Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

Floor analysts:

Covered Bonds/Banks

Dr Frederik Kunze
frederik.kunze@nordlb.de

Lukas Kühne
lukas.kuehne@nordlb.de

Alexander Grenner
alexander.grenner@nordlb.de

SSA/Public Issuers

Dr Norman Rudschuck, CIIA
norman.rudschuck@nordlb.de

Christian Ilchmann
christian.ilchmann@nordlb.de

Lukas-Finn Frese
lukas-finn.frese@nordlb.de

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
RESP NRDR <GO>

Market overview
Covered Bonds

Authors: Alexander Grenner // Dr Frederik Kunze

Primary market: new issue premiums are not an exact science!

In a trading week that was to a certain extent interrupted by the public holiday in Germany (German Unity Day on 3 October), a total of four issuers from four different jurisdictions approached investors to place a total of EUR 2.4bn on the market. Tatra Banka from Slovakia got the ball rolling here. For what is just this issuer's second ever EUR benchmark, Tatra Banka selected a term of four years and communicated the volume in advance of the transaction (EUR 500m; WNG). The books were opened with an initial guidance in the area of ms +65bp, with orders of EUR 1.1bn (bid-to-cover ratio: 2.2x) and a final spread of ms +62bp. At this level, the calculated new issue premium came to +12bp. At the start of the new trading week, we also saw the first EUR benchmark from Spain for nearly five months. Banco de Sabadell, which was behind the most recent transaction from Spain (SABSM 3 1/4 06/05/34) on 28 May, was again in the spotlight on this occasion, issuing a total of EUR 750m (5.5y) at ms +43bp in a fresh bond deal. The marketing phase got underway at ms +48bp and the new issue premium was again on positive territory at +5bp. In actual fact, this transaction is a great example of how slightly illiquid secondary trading or the challenge of determining adequate comparative values can significantly complicate the fair value calculation. As a result, the new issue premium mentioned above should also be interpreted with a certain degree of caution. Yesterday (Tuesday 08.10.), two issuers from the "Core Euro" sub-market in the form of Bausparkasse Wüstenrot (DE) and Achmea Bank (NL) approached their investors. For its mortgage Pfandbrief (EUR 500m; 7.0y; WNG), Wüstenrot opted for a guidance of ms +44bp area, while the Dutch issuer opened the books for its fresh EUR benchmark with a term of three years at ms +30bp area. In the end, the deals were placed at ms +39bp (Wüstenrot) and ms +25bp (Achmea; final volume: EUR 650m), meaning that in both cases narrowing of five basis points versus the original guidance was possible. The new issue premiums of +1bp (Wüstenrot) and ±0bp (Achmea) were at low levels, which viewed in isolation, can at least be seen as an indication of robust demand.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Bausparkasse Wüstenrot	DE	08.10.	DE000WBP0BL7	7.0y	0.50bn	ms +39bp	- / - / AAA	-
Achmea Bank	NL	08.10.	XS2919192869	3.0y	0.65bn	ms +25bp	- / - / AAA	-
Banco de Sabadell	ES	07.10.	ES0413860877	5.5y	0.75bn	ms +43bp	- / Aa1 / -	-
Tatra Banka	SK	02.10.	SK4000026043	4.0y	0.50bn	ms +62bp	- / Aaa / -	-

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

Secondary market: low turnover ahead of issuance activity

The dynamics on the secondary market can once again be described as sluggish. This applies both to purchasing interest and to sales inquiries. The market was and remains ready to absorb fresh supply. Nevertheless, the uncertainty regarding the new issue premiums and fair value must also be seen as an obstacle delaying the price discovery mechanism.

EUR sub-benchmarks: new deals from Austria and Finland

In the previous edition of our weekly publication, we briefly reviewed activities on the EUR sub-benchmark segment in the current year and pointed out that the issuance level seen in recent years has almost been achieved already. Over the past four to five trading days, both Oberösterreichische Landesbank (HYPO Oberösterreich; ticker: OBLB; AT) and POP Mortgage Bank (POP Asuntoluottopankki Oyj; ticker: POPBGR; FI) approached investors with fresh deals. The books for the OBLB sub-benchmark (EUR 250m; 6.0y) opened last Wednesday with guidance in the area of ms +53bp. Eventually, the deal was placed with a re-offer spread of ms +48bp. POP Mortgage Bank also sought investors for a WNG-format deal (EUR 250m) and issued the bond with an initial term of five years at ms +52bp (guidance: ms +54bp area).

ECB: what will happen in Slovenia on October 16-17?

The future course of ECB monetary policy remains of relevance for the covered bond market. And in this respect, the expectation that the next scheduled meeting (16-17 October) in Slovenia will lead to another interest rate cut is evidently gathering increased momentum. We had interpreted the press release and Q&A session following the interest rate decision on 12 September in such a way that we presumed no cut would be on the cards for October (cf. NORD/LB Fixed Income Special). While the "ECB Monetary Policy Accounts", published on 10 October, offered deeper insights into the course of discussions, the most recent statements emanating from the ECB as well as economic data would, in the view of some market observers, already make a rate cut in October a fait accompli. However, we would not be so certain about this. After all, as we also discussed in the Fixed Income Special cited above, there is a lack of hard economic data supporting this. Weakening economic activity is therefore more likely to be read from sentiment indicators and was already part of the projections from September. However, a further rate cut has now become the most likely outcome at the ECB meeting next week, which can also be explained by developments on the price front, which is lending something of a tailwind to the hopes of the doves on the council. With regard to the covered bond market, this impetus should not be overestimated. This is also due to the late phase of the year, in which the majority of real money investors are already heavily invested with little scope to accordingly adjust their positions significantly. In terms of the spread, we would in any case view relative value aspects as the primary influencing factors. Overall, the pathway for interest rate cuts is also priced in for covered bonds, meaning that some investors are likely to react more to yield outliers. In the medium term, a normalisation of the yield curve will presumably bring the longer end back into focus, even for covered bonds – although we still see a need for some degree of repricing on the spread side.

26th Central European Covered Bond Conference in Budapest

The Hungarian Banking Association and the vdp have invited the Pfandbrief community to the 26th Central European Covered Bond Conference on 10-11 October. The 2024 edition of this event is set to take place at the Hungarian Central Bank in Budapest. We are looking forward to exciting discussions and panels, including on the topic of Article 31 of the Covered Bond Directive and a current assessment of the performance of the Covered Bond Framework, as well as on aspects such as the legal obstacles for issuers in relation to cross-border cover assets. We are sure that the selection of topics combined with many high-profile guests has all the ingredients for a successful event.

S&P publishes German Covered Bond Market Insights 2024

As part of their "German Covered Bond Market Insights" publication series, the rating experts from S&P recently provided a comprehensive overview of the German covered bond market and the national mortgage markets, in addition to offering projections with regard to potential market developments. With an issuance volume of EUR 26bn (as at 5 September 2024), the German covered bond market falls just short of the record years of 2022 and 2023. A large proportion of the new issues was recorded in the first quarter in particular, not least because of repayments due in connection with the expiration of the ECB purchase programmes. Primary market activity declined in the second and third quarters, leading the risk experts to conclude that issuance activities will be rather subdued over the remainder of the year, mainly due to current geopolitical risks and the US election in November. In terms of German banks' relatively high CRE exposure, S&P highlights initial signs of recovery. In addition, the rating experts have tested various covered bond programmes with CRE exposures of more than 40% and consider the cover pools to be stable even under higher stress scenarios.

EMF-ECBC and Climate Bonds announce partnership

The European Mortgage Federation – European Covered Bond Council (EMF-ECBC) and the Climate Bond Initiative (Climate Bonds) have announced that they are entering into a partnership aimed at promoting green investments, transparency and disclosure. In specific terms, the issuance of covered bonds that comply with the EU taxonomy is to be promoted. In terms of the details, three objectives have been agreed: 1. "Developing Best Practices" – establishing clear guidelines and standards in order to ensure that covered bonds comply with the strict requirements of the EU at the same time as promoting transparency and credibility in the market. 2. "Promoting Market Adoption" – supporting issuers to include concrete sustainability criteria in their covered bond programmes with a view to expanding the investment opportunities. 3. "Raising Awareness" – informing stakeholders such as investors, banks and political decision-makers about the benefits and opportunities offered by covered bonds aligned with the EU's sustainability goals. Sean Kidney (CEO of Climate Bonds) and Luca Bertalot (Secretary General of the EMF-ECBC) are both convinced that the partnership will help to facilitate the transition to a more sustainable financial sector and at the same time bolster the appeal and credibility of the covered bond as a financial tool.

Moody's: European CRE loans less risky than at the peak

In a recent report, the risk experts from Moody's state their view that current CRE loans are significantly more stable than debt issued at the peak of the real estate cycle in 2021 and 2022. This is mainly due to improved yields and stricter lending standards. Lenders continue to err on the side of caution when it comes to granting new real estate financing. At the same time, according to Moody's, CRE investment will gradually recover, with the focus here expected to be on sectors that promote digitalisation in particular. However, investments in new office or retail properties will tend to be limited to premium locations on account of trends towards working from home and online shopping. Overall, Moody's is upgrading the sector outlook for real estate funds and other CRE companies from "negative" to "stable" due to improved financing conditions as a result of falling interest rates. According to the rating experts, covered bonds secured by CRE assets are barely affected by higher-risk loans from the peak of the real estate cycle; at the same time, however, issuers have been looking to include a greater volume of new, lower-risk loans in their cover pools.

Market overview
SSA/Public Issuers

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

France set to breach EU deficit rules – Prime Minister Barnier sets out plans

Ongoing concerns surrounding the budget situation and national debt in France were fuelled further last week. As the new French Prime Minister Michel Barnier has announced, the country is set to breach the debt rules on the budget deficit in the next few years. According to projections, the head of government is not expecting to reduce the annual new debt to 3% of nominal gross domestic product (GDP) until 2029. The initial projection was to reach the target by 2027. As Barnier indicated in his speech to the National Assembly on 01 October, the budget deficit this year could come in above the 6% mark. The government had already warned two weeks ago that the deficit could be much higher in 2024 than the 4.4% projected by the previous administration. This reflected disappointing tax revenues and a rise in expenditure by local and regional authorities (cf. NORD/LB Public Issuers Special – Beyond Bundeslaender: Greater Paris [IDF/VDP]). As a first step, the government therefore intended to strive to limit the deficit in the coming budget year to under 5% of GDP. To that end, firstly spending would have to be cut and secondly, taxes for wealthy individuals and large corporations with "significant profits" would be increased. Worrying conditions in connection with France's budget have already prompted rating agency S&P to downgrade the country's rating (cf. weekly publication of 12 June). This in turn led to a veritable inundation of downgrades for the SSA segment, with rating downgrades for seven government-related issuers subsequently implemented. France will now have to present its draft budget for 2025 to the EU Commission by 15 October in order for the EU to verify compliance with its rules. Moreover, a seven-year plan for reforms and debt reduction will have to be analysed by the EU Commission by the end of October and then presented to EU finance ministers for approval. In addition, the EU Commission will deliver its own deficit-reduction recommendations to France and six other EU Member States in November in the context of the current disciplinary procedures.

KfW-ifo SME barometer: sentiment remains overcast

At the beginning of October, the German national development bank Kreditanstalt für Wiederaufbau (ticker: KFW) published the latest data from its KfW-ifo SME barometer. Sentiment among small and medium-sized enterprises in Germany was still trending downwards, according to the report. In September, sentiment among SMEs deteriorated for the fifth time in a row and is now down to -19.4 points, and therefore almost on a par with the height of the energy crisis in the autumn of 2022. Within the business sentiment index, the assessment of the current situation was down -2.5 points to -20.1 balance points. Business expectations for the next six months provided a small ray of hope: here, an increase of +1.1 points to -18.9 balance points was recorded. However, at that level, it seems that the expectations of the around 9,500 surveyed companies are still very downbeat about the future.

Berlin: budget status report forecasts higher deficit for the current year

Upon presentation by Stefan Evers, Berlin State Minister of Finance, the Senate of the German federal state of Berlin (ticker: BERGER) approved this year’s budget status report at its meeting on 01 October. As is clear from the press release, Berlin is likely to close the current budget year with a deficit of EUR -4.5bn. On the income side, results of the 2022 census together with a deterioration in framework conditions were expected to have an impact on tax revenues, leading to a shortfall in tax revenues of EUR -24m. Although sundry revenues incl. the capitalisation of assets were projected to be much higher than originally forecasted (EUR +342m), consumption-related spending was also EUR +1.8bn higher in total than initially projected. The latter mainly reflected high transfer expenditure between districts, increased costs for refugees and energy as well as the economic situation with its inflationary trend. According to forecasts, adjusted revenues in the current budget year would now be EUR +318m higher, while adjusted expenditure would be EUR +716m higher in relation to the first supplement to the draft budget for 2024. As such, the already high projected budget deficit of EUR -4.1bn would deteriorate by a further EUR -398m.

Rhineland-Palatinate: government draft for state budget 2025/26 approved

The cabinet of the German federal state of Rhineland-Palatinate (ticker: RHIPAL) has given the green light for the government’s draft for the dual budget 2025/26. The draft envisages adjusted revenues of EUR 24.2bn and EUR 25.1bn for the years 2025 and 2026 respectively. This would be offset by adjusted expenditures of EUR 25.2bn (2025) and EUR 25.5bn (2026). Out of the entire federal state budget, sums of EUR 770m in 2025 and of EUR 802.1m in 2026 are earmarked for digitalisation, among other aspects. In addition, next year a new investment programme amounting to EUR 200m is to be initiated in selected municipalities. In the dual budget, the size of the municipal financial equalisation scheme (KFA) in Rhineland-Palatinate would grow by around EUR +349m in relation to the 2024 budget and would therefore amount for the first time to a total in excess of EUR 4bn. A sum of EUR 1.2bn would be drawn from reserves in 2025, but there would be no recourse to reserves in 2026. The overall analysis showed net repayment of EUR 247.5m in the capital market in 2025. In 2026, the budget envisages net borrowing of EUR 363m in the capital market. The requirement for a structurally balanced budget would therefore be met with the government bill for the next two years. “Drawing up the dual budget for 2025 and 2026 is taking place under challenging conditions. The road towards climate neutrality, economic and social digitalisation along with demographic changes is not only having an impact on the life of each and everyone of us; the work which lies ahead will also be a major challenge for the way in which the state budget is drawn up. This draft budget shows that the financial policy of Rhineland-Palatinate can work. Citizens and businesses in the federal state can rely on the following: We will get to grips with the tasks in front of us and will adapt to the social and economic changes associated with this challenge”, as Alexander Schweitzer, Minister President of the sub-sovereign, Finance Minister Doris Ahnen, Family Minister Katharina Binz and Minister of Economic Affairs Daniela Schmitt commented in the wake of the cabinet meeting.

Quebec publishes report covering the first quarter 2024/25

Last week, the Canadian province of Quebec (ticker: Q) published its report for Q1 of 2024/25. As a reminder: the budget year in Canada ends on 31 March of each year. In the following, we summarise the main results of the report: after stagnation in 2023 (+0.2%), economic growth is slowly picking up momentum again. In the first two quarters of 2024, real GDP in Quebec grew by +0.7% against the same period last year. In addition, inflation has slowed down significantly since the beginning of 2024 and reached 1.5% in August 2024 (Y/Y, Canada: 2%), its lowest level since January 2021. Despite the economic recovery in evidence since the beginning of 2024, the labour market is muted: there were only 11,600 new jobs created between August 2023 and August 2024 (+0.3%). Meanwhile, unemployment has risen from 4.4% to 5.7% during the same period, although it is still among the lowest rates in comparison with other Canadian provinces (6.6% in Canada). Quebec has reported a budget deficit of CAD -2.6bn (equivalent to EUR -1.8bn) for the first three months of the year 2024/25. This corresponds to a deterioration of CAD -2.0bn in total against the same period of the previous year. This is said to mainly reflect the following factors: above all, a rise in costs for healthcare, social services and education led to an +8.5% (Y/Y) increase in spending to a total of CAD 39.1bn. Revenues only grew by +2.9% to CAD 36.9bn. In turn, this increase mainly reflects higher tax revenues on the back of the positive economic trend, according to the report. In addition, Quebec has already been active twice in the EUR benchmark segment in the capital market in 2024, raising total fresh funds of EUR 3.5bn (10y and 15y). For further information, please refer to our NORD/LB Issuer Guide – Canadian Provinces & Territories 2024.

Primary market

The past trading week in our analysis of the SSA primary market was characterised by a noticeable drop in issuance activity. Only the European Investment Bank (ticker: EIB) went to investors with a five-year benchmark worth EUR 4bn in the context of its EARN programme. After announcing initial guidance of ms +18bp area at the beginning of the marketing period, the issue was finally priced two basis points tighter at ms +16bp on the back of strong demand with an order book to match of EUR 23bn. This is the sixth and, according to the issuer, at the same time the EIB's last new EARN issue this year. As part of the European Union's (ticker: EU) third syndicated transaction in H2/2024 (cf. funding plan), the European Union was active with a dual tranche in the form of two taps: The shorter-dated EU 2.875% 06/12/2027 was tapped by EUR 5bn at ms +11bp (order book: EUR 81bn), while the longer-dated EU 3.375% 04/10/2039 was tapped by EUR 6bn at ms +66bp (order book: EUR 85bn). In the near future, we also have seven mandates on the list, including, we are pleased to report, the first fresh ESG deals from the German Laender segment in 2024: BADWUR (EUR BMK, green), NRW (EUR BMK, sustainability), KFW (EUR 3bn, WNG, 7y), FLEMSH (EUR BMK, 5y), IDAWBG (EUR BMK, 10y, sustainability) along with (from outside our regular coverage at present) the Japanese issuers JBIC (EUR 500m, WNG, 6y, green, guidance: ms +35bp area) and TOKYO (expected: EUR 300m, 3y or 5y, sustainability).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EIB	SNAT	02.10.	EU000A3L4C16	5.2y	4.00bn	ms +16bp	AAA / Aaa / AAA	-

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

Covered Bonds
A look at the CEE covered bond market

Authors: Alexander Grenner // Lukas Kühne

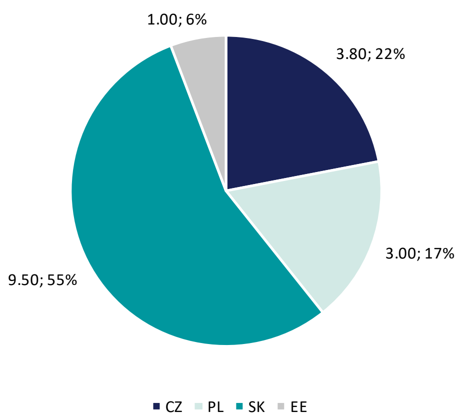
Covered bond markets of Central and Eastern Europe

Not least in view of the 26th Central European Covered Bond Conference, which is set to take place in Budapest on 10 and 11 October (cf. Market Overview) and the recent EUR benchmark issue from Tatra Banka (Slovakia), it seems to be a good time to dedicate this article in our weekly publication to take a closer look, once again, at the covered bond markets of the Central and Eastern Europe (CEE) region. Our analysis will look more broadly at Slovakia (SK), Czechia (CZ), Poland (PL), the Baltic States (Estonia [EE], Latvia [LV] and Lithuania [LT]) along with Hungary (HU) and Romania (RO), while we shall also discuss potential new markets for EUR issues.

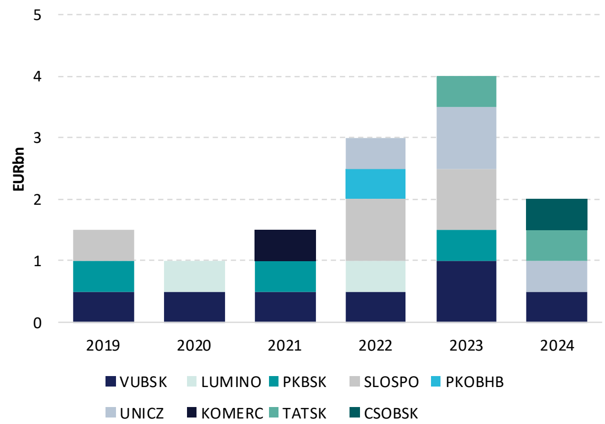
EUR BMK: primary market CEE countries

In the last few years, Slovakia has developed into the most active jurisdiction in the region. In addition, there were repeated new issues from Czechia. Poland and Estonia are also represented in the EUR benchmark segment; at present, SK, EE and CZ are represented in the iBoxx EUR Covered. Until just a few years ago, Hungary still had outstanding EUR benchmark bonds. However, they matured some years ago. Further jurisdictions, including Latvia and Romania, also have a covered bond framework, although they have never yet been active in the EUR benchmark market. The CEE region's EUR benchmark segment is currently split between four countries. As we have already mentioned, Slovakia is the most active EUR benchmark jurisdiction at present with an outstanding volume of EUR 9bn. It is followed by Czechia at EUR 3.8bn, just ahead of Poland with EUR 3bn. Estonia is in fourth place with EUR 1bn. The fact that countries such as Czechia and Poland have less outstanding than Slovakia is only surprising at first glance since both countries, apart from issues in euro, can always fall back on their home currency, namely the Czech koruna (CZK) and Polish zloty (PLN). Slovakia currently has the most (five) active BMK issuers, followed by Czechia (2), Poland (1) and Estonia (1).

Country split EUR BMK (EURbn)



EUR benchmark issuers from the CEE region



Source: Market data, NORD/LB Floor Research

EUR SBMK: entry-level segment for issuers eyeing full benchmark status?

The EUR sub-benchmark segment is only served by four banks from the CEE countries. From Estonia, LHV Pank has only been active in the market once so far – in 2020 (EUR 250m), although it has lately begun to prepare for a new deal (cf. Market Overview again) - also in the amount of EUR 250m. The only Polish bank to get involved in the EUR sub-benchmark market is mBank Hipoteczny. In Slovakia, there are two issuers, namely Slovenska Sporitelna and Tatra Banka, which are active in both the benchmark and the sub-benchmark segment. Both used their inaugural deals in the market for EUR sub-benchmarks as a sort of gateway to the market and have subsequently only been active in the market with benchmark-size issues for publicly placed EUR deals.

Overview: EUR benchmark and sub-benchmark issuers in the CEE region

Issuer (*Link*) *(as of 30 June 2024)*	**Country**	**BMK/ SMBK**	**Cover pool volume** (EURm)	**Amount outstand-ing** (EURm)	**OC (in%)**	**EUR BMK volume** (EURbn)	**Type**	**LCR level / Risk weight**	**Covered bond rating** (Fitch / Moody's/ S&P)
Komercni Banka	CZ	BMK	628.9	505.2	24.5	0.50	SB	1 / 10%	AAA / - / -
UniCredit Bank CZ	CZ	BMK	7,542.1	4,450.2	69.5	2.00	SB	1 / 10%	- / Aa2 / -
LHV Pank	EE	SBMK	676.0	500.0	35.2	0.25	SB	2A / 10%	- / Aa1 / -
Luminor Bank	EE	BMK	3,130.1	1,750.0	78.9	1.00	SB	1 / 10%	- / Aa1 / -
mBank Hipoteczny	PL	SBMK	1,958.4	1,430.1	36.9	0.60	SB/CPT	2A / 10%	- / Aa1 / -
PKO Bank Hipoteczny	PL	BMK	3,673.0	1,559.0	135.6	0.50	SB/CPT	1 / 10%	- / Aa1 / -
Ceskoslovenska Obchodna Banka[1]	SK	BMK	784.8	650.0	20.7	0.50	SB	1 / 10%	- / Aaa / -
Prima Banka	SK	BMK	3,915.0	3,000.0	30.5	1.50	SB	1 / 10%	- / Aaa / -
Slovenska Sporitelna	SK	BMK/SBMK	5,771.8	4,151.4	39.0	2.50	SB	1 / 10%	- / Aaa / -
Tatra Banka	SK	BMK/SBMK	2,278.2	1,885.0	20.9	0.50	SB	1 / 10%	- / Aaa / -
Vseobecna Uverova Banka	SK	BMK	4,758.3	4,300.7	10.5	3.50	SB	1 / 10%	- / Aa1 / -

Source: Market data, NORD/LB Floor Research

[1] Data from 31 March 2024

Is anything happening beyond the EUR benchmark and sub-benchmark markets?

Apart from the jurisdictions with outstanding EUR-denominated covered bonds already mentioned, we would also like to mention four further CEE countries which are not currently active in the market with EUR bonds. In this context, we propose to look briefly at the covered bond jurisdictions of Hungary, Latvia, Lithuania and Romania. At the same time, we should point out that all four covered bond frameworks were either adjusted or implemented in the wake of the implementation of the EU Covered Bond Directive and that they meet the European minimum standard.

Hungary: Mortgage Funding Adequacy Ratio favours covered bond issues

In our view, the jurisdiction of Hungary has been on the cusp of a EUR transaction in the benchmark or sub-benchmark segment for some years now. This is justified not least by the fact that, although the bulk of mortgages are still funded through deposits, there is nevertheless a clear uptrend in wholesale funding. Covered bonds now account for over 30% of refinancing of residential mortgages. This reflects not least a ratio imposed by the National Bank of Hungary (Mortgage Funding Adequacy Ratio), which stipulates that at least 25% of all outstanding residential mortgages must be funded by mortgage bonds. Hungarian covered bond issuers mainly have recourse to their domestic currency, the forint (HUF), and, at the end of 2023, had the equivalent of EUR 5bn in outstanding covered bonds. Moreover, in December 2023, OTP Bank opted to place a EUR 500m bond, which is not included in the EUR iBoxx Covered index in view of the terms and conditions of the issue. Nevertheless, this can be seen as a sign that the eastern European jurisdiction could potentially be ready to make a real comeback in EUR.

Latvia, Lithuania and Romania as potential markets?

Latvia has only had a covered bond framework which meets the requirements of the EU directive and is CRR compliant since 2021. So far, there have been no issues from Latvia. In Lithuania, the covered bond framework also complies with the Covered Bond Directive and EU harmonisation requirements. A number of market participants are hoping for some potential for Lithuania to pass the test on the international covered bond markets through the creation of a pan-Baltic covered bond market. In this context, the issuance potential of individual issuers would, among other aspects, be enhanced through the fact that cover pools could consist of assets domiciled in Estonia, Lithuania and/or Latvia. The underlying idea should help comparatively smaller issuers and jurisdictions to reach critical mass. As regards the jurisdiction of Romania, we also see chances of future EUR transactions in public format. After all, as far back as 2019, there was already a EUR 200m private placement which was issued under Alpha Bank Romania's Global Covered Bond Programme with a volume of EUR 1bn.

Poland: specific feature of the legislation with regard to maturity structure

In the following, we look at selected features that are specific to individual covered bond jurisdictions active in the market for publicly placed EUR deals, starting with Poland. As we have already mentioned, Polish issuers prefer their own currency, the zloty, for new covered bond issues. So far, only PKO Bank Hipoteczny has been active in the EUR benchmark segment. A specific feature of the Polish legislation relates to the option to extend the maturity of a bond, which can be described as a hybrid of soft bullet and CPT structure. Covered bonds which cannot be serviced at their maturity date are initially extended for 12 months. Subsequently, tests are carried out at six-month intervals to see if there are sufficient assets and liquidity to meet investor claims. Should this not be the case, then once the 12-month period has come to an end, the bond transitions to a CPT structure. However, this can be prevented with a two-thirds majority of investors. Moreover, in 2022, there was a change in relation to the type of interest on mortgage loans. Whereas in the past variable rates were the norm in Poland, there are now mostly fixed-rate mortgages.

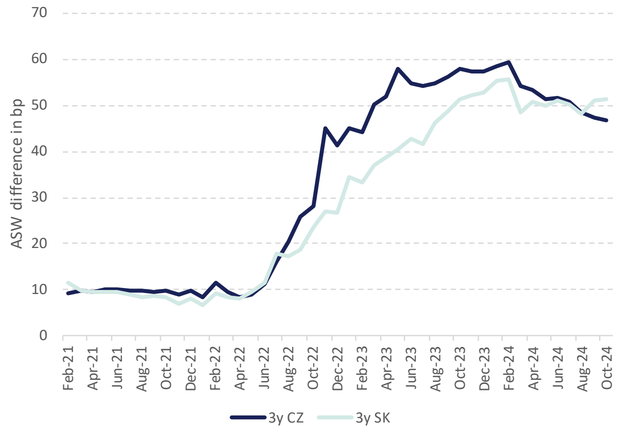
Slovakia: long mortgage loans and high loan-to-deposit ratios

The Slovakian mortgage market is also dominated by fixed-rate products; variable rates are almost non-existent. Fixed rates for a period of between three and five years are the norm in the case of over 90% of new mortgage loans. On the other hand, 26 years is the average when it comes to the term of the mortgages. More than half of residential mortgages have an initial term of 30 years, while less than 17% have a term of 20 years or less. The trend for longer mortgages has been in evidence for some years now. Another common feature of the Slovakian mortgage market is a high proportion of loans granted by financial advisers. In 2023, they accounted for 64% of the total lending volume. This trend is viewed critically by the Slovakian central bank, since loans brokered by financial advisers are riskier and more expensive for customers. As regards the banks, loan-to-ratio deposits are definitely on the high side (on average 107% in 2023). However, this is still regarded as appropriate since banks can adequately refinance using covered bonds. Covered bonds should therefore remain an important refinancing avenue for Slovakian banks.

Czechia: mortgage loans on the rise again after marked downturn

The Czech mortgage market was hit especially hard by the sharp, inflation-driven rise in interest rates in 2022. The number of new mortgages issued slumped by 25%, before picking up again slowly in 2023. Prospects for an initial monetary policy easing led to the first cut in long-term interest rates at the beginning of 2024 and to an increase in the issue of new mortgage loans. The government is trying to support Czech households in the implementation of new energy-saving measures with the help of the New Green Savings Program. The programme is funded from the trade of emissions certificates and, among other things, subsidises the construction or sale of low energy-consumption buildings or the use of renewable energies for heating buildings. In the Czech mortgage market, the three biggest banks jointly hold 75% of the country's entire mortgage loan portfolio. To date, however, only UniCredit Bank CZ has issued EUR-denominated covered bonds in benchmark format, a fact which reflects the preference for the domestic currency already mentioned earlier. In future, however, we expect further growth in this area with the odd potential newcomer.

ASW spreads: CZ and SK (3y; generic)



ASW spreads: EE and PL (3y; generic)

Source: Bloomberg, NORD/LB Floor Research

Conclusion and outlook

The picture in the CEE market is very disparate. Whereas Czechia, Hungary or even Poland prefer to issue in their own currency since they do not belong to the eurozone, Slovakia is increasingly active in the market for EUR benchmarks. The recent new issue from Tatra Banka and this year's debut by Ceskoslovenska Obchodna Banka point towards a growing market which now has five active benchmark issuers. On the other hand, banks from smaller jurisdictions such as Estonia also remain active and regularly use covered bonds as a funding vehicle. In our view, it is only a question of time before issuers from Hungary dip their foot into the EUR-denominated covered bond market. Falling interest rates are presently contributing to a recovery in the mortgage lending markets and simultaneously leading to a greater funding requirement by banks, which should support growth in the eastern European covered bond markets in the near future. We believe that such a trend should also be welcomed from an investor point of view, and not just because of spread premiums against core jurisdictions.

SSA/Public Issuers
NGEU: Green Bond Dashboard

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

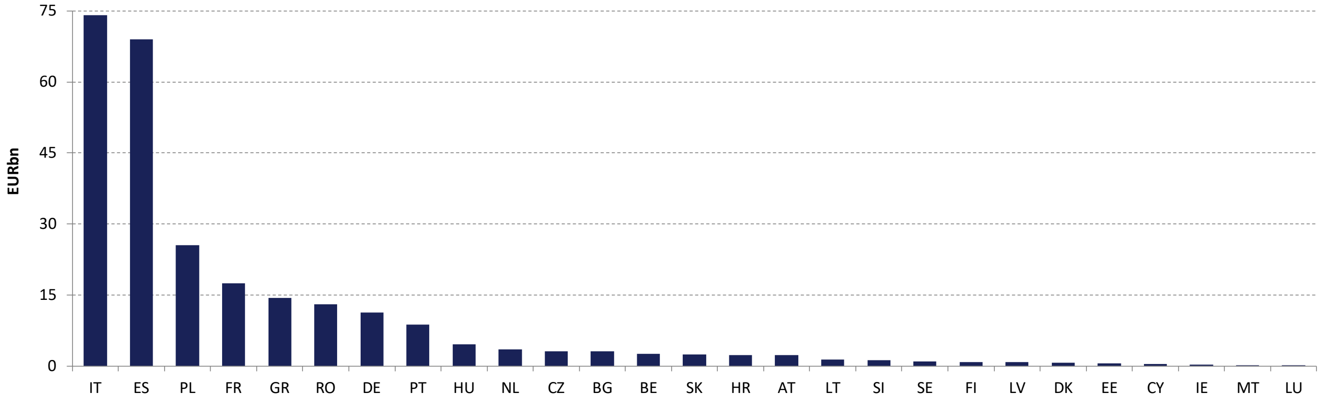
Introduction

In 2022, the European Union launched its NextGenerationEU Green Bond Dashboard. It provides transparent insights into sustainable investments made and those planned as part of the Recovery and Resilience Facility (RRF). Green bonds worth almost EUR 65.2bn in total have been placed to date under the NextGenerationEU programme (NGEU). The European Commission stated that of the proceeds raised, some EUR 43.1bn so far have been invested in the Member States. These figures might seem rather sobering and not just at first glance. Based on the expenditures reported to date in connection with the approved national recovery and resilience plans of the various EU Member States, a total of EUR 265.6bn is eligible for inclusion in the pool of green bonds financing in the period up to the end of 2026. The highest share by far has been recorded for Italy at EUR 74.1bn, closely followed by Spain at EUR 69.0bn.

NGEU review

We will start with a brief review of the NGEU programme, which was adopted by the European Council as a stimulus package in the wake of the onset of the COVID-19 pandemic in 2020. It comprises a volume of just over EUR 800bn (at current prices). The aim of the package is for the EU to emerge stronger from the pandemic, transform national economies within the Member States as well as create job opportunities. The above-mentioned Recovery and Resilience Facility represents the core element of NGEU and comprises a total volume of EUR 723.8bn. It is used to provide loans (of up to EUR 385.8bn, repayable by the relevant Member States) and grants (of up to EUR 338bn). The remaining amount of EUR 83.1bn is to be used to finance key projects of the EU. New sources of revenue, divided into three pillars, are also used to support the EU budget: Emissions trading, Carbon Border Adjustment Mechanism (CBAM) and residual profits of multinational companies. The remaining volume of EUR 83.1bn is to be used for key EU projects.

Eligible investments for NGEU green bonds by jurisdiction according to recovery and resilience plans



Source: EU, NORD/LB Floor Research

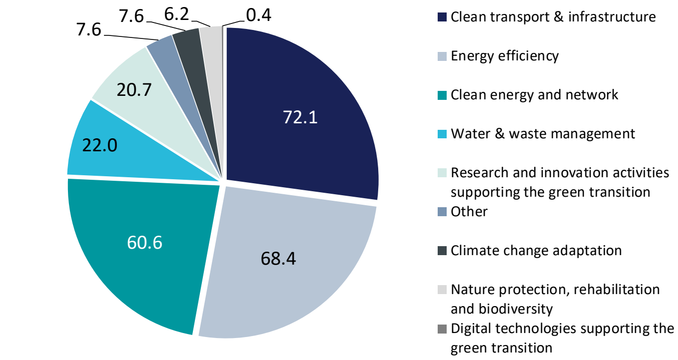
Recovery and Resilience Facility

The RRF came into force in February 2021 and is a temporary financing tool. It enables the European Commission to make funds available to its Member States for financing reforms and investments that are in line with the EU's priorities. The dual objective pursued on the basis of the facility covers the EU's intention to be climate neutral by 2050 as well as the introduction/further advancement of a digital transformation in the EU. To receive RRF funds, Member States must submit plans for investments and reforms which both promote national economic recovery and strengthen social resilience. Countries may be granted financial means up to a specified amount based on forecasts. Last year, the number of approved recovery and resilience plans (RRP) rose to 27 and consequently now encompasses all EU Member States. The above chart reflects this. Green bond eligible investments were only anchored in Hungary's amended recovery plan at the end of 2023. For this reason, the country was not yet included in our review of the Green Bond Dashboard last year. In principle, specific targets apply to the RRP: these include that 20% of the planned expenditure is to be allocated to digital measures and 37% to green measures. Combined, the approved RRP actually go beyond these figures: at 26% and 40% respectively, both the share of expenditure on the digital transformation and that on measures contributing to climate objectives exceed the specified targets. The facility is based on a total of six elements:

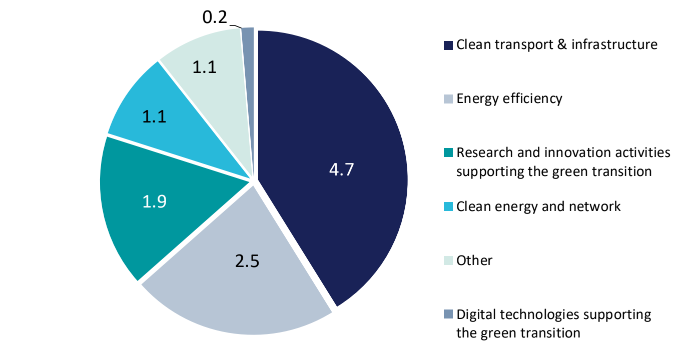
- Green transition
- Digital transformation
- Smart, sustainable and inclusive growth
- Social and territorial cohesion
- Health and economic, social and institutional resilience
- Policies for the next generation

The RRF is performance-based, which means that the European Commission only pays out the relevant amounts to countries in the form of tranches when they have achieved the agreed milestones and targets towards completing the investments and reforms included in their respective national RRP. As soon as the European Commission has approved an RRP, relevant loans are agreed with the Member State. Once agreements have been signed, countries then receive up to 13% of the relevant amount in prefinancing – within two months "where possible". An assessment of the previously defined milestones is subsequently carried out up to twice a year. If the milestones have been achieved, the next payment is disbursed at the relevant Member State's request. If the European Commission concludes that not all milestones and targets have been fulfilled satisfactorily, it may only make a partial payment. The relevant country then has six months in which to take the necessary measures for achieving the specific milestone. If the country fails to achieve it within the prescribed period of time, the European Commission may reduce the total amount of financial support. However, the member state may also decide that objective circumstances make it impossible to achieve the specified milestones and targets. In this case, there is the option of presenting a revised plan to the European Commission for approval.

Breakdown of green bond-eligible investments by category (EURbn)



Germany: green bond-eligible investments according to the RRP (EURbn)



Source: EU, NORD/LB Floor Research

The German recovery and resilience plan

The RRP Germany presented was first approved on 13 July 2021 and revised versions then on 14 February 2023, 8 December 2023 and 16 July 2024. The plan provides for grants amounting to EUR 30.3bn. Of this, at least 49.5% is earmarked for climate objectives and 47.5% for the digital transformation. Germany has applied for less than Romania or Greece, for example, and is in seventh place in terms of the highest amounts requested by Member States. We have continually criticised this fact since 2021. In a study conducted on behalf of Germany's Federal Ministry of Finance in 2021, the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung, DIW) projected that the country's GDP in real terms for 2040 could be 1.9% higher as a result of measures outlined in Germany's RRP, assuming that all other conditions remain the same, and additionally, up to 230,000 new jobs may be created. However, at the time of the study, the war in Ukraine, interest rate hikes and inflation, for example, had not yet happened. According to the study, Germany does not just benefit from its national RRP. In view of the expected economic upswing in other member states – as a result of the NGEU programme – an increase in exports is expected with the associated spillover effects that in turn would boost economic growth. In detail, Germany's national plan in respect of the green transformation, for example, specifies EUR 3.7bn for decarbonising the economy – industry, in particular – with a focus on developing a powerful hydrogen economy along the entire value chain. An amount of EUR 7bn is indicated for a more sustainable transport sector, especially in terms of electric vehicles, both cars and public transport. Furthermore, an amount of EUR 6.2bn is to be spent on a large-scale renovation programme to increase the energy efficiency of residential buildings. Regarding the digital transition, an amount of EUR 1.5bn, for example, is earmarked for a Europe-wide initiative in the area of microelectronics and communications technology. An additional EUR 750m is to be invested in another pan-European project involving cloud infrastructure and services. The plan also specifies EUR 2.5bn for the digitalisation of public services in accordance with the German Online Access Act (OZG). Regarding green bond eligible funds, the plan specifies that of the total amount of EUR 30.3bn, EUR 11.3bn may be financed on the basis of green bonds. In this respect, the highest share is attributable to the category of clean transport and infrastructure at EUR 4.7bn (41%). An amount of EUR 2.5bn (22%) is allocated to the energy efficiency category, followed by research and innovation activities supporting the green transition at EUR 1.9bn (16%). In the categories of clean energy, digital technologies and "other" an aggregated volume of EUR 2.3bn (20%) can be financed via green bonds.

Green bond proceeds: largest investments in green transport and infrastructure

Considering all investments eligible for inclusion with regard to green bonds, clean transport and infrastructure is ahead by a considerable margin. This category accounts for EUR 72.1bn of the total green bond eligible investments amounting to EUR 265.6bn. The next biggest area is energy efficiency at EUR 68.4bn. Investments totalling EUR 60.6bn are planned for clean energy, followed by EUR 22.0bn for water and waste management. The other, no less important, categories share the remaining amount of EUR 42.5bn. Overall, a clear trend is emerging: Europe intends to become greener and more sustainable, especially regarding travel and transport. Unsurprisingly, one Member State is taking the lead here: of Italy's green bond eligible investments totalling EUR 74.1bn, almost 39% (EUR 28.9bn) is allocated to clean transport and infrastructure.

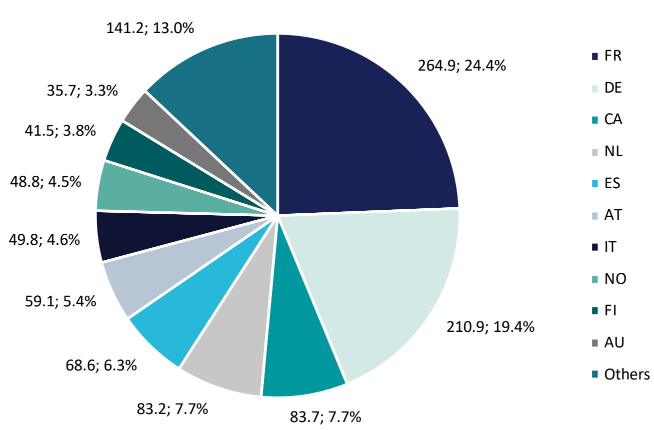
Conclusion and outlook

Without doubt, the NGEU programme with a volume in excess of EUR 800bn will go down in the history books. To better illustrate its size, the total amount surpasses the Marshall Plan of 1948 many times over. Similar to that plan – although this admittedly is a slightly imperfect comparison – the focus of the NGEU programme is on economic recovery. While no cities are in ruins in the EU Member States, the impacts of the COVID-19 pandemic and energy (price) crisis on national economies are undeniable. The EU has logically combined the necessary (economic recovery) with the beneficial (climate action and digital transformation). Fulfilling the terms of the Paris Agreement on climate change is a cross-border challenge. It is even more desirable for the EU to steer investments into green and sustainable projects via its NGEU programme. This has also been accepted by the EU Member States, and specified investment targets in respect of climate objectives and the digital transition are exceeded. Yet, we would have hoped for a higher figure when it comes to Germany's national recovery and resilience plan. Our readers in Germany are probably aware of plenty of situations and places in which an expansion of the digital or transport infrastructure is required. In terms of a couple of examples, just think of the need to digitise the systems of public authorities or the shocking moment when part of a bridge in Dresden collapsed in September this year. We doubt that the planned expenditure will be enough to implement adequate and above all cutting-edge infrastructure. Nevertheless, the EU's transparency regarding the use of proceeds should be praised. For this purpose, we published the NGEU Green Bonds Allocation and Impact Report for the first time in December 2023 with the aim of providing up-to-date information on the allocation of green bond proceeds as at the reference date of 01 August 2023 and presenting the impacts of the investments financed by means of green bonds. As a major and, in terms of volume, the most important issuer of (both traditional and green) bonds included in our coverage, this is the right way to remain attractive to investors in the capital market.

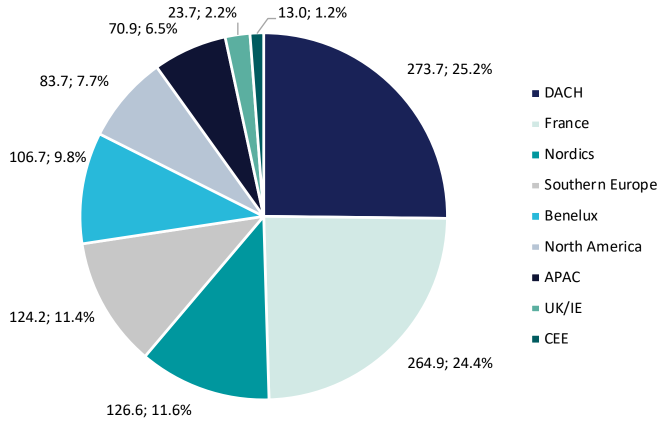
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



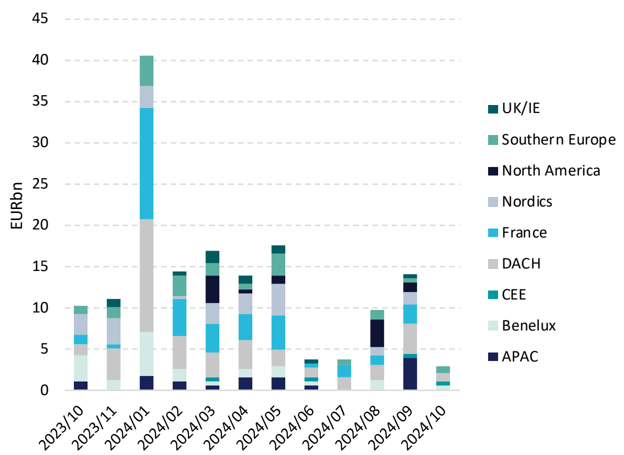
EUR benchmark volume by region (in EURbn)



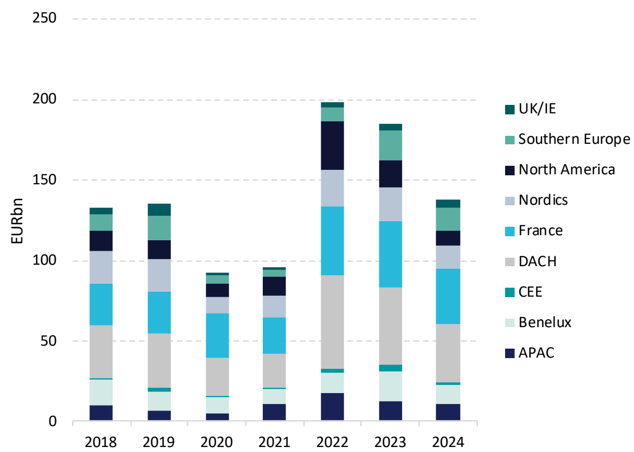
Top-10 jurisdictions

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	264.9	254	27	0.98	9.3	4.7	1.46
2	DE	210.9	298	44	0.65	7.8	3.9	1.51
3	CA	83.7	61	1	1.35	5.5	2.6	1.45
4	NL	83.2	85	3	0.92	10.3	5.8	1.37
5	ES	68.6	54	5	1.15	11.1	3.2	2.17
6	AT	59.1	99	5	0.59	8.1	4.2	1.54
7	IT	49.8	64	5	0.76	8.5	4.0	2.01
8	NO	48.8	59	12	0.83	7.2	3.5	1.10
9	FI	41.5	47	4	0.87	6.9	3.4	1.74
10	AU	35.7	33	0	1.08	7.1	3.2	1.83

EUR benchmark issue volume by month



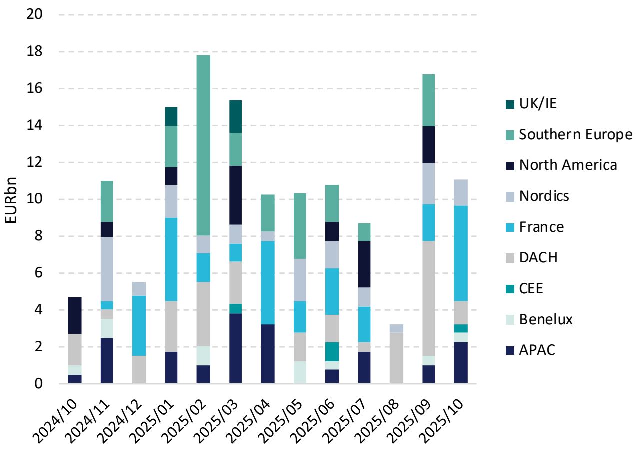
EUR benchmark issue volume by year



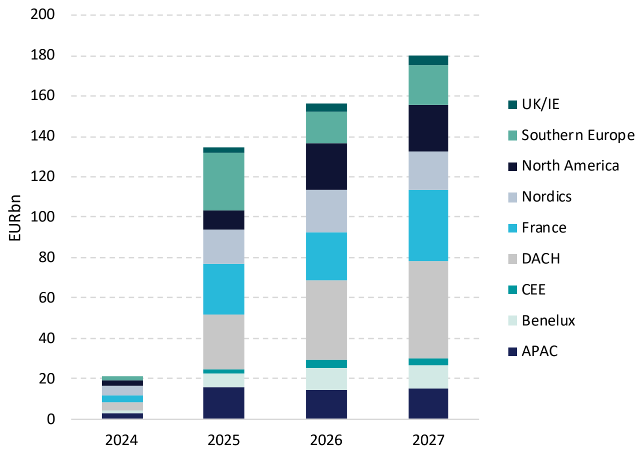
Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

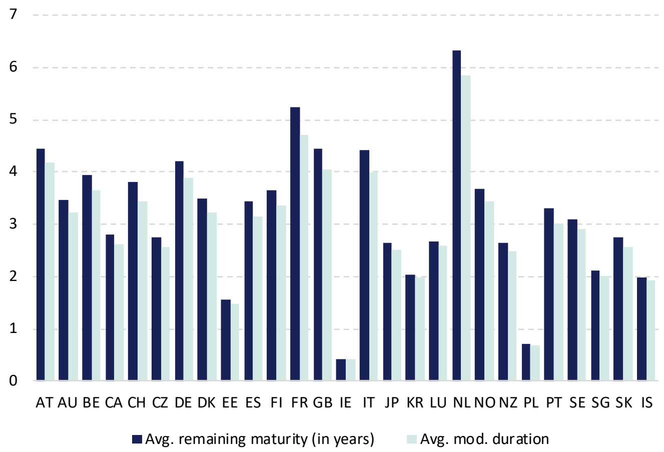
EUR benchmark maturities by month



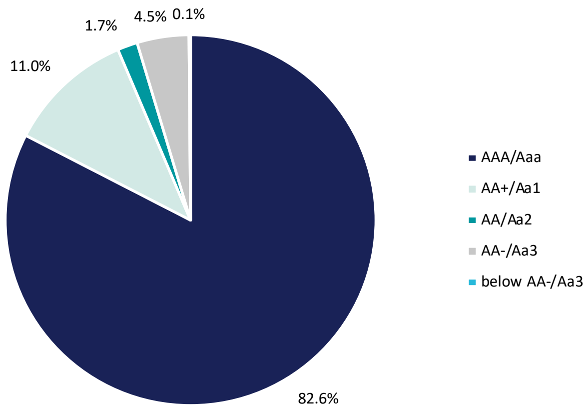
EUR benchmark maturities by year



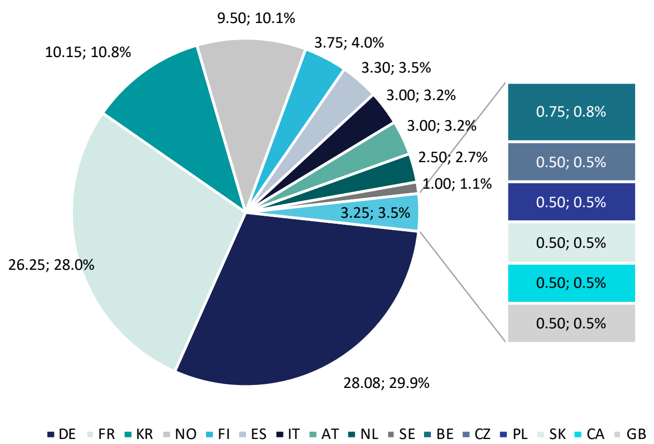
Modified duration and time to maturity by country



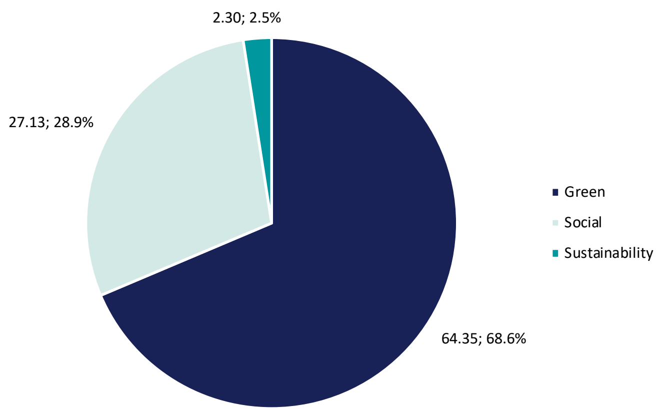
Rating distribution (volume weighted)



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



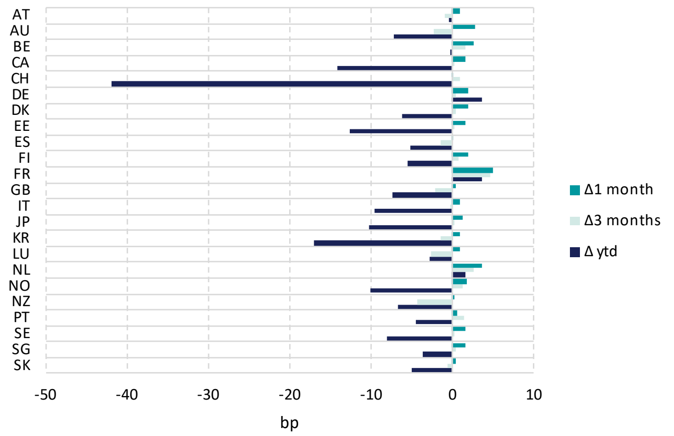
EUR benchmark volume (ESG) by type (in EURbn)



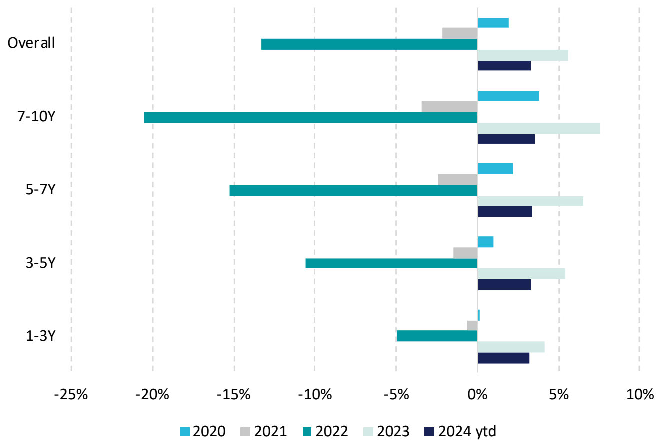
Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

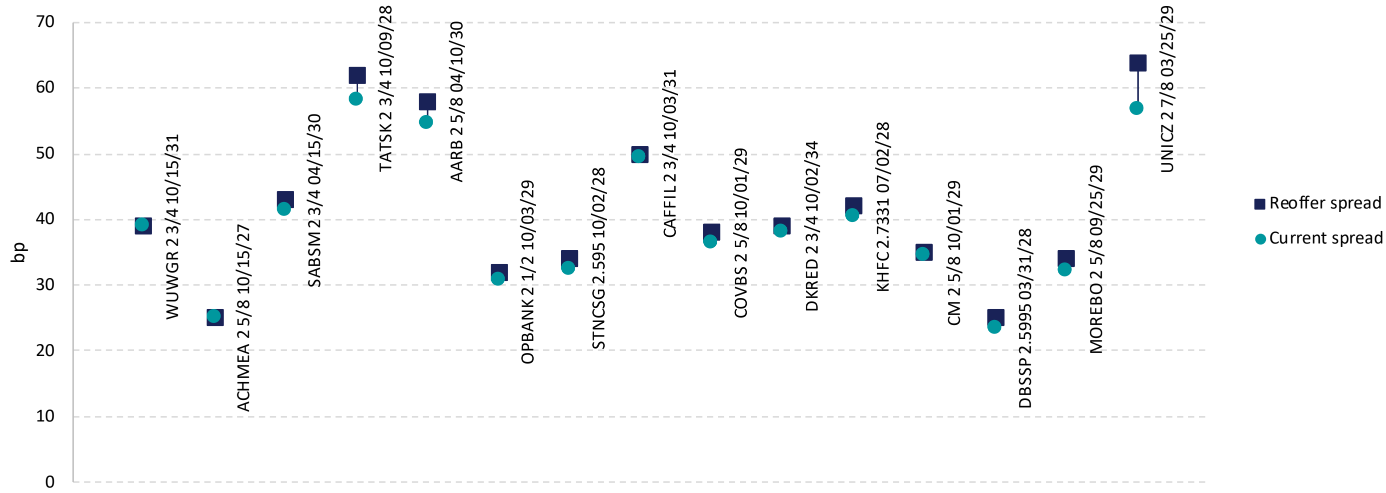
EUR benchmark emission pattern



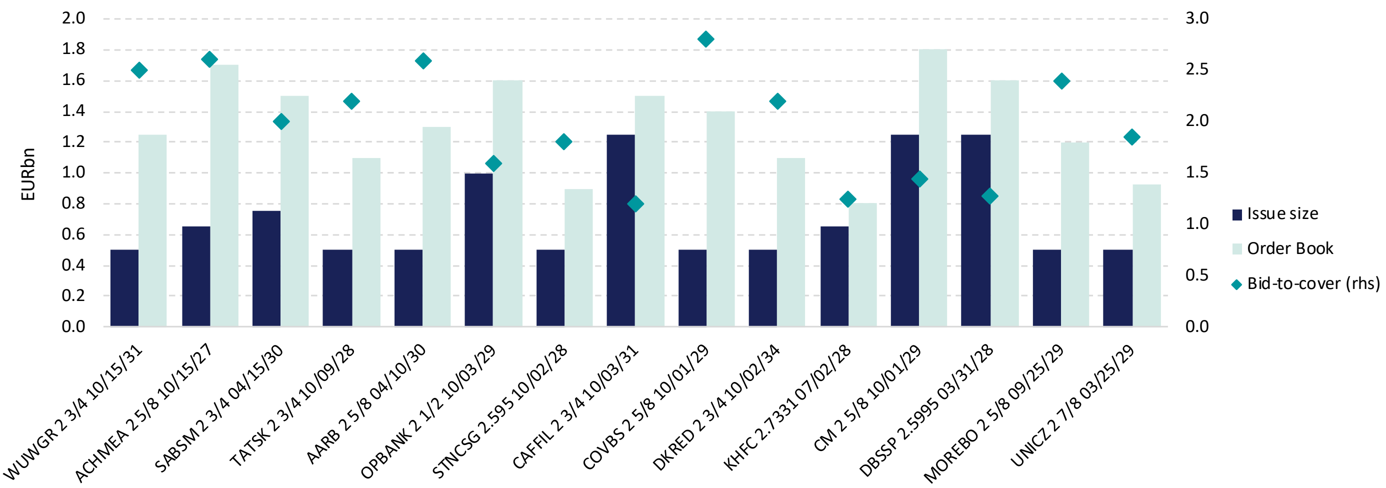
Covered bond performance (Total return)



Spread development (last 15 issues)



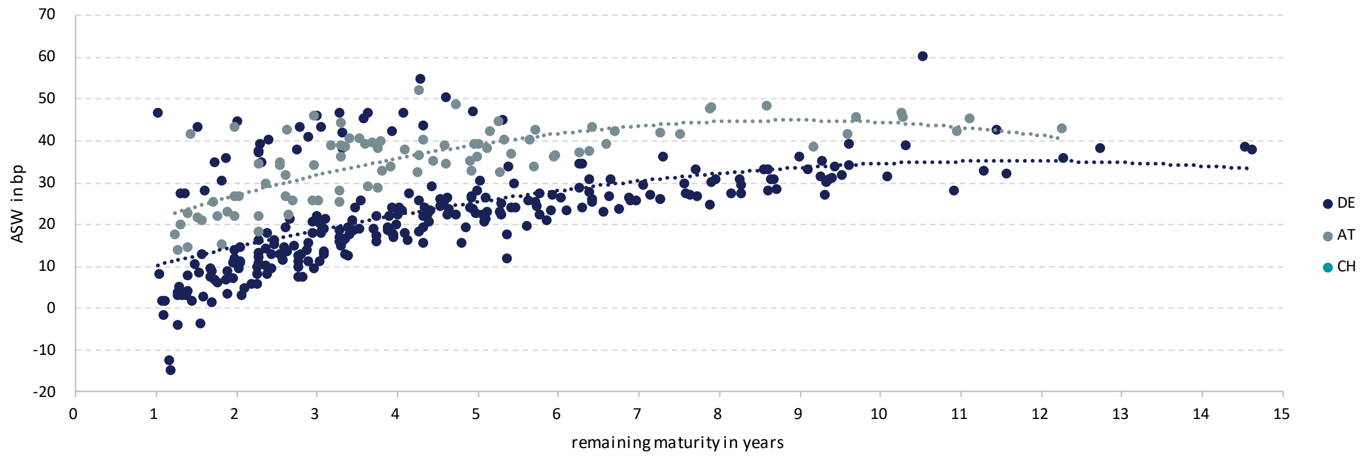
Order books (last 15 issues)



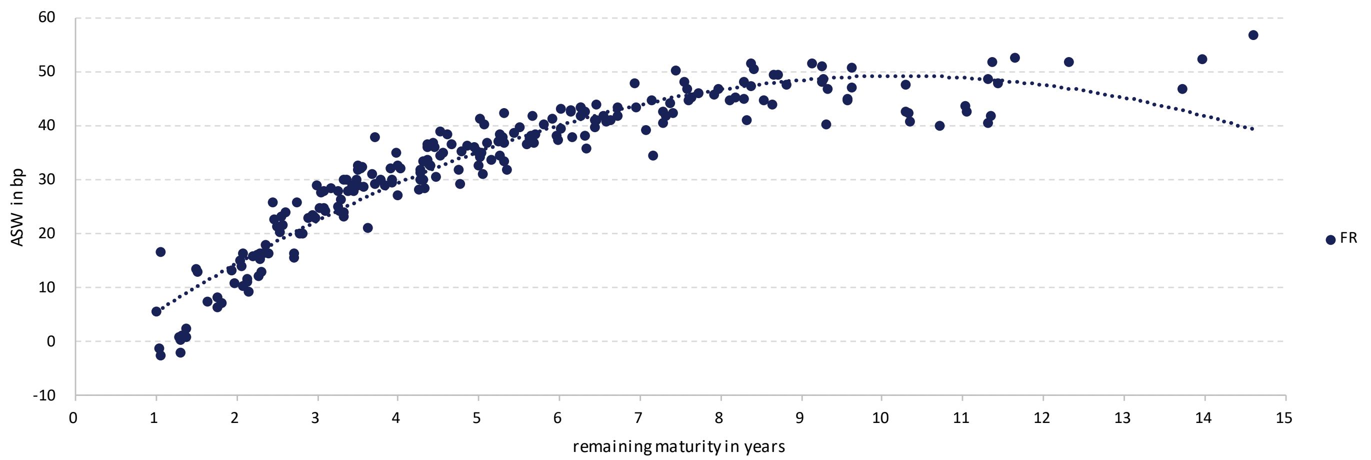
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

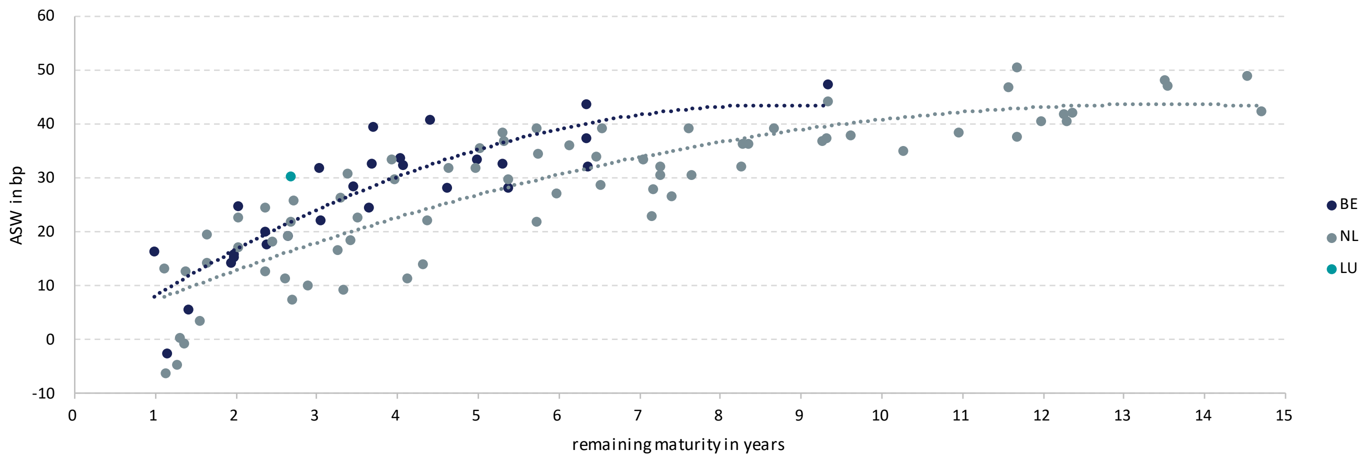
DACH



France

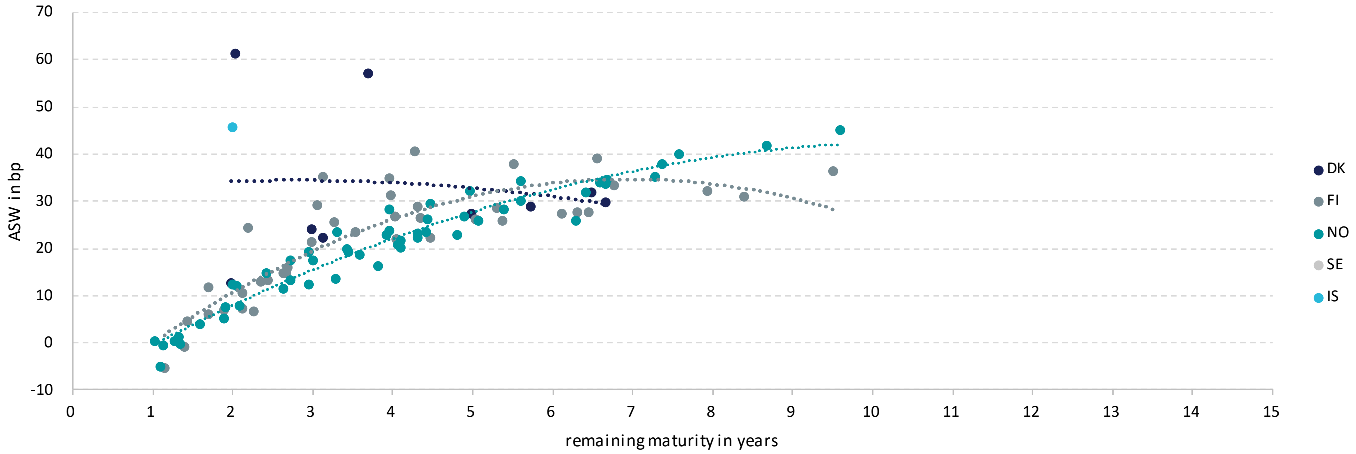


Benelux

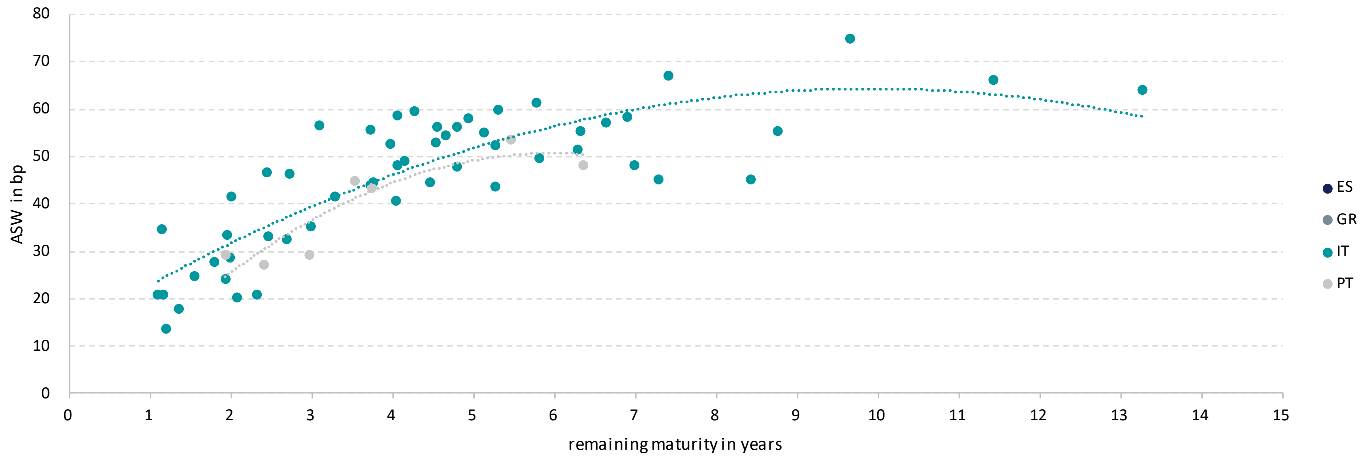


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

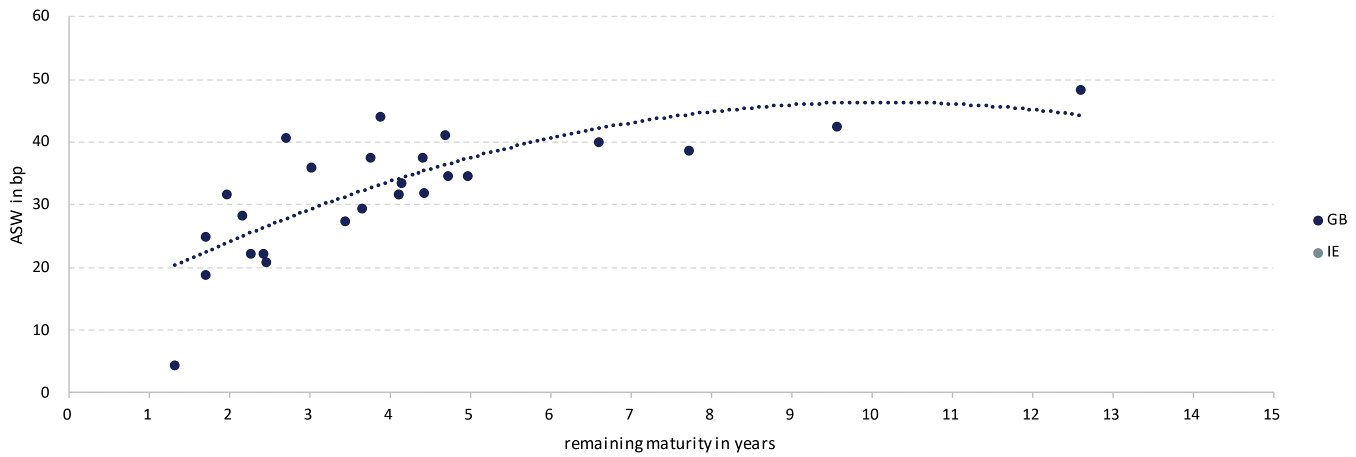
Nordics



Southern Europe

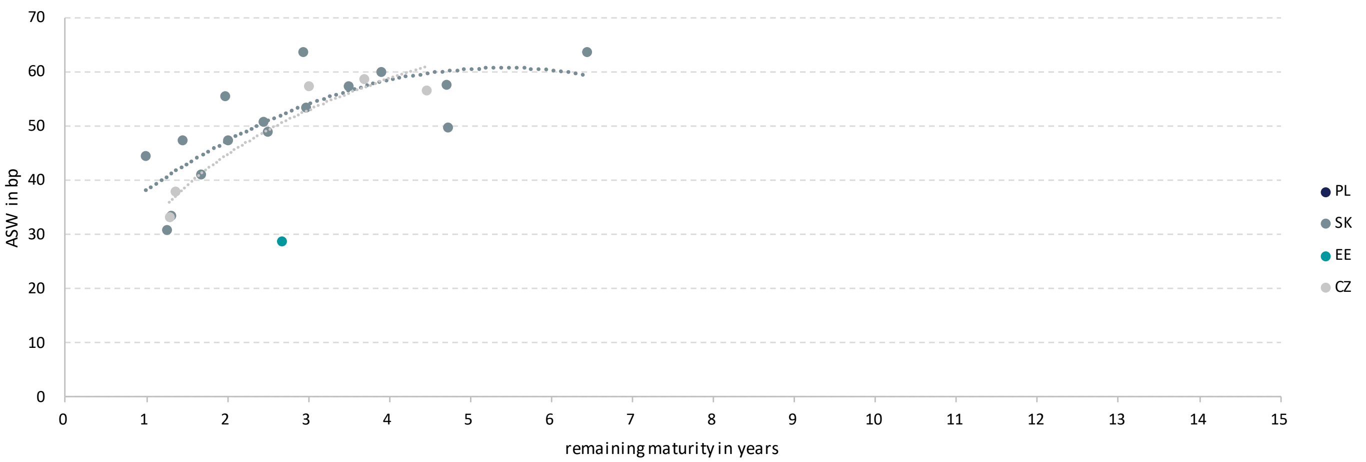


UK/IE

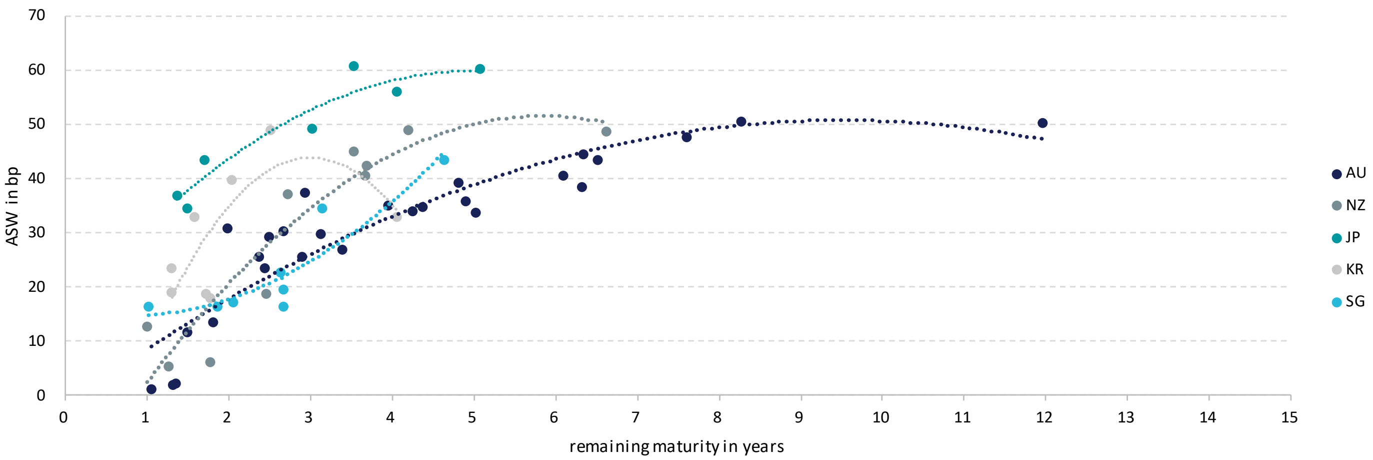


Source: Market data, Bloomberg, NORD/LB Floor Research

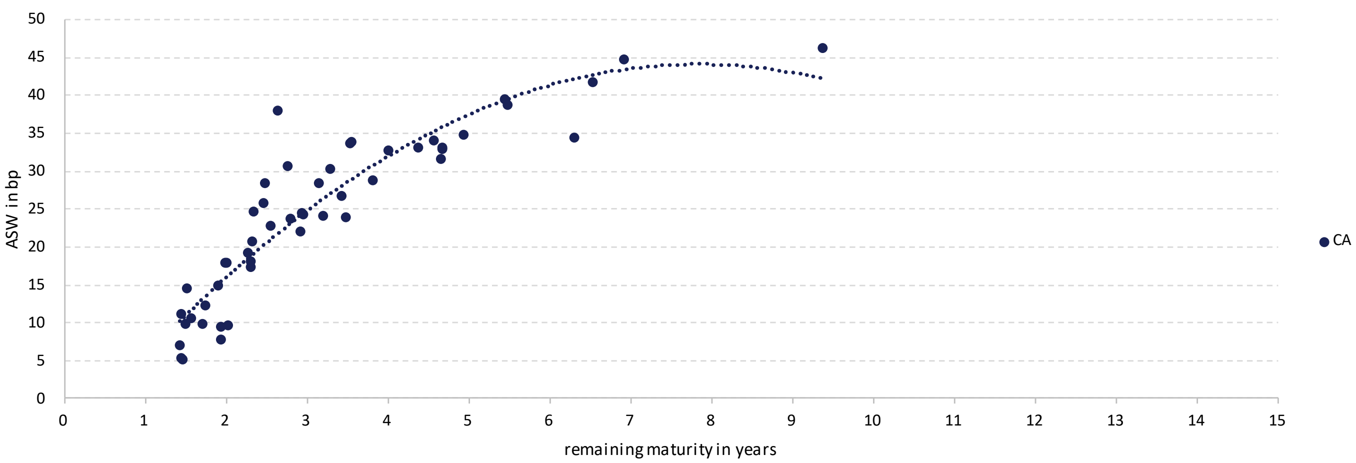
CEE



APAC



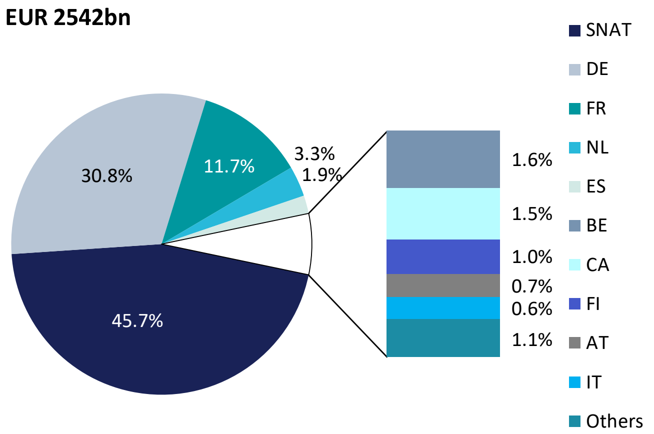
North America



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

Charts & Figures
SSA/Public Issuers

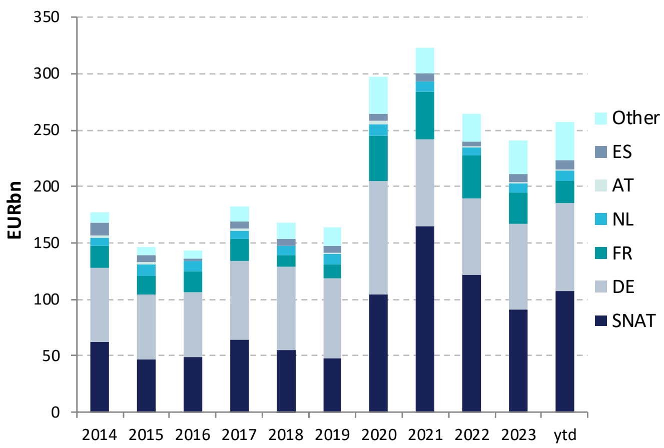
Outstanding volume (bmk)



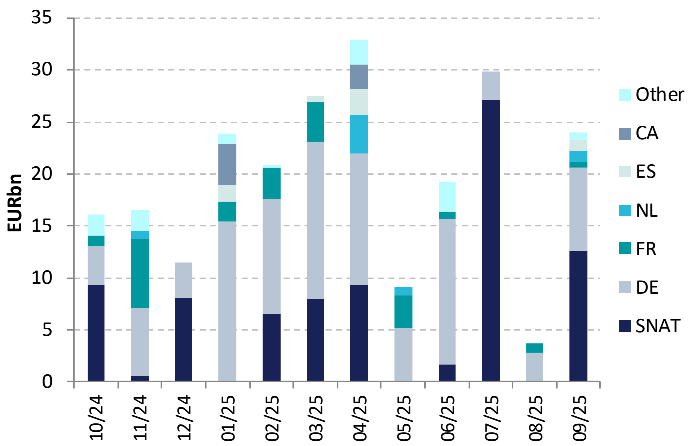
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,161.0	244	4.8	7.9
DE	783.7	590	1.3	6.2
FR	298.6	200	1.5	5.7
NL	82.9	68	1.2	6.5
ES	49.4	69	0.7	4.9
BE	41.6	45	0.9	10.5
CA	38.2	28	1.4	4.9
FI	25.2	26	1.0	4.3
AT	17.2	22	0.8	4.4
IT	15.6	20	0.8	4.5

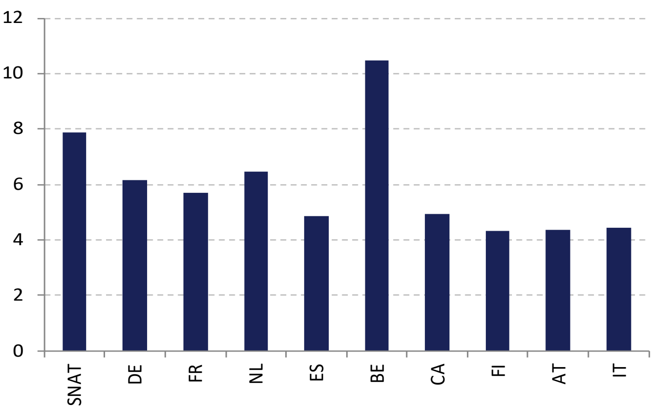
Issue volume by year (bmk)



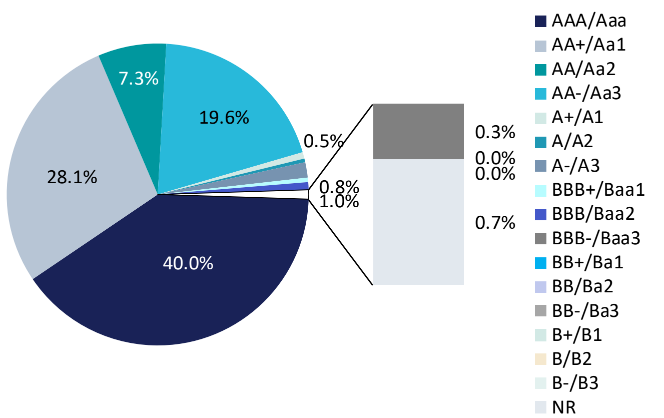
Maturities next 12 months (bmk)



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

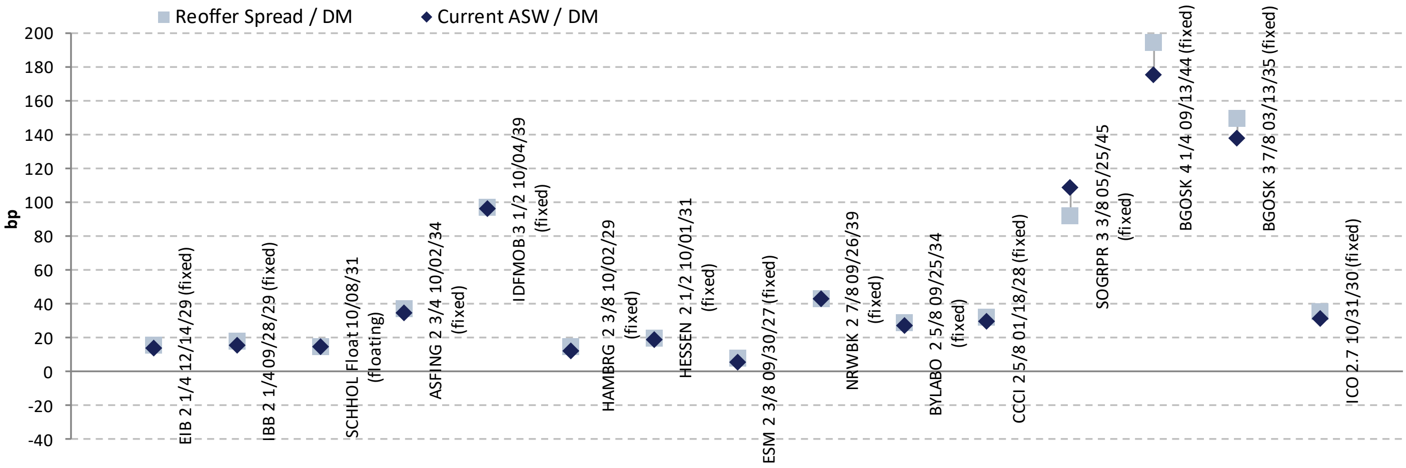


Rating distribution (vol. weighted)

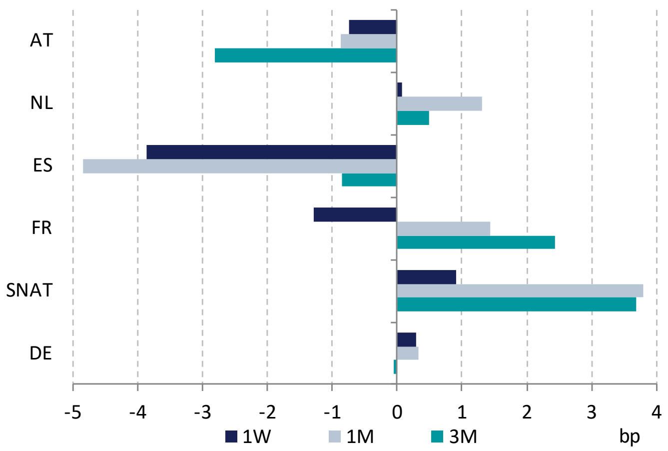


Source: Bloomberg, NORD/LB Floor Research

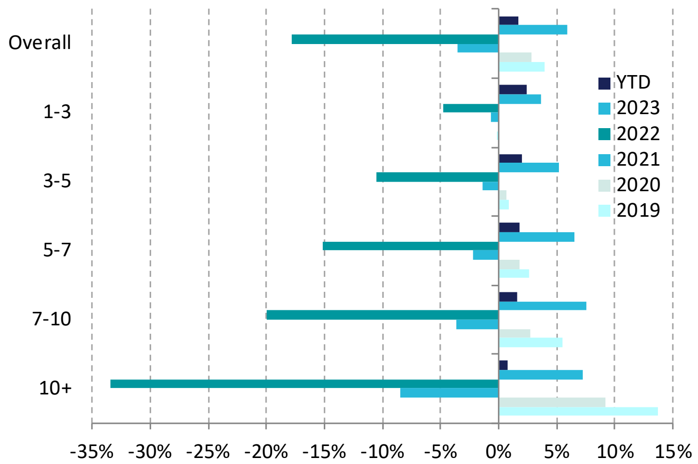
Spread development (last 15 issues)



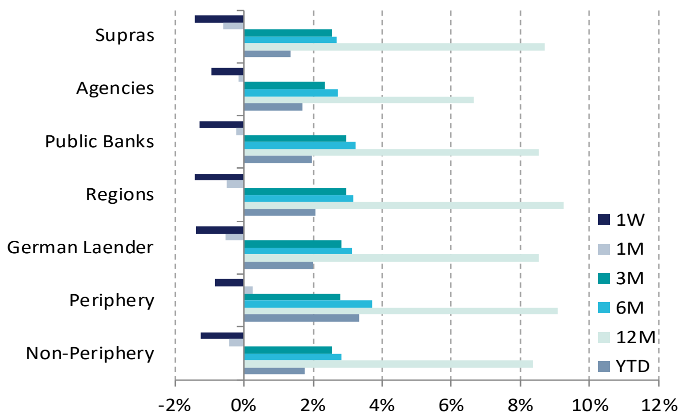
Spread development by country



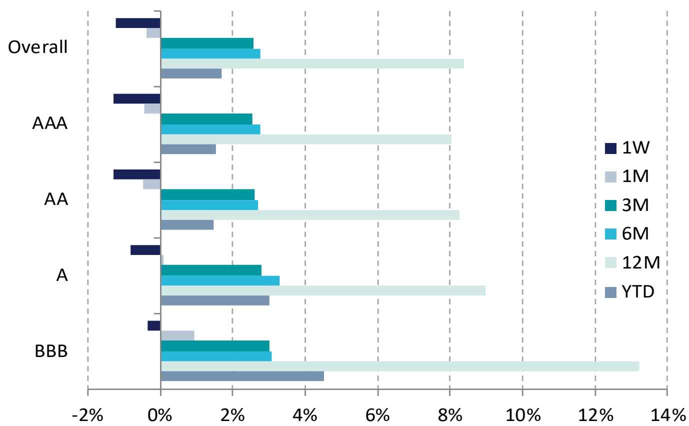
Performance (total return)



Performance (total return) by segments

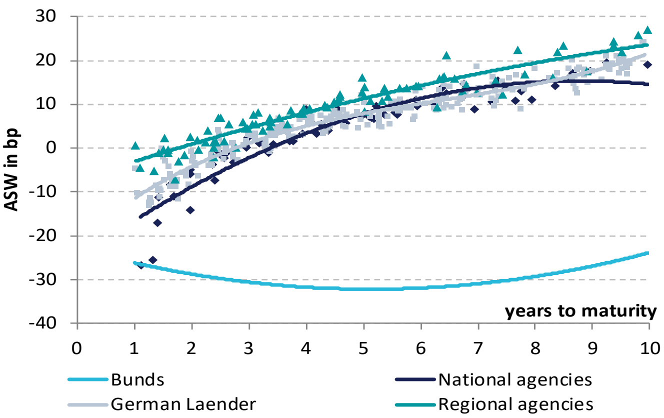


Performance (total return) by rating

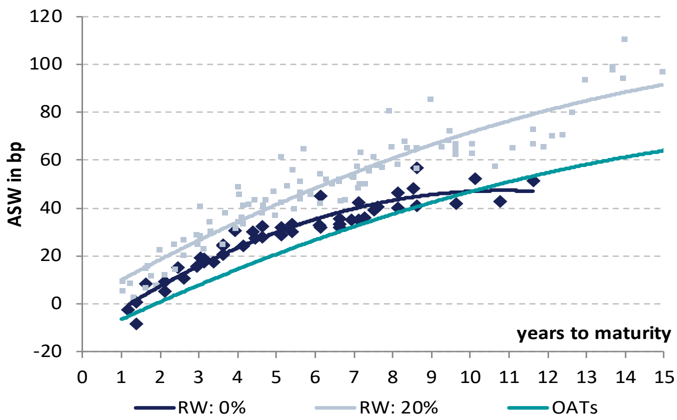


Source: Bloomberg, NORD/LB Floor Research

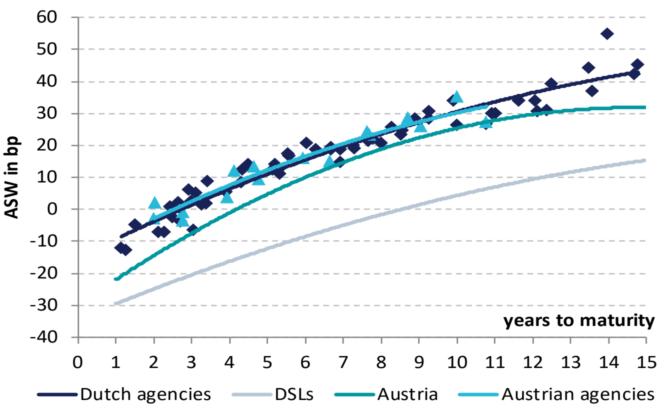
Germany (by segments)



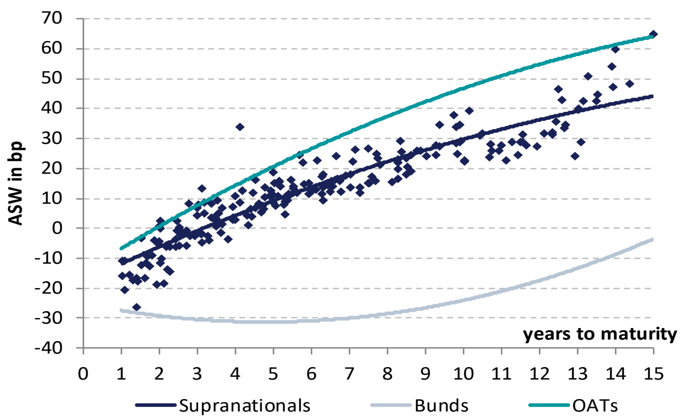
France (by risk weight)



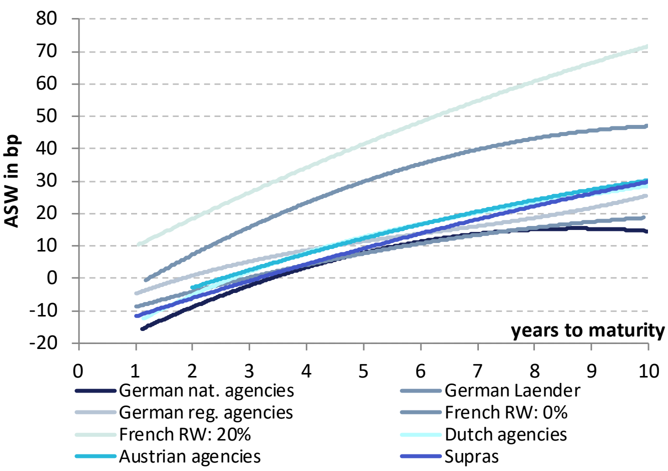
Netherlands & Austria



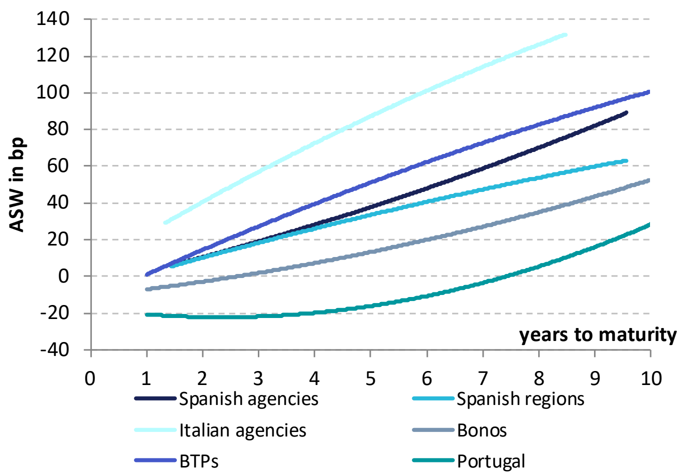
Supranationals



Core



Periphery



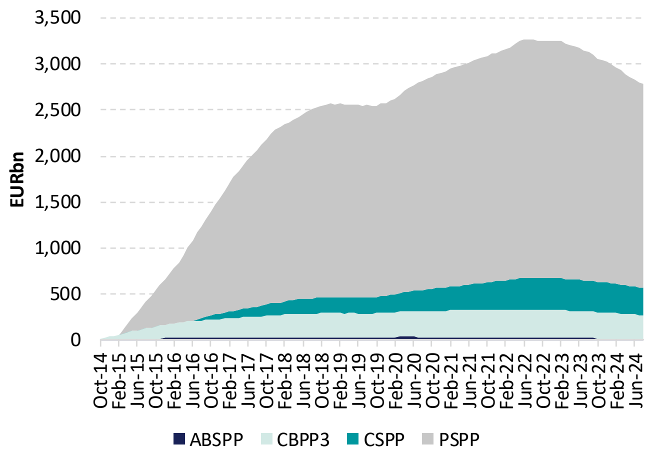
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

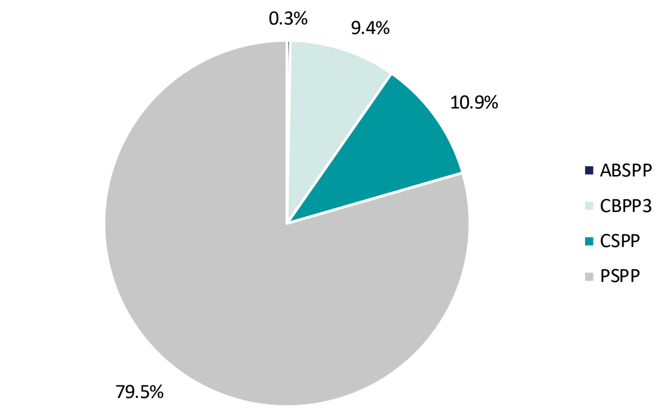
Asset Purchase Programme (APP)

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

Portfolio development

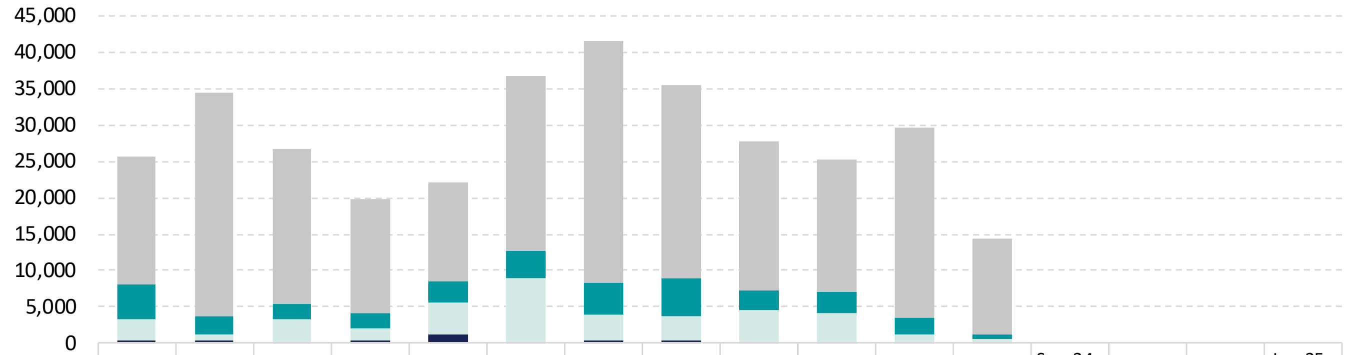


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

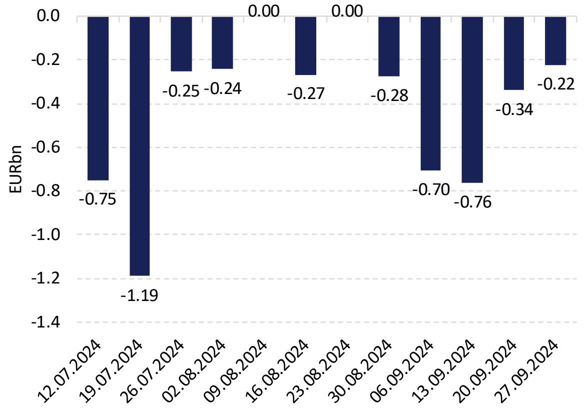


	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-24 - Aug-25	2023	2024	Jan-25 - Aug-25
APP	25,590	34,358	26,695	19,721	22,039	36,658	41,660	35,527	27,846	25,290	29,618	14,310	339,312	331,565	334,302	334,255
PSPP	17,505	30,578	21,298	15,643	13,463	24,021	33,379	26,671	20,541	18,261	26,161	13,114	260,635	255,025	264,480	253,586
CSPP	4,738	2,613	2,031	1,944	2,973	3,788	4,279	5,137	2,699	2,940	2,156	562	35,860	31,251	31,380	34,499
CBPP3	2,993	736	3,136	1,790	4,335	8,635	3,709	3,373	4,448	3,864	1,135	468	38,622	35,147	32,173	42,332
ABSPP	354	431	230	344	1,268	214	293	346	158	225	166	166	4,195	10,142	6,269	3,838

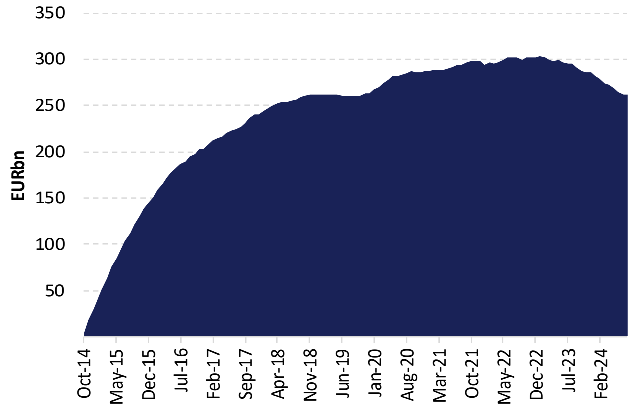
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

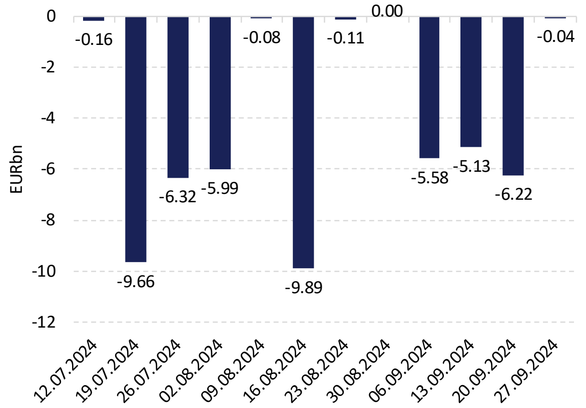


Development of CBPP3 volume

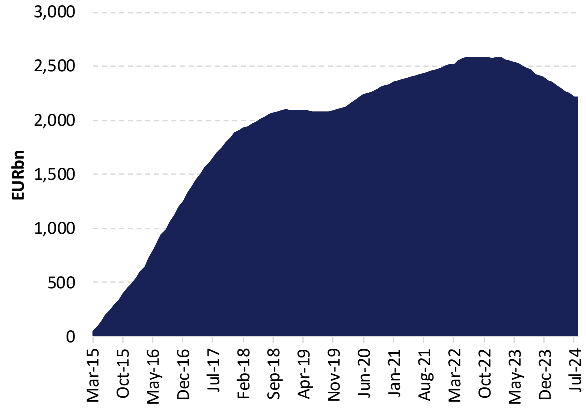


Public Sector Purchase Programme (PSPP)

Weekly purchases



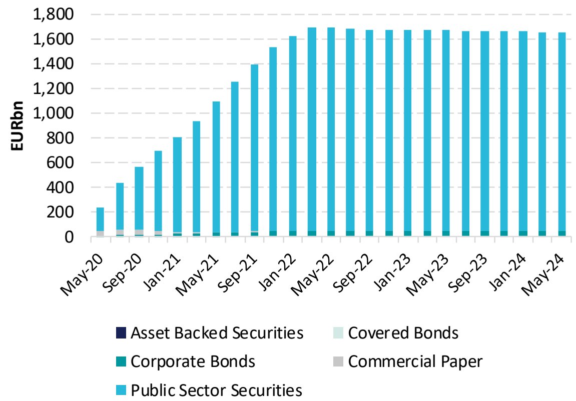
Development of PSPP volume



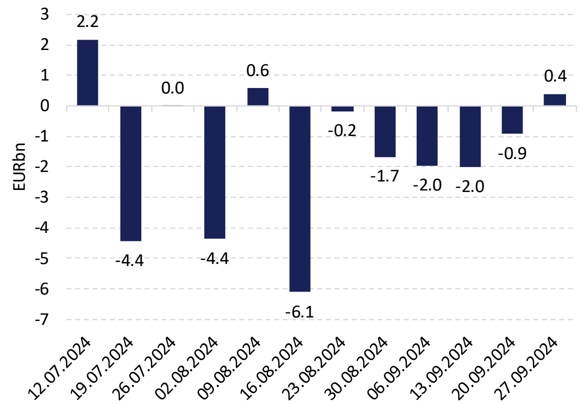
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
31/2024 ♦ 02 October	▪ A review of Q3 in the Covered Bond segment ▪ Teaser: Beyond Bundeslaender – Spanish Regions
29/2024 ♦ 18 September	▪ ECBC publishes annual statistics for 2023 ▪ Sukuk bonds – an update on sharia-compliant investments
28/2024 ♦ 11 September	▪ Banca Sella joins the EUR sub-benchmark segment ▪ Teaser: Beyond Bundeslaender – Autonomous Portuguese regions
27/2024 ♦ 04 September	▪ New Pfandbrief issuer: Lloyds Bank GmbH ▪ Agencies and resolution instruments of the BRRD
26/2024 ♦ 21 August	▪ Central bank eligibility of covered bonds ▪ Teaser: Issuer Guide – German Agencies 2024
25/2024 ♦ 14 August	▪ Development of the German property market (vdp index) ▪ Classification of Supranationals and Agencies under Solvency II
24/2024 ♦ 07 August	▪ Transparency requirements §28 PfandBG Q2/2024 ▪ Teaser: Issuer Guide – Spanish Agencies 2024
23/2024 ♦ 10 July	▪ Repayment structures on the covered bond market: An update ▪ SSA review: EUR-ESG benchmarks in H1/2024
22/2024 ♦ 03 July	▪ Covereds: Half-year review and outlook for the second half of 2024 ▪ SSA half-year review 2024
21/2024 ♦ 26 June	▪ The covered bond universe of Moody's: An overview ▪ Teaser: Issuer Guide – Austrian Agencies 2024
20/2024 ♦ 19 June	▪ New EUR benchmark issuer from Slovakia ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
19/2024 ♦ 12 June	▪ ESG covered bonds: Green deals continue to dominate ▪ Teaser: Issuer Guide - Nordic Agencies 2024
18/2024 ♦ 29 May	▪ 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	▪ Standard Chartered Bank Singapore boosts APAC growth ▪ Stability Council convenes for 29th meeting
16/2024 ♦ 08 May	▪ Whats happening away from the benchmark? ▪ Teaser: Issuer Guide – Dutch Agencies 2024
15/2024 ♦ 24 April	▪ A covered bond view of Portugal: Welcome back! ▪ Credit authorisations of the German Laender for 2024
14/2024 ♦ 17 April	▪ Moody's covered bond universe: An overview ▪ SSA review: EUR-ESG benchmarks in Q1/2024

NORD/LB: Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuers Research

Bloomberg: RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

Covered Bond Laws

Covered Bond Directive: Impact on risk weights and LCR levels

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

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

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

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – German Agencies 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – European Supranationals 2023

Issuer Guide – French Agencies 2023

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 decision: Cut, sleep, repeat

Appendix
Contacts at NORD/LB

Floor Research

Dr Frederik Kunze
Covered Bonds/Banks

+49 172 354 8977
frederik.kunze@nordlb.de

Lukas Kühne
Covered Bonds/Banks

+49 176 152 90932
lukas.kuehne@nordlb.de

Alexander Grenner
Covered Bonds/Banks

+49 157 851 65070
alexander.grenner@nordlb.de

Dr Norman Rudschuck, CIIA
SSA/Public Issuers

+49 152 090 24094
norman.rudschuck@nordlb.de

Christian Ilchmann
SSA/Public Issuers

+49 157 851 64976
christian.ilchmann@nordlb.de

Lukas-Finn Frese
SSA/Public Issuers

+49 176 152 89759
lukas-finn.frese@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 9818-9460
Fixed Income Relationship Management Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

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

Sales Wholesale Customers

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Asset Finance	+49 511 361-8150

Treasury

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

Relationship Management

Institutionelle Kunden	rm-vs@nordlb.de
Öffentliche Kunden	rm-oek@nordlb.de

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Time of going to press: 09 October 2024 (08:44)