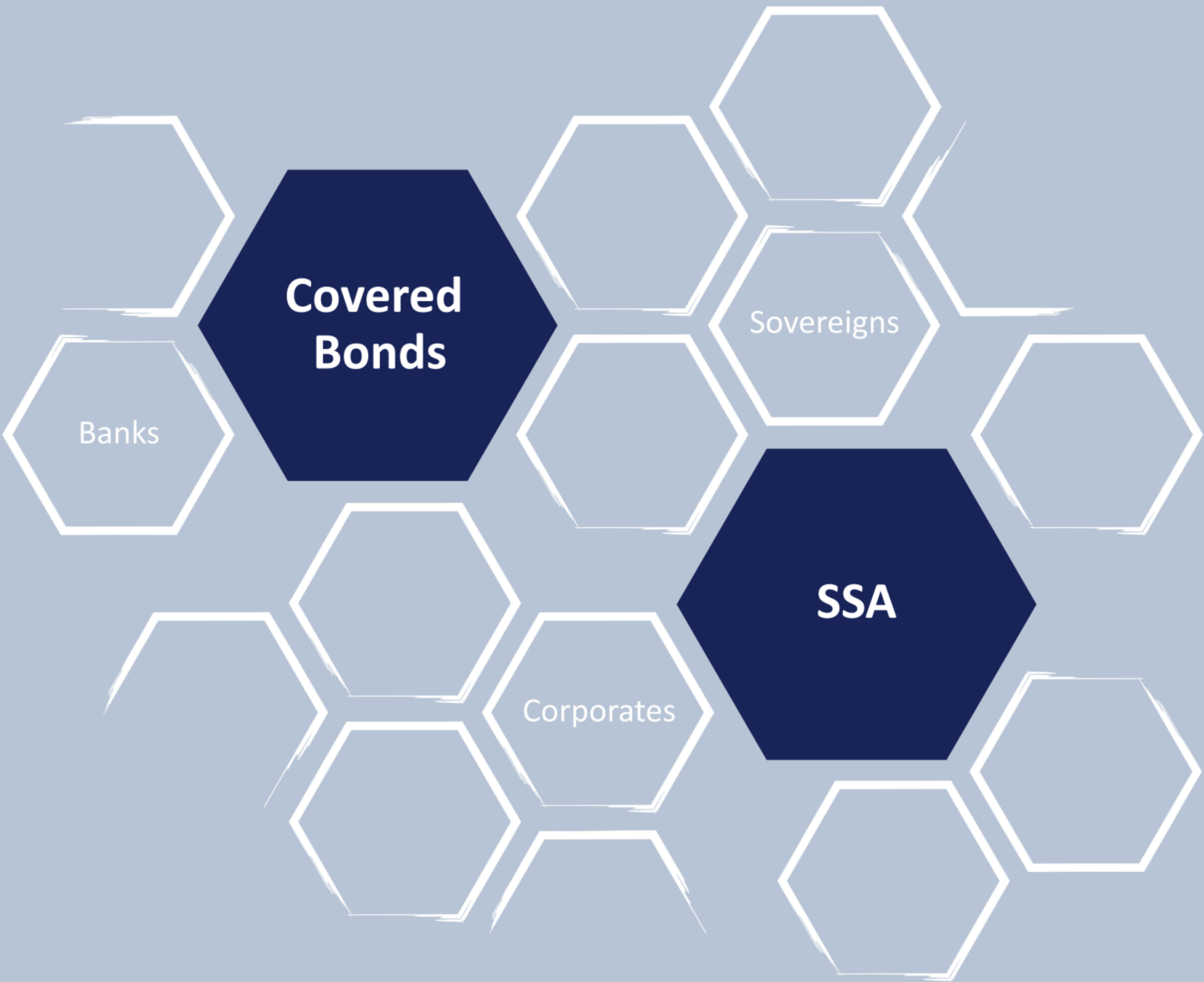


# Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Investment strategy recommendation and marketing communication
(see disclaimer on the last pages)

# Agenda




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# Market overview Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

**Bausparkasse Schwäbisch Hall makes EUR benchmark debut; CFF places 15y bond offering negative yield**

Last Thursday, Bausparkasse Schwäbisch Hall made its long-awaited debut in the EUR benchmark segment, bringing another benchmark transaction to market from the building society sector just two days after Wüstenrot Bausparkasse placed its inaugural EUR benchmark bond. The Pfandbrief offered by Bausparkasse Schwäbisch Hall was placed with a volume of EUR 500m fixed in advance and went into the marketing phase with guidance in the area of ms +8bp. With the order books amounting to over EUR 1.9bn, the re-offer spread was set at ms +4bp, resulting in an issuing yield of -0.267%. Today, in a separate article, we focus on the latest developments within the German building society segment. At the beginning of the current trading week, another deal was placed from France. CFF used the market one day ahead of the EU's SURE debut to issue a bond with a term to maturity of 15 years. The bank was therefore active again only around a month after its last EUR benchmark activity (EUR 1.25bn; 10y; ms +7bp), conducting a transaction worth EUR 500m at ms +8bp on this occasion. This deal was therefore ultimately priced four basis points tighter than the guidance. With orders totalling EUR 1.1bn, the bond was also more than twice oversubscribed. In contrast to the recently placed EUR benchmark from CAFFIL, which likewise featured a term to maturity of 15 years (re-offer spread: ms +7bp; yield: +0.027%), the issuing yield for this deal dropped into slightly negative territory, at -0.024%. According to our records, this therefore makes it the first EUR-denominated benchmark bond with a term of at least 15 years to be placed on the market with a negative issuing yield. At 55%, the largest share of this transaction was allocated to investors from the DACH region (Germany, Austria and Switzerland), while those from the UK and France took 15% and 13% respectively. In terms of investor type, banks dominated proceedings (62%), followed by official institutions (20%) and asset managers (18%). With these two deals placed over the past five trading days, the volume of benchmark-size deals placed so far in 2020 rose to EUR 84.45bn, spread across exactly 100 different bond issuances. At EUR 27.35bn (28 bonds) and EUR 16.75bn (23 bonds) respectively, more than half of the total volume and number of individual bonds can be attributed to France and Germany. Canada takes third place (EUR 8.75bn; 8 bonds), while fourth places goes to Norway (EUR 5.75bn; 8 bonds).

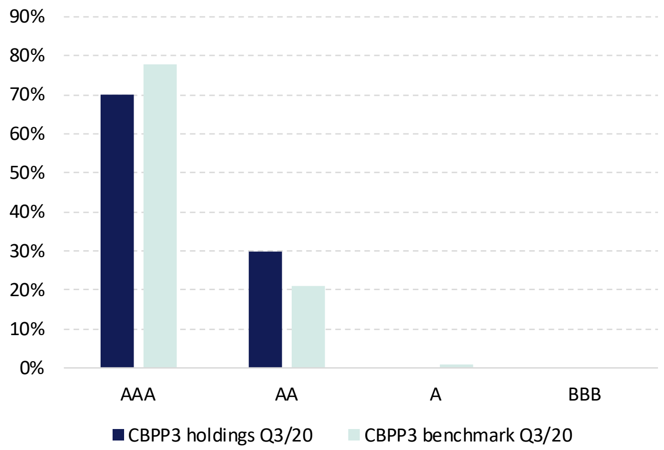
| Issuer | Country | Timing | ISIN | Maturity | Volume | Spread | Rating |
|---|---|---|---|---|---|---|---|
| CFF | FR | 19:10. | FR00140009U0 | 15.0y | 0.50bn | ms +8bp | - / Aaa / AAA |
| Bausparkasse Schwäbisch Hall | DE | 15:10. | DE000A3H24G6 | 10.0y | 0.50bn | ms +4bp | - / Aaa / - |

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

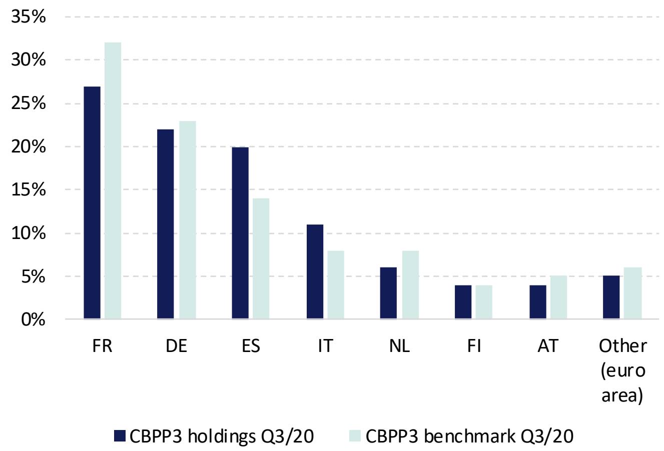
**Structure of CBPP3 portfolio remains unchanged**

As is customary every six months, the ECB updated the data in relation to the structure of the CBPP3 at the end of the third quarter. In comparison with the end of Q1 2020, the structure of the CBPP3 can be described as unchanged both in terms of the ratings (first-best rating) and the geographical distribution. Any changes were restricted to between one or two percentage points. In this way, the share of AAA-rated bonds rose from 69% to 70%, while the share of those with a rating of AA fell by the same degree of just a single percentage point. The benchmark was not adjusted in terms of ratings. In respect of the geographic allocation, there were again only marginal changes. In this context, the benchmark share of French bonds rose by one percentage point, while the share of covered bonds from Germany also increased by a single percentage point. The "largest" change was recorded for Spanish covered bonds. After a value of 22% was recorded previously, their share has now fallen to 20%. With the communicated marginal changes within the CBPP3 portfolio, the deviation from the self-defined benchmark of the ECB also remains in place, whereby French bonds in particular continue to be underweighted, while those from Spain and Italy still account for a larger share than the benchmark would suggest.

**CBPP3 structure by ratings**




**CBPP3 structure by jurisdiction**




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

**Bank of Canada scales back crisis measures: "own use" covered bonds lose central bank eligibility**

The CAD-denominated covered bonds placed by Canadian issuers designated as "own use" have lost their central bank eligibility (for the time being). This was announced by the Bank of Canada in a press release on 15 October 2020 alongside additional adjustments to the crisis measures introduced in the wake of the coronavirus pandemic. The central bank has furthermore decided that the changes are to become effective immediately, while at the same time justifying these latest adjustments by pointing to the improved situation on the domestic financial market. After the Bank of Canada approved temporary eligibility of own use covered bonds as collateral in March 2020, the issuance volume of CAD-denominated covered bonds rose sharply. From March through to June 2020, a total of 23 bonds with a total volume of CAD 92bn were placed, spread across eight different issuers. Even if, in our opinion, the Bank of Canada's instruments do not have the same substitutive relationship to covered bond issuances as, for example, the TLTRO III tenders of the ECB, following this decision we can identify subtly positive impulses for the primary market activity of Canadian issuers active in the EUR benchmark.

# Market overview
# SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

**EU deal delivers a Big Bang moment in terms of volume – order books total EUR 233bn**

We rarely begin our Market Overview article by covering a transaction, as this section often only serves as a chronicle: However, what we witnessed yesterday in the market was an historical event, with a total of EUR 17bn being raised in a dual tranche. As we had predicted in the previous issue, the EU opted for maturities of 10 and 20 years with the shorter paper accounting for EUR 10bn and the longer paper for EUR 7bn. The 10-year bond (maturity 2030) attracted orders of EUR 145bn, meaning it was almost 15x oversubscribed! The 20-year bond attracted orders amounting to EUR 88bn, and as such was "only" 12.5x oversubscribed. The spreads achieved amounted to ms +3bp and +14bp. Guidance had been three basis points higher in each case. As a reminder: all of the bonds under the SURE programme, which has kicked off with such a big bang, are placed in the form of social bonds (up to EUR 100bn). A day later and we are still fairly astonished. Since there is no issuance calendar, it is anybody's guess whether or not the EU will draw on the market again in 2020, and if so, how often. In view of a tight window before Christmas, we had assumed a figure of EUR 25bn in our baseline scenario up the end of the year, with a chance that it could be less (EUR 20bn) in the event of teething problems or more (EUR 30bn).

**Social bonds experiencing exponential growth**

As reported, in the first 9.5 months of the year, two French agencies (CADES and Unédic) were working towards becoming the biggest issuers in the market for social bonds, after issuing bonds amounting to around EUR 25bn. At an equivalent of around USD 27bn, this was almost as much as the combined total global turnover in the two previous years, Bloomberg data reveals. Last month, according to Bloomberg, CADES issued three jumbo bonds after Unédic, the administrator of the French unemployment insurance scheme, had carried out a similar transaction at the beginning of the year. As we know, the total issuance volume of bonds earmarked to finance social projects has surged this year − a fact which has been fuelled further by coronavirus spending and low costs in the market for ESG bonds. Prior to the EU transaction, the volume stood at around USD 70bn worldwide. Another USD 20bn (or EUR 17bn) has now been added, and we expect the figure to pass the USD 100bn mark by year-end.

**Sustainability-linked bonds (SLBs) are the talk of the town**

It is not only ourselves but our competitors also that are now aware of the fact that deals involving ESG bonds are coming onto the market one or two basis points tighter than their counterparts on the plain-vanilla side, while some SLB transactions have even been 20bp tighter than the conventional curve might have suggested. This mainly reflects a difference in format. The use-of-proceeds in the case of conventional green bonds is tightly defined and requires precise project documentation. SLBs are more flexible in their formatting and do not have spending restrictions. As far as pricing is concerned, this may be truer of corporate bonds than SSAs. From 1 January 2021, however, the ECB will also accept SLBs as collateral. This will undoubtedly encourage issuer creativity with regard to the APP and/or PEPP.

**No sooner agreed than there are calls for permanency**

From the point of view of ECB President, Christine Lagarde, Europe must distribute the funds from the planned EU recovery fund (EUR 750bn from 2021 to 2026) promptly. Nobody relies solely on the ECB, as supplementary budgets in Germany, for example, underline. The EU and others also have big plans in the pipeline. Ms. Lagarde has indicated in an interview with the French paper "Le Monde" that it is the European Commission's aim to be able to distribute the funds at the beginning of 2021 and the timeline must be kept. In contrast, however, Reuters has reported that negotiations regarding details of the plan are likely to become tense, as we also discussed in the last issue of this publication. It seems that Manfred Weber, the chairman of the centre-right EPP Group in the European Parliament, wants to block the planned coronavirus aid if its distribution is not subject to respecting the rule of law. This is clearly aimed at Hungary's Prime Minister, Viktor Orban, among others. "We also need rapid progress on the political side, in particular the adoption of the measures by national parliaments", said Lagarde. She added that funds must be targeted; otherwise, they get lost in the "administrative labyrinth", failing to support the real economy's transformation in the post-pandemic world. She also called for the recovery fund to be made permanent, a taboo in certain countries with more conservative governments. In our view, sound elements become permanent and continue to evolve, in any case, otherwise on the basis of its name alone, the KfW, for example, would have had to close its doors decades ago. A transformation of the ESM into a European Monetary Fund and hence its further development are under discussion. Luckily, major efforts have helped smooth a thorny issue and the ECB would do well to encourage its development and to desist from regularly dishing out unwanted advice to other institutions. After all, nobody is calling for the review of the ECB strategy to be speeded up, or harassing the ECB, which is committed to (political) independence. Fighting the pandemic can only be done together, and preferably with more action than words. Lagarde also expressed the fear that the economic recovery from the coronavirus pandemic could lose momentum in the spring. "Since the rebound we saw over the summer, the recovery has been uneven, uncertain and incomplete and now risks losing momentum," she explained. The ECB would monitor developments in the autumn, and, if the situation should deteriorate, the central bank could step in. She stated that the ECB still has other monetary policy tools to draw upon, if need be. "If more has to be done, we will do more". We expect the PEPP to be topped up by EUR 400bn in December.

**KfW funding update 2020**

Even before mid-October, the latest 7y benchmark bond (EUR 3bn) was the last deal as part of KfW's 2020 EUR benchmark programme. "We have now raised 94% of our total funding target of EUR 65bn for 2020. We have been able to attract demand in excess of EUR 11.9bn for this transaction at a record-low concession of 1 basis point. Given a yield of -0.484%, this is further proof of the strength of KfW's supply in the current market", according to Tim Armbruster, Treasurer of KfW. This was the sixth EUR benchmark from KfW in this year shaped by the coronavirus crisis. In spite of the new yardstick set by the EU transaction, here, too, the order book (EUR 11.9bn) can be described as a complete success, with 158 different investors involved. Consequently, Germany's biggest and also its most notable development bank only has a few little things on its to-do list from now until the end of the year (possibly one or more green bonds, taps, bonds in USD and other foreign currencies). After all, it carried out 86 transactions for the equivalent of EUR 36bn in 14 currencies in the first half of the year.

**Primary market**

We have already acknowledged the EU and KfW deals above, so let's take a look at the remaining transactions in this week's "Primary market" section. Last week, the ESM posted an RfP in order to beat the EU to the post. The deal (a 4y bond worth EUR 2bn at ms -8bp) also brings the ESM's funding requirements for 2020 to a close. This transaction also attracted substantial demand, with orders generated totalling EUR 12.8bn, which means that the guidance of ms -6bp was as much as two basis points too high. The EFSF has a further two potential windows of opportunity for its final transaction in 2020 (EUR 1bn). There is also still significant movement in the market on the Laender front, with no two deals the same: BADWUR came to the market with a 4y FRN, aiming to raise EUR 1bn. No details were provided with regard to the order book. This was followed by a tap from BERGER, with Berlin opting to top up a bond maturing in 2029 by EUR 250m at ms -1bp. BAYERN also opted for a tap of this size and maturity, although it came to the market at ms -5bp, i.e. four basis points tighter than the paper from the German capital. SCHHOL supplied a benchmark deal for our table below: the most northerly Bundesland raised EUR 500m for six years at ms -5bp. The deal was marginally oversubscribed with orders amounting to EUR 520m. BERGER brought a further eight-year deal to the market at ms -3bp (EUR 500m). In this instance, orders (rounded up) amounted to precisely this sum. Anybody looking for pick-up and for whom the EU pick-up was still too low – after all, Austria recently paid ms -4bp for 20 years against the EU's ms +14bp with a better rating – looked towards Asia: China Development Bank, a very rare EUR denominated player in the market, raised a total of EUR 1.25bn for three years at ms +55bp. There were substantial orders of over EUR 5.2bn and the guidance of ms +80bp did not apply for long. As much as 57% of the demand came from Asia itself. Foreign currency issues are set to remain a peripheral feature in this section: however, since we recently drew attention to World Food Day, in this publication along with the related World Bank bond, we take the liberty of reporting that the dual tranche in NOK and SEK for five years in each case has been issued. Finally, the ICO has mandated for a transaction in the maturity segment of 4-6 years. The first investor calls for a green bond began promptly yesterday. Almost as soon as Agence Française de Développement published its new SDG Bond Framework (Social Development Goals) in France last week, a consortium had already been mandated yesterday for a 7y debut bond deal. Given the fact that a huge total of EUR 216bn of the EUR 233bn from the EU order books did not come into play and will soon find its way into the (social) capital market, the issuance environment could hardly be more favourable at the moment.

| Issuer | Country | Timing | ISIN | Maturity | Volume | Spread | Rating |
|---|---|---|---|---|---|---|---|
| EU | SNAT | 20.10. | EU000A283867 | 20.0y | 7.00bn | ms +14bp | AAA / Aaa / AA |
| EU | SNAT | 20.10. | EU000A283859 | 10.0y | 10.00bn | ms +3bp | AAA / Aaa / AA |
| SDBC | Other | 19.10. | XS2244836354 | 3.0y | 1.25bn | ms +55bp | - / - / A+ |
| ESM | SNAT | 19.10. | EU000A1Z99M6 | 4.1y | 2.00bn | ms -8bp | AAA / Aa1 / AAA |
| BERGER | DE | 19.10. | DE000A289LD0 | 8.0y | 0.50bn | ms -3bp | AAA / Aa1 / - |
| SCHHOL | DE | 15.10. | DE000SHFM774 | 6.0y | 0.50bn | ms -5bp | AAA / - / - |
| BADWUR | DE | 14.10. | DE000A14JZQ0 | 4.0y | 1.00bn | 6mE-7bp | - / - / AA+ |

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

# Covered Bonds
# German building societies: EUR benchmark debuts and requirements for investing in soft bullet bonds

Author: Henning Walten, CIIA

**Wüstenrot Bausparkasse and Bausparkasse Schwäbisch Hall make their debut**

Last week saw not one but two German building societies enter the EUR benchmark market with both Wüstenrot Bausparkasse and Bausparkasse Schwäbisch Hall placing covered bonds. These not only represent their respective inaugural transactions in the EUR benchmark market but are also the first EUR benchmark bonds from any German building society. Although we have already reported on the bond from Bausparkasse Schwäbisch Hall as it was announced quite some time ago, at this point it is worth looking at both deals again since the past few weeks have been interesting for building societies from more than just an issuer perspective. The recent proposed changes regarding maturity extensions under the German Pfandbrief Act are also likely to affect building societies as investors in covered bonds in soft bullet format.

**Wüstenrot investors benefit from (regulatory) upgrade**

At the beginning of last week, Wüstenrot Bausparkasse issued mandates initially for a deal with a 7-year maturity in sub-benchmark format (EUR 250m ≤ X < EUR 500m). When the order book opened the next day, it looked at first as if the placement would be in this format and guidance of ms +11bp area was issued. However, when the final spread was announced around three hours after the books opened, there were already signs that the demand of EUR 1.3bn would make an upgrade to benchmark format possible. As a result, the volume at this point was cited as between EUR 300m and 500m. Just about 30 minutes later, these early indications solidified and a 7-year EUR 500m bond was issued at ms +7bp (issuing yield: -0.305%). This is a positive step from a regulatory-driven investor perspective as we believe the bond now qualifies as a Level 1 asset in the context of LCR management for instance. Moreover, the bond is therefore likely to be included in the iBoxx EUR Covered index and gain wider market attention as a result. Investors from the DACH region accounted for 73% of the volume, followed by buyers from Nordic countries at 13%. Banks were the main investor type in the deal, at 71%, with a further 16% and 10% respectively going to central banks/public institutions and asset managers.

**Bausparkasse Schwäbisch Hall with long-awaited benchmark debut**

Bausparkasse Schwäbisch Hall followed two days later. The building society had not only planned a placement in benchmark format from the outset but had also announced this to the market with a considerable amount of lead time. Here, too, the execution was set at two days and after mandates were issued on Wednesday, the order book opened early on Thursday with guidance of ms +8bp area for a 10-year bond with a volume of EUR 500m (WNG). Once again, at EUR 1.9bn, demand far exceeded the volume. The final spread was fixed at ms +4bp. Investors from the DACH region dominated with around 73%, followed by buyers from Nordic countries (21%). In terms of investor type, banks accounted for the largest share of the volume (47%) as well as asset managers (34%) and central banks (10%). The yield was also in negative territory at -0.267%.

**Cover pools with similar characteristics but different volumes**

The picture in terms of cover pool characteristics is similar, although at around EUR 2.5bn the volume of the cover pool at Wüstenrot Bausparkasse is around five times greater than that of Bausparkasse Schwäbisch Hall. As of the current reporting date of 30 September, which does not include the two EUR benchmark debuts, the outstanding volumes stood at EUR 1,750m and EUR 6m respectively. We have therefore added the two EUR 500m deals to these totals to provide a better insight into overcollateralisation. According to our calculations, with cover pools remaining unchanged, overcollateralisation stands at around 12% for both building societies. There are similarities between both cover pools with regard to other cover pool characteristics, which is unsurprising as they are both building societies. In both cases, all primary cover assets are located in Germany and are exclusively denominated in euros. There is also a notable focus on southern Germany in both pools as well as a focus on financing loans for single- and two-family houses. However, there is a significant difference with regard to the volume-weighted average age of the loans (seasoning). While Wüstenrot Bausparkasse, which so far has already been active in the EUR sub-benchmark segment, already has cover assets which have been in place for an average of 11.4 years, the respective figure for Bausparkasse Schwäbisch Hall is only 1.3 years.

| **Programme data: Wüstenrot Bausparkasse** | | **Programme data: Bausparkasse Schwäbisch Hall** | |
|---|---|---|---|
| **30 September 2020** | **Mortgage** | **30 September 2020** | **Mortgage** |
| Covered bonds outst. | EUR 1,751.6m [EUR 2,251.6m] | Covered bonds outst. | EUR 6.0m [EUR 506.0m] |
| Cover pool volume | EUR 2,530.3m | Cover pool volume | EUR 567.6m |
| Current OC (nominal / after BMK issuance) | 44.5% / [12.4%] | Current OC (nominal / after BMK issuance) | 9,360.8% / [12.2%] |
| Type | 92.6% Residential | Type | 91.0% Residential |
| Main asset class | 64.0 % Single- and two-family houses | Main asset class | 71.0% Single- and two-family houses |
| Main country | 100.0% Germany | Main country | 100.0% Germany |
| Main region | 18.6% Bavaria | Main region | 32.0% Bavaria |
| Currencies (Cover Pool) | 100% EUR | Currencies (Cover Pool) | 100% EUR |
| Seasoning | 11.4y | Seasoning | 1.3y |
| Average weighted LTV | 44.4% | Average weighted LTV | 51.3% |
| Fixed interest (Cover Pool / CBs) | 99.3% / 97.7% | Fixed interest (Cover Pool / CBs) | 100.0% / 100.0% |
| CB Rating (Fitch / Moody's / S&P) | - / - / AAA | CB Rating (Fitch / Moody's / S&P) | - / Aaa / - |

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

**Building societies are investors as well as issuers**

German building societies are on a growth trajectory as far as the issuance of covered bonds is concerned. This is not only evident in the recent placement of EUR benchmarks but also in the growing number of Pfandbrief licences granted to building societies. Building societies are also active as investors in covered bonds. As of 30 June, 25.6% of Wüstenrot Bausparkasse's investments were in the covered bond segment, of which 39% is attributable to Germany. With France (20%), Austria (16%) and Norway (11%), the savings bank also has an active investment role in the European covered bond market. However, investments in covered bonds by building societies are subject to certain restrictions imposed by the Federal Financial Supervisory Authority (BaFin). These are relevant for the acquisition of bonds which allow the possibility of maturity extension, and can restrict the investment universe.

**Harmonisation initiative with potential impact on building societies**

In addition to the recent positive developments in the building society market from an issuer perspective, German building societies are also confronted on the investor side by the subject of maturity extension. BaFin's administrative practice, which was amended two years ago, only provides for investments in covered bonds with the possibility of maturity extension within a very narrow framework. There are two conditions which have to be met in order for German building societies to invest in soft bullet bonds in line with Section 4(3) No. 5 of the German building societies Act (BSpKG). Consequently, for the trigger event to invoke a maturity extension: (i) a reason for opening insolvency proceedings within the meaning of the German Insolvency Code (InsO) must be present and (ii) the maturity can only be extended once and for a maximum of 12 months, rendering the small market for CPT bonds closed to German building societies. While the second requirement is currently relatively easy to ascertain, in particular a clear definition and legal classification of the trigger for a potential maturity extension is currently much more complicated, as soft bullet structures are mainly implemented using contractual solutions, which significantly increases the complexity. The spread of contractual trigger events is also a topic in the context of the harmonisation initiative or Covered Bond Directive and the matter is set to be legally regulated in future so that maturity extensions can only be invoked by specific legal triggers and under no circumstances at the discretion of the issuer.

**Legal regulation of maturity-extending structures positive for building societies**

In our opinion, the need to legally regulate soft bullet (and CPT) structures should lead to a notable reduction of the complexity in the context of harmonisation with BaFin's requirements regarding covered bond investments for German building societies. While at the moment, the corresponding assessment has to be carried out at programme or even issue level, as we understand it, future assessments will be on the basis of judicial areas and therefore, in the event of a positive vote, all soft bullet structures in one jurisdiction would be eligible as investments for building societies. Ideally, such an assessment would be made by the national regulatory body in order to provide a uniform understanding regarding the equivalence of legislative rules to trigger a maturity extension.

**Germany: draft legislation vs. administrative practice**

For the Pfandbrief Act too, Article 17 of the Covered Bond Directive constitutes the foundation for the legal provisions that will have to be complied with in future. As outlined in this section last week, the draft legislation drawn up here allows for the possibility of a maturity extension of up to 12 months, divided into two periods of 6 months each. The draft legislation therefore runs counter to BaFin's current administrative practice, which only permits a one-time maturity extension and consequently would make investing in Pfandbriefe impossible for German building societies. For this reason, we assume that the corresponding amendment to administrative practice is likely to take place and would therefore have an impact on all soft bullet bonds. With regard to German Pfandbriefe, deletion of the "one-time" extension of paper is the only action required since the trigger event is appointing an administrator to take over the management of the cover pool in the event of insolvency. Moreover, in our opinion, the version regarding maturity extension in the current draft legislation is a stricter interpretation of BaFin requirements as the maturity is only extended by 6 months under certain circumstances.

**Conclusion**

With the deals placed last week by Wüstenrot Bausparkasse and Bausparkasse Schwäbisch Hall the German building society sector has been enriched with the inclusion of EUR-denominated covered bonds in benchmark format as a funding instrument, while this is also likely to pave the way for other building societies to enter the market. However, the building society sector is not just affected from an investor perspective. With regard to the requirements for investments by German building societies in covered bonds with the possibility of a maturity extension, it is likely there will (have to) be amendments to BaFin's administrative practice in future, since the latest draft legislation amending the German Pfandbrief Act currently runs counter to BaFin's practice that only permits investments in soft bullet bonds with the option of a one-time maturity extension. In contrast, the draft legislation from the German Ministry of Finance provides for an extension of 12 months maximum split into two periods of 6 months each. In our view, this contradiction is likely to be resolved by BaFin in the run-up to the new Pfandbrief Act coming into force, since in the simplest case it is merely a matter of deleting the phrase "one-time extension". This would amend the requirements for investments in all soft bullet bonds. At the moment, it is not yet known whether BaFin is considering just a deletion or will amend the requirements completely in alignment with European legal foundations on maturity extensions. In our opinion, BaFin has the opportunity here to revise what we see as very complicated requirements and to simplify investing in soft bullet bonds subject to the Covered Bond Directive for German building societies, thereby increasing the potential investment universe for building societies on a sustained basis.

# Covered Bonds
# NPLs in cover pools – lack of unified approach at national level

Author: Dr Frederik Kunze

**Payment holidays and payment moratoriums have an end date**

In the wake of the economic upheaval brought about by the coronavirus pandemic, measures or legal requirements were initiated in many covered bond jurisdictions which allow or have allowed borrowers to defer payments of interest and/or principal for a certain period (cf. NORD/LB Covered Bond & SSA View of 01 April 2020). The spectrum of the actual format of the measures is just as broad as the level of take-up by borrowers. Nevertheless, on balance, it is fair to say that available options have also helped maintain the proportion of non-performing loans (NPLs) on the bank side and in some cases also in the respective cover pools at a low level. In this context, it is important to bear in mind that the extraordinary measures put in place in the wake of the coronavirus crisis are for a limited period of time only. Accordingly, Fitch's risk experts for example have recently drawn attention to the expiry date of various instruments and to potential increases in non-performing loans on the issuer front and in cover pools. We agree with Fitch's conclusion, according to which the dual-recourse feature of covered bonds and existing liquidity requirements should cushion potential repercussions for programmes. Nevertheless, Fitch rightly points to now likely increases in NPLs. In addition, the latest evidence of widespread increases in Covid-19 infection rates around the world shows the potential for further economic upheavals. In the wake of this, fresh triggers for an increase in NPLs cannot be ruled out. In the following article, we therefore propose to take a look at the treatment of NPLs in cover pools since there are definitely significant differences from one jurisdiction to another which, as far as we understand, are likely to persist beyond a full implementation of plans for an EU covered bond harmonisation in national legislation.

**Different treatment of arrears at individual country level**

There are fundamentally many different feasible approaches when it comes to the treatment of NPLs in respect of interest or principal in cover pools, ranging in particular from such loans remaining in the cover pool, not being taken into account in cover pool calculations and overcollateralisation ratios all the way to their removal from the pool (in full, or up to the amount of the arrears). In practice, the treatment of NPLs as set out in law consequently also varies from one jurisdiction to another. There is certainly legislation which does not prescribe any precise approach, whereas in turn in other covered bond frameworks the treatment of arrears is set out in a fairly regimented manner. In addition, legal requirements also have to be evaluated together with national market standards and normal practice.

### Moody’s evaluates legal framework in relation to non-performing assets

Moody’s risk experts also evaluate the different legal requirements − and market standards − in their regular analysis and comparison of various covered bond frameworks. The following table shows – where available – both the classification of the respective rules and market standards by Moody’s and extracts of the national requirements for selected jurisdictions. The table clearly shows the broad approach to the treatment of non-performing loans. Just lately, Estonia's fairly new covered bond legislation shows no specific requirements relating to NPLs, prompting Moody’s to rate this framework as among the weaker ones in relation to its treatments of such loans. More established markets such as France for example (Moody’s score: average) and Germany (average) are also not subject to any legal requirements. Nevertheless, in the case of French SFH structures, Moody’s refers to the market practice of excluding non-performing assets from the calculation of additional contractual OC ratios. In Italy (strong), although the law does not require the exclusion of NPLs from cover pools, NPLs may not be included in the legally prescribed asset coverage tests. The Spanish framework for covered bonds (average) makes a distinction between cédulas hipotecarias (CH) and cédulas territoriales (CT). Whereas there are no requirements in the case of CTs, CHs are strictly excluded from the cover calculations. However, this only applies to the portion of the loans actually in arrears.

### Moody’s Sector Comment: treatment of non-performing loans in selected countries

| Country / Score | Treatment |
|---|---|
| Australia / *Average (MP: strong)* | Non-performing loans (greater than three months in arrears) **may remain part of the cover pool**, but are given **no value in the calculation of the ACT**, which determines the level of covered bond issuance and OC |
| Belgium / *Strong* | Assets which are **non-performing at the time of registration cannot be registered** and are therefore excluded from the cover pool. For this purpose, a loan will be considered as non-performing if (1) the borrower is in arrears on any interest or principal payment for more than 90 days; or (2) the issuer considers that the borrower is unlikely to fully comply with its payment obligations unless the issuer takes enforcement measures. If a loan is part of the cover pool and defaults **after its registration date, it will remain part of the cover pool**. However, for the purpose of the OC test and the 85% core assets coverage test, the **following haircuts apply**: (1) 100% (i.e. value of zero) for non-performing loans (pursuant to the above-mentioned definition); (2) 50% if the loan is in arrear for more than 30 days. |
| Canada/ *Strong* | Non-performing loans (greater than three months in arrears) **remain part of the cover pool,** but are given **no value in the calculation of the ACT**, which determines the level of covered bond issuance and OC. |
| Denmark / *Average* | There is **no requirement under the law to remove and replace non-performing loans**. However a nonperforming loan would be provisioned against, reducing cover pool equity, and the equity would then be replenished if necessary, to maintain it at the legal minimum. |
| Finland / *Strong* | Non-performing assets **may not be taken into account when calculating the total amount of cover pool assets for the purpose of the cover tests**. We understand that under FFSA guidelines, assets should be recorded as nonperforming for their entire principal amount if either interest or principal is in arrears for 90 days. OC above the legal minimum might include nonperforming assets if these are retained in the cover pool. |
| France/ *Average (MP for SFH only: strong)* | Law does **not provide any specific treatment for loans that are non-performing**. Consequently, they may be included in the calculation of the minimum OC test. In practice, non-performing assets are excluded in the calculation of additional contractual OC tests, which are included in all SFH structures. |
| Germany / *Average* | Law does **not provide any precise treatment for loans that are non-performing**. If a loan in the cover pool has a provision made against it, then the loan amount included in the cover tests may need to be reduced. |
| Ireland / *Average* | **Non-performing loans cannot be included in the cover pool**. However, **loans that become non-performing do not have to be removed** and continue to count for the purposes of the legal and contractual OC tests. In practice, issuers remove non-performing loans from the cover pools, usually at month-end or ahead of a bond issue. |

**Moody's Sector Comment: treatment of non-performing loans in selected countries (continued)**

| Country / Score | Treatment |
|---|---|
| Italy / *Strong* | **Law does not require that non-performing loans be removed from the cover pool**. However, non-performing loans are **not permitted to be taken into account for the legal asset cover tests**. Because the legal tests do not specify any OC level, OC which is committed through contractual tests may include nonperforming loans. In practice, non-performing assets are totally or partially excluded from the calculation of contractual OC and defaulted loans (typically loans which are more than 180 days in arrears) are not considered for the contractual tests prior to an issuer event of default, and only partially thereafter. |
| Korea / *Average* | Nonperforming loans (greater than three months in arrears) **may remain part of the cover pool** and be included in the minimum legal OC and the contractual OC. |
| Netherlands/ *Strong* | Non-performing mortgage loans **may remain in the cover pool**. However, these loans will **not count towards the legal minimum OC and will be given reduced or no value in the ACT**, although the loans will serve as voluntary OC. Non-payment is defined as in line with CRR Art 178, which specifies 180 days past due for residential mortgage loans. |
| Norway/ *Strong* | Non-performing assets **may not be taken into account for the cover pool tests, but may remain in the cover pool.** The covered bond law does not define when an asset becomes non-performing but we understand that, for residential mortgage loans, this would typically be at 90 days past due. |
| Poland/ *Strong* | The covered bond law is silent on the treatment of nonperforming assets (typically 180 days past due). However, the **secondary regulation issued by the Minister of Finance requires issuers to disregard nonperforming loans** for the purposes of the legal minimum OC, the coverage test and the 12-month liquidity test. |
| Portugal/ *Strong* | Law requires that non-performing loans (defined as in arrears for 90 days or more) **be removed from the cover pool**. OC in either committed and voluntary form therefore excludes nonperforming assets. After issuer default, the cover pool administrator is likely to have some discretion to retain non-performing assets in the cover pool, as is not expected to replace them. |
| Singapore / *Average (MP: strong)* | **Law does not contain any provisions on treatment of non-performing assets**. Contractually, nonperforming loans (greater than three months in arrears) may remain part of the cover pool, but are given no value in the calculation of the ACT. |
| Slovakia / *Strong* | Non-performing assets **may not be taken into account for the calculation of OC and must be removed from the cover pool**. |
| Spain / *Average* | For **Cédulas Hipotecarias (CH)** any part of a loan that has become due and payable, but remains unpaid**, will be excluded from the asset cover** (i.e., minimum OC) test. However the outstanding balance of such a loan that is not yet due and payable will continue to be included in the cover test. For **Cédulas Territoriales (CT)**, there is **no exclusion of non-performing assets** from the asset cover (minimum OC) test. |
| Sweden / *Strong* | Loans in the cover pool that are 60+ days past due **may not be included in the nominal and NPV cover tests**. |
| United Kingdom / *Average (MP: strong)* | Non-performing mortgage loans **may remain in the cover pool** as there is no treatment for them specified under the law. However, **market practice is to give non-performing assets reduced value for the purpose of calculating the ACT** (generally based on the asset's LTV), or no value in the case of assets that are in effect defaulted. Non-performing loans may also be repurchased by the issuer. |
| Estonia[1] | **Law does not contain any specific requirements** on the treatment of loans that become non-performing after their inclusion in the cover pool. |
| Luxembourg[2] | **LdG Publique: Law does not contain any specific requirements** on the treatment of loans that become non-performing after their inclusion in the cover pool. **LdG Renewable Energy**: partial or complete loan will be excluded from calculation of collateral value (threshold for complete loan exclusion 1% of nominal or current value of loan) |

Source: Moody's reports, score categories: strong / average / weak; MP = market practice; NORD/LB Markets Strategy & Floor Research

[1] Moody's assesses the treatment of NPLs as a legislative weakness; [2] No Moody's classification available (Source: LdG legislation)

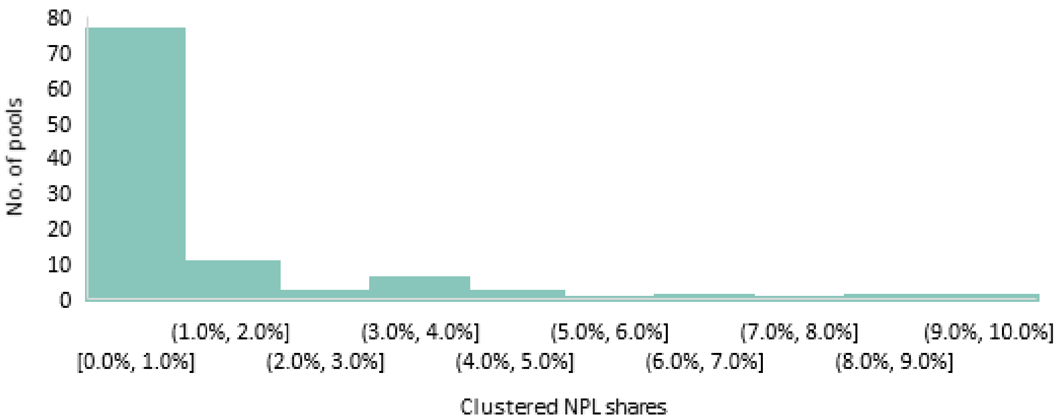
**NORD/LB Issuer Guide Covered Bonds 2020: share of NPLs in cover pools**

In respect of the proportions of NPLs in cover pools, it is fair to say that that these have so far been kept to relatively low levels overall – although the full extent of the coronavirus crisis has not yet been factored in. For the purpose of creating a comparative database, we have used the NORD/LB Issuer Guide Covered Bonds 2020, which contrasts the cover pools of EUR benchmark and EUR sub-benchmark issuers. In this respect, it is important to bear in mind that the cover pools analysed (numbering almost 260) also include further programmes from the same issuers (e.g. cover assets arising from export financings).

**Data shows low NPL ratios – bar a few exceptions**

In total, 99 of the cover pools analysed show NPL ratios greater than 0%. The main focus of the breakdown here, however, is clearly on cover pools with a maximum NPL ratio of 1%. Programmes with relatively high NPL ratios (>2%) mostly involve mortgage covered bonds from Italy (four programmes) and Spain (eight). The NORD/LB cover pool of Ship Pfandbriefe also shows an NPL ratio of 3.78%, i.e. more than 2%. Overall, however, this means that NPL ratios are fairly low, as we highlighted earlier. To that extent, any evaluation of the treatment of non-performing loans prescribed by law and market standards should be seen in that context. In reality, though, it is likely – not least in view of the Covid-19 pandemic – that we can expect NPL ratios in some cover pools to increase. This will apply especially if issuers cannot (or can no longer) substitute NPLs with performing assets. Payment moratoriums and payment holidays can give a certain indication of potential additional NPLs in future, although one should not automatically assume that they would necessarily mean similar increases in NPLs – if nothing else in view of the complexity of approaches in different countries. The European Covered Bond Council (ECBC) has already responded to the possibility of payment deferrals in relation to issuer reporting. Since 09 June 2020, the HTT Template now includes an optional one-page table on the impact of Covid-19 on the cover pool ("COVID-19 Impact Tab"). As soon as this reporting option has been established among issuers reporting on the basis of the HTT, we would regard this reporting option as a sensible use for risk assessment over the next few quarters.

**NPL ratios of cover pools in the NORD/LB Issuer Guide Covered Bonds 2020**




Source: NORD/LB Markets Strategy & Floor Research

**Conclusion**

An international comparison of the treatment of NPLs in the cover pools of covered bond programmes shows significant differences which will not be ironed out, even by the EU covered bond harmonisation. Since an increase in NPLs cannot be ruled out, there is also a theoretical potential for a change in the levels of NPLs in cover pools. However, we would not wish to see this as a fundamental driver in relation to spread movements, especially with regards to the EUR benchmark segment.

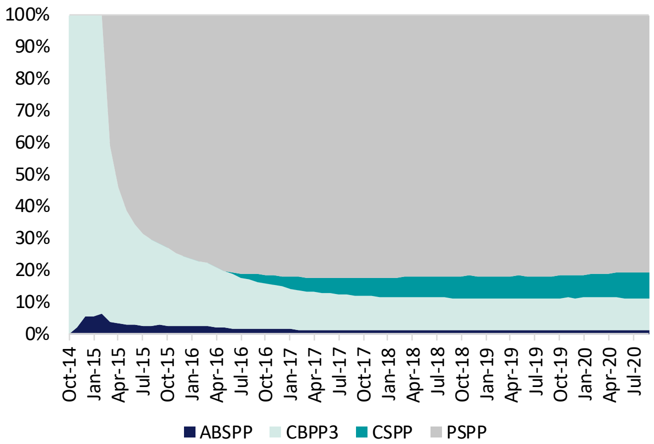
# ECB tracker

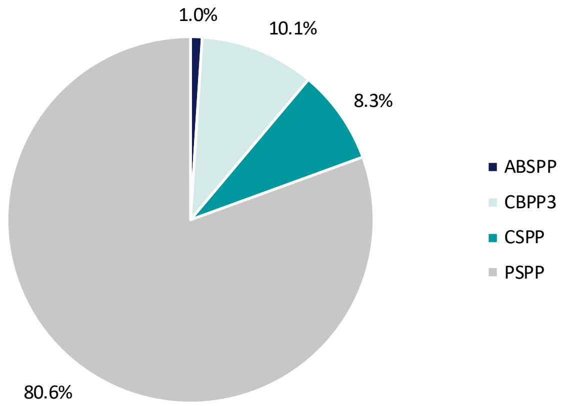
## Asset Purchase Programme (APP)

### Holdings (in EURm)

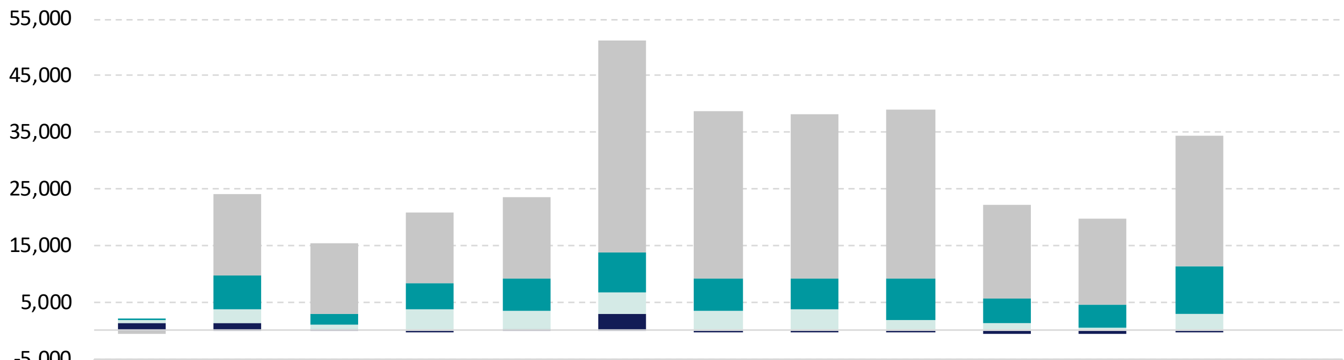
| | ABSPP | CBPP3 | CSPP | PSPP | APP |
|---|---|---|---|---|---|
| **Aug-20** | 29,542 | 284,464 | 228,224 | 2,273,588 | 2,815,818 |
| **Sep-20** | 29,124 | 286,852 | 236,349 | 2,290,140 | 2,842,465 |
| **Δ** | -418 | +2,388 | +8,125 | +16,552 | +26,647 |

### Portfolio structure



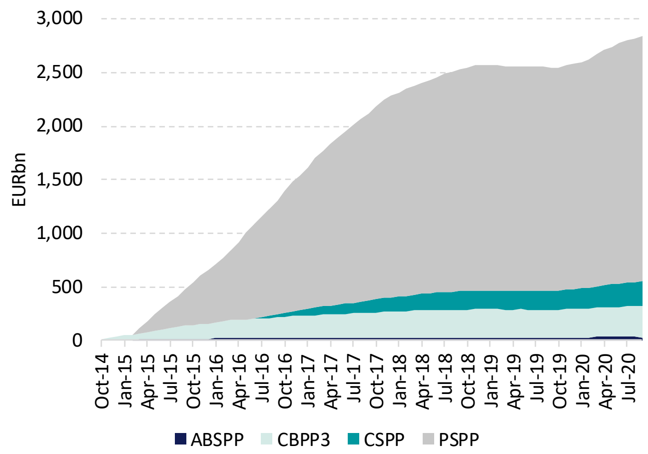

### Monthly net purchases (in EURm)



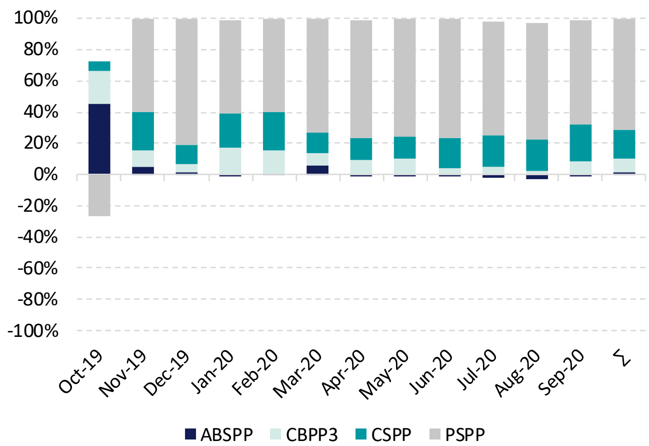

| | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 1,180 | 24,096 | 15,408 | 20,394 | 23,430 | 51,142 | 38,441 | 38,170 | 38,770 | 21,529 | 19,127 | 34,025 | 325,712 |
| PSPP | -698 | 14,478 | 12,515 | 12,427 | 14,137 | 37,323 | 29,624 | 28,961 | 29,779 | 16,370 | 15,150 | 23,102 | 233,168 |
| CSPP | 159 | 5,917 | 1,799 | 4,611 | 5,738 | 6,965 | 5,560 | 5,438 | 7,515 | 4,502 | 4,004 | 8,496 | 60,704 |
| CBPP3 | 559 | 2,448 | 865 | 3,684 | 3,334 | 3,931 | 3,582 | 3,785 | 1,731 | 1,198 | 500 | 2,839 | 28,456 |
| ABSPP | 1,160 | 1,253 | 229 | -328 | 221 | 2,923 | -325 | -14 | -255 | -541 | -527 | -412 | 3,384 |

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

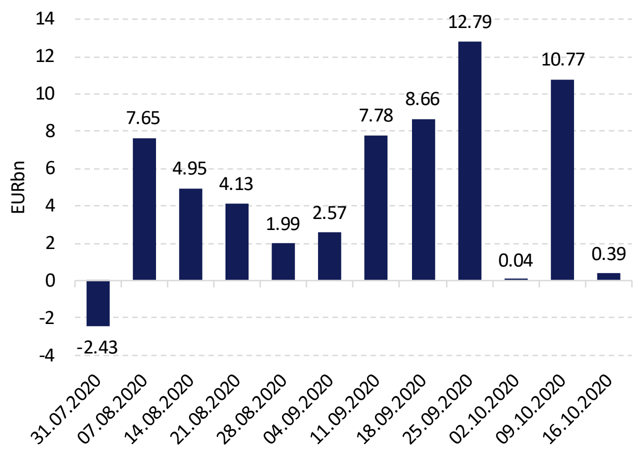
**Portfolio development**



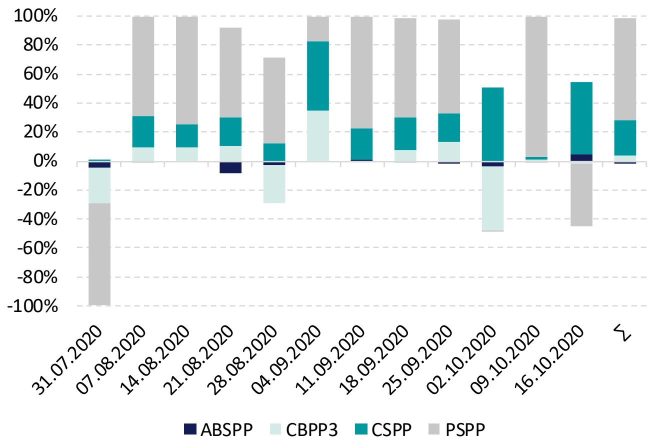

**Distribution of monthly purchases**



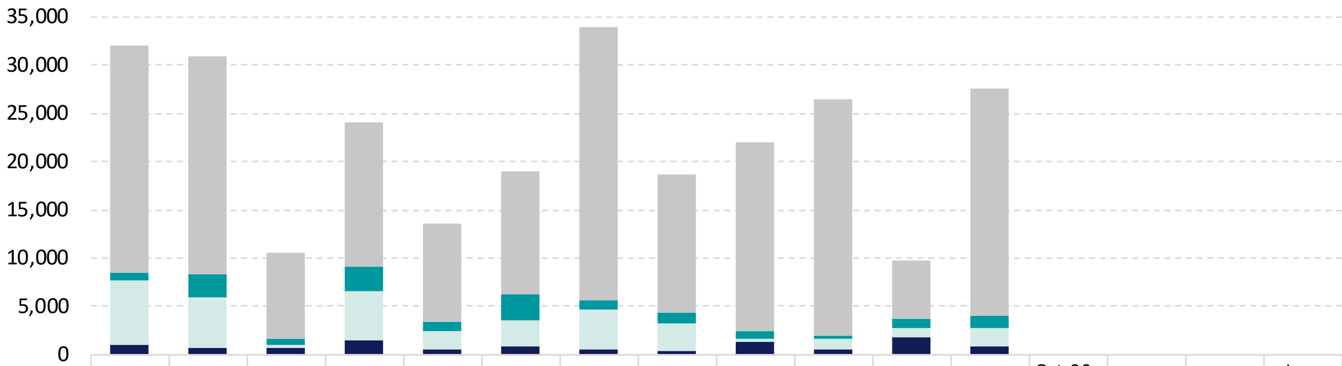

**Weekly purchases**




**Distribution of weekly purchases**




**Expected monthly redemptions (in EURm)**

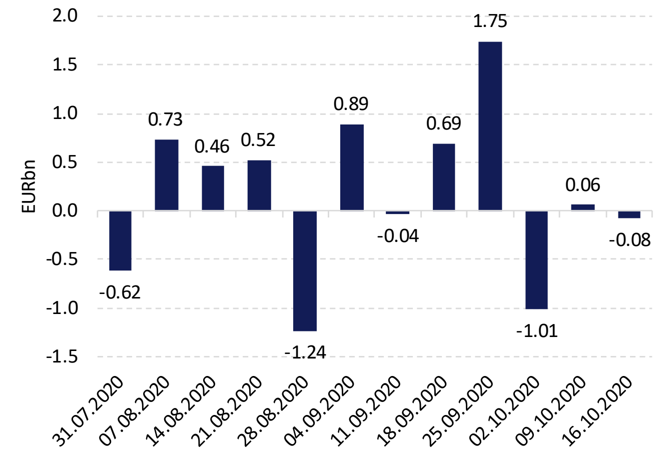



| | Oct-20 | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-20 - Sep-21 | 2019 | 2020 | Jan - Sep-21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 32,140 | 30,889 | 10,544 | 24,169 | 13,584 | 18,989 | 34,029 | 18,754 | 21,971 | 26,496 | 9,726 | 27,590 | 268,881 | 204,542 | 260,115 | 195,308 |
| PSPP | 23,629 | 22,509 | 8,871 | 15,064 | 10,268 | 12,677 | 28,417 | 14,353 | 19,519 | 24,538 | 6,056 | 23,642 | 209,543 | 167,334 | 201,482 | 154,534 |
| CSPP | 875 | 2,431 | 701 | 2,589 | 846 | 2,730 | 981 | 1,144 | 773 | 331 | 966 | 1,276 | 15,643 | 7,070 | 16,313 | 11,636 |
| CBPP3 | 6,568 | 5,281 | 302 | 5,092 | 2,002 | 2,759 | 4,047 | 2,840 | 356 | 1,116 | 962 | 1,772 | 33,097 | 21,948 | 33,219 | 20,946 |
| ABSPP | 1,068 | 668 | 670 | 1,424 | 468 | 823 | 584 | 417 | 1,323 | 511 | 1,742 | 900 | 10,598 | 8,190 | 9,101 | 8,192 |

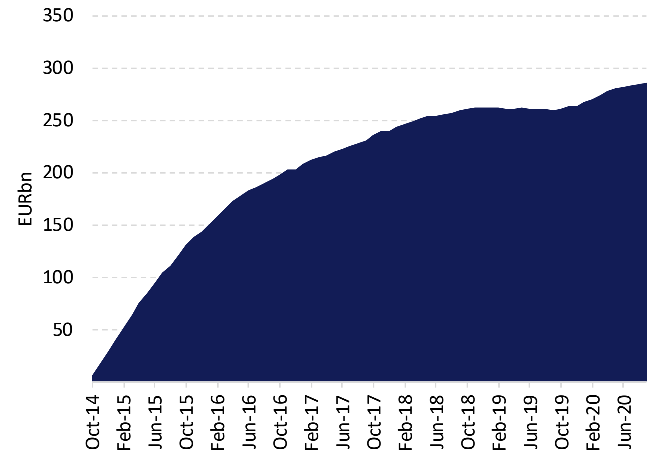
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Covered Bond Purchase Programme 3 (CBPP3)

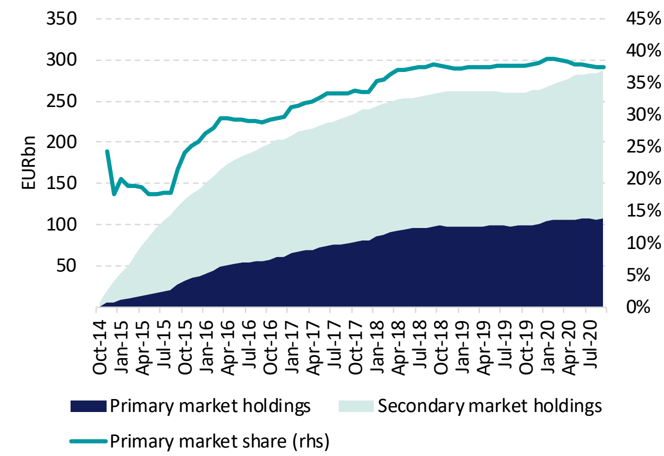
### Weekly purchases



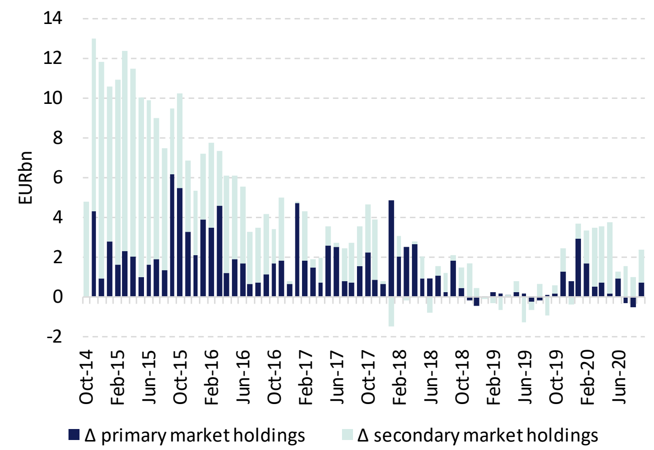

### Development of CBPP3 volume



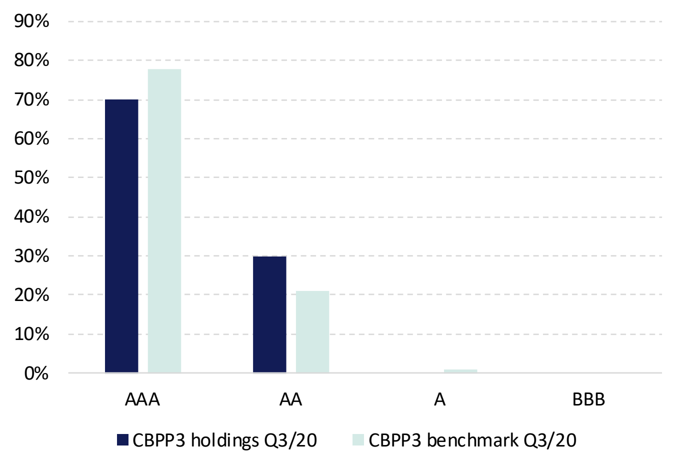

### Primary and secondary market holdings



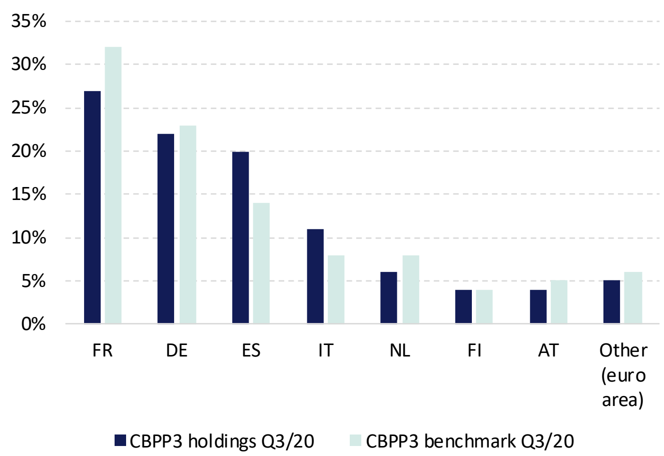

### Change of primary and secondary market holdings




### Distribution of CBPP3 by credit rating



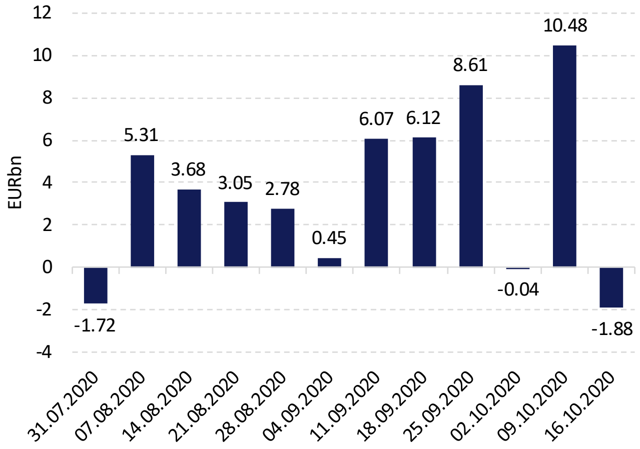

### Distribution of CBPP3 by country of risk



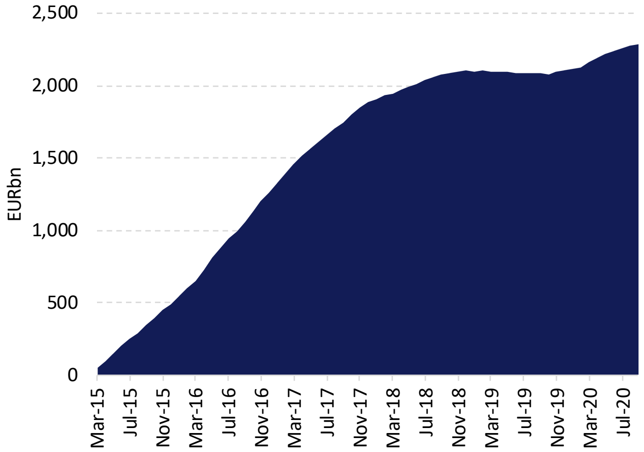

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Public Sector Purchase Programme (PSPP)

### Weekly purchases




### Development of PSPP volume



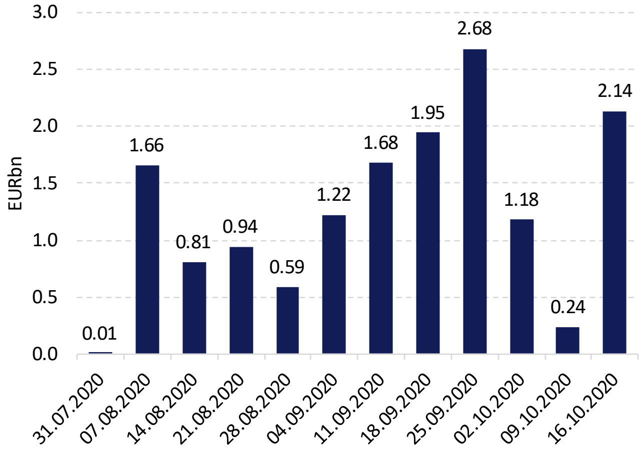

### Overall distribution of PSPP buying at month-end

| 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** |

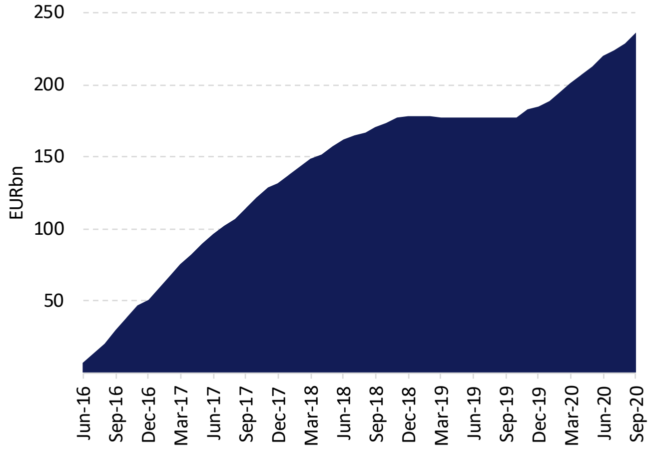
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Corporate Sector Purchase Programme (CSPP)

### Weekly purchases

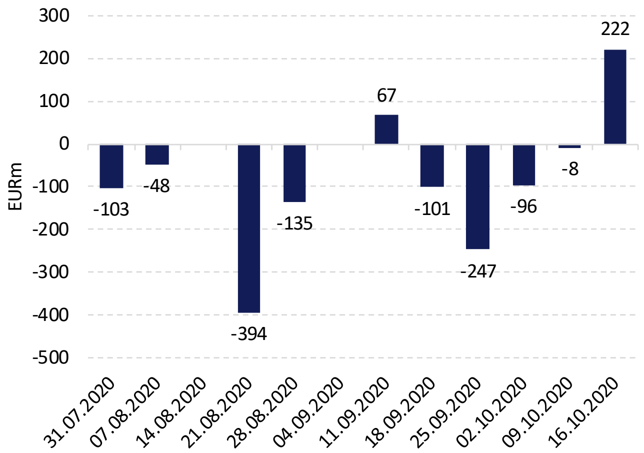



### Development of CSPP volume

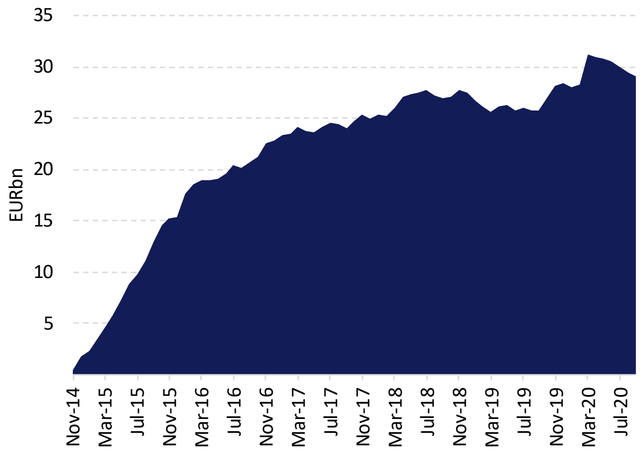



## Asset-Backed Securities Purchase Programme (ABSPP)

### Weekly purchases




### Development of ABSPP volume



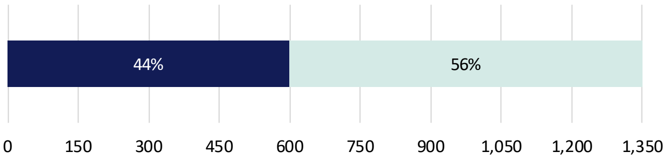

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Pandemic Emergency Purchase Programme (PEPP)

### Holdings (in EURm)

| | PEPP |
|---|---|
| **Aug-20** | 499,876 |
| **Sep-20** | 567,183 |
| **Δ** | +67,308 |

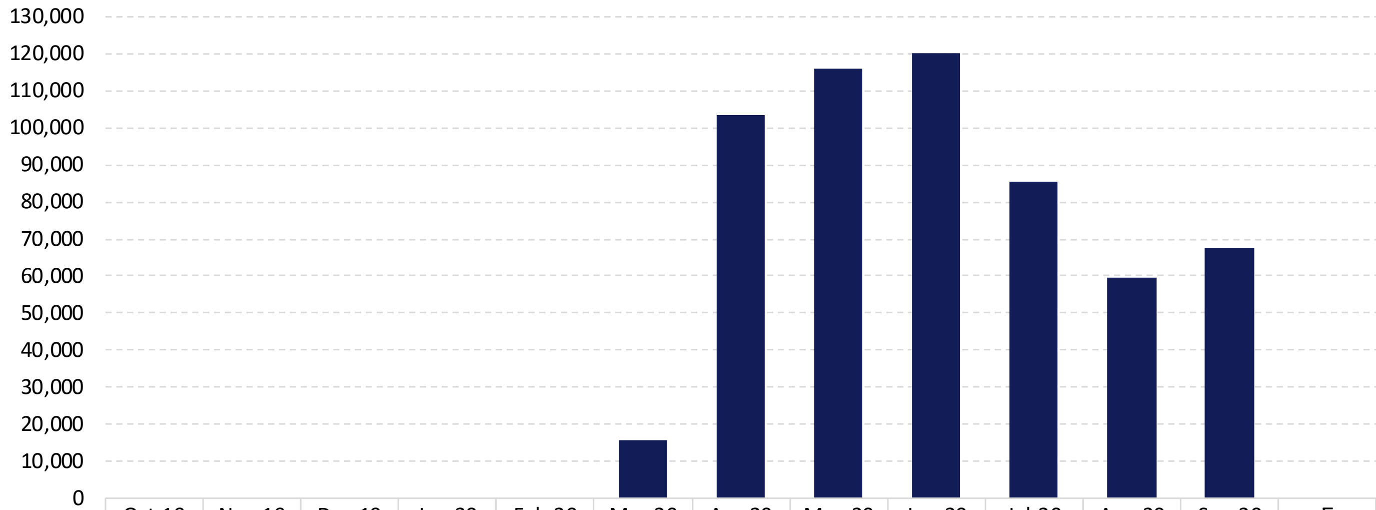
### Volume already invested (in EURbn)




### Estimated portfolio development

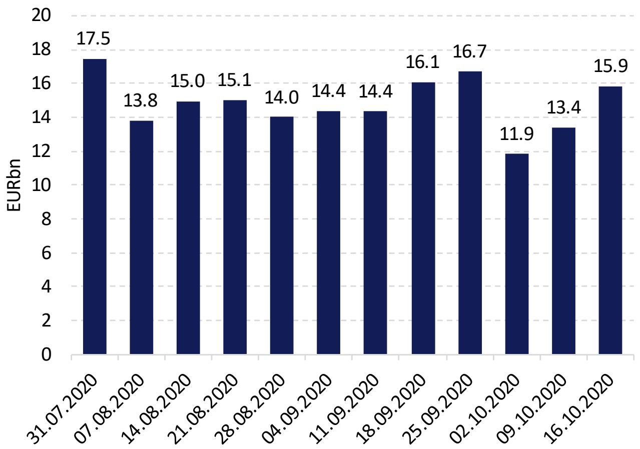
| Assumed pace of purchases | Weekly net purchase volume | PEPP limit hit in … |
|---|---|---|
| Average weekly net purchase volume so far | EUR 20.7bn | 36 weeks (25.06.2021) |

### Monthly net purchases (in EURm)

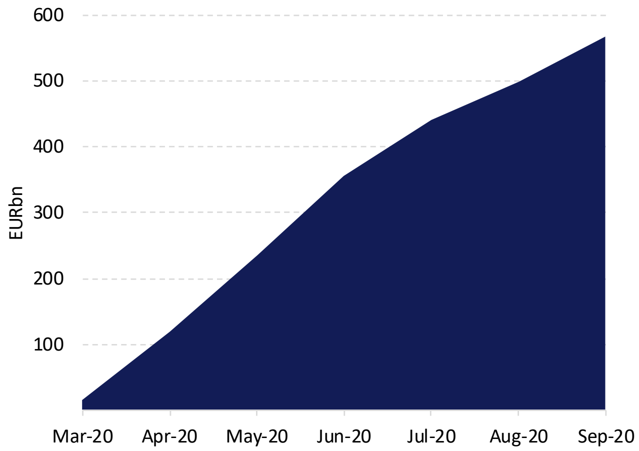



| | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PEPP | 0 | 0 | 0 | 0 | 0 | 15,444 | 103,366 | 115,855 | 120,321 | 85,423 | 59,466 | 67,308 | 567,183 |

### Weekly purchases




### Development of PEPP volume

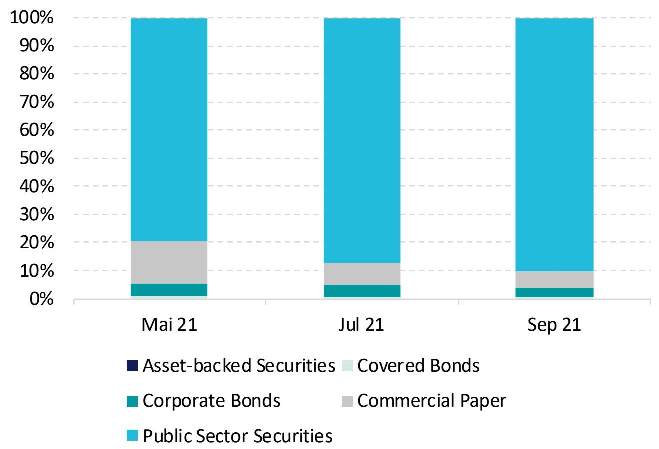


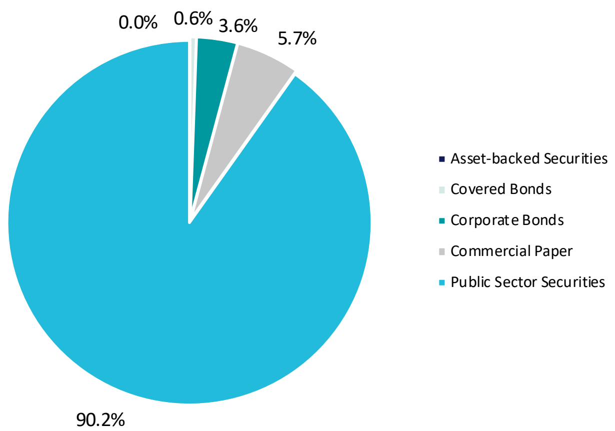

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Holdings under the PEPP (in EURm)

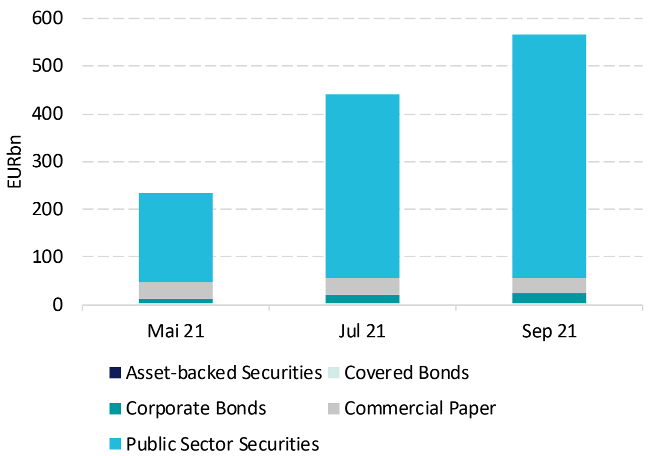
| | Asset-backed securities | Covered bonds | Corporate bonds | Commercial paper | Public sector securities | PEPP |
|---|---|---|---|---|---|---|
| **Jul-20** | 0 | 3,128 | 17,620 | 34,845 | 384,464 | 440,057 |
| **Sep-20** | 0 | 3,123 | 20,418 | 31,988 | 510,112 | 565,641 |
| **Δ** | 0 | -5 | +2,798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

## Portfolio structure

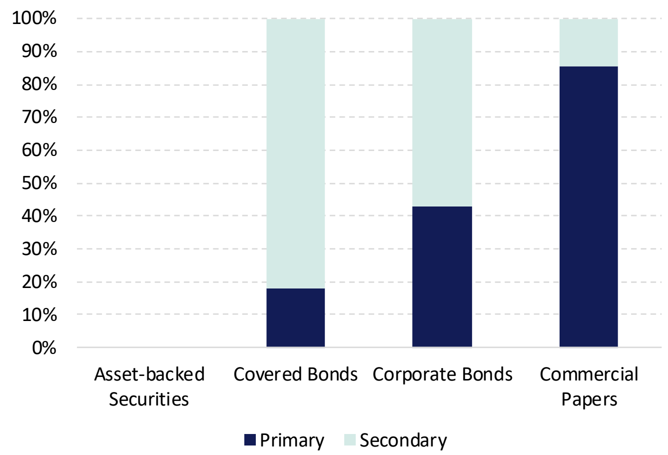



## Portfolio development




## Share of primary and secondary market holdings




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

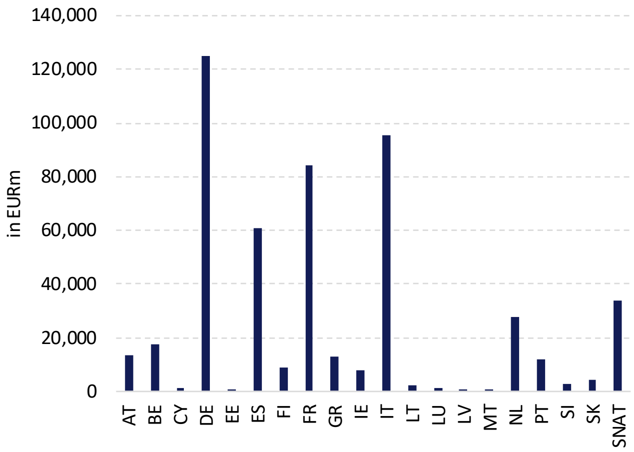
| | Asset-backed securities | | Covered bonds | | Corporate bonds | | Commercial papers | |
|---|---|---|---|---|---|---|---|---|
| | **Primary** | **Secondary** | **Primary** | **Secondary** | **Primary** | **Secondary** | **Primary** | **Secondary** |
| **Holdings in EURm** | 0 | 0 | 557 | 2,566 | 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

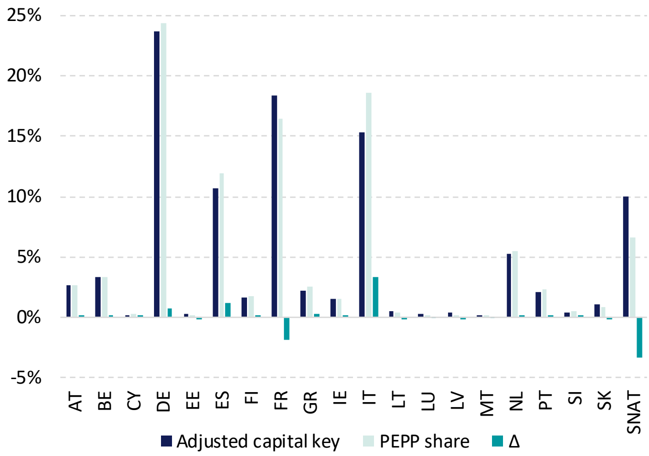
## Breakdown of public sector securities under the PEPP

| 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



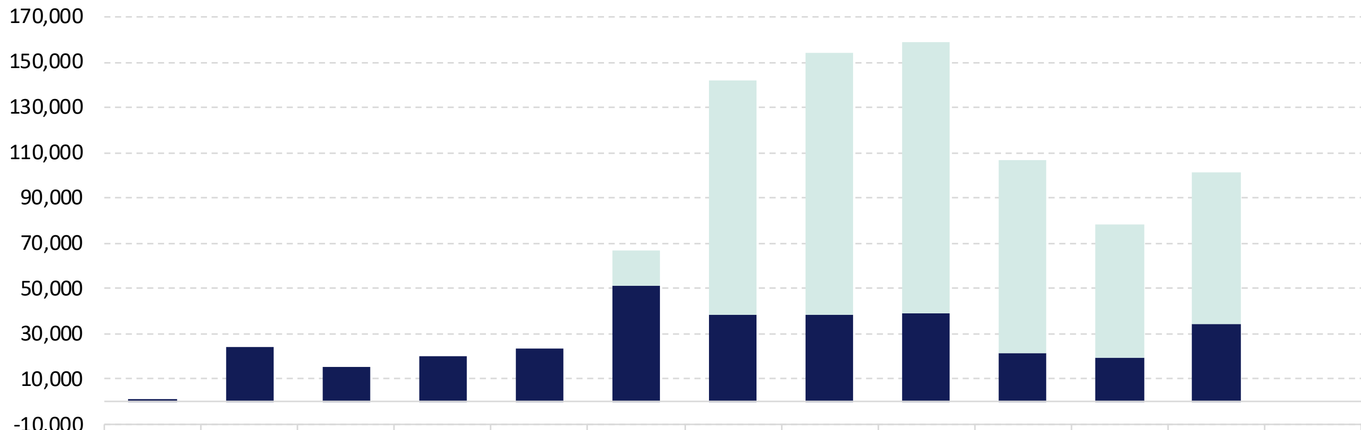

[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

### Aggregated purchase activity under APP and PEPP

**Holdings (in EURm)**

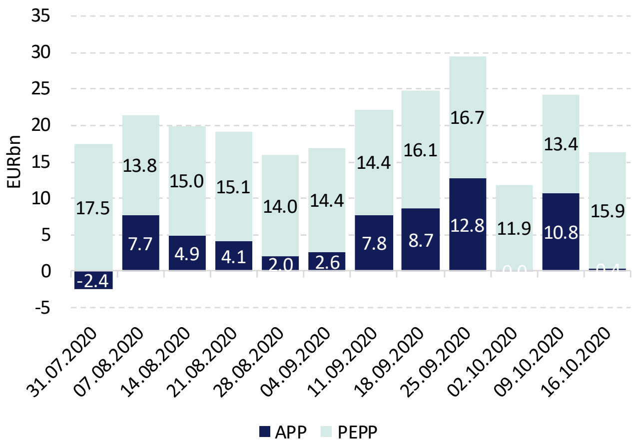
| | APP | PEPP | APP & PEPP |
|---|---|---|---|
| **Aug-20** | 2,815,818 | 499,876 | 3,315,694 |
| **Sep-20** | 2,842,465 | 567,183 | 3,409,648 |
| **Δ** | +26,647 | +67,308 | +93,955 |

**Monthly net purchases (in EURm)**

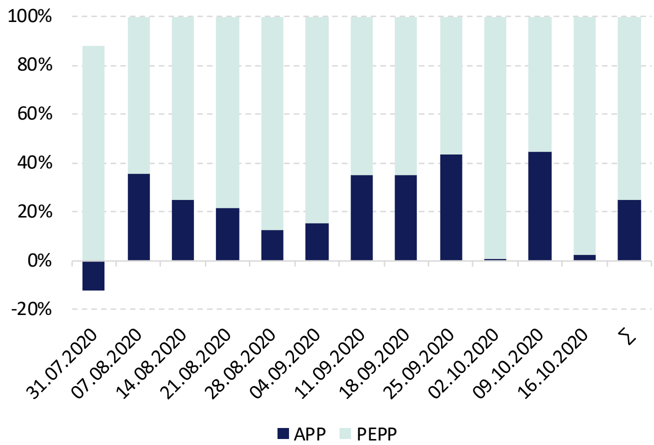



| | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | Jul-20 | Aug-20 | Sep-20 | ∑ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ∑ | 1,180 | 24,096 | 15,408 | 20,394 | 23,430 | 66,586 | 141,807 | 154,025 | 159,091 | 106,952 | 78,593 | 101,333 | 892,895 |
| PEPP | 0 | 0 | 0 | 0 | 0 | 15,444 | 103,366 | 115,855 | 120,321 | 85,423 | 59,466 | 67,308 | 567,183 |
| APP | 1,180 | 24,096 | 15,408 | 20,394 | 23,430 | 51,142 | 38,441 | 38,170 | 38,770 | 21,529 | 19,127 | 34,025 | 325,712 |

**Weekly purchases**



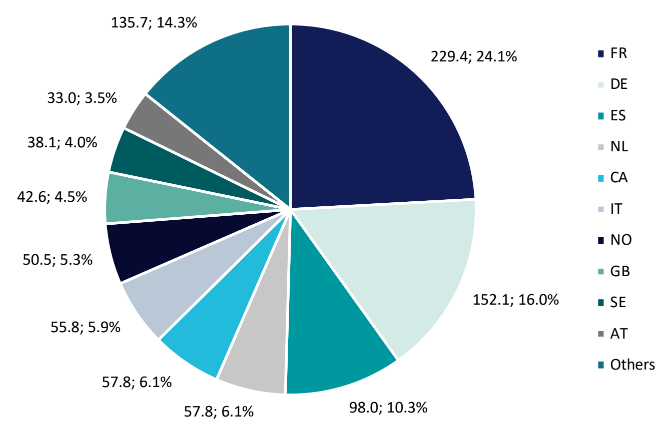

**Distribution of weekly purchases**



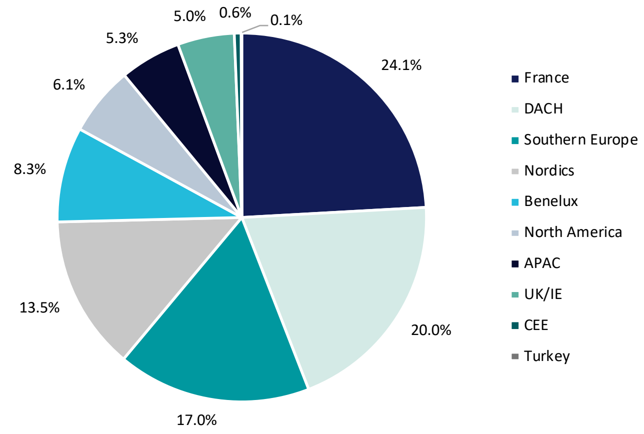

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Charts & Figures
# Covered Bonds

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



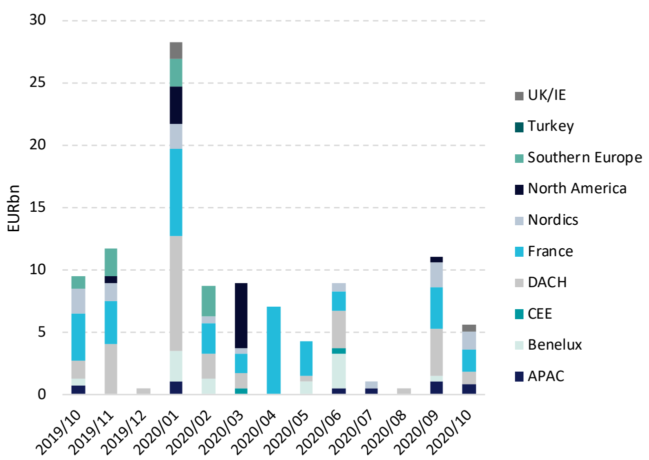

### EUR benchmark volume by region (in EURbn)



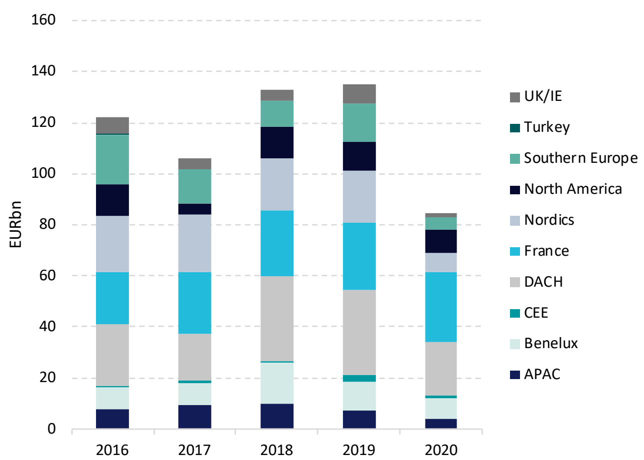

### Top-10 jurisdictions

| 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 | 229.4 | 208 | 7 | 0.97 | 10.0 | 5.5 | 1.28 |
| 2 | DE | 152.1 | 226 | 12 | 0.61 | 8.1 | 4.7 | 0.51 |
| 3 | ES | 98.0 | 79 | 3 | 1.14 | 11.1 | 3.9 | 1.84 |
| 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 | 3.8 | 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 | 5.7 | 0.84 |

### EUR benchmark issue volume by month

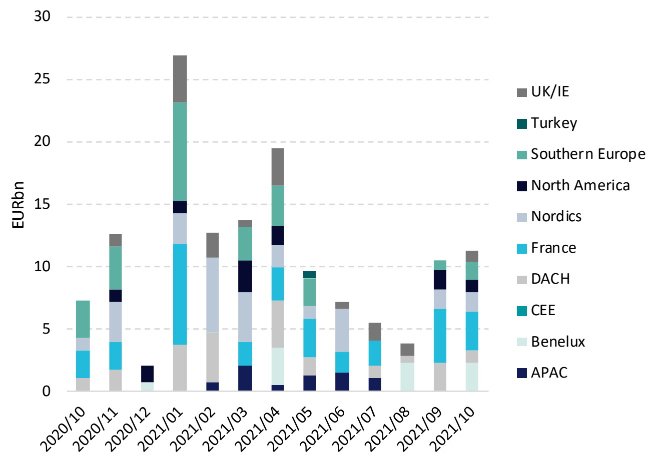



### EUR benchmark issue volume by year

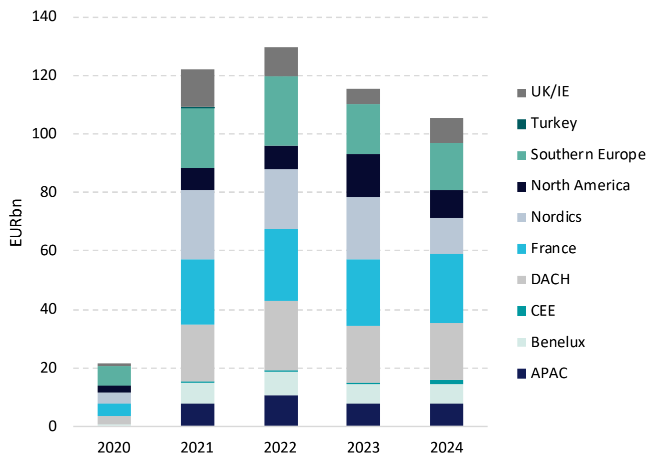



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

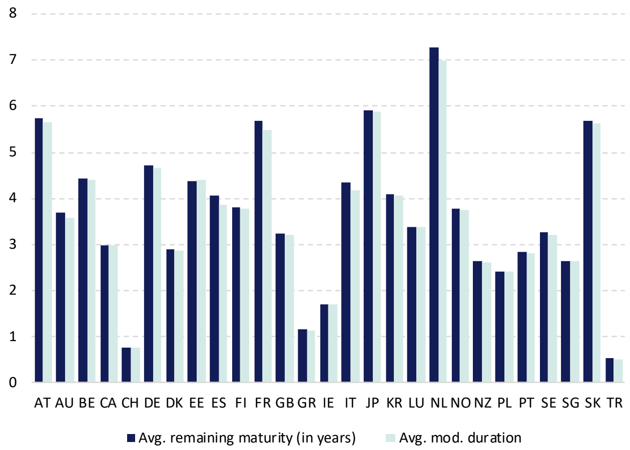
**EUR benchmark maturities by month**



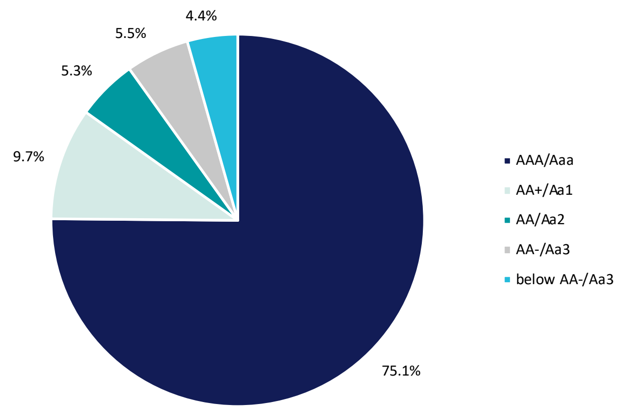

**EUR benchmark maturities by year**



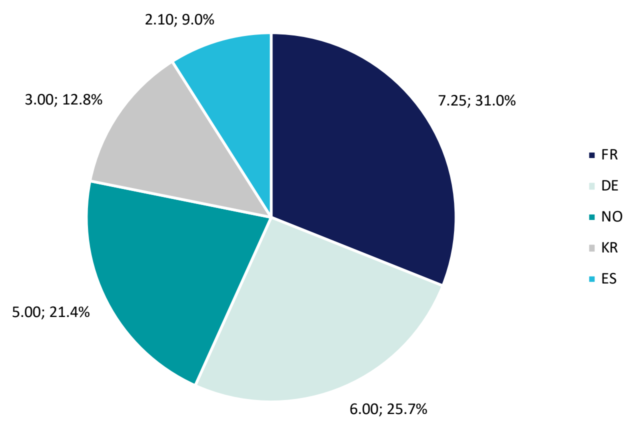

**Modified duration and time to maturity by country**



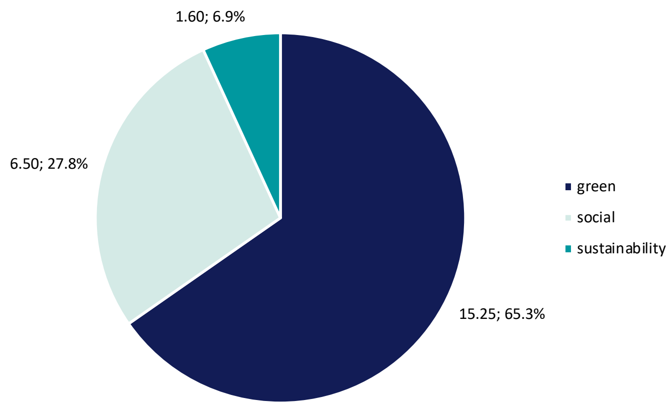

**Rating distribution (volume weighted)**




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



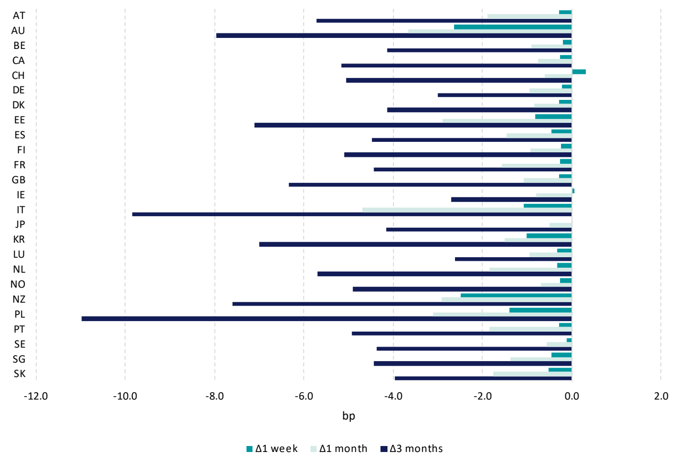

**EUR benchmark volume (ESG) by type (in EURbn)**



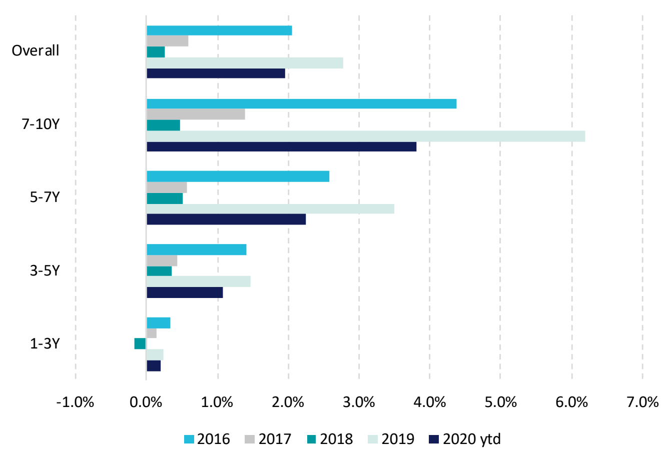

Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

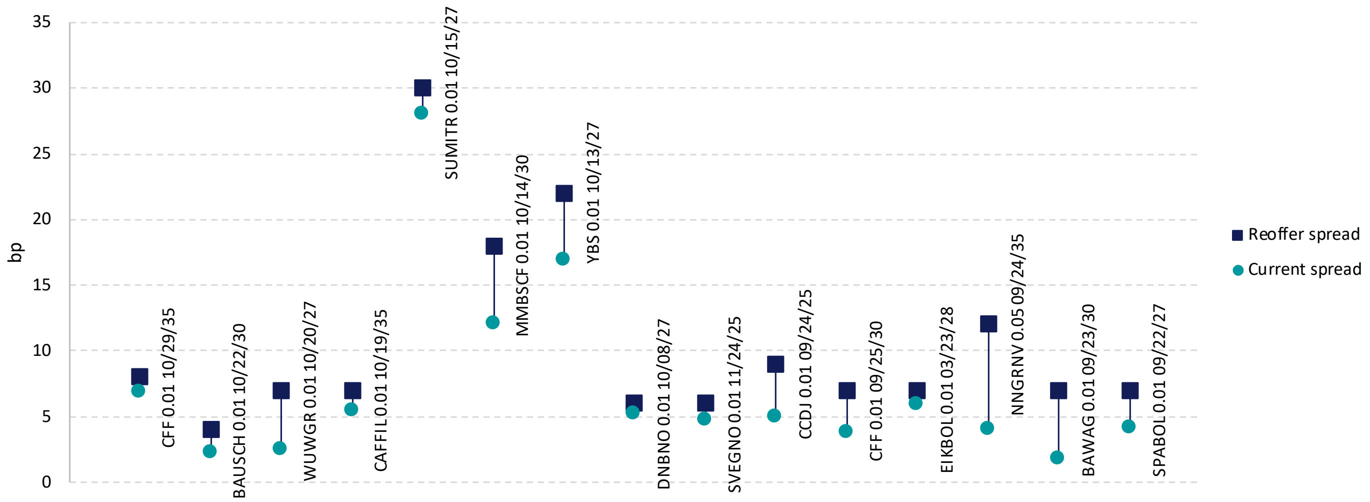
## Spread development by country



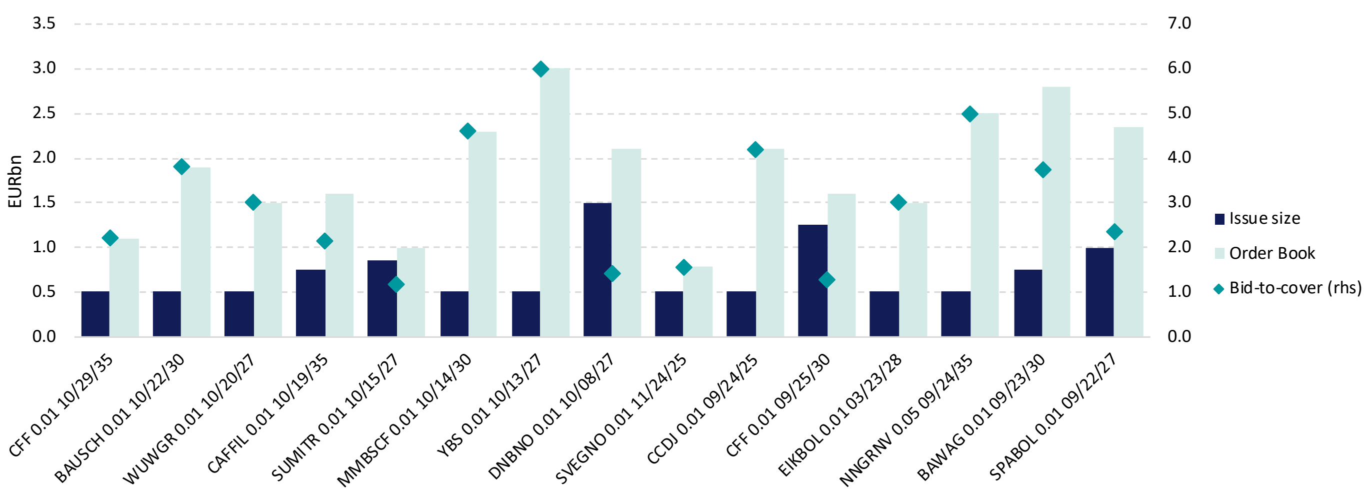

## Covered bond performance (Total return)




## Spread development (last 15 issues)



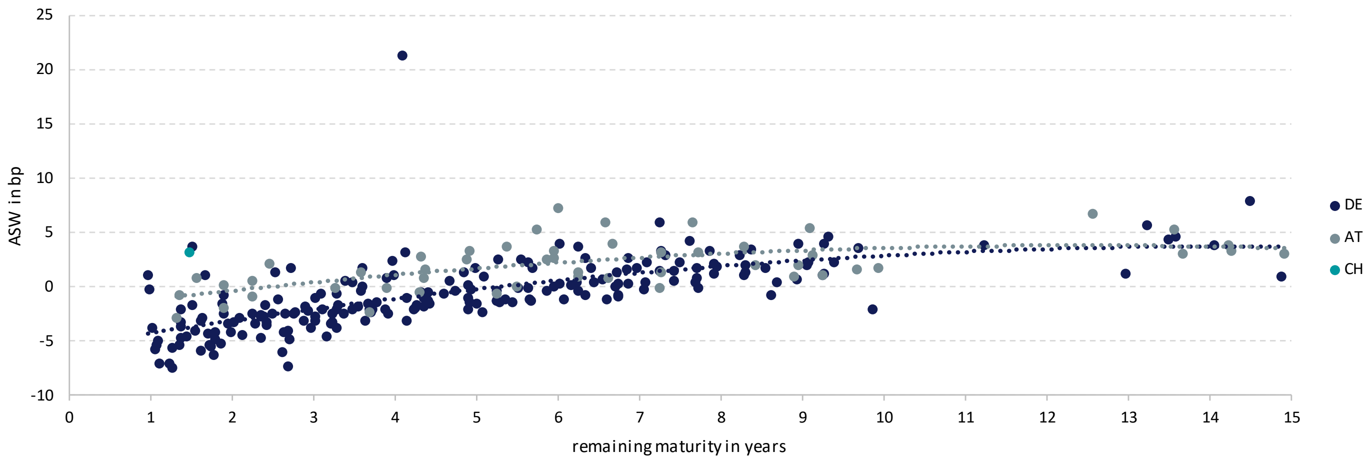

## Order books (last 15 issues)



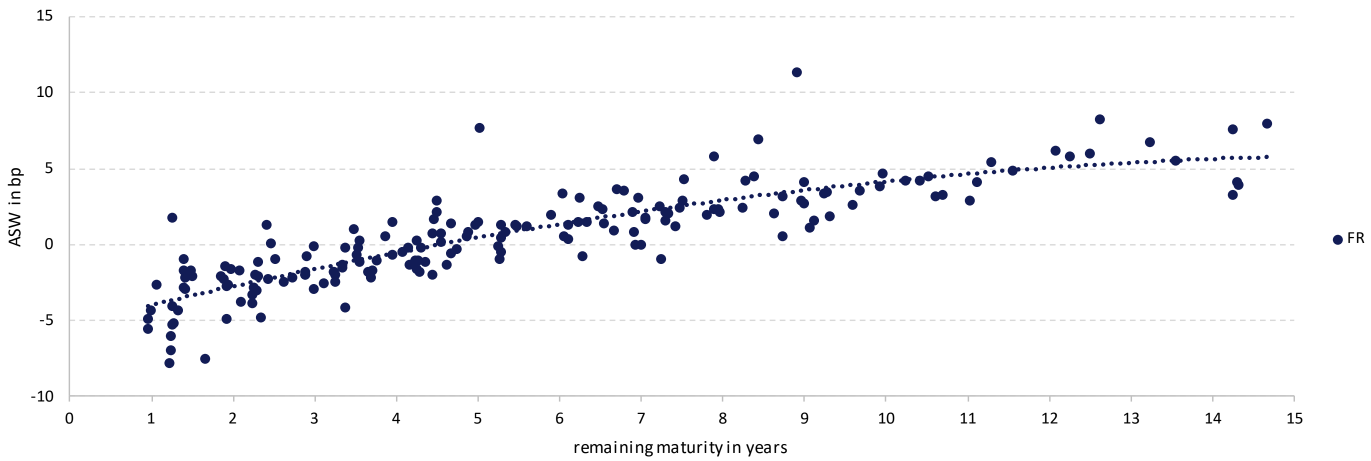

Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

## Spread overview[1]

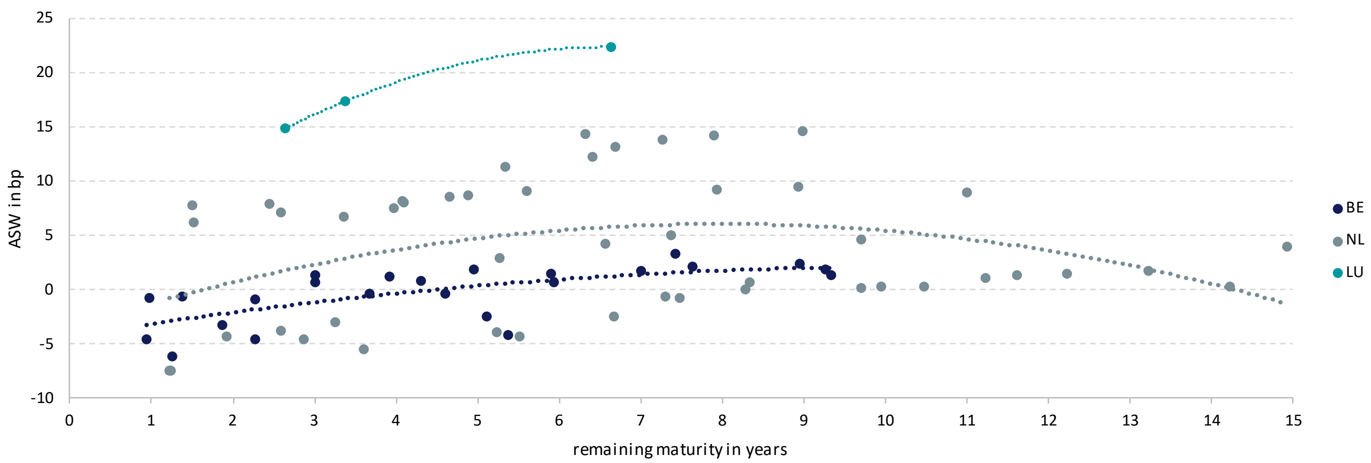
### DACH




### France

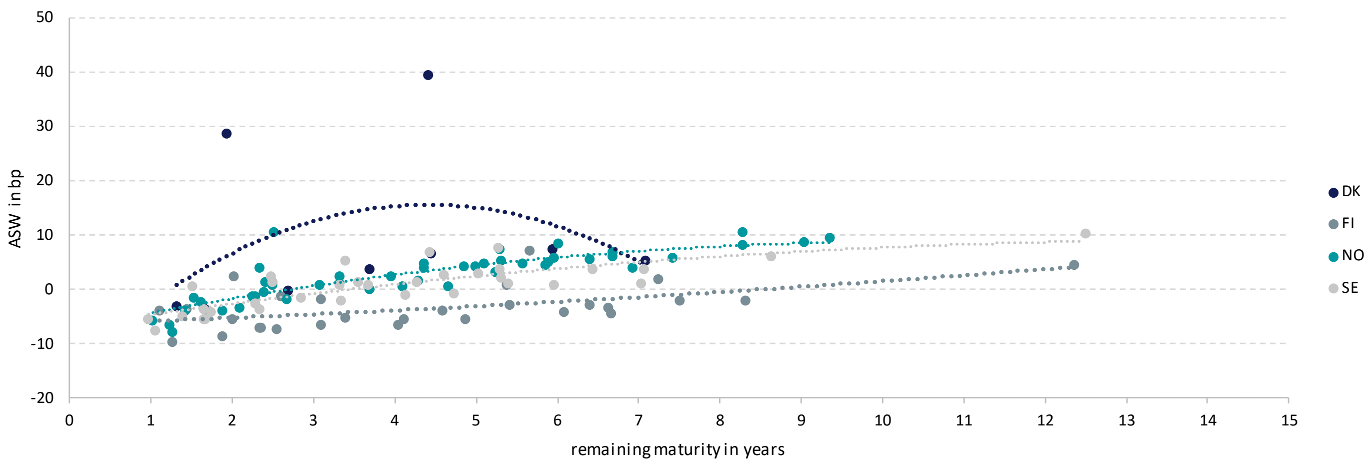



### Benelux

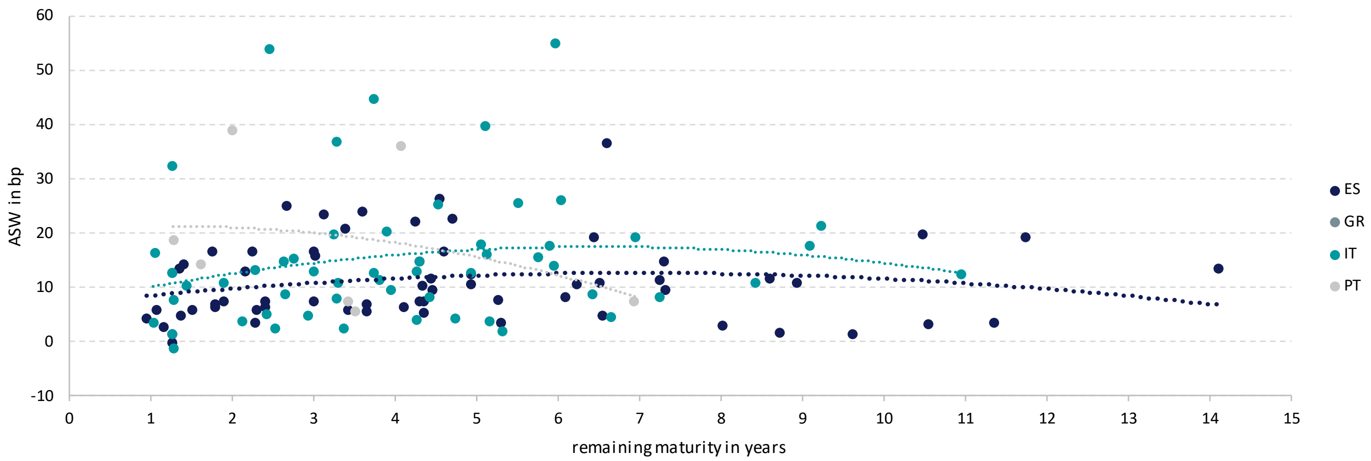



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

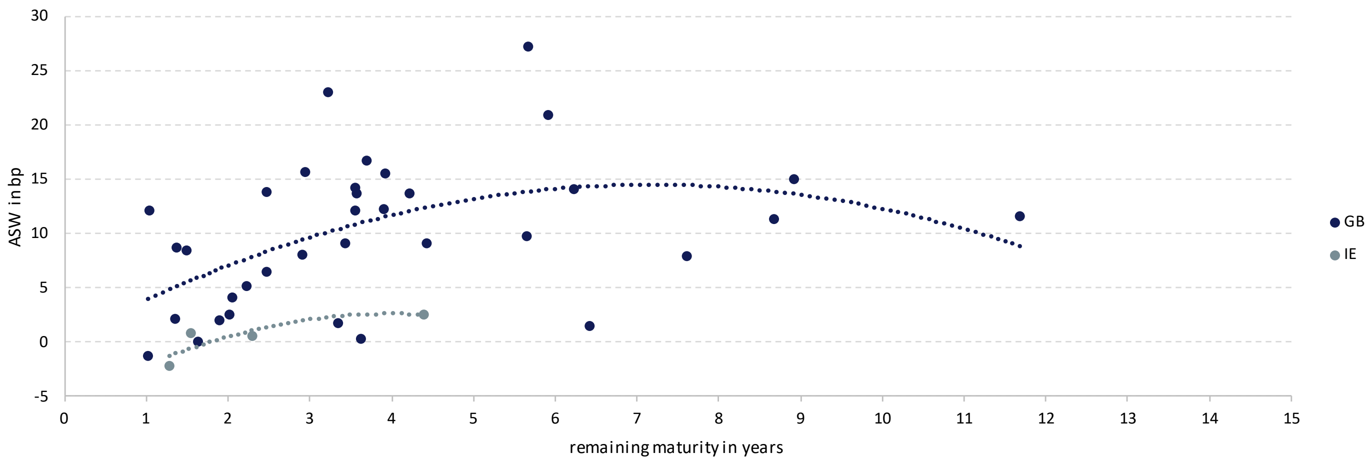
**Nordics**




**Southern Europe**

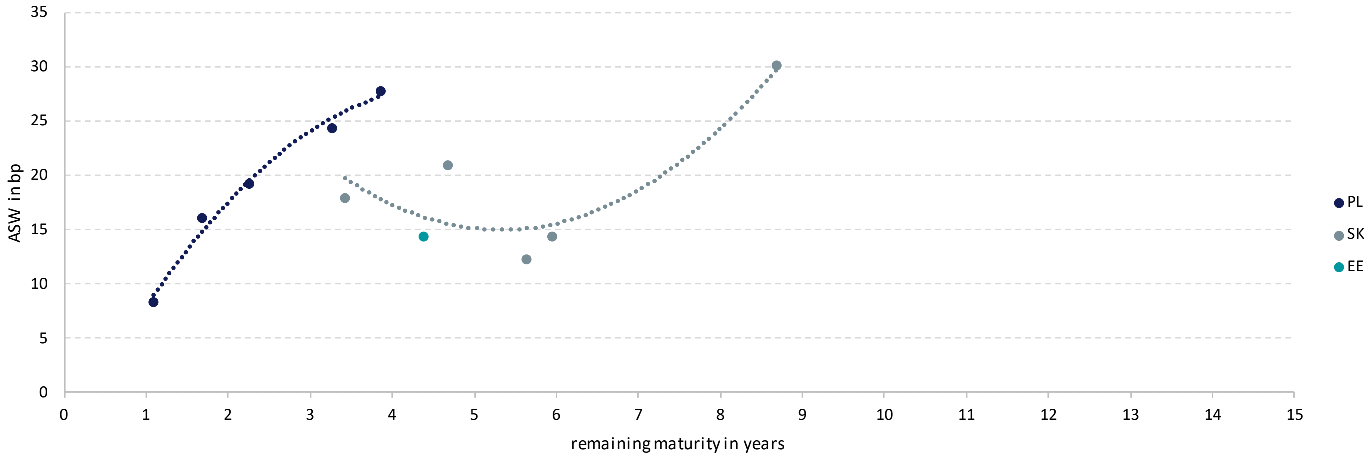



**UK/IE**

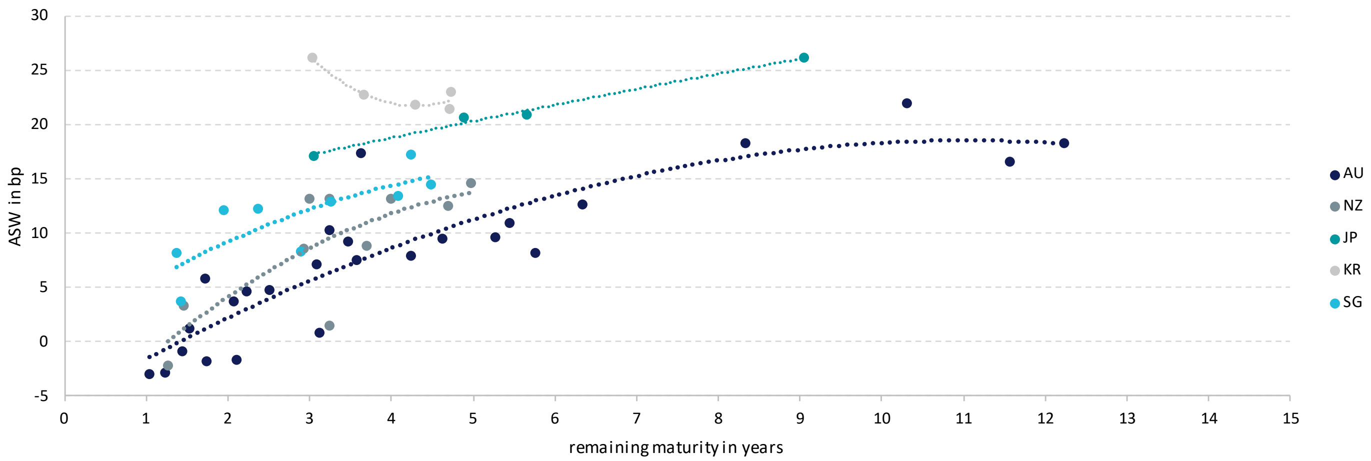



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

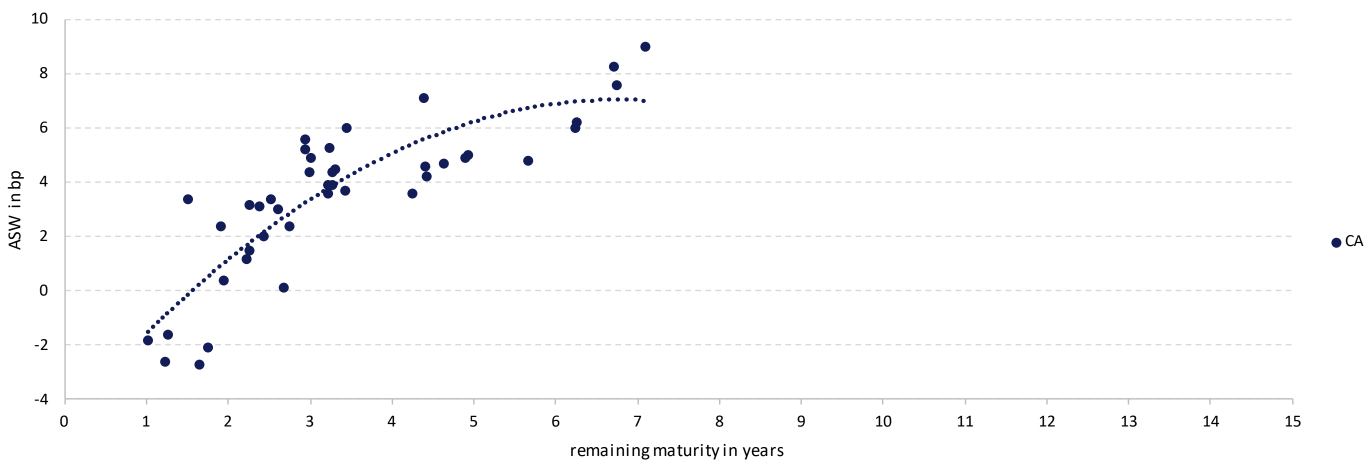
**CEE**




**APAC**




**North America**

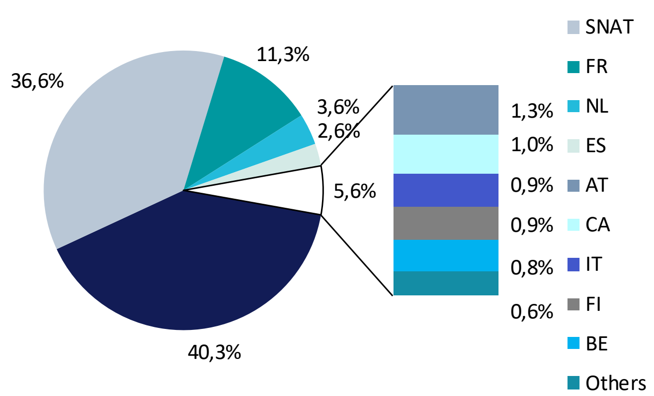



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Charts & Figures
# SSA/Public Issuers

### Outstanding volume (bmk)

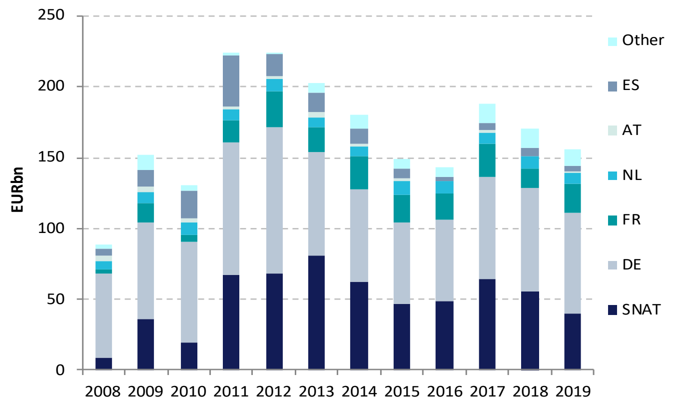
**EUR 1744,3bn**



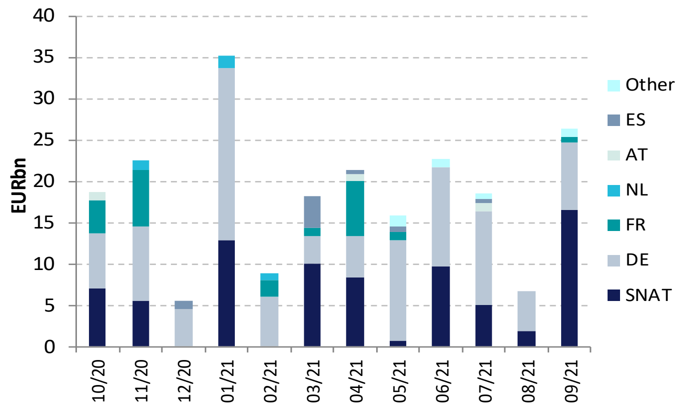

### Top 10 countries (bmk)

| Country | Vol. (€bn) | No. of bonds | ØVol. (€bn) | Vol. weight. ØMod. Dur. |
|---|---|---|---|---|
| DE | 702,6 | 545 | 1,3 | 6,2 |
| SNAT | 638,9 | 170 | 3,8 | 6,5 |
| FR | 196,7 | 134 | 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 | 18,2 | 14 | 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 |

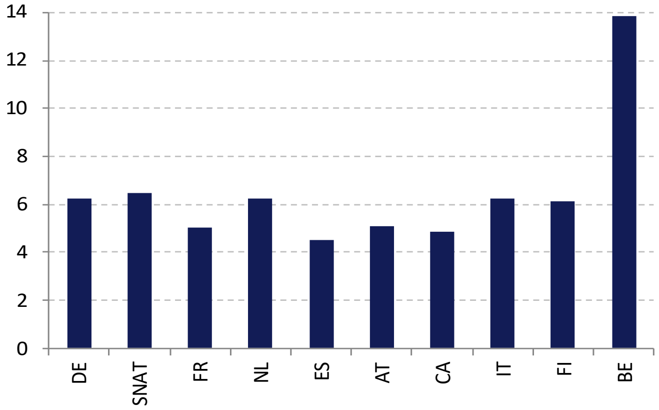
### Issue volume by year (bmk)



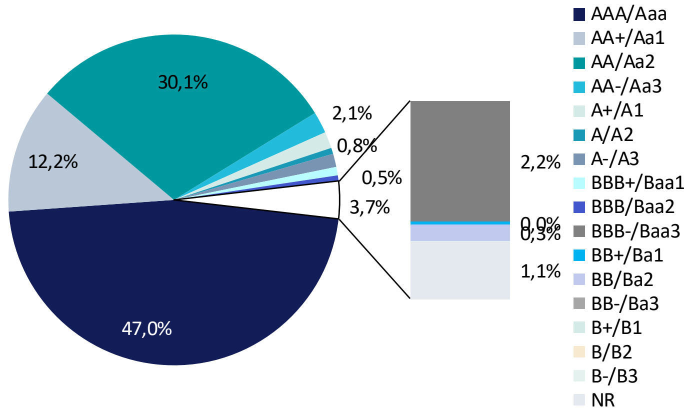

### Maturities next 12 months (bmk)




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

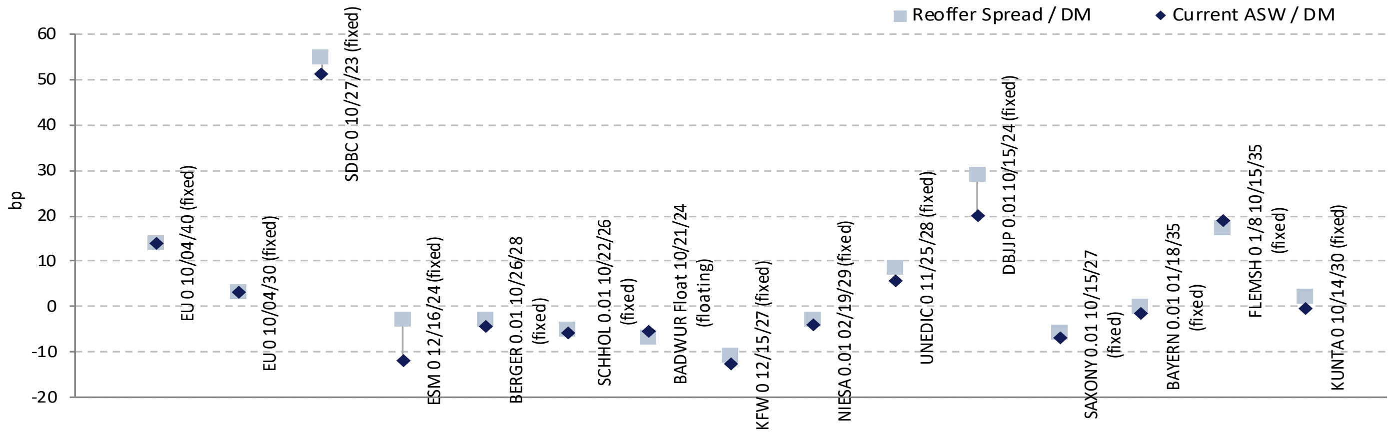



### Rating distribution (vol. weighted)

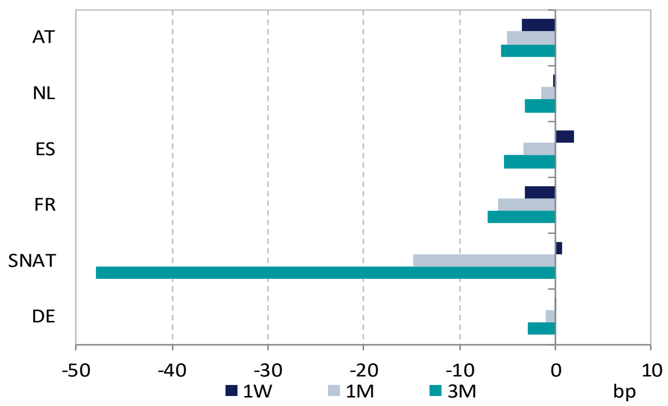



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

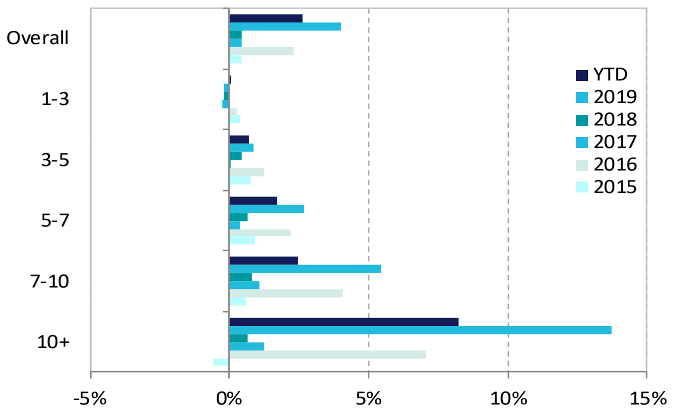
## Spread development (last 15 issues)



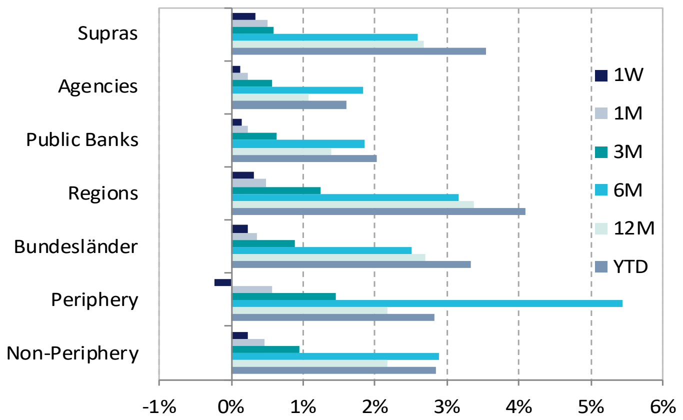

## Spread development by country



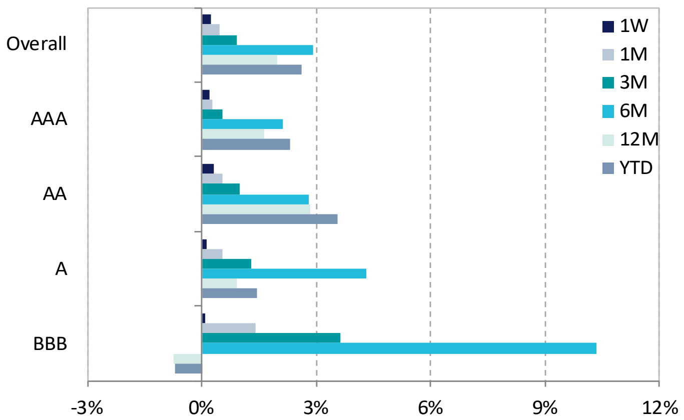

## Performance (total return)




## Performance (total return) by regions

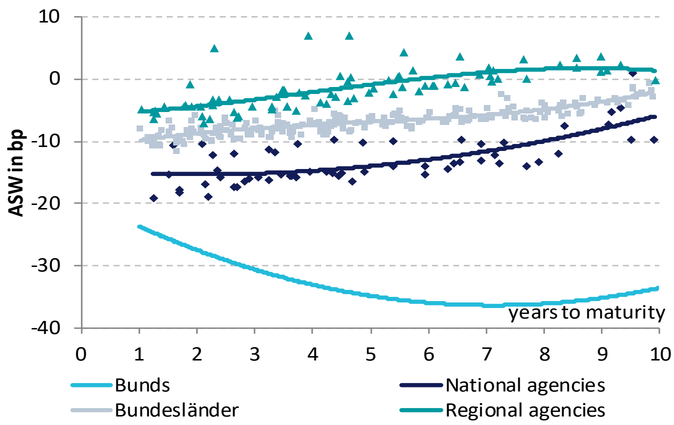



## Performance (total return) by rating

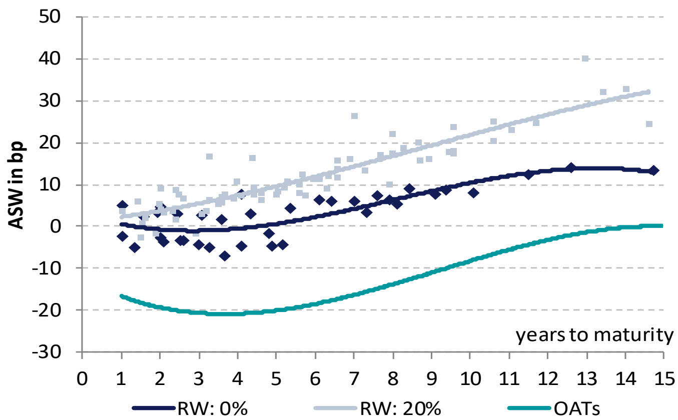



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

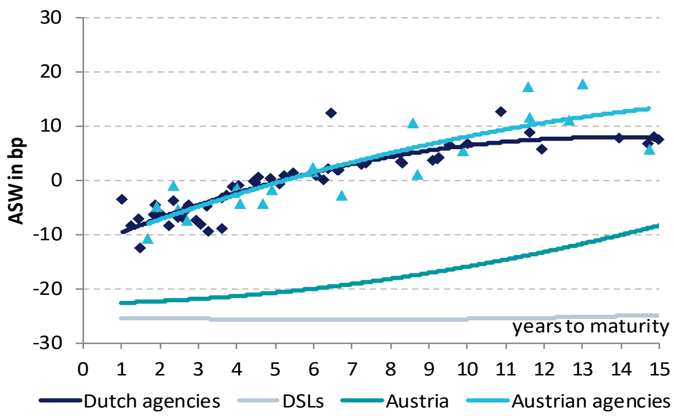
### Germany (by segments)



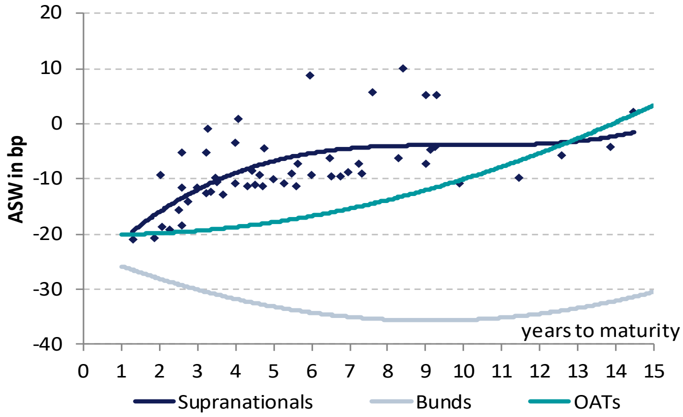

### France (by risk weight)



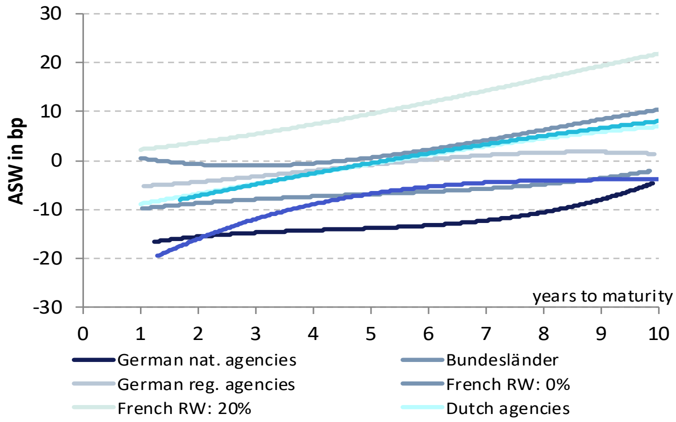

### Netherlands & Austria



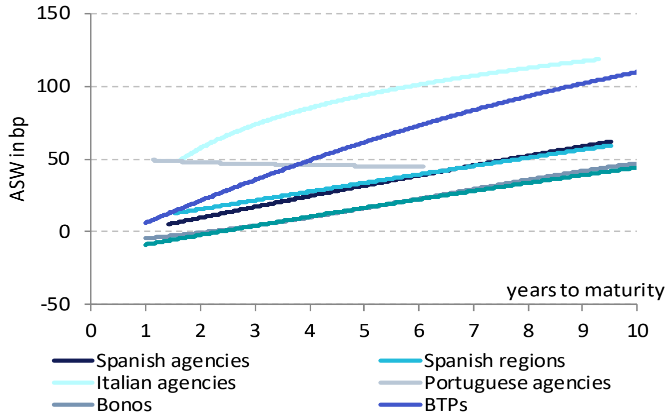

### Supranationals




### Core




### Periphery




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

NORD/LB

# Appendix
# Overview of latest Covered Bond & SSA View editions

| Publication | Topics |
|---|---|
| 39/2020 ♦ 14 October | ▪ Spain: Issuer consolidation ahead?<br>▪ PfandBG to include extendable maturity structures<br>▪ 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<br>▪ 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<br>▪ Update: Auckland Council – Investment alternative in Down Under |
| 35/2020 ♦ 16 September | ▪ Moody's covered bond universe: an overview<br>▪ Update Down Under: Victoria (TCV) |
| 34/2020 ♦ 26 August | ▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures<br>▪ Update: New South Wales (NSWTC) |
| 33/2020 ♦ 19 August | ▪ German Pfandbrief savings banks in Q2 2020<br>▪ ECBC publishes annual statistics for 2019 |
| 32/2020 ♦ 12 August | ▪ Transparency requirements §28 PfandBG in Q2 2020<br>▪ Development of the German property market<br>▪ 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<br>▪ Update: Funding of German Bundeslaender (ytd) |
| 29/2020 ♦ 22 July | ▪ iBoxx Covered indices: current status and criteria<br>▪ Update: Joint Laender jumbos (LANDER) |
| 28/2020 ♦ 15 July | ▪ Repayment structures on the covered bond market<br>▪ 21st meeting of the Stability Council |
| 27/2020 ♦ 08 July | ▪ Sparebanken Vest issues first EUR benchmark in ESG format<br>▪ Second issuer from South Korea: Kookmin Bank to shortly make its debut in the EUR benchmark segment<br>▪ KfW reduces 2020 funding target to EUR 65bn |
| 26/2020 ♦ 01 July | ▪ Half-year review and outlook for the second half of 2020<br>▪ The German debt brake in 2020 |
| 25/2020 ♦ 24 June | ▪ EUR benchmark covered bonds in ESG format – an overview<br>▪ BULABO falling due – R.I.P. |
| 24/2020 ♦ 17 June | ▪ TLTRO-III.4 vs. covered bonds: are bond repurchases worth it?<br>▪ TLTRO-III now of increased interest for promotional banks too? |
| 23/2020 ♦ 10 June | ▪ The adjustment follows the reporting: insights into the PEPP |
| 22/2020 ♦ 03 June | ▪ Moody's covered bond universe – an overview |

**NORD/LB:**
Markets Strategy & Floor Research

**NORD/LB:**
Covered Bond Research

**NORD/LB:**
SSA/Public Issuer Research

**Bloomberg:**
RESP NRDR <GO>

# Appendix
# Publication overview

**Covered Bonds:**

**Issuer Guide Covered Bonds 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
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## Sales

| | |
|---|---|
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| Sales Sparkassen & Regionalbanken | +49 511 9818-9400 |
| Sales MM/FX | +49 511 9818-9460 |
| Sales Europe | +352 452211-515 |

## Origination & Syndicate

| | |
|---|---|
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| Origination Corporates | +49 511 361-2911 |

## Treasury

| | |
|---|---|
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| Liquidity Management | +49 511 9818-9620<br>+49 511 9818-9650 |

## Trading

| | |
|---|---|
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| Financials | +49 511 9818-9490 |
| Governments | +49 511 9818-9660 |
| Länder/Regionen | +49 511 9818-9550 |
| Frequent Issuers | +49 511 9818-9640 |

## Corporate Sales

| | |
|---|---|
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| Immobilien/Strukturierte Finanzierung | +49 511 9818-8150 |
| Firmenkunden 1 | +49 511 9818-4006 |
| Firmenkunden 2 | +49 511 9818-4003 |

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| | |
|---|---|
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| **Negative:** | 14% |

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| Issuer / security | Date | Recommendation | Bond type | Cause |
|---|---|---|---|---|