The Covered Bond Report

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DZ BANK

The Nordic Covered Bond Roundtable 2025

Nordic banks have successfully navigated the year's unpredictable markets and profited from their strong profiles. In this Nordic covered bond roundtable, sponsored by DZ BANK, issuer and investor reps share their views on the relative position of covered bonds in their strategies, and the Nordics in the wider market, as well as the latest regulatory and ESG developments.

Neil Day, The Covered Bond Report: We've just seen a couple of post summer euro benchmarks from two of you, but we'll start off by looking at how the overall market has been developing before quickly zooming in on Nordic supply. Matthias, how has euro benchmark issuance and, within that, Nordic supply developed, versus expectations and in itself?

Matthias Ebert, DZ BANK: At the beginning of the year, the overall mood was in favour of investments in the US, with Europe's economic outlook a bit weaker and German elections to come in February — so a great deal of uncertainty. And in the fourth quarter of 2024, we had witnessed a sell-off in sub-sovereigns and agencies, so in relative terms, euro covered bonds did not look too attractive. Meanwhile, senior-covered bond spreads were very tight. So while some people expected the usual January, others said that this year would be different. And indeed, it turned out to be different, in particular because issuers decided to go for senior rather than covered in the first quarter. Nonetheless, primary market dynamics were very favourable for covered bonds, with oversubscriptions on average around four times, and new issue concessions less than 1bp. But most issuers opted for the riskier product, and until April we saw a very slow primary market in euro covered.

Liberation Day changed that. Senior spreads moved wider. Covered bonds suddenly became more attractive. Since then, we have caught up in terms of volumes. At some point in March, supply was 30% behind the corresponding 2024 period; we are now almost flattish to last year.

Looking at the Nordics this year, supply has surprised to the upside, with total euro benchmark supply of €18bn — Norway with €9.25bn, Sweden €4.5bn, Finland €3.25bn, and Denmark €1bn — overall a significant uptick versus last year. But if you look at net supply, it is only slightly positive.

Spreads over the year have moved significantly tighter: we are now at 37bp in the triple-A covered bond index — that's 15bp of performance since the beginning of the year. Scandis are 12bp tighter, so a very good performance. Many of the individual covered bond indices — such as the Nordics, Netherlands — are very close to the lows seen in 2024. And over the summer, we saw a very strong dip in credit spreads, minus 5bp, more than the 1bp-2bp of tightening we have typically seen over a number of years.

Post summer primary market statistics read very favourably: in the first week back, new issue concessions averaged 1.3bp and oversubscriptions 2.3 times — very much in line with what we saw after the 2024 summer break.

Sverre Holbek, Asgard Asset Management: Covered bonds indeed sold off together with the SSA complex during the latter part of 2024, and while we were a bit cautious, at the beginning of the year we had the view that covered bonds looked quite attractive — five year Pfandbriefe at a spread of around 50bp vis-à-vis the sovereign, for example, and also the tight spreads between senior and covereds, as Matthias mentioned. So we thought that covered bonds looked quite attractive and overall that has proven to be a good call for us, so from that perspective, it's been a good year.

We are perhaps a bit surprised at how fast things moved, especially over the summer, where we've seen some jurisdictions really tighten a lot, including some of the smaller ones, CEE for

Participants in the roundtable, which was held on 20 August *(left to right)*:

Neil Day, Managing Editor, The Covered Bond Report, and moderator

Matthias Ebert, Head of DCM FIG Origination, DZ BANK

Christian Bech-Ravn, Head of Rating & IR, Jyske Realkredit

Morten Keil, Head of Covered Bonds, Nordea

Arve Austestad, CEO, SpareBank 1 Boligkreditt

Sanna Eriksson, Head of Investor Relations, OP Financial Group, CEO, OP Mortgage Bank

Sverre Holbek, Portfolio Manager, Asgard Asset Management

example. That, of course, now leaves the relative value proposition quite different than it was at the beginning of the year.

Day, The CBR: Turning to the issuers, looking at your deals chronologically, they somewhat tell the story of what's happened so far this year. Christian, Jyske provided half of the Danish supply mentioned by Matthias and did so at the end of January with a €500m (DKK3.7bn) four year deal. Was this and the state of the market in line with what you had anticipated? And how does it fit in with Jyske's wider activity?

Christian Bech-Ravn, Jyske Realkredit: Actually, one of the two Danish benchmarks was from Danske Bank out of their Finnish pool, so we only had one covered bond out of a pool with Danish collateral this year and this came from Jyske Realkredit.

Conditions looked very good in January. In particular, in the first couple of months of the year there was very strong interest from investors. We saw great interest right from the start of our transaction — we announced that we were only looking for €500m and ended up six times oversubscribed.

In general, like other Danish mortgage banks, we do the majority of our funding in the Danish krone market, where we do not have as much flexibility — as a Danish mortgage institute, we always need to be fully funded in covered bonds: basically, if we grant a loan today, we will issue into the DKK covered bond market today. We can always fund ourselves in the Danish krone market and hence we monitor the euro market to see when it is attractive, especially if we want to lengthen some of our funding. Our strategy is to issue a euro benchmark covered bond at least once a year.

As a Danish mortgage institute, we ourselves cannot use senior funding for funding of mortgage lending, but we look at issuance strategy on a group level, and this year the plan was to first issue Jyske Bank senior debt. In line with this, we did a green senior non-preferred from the bank, which went very well, and then we turned to the covered bond issuance.

Day, The CBR: Morten, Nordea was next, in March, by which time markets had moved on. You went for quite a short maturity and the green format, and did so not long before Liberation Day (2 April) but after


Morten Keil, Nordea: 'Issuers overall need to be even more mindful than ever of timing this year'

the German debt brake developments. What was the thinking in all that?

Morten Keil, Nordea: Very much in line with what Sverre mentioned, coming into the year there was a sort of anticipation that covered bond markets would be weaker, given the swap spread and SSA developments, and the relative value to senior. But amid all the uncertainty and unpredictability in the markets, what has been notable to me is, once again, the resilience of euro benchmark covered bonds, but also Nordic covered bonds. Clearly the relatively low supply has supported this, but the increase in demand — with the strong inflows we've seen in investment grade funds — has been a strong catalyst for this.

Regarding our March trade, this was part of our ongoing funding needs, but we chose to come sooner rather than later. It was indeed not clear how things were going to pan out, and against that uncertain backdrop, we also saw the €750m three year deal in green format as a strong trade to come with at that point in time, a relatively defensive deal that also enabled us to reinforce our sustainable footprint.

Issuers overall need to be even more mindful than ever of timing this year, and focused and ready to issue when the market is there. But aside from that, the background for deploying our funding plan has actually been quite constructive, and we have been able to execute our funding programme more or less according to plan.

Day, The CBR: Sanna, OP came on the morning of Liberation Day itself, right?

Sanna Eriksson, OP Mortgage Bank: Everything that has been said goes for us as well. When we started the year, everything looked like it was going in a positive direction. But then came spring, and the situation changed significantly, and as we didn't know what was going to happen after Liberation Day, we thought, let's go before. So we went in the morning, before America woke up, and the deal was very well received, partly because people didn't know what was about to happen.

Our funding plan for the year was €4bn, half in covered. But, as for most banks, deposits have been flowing in, and at least in our case, the loan book has not been growing so much. Meanwhile, senior funding is necessary to meet regulatory requirements, and the buffer that can be adjusted is the covered bonds.

Day, The CBR: Arve, you were next, in May with a €1.25bn (NOK11.8bn) five year. What was the story there and how did it fit in with your overall funding?

Arve Austestad, SpareBank 1 Boligkreditt: We have a rolling 12 month forecast and we knew that as soon as we posted our Q1 results and the market was fine, we would enter the market in Q2, as we regularly do. It was not a question of taking a view on whether or not spreads would tighten or widen from here, because it's more like a marathon for us — we have to tap the euro market twice every year and we just try to find timing when sentiment is quite strong, and clearly it was in May, as it had been this spring.

In general, we are flexible, because we do half of our funding in the domestic market, half in euros, and it's not set in stone which market we access when, but the euro market has this year proven a little stronger than the domestic market. The domestic market is fine, but even if spreads in euros are, I would say, higher than they normally should have been given the risk-on sentiment everywhere — senior is tight, stock markets are at all time highs, and so on, but covered spreads are higher now than two or three years ago — the cross-currency swap still makes euros cheaper.

'The question for me is, how much further can we go?'

So that was the rationale. But we are monitoring both markets, and when we perceive sentiment to be good, then we will hit those markets.

Ebert, DZ BANK: The question for me is, how much further can we go in spreads? You just said that covered bond spreads are for the overall market environment sentiment too wide. On the other hand, if you look at relative value, I think one could also argue that sub-sovereigns and agencies create a floor, given their regulatory benefits. They also tightened 5bp over the summer, taking German Länder in five years, for example, to plus 15bp, and after the summer break the Federal State of Schleswig-Holstein came in 10 years at 31bp. German covered bonds would probably land in the mid-30s in 10 years, and a new five year in the low to mid-20s. So there is this gap between the federal states and German covereds. On the other hand, for sub-sovereigns and agencies, Länder, KfW, and others, we see a shrinking premium to German Bunds. The key reason is that we all know that the Federal Republic of Germany has to issue more in the future, and a lot more, because the Finance Agency's forecast shows Bund supply increasing by 50% over the next five years, from slightly below €2 trillion to close to €3 trillion. That will put pressure on Bund spreads, and as a result, we could see the premium for sub-sovereigns and agencies shrink, because the federal states and the agencies don't face the same refinancing needs arising from defence, reform of the debt brake and infrastructure investments as the Republic of Germany. And all that could lead to a smaller premium for covered bonds over Bunds, even though the differential to sub-sovereigns and agencies remains the same. But I would not say that covered bonds have to be or can be significantly tighter, because Bunds as the ultimate floor for covered bond spreads are applying upward pressure, with sub-sovereigns and agencies sitting in the middle trying to find where their relative value sits.

What is more remarkable is that senior spreads are so tight to covered bonds. If you put yourself in the shoes of an investor, that's a very strong reason to invest in covered bonds, because they are so cheap in relative terms. And for issuers, maybe it's a good reason to go to the senior market instead of covereds. If you take that argument on board, you could argue that covered bonds have some further tightening potential.

On the other hand, one could argue that there's more supply to come. In Europe, mortgage loan growth was around zero between January 2024 and January 2025, but that is now at 2% and upward-sloping. So mortgage loan growth is picking up — but deposit growth is picking up, too, so there are a number of factors at play.

Austestad, SpaBol: Regarding supply, we don't know how much there's going to be, because the liquidity positions of the banks are super-strong, and the credit premia for senior are at very low levels. So regulatory funding is probably what will be prioritized, and I'm not sure how much there'll be left for covered, as Sanna noted.

'The liquidity positions of the banks are super-strong'

Day, The CBR: Sverre, from the investor side, what are your views on these relative value aspects and your expectations in terms of how things are going to play out?

Holbek, Asgard: If you look at the shorter maturities, that's where the bank treasuries tend to be more active, and you need to compensate for the difference in LCR treatment and risk weights between covered bonds and Länder, for example. There, we are getting towards quite tight levels. You can still justify the differentials based on the different regulatory treatment, but at least in the low beta part of the covered bond segment, we are probably approaching the limit as to how tight spreads can go. A bit further out the curve, valuations are even tighter. The composition of the investor base is maybe a bit different there, which could justify structurally tighter premiums, but even so, we have been approaching quite tight levels in terms of relative value — as I noted at the beginning. So that can give some cause for concern.

Regarding the increased issuance from the German sovereign that has been mentioned, if we see further underperformance of German government bonds relative to swaps, then that whole spectrum could be even further compressed from below. You

Sverre Holbek, Asgard: 'Overall, the asset class looks fairly well positioned, even though you can say that scope for performance in some segments is getting quite low'

would then need to rule out much covered bond spread performance, at least for the richer-trading segments.

Still, I think covered bonds as an asset class overall are fairly well positioned. Supply has been picking up, but we probably won't end up above what we saw last year, maybe even somewhat below. And we should probably also see issuers still incentivised to focus on senior in order to save their collateral. I know issuers have funding plans and at the end of the day the covered bond is going to be the cheaper product, but nonetheless, to the extent that there is flexibility, current pricing might favour printing in senior instead of covered bonds. So on the supply side that's something that could be supportive of covered bond valuations. On the demand side, there is a bit of overlap among the investor base for senior and covered, and we see some signs in order books that some investors are coming in and buying covered bonds when they are cheap relative to senior preferred, which is supportive of covered bond spreads.

You can also see that demand is there for new issues, even if some struggle a little, when there is a bit more price sensitivity. But overall, the asset class looks fairly well positioned, even though you can say that scope for performance in some segments is getting quite low right now.

Day, The CBR: Bringing us right up to date, we've seen the post summer reopening now, with Nordea at the forefront on Monday. Morten, what was your thinking in looking at this week and deciding to pull the trigger?

Keil, Nordea: Just as we have discussed, the strong development in spreads over the summer made for an attractive market. And then the flatness of the euro curve, combined with our current maturity structure, made us take the decision to capture the value we see there right now in the 10 year part of the curve. We also sensed that the market was really back from vacation, so came out as early as Monday, and we're really happy with the result, particularly being able to grasp that 10 year maturity. Clearly, when you go further out on the curve, you lose some

Christian Bech-Ravn, Jyske: 'It's good to see other issuers going for the longer end of the curve'

bank treasuries. On the other hand, you also get some investors who are more looking for longer duration. And it played out really well. We saw really good oversubscription for a 10 year of 1.7 times, and issuing at 38bp was successful for us, with 2bp of new issue concession. So it played out as hoped and fits well in our funding profile.

Ebert, DZ BANK: Could I ask one question on investor demand? There was a lot of talk after Liberation Day about asset managers, central banks and official institutions wanting to divest from dollars and invest into euros. Data shows that in May and June central banks and official institutions started doing so, while private funds had not yet done so. The most recent data, from July, shows that momentum among central banks and official institutions has lost steam, suggesting people feel more comfortable sticking with dollars. But the broader trend persists — you can see it in the exchange rate. One would have expected that such a move by central banks and official institutions would be reflected in order books such as yours — have you seen any evidence of this?

Keil, Nordea: The short answer is, yes, I think we've seen that. There was clearly good demand from both official institutions and asset managers, although private funds were more or less in line with what we would usually expect.

Ebert, DZ BANK: And have you done something to capture that investor demand, such as dedicated roadshows to Asia?

Keil, Nordea: No. Nothing dedicated.

But as the ECB has stopped its covered bond purchase programme, we have seen increased interest among individual central banks and official institutions in Europe. Among others, we are planning a roadshow in Eastern Europe this autumn to meet with "new" investors.

Recently, we also had digital meetings with Australian investors, several of whom had questions about the covered bond markets here in Europe, not only the euro, but also the Scandi markets.

Day, The CBR: Arve, you followed with your issuance yesterday. What was your thinking and how did that go?

Austestad, SpaBol: There's always the question of when the market will reopen after the summer break, a time that we are often considering issuing, and Nordea proved that it was there on Monday, so we went ahead afterwards. We wanted a maturity longer than five years, because we did the five year in May, and also the domestic market is up to five years while euro provides more duration. So then it was basically a coin toss whether to do sevens or 10s, and because large parts of the investor base consider the Nordics to be the same — even if the various jurisdictions have their differences — we tried to shift a little away from Nordea, and so took the sevens, but it was only a marginal decision based on how we felt and how we were advised by the syndicate banks yesterday morning.

We saw more real money in the book than in the last 12 months or so. Whether that's an expression of de-dollarisation, it's hard to say. But we were pleased to see that, and I think many of the real money accounts that played in Nordea's 10s also played in our sevens.

Day, The CBR: Sanna and Christian, what can you tell us about how things stand for your institution today, your plans for the rest of the year, and your views on the market?

Eriksson, OP: A lot of investors have shown an interest in meeting us, including some that we've never seen before, to find out more about OP. We're the Finnish national champion, so if you are looking at the Nordics and specifically Finland, we are the bank to follow.

'The end of this year will be quiet, I'm afraid'

Regarding issuance, we front-loaded our activity, so the end of this year will be quiet, I'm afraid. But we'll see how things play out: Finnish people are really cautious and because of the variable interest rates, they are in wait and see mode right now, but there is that kind of latent demand — at some point you have to move, you have to buy a house — so at some point change will happen, and when it does, it could do so dramatically.

Bech-Ravn, Jyske: It's good to see other issuers going for the longer end of the curve. When we go to the euro market, our ideal spot is typically around the seven year area, so it's good to see that point working very well at the moment, and, as Morten said, with quite a flat interest rate curve, the market is attractive. We normally have a strategy of going to the market once a year, but we could potentially look into the market one more time this year. For us, it is extremely important that the market is working. Of course, a basis point extra is nice, but the most important thing for us is that we do see a market that's functioning, both for the investors and the issuers, so that when we go to the market, we are absolutely sure that we can do a transaction, and we believe that to be the case at the moment.

Day, The CBR: Sverre, coming back to this discussion around government bonds, particularly Bunds, and relative value: at the Athens ECBC plenary in April, the Greeks were very big on covered bonds being safer than government bonds. Is there an argument for this to be applied more widely in the market and for us to see more trade through the sovereign?

Holbek, Asgard: There certainly is. Greece is indeed a case in point: after all, we have had no covered bond PSI, and ratings can also support tighter covered bond valuations than sovereign valuations.

Then you have counter-arguments. One is regulatory constraints, which may only apply to parts of the investor base, but nonetheless, the investor base overall gets impacted by it, and therefore it has to be reflected to some extent in valuations, too. Liquidity does not usually play in favour of covered bonds, but points in the opposite direction.

But the structural increase in issuance related to defence spending is something that one has to factor in, and which over time points to tighter valuations of covered bonds relative to SSA alternatives.

Austestad, SpaBol: Isn't that situation already there in France?

Holbek, Asgard: Yes.

Austestad, SpaBol: Without the extra defence spending?

Holbek, Asgard: Definitely.

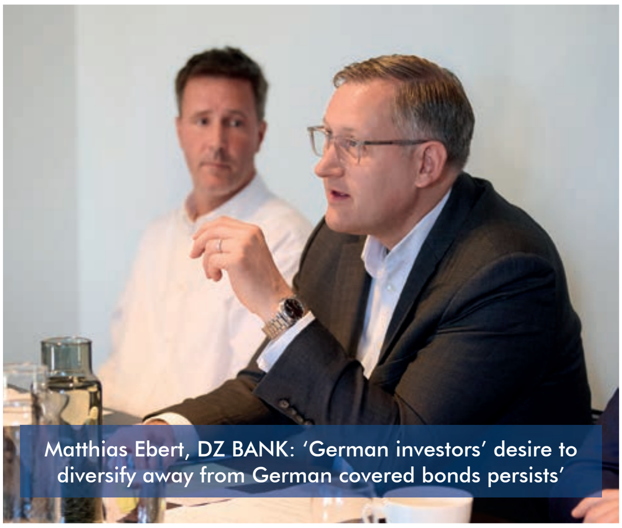
Ebert, DZ BANK: That has a rating aspect as well.

The underlying pressure that comes from Bunds is a bit different, because Bunds are triple-A, and even if we would spend all that additional money, our debt to GDP ratio, subject to growth forecasts, would be in 10 years' time around 70%-80%. That's still a relatively low level in comparison to other countries like Italy, France, the US and others, so Germany would still hold the crown in respect of credit quality — at least in the Eurozone. Furthermore, Germany has the benefit of the Bund market being so liquid. So given Bunds' high credit quality and high liquidity, I can't see covered bonds trading through the German sovereign — it's different than France, Greece and others.

‘There are some risk factors in Germany’

We forecast 10 year Bund yields rising from 2.6%-2.7% to 3% by mid-2026, with the covered bond index widening from 37bp now to 42bp by year-end and 50bp by year-end 2026, partly as a result of this widening pressure coming from Bunds.

Austestad, SpaBol: I do not disagree. However, there are some risk factors in Germany that are not beneficial for the government, either — the political situation, the lack of growth, etc — which put pressure on its rating. It's not given that Germany's always going to be triple-A.


Matthias Ebert, DZ BANK: ‘German investors’ desire to diversify away from German covered bonds persists’

Ebert, DZ BANK: That's a fair point and one of the reasons why German investors have diversified away from German covered bonds. In recent times, German investors were surprised by the kind of meltdown in commercial real estate, and were then concerned about the country's growth prospects. They now feel a bit more confident about staying invested in Germany, because the country seems to be getting back on a growth trend, but German investors' desire to diversify away from German covered bonds persists. And the Nordics look attractive for them, as do issuers from overseas, such as Australia and Canada — French issuers, less so, for political reasons as well as the fiscal deficits. That's one of the reasons why issuers are still well advised to come to Germany for their roadshows and marketing.

One other aspect that I'd be keen to hear opinions on is covered bond redemptions. These are increasing, from around €116bn last year, to €136bn this year, and €156bn next year. But will they be replaced with new supply? Christian, you said that you would consider coming to the market another time this year. Is that already pre-funding for next year? And Sverre, how do you look at this driver of supply as an investor?

Bech-Ravn, Jyske: From our perspective, this is an opportunity to tap into a market that is working very well, so it makes sense to do some euro funding now instead of waiting until next year.

Holbek, Asgard: It's a very different picture from institution to institution and country to country, so it depends on the mortgage dynamics in the specific jurisdiction, and also on the liability side of the financial institution, with some having the flexibility to shuffle around between different asset classes.

For us, more redemptions naturally mean that we have more investments to recycle back into the markets, but we have the flexibility such that we don't necessarily have to replace them one for one in the portfolio — it is always evaluated on a case by case basis.

Keil, Nordea: It very much comes back to what Sanna mentioned before. Currently, at least across the Nordics, customers are conservative and careful, given the geopolitical situation, and across most Nordic banks, deposits are flowing in and mortgage markets are not up to speed — that can be seen in the Q2 results. So the loan to deposit gap you need to fill is potentially shrinking, which could point towards net issuance being negative. On the other hand, you don't know when things are going to pick up — momentum could potentially arrive from lower interest rates or just a change in customer sentiment. It's difficult to predict. So while we are mindful of redemptions, doing your funding is like trying to steer a tanker with all these other parts moving around the balance sheet.

Eriksson, OP: Previously it was the other way around: when the mortgage market is really hot, you see a lot of new loans, and you also see the deposits going into the property. But now it's the opposite. So it's not a matter of whether the funding is cheaper or more expensive; if you don't need it, then you simply don't do it, while from the regulatory perspective, you still need senior. Also in Tier 2, we had a €1bn call, and replaced it via a €500m trade — that highlights the dynamics.

Day, The CBR: Rounding out the jurisdictions, Morten, you don't issue in euros out of your Swedish platform, but I imagine you have some insights into what's behind the €4.5bn of euro benchmark issuance from that country, which is relatively high.

Keil, Nordea: At Nordea, we have our four fully-owned subsidiaries in each of the home countries from where we issue covered bonds, and as such where we can capture all the markets.

But from the outside, I would say that the dynamics for Swedish issuers are somewhat similar to what Arve may face in Norway, with the choice to go in euros or in the domestic currency. And the arbitrage is clearly a deciding factor in whether it makes sense to issue in euros and swap into the domestic currency where you have your balance sheet. Then in euros there is also the greater investor diversification achievable and more flexibility in terms of tenor, whereas "tap" markets in SEK and NOK add flexibility, are open most of the time, and enable growing benchmarks to large size.

Ebert, DZ BANK: We were on a very strong Swedbank €1bn five year trade ahead of the summer break, in June: it achieved a €1.8bn peak book and €1.7bn book at re-offer, and landed at 33bp with just a small new issue concession. So there is that demand for Nordic paper, as I said before, with not only German but also some French investors looking to diversify away from their domestic market for obvious reasons. The Nordics are close to home, enjoy strong fundamentals, have proven to be a very strong issuer base, and offer a high quality product, so there is that appetite for Nordic names if they come to the euro market.

Sanna Eriksson, OP: 'The directive so far has been a real success, with the whole market benefiting, both issuers and investors'

Day, The CBR: We've discussed mortgage market developments in relation to funding needs and supply. But Sverre, do you see any causes for concern from a credit perspective, or any other developments to bear in mind when looking at Nordic issuance?

Holbek, Asgard: Commercial real estate has also been a topic in the Nordics, especially in Sweden, given the sensitivity to the rapid rise in interest rates — probably less so for covered bond investors, given that commercial real estate did not feature to any significant degree in cover pools in Sweden.

Overall, as we look across the Nordics, people seem to have been able to cope with the interest rate shock, and cover pool metrics still look quite solid. There are some pockets where price developments are currently quite hot, but looking at cover pools, they tend to be relatively diversified. So it's not an area of big concern. You also have the strong legal safeguards. And on the issuer side, Nordic banks are in a strong position in terms of capital level, etc. So we are quite comfortable about how Nordic banks are positioned — even though on the earnings side things are perhaps not as strong as they used to be, with margins coming down, and volumes, as we discussed, not being able to compensate for this.

'Nordic banks are in a strong position'

Day, The CBR: The EBA recommendations on the covered bond directive and related matters are landing shortly. What can be expected from these? How does their importance compare with the implementation of the directive?

Eriksson, OP: The directive so far has been a real success, with the whole market benefiting, both issuers and investors, while maintaining the well-functioning markets we had before. With all the open discussions and cooperation that the ECBC has had with the EBA, there's a good chance that we again will be able to achieve a similarly successful outcome.

Day, The CBR: The most newsworthy angle so far has

been third country equivalence, how it will work, and reciprocal arrangements. Is this something to look forward to or to buckle up for?

Ebert, DZ BANK: First of all, it's a great opportunity to create a level playing field for all covered issuers globally. So it's an opportunity rather than a risk.

However, I have felt over the last two years that a form of protectionism is creeping into the covered bond market. The UK PRA announcement a few months ago was testimony to that kind of protectionism. I'm glad that the PRA has recently announced the withdrawal of its modification for LCR eligibility of third-country covered bonds in the UK. However, HMT has now initiated a consultation process to assess whether it remains appropriate to maintain different regulatory treatments for UK and foreign covered bonds. For the time being, UK investors can treat third country covered bonds the same as before.

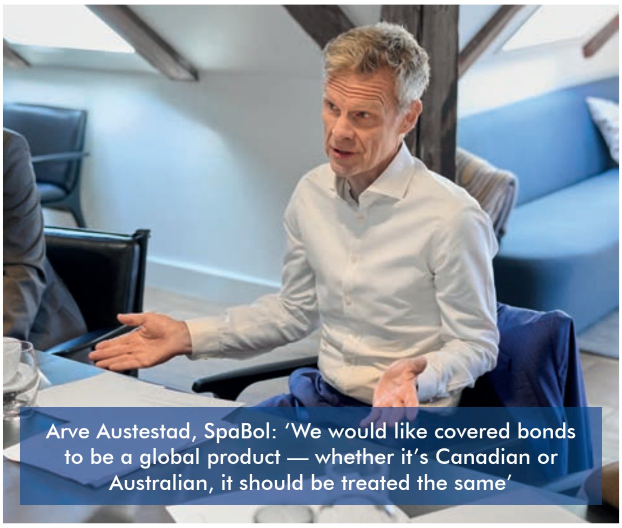
Furthermore, you may have seen at the beginning of 2025 that EBA has changed the risk weighting for non-EEA covered bonds for banks that apply the Advanced IRB approach — major banks in Europe, including ourselves — such that it went up and the covered bonds became less attractive. That's another unfortunate development.

In contrast, the short presentation EBA gave to the EU Financial Services Committee on 7 July basically said "yes" to an equivalence regime. That's not a surprise — we all expected EBA to be in favour of that. But they also clearly stated that reciprocity is an overarching rule in negotiations with third countries. Well, from a European perspective, one might think that's fair enough: if, say, the Europeans allow Australians to have the same regulatory treatment in the euro covered bond market, which is a HQLA Level 1B, they want to benefit from the same beneficial regulatory treatment when coming to the Aussie dollar covered bond market. However, it is a lot to ask of countries like Canada and Australia, because they have implemented the Basel III rules more compliantly and under Basel III, Level 2A LCR treatment is the best a covered bond can achieve. It's then difficult to ask them to go beyond what Basel III recommends and give covered bonds an additional preferential regulatory treatment.

'There will be very hard negotiations'

Achieving equivalence will also be easier for some countries and harder for others. New Zealand, for example, has not adopted the usual Basel III rules such as LCR and NSFR ratio and there is no large New Zealand dollar covered bond market — different to Australia. And neither is there an established Canadian dollar covered bond market, so it would be a lot to ask the Canadian regulator to allow 1B treatment and 10% risk weight for a covered bond from a European bank.

We should all aim for a level playing field, but bearing in mind that we are starting from very different levels in Australia, New Zealand and Canada, and in Europe, where the products have a long history. So while it's an opportunity for the market, at some point there will be very hard negotiations between the European Commission and foreign regulators.



Arve Austestad, SpaBol: 'We would like covered bonds to be a global product — whether it's Canadian or Australian, it should be treated the same'

Day, The CBR: Arve, you have been active in sterling. What are your hopes and expectations on this topic?

Austestad, SpaBol: In general, we would like covered bonds to be a global product — whether it's Canadian or Australian, it should be treated the same. That would be a big advantage for us, because the investor reach would probably be better.

We issued 144A covered bonds in the US some 15 years ago, because after the financial crisis there were some discussions in the US as to whether they should put covered bond legislation in place, or continue, as we used to have, with government funding of mortgages. They ended up continuing with the federal involvement, but the challenge for us there was that US banks didn't use this product for the liquidity portfolio, and the only way they could have used it were if a regulatory regime were put in place for that.

As for the PRA move, it was very surprising — nobody seems to know if it was politically motivated or because they don't know what is in third country covered bonds and don't have any control over them. But while I can understand that from a credit perspective, what did they expect? The knock-on effect is that UK banks might not get 2A treatment in Europe anymore and, if so, they could find it difficult to issue at all in the euro covered bond market. It was good that the UK PRA withdrew the original proposal and saw the bigger picture: covered bonds work very well for financing mortgages in Europe and maybe they should take advantage of that.

Day, The CBR: Sverre, how do you view the directive and the latest developments?

Holbek, Asgard: Generally speaking, we are in the camp that the directive has achieved a lot of good things. It has probably been an important building block in fostering new jurisdictions and new issuers to come to the market, especially in Eastern Europe. It is also positive that we have a fairly high level of minimum standards, even though there are finer nuances between the various legal frameworks and some are still stronger than others. The Nordics have probably been among the less affected, given that the frameworks were already quite strong. If we do get a third country equivalence regime, that would also be positive, because I believe that that some of these covered bond jurisdictions still have some areas where they could be improved relative to European standards. That being said, the timeline for this to be ultimately implemented seems to be quite long, with lots of hurdles to be cleared first, so we'll have to wait and see.

Day, The CBR: Amid the public pushback against ESG in various quarters, are we still seeing positive developments in sustainable covered bond issuance?

Ebert, DZ BANK: Sustainable covered bonds are a good product for a rainy day. Issuers do have two features to limit execution risk in a particularly volatile environment: limiting size, to €500m will-not-grow; and adding a sustainable element in order to broaden the investor base.

We see ongoing supply in the asset class, but people have indeed been putting a question mark behind the growth of investor demand. According to Morningstar Sustainalytics data, even before Trump was re-elected president, the volume of sustainable funds in the US had peaked and was falling slightly. Data for Europe shows that fixed income sustainable funds are still growing — even reaching a new high of €3 trillion at the end of the second quarter — but at a slower pace. Speaking anecdotally, at conferences, roadshows and gatherings like this, some investors say, let's skip the section on ESG in your presentation because I'm on top of everything, so let's look at a more pressing topic, like CRE or tariffs.

But ignoring climate change will not make it go away, so the topic will come back, and my recommendation is that issuers keep up their asset growth, issuance plans, their frameworks, and so on and so forth. When the topic does return, it will likely do so with more urgency, because climate change is getting worse, not better.

Eriksson, OP: Within the OP group, there's a lot going on with ESG when it comes to data, transparency and so on, and it's just becoming a part of our everyday operations, and also our reporting.

On the investor side, it's been kind of shocking how questions about ESG have dropped 80%, 90%, just as Matthias said — there are many meetings where we don't mention it at all. However, they are always interested in when we will be issuing in green format, so there is definitely appetite for that. As for greeniums in covered, they are one to none. So while investors want green, there is not much eagerness to pay for it. In that sense, I think it is becoming the new normal, with some issuance in green and then the regular ones.

Bech-Ravn, Jyske: In the euro market, I definitely agree with your description of greeniums. But we are actually starting to see a larger greenium in the Danish market, I would say it's now 4bp-5bp when we issue in green format.

Eriksson, OP: That's cool. Hope to see that in euro market as well.

Bech-Ravn, Jyske: I don't know if Danish investors are more focused on ESG, but we definitely see much greater demand when we issue in green format in Danish kroner.

So far, we have been very much focusing on showing the green part of the cover pool, which we can finance with green bonds. We are now starting to look more and more into climate risk — rising sea level, heavy rain, flooding, etc. I think that's an aspect that issuers in general will need to have a greater focus on, showing how exposed are their cover pools to climate risk, and investors will increasingly demand transparency on the climate risk in your loan book. All the Danish banks are cooperating on this through a jointly-owned company that has helped on this aspect, so we can now collect data on climate risk for all buildings in Denmark.

> 'Recently we have seen sizeable greeniums in Denmark'

Holbek, Asgard: We don't manage Article 9-labelled funds; nonetheless, we have a preference for green bonds. It is something that is important for our stakeholders, and therefore important for us, too. We also have various reporting obligations towards our stakeholders on ESG investments. So overall it is an important element in our investment process.

Day, The CBR: We have been seeing the first EU Green Bonds in the wider bond market. What are your expectations for these when it comes to covered bonds?

Eriksson, OP: I don't yet see what the EU Green Bond Standard offers, or how issuers will respond to it. We already have a well-functioning green covered bond market and it doesn't seem to bring much that is new, while it's also quite challenging and you don't seem to gain any pricing advantage. What do you all think? We would love to see some issuers being pioneers and showing how it's done.

Day, The CBR: What's Nordea's view on this and the earlier ESG points?

Keil, Nordea: On greeniums, it's interesting to see the differences across euro covered and then the Scandi currencies. I agree that recently we have seen sizeable greeniums in Denmark — 4bp-5bp, which indicates strong investor demand for green. We also see greeniums in Norway, but especially in Sweden, where there is a very dedicated green investor base and you can get more bang for your buck in the green issuance.

I agree on the climate risk point: there is a lot of reporting to come on this front, particularly in response to investor demands.

Then on the initial point, from a Nordea perspective, our ambitious sustainable funding targets remain, and we intend to be active and relevant in this respect in covered bond issuance from all four platforms, basically every year going forward.

And we are also exploring the conditions for issuing a EU Green Bond in covered format.

Austestad, SpaBol: You would expect that in two or three years, ICMA green bonds will no longer be issued. Why shouldn't you have a standard rather than arbitrary criteria for each issue? So it's going in that direction, even if the immediate benefits are not evident.

Bech-Ravn, Jyske: There are also some risks for issuers when you issue an EU Green Bond. The Danish FSA, for example, has not been very vocal on how they see EU Green Bonds and I assume it's the same with other European FSAs. There is a risk that, if you issue a European Green Bond, the FSA may determine that you do not fulfil the criteria, since the requirements for European green bonds are still open to interpretation.

Austestad, SpaBol: Yes, agreed, but issuers can get comfort, at least around financing residential property with an EU Green Bond, which is what SpaBol would do as a specialist issuer. The risks in that area are or can be addressed and contained, and not pose a threatening scenario. The EU Commission could also help in this regard with clarifications, and is in general trying to do that, I think, with its so-called omnibus package.

Keil, Nordea: These are all valid points. I think that down the line, we will see a mix of EU green bonds and ICMA issuance.

At Nordea, we are aware of the enhanced requirements and the differences between an EU Green Bond compared to an ICMA bond. But we also see ourselves and want to be at the forefront of developments in the green issuance area.

Ebert, DZ BANK: Circling back to dedicated green investors. We recently observed an interesting opportunity for issuers with missing or weaker ESG ratings to reach so-called "dark green investors" — i.e., investors with dedicated funds that are only allowed to invest in sustainable assets — through private placements. When an investor was not able to invest in an issuer's conventional bond because its sustainability rating was too weak, we suggested issuing a green bond instead of a conventional one, which the investor was able to buy. The reason for this is that some dark green investors use a different assessment methodology for green bonds than they do for conventional bonds. For these investors, the increased transparency and the associated use of proceeds for particularly sustainable activities are the main focus in the case of green bonds. Green bonds can then be a way for issuers to gain access to investors that they could not reach with a conventional bond in private placements.

'There are also some risks for issuers'

Eriksson, OP: I have to say that what we hear is not so much a focus on the green products — partly because there are not so many of them — but the overall sustainability of the group or issuing entity, or in covered bonds, the cover pool. And not just

the part of the cover pool that is green, but the whole cover pool. That is why there is this greater focus on transparency about everything we have in the cover pools.

Day, The CBR: Arve, how is your green activity developing?

Austestad, SpaBol: We issued the first ever green covered bond with residential mortgages in 2018. Back then, we used building year and building codes to decide which were in the top 15% most energy efficient. Now, new legislation has come into place where you need EPCs. But in Norway, only 30% of buildings have EPCs. That wouldn't give us critical mass, so we have a methodology using what we call estimated EPCs, which is a model that all the banks in Norway are implementing. So we have to change the data structure, which takes a little time, also aligning it to updated regulation coming in January next year — there are some moving parts.

We are also looking into this EU Green Bond Standard and I think we will aim for that.

When we were considering our euro benchmark yesterday, the advice was that green wouldn't move the needle at all for investor demand right there and then. But going forward, we still want to bring more green loans on board, first because we think that is the right thing to do in the housing market and see — as mentioned earlier — that domestically in Norway there is a differential, and also in Sweden, with the particular investors base that is attractive for us. Indeed, some Norwegian issuers are just going to the Swedish market to issue green bonds and do not issue that much green in euro denominated bonds. ■

Photography: Niels Busch