Covered Bond & SSA View

NORD/LB Floor Research

10 December 2025 ♦ 42/2025

Marketing communication (see disclaimer on the last pages)

Agenda

Floor analysts:

Head of Desk

Dr Norman Rudschuck, CIIA
norman.rudschuck@nordlb.de

Covered Bonds/Banks

Lukas Kühne
lukas.kuehne@nordlb.de

Alexander Grenner
alexander.grenner@nordlb.de

SSA/Public Issuers

Lukas-Finn Frese
lukas-finn.frese@nordlb.de

Tobias Cordes, CIIA
tobias.cordes@nordlb.de

NORD/LB:
Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuers Research

Bloomberg:
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Covered Bonds
Market overview

Authors: Alexander Grenner // Lukas Kühne // Dr Norman Rudschuck, CIIA

Primary market: closure of the EUR covered bond market in 2025 now all but confirmed
With no further new issuances on the primary market for covered bonds in EUR benchmark format to report on last week, it was a continuation of the same picture this week. Against the background of 2025 having now entered its very final throes, the end of issuance activities on the primary market this year would appear to be all but confirmed – although we would of course never totally rule out the potential for a surprise new deal. Looking at covered bonds away from the EUR benchmark segment, it is clear that the market remains accommodating to fresh supply. Over the past five trading days, there was still brisk activity here. For example, Federation des Caisses Desjardins du Quebec (CCDJ) was first to approach investors on 03 December. It opted to place a CHF covered bond with a volume of CHF 335m at SARON ms +35bp. While the choice of issuance currency may come as a bit of a surprise, it is not uncommon for issuers to place covered bonds in currencies that, at first glance, might seem unusual. This serves the purpose of diversification. Several taps were recorded in the Nordics, whereby these deals all involved covered bonds issued in the respective domestic currency. For example, LF Hypotek from Sweden increased the volume of its floater (which was only issued on 25 November) by SEK 500m. A trio of Norwegian issuers, namely DNB Boligkreditt, SpareBank 1 Boligkreditt and Storebrand Boligkreditt, also tapped one deal each. With the exception of the latter, all Norwegian issuers are also regularly active in the EUR benchmark segment. Fresh supply from Norway in the order of EUR 10.3bn has been recorded this year, which is sufficient for this jurisdiction to rank in third place, ahead of the Netherlands. This is particularly noteworthy given the high importance of the domestic currency (NOK). On Monday, it was the turn of United Overseas Bank (UOB) from Singapore to announce the issuance of a GBP 750m covered bond. UOB was most recently active in the EUR benchmark segment at the end of November, following an absence lasting 3.5 years, with a deal placed in the 5y maturity segment worth EUR 850m (as we reported). Staying with Singapore, we recorded a fairly pleasing new issuance volume of EUR 3.6bn from this jurisdiction in 2025, which came on the back of an impressive EUR 4.3bn (featuring two newcomers) in the previous year. We are excited to see which jurisdictions will deliver a surprise next year, in addition to the usual players. For our forecast, please refer to the previous edition of our weekly publication.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

Secondary market: transaction volume recedes further
As we approach the end of the year, transaction activities on the secondary market are now increasingly dying down as well. The buy side continues to dominate what transactions are in evidence, with a primary focus in this regard on the medium maturity segment. Against the background of absent fresh supply, the spread level has increasingly stabilised, although further narrowing tendencies cannot be ruled out at this point.

EBA publishes Risk Assessment Report for Autumn 2025

The European Banking Authority (EBA) published its Risk Assessment Report (RAR) for autumn 2025 last week. This report was published in line with the EU-wide Transparency Exercise 2025, which provides detailed and comparable data on 119 banks in 25 EU and EEA member states and is supplemented by the Risk Assessment Questionnaire (RAQ). According to the findings, the banks included in the analysis continue to hold strong positions in terms of capitalisation, liquidity, profitability and asset quality. At the same time, however, the EBA is calling for extra vigilance in view of persistent geopolitical uncertainties, market volatility and increasing operational risks. Trade conflicts and increasing sovereign debt levels are leading to volatile financing conditions and are increasingly impacting asset quality, lending strategies and risk management as well. In turn, issues such as governance, due diligence and scenario analyses are more frequently coming to the forefront of the banks' considerations. Operational risks are increasingly manifesting themselves in cyberattacks, fraud and legal risks. In this context, the EU's Digital Operational Resilience Act (DORA) serves in particular to enhance resilience, while outsourcing and dependencies on third party suppliers represent additional challenges. Conversely, the capital ratios of banks are reaching record levels thanks to solid profitability. Revenues are being supplemented by stable commission income, while cost discipline is supported by digitalisation and automation. Liquidity levels are significantly above regulatory minimum requirements. However, the increased focus on sovereign bonds in relation to liquidity buffers has increased the susceptibility to market volatility. Moreover, the issue of foreign currency risks, particularly in USD, is occasionally rearing its head. Over the long term, growing interest in stablecoins could significantly influence the refinancing operations of banks. While lending to businesses remains rather subdued, mortgage lending and exposure to non-bank financial institutions (NBFIs) from outside the EEA have increased in particular. In addition, asset quality remains stable overall, although the share of Stage 2 loans in the CRE segment and to SMEs is higher.

ECB publishes latest Financial Stability Review

In its recent Financial Stability Review, which covers potential risks to financial stability in the Eurozone, the ECB also arrives at the conclusion that the euro area financial system remains resilient overall, although ongoing geopolitical uncertainties, global trade tensions and fiscal risks in some member states could lead to increased market volatility and sudden asset revaluations. In particular, the non-bank sector remains vulnerable to potential stress scenarios due to structural liquidity and leverage issues. At the same time, high sovereign debt levels and fiscal challenges in some Member States have the potential to undermine investor confidence and exert pressure on sovereign bond markets. While the banking sector is described as robust overall thanks to pronounced capital and liquidity buffers, it is reportedly exposed to strains arising from heightened credit risks, especially for companies affected by trade tariffs, and growing interconnectedness with non-banks. To ensure the long-term financial stability of the euro area, the ECB therefore emphasises the necessity for forward-looking macroprudential policies and recommends strengthening the resilience of NBFIs. In line with this, the ECB is calling for swift and decisive progress on the Capital Markets Union in order to encourage the development of an alternative market for safe assets in the Eurozone.

S&P: Covered Bonds Outlook 2026 now published

In their recently published outlook for 2026, the rating experts from S&P indicated that the rating prospects for covered bonds remain stable. The ratings continue to be supported by high overcollateralisation (OC) ratios, robust legal frameworks and the high quality of loans included in the cover pools. While the adjustments made by S&P to its covered bond rating methodology (which we reported on at the time) have largely reduced the minimum level of break-even OC required for certain rating classifications, this has had no significant impact on existing ratings. Rating adjustments for covered bonds have primarily been triggered by changes to the respective sovereign ratings. At present, limited downgrades of issuers or states would have no impact on the majority of covered bond ratings. According to the risk experts, the macroeconomic environment in Europe – shaped by moderate growth, resilient labour markets and a recovery in residential property prices – is supporting the stable quality of the cover pools. The situation in the CRE segment has reportedly also eased following a stabilisation of interest rates. The programmes that make up the S&P rating universe benefit from high OC ratios, strict cover pool requirements and LTV buffers, as well as proactive risk management on the part of the issuers. The EBA's recently published recommendations for the harmonisation of the European Covered Bond framework (you can read our reaction to this here) are seen as fundamentally positive by S&P. However, immediate rating impacts from the proposed adjustments are expected to be kept in check. Overall, S&P anticipates that covered bond ratings will remain stable in 2026, even in scenarios involving increased market volatility or a moderate deterioration of the regulatory environment.

vdp member banks expect positive net new issuance volume for 2026

According to a recent survey conducted by the Association of German Pfandbrief Banks (vdp) among its member institutions, German Pfandbrief issuers expect new Pfandbrief issuances in the amount of EUR 53.2bn in 2026. With impending Pfandbrief maturities of EUR 50.6bn, this would produce a positive net new issuance volume in the order of EUR 2.6bn. The banks are also anticipating a growing market in 2027 (planned new issuances of EUR 59.0bn set against maturities of EUR 53.6bn). This positive trend is primarily attributable to growth in mortgage Pfandbriefe, where net sales are projected to reach EUR 1.6bn next year (2027: EUR 6.4bn). According to the survey respondents, the outstanding volume of public-sector Pfandbriefe is expected to remain more or less at the current level. As the survey reveals, covered bond issuances in green and social formats are expected to reach a volume of EUR 4.2bn in 2026, whereby the banks are working on the assumption of EUR 3.7bn for 2027. However, it should be noted in this context that not all issuers of sustainable covered bonds were able to provide information on planned issuances in time for this report. In terms of senior unsecured bonds, the projections indicate issuances of EUR 38.5bn in 2026, of which EUR 2.4bn will come in the form of green bonds. In 2027, equivalent values of EUR 41.1bn and EUR 3.9bn are expected respectively. We recently published our special publication "Transparency requirements §28 PfandBG Q3/2025" on the basis of the vdp's quarterly cover pool data reports concerning German Pfandbrief issuers. For this, we presented data on 37 mortgage Pfandbrief programmes, 21 public sector Pfandbrief programmes and two programmes for ship Pfandbriefe. At the same time, we also took a closer look at the 43 mortgage programmes and 12 programmes backed by public sector assets of German savings banks in the sister publication "Transparency requirements §28 PfandBG Q3/2025 Sparkassen".

Fitch raises the Long-Term Issuer Default Rating of Banco BPM

After the rating experts from Moody's had already raised the rating of Banco BPM's covered bond programme by one notch (to Aa2) at the end of November in the wake of the sovereign rating upgrade of Italy, Fitch announced at the end of last week that it was increasing the Long-Term Issuer Default Rating (IDR) of the bank by a single notch to BBB. According to the rating experts, this rating upgrade comes against the backdrop of the improved business model of the bank. In this context, more extensive product diversification compared with its peers, in addition to a stable funding and liquidity profile, were seen as decisive factors in particular. Moreover, Fitch highlights the improved operating environment in Italy, reflected in the upgrade of the sovereign rating (BBB+) that was implemented back in September. Banco BPM is among the active Italian issuers in the EUR benchmark segment, with its most recent successful deal placed on the market in February 2025. Overall, with issuances from Italy in the amount of EUR 5.1bn, the covered bond year 2025 appears below average when compared with the previous year (EUR 9.5bn). Next year, we are working on the assumption of new issuances totalling EUR 8.0bn overall, which would result in slight market growth reflected in a net supply of EUR 400m. For further details of our assessments and expectations of the covered bond market in 2026, please refer to the previous edition of our weekly publication.

SSA/Public Issuers
Market overview

Authors: Dr Norman Rudschuck, CIIA // Tobias Cordes, CIIA

ESM/EFSF agree to early partial repayment of GLF loans by Greece

The European Stability Mechanism (ESM) and European Financial Stability Facility (EFSF) have now approved the request of Greece for an early partial repayment of EUR 5.3bn in Greek Loan Facility (GLF) loans – maturing in 2033 and 2041 – and thereby for a waiving of the application of the concurrency clauses. On 02 December, the Boards of Directors of both institutions agreed to waive the mandatory proportional repayment obligation. This now formally clears the way for early repayment, without Greece having to make immediate payments to the ESM and the EFSF at the same time. In this context, the ESM's Board of Directors has also approved the use of funds from a dedicated cash buffer account supervised by the ESM, which was created at the end of the adjustment programme, to carry out this prepayment. For context: Greece's loan agreements for financial assistance with the EFSF and the ESM contain clauses that would have obliged Greece to make parallel repayments to the EFSF and the ESM in the event of early repayment of the bilateral loans. The GLF was part of the first financial support programme for Greece, which was agreed in May 2010. It consisted of bilateral loans from 14 Eurozone countries, amounting to EUR 52.9bn, of which EUR 31.6bn is currently still outstanding. "Greece continues to make notable progress in strengthening its economy. This additional early repayment of the GLF loan sends another positive signal to financial markets, improves Greece's debt structure, and reflects the country's improving fiscal position [...]," said Pierre Gramegna, Managing Director of the ESM and CEO of the EFSF.

SCHHOL: Regional government adopts draft for the third supplementary budget of 2025

At the beginning of December, the government of Schleswig-Holstein (ticker: SCHHOL) passed the draft law for the third supplementary budget of 2025, responding to the latest judicial decision of the Federal Constitutional Court regarding the appropriateness of official remuneration and the resulting adjustments to salaries and pensions. For the additional required financing that is expected for 2025 and 2026, the supplementary budget provides that the budget surpluses that may be generated in 2025 can be allocated to an earmarked reserve of up to a volume of EUR 250m. For context: even though the judicial decision of the Federal Constitutional Court refers to the salaries of Berlin civil servants, the ruling is nevertheless of fundamental importance and is therefore also relevant for Schleswig-Holstein. According to initial estimates, the federal state's government assumes that the provisions already made for the salary and pension increases in the course of implementing the collective bargaining agreements are not sufficient. "With the draft for a third supplementary budget, we are responding to the latest judicial decision of the Federal Constitutional Court on remuneration and laying the foundation for an earmarked reserve in the 2025 budget to finance foreseeable adjustments to salaries and pensions," said Schleswig-Holstein's Finance Minister Silke Schneider. The decision should be made during the December plenary session (10-12 December).

Northern German Laender call for leeway for investments beyond the debt rules

The finance departments of the northern German Laender of Bremen (ticker: BREMEN), Hamburg (ticker: HAMBRG), Mecklenburg-Western Pomerania (ticker: MECVOR), Lower Saxony (ticker: NIESA) and Schleswig-Holstein (ticker: SCHHOL) discussed various financial policy issues as part of the fourth North Germany Finance Ministers' Conference (Nord-Finanzministerkonferenz). Key topics included the current budget situation of the Laender and expectations with regard to the reform of the debt brake. Even though the October tax estimates had some positive implications for the Laender finances, the position of Laender budgets remains strained overall, since loans and withdrawals from reserves are currently necessary to finance required expenditures. Tax law changes at federal level and sharply rising personnel and social spending would put an additional burden on the financial situation, and the room for manoeuvre would be limited accordingly. However, in order to strengthen the economy in the long term and to continue the positive trend of the October tax estimate, joint efforts and a coordinated approach Bund and Laender are essential from the point of view of the northern German Laender. In this context, they have also formulated their expectations of the commission appointed by the Bund to reform the debt brake and called for a better balance between fiscal stability and leeway for necessary investments in the future. The Bund's special fund for infrastructure and climate neutrality is seen as an important step towards reducing the backlog when it comes to public investment. Nevertheless, a reform of the debt brake should ensure that necessary and appropriate investments by the Bund, Laender and municipalities are also possible beyond the current debt rules. The Stability Council discussed the specific financial situation of the Laender at its 34th meeting, which took place yesterday. The body had already highlighted in previous meetings that the preparation of sustainable budgets – and therefore compliance with the rules and key metrics monitored by the Stability Council – is becoming increasingly difficult in view of the economic and financial policy challenges. We will shed some light on the findings in one of the early editions of our weekly publication in 2026.

KBN presents results for Q3/2025 – core earnings decrease 10.7% year on year

The Norwegian municipal financier Kommunalbanken (ticker: KBN) has presented its figures for Q3/2025. According to the press release, KBN's core earnings dropped in the third quarter of the current year when compared with the same quarter of 2024, from NOK 345m (Q3/2024) to NOK 308m (EUR equivalent: EUR 26.1m). Alongside higher operating costs, the decrease was due to lower net interest income, which was NOK -588m down on the previous year's level (Q3/2024: NOK 595m). After tax, the Norwegian bank was able to report a total profit of NOK 445m – as against NOK 310m in the same period of the previous year. KBN's aggregated customer financing came to NOK 380bn at the end of Q3/2025, down by NOK -2bn on the previous quarter (Q3/2024: NOK +8bn). This was mainly due to the favourable terms available to local government sector borrowers in the capital markets. KBN's portfolio of green loans increased by NOK +1bn (Q3/2024: NOK +5bn). At the end of September 2025, green lending represented 20.6% of KBN's overall lending portfolio. In terms of new borrowing, KBN issued 49 bonds in 8 currencies in the first nine months of 2025, raising a total of NOK 114bn as a result (Q1-Q3/2024: NOK 84bn).

BRCOL: economy is robust, deficit projected to be smaller than expected

The Canadian province of British Columbia (ticker: BRCOL) has provided an insight into its economic development over the past six months and, on this basis and despite the uncertainties surrounding US trade policy, it projects that the domestic economy will grow by +1.4% in 2025 and +1.3% in 2026. Although especially exports and business investment are negatively affected by US tariffs, the province is to benefit from its diverse economy and good access to non-US markets. Accordingly, the effects of the ongoing global trade conflict can likely be mitigated over the medium term. The main drivers of economic growth are still strong consumer spending and steady development in residential construction. Revenue is forecast to be CAD +512m higher than the previous quarter, while expenses are projected to increase by CAD +122m, due mainly to higher corporate and personal income tax revenues than previously forecast. Overall, the province's deficit for 2025-26 is consequently projected to be CAD -11.2bn, which would be around CAD 390m lower than assumed in the first quarter.

EIB and EU join forces to build AI gigafactories

In a Memorandum of Understanding, the European Investment Bank (ticker: EIB) and European Union (ticker: EU) have pledged to jointly support the development of Artificial Intelligence (AI) gigafactories in Europe to bolster EU technological independence and competitiveness. In February, the European Commission established the InvestAI initiative and committed grants of EUR 20bn for the construction of up to five AI gigafactories. The EIB Group is now exploring possibilities to supplement the grants with loans aimed at stimulating private investment and creating a robust AI infrastructure for European startups, researchers and industry. The agreement falls under the EIB's TechEU programme, which is mobilising EUR 250bn for the financing of AI innovation in Europe.

Primary market

For the trading week under review, we have no issuances or mandates to report in the SSA segment. Since many issuers have now completed their funding for this year, they are currently waiting in the wings ahead of the upcoming interest rate decisions by the Fed and ECB. However, as we suggested in the last issue, the looming new year is already beginning to make its presence felt, with the first issuers from the SSA segment having now communicated their funding requirements for 2026. These include KfW (ticker: KFW), which has completed its funding for this year and raised a total of EUR 71bn in ten different currencies on the international capital markets, of which EUR 14bn alone was in the form of green bonds. For 2026, the funding target of Germany's largest promotional bank is EUR 75-80bn and therefore slightly exceeds our expectations. Of this, up to EUR 15bn is to be raised through green bonds in various currencies. The promotional bank states that, provided market conditions are favourable, in the first quarter of 2026 it is likely to exceed the EUR 100bn mark in new issuance volume since the introduction of its green bond framework in 2014. In addition, KfW plans to issue its third DLT-based bond in the coming year. The European Union (ticker: EU) is also expected to announce the extent of its refinancing requirements for H1/2026 in the near future.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

Covered Bonds
Focus on spread relationships: Covereds vs. Seniors

Authors: Lukas Kühne // Dr Norman Rudschuck, CIIA

Varying levels of spread compression

Over the past two years, the spreads between covered bonds and bonds from other assets classes have narrowed considerably. This trend, which we often refer to as spread compression, currently makes covered bonds seem an attractive option from a relative value perspective compared with bonds from the senior universe. Geographically speaking, this trend is not limited to individual jurisdictions, but covers the majority of the relevant European covered bond markets. Nonetheless, this spread compression is more pronounced in some countries than others, which undoubtedly also has implications for the attractiveness of covered bonds as a refinancing instrument or asset class. In this week's focus article, we shall be taking a closer look at the general trend and examining how this manifests itself differently in selected states.

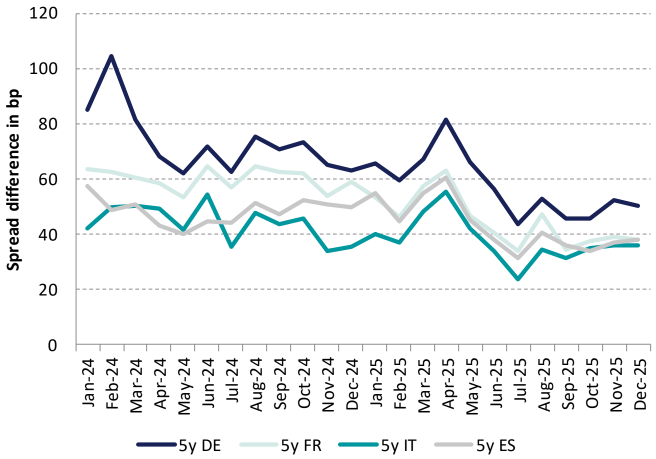
Economic and political developments in the spotlight

Following a significant correction in the Bund swap spread at the end of 2024, covered bond spreads also came under pressure. This was triggered by rising secondary market spreads in the SSA/Public Issuers segment. As a result, what are traditionally rather marginal spread differences between these two asset classes actually narrowed even further. By contrast, senior bonds were generally affected to a far lesser extent by widening tendencies in our generic spread analysis. Overall, however, all the three asset classes we are looking at here have performed very well on the secondary market in 2025. For example, the spreads on German senior bonds in both preferred and non-preferred formats have narrowed by more than 30 basis points since the end of December 2024. In addition to the supporting sentiment, the performance of seniors was particularly buoyed by the positive development of the European banking sector. In its annual Financial Stability Review, the ECB notes high profitability and extensive capital and liquidity buffers in the European banking sector. The ECB identifies lending to companies that are highly susceptible to new potential tariff barriers as a risk factor. This continued positive trend in the banking sector was reflected in improved rating assessments across Southern Europe in particular. It was undoubtedly bolstered by the sovereign ratings of some of these countries, which were also raised this year. In November, the rating experts from Moody's upgraded Italy's sovereign rating by one notch to Baa2, after Spain had received a rating upgrade to A3 in September. According to Moody's, the rating upgrades were, in particular, due to the improved economic situation in both countries and the ongoing political stability in the case of Italy. Despite positive developments in the banking market, the situation in France is noticeably different. Here, the year was marked by rating downgrades for the central government, reflecting unresolved economic and political problems.

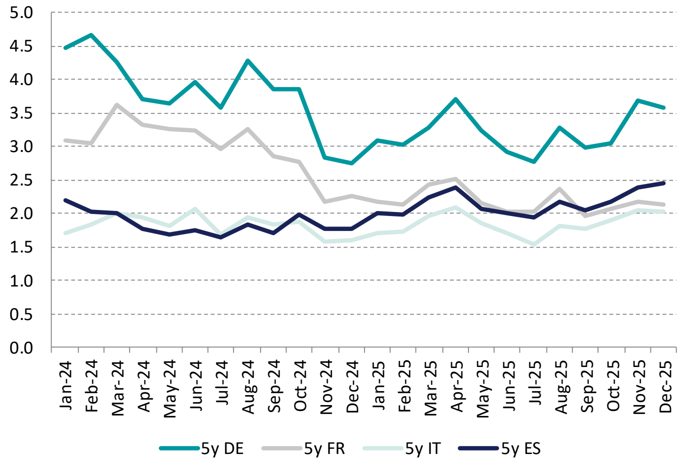
Spread divergences reflect changes in risk perception

To illustrate the different relative value developments, we have calculated the quotients of senior and covered bonds for four selected European countries. This will enable us to compare the different trends in the individual European jurisdictions more easily. We are focusing on EUR benchmark transactions in Germany, France, Italy and Spain. In addition to a general trend towards greater spread compression, the dynamics differ markedly from country to country in some cases. For example, the quotient between French bonds from the senior non-preferred segment and covered bonds fell, whereas we observed the opposite trend in all the other three jurisdictions this year. Senior non-preferred bonds from France are currently trading at only 2.1x above covered EUR benchmark bonds, while the factor was still as high as 2.3x at the end of 2024. In contrast, the spread difference between the two asset classes in Italy rose from 1.6x to over 2.0x. In our opinion, this trend reflects the changed risk assessment of market participants with regard to political stability and the budgetary situation in the two jurisdictions. These additional uncertainty factors appear to be exerting more pressure on covered bond spreads than on senior bond spreads. In our view, this may be due in particular to the small spread differences between covered bonds and bonds from public issuers.

Spread difference: Coveredsvs. Senior (Non-Pref.)



Spread quotient: Covereds vs. Senior (Non-Pref.)

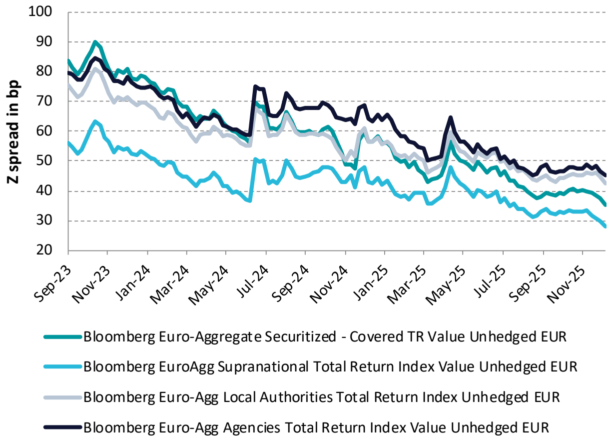


Source: Market data, NORD/LB Floor Research

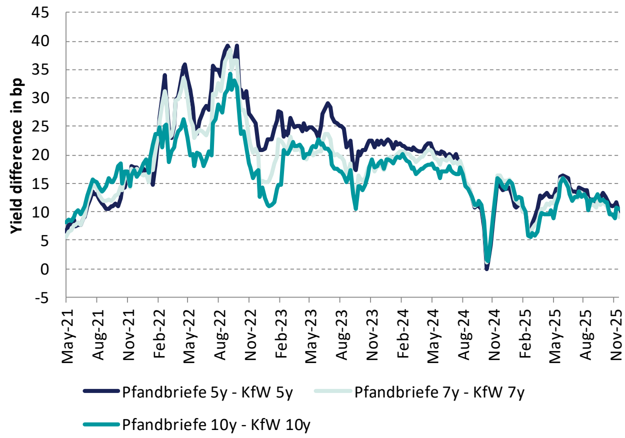
SSA segment as an anchor point for the covered bond spread trend

Bonds from the SSA/Public Issuers universe traditionally serve as anchor points for the spread trend of covered bonds. With historically small spread differences between covered bonds and bonds from public issuers, a spread increase for the latter (with a slight time lag) usually leads to a similar development for covered benchmark bonds. The difference between KfW benchmark bonds and Pfandbriefe has almost halved in the last two years. Against this backdrop, French covered bonds are under greater pressure than German Pfandbriefe. The examples of Italy and Spain show that political stability and sound fiscal management also have implications for the relative value of the three asset classes under review here. In addition, the positive trend in the banking sector is also contributing to the performance of bonds from the senior universe.

Z-spread: Covereds vs. SSA vs. Financials



EUR BMK: Pfandbriefe vs. KfW

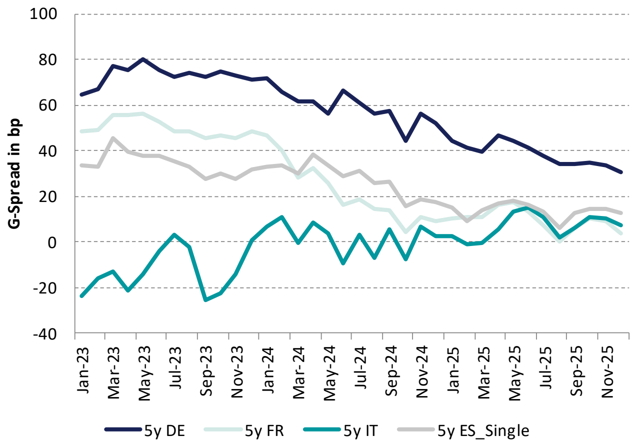


Source: Market data, NORD/LB Floor Research

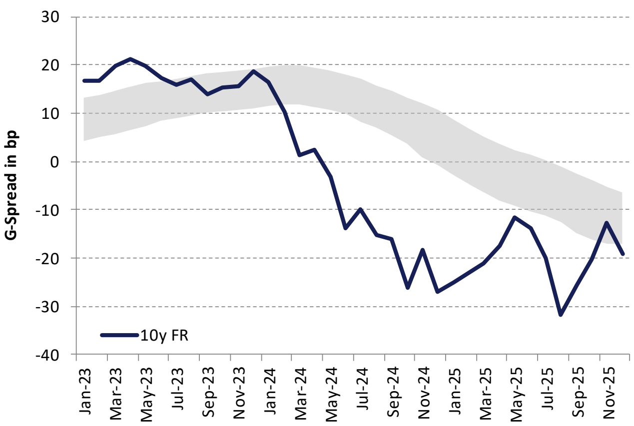
Sovereign bonds as main driver of relative value considerations

A comparable spread compression to that between bonds from the SSA/Public Issuers universe and covered bonds can also be seen when looking at the trend versus sovereign bonds (G-spread) in recent years. However, this should come as no surprise given the proximity between the various public issuers. One exception out of the four countries we have analysed is Italy, where we can observe an increase in the G-spread. We believe this is primarily due to an improved economic situation, sustained cost discipline and more stable political framework conditions. In recent years, it was also not uncommon for long-term covered bonds from Italy in particular to trade within Italian government bonds. In France, the tense budgetary position combined with the complex path to securing a working majority in the French National Assembly is leading to a state of affairs similar to the one we had observed in Italy for some years. French covered bonds with long maturities are now frequently trading below French sovereign bonds (OATs). We also see the spread widening of OATs as the main reason for the smaller difference between covered bonds and senior bonds from France, as this also indirectly affects the spreads of covered bonds across the SSA/Public Issuers universe.

G-spread (5y; generic)



G-spread France (10y; generic)



Source: Market data, NORD/LB Floor Research

A question of attractiveness

From an attractiveness point of view, covered bonds have made significant gains on senior bonds in recent months with regard to their relative value. This seems to be even more pronounced for French covered bonds than for their German, Italian and Spanish counterparts. In our view, this appears to be more to do with pressure from the development of OATs than investors’ risk assessment of the asset classes covered bonds and seniors, which differs from that of the other jurisdictions. In addition, investor interest in both assets classes appears to be as high as ever. For example, primary market deals in both asset classes continued to attract strong investor interest well into November. Accordingly, we are not currently anticipating a strong countermovement that could cause spread differences between asset classes to rise again. Instead, we believe that investors will continue to focus on the economic situation and political uncertainty in selected European countries in the coming year. Especially in France, we currently see little sign of an impending turnaround that could cause the relative value between asset classes to return to its previous level. Accordingly, French covered bonds should not lose any of their appeal in the short term.

Conclusion

In the last two years, covered bonds have significantly increased in attractiveness compared with senior bonds from a relative value perspective. The general trend of sustained spread compression can be seen across all jurisdictions, albeit to varying degrees of intensity depending on the country in question. While the quotient between senior bonds and covered bond spreads has widened over the past two years, especially in Italy, the opposite trend can be observed in France. In our opinion, this is due to the pressure on French sovereign bonds as a result of a combination of political instability and a high budget deficit, which is reflected in higher spreads for sovereign bonds and French issuers from the SSA/Public Issuers universe. Owing to the small spread differences between covered bonds and bonds from public issuers, widening tendencies among public issuers are impacting more on covered bonds than senior bonds. Against the backdrop of ongoing unresolved problems in France, we are currently not expecting a reversal of this trend in the short term.

SSA/Public Issuers
Teaser: Beyond Bundeslaender – Belgium

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese // Tobias Cordes, CIIA

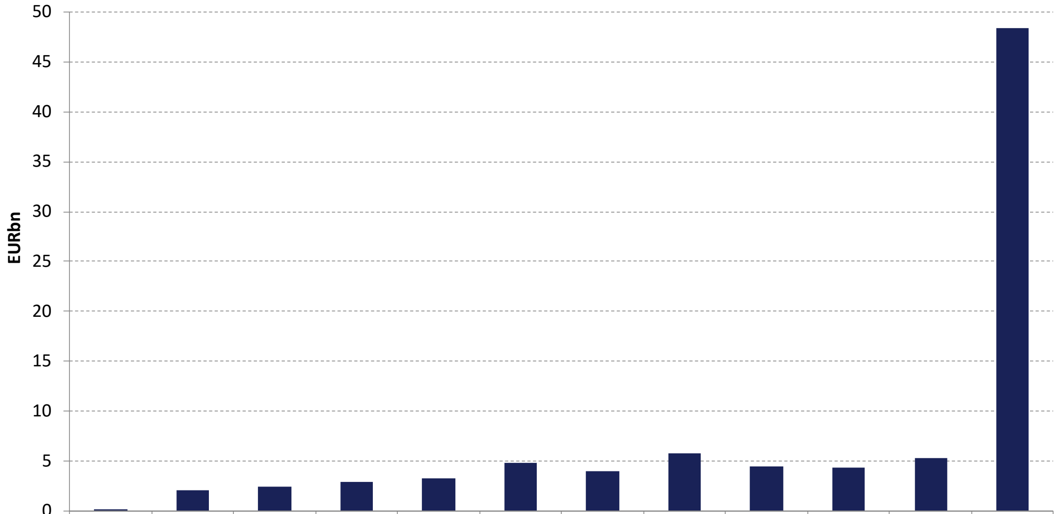
Introduction: Belgian sub-sovereigns in the spotlight

The “Beyond Bundeslaender: Belgium” publication is part and parcel of our *Public Issuers Special* series, which also includes dedicated reports on Greater Paris (IDF/VDP), Spain and Portugal. Due to the variety of issuers and (in certain maturity segments) the significant pick-ups available, the sub-sovereigns analysed in this publication may offer opportunities for investors in comparison with Belgian sovereign bonds and the German Laender. In this teaser article, our aim is to provide a brief overview of the Belgian issuers that are covered in greater detail in terms of economic, political and regulatory aspects in the full report, which is set for publication in the near future.

Structure of Belgium

The focus here is once again on the levels below the federal state and the communities, namely the regions and provinces of Belgium. There are three regional institutions which take the name of their respective territory. From north to south, they are as follows: the Flemish Region (Flanders), the Brussels-Capital Region and the Walloon Region (Wallonia). Aside from these three regions, the federal state of Belgium also comprises three communities defined by their language: the Flemish, French and German-speaking communities. Whereas the Flemish-speaking community exercises its competencies in Flanders and Brussels, the French community is located in the Walloon Provinces and, likewise, in the Brussels-Capital Region. The German-speaking territory, which covers nine municipalities in the extreme east of the Walloon province of Liège, is by far the smallest in this regard. The three language-based communities were introduced following the first state reform (1970). The areas of responsibility of the regions and communities have been extended over the course of various reforms. Through the second state reform (1980), the Flemish and Walloon Regions were each given a parliament and government of their own. In contrast, the Brussels-Capital Region did not obtain its institutions until the third state reform in 1988/89. The members of the regional parliaments are directly elected every five years by the Belgian people. In addition to the regional parliament and regional government, in Wallonia there are also legislative and executive bodies dedicated to the French-speaking and German-speaking communities. As such, there are actually three separate parliaments and three governments in the region of Wallonia. The situation is somewhat different in Flanders, where the Flemish community and regional institutions are merged. As a result, there is just a single parliament and one government here. Both regions and communities are empowered to exercise legislative powers in certain areas. The last elections at federal level in Belgium took place on 09 June 2024 and were held in parallel with the most recent European Parliament elections. Moreover, the elections to the Flemish parliament in addition to the parliaments of Wallonia and the Brussels-Capital Region also took place on the same day. Federal elections are held in a regular cycle of every five years. While coalition agreements were rapidly concluded at regional level due to the obvious options of forming a majority, the formation of a new federal government continued to present a real challenge on account of a party-political landscape deeply entwined in the regions and ideological fragmentation that breaks along linguistic borders. After 234 days of political negotiations, Belgium finally succeeded in forming a new federal government on 31 January 2025.

Outstanding bonds of all Belgian issuers by currency



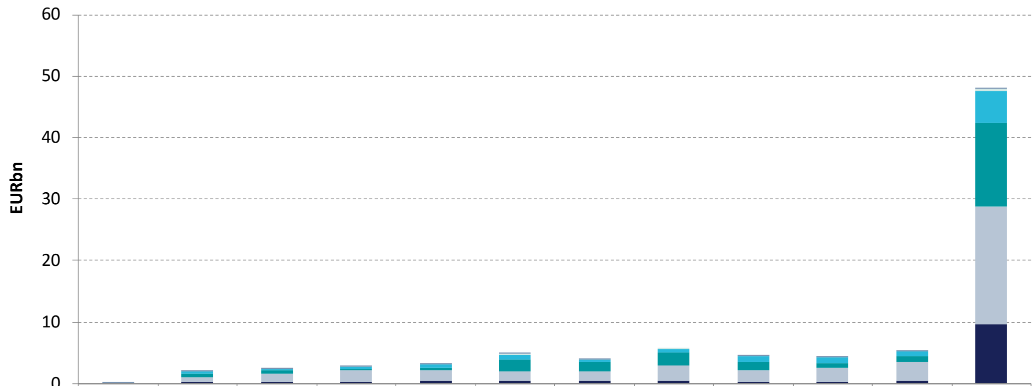
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	5	2,005	2,384	2,838	3,235	4,838	3,918	5,760	4,470	4,290	5,313	48,468

Source: Bloomberg, NORD/LB Floor Research; table values in EURm.

Outstanding volumes on the Belgian sub-sovereign market

In total, the regional market as a whole currently amounts to EUR 87.5bn split across 835 separate ISINs. In this context, FLEMSH (EUR 37.7bn) and WALLOO (EUR 24.0bn) lead the way, followed at some distance behind by BRUCAP (EUR 13.1bn) and LCFB (EUR 10.8bn). Finally, DGBE (EUR 1.2bn) and FRBRTC (EUR 0.4bn) complete the picture here. FLEMSH has been top of the table in this regard for many years now. Due to increased issuance activities with benchmark bonds, WALLOO has climbed the rankings to become the second largest sub-sovereign issuer in Belgium. A total of EUR 48.5bn or 55.4% of the outstanding bond volume is only set to fall due after 2035, which indicates that the issuers in question adopt an extremely long-term focus in terms of their refinancing strategy.

Outstanding bonds of selected Belgian issuers



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
FRBRTC	3	25	24	18	26	53	39	0	10	20	70	98
DGBE	0	73	79	75	53	71	70	67	61	65	48	504
LCFB	0	290	165	340	665	825	210	630	883	915	723	5,108
WALLOO	0	635	557	319	244	1,862	1,605	2,065	1,285	720	1,040	13,674
FLEMSH	0	780	1,320	1,750	1,849	1,517	1,640	2,500	2,031	2,250	2,995	19,081
BRUCAP	0	175	225	325	358	500	350	498	200	310	427	9,697

Source: Bloomberg, NORD/LB Floor Research

Liability mechanism and regulatory aspects

Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Fiscal relationships are structured vertically: the federal state distributes revenues in line with Finance Act of 1989, which regulates the financing of the regions and communities on the basis of defined transfers. This structure is also a reflection of the political tensions between Flanders, Wallonia and Brussels that repeatedly feed into the distribution of budgets and power. There is no explicit liability mechanism in place between the federal state and its constituent sub-sovereigns. However, the rating agency Moody's, for example, believes it is "highly probable" that the federal government would step in to provide support to its sub-sovereigns in the event of payment difficulties – particularly against the background of the Finance Act of 1989. This regulates the entitlement of regions and communities to compensate for insufficient or untimely transfer payments from the central government by way of loans guaranteed by the latter. In the upcoming study, we will classify these bonds within the regulatory frameworks. A summary of the results is provided below. In our view, bonds issued by the Belgian regions generally benefit from the same regulatory advantages as bonds of the German Laender, for example.

Regulatory summary of Belgian regions

Risk weight	0% (EBA list)
LCR classification	Level 1
NSFR classification	0%
Solvency II classification	Preferred (0%)

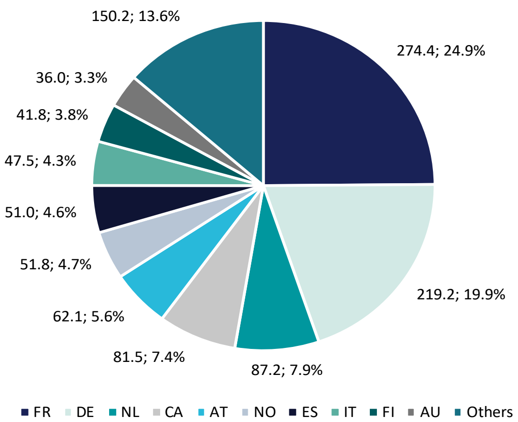
Source: NORD/LB Floor Research

Conclusion

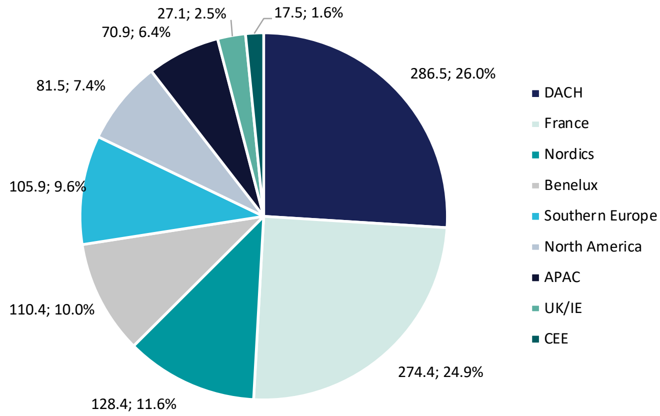
The Belgian regions covered in our full study, which is set for publication in the near future, extend the traditional SSA portfolio with additional term and spread dimensions. In this way, they also contribute to diversification. The trend in the outstanding volume, which stands at EUR 87.5bn in 2025 after EUR 71.5bn around 12 months ago, shows that opportunities are regularly opening up in this market segment. In particular, the FLEMSH and WALLOO programmes are increasingly gaining ground in the market, although it should be stressed that the Belgian sub-sovereign sector remains small in structural terms in a European comparison and is exclusively denominated in EUR. The termination of ECB asset purchases under the APP and PEPP has precipitated a shift towards stronger demand on the part of private investors and has increased the importance of sound and reliable budget management. The spotlight is therefore increasingly falling on regional issuers with solid credit quality. For ESG-oriented investors, the Belgian sub-sovereign sector has become established as a serious alternative to German Laender bonds. Flanders, Wallonia and the Wallonia-Brussels Federation have well-established sustainable finance frameworks at their disposal and are increasingly making use of green, social and sustainability bonds for strategic investments, particularly in the fields of energy efficiency, education and infrastructure. In addition, private placements remain a tried and tested instrument that allow the Belgian regions to flexibly address specific requirements in terms of maturity or volume. More in-depth information on the Belgian economy, the market for regional bonds as well as all issuers can be found in the full version of our Public Issuers Special "Beyond Bundeslaender: Belgium", which we are planning to publish imminently.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



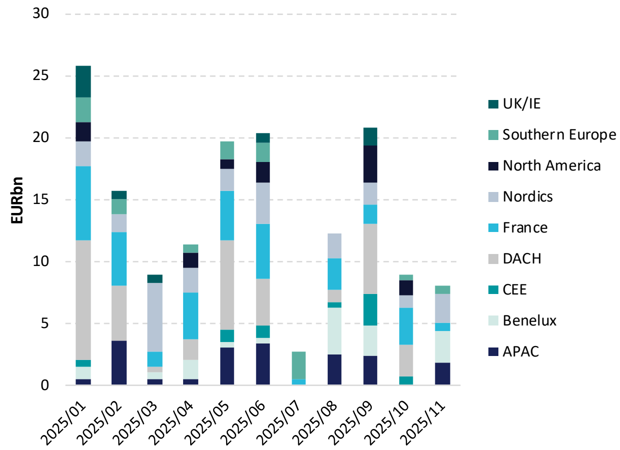
EUR benchmark volume by region (in EURbn)



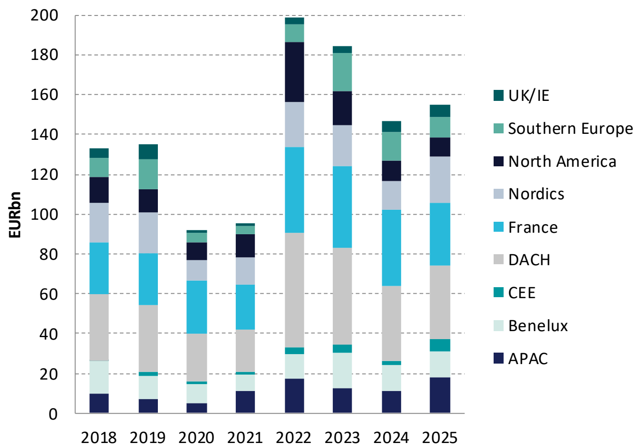
Top 10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	274.4	267	37	0.97	9.0	4.3	1.72
2	DE	219.2	309	49	0.66	7.7	3.6	1.77
3	NL	87.2	85	4	0.96	10.3	5.2	1.58
4	CA	81.5	60	1	1.34	5.5	2.2	1.70
5	AT	62.1	103	5	0.60	7.9	3.5	1.68
6	NO	51.8	61	10	0.85	7.1	3.2	1.43
7	ES	51.0	44	4	1.05	10.1	3.2	2.29
8	IT	47.5	61	6	0.75	8.1	3.7	2.18
9	FI	41.8	50	4	0.82	6.6	3.0	1.94
10	AU	36.0	35	0	1.03	7.2	3.4	1.96

EUR benchmark issue volume by month

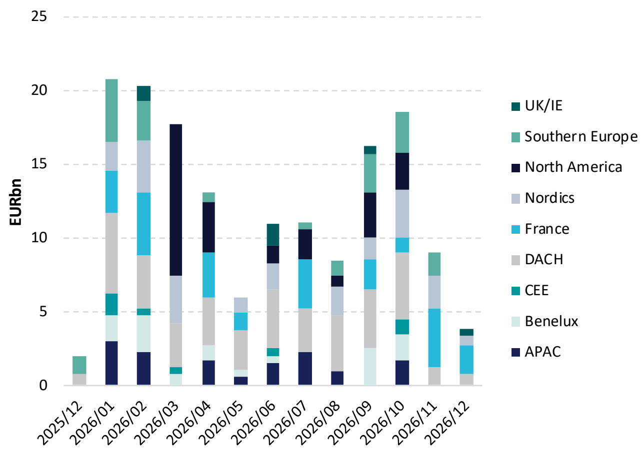


EUR benchmark issue volume by year

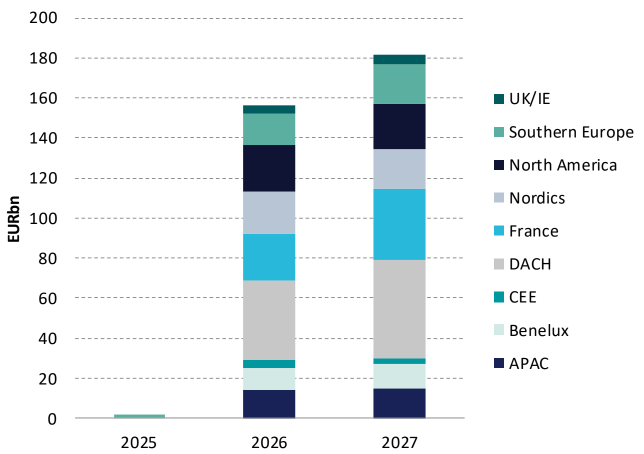


Source: Market data, Bloomberg, NORD/LB Floor Research

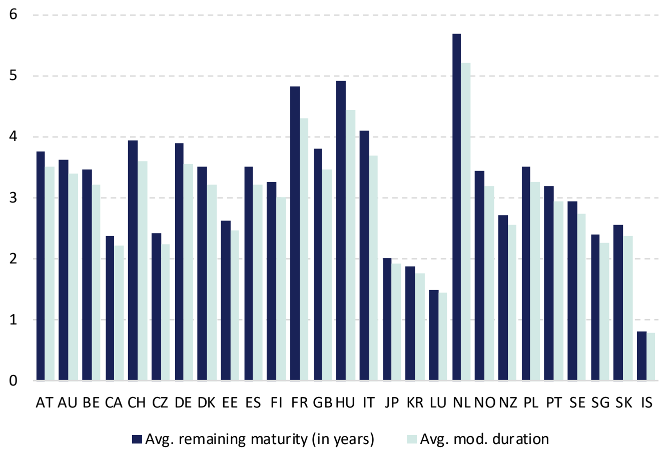
EUR benchmark maturities by month



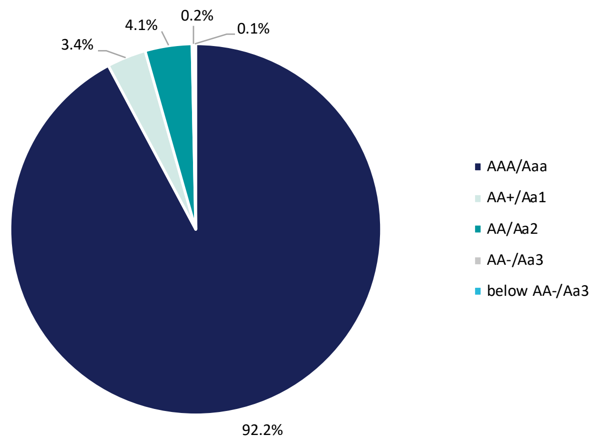
EUR benchmark maturities by year



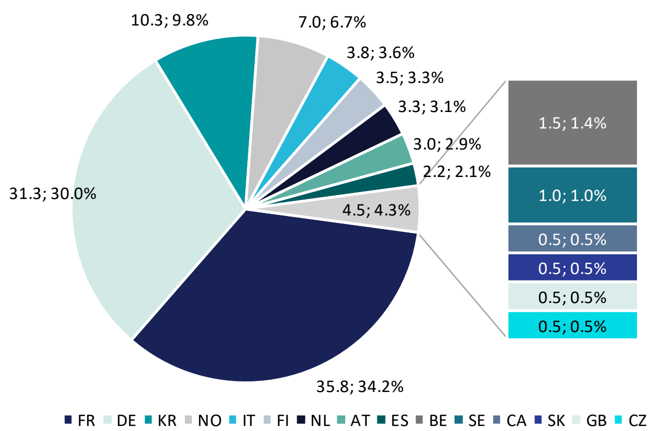
Modified duration and time to maturity by country



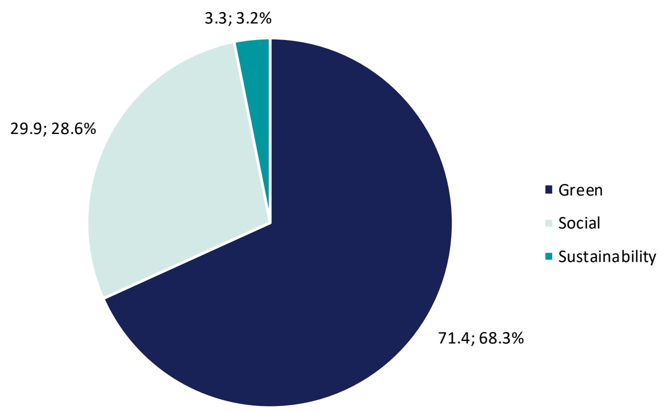
Rating distribution (volume weighted)



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

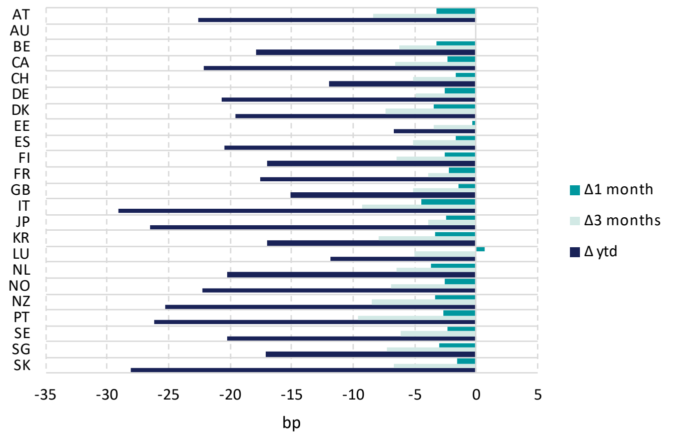


EUR benchmark volume (ESG) by type (in EURbn)

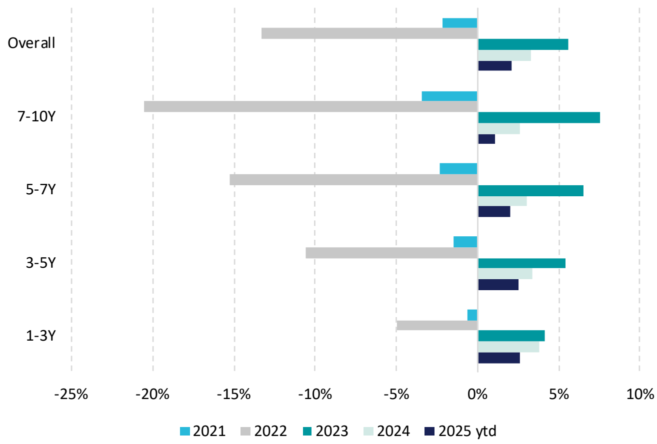


Source: Market data, Bloomberg, NORD/LB Floor Research

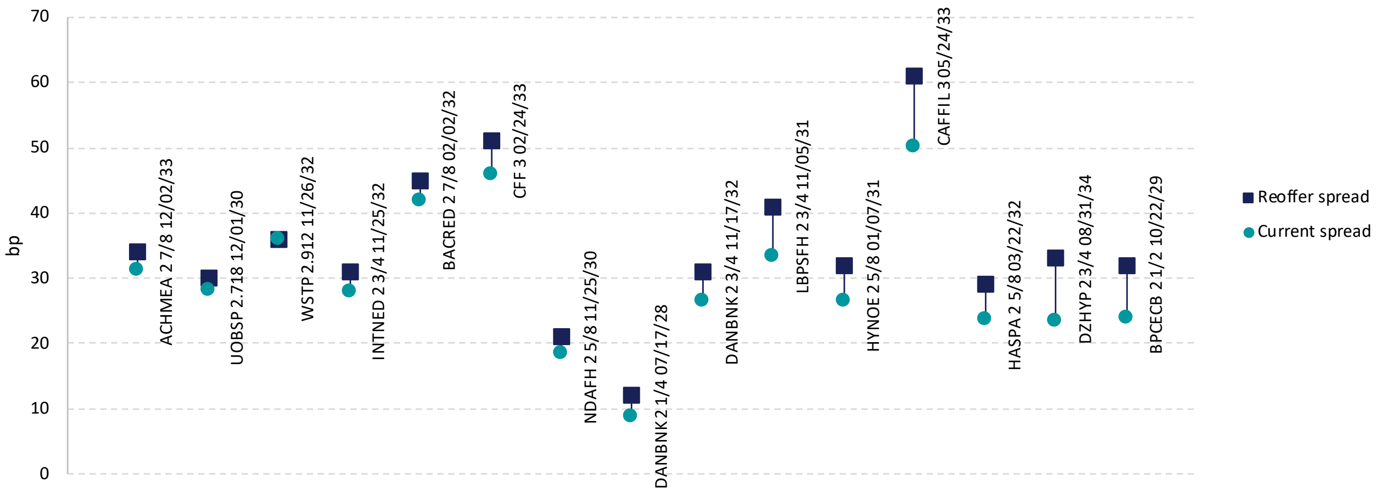
Spread development by country



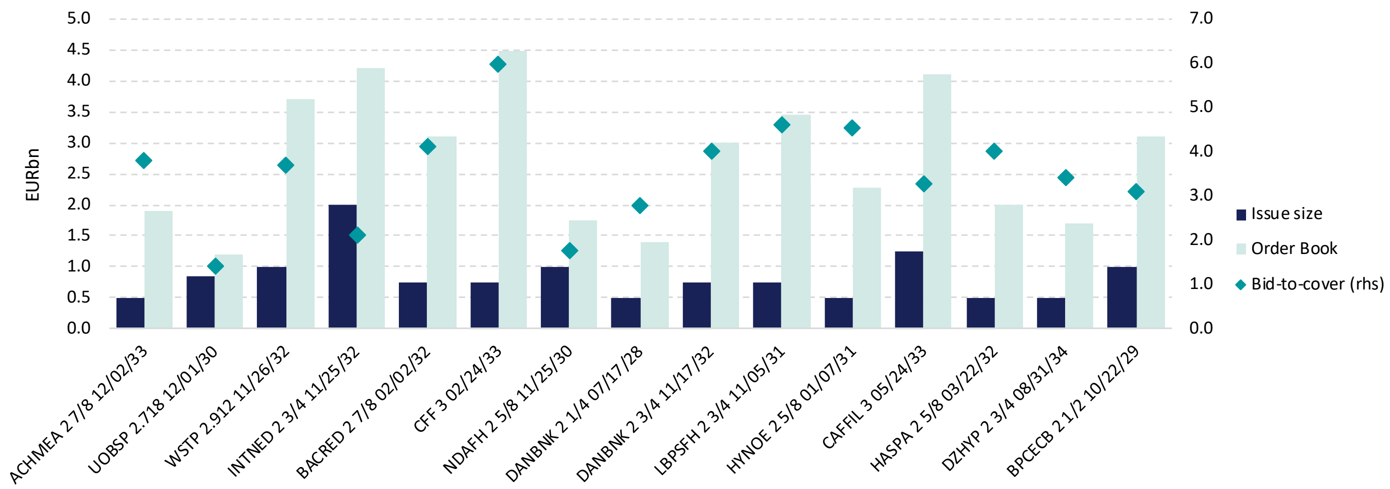
Covered bond performance (Total return)



Spread development (last 15 issues)



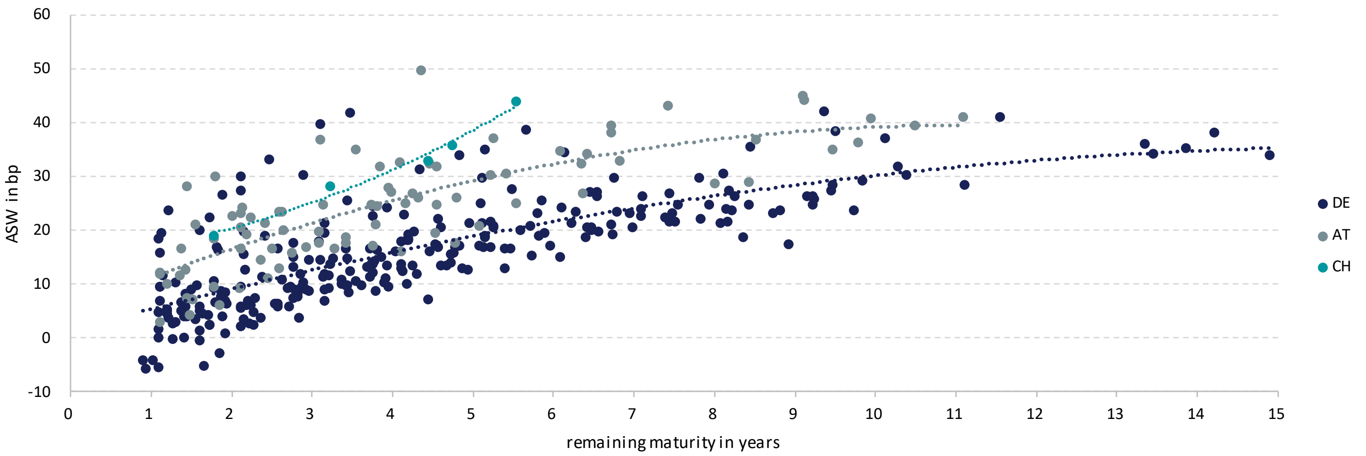
Order books (last 15 issues)



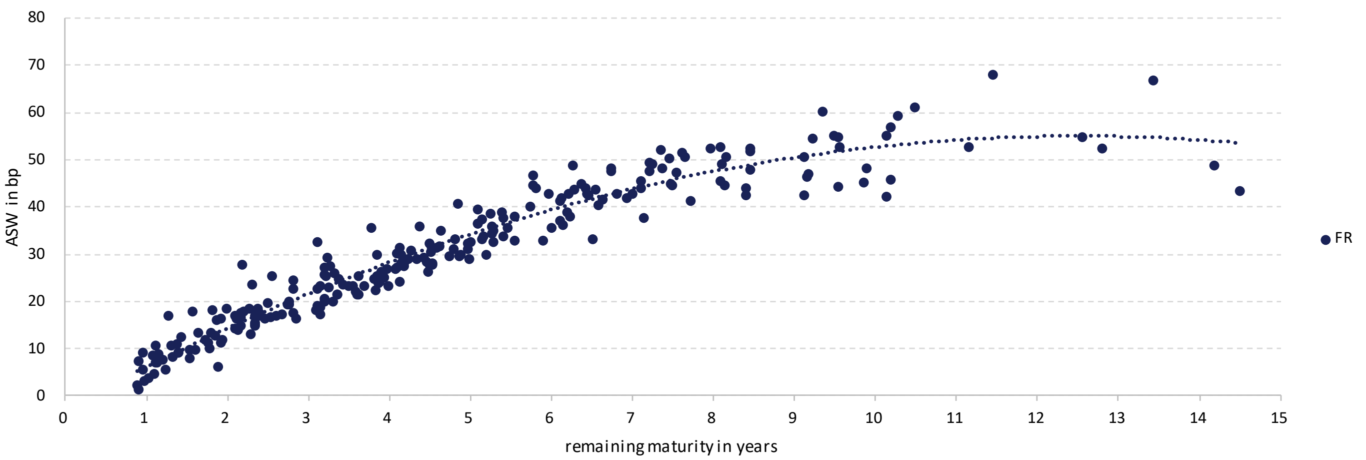
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

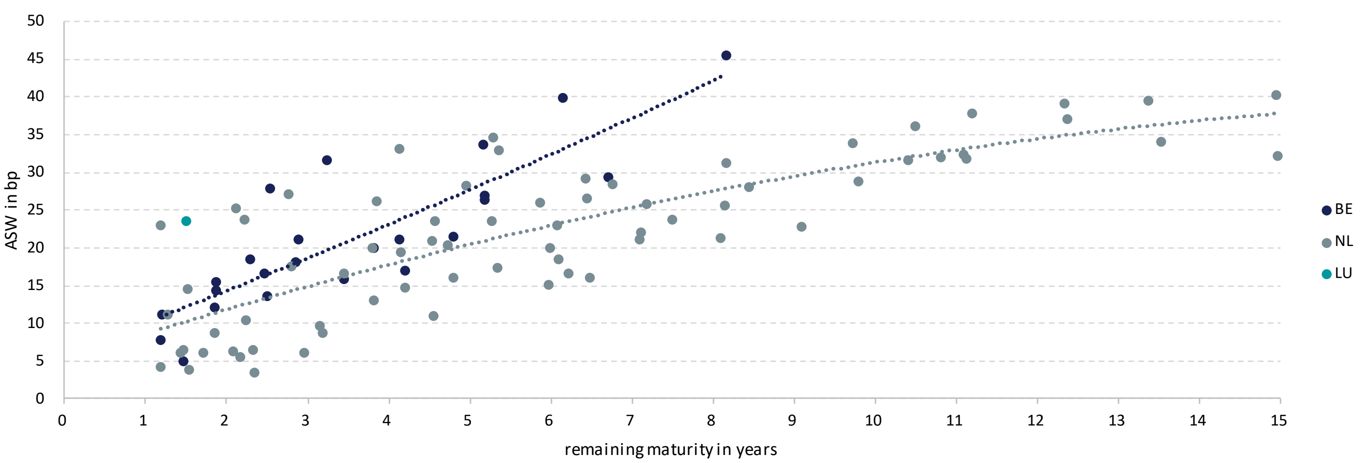
DACH



France

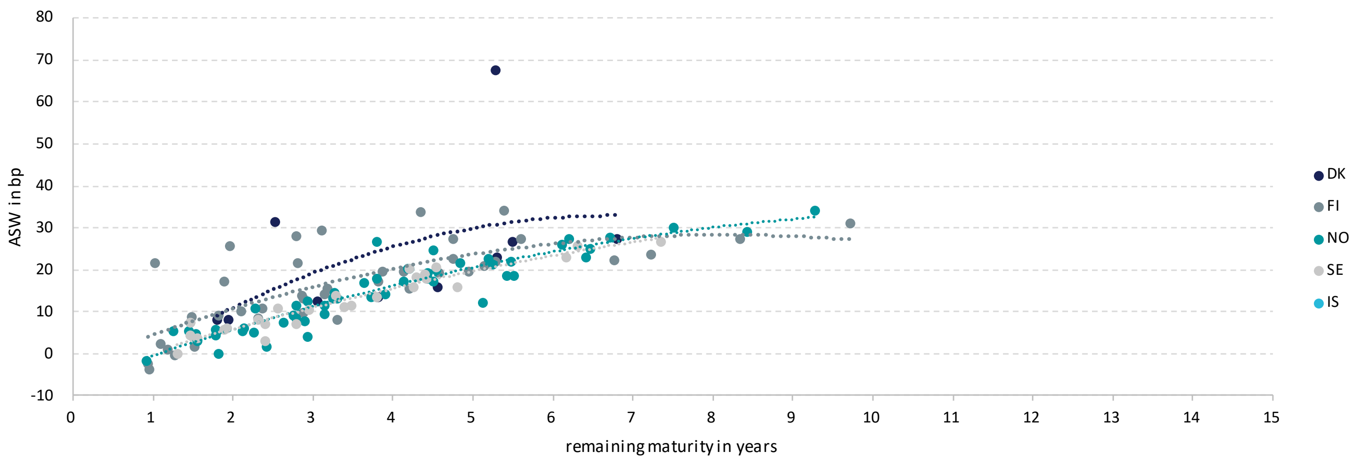


Benelux

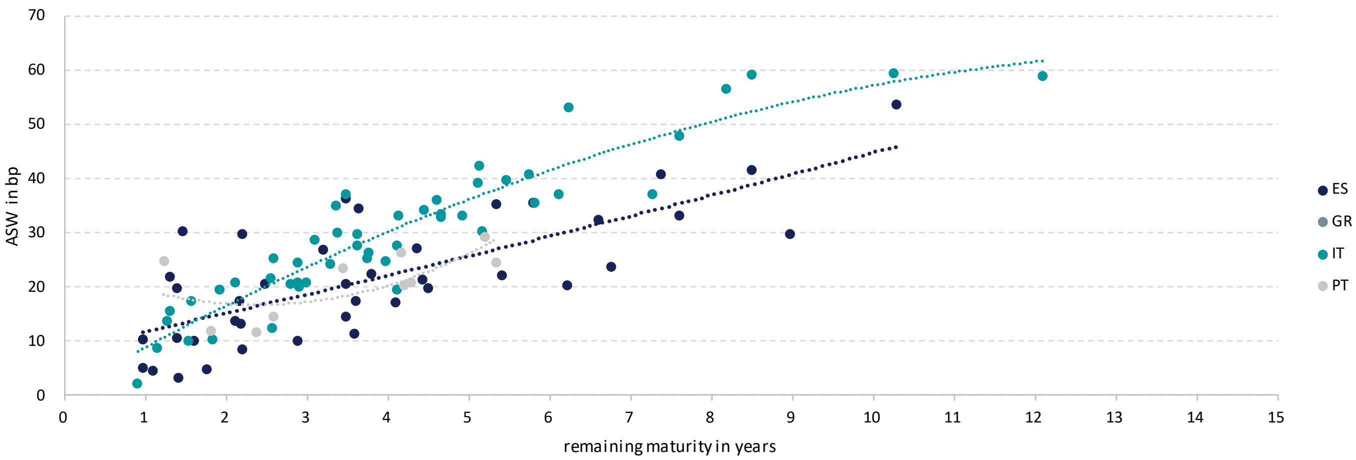


Source: Market data, Bloomberg, NORD/LB Floor Research [1] Time to maturity 1 ≤ y ≤ 15

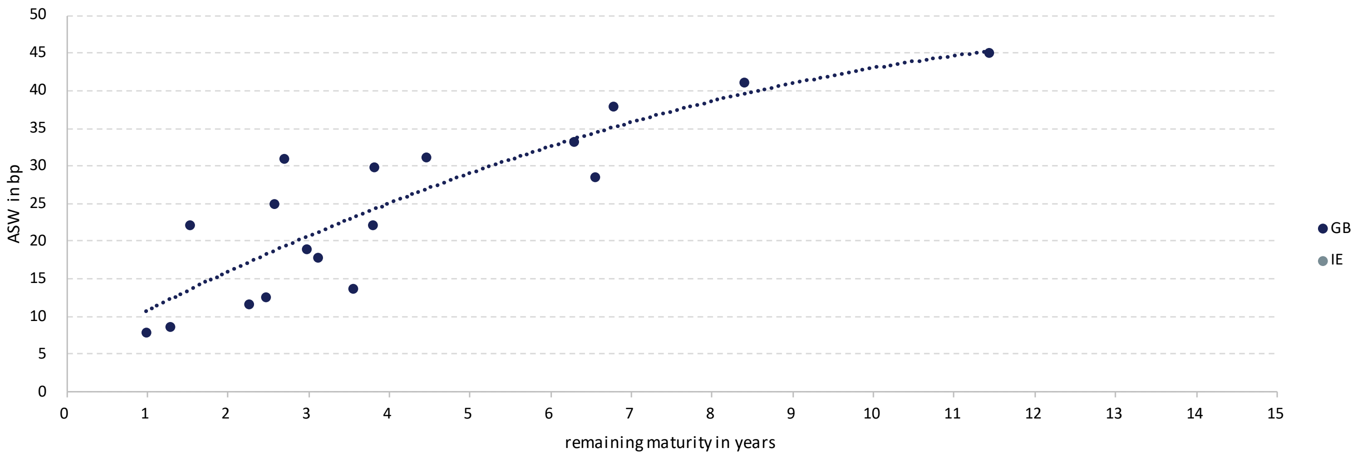
Nordics



Southern Europe

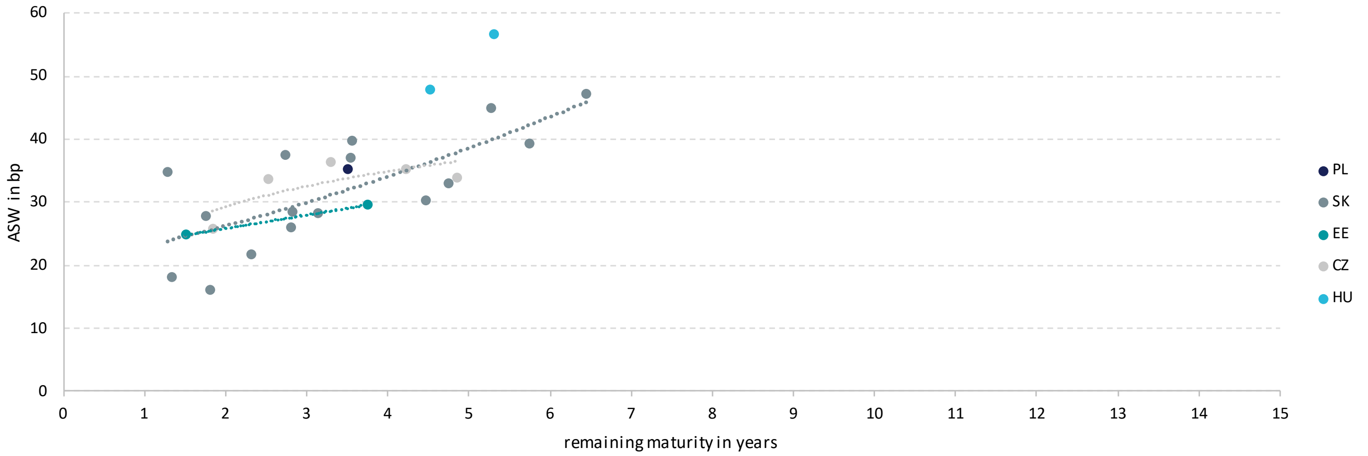


UK/IE

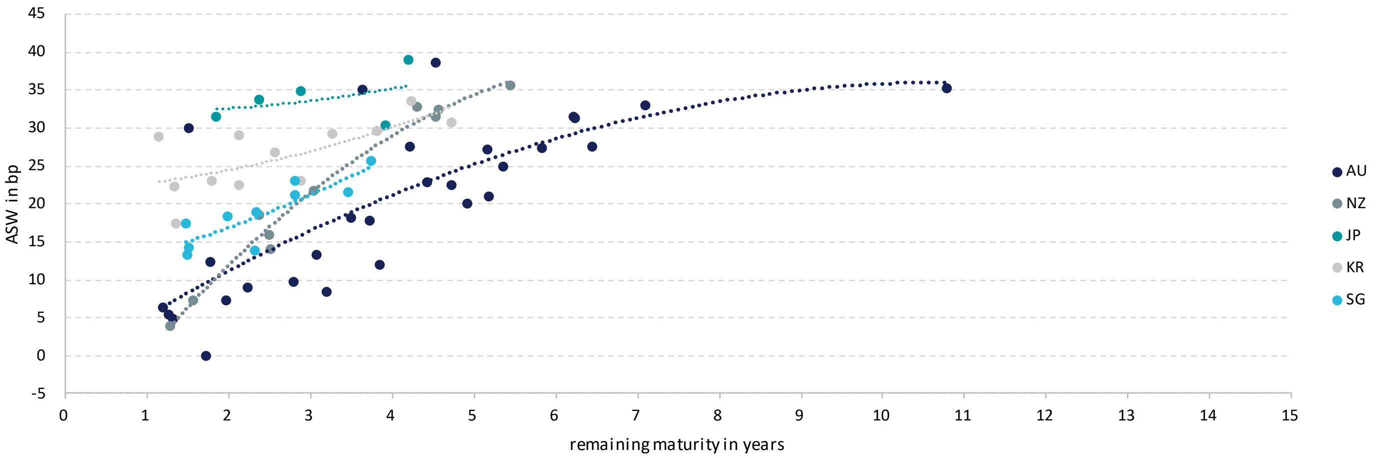


Source: Market data, Bloomberg, NORD/LB Floor Research

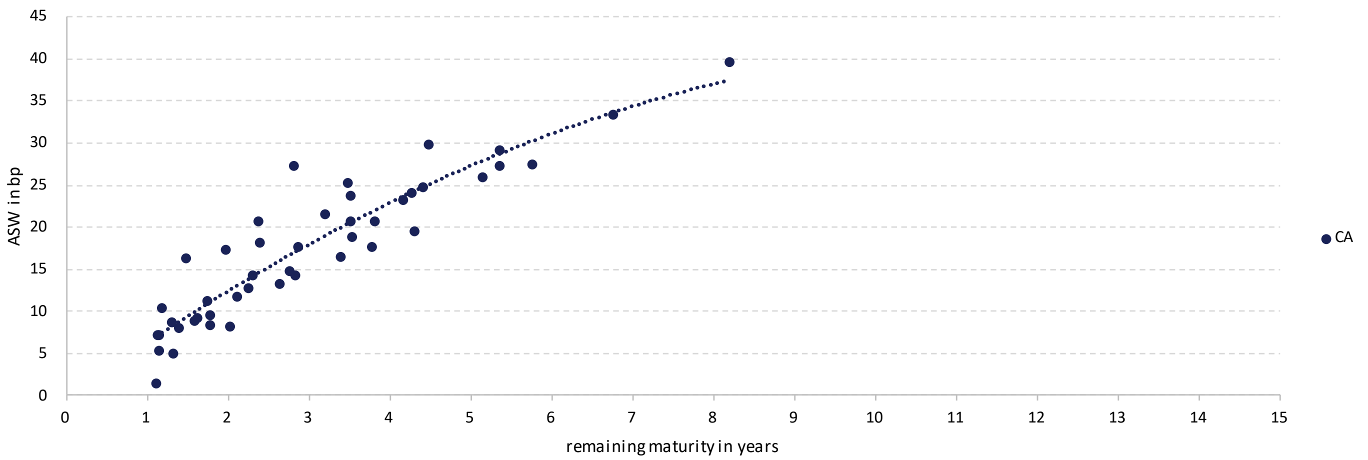
CEE



APAC



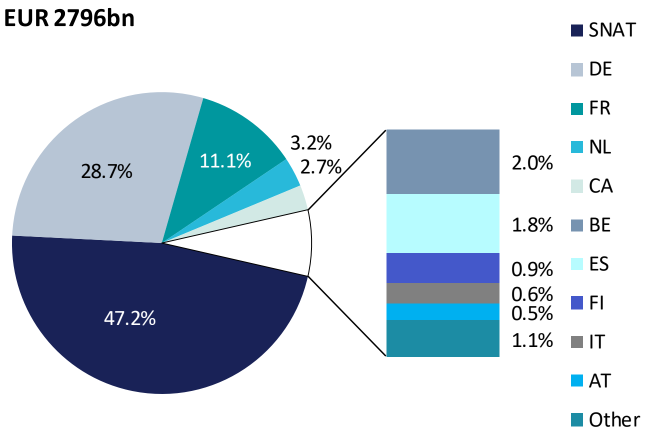
North America



Source: Market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

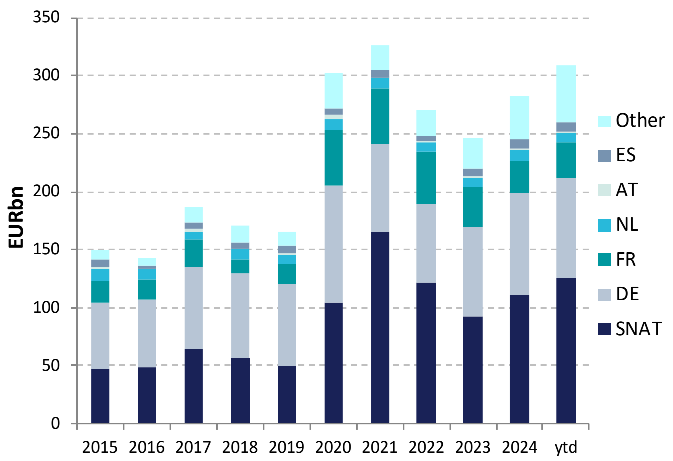
Outstanding volume (bmk)



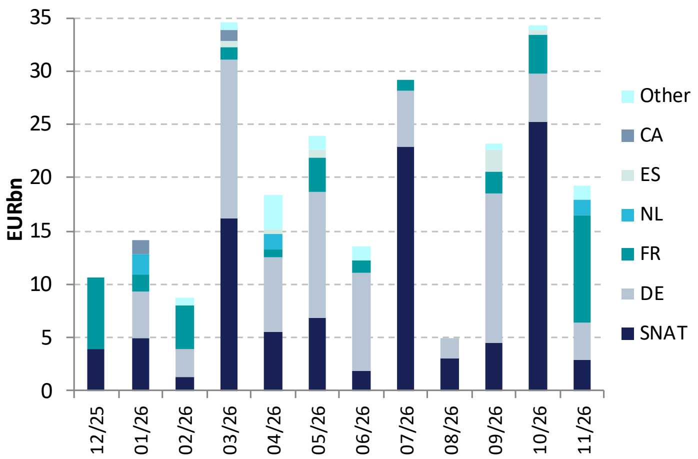
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,320.7	263	5.0	7.6
DE	801.8	610	1.3	5.7
FR	311.7	205	1.5	5.2
NL	88.2	69	1.3	5.9
CA	75.0	67	1.1	6.1
BE	57.0	52	1.1	9.4
ES	51.4	75	0.7	4.7
FI	26.2	27	1.0	3.9
IT	17.3	22	0.8	4.1
AT	14.5	21	0.7	5.2

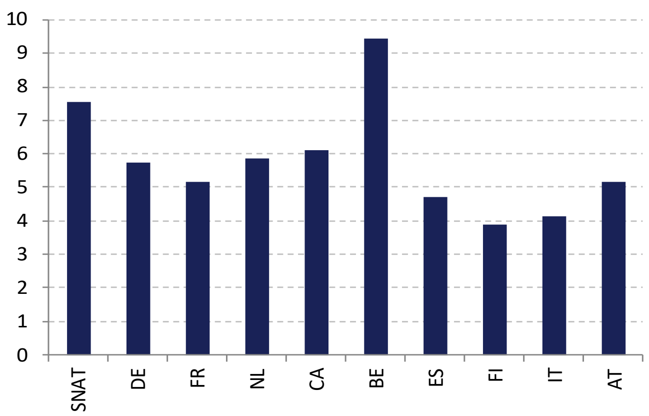
Issue volume by year (bmk)



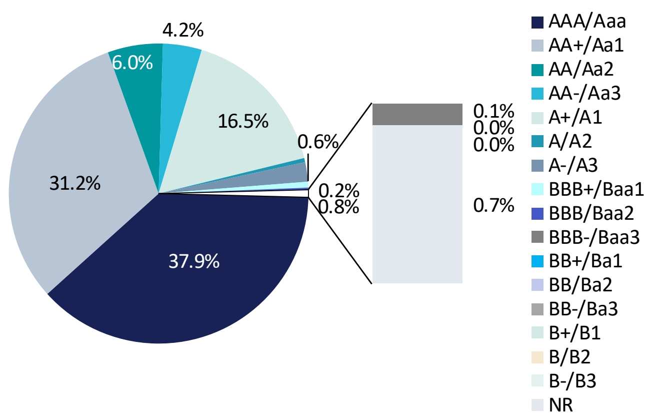
Maturities next 12 months (bmk)



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

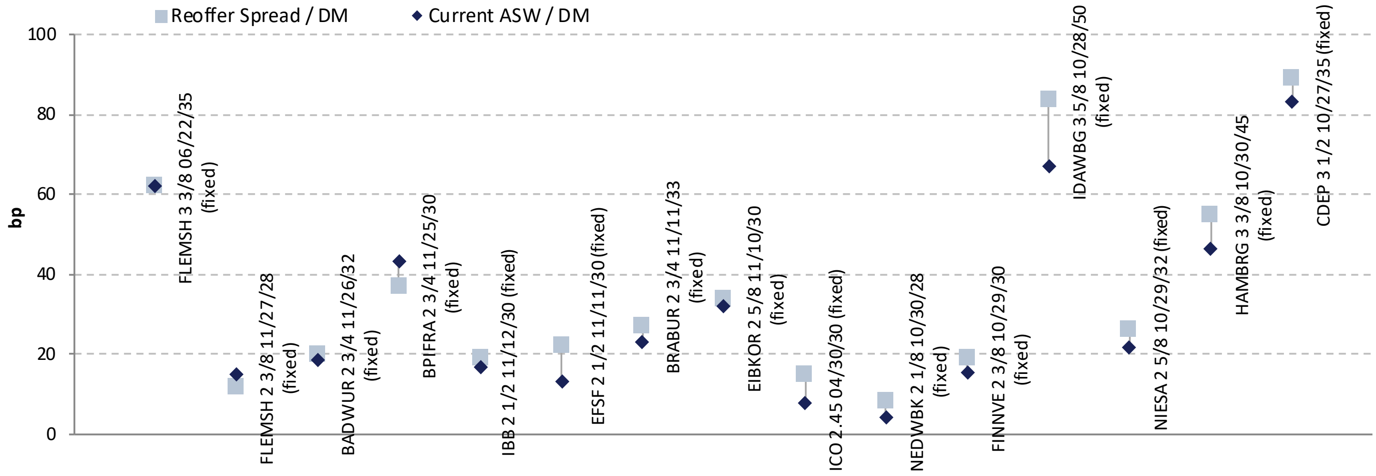


Rating distribution (vol. weighted)

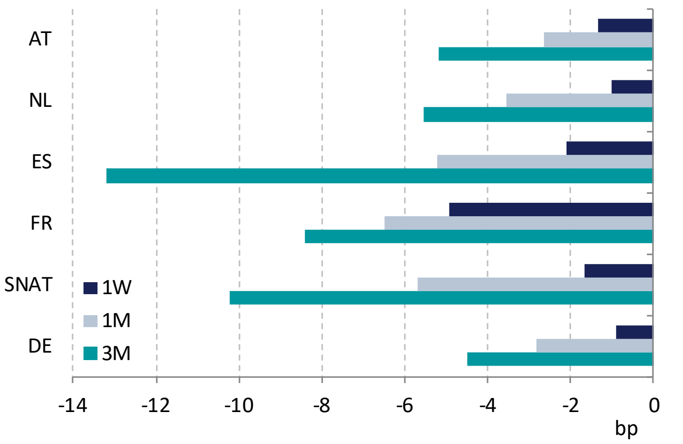


Source: Bloomberg, NORD/LB Floor Research

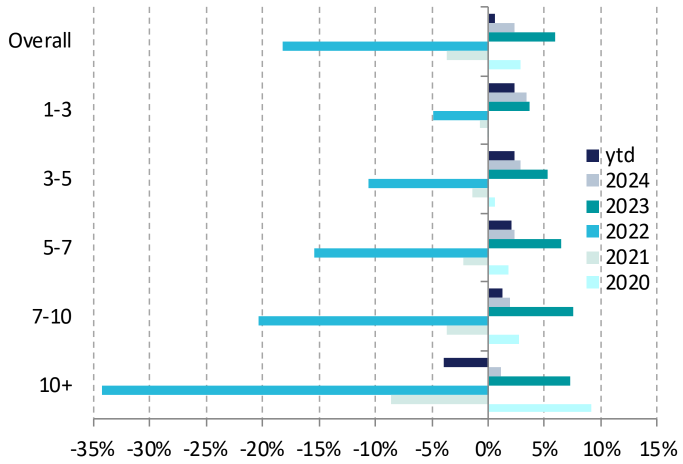
Spread development (last 15 issues)



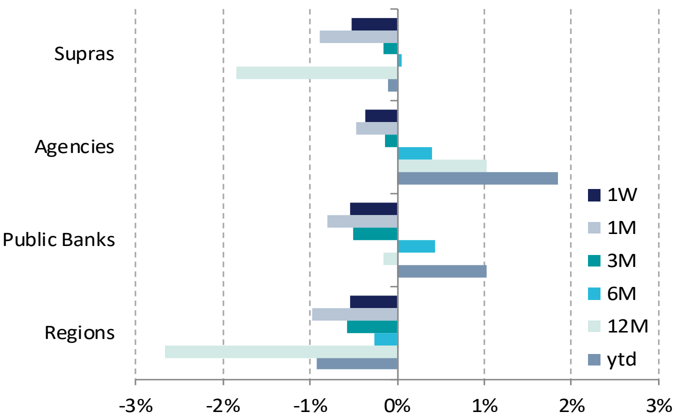
Spread development by country



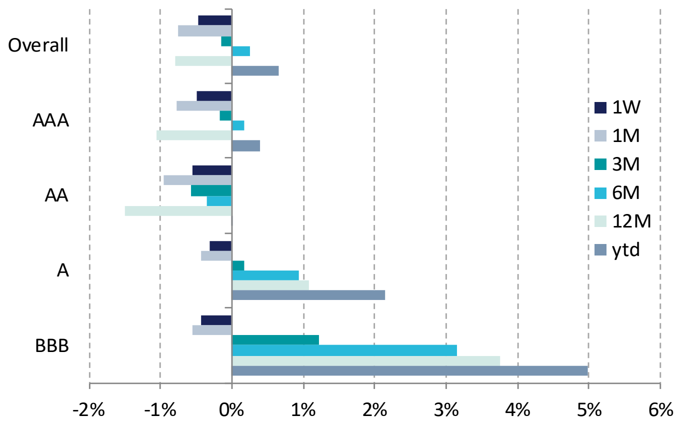
Performance (total return)



Performance (total return) by segments

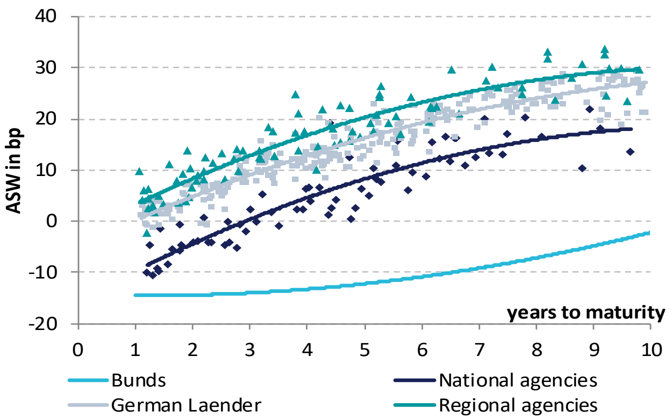


Performance (total return) by rating

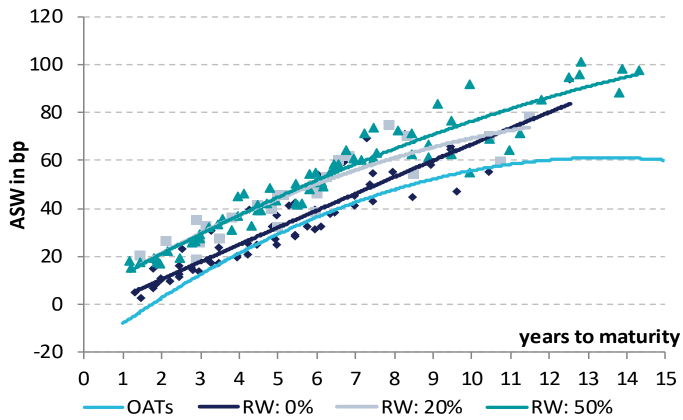


Source: Bloomberg, NORD/LB Floor Research

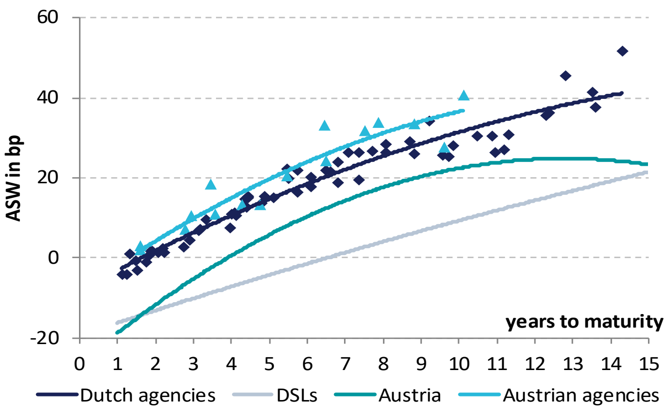
Germany (by segments)



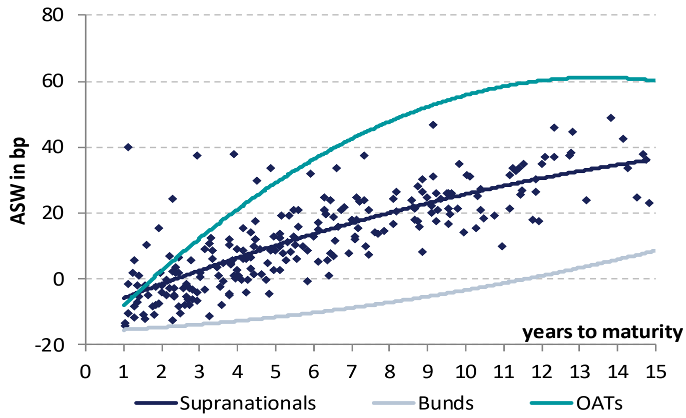
France (by risk weight)



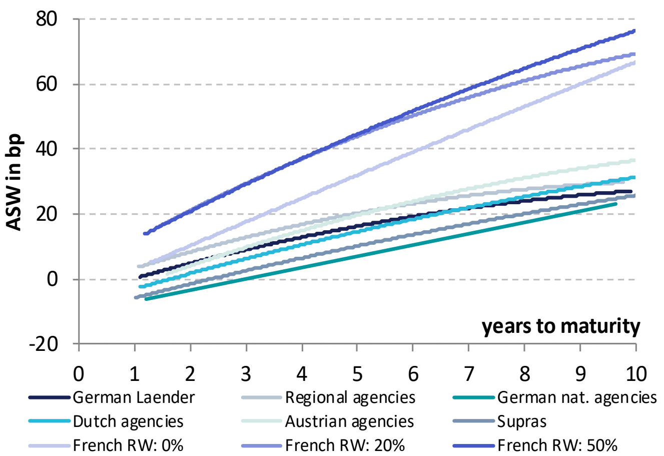
Netherlands & Austria



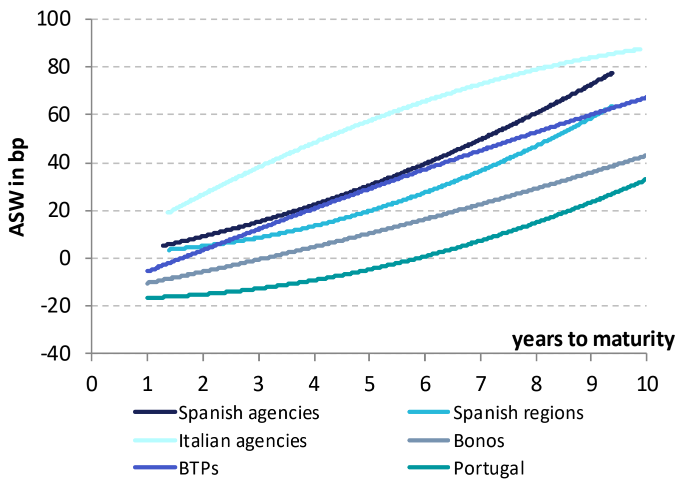
Supranationals



Core



Periphery

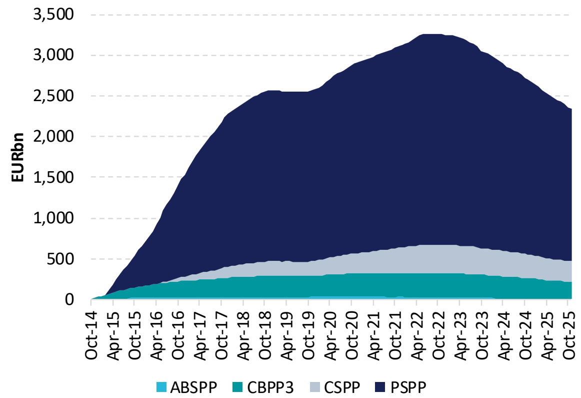


Source: Bloomberg, NORD/LB Floor Research

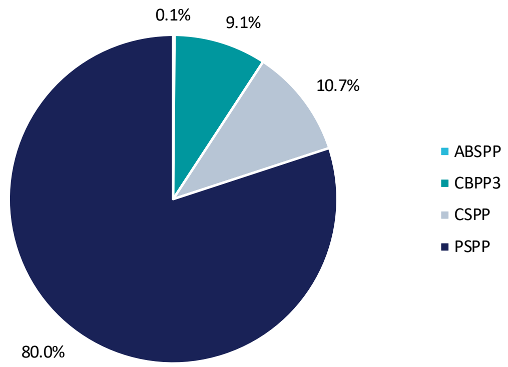
Charts & Figures
ECB tracker

Asset Purchase Programme (APP)

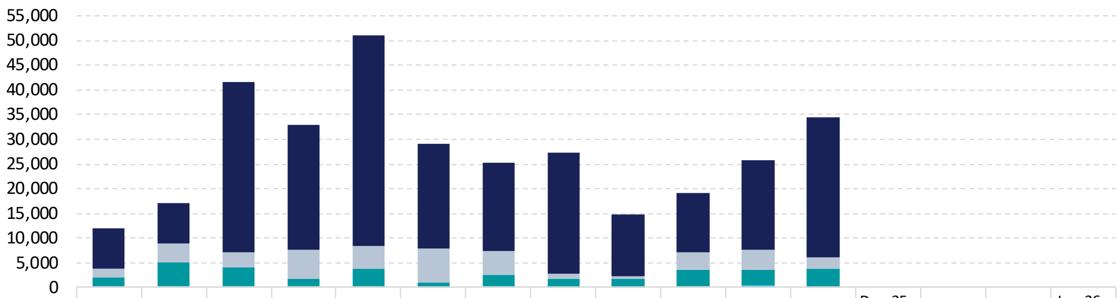
APP: Portfolio development



APP: Portfolio structure

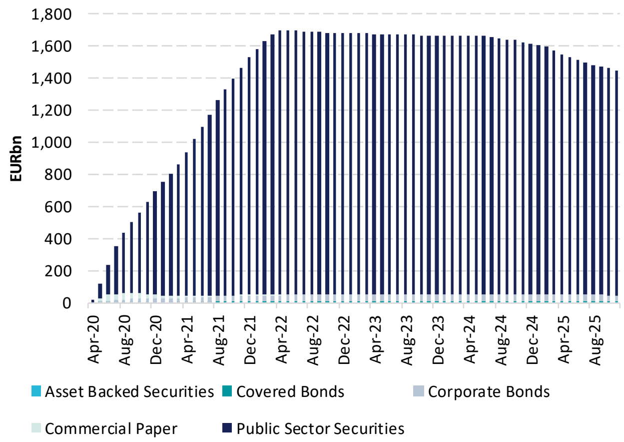


Expected monthly redemptions (in EURm)

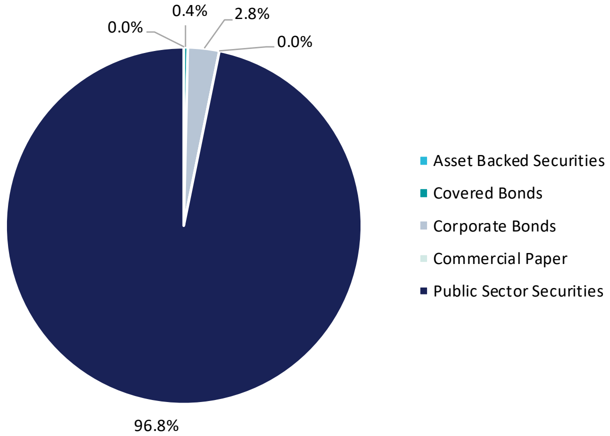


	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-25 - Nov-26	2024	2025	Jan-26 - Nov-26
APP	12,078	17,119	41,523	32,837	51,023	29,020	25,281	27,197	14,893	19,219	25,849	34,527	330,566	335,094	332,840	318,488
PSPP	8,274	8,318	34,465	25,111	42,657	21,135	17,964	24,306	12,570	12,097	18,215	28,397	253,509	264,479	252,566	245,235
CSPP	1,693	3,815	2,926	5,886	4,562	6,820	4,857	1,245	684	3,610	4,069	2,398	42,565	32,191	33,961	40,872
CBPP3	1,903	4,740	3,911	1,575	3,685	1,003	2,317	1,554	1,566	3,281	3,123	3,692	32,350	32,173	42,332	30,447
ABSPP	208	246	221	265	119	62	143	92	73	231	442	40	2,142	6,251	3,981	1,934

PEPP: Portfolio development



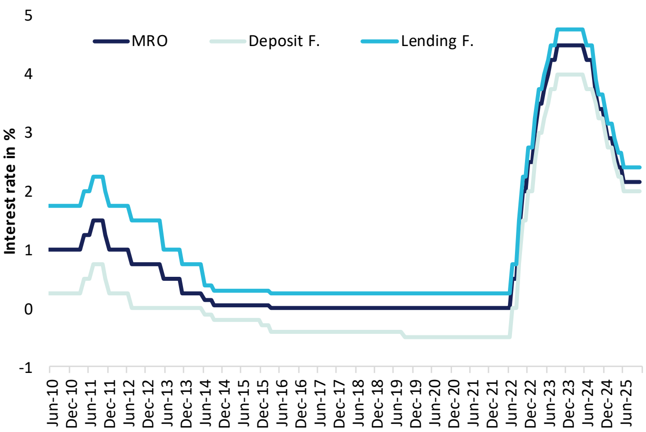
PEPP: Portfolio structure



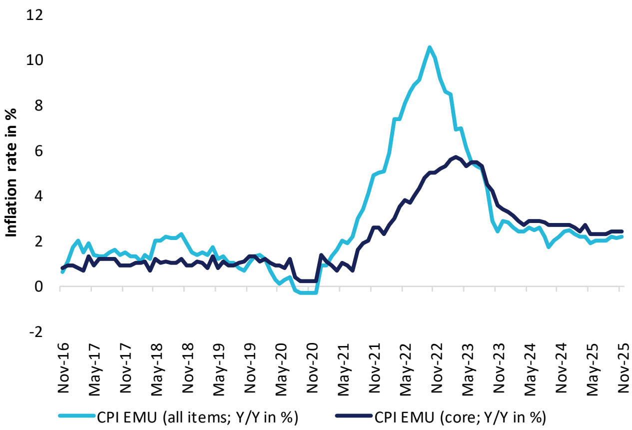
Source: ECB, NORD/LB Floor Research

Charts & Figures
Cross Asset

ECB key interest rates

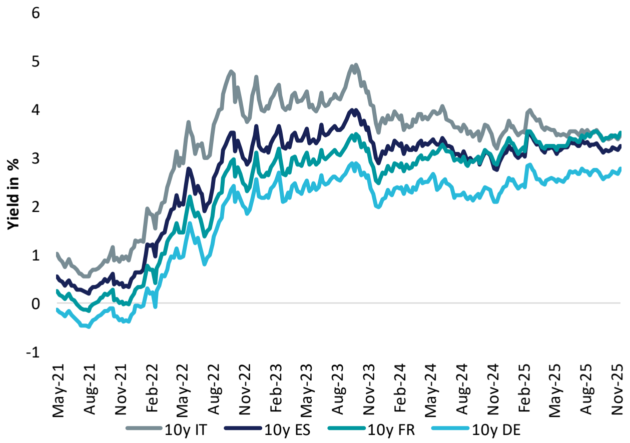


Inflation development in the euro area

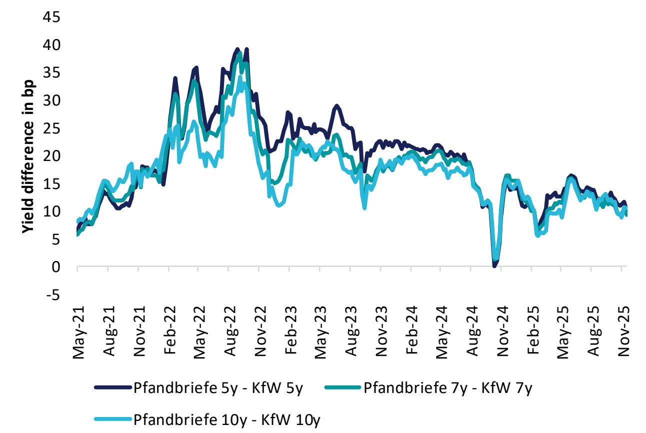


Bund-swap-spread

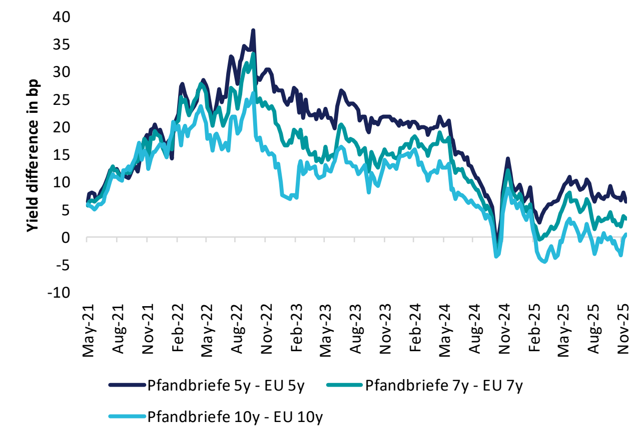
Selected yield developments (sovereigns)



Pfandbriefe vs. KfW



Pfandbriefe vs. EU



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
41/2025 ♦ 03 December	▪ The bigger picture – ECB and four daring suppositions ▪ Our view of the covered bond market heading into 2026 ▪ SSA outlook 2026: More debt, less scope?
40/2025 ♦ 26 November	▪ Cross Asset // Call for evidence: EU Taxonomy under review
39/2025 ♦ 19 November	▪ A covered bond view of the Nordics ▪ Teaser: Issuer Guide – French Agencies 2025
38/2025 ♦ 12 November	▪ Covereds: Development of the German property market (vdp index) ▪ Funding strategies of Canadian provinces – an overview
37/2025 ♦ 05 November	▪ Covereds: Savings banks as primary market issuers ▪ Auvergne-Rhône-Alpes Region – spotlight on REGRHO
36/2025 ♦ 29 October	▪ Covereds: A look at the EUR sub-benchmark segment ▪ SSA: Canadian pension funds in the spotlight
35/2025 ♦ 22 October	▪ ESG benchmark segment at a crossroads? ▪ Teaser: Issuer Guide – European Supranationals 2025
34/2025 ♦ 15 October	▪ Greece: covered bond jurisdiction on the rise? ▪ Agencies and resolution instruments of the BRRD
33/2025 ♦ 08 October	▪ Solvency II and covered bonds ▪ NGEU: Green Bond Dashboard
32/2025 ♦ 01 October	▪ Teaser: EBA report on the review of the EU covered bond framework ▪ Update on German municipality bonds: DEUSTD and NRWGK
31/2025 ♦ 24 September	▪ The rating approach of Morningstar DBRS ▪ Teaser: Beyond Bundeslaender – Greater Paris (IDF/VDP)
30/2025 ♦ 03 September	▪ A look at the German banking market ▪ ECB repo collateral rules and their implications for Supras & Agencies
29/2025 ♦ 27 August	▪ The rating approach of Standard & Poor's ▪ Pension avalanche and municipal debt: Laender under pressure
28/2025 ♦ 20 August	▪ Transparency requirements §28 PfandBG Q2/2025 ▪ Teaser: Issuer Guide – Spanish Agencies 2025
27/2025 ♦ 13 August	▪ Covereds – Relative value analysis: a stocktake of the situation ▪ SSA review: EUR-ESG benchmarks in H1/2025
26/2025 ♦ 06 August	▪ Repayment structures on the covered bond market: an update ▪ Teaser: Issuer Guide – German Agencies 2025
25/2025 ♦ 09 July	▪ The covered bond universe of Moody's: an overview ▪ Spotlight on the EU as a mega issuer
24/2025 ♦ 02 July	▪ Covereds: Half-year review and outlook for second half of 2025 ▪ SSA half-year review 2025 and outlook
23/2025 ♦ 25 June	▪ The ratings approach of Scope ▪ Classification of Supranationals and Agencies under Solvency II

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Appendix
Publication overview

Covered Bonds:

- Issuer Guide – Covered Bonds 2025
- Risk weights and LCR levels of covered bonds (updated semi-annually)
- Transparency requirements §28 PfandBG Q3/2025 (quarterly update)
- Transparency requirements §28 PfandBG Q3/2025 Sparkassen (quarterly update)
- Covered bonds as eligible collateral for central banks
- EBA report on the review of the EU covered bond framework

SSA/Public Issuers:

- Issuer Guide – German Laender 2025
- Issuer Guide – Canadian Provinces & Territories 2024
- Issuer Guide – Down Under 2024
- Issuer Guide – European Supranationals 2025
- Issuer Guide – Non-European Supranationals (MDBs) 2025
- Issuer Guide – German Agencies 2025
- Issuer Guide – French Agencies 2025
- Issuer Guide – Nordic Agencies 2025
- Issuer Guide – Dutch Agencies 2025
- Issuer Guide – Austrian Agencies 2025
- Beyond Bundeslaender: Belgium
- Beyond Bundeslaender: Greater Paris (IDF/VDP)
- Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

- ESG-Update 2025
- ECB Council meeting: The silence of autumn

Appendix
Contacts at NORD/LB

Floor Research

Dr Norman Rudschuck, CIIA
Head of Desk

+49 152 090 24094
norman.rudschuck@nordlb.de

Lukas Kühne
Covered Bonds/Banks

+49 176 152 90932
lukas.kuehne@nordlb.de

Lukas-Finn Frese
SSA/Public Issuers

+49 176 152 89759
lukas-finn.frese@nordlb.de

Alexander Grenner
Covered Bonds/Banks

+49 157 851 65070
alexander.grenner@nordlb.de

Tobias Cordes, CIIA
SSA/Public Issuers

+49 162 760 6673
tobias.cordes@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 361-9460
Fixed Income Relationship Management Europe	+352 452211-515
Retail & Structured Products	+49 511 361-9420

Trading

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Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

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

Sales Wholesale Customers

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Asset Finance	+49 511 361-8150

Treasury

Liquidity Management/Repos	+49 511 9818-9620 +49 511 9818-9650

Relationship Management

Institutionelle Kunden	rm-vs@nordlb.de
Öffentliche Kunden	rm-oek@nordlb.de

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Time of going to press: 10 December 2025 (08:50)

Distribution: 10.12.2025 15:40:44