1.8 COVERED BONDS: A GLOBAL PERSPECTIVE

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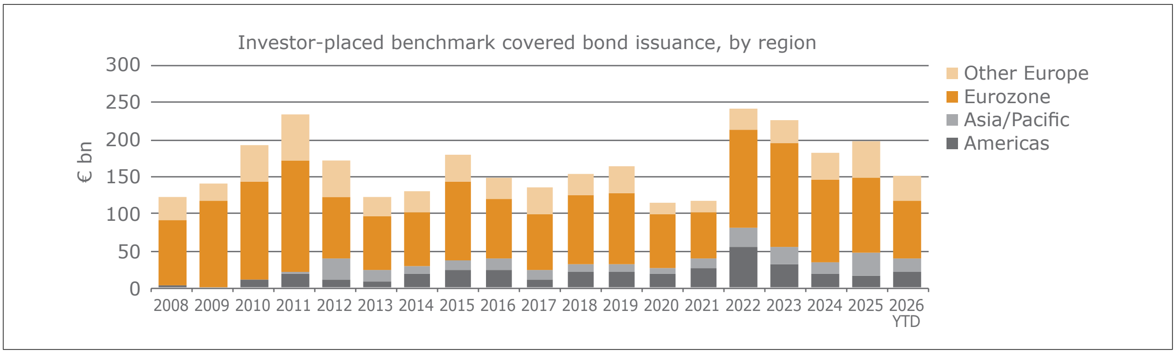
ISSUANCE STRONG DESPITE MIDDLE EAST CONFLICT

Global investor-placed benchmark covered bond issuance exceeded EUR 152 billion in the first half of 2026, up 27% from EUR 120 billion in the equivalent period in 2025, despite the outbreak of the conflict in the Middle East. While European issuance increased by 18%, issuance by non-European banks increased more than 60% to approximately EUR 39 billion.

We expect global issuance to remain robust in the rest of 2026, reaching similar levels to 2022 and 2023, unless higher inflation and interest rates significantly slow down asset origination.

> FIGURE 1: GLOBAL ISSUANCE UP 27% IN THE FIRST HALF OF 2026



Year-to-date figures are as of June 29. Source: S&P Global Ratings.

REGULATORY INITIATIVES SUPPORT ISSUANCE IN CENTRAL AND EASTER EUROPE

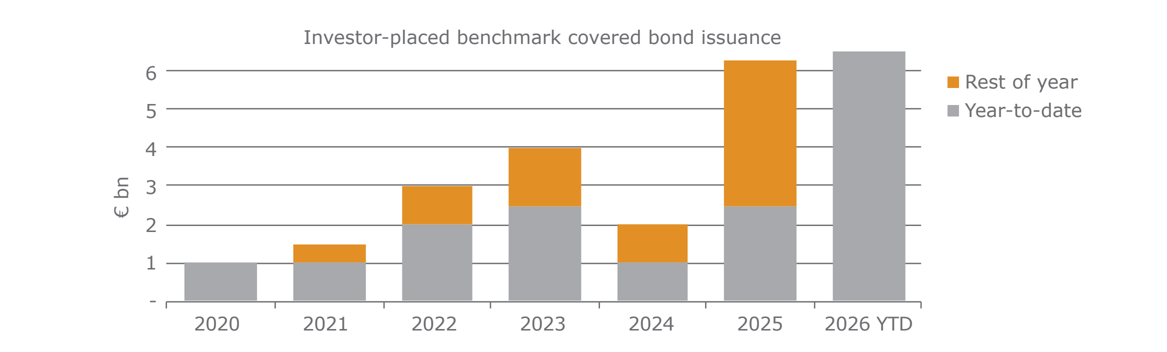
Benchmark covered bond issuance in Central and Eastern Europe (CEE) reached record levels in 2025 and remained strong in the half of 2026, driven by a notable pickup in non-eurozone markets, including the Czech Republic, Hungary, and Poland.

After years of absence, Polish and Hungarian banks returned to the market in mid-2025, issuing since then €1 billion and €2.0 billion of euro benchmark covered bonds, respectively. Over the same period, Czech banks issued EUR 3.25 billion. Repeat issuance suggests strong investor demand and issuer efforts to establish a regular presence in international markets.

Robust loan growth and regulatory measures supported issuance in the region, but bank liquidity may constrain further growth. Poland and Hungary require banks to fund a minimum share of household mortgages with long-term liabilities, including mortgage-backed bonds. In the Czech Republic, tighter regulatory focus on foreign-currency lending and funding risks has also supported euro issuance.

Over the medium term, Slovak banks remain the most active issuers in the euro benchmark segment, with EUR 13 billion issued since 2020, followed by Czech banks with approximately EUR 6 billion.

> Figure 2: Issuance in Central and Eastern Europe is well above the long-term average



Year-to-date figures are as of June 29 each year. Source: S&P Global Ratings.

The EU Covered Bond Directive – which introduced a common definition of covered bonds across Europe – has not yet led to public issuance in EU countries that previously lacked dedicated legislation, such as Croatia and Bulgaria. Despite joining the euro area in 2023 and 2026, respectively, banks in these countries have not established benchmark programs, with ample liquidity reducing the need for covered bonds.

Several countries pursuing EU accession may introduce covered bond legislation as part of regulatory alignment. However, international issuance is unlikely in the near term given the length and uncertainty of the accession process and the small size of local banking systems.

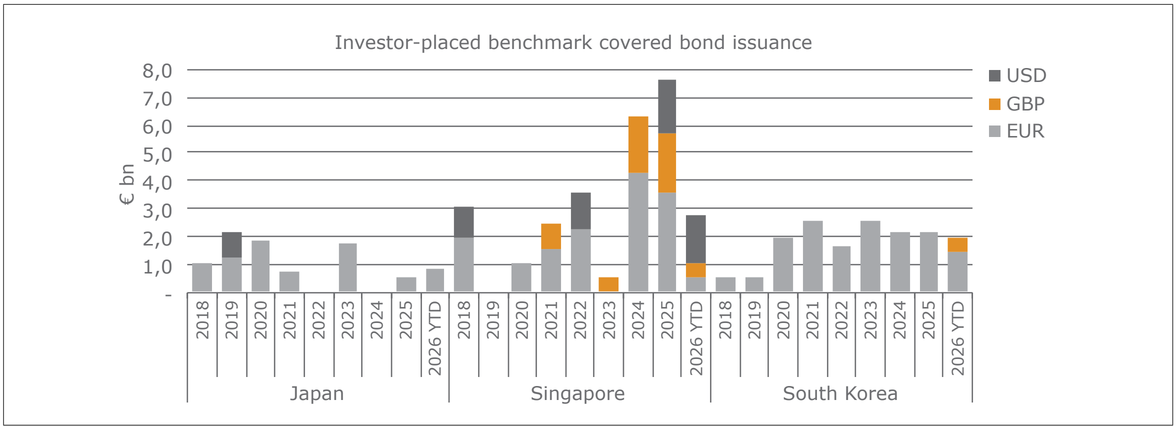
Georgia introduced a covered bond framework in 2022 but has not yet seen issuance, while Ukraine is considering a combined securitization and covered bond law.

LEGISLATIVE DEVELOPMENTS WILL DRIVE GROWTH OUTSIDE EUROPE

Korea and Singapore pioneered covered bond issuance in developed Asia. As local banks' primary funding source is customer deposits, their main motivation in establishing covered bond programs was to manage asset-liability mismatch risk and diversify their funding sources. In 2018, the first covered bond program was set up in Japan. Because there is no dedicated local covered bond legislation, the program was based on a contractual structure.

Despite abundant liquidity, Asian banks remained active in the covered bond market. This is testament to the strategic importance that covered bonds play in their funding strategies.

> Figure 3: Issuance in Asia is strong despite abundant liquidity



Year-to-date figures are as of June 29. Source: S&P Global Ratings.

We expect that the availability of customer deposits and limited loan book growth will continue to constrain issuance in developed Asia. In developed markets growth will probably come from new issuers entering existing markets, as well as legislative and regulatory initiatives. For example, in Japan, dedicated regulation or legislation could incentivize new banks to set up programs. But we see greater growth potential in developing countries, in Asian and beyond, where we expect housing finance needs to grow substantially, but legislative developments will be essential.

In 2022, almost a decade after the introduction of the draft law, Morocco approved the first dedicated covered bond framework in Africa. While covered bonds can play a significant role in supporting housing finance in the continent, the experience in Morocco shows that the legislative process can take longer than expected. Georgia also approved dedicated covered bond legislation in 2022. We understand that covered bonds will initially be used as collateral under existing funding operations with the central bank and only at a later stage will they be distributed to private investors, probably initially domestic ones. This points to the challenges that traditional covered bonds may experience as they expand outside Europe.

Covered bonds – an overwhelmingly European phenomenon for most of their more than 250-year history – have recently proved very popular in new markets such as Australia, Canada, Korea and Singapore. These developed economies aligned their models to European best-practice: local banks typically issue 'AAA'-rated covered bonds, backed by prime residential mortgage loans, and under an established legal framework. But the greatest growth potential is probably in emerging markets, where the middle-class will expand the most in the coming decades. Countries such as China, India, Mexico, and Indonesia could greatly benefit from a dual recourse instrument helping them mobilize private capital toward financing their growing economies. But as dual recourse financing expands in these markets, we can expect to see new issuers, assets, structures, and ultimately investors, challenging the established definition of what constitutes a covered bond.

While covered bonds in new markets have so far primarily targeted the traditional European investor base, Brazilian covered bonds have initially attracted domestic investors. And we have seen how Georgian banks will initially use covered bonds as collateral under the local central bank's liquidity facility, rather than placing them with international investors. More generally, we can expect that a larger share of covered bonds issued outside Europe will target domestic investors, at least initially. While covered bonds are typically issued by banks, we anticipate an increasing interest from non-bank financial institutions, such as housing finance companies, or even non-financial entities. And some of these new issuers will consider covered bonds backed by non-traditional assets, such as Indian covered bond style bonds secured by gold loans or vehicle loans, or Turkish covered bonds backed by unsecured loans to small and mid-sized enterprises (SMEs). Issuers may consider covered bonds backed by assets that are not eligible under the local framework, or even in the absence of a local framework. This is because in certain legal contexts covered bonds can be issued without a dedicated legal framework. Issuers can establish programs that replicate the main features of legislation-enabled covered bonds by means of contractual arrangements (so-called structured covered bond programs). For example, the first two Japanese programs have been established based on a contractual structure, due to the lack of a dedicated legislation. Similarly, an Israeli bank established the first structured covered bond program in the country in 2025. Such contractual arrangements grant greater flexibility outside of an established legal framework, for example in terms of eligible collateral.

The global success of covered bonds will lead more issuers to use the covered bond label for their dual-recourse issuance. This will create benefits but also risks. New issuers and investors will benefit the entire covered bond market – by increasing its depth and systemic importance –, the development of local capital markets – by improving liquidity and broadening the investor basis –, and society at large – by funding the growth of housing markets and economies. But new issuers, assets, and structures may also introduce risks to an asset class characterized by an unblemished credit history. In Europe, the Covered Bond Directive mitigates this threat, by introducing a common definition aligned with regional best practices. Outside Europe, market participants and regulators may be tempted to align their frameworks to the definitions of the Directive, especially if European regulatory authorities decide to grant equivalent treatment to covered bonds issued by credit institutions outside the European Economic Area.

THIRD COUNTRY EQUIVALENCE

Since July 2022, the regulatory treatment of covered bonds within the European Union (EU) is based on a harmonization framework which consists of a directive, that introduces a common definition of covered bonds, and a regulation, that amends the EU's Capital Requirements Regulation. In July 2023 the EC issued a call for advice (CfA) to the Banking Authority (EBA)on the performance and review of the EU Covered Bond Directive, including third-country equivalence.

The EBA published its response to this CfA in September 2025. The EBA supports the introduction of an equivalence regime for covered bonds from third countries. Currently, covered bonds issued by credit institutions outside the EU and purchased by EU credit institutions receive a less favourable regulatory treatment than covered bonds issued by EU credit institutions and purchased by other EU credit institutions.

The EBA proposes to grant third country covered bonds preferential treatment along three dimensions:

> *CRR*: Eligible third-country covered bonds could receive a 10% risk weight (vs. 20%).

> *Liquidity coverage ratio (LCR)*: An equivalence decision would allow classification as level 2A assets without individual assessments.

> *European Central Bank (ECB) repo transactions*: An equivalence decision would allow classification as Category II and III assets without individual investor assessments.

While a positive equivalence decision would lead to a lower risk weighting for bank investors' regulatory capital purposes, it does not appear to allow third country covered bonds to advance to level 1 assets in the LCR, nor does it lift the ECB's restrictions on accepting covered bonds only from G10 countries outside Europe.

The EBA recommends that the assessment of the equivalence regime should be based on the main CBD principles, such as dual recourse, asset quality, segregation, coverage, supervision, and disclosure. It also recommends further alignment in terms of preferential risk treatment within the CRR. Subject to these conditions, third country covered bonds may be treated as "European Covered Bond (Premium)" bonds. In order to achieve this, third country supervisory authorities would need to maintain a list of CRR-eligible covered bonds or investors should seek legal advice from a recognized law firm.

To initiate the equivalence process, the third country will need to produce a self-assessment of the degree of similarity of the regulatory and supervisory framework, the maturity of the home country market, and a declaration of intent to cooperate under the principle of reciprocity. While we expect that an equivalence regime would mostly benefit non-EU issuers and European investors--the biggest buyers of both EU and non-EU covered bonds--the EBA focuses also on the benefits for EU issuers and hence, the emphasis on reciprocity and on the maturity of the local market. Reciprocity is the overarching principle for the equivalence exercise, and preferential treatment in the EU would only be granted to covered bonds from those third countries where domestic and non-domestic covered bonds receive similar treatment.

RECIPROCITY AND GLOBAL DEVELOPMENTS ON REGULATORY TREATMENT

With the implementation of the Basel III reforms, most non-EEA jurisdictions introduced preferential risk weight treatment for covered bonds. In many cases, this treatment applies equally to domestic and third country covered bonds, thereby broadly meeting the reciprocity condition. Only the EEA and UK currently grant a more favourable treatment to domestic covered bonds. Meanwhile, several third countries are taking steps to improve their positioning for future equivalence recognition in the EU, including by amending the risk weight or LCR treatment of domestic or third country covered bonds, or by aligning their regulatory framework more closely with the EU Covered Bond Directive.

Risk weight treatment of covered bonds outside the EU

In Canada, OSFI adopted the asset eligibility and disclosure requirements for covered bonds of the Basel reforms, but with a 5% minimum overcollateralisation requirement. Credit quality step (CQS) 1 rated covered bonds meeting these requirements currently receive a 20% risk weight. From November 2026, OSFI intends to lower this risk weight for covered bonds issued by Canadian D-SIBs to 15%. Category I and II small and medium-sized deposit-taking institutions (SMSBs), using the simplified Standardised Approach, may also apply a 15% risk weight to covered bonds, provided that their total covered bond exposures do not exceed CAD500m and the eligibility criteria are met.

The UK defines "CRR covered bonds", within the meaning of Article 129 of the CRR, as bonds issued by UK credit institutions and subject to special supervision. In February 2026, HM Treasury published draft regulations for an Overseas Prudential Requirements Regime (OPRR), due to enter into force on 1 January 2027. These regulations establish the basis for overseas covered bonds to receive preferential risk weight treatment comparable to that of UK covered bonds, although no firm commitment or timeline for such designation has yet been provided.

Singapore, South Korea and Japan already apply a 10% preferential risk weight to both domestic and third-country covered bonds under the Standardised Approach. Australia also grants preferential treatment to rated covered bonds. Switzerland distinguishes between Swiss legislative covered bonds and foreign covered bonds. Covered bonds issued under the Swiss Pfandbriefgesetz benefit from a 10% risk weight under the Standardised Approach, while foreign covered bonds receive preferential risk weight treatment broadly in line with the BCBS criteria.

New Zealand does not have separate risk weights for covered bonds. Covered bonds are risk weighted as claims on banks according to their rating grade.

> Figure 4: Applicable risk weight treatment to rated covered bonds in a selection of global covered bond regions

External covered bond rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	Below B-	Asset eligibility	Min OC	Disclosure	Effective	Effective as per Basel III reforms
Australia	10%	20%	20%	50%	50%	100%	√	10%	√		1 Jan '23
Canada	20%	30%	50%	100%	100%	150%	√	5%	√		1 Feb '23
Canadian D-SIBs	15%										1 Nov '26
Japan	10%	20%	20%	50%	50%	100%	√	10%	√		31 Mar '24
New Zealand	20%	50%	50%	100%	100%	150%	-	-	-	1 Oct '26	-
Singapore	10%	20%	20%	50%	50%	100%	√	10%	√		1 Jul '24
South Korea	10%	20%	20%	50%	50%	100%	√	10%	√		1 Jan '23
Switzerland	10%	20%	20%	50%	50%	100%	√	10%	√		1 Jan '25
UK	10%	20%	20%	50%	50%	100%	√	-	√	1 Jan '21	1 Jan '27
EEA	10%	20%	20%	50%	50%	100%	√	5%	√	8 Jul '22	1 Jan '25

Source: National regulators, ING

The LCR treatment of covered bonds outside the EU

Most major covered bond jurisdictions outside Europe recognize covered bonds as level 2a qualifying liquid assets (subject to a 15% haircut). Nonetheless, supervisory authorities do not always accept them as qualifying liquid assets in practice. Australia is a case in point. While APS 210 provides for covered bonds to qualify as 2a assets for LCR purposes, APRA currently does not recognise any level 2 assets as HQLA. However, APRA is considering broadening HQLA eligibility, including to covered bonds.

The UK Prudential Regulation Authority (PRA) treats eligible UK covered bonds as level 1 assets subject to a 7% haircut, and eligible non-UK covered bonds as level 2a assets subject to a 15% haircut, provided they meet the relevant requirements. In July 2025, the UK PRA confirmed that, pending the possible introduction of an equivalence regime for non-UK covered bonds, the current treatment of eligible non-UK covered bonds as Level 2a HQLA will remain intact.

In Canada, OSFI aims to introduce a new category of level 1B assets in the 2027 Liquidity Adequacy Requirements (LAR), subject to a 7% haircut and a 70% cap. Covered bonds rated AA- or better, not issued or hedged by the issuing institution itself and with a minimum size of CAD750m could become eligible as level 1B assets. Covered bonds that do not meet the minimum size requirement would remain eligible as level 2a assets. This would make Canada the third jurisdiction, alongside the EEA and the UK, to grant level 1 recognition to covered bonds for LCR purposes. Unlike the EEA and the UK, Canada would also allow third country covered bonds to qualify as level 1B assets.

> FIGURE 5: HAIRCUT TREATMENT OF COVERED BONDS FOR LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS IN DIFFERENT COUNTRIES

HQLA	Minimum rating	EU	UK	Minimum rating	Australia	Canada	Japan	Singapore	South Korea	Switzer-land	Minimum rating	New Zealand
Level 1B	AA-	7%	7%	AA-		7%*						
Level 2A	A- (AA- 3rd country)	15%	15%	AA-	15%	15%	15%	15%	15%	15%	AAA	19%**
Level 2B	-	30%	30%									

*OSFI proposal to apply from May 2027

**The 19% haircut applies to covered bonds issued on a single name basis. Liquid asset eligibility varies from 0-5% subject to an asset encumbrance ratio. New Zealand is in the process of replacing the PSLA regime with Level 1 and Level 2 liquid assets, for which covered bonds will no longer qualify.

Source: National regulators, ING

New Zealand has not adopted the Basel LCR and NSFR metrics, instead relying on its own one-week and one-month mismatch ratio (MMR) and one-year core funding ratio (CFR). 'AAA' rated residential mortgage-backed securities, including covered bonds, currently qualify as primary liquid assets (PLA). However, the Reserve Bank of New Zealand (RBNZ) is revising this framework, retaining the MRR and CFR, but tightening the definition of liquid assets through two new Level 1 and Level 2 categories. Covered bonds are not expected to qualify as Level 1 or Level 2 assets under the new regime but are likely to be eligible for the new Committed Liquidity Facility (CLF). The final Liquidity Standard is expected to be issued in May 2027, with the CLF becoming operational in December 2028.

CURRENT ALIGNMENT WITH THE CBD AND EBA RECOMMENDATIONS

Established in 2015, the European Covered Bond Council's Global Issues Working Group (GIWG) aims to promote a better global understanding of covered bonds and foster convergence between countries towards similar market solutions, infrastructure, and regulatory treatment.

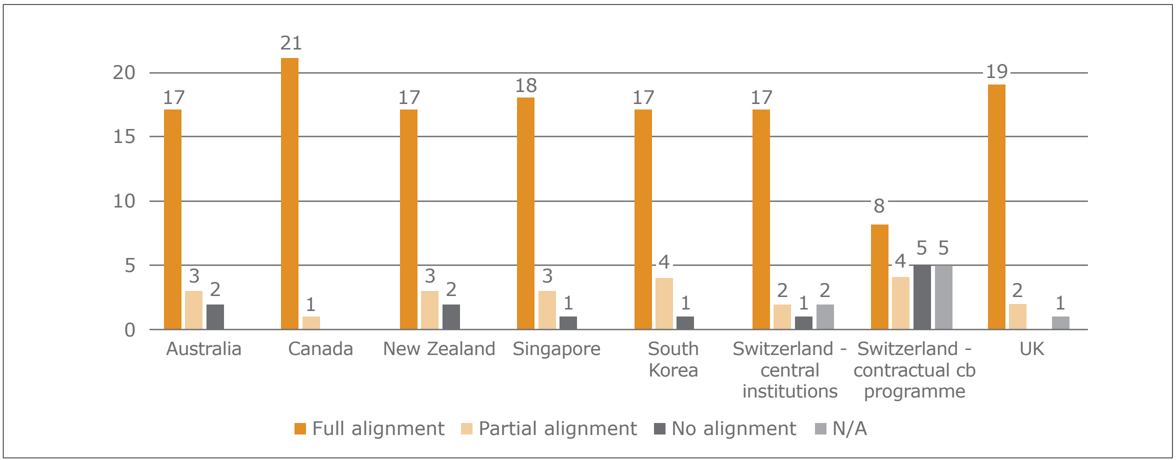
Over the past few years, the GIWG has assessed the alignment of global covered bond regimes with the European Covered Bond Directive. The most recent comparative study (May 2026) benchmarks seven non-EU covered bond frameworks against the Covered Bond Directive and EBA recommendations on third country equivalence. The work draws on input from market and regional experts, including issuing institutions, investment banks, law firms, rating agencies and financial analysts.

The review shows that non-EU legal frameworks are aligned with core covered bond provisions, including on the nature of the issuer, covered bond definition, dual recourse, bankruptcy remoteness, and asset segregation and eligibility. Coverage requirements are typically met through legislation and contractual arrangements, although not all countries fully comply with CRR Article 129.

The conditions for extendable maturities are generally embedded in contractual terms, or in some cases the legal framework, providing safeguards against discretionary extension by issuers. Liquidity buffer requirements are only partially met, as most jurisdictions lack a 180-day liquidity rule. They often rely on alternative measures such as 90-day interest coverage or pre-maturity tests only for hard bullet redemptions.

While covered bond public supervision is in place, not all countries disclose lists of eligible domestic issuers or covered bonds compliant with national legislation.

> Figure 3: CBD compliance - Distribution per Country



Source: ECBC GIWG

The maturity of a third country covered bond market is also a key EBA precondition for initiating the equivalences assessment. Not all jurisdictions meet this requirement, particularly where favourable prudential treatment or repo eligibility is absent, or domestic investor demand for covered bonds is negligible.

IN SUMMARY

Regardless of the constructive developments towards equivalence, meeting EBA's proposed conditions may still prove challenging for many non-EU countries. For example, the EU has still not recognized the UK's supervisory regime as CRR equivalent, and therefore UK covered bonds are not considered as issued by an accepted credit institution. The UK has announced it is considering introducing its own equivalence regime for covered bonds, which could facilitate negotiations with EU authorities. Also, some countries may struggle to demonstrate the maturity of their markets, a condition that EBA considers necessary for broadening demand for European covered bonds. Criteria include the share of domestic investors, the share of euro-denominated bonds, the eligibility of domestic covered bonds for repo operations, the presence of favourable prudential treatment within the country, and the dynamics of the domestic market. While the UK should meet these criteria, other countries may struggle to prove the relevance of a domestic investor basis. Finally, in some countries, such as Canada and New Zealand, even covered bonds issued by domestic banks do, at this stage, not receive preferential regulatory treatment comparable to the EU.

To access the ECBC Global Concept Note on Third Country Equivalence for Covered Bonds and other interesting publications, scan the QR code below.