

# Covered Bonds

## Special Report 2024

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2024 GlobalCapital Covered Bond Awards shortlist













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 <b>EUR 1 billion</b> Covered 3.202% 2024 / 2036 Joint Bookrunner 	 <b>EUR 1 billion</b> Inaugural Covered 3.304% 2024 / 2029 Joint Bookrunner 	 <b>EUR 1bn &amp; EUR 1.5bn</b> Covered 2.875% & 3.000% 2024 / 2027 & 2031 Joint Bookrunner 

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The Douro river in Porto, Portugal where this year's Invisso/ECBC Covered Bond Congress and *GlobalCapital's* Covered Bond Awards are taking place in September

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# The Covered Bonds Report

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# Issuers look at cover pools beyond mortgages

Covered bonds are not just for mortgages. Interest in secured funding is growing across Europe as issuers look to use all the assets on their balance sheets. But regulatory requirements could hinder development and push issuers to seek out alternative modes of financing, reports **Frank Jackman**

Though they make up only a small portion of the overall market, issuer appetite for financing non-traditional or non-mortgage assets via covered bonds is growing. Covered bonds “can be an interesting tool to take assets that had no real use before and use them as covered collateral and to improve your cost of funding,” says Christian Klocke, a FIG syndicate banker at DZ Bank in Frankfurt.

Mortgage-backed deals make up the bulk of covered bonds, with 90% of outstanding paper at the end of 2023 secured to these assets, and 8% secured against public sector loans, according to data from the European Covered Bond Council (ECBC).

“We want to make sure there are anti-cyclical funding mechanisms in place, meaning that the market remains open even in times of crisis,” says Luca Bertalot, general secretary of the ECBC.

However, cover pools lack diversity. For instance, the high concentration of risk linked to commercial real estate in some issuers’ pools has alarmed some investors, leading to elevated spreads and lower demand for the bonds.

Pools of alternative collateral could allow investors to diversify their exposure and pick up extra spread to compensate for the different regulatory treatment. “When portfolio managers are being asked questions by their risk departments about commercial real estate exposure, given that shipping is at a different point of the cycle, it could be a positive way to diversify,” says Martin Linderstrøm, head of treasury at Danish Ship Finance.

Using non-standard assets in a cover pool is nothing new. Two European issuers — Hamburg Commercial Bank and Danish Ship Finance — regularly issue benchmark-sized deals secured

against commercial shipping loans under German and Danish covered bond law. Meanwhile, issuers in Germany have previously printed Pfandbriefe secured against aircraft loans and public sector lending for rail infrastructure. Outside the European Economic Area, Swiss car lessor AMAG Leasing has issued structured covered bonds secured against auto loans since 2021.

## Cheaper funding

Whether to fund these asset pools via covered bonds comes down to cost. “It’s a competitive advantage for us to use the cheapest source of funding we can,” says Linderstrøm.

“For AMAG, a structured covered bond is about 40bp-50bp tighter than a triple-A rated ABS deal,” says Matthias Ogg, head of special products at Zürcher Kantonalbank (ZKB).

“Although there was a cost initially to set up the covered bond programme, the running costs are lower than for ABS,” says Ogg. “Covered bonds are cheaper from a financing and an ongoing maintenance point of view.”

When it comes to their pools, Danish Ship Finance and AMAG could not be more different to each other as well as traditional real estate lenders. One secures its debt on

large, single loans, while the other is highly granular.

“The only major difference is that our ticket sizes are a lot larger [compared to real estate], meaning that our concentration limits are different to real estate lenders,” says Lars Jebjerg, CFO of the Danish lender. “We have a target set of clients of less than 200, whereas mortgages will have hundreds of thousands.”

In early 2024, Danish Ship Finance had a Dkr32bn (\$4.8bn) loan book split across 596 vessels. However, the borrower does not use all these loans for their cover pools. The issuer’s euro covered bond pool, for instance, only contained 90 loans totalling the equivalent of Dkr8.9bn at the end of 2023.

The company allays concerns over concentration by running a highly conservative cover pool. “We have a 70% [loan to value] limit, falling to 60% for our euro programme, which is lower than many real estate programmes,” says Jebjerg. “We pre-fund our loan commitments, so we don’t run any refinancing risk.”

AMAG’s auto loan portfolio, on the other hand, “is about Sfr4.7bn (\$5.6bn), with over 100,000 contracts,” says Ogg. “The beauty of auto loans is that they are a lot smaller, resulting in a more diversified pool.”

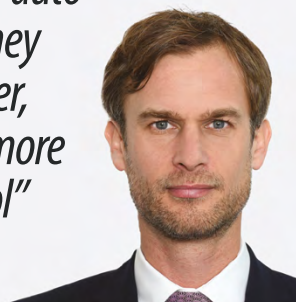
“Auto loans typically have a four year tenor and there is the possibility for pre-payments, which are more likely than with mortgages,” Ogg adds. “Mortgage loans can be up to 10 years in length, and so the average tenor is longer, and less replenishment is needed.”

However, “what is important is that the issuer has enough liquid assets that can support bondholders,” says Lindstrøm. “The crucial point is if you have what constitutes a sellable asset.”

Unfortunately for issuers thinking of using their non-traditional assets

*“The beauty of auto loans is that they are a lot smaller, resulting in a more diversified pool”*

Matthias Ogg, ZKB



as collateral for a covered bond, regulations that tightly define the credit quality of covered bonds limit the audience for these deals in the eurozone.

Under Article 129 of the EU Capital Requirements Regulation (CRR), compliant covered bonds can only be secured on mortgages below a certain LTV ratio that are regularly valued, or guaranteed public sector loans. These deals receive preferential capital treatment for investors and are considered safer.

But the EU Covered Bond Directive opened the door to other assets beyond those allowed under the CRR. Though bonds backed by these assets would not have the same preferential treatment as CRR-compliant ones, they could still benefit from the European Covered Bond label — an industry hallmark devised by the European Mortgage Federation and the European Covered Bond Council. Covered bonds that also meet the requirements of Article 129 carry the European Covered Bond (Premium) label.

However, “many jurisdictions have not transposed the Covered Bond Directive and regulations to include programmes backed by other asset classes,” says Elena Bortolotti, global head of covered bonds and head of structured solutions, EME at Barclays. “Such deals wouldn’t be classed as part of the European covered bond premium segment.”

Of course, that does not prevent issuers from attempting to use non-standard assets as covered bond collateral. For instance, Luxembourg established a legal framework for covered bonds secured against renewable energy loans in January 2018, which was later used by NordLB Luxembourg to raise €300m in early 2020. However, the assets concerned did not comply with the needs of the CRR.

“The transposition of the directive seems to have stopped any structured covered bonds, at least in Europe,” adds Bortolotti. “Of course, you can have the big UBS/Credit Suisse-type structure, but I can count on one hand how many there are. The fact is structured covered bond issuers must pay up and appeal to a different investor base that doesn’t care about LCR [liquidity coverage ratio] eligibility.”

“The bottleneck is not structuring — I think that’s easy, as everybody knows how to structure

*“Issuers are interested, but at the same time they do not want to be the first if the regulatory treatment is unclear. If a new instrument were to be developed, it is important there are minimum statutory requirements coupled with regulatory recognition”*

*Elena Bortolotti, Barclays*



a non-standard covered bond — or rating, rather the bottleneck for these projects is the investor base,” says Klocke.

Even if a structured covered bond were to offer 5bp-10bp more than a legislative one, investors would not buy them if they did not fit into their portfolios or mandates, Klocke adds. “These regulatory disadvantages prevent many traditional investors from buying. This is something that we’ve also seen in the Japanese structured covered bonds or the UBS Switzerland deals.”

For instance, bank investors took only 18% of UBS Switzerland’s €1bn 3.304% March 2029 structured covered issued on February 27, compared to 46% of Iccrea Banca’s €500m 3.5% March 2032 note sold on the same day. In the end, 59% of the UBS deal went to asset managers.

### A new note for Europe

Of course, these deals are not for every investor and the inflexibility of covered bond legislation hinders the growth of the sector. However, regulators believe that the development of a new asset class — the European Secured Note (ESN) — could bridge the gap.

“The ESN would be a new funding tool with all the characteristics of covered bonds, albeit with non-traditional assets,” says Joost Beaumont, ABN Amro’s head of bank research.

The idea of the product is to take the well-established covered bond structure and use it to channel funding into parts of the economy untouched by traditional covered bonds. An ESN would, like a covered bond, have a dual-recourse structure, meaning that investors would have a claim on both the collateral and the issuer in the event of a default.

“Issuers are interested, but at the same time they do not want to be the first if the regulatory treatment is unclear,” Bortolotti says. “If a new instrument were to be developed,

it is important there are minimum statutory requirements coupled with regulatory recognition.”

Though ESNs could in theory be used to fund any cover pool assets, the focus would be on financing small and medium enterprises. According to the European Commission, SMEs make up 99% of European businesses and employ more than 85m people. Financing these businesses is a priority for the European Commission. Such an instrument could help to green the sector too.

“Covered bonds or a similar dual-recourse instrument could be the answer [to funding the green transition], if they are harmonised or functionally simple enough for investors to feel comfortable,” says Bertalot. “The reunification of Germany was funded by public sector Pfandbriefe and, today, these bonds could be a key pillar for rebuilding and greening infrastructure across Europe.”

Issuers have previously experimented with SME funding using structured covered bonds, but investors never truly warmed to the product. For instance, Commerzbank launched a €5bn structured covered bond programme backed by loans to SMEs in 2012. The German lender only issued one deal off the programme — a €500m 1.5% February 2018 note — before choosing to focus on its mortgage and public sector Pfandbriefe instead.

“SME-backed ESNs are a possibility, but SME funding is already possible in well-functioning ABS markets where investors are already comfortable or familiar with SME or auto-lease securitisations,” says Beaumont. “The fact we haven’t seen any auto ABS issuers [in Europe] look at covered might signal that it’s not economical to do so.”

“What’s the benefit [of ESNs] for investors if they already have billions of covered at attractive spreads to choose from?” asks Klocke. “What real added value does this different asset class bring?” GC

For over 250 years the covered bond has been a deeply European instrument. Developed by Frederick the Great in the 18th century as a way of rebuilding Prussia after the Seven Years' War, covered bonds have evolved to become a cornerstone of European bank funding. However, non-European issuers are increasingly turning to the product — particularly in euros — in search of cheap access to a deep and loyal investor base.

The share of outstanding covered bonds across all currencies from non-European issuers crossed 10% for the first-time in 2023, according to data compiled by the European Covered Bond Council (ECBC). In fact, only 88% of outstanding bonds were issued by European banks, with 8% coming from Asia-Pacific, 3% from North America and the remainder from South America.

Last year, non-European banks issued €30.4bn of covered bond benchmarks, accounting for roughly one-sixth of all euro new issues, according to data from *GlobalCapital's* Primary Market Monitor (PMM). So far this year, they have raised €13.4bn, or just under 10% of the total euro volume to date.

"The last 10 years has seen a consolidation of interest in the asset class outside of the EU," says ECBC secretary general Luca Bertalot.

"As of the end of 2023, we had about 40 issuers from outside Europe, double the number from 10 years ago," adds Joost Beaumont, ABN Amro's head of bank research.

"As non-eurozone economies continue to grow, so do their natural funding requirements," says Richard Sykes, head of treasury markets, Singapore and ASEAN, Standard Chartered.

Marc Freydefont, head of capital markets solutions at Standard Chartered, adds that covered bonds allow banks to transform "typically illiquid [mortgage loan] assets" into "collateral for secured borrowing which increases the efficiency and utility to the bank of those assets."

For many banks — both in Europe and outside — the cheapest way to use these assets is through covered bonds. These bonds "are by far the tightest bank funding product available," says Christian Klocke, a FIG syndicate banker at DZ Bank in Frankfurt.

# Offshore banks find new demand in euro covered bonds

Euro covered bonds are becoming an increasingly global product. Offshore issuance is on the rise as banks — and investors — look to diversify their portfolios, writes **Frank Jackman**

"If you want to tap the euro market, the easiest and most established way to do so is through covered bonds," Klocke continues. "For many overseas issuers, euro covered bonds are not a key term funding product, but rather an excellent tool for diversification."

"Covered bonds allow access to foreign currencies through one of the financial markets' more sophisticated products," says Sykes.

## New names, new investors

The appeal of euro covered bonds for many issuers outside Europe lies in the deep and well-developed investor base. For many of these issuers, this investor base — traditionally dominated by bank treasuries — is distinct from the accounts that might buy their domestic or unsecured offerings.

"A covered bond programme offers issuers not just a high quality source of funding, but also access to an expanded investor base via the euro covered benchmark market," says Sykes, whose firm issued its debut covered bond earlier this year — a €500m 3.324% May 2027 note.

Banks placed €116.9bn of euro benchmark paper in the first half of 2024 compared to £9.3bn in sterling and \$3.7bn in dollars, according to PMM and Dealogic data. Meanwhile, last year just under €183bn was raised in euros, with £17.6bn and \$17.5bn placed in sterling and dollars, respectively.

"The breadth and depth of the euro covered bond market far outsizes any other currency," says Sykes. "It is the most active in both primary and secondary."

As a result, many first-time non-eurozone names opt to make their first covered bond forays in the euro market before branching out elsewhere. "For any new issuer, it is important to develop your offerings in the deepest, most liquid place first, and then build on investor feedback," says Sykes. "We intend to do our first couple of trades in euros to strengthen our curve, but beyond that we would like to explore other currencies too."

Though some non-European banks are turning to euros to satisfy natural funding needs, many are not shackled to one market. Alongside



*"For many overseas issuers, euro covered bonds are not a key term funding product, but rather an excellent tool for diversification"*

Christian Klocke, DZ Bank

the core euro market, non-European banks have found success in US and Australian dollars, sterling and Swiss francs.

However, time and time again, these banks turn to the euro market to raise the bulk of their covered bond funding. “There is a large and loyal investor base in euro covered bonds,” says Beaumont. “What the Canadian banks have shown is that it can be very attractive to do quite a lot of funding in euros,” he adds.

Canadian firms printed €17.75bn of euro benchmark deals last year, making them the third most active group of borrowers in euros after German and French banks. Furthermore, they raised a sizeable chunk of this in multi-tranche transactions, highlighting just how much depth there is available in euros.

Many investors are eager to buy non-European deals, “as they add diversification,” says Beaumont. “These less well-known names will likely offer higher spreads as well.”

Despite being among the largest issuers of covered bonds, Canadian banks have paid an average spread of 47.3bp over mid-swaps for their new issues this year, compared to 38.3bp in France and 34.1bp in Germany, PMM data shows.

### Bonds without borders

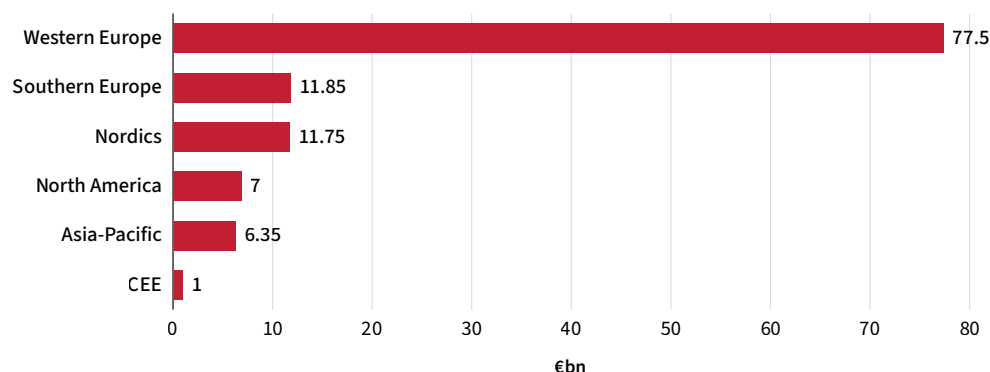
For the ECBC’s Bertalot, “these are not one-off transactions”. Setting up a covered bond programme guarantees investors that a name “wants to maintain a longstanding presence in the market,” he adds.

“Our programme is supported by a \$20bn (\$15.3bn) mortgage book,” says Sykes. “We have a growing business. We’ve set up and sized our programme with an initial cap of \$5bn-equivalent outstanding to indicate where we’d like to grow the programme too.”

Despite the workload, the benefits of putting these programmes together are plentiful. “It is fair to say that because covered bonds are perceived as such a high

## Euro benchmark issuance by region

H1 2024 volume raised (€bn)



Source: GlobalCapital’s Primary Market Monitor

quality product, it can take a little longer to establish a programme — but this quality is why there is such high demand from investors,” Sykes adds. “We considered the market and proceeded carefully, taking our time to set up the programme, recognising that covered bond investors need to be comfortable as to the provenance and high quality of the end product.”

Setting up a new covered bond programme “takes at least 12 — if not 24 — months to establish one from scratch,” says Klocke.

Issuers from 19 jurisdictions accessed the euro covered bond market in the first half of 2024, including four from outside of Europe, according to PMM data. More are expected to follow.

The four non-European jurisdictions — Australia, Canada, Korea and Singapore — all have national legal frameworks aligned with their European counterparts. Furthermore, many bonds from these countries carry the Covered Bond Label, a quality and transparency label European issuers and the ECBC launched in 2012.

In fact, “some markets, like Singapore or Canada, have almost become traditional established covered markets,” says Bertalot.

“We don’t see a discrepancy between Singapore or Canada and Europe — they are now semi-domestic markets.”

Compatible covered bond legislation “is a nice key to open the door for the Euro investor base,” adds Bertalot. “It’s happened to the Canadians, Singaporeans and other markets, and now Japan is looking too.”

Japanese banks have maintained a sporadic presence in the euro covered bond market — none have issued so far this year and only €1.75bn was raised in 2023, PMM data shows. For now, the lack of codified covered legislation is hampering these deals, with Japanese firms instead issuing in the less popular structured covered bond format.

“The question now is how the asset class moves from traditionally developed countries to open access to capital markets in emerging markets,” says Bertalot. For instance, Brazil and Morocco have approved covered bond legislation, meanwhile regulators in Saudi Arabia, Indonesia and the Philippines are in discussions, he adds.

“For markets close to joining the EU, establishing covered bond legislation is a sign of maturity for the financial regulation of a country,” Bertalot continues. “Georgia, Armenia and Northern Macedonia are either developing covered bond market activities or thinking about introducing covered bond legislation that aligns with EU banking standards.”

Bertalot adds that these new, emerging markets are ones “where banks primarily rely on deposits for funding” — markets ripe to benefit from covered bonds. GC

*“For markets close to joining the EU, establishing covered bond legislation is a sign of maturity for the financial regulation of a country”*

Luca Bertalot, ECBC



# 2024 *GlobalCapital* Covered Bond Awards shortlist

The standout deals and leading banks, issuers and other market players will be announced at a gala industry dinner in Porto on September 12

The *GlobalCapital* Covered Bond Awards celebrate the most notable market achievements in the period between August 1, 2023 and May 31, 2024.

The shortlists were determined through a market consultation, which took place in May. Market participants were invited to nominate deals, borrowers, investment banks and people that stood out during the period that these awards cover.

Based on this feedback, shortlists were drawn up for each category. As ever, this was a competitive process and our congratulations go to all of this year's nominees.

These shortlists were opened to a market vote, which took place during June. Those active in the covered bond market were invited to have their say on the leading names in each category. Many thanks to those who shared their expertise in both

selecting the shortlists and choosing the winners.

Votes were received from over 400 covered bond professionals, including 100 issuers, 100 investors and 110 lead managers.

The winners of the awards will be announced at a gala dinner on September 12, following the ECBC Covered Bond conference in Porto. They will be available to view on the *GlobalCapital* website on September 13. [GC](#)

## DEAL AWARDS

### Deal of the Year

**BP&S Banca** €500m 3.25% January 2031

**Caffil** €500m 3.125% May 2039

**Nordea** €750m January 2027 floater and €1bn 3% January 2031

**Société Générale SFH** €1.25bn 3% February 2027 and €1bn 3.125% February 2036

**Toronto Dominion** €2bn February 2027 floater, €2.5bn 3.191% February 2029 and €1bn 3.247% February 2034

### Best Pioneering Deal

**Hamburg Commercial Bank** €500m 3.625% January 2026 sh ip

**Novo Banco** €500m 3.25% March 2027

**Santander** €500m 3.125% May 2029 export finance Cédulas

**Toronto Dominion** €750m September 2026 floater, €1.5bn 3.765% September 2026 and €1bn 3.666% September 2031

**UBS** Sfr150m 1.5075% May 2029 digital

### Best ESG Deal

**Bausparkasse Schwabach Hall** €500m 2.875% January 2029 green

**Berlin Hyp** €500m 2.75% February 2027 green

**BPCE** €1.5bn 3.125% May 2034 green

**Equitable Bank** €500m 3.5% May 2027 social

**Korea Housing Finance Corporation** €500m 3.124% March 2029 social

### Best Debut or Returning Deal

**Banca Monte Dei Paschi di Siena** €750m 3.5% April 2029

**Bausparkasse Schwabach Hall** €500m 2.875% January 2029 green debut

**Novo Banco** €500m 3.25% March 2027

**TSB Bank** €500m 3.319% March 2029

**UBS Switzerland** €1bn 3.304% March 2029

### Best Swiss Franc Deal

**Fédération des caisses Desjardins du Québec (CCDJ)** Sfr265m 1.355% April 2027 and Sfr175m 1.42% April 2030

**Korea Housing Finance Corporation** Sfr200m 1.778% February 2027 and Sfr150m 1.845% February 2030

**Lloyds Bank** Sfr440m 1.87% August 2028

**UBS Switzerland** Sfr350m 1.82% October 2026 and Sfr470m 2.035% October 2033

### Best Sterling Deal

**ANZ** £1bn December 2026

**Barclays** £500m March 2029

**DBS Bank** £1bn May 2027

**Nationwide Building Society** £750m October 2030

**NatWest Bank** £750m March 2029

### Best Dollar Deal

**Commonwealth Bank of Australia** \$1.75bn 5.071% September 2028

**Deutsche Pfandbriefbank** \$550m 5.25% December 2026

**LBBW** \$600m 4.875% February 2028

**Nationwide Building Society** \$1.5bn 5.264% November 2026

**RBC** \$2bn 4.851% December 2026

### Best Euro Deal

**Caffil** €500m 3.125% May 2039

**CRH** €1.75bn 2.875% March 2031

**Nationwide Building Society** €500m May 2027 floater and €500m 3.309% May 2034

**Rabobank** €1bn 3.202% May 2036

**Toronto Dominion** €2bn February 2027 floater, €2.5bn 3.191% February 2029 and €1bn 3.247% February 2034

**ISSUER AWARDS****Issuer of the Year**

BPCE  
Caffil  
Crédit Agricole  
Nationwide Building Society  
Toronto Dominion

**Best ESG Issuer**

Berlin Hyp  
BPCE  
Caffil  
Equitable Bank  
Korea Housing Finance Corporation

**Best Eurozone Issuer**

BPCE  
Caffil  
CRH  
LBBW  
Rabobank

**Best Non-eurozone Issuer**

Fédération des caisses Desjardins du Québec (CCDJ)  
DBS Bank  
Nationwide Building Society  
Santander UK  
Toronto Dominion

**LEAD MANAGER AWARDS****Covered Bond House of the Year**

Crédit Agricole CIB  
ING  
LBBW  
Natixis  
UniCredit

**Best Syndicate Bank**

BNP Paribas  
Crédit Agricole CIB  
Erste Group  
Natixis  
UniCredit

**Best Euro Lead Manager**

Commerzbank  
Crédit Agricole CIB  
LBBW  
Natixis  
UniCredit

**Best Dollar Lead Manager**

BMO Capital Markets  
RBC Capital Markets  
TD Securities

**Best Sterling Lead Manager**

Barclays  
BMO Capital Markets  
HSBC  
Lloyds Bank  
NatWest Markets

**Best Covered Bond Research**

Barclays  
Commerzbank  
Crédit Agricole CIB

**Best Liquidity Provider**

ING  
JP Morgan  
Santander

**Best Bank for Distribution**

Barclays  
DZ Bank  
Erste Group  
Helaba  
LBBW

**Best Bank for Structuring & ALM**

Barclays  
BNP Paribas  
HSBC  
NatWest Markets  
UBS

**Best Bank for Using Technology in Primary Bond Markets**

BNP Paribas  
Société Générale  
UBS

**Best Bank for ESG Issuers**

Crédit Agricole CIB  
HSBC  
ING  
Natixis  
NatWest Markets

**Best Bank for Inaugural Issuers**

Barclays  
BNP Paribas  
Erste Group  
Helaba  
LBBW

**INDIVIDUAL AWARDS****Best Syndicate Banker**

Mladen Djurdjevic, Erste Group  
Vincent Hoarau, Crédit Agricole  
Ken Loesken, ING

Damian Saunders, BNP Paribas  
Alex Trulli, Natixis  
Alberto Villa, UniCredit

**Best Funding Official**

Cameron Joynt, Toronto Dominion  
Petra Mellor, Nordea  
Marc Nocart, CRH  
Cedric Perrier, BPCE  
Thor Tellefsen, DNB

**Covered Bonds Rising Star  
(for any participant in the covered bond markets with less than 10 years' experience)**

Maxim Börsig, Erste Group  
Florian Gritzky, Erste Group  
Mathilde Lopez, Natixis  
Maria Kasatkina, Berlin Hyp  
Tara Parmar, Nationwide Building Society  
Anthony Patureau, ING  
Suraj Sheth, Barclays

**PLATFORM SERVICE PROVIDERS****Investor of the Year**

BNY Mellon Corporate Treasury  
Commerzbank Treasury  
Nordea IM  
Norges  
Union Invest

**Best Rating Agency**

Fitch Ratings  
Moody's Ratings  
S&P Global

**Best Second Party Opinion Provider**

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A&O Shearman  
Clifford Chance  
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# Markets reopen into an unclear future

From elections to equivalence, it has been an interesting year for the euro covered bond market. As the European Central Bank has fully left the market, covered funders have needed to unearth new — and returning — pockets of demand. In early August, *GlobalCapital* virtually convened a panel of issuers, investors and intermediaries to discuss what shaped euro covered bond issuance this year, and what is in store for 2025

**GlobalCapital:** What do you feel is in store for the rest of the year after 2023 and 2022's record funding volumes? Do you expect something close to that level for 2024?

**Julien Marchand, NordLB:** I expect a good volume of funding in the second half of the year. However, I don't think we will reach those record levels, at least not this year. Our forecast for 2024 is €160bn-€170bn in benchmark format. Right now, we're at €105bn-€110bn, so we still have €50bn-€60bn to go.

**Yassir Berbiche, Fédération des caisses Desjardins du Québec (CCDJ):** I completely agree with this figure. In our case, Desjardins is one of the only Canadian banks to have used the euro market so far this year. Many Canadian banks have instead issued bonds this year for capital reasons. Senior unsecured spreads were very attractive compared to covered spreads, making the covered product less attractive for issuers aiming to increase their TLAC [total loss-absorbing capacity] ratios. We've had amazing balance sheet growth this year, driven mostly by the mortgage book, which is why we've been more active in covered than the others.

**Eivind Hegelstad, SpareBank 1 Boligkreditt:** Our funding requirements this year have been impacted a little bit by slower growth in mortgage origination, meaning we probably have marginally smaller needs this year compared to previous periods. However, we still have funding to do in the second half. For us,

Roundtable participants	
<p><b>Yassir Berbiche</b>, head of treasury, Fédération des caisses Desjardins du Québec (CCDJ)</p> 	<p><b>Julien Marchand</b>, head of origination FI/SSA, NordLB</p> 
<p><b>Sanna Eriksson</b>, chief executive, OP Mortgage Bank and Head of Investor Relations, OP Financial Group</p> 	<p><b>Wojtek Niebrzydowski</b>, vice-president, treasury, CIBC</p> 
<p><b>Dominique Heckel</b>, head of long term funding, La Banque Postale</p> 	<p><b>Tara Parmar</b>, senior dealer, secured funding, debt capital markets, Nationwide</p> 
<p><b>Eivind Hegelstad</b>, chief financial officer and investor relations, SpareBank 1 Boligkreditt</p> 	<p><b>Henrik Stille</b>, portfolio manager, Nordea Investment Management</p> 
<p><b>Richard Kosecky</b>, head of balance sheet management, Slovenska sporitelna</p> 	<p>Moderated by <b>Frank Jackman</b>, covered bond editor, <i>GlobalCapital</i></p> 

I don't see a big shift, but for the market in general, volumes are a little bit pulled back due to credit growth being more benign.

**Richard Kosecky, Slovenská sporitelna:** I agree with Julien — we will not see another record year and various factors will have played a role. Firstly, balance sheet development is very important — the current and the future development of core assets,

liabilities, and deposits; secondly, there is the maturity or redemption profile of long-term funding; and last, but not least, yield and spread level expectations. This is the tricky part from an issuer's perspective, as we see plenty of potential negative risk events in front of us. But there are also positives on the horizon — like central bank rate expectations, still attractive spread levels and new investors — that can support the covered bond market.

For us, covered bonds are still a key pillar and main source of our long-term funding. And, of course, as we usually only enter the market once a year, we are relatively flexible in timing our transactions, which means we will wait for stable conditions.

**Tara Parmar, Nationwide:**

Speaking on behalf of the UK, just from looking at recent results and disclosures, it seems like many UK banks are well ahead of their 2024 funding targets. So, from that perspective, we're not expecting there to be significant funding requirements in the later months of 2024.

**Sanna Eriksson, OP Financial Group:**

Last year we did €3bn, and that was our plan when we started this year. However, we issued €1bn in the first half and we plan to do another €1bn, so there will be one deal less compared to last year. As others have already said, this is because of decreased demand for the mortgages and deposit growth. I think this will be perspective shared by many other issuers.

**GlobalCapital: How have issuers navigated this extraordinary year of elections?**

**Parmar, Nationwide:** For UK issuers, the extent to which global elections will impact covered bond markets is likely to be limited. Regarding the UK government, they've been quite open around their policies and the market has already baked them in, unless something drastic is revealed in the October budget.

Of course, the outcome of the French election was a little bit more complicated, since the fate of its government is uncertain. This could, of course, lead to potential volatility in the future and reduce execution windows, not just for French issuers, but for issuers across Europe. And then you have the US election, where we might see a few curveballs. But the dollar market, is not somewhere we are looking to tap in the near term due to the wide valuations.

**Dominique Heckel, La Banque Postale:**

There was a positive pick up in loan production before the announcement of France's snap elections in June. However, since the announcement this dynamic

has faded and we have seen in the last few weeks that loan production is weaker. We hope that going forward we will see better loan production, helped by lower rates.

But of course, the political context is still worrying. There are still some discussions to be held about the budget and potential fiscal concerns. The spending programmes of the left-wing alliance could put pressure on the markets, especially on OATs, and in turn might put pressure on French covered bond issuers. After the announcement, spreads have widened by maybe 5bp-6bp, so not that much and it has stabilised since. But let's see how markets will react when we have a bit more colour about the situation.

**GlobalCapital: Henrik, as an investor, how are you approaching this year of elections?**

**Henrik Stille, Nordea Investment Management:** I think volatility in general will move up during the autumn ahead of the US presidential election. However, there are also a lot of other things that could cause volatility over the next three months. Meanwhile, from a seasonal perspective, the autumn is usually a bit more volatile.

We are trying to look at exposures that are not so costly to have that can perform in more volatile environments. We think covered bonds are quite attractive on an asset class level versus broader credit markets. We saw over the last

two weeks that even when we got strong sell-offs in the equity market and spread widening in the credit markets, covered bonds remained quite stable. And I think covered bonds have a strong buffer due to current valuations. I don't think the first 20bp move wider in the broader credit markets will spill over much into covered bonds.

**Wojtek Niebrzydowski, CIBC:**

We've experienced over the last few years quite a bit of resilience in accessing covered bond markets. It goes back all the way to the first few weeks of Covid, the market was open, at least for us. Same with the Ukraine situation, same with SVB and Credit Suisse. Not to be overly optimistic, but I wouldn't expect markets to be inaccessible because of election-type events, but you never know.

Rather, our issuance plans are driven by a combination of factors. Firstly, what's happening with our balance sheet dynamics. With deposit balances being generally stable or increasing, it's a function of all asset growth, and not necessarily just mortgage growth.

We also look at our funding programmes on a holistic basis: a euro or dollar raised through one funding programme can fund any type of assets. As a Canadian bank, we cannot issue senior preferred, so all our senior unsecured funding is effectively senior non-preferred. We must factor in what our TLAC ratios are, and what the comfort level is with regard to the buffer from management's perspective.



*"The UK government has been quite open around their policies and the market has already baked them in, unless something drastic is revealed in the October budget"*

*Tara Parmar, Nationwide*



*“The path going forward is unclear, but based on macro figures like CPI and looking at expectations, we might see lower interest rates and, potentially, a pick-up in loan origination”*

*Richard Kosecky, Slovenska sporitelna*

Last but not least, we run some of our programmes, including obviously covered bonds, to maintain a periodic presence in key selected markets. And euro covered is definitely one of our key selected markets.

**GlobalCapital:** How have deposit growth and loan origination levels impacted your funding so far this year and is it too early to tell how these will impact your funding needs in future?

**Parmar, Nationwide:** The impact of central bank interest rates on retail markets is very relevant. On the deposit side, we have seen a shift of cash from non-interest bearing accounts, such as current accounts, into interest bearing ones. What this means, is that there’s been strong growth in our retail deposit volumes. And then on the mortgage side, we’re finding that many retail borrowers are carefully considering when to lock in a mortgage rate. As a result, although our mortgage origination flows are stable, they aren’t particularly robust.

This shift in consumer behaviour has also influenced wholesale funding needs, with some UK issuers reducing their secured funding requirements. For example, Nationwide initially guided to £7bn-£9bn [\$9.21bn-\$11.85bn] for this financial year, but it now appears likely that funding will be at the lower end of that range.

Recently the Bank of England has begun its interest rate cutting cycle, which is expected have quite an impact on mortgage decisions, such as remortgaging and house

purchases, going forward. Rate cuts could improve affordability, which has been a barrier to entering the UK mortgage market in recent years. As we’re starting to see interest rates decrease, we do anticipate a reduction in deposits and an increase in mortgage originations.

But of course, there is a lag effect, and much will depend on the actions of central banks moving forward.

**GlobalCapital:** Does anyone in the eurozone feel similar?

**Kosecky, Slovenská sporitelna:** The path going forward is unclear, but based on macro figures like CPI and looking at expectations, we might see lower interest rates and, potentially, a pick-up in loan origination. Looking further into the future, higher upcoming redemption levels in 2025-2028 will play a part in dictating supply. As of today, there’s about €140bn in 2025, another €160bn in 2026, and similar — if not higher — figures in later years. Together, these are the most important factors for determining supply volumes from our perspective.

**GlobalCapital:** As Yassir mentioned, Canadian banks have not been too active in the covered market this year, at least in euros. I was just wondering, from a Canadian perspective, how you’re perceiving deposit growth and loan origination levels considering the Bank of Canada’s actions?

**Berbiche, CCDJ:** For Canadian banks, 2023 saw notable

increases in both deposits and loan origination. Deposits grew by approximately 6%, providing a strong funding base, and I think that this year is roughly the same. But going forward, I expect Canadian banks to utilise the euro covered bond market, as my colleague from CIBC just said, to support their funding requirements, be it growth in mortgages or other types of assets.

For Desjardins, 2024 is still a strong year of funding, but mostly driven by strategic growth outside of Quebec. We don’t do mortgages outside of Quebec, so this growth is coming from our corporate loan book. This business book growth implies a greater funding need, and the European market is one of the key markets we look at to meet this. We might look at another transaction this year in the covered space.

**GlobalCapital:** Maybe to move away from the bigger picture to focus on the smaller one of bond issuance itself. And I’d like to ask Julien, as covered bond spreads have widened quite a bit over the last year, do you think we’re at the peak now, and where do you think we’re going to go next?

**Marchand, NordLB:** That’s always the big question — and I believe no one has a crystal ball in the office that could give you a firm answer. However, I believe that at the moment you see already a quite elevated level. There has been some tightening this year, but as Dominique pointed out, in June some banks, especially French ones, were affected by widening.

In my view, I believe for the rest of the year we’ll see a rather sideways trend, which could still mean some small tightening or some small widening, depending on the general market environment. But honestly, I don’t see a huge widening going forward. As Henrik pointed out, covered bonds look attractive against other asset classes, which should keep the widening risk limited. Yes, there might be some net supply going forward; however, I think with new investors coming to this asset class, that will be manageable.

**GlobalCapital:** Henrik, as an investor, how do you feel about current — and future — spread levels?

**Stille, Nordea Investment**

**Management:** The way we see it, is that interest rates are too high. I expect both the ECB and the Fed will cut interest rates down to neutral levels over the next 12 months — maybe even a bit faster than what the market is pricing. This should probably create a good environment for covered bonds, if the market doesn't think the ECB is behind the curve. As long as the market doesn't see a hard landing or stronger recession, there will be spread performance.

However, a sell-off in risky assets could spill over into covered bonds. If I need to have a view, then I would say that we will go wider over the next six months due to my quite pessimistic view of the overall economy.

**Niebrzydowski, CIBC:** As an issuer, the absolute spreads are really a secondary consideration. Rather, the way we normally look at things is on a relative value basis vis-à-vis domestic senior unsecured, which probably 75%-80% of the time is the cheapest senior unsecured to issue.

Right now, looking at our funding matrix in the five currencies where we issue covered bonds, the tightest spread versus Canadian dollar senior unsecured for a five year is 53bp in Australian dollars, while the widest is Swiss francs at 67bp. These are still fairly attractive relative value deltas, and in stressed markets these numbers have risen into triple digits. Before Covid, these relative values were on average in the mid 20s, but high 50s to mid 60s are very attractive levels, if term funding needs don't include capital instruments.

**Hegelstad, SpareBank 1**

**Boligkreditt:** Even though we are active in a smaller market, we still look at things on a relative value basis across the various currencies that Wojtek mentioned. But we are a little bit driven by absolute euro spreads, because what happens in euros spills over via the basis swap market into our domestic covered bond spreads. As a result, our domestic spreads tend to align with euro levels.

We ask this question too: where are spreads likely to go? Although we're going to fund anyway — it's an independent decision to do funding — it's still interesting to

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*Yassir Berbiche, Fédération des caisses Desjardins du Québec (CCD)*



look at where spreads are going. You don't want to issue at a time where you think that maybe things are going to become more volatile.

The reduction of the ECB's [Pandemic Emergency Purchase Programme] holdings, which are mostly SSA and government bonds, could have a spillover effect on covered bonds. The central bank is going to sell several billion of SSA bonds on a monthly basis, which could weaken the SSA sector.

But on the other hand, we have Julien's starting argument that mortgage borrowing is slightly weaker, leading to maybe a more moderate level of issuance. And so that's what it comes down to, supply and demand. Altogether, and it's hard to say, we might get a moderate widening in spreads over the remainder of the year.

**Parmar, Nationwide:** We've seen the opposite in the UK, where we've tightened 10bp-15bp across the curve since January. Speaking specifically for Nationwide, but I'm sure our UK peers are quite similar, we're now pretty much in line with or just back of our European counterparts.

There was this dynamic for a long time that the UK needed to print back of core European countries, but the spread widening from the heavy supply in these jurisdictions versus the limited supply seen from the UK has given us the opportunity to access euro markets at very attractive levels.

We saw that first hand when Nationwide's recent 10 year

covered bond priced on the cusp of many core European issuers' secondary curves at mid-swaps plus 38bp in early May. It's a big change from what we saw last year, when euro spreads had widened.

**Stille, Nordea Investment**

**Management:** Compared to 12 months ago, I would say that from a political point of view, the UK suddenly looks like one of the more stable countries. The UK just had an election, and the government has a large majority in parliament. This looks a lot more attractive compared to the situation in France, for example. And these are two sovereigns with the same rating, but you are then compensated with higher spread levels for UK risk.

**Berbiche, Desjardins:** As a treasurer, we always look at relative value, because at the end of the day, what we do with those spread levels is transfer the pricing to our line of businesses, and they have to adjust their pricing accordingly. I'm not saying that we are spread agnostic, but we have to look at those figures in relative value.

Returning to the first question we had at the beginning of this roundtable, we were talking about probably €160bn-€170bn of issuance this year. Redemptions are more than €220bn so we'll probably get a net activity of roughly between €50bn-€60bn in euros. Many issuers, like ourselves, front loaded their activities in the first half of the year, so we may



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**Henrik Stille, Nordea Investment Management**

see certain stabilisation in spreads during the second half because of the lack of probable funding and the lack of issuances in euros. But it’s really difficult to predict.

**GlobalCapital: Dominique and Richard, as treasurers based in the eurozone, what do you think of spread levels within the eurozone between yourself and your peers?**

**Kosecky, Slovenská sporitelna:** I believe that our spreads are at, or close to, peak levels. As a result, we are now seeing some investors look more at covered bonds, especially as risk premiums on riskier bonds, like unsecured ones, have narrowed.

Stronger than expected inflows of deposits for many issuers, including us, could influence pre-funding activity as banks pull forward their funding plans. This would definitely be supportive for spreads and risk premiums in the

short run. I personally see very good value in [Central and Eastern European] issuers with good potential for spread tightening in the future.

And why do we still have relatively high spreads? I think we pay a price for being a relatively new market, we pay a premium for CEE risk, and I think we pay a premium for our relatively low liquidity in the secondary market.

**Heckel, La Banque Postale:** From a spread perspective, as previously mentioned, we have a specific situation for French issuers. We have received feedback from some investors that they are a bit cautious about the situation, and as a result, a French issuer might have to pay a bit more premium when coming back to the market. And from this perspective, I think it’s a positive thing that most of the French issuers have already completed a big part of their

funding programmes for the year. I don’t rule out some pre-funding from those names that are quite used to adding some funding throughout the year. But of course, I think that there could be more pressure for French names. However, at the same time, this would offer some relative value compared to other jurisdictions, and that will help to keep spreads under control, in a way. So, I’m not too worried.

Usually during the euro market summer break, we see some spreads tightening, with no primary activity. But this year, when you look at how spreads are behaving, nothing is tightening. It will be interesting to follow the first trades a bit later this month, because when you don’t have any performance in secondary and when there is no primary, what will happen once you get a bit more activity? I think it’s maybe better to try not to be the last one. Or if you can, wait a little bit until after the wave of issuance that we might see in the second half of August.

**GlobalCapital: Julien, I’m just wondering, have you noticed the euro covered bond investor base changing this year? And why do you think this is the case?**

**Marchand, NordLB:** It’s definitely changed since spreads and absolute yields have increased.

You have investors like Henrik and Nordea, who have been present in the market for ages, but we’ve also had investors who were absent during the low yield period return now that they see value in the asset class. There are names that haven’t bought covered bonds for years now back in the market.

At the beginning of the year, some of the more credit-related investors were active as well in covered bonds. This was a question of relative value as the covered bond product looked more attractive versus other asset classes. And, of course, investors have been allocating more cash to fixed income in general over the last few years.

Will this dynamic persist? Difficult question. We will have to see.

**GlobalCapital: Sanna, I saw you nodding your head as Julien was speaking — did you notice new names in the book for your €1bn note earlier this year?**

*“We are a little bit driven by absolute euro spreads, because what happens in euros spills over via the basis swap market into our domestic covered bond spreads”*

**Eivind Hegelstad, SpareBank 1 Boligkreditt**



**Eriksson, OP Mortgage Bank:**

I've never spoken as much about covered bonds in [investor relations] meetings than I am now. About a third of the investors that we've seen are totally new ones. As well as this, we've also spoken to older accounts that previously looked at senior products and are now interested in covered bonds. It's been a quite interesting development to see so many new names and faces — it's really nice.

**GlobalCapital:** Do you think these new buyers are going to stick around in the covered bond market?

**Kosecky, Slovenská sporitelna:**

In our case, we do not expect any dramatic changes in the structure of our investor base. Generally, covered bond books are dominated by bank investors, but we continue to see real money investors coming back again and sticking around in the product. These real money accounts mainly want to lock in current yield levels in anticipation of falling interest rates going forward. Geographically, investors from Germany and Austria are the most important for us. We also see and expect growing interest from the Nordics and other countries like France due to the higher spreads.

**GlobalCapital:** And Henrik, as an investor, as a well-established investor in the covered bond market, how do you feel about these new names taking part in covered trades? Is this a development that you welcome as an established investor?

**Stille, Nordea Investment Management:**

Yeah, I'd much rather see these other investors than the ECB. I mean, first of all, we have had much more interest from our clients to invest in fixed income in general. And this is something that I think has just started. Since interest rates have been so low for a decade, many institutional investors are way too underweight in fixed income. When I speak to them, they are still way below something that they can call neutral.

And then, of course, covered bonds are no longer trading at artificially tight levels due to quantitative easing programmes.



*"It will be interesting to follow the first trades a bit later this month, because when you don't have any performance in secondary and when there is no primary, what will happen once you get a bit more activity?"*

*Dominique Heckel, La Banque Postale*

Covered bonds are one asset class that most investors look at when they plan to allocate into fixed income rates or safe fixed income products. And currently covered bonds look attractive versus the broader credit markets — you don't give up much in yield and you get lower risk and volatility.

Many of the clients that we meet are also quite concerned about sovereign debt sustainability. And there you have the risk that if the governments continue to run these deficits around the Western world that will lead to more supply of government bonds. But you don't get this risk in the same way in covered bonds, because covered bond supply is tied to mortgage production. In the short run, there is, I think, more risk for underperformance on government bonds due to supply pressure compared to covered bond markets.

**Hegelstad, SpareBank 1**

**Boligkreditt:** The average five year historical average has been 25% fund managers in the books and about 45% banks. But that 25% has now risen to 33% for 2024 year-to-date, compared to the last five year historical average. Meanwhile, the central bank share has dropped from 22% to 13% and hedge funds have grown from 1% to 4%. There has been no real change in the bank share, but funds and hedge funds are taking significantly larger volumes.

**Niebrzydowski, CIBC:** As Canadian banks, we never had the benefit of a central bank buying significant pieces of our issuance,

so we've always been exposed to market discipline.

We've consistently said to ourselves that diversification matters. Having been present in the markets for a number of years, we feel reasonably comfortable that if currency X doesn't work, then there will be sufficient demand in currency Y or Z.

We are always happy to see new investors, but we've never historically placed specific, outsized reliance on one type.

**GlobalCapital:** We've talked about new investors, but what about new issuers? Julien, why are borrowers choosing to access the euro market for the first time?

**Marchand, NordLB:** There are ample reasons for entering the covered bond market.

For example, the new German players previously relied on the private placement market. However, in recent years, investors have required some level of liquidity and prefer to invest in benchmarks instead of private placements. So, if this source of funding disappears, you need to find a different way to fund on a relatively cheap level. There you have covered bonds.

On the other hand, for non-European investors, the euro covered bond market offers a very diversified and deep investor base compared to other currencies. At the end of the day, it is always useful not to focus on only one currency or product.

And as Wojtek already mentioned, even on a rainy day, the

covered bond market still allows you to approach the capital market and get a good level of funding done at attractive levels.

**Hegelstad, SpareBank 1**

**Boligkreditt:** We should also add that many of the new German banks and others have extensively travelled Asia to pitch for these issuances and have some success.

**GlobalCapital:** And Richard, as the newest benchmark issuer — having first issued in 2019 — how have you found it over the last five years building up your benchmark curve?

**Kosecky, Slovenská sporitelna:**

We started issuing benchmarks in 2019. However, we then issued less in 2020 and 2021 because of how our balance sheet was taxed. If we pre-funded during this low spread period, the cost to our balance sheet was too high — even if we could print at a negative yield. But in 2022 and 2023 we were a much more active funder because of strong mortgage growth, allowing us to even place two benchmarks in a single year. Launching and building out this benchmark programme was a very smooth process. All five of our trades so far went very well.

**Eriksson, OP Mortgage Bank:**

Speaking as the deputy chairwoman of the ECBC [European Covered Bond Council] I want to say that as more issuers debut, it shows that we have succeeded in making the euro market the place to be. I think

it is important for all of us because it makes the euro market larger.

**Kosecky, Slovenská sporitelna:** This year in Slovakia we had a new issuer come to the market — Československá obchodná banka — and achieve a strong outcome. The success of these inaugural trades could help CEE issuers with their future projects.

**Parmar, Nationwide:** Echoing Sanna, euros are, of course, the deepest market and where the product is most understood.

Because deals from new entrants continue to be really well received, it makes sense for non-Eurozone issuers to keep looking at this market. I'm sure there'll be more entrants in the future.

Looking at Nationwide more specifically, one of the reasons we like to issue in the European market is because we're one of the largest covered bond issuers in the UK, and so we place a lot of emphasis on diversification. Historically, sterling and euros have been our core markets. Sterling is the cheaper market for us to issue into, but given the size of our funding requirements, we can't raise all of it in a single market. And even if we could, it wouldn't be prudent for us to do so.

Alongside euros, we've expanded our reach to Swiss francs and US dollars and more niche currencies in private placement formats.

We are one of the only issuers in the UK that looks across the curve as well, and we look at euros in particular to extend our duration. This is really important to us as

a lot of the other asset classes we issue into are short dated. So, this gives us the opportunity to have a longer maturity profile.

**Niebrzydowski, CIBC:** If the question is, what motivates us, from our perspective? Well, we have a C\$1tr balance sheet, of which, on the liability side, about C\$100bn is funded one year and longer. We are, and have been for quite some time, a global funder, not only from a covered bonds perspective, but also from a senior unsecured perspective. We have issued senior unsecured public benchmark transactions in one more currency than we have covered — we have not sold yen covered bonds.

The euro is the oldest, the deepest and most liquid market. The logical conclusion would be to start there. But that is not to say that diversification is not very important as well.

**Hegelstad, SpareBank 1**

**Boligkreditt:** Diversification, of course, is important, but, as we talked about a little bit earlier, it's supply and demand that sets the spread. And you know, if there's a lot more supply coming, spreads tend to go up because there's a little bit of pressure.

But we'd like to see the development of demand. For instance, people talk about the Canadian wave from time to time, but we'd like to see a Canadian investor base develop and Canadian dollar covered bonds that complement the euro market nicely.

As a market, new names generate positivity as the market grows and develops.

**GlobalCapital:** I want to pick up on what Tara mentioned about funding across the curve. It seems more duration has been achievable this year compared to late last year. Dominique and Eivind, you both issued 10 year notes so far this year — are you glad you can fund longer dated deals now?

**Heckel, La Banque Postale:** Well, with the French legal framework on the [sociétés de financement de l'habitat], I think duration is always a bit tricky because you must manage the gap between the loans and your issuances. As a result, issuing too short is never a good thing.



We are always trying to make use of market windows when we have the capacity to issue between seven to 10 years. On average, we are close to the average maturity of our assets, and we don't necessarily need to go very long.

Of course, we also look at the cost of getting this extra long duration, and that is always something we have to take into consideration, as well as having a large investor base that is looking at this issuance.

**Hegelstad, SpareBank 1**

**Boligkredit:** I'm not tied to doing 10 years or any other maturity. Instead, we just try to space it out a little bit to ensure we meet the normal prudence rules for maturities and duration of funding. And because 10 year was available, we took it in May. As you said, Frank, it hadn't been available for quite some time with the volatility in the market. So, when the opportunity arose, we took it, knowing full well that bond wouldn't have got as much demand as a shorter dated maturity would have at that time. I think we could have easily had double the order book on a shorter deal — but we knew that going into the trade and were happy with the outcome.

**GlobalCapital:** Tara, you also issued a 10 year note this year at Nationwide, but you paired it with a very short date, floating rate note. How did you find that exercise in April? And why go for the two together?

**Parmar, Nationwide:** We had a funding need of around €1bn and euro pricing, especially in the tenors we considered, had narrowed against sterling. With potential market headwinds later in the year, it made sense to take advantage of the favourable market conditions.

Since we had recently issued a seven year sterling bond, it made sense to diversify, and although UK issuers hadn't tested duration beyond seven years in the euro market, technical indicators gave us confidence that a 10 year bond was feasible. Knowing the 10 year space typically had lower demand than the belly of curve, we paired it with an option that could attract more interest as well as limiting each tranche to €500m to maintain pricing tension to achieve our

funding goal. Additionally floating rate notes have seen a resurgence in demand where they offered attractive pricing for investors and, for us, a technical arbitrage when swapped back on our balance sheet. We found the weighted average cost of the two tranches priced just inside where a new seven-year bond would have, making it a cost-effective choice.

**GlobalCapital:** What do you feel are the recent developments regarding third-party equivalence? And how are you expecting these will, in turn, impact spreads for European Economic Area (EEA) and non-EEA covered bonds?

**Parmar, Nationwide:** The developments that we see in are still in a conceptual stage. Before third country equivalence can be implemented, the European Commission needs to produce a report to justify the need for such a regime. This would then be followed by a legislative proposal that translates these technical requirements into law. And finally, a comprehensive assessment of third country covered bond frameworks would be needed before equivalence is granted.

Now this process is expected to still take several years, with the earliest implementation indicated to be unlikely before 2026. Of course, we do want equivalence as an end result.

Without equivalence, non-EEA covered bonds will continue to be treated less favourably under European regulations,

consequently suggesting that we would need to offer higher yields compared to our EEA counterparts to compensate for this. But we haven't exactly seen that. Recently we've seen European covered bond spreads widen, but this, in turn, hasn't forced UK spreads to widen.

We're finding that at the moment, and of course this may change, that investors are welcoming the rarer UK names, despite not having that third-party equivalence. And we've seen first-hand that UK-issued euro deals have had significant participation from treasury and Liquidity Coverage Ratio buyers. And although we want to get to a place where we have equivalence, at the moment, it seems there is more positive sentiment towards UK issuers with less weighting on this topic.

**Niebrzydowski, CIBC:** Well, Tara, I admire your optimism. Your talk about 2026 reminds me of a joke: "What's the definition of a pessimist? It's a converted optimist." It's an old one, but to perhaps state the obvious, we've always supported level playing fields. Now, having said that, I've been hearing equivalency for probably five, six years. We are in the middle of preparing an industry response to the [European Banking Authority] questionnaire that covers equivalency among other things.

Ultimately, it would be great to have it implemented, and we would fully rely on Henrik and his counterparts to decide — based on publicly available information



*"Having been present in the markets for a number of years, we feel reasonably comfortable that if currency X doesn't work, then there will be sufficient demand in currency Y or Z"*

*Wojtek Niebrzydowski, CIBC*

*“Even on a rainy day, the covered bond market still allows you to approach the capital market and get a good level of funding done at attractive levels”*

*Julien Marchand, NordLB*



— which credits are worth narrower spreads, and which are worth wider spreads. I’m hopeful we will, but I’m definitely not holding my breath for 2026.

**Berbiche, CCDJ:** We cannot be against those rules because, at the end of the day, they’re poised to enhance market integration and competitiveness.

I think that non-EEA issuers would benefit from narrower spreads and market access, while EEA issuers will probably face increasing competition but would likely retain a strong position due to their established market presence and higher credit standards.

**GlobalCapital:** To finish off: ESG deals are becoming more and more integral to bank funding plans — both secured and unsecured. Why are banks increasing their labelled funding? And what benefits do these deals bring?

**Heckel, La Banque Postale:** We see more and more green and social covered bonds, which is a very positive development for the market and for diversification. There is a quite interesting difference between standard and sustainable covered bonds when it comes to global demand and granularity. We do see larger orders from the big players, but also much more granularity within the books.

**Eriksson, OP Mortgage Bank:** Investors are really eager to buy

green and sustainable deals and are asking us for them.

I need to renew our framework under the new covered bond act and I’m just wondering what to include in it to make it long lasting. So maybe can I ask Hendrik what are your thoughts? I think it’s challenging at the moment to make these decisions about what kind of sustainable format we should use.

**Stille, Nordea Investment**

**Management:** We are trying to implement broader sustainability models where we look at the whole cover pool, and not so much at the individual bonds that are issued. For instance, we will look at the energy efficiency of all the mortgages in the cover pool, not just those in a green bond.

But in the end, it’s up to our clients. If they agree with this model when we present it to them, then going forward it will not be as important for us to buy green bonds. We could then justify buying a covered bond that is not green, as long as the cover pool shows very strong sustainability criteria.

Overall, the feedback we get from our clients is that they want us to look more at the cover pool. They think basically it’s too simple to just buy green bonds.

**Eriksson, OP Mortgage Bank:**

We get these questions no matter if it’s a green covered bond or a regular one. Previously, it was only green investors that would ask these questions, but now accounts ask them all the time. It’s more

about how sustainable an issuer is as a whole, not just the collateral in the cover pool.

**Stille, Nordea Investment**

**Management:** Looking at an issuer as a whole is not so new, but until now it’s been difficult to get enough data on the cover pool that would allow us to evaluate how energy efficient the mortgages are. More and more issuers can now supply this data, and more will start to do so.

Mortgages are a very important part when it comes to bringing down CO<sub>2</sub> emissions and improving the energy efficiency of housing. It’s a very important component and it’s difficult as a covered bond investor, to say that we don’t look at the cover pool, we just buy green covered bonds.

**GlobalCapital:** Maybe just to wrap up — Julien, from a DCM perspective, what do you think about the development of green and ESG-labelled covered bonds?

**Marchand, NordLB:** ESG-labelled covered bonds are a great thing. I believe the reason why we don’t see a bigger share in the covered bond market of either green or social covered deals is that it is more attractive to use this ESG potential for senior unsecured bonds.

At the end of the day, how should an issuer choose between a green covered and a green senior? The execution risk is higher on senior issuance and therefore I would use the label there. As Dominique already pointed out, you increase the potential investor base by having an ESG label.

There are always discussions about whether these deals offer any kind of greenium. I don’t know if there’s any academic work on this one, but I think in general, people tend to say a covered bonds saves 0.5bp-1bp, whereas on the senior side you’re saving much more. Putting this into real money terms, it’s a lot more attractive to use the label on a senior deal. And, of course, there are a wider range of potential assets that you can use for senior bonds.

But I do think a lot more investors are taking a more holistic approach when it comes to assessing issuance. For a lot of accounts, it’s important that the issuer as such, including the cover pool, can be considered as sustainable. GC

# Spreads remain stable as the primary market springs back to life



## Summer break on the primary market is over, new issues meet good demand

The summer break on the primary market for large-volume covered bonds ended on August 19, 2024. Following the break, the first new issues in the euro benchmark format met with mixed interest. Two German issuers focused on the medium maturity range, with the seven year new issue having a much harder time than the new five year pfandbrief. The three year new issue from the Netherlands performed best. In all cases, the new issue premium of less than 3bp remained at the low level seen before the summer break. The market currently appears to be open to issuers, though issuers are utilising unsecured bond formats more than covered bonds in the first few days after the break.

## We expect the market to grow by around €25bn by the end of the year

In our opinion, Canadian banks have still to catch up in terms of new issues. Since 2018, they have always been good for new euro benchmark covered bonds, with a volume of at least €10bn. So far this year, however, there have been Canadian new issues of just €5bn. For the market as a whole, we continue to expect the volume of new issues in the euro benchmark format to fall to €170bn in 2024 compared to €185bn in 2022 and €199bn in 2023. Accordingly, new issues with a volume of about €55bn

## Jörg Homey, head of covered bond research at DZ BANK, assesses the state of the covered bond market following the summer break and considers where it goes now

are still expected in the remainder of the year. Euro benchmark covered bonds with a volume of around €30bn are still to mature by the end of 2024. If our expectations are correct, the market would grow by around €25bn.

## Around €9bn will still flow back into the CBPP3 portfolio by the end of the year

The growth of the market must be financed by investors. To make matters worse, up to around €9bn of the aforementioned maturing covered bonds will flow back into the European Central Bank's third covered bond purchase programme (CBPP3) from September to December and will therefore not be available for reinvestment. In the first half of 2025, CBPP3 maturities will increase to a good €28bn. The risk premiums for covered bonds must therefore remain attractive enough to draw sufficient demand.

## Spreads remain stable at the current level

Our hope that the risk premiums for covered bonds would narrow over the summer, when no new supply is offered, has not materialised. In recent weeks, the swap spread (z-spread) of the iBoxx

€ Covered index has fluctuated within a range of 35bp-37bp. Following the summer break, the z-spread has so far moved sideways within these limits. At this spread level, new issues appear to be attracting sufficient investor interest, meaning that we expect spreads to remain stable despite the anticipated net new supply of around €25bn by the end of the year. At the moment, the yield level and the prospect of falling interest rates are supporting demand for covered bonds. At the same time, the unclear path of the US economy, the smouldering conflict in the Middle East and the close race in the upcoming US presidential election, for example, are uncertainty factors that could lead to higher volatility in yields and spreads. All in all, stable z-spreads on the secondary market are the most likely scenario for us in the coming weeks. Volatility should mainly be seen in the primary market in the level of new issue premiums and possible stop-go traffic.

## Tightening towards the 30 basis points mark in 12 months

Following the European elections at the beginning of June, the risk premiums of French covered bonds widened the most compared to covered bonds from other countries. During the summer break, French covered bonds were unable to make up the lost ground. In the current environment of stable spreads, we see some potential for French risk premiums to catch up with the overall market over the next six months. We therefore recommend overweighting them within the iBoxx € Covered index. For most of the other country indices within the iBoxx € Covered, we expect a performance in line with the overall index. More generally, over the next three and six months, we anticipate the z-spread of the iBoxx € Covered index will remain at the current level of around 35bp. Over the course of the year, we expect the environment to brighten and the z-spread to narrow slightly to 30bp.



*"Our hope that the risk premiums for covered bonds would narrow over the summer, when no new supply is offered, has not materialised"*

Jörg Homey, DZ BANK

Issuance volumes may down in the covered bond market this year but that has handed pricing power to borrowers.

€115bn of benchmarks were priced in the first six months of this year versus €131bn in the same period in 2023.

That has allowed issuers to crush new issue premiums to near zero, crank in pricing from initial price thoughts and even issue in longer tenors.

Investor demand is markedly stronger so far this year compared to 2023.

While volume was slightly reduced from January through July this year compared to the same period in 2023, the difference does not go far in explaining the marked variation in demand. Oversubscription ratios have climbed this year to 3.1 times deal size on average from 2.1 times in 2023.

The most oversubscribed deal of 2023 was DZ Hyp's €500m 3% January 2026 green Pfandbrief from January, attracting a book eight times its final size. This year, however, eight deals have already matched or exceeded that level of demand.

For instance, on February 26 this year, TSB returned to the euro covered bond market to print a €500m 3.319% March 2029 mortgage-backed bond with a €4.25bn book. The next day, Iccrea landed a €500m 3.5% March 2032 deal that was oversubscribed 10 times over. Iccrea's feat was even more notable as the Italian firm shared the spotlight with a €1bn 3.304% March 2029 deal from UBS that attracted €7.4bn in demand, one of the largest books of the year so far.

However, both of these outcomes pale in comparison to the 14.8 times covered book Caffil garnered in early May as it sold the first 15 year

# Covered issuers gain upper hand

Though issuance may fall short of hitting record heights in 2024, the euro covered bond market looks in robust shape, with longer tenors and tighter prices available for issuers. **Austin Barnes** writes that the data from *GlobalCapital's* Primary Market Monitor shows just how strong conditions have been

deal in over two years. Books for the French €500m 3.125% May 2039 public sector print closed at more than €7.4bn.

The difference in demand this year has affected issuers' ability to tighten the spread from initial pricing, which has been much greater this year. Issuers across the market have been able to harness the larger demand in 2024 to rein in pricing by 6.8bp on average during bookbuilding, compared to 3.4bp last year.

## Smooth sailing

This increased demand has helped to push concessions down too.

This year, the average new issue premium on covered bonds stands at 2.6bp. Last year, that figure was 5.5bp.

The start of 2024 was a comparatively rocky period for concessions compared to later in the year, as issuers flooded the market with fresh bonds.

On January 9, for example, the German pair Deutsche Pfandbriefbank (PBB) and Bausparkasse Schwaebisch Hall had to offer 18bp and 11bp

concessions, respectively, with PBB's 18bp being the highest premium of the year to date.

As issuance slowed in February — a month peppered by a still impressive 20 syndications — premiums started to shrink.

The average monthly new issue premium fell from 5.5bp in January to only 1.5bp in February.

The highest and lowest concessions in February both came on February 21 — as Hamburger Sparkasse paid a premium of 6bp for its €500m 3% February 2031 note and Crédit Agricole landed its €1.5bn 3% December 2030 bond 1bp inside fair value.

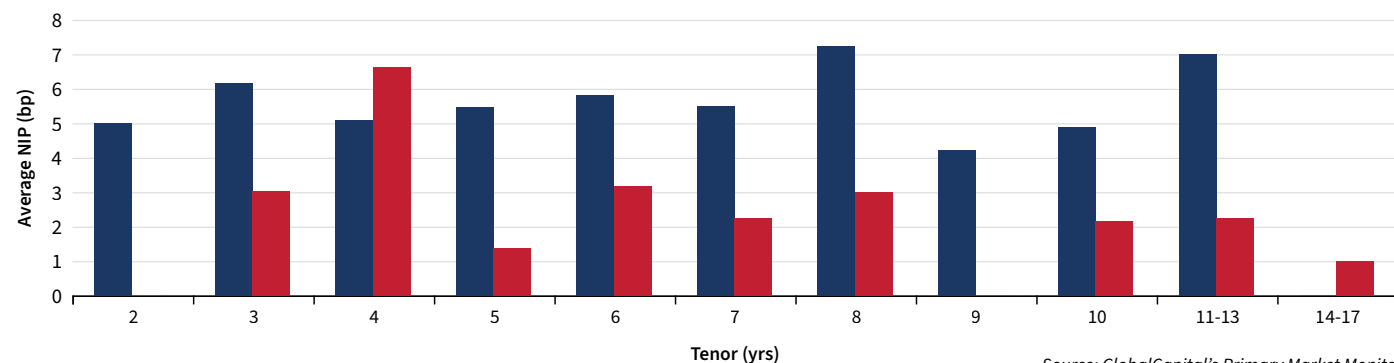
However, premiums were set to trend even lower. By mid-March, concessions had stabilised at close to zero — a figure that has held steady since.

Since March, concessions have been very steady. Between April and June, new issue premiums ranged from a wide of 3bp to a tight of minus 1bp, and averaged 0.7bp.

During that part of the year, however, bankers started

## Average new issue premium by tenor for benchmark euro covered bonds

● 2023 ● H1 2024



Source: GlobalCapital's Primary Market Monitor



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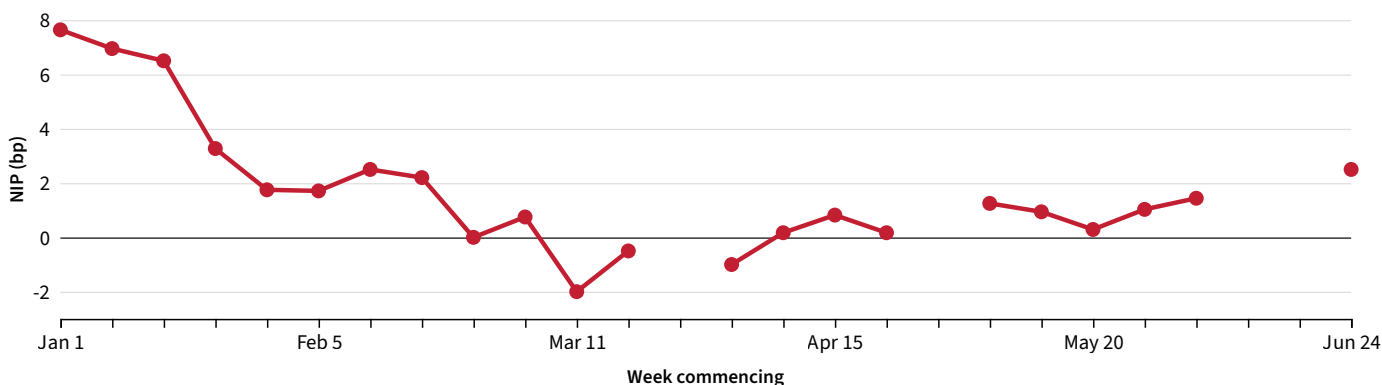
ISIN

Deal Credit Rating Moody's

Deal Credit Rating SP

Deal Name	Class
Commerzbank - EUR - 1250m - 2.625% - 03/09/2029	Cover
State of Hesse (Land Hessen) - EUR - 1500m - 2.625% - 25/08/2034	SSA
Volvo Treasury - EUR - 500m - 3.125% - 26/08/2029	Corpor

### Average weekly new issue premium in 2024



No deals issued in w/c March 25, w/c April 29, w/c June 10 or w/c June 17

Source: GlobalCapital's Primary Market Monitor

questioning how meaningful new issue premiums in covered bonds were, as secondary levels became increasingly divorced from primary market pricing. In fact, in mid-March, the Korea Housing Finance Corporation's €500m 3.124% March 2029 social mortgage bond was priced an unheard-of 10bp below its secondary curve.

#### Long distance runners

Issuers have been able to borrow in longer tenors this year compared to last. Roughly 7% of covered bond benchmarks in 2023 had tenors of 10 years or greater. That figure was 18% in 2024.

This year, 160 deals took place in the first half. In 2023, there were 171. Deals longer than 10 years accounted for 27 and 16 of these, respectively.

Indeed, the average tenor throughout 2023 was only 5.1 years. This number, however, was

supported by a first half more receptive to longer dated issuance, with the average tenor falling to 4.3 years in the latter part of 2023 as investors and issuers opted for shorter and shorter deals.

But the return of an appetite for duration marked the first half of 2024. During this period, the average tenor climbed to 6.7 years.

Last year, long distance runners in the covered bond market hit a wall at 10 years, with no issuers venturing further along the curve. This year so far, eight issuers have raised funds at 12 years, with one even extending as far as 15 years.

Worsening issuance conditions in 2023 discouraged long dated deals. The end of ECB buying under its Covered Bond Purchase Programme (CBPP3) in March was followed by a banking crisis that consumed Silicon Valley Bank and Credit Suisse, suppressing investor risk appetite early in the year. Those issuers who went ahead resigned themselves to

paying costly concessions for bonds of at least 10 years.

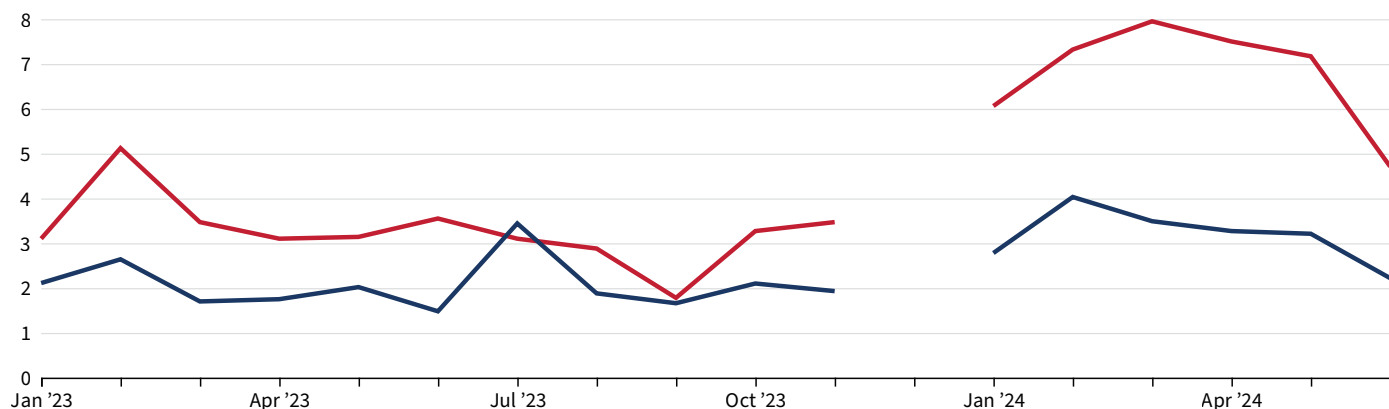
In June 2023, for example, LBBW's €500m 3.25% June 2033 public sector print paid a 9bp concession. That same month, Eika Boligkredit and Commerzbank each put up with a new issue premium of 7bp to issue their own June 2033 notes.

Much more favourable conditions this year have incentivised issuers to go for duration. Investors rushed to lock in duration — and the corresponding higher returns — earlier this year as rate cuts loomed. Long term prints have paid very low concessions since the start of 2024, reflecting the more stable environment and investors' expectations of lower interest rates soon.

In 2024, benchmark euro bonds longer than 10 years have only needed to offer an average 1.9bp premium — a far cry from the 5.2bp required last year. GC

### Average monthly move from IPT and subscription ratio

● Move from IPTs (bp) ● Subscription ratio



No deals were issued in December 2023

Source: GlobalCapital's Primary Market Monitor



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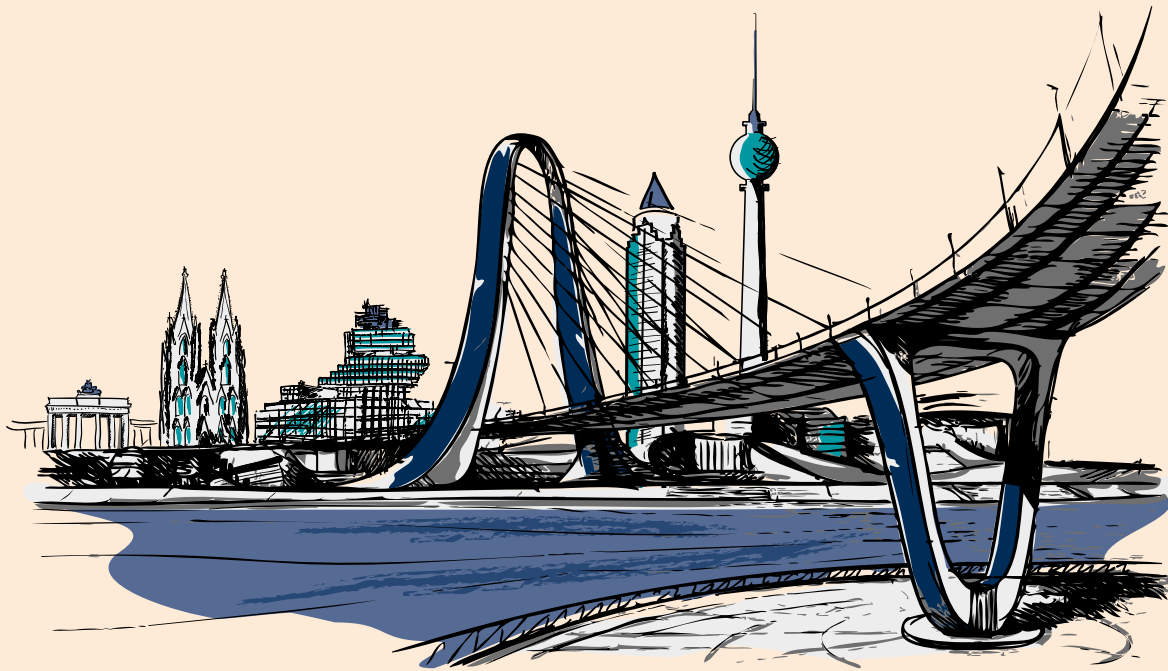
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