



Covered Bond Market Update

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Covered Bonds demonstrate stability

Following a very dynamic start to the year in the covered bond primary market, the strong supply continued throughout the first half of the year. Issuance volume increased significantly to date from EUR 100.4bn in the previous year to EUR 121.7bn in 2026, representing a rise of 21.2%. An exceptionally high volume came from large benchmark transactions, but above all from dual-tranche issuances. Issuance activity in CEE also expanded markedly by 94%, from EUR 3.1bn to EUR 6.0bn. Moreover, after a subdued start to ESG issuance activity in 2026, sustainable issuance in the covered bond segment has recently gained considerable momentum.

At present, it can be assumed that the issuance window is gradually closing with the onset of the summer slowdown, and only sporadic transactions are likely to take place over the summer. Overall, however, market uncertainties stemming from the geopolitical and macroeconomic environment have not yet fully dissipated, and the attractiveness of covered bonds remains intact. We therefore maintain our annual issuance forecast of EUR 180–190bn from November 2025.

The prolonged swap spread rally came to an end in the first quarter of this year. While asset swap spreads still tightened moderately in January despite high new issuance volumes, this trend did not continue in February. Instead, the market moved sideways. The spread differential between covered bonds and government bonds initially widened slightly following the outbreak of war, but subsequently narrowed again, and now stands close to its long-term low seen at the end of February 2026.

For the coming months, we expect spreads in the covered bond segment to remain broadly stable, with average risk premia around the 25bp level. A further stabilization in the geopolitical environment and easing inflation concerns could lead to a temporary tightening in spreads. However, persistent uncertainty about inflation developments and high funding needs in Germany and the US could weigh on government bond markets, potentially resulting in a moderate widening of covered bond swap spreads to around 30bp.

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Note: Information on past performance is not a reliable indicator of future performance.

Primary Market

Strong supply remains in place

Following a very dynamic start to the year in the covered bond primary market, strong supply continued throughout the first half of the year (up to and including 18 June in both the prior year and 2026). Issuance volumes rose markedly from EUR 100.4bn in the previous year to EUR 121.7bn in 2026, representing an increase of 21.2%. Compared with the 5-year average of EUR 104.9bn, 2026 exceeded this level by 16.7%. The standalone month of February was particularly strong, posting gains of more than 60% both year-on-year and relative to its historical average.

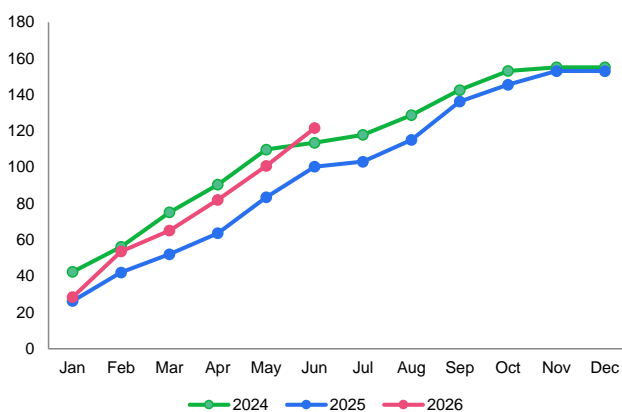
Trend towards large-sized benchmark transactions

The trend towards benchmark transactions with sizes of EUR 1bn and above, which was evident at the beginning of the year, also persisted. In the first half of the year, both the number of such issuances and the total volume exceeded the previous year as well as the long-term average. Looking at a longer historical period, only 2023 recorded a higher volume of large benchmark transactions.

An exceptionally high volume was driven by dual-tranche issuances

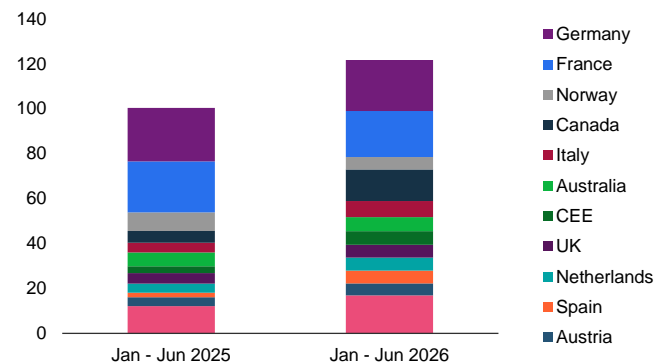
Another key feature of this year has been the exceptionally high number of dual-tranche transactions. With 15 such deals executed so far, amounting to a total volume of EUR 30.1bn, this figure already significantly exceeds the number of transactions and corresponding annual volumes of recent years - even on a full-year basis. Issuers are benefitting from strong market absorption capacity, supported by sustained robust investor demand and predominantly heavily oversubscribed transactions. From a country perspective, issuers from Germany and Canada have been the most active in this segment.

EUR Covered Bond Issuance – monthly Cumulative
EUR bn – as of 19 June 2026



Source: Market data provider, Erste Group Research

Germany and France dominate
EUR bn – as of 19 June 2025/26



Source: Market data provider, Erste Group Research

German issuers continue to dominate the covered bond market

In the geographical breakdown of issuance volumes, EU-based institutions continued to dominate market activity, led by German banks. Their share of total volume stood at 19% as of the reporting date, albeit down from 24% in the previous year. French issuers ranked second with a 17% share (PY: 23%), once again confirming their strong market presence. Notably, Canadian banks

showed a particularly dynamic performance, increasing their market share to 12%, significantly above the prior year's 5%.

Austrian banks approx. 33% above the previous year

Austrian banks issued a total of EUR 5.3bn, which was 33% above the previous year's level of EUR 4.0bn. However, their market share remained broadly stable at around 4%. Among Austrian issuers, UniCredit Bank Austria stood out with the highest issuance volume to date of EUR 1.5bn.

Marked expansion of CEE presence

CEE issuance activity recorded a significant expansion of 94%, increasing from EUR 3.1bn to EUR 6.0bn. The Czech Republic stood out in particular, with volumes quadrupling from EUR 0.5bn to EUR 2.0bn. Hungary also showed strong growth, doubling its issuance from EUR 0.5bn to EUR 1.0bn, while Slovakia increased its volume from EUR 1.6bn to EUR 2.5bn.

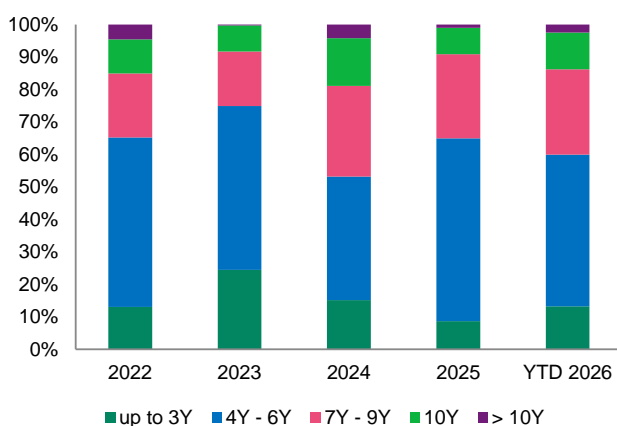
Largest issuers do not come from the dominant countries

Contrary to the overall market distribution, where Germany and France clearly dominate, the Italian UniCredit Group led the ranking at the individual issuer level with a cumulative issuance volume of EUR 7bn. The second-largest banking group, Spain's Banco Santander Group, which placed EUR 6bn, also did not originate from the dominant countries. In Germany, Commerzbank showed the strongest presence, reaching a volume of EUR 4bn.

Weakening trend toward longer maturities

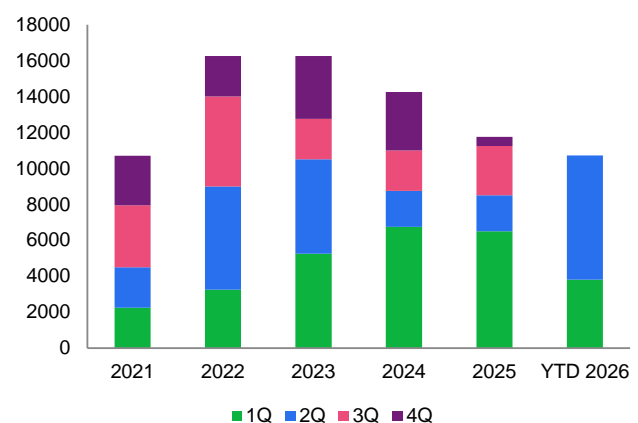
The trend towards longer maturities observed at the beginning of 2026 has recently lost some momentum. The share of maturities of up to six years, at around 60%, remained below the previous year's level, but increased compared to the start of the year. Longer maturities of ten years and above continued to be represented above average, but have also recently recorded slight declines.

Slight trend towards longer maturities
Share of issuance, in %



Source: Market data provider, Erste Group Research

Historically strongest second quarter for ESG covered bonds
ESG covered bond volume, EUR bn



Source: Market data provider, Erste Group Research

ESG covered bond segment has clearly picked up following a subdued start to the year

Following a subdued start to ESG issuance activity in 2026, sustainable issuance in the covered bond segment has recently gained significant momentum. Both smaller-sized ESG covered bonds and large benchmark transactions exceeding EUR 1bn have been observed in the market. ESG

issuance volumes currently amount to EUR 10.7bn, representing an increase of 26% compared to the prior-year period (EUR 8.5bn). The share of sustainable issuance in total volume has edged up slightly to around 9%, compared to 8% in 2025. A notable feature of the current year is the clear dominance of green bonds: to date, almost exclusively green bonds have been issued in 2026, with only a single social bond placed. In the previous year, the structure was somewhat more diversified, with a total of three social bonds issued.

Full-year forecast unchanged at
EUR 180–190bn

Year-to-date, total maturities amounted to around EUR 85bn, while issuance volumes reached EUR 121.7bn, exceeding this level by approximately 43%. Over the next three months, a further EUR 36bn of covered bonds are set to mature. At present, it can be assumed that the issuance window will increasingly close as the summer lull sets in, with only sporadic transactions expected over the summer period. Overall, however, market uncertainty stemming from the geopolitical and macroeconomic environment has not yet fully subsided, while the attractiveness of covered bonds remains intact. We therefore continue to maintain our full-year forecast from November 2025 of total issuance volumes in the range of EUR 180–190bn, corresponding to net issuance of EUR 30–40bn.

Secondary Market

Iran war had only a limited impact on asset swap spreads.

The prolonged swap spread rally came to an end in the first quarter of this year. While asset swap spreads continued to tighten moderately in January despite high new issuance volumes, this trend did not continue in February. Instead, the market entered a sideways trading range, which persisted without major movements until the outbreak of the Iran war. Following the start of the conflict, risk premiums widened slightly, although spreads did not return to the levels seen at the beginning of the year. Notably, spread volatility increased in both directions, while the overall sideways trend remained intact.

Spread differential between covered bonds and German Bunds remains near historical lows.

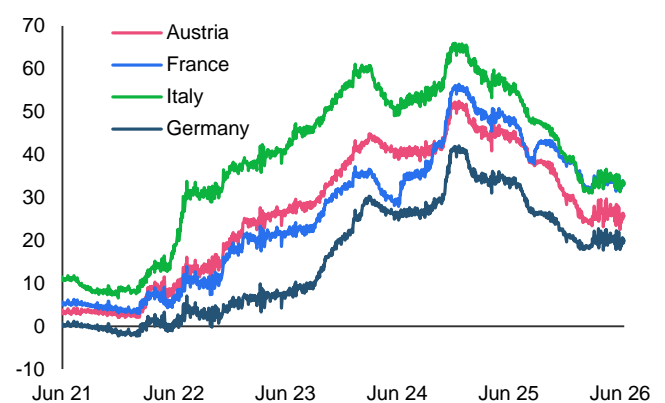
The spread differential between covered bonds and government bonds (using German Bunds as the benchmark) initially widened only slightly following the outbreak of the war but subsequently narrowed again. As a result, it is now close to its long-term low reached at the end of February 2026. Although this reduced the relative attractiveness of covered bonds compared with government bonds and other public-sector issuers, demand for new issues remained consistently strong. However, around 80% of new issuance since the beginning of the year has come from issuers domiciled outside Germany, resulting in correspondingly higher spreads over German Bunds. From a historical perspective, however, spreads over German Bunds remain very low even for covered bonds issued outside Germany.

Swapsread difference iBoxx Covered Bonds vs iBoxx Germany in BP



Source: IHS Markit, Erste Group Research

Covered Bond Swapsreads In BP



Source: IHS Markit, Erste Group Research

Spread differential between covered bonds and senior bank bonds back at the level seen at the beginning of the year.

The spread differential between covered bonds and senior bank bonds, which had widened moderately following the outbreak of the Iran war, has since returned to the levels seen at the beginning of the year. The main driver was the performance of senior bank bond spreads, which initially widened at the onset of the conflict but subsequently tightened back to pre-war levels. From a fundamental perspective, the narrow spread gap between senior and covered bonds is justified. Banks continue to report stable profitability, remain very well capitalized by historical standards, and credit default rates are currently stable.

For the second half of the year, however, we see the key drivers for the development of credit spreads as being less related to the fundamentals of the banking sector. Instead, interest rate developments could prove decisive. While we currently do not expect any further ECB policy rate increases in 2026, uncertainty surrounding the inflation outlook and the substantial financing needs of Germany and the United States could put pressure on government bond markets. This may also indirectly affect the credit spreads of bank bonds.

Swapsread-difference: Senior – Covered Bonds
In BP



Source: IHS Markit, Erste Group Research

Covered bond swap spreads expected to remain stable.

To a lesser extent, the scenario outlined above would also argue for a moderate widening of covered bond swap spreads. Under this scenario, the average swap spread could increase to as much as 30bp. Should the above-mentioned factors fail to trigger significant interest rate volatility, we expect average credit spreads in the covered bond segment to remain broadly stable around the 25bp level over the coming months. In the event of a further stabilization of the geopolitical environment and easing inflation concerns, only a temporary narrowing of spreads below this level could be conceivable.

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