1.7 COVERED BOND INVESTORS – SOLID DEMAND DESPITE (OR BECAUSE OF) A VOLATILE GEOPOLITICAL AND RATES BACKDROP

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INTRODUCTION

Despite announcing stable or even lower funding plans for 2026, covered bond supply has been running well ahead of 2025 levels, thus most likely producing a fifth year running with net positive supply. Still, the asset class has weathered volatile geopolitics and broader rates markets volatility and interest in the asset class has remained high from a broad range of investors. While many of the 2023 and 2024 newcomers from credit space have been monitoring rather than buying in size this year, it has been central bank / official institutions out to 5Y as well as insurance / pension fund buyers at the long end who have become more active than in 2025 and these themes have carried over into 2026.

While analysing the evolution of primary market distribution statistics is crucial to get an idea about high level shifts in demand, they only tell some of the story. Hence, as in recent years, we have decided to run a broader investor survey that allows us to go into more detail and to give you as complete a picture of the covered bond buyer base and their preferences as possible. After all, covered bond investors are looking at wide spreads vs swaps on the one hand but at the same time, they are faced with more public sector supply. And while discussions around de-dollarisation or a shift away from US Treasuries have proven supportive for EUR as well as USD covered bonds (we have even seen USD covered bond supply from Austria for the first time), higher Bund supply and possible tighter Bund-ASW spreads would prove damaging to at least covered bond spreads vs swaps. In other words, we're living through volatile times and are looking at a number of potential structural breaks. And as covered bonds have proven over the years, they are a really good place to hide, sit and wait.

OVERVIEW OF COVERED BOND INVESTOR BASE

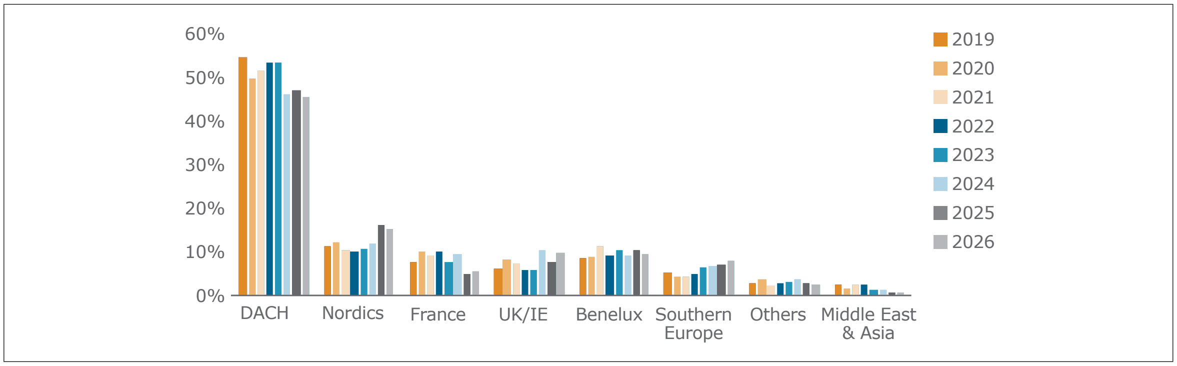
While looking at the high-level data of the investor base for covered bonds in EUR benchmark format the general characteristics of the primary market demand side have been rather stable lately. In this article, we refer to the allocations of deals reported for primary market transactions. We are focussing on the EUR benchmark segment as the largest submarket in the covered bond universe. In terms of allocation by region, it is obvious that the major share of the newly placed benchmarks goes to accounts in the DACH region (mainly Germany). However, the level of the allocations in the direction of the DACH region did drop a bit compared to the previous year. In 2026 so far, 45.4% of deal volumes have been allocated to the DACH Region (2025: 47,0%). Furthermore, the Nordics maintained the above average share with 15,5% (after 16,1% in 2024) For UK & Ireland, France as well as Southern Europe upward movements can be observed compared to 2025. Here, the share of investors from UK & Ireland did rise by 2.5% percentage points and ranks now on third place. This move can be inter alia explained by stronger buying activity from bank treasuries in Ireland as well as selective buying from Official Institutions & Central Banks.

Regarding the distribution of the allocation volume by investor type the "Central Banks & Official Institutions" category did hold rather steady, whereas "Banks" did maintain the largest share so far this year with 44.6% This means also that bank treasuries are still the most dominant investor group in the covered bond EUR benchmark segment. The category "Asset Managers & Funds" comes in a bit weaker in the year to date view (-1.6 percentage points compared to full year 2025), whereas "Insurance & Pension Funds" saw a rise from 5,7% to 7.1%.

The investor category "Banks" had the largest shares in all tenor buckets but are less dominant in the very short end and for the longer deals. Of course, , given the small number of primary market transactions in these buckets, conclusions that can be drawn from the data are less robust than they are in the 3-10Y part of the curve. In the "1Y-3Y" we counted one deal so far in the EUR benchmark segment and in the bucket ">10Y" we are looking back to four deals. The Asset Manager category has a comparably high share when it comes to the deals in the "3Y-5Y" bucket, whereas a share of 20.7% in the ">10Y" bucket clearly signals the investment preferences of the category "Insurances & Pension Funds".

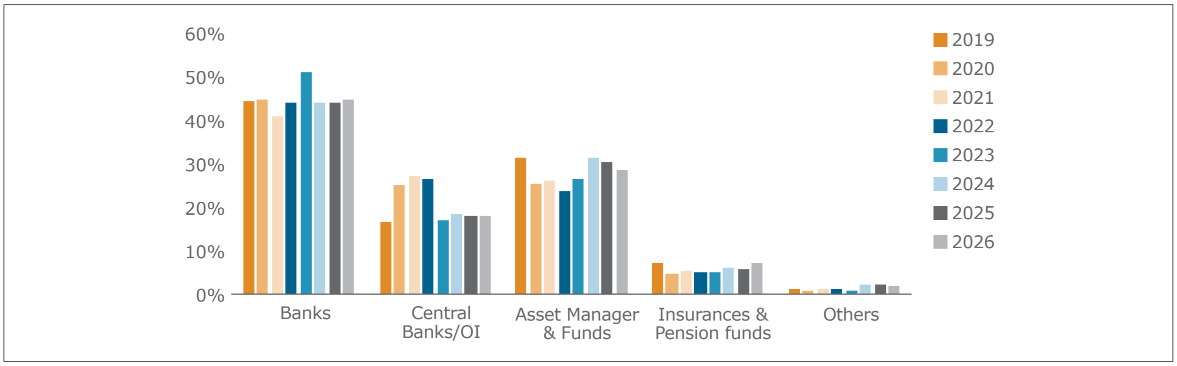
To sum up, across the analytical dimensions addressed, there have been no discernible changes compared to earlier years.

> Figure 1: Investors from DACH region still dominate



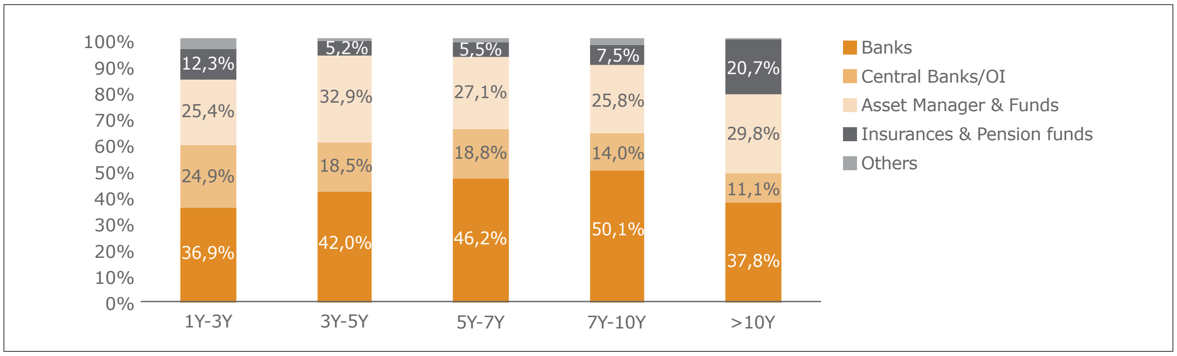
Source: Nord/LB

> Figure 2: Banks still with largest investor share



Source: Nord/LB

> Figure 3: Investor distribution by initial maturity bucket (2026 YTD)



Source: Nord/LB

INVESTOR SURVEY

To get systematic feedback on a number of topics, we conducted an online investor survey during the month of May. We received responses from 34 covered bond investors covering a broad range of investor types and regions. The questions focussed on (1) investors' level of activity and how they assess relative value in covered bond markets, (2) their main concerns, (3) third country equivalence and (4) what role ESG plays in their day to day covered bond investments.

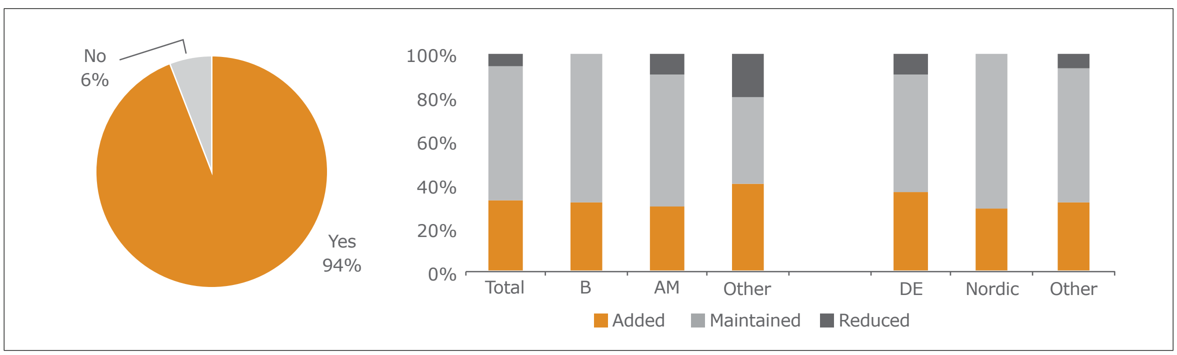
Activity levels

Investors have been increasing their exposure to covered bonds since 2022, first bank treasuries and just as they began to slow down into H2 2023 and again in 2024, we saw asset management buying pick up. In 2025 and the first half of 2026, it has been central banks and official institutions that have been stepping up to the plate, some diversifying their currency reserves around the edges away from USD and US Treasuries and seeking high quality, AAA alternatives.

2026 most likely being the fifth year with net positive supply and valuations vs EGBs and SSAs fairly tight in some sectors, it is no wonder that investors are no longer adding in huge quantities. In our survey in 2024, almost 80% of the investors we surveyed still stated they were building up exposure. This number dropped to 65% in last year's edition and in this year's survey, we are talking about around one third stating they still built up exposures in H1 2026.

More importantly, though, 94% of those we surveyed stated that during the geopolitical and also market turmoil in H1 2026, covered bonds did live up to their safe haven status with little differentiation in responses across investor types or geographic location. And this ties in nicely with our findings that only around 5% of investors answered that they had reduced exposure to the asset class. In other words, the vast majority of those we surveyed is perfectly happy with the asset class and is going nowhere.

> Figure 4 & 5: Have covered bonds lived up to their safe haven status during the turmoil of H1 2026 and have you added, reduced or maintained your exposures to covered bonds in H1?

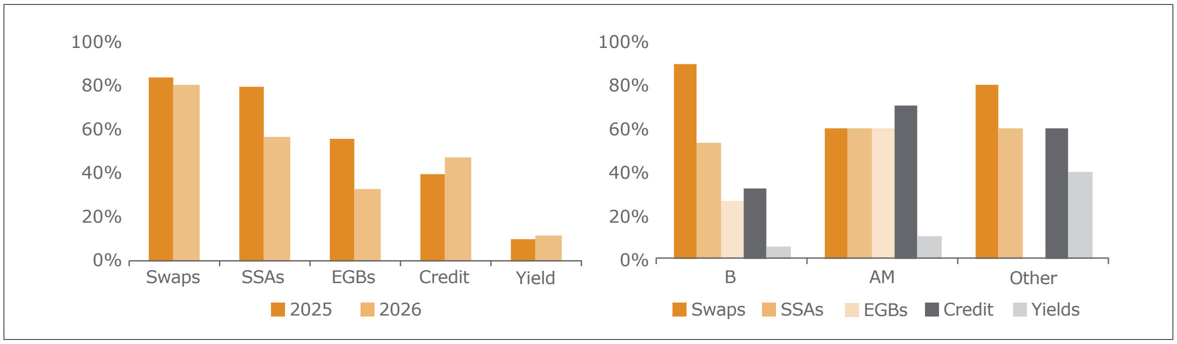


Source: Citigroup Global Markets Europe AG

Last but not least, with so many different investors active in covered bond markets these days, we wanted to get a feel for the most relevant benchmarks or ways to assess relative value. The most common angle still is valuations against swaps as well as SSAs, the classic approach taken by bank treasuries. Amongst asset managers, valuations against EGBs and credit are relevant too, and especially for aggregate portfolio managers, this angle does make sense. While outright yields are relevant for insurance and some bank treasury buyers, the answer did not have any relevance in our survey.

Compared to last year's survey results we did have a few shifts, though. Looking at covered bonds vs swaps has remained virtually unchanged. However, as spread levels vs SSAs have become very tight, especially in long-end core sectors, it almost seems that some investors have rather shifted their angle to assess valuations rather than make the switch to SSAs in size. Equally, as for example French covered bonds have moved well inside their own sovereign, the angle to assess covered bonds vs EGBs has lost some relevance vs 2025. The one angle that has gained some relevance is valuations against credit. We are not talking about a big jump but rather a marginal increase. However, this ties in with our experience that while many credit investors are still hesitating to move into covered bonds in bigger size, many are monitoring the RV between both asset classes.

> Figure 6 &7: How do you currently assess relative value of covered bonds (multiple answers possible)?



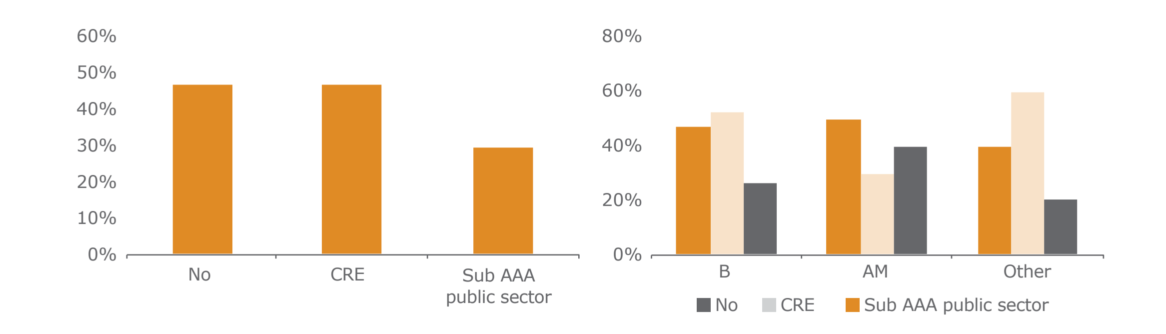
Source: Citigroup Global Markets Europe AG

Concerns

Looking at the world today, there are plenty of potential concerns that even investors in a high quality asset class such as covered bonds cannot fully ignore. The responses in our survey actually highlight both the volatile world as well as the stability of the covered bond asset class. In last year's survey we highlighted that issuer quality is not a concern for the vast majority of investors and that it is more about covered bonds potentially getting crowded out by public sector supply spiking on the back of additional infrastructure and military expenditures in the coming years.

Investors really only need to rely on the cover pool once the issuer is out of the picture. However, of course, investors do analyse and place value on the underlying collateral. Over the years, the main concern has often been commercial real estate (CRE) assets and specialised CRE lenders have had to pay up for their covered bond issuances as a result. This has not changed in this year's survey. While around half of the investors we surveyed have no major concerns around pool quality in covered bond markets, virtually all of those who said they do mentioned CRE assets. Given developments in countries such as France as well as a number of big elections looming in 2027, around one third of the investors in our survey also voiced concerns around public sector assets from sub-AAA rated countries. We are clearly not talking about a majority and in a market such as the German one, spread differentials between residential mortgage and public sector backed Pfandbriefe are virtually non-existent (and if so more down to relative levels of liquidity). In the one country that features sizeable public sector as well as mortgage backed covered bonds – France – there is a small spread differential between the classic French public sector backed programmes and the home loan ones.

> FIGURE 8: DO YOU CURRENTLY HAVE ANY CONCERNS AROUND COVER POOL QUALITY?



Source: Citigroup Global Markets Europe AG

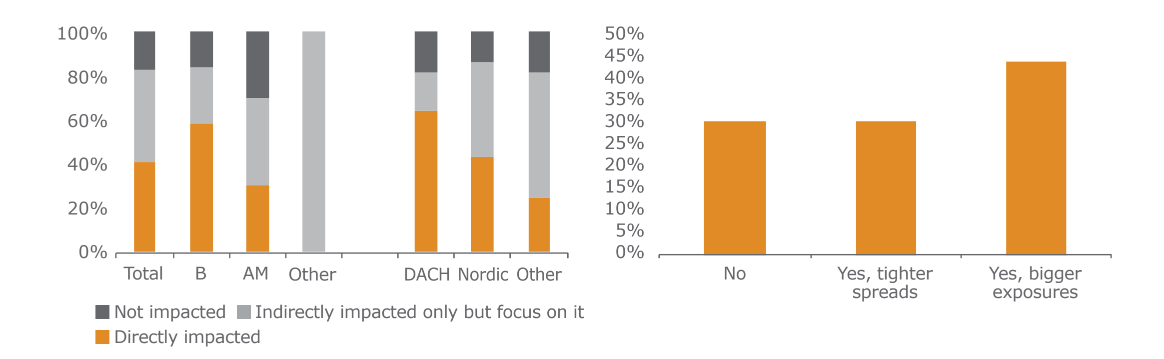
Third country covered bond equivalence

With the Covered Bond Directive (CBD) implementation a few years behind us, the focus on the regulatory side has clearly been on third country covered bond equivalence, not only since the shock announcements and then pausing of proposed rules by the UK PRA a few years ago.

Regulatory treatment simply matters a great deal to covered bond investors with less than 20% of investors in our survey stating they do not care too much for it. Bank treasuries are of course most directly impacted but even one third of the asset managers we surveyed state it directly impacts them (most likely we are talking about externally managed LCR funds here). For many investors not directly impacted by it, regulatory treatment still plays an indirect role in their investment decisions. This is especially true when assessing the liquidity and market depth when it comes to selling positions.

Hence, third country equivalence does matter. With timing uncertain it is not yet playing a major role in today's market. However, similar to the survey responses of the last two years, this year's edition shows that third country covered bonds getting better regulatory treatment would change the way investors look at them, especially bank treasuries. If banks can work with lower risk weights or LCR haircuts, the costs of carrying a position drops and so does the required spread. Throughout the first half of 2026, we did reached fairly tight spread levels between Canadian or Australian and core European covered bonds. Hence, only around one third of the investors we surveyed said they would accept even tighter spreads between third country and EEA based ones. However, almost half said they would be able to increase exposures (again) and this matches with our own personal experience having spoken to many banks in recent months who had to slow down buying third country covered bonds because of punitively high risk weights under the internal ratings based approach.

> FIGURE 9&10: DOES BANKING REGULATION IMPACT THE WAY YOU LOOK AT THIRD COUNTRY COVERED BONDS VS EUROPEAN ONES AND WOULD THIRD COUNTRY COVERED BOND EQUIVALENCE IMPACT YOUR INVESTMENT CHOICES?



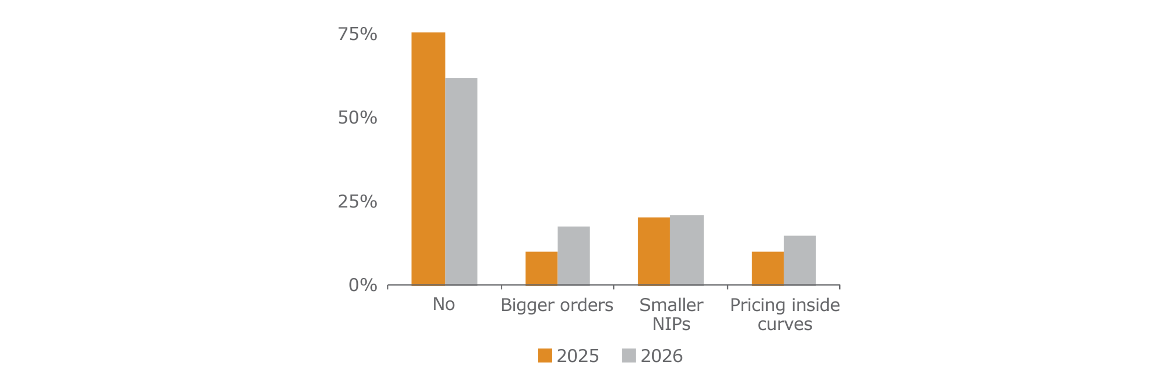
Source: Citigroup Global Markets Europe AG

ESG

While the outstanding amounts of green, social or sustainable covered bonds has been growing in recent years, it still only represents a small share in overall volumes. Often, the availability of data on the ESG credentials of balance sheet assets has been a constraining factor. With spread differentials between ESG and conventional covered bonds negligible, banks have also often chosen to use these assets for senior preferred, non-preferred or even tier 2 issuance rather than covered bonds.

Looking at the results from our investor survey, this is unlikely to change in a meaningful way. Looking at data from primary markets, ESG covered bonds have tended to have stronger order books and slightly smaller new issue premiums. However, they have often failed to trade at materially tighter spreads vs conventional ones. The survey results reflect this as well. Two third of the investors we surveyed do not make any difference between ESG and conventional covered bonds when it comes to assessing relative value, or order sizing. A mere 15% accept smaller NIPs but less than 10% would buy in bigger size and / or accept tighter secondary market spreads. This is slightly more favourable to ESG covered bonds than in last year's survey but we are not talking about seismic shifts.

> FIGURE 11: DOES IT MAKE A DIFFERENCE FOR YOU WHETHER OR NOT COVERED BONDS ARE ISSUED AS SOCIAL / GREEN OR CONVENTIONAL?



Source: Citigroup Global Markets Europe AG

THE BOTTOM LINE

Despite many issuers working with stable if not slightly lower funding targets for the year, covered bond supply has been running well above the pace of 2025 as more front-loading as well as a growing issuer universe have supported volumes. We are effectively looking at a net positive pace for the fifth year running. While 2025 and 2026 have not seen a similar surge in the number of new investors as 2024, demand has continued to be strong for the asset class. After real money accounts stepped up their pace in 2024, it has rather been central banks / official institutions out to 5Y and insurance / pension buyers at the long end to pick up the pace with banks focussing a little more on SSA sectors for much of 2025 and 2026.

Looking at the results of our investor survey, we are talking about a smaller percentage of accounts building up net holdings in covered bond markets for the second year running. Only around one third stated they had added in H1 when the number was still closer to 80% in 2024. However, at the same time, more than 90% also stressed that covered bonds have lived up to their safe haven status during the geopolitical and rates market turmoil during the first half of 2026 and consequently, virtually no one said hey had reduced holdings in the asset class either. What has changed slightly is the way investors look at relative value. Spreads vs swaps is still the by far more relevant angle to take and this has not changed from previous years. However, with valuations of some core sectors getting increasingly tight vs SSAs, this metric has become less relevant rather than investors switching to SSAs in bigger size. Equally, with French covered bonds now well established inside the French sovereign curve at the long end, relative value vs EGBs has lost some relevance in assessing value. When it comes to cover pool concerns, they are still predominantly focussed on commercial real estate assets (half of the survey responses). However, most likely thanks to the situation in France, the number of survey responses focussed on sub-AAA rated public sector exposures has increased somewhat vs 2025 (around one third of responses). Turning to regulation, a third country equivalence regime for covered bonds would be welcomed by investors. After all, even for most investors not directly impacted by it, regulation is an important factor when looking at covered bonds. Equivalence would lead less to a reassessment of relative value from current levels but it would allow to some extent larger holdings above all amongst bank treasuries who would cherish the opportunity for further diversification of their holdings. Last but not least, outstanding ESG covered bond volumes have been growing but the segment is still relatively small as issuers often chose to use eligible assets for issuance further down the capital structure. On the investor side, similar to last years' surveys, most do not materially differ between conventional and ESG covered bonds when it comes to spread valuations. Smaller new issue premiums are accepted by some and there are accounts happy to buy in bigger size but only few are happy to buy ESG covered bonds inside conventional ones.