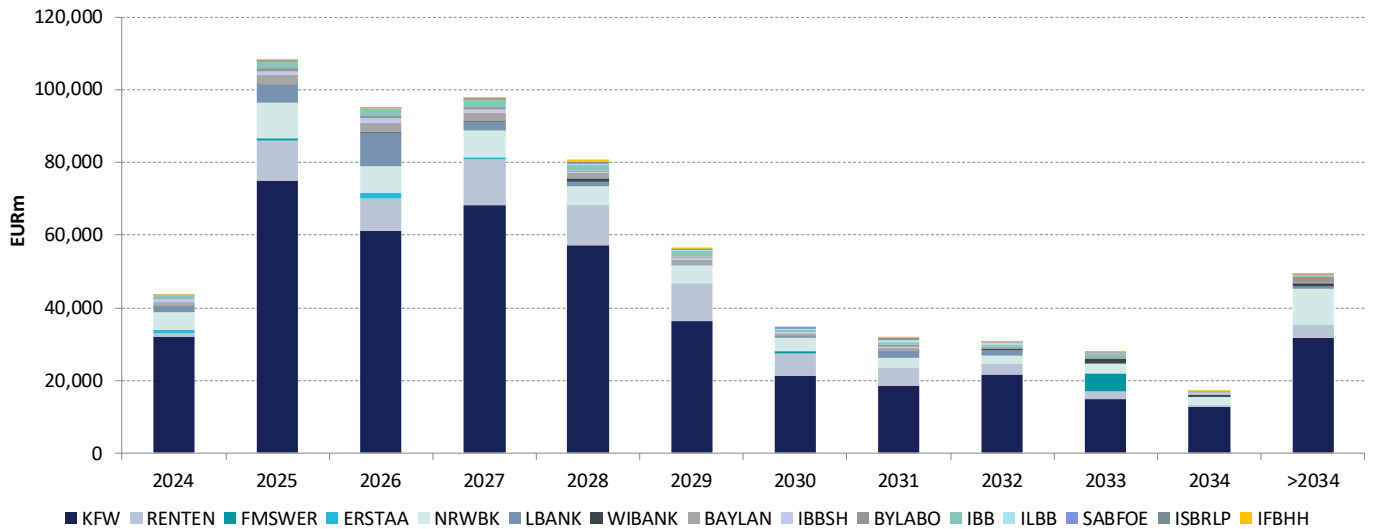
NB: Benchmarks are defined as bonds with a minimum volume of EUR 0.5bn.
Source: Bloomberg, NORD/LB Floor Research

German agencies – an overview (EURbn/EUR equivalent)

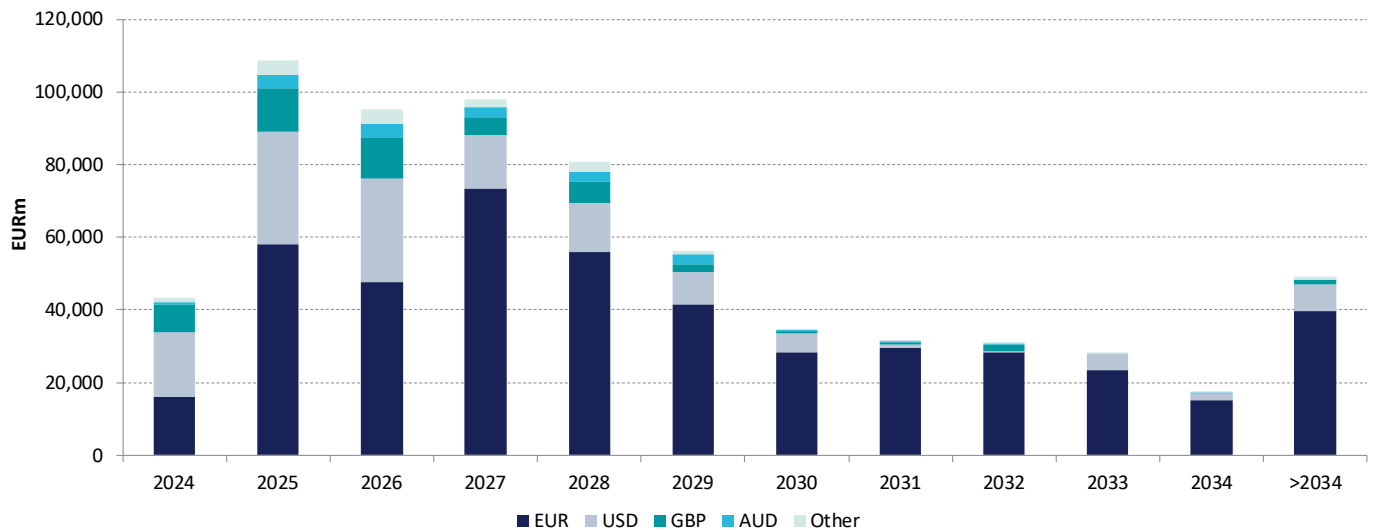
Name	Ticker	Rating (Fitch/Moody's/S&P)	Outstanding Volume	Of which in EUR volume	Funding target 2024	Maturities 2024	Net Supply 2024	Number of ESG bonds	ESG volume
KfW	KFW	AAAu/Aaa/AAA	450.4	295.1	80.0	80.0	0.0	44	61.7
Rentenbank	RENTEN	AAA/Aaa/AAA	75.8	43.8	10.0	8.8	1.2	12	6.2
FMS-WM	FMSWER	-/Aaa/AAA	6.2	5.5	8.0	6.6	1.4	0	0.0
EAA	ERSTAA	AAA/Aa1/AA	3.0	1.2	2.0	1.7	0.3	0	0.0
NRW.BANK	NRWBK	AAA/Aa1/AA	62.9	48.9	12.0	9.0	3.0	22	14.2
L-Bank	LBANK	AAAu/Aaa/AA+	24.0	10.6	7.0	5.8	1.2	0	0.0
WIBank	WIBANK	-/-/AA+	4.4	4.4	1.8	0.7	1.1	0	0.0
LfA	BAYLAN	-/Aaa/-	14.0	14.0	2.8	2.5	0.3	0	0.0
IB.SH	IBBSH	AAA/-/-	6.4	6.4	1.6	0.9	0.7	0	0.0
BayernLabo	BYLABO	-/Aaa/-	5.1	5.1	1.3	0.5	0.8	4	1.5
IBB	IBB	AAA/Aa1/-	12.9	12.9	2.8	2.6	0.2	2	1.0
ILB	ILBB	AAA/-/-	2.1	2.1	1.5	0.0	1.5	1	0.1
SAB	SABFOE	-/-/AAA	2.0	2.0	0.8	0.3	0.5	0	0.0
ISB	ISBRLP	AAA/-/-	2.1	2.1	0.7	0.1	0.6	0	0.0
IFBHH	IFBHH	AAA/-/-	2.6	2.6	0.6	0.1	0.5	1	0.3
Total			673.9	456.7	132.9	119.6	13.3	86	85.0

NB: Foreign currencies are converted into EUR at rates as at 16 August 2024.
On account of the issuer's individual funding mix, the values for "funding target" and "net supply" in particular may deviate from reality.
Source: Bloomberg, issuers, NORD/LB Floor Research

German agencies: outstanding bonds by issuer



German agencies: outstanding bonds by currency



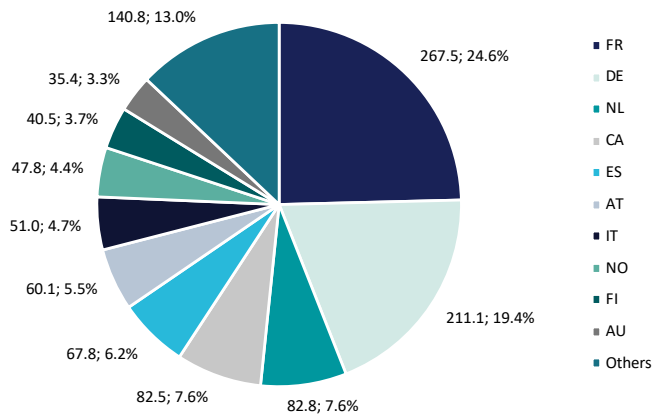
NB: Foreign currencies are converted into EUR at rates as at 16 August 2024.
 Source: Bloomberg, NORD/LB Floor Research

Conclusion and comment

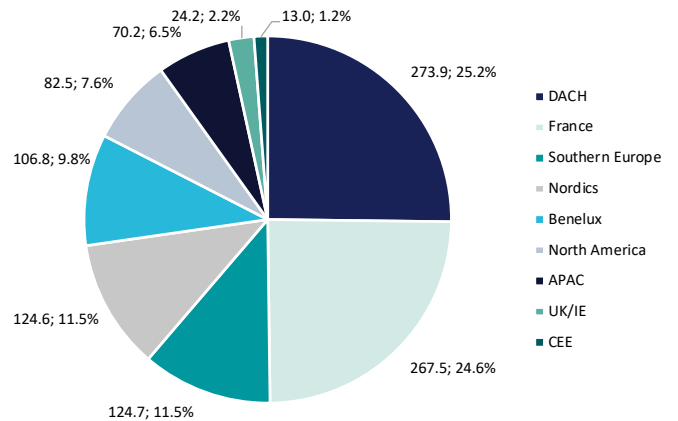
The German agency market offers a very wide range of bonds, especially in the maturity segment up to 2029. There is a substantial volume of outstanding bonds (EUR 456.8bn spread across 1,084 separate bond deals), of which a large number are benchmarks, particularly in EUR. Overall, a total of EUR 217.0bn of the outstanding volume is also denominated in 16 foreign currencies (418 bonds), with the US dollar clearly at the forefront of the FX offering. With its very high supply of EUR and foreign-currency bonds, the German agency market is the largest of its kind in Europe. The supply of new bonds, which includes a large number of EUR benchmark bonds in particular, is high. This means that the bonds of German agencies are spread along the entire maturity range. On account of the major importance of the individual banks and taking into consideration their respective guarantee and liability mechanisms, all issuers benefit from a risk weight of 0% from our perspective.

Charts & Figures Covered Bonds

EUR benchmark volume by country (in EURbn)



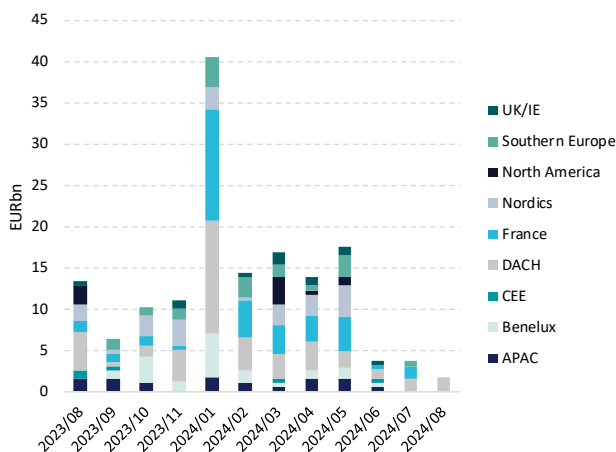
EUR benchmark volume by region (in EURbn)



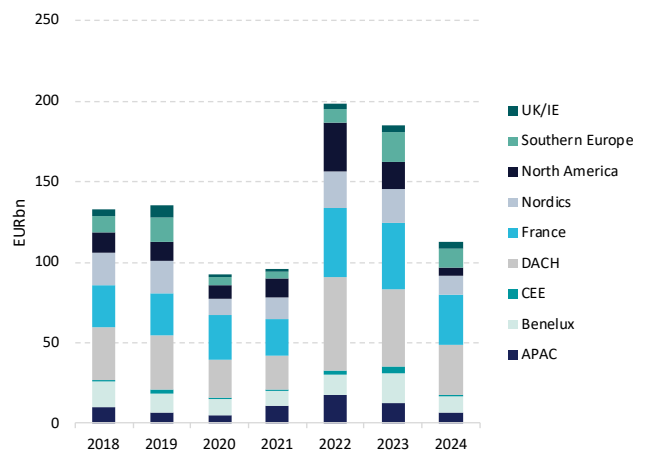
Top-10 jurisdictions

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	267.5	258	26	0.97	9.3	4.7	1.45
2	DE	211.1	298	43	0.65	7.8	3.9	1.46
3	NL	82.8	84	3	0.92	10.5	5.9	1.35
4	CA	82.5	61	1	1.33	5.5	2.5	1.34
5	ES	67.8	53	5	1.16	11.2	3.2	2.16
6	AT	60.1	101	5	0.59	8.1	4.2	1.54
7	IT	51.0	65	5	0.77	8.5	3.8	1.90
8	NO	47.8	58	12	0.82	7.3	3.5	1.03
9	FI	40.5	46	4	0.87	6.9	3.5	1.72
10	AU	35.4	33	0	1.07	7.2	3.3	1.82

EUR benchmark issue volume by month

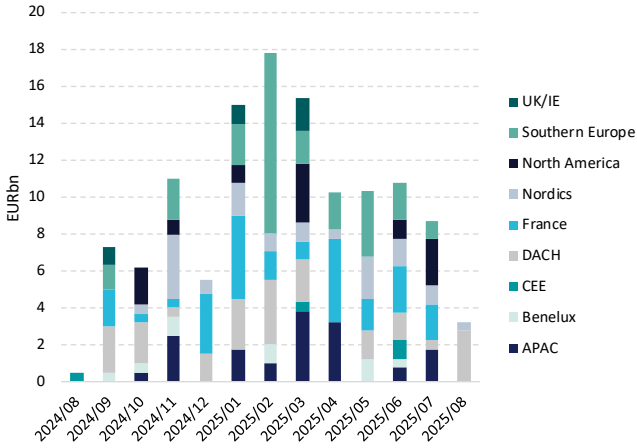


EUR benchmark issue volume by year

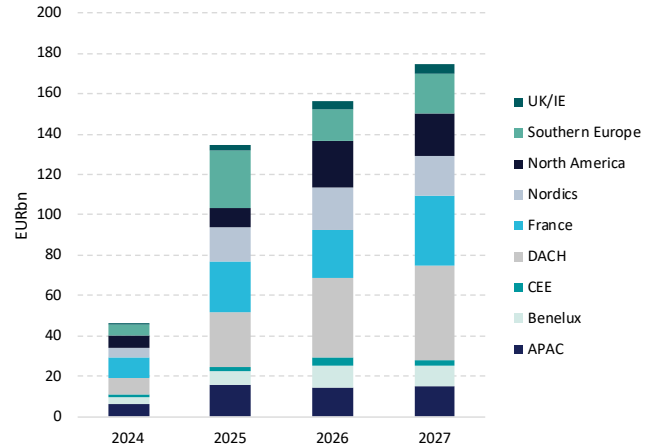


Source: Market data, Bloomberg, NORD/LB Floor Research

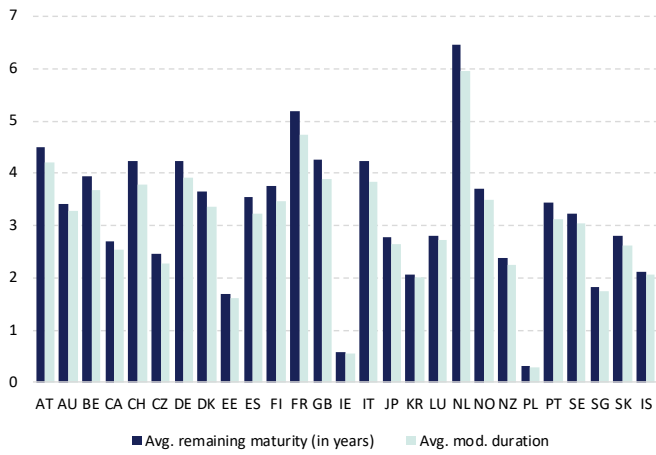
EUR benchmark maturities by month



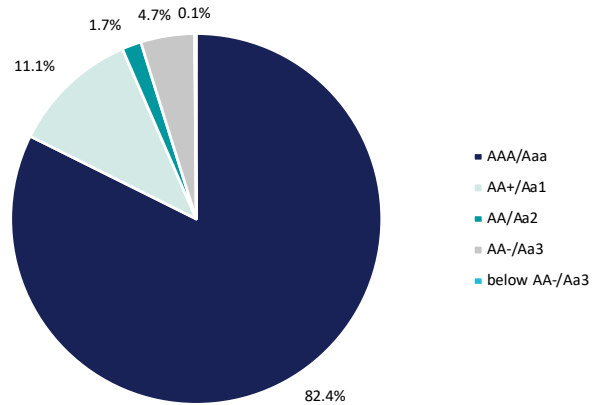
EUR benchmark maturities by year



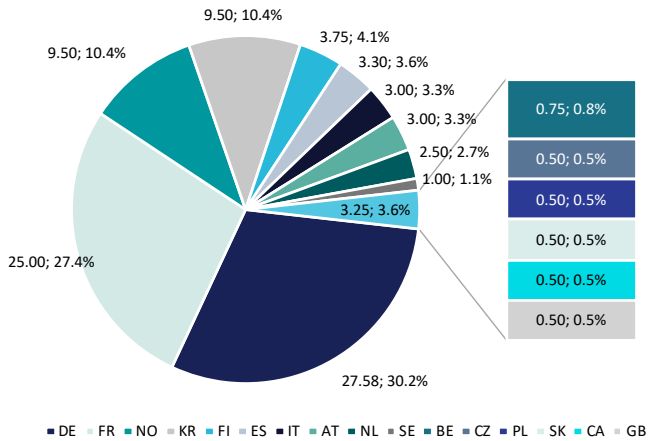
Modified duration and time to maturity by country



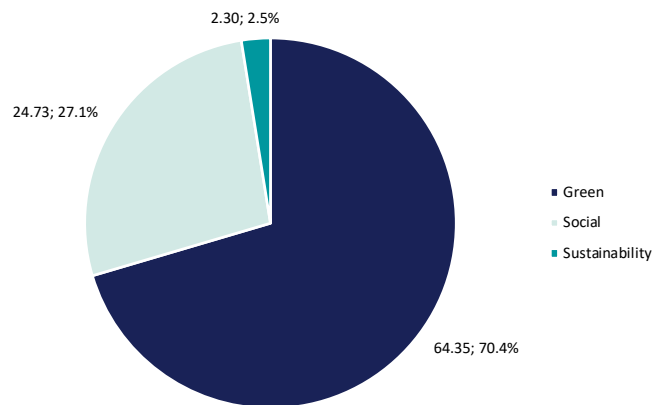
Rating distribution (volume weighted)



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

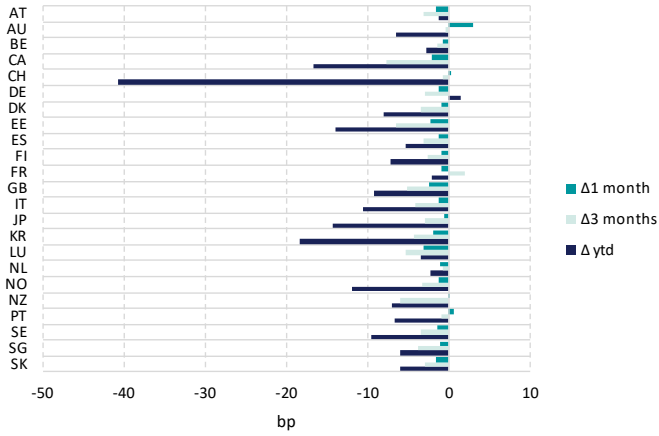


EUR benchmark volume (ESG) by type (in EURbn)

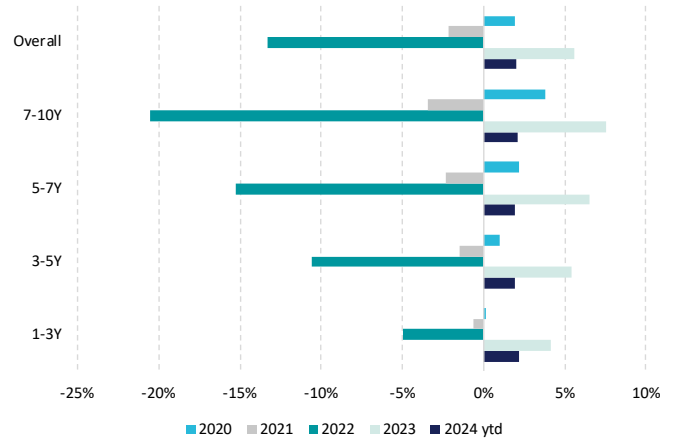


Source: Market data, Bloomberg, NORD/LB Floor Research

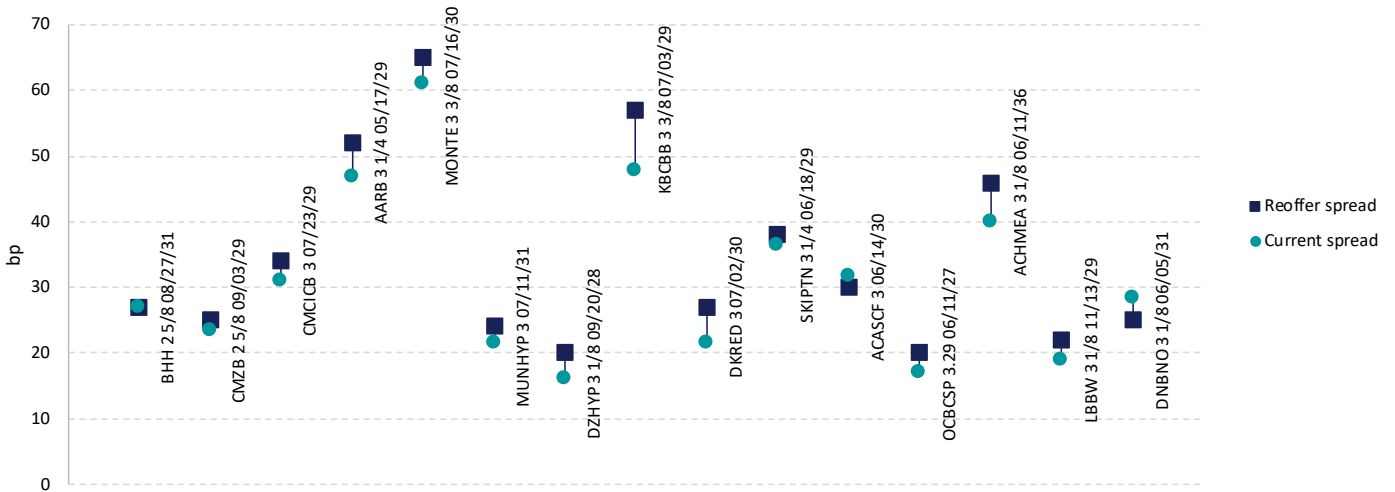
EUR benchmark emission pattern



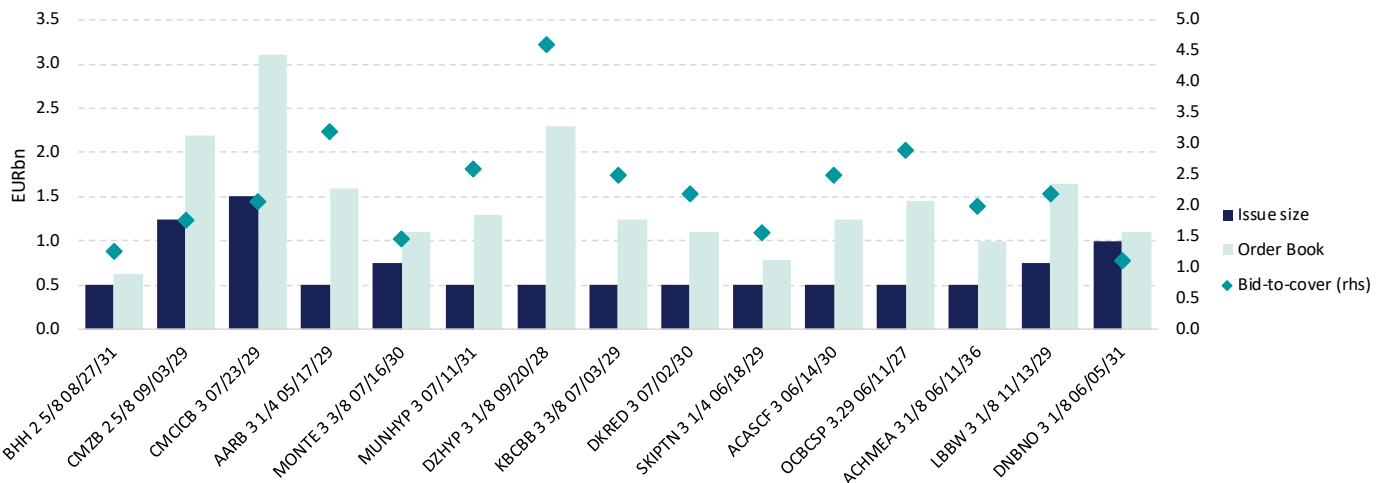
Covered bond performance (Total return)



Spread development (last 15 issues)

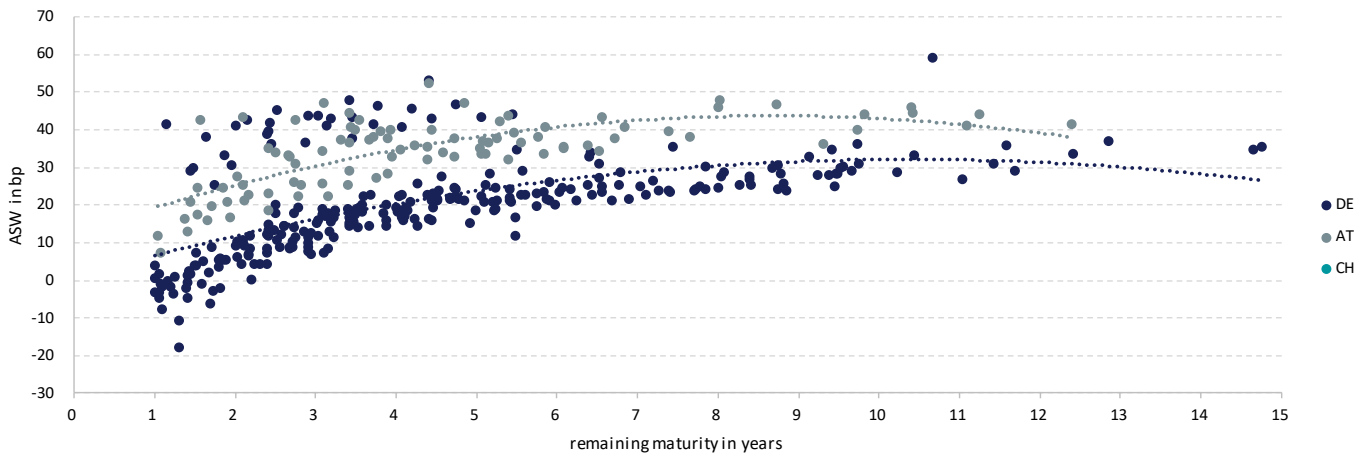


Order books (last 15 issues)

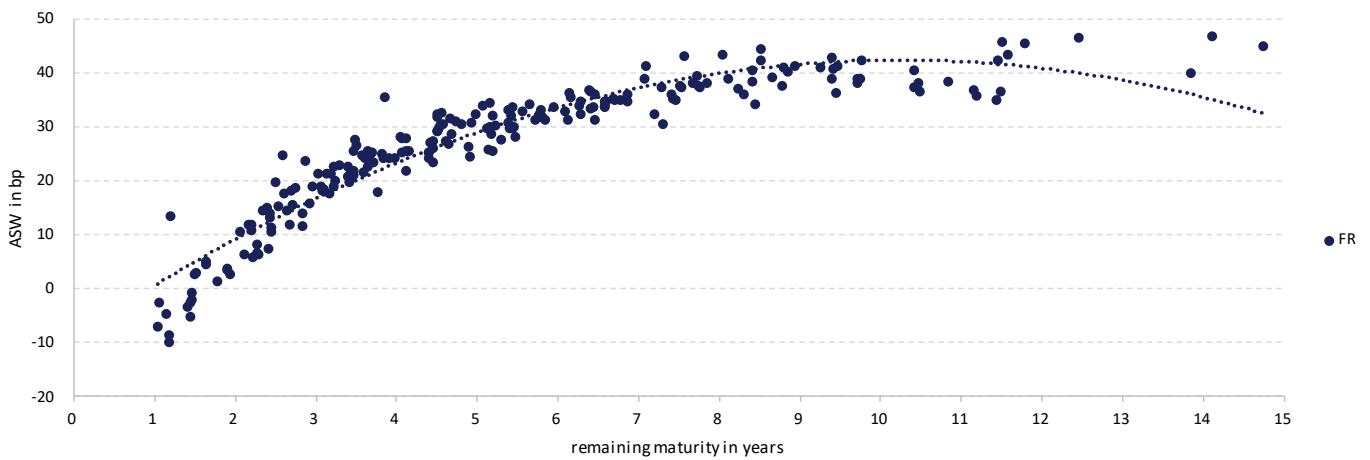


Spread overview¹

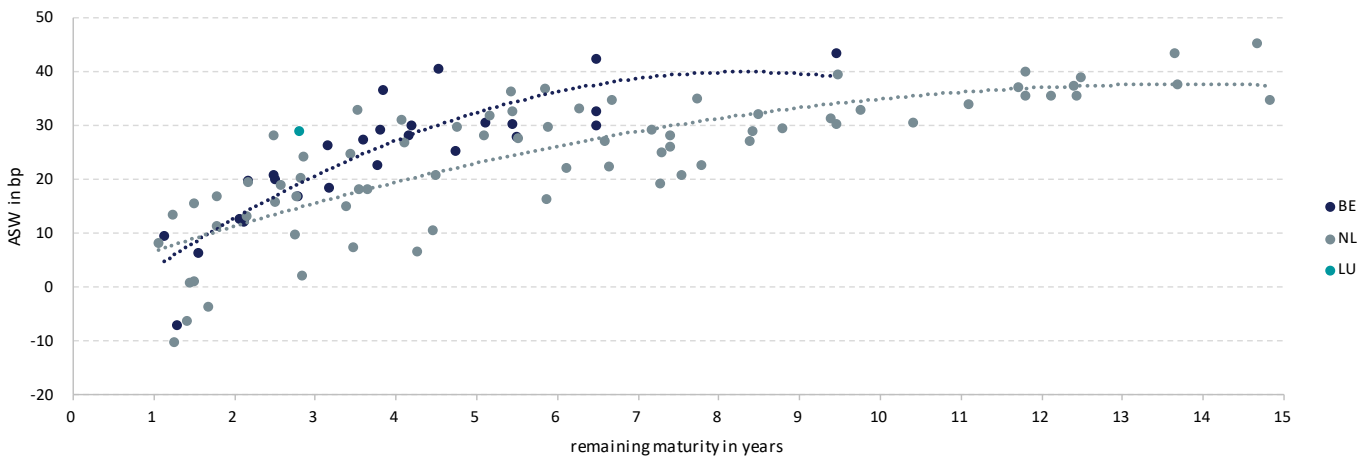
DACH 



France 

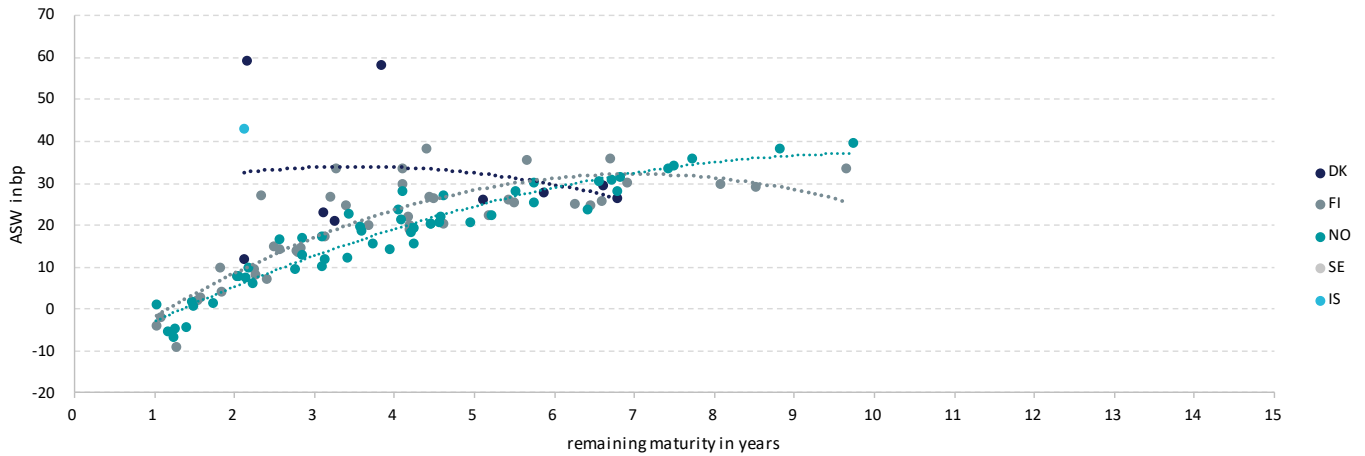


Benelux 

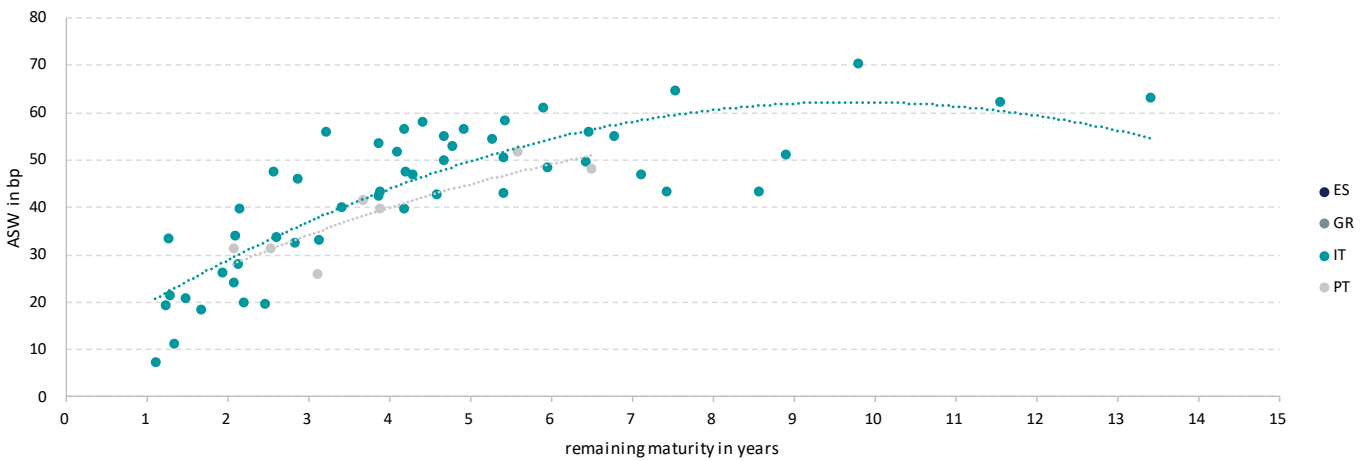


Source: Market data, Bloomberg, NORD/LB Floor Research ¹Time to maturity 1 ≤ y ≤ 15

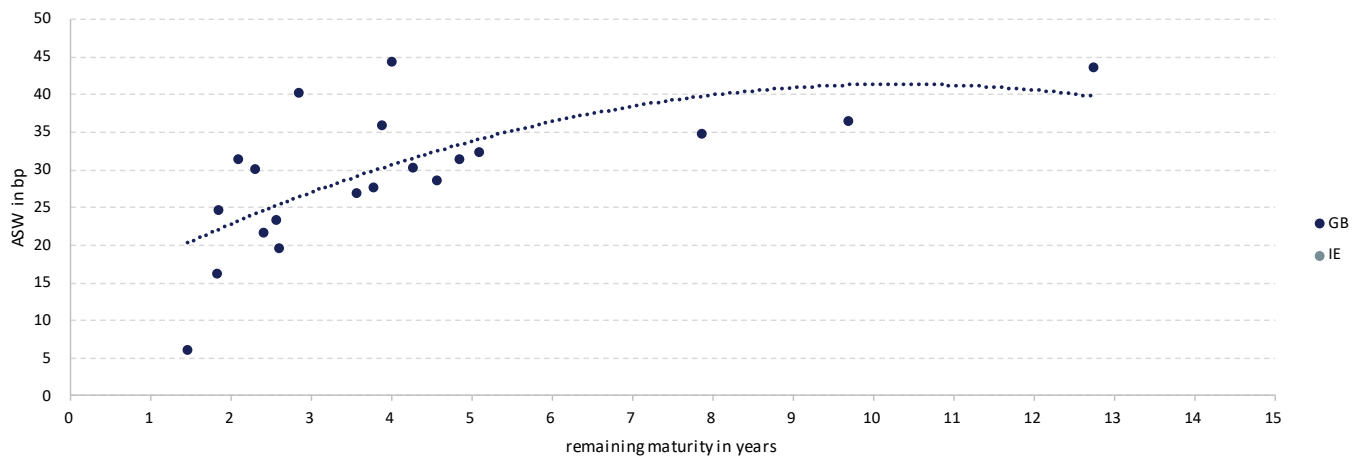
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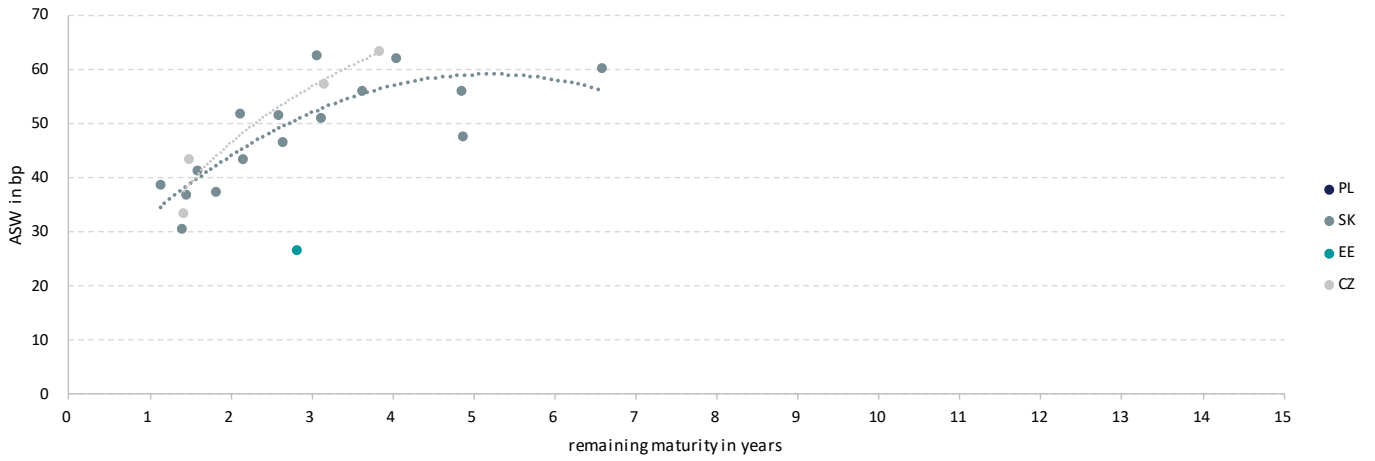
Southern Europe 🇪🇸 🇬🇷 🇮🇹 🇵🇹



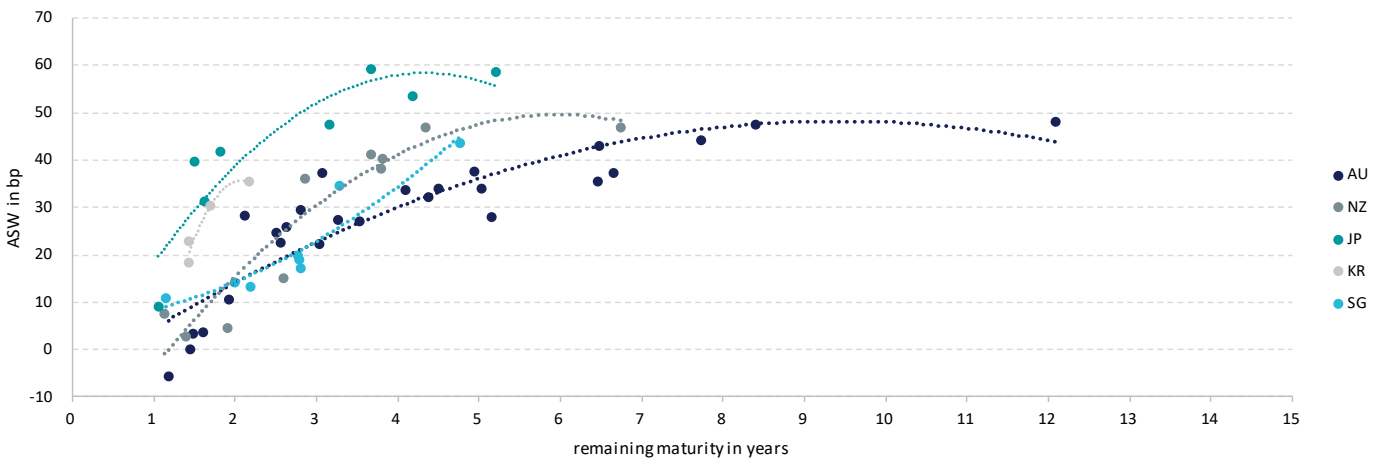
UK/IE 🇬🇧 🇮🇪



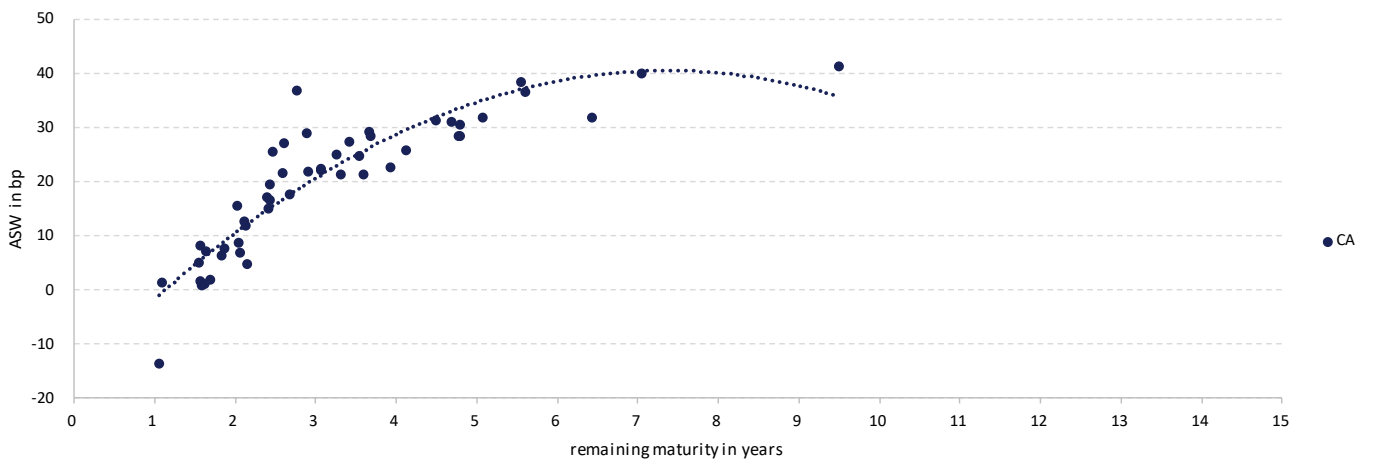
CEE 



APAC 



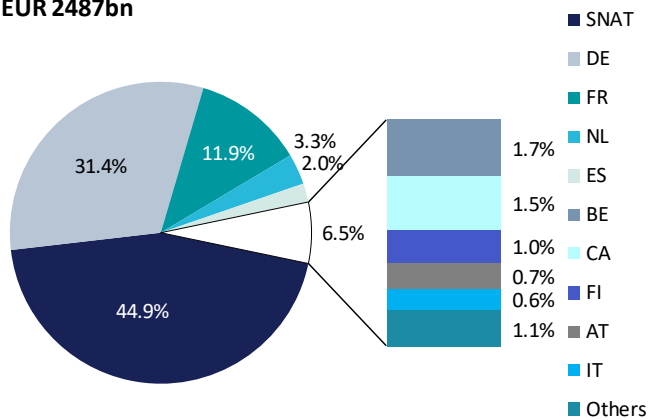
North America 



Charts & Figures SSA/Public Issuers

Outstanding volume (bmk)

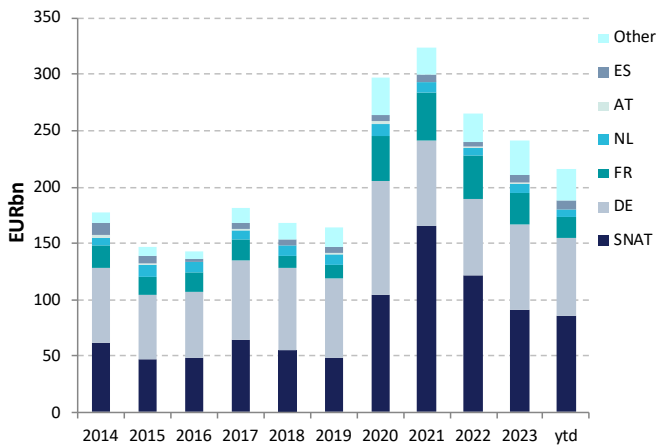
EUR 2487bn



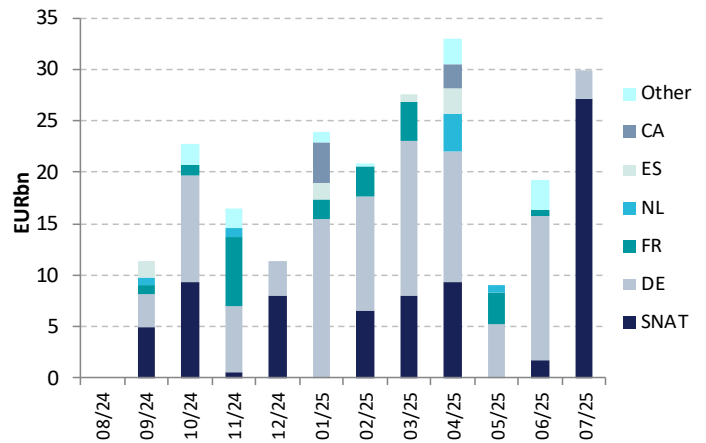
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,117.0	239	4.7	8.0
DE	781.0	584	1.3	6.2
FR	295.2	197	1.5	5.8
NL	81.7	68	1.2	6.6
ES	50.0	70	0.7	4.8
BE	41.6	45	0.9	10.6
CA	37.7	28	1.3	5.1
FI	24.2	25	1.0	4.4
AT	17.8	22	0.8	3.9
IT	15.0	19	0.8	4.5

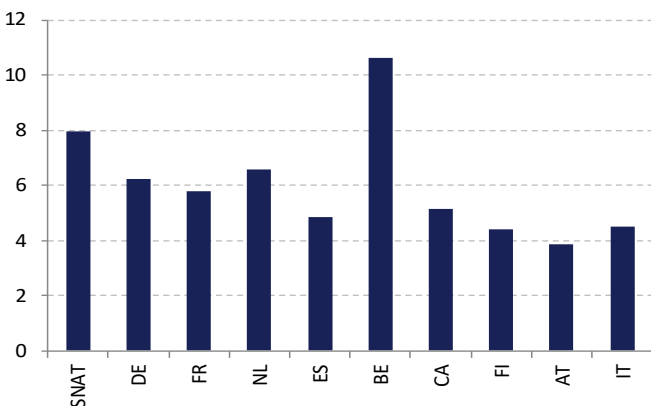
Issue volume by year (bmk)



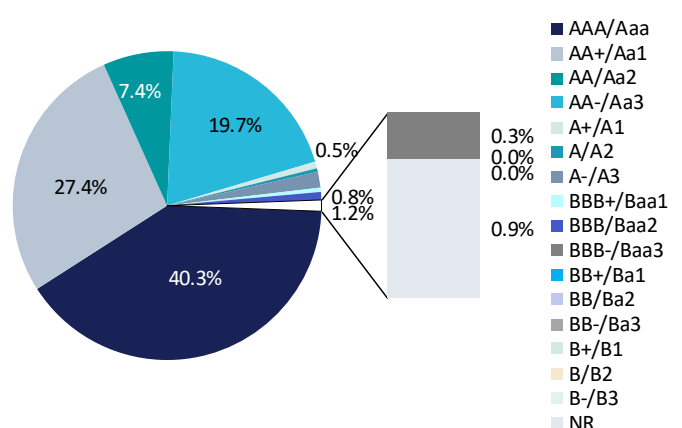
Maturities next 12 months (bmk)



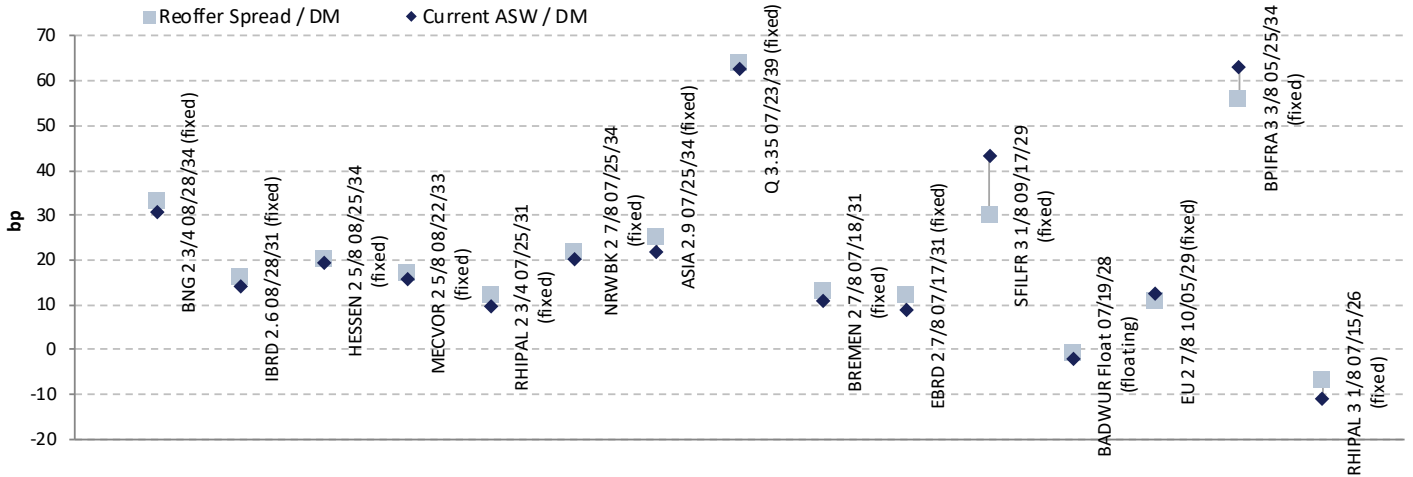
Avg. mod. duration by country (vol. weighted)



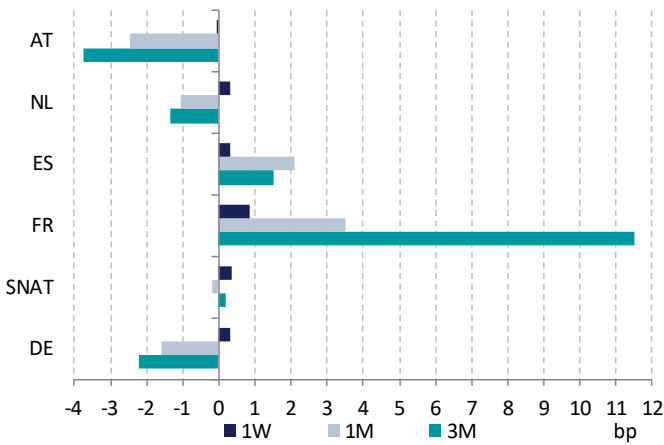
Rating distribution (vol. weighted)



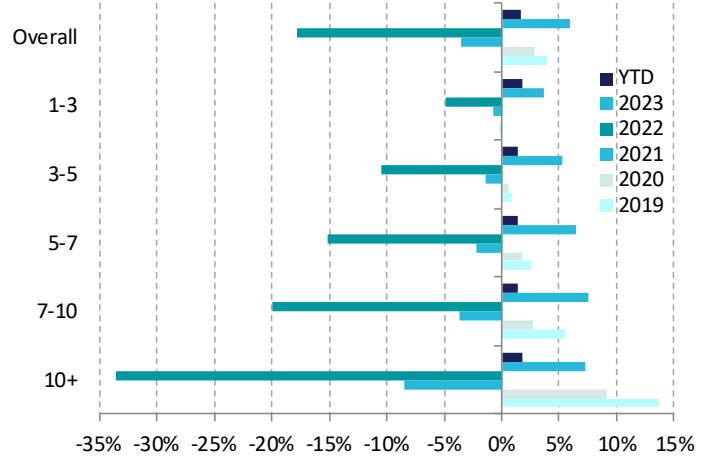
Spread development (last 15 issues)



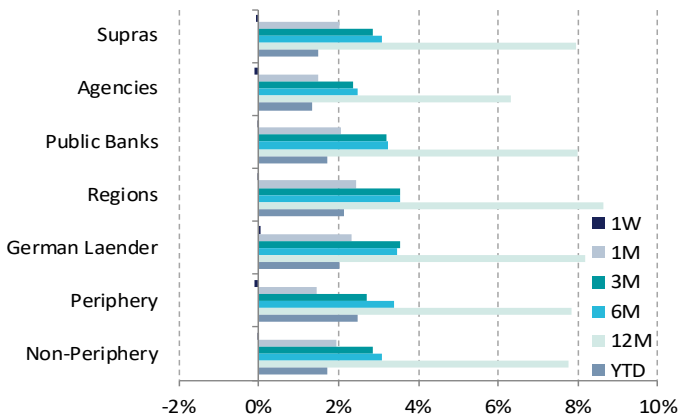
Spread development by country



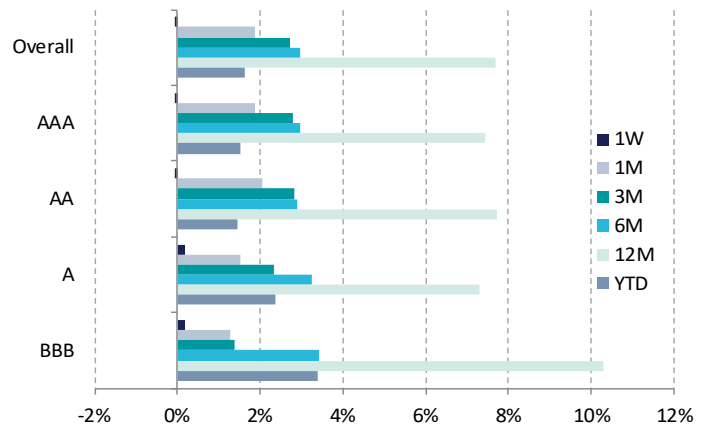
Performance (total return)



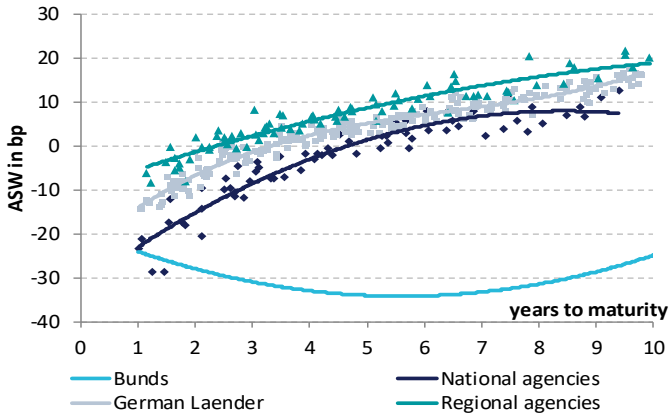
Performance (total return) by segments



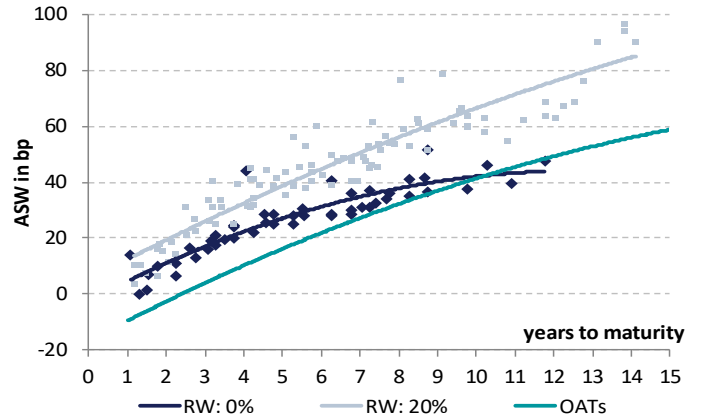
Performance (total return) by rating



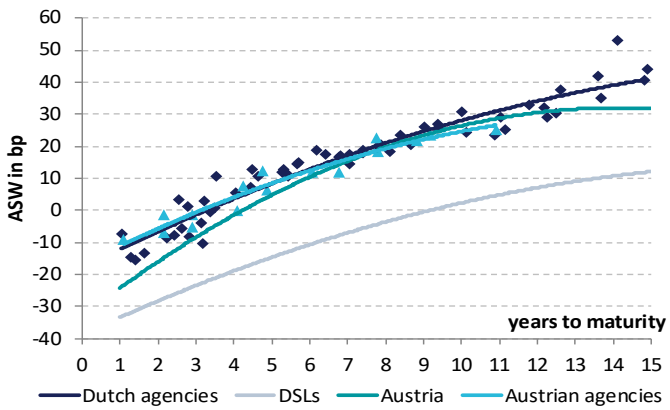
Germany (by segments)



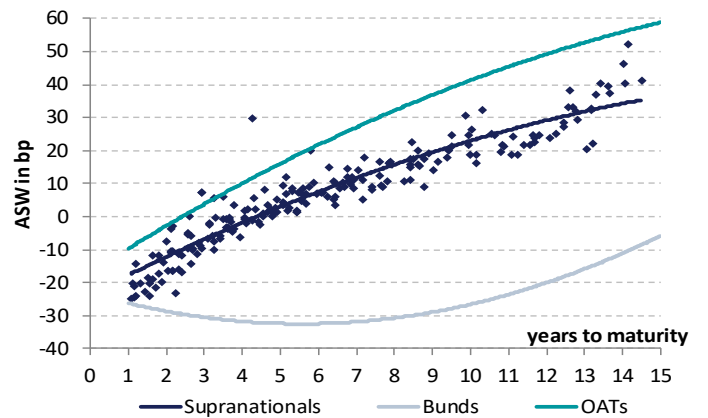
France (by risk weight)



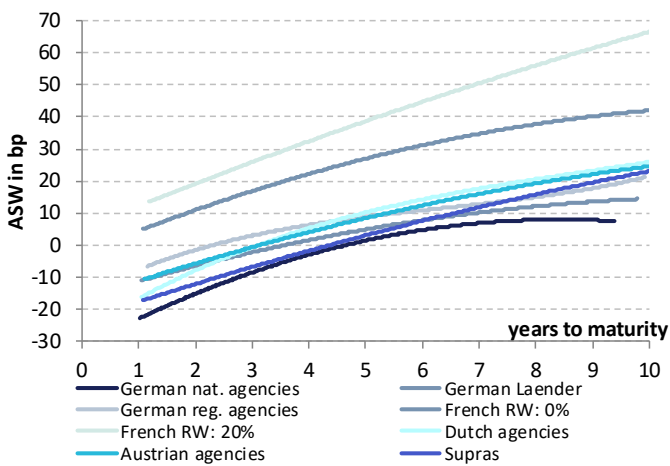
Netherlands & Austria



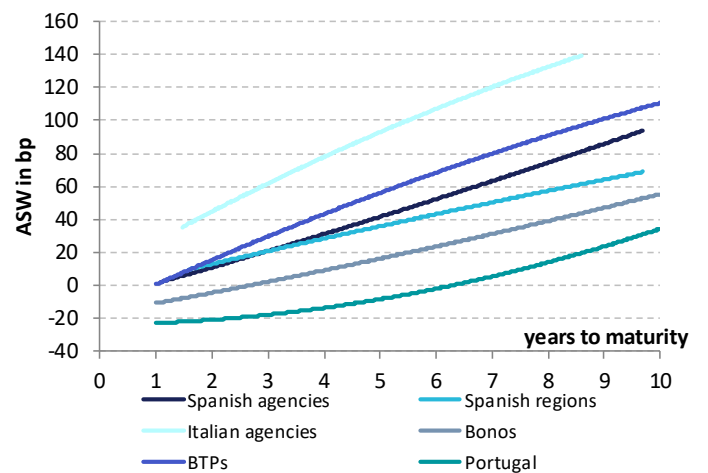
Supranationals



Core



Periphery



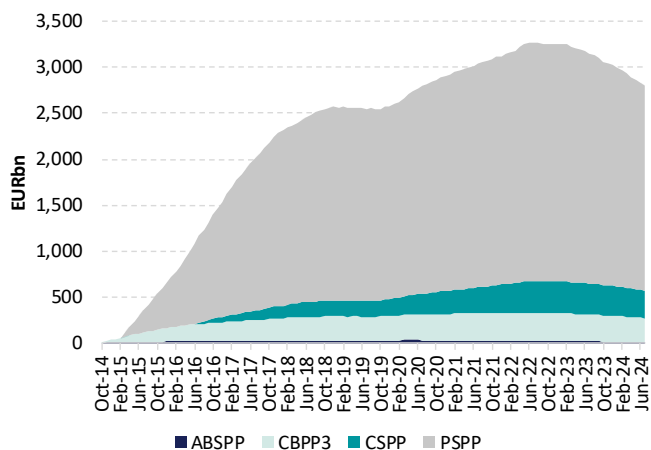
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

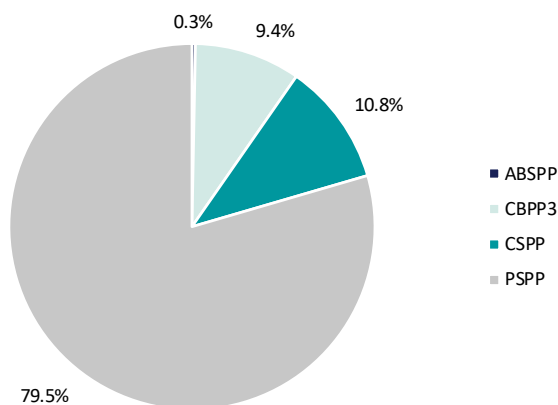
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Jun-24	8,949	264,960	306,481	2,254,498	2,834,888
Jul-24	8,676	262,403	303,010	2,227,758	2,801,847
Δ	-272	-2,558	-3,471	-26,740	-33,041

Portfolio development

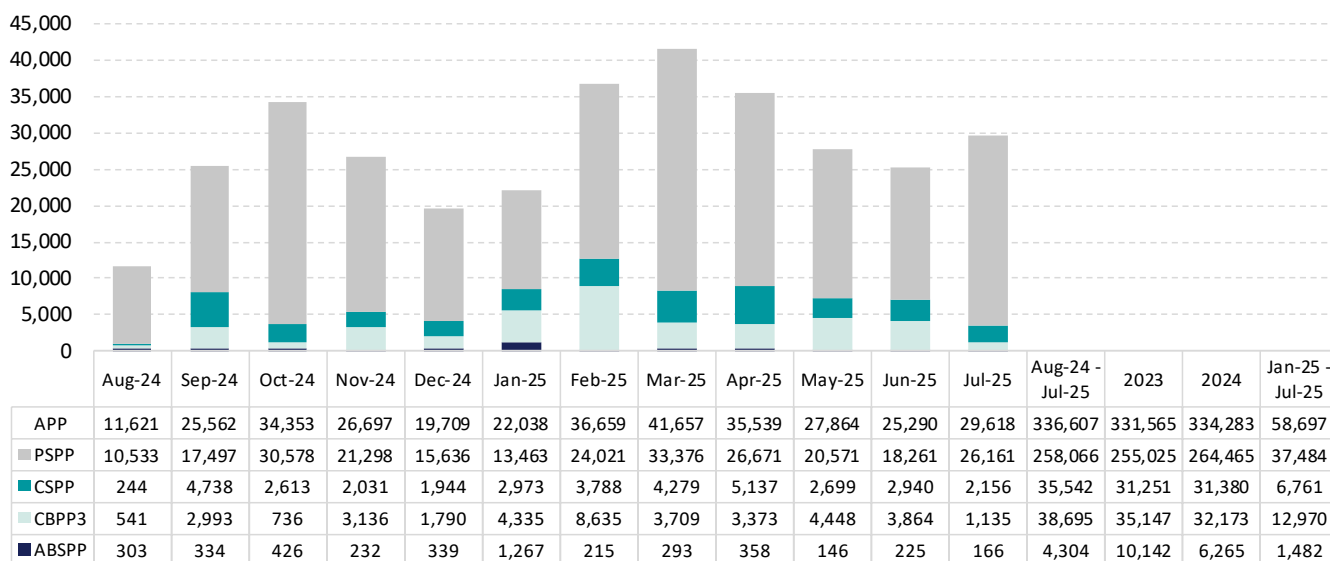


Portfolio structure



Source: ECB, NORD/LB Floor Research

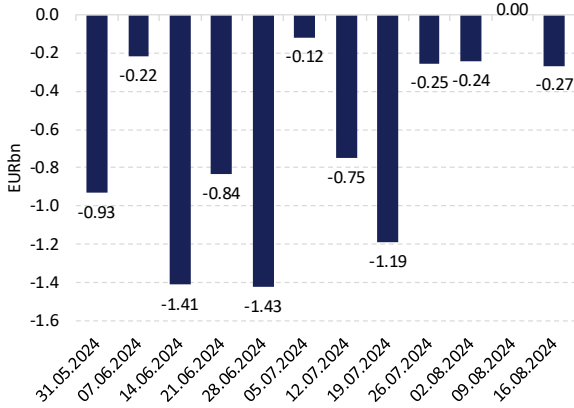
Expected monthly redemptions (in EURm)



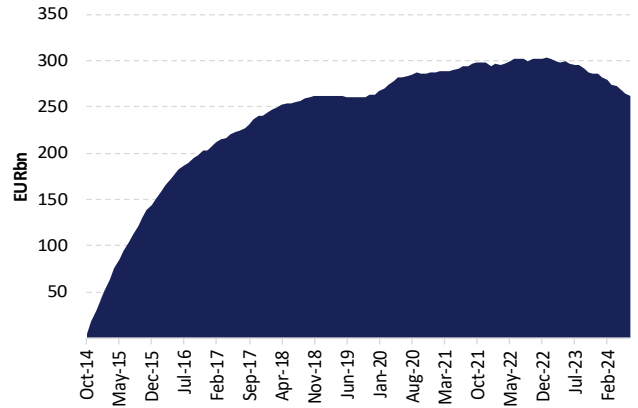
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

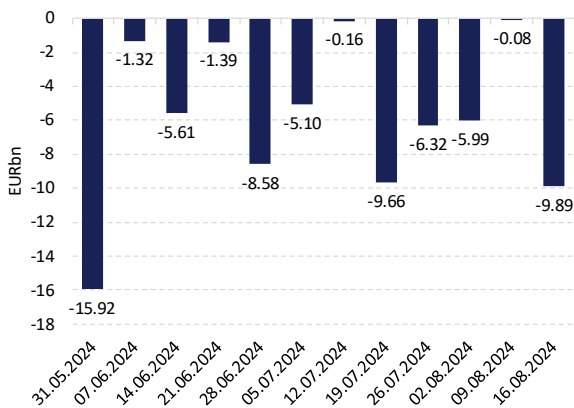


Development of CBPP3 volume

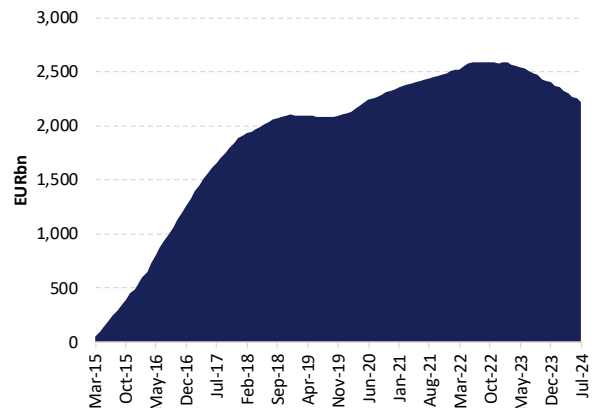


Public Sector Purchase Programme (PSPP)

Weekly purchases



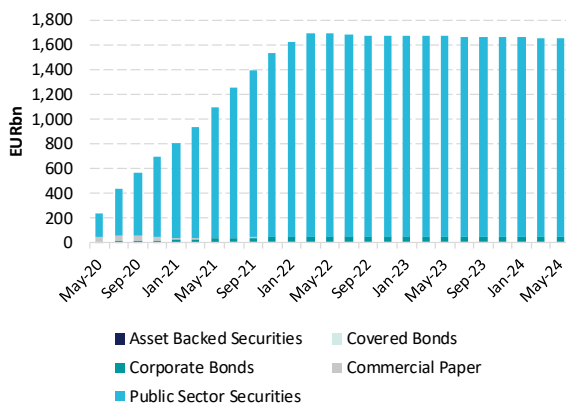
Development of PSPP volume



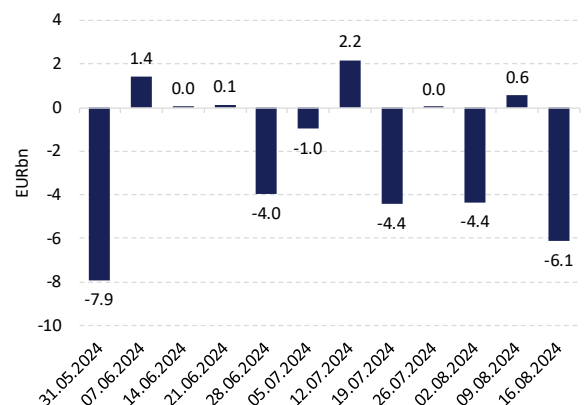
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

Appendix

Overview of latest Covered Bond & SSA View editions

Publication	Topics
25/2024 ♦ 14 August	<ul style="list-style-type: none"> Development of the German property market (vdp index) Classification of Supranationals and Agencies under Solvency II
24/2024 ♦ 07 August	<ul style="list-style-type: none"> Transparency requirements §28 PfandBG Q2/2024 Teaser: Issuer Guide – Spanish Agencies 2024
23/2024 ♦ 10 July	<ul style="list-style-type: none"> Repayment structures on the covered bond market: An update SSA review: EUR-ESG benchmarks in H1/2024
22/2024 ♦ 03 July	<ul style="list-style-type: none"> Covereds: Half-year review and outlook for the second half of 2024 SSA half-year review 2024
21/2024 ♦ 26 June	<ul style="list-style-type: none"> The covered bond universe of Moody's: An overview Teaser: Issuer Guide – Austrian Agencies 2024
20/2024 ♦ 19 June	<ul style="list-style-type: none"> New EUR benchmark issuer from Slovakia ECB repo collateral rules and their implications for Supranationals & Agencies
19/2024 ♦ 12 June	<ul style="list-style-type: none"> ESG covered bonds: Green deals continue to dominate Teaser: Issuer Guide - Nordic Agencies 2024
18/2024 ♦ 29 May	<ul style="list-style-type: none"> Transparency requirements §28 PfandBG Q1/2024 Development of the German property market (vdp Index) Spotlight on the EU as a mega issuer
17/2024 ♦ 15 May	<ul style="list-style-type: none"> Standard Chartered Bank Singapore boosts APAC growth Stability Council convenes for 29th meeting
16/2024 ♦ 08 May	<ul style="list-style-type: none"> Whats happening away from the benchmark? Teaser: Issuer Guide – Dutch Agencies 2024
15/2024 ♦ 24 April	<ul style="list-style-type: none"> A covered bond view of Portugal: Welcome back! Credit authorisations of the German Laender for 2024
14/2024 ♦ 17 April	<ul style="list-style-type: none"> Moody's covered bond universe: An overview SSA review: EUR-ESG benchmarks in Q1/2024
13/2024 ♦ 10 April	<ul style="list-style-type: none"> A review of Q1 in the Covered Bond segment A review of Q1 in the SSA segment
12/2024 ♦ 27 March	<ul style="list-style-type: none"> Maybank: New covered bond issuer from Singapore A closer look at Export Development Canada (Ticker: EDC)
11/2024 ♦ 20 March	<ul style="list-style-type: none"> Covered bond jurisdictions “Down Under” in the spotlight Collective Action Clauses (CACs) – An (Italian) update
10/2024 ♦ 13 March	<ul style="list-style-type: none"> Spotlight on Pfandbrief issuers in the savings bank sector NGEU: Green Bond Dashboard
09/2024 ♦ 06 March	<ul style="list-style-type: none"> Transparency requirements §28 PfandBG Q4/2023 Current LCR classification for our SSA coverage

Appendix

Publication overview

Covered Bonds:

[Issuer Guide – Covered Bonds 2023](#)

[Covered Bond Laws](#)

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

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

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

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

SSA/Public Issuers:

[Issuer Guide – German Laender 2024](#)

[Issuer Guide – German Agencies 2023](#)

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

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

[Issuer Guide – Nordic Agencies 2024](#)

[Issuer Guide – Dutch Agencies 2024](#)

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

[Beyond Bundeslaender: Belgium](#)

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

[Beyond Bundeslaender: Spanish regions](#)

Fixed Income Specials:

[ESG-Update 2024](#)

[ECB: Taylor Swift and the inflation, or...](#)

Appendix

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Origination Corporates	+49 511 361-2911

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

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Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
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Time of going to press: 21 August 2024 (08:52)