The Covered Bond Report

www.coveredbondreport.com February 2025

The German Sparkassen Pfandbrief Roundtable

NORD/LB

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Already a familiar sight across their home markets, Germany's savings banks are increasingly prominent in the international arena via benchmarks and sub-benchmarks. In this first Sparkassen covered bond roundtable, sponsored by NORD/LB, four institutions share their individual stories and strategies relating to creditworthiness, competition, ESG and issuance.

Neil Day, The Covered Bond Report: The profile of Germany's savings banks in international benchmark and sub-benchmark covered bond issuance has been growing. Christoph, for investors looking into the sector, what are the defining characteristics of the Sparkassen?

Christoph Anhamm, NORD/LB: If an international investor were to travel across Germany, the first thing they would notice in this regard is that in almost every city, every village, every corner you see a red "S", the iconic logo of the overall financial group. There are around 350 different savings banks across Germany, with about 14,000 different branches and 280,000 employees.

The story of the savings banks dates back to the late 18th century, starting in northern Germany and building up very quickly, with the first savings bank law in Prussia in 1838. By the beginning of the 20th century, they numbered around 2,700, and there have been many mergers and acquisitions, particularly in recent years, to arrive at the close to 350 we have today.

The great thing is that they all follow what we call the Regionalprinzip, or "regional principle" in English, meaning that each savings bank focuses solely on the city or county they represent and are largely sponsored by. It's really this focus on the individual regions that characterizes the savings banks — as I'm sure we will hear from the banks we have with us today. The smallest German island, Heligoland, even has its own savings banks branch that is the only bank present on the island.

Regarding today's theme, the Sparkassen-Finanzgruppe (Savings Banks Finance Group) covers around a third of the entire German mortgage market on the residential side, which is the largest of any financial group in Germany and hence really represents a critical mass.

Besides this, a very important feature is that at the end of the day all these savings banks act under the same principle of investor protection schemes. There are quite a few such regional schemes and they are all run on a joint liability basis (Haftungsverbund).

Felix Zillmann, Hamburger Sparkasse (Haspa): It's also worth mentioning from an international perspective that the savings banks are the largest financial banking group in the whole of Europe.

Day, The CBR: Looking more closely at the savings banks joining us today, what can you tell us about the distinctive identity of your institution, such as your regional focus, ownership structure?

Veronika Black, Sparkasse Hannover: Our identity and credit profile are only indirectly shaped by our ownership structure. Sparkasse Hannover is an institution under public law that is subject to the so-called Träger-Prinzip (carrier principle) in Germany. The responsible public body of Sparkasse Hannover is the Sparkassenverband Hannover, which consists of the region of Hannover and the city of Hannover.

Our public mandate, which is derived from savings banks law, is decisive for our self-image, and ultimately also for our credit profile. Our mission is to promote economic and social development in the region of Hannover. We focus our activities on supporting private individuals, companies and local authorities in our business area. Unlike the private







Participants in the roundtable, which was held on 23 January (left to right, top then bottom):

Berliner Sparkasse
Andrej Schiebler, Treasury/Head of Banking Book and Funding
Ivan Vukadin, Treasury/Banking Book and Funding

Hamburger Sparkasse (Haspa)
Felix Zillmann, Funding and Investor Relations

NORD/LB
Christoph Anhamm, Managing Director, DCM Origination

Sparkasse Hannover
Veronika Black, Treasury, Funding

Sparkasse Pforzheim Calw
Stefan Fritz, Head of Treasury
Martin Reuß, Deputy Head of Treasury *(not pictured)*

The Covered Bond Report
Neil Day, Managing Editor

sector banks, we are not profit-oriented. Sparkasse Hannover sees itself as a strength-builder for the people of our region. We therefore make significant contributions to charitable activities and projects every year, and any remaining profits are distributed to our responsible public bodies, contributing to the performance of municipal tasks, or are used to strengthen our equity capital.

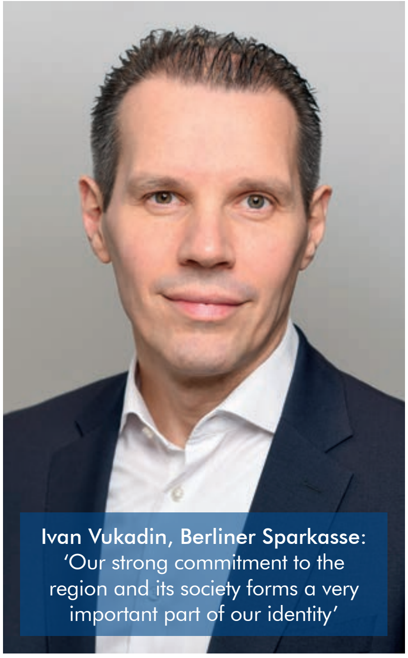
Martin Reuß, Sparkasse Pforzheim Calw: Our ownership structure is similar, namely the local municipalities of our region, the city of Pforzheim and the counties of Enzkreis and Calw in the heart of Baden-Württemberg in the southwest of Germany. Alongside the retail home financing that is traditional for savings banks in Germany, we focus on the classic German Mittelstand, i.e. small and medium enterprises here in the region of Baden-Württemberg with a special focus on mechanical and vehicle engineering, precision mechanics, and healthcare. Pforzheim is also known as the German gold town, where world-leading jewelry companies and precious metal fabricators are part of our broad clientele.

Zillmann, Haspa: Haspa is the largest savings bank in Germany, with total assets of around €57bn.

What's truly unique about Haspa is its ownership structure. Haspa AG, the bank, does the banking business and is the issuing entity in the capital markets. It is owned by its holding company Haspa Finanzholding, which is the only legal entity in Germany operating under the old Hamburg law. It's similar to a foundation and means that Haspa is one of the few independent savings banks in Germany. We have no private or public owners, and all the profits we generate stay within the group.

Also of note is that Haspa, due to size, is ECB-supervised, so we have to fulfill different regulatory requirements, such as MREL. This is one of the reasons we decided to get an issuer rating, from Moody's in 2023, which was upgraded at the end of 2024 to Aa2.

Ivan Vukadin, Berliner Sparkasse: Our ownership structure also makes us a little different from the other savings



Ivan Vukadin, Berliner Sparkasse: 'Our strong commitment to the region and its society forms a very important part of our identity'

banks. As Berliner Sparkasse, we remain a part of the German Savings Banks Finance Group and the joint liability scheme, so in this respect we are not different to the other savings banks. But Berliner Sparkasse is unique in being the only savings bank that is owned by all the other savings banks in Germany.

The sponsor and the originator is Landesbank Berlin AG (or LBB), which is the company that for legal reasons we use to issue securities, but our main business is done through Berliner Sparkasse, which is the brand that is established in Berlin. Here, we have around 1.6 million retail customers and around 100,000 corporate customers, so we play a big role in Berlin. Our strong commitment to the region and its society forms a very important part of our identity. In the last years, we have supported and sponsored a broad range of local organizations and initiatives in different areas of society.

Day, The CBR: Expanding on some of those points, do you enjoy any particular competitive advantages due to your regional focus? And what are the regional dynamics that may be affecting your business growth and lending exposure?

Andrej Schiebler, Berliner Sparkasse: Having Berlin as our core business area is a clear advantage for us, because besides being the federal capital and the seat of government, it is Germany's largest and most populous city — we now have close to four million residents. What is very important for us is that Berlin is growing, and has been doing so at above average GDP growth rates since 2005, which also means that employment is increasing. Berlin as a location has a great university landscape, it is an international hotspot for innovative startups, and is overall a dynamically growing service centre. This is an environment that provides a great foundation for us as a large savings bank to operate our business successfully.

Stefan Fritz, Sparkasse Pforzheim Calw: We are very close to our customers and can therefore create tailored solutions for them. A good example is the gold side of our business: we have a gold account that we offer to more than 50 other Sparkassen in Germany. That clearly highlights how our business is profiting from our regional focus, and more generally demonstrates the type of advantage the German savings banks enjoy through being near to the customers.

'We are strongly intertwined with the city'

Black, Sparkasse Hannover: It's a similar story for us. We operate as a conservative regional-focused business. An added advantage of our regional focus is that we can also be less affected by global market fluctuations.

Zillmann, Haspa: Haspa has been a part of Hamburg since 1827, which means we have been growing for close to 200 years in conjunction with the city itself. We are strongly intertwined with the city, and not only the city and its citizens, but also with the metropolitan area around Hamburg. This is one of the strongest economic regions in Germany, but also in Europe, so it is a great area to act in as a bank, and Haspa has a pretty strong market share in the region. We are the number one real estate financier in the residential market and market leader in business start-up financing, while we also count approximately 50% of all citizens and SMEs among our customers. This is reflected in our balance sheet, as when you look at the loans to customers and the liabilities from customers, they are quite balanced. The lending business itself is also characterized by mostly residential real estate and SME financing. The region of Hamburg is thus largely reflected in Haspa itself.

Veronika Black, Sparkasse Hannover: 'The regional focus gives us excellent market knowledge'

Day, The CBR: Do you see a benefit or disadvantage in your cover pools showing a high local concentration? I imagine a lack of diversification can be something that rating agencies and investors may focus on.

Schiebler, Berliner Sparkasse: It's a great question and one we are regularly asked by investors. If you are a credit analyst, then high regional concentrations can of course be considered as negative from a credit perspective. Our typical response is that we are more deeply rooted in our local market than any other bank and therefore have the greatest knowledge of it. Taking into account the potential disadvantage and, on the other hand, this advantage, I would say that there is a reasonable balance, and hence investors don't have to worry about local concentration in our cover pools.

Black, Sparkasse Hannover: We have a similar experience and also point out the advantages to investors. As Andrej said, the regional focus gives us excellent market knowledge. Regardless of the local concentration, the mortgage cover pool of Sparkasse Hannover has a high degree of granularity, and is essentially characterized by private construction financing. The low proportion that is commercial financing also covers various sectors and does not show any clumping, which is important. While our public cover pool may appear even more concentrated from the outside, it is nevertheless of impeccable quality. So it is not a question of talking about disadvantages — our business model is regional business. Our regional concentration is also reflected in our very adequate surplus cover.

Reuß, Sparkasse Pforzheim Calw: Our business is located, as I mentioned earlier, in one of Germany's most prosperous and growing areas, while our cover pool comprises almost 90% of residential mortgages, with the share of commercial assets being very small. It would be more appropriate to describe such a highly diversified, high quality cover pool for a covered bond as an advantage than a disadvantage, and as such, concentration of that kind is, in our opinion, a clear benefit for bond investors.

Zillmann, Haspa: The cover pool of Haspa is characterised by a vast majority of residential real estate financing. Although it's maybe regional-focused, it's therefore very granular and diversified.

As Andrej and Veronika pointed out, you have the aspect of the savings banks being experts in their respective regions. Then, when you put the savings banks together, you have experts in all the different regions across Germany. And when you're a bond investor, you benefit from the institutional protection scheme of the savings banks, so should anything ever happen, you will ultimately benefit from the risk diversification and expertise across the regional markets.

Sparkasse Pforzheim Calw
Photo credit: Thomas Meyer

Day, The CBR: To what extent have any of you been affected by the crisis in the CRE market?

Zillmann, Haspa: Commercial real estate is a cyclical business and I wouldn't call it a crisis here in Europe, because most of the distressed loans came from overseas. When we look back on this period, you can see that European banks overall and also savings banks have been pretty resilient. Haspa itself has a minority of its real estate lending in commercial real estate financing, which includes also loans to multi-family housing. Nevertheless, the NPL number is relatively low if one considers the pretty sharp rise in interest rates that we have seen over a pretty short period. This shows how resilient the savings banks are and how much it helps to be an expert in your market and know your clients.

'Our portfolio is considered to be defensive'

Schiebler, Berliner Sparkasse: We don't regard it as a crisis, either.

When we talk about commercial real estate financing at Berliner Sparkasse, then we are referring to a predominantly residential property portfolio, because in this business division at our savings bank, we serve housing companies, cooperative associations, also investment companies and professional investors in the Berlin market. And if you look at our loan portfolio and also at our cover pool, then you will see that it is residential property-orientated. If you have ever walked around Berlin, then you might have seen that Berlin is a city of tenants, a city of multi-family houses, and such multi-family houses form the lion's share of our loan portfolio. We also finance other property types — such as office, retail, logistics or industrial properties — but for these types of properties, we have defined upper volume limits per property type and very strict lending criteria, and these have been in place for more than 10 years already. So according to a sector report published by our rating agency, Moody's, in September, our portfolio is considered to be defensive, with low risk, and this is actually in line with our own assessment.

Anhamm, NORD/LB: One thing to bear in mind is the regional and overall investor protection schemes that I referred to earlier. These keep a very close eye on what the individual banks do. They collect data several times a year, and the contributions of the individual members are then checked against those

Christoph Anhamm, NORD/LB: 'We are talking about a group that is predominantly characterized by residential mortgages'

of the entire financial group. So there are ongoing checks and balances, meaning that even if an individual bank had some excessive exposure or was at risk from certain local CRE developments, that would be very closely controlled. That provides a decent safety buffer.

Looking at the CRE story in a capital markets context, it wasn't that much of an issue until about one-and-a-half, two years ago. The spread difference between one Pfandbrief-issuing bank and another was somewhere in a range of 11bp-13bp, depending slightly on what CRE exposure it had. As we've all seen, that widened, particularly at the beginning of last year, towards something like 65bp. We are now over the worst of it and back to something like a 30bp range, which means that the entire Pfandbrief market is converging again. But while spreads are getting more homogeneous again, investors are still placing a greater focus on cover pools and their composition, and trying to better understand the protections of Pfandbriefe and any differences between issuers. In some cases the share of CRE is one-third or even more, but as they have highlighted, savings banks typically have a relatively low, if not close to zero exposure to CRE — that is definitely viewed very favourably by investors and is something to shout about. In contrast to several other issuers, we are talking about a financial group that is predominantly characterized by residential mortgages. When it comes to the overall balance sheet, CRE exposure may be relevant here and there, but for Pfandbriefe and the cover pools, it is of lesser relevance. This difference in risk exposures is something that cannot be flagged to investors too often.

Day, The CBR: Where is your institution positioned when it comes to ESG? Are there any sustainability initiatives relating to the capital markets or your broader activity that you would cite to highlight this?

Black, Sparkasse Hannover: ESG is a very important point for Sparkasse Hannover. We are very forward looking in this regard, because Sparkasse Hannover has integrated sustainability principles into its corporate strategy since 2009, and we were the first savings bank to sign the German sustainability code in 2013. We offer sustainable financial products, such as green mortgage Pfandbriefe to refinance environmentally-friendly projects. We also support customers in implementing climate protection measures and promote sustainable projects in the region.

A positive development to note is that we have a rating from the agency EthiFinance (previously Imug) and we are very happy to say that we achieved an upgrade to this rating from good to very good in December 2024. We also have a new rating from ISS, awarded in January, with the status Prime, which makes us one of the top institutions in the sector.

'We are on our way to bringing our first green Pfandbrief'

In our sustainability strategy, we have formulated ambitious goals for our business in order to maintain this high level in the future. We also have a new team called Fokus Nachhaltigkeit (Sustainability) that focuses solely on these themes.

Felix Zillmann, Haspa: 'There are a lot of improvements at the top level of the savings banks when it comes to ESG'

Fritz, Sparkasse Pforzheim Calw: We see ourselves as an enabler and active supporter of businesses and homeowners on their climate transition journey — that's a typical reflection of the regional principle of the savings banks. We are helping our clients to intensify their knowledge of transition financing solutions and are combining this with public support programmes.

We are also on our way to bringing our first green Pfandbrief under the vdp Grüner Pfandbrief label this year. We plan a first private placement there — at the moment the relevant cover is unfortunately too small for an issue for international investors, because of issues relating to limitations on the availability of data relating to the cover pool.

Black, Sparkasse Hannover: We face analogous issues at Sparkasse Hannover. The criteria for loans to be eligible for the cover pool are quite strict, so the amounts of green Pfandbriefe we can issue are limited, and more work needs to be done in this regard.

Zillmann, Haspa: Before talking about Haspa and ESG, I want to highlight something really important. When speaking about savings banks and ESG, we of course have the development of ESG in every individual savings bank, but we also have development at a group level. There is, for example, the "S-ESG" score to assess ESG risk in the lending business, and the "S-Transformation" loan, which principally focuses on the technical screening criteria of the EU Taxonomy in offering a green loan product to customers. Ultimately, this will also play out on the funding side, because treasury can assess the data in the S-Transformation loans, and then use them for refinancing purposes. So overall there are also a lot of improvements at the top level of the savings banks when it comes to ESG.

When it comes to Haspa itself, we also have a rating from ISS, which was only recently upgraded to C+, also Prime status.

Most of the points we have been discussing have been related to the "E" part of ESG. What's also really important for us is the "S" in ESG, the social aspect. Haspa as well as savings banks in general have a charter mandate to offer financial products to all citizens in their region, to be present across their region, to still have branches, so that elderly people, for example, can do their banking business. Furthermore, Haspa promotes the region in the areas of education, art, music and sports, and encourages donations and foundations.

Finally, of course, there is the question of bonds. Haspa hasn't been active when it comes to ESG bond issuance so far, but as one of the largest issuers and benchmark issuers of the savings banks, we are of course working on that.

Anhamm, NORD/LB: We need to bear in mind that for savings banks, making profits is not the main aim. That's a fundamental point that distinguishes this banking group considerably from other banks, commercial banks. They want to be profitable, naturally; they don't want to make losses. But having, say, a double-digit RoE is not necessarily the main target.

At the same time, it is absolutely clear, and written in the individual company rules, that supporting and fostering regional societies and initiatives is a key mission. So savings banks typically give away quite a bit of their profit to such regional and local societies and initiatives, be it social initiatives for disadvantaged people, helping sports clubs, and the like. This is what the savings banks are known for in every region, every city, and every village.

Berliner Sparkasse, Berlin-Johannisthal

That establishes an important ESG element regarding the entire savings banks group, aside from any green or social loans they may grant and include in their cover pools.

'What's also really important for us is the "S" in ESG'

Vukadin, Berliner Sparkasse: Berliner Sparkasse has intensified its activities in the ESG area in recent years. A key part of this drive is our new sustainability report, which we have issued in a new format last year for the first time, for 2023. We also engaged a translator to publish this report in English for our broad range of investors. This externally audited report provides an excellent insight into our measures and initiatives in all the areas of the environment, social affairs and governance. At more than 100 pages, there's plenty to read! A more concrete measure in the ESG field and a huge step for us last year was moving our main location for around about 1,200 employees to a new building in Berlin-Johannisthal, which has a Gold certificate from the German Sustainable Building Council. That was a big commitment from us to the E part of ESG.

At the moment we don't offer any ESG product on the capital market side. That will take a little bit of time, but we hope that we may return in the near future with a product in this area.

Day, The CBR: As I mentioned at the start, the profile of savings banks in benchmark and sub-benchmark covered bond issuance has been rising. What is driving this? What are the pros and cons of the formats? Veronika, Sparkasse Hannover was the latest to take a step up, so perhaps you can start.

Black, Sparkasse Hannover: We switched from the sub-benchmark to the benchmark format because we wanted to offer our investors a clearer and comprehensible funding strategy, with the goal of broadening our funding base and putting it on an even firmer footing. We thereby hoped to see more foreign investors in our order books.

Another advantage is that the benchmark format enables us to achieve a larger volume, and we can benefit from a pricing advantage, because when you refinance yourself in the form of registered or uncovered issues it's more expensive.

So there were many advantages that led us to decide that switching to the benchmark format would be the right move.

Day, The CBR: Did it prove a success?

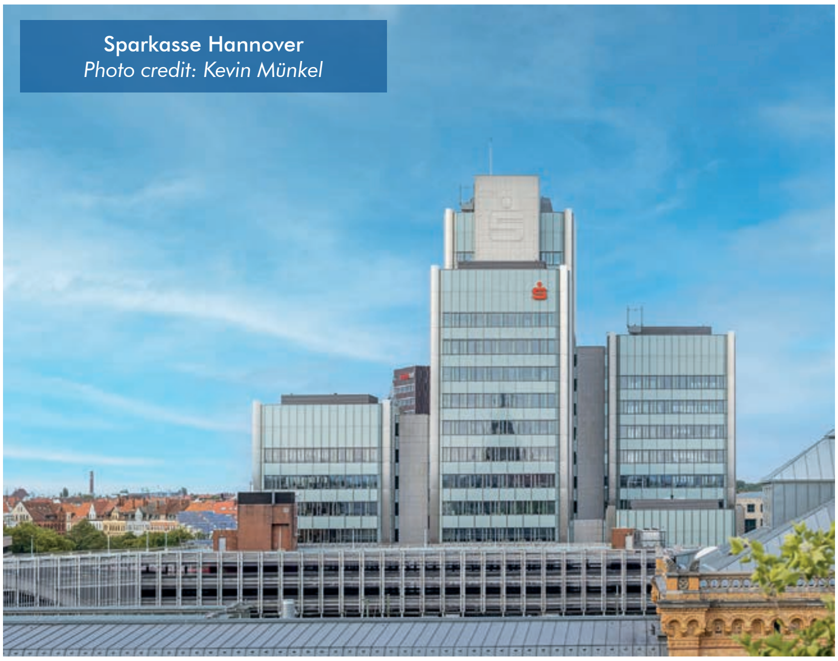
Black, Sparkasse Hannover: Yes, we had a 24% share of foreign investors in our order books and want to work further on that in the future.

In total, we were able to acquire orders worth over €1.4bn. German asset managers and insurers participated, and after the book update further real money interest and internationality was added. The spread was set 7bp below the IPTs, at 35bp. The book eventually closed at over €1.25bn, resulting in a 2.5x oversubscription with 75 investors participating.

Day, The CBR: Sparkasse Pforzheim Calw stepped up from sub-benchmark to benchmark issuance in 2023 and you have now issued three benchmarks. How has your strategy evolved?

Reuß, Sparkasse Pforzheim Calw: This really was a very crucial decision for us. As an issuer, you always have to weigh your issuance capacity, which is highly limited by your cover pool, and the desire for maturity diversification, with the granularity of issuance and the interests of the market and our investors. We were therefore constantly thinking about what might be the best way to balance those considerations, and with respect to our growing cover pool size and the regulatory and other benefits of the benchmark format — for example, the liquidity coverage ratio level that many investors are looking at; index-trackers focusing on the benchmark format instead of sub-benchmarks; and, last but not least, international investors' perception — we decided to take the decisive step in early 2023 with our inaugural benchmark covered bond. That really was a decision we remain very satisfied with.

Day, The CBR: Berliner Sparkasse is very established in sub-benchmark issuance, but has not chosen to issue benchmarks. What is the thinking behind your strategy?



Sparkasse Hannover
Photo credit: Kevin Münkel

Schiebler, Berliner Sparkasse: Indeed, we are unique, because we decided on a clear strategy in 2014 to focus our issuance activity on the sub-benchmark segment, and we have consistently implemented this over a whole decade. By doing this over such a long time horizon, we are now some kind of German champion in sub-benchmarks. At the Landesbank Berlin level we have 15 of them outstanding right now, of which 13 are Pfandbriefe.

'There is a growing acceptance of sub-benchmarks'

The clear advantage of this sub-benchmark issuance, and the reason why we really love this format in Berlin, is that it avoids large concentrations of maturities. And if you use it consistently over 10 years, then you can build up a nicely diversified liability structure, which we have done. It is necessary to implement such a strategy over the long term to achieve the benefits.

There is, of course, a disadvantage, namely that you have to do more work, especially with investors, because if you want to be successful with sub-benchmarks, you have to win them over, because the sub-benchmark segment is a little more difficult than benchmarks.

The strategy is internally-driven, which means we would not exclude benchmark issuance in general, because we have a €7bn cover pool in place for the mortgage Pfandbriefe, and we could envisage the benchmark format, too — but only in the event that we have very strong loan business, or if market conditions for benchmarks would be much more attractive than for a sub-benchmark. In our opinion, neither are the case today, and maybe also not in the foreseeable future. But the cover pool itself would be big enough to support a benchmark issue, too.

Anhamm, NORD/LB: There is a growing acceptance of sub-benchmarks, reflected by participation of international accounts that we have seen.

From an investor's perspective, there's always a bit of a balance to be found. On the one hand, what investors like is a decent frequency of issuance, ideally once a year, so that once the credit work is done, they can expect something available for their portfolios on a frequent basis.

At the same time, they're very risk aware and don't want a bank to issue €500m if it doesn't fit with their ALM risk and their exposure. So it is not ideal to issue €500m today and then only come back with another €500m in three years' time.

The compromise is then the sub-benchmark, which allows issuers to return frequently.

Some institutions will of course say that sub-benchmarks don't provide enough liquidity, while others may flag the difference that has been noted in LCR haircuts, of eight percentage points between sub-benchmarks and benchmarks, which is partly reflected in spreads. This is the kind of debate that we do notice among international investors.

Another angle to think about, in particular when it comes to savings banks, is that if you buy sub-benchmarks, you are getting exposure to something you otherwise might not get. If you only buy benchmarks, you are largely missing out on special entities such as savings banks and their regional focus. Particularly when looking at Germany — and bearing in mind the comments we have on cover pools often being characterized by a certain ratio of CRE — well, here's a group or issuers and an instrument that allows you to invest in something different, with the sole caveat that you are buying a sub-benchmark.

These are the key arguments for and against sub-benchmarks relative to benchmarks. And, as I said, an increasing and very interesting number of highly recognized international investors have weighed these considerations and are finding sub-benchmarks worthwhile.

Day, The CBR: Haspa has meanwhile — to borrow Andrej's expression — been something of a German champion of benchmarks among the savings banks. What's your strategy in this regard?

Zillmannn, Haspa: Perhaps I can start by noting the range of products Haspa can offer. We are a regular and known issuer of mortgage Pfandbriefe since 2006. We have also received a license to issue public Pfandbriefe in 2024. And in 2023 Haspa was the first savings

Stefan Fritz,
Sparkasse Pforzheim Calw:
'In the last year, we had a growth in customer deposits of 7.5%'

bank to issue a benchmark senior preferred bond. So there are three different benchmark options available.

For us, the reason for capital market funding is to diversify our funding channels. Our size gives us the opportunity to issue benchmarks bonds, which have the advantage of investor diversification, with more foreign investors due to

'Benchmarks are a valuable addition to our funding profile'

regulatory and liquidity considerations. When it comes to mortgage Pfandbriefe, we have about €3bn of overcollateralization, so we are not too limited by the cover pool.

When we approach the market with a benchmark is rather a question of spreads and opportunities, and, of course, our need for longer dated funding.

Day, The CBR: How does this benchmark/sub-benchmark issuance fit in with your overall funding profile, including deposits, and your balance sheet? And how are retail deposits developing in light of the recent focus on their stickiness and increasing competition from direct or neo-banks?

Fritz, Sparkasse Pforzheim Calw: The main refinancing pillar of the Sparkasse is indeed our customer deposits. We are very satisfied with how these have developed. In the last year, we had a growth in customer deposits of 7.5%. But the focus here is on the short end of the yield curve, so we need to balance this with long term capital market refinancing. Besides our customer deposits, we therefore have a funding need on the capital markets of around €2bn-€2.5bn euros, while our cover pool is around €3bn. We accordingly plan to bring to market a benchmark or sub-benchmark Pfandbrief every year.

Zillmann, Haspa: Yes, from a liquidity perspective, deposits remain the main refinancing source. They have proven to be quite stable, also during stressful times on the financial markets. It is worth noting that Haspa usually gains deposits in turbulent times and does not lose any. Nonetheless, we are bank and, of course, as a savings bank it's important to diversify your risks — and not only in terms of refinancing channels, but also in terms of maturities. If you do mortgage business on the lending side, covered bonds are a natural complement to your funding channels. And, as Andrej pointed out before, it's also pretty helpful with regards to your liquidity structure.

Black, Sparkasse Hannover: We can happily say that our deposit side is very stable. Other banks may experience outflows to direct or neo-banks, but they are very small for Sparkasse Hannover.

Regarding the overall funding, it's very similar to what Stefan described: our benchmark issues are a valuable addition to our funding profile — because our main customer business is very short term, the benchmarks or sub-benchmarks give us important stability and flexibility in the maturity profile.

Vukadin, Berliner Sparkasse: For us, 75% of our funding comes from customer deposits. We all know that customer deposits are from a legal perspective shorter dated, but on the other hand,

Andrej Schiebler, Berliner Sparkasse: 'We expect more activity than last year, with two to three syndicated issues via LBB'

over the long term they are very stable.

It is always necessary to keep an eye on market conditions and on competitors, but our competitors are not the neo-brokers or direct banks; rather, it is the traditional banks with branches and similar services who are our main competitors — that has been our experience in recent years.

But our strong brand name, "Sparkasse", is a really unique selling point. If you look across the city and the number of bank branches, you will never find more branches than from a Sparkasse. We recognize that our customers, at least, appreciate this benefit.

As reflected in our financial statements, across the past years — during inflation, during the small economic slowdown, and with the additional competition from direct banks — it is evident that we have been able to maintain a stable level of customer deposits, and even in the recent past to raise it on a month on month basis.

Nevertheless, the issuance of covered bonds, specifically Pfandbriefe, is necessary to fulfill our funding structure. As Andrej stated, we decided to issue sub-benchmarks to have a diversified and very long dated structure on the funding side.

Schiebler, Berliner Sparkasse: Never forget, banking is a people business.

Zillmann, Haspa: Indeed, it is. But at the same time, the world is changing, so banks have to change, too, and find new ways to engage with your clients. How do savings banks tackle this? When it comes to Haspa, we have developed an omni-channel approach, so that the branches are one point where we can get in contact with the customer, but then there is an app, which is the same for all savings banks, and also video calls and chats as a third channel. This of course has to be the way forward. That's why Haspa invested heavily in its omni-channel approach in recent years. Branches are still a key pillar, which is why Haspa introduced the concept of a "neighborhood branch", where people and SMEs come together. In the end, our clients appreciate the possibility to speak to us in person about financial topics and this is where savings banks have an advantage.

Anhamm, NORD/LB: Anecdotal evidence supports this. As I said at the very beginning, there's hardly any village, city, region or what have you where there is no savings bank branch. If you travel across the countryside, it's the savings banks that you see. Of course, there are also co-operative banks, but the savings bank is the financial group that is spread across the entire country. It is often pointed out how overbanked we are in Germany, and the extent to which regional or city branches of banks are being closed, but then it's always noteworthy that savings banks are behaving a bit differently. They are very keen to keep the focus on their clients in a face to face dialogue, rather than only going electronically via the web or phone.

'Haspa invested heavily in its omni-channel approach'

Day, The CBR: How active and successful have you been in public markets in 2024, and what can be expected from you in 2025? Berliner Sparkasse has already tapped the market with a sub-benchmark this year, so perhaps you can start.

Schiebler, Berliner Sparkasse: First of all, 2024 was pretty quiet for us, because we only issued one syndicated Pfandbrief last year and 11 senior private placements — 2023, by the way, was much more active, with four syndicated issues in three different product groups, Pfandbriefe, preferred and non-preferred.

Looking at 2025, we expect more activity than last year, with two to three syndicated issues via LBB, probably in sub-benchmark format, and including both our active pools, mortgage and public sector. You are right, we have already started this year with a five year public sector Pfandbrief issued this Tuesday (21 January), which was very successful. This was once again a sub-benchmark, typically for us €250m. LBB's public sector Pfandbrief was the first syndicated sub-benchmark covered bond of the year overall, priced at 35bp over mid-swaps on the back of a final orderbook of €730m and tightened from initial guidance of the 39bp area. In addition to the expected good participation of banks and savings banks, the very high proportion of official institutions in the order book, including some from abroad, was particularly noteworthy.

Furthermore, we are also an issuer of senior unsecured, because we have to fulfill our MREL requirements, and we issue both senior preferred and non-preferred. We won't be active on this front in the next six months, but it is already visible in our planning that in the coming years there will be more activity from us on the senior side.

Zillmann, Haspa: Congrats to Berlin on their successful deal.

When it comes to Haspa, in 2023 we issued €1bn, so €500m of mortgage covered and a senior preferred of €500m — as I mentioned, the first senior preferred benchmark bond from a savings bank. In 2024 we just issued one mortgage covered bond. The reason for that was a slower growth in loan business, but this might pick up given the decline in interest rates, which would mean also more demand for capital market funding. When it comes to issuing plans for 2025, Haspa intends to be a regular issuer in the senior preferred benchmark segment, and, of course, also in the covered bond space. We usually plan to do two to three benchmark bonds a year, and this is also the goal for this year.

Black, Sparkasse Hannover: As discussed, last year we successfully placed our first benchmark, after having in 2023 revised our funding strategy. We prepared a base prospectus for this in cooperation with our law firm because we wanted to position ourselves as a frequent benchmark issuer going forward, and we will proceed thus in 2025. We are planning to do a benchmark issue again this year, and we are also open to smaller offerings in the format of registered Pfandbriefe — gladly in green, if possible, or from our public cover pool as well. We are not planning any senior unsecured bonds; this is not something we issue.

Fritz, Sparkasse Pforzheim Calw: At the beginning of 2024 we made a successful benchmark transaction in the market. For 2025, we plan a further benchmark, or sub-benchmark, depending on market conditions. And we will always be open to printing smaller sizes of senior preferred or Namenspfandbriefe in the year.

Day, The CBR: Christoph, what kind of a backdrop can the savings banks expect when it comes to the overall market this year?

Anhamm, NORD/LB: We expect overall euro benchmark covered bond issuance to be slightly larger in terms of volumes this year. We're looking at something close to €170bn in total, which compares to close to €150bn last year. For Germany, though, we expect levels to remain reasonably stable, something close to €30bn for 2025.

Interestingly, we expect at least 10 different savings banks to come to market this year with a benchmark or sub-benchmark. Of those, there will be at least two newcomers, houses we haven't seen in this arena before. And we know that there are quite a few more that are in the process of preparing such issuance. So stay tuned for 2026 and 2027 — there is more and more activity in the pipeline that will provide further food for thought when it comes to savings banks engaging with international investors.

Spread-wise, we could fill another roundtable speculating about that. There are so many market factors, including both the senior side and the SSA side, that are driving this market at the moment, but overall we have seen that, so far, the environment is very supportive with issuance in very good shape. There are good reasons to believe that this will continue overall for one of the very simple reason, which is that — at least for the moment — we are undersupplied compared to what we've seen in previous years. Very roughly speaking, year-to-date we've seen about 50% of the total volume seen in similar periods in 2023 and 2022. That is one of the reasons why the level of demand so far has been so high — in combination with very attractive absolute spreads versus historical levels. So overall, we can probably expect markets to be positive and savings banks should be able to benefit from such an environment.

'We expect at least 10 different savings banks this year'

Day, The CBR: That's a positive forecast. Does anyone have any other final thoughts on what the future may hold for savings banks, whether in the capital markets or more broadly?

Zillmann, Haspa: Like I said earlier, the market environment is changing all the time, and this is also true for capital markets, of course. We have seen an interesting pick-up in issuance of bonds in digital formats, and this is something that we are watching closely. We expect further developments in the coming months and years, and it could make a big difference to the infrastructure behind how we issue bonds.

Black, Sparkasse Hannover: Digitalization could also have an impact on the sustainability front. If more processes are done digitally, that could save on resources and in minimizing your ecological footprint, thereby helping the achievement of sustainability goals. ■

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