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THE GERMAN PFANDBRIEF MARKET 2026 | 2027

**Pfandbrief Market grows
despite turbulent times**

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PREFACE

It has been an eventful time for the Pfandbrief market, with the past years being dominated by ECB purchases, the European covered bonds harmonisation, the after-effects of the COVID-19 pandemic, the growing market for sustainable Pfandbrief products and the amendments to the German Pfandbrief Act. There has also been a greater focus on factors such as a rise in inflation rates, the new interest rate paradigm, as well as stress tests and long-term funding for the real estate markets. Yields and risk premiums fluctuate in line with changing interest rate expectations, while geopolitical and economic uncertainties make it increasingly difficult to plan for the future. Pfandbriefe are always a strong choice in the face of these uncertainties. While they do not claim to make investors immune to market trends, they do promise stability even in challenging times. The regulatory framework for Pfandbriefe and the high standards of transparency and quality required for cover assets have created a high level of trust among investors, which has proven resilient across different economic cycles and interest rate environments.

However, even tried-and-trusted products still have to prove their worth again and again. Investor demand varies depending on interest rates, regulatory requirements, yield levels (compared to other asset classes) and market liquidity. And given that issuers around the world are vying for investors, the key question is not only whether investors value Pfandbriefe but also at which terms they are prepared to invest in new issues. In view of this, we have decided to focus particular attention on the demand for covered bonds in this year's German Pfandbrief Market report. Here, we will illustrate how demand has evolved since 2012 and examine how investor interest has changed across different market cycles. Looking back over a period of more than ten years offers a far broader perspective than a snapshot at any given moment – as well as this, it sets short-lived trends apart from those that have a lasting impact on the market.

Kind regards

DZ HYP

October 2026

- » **International trade disputes, rising energy costs and higher government spending are pushing up yields on the bond markets.**
- » **The pfandbrief market is growing despite increased volatility in the markets. No other country in the world has as many issuers as Germany.**
- » **Demand for pfandbriefe is likely to benefit from the rise in yields; risk premiums for pfandbriefe remained stable in 2026.**

Summary

International trade conflicts, the erratic policies of the US and the war in the Middle East have increased **volatility on the international capital markets**. This has also affected the bond markets and, consequently, **German pfandbriefe**, which have so far **performed well** during these more volatile times. As a result of the war in the Middle East, **energy prices** have **risen again** in 2026, leading to an increase in inflation rates. This has ultimately prompted central banks to intervene, **raising key interest rates** in an attempt to curb the rise in inflation. **Higher government spending** in many developed economies has led to **a general rise in yield levels**. Germany is no exception, with significantly increased public spending on areas such as defence and infrastructure.

The German **pfandbrief market remains on a growth trajectory**. The outstanding volume reached a value of around EUR 420bn by mid-2026. Within the global covered bond market, **Germany was the third-largest country segment at the end of 2025**, in terms of both volume outstanding and new issue volume. However, no other country in the world has as many active issuers as Germany. By mid-2026, **82 financial institutions** had pfandbriefe outstanding (corresponding to **25 per cent of all global covered bond issuers**). As many as 83 institutions held a licence for the pfandbrief business. In Germany, there are a number of high-volume issuers, but also – measured by their outstanding volume – numerous small pfandbrief banks.

Despite all the crises, the **risk premiums on German pfandbriefe** have **remained stable** in recent months and have even shown a slight tendency to narrow. Demand for pfandbriefe is likely to have benefited from the rise in yield levels compared with the start of the year. Overall, the **bulk of demand** still comes from **domestic investors and banks**. In recent years, however, there have been certain shifts in the composition of pfandbrief investors. The **proportion of investors from northern and southern Europe has risen slightly**. Furthermore, asset managers are increasingly present in the order books for pfandbriefe.

GLOBAL UNCERTAINTIES HAVE INCREASED

Key global economic developments over the past twelve months

The past twelve months have been characterised by a **mix of geopolitical shocks, fiscal risks, protectionist economic policies** and a **resurgence of inflationary concerns**. Whilst late summer 2025 was characterised primarily by uncertainty over US trade policy, the debt levels of major industrialised nations and the consequences of mounting geopolitical tensions, as 2026 progressed, the **conflict in the Persian Gulf** – and its impact on the Strait of Hormuz – along with the sharp global rise in energy prices, became the focus of market participants' attention.

A mix of risk factors ...

The bond markets reacted to these developments not so much by reassessing traditional credit risks and a corresponding widening of credit spreads, but rather by adjusting inflation expectations and expectations regarding central bank policy. In view of **the conflict in the Middle East**, which was still **smouldering** at the beginning of September, and the associated **upside risks to inflation**, the **European Central Bank (ECB)** raised its **key interest rates** by **25 basis points** on 10 September 2026. The key deposit rate has stood at 2.50 per cent ever since. As regards the future course of policy, the central bank has stuck to its data-dependent approach and continues to make decisions on a meeting-by-meeting basis. The monetary authorities are thus keeping all options open for future interest rate developments. A further interest rate rise of 25 basis points in the fourth quarter of 2026 appears likely. In an initial reaction, two-year Bund yields rose, suggesting that market participants are anticipating further monetary tightening. Taking the past few months as a whole, a **common thread** has emerged regarding the economy, interest rates and swap spreads: **whilst the global economy remains more resilient than is often expected, structural risks** – and with them the risk of higher volatility – **are on the rise**.

... has a common thread

Geopolitics as the dominant market driver

In the summer of 2025, **uncertainty over the US government's erratic policies** remained a key issue. Whilst the markets were increasingly sceptical about the reliability of political statements, the US economy's resilience was still regarded as strong enough to prevent major market disruptions. At the same time, the **implementation of US tariff policy** posed a **significant risk**.

Focus on US politics in the summer of 2025

In autumn 2025, the focus shifted to fiscal and geopolitical risks. France came under pressure due to political uncertainties. At the same time, the **escalating tariff disputes between the US and China once again led to market turbulence**. Furthermore, concerns about a disorderly rise in public debt gained prominence. In particular, the issue of **debt sustainability in the US – but also in European countries** – came to the fore. The markets began to factor in the fact that many countries would have to finance permanently higher military expenditure in future.

Many countries' public debt levels are called into question

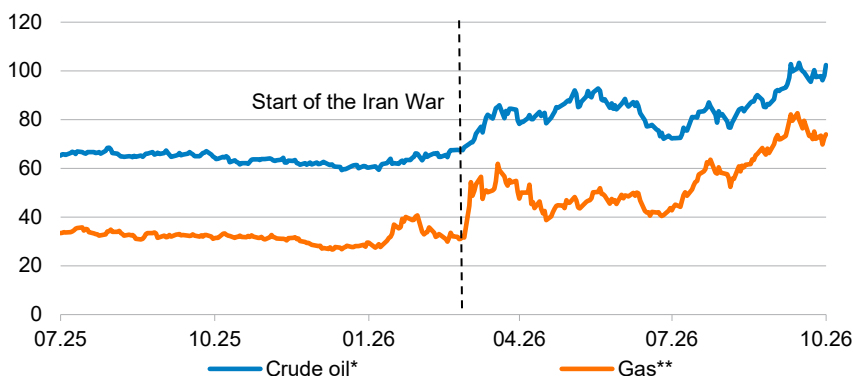
At the start of 2026, the geopolitical initiatives pursued by the US were at the centre of the debate. US policy relied primarily on threats and tariffs to exert pressure. For example, the **US's claims to Greenland, the conflict between the US and Venezuela, and the international competition for strategically important raw materials** were key topics of discussion at the start of the year. Despite the considerable commotion on the public political stage, the markets initially displayed remarkable composure. It was only when key economic interests such as rare earths, the semiconductor industry or the global energy supply were affected that investors reacted more strongly.

More pronounced market reactions as the semiconductor industry was affected

The open **conflict between the US and Iran** has, since the end of February 2026, made it abundantly clear to market participants just how vital the **Strait of Hormuz** is to the global economy and worldwide oil trade. The **price of oil soared**, significantly influencing inflation and interest rate expectations in the US and Europe. In the months that followed, this conflict became the dominant issue. At the same time, **uncertainty regarding the future of energy supplies**, the duration of the restrictions and the potential consequences for the global economy continued to grow.

The war in the Middle East had a massive impact on the price of oil

[G1] Since the start of the war in the Middle East, prices for crude oil and gas have risen sharply



Source: Bloomberg, DZ BANK, data as at 01.10.2026; * Crude Oil, Brent Active Contract (ICE), in US dollars, ** Netherlands TTF Natural Gas (Forward Month 1), in euros

Commodity prices and international supply chains

The crude oil market emerged as **the key transmission mechanism for geopolitical risks in the capital markets**. Hopes in the spring for a swift de-escalation of tensions in the Persian Gulf quickly faded when it became clear that a prolonged disruption to international energy trade was to be expected. Of particular significance was the realisation that, even under the optimistic scenario initially considered possible, it would take several months for oil production and transport to return to full normality. For natural gas and other commodities, the adjustments would take even longer. It thus became clear that the **shock from commodity markets** would affect the global economy **not just in the short term, but over a longer period**.

The price shock on the energy markets is lasting longer than initially anticipated in the optimistic scenarios

As a result, it became increasingly clear during 2026 that energy prices would remain higher than originally expected. Inflation consequently remained stubbornly high, and the markets had to continually revise their interest rate expectations upwards. **The conflict in the Persian Gulf** evolved from a geopolitical risk into a tangible **burden on consumer prices, production costs and growth prospects**.

Pressure on growth prospects and consumer prices

Another key issue in recent months has been the remarkable **resilience of global supply chains**, whose vulnerability had been feared due to the war in the Middle East. Despite repeated geopolitical shocks, trade conflicts and logistical constraints, the **global economy** demonstrated **a significantly higher capacity to adapt** than in previous crises. Whilst short-term bottlenecks could still be offset, **lasting disruptions to trade** caused by a (partial) blockade **of the Strait of Hormuz** would have **significant consequences** extending into 2027.

Supply chains remain robust in the short term, but long-term disruptions could have significant consequences

Economic outlook deteriorated progressively

A marked shift in the economic outlook has become apparent in recent months. In **August 2025**, concerns about the impact of tariffs and political uncertainty, as well as rising public debt, were at the forefront. At the same time, it did not seem unlikely that the **eurozone** would gradually return to a **moderate growth trajectory**.

At the start of 2026, optimism initially prevailed against a backdrop of stable economic data. However, with the escalation in the Persian Gulf in **spring 2026**, the **picture changed**. Market participants' expectations shifted **towards a stagflationary scenario**: rising energy prices were weighing on growth, whilst inflation was rising at the same time. The economic costs of protectionism and geopolitical conflicts have become increasingly apparent over the past few months.

Higher inflation led to higher yields

The course of monetary policy is, by its very nature, closely linked to inflationary trends. **As recently as autumn 2025, expectations of further interest rate cuts** by the Federal Reserve (Fed) still **dominated**, whilst the ECB had already implemented what was, for the time being, its final interest rate cut in summer 2025. At the same time, it was already being emphasised back then that **long-term yields were likely to rise**, as market participants were increasingly pricing in the shortfalls in public budgets and **higher government debt**. By early 2026, it became apparent that US tariffs were having a greater inflationary impact than originally anticipated. As economic theory suggests, the costs of the US tariffs were primarily shared between importers and consumers. As a result, inflationary pressure remained high and the **Fed's scope for interest rate cuts narrowed**.

As energy prices rose in the spring of 2026, there was a fundamental shift in interest rate expectations. The ECB was once again forced to consider interest rate rises in order to curb second-round effects on the inflation rate. At the same time, it became clear that whilst **key interest rates can combat inflation**, they have **little impact on a geopolitically driven oil price shock**. Central banks around the world are thus facing a **classic trade-off** between fighting inflation and stabilising growth. In the summer of 2026, the ECB opted for a more restrictive monetary policy and raised its key interest rates by 25 basis points in both June and September 2026. It seems likely that the ECB will raise its key interest rates once more in the fourth quarter of 2026 and once more in the first quarter of 2027.

Against this backdrop, the **yield on ten-year German government bonds** rose to **over 3.5 per cent** in mid-September 2026, reaching its highest level in 17 years. In addition to higher energy prices, rising real interest rates, high government deficits and the **increasing supply of bonds** are weighing on the market. Across the Atlantic, a robust labour market and persistent price pressures have strengthened the case for a further interest rate rise. The **Fed** therefore **also raised its key interest rate by 25 basis points** in September, **bringing the target range to 3.75 per cent to 4.00 per cent**. The **yield on ten-year US government bonds** rose to **close to the 5 per cent mark** in mid-September, reaching its highest level since the end of 2023. This reflected the high level of US government debt and the persistently large supply of bonds.

Sovereign debt sustainability was the focus of attention at the end of 2025

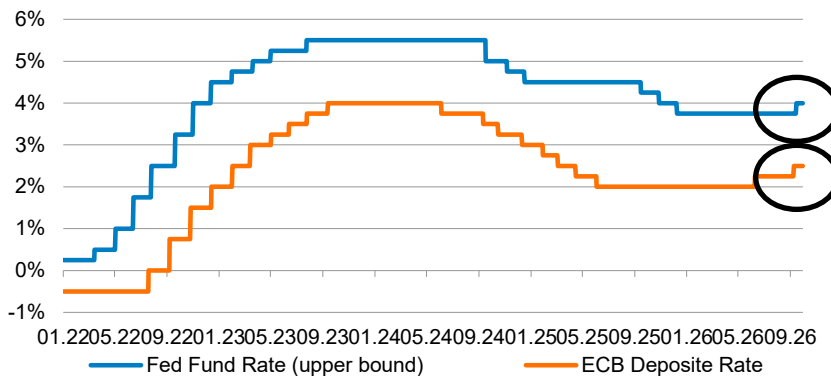
The economic costs of protectionism and international conflicts are becoming apparent

Expectations regarding interest rate changes have shifted significantly over the course of the year

The ECB faces the classic trade-off between price stability and economic growth

The ECB and the Fed responded with interest rate rises

[G2] Key interest rates are on the rise again in the eurozone; the Fed's precautionary rate hike in September



Source: Bloomberg, DZ BANK, data as at 01.10.2026

At the same time, the **war in Ukraine** remained a **structural drag**. Whilst it has not always been the focus of attention for all market participants in recent months, it has nevertheless formed a key **backdrop to rising defence spending** and the **deterioration in the fiscal outlooks of many countries**. One conclusion that can be drawn from these developments is that there is a strong correlation between geopolitics, rising government debt and **higher long-term yields**.

Higher defence spending and higher public debt are driving up government bond yields

Conclusion

In summary, it can be said that the period from late summer 2025 to early autumn 2026 was characterised by the **transition from a world dominated by trade conflicts to a phase in which geopolitical energy and supply security** played a central role. US tariffs, conflicts in the Middle East, fiscal risks in Europe and the ongoing consequences of the war in Ukraine significantly increased **uncertainty**. Nevertheless, the global economy proved more resilient than expected. **The greatest impact was felt not so much in credit spreads as in inflation expectations**, commodity prices and **long-term interest rates**. Central banks found themselves increasingly caught in a conflict of objectives between combating inflation and supporting growth. The conflict over the Strait of Hormuz emerged as the single most significant risk to inflation, energy prices, supply chains and interest rate markets.

Increased uncertainty and yet tight credit spreads

Impact of global developments on Germany

The combination of higher interest rates and the rising financing needs of many countries led investors to **reassess fiscal prospects, which also affect Germany**. The list of challenges currently facing Germany includes, amongst other things, the following points:

Germany is affected by global developments

- » **Geopolitical risks** have increased and the **war in Ukraine** continues. This has created a need to invest more money in **defence spending**.
- » There remains a significant backlog of **investment in German infrastructure**.
- » Rising government spending requires **new borrowing**, for which, however, **higher interest rates** must be paid than was the case a few years ago.

On a positive note, it emerged in the summer of 2026 that, **despite the geopolitical pressures, Germany** was able to report surprisingly **robust economic data**. The economic outlook thus proved to be significantly better than many had feared. At the same time, the **risk** remained that a **further escalation of the conflict in the Persian Gulf** could once again undo this positive development.

Surprisingly good economic data in Germany, despite geopolitical risks

Stabilisation of the economy through higher government spending

Not only in Germany, but also in other European countries, governments are attempting to **counter the current challenges through higher public spending**, which goes hand in hand with rising public debt. This is particularly evident in the context of the consequences of the war in Ukraine, which are leading to rising **defence spending**; the strain caused by **higher energy prices**, which has been mitigated in the short term by lower taxes on petrol and diesel; and the impact of **US tariff policy**, which is weighing on economic growth. In mid-September, as part of the budget debate, the German Federal Government presented its draft budget together with an updated medium-term financial plan. The Federal Government is planning for new borrowing of around EUR 200bn per year up to 2030.

Governments are increasing public spending

Federal borrowing is rising and is at historic highs

	2026	2027 (draft)	2028 (financial plan)	2029 (financial plan)	2030 (financial plan)
Expenditure	524.5	555.4	588.2	597.8	635.4
Tax revenue	387.2	394.7	406.4	416.6	437.3
Net borrowing	98.0	118.7	148.8	152.0	167.3
Infrastructure and Climate Neutrality Fund	58.1	54.9	56.7	57.9	52.2
Defence Special Fund	25.5	30.0	--	--	--

Source: [Federal Ministry of Finance](#), DZ BANK

The **state is increasingly taking on the role of an economic buffer**. Investment programmes, support for industry and technology, and measures to mitigate rising energy prices are leading to a noticeable increase in the funding requirements of the public sector, and of the federal government in particular. However, this is not a phenomenon specific to Germany. Indeed, there are many **Western countries** that **are increasingly seeing their debt ratios rise**. In countries such as France and Finland, rising public debt and a deteriorating economic environment have already led to downgrades in sovereign credit ratings. **Germany has so far been spared such downgrades** and still holds an AAA or Aaa rating from major rating agencies.

The state is increasingly taking on the role of an economic buffer

The return of the debt issue

In recent months, debt sustainability has repeatedly been a topic of discussion on the capital markets. **Higher refinancing costs and persistently rising government expenditure** represent a **fundamental shift compared with the decade following the financial crisis**. At a time when the ECB was buying bonds on a large scale, it was taken for granted that yields would either fall or remain stable at low levels. That is now a thing of the past. For Germany, this marks a **significant shift in the economic landscape**. Whilst additional debt had hardly any immediate impact on the federal budget during the years of zero interest rates, and the federal government was even able to make money by taking on new debt during the period of negative interest rates, **higher yields are now making the government's borrowing costs significantly more expensive**.

Rising interest rates are increasing Germany's refinancing costs

Some **market participants are now assessing sovereign risks more critically** than they did a few years ago. Whilst corporate and bank bonds have been supported in recent months by sound balance sheets and robust demand, government bonds have come under increasing pressure. Some globally diversified companies are now perceived by some to be at least as attractive as government bonds. The reasoning behind this is that **companies can diversify their earnings base globally**, whilst **governments remain entirely dependent on their national economic and fiscal policies**. For German government bonds, this does not mean a loss of their function as a **safe haven**. However, investors are becoming less willing to accept significant **yield discounts** in return for this safe-haven status. The result is a **structurally higher level of yields** than in the decade between 2014 and 2023, which had been characterised primarily by the ECB's bond purchases.

Structurally higher yield levels

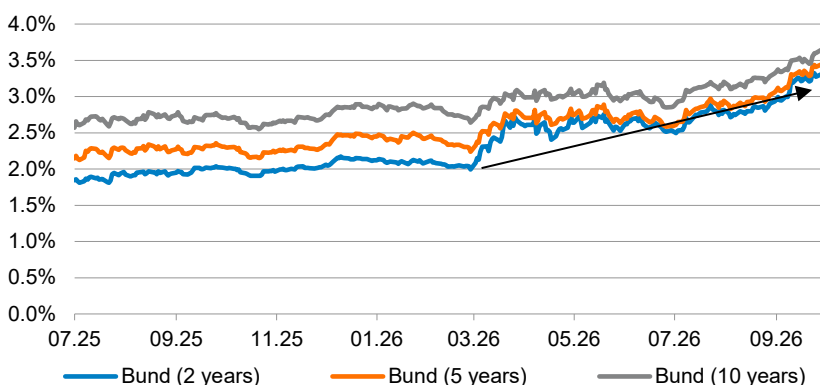
The energy crisis and inflation risks are exacerbating the situation

The escalation of the conflict in the Persian Gulf in the spring of 2026 further shifted the debate. Persistently **high energy prices are hitting Germany particularly hard due to its industrial structure**. At the same time, higher energy prices are fuelling inflation, thereby worsening the inflation outlook for the eurozone and Germany. The ECB's rising key interest rates are also significant for German government bonds. **Rising key interest rates and higher inflation expectations are increasing pressure on the entire Bund yield curve**. The combination of higher public debt, geopolitical uncertainty and structurally higher inflation risks argues against a swift return to the extremely low yields of previous years. Fiscal risks also push yields higher. The more Germany and other European countries rely on **debt-financed programmes**, the greater the **supply of government bonds** becomes and the higher the **yield demanded by investors**.

Rising Bund yields due to higher inflation

[G3] Since the outbreak of war in the Middle East, yields on German government bonds have been rising

Indicative yields on German government bonds



Source: Bloomberg, DZ BANK, data as at 01.10.2026

Conclusion

Inflation remains a key driver of Bund yields, alongside rising government debt. Consequently, high oil prices also affect Bund yields via inflation expectations. Safe-haven effects remain in place, but are becoming weaker. Political crises may continue to provide short-term support for German government bonds. **However, these effects are increasingly being overshadowed by long-term fiscal and inflation concerns**. Since 2025, the changes in Germany can be described as **a transition from a 'debt brake world' to a 'geopolitical fiscal world'**. Policymakers are responding to war, energy insecurity, deglobalisation and US protectionism

Transition to a geopolitical fiscal landscape

primarily through higher government spending and increased borrowing. From the perspective of the capital markets, this appears understandable in the short term, but **in the long term** it leads to a **structurally higher yield level for German government bonds**. Whilst German government bonds are likely to retain their status as the safest euro-denominated benchmark market, current developments suggest that investors will demand permanently higher yields than in the decade prior to 2025. The key transmission channel remains the combination of higher government borrowing requirements, rising energy prices and an ECB that must once again focus more strongly on combating inflation.

DEVELOPMENTS ON THE PFANDBRIEF MARKET

The German pfandbrief is a **crisis-tested refinancing instrument** whose security investors trust. The volatile environment is also evident in the pfandbrief market; however, in our view, the **impact on issuance activity and risk premiums** has been **very limited**.

Outstanding volume continues to rise

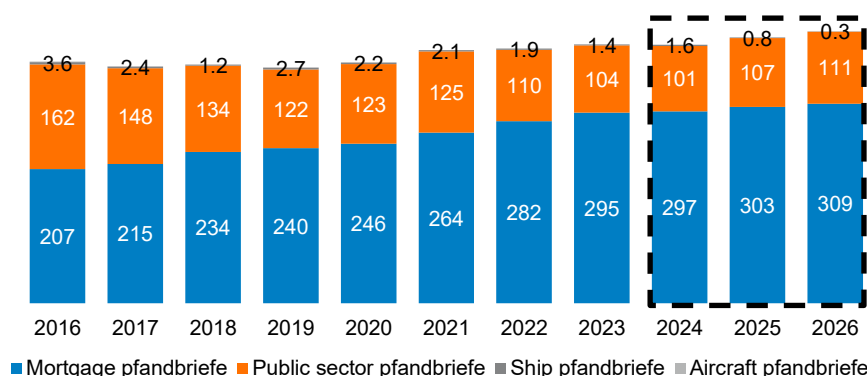
As at 30 June 2026, the **outstanding volume of German pfandbriefe** rose, according to our calculations, to **EUR 420.1bn**, an **increase of EUR 7.7bn** compared with the end of 2025. Compared with the end of 2017, the outstanding volume of pfandbriefe has thus grown by EUR 53.8bn, or 14.7 per cent. Since 2024, the impetus for growth has no longer come solely from mortgage pfandbriefe, whose outstanding volume had been rising steadily since 2014. Since 2024, the market segment for public sector pfandbriefe has also been growing again. The outstanding volume of public sector pfandbriefe has recently risen even more sharply than that of mortgage pfandbriefe, both in absolute and relative terms (comparison between 30 June 2026 and 31 December 2025). Compared with mid-2025, there was also a clear increase of EUR 10.8bn for the market as a whole. The higher outstanding volume compared with both dates was achieved **despite a decline in the number of active pfandbrief programmes**. Over the past twelve months, the number of programmes with at least one pfandbrief outstanding fell by six to 110. At the same time, the number of active issuers fell by one bank to a total of 82 as at 30 June 2026. For ship pfandbriefe, there is now only one active issuer left, although its volume outstanding in this asset class has fallen to less than EUR 0.3bn.

Only minor impact from a volatile environment

Outstanding volume rises despite a decline in the number of pfandbrief programmes

[G4] Since 2024, growth in the market has been driven jointly by mortgage pfandbriefe and public sector pfandbriefe

Volume of German pfandbriefe outstanding in EUR bn



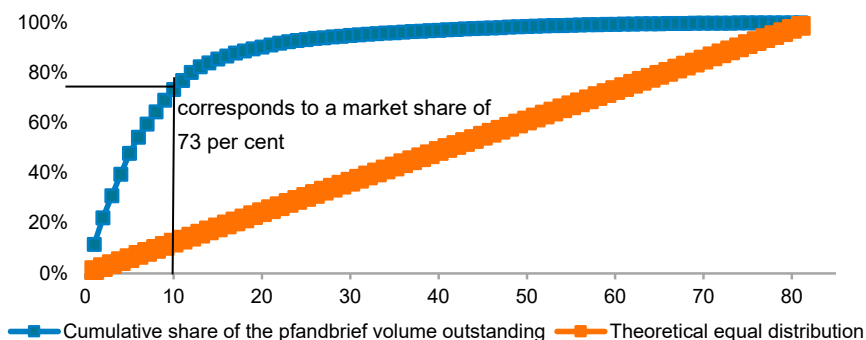
Source: Association of German Pfandbrief Banks, DZ BANK, data as at 30.06.2026

No other country in the world has as many covered bond issuers as Germany. However, of the **82 issuers active in mid-2026**, exactly 30 pfandbrief banks had pfandbriefe outstanding with a total volume of less than EUR 500m. There is therefore also a **high number of very small issuers** in Germany. On the other hand, concentration amongst the large pfandbrief issuers is very high. The ten largest pfandbrief banks by volume (**top 10**) **accounted for 73 per cent of the outstanding volume** in mid-2026. The top 15 issuers accounted for around 86 per cent. A potential takeover of by **Commerzbank**, followed by a **merger with UniCredit Bank**, would create **by far the largest pfandbrief issuer** in Germany,

The largest issuers by volume dominate the pfandbrief market

with an outstanding volume of EUR 85.3bn (as at 30 June 2026). As a result of this merger, the market share of the top 10 issuers would rise to 77 per cent.

[G5] Many pfandbrief issuers, but also a high concentration on large banks
X-axis: number of issuers, Y-axis: volume outstanding of pfandbriefe in EUR bn



Source: Association of German Pfandbrief Banks, DZ BANK, data as at 30.06.2026

Scope Ratings had expressed **scepticism** regarding the **issuance potential** of covered bond issuers in the European banking sector because – in short – banks' lending was slowing down (see Scope Ratings' ["Covered Bond Quarterly: Primary market growth stunted by structurally constrained collateral supply"](#) dated 1 July 2026). We have calculated the current **issuance potential for Germany** based on the investor reports of the pfandbrief banks and compared it with the figures from mid- and end-2025 (see table below).

Buffer for further new issues ...

Public credit institutions and commercial banks currently have the greatest issuance potential
Issuance potential defined as the volume of cover assets minus the volume outstanding of pfandbriefe and minus statutory overcollateralisation

	Q2 2025	Q4 2025	Q2 2026
Specialised institutions	14.1	11.4	9.8
Regional banks (Landesbanks)	50.7	51.5	54.7
Commercial banks	48.8	50.7	47.8
Savings banks	30.6	31.0	30.4
Building societies	3.2	2.8	2.4
Total	147.4	147.4	145.2

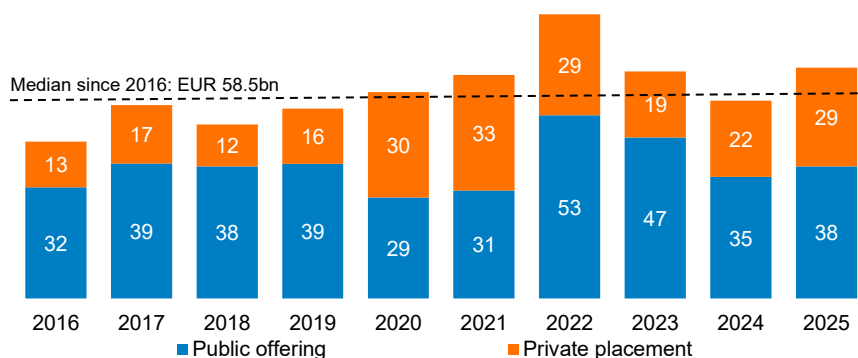
Source: Association of German Pfandbrief Banks, DZ BANK

By issuance potential, we mean the maximum possible volume outstanding of pfandbriefe, taking into account the statutory overcollateralisation, minus the current volume outstanding of pfandbriefe. The issuance potential thus expresses the maximum possible volume of new issues currently available for the given cover assets. According to our calculations, the **issuance potential** had **fallen slightly by EUR 2.2bn by mid-2026**. However, it still amounts to a substantial **EUR 145.2bn for all pfandbrief banks** combined. By way of comparison: according to the Association of German Pfandbrief Banks (vdp), the **annual volume of new issues** (gross, including retained pfandbriefe) in Germany **over the past ten years** ranged **between EUR 45.4bn and EUR 82.3bn**. The median volume of new German pfandbrief issues between 2016 and 2025 was around EUR 58.5bn. According to the Bundesbank, maturities fluctuated between EUR 30nn and EUR 65bn over the same period. Against this backdrop, it seems to us that the **buffer for further new issues**

... still appears to us to be sufficiently high

remains **more than sufficient for Pfandbrief banks in general**. However, the scope for issuance can be relatively limited for individual banks.

[G6] Pfandbrief banks have more than EUR 145bn in available cover assets, against which there has been a median new issue volume (gross) of EUR 58.5bn since 2016
Volume of new issues (gross) by German pfandbrief banks in EUR bn



Source: Association of German Pfandbrief Banks, DZ BANK

Issuance potential could be **further restricted** by the **rating agencies' over-collateralisation requirements** if the agencies' expectations exceed the statutory minimum overcollateralisation level. However, our impression is that the **level of the agencies' overcollateralisation requirements** has tended to **decline in recent years** and that the requirements now exceed the statutory requirements applicable in Germany in only a few cases. In this context, an **initiative by the vdp** could lead to an increase in the issuance potential of German pfandbrief banks in future. The vdp's proposals build on the report by the European Banking Authority (EBA) on the implementation of the Covered Bond Directive (CBR), see also EBA report "[EBA Advice on the review of the EU covered bond framework](#)" dated 23 September 2025 for more details.

vdp proposals would increase the issuance potential

The principles-based European directive allows for flexibility

In its report, the EBA assessed the Directive's **principles-based approach** as appropriate, and the European covered bond market was classified as functioning effectively. Overall, there are **no serious weaknesses in European covered bond legislations** that require urgent rectification. In our view, **German pfandbrief legislation** is likely to have served **as a model** and source of inspiration for the CBR in many respects, particularly with regard to the regulations governing special public supervision.

The German Pfandbrief Act is likely to have served as a model for parts of the European Directive

Although, according to the EBA, there are no serious shortcomings in European covered bond legislations, the supervisory authority has published a number of **proposals** in its report which, in detail, aim, amongst other things, at **greater harmonisation** of European covered bond legislation. This is intended to **limit the scope for regulatory arbitrage** and make covered bonds more comparable with one another. In our view, the European **minimum standards** for covered bonds already ensure a **high level of investor protection**. Admittedly, however, the European covered bond market is not fully harmonised. This, in turn, is consistent with the deliberate decision by the European legislator to pursue a principles-based approach with the CBR and **not to seek maximum harmonisation** of European covered bond legislations. Conversely, this also means that there are **still**

There are still differences in the covered bond legislation of EU Member States

differences of varying degrees **between the individual legal frameworks in the EU Member States.**

A side note: why do banks actually issue pfandbriefe?

In principle, every bank is likely to weigh up the **costs and benefits of pfandbriefe** and decide on that basis whether it wishes to issue them.

On the cost side, there is, amongst other things, the **administrative effort** involved in setting up and managing a pfandbrief programme. This encompasses **various aspects**. It starts right at the **lending** stage. The processes must ensure that the substantive and formal requirements for cover assets relating to the loans granted by the bank are met. The cover assets must be **entered into the cover pool**, a process which is monitored by **the cover pool monitor (Treuhand)**. In addition, **regular reports** must be prepared on the cover pool or for the pfandbrief programme as a whole. These include **internal risk reporting, investor reports and notifications to the supervisory authority** and, where applicable, to one or more **rating agencies**. However, before a bank is permitted to issue pfandbriefe, it must obtain the relevant authorisation from the Federal Financial Supervisory Authority (BaFin). We estimate that this process, together with the internal preparations for setting up a new pfandbrief programme, can take two to three years. Added to this may be the costs of obtaining a pfandbrief rating.

On the positive **side**, the pfandbrief provides the bank with a **crisis-tested refinancing instrument** that may enable access to the capital market even when times become more turbulent. Compared with unsecured bank bonds, the pfandbrief offers **more favourable refinancing costs** from the issuer's perspective (due to **lower risk premiums**). However, a bank's own pfandbriefe can also be deposited as collateral with the ECB. In this way, illiquid assets on a bank's balance sheet, such as mortgage loans, can be converted into an ECB-eligible asset. A bank's own pfandbriefe can also be used as collateral in money market transactions or exchanged for other securities. This can reduce refinancing costs or generate commission income. **The pfandbrief thus offers various uses** that support a bank's flexibility in liquidity management and long-term refinancing.

Pfandbriefe can be placed either privately or publicly. **Engaging with and maintaining relationships with investors** also requires resources on the part of the pfandbrief issuer. In addition to the mandatory disclosures already mentioned, there are also **investor presentations for potential investor meetings** and roadshows. If a pfandbrief bank aims to issue publicly placed pfandbriefe in sub-benchmark or benchmark format, the issue of credit ratings is likely to arise for the bank, with most agencies requiring an issuer rating as a prerequisite for a pfandbrief rating. Providing the agency or agencies with information, both during meetings and in writing, requires further capacity within the bank. Ultimately, it may also be necessary **to draw up a prospectus** for new public issues.

Mortgage pfandbriefe or public sector pfandbriefe give a bank access to comparatively cheap, long-term funding, enabling it to reduce **its reliance on customer deposits**. Mortgage pfandbriefe with a long-term tenor, in particular, can **improve** a bank's **asset-liability management** with regard to residential mortgages loans with long fixed-interest periods. Quite a few banks in Germany and other countries have used covered bonds to secure refinancing via the capital market.

Green or social pfandbriefe are a separate issue. These can be used to attract new investors whom a bank might not reach with conventional pfandbriefe. However, **pfandbriefe in a sustainable format** also entail additional work in the form of sustainability reports, allocation reports and the creation of a framework for green or social pfandbriefe.

Source: DZ BANK

The legal requirements are designed to protect creditors of covered bank bonds. For pfandbrief banks, however, they can also entail competitive disadvantages when compared internationally. The **German Pfandbrief Act** (PfandBG) is not only regarded as **particularly strict**; in our view, even following the implementation of the CBR, it remains one of the strictest regulatory frameworks in Europe. Furthermore, the BaFin keeps a very close eye on compliance with the rules. However, the legal requirements may – particularly when compared internationally – even appear to be too strict. In a [press release](#) dated 25 February 2026, the vdp published a [presentation](#) entitled “Regulation of Covered Bonds – Is there room for improvement?”, in which the association puts forward **proposals for reforming the PfandBG**. One of these proposals, to raise the loan-to-value limit (LTV limit), could lead to an expansion of the issuance potential.

Proposals aim to make the pfandbrief more attractive again as a refinancing instrument for issuers

Mortgage lending value limit for residential property to rise to 80 per cent

According to the vdp’s proposals, the **LTV limit is to be raised from 60 per cent to 80 per cent**, although this would only apply to property loans secured against **residential property**. For commercial property financing, the vdp states that the LTV limit should remain at 60 per cent, in line with international practice. With an LTV limit of 80 per cent for residential mortgage financing, German pfandbrief legislation would still comply with the strict requirements for European Covered Bonds (Premium). At the same time, this would **increase** the eligible portion of residential property financing and thus a **bank’s pool of cover assets**.

LTV limit for residential mortgages to rise to 80 per cent

By international standards, German banks are able to use a smaller proportion of their lending portfolio as collateral for their pfandbriefe

	German Pfandbrief Act	Dutch covered bond legislation
Loan amount	85 euros	85 euros
Market value of the property at the time the loan was granted	100 euros	100 euros
Market value of the property following a 10 per cent rise in property prices (since the loan was granted)	110 euros	110 euros
Mortgage lending value under German pfandbrief legislation	90 euros*	
LTV limit	60 per cent	80 per cent
Loan volume that can be used as collateral value (under pfandbrief legislation)	54 euros	
Loan volume that can be used as cover (following a 10 per cent rise in property prices and in accordance with Dutch covered bond legislation)		85 euros
Overcollateralisation (in accordance with Article 129 of the CRR)	2.7 euros	4.3 euros
Maximum possible issue volume following a 10 per cent rise in property prices (as a percentage of the total loan volume)	51.3 euro 60 per cent	80.7 euros 95 per cent
Further refinancing requirements (unsecured senior bonds or deposits)	33.7 euros	4.3 euros
Refinancing costs (assuming spreads based on the relevant iBoxx indices)	43 basis points	30 basis points
The fall in house prices required to push the realisation proceeds below 100 per cent of the collateral value	53.4 per cent	26.6 per cent

Source: Moody’s, DZ BANK; * a 10 per cent discount is assumed from the value stated in the valuation report or the purchase price (whichever is lower). This is a standard discount used to determine the comparative value for owner-occupied residential properties.

The rationale behind the vdp’s demand is easily explained. Whilst the risk premiums on German pfandbriefe are lower than those on most other European covered bonds, a fact likely attributable to the above-average stringency of Germany’s regulatory framework. Nevertheless, the **total refinancing costs for pfandbrief banks are higher than those of their international competitors** because, on average, a significantly higher proportion of their mortgage lending business must be refinanced with unsecured instruments. This is not solely due to the LTV limit, which is low by international standards. In Germany, there are also **strict regulations governing the determination of the mortgage lending value**. These strict requirements mean that the mortgage lending value of a property (which is decisive for the LTV limit) is often significantly below its market value, with valuation discounts for commercial properties sometimes being considerably higher than for residential properties.

Tight spreads, but nevertheless high overall refinancing costs due to low LTV limits

The table summarises an **example** from Moody’s that compares the **coverage capacity of a residential mortgage loan** against a German and a Dutch mortgage covered bond. This example also takes into account the fact that in many countries, including the Netherlands, the **index-linked market value** of the property may be used. This means that, in the event of corresponding increases in market value, the proportion of the loan that can be used as cover value also increases retrospectively. **In contrast**, in Germany the **conservative mortgage lending value** must be applied, **which is not permitted to rise over time**. Furthermore, Moody’s example

German pfandbrief banks can only use a smaller proportion of the loan as cover asset

takes into account the difference in the statutory overcollateralisation requirement, which is slightly higher in the Netherlands than in Germany. All in all, in this theoretical but not unrealistic example, a German pfandbrief bank can use 60 per cent of the residential mortgage loan amount as cover asset, whilst the Dutch bank can use 95 per cent.

To estimate the **refinancing costs**, we used the swap spreads (as at 4 March 2026) for the sub-indices for Germany and the Netherlands from the iBoxx € Banks Senior Index and the iBoxx € Covered Index. The **weighted sum of these spreads** indicated that the refinancing costs for a German pfandbrief bank would currently be 13 basis points higher overall than those for a Dutch bank. The weighting of the various refinancing sources depends on the proportion of the loan that can be used as collateral. **Raising the LTV limit in Germany would reduce the refinancing advantage** of Dutch banks in our example calculations **to around 2 basis points**.

Raising the LTV limit could largely offset the refinancing disadvantage

Raising the LTV limit for residential property finance for German mortgage pfandbriefe: summary from the perspective of investors and issuers

	Advantages	Disadvantages
Issuer (pfandbrief bank)	Lower overall refinancing costs: Banks can refinance a larger proportion of their mortgage business via low-cost pfandbriefe. The proportion of more expensive, unsecured refinancing decreases, thereby improving the competitiveness of German banks. Increased flexibility: The potential volume of eligible loans rises significantly. This gives banks – particularly specialist institutions with more limited cover assets – greater scope for issuing mortgage pfandbriefe.	Risk of higher risk premiums: Investors could use the increase in the LTV limit as a pretext to demand higher risk premiums for mortgage pfandbriefe. However, this effect is likely to remain limited due to the continuing strict regulations governing the calculation of the mortgage lending value.
Investor	Pfandbriefe remain a safe investment: The key protective factor – the conservative calculation of the mortgage lending value – remains in place. Even with an LTV limit of 80 per cent for residential property, this buffer offers sufficient protection against potential losses in the value of the cover assets.	Reduced safety buffer: For residential property, where prices generally fluctuate less sharply than those of commercial property, the safety buffer would be smaller in future. It would, however, continue to comply with international standards. Psychological effect: Moving away from the current high safety standard could be perceived as a sign of a relaxation of standards, even if the actual risk increases only slightly. Investor confidence can be of great importance in this regard.

Source: DZ BANK

In our view, the vdp’s position in this context can be summarised broadly as follows: **the combination of a strict mortgage lending value and a low LTV limit goes beyond what is necessary**. The strict mortgage lending value, in combination with an LTV limit of 80 per cent for residential property, continues to ensure a high level of protection for pfandbrief creditors and complies with **international standards** for European Covered Bonds (Premium). In the example, Dutch house prices would have to fall by 26.6 per cent before the cover value incurred a loss. We would expect **a similarly good – and, due to the mortgage lending value, possibly even higher (and thus better) – figure** for German mortgage pfandbriefe if the LTV limit were raised to 80 per cent.

The mortgage lending value, in combination with an LTV limit of 80 per cent, offers sufficient protection

Rating agencies do not view a higher LTV limit as problematic

Rating agencies unanimously agree that raising the loan-to-value limit for residential property financing **does not pose a significant problem**. In their analyses, however, they highlight **different aspects**. Specifically, the agencies have commented as follows:

Rating agencies highlight different aspects

-
- » **Fitch does not see the increase in the LTV limit as posing a risk to the current ratings of German mortgage pfandbriefe** (see Fitch's "Higher Mortgage LTV Caps for German Pfandbriefe Unlikely to Harm Ratings" dated 2 June 2026). **In Fitch's view**, whilst an increase to 80 per cent would **slightly weaken the outlook for realisation proceeds** from the cover pool, the **negative effect** would remain **limited** and, on its own, would probably not affect the pfandbrief ratings. The rating agency points out, amongst other things, that the **LTV calculation in Germany** is based on the **mortgage lending value of the property**, which is determined more conservatively (cautiously) than the market value used by the agency in its analyses. This would provide **an additional buffer in the event of a borrower's default**. In Fitch's view, the **risk** of lower realisation proceeds is **limited by the existing overcollateralisation** in German Pfandbrief programmes. Fitch believes that raising the limit would **increase the volume of eligible loans** and could lead to **more pfandbrief issues**, potentially **reducing the cost of mortgage loans** in general.
- Fitch does not see any risk to the ratings of German mortgage pfandbrief as a result of raising the LTV limit to 80 per cent**
- » Moody's published its assessment in mid-June (see Moody's report "Proposed changes add risks to cover pools but strengthen Pfandbrief as a funding tool" dated 15 June 2026). The higher LTV limit would continue to be based on the **conservatively assessed mortgage lending value** of the properties rather than their market value. Furthermore, the agency points out that **over-collateralisation in Germany must consist of cover assets** that **meet the statutory quality criteria**. In many other countries within and outside Europe, overcollateralisation requirements can also be met by loan portions that exceed the LTV limit, provided they form part of the cover pool. In an **example calculation**, Moody's explains that **the proportion of loans eligible for refinancing via mortgage pfandbrief would rise significantly** if the LTV limit were raised. Accordingly, the proportion of property financing that would have to be refinanced using other instruments, such as deposits or unsecured bank bonds, would fall. However, due to the use of the mortgage lending value of the properties for the LTV limit and the overcollateralisation rules, the proportion refinanced via mortgage pfandbriefe still lies well below the comparative figures for many other EU countries. Moody's does not expect that a possible increase in the LTV limit would significantly worsen the **collateral scores** of German mortgage bonds.
- Moody's does not see a higher LTV limit in Germany as a significant problem**
- » S&P does not foresee any significant problems arising from a possible increase in the LTV limit for residential property financing. In its report "How Higher LTV Limits Will Affect German Mortgage Covered Bond Ratings" dated 30 June 2026, S&P points out that **loans with a higher LTV are generally associated with higher default risks**. At the same time, the **conservative mortgage lending value** used in Germany would mitigate the effects of raising the LTV limit. The higher LTV limit would mean that more loans, or additional portions of loans, would qualify as cover assets. The agency expects that this **would initially lead to an increase in overcollateralisation and a decline in the proportion of commercial property financing within the cover pool**. S&P views both of these as positive factors that should strengthen the credit quality of the cover pools. By contrast, the maturities of residential mortgages in Germany – which are mostly fixed-rate – are significantly longer and their interest margins narrower than those of commercial property financing. S&P views both aspects negatively. **However, on balance, the positive aspects outweigh the negative ones for the agency**, which is why it sees no immediate threat to the current covered bond ratings in Germany.
- For S&P, the positive aspects of a possible increase in the LTV limit in Germany outweigh the negative ones**

New issues: public sector pfandbriefe are once again driving growth

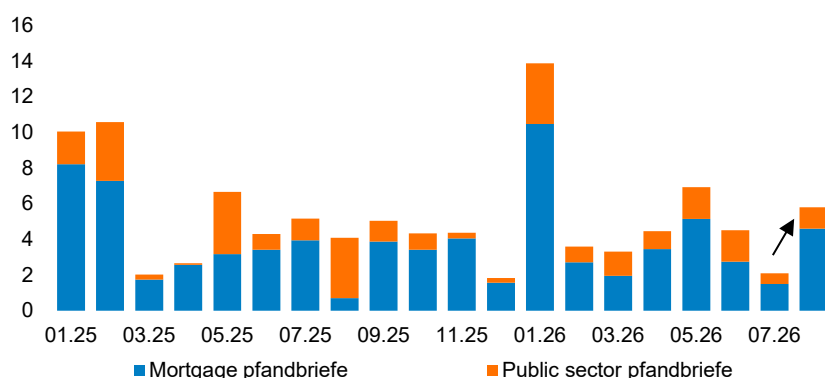
According to the vdp [newsletter](#) published on 10 September 2026, the **volume of new pfandbrief issues rose to EUR 5.8bn in August 2026**. In July, due to the summer holidays, the figure was just EUR 2.1bn. According to the vdp, of the new issue volume in August, EUR 4.6bn was attributable to mortgage pfandbriefe and EUR 1.2bn to public sector pfandbriefe. According to our records, **four pfandbriefe with a total volume of EUR 3.75bn in the euro benchmark format**, as well as one Pfandbrief in the sub-benchmark format (EUR 250m), were brought to market in August. According to the vdp, the total volume issued since the start of the year stands at EUR 44.6bn, which is **6 per cent below the level for the same period last year**.

More new pfandbrief issues in Germany in August

Mortgage pfandbriefe remain the backbone of the German pfandbrief market. For years, the volume of new mortgage pfandbrief issues has far exceeded that of public sector pfandbriefe. Accordingly, the **market share of mortgage pfandbriefe in the volume outstanding has risen gradually**. According to Bundesbank data, the market share of mortgage pfandbriefe has stabilised **at around three-quarters** since 2023. Public sector pfandbriefe account for the remaining quarter. Due to their low outstanding volume, ship pfandbriefe have played only a minor role in the pfandbrief market for several years now.

Mortgage pfandbriefe are the backbone of the pfandbrief market

[G7] Volume of new issues rises significantly again in Germany in August
Volume of new pfandbrief issues in EUR bn



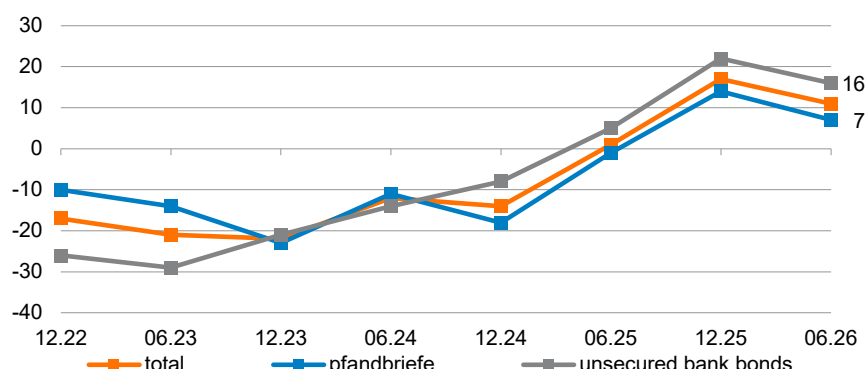
Source: vdp, DZ BANK

From January up to and including August 2026, just under EUR 27bn of **new issues** were accounted for **by Pfandbriefe in the euro benchmark format**. New issues in the sub-benchmark format (at least EUR 250m) contributed a further EUR 2.4bn.

Pfandbriefe in benchmark format accounting for over 50 per cent

Pfandbriefe in the benchmark format thus retain their **top position in terms of their share of new issues** (and also in terms of volume outstanding). In the first half of 2026, according to our calculations, pfandbriefe in the benchmark format accounted for a **market share of 57 per cent**, whilst those in the sub-benchmark format accounted for a market share of 5 per cent over the same period. The volume of new issues of registered pfandbriefe (Namenspfandbriefe) has stabilised since 2023 at around 10 per cent of the total volume of new issues. Their share of the outstanding volume reached around 25 per cent by mid-2026.

[G8] vdp issuance climate on the decline, but remains positive overall
vdp Issuance Climate in points



Source: vdp, DZ BANK

In our view, the **current market conditions** continue to point to a **favourable environment for new issues**. The **assessment** published by the **vdp**, based on its **member institutions'** views on the current and future **new issue environment**, **supports this conclusion** (see [vdp press release](#) of 16 June 2026). The overall index and the two sub-indices for pfandbriefe and unsecured bonds remained in positive territory most recently. However, they are slightly below the previous record levels set in December 2025. As part of a member survey, the vdp has been measuring the issuance climate every six months since December 2022. For pfandbriefe, the figure currently stands at +7 points (December 2025: +14 points). The vdp's sentiment indicator can range **from -100 points to +100 points**. A score of 0 corresponds to a stable capital market environment in which planned new issues can be placed without difficulty.

The vdp Issuance Climate has fallen, but continues to signal an overall optimistic assessment of the general situation ...

Components of the vdp Issuance Climate Index: general interest rate trends are the most significant factor over the next six months

	Mortgage bonds (current)	Mortgage bonds (over the next 6 months)	Unsecured bonds (current)	Unsecured bonds (over the next 6 months)
Investor demand	71	6	48	4
- the level of oversubscription for issues	37	34	29	13
- the asset swap spread level	-6	6	40	16
- the premium over German government bonds	-32	-38	--	--
Upcoming due maturities of bonds	--	0	--	0
Rating trends in the banking sector	--	0	--	0
Lending business requiring refinancing	--	-6	--	-6
General interest rate trends	--	59	--	59
ECB support	--	-12	--	--

Source: vdp, DZ BANK, -- = no data available

However, according to the respondents, the outlook for the second half of 2026 is becoming more subdued. Current investor demand for pfandbriefe is rated very positively at +71 points. For the coming six months, however, the corresponding figure falls to +6 points. In the view of vdp members, the **increasingly narrow spread between pfandbriefe and German government bonds** is weighing on demand. This factor is becoming increasingly significant. The lack of support from the ECB is also viewed as negative overall. For the second half of 2026, however, vdp members view the **general trend in interest rates** and the **spread of**

... vdp members are taking a more cautious view of the coming six months

pfandbriefe relative to the swap curve positively. In the December survey, the level of the asset swap spread had still been assessed as a negative factor.

Not all covered bonds are placed on the market

According to Bloomberg's "Covered Bond Chartbook Q2 2026", **banks issued and retained covered bonds with a total volume of EUR 64bn in the second quarter of 2026**. During the same period, covered bank bonds with a volume of EUR 59bn were placed publicly and EUR 6bn privately. Over the past twelve months (July 2025 to June 2026), EUR 160bn of new covered bond issues were retained, whilst EUR 182bn were placed publicly and EUR 28bn privately. The **proportion of retained covered bonds out of new issues thus currently stands at a comparatively high 43.2 per cent**. During the COVID-19 pandemic and the duration of the ECB's Targeted Longer-Term Refinancing Operations (TLTROs), this proportion peaked at around two-thirds. Prior to that, however – and particularly before the launch of the ECB's (T)LTRO programmes – the proportion tended to be roughly one-third. **Banks currently appear to be retaining a larger proportion of their new euro-denominated covered bond issues.**

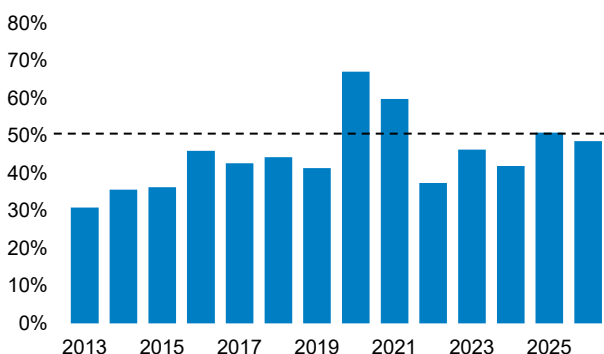
The proportion of retained covered bonds stands at around 43 per cent

Unfortunately, there are no official statistics on **retained covered bonds**. We have analysed data from Bloomberg and Moody's, focusing on euro-denominated covered bonds with a volume of at least EUR 250m. There are many bonds that were clearly placed publicly (i.e. syndicated). There are also numerous bonds that have been classified by Bloomberg as 'retained deals'. Furthermore, however, there are **numerous bonds** that have not been classified as retained deals by Bloomberg, but where we have strong **doubts** as to whether these bonds were syndicated. **We have therefore checked the data extracted from Bloomberg on a case-by-case basis** and, for example, have marked covered bonds issued by the issuer itself (without the involvement of another bank or a syndicate) as 'retained deals' in our list. The data we have generated in this way corresponds closely with the data published by Moody's on this subject.

It is not always clear whether a bond has been retained

[G9] Banks are retaining more of their covered bonds

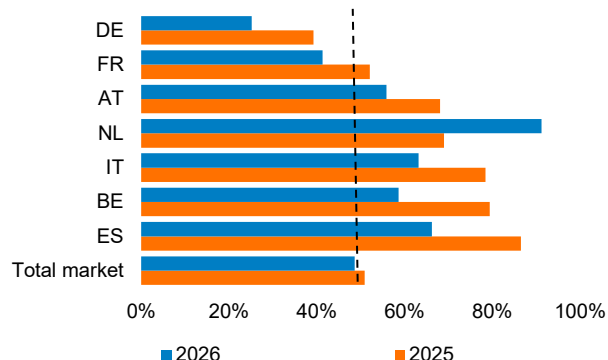
Proportion of retained covered bonds in the total volume of all new issues with an issue volume of at least EUR 250m



Source: Bloomberg, DZ BANK, data for 2026 as at 14 July

[G10] Retention rate in Germany significantly below average

Proportion of retained covered bonds in the volume of all new issues with an issue volume of at least EUR 250m



Source: Bloomberg, Moody's, DZ BANK, data for 2026 as at 14 July

The figures presented here for new euro-denominated issues also include bonds from non-European banks, which presumably retain a smaller proportion of their new euro-denominated issues than credit institutions from the eurozone. It would therefore not be surprising if a number of eurozone countries were above the market average. According to the data available to us, **the proportion of retained covered**

Below-average proportion of retained covered bonds in Germany

bonds relative to all new euro-denominated issues was **particularly high in Belgium, Italy, the Netherlands and Spain** throughout 2025 and in the first half of 2026. In contrast, the proportion among German pfandbrief banks remained well below the market average.

Multiple uses for retained covered bonds

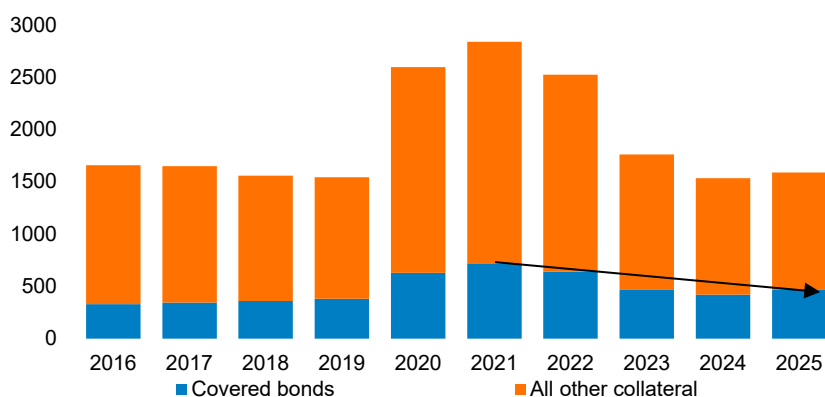
Banks are likely to have deposited some of the covered bonds they retained with the ECB as collateral. Data from the ECB (see [here](#)) shows that, **at the end of 2025, covered bonds totalling EUR 463.5bn were deposited with the ECB**. This corresponds to around 24 per cent of the outstanding covered bond volume that qualified as collateral for the ECB. These figures relate to all covered bonds, regardless of whether the banks submitted their own covered bonds or bonds issued by third-party banks to the ECB. Following the end of TLTRO III, the volume of covered bonds held as collateral with the ECB has fallen significantly from over EUR 700bn.

During TLTRO III, the volume of covered bonds deposited as collateral with the ECB rose sharply

In the context of ECB collateral, the term 'contingent liquidity' is frequently mentioned. Banks can deposit collateral with the ECB in advance so that they can draw down **central bank loans at short notice should the need arise**. We believe that banks' **own covered bonds** are well suited to the context of contingent liquidity, as banks can create their own ECB-eligible collateral themselves, provided they hold a sufficient number of eligible assets for their cover pools for covered bonds. In this way, they can convert comparatively illiquid portfolios of property loans into ECB-eligible assets. By doing so, banks avoid to purchase more expensive assets such as government bonds on the market.

Banks hold collateral for contingent liquidity in reserve

[G11] Since 2021, fewer covered bonds have been pledged as collateral with the ECB
Collateral used, average figures from month-end data for the respective period, figures in EUR bn



Source: [European Central Bank](#), DZ BANK

Another possible use for own pfandbriefe or covered bonds is to pledge them as **collateral in interbank transactions such as repos**. They offer a number of advantages over other assets (see [the 'European Repo Market Survey'](#) of 26 March 2026 by the International Capital Market Association, ICMA). According to the ICMA, the **haircuts for covered bonds** in tri-party repos in December 2025 – at an **average of 1.6 per cent** – were actually lower than those for government bonds, which stood at 2.4 per cent. In our view, this is likely due in part to the fact that the ratings for mortgage covered bonds – for example, in the case of France or Belgium, where they are rated AAA – are now noticeably higher than those of government bonds. **In a growing market for tri-party repos, the share of covered bonds in**

Low haircuts on interbank transactions

the collateral pledged reached 22.3 per cent in December 2025. The December figures for the years 2018 to 2021 were consistently below 10 per cent, whilst the share rose to 28.2 per cent at one point in 2023. Retained covered bonds also offer issuers the opportunity to **structure the liability side of their covered bond programme**. For example, a bank may provide its business partner with one of its own ten-year covered bonds as collateral for a two-year money market loan. When a rating agency assesses the covered bond programme, the covered bond is treated as a ten-year instrument, even though the money market loan has a maturity of only two years for the issuer.

Share of covered bonds rises in a growing market Breakdown of collateral pledged for tri-party repos

	December 2021	December 2022	December 2023	December 2024	December 2025
Claims on governments (government bonds)	48.6 per cent	38.2 per cent	34.7 per cent	41.0 per cent	46.2 per cent
Public funding agencies/local authorities	8.2 per cent	9.8 per cent	7.0 per cent	5.3 per cent	5.8 per cent
Supranational institutions	4.2 per cent	9.8 per cent	8.1 per cent	7.8 per cent	8.6 per cent
Corporate bonds	10.6 per cent	19.7 per cent	16.1 per cent	10.1 per cent	12.3 per cent
Covered bonds	6.4 per cent	16.0 per cent	28.2 per cent	18.1 per cent	22.3 per cent
ABS*	3.8 per cent	4.6 per cent	4.1 per cent	3.6 per cent	3.3 per cent
Other	18.2 per cent	1.9 per cent	1.8 per cent	14.1 per cent	1.5 per cent

Source: International Capital Market Association, DZ BANK; * Asset-backed securities including residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO), credit-linked notes (CLN) and collateralised loan obligations (CLO)

The issuer's own covered bonds can also be lent out, which may generate **commission income** for the issuer. However, the issuer must **refinance the cover assets** for the covered bond **by other means** (for example, via unsecured bank bonds or deposits). These additional costs, in the form of higher refinancing costs for other instruments compared with covered bonds, must not exceed the commission income from the securities lending for the transaction to be economically viable. **Bonds could, of course, also be swapped**; the securities lending described above could also be conducted on a secured basis. If a covered bond issuer temporarily requires a specific bond (for example, to meet its minimum liquidity coverage ratio, LCR), it can **borrow a corresponding bond on the market** for a specified period. The bank's own covered bond, which would not qualify for the bank's own LCR portfolio and might be provided as collateral for this borrowing of an LCR-eligible bond.

Securities lending and swaps can generate commission income

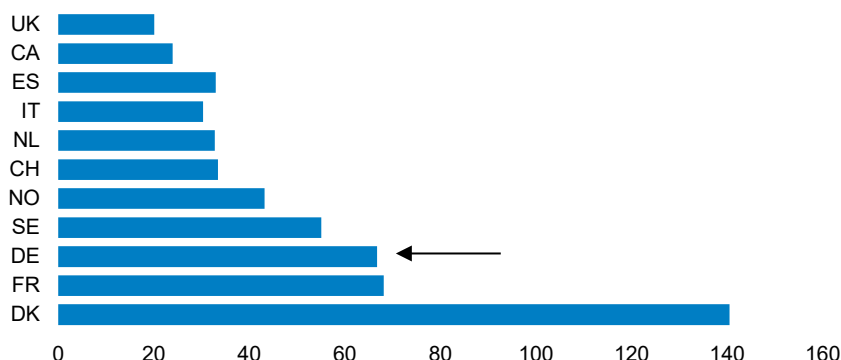
The German pfandbrief within the global covered bond market

According to the European Covered Bond Council (ECBC), the **global covered bond market** – which includes the German pfandbrief market – reached a **volume outstanding of EUR 3.4tr** in 2025. This represents a **3 per cent increase versus the previous year**. Since 2016, the global outstanding volume has thus increased by a remarkable 37 per cent. The **global gross new issue volume** rose by 15 per cent year-on-year in 2025 to **the equivalent of EUR 640.6bn**.

The global covered bond market remains on a growth trajectory

[G12] Denmark is the undisputed leader in new issues, with Germany in third place, just behind France

Gross new issue volume in EUR bn for 2025



Source: ECBC, DZ BANK

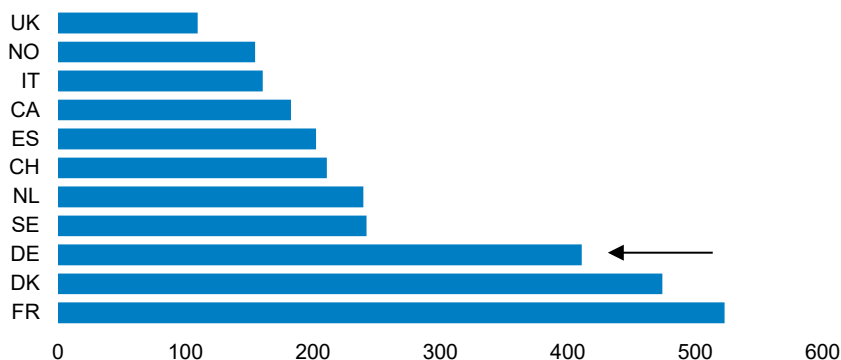
Germany ranks third in terms of gross new issuance and volume outstanding.

According to the ECBC, the volume of new German pfandbrief issues amounted to around EUR 67bn in 2025 (2024: EUR 57bn), meaning that German issuers were only around EUR 1bn behind their French counterparts. Danish covered bond issuers achieved a gross new issue volume of EUR 140.5bn in 2025, placing them well ahead of all other countries. **The new covered bond issues from the ten countries with the highest volumes already accounted for 82 per cent of global new issues.** According to the ECBC, the volume outstanding in Germany reached EUR 410.9bn at the end of 2025 (2024: EUR 399.5bn), meaning that Germany once again ranked third behind France and Denmark. However, in terms of volume outstanding, France led with EUR 522.8bn, ahead of Denmark with EUR 474.0bn. The ten largest country segments also accounted for 82 per cent of the global outstanding volume.

Germany ranks third worldwide in terms of volume outstanding and new issue volume

[G13] France, Denmark and Germany clearly ahead of Sweden by a significant margin

Volume in circulation in EUR bn, data as at the end of 2025



Source: ECBC, DZ BANK

BANKS FORM THE BACKBONE OF DEMAND

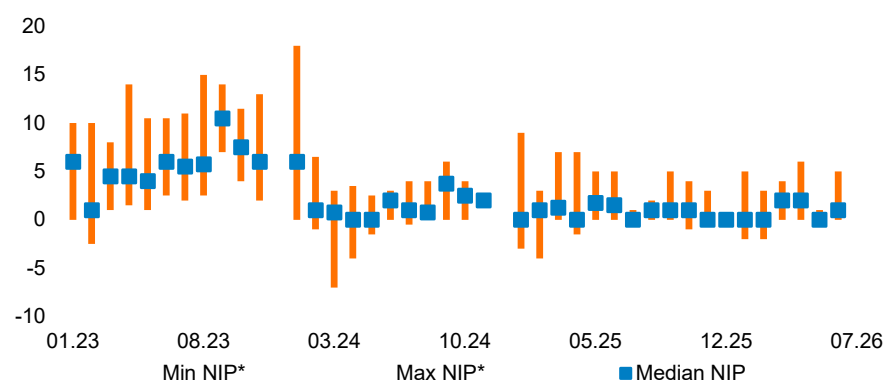
Banks have not only remained issuers of pfandbriefe or covered bonds, but have also remained the most important investor group. In the following, we analyse **demand for covered bonds over a longer period**; in doing so, we do not limit o to German pfandbriefe, but **focus on international covered bonds in the euro benchmark format from the eurozone**. This provides us with a **broader data basis** for our analysis. The benchmark covered bond segment, with an issue volume of at least EUR 500m, also represents the **most liquid market segment**, for which the best **information on investor distribution** is available in the allocated order books. For covered bonds traded on the secondary market, information on investor distribution is not as readily available as it is on the primary market; for this reason, we have limited our analysis to large-volume new euro-denominated issues.

Focus on large-volume new euro issues

Demand for new covered bond issues has been subject to fluctuations in recent months. This is entirely normal and naturally also applies in times of market volatility. In a few cases, demand was just sufficient to place the new covered bond. Overall, **the median bid-to-cover ratio in the first half of 2026 stood at 2.3**. This means that demand has been more than sufficient for most new issues, even though new issue premiums (NIPs) have remained at a low level close to zero since 2024. In our view, the generally **stable swap spreads** and **low NIPs**, despite brisk primary market activity, point to **very solid demand**. Covered bonds may have benefited as a safe haven in the credit market during periods of heightened uncertainty and volatility. We take a look at the **trend in demand**, focusing in particular on the **order books for euro-denominated benchmark new issues** since 2011. One thing we can say in advance: banks remain the backbone of covered bond demand.

Banks remain the backbone of demand

[G14] The median NIP remained close to zero month after month
Data on new issue premiums (NIP) per month in basis points



Source: Bloomberg, DZ BANK; data as at 30.06.2026, * The endpoints of the blue bars represent the lowest NIP (min NIP) and the highest NIP (max NIP) in the respective month.

Banks remain a safe bet for demand for covered bonds

In a recent [Risk Assessment Report](#) dated 18 June 2026, the European Banking Authority (EBA) published, amongst other things, the trend in covered bond holdings that banks maintain as high-quality liquid assets (HQLA). Covered bonds in benchmark format can be used by banks as Level 1 HQLA under the Liquidity Coverage Ratio (LCR). **According to the EBA, holdings by banks in the European Economic Area (EEA) had increased by the end of the first quarter of 2026 compared with the same quarter of the previous year.** There was also an increase compared with the previous quarter; banks in Central and Eastern Europe

Regulatory privileges create incentives for banks

(CEE) were the exception. There were particularly strong increases among French credit institutions and banks in the Benelux region. Among banks in the Nordic countries, covered bonds generally account for a very high proportion of LCR portfolios. Despite the high levels already reached, however, holdings continued to grow in this region as well. In Denmark and Sweden, government bonds are in short supply compared with covered bonds due to low levels of public debt, which is why banks presumably have little choice but to turn to covered bonds when seeking liquid and LCR-eligible assets in local currency.

Banks from the EEA have recently increased their covered bond holdings in their LCR portfolios

	Holdings as at Q1 2025 (in EUR bn)	Stock levels as at Q4 2025 (in EUR bn)	Outstanding amounts as at Q1 2026 (in EUR bn)	Change compared with the previous year	Change compared with the previous quarter
Germany, Austria, Liechtenstein	107.6	122.9	127.0	18.1 per cent	3.4 per cent
France	42.7	50.5	58.4	36.9 per cent	15.7 per cent
Belgium, Luxembourg, the Netherlands	35.8	47.5	49.5	38.1 per cent	4.2 per cent
Southern Europe	51.7	58.0	64.0	23.9 per cent	10.4 per cent
Northern Europe	152.9	151.1	165.1	8.0 per cent	9.3 per cent
Central and Eastern Europe	1.4	2.1	2.0	46.7 per cent	-6.5 per cent

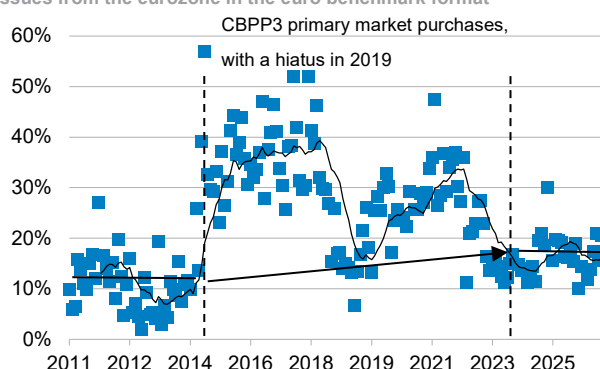
Source: EBA, DZ BANK

The regulatory privileges enjoyed by covered bonds are likely to be a key factor in banks traditionally being the most important investor group for euro benchmark covered bonds. This is shown by the order book statistics for new issues in the euro benchmark format since 2011. For the following figures [G15 to G18 and G20 to G23], we have calculated simple **monthly averages for various characteristics**. One characteristic, for example, is the proportion of demand from banks in the order book for a new issue. Following the end of the ECB's primary market purchases in March 2023 under its third Covered Bond Purchase Programme (CBPP3), **the proportion accounted for by banks and asset managers has risen again**. Accordingly, the figure for public institutions (including central banks) has fallen noticeably. In our view, demand from insurers and pension funds depends heavily on the maturity of the new issue. Consequently, the share of insurers (including life insurers) and pension funds is slightly higher during periods when covered bonds with longer maturities are more widely offered than at times when the primary market focuses on shorter maturities.

Banks and asset managers filled the gap created by the end of CBPP3

[G15] CBPP3 primary market purchases ended in March 2023

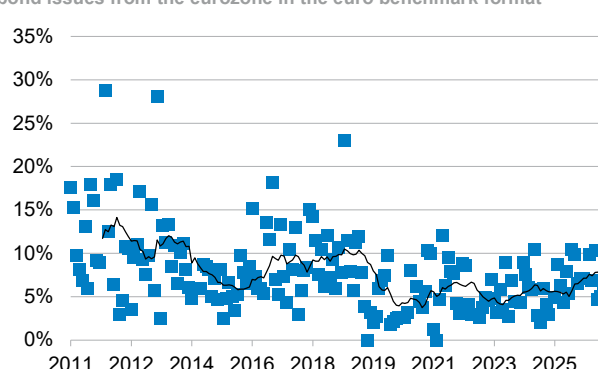
Monthly average, share of public institutions in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

[G16] Demand from pension funds depends heavily on the maturity

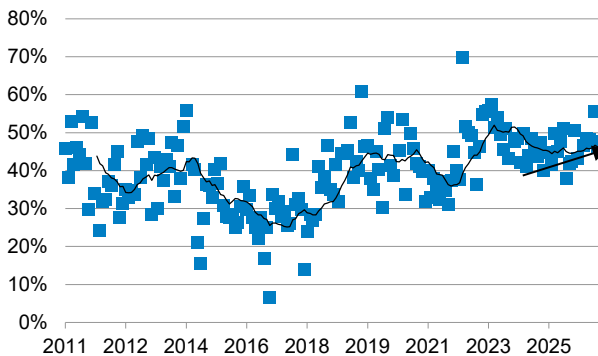
Monthly average, share of insurers and pension funds in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line is the 12-month moving average

[G17] Following the end of CBPP3 primary market purchases, the share rose ...

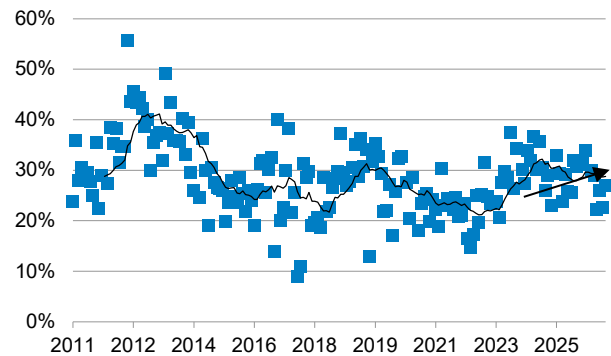
Monthly average, share of insurers and pension funds in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

[G18] ... by banks and asset managers (slightly) on the rise again

Monthly average, share of insurers and pension funds in new covered bond issues from the eurozone in the euro benchmark format



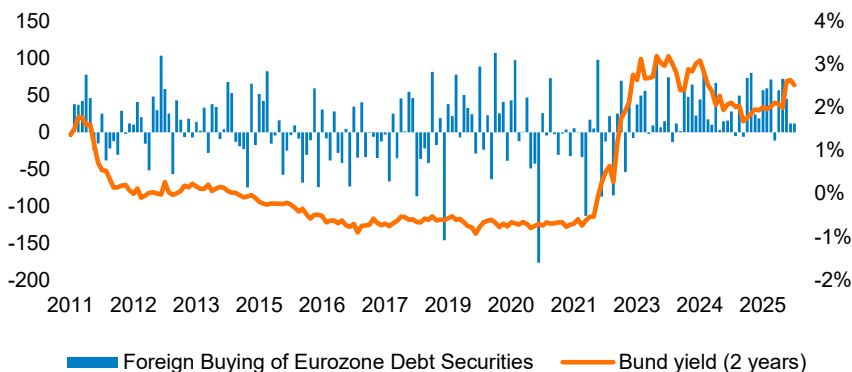
Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

Impact of demand from investors outside the eurozone

Due to the sharp rise in energy prices following the outbreak of the war in Ukraine at the end of February 2022, the ECB rapidly raised its key interest rates in several significant steps from summer 2022 onwards, thereby bringing the era of negative interest rates in the eurozone to an end. **This shift in the ECB's interest rate policy appears to have also boosted foreign investors' interest in eurozone bonds.** This is at least suggested by the figures from the eurozone's capital account, which the ECB publishes every month. According to these figures, the **volume of purchases** of debt securities from countries outside the eurozone **rose to between EUR 353bn and EUR 456bn per year in the years 2023 to 2025.** In the preceding years (up to and including 2011), the corresponding figure fluctuated between minus EUR 179bn and plus EUR 237bn.

The end of negative interest rates appears to have attracted foreign investors

[G19] As yields in the bond market rose, so too did capital inflows into the eurozone from abroad
Left-hand scale in EUR bn, right-hand scale: two-year Bund yields in per cent



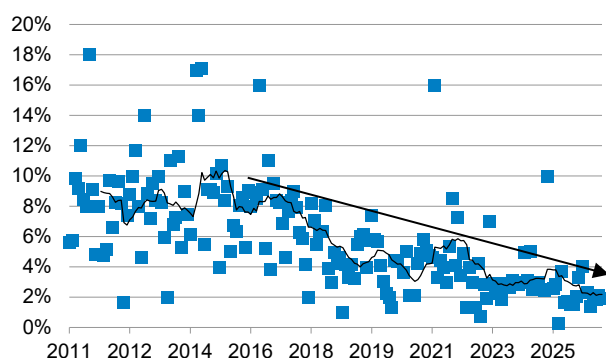
Source: Bloomberg, ECB, DZ BANK; * Net purchases by foreign investors from countries outside the eurozone of debt securities issued by eurozone issuers (including bonds but excluding shares or similar instruments); the figures are based on ECB data on the eurozone capital account, data as at 31.05.2026 (Bund yield), 30.04.2026 (ECB data)

We cannot conclusively assess the extent to which the figures shown in chart [G19] also reflect effects from de-dollarisation. The share of **public institutions and central banks** in the order books has been **slightly higher** since 2023 compared with the period prior to CBPP3 (see chart [G15]). This category includes all central banks from the eurozone, as well as their counterparts worldwide and other official investors such as sovereign wealth funds. Central banks seek liquid yet secure assets for their foreign exchange reserves, so euro-denominated benchmark covered bonds would certainly fit their profile. However, in our view, the **share of non-European investors**, which **has been falling for years**, argues against a positive demand effect on the European covered bond market resulting from de-dollarisation (see chart [G20]). At the same time, these figures do not allow for a definitive conclusion as to whether global investors (including European investors from the eurozone) have unwound parts of their dollar positions in favour of euro-denominated investments.

The share of non-European investors in order books has been declining for years

[G20] Long-term downward trend argues against a de-dollarisation effect

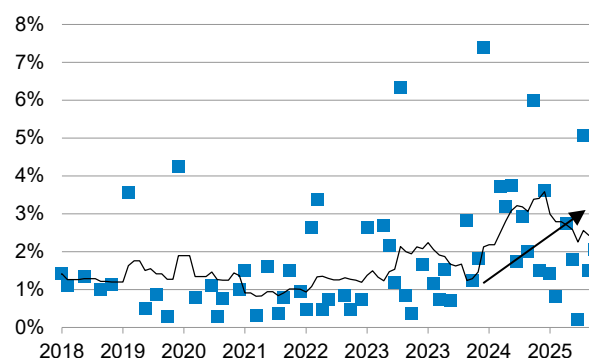
Monthly average: share of non-European investors in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, as at 30.06.2026; the trend line is the 12-month moving average

[G21] Low-level growth in the CEE region

Monthly average, share of CEE region in new covered bond issues from the eurozone in the euro benchmark format



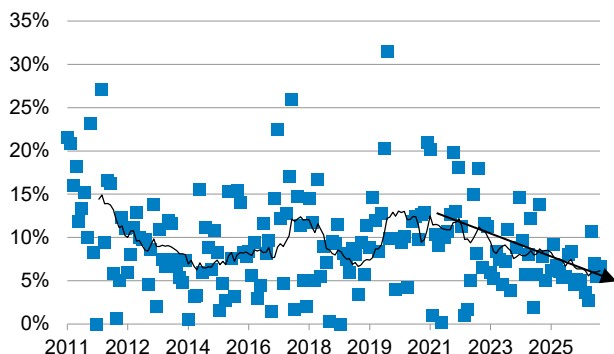
Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

Investors from the **Germany, Austria and Switzerland region** remain the **largest geographical group in the order books**, accounting for around 50 per cent. The share of investors from the **CEE region has increased in recent years**, albeit from a very **low base** (see chart [G21]). The impact on overall demand is therefore likely to be minimal. Despite rising covered bond holdings in the LCR portfolios of French banks, **France's share** in the primary market order books has been declining for several years and **hovers just above the 5 per cent mark**. By contrast, the share of investors from Ireland and the UK is currently on an upward trend. However, this share still fluctuates within the range observed since 2011, which typically ranges from a low single-digit percentage to below 15 per cent. Even though the short-term trend is positive, we would therefore not yet regard this as a trend reversal. Furthermore, Ireland is part of the eurozone, whilst the UK, as a non-eurozone country, has its own currency. Unfortunately, the figures available to us do not always allow us to distinguish precisely between these two countries – one within and one outside the eurozone.

France's share is slightly above the 5 per cent mark

[G22] Share of French investors continues to fall

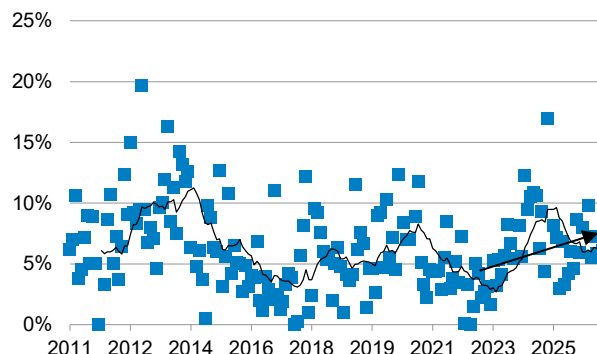
Monthly average, France's share of new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

[G23] The UK and Ireland are currently on an upward trend

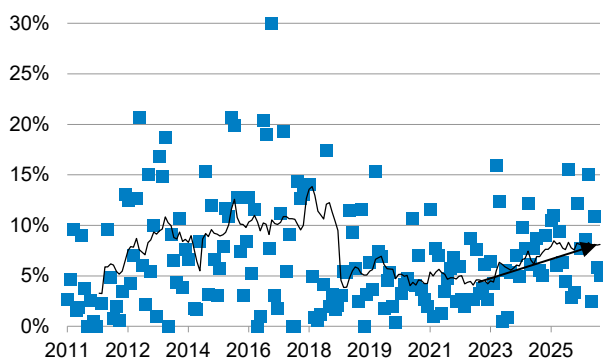
Monthly average, share of the UK and Ireland in new eurozone covered bond issues in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

[G24] Are southern European banks driving increased demand?

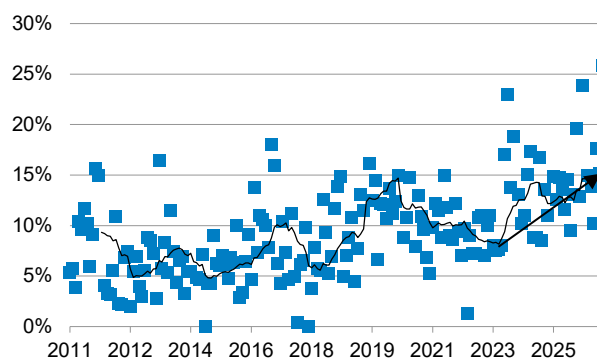
Monthly average, share of Southern Europe in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

[G25] Nordic investors are gaining in importance in the euro as well, despite strong krona markets

Monthly average, share of Northern Europe in new covered bond issues from the eurozone in the euro benchmark format



Source: IGM, DZ BANK, data as at 30.06.2026; the trend line represents the 12-month moving average

We are seeing the most significant changes amongst investors from Southern and Northern Europe. It appears to us that the share of Southern European investors in the order books has shown at least a **slight upward trend** in recent years. Amongst Nordic investors, the positive trend is even somewhat more pronounced. Denmark, Norway and Sweden have large covered bond markets in local currencies. However, the figures shown here (see chart [G25]) relate exclusively to demand from Nordic investors for new euro-denominated benchmark issues. Covered bonds in local currencies are not included in this analysis.

Demand from Northern and Southern Europe is increasing

Conclusion

In our view, the order books provide a good indication of the general demand situation in the covered bond market. **German pfandbriefe** generally **benefit** from their **strong domestic investor base**, meaning that the proportion of investors from Germany or the DACH region is likely to be higher on average for new pfandbrief issues than for international covered bonds. **However, banks remain the largest investor group for pfandbriefe as well.**

Results for pfandbriefe are similar

In the charts above on **order book statistics**, we have also limited ourselves to **new issues from the euro area**. This covers the majority of the primary market. Furthermore, the impact of CBPP3 becomes clear without being diluted by new issues from third countries. In our view, the data provide a representative picture of the demand for new covered bond issues in the euro benchmark format. When interpreting the charts, however, it is important to bear a few points in mind:

Focus on new issues from the euro area

» **We do not have order book statistics for all relevant new issues.** Coverage for the years 2012 up to and including 2021 remains at a very high level of over 85 per cent. However, this figure fell to between 72 per cent and 76 per cent in subsequent years. **In the current year**, we have this information for only **63 per cent** of all new issues in the euro benchmark format.

Figures not available for all new issues

» The figures reflect the order books following allocation to investors. This means that the distribution of investors may have looked different prior to allocation.

Order book status following allocation

» The **geographical distribution** of investors is sometimes published only in **aggregate form**, with several countries grouped into **larger regions such as Benelux, the Nordics or Southern Europe**.

Countries grouped into regions such as Benelux

» Investors naturally also purchase **bonds on the secondary market**. The order book statistics do not allow for any clear conclusions to be drawn regarding the distribution of investor interest on the secondary market.

No information on the secondary market

» The data relates to publicly placed covered bonds in **the euro benchmark format**. In some countries, however, there is also **significant activity in private placements** alongside this segment, such as registered pfandbriefe (Namenspfandbriefe) in Germany. These have a smaller volume than benchmark covered bonds. Private placements allow individual investors' interests to be tailored to their specific needs and thus better accommodated than with benchmark-format bonds, which appeal to a wider audience. The data shown here therefore does not allow any conclusions to be drawn about privately placed covered bonds.

No information on private placements

YIELDS AND RISK PREMIUMS

Swap spread trends in the bond markets

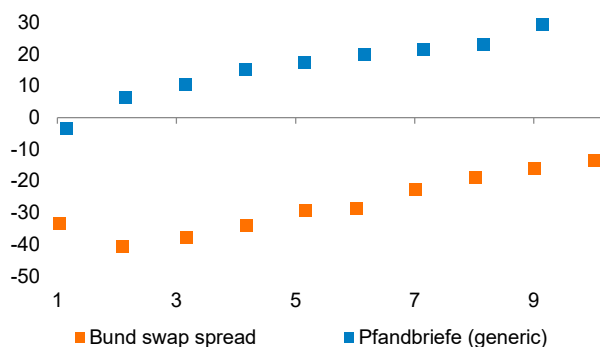
The trend in swap spreads (as a barometer of risk premiums in the credit markets) has also reflected the changing perception of sovereign risks in recent months. As early as autumn 2025, some market participants argued that **rising government debt could justify higher risk premiums for sovereign issuers in the long term**. At the same time, corporate and bank bonds remained in demand due to prevailing yield levels and solid fundamentals. As the year progressed, credit spreads showed remarkable stability. **Despite significant geopolitical risks, risk premiums reacted much less strongly** than traditional risk models would have suggested. This can be attributed to several factors. These included higher yield levels, more robust corporate balance sheets, generally sound earnings performance among banks, and strong overall demand for corporate and bank bonds.

Government bonds are coming under pressure,

Some market participants appear to **regard global corporate bonds as a safer investment than the government debt of certain countries**. Consequently, in recent months, many investors have shifted their focus from traditional government bonds to corporate and bank bonds. By August 2026, the **credit spreads on corporate and bank bonds had narrowed even further, although geopolitical risks remained high**. The bond markets were therefore driven primarily by interest rate levels and expectations regarding central banks. The price of oil increasingly served as an important leading indicator for the future development of inflation, yields and monetary policy.

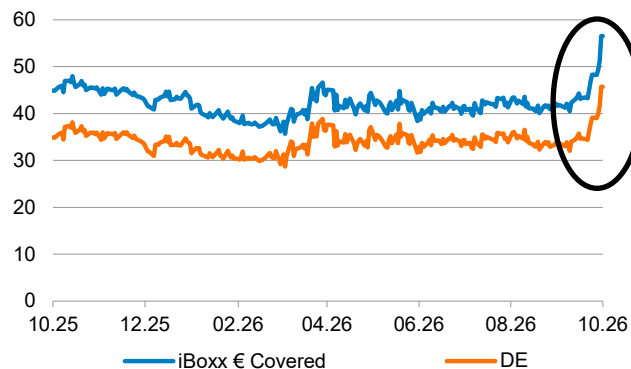
Spreads of covered bonds performed better bond from public issuers

[G26] Depending on their maturity, pfandbriefe offer a spread of 42 to 49 basis points over German government bonds
X-axis: Maturity in years, Y-axis: indicative swap spread in basis points



Source: Bloomberg, DZ BANK, data as at 02.10.2026, 14.00h CET

[G27] The spread of pfandbriefe relative to German government widened in a highly volatile market environment at the beginning of October
Bund spread in basis points based on the iBoxx € Germany Covered



Source: Markit, DZ BANK, data as at 01.10.2026, 17.00h CET

In the case of **covered bonds** in general, and German pfandbriefe in particular, **strong demand is reflected in stable risk premiums** relative to German government bonds and the swap curve. In our view, demand would be sufficiently high – not least due to the prevailing **level of yields, which actually rose** during the first eight months of 2026 – to allow swap spreads to narrow even further. However, the **gap relative to the yield spreads of public entities and sub-sovereign issuers** (agencies/ SSAs) has **already narrowed so significantly** that any further tightening of pfandbrief swap spreads has so far occurred only in minuscule increments until the end of September 2026. As a result, the **risk premium relative to German government bonds has remained largely unchanged** over the past twelve months. In mid-September, risk premiums relative to German government bonds ranged between approximately 26 and 32 basis points for maturities of one to

Strong demand for covered bonds, but little spread over agency bonds

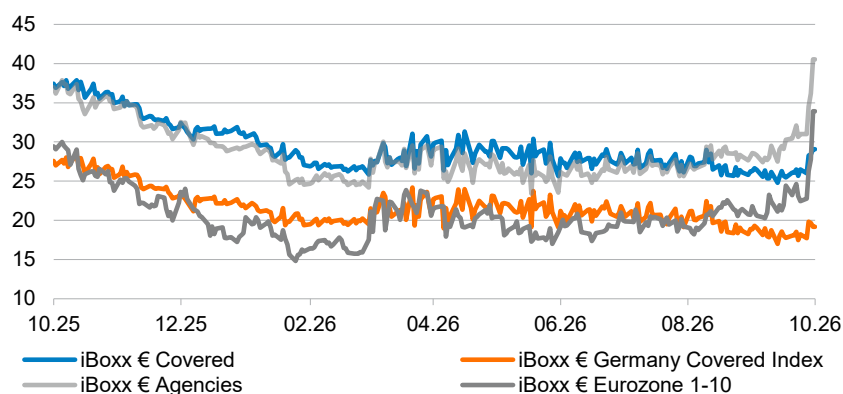
ten years. In early October, the Pfandbrief-Bund spread had widened to between 42 and 49 basis points in a highly volatile market environment.

Rising debt is weighing on the spreads of state-affiliated issuers

In our view, the **rising public sector debt can be** broken down into a **market effect** and a **credit effect** on the risk premiums of pfandbriefe. The market effect is driven by the **growing supply of bonds from governments and government-related issuers**. We therefore suspect that the spread between the risk premiums on pfandbriefe – or covered bonds more generally – and those on agency/ SSA bonds has been narrowing as a trend for some time. The chart [G28] compares the iBoxx indices for covered bonds and German pfandbriefe with the indices for agency bonds and eurozone government bonds. It can be seen that, **at the beginning of September**, the **swap spread of the iBoxx € Covered Index was lower than that of the iBoxx € Agencies Index**. The swap spreads of the two indices have been very close for some time, but following the negative news regarding budgetary developments in France, the spread of the Agencies Index widened, whilst the risk premium of the covered bond index continued to trend sideways or narrowed slightly. Covered bonds generally react less strongly to developments in public budgets than agency bonds. Consequently, in a highly volatile market environment at the beginning of October, risk premiums outperformed the spreads of government and quasi-sovereign issuers by a significant margin. Furthermore, the **proportion of French bonds** in the iBoxx € Agencies Index is **higher than in the iBoxx € Covered Index**, meaning that news regarding France has a greater impact on the agencies index than on the covered bond index.

Covered bonds with tighter spreads compared to agencies/ SSAs

[G28] Spread of the covered bond index below that of the agencies index, covered bond spreads are much more stable than spreads of public issuers in current volatile markets
Swap spread (z-spread) in basis points



Source: Markit, DZ BANK; data as at 01.10.2026, 17:00h CET

The swap spread of the **sub-index for German covered bonds has been trading** at a lower level than the iBoxx € Agencies Index for some time now. At the beginning of September, however, the risk premium also fell **below the swap spread of the iBoxx € Eurozone 1-10** (for eurozone government bonds with maturities of one to ten years). In our view, this could be linked not only to the news regarding France and the increased volume of new issues by public sector issuers, but also to a **credit effect**. Higher budget deficits and debt levels have put pressure on the ratings of countries such as Belgium and France for 2026. Depending on the agency, the ratings for these two countries stand at **A1/ A+** and **Aa3/ AA-** respectively – **three to four notches below the Aaa/ AAA rating**, which is the norm for European mortgage covered bonds from Belgium and France, as well as for German

Rating stability is a plus point for pfandbriefe

pfandbriefe. Even though the liquidity of the covered bond market cannot match that of the government bond market, the **higher credit ratings and the stability of these ratings** to date are **advantages in favour of covered bonds**.

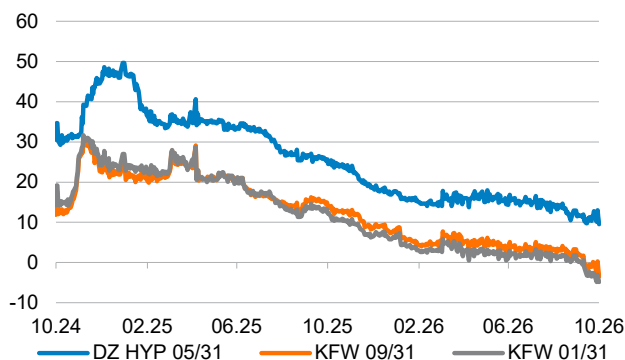
However, the tight spreads relative to public sector issuers could also work against covered bonds (**regulatory effect**). Government bonds and bonds issued by agencies/ SSAs generally enjoy even more favourable regulatory treatment. **The closer the risk premiums of covered bonds and government issuers are to one another, the more pronounced the effects of the better regulatory treatment become.** In this respect, we currently see government issuers clearly ahead in a relative value comparison. However, demand is unlikely ever to shift entirely in favour of one asset class or the other, given investors' desire to diversify their portfolios.

Regulatory advantages of agencies/ SSAs become more significant when spreads are tight

Due to the **differing composition of the indices**, spread comparisons between the iBoxx € Covered Index and the iBoxx € Agencies Index are not entirely meaningful. We have therefore examined the spread performance of pfandbriefe against benchmark bonds issued by KfW and German federal states. As part of this study, we have selected comparable bonds with a **maturity of around five years** as examples. The familiar picture emerges. **Pfandbriefe are less liquid** than bonds issued by agency issuers such as KfW. Consequently, their **risk premiums react more slowly** to news. The spread trend for pfandbriefe is therefore generally more subdued. **Since January 2025, the spread between KfW bonds and pfandbriefe has narrowed by around ten basis points.** The trend in spreads between pfandbriefe and benchmark bonds issued by German federal states is similar. **In many cases, the risk premiums on pfandbriefe and federal state bonds have now converged to around two basis points** (as at the beginning of October 2026). The current volatility in the markets has not changed this situation so far either. To date, this spread has only been breached briefly and never on a sustained basis. For us, the zero line (i.e. where pfandbriefe and bonds from German federal states have the same risk premium) represents, in a figurative sense, the sound barrier that pfandbriefe are unlikely to overcome in the long term as long as Germany and the federal states do not lose their current credit ratings. **Only when covered bonds have significantly better ratings than public issuers – as is currently the case in France – do we see potential for mortgage covered bonds to outperform agency and SSA bonds on a sustained basis.** In our view, however, this development is unlikely to occur in the foreseeable future for German pfandbriefe versus bonds from German Federal States.

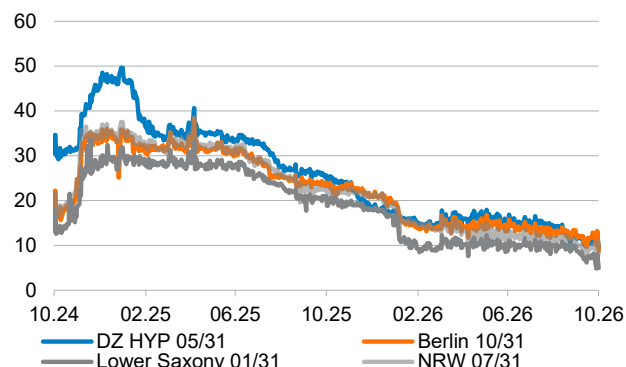
Comparing the indices might be misleading; we therefore look at similar bonds

[G29] Mortgage pfandbriefe spreads compared with KfW bonds ten basis points higher
Indicative swap spread in basis points



Source: Bloomberg, DZ BANK, data as at 01.10.2026, 17.00h CET

[G30] Mortgage pfandbriefe versus German Federal State bonds only zero to four basis points higher
Indicative swas spreads in basis points



Source: Bloomberg, DZ BANK, data as at 01.10.2026, 17.00h CET

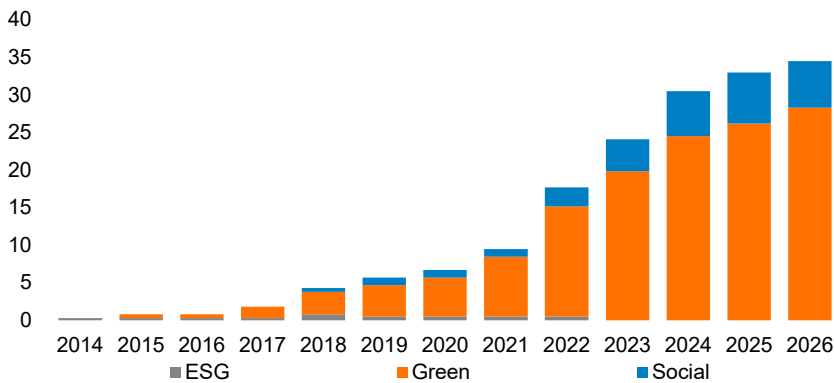
GROWTH IN SUSTAINABLE PFANDBRIEFE IS SLOWING

According to the vdp, the **volume outstanding of sustainable pfandbriefe** had risen to **EUR 34.5bn** as at 6 August 2026. This means that **sustainable pfandbriefe** continue to **account for around 8 per cent** of the total volume outstanding of pfandbriefe. **Mortgage pfandbriefe** account for by far the **largest share**, at EUR 32.3bn. The remaining EUR 2.2bn consists of public sector pfandbriefe. The breakdown of sustainable pfandbriefe into green and social categories is similarly clear-cut. The volume **of green pfandbriefe** stood at around **EUR 28.3bn** as at 6 August 2026, with the remaining EUR 6.2bn corresponding to social pfandbriefe. The vdp's figures relate to German pfandbriefe that meet the requirements for sustainable pfandbriefe as formulated by the vdp, although there are different requirements for [green pfandbriefe](#) and [social pfandbriefe](#). At the beginning of August 2026, there were a total of **16 German issuers** with sustainable pfandbriefe outstanding.

Volume outstanding continues to grow, but only slowly

[G31] Volume outstanding rose to EUR 34.5bn

Volume outstanding of sustainable pfandbriefe from Germany in EUR bn



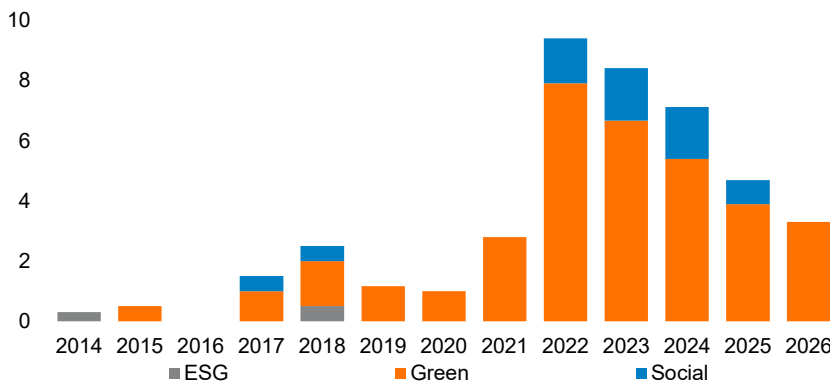
Source: [vdp](#), DZ BANK, data as at 06.08.2026

According to vdp data, the gross new issue volume of sustainable pfandbriefe declined between 2022 (EUR 9.4bn) and 2025 (EUR 4.7bn). For the current year, we still see a good chance that the volume of new issues will match that of the previous year. According to our estimate **sustainable pfandbriefe** accounted for **around 9 per cent of the total volume of new issues from German issuers** in the first seven months of 2026. According to S&P, a major **challenge** lies in the **lack of suitable green or social assets** for the cover pool (see the S&P study "German Covered Bond Market Insights 2026" dated 3 July 2026). To increase the stock of green loans, the agency reports that some banks are already offering their customers interest rate discounts of 0.1 percentage points to 0.2 percentage points for energy-efficient investments.

New issue volume could again reach the previous year's level in 2026

[G32] According to S&P, the lack of suitable sustainable cover assets is a stumbling block for new sustainable pfandbrief issues

Volume of new sustainable pfandbrief issues from Germany in EUR bn



Source: vdp, DZ BANK, data as at 06.08.2026

EU GBS remains difficult to access for the time being

At European level, there is the European Green Bond Standard (EU GBS), which is linked to the EU Taxonomy. On 28 April 2026, the vdp published a [statement on the amendments proposed by the European Commission to the delegated acts relating to the EU Taxonomy](#) on climate action. The delegated acts on the EU Taxonomy specify, amongst other things, which economic activities are considered environmentally sustainable or green. According to these, **property financing** may, under certain conditions, be regarded as **sustainable within the meaning of the EU Taxonomy**. Such loans could then be used as cover assets or reference assets for green covered bonds, which could also be issued in the EU GBS format. The first sustainable covered bonds compliant with the EU GBS were issued in 2026. However, no German issuer has been involved to date. One reason for this is the very strict requirements for green property financing under the EU taxonomy. The European Commission has, according to its own statements, revised its taxonomy for green property loans with the **aim** of making the **regulations simpler and more workable**. In its press release, the **vdp** argues that the **requirements are still complex and impractical**. The association would like to see simpler and more practical rules (keyword: reducing bureaucracy). Specifically, the vdp highlights the following points:

Requirements remain complex and impractical

- » The primary energy demand of new-builds and newer properties must **currently** be at least 10 per cent below the national standard for **nearly zero-energy buildings (NZEB)** for property financing to be considered green. NZEBs are buildings that demonstrate very high energy efficiency and whose energy demand is largely met by renewable sources. According to the EU Commission's proposal, the **EU Taxonomy** should already refer to the **definition of zero-emission buildings (Zero Energy Buildings, ZEB)** as set out in the EU Energy Performance of Buildings Directive (EPBD). However, the **EPBD** does not provide for the introduction of this standard in EU member states **until 2030**. The vdp opposes the planned bringing forward of the new-build standards within the EU Taxonomy and proposes that the **ZEB standards** should **only apply to the EU Taxonomy from 2030, following the implementation of the EPBD in the Member States**.

Criteria for new buildings should be brought into line with the EPBD

- » When financing the purchase and renovation of a building with a loan, it is often not possible for the entire financing to be classified as taxonomy-compliant. This applies even if the renovation meets the criteria but the building still does not

Renovation criteria should promote building refurbishment

achieve a top energy efficiency class (for example, NZEB minus 10 per cent) after refurbishment. The vdp regards this as a misguided incentive. **Financing for the refurbishment of buildings with poorer energy efficiency should be made more attractive**, even if the measures do not result in the highest energy efficiency class. Furthermore, the vdp calls for **the entire property financing** to be **recognised as taxonomy-compliant** for **refurbishments** that achieve a defined level of energy savings.

- » According to the vdp, the current requirements for verifying energy savings are too onerous. In particular, the **separate assessment of measures** such as insulation and the installation of renewable energy systems like photovoltaics means that **loans** would have to be **split** in order to qualify for recognition under the EU Taxonomy. Energy savings achieved through renewable energy are often not taken into account. The vdp is therefore calling for clear and measurable standards. In the association's view, **a 30 per cent reduction in primary energy demand could suffice as a criterion**. The contribution of renewable energy should be taken into account in this regard. Furthermore, it should be possible to finance the various renovation measures with a single loan without jeopardising the taxonomy compliance of the renovation loan. **According to the association, splitting the loan into instalments appears unnecessarily cumbersome.**

Simplification of renovation criteria and recognition of the entire renovation loan

- » The so-called Do No Significant Harm (DNSH) requirements are intended to ensure that an **economic activity does not significantly undermine any other environmental objective**. According to the vdp, the obligation to comply with the DNSH criteria – for example, regarding water protection or the circular economy – makes **financing unduly complex**, particularly in the case of small renovation loans. Furthermore, it is **very difficult** in practice **to obtain the relevant evidence**. The vdp considers the exclusion of owner-occupied residential property from the DNSH assessment regarding water protection and the prevention of environmental pollution to be insufficient. Raising the standards for the DNSH criteria relating to the circular economy makes application even more difficult. **The assessment requirements regarding the DNSH criteria** for water protection, the circular economy and the prevention of environmental pollution **should be waived for renovation projects** and instead be treated **merely as monitoring criteria**. Efficiency gains from renewable energy should be taken fully into account.

Simplification of the DNSH criteria

- » The EU Taxonomy criteria currently focus on buildings that demonstrate very good energy efficiency (an 'A' rating on the energy performance certificate, or the building being amongst the top 15 per cent most energy-efficient buildings in the region). According to the European Commission, this is to be supplemented. The new criterion relates to the **improvement in energy efficiency over the past ten years**. If an **improvement of 60 per cent** can be demonstrated, the property is deemed to be taxonomy-compliant. Whilst the vdp welcomes this extension, the association states that **reassessments after the loan agreement has been granted are impractical**. It also considers the 60 per cent threshold to be too ambitious. Taxonomy compliance must be verifiable at the time the loan is granted, based on evidence such as a renovation certificate or energy performance certificate.

Make the assessment of energy efficiency improvements practicable

In our view, the vdp is not questioning the objectives of the EU Taxonomy. However, vdp is pointing out a problem. **The assessment and verification of compliance with the taxonomy criteria must be practicable.** This means that the information must be available and must also be on hand at the time the loan is granted. Cumbersome data collection (in the worst case, carried out retrospectively) and overly detailed requirements, such as those under the DNSH criteria, merely increase the **bureaucratic burden** unnecessarily without actually contributing to the achievement of climate targets. The **vdp** therefore **calls for more pragmatic solutions.**

Bureaucratic red tape does not help to achieve climate targets

Imprint

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