Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

4 November 2020 ♦ 42/2020

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Agenda

Floor analysts:

Dr Frederik Kunze
Covered Bonds
frederik.kunze@nordlb.de

Dr Norman Rudschuck, CIIA
SSA/Public Issuers
norman.rudschuck@nordlb.de

Henning Walten, CIIA
Covered Bonds
henning.walten@nordlb.de

NORD/LB:
Markets Strategy & Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuer Research

Bloomberg:
RESP NRDR <GO>

NORD/LB

Market overview
Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

ECB Meeting and US elections prompt caution among issuers

While the ECB opted not to make any direct changes to the tools at its disposal following its meeting last Thursday, it did announce a "thorough reassessment" was on the cards for its December meeting that would entail a recalibration of its measures. Current developments with regard to coronavirus infection cases in the eurozone are likely to serve as an indicator for the severity of the adjustments. While we believed that an adjustment to the PEPP was highly likely even before the meeting last week, we now consider the matter of an adjustment to the parameters to be cut and dried. Whether and to what extent the ECB opts to adjust other tools such as TLTRO, the APP or the tiering multiplier in December is not entirely clear at present, but certainly remains a feasible option for the central bank over the medium term, as we outlined in last week's edition of this publication. With the US election taking place during this trading week, issuers have been displaying a degree of caution. This has led to a situation in which no new issuances were brought to market over the past five trading days. Depending on the result of the US election, particularly with regard to counting absentee votes and therefore the prompt and transparent announcement of a winner, we certainly believe it is possible that we may have to wait a while yet for any new issues in a market set to be characterised by volatility. In any case, we are only expecting the odd issuance over the rest of the year as it is. At EUR 86.45bn, the current issuance year is just over 30% down on 2019, when a total of EUR 123.03bn in EUR benchmarks had been placed up to November. In 2019, approximately 10% of the volume seen across the first ten months of the year was placed again during November and December, a trend that if extrapolated to 2020 would see an additional EUR 8.65bn placed before the end of the year. At present, this is a value that we would consider unlikely due to the current market situation, as the upcoming adjustment of the ECB's instruments on 10 December will also provide further impetus to the market and, in our opinion, any distinct signs of pre-funding activities for 2021 are also unlikely to emerge over the coming weeks.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
-	-	-	-	-	-	-	-

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

ECB Lending Survey: usage of the remaining two TLTRO-III tenders is uncertain

The Euro Area Bank Lending Survey conducted by the ECB for Q3 2020 gave the responding banks an opportunity to outline their view on the TLTRO situation. While 78% of the banks surveyed took part in the III.4 tender (around EUR 1,300bn), this figure had fallen to just 35% for the III.5 tender in September (EUR 174bn). For the two remaining tender rounds in December 2020 and March 2021, 17% of the banks responded that they will again look to raise central bank liquidity, with 39% as yet undecided and nearly half of all responding banks (44%) not planning to raise any further funding as part of TLTRO.III. The survey also revealed that profitability, in other words the advantageous terms and conditions of the tender, is the main motivation behind the utilisation of TLTRO funds. Nevertheless, a precautionary motive with a view to funding problems was particularly evident for the III.4 tender back in June.

European Mortgage Federation: COVID19 pandemic exerted its influence during Q2 2020
In a review of the European market for real estate financing in Q2 2020, the European Mortgage Federation (EMF) identified various factors influencing developments with regard to mortgage-backed financing in the context of the COVID-19 pandemic. While the lockdown requirements tended to have a significant dampening effect, the EMF authors believe that preferences and requirements for house purchases have also shifted as a result of the individual experiences of different households. The EMF database also reveals varying developments, among other things with a view to real estate prices, which are also extremely relevant to the covered bond market, or lending for residential real estate financing in the period April-June 2020, which is not least due to the different courses of the pandemic and government responses across the 16 European countries examined. In a large number of countries, recourse was made to measures that were more or less specifically geared towards real estate financing (e.g. payment moratoriums) during the first wave of the coronavirus pandemic. For the second wave, which is now becoming ever more serious, the EMF experts anticipate extensions and/or new versions of appropriate measures in order to once again limit the threat of upheaval on the real estate markets.

Moody’s issues assessment of Norwegian covered bonds
The risk experts at Moody’s recently commented on the strengths and weaknesses of Norwegian covered bond legislation as part of a Sector Profile. According to this, elements such as the possibility of extending maturities by 12 months in addition to the option of concluding swap agreements with external counterparties are considered to be strengths, as are the right to adjust interest rates, the requirement to model interest rate stress scenarios and the mandatory exclusion of non-performing assets from cover pool tests. In contrast, Moody’s identifies weaknesses in the fact that Norwegian issuers, which as special credit institutions serve the specific purpose of issuing covered bonds, only have limited assets that are not part of the cover pool. In the rankings of the 20 published country-specific Legal Framework Reports, Norway occupies 13th place, ahead of the UK but behind the Netherlands. In view of the European covered bond harmonisation efforts, Moody's analysts also expect adjustments to be made to the legislative framework in Norway. For example, the Norwegian framework still does not contain requirements with regard to a 180-day liquidity buffer, as is defined in the Directive. Nonetheless, the analysts point out that the relevant regulatory or legal authorities in Norway have not yet submitted a draft law intended to incorporate these and other requirements into national law.

Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

A review of the ECB meeting

As we expected, the European Central Bank (ECB) did not resolve any changes to its monetary policy (yet) at last Thursday's meeting. The interest rate on the main refinancing operations remains unchanged at 0.00% and the interest rate on the deposit facility at -0.50%. The parameters of the PEPP and APP securities purchase programmes have also not yet been amended by the ECB Governing Council. As at the end of October, the purchase volume of the Pandemic Emergency Purchase Programme (PEPP) amounted to EUR 629.2bn out of an overall total of EUR 1,350bn that remains unchanged for the time being. That said, the ECB has already sent a clear message on monetary policy decisions with its press release for the coming meeting, which stated that the ECB Governing Council will carefully assess the incoming information in the current environment of "risks clearly tilted to the downside". Furthermore, ECB President Christine Lagarde emphasised multiple times the downside risks to the short-term economic outlook. Against the backdrop of events related to coronavirus infection rates in the eurozone and the latest decisions taken in several member states to contain the pandemic, it is our house view that an abrupt braking of the economic recovery process is in fact to be expected for the current quarter. Our chief economist is actually even predicting a potential renewed decline in GDP for the eurozone in the fourth quarter. According to Christine Lagarde, all instruments and their correlations should be explicitly examined to ensure an optimal mix in the recalibration of measures. Our expectation before the meeting was that an expansion of the PEPP by at least EUR 400bn was likely on 10 December as well as an extension of at least six months or even after year-end. Market players will perhaps now already be disappointed by any figure below EUR 500bn. What's more, in our ECB preview in the last issue, we had put forward the prospect that the ECB would be considering a new series of the TLTRO (IV/V) in December or an extension of the exceedingly favourable terms and conditions of TLTRO III. This also works towards improving the financing conditions and would directly incorporate the mixed signals of the Bank Lending Survey. In addition, QE widening would lead to higher surplus liquidity and should therefore in our view – as set out in advance – be flanked by a recalibration of the tiering multiplier.

Does the current pace of purchases in the PEPP work against a considerable expansion?

Over the past week, the ECB's emergency bond purchases have weakened to the lowest rate since the programme was established. Given the rally in eurozone sovereign bonds, this might suggest that market demand is slowing in the wake of further momentum. In the five days up to 30 October, the ECB acquired a bond volume of just under EUR 11bn in the context of its PEPP pandemic purchase programme (cf. ECB Tracker), as can be gleaned from the data published on Monday. This is the lowest amount since the PEPP was launched in March, irrespective of volume before or after the expansion to EUR 1,350bn.

EU: RfP and market sounding

New week, new opportunities – last week, this was true in view of the ECB meeting, while this week it is the US election plus the meetings of the Federal Reserve Bank and the Bank of England (both on 5 November – 8 p.m. and 1 p.m., respectively). And the week after, it applies to the next major transaction that is expected from the EU. To sound out the market, the issuer had already sent a Request for Proposal on Monday to whet the appetite of investors for further social bonds in 2020. A reminder: the first dual tranche accounted for a combined order book of EUR 233bn – with an allocation of EUR 17bn. The EU aims to accumulate no more than EUR 10bn in any given maturity year. We believe possible combinations to be 5 and 25 years or 7 and 30 years. The first option, in particular, would be predominantly appealing, once again precisely meeting the planned average refinancing of 15 years for the SURE programme. Based on our initial estimate (EUR 25-30bn in 2020) and comments from various officials at the European Commission, the two tranches should comprise at least EUR 13bn together. If demand for the bonds were to be similarly strong to what it was the first time around, cumulative books of EUR 180bn can be expected. Should the deal feature a lower new issue premium, demand is likely to settle at around EUR 150bn.

KfW: "World's Safest Bank", and yet still subject to soft criticism

For the twelfth time in a row, the US finance magazine Global Finance declared KfW the "World's Safest Bank". KfW once again confirmed its leading position among the 500 largest banks worldwide. The ranking of the Global Finance magazine is based on the evaluation of long-term credit ratings from Fitch, Moody's and S&P as well as on the total assets of the banks. Lately, the Frankfurt based bank has been unexpectedly subject to some bad press. It has previously only suffered this in respect of its cost structure and a reprimand from BaFin after Germany's supervisory authority found serious issues with the bank's IT systems (2017), while the internal audit was greatly criticised by auditors in 2018. Now, KfW has come into the media firing line on account of its cruise ship financing and for providing a line of credit to Wirecard. KfW and KfW IPEX-Bank commented on the financing of cruise ships in conjunction with their impact on the environment and on employment. As part of its mandate, KfW IPEX-Bank supports companies in the maritime industries in Germany and elsewhere in Europe in global competition by providing bank-based finance at market conditions. There are very few shipyards throughout the world that are able – in terms of human resources as well as technology – to build state-of-the-art cruise ships (LNG engines, advanced flue gas cleaning and wastewater treatment systems) of high quality. Two of these shipyards are in Germany. They are a key economic factor for the respective regions in which they are located. In addition, there are hundreds of suppliers employing many thousands of people in Germany and Europe. The German Federal Government is currently "providing some EUR 25bn in export financing for cruise ships built in Germany", as the ministry reportedly responded to WirtschaftsWoche. Of this, around EUR 18bn is attributable to capital claims and approximately EUR 7bn for interest due, according to the ministry. Additionally, in September 2018, Wirecard was granted a line of credit worth EUR 100m by IPEX, which was then extended a year later. This loan has now become non-performing and is being sold at fair market conditions, so at a loss. The public prosecutor's office has since been interested in this matter, as the loan was supposedly issued without requiring collateral to protect against losses. For a rocksolid market player such as KfW, this would certainly have been an unusual move.

Primary market

Given the volume of German deals offered this week, it makes sense to get straight to the point and shed light on the transactions from the local domain: the State of Saxony kicked things off with a benchmark of nine years at ms -4bp. No information was provided on the order book. After only EUR 100m was outstanding under the SAXONY ticker at the start of the year, the figure is now EUR 2.85bn. This bond was soon followed by Rentenbank, which raised a total of EUR 300m with a 2028 tap at ms -11bp. This was in line with the guidance, although order books remained closed to external parties afterwards. A little later on, Saarland also mandated for a 20-year maturity. A total of EUR 500m changed hands at ms +9bp. The order book stood at more than EUR 1.6bn. The guidance was in the region of ms +12bp, so this can be described as an exceedingly good deal. Brandenburg also had a small refinancing requirement, placing a tap for its 2027 bond at ms -3bp (EUR 300m). In the first step, EUR 250m with guidance in the region of ms -1bp had been mooted. However, the order book (EUR 395m) and circumstances on the market did then result in a degree of movement. Hesse also successfully brought a benchmark over the line: EUR 500m at ms -1bp for ten years. This was also in line with the guidance and the order book. Yesterday, the new bond from Hesse was trading approx. one basis point wider than was the case at the time of being placed. This is an extremely unusual occurrence recently in the Laender segment. Looking across Europe, two other transactions stand out: KOMMUN and UNEDIC (tap). The Nordic issuer KOMMUN opted for a maturity of 13 years, with this deal ultimately priced at ms +13bp. The order book amounted to more than EUR 850m, although the transaction did not narrow against the guidance by so much as a basis point. In terms of investor distribution, 32% came from Germany, 29% from the Benelux countries and just 14% from Scandinavia. This is normal for EUR transactions from Nordic issuers. The UNEDIC placement was a social bond, a tap issue of EUR 1.5bn for its 2035 maturity at 15bp over the French reference curve. When compared with the guidance, a total of three basis points was made up, although the order book was nonetheless more than EUR 2.4bn. Since May, the social primary market volume at UNEDIC has amounted to around EUR 13bn. Year-to-date, this puts it in third place behind CADES and the EU. In both 2020 and 2021, the EU will be taking the top spot. Yesterday afternoon, the primary market paused for breath ahead of the US election. There were no further mandates issued yesterday to be priced during the course of today. For next week, we are expecting the second dual tranche from the EU's SURE programme (see above). Moreover, an issuer from second or third row (EUROFIMA) also mandated a consortium for a USD transaction at the end of October, and has recently carried out investor calls (02 November). However, its last four EUR transactions were green bonds; it placed one in 2018 and 2019 respectively in addition to two so far this year.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
HESSEN	DE	02.11.	DE000A1RQD01	10.0y	0.50bn	ms -1bp	- / - / AA+
SAARLD	DE	29.10.	DE000A289J90	20.0y	0.50bn	ms +9bp	AAA / - / -
KOMMUN	Other	28.10.	XS2251782160	13.5y	0.50bn	ms +13bp	- / Aaa / AAA
SAXONY	DE	28.10.	DE0001789303	9.0y	0.50bn	ms -4bp	- / - / AAA

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

Covered Bonds
Covered Bond Framework and Liquidity Coverage Ratio: European Commission presents draft version of amendments to LCR regulation

Author Dr Frederik Kunze

European Commission opens consultation phase for LCR draft amendment

A few days ago, the European Commission launched a consultation phase for its proposed draft version to amend the regulations on liquidity coverage requirements for credit institutions (Liquidity Coverage Ratio, (LCR), Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013) with the feedback period extending from 27 October 2020 to 24 November 2020. The main reason for the amendment of the LCR regulations is the overlap arising from a combination of the current liquidity requirements and the specifications of the Covered Bond Directive from November 2019 (Directive (EU) 2019/2162), which is to be avoided in respect of the liquidity required from the issuer and the covered bond programme. In the following, we would first like to provide a brief overview of the relevant requirements and then focus on the proposed amendments.

Background: liquidity coverage ratio

The LCR on the basis of the CRR requires credit institutions to hold a stock of high-quality liquid assets that is at least as large as the expected total potential net cash outflows (e.g. withdrawal of customer deposits) over a 30-day period under the prescribed stress scenario. This stipulates that at least 100% of liquidity outflows must always be covered (less the liquidity inflows). The relevant requirements are laid down in Commission Delegated Regulation 2015/61, which specifically determines what counts as eligible assets and the composition of the liquidity buffer. First, a distinction is made between assets classified as level 1 or level 2, with further subdivision within level 2 into level 2A and 2B assets. Alongside the classification of eligible assets to the specified level categories, the market values of liquid assets are to some extent reduced through haircuts. Regarding the composition of the LCR portfolio, the regulation stipulates that a minimum of 60% of the liquidity buffer is to be composed of level 1 assets. It therefore follows that level 2 assets should account for a maximum share of 40%. In addition to this rough subdivision of the LCR portfolio, further limitations are set for both level 1 and level 2. At least 30% of the entire portfolio is to be composed of level 1 assets, though these must not be level 1 covered bonds. For this reason, market practice is to further differentiate within level 1 between assets that are “level 1A” and “level 1B” (covered bonds in level 1, as always subject to a haircut), even if such a distinction is made neither in the wording of the CRR nor in the LCR regulation. As the value of level 2B assets may not make up more than 15% of the total liquidity buffer, a distinction is made within level 2 in terms of the maximum share within the full LCR portfolio. The above explanations are based on the NORD/LB Financials Special “Details on the Liquidity Coverage Ratio”. The publication also provides detailed information on the regulatory background and the LCR classification.

LCR classification of covered bonds
While a majority of assets eligible within LCR management are subject to static classification, more dynamic criteria apply to covered bonds. This means that over time, there might be a change in the allocation of a bond to a certain level category, which leads to the general deduction that ongoing monitoring is required. In practice, fulfilling the transparency criteria of Article 129(7) of the CRR is considered to be a critical factor, especially as this means investors must carry out extensive checks at least twice a year, as opposed to criteria for overcollateralisation, for example. In addition to a review of information on outstanding covered bonds and their cover pools provided in the context of the cover pool reporting, the dynamic criteria for covered bonds means constant monitoring of the respective ratings is needed, as this could lead to a rating change of one notch and have a direct impact on the LCR classification (cf. half-yearly NORD/LB LCR study).

Covered bond harmonisation and liquidity buffer requirements
In the context of covered bond harmonisation, a mandatory liquidity buffer requirement of 180 days shall apply from 8 July 2022 (cf. Covered Bond Directive, Article 16: Requirement for a cover pool liquidity buffer). Furthermore, within the context of Article 16(4), national legislators can decide to avoid an overlap with the LCR requirements to the extent that the relevant (first) 30 days of the 180-day buffer are covered by LCR requirements. At the same time, this approach means that covered bond investors no longer receive preferential treatment from assets for hedging liquidity in possible stress scenarios, as these LCR assets are not subject to segregation (cf. Article 12. Covered Bond Directive).

Draft proposed by the European Commission in detail
The draft now presented by the European Commission addresses this point and, in our view, also defines a practical way to eliminate the above-mentioned overlap. To remove the overlap, it permits credit institutions to treat liquid assets held as part of the cover pool liquidity buffer as unencumbered up to the amount of net liquidity outflows from the associated covered bond programme. Liquid assets in the cover pool that satisfy all qualitative LCR criteria can be included in both the cover pool liquidity buffer and the LCR liquidity buffer, although the recognition for the purposes of the LCR would be limited to the amount of liquid assets in the cover pool that are required to cover net liquidity outflows from the covered bond programme to which this cover pool relates.

Further amendments
While LCR amendments aimed at avoiding an overlap make up the main portion of the draft, it also contains proposals for additional changes that could have a particularly significant impact on the LCR classification of covered bonds. The draft proposes to ensure that the group of covered bonds which can be treated as eligible for LCR is limited, in that they must meet all requirements set out in Article 129 of the CRR. As a result, and in deviation from the current regulation, those covered bonds that are defined as such on the basis of Article 52(4) of the UCITS no longer qualify for the LCR calculation.

LCR draft suggests a differentiated treatment of European covered bonds pursuant to the covered bond framework in future

As a result of the amendment, a distinction will be made between how ordinary and premium covered bonds are treated. This means that those covered bonds which fulfil all requirements of the Directive except the CRR requirements should no longer be classified as eligible for LCR. However, bonds issued up to 8 July 2020 are subject to grandfathering provisions and therefore continued eligibility for the LCR (subject to other criteria being fulfilled). In the context of a Sector Comment, risk experts at Moody’s recently highlighted that this might put pressure on the further development of markets for those covered bonds. With regard to the bonds currently included in the iBoxx EUR Covered, only Lettres de Gage (LdG) under Luxembourg Law would be affected by the proposed amendment. These and bonds placed up to 8 July 2022 will be governed by grandfathering provisions and LCR eligibility through the new regulation would not be affected, provided this attains legal validity. We therefore also do not expect any direct impact on spread movement. At the same time, we think further explanation is needed, though deviation from the first consistent definition of European covered bonds within the Covered Bond Directive to the benefit of premium covered bonds is given as justification. In this context, it is our understanding that the consequences should not be ignored to the extent that European covered bonds compliant with the Directive would therefore be subject to non-preferential treatment relative to other LCR assets in terms of their regulatory classification. In particular, this assessment applies to level 2 assets, but also to other asset classes (e.g. shares and corporate bonds) and to non-EEA covered bonds (e.g. Canadian covered bonds), which would potentially be regarded as level 2A assets under the proposed LCR regulation and therefore be in a better position than European covered bonds that are compliant with the Directive (not LCR eligible as not CRR compliant).

Conclusion

The recently proposed draft amendment of the LCR regulation makes sense with regard to eliminating the overlap that exists with regard to liquid assets that must be held for calculation of the LCR. The limitation of LCR eligibility of covered bonds to premium European covered bonds sought in the context of the further amendment does, in our view, require further explanation, as this will deviate from the consistent definition for the first time achieved under the Covered Bond Directive.

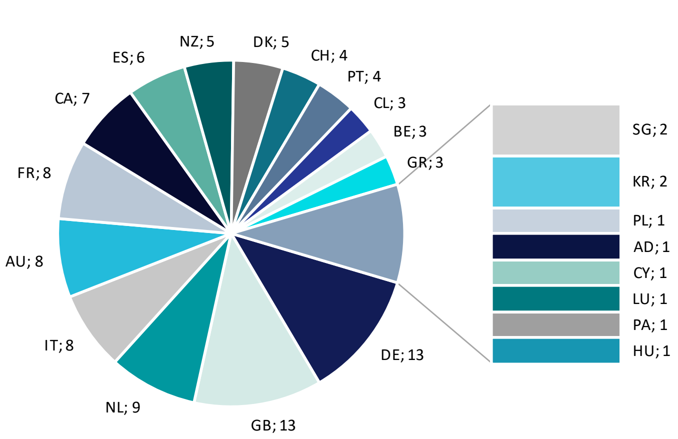
Covered Bonds
An overview of the Fitch covered bond universe

Author: Henning Walten, CIIA

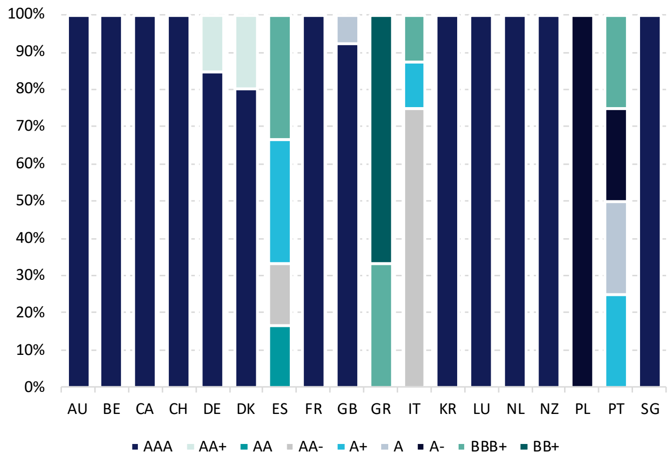
102 programmes from EUR benchmark jurisdictions

A total of 1,463 ratings have been awarded by the three major rating agencies for the 917 EUR benchmarks contained in the iBoxx EUR Covered index. In addition to Moody's (800 ratings), Fitch also rates a significant proportion of the deals (341). We therefore propose to shine a light on Fitch's covered bond universe based on its recently published Covered Bonds Surveillance Snapshot. In its latest Snapshot, Fitch rates a total of 109 programmes from 23 countries. In this article, we shall focus on those programmes which come from EUR benchmark jurisdictions; in other words, our review does not include seven programmes in all from Andorra, Chile, Panama, Hungary and Cyprus. We have also left out 11 multi-cédulas from Spain. The largest group represented in the Fitch covered bond universe comprises covered bond programmes from Germany and the UK with 13 programmes each and a share of 11.9%. These are followed by the Netherlands (nine programmes) and Italy, Australia and France (eight respectively). As such, over half of the rated programmes are concentrated on these six jurisdictions, which − with the exception of Australia − are also among the top ten jurisdictions. The rated programmes are not necessarily those from which EUR benchmarks were also issued. A look at the ratings issued in EUR benchmark jurisdictions shows that around three quarters have the top rating − i.e. AAA. In addition, a further 10.8% can be allocated to the AA segment and 13 out of the 18 EUR benchmark jurisdictions have exclusively AAA ratings. In contrast, the two countries on the Iberian Peninsula have four different rating levels and are therefore the most disparate sub-markets in terms of ratings. Italian programmes have three different ratings (AA-, A+ and BBB+).

Number of rated programmes



Breakdown of ratings by country

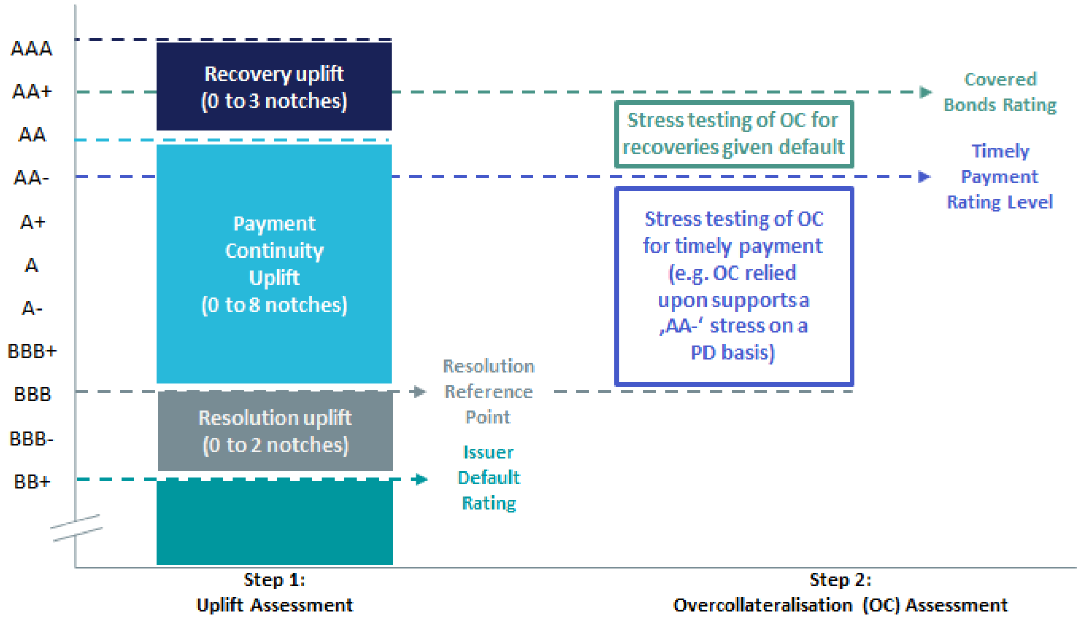


Source: FitchRatings, NORD/LB Markets Strategy & Floor Research

Two-stage process to determine ratings

Fitch uses a two-stage process to determine ratings, taking into account both the probability of a default on a bond as well as the recovery given default. As part of the process, Fitch first calculates i) the potential uplift components before ii) it determines the OC levels based on stress tests. The first stage involves determining the IDR uplift against the long-term Issuer Default Rating (IDR). This can amount to two notches overall and expresses the preferred status of a covered bond in comparison with uncovered bonds in the case of a liquidation and creditor participation. Furthermore, Fitch calculates the Payment Continuity Uplift (PCU), which reflects the rating agency's assessment as to how likely a delay or interruption to interest and principal payments is to occur during transfer of the payment flow from the issuer to the cover pool (following issuer insolvency). The PCU can range from zero to eight notches and ultimately reflects the maximum possible covered bond rating based on the default probability. The following rule of thumb applies: the higher the PCU, the lower the disruption to the payment flow is regarded. Where Fitch assumes that an interruption to payment on account of a lack of liquidity mechanisms is likely, the assessed covered bond programme does not receive an uplift, whereas programmes with a soft-bullet structure (and 12-month extension) can be upgraded by up to six notches (above the adjusted IDR rating) as long as they entail standard cover pool assets in mature banking markets. Issuances with a pass-through structure can even be upgraded by up to eight notches. In contrast to the methodology outlined, German mortgage Pfandbriefe benefit from a rating uplift of up to four notches on account of the 180-day liquidity buffer in order to take the various refinancing options into account. Nevertheless, other risks, such as those resulting from insufficient separation of assets or high risks in connection with alternative cover pool management strategies, for example, can lead to a reduction in the outlined uplifts by up to one or two notches, or in some cases, even to a PCU of zero.

Overview of the covered bond rating process



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

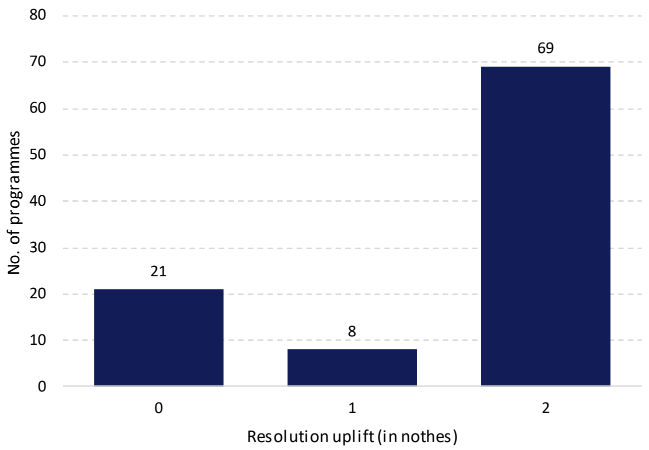
Recovery uplift – additional uplifts of two to three notches possible

As covered bonds offer a recovery given default even in the event of a payment default on account of the underlying assets, the respective programmes may receive a further uplift over and above the covered bond rating of up to two notches based on the default probability; for issuers with a non-investment grade rating, this is up to three notches, again on the basis of the default probability. The maximum number of notches is awarded when the programme's long-term overcollateralisation ratio sufficiently covers the credit risk in the relevant rating scenario. However, the uplift can also be limited if, for example, the majority of the assets are denominated in a currency which differs from the covered bonds.

Limit to the maximum rating uplift via requisite breakeven OC

Finally, in a second step, the overcollateralisation ratio (breakeven OC) is determined. This facilitates punctual servicing of outstanding covered bonds during stress scenarios above the adjusted IDR rating. The breakeven OC consists of i) the ALM loss (non-credit loss) and ii) credit loss. The breakeven OC calculated by Fitch is then compared with the OC maintained over the long term by the issuers from the perspective of the rating agency. In cases where the OC maintained by the issuer remains below the breakeven OC for the maximum possible rating, Fitch tests the next-lowest scenario. This remains the approach until the maintained OC level allows for bonds to be serviced in a timely fashion.

Breakdown of resolution uplifts



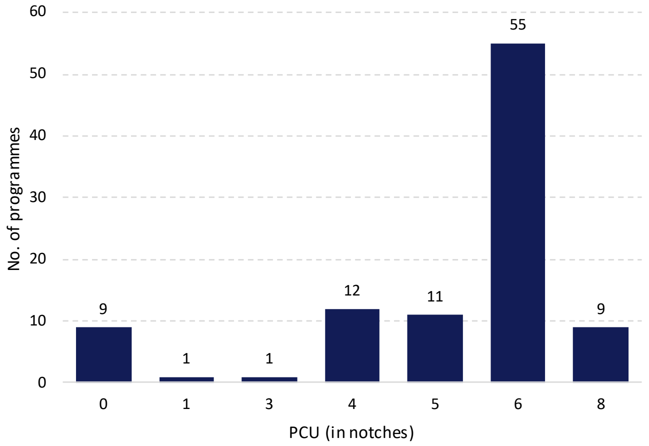
Resolution uplifts by country

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

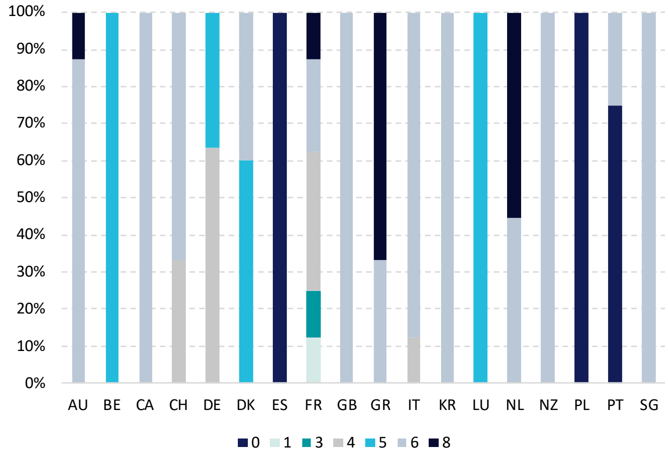
Resolution uplift mostly amounts to two notches

Fitch's resolution uplift assesses how covered bonds are treated in the event of resolution. The maximum available uplift is two notches and that is the uplift currently awarded to 69 programmes. Moreover, a total of 21 programmes from outside the eurozone are not awarded any uplift in relation to their treatment in the event of resolution. The reasons as to why a programme is not awarded the maximum available uplift vary. Programmes from Australia and New Zealand, for example, are not awarded any resolution uplift since they do not have a regime expressly exempting covered bonds from bail-in, according to the analysts. In jurisdictions where such a regime is in place but where Fitch does not award a two-notch uplift, there are specific reasons relating to individual institutions.

Breakdown of payment continuity uplift (PCU)



PCU by country

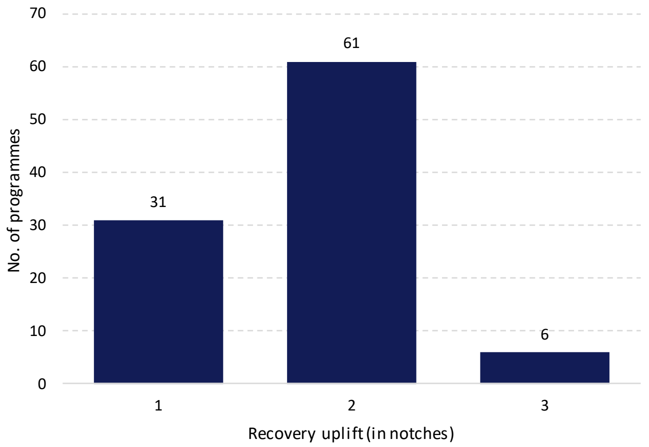


Source: FitchRatings, NORD/LB Markets Strategy & Floor Research

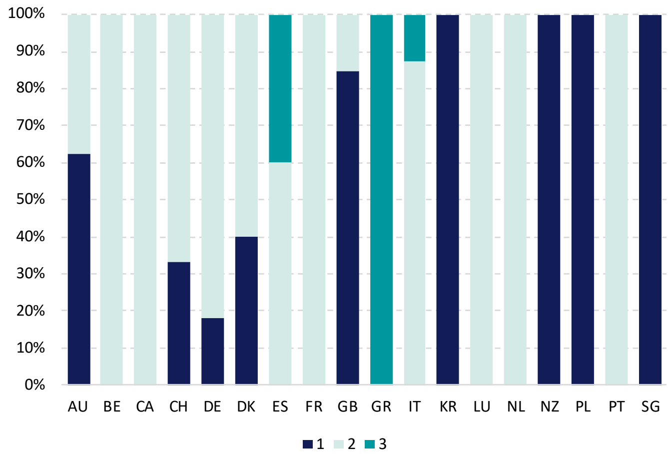
PCU as an indicator of the liquidity risk

The payment continuity uplift (PCU) is Fitch's assessment of the likelihood of an interruption in the cash flow after a default of the issuer. The higher the PCU, the lower Fitch's assessment of the risk to payment continuity and hence the higher the protection against liquidity risks for such programmes. A PCU uplift of six notches is the most frequent score, being awarded to 55 programmes. However, Fitch does not award any PCU uplift to five Spanish programmes. In Germany, public sector programmes are awarded an uplift of five notches and mortgage programmes an uplift of four notches, mainly reflecting their mandatory 180-day liquidity buffer, which, according to Fitch analysts makes a significant contribution to the reduction in liquidity risk. The maximum available uplift of eight notches is awarded, among others, to five CPT programmes from the Netherlands, while the four remaining Dutch programmes are granted a six-notch PCU uplift in view of the fact that the issue format are predominantly soft bullet bonds.

Breakdown of recovery uplift



Recovery uplift by country



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

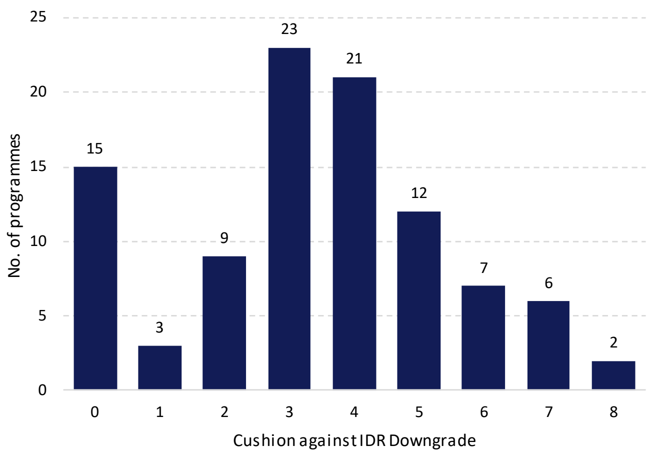
Recovery given default also factored in

The last uplift category, namely the recovery uplift, expresses how high the quality of the cover pool is and hence the recovery prospects in the event of a covered bond default. In this instance, the uplift for investment grade bonds is limited to two notches and to three in the case of non-investment grade bonds. Overall, Fitch breaks down recovery prospects into "average", "good", "superior" and "outstanding", and assigns an uplift of one notch for investment grade bonds in the two middle categories, and one notch less or more respectively for investment grade bonds in each of the two categories either side. It is worth noting that there is no average recovery prospect for any of the programmes from EUR benchmark jurisdictions and therefore that none of these programmes has a zero uplift. Programmes are most frequently assigned a two-notch uplift, and this is also the ceiling for the majority of programmes, since these programmes have an investment grade rating. The six programmes in total with a recovery uplift of three notches therefore all come from the non-investment grade segment and are domiciled in Spain, Greece and Italy.

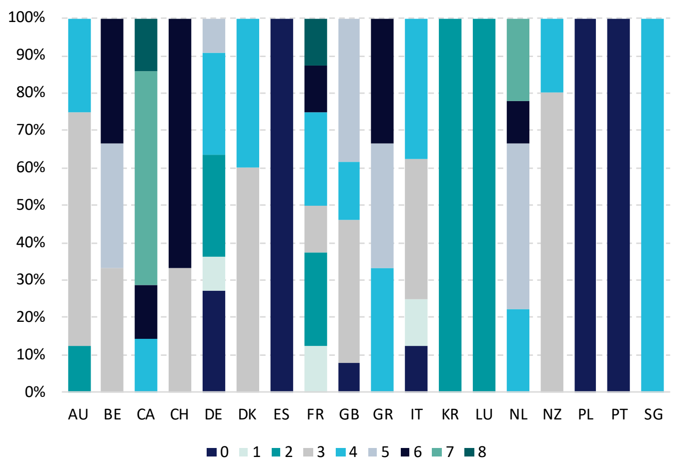
Buffers mostly sufficient to protect against issuer downgrades

The Long-Term Issuer Default Rating (IDR Rating) serves as reference point for the covered bond rating. This means that there is an IDR ceiling, depending of the number of uplifts awarded, and if the IDR falls below this ceiling, then the covered bond is downgraded. The difference in relation to this rating is shown in the graphs below. Most programmes have a buffer of three or four notches, which means that they would only be directly affected after a significant downgrade of the issuer. In individual cases, the buffer is as high as seven or eight notches. However, there are also 15 programmes in the EUR benchmark jurisdictions which would be directly affected in the event of an IDR downgrade. These are in particular Spanish and Portuguese programmes along with three programmes from Germany. There is a buffer against an IDR downgrade if the uplifts do not have to be used in full because the IDR rating is closer to the top AAA rating than there are uplifts. Another reason for uplifts not to be used in full would be that the respective OC stands in the way of a higher rating classification and is therefore too low for a correspondingly higher rating.

Breakdown of buffers against issuer downgrades



IDR downgrade buffer by country

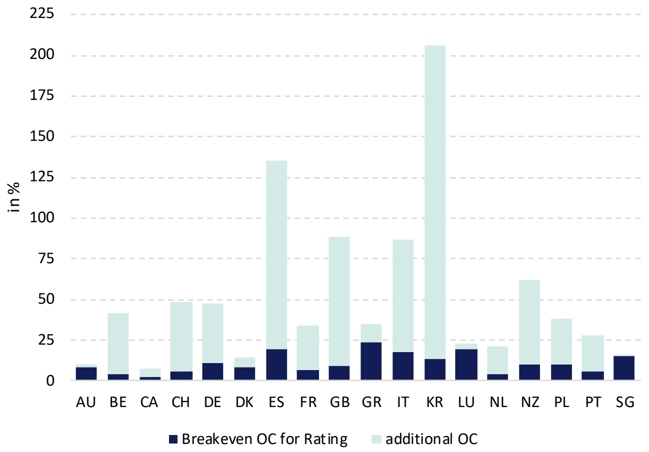


Source: FitchRatings, NORD/LB Markets Strategy & Floor Research

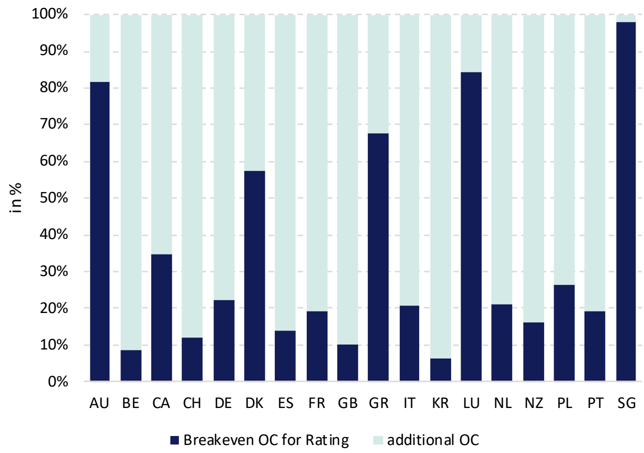
OC levels vary

In the following, we take a final look at overcollateralisation ratios and the respective breakeven OC used by Fitch. In simplified terms, this is the OC which Fitch deems to be sufficient for the respective rating. The analysis shows that breakeven OCs are highest in Greece, Luxembourg and Spain. On average, however, actual OC levels are highest in South Korea, Spain and the UK. Nevertheless, the high OC level in South Korea especially should not obscure the fact that this level only reflects one of the two rated programmes in South Korea and therefore does not allow any conclusions to be drawn in relation to the market as a whole. This contrasts with the case of Spain, for example, where after all the lowest OC stands at 54.5%. The graph on the right below shows another facet of the OC, namely the proportion of the OC which is above breakeven OC – essentially a breakdown of the actual OC into that part of the OC required for the rating and the additional part of the OC which is voluntarily over and above the former. It is clear that Singapore, Australia and Greece in particular, have OC ratios which are close to required breakeven OCs, in other words, they only include a small proportion of additional voluntary OC.

OC levels by country



OC breakdown by country



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

Conclusion

Whereas, at 54.7%, Moody’s still accounts for a dominant share of total ratings assigned by the three major agencies in the iBoxx EUR Covered, Fitch nevertheless accounts for 341 ratings or 23.3%. In light of this, in addition to our regular look at Moody's covered bond universe (last analysis on 16 September), this week, we have also analysed the Fitch universe in order to allow a better classification/interpretation of the ratings and rating metrics. As regards available uplifts, it appears that many covered bonds benefit from significant uplifts and accordingly have a substantial buffer against any downgrades of the Issuer Default Rating.

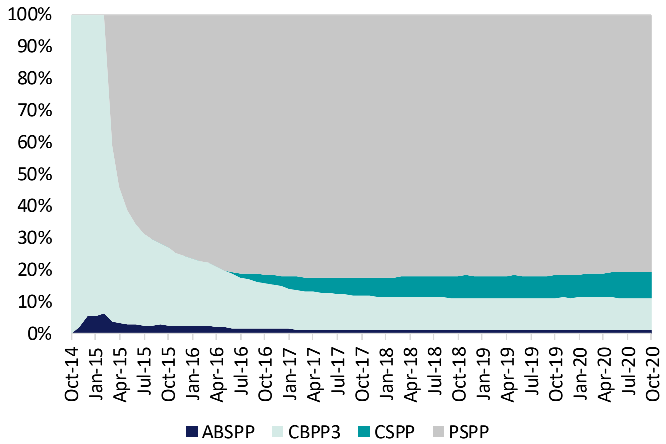
ECB tracker

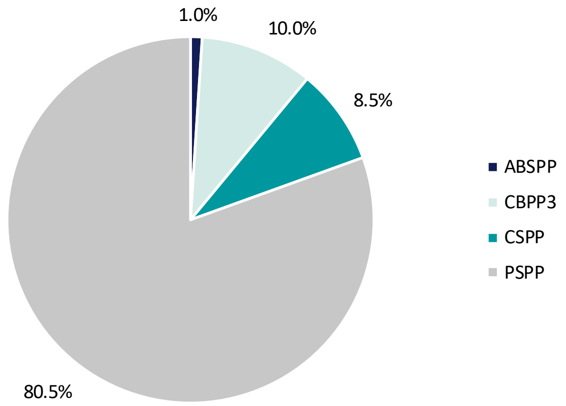
Asset Purchase Programme (APP)

Holdings (in EURm)

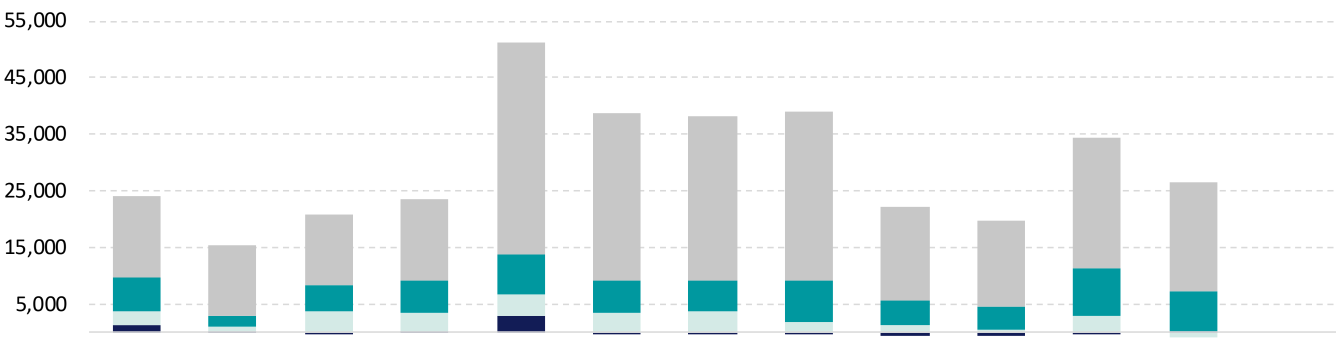
	ABSPP	CBPP3	CSPP	PSPP	APP
Sep-20	29,112	286,852	236,349	2,290,140	2,842,453
Oct-20	29,401	285,864	243,331	2,309,322	2,867,918
Δ	+289	-989	+6,983	+19,182	+25,465

Portfolio structure





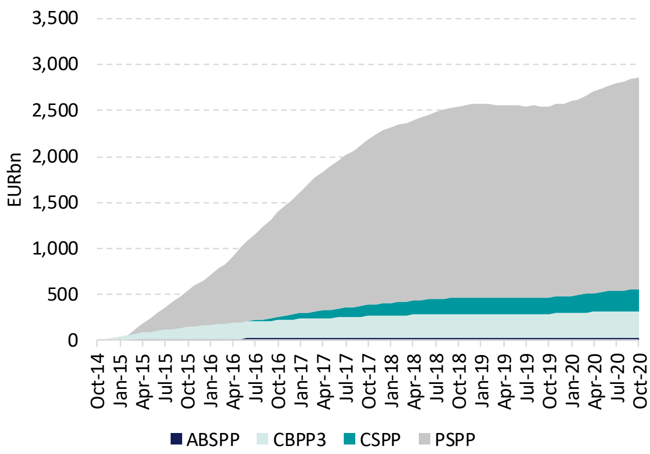
Monthly net purchases (in EURm)



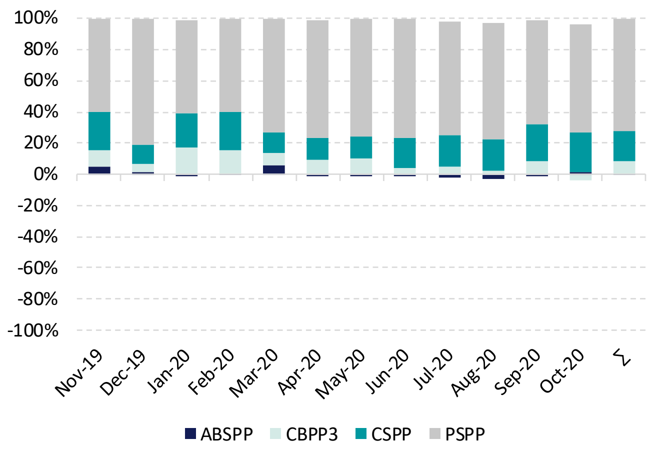
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
APP	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,465	349,986
PSPP	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	253,048
CSPP	5,917	1,799	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	6,983	67,528
CBPP3	2,448	865	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	-989	26,908
ABSPP	1,253	229	-328	221	2,923	-325	-14	-255	-541	-527	-423	289	2,502

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

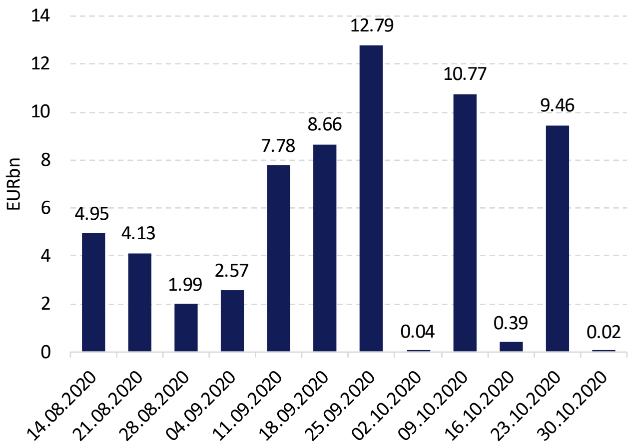
Portfolio development



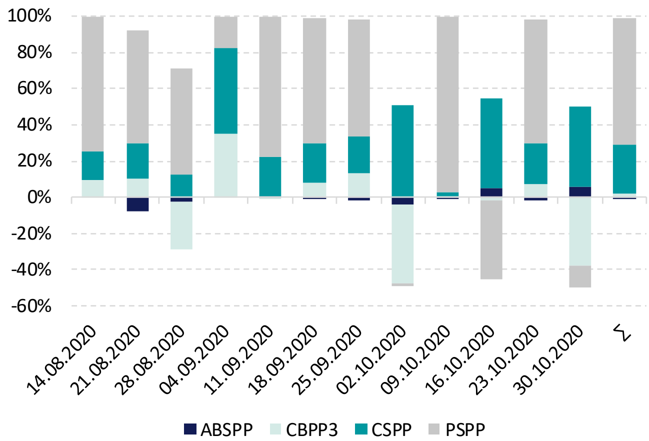
Distribution of monthly purchases



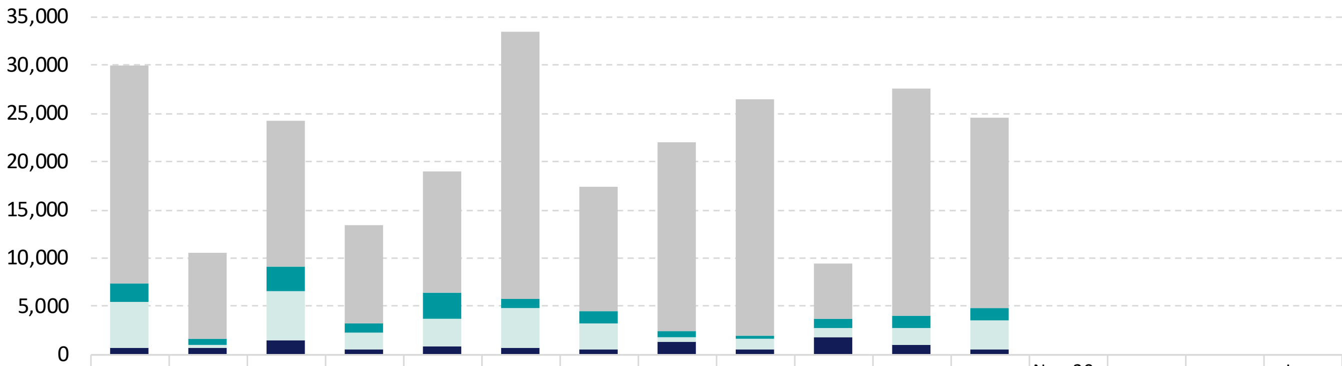
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

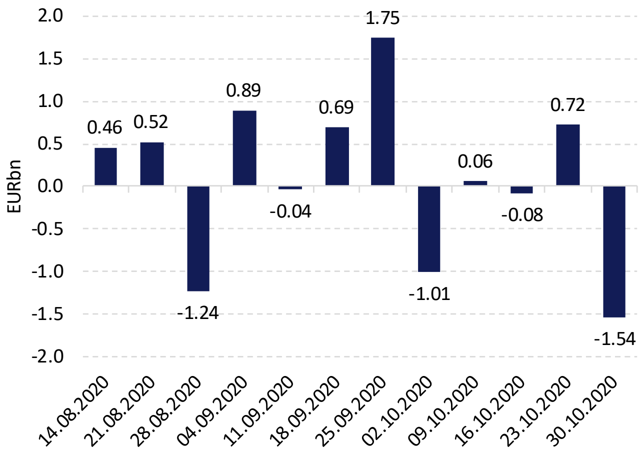


	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-20 - Oct-21	2019	2020	Jan - Oct-21
APP	29,933	10,567	24,192	13,413	19,027	33,473	17,407	22,010	26,534	9,505	27,612	24,653	258,326	204,542	259,637	217,826
PSPP	22,509	8,871	15,064	10,268	12,669	27,702	12,976	19,519	24,536	5,778	23,637	19,778	203,307	167,334	201,482	171,927
CSPP	1,967	701	2,589	846	2,728	981	1,144	778	331	966	1,239	1,309	15,579	7,070	15,849	12,911
CBPP3	4,756	302	5,099	1,820	2,782	4,178	2,849	367	1,129	1,002	1,805	2,976	29,065	21,948	33,237	24,007
ABSPP	701	693	1,440	479	848	612	438	1,346	538	1,759	931	590	10,375	8,190	9,069	8,981

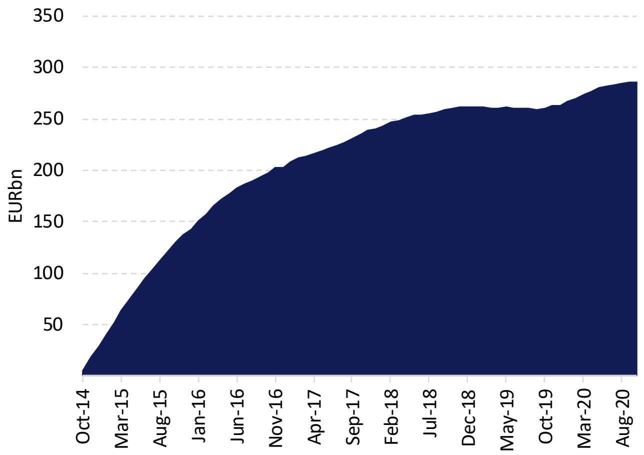
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

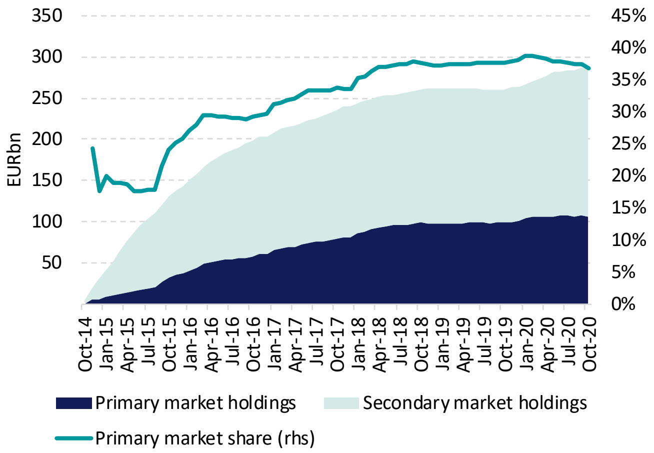
Weekly purchases



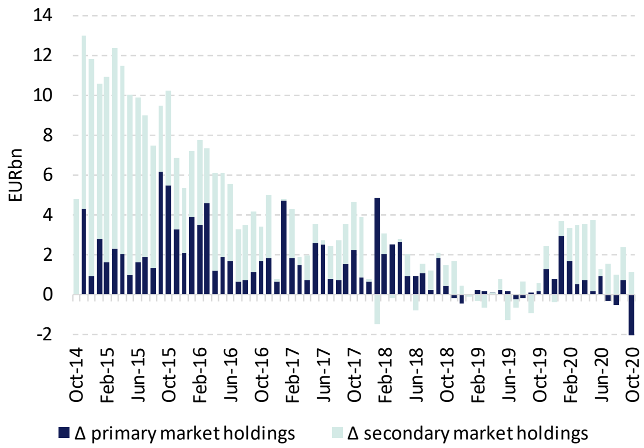
Development of CBPP3 volume



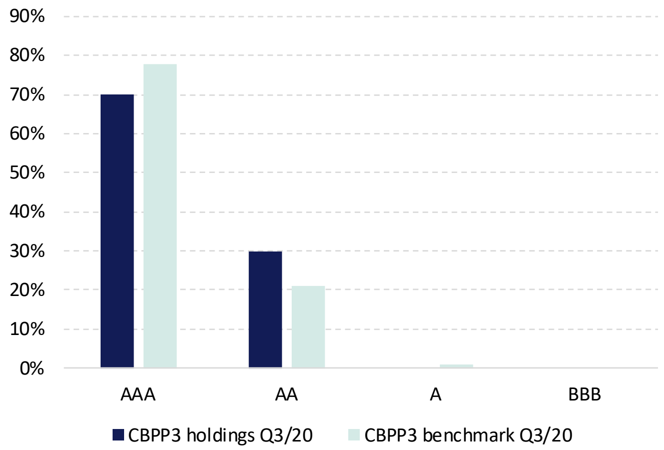
Primary and secondary market holdings



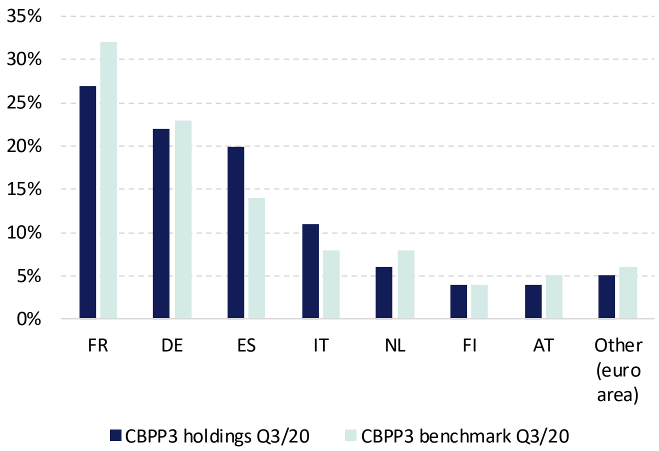
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



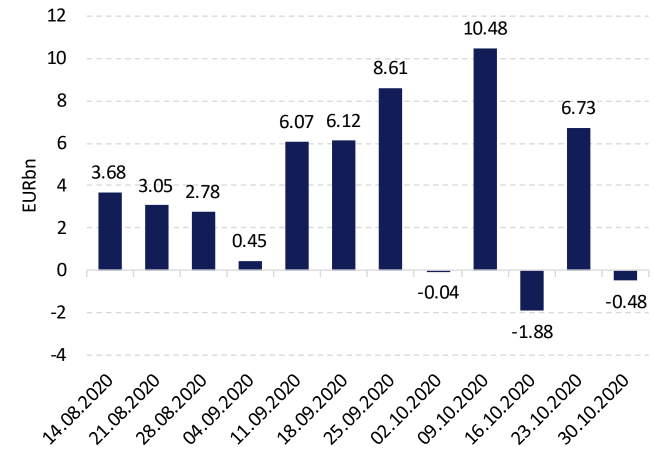
Distribution of CBPP3 by country of risk



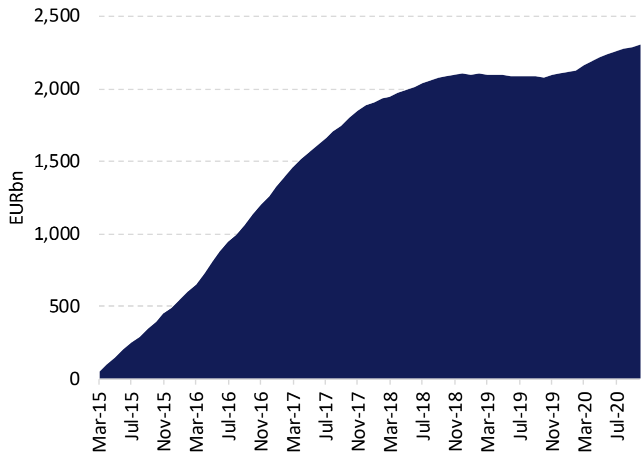
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



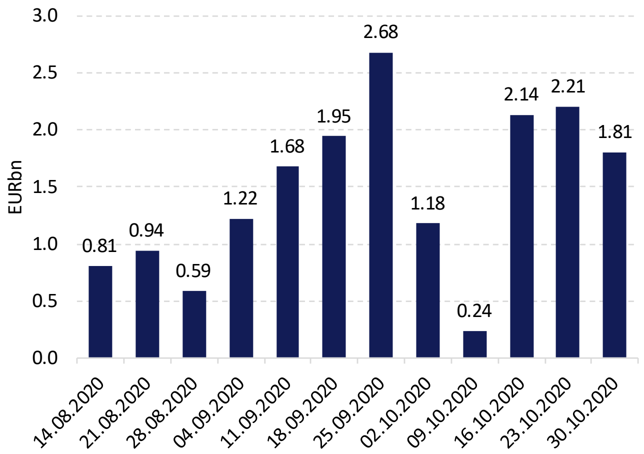
Overall distribution of PSPP buying at month-end

Country	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Average time to maturity in years	Market average in years[3]	Difference in years
AT	2.701%	66,079	64,956	1,123	7.85	7.53	0.3
BE	3.362%	84,096	80,854	3,242	8.40	9.77	-1.4
CY	0.199%	2,894	4,775	-1,881	10.12	9.26	0.9
DE	24.327%	554,810	585,035	-30,225	6.50	7.56	-111
EE	0.260%	224	6,252	-6,028	9.68	9.68	0.0
ES	11.004%	284,516	264,640	19,876	8.14	8.38	-0.2
FI	1.695%	34,173	40,765	-6,592	7.17	8.02	-0.8
FR	18.848%	482,382	453,273	29,109	7.04	8.16	-1.1
IE	1.563%	36,011	37,581	-1,570	8.63	9.95	-1.3
IT	15.677%	411,405	377,022	34,383	7.07	7.54	-0.5
LT	0.360%	4,298	8,648	-4,350	9.51	11.29	-1.8
LU	0.304%	2,646	7,310	-4,664	5.02	6.53	-1.5
LV	0.534%	2,789	12,844	-10,055	10.02	10.49	-0.5
MT	0.097%	1,203	2,328	-1,125	10.03	9.27	0.8
NL	5.408%	114,094	130,059	-15,965	7.52	8.56	-1.0
PT	2.160%	44,501	51,942	-7,441	7.19	7.44	-0.3
SI	0.444%	8,630	10,686	-2,056	9.36	9.39	0.0
SK	1.057%	13,527	25,416	-11,889	8.35	8.67	-0.3
GR	0.00%	0	0	0	0.00	15.95	0.0
SNAT	10.00%	254,597	240,487	14,110	7.23	8.23	-1.0
Total / Avg.	**100.0%**	**2,404,873**	**-**	**-**	**7.21**	**8.14**	**-0.9**

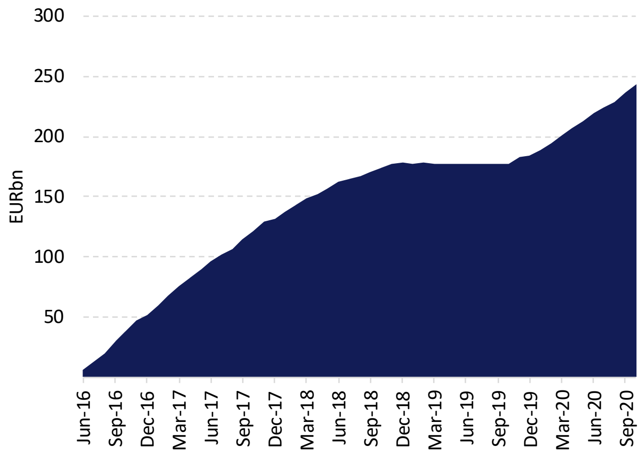
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

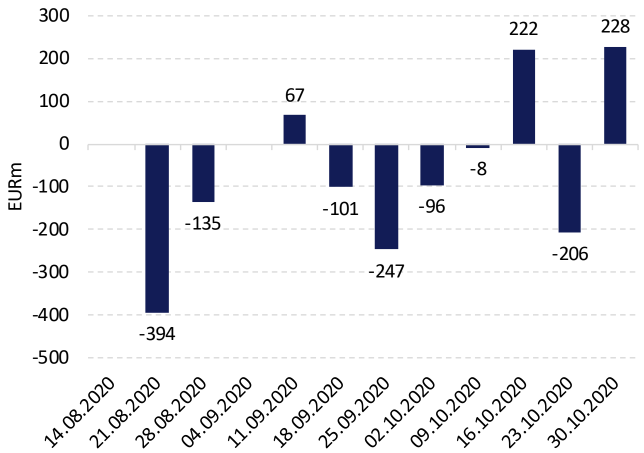


Development of CSPP volume

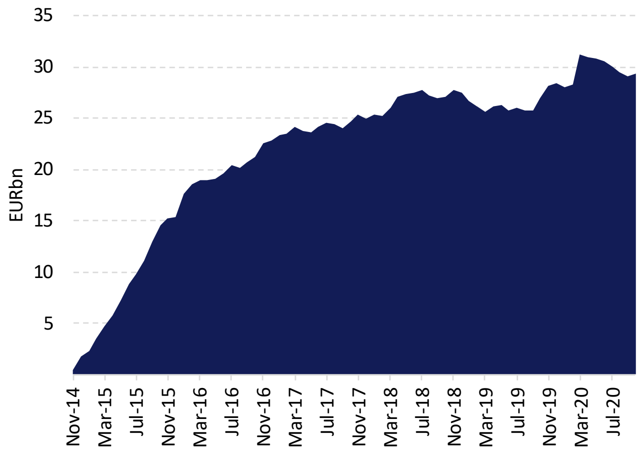


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



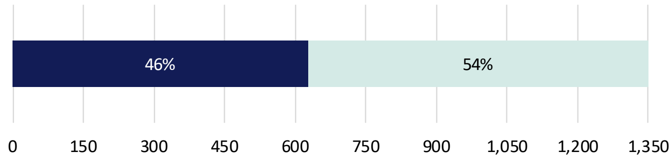
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Sep-20	567,183
Oct-20	629,169
Δ	+61,985

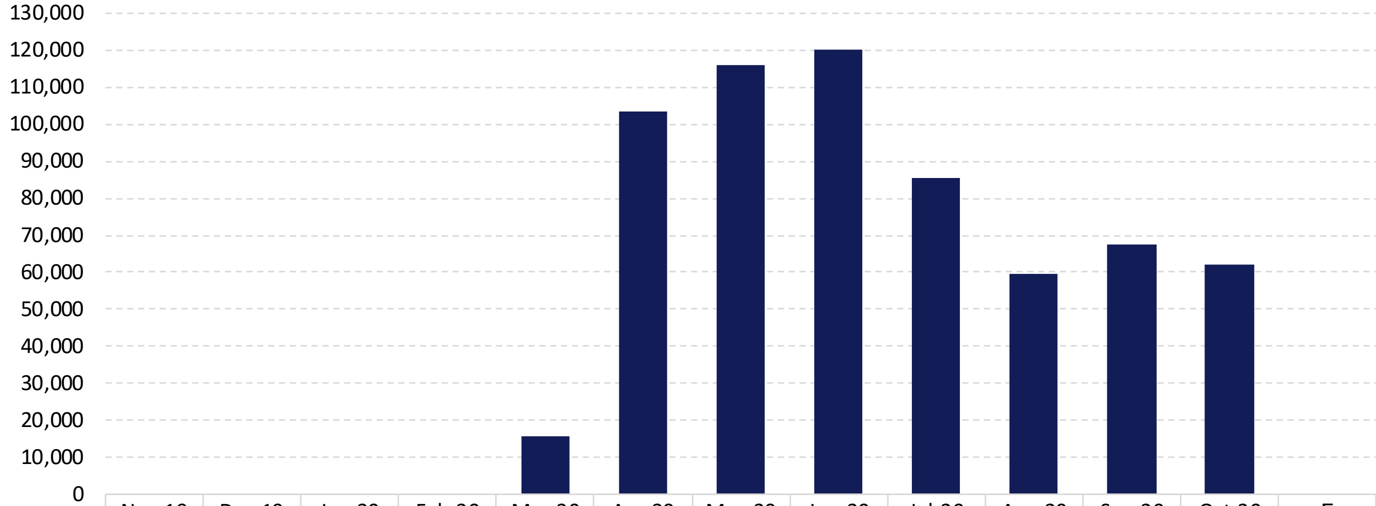
Volume already invested (in EURbn)



Estimated portfolio development

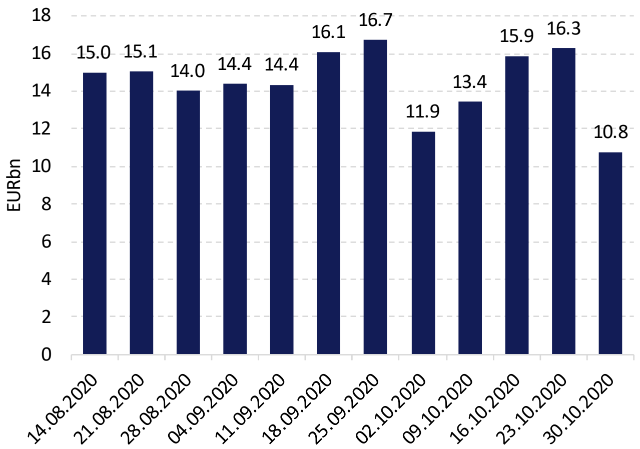
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 20.2bn	36 weeks (09.07.2021)

Monthly net purchases (in EURm)

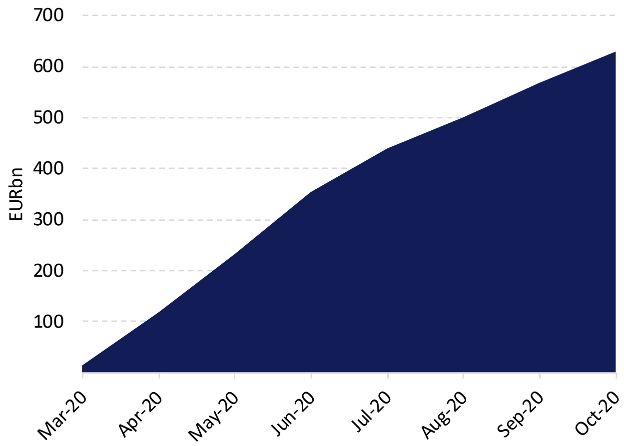


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168

Weekly purchases



Development of PEPP volume

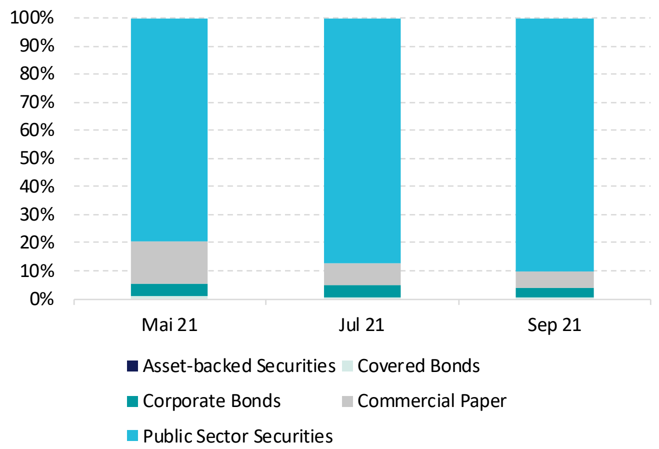


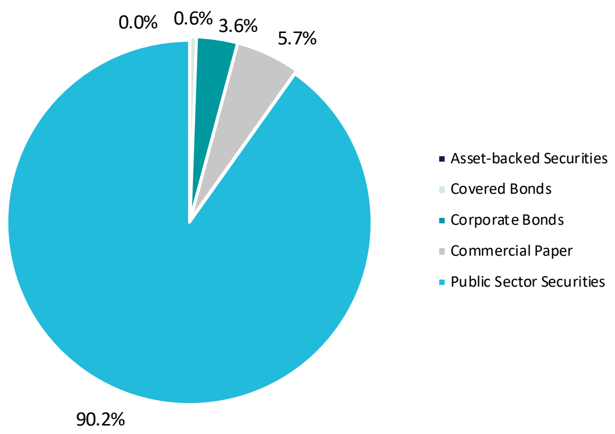
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

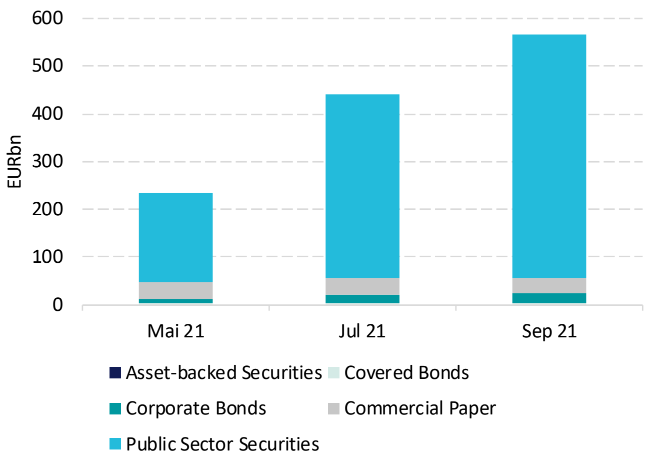
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

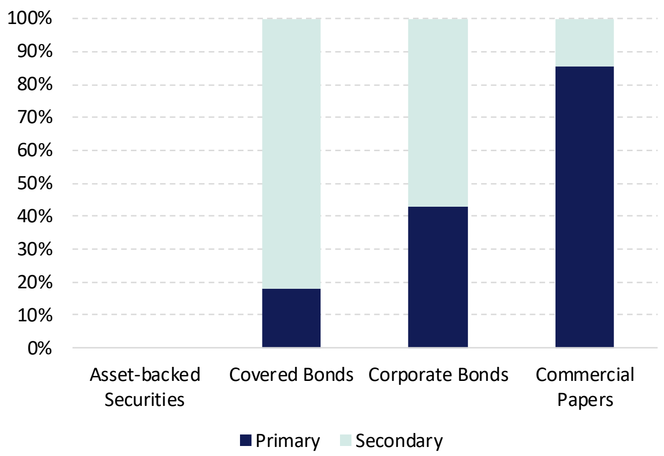




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP as of July 2020

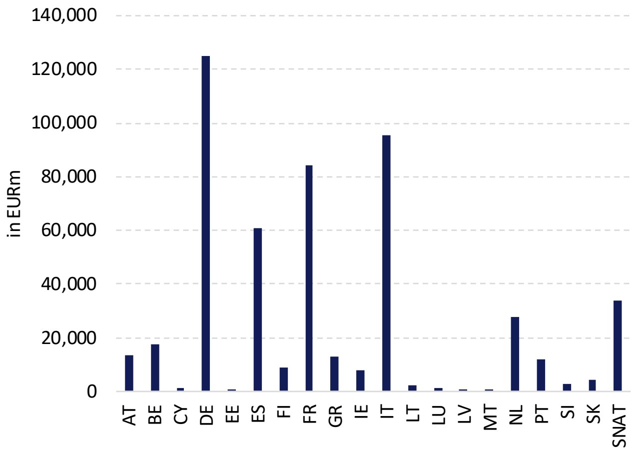
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

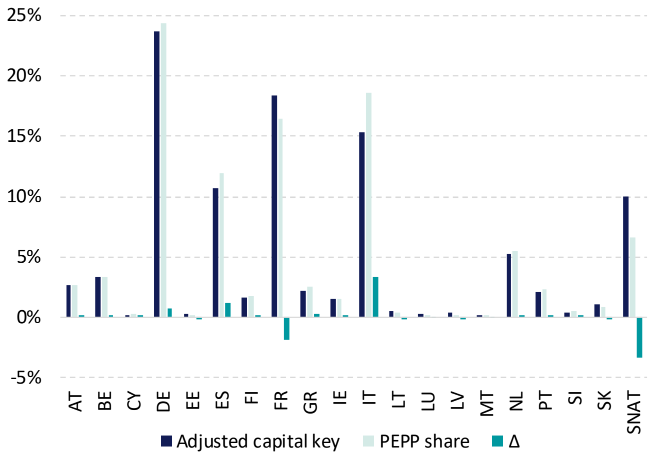
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	ø time to maturity (in years)	Market average[3] (in years)	Difference (in years)
AT	13,614	2.6%	2.7%	0.0%	10.9	7.2	3.8
BE	17,279	3.3%	3.4%	0.1%	5.9	9.4	-3.5
CY	1,194	0.2%	0.2%	0.0%	11.7	8.1	3.6
DE	125,048	23.7%	24.4%	0.7%	4.5	6.6	-2.1
EE	192	0.3%	0.0%	-0.2%	9.2	7.7	1.6
ES	61,030	10.7%	11.9%	1.2%	8.4	7.4	0.9
FI	8,688	1.7%	1.7%	0.0%	7.3	7.0	0.3
FR	84,237	18.4%	16.5%	-1.9%	9.0	7.4	1.7
GR	12,966	2.2%	2.5%	0.3%	8.3	9.1	-0.8
IE	8,028	1.5%	1.6%	0.0%	8.3	9.6	-1.3
IT	95,243	15.3%	18.6%	3.3%	7.0	6.8	0.2
LT	1,988	0.5%	0.4%	-0.1%	12.0	10.6	1.4
LU	994	0.3%	0.2%	-0.1%	6.4	6.4	0.0
LV	837	0.4%	0.2%	-0.2%	9.7	8.9	0.8
MT	238	0.1%	0.0%	0.0%	7.6	7.9	-0.4
NL	27,795	5.3%	5.4%	0.2%	3.9	7.2	-3.3
PT	11,649	2.1%	2.3%	0.2%	7.0	6.6	0.4
SI	2,481	0.4%	0.5%	0.1%	7.0	8.6	-1.5
SK	4,338	1.0%	0.8%	-0.2%	6.8	8.1	-1.3
SNAT	33,811	10.0%	6.6%	-3.4%	8.1	7.2	0.8
Total / Avg.	**511,650**	**100.0%**	**100.0%**	**-**	**6.9**	**7.2**	**-0.3**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



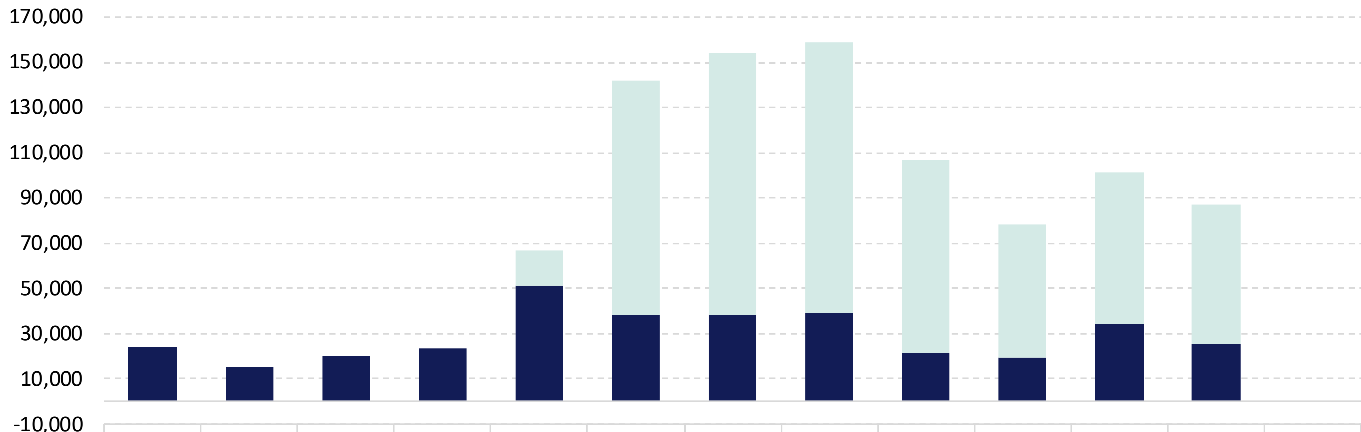
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

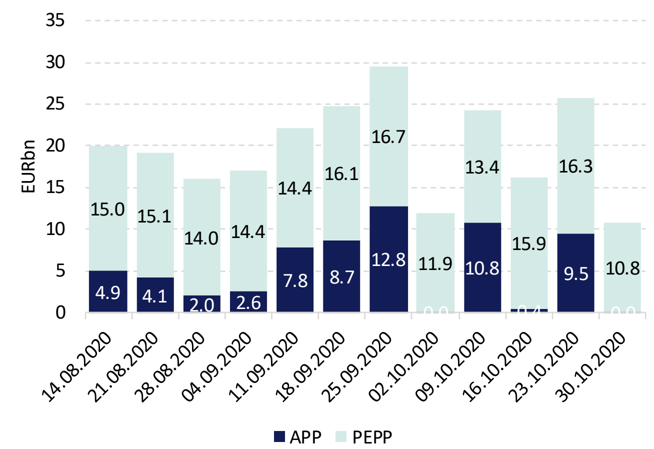
	APP	PEPP	APP & PEPP
Sep-20	2,842,453	567,183	3,409,636
Oct-20	2,867,918	629,169	3,497,087
Δ	+25,465	+61,985	+87,450

Monthly net purchases (in EURm)

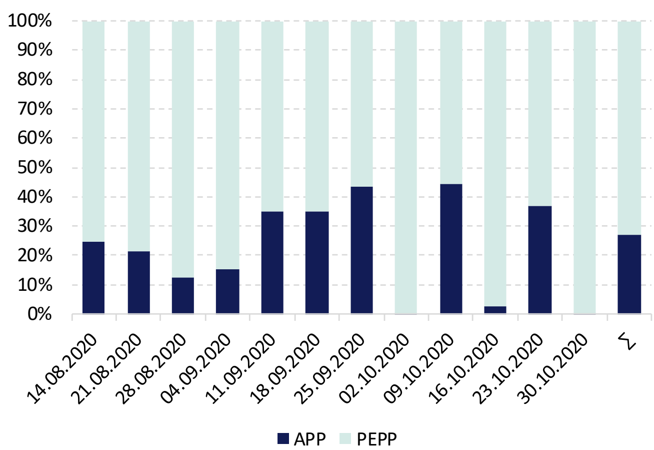


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
∑	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,450	979,154
PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168
APP	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,465	349,986

Weekly purchases



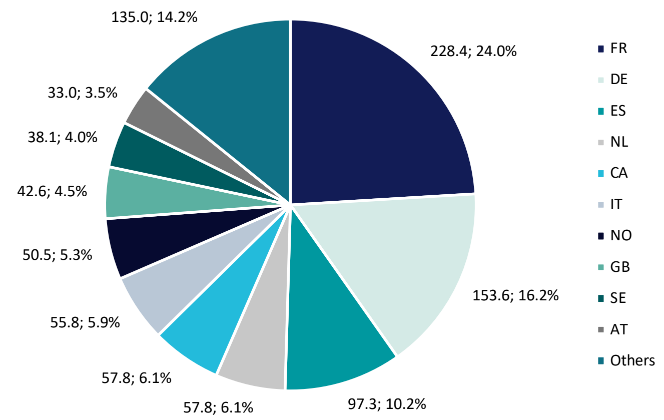
Distribution of weekly purchases



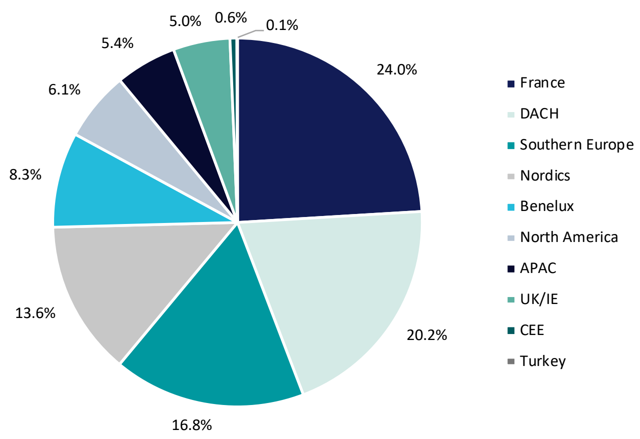
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



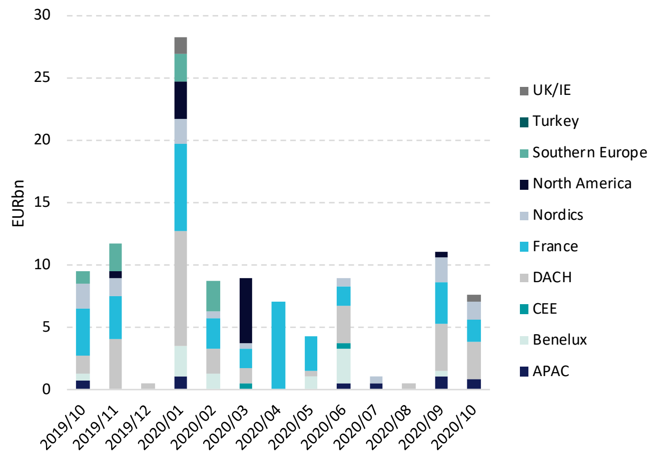
EUR benchmark volume by region (in EURbn)



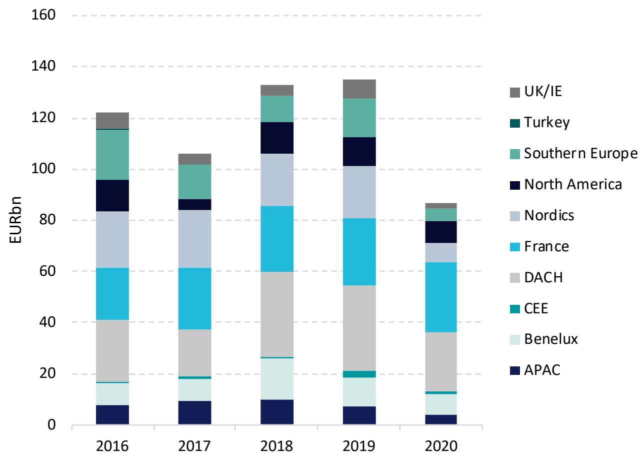
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	228.4	207	7	0.97	10.1	5.5	1.28
2	DE	153.6	228	12	0.61	8.1	4.8	0.50
3	ES	97.3	78	3	1.15	11.2	3.9	1.85
4	NL	57.8	56	0	0.98	10.8	7.0	1.02
5	CA	57.8	49	0	1.15	5.9	3.0	0.32
6	IT	55.8	64	0	0.84	8.8	4.2	1.58
7	NO	50.5	57	6	0.89	7.1	3.7	0.62
8	GB	42.6	46	0	0.94	8.2	3.2	1.24
9	SE	38.1	43	0	0.88	7.3	3.2	0.63
10	AT	33.0	59	0	0.56	9.2	5.6	0.84

EUR benchmark issue volume by month

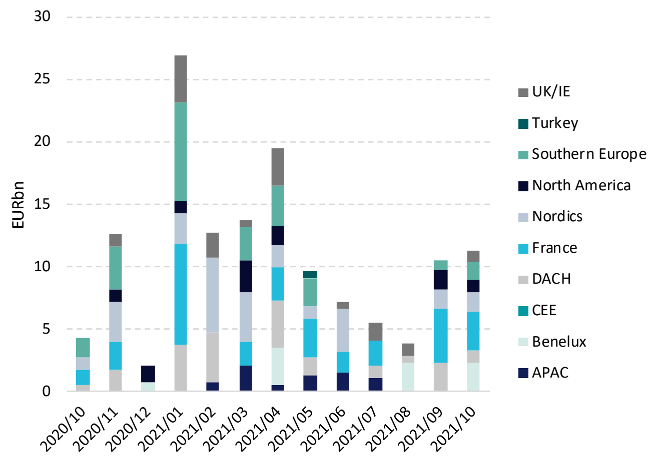


EUR benchmark issue volume by year

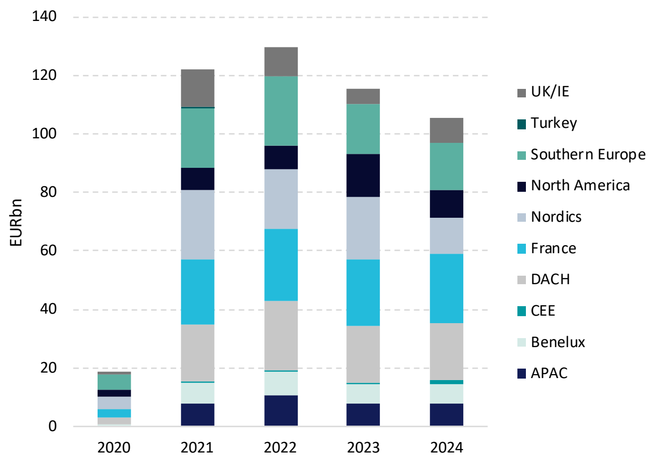


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

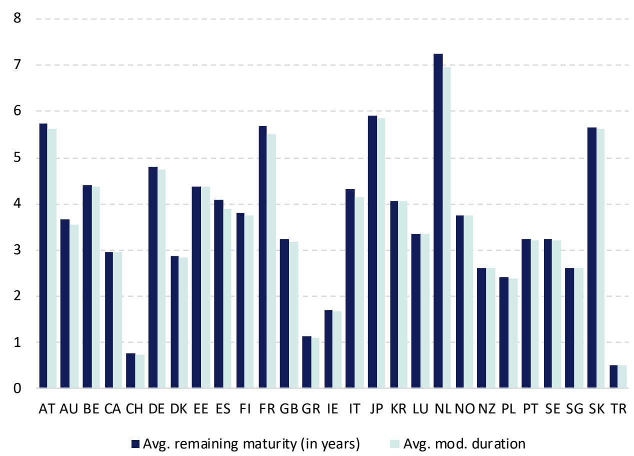
EUR benchmark maturities by month



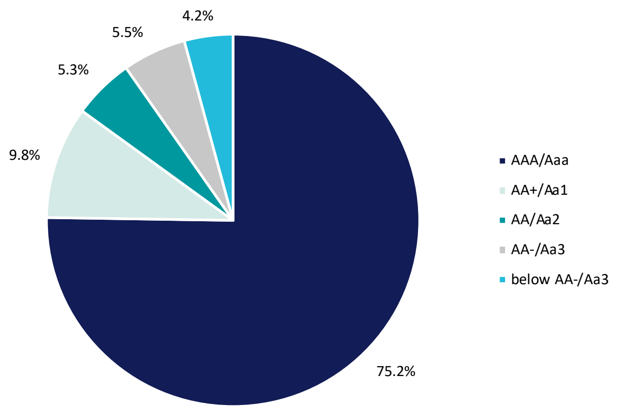
EUR benchmark maturities by year



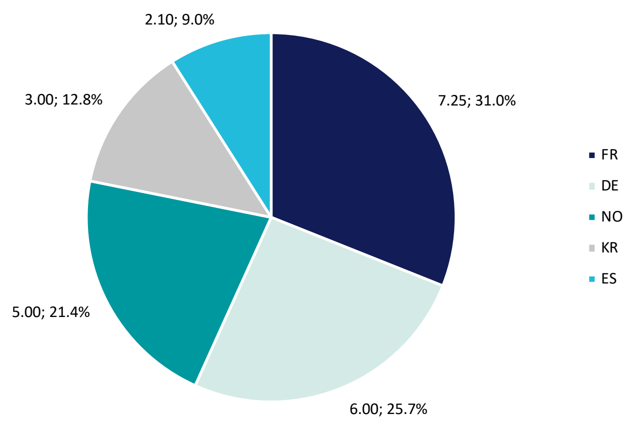
Modified duration and time to maturity by country



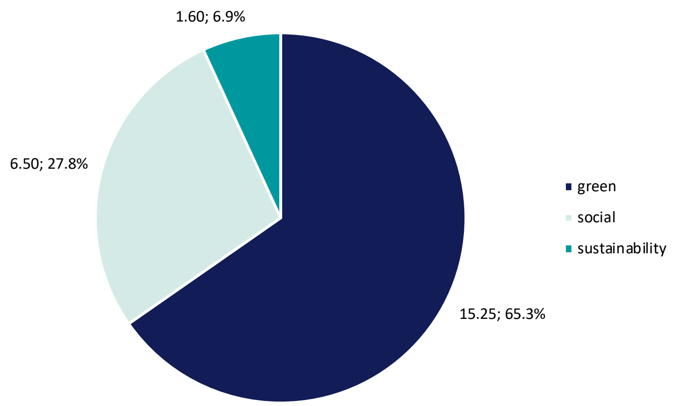
Rating distribution (volume weighted)



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

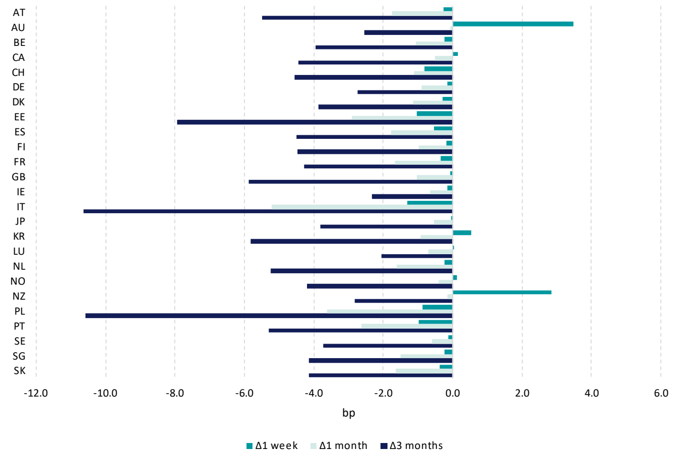


EUR benchmark volume (ESG) by type (in EURbn)

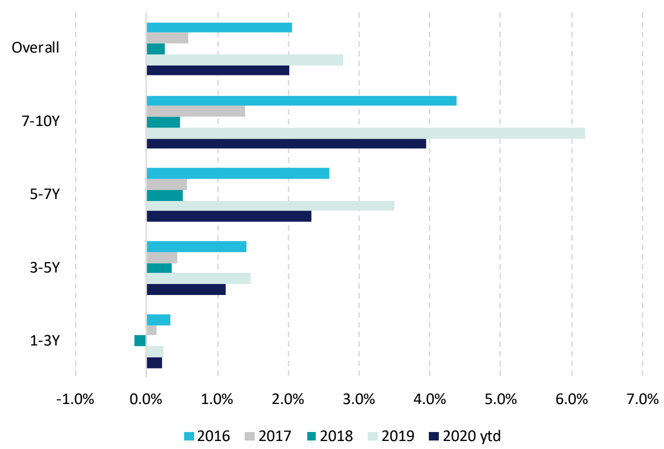


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

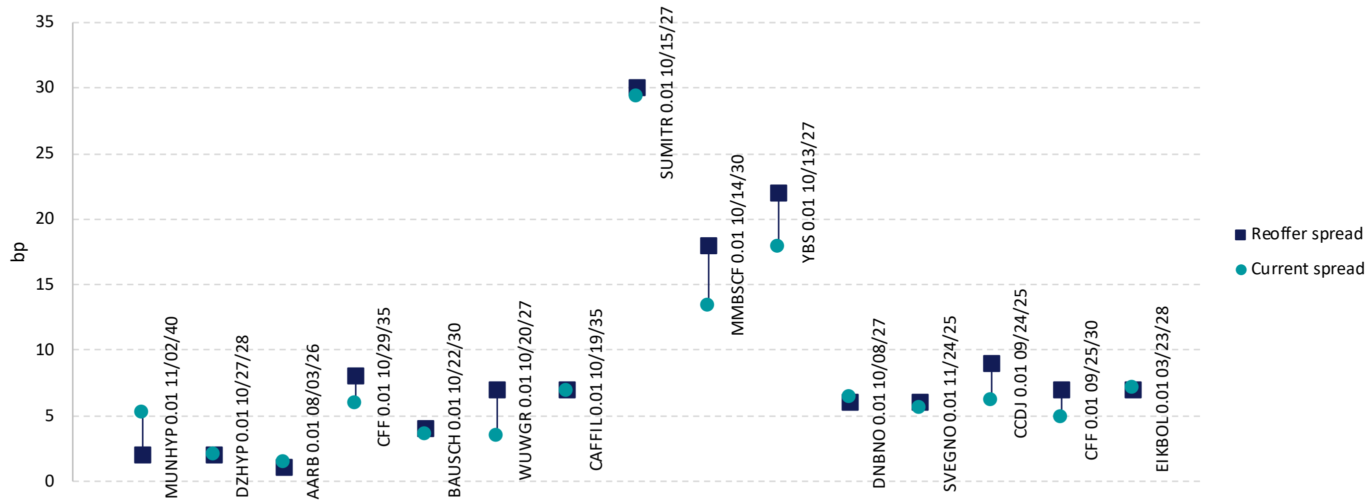
Spread development by country



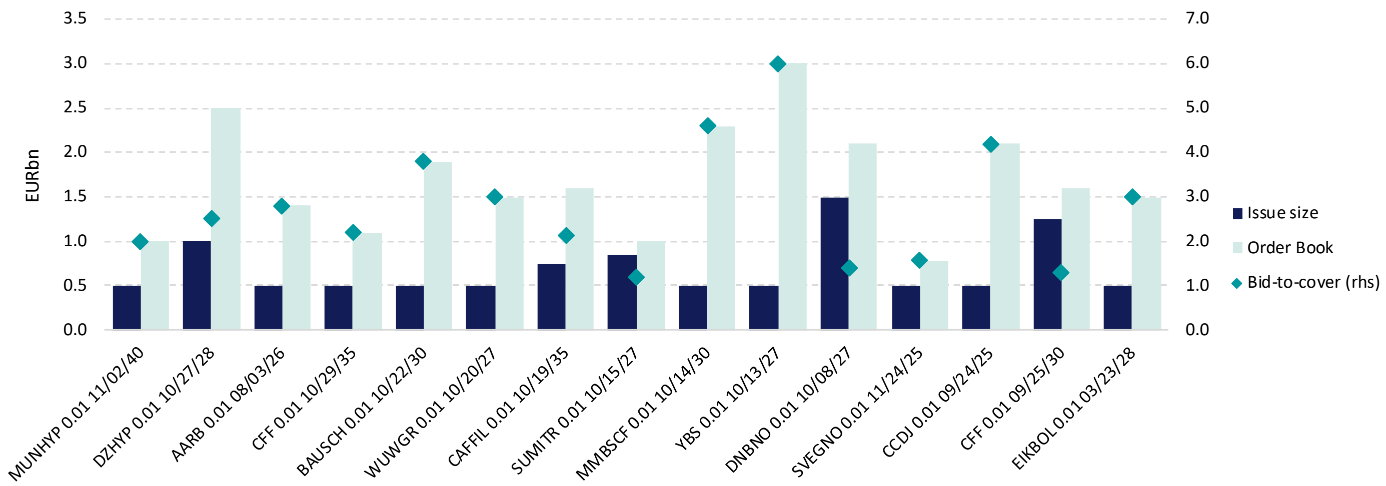
Covered bond performance (Total return)



Spread development (last 15 issues)



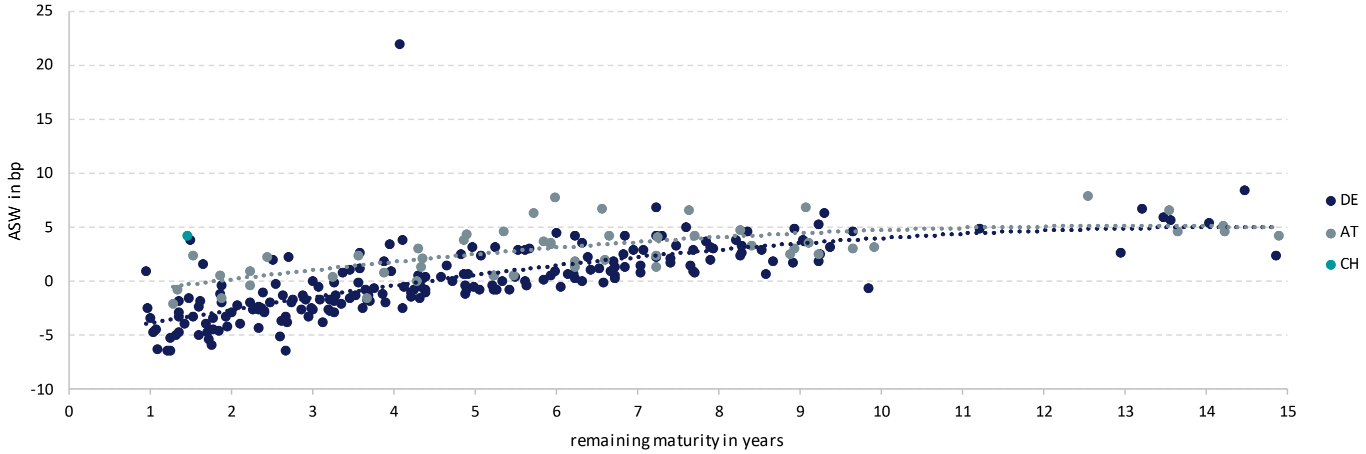
Order books (last 15 issues)



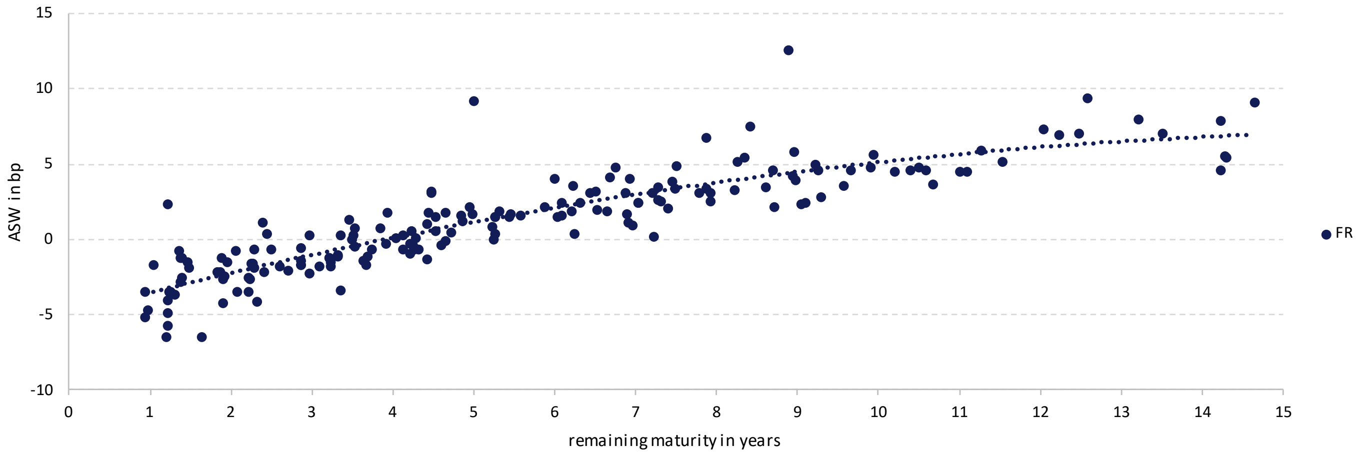
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

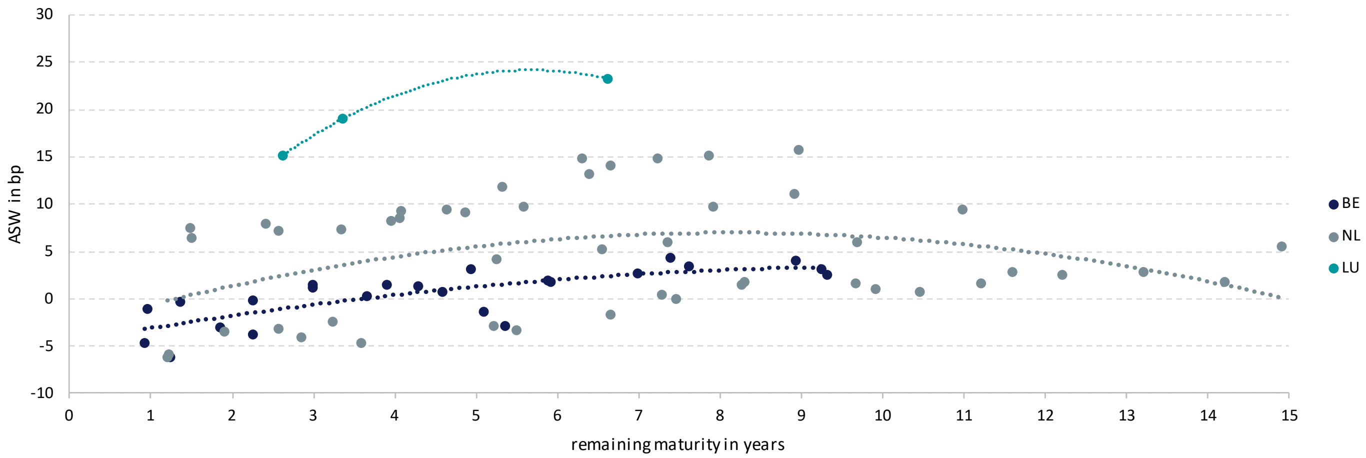
DACH



France

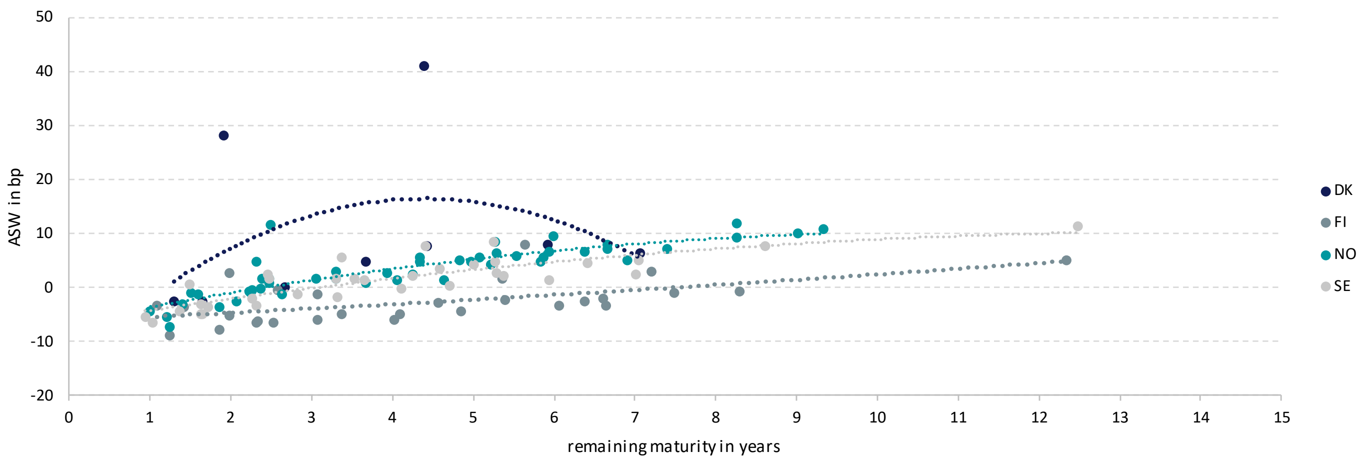


Benelux

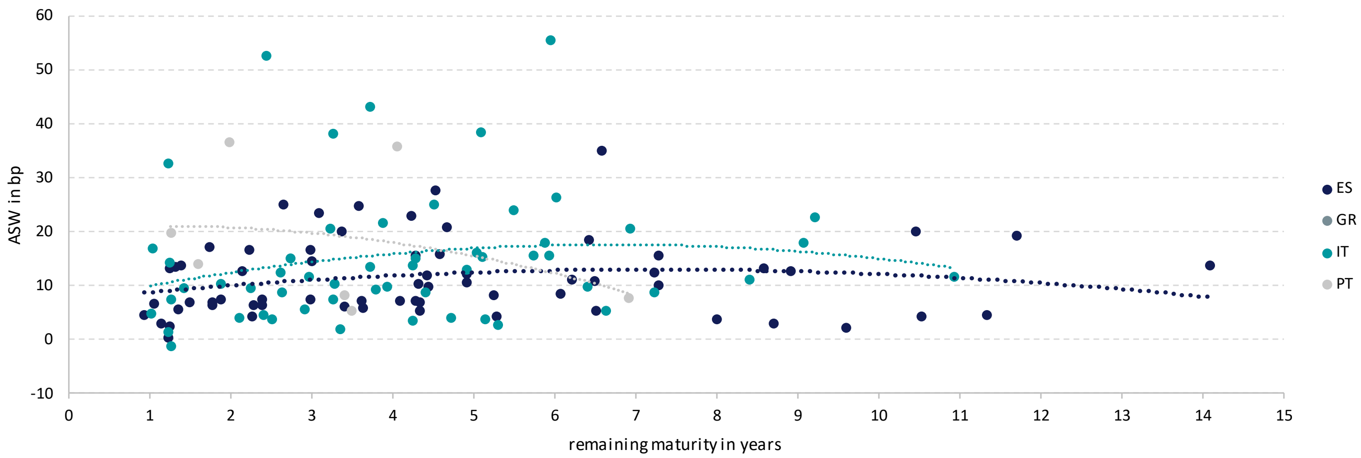


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

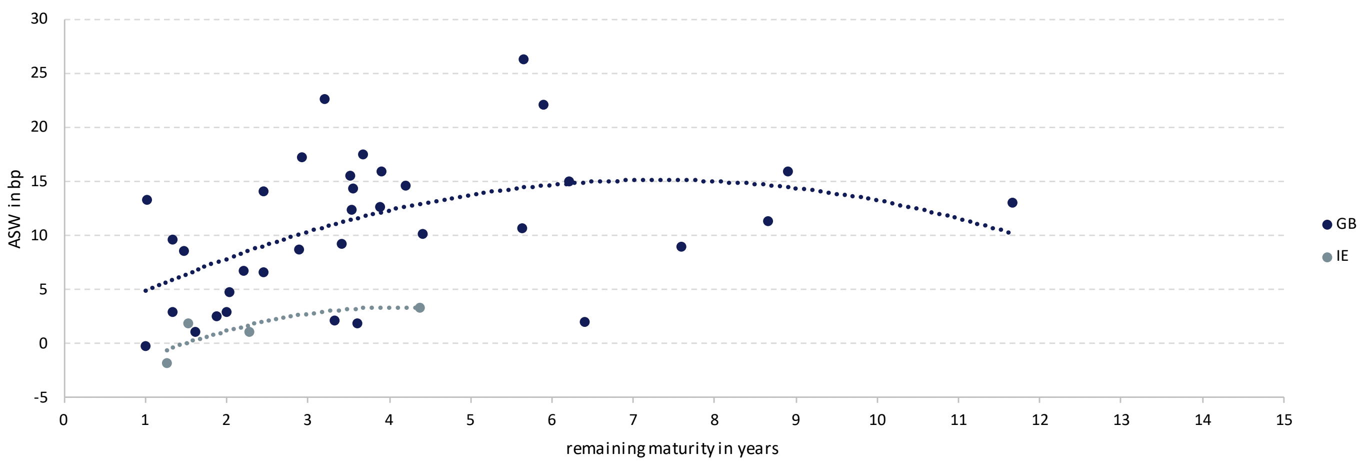
Nordics



Southern Europe

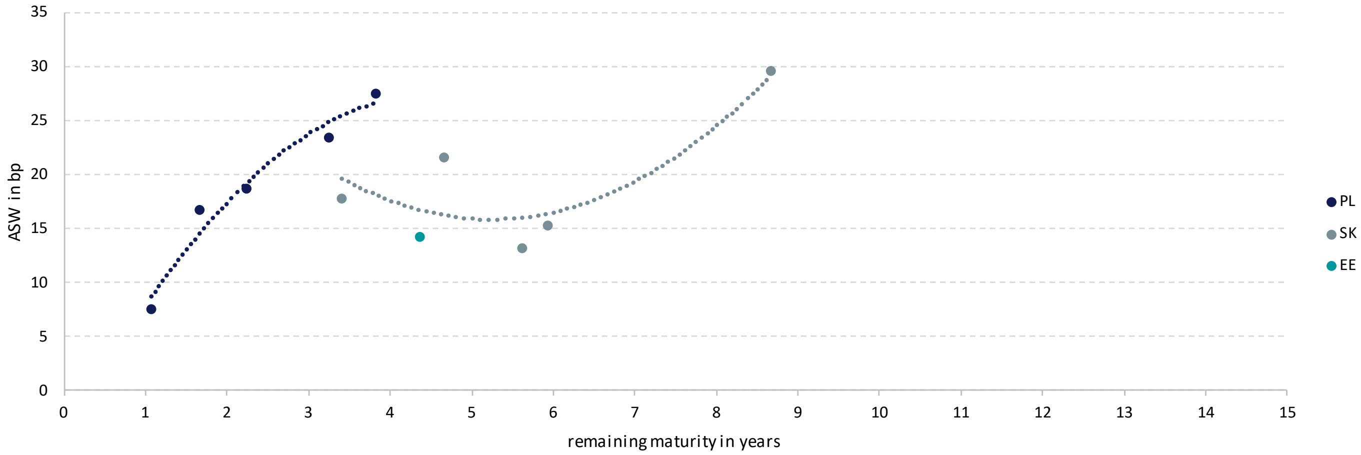


UK/IE

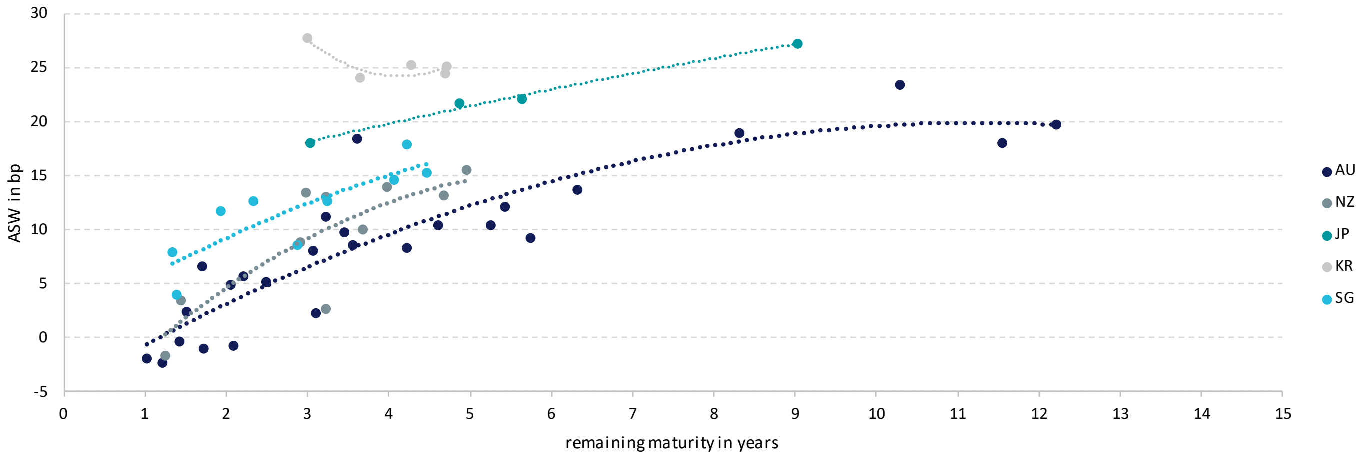


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

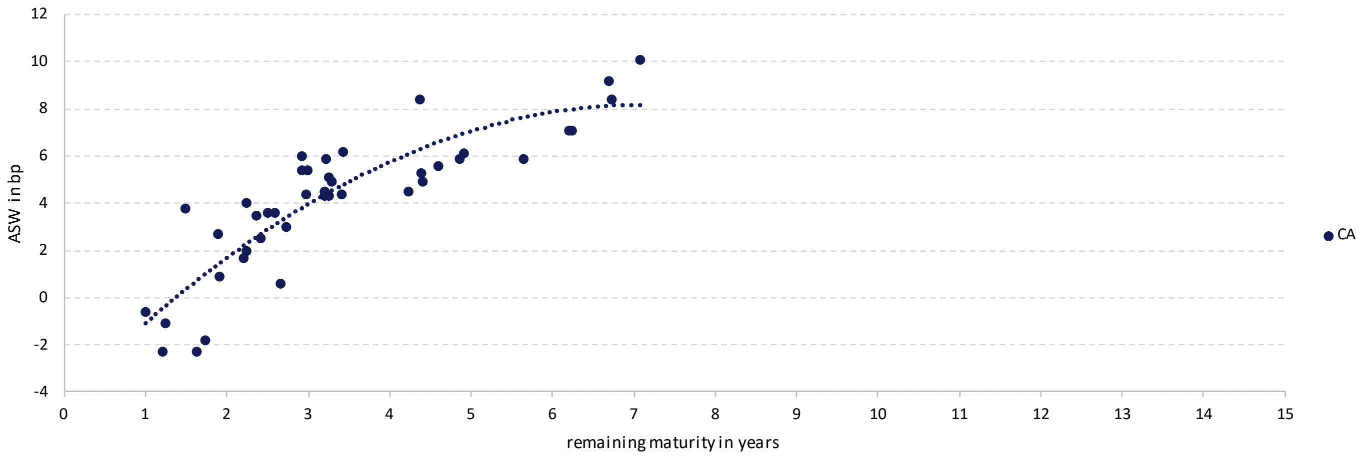
CEE



APAC



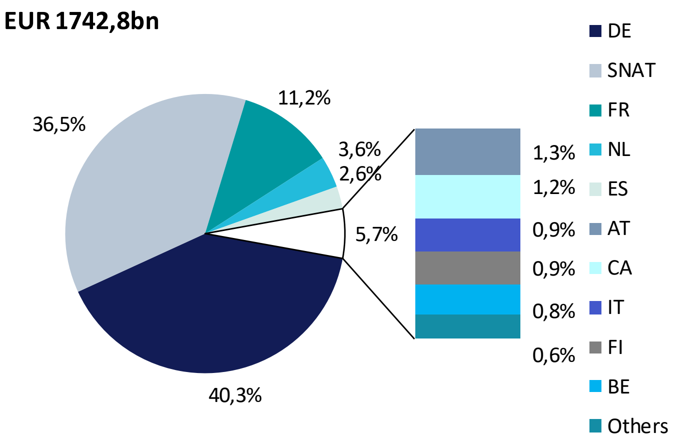
North America



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

Charts & Figures
SSA/Public Issuers

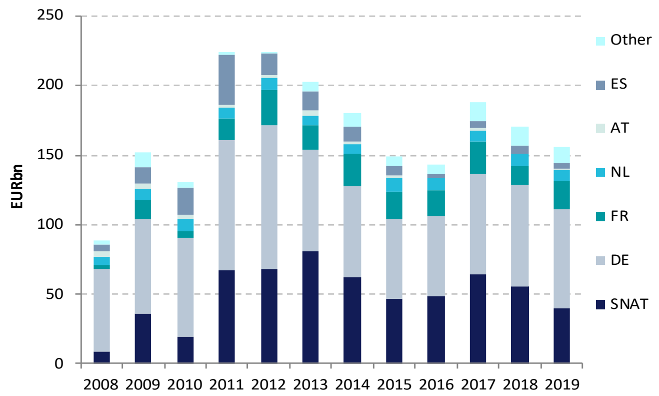
Outstanding volume (bmk)



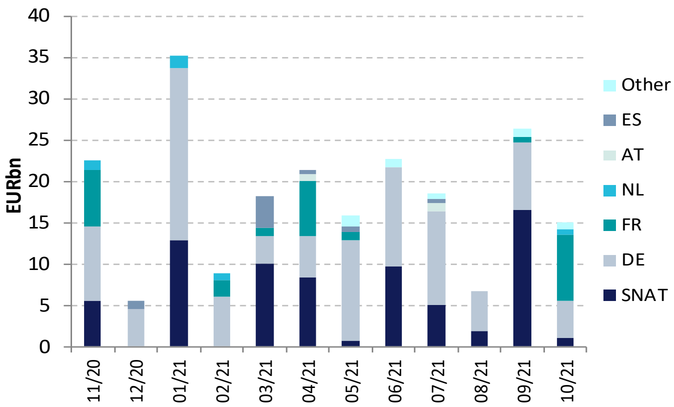
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	702,4	547	1,3	6,2
SNAT	636,9	171	3,8	6,5
FR	195,2	135	1,5	5,0
NL	63,0	66	1,0	6,3
ES	45,0	52	0,9	4,5
AT	23,0	24	1,0	4,9
CA	20,5	15	1,3	4,9
IT	15,8	20	0,8	5,9
FI	15,5	20	0,8	6,2
BE	14,4	17	0,8	13,9

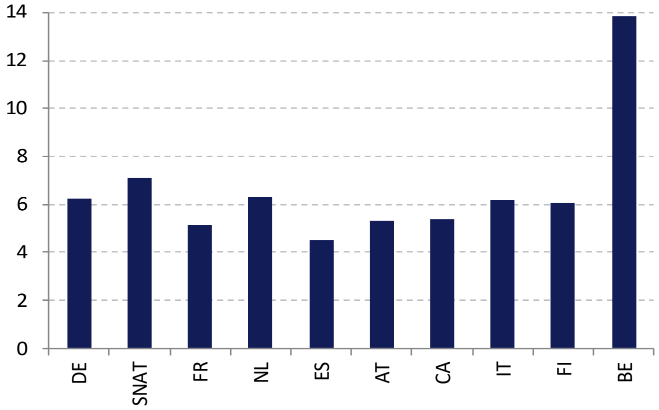
Issue volume by year (bmk)



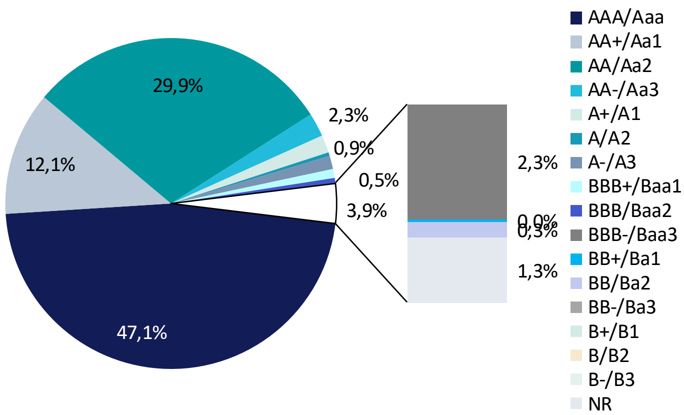
Maturities next 12 months (bmk)



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

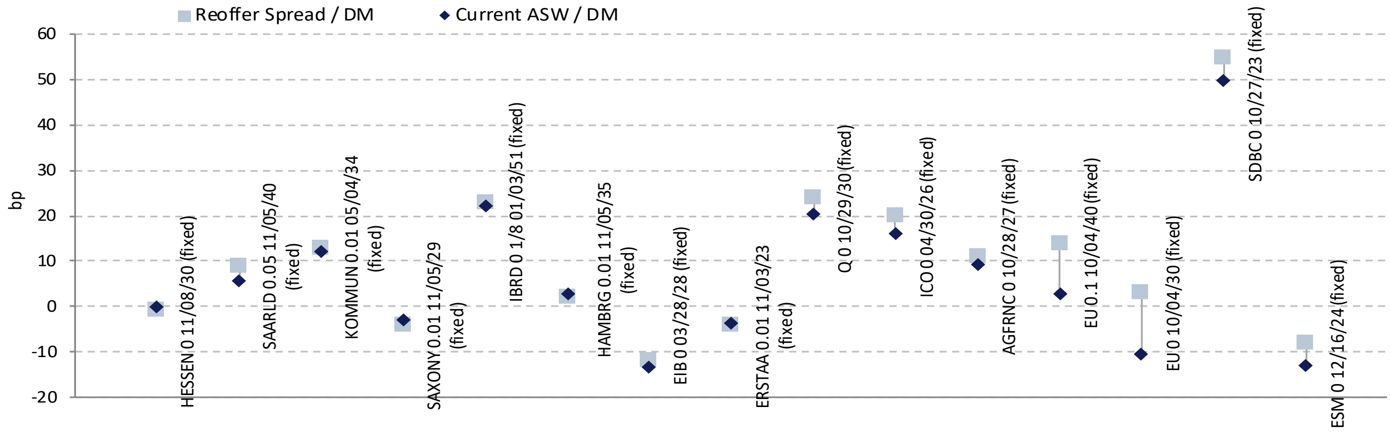


Rating distribution (vol. weighted)

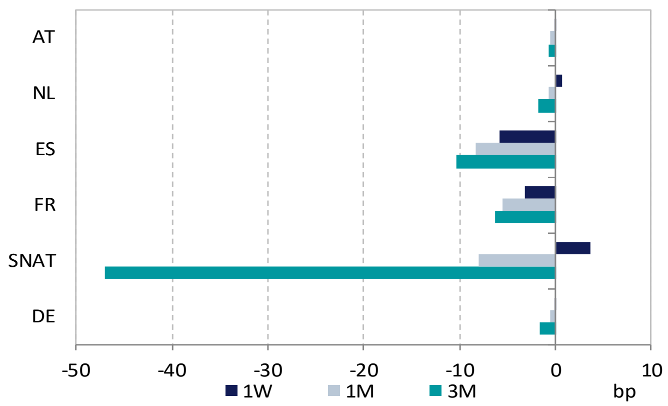


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

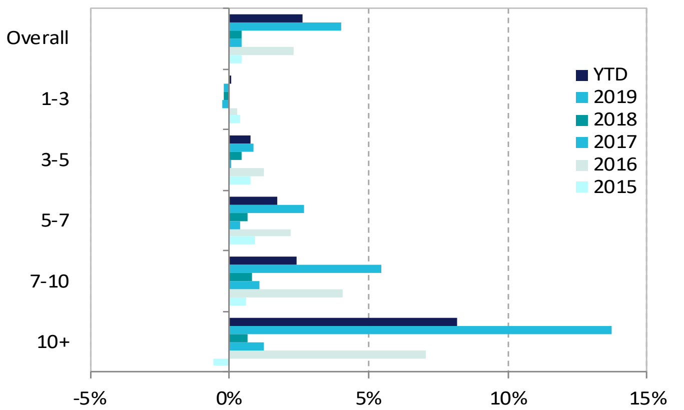
Spread development (last 15 issues)



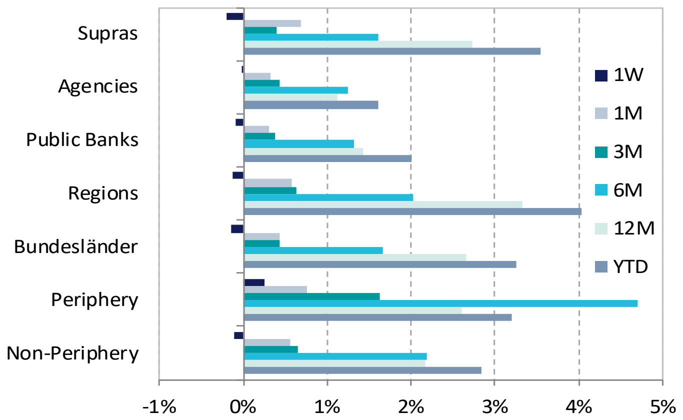
Spread development by country



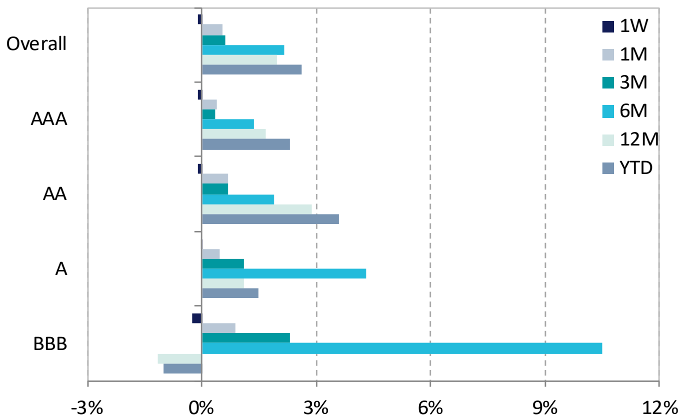
Performance (total return)



Performance (total return) by regions

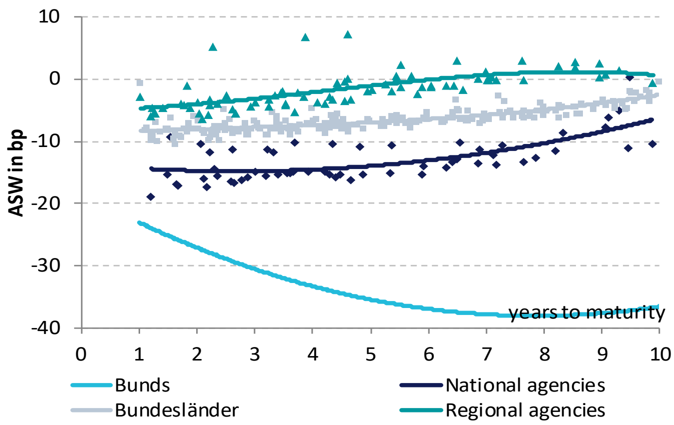


Performance (total return) by rating

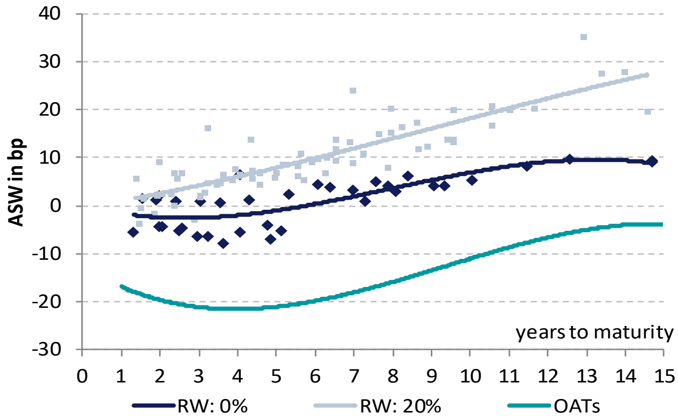


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

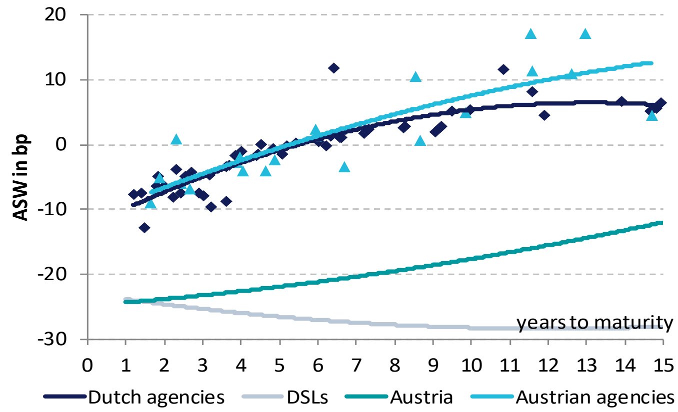
Germany (by segments)



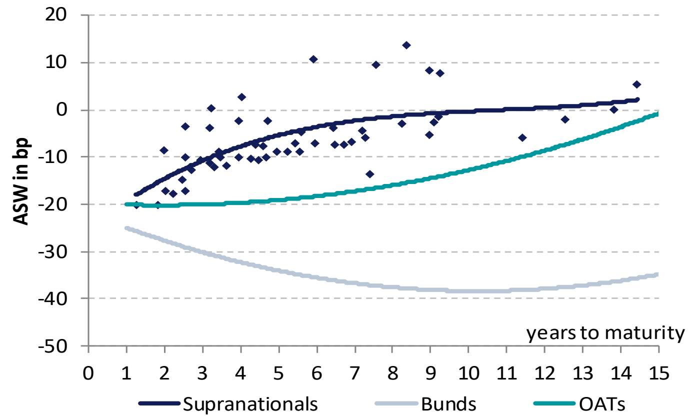
France (by risk weight)



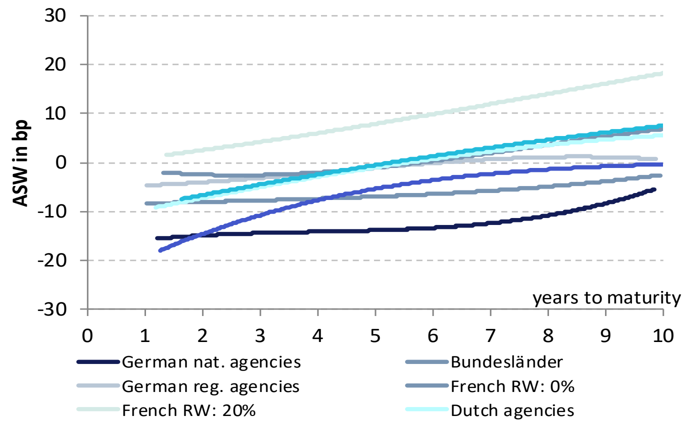
Netherlands & Austria



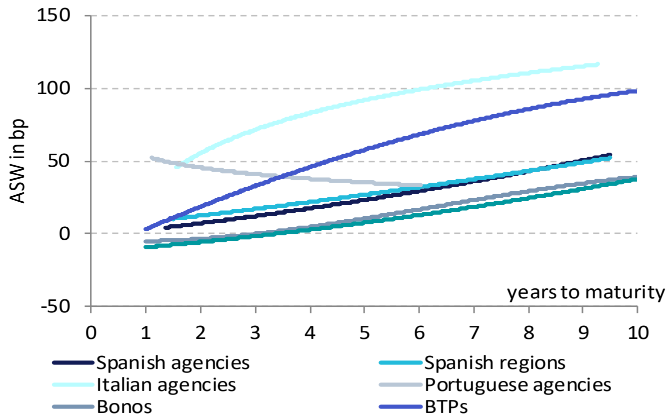
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
41/2020 ♦ 28 October	▪ ECB: The year of the owl – review and outlook ▪ Yield developments on the covered bond market
40/2020 ♦ 21 October	▪ German building societies: EUR benchmark debuts and requirements for investing in soft bullet bonds ▪ NPLs in cover pools – lack of unified approach at national level
39/2020 ♦ 14 October	▪ Spain: Issuer consolidation ahead? ▪ PfandBG to include extendable maturity structures ▪ The EU has big plans – "SURE" and "Next Generation EU"
38/2020 ♦ 07 October	▪ New issuer from Japan – Sumitomo Mitsui Trust Bank places inaugural EUR benchmark bond ▪ PEPP – taking stock six months on
37/2020 ♦ 30 September	▪ Cover pool characteristics – international comparison
36/2020 ♦ 23 September	▪ Bausparkasse Schwäbisch Hall plans inaugural EUR benchmark ▪ Update: Auckland Council – Investment alternative in Down Under
35/2020 ♦ 16 September	▪ Moody's covered bond universe: an overview ▪ Update Down Under: Victoria (TCV)
34/2020 ♦ 26 August	▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures ▪ Update: New South Wales (NSWTC)
33/2020 ♦ 19 August	▪ German Pfandbrief savings banks in Q2 2020 ▪ ECBC publishes annual statistics for 2019
32/2020 ♦ 12 August	▪ Transparency requirements §28 PfandBG in Q2 2020 ▪ Development of the German property market ▪ European Atomic Energy Community (Euratom)
31/2020 ♦ 05 August	▪ PEPP: Second round of reporting again provides valuable insights
30/2020 ♦ 29 July	▪ LCR levels and risk weights of EUR benchmarks ▪ Update: Funding of German Bundeslaender (ytd)
29/2020 ♦ 22 July	▪ iBoxx Covered indices: current status and criteria ▪ Update: Joint Laender jumbos (LANDER)
28/2020 ♦ 15 July	▪ Repayment structures on the covered bond market ▪ 21st meeting of the Stability Council
27/2020 ♦ 08 July	▪ Sparebanken Vest issues first EUR benchmark in ESG format ▪ Second issuer from South Korea: Kookmin Bank to shortly make its debut in the EUR benchmark segment ▪ KfW reduces 2020 funding target to EUR 65bn
26/2020 ♦ 01 July	▪ Half-year review and outlook for the second half of 2020 ▪ The German debt brake in 2020
25/2020 ♦ 24 June	▪ EUR benchmark covered bonds in ESG format – an overview ▪ BULABO falling due – R.I.P.
24/2020 ♦ 17 June	▪ TLTRO-III.4 vs. covered bonds: are bond repurchases worth it? ▪ TLTRO-III now of increased interest for promotional banks too?

NORD/LB

Appendix
Publication overview

Covered Bonds:

- **Issuer Guide Covered Bonds 2020**
- **Risk weights and LCR levels of covered bonds**
- **Transparency requirements §28 PfandBG**
- **Transparenzvorschrift §28 PfandBG Sparkassen (German only)**

SSA/Public Issuers:

- **Issuer Guide – Supranationals & Agencies 2019**
- **Issuer Guide – Canadian Provinces & Territories 2020**
- **Issuer Guide – German Bundeslaender 2020**
- **Issuer Guide – Down Under 2019**

Fixed Income:

- **ESG update**
- **Analysis of ESG reporting**
- **ECB launches corona pandemic emergency**
- **ECB responds to corona risks**

Appendix
Contacts at NORD/LB

Markets Strategy & Floor Research

Michael Schulz
Head
+49 511 361-5309
+49 172 740 4123
michael.schulz@nordlb.de

Dr Norman Rudschuck
SSA/Public Issuers
+49 511 361-6627
+49 152 090 24094
norman.rudschuck@nordlb.de

Melanie Kiene
Banks
+49 511 361-4108
+49 172 169 2633
melanie.kiene@nordlb.de

Henning Walten
Covered Bonds
+49 511 361-6379
+49 152 545 67178
henning.walten@nordlb.de

Dr Frederik Kunze
Covered Bonds
+49 511 361-5380
+49 172 354 8977
frederik.kunze@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales 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 9818-9550
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

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

Corporate Sales

Schiffe/Flugzeuge	+49 511 9818-9440
Immobilien/Strukturierte Finanzierung	+49 511 9818-8150
Firmenkunden 1	+49 511 9818-4006
Firmenkunden 2	+49 511 9818-4003

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

Disclaimer

The present report (hereinafter referred to as "information") was drawn up by NORDDEUTSCHE LANDESBANK GIROZENTRALE (NORD/LB). The supervisory authorities responsible for NORD/LB are the European Central Bank (ECB), Sonnemannstraße 20, D-60314 Frankfurt am Main, and the Federal Financial Supervisory Authority in Germany (Bundesanstalt für Finanzdienstleitungsaufsicht; BaFin), Graurheindorfer Str. 108, D-53117 Bonn and Marie-Curie-Str. 24-28, D-60439 Frankfurt am Main. The present report and the products and services described herein have not been reviewed or approved by the relevant supervisory authority.

The present information is addressed exclusively to Recipients in Austria, Belgium, Canada, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Indonesia, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Poland, Portugal, Singapore, Portugal, Spain, Sweden, Switzerland, the Republic of China (Taiwan), Thailand, the United Kingdom and Vietnam (hereinafter referred to as "Relevant Persons" or "Recipients"). The contents of the information are disclosed to the Recipients on a strictly confidential basis and, by accepting such information, the Recipients shall agree that they will not forward it to third parties, copy and/or reproduce this information without the prior written consent of NORD/LB. The present information is addressed solely to the Relevant Persons and any parties other than the Relevant Persons shall not rely on the information contained herein. In particular, neither this information nor any copy thereof shall be forwarded or transmitted to the United States of America or its territories or possessions, or distributed to any employees or affiliates of Recipients resident in these jurisdictions.

The present information does not constitute financial analysis within the meaning of Art. 36 (1) of the Delegate Regulation (EU) 2017/565, but rather represents a marketing communication for your general information **within the meaning of Art. 36 (2) of this Regulation. Against this background, NORD/LB expressly points out that this information has not been prepared in accordance with legal provisions promoting the independence of investment research and is not subject to any prohibition of trading following the dissemination of investment research.** This information also constitutes an investment recommendation or investment strategy recommendation within the meaning of Market Abuse Regulation (EU) No. 596/2014 and complies with the applicable provisions of this regulation and Delegated Regulation (EU) 2016/958 as well as the Securities Trading Act (see the supplementary details at the end of this information).

This information has been prepared by the Markets Strategy & Floor Research division, which is organisationally assigned to the Markets trading division within NORD/LB and which offers comprehensive securities services to the clients of the bank. Information may therefore be exchanged between the Floor Research and Trading divisions which may influence the content of this information. Against this background, the possibility cannot be ruled out that NORD/LB has its own holdings in the financial instruments described herein or in the issuers described herein and participates in the issue of such financial instruments as well as providing other services to such issuers or has other financial interests in these financial instruments or issuers. It also cannot be ruled out that the remuneration of the employees of the Markets Strategy & Floor Research division is indirectly linked to the overall performance of the Markets division, however, a direct linking of remuneration to transactions in investment services or trading fees is prohibited. Against this background, there are potential conflicts of interest that could fundamentally influence the objectivity of the recommendations contained herein.
NORD/LB has, however, taken extensive precautions to deal with potential conflicts of interest and to avoid them:

Arrangements for dealing with and avoiding conflicts of interest and for the confidential treatment of sensitive client and business data:
Business areas that may have regular access to sensitive and confidential information are classified as confidentiality areas by the Compliance Office and separated from other areas in terms of function, location and technical data processing measures. The trading division (Markets) is classified as such a confidentiality area. The exchange of information between individual confidentiality areas requires the approval of the Compliance Office.
The forwarding of confidential information which may have an impact on securities' prices is monitored by the NORD/LB Compliance Office, which is independent of the trading, business and settlement departments. The Compliance Office can issue any trading prohibitions and restrictions which may be necessary to ensure that information which may have an influence on securities' prices is not misused and to prevent confidential information from being passed on to areas which may only use publicly accessible information. Employees of the Markets Strategy & Floor Research unit are obliged to inform the Compliance Office of all transactions (including external) that they carry out for their own account or on behalf of a third party or in the interests of a third party. This will enable the Compliance Office to identify any unauthorised transactions by these employees.
Further information on this can be found in our Conflict of Interest Policy, which is available on request from the NORD/LB Compliance Office.

Supplementary important information:
This information and the details contained herein have been prepared and are provided for information purposes only. It is not intended to be an incentive for investment activities. It is provided for the personal information of the Recipient with the express understanding, acknowledged by the Recipient, that it does not constitute a direct or indirect offer, an individual recommendation, solicitation to buy, hold or sell, an invitation to subscribe or acquire any securities or other financial instruments, nor any measure by which financial instruments might be offered or sold.

All actual details, information and statements contained herein were derived from sources considered reliable by NORD/LB. However, since these sources are not verified independently, NORD/LB cannot give any assurance as to or assume responsibility for the accuracy and completeness of the information contained herein. The opinions and prognoses given herein on the basis of these sources constitute a non-binding evaluation of the employees of the Markets Strategy & Floor Research division of NORD/ LB. Any changes in the underlying premises may have a material impact on the developments described herein. Neither NORD/LB nor its governing bodies or employees can give any assurances as to or assume any responsibility or liability for the accuracy, appropriateness and completeness of this information or for any loss of return, any indirect, consequential or other damage which may be suffered by persons relying on the information or any statements or opinions expressed in the present Report (irrespective of whether such losses are incurred due to any negligence on the part of such persons or otherwise).

Past performance is not a reliable indicator of future performance. Exchange rates, price fluctuations of the financial instruments and similar factors may have a negative impact on the value and price of and return on the financial instruments referred to herein or any instruments linked thereto. Fees and commissions apply in relation to securities (purchase, sell, custody), which reduce the return on investment. An evaluation made on the basis of the historical performance of any security does not necessarily give an indication of its future performance.

The present information neither constitutes any investment, legal, accounting or tax advice nor any assurance that an investment or strategy is suitable or appropriate in the light of the Recipient's individual circumstances, and nothing in this information constitutes a personal recommendation to the Recipient thereof. The securities or other financial instruments referred to herein may not be suitable for the Recipient's personal investment strategies and objectives, financial situation or individual needs.

Moreover, the present report in whole or in part is not a sales or other prospectus. Accordingly, the information contained herein merely constitutes an overview and does not form the basis for any potential decision to buy or sell on the part of an investor. A full description of the details relating to the financial instruments or transactions which may relate to the subject matter of this report is given in the relevant (financing) documentation. To the extent that the financial instruments described herein are NORD/LB's own issues and subject to the requirement to publish a prospectus, the conditions of issue applicable to any individual financial instrument and the relevant prospectus published with respect thereto as well NORD/LB's relevant registration form, all of which are available for download at www.nordlb.de and may be obtained free of charge from NORD/LB, Georgsplatz 1, 30159 Hanover, shall be solely binding. Furthermore, any potential investment decision should be made exclusively on the basis of such (financing) documentation. The present information cannot replace personal advice. Before making an investment decision, each Recipient should consult an independent investment adviser for individual investment advice with respect to the appropriateness of an investment in financial instruments or investment strategies subject to this information as well as for other and more recent information on certain investment opportunities.

Each of the financial instruments referred to herein may involve substantial risks, including capital, interest, index, currency and credit risks in addition to political, fair value, commodity and market risks. The financial instruments could experience a sudden and substantial deterioration in value, including a total loss of the capital invested. Each transaction should only be entered into on the basis of the relevant investor's assessment of his or her individual financial situation as well as of the suitability and risks of the investment.

NORD/LB and its affiliated companies may participate in transactions involving the financial instruments described in the present information or their underlying basis values for their own account or for the account of third parties, may issue other financial instruments with the same or similar features as those of the financial instruments presented in this information and may conduct hedging transactions to hedge positions. These measures may affect the price of the financial instruments described in the present information.

If the financial instruments presented in this information are derivatives, they may, depending on their structure, have an initial negative market value from the customer's perspective at the time the transaction is concluded. NORD/LB further reserves the right to transfer its economic risk from a derivative concluded with it to a third party on the market by means of a mirror-image counter transaction.

More detailed information on any commission payments which may be included in the selling price can be found in the "Customer Information on Securities Business" brochure, which is available to download at www.nordlb.de.

The information contained in the present report replaces all previous versions of corresponding information and refers exclusively to the time of preparation of the information. Future versions of this information will replace this version. NORD/LB is under no obligation to update and/or regularly review the data contained in such information. No guarantee can therefore be given that the information is up-to-date and continues to be correct.

By making use of this information, the Recipient shall accept the terms and conditions outlined above.

NORD/LB is a member of the protection scheme of Deutsche Sparkassen-Finanzgruppe. Further information for the Recipient is indicated in clause 28 of the General Terms and Conditions of NORD/LB or at www.dsgv.de/sicherungssystem.

Additional information for Recipients in Australia
NORD/LB IS NOT A BANK OR DEPOSIT TAKING INSTITUTION AUTHORISED UNDER THE 1959 BANKING ACT OF AUSTRALIA. IT IS NOT SUPERVISED BY THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY.
NORD/LB does not provide personal advice with this information and does not take into account the objectives, financial situation or needs of the Recipient (other than for the purpose of combating money laundering).

Additional information for Recipients in Austria
None of the information contained herein constitutes a solicitation or offer by NORD/LB or its affiliates to buy or sell any securities, futures, options or other financial instruments or to participate in any other strategy. Only the published prospectus pursuant to the Austrian Capital Market Act should be the basis for any investment decision of the Recipient. For regulatory reasons, products mentioned herein may not be on offer in Austria and therefore not available to investors in Austria. Therefore, NORD/LB may not be able to sell or issue these products, nor shall it accept any request to sell or issue these products to investors located in Austria or to intermediaries acting on behalf of any such investors.

Additional information for Recipients in Belgium
Evaluations of individual financial instruments on the basis of past performance are not necessarily indicative of future results. It should be noted that the reported figures relate to past years.

Additional information for Recipients in Canada
This report has been prepared solely for information purposes in connection with the products it describes and should not, under any circumstances, be construed as a public offer or any other offer (direct or indirect) to buy or sell securities in any province or territory of Canada. No financial market authority or similar regulatory body in Canada has made any assessment of these securities or reviewed this information and any statement to the contrary constitutes an offence. Potential selling restrictions may be included in the prospectus or other documentation relating to the relevant product.

Additional information for Recipients in Cyprus
This information constitutes an analysis within the meaning of the section on definitions of the Cyprus Directive D1444-2007-01 (No. 426/07). Furthermore, this information is provided for information and promotional purposes only and does not constitute an individual invitation or offer to sell, buy or subscribe to any investment product.

Additional information for Recipients in the Czech Republic
There is no guarantee that the invested amount will be recouped. Past returns are no guarantee of future results. The value of the investments may rise or fall. The information contained herein is provided on a non-binding basis only and the author does not guarantee the accuracy of the content.

Additional information for Recipients in Denmark
This Information does not constitute a prospectus under Danish securities law and consequently is not required to be, nor has been filed with or approved by the Danish Financial Supervisory Authority, as this Information either (i) has not been prepared in the context of a public offering of securities in Denmark or the admission of securities to trading on a regulated market within the meaning of the Danish Securities Trading Act or any executive orders issued pursuant thereto, or (ii) has been prepared in the context of a public offering of securities in Denmark or the admission of securities to trading on a regulated market in reliance on one or more of the exemptions from the requirement to prepare and publish a prospectus in the Danish Securities Trading Act or any executive orders issued pursuant thereto.

Additional information for Recipients in Estonia
It is advisable to closely examine all the terms and conditions of the services provided by NORD/LB. If necessary, Recipients of this information should consult an expert.

Additional information for Recipients in Finland
The financial products described herein may not be offered or sold, directly or indirectly, to any resident of the Republic of Finland or in the Republic of Finland, except pursuant to applicable Finnish laws and regulations. Specifically, in the case of shares, such shares may not be offered or sold, directly or indirectly, to the public in the Republic of Finland as defined in the Finnish Securities Market Act (746/2012, as amended). The value of investments may go up or down. There is no guarantee of recouping the amount invested. Past performance is no guarantee of future results.

Additional information for Recipients in France
NORD/LB is partially regulated by the "Autorité des Marchés Financiers" for the conduct of French business. Details concerning the extent of our regulation by the respective authorities are available from us on request.
The present information does not constitute an analysis within the meaning of Article 24 (1) Directive 2006/73/EC, Article L.544-1 and R.621-30-1 of the French Monetary and Financial Code, but does represent a marketing communication and does qualify as a recommendation pursuant to Directive 2003/6/EC and Directive 2003/125/EC.

Additional information for Recipients in Greece
The information contained herein gives the view of the author at the time of publication and may not be used by its Recipient without first having confirmed that it remains accurate and up to date at the time of its use.
Past performance, simulations or forecasts are therefore not a reliable indicator of future results. Investment funds have no guaranteed performance and past returns do not guarantee future performance.

Additional information for Recipients in Indonesia
This report contains generic information and has not been tailored to the circumstances of any individual or specific Recipient. This information is part of NORD/LB's marketing material.

Additional information for Recipients in the Republic of Ireland
This information has not been prepared in accordance with Directive (EU) 2017/1129 (as amended) on prospectuses (the "Prospectus Directive") or any measures made under the Prospectus Directive or the laws of any Member State or EEA treaty adherent state that implement the Prospectus Directive or such measures and therefore may not contain all the information required for a document prepared in accordance with the Prospectus Directive or the laws.

Additional information for Recipients in Japan
This information is provided to you for information purposes only and does not constitute an offer or solicitation of an offer to enter into securities transactions or commodity futures transactions. Although the actual data and information contained herein has been obtained from sources which we believe to be reliable and trustworthy, we are unable to vouch for the accuracy and completeness of this actual data and information.

Additional information for Recipients in South Korea
This information has been provided to you free of charge for information purposes only. The information contained herein is factual and does not reflect any opinion or judgement of NORD/LB. The information contained herein should not be construed as an offer, marketing, solicitation to submit an offer or investment advice with respect to the financial investment products described herein.

Additional information for Recipients in Luxembourg
Under no circumstances shall the present information constitute an offer to purchase or issue or the solicitation to submit an offer to buy or subscribe for financial instruments and financial services in Luxembourg.

Additional information for Recipients in New Zealand
NORD/LB is not a bank registered in New Zealand. This information is for general information only. It does not take into account the Recipient's financial situation or objectives and is not a personalised financial advisory service under the 2008 Financial Advisers Act.

Additional information for Recipients in the Netherlands
The value of your investment may fluctuate. Past performance is no guarantee for the future.

Additional information for Recipients in Poland
This information does not constitute a recommendation within the meaning of the Regulation of the Polish Minister of Finance Regarding Information Constituting Recommendations Concerning Financial Instruments or Issuers thereof dated 19 October 2005.

Additional information for Recipients in Portugal
This information is intended only for institutional clients and may not be (i) used by, (ii) copied by any means or (iii) distributed to any other kind of investor, in particular not to retail clients. The present information does not constitute or form part of an offer to buy or sell any of the securities covered by the report, nor should it be understood as a request to buy or sell securities where that practice may be deemed unlawful. The information contained herein is based on information obtained from sources which we believe to be reliable, but is not guaranteed as to accuracy or completeness. Unless otherwise stated, all views contained herein relate solely to our research and analysis and are subject to change without notice.

Additional information for Recipients in Sweden
This information does not constitute (or form part of) a prospectus, offering memorandum, any other offer or solicitation to acquire, sell, subscribe for or otherwise trade in shares, subscription rights or other securities, nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. The present information has not been approved by any regulatory authority. Any offer of securities will only be made pursuant to an applicable prospectus exemption under the EC Prospectus Directive (Directive (EU) 2017/1129), and no offer of securities is being directed to any person or investor in any jurisdiction where such action is wholly or partially subject to legal restrictions or where such action would require additional prospectuses, other offer documentation, registrations or other actions.

Additional information for Recipients in Switzerland
This information has not been approved by the Federal Banking Commission (merged into the Swiss Financial Market Supervisory Authority (FINMA) on 1 January 2009). NORD/LB will comply with the Directives of the Swiss Bankers Association on the Independence of Financial Research (as amended). The present information does not constitute an issuing prospectus pursuant to article 652a or article 1156 of the Swiss Code of Obligations. The information is published solely for the purpose of information on the products mentioned herein. The products do not qualify as units of a collective investment scheme pursuant to the Federal Act on Collective Investment Schemes (CISA) and are therefore not subject to supervision by FINMA.

Additional information for Recipients in Singapore
This information is directed only at accredited investors or institutional investors under the Securities and Futures Act in Singapore. This information is intended for general distribution only. It does not constitute investment advice and does not take into account the specific investment objectives, financial situation or particular needs of the Recipient. It is recommended that advice be obtained from a financial adviser regarding the suitability of the investment product in light of the specific investment objectives, financial situation and special needs of the Recipient before agreeing to purchase the investment product.

Additional information for Recipients in the Republic of China (Taiwan)
This information is provided for general information only and does not take into account the individual interests or requirements, financial status and investment objectives of any specific investor. Nothing herein should be construed as a recommendation or advice for you to subscribe to a particular investment product. You should not rely solely on the information provided herein when making your investment decisions. When considering any investment, you should endeavour to make your own independent assessment and determination on whether the investment is suitable for your needs and seek your own professional financial and legal advice.
NORD/LB has taken all reasonable care in producing this report and trusts that the information is reliable and suitable for your situation at the date of publication or delivery. However, no guarantee of accuracy or completeness is given. To the extent that NORD/LB has exercised the due care of a good administrator, we accept no responsibility for any errors, omissions, or misstatements in the information given. NORD/LB does not guarantee any investment results and does not guarantee that the strategies employed will improve investment performance or achieve your investment objectives.

Information for Recipients in the United Kingdom
NORD/LB is subject to partial regulation by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Details of the scope of regulation by the FCA and the PRA are available from NORD/LB on request. The present information is "financial promotion". Recipients in the United Kingdom should contact the London office of NORD/LB, Investment Banking Department, telephone: 0044 / 2079725400, in the event of any queries. An investment in financial instruments referred to herein may expose the investor to a significant risk of losing all the capital invested.

Additional information
Time of going to press: 04 November 2020 08:53h (CET)

Disclosure of possible conflicts of interest at NORD/LB in accordance with Section 85 (1) of the German Securities Trading Act (WpHG) in conjunction with Article 20 of the Market Abuse Regulation (EU) No. 596/2014 and Articles 5 and 6 of Regulation (EU) 2016/958.
None

Sources and price details
For the preparation of investment recommendations, we use issuer-specific financial data providers, our own estimates, company information and publicly available media. Unless otherwise stated in the information, price information refers to the closing price of the previous day. Fees and commissions are incurred in connection with securities (purchase, sale, custody), which reduce the return on the investment.

Basis of valuation and frequency of updates
For the preparation of investment recommendations, we use company-specific methods from fundamental securities' analysis, quantitative / statistical methods and models as well as from technical information processes. It should be noted that the results of the information are snapshots and past performance is not a reliable indicator of future returns. The basis of valuation may change at any time and in an unforeseeable manner, which may lead to divergent assessments. The recommendation horizon is 6 to 12 months. The above information is prepared on a weekly basis. Recipients have no right to publish updated information. For more detailed information on our assessment bases, check under: www.nordlb-pib.de/Bewertungsverfahren.

Recommendation system
Positive: Positive expectations for the issuer, a bond type or a bond placed by the issuer.
Neutral: Neutral expectations for the issuer, a bond type or a bond of the issuer.
Negative: Negative expectations for the issuer, a type of bond or a bond placed by the issuer.
Relative Value (RV): Relative recommendation to a market segment, an individual issuer or a range of maturities.

Breakdown of recommendations (12 months)

Positive:	36%
Neutral:	50%
Negative:	14%

Recommendation record (12 months)
For an overview of our overall pension recommendations for the past 12 months, please visit www.nordlb-pib.de/empfehlungsuebersicht_renten. The password is "renten/Liste3".

Issuer / security	Date	Recommendation	Bond type	Cause