

The Covered Bond Report

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The Portuguese Covered Bond Roundtable



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A positive credit story and limited supply have ensured that Portuguese benchmarks have enjoyed a strong reception amid this year's unpredictable backdrop. In this Portuguese covered bond roundtable, sponsored by DZ BANK, issuer and investor representatives share their insights into issuance dynamics, sovereign and bank developments, and ESG trends.

Neil Day, The Covered Bond Report: Matthias, Lasse, to set the scene for our discussion of Portuguese covered bonds, what has been driving the wider market and covered bonds in 2026?

Matthias Ebert, DZ BANK: Going back to last December and expectations for 2026, we were in a situation where inflation was coming down due to lower oil prices. We'd had a very good rally already, so spreads were fairly tight. Inflation expectations were low and people thought that Eurozone growth would pick-up, because after the German elections earlier in 2025, the German government was basically saying, "I want to spend so much more money", and people were hoping that this would reactivate the German growth engine, and as a result, growth in the Eurozone would pick up again. Sovereign spreads were all fairly close to each other, and, I think it's fair to say, the future was bright.

How little did we know what was going to happen in 2026?

The theme of the year has clearly been the comeback of inflation, with the US-Israeli attack on Iran on 28 February. And there have been two key phases in the year. One was when the US and Israel first attacked Iran: we had a spike in oil prices, and the market was quite scared that the additional fiscal deficit of Germany and other countries, and imported inflation into Europe, might lead to unsustainable fiscal deficits in the Eurozone. In this context, people have looked at the US's high deficit, as well as Germany's high deficit, and said that it involves some credit risk all of a sudden. Bund yields increased, Bund-swap spreads remained unchanged, people wanted to get out of dollars, out of US Treasuries and German Bunds. That was a

time when private sector high quality assets suddenly became more attractive — and covered bonds benefited. A number of other asset classes sold off — senior unsecured widened, some sovereigns widened throughout the year — but covered bonds, although wider, were holding fairly well. And then through the year, we saw another influx of money into the covered bond space and spreads tightened a bit.

Then, more recently, we saw another escalation. The cease-fire agreed in April did not hold, there's no peace deal in sight, and oil prices are still at elevated levels. Inflation is back on the agenda and that has now resulted in a sell-off, with France leading the way on the sovereign side. This time around, the sell-off has filtered into the covered bond world, so it's not only French covered bonds that are significantly wider, it's also German Pfandbriefe and everyone else. But there is meanwhile hardly any decompression of spreads — France aside — which means spreads are still very close to each other.

Lasse Henningsen, DZ BANK: I would highlight a couple of developments during the year. Going back to January, when covered bond supply arrived, a lot of dealers were quite short risk in their books, so the order books were filled quite easily. Some covered bonds felt like KfW bonds, when you had six or seven-fold oversubscribed books. That was very unusual, and it seems to me that there were some new kids on the block, fast money accounts that hadn't touched covered bonds for quite some time. This led to quite a decent rally, but in my opinion it was not stable. So when the war between the US-Israel and Iran broke out, dealers were quite long, fast money tried to get rid of their bonds, and you had quite a fire-sale in the beginning of



Participants in the roundtable, which was held on 15 October (left to right):

Carla Ferreira, senior manager, funding,
Novobanco

Joana Guerreiro, head of financial markets,
Banco Santander Totta

Matthias Ebert, head of debt capital markets
origination financial institutions, DZ BANK

Daniel Grencho, head of capital markets
department, Banco Montepio

Jorge Nunes, head of liquidity and funding,
Banco BPI

Neil Day, managing editor, The Covered Bond
Report, and moderator

Lasse Henningsen, fixed income portfolio
management, DZ BANK
(Participating remotely, not pictured)

March. The market was then in a situation where nobody wanted to buy any risk, so spreads were under pressure. That eased after a couple of weeks and we had a better market environment when this overhang of paper was sold to more stable investors.

The next phase we saw began when the primary market came back to life after the summer break. Once again, there was way too much supply in a short timeframe, and once again the market was after a couple of weeks long risk, long bonds. Now we are once again in a situation where things are a little bit tricky. It seems to be that on the issuer side, everybody wants to print on the same day, which can be a little difficult. The capacity of the market to really absorb these bonds is limited, in my opinion.

Another trend that is still intact is that spread curves are too flat, although we do see some steepening in credit curves. Longer bonds still feel tricky to price.

Day, The CBR: There has indeed been a lot of supply considering the challenges the market has faced. Matthias,

how has issuance developed, and against this backdrop, Portuguese covered bond issues?

Ebert, DZ BANK: Overall supply is fairly in line with the upper end of expectations for the year. Our own research was forecasting €170bn for the year back in December, and we're now at €175bn. I think the big question for this year was: will private investors take up the net supply? We had €156bn in redemptions, which means at the moment supply is €19bn net, plus €32bn coming off the ECB covered bond purchase programme, so give or take €50bn-plus that needed to find a new home with private investors. I think the fact that the higher absolute yields attracted real money investors to the market helped a lot to compensate for that decline in central bank involvement. But it was also the leverage of asset managers that helped. We've seen a lot of, as Lasse mentioned, hedge funds in the market in January and back after the summer break, and the leverage of the asset management industry in combination with the absolute higher yields and the attrac-



tiveness of the asset class helped support covered bonds during the course of 2026.

What has it meant for Portugal? We've seen two Portuguese covered bond issuers coming back to the market with three trades: Santander Totta twice, BPI once. We were on two of the trades as a lead manager, and all three trades went well. The most recent, three year deal had a massively oversubscribed book. Portugal has had four upgrades from the rating agencies since 2024, so there's a strong tailwind from the sovereign side. The banks are doing quite well and the economy is doing quite well. And it's great that investors have fresh diversification opportunities into strong economies.

Day, The CBR: Joana, Santander Totta has issued covered bonds twice this year. How did you navigate the markets and what has been your experience with the deals?

Joana Guerreiro, Banco Santander Totta: The first was a €750m seven year back in April. We had been ready to issue at the beginning of March, but the Middle East crisis began, and we had to wait for the right moment, more than one month until the opportunity arrived. It was not an easy market and not an easy decision.

The more recent one was in September, a €500m three year, so a completely different tenor. We already knew that we would have much more demand than for a seven year — as Matthias mentioned, interest rates were at a completely different stage than in April, so we were giving value to investors — and indeed the deal was an overwhelming success. The book was almost five times subscribed. As Matthias mentioned, we also saw some participation from less typical investors, including a limited number of hedge funds. They came in early and remained in the book until the end, contributing to the overall diversification of the investor base.

Even though the market was quite supportive of covered bonds at that stage, launching on that particular day was still

not an obvious decision. Market conditions were certainly more stable than they had been in March and April, but given the recent market environment, it was ultimately a relatively easy call to go ahead.

Day, The CBR: What determined your choices of tenors? Issuing the longer one when the market had been quite volatile might not seem the obvious decision.

Guerreiro, Santander Totta: We didn't have a covered bond maturity in seven years and we were looking for a longer maturity because the majority of our redemptions are around the five year tenor. Regarding the three year, we generally prefer to issue longer so that the funding is taken care of for longer, but the three year point of the curve was one in which we didn't have any redemptions, and we also wanted to execute very fast and with 100% certainty, and we knew that the three year would be the sweet spot at that time.

Ebert, DZ BANK: And back in April when you launched the seven year, the ceasefire between the US and Iran had just been announced, and that had also given a number investors the confidence to go further out on the curve.

Day, The CBR: Jorge, what's the story behind your benchmark?

Jorge Nunes, Banco BPI: As Matthias mentioned, we started the year in a very different scenario. We were also at the beginning of the year doing some quite intensive investor work, seeing around 30 accounts in face-to-face and virtual meetings. This was a mix of accounts already invested in our name and some new ones, and the feedback was very positive.

Like Joana, we were also targeting an issue in March, but then we had the US/Israel-Iran conflict. In April, after the ceasefire and after Santander issued, we felt that the market was constructive and decided to issue to capitalise on the investor work that we had done. We did a €500m six year that fitted our

maturity profile. The book was two times oversubscribed, with almost no fast money accounts — as expected at the time — but with good quality accounts, mostly a mix of bank treasuries and asset managers. In the end we were happy with the outcome.

Ebert, DZ BANK: The timing was spot on! DZ was a joint lead manager and very pleased with the result. As Jorge said, the quality of the order book was very strong. There was a strong DACH bid, contributing 38%, as well as significant Benelux and Nordic participation in the Portuguese deals. It's with good reason: as the credit metrics of peripheral issuers and countries have improved significantly in recent years, more and more core European investors are looking to buy their covered bonds. Additionally, capital pulled from France must find a new home. Furthermore, I think the Covered Bond Directive has also

'We had to wait for the right moment'

helped a lot by establishing a baseline standard for EU covered bonds. Capital in this asset class is shifting more easily between jurisdictions and that's a very positive signal for pensioners, investors in bond funds, etc.

Focusing on the pricing, Santander Totta's was around 5bp-6bp above German Pfandbriefe, among the lowest levels we have seen. And it was at almost the same spread as the parent company, so the times when Spain was a little ahead on the pricing side are completely gone — and if you look at the credit side, there should indeed be no difference.

Guerreiro, Santander Totta: Their deal three weeks later was at the same spread, so even if it was a long three year, it was a good result for us.

I believe that Portuguese issuers benefit from scarcity. There is finite scope for growth — you probably won't see five banks issuing in a given year, just the usual suspects — so Portuguese covered bonds will always be a scarce asset to invest in.

Day, The CBR: Lasse, was this year's Portuguese issuance of interest to you?

Henningsen, DZ BANK: First of all, as I mentioned, we think that covered bond curves are too flat at the moment, which means that the sweet spot for us as a treasury and spread-based investor is below five years. In terms of spreads, typically the best roll-down for covered bonds today — and actually that was the case for the entire year — is in three and four years. So we were active in the shorter bond, but we haven't been in the books for the longer bonds.

Day, The CBR: On the point about scarcity, to what extent is that a good thing to you, and are there any negatives?

Henningsen, DZ BANK: For us, it is a good thing. Even the format €500m no-grow makes a difference, because I know in that case that the bond is usually well placed with investors, and there are fewer fast money players trying to short bonds or get rid of them five days after pricing. We value stability, and scarcity is an advantage we like about Portuguese covered bonds.

Carla Ferreira, Novobanco: This also presents a challenge for issuers, as we have to assure investors that we will be regular issuers — that they're not doing their work for a one-off.

Day, The CBR: Carla, you haven't issued a benchmark this year, after returning in 2024 and following that up last year. What has been your stance this year?

Ferreira, Novobanco: We were looking at March, too, but ended up taking a different approach. One of the best things about the covered bond market is that it's highly reliable and we therefore took the option of waiting. We were confident that an



Joana Guerreiro, Banco Santander Totta:
'Portuguese covered bonds will always be a scarce asset to invest in'

opportunity would arise, especially because we tend to look to the medium to short part of the curve. Because we've been out of the market for so long, our maturity profile is quite manageable, so in the end, we favour cost efficiency, which is already good in covered bonds, but even better at the short end.

So from March until now, we've been monitoring the market but not yet issued for one reason or another. We were quite impressed with the Santander Totta three year in September, which would also have been a very good deal for us, but then the market went away again. We are constructive on the market and still monitoring. Deals are getting done, so the market is not closed, and the levels are still very OK for banks. Additionally, the Portuguese market has been doing very well.

Covered bonds are a really important tool for us — particularly after being acquired by BPCE, which means that we will mainly be present in the capital markets with covered bonds. So that means even more focus on covered bonds going forward.

Day, The CBR: Daniel, your last benchmark covered bond issue was in November 2019. Have you had covered bonds in your funding plan for this year?

Daniel Grencho, Banco Montepio: Covered bonds are an important part of our funding toolkit, even beyond public issuances. Since last year we have been actively engaging with investors in Northern Europe, and the feedback has consistently been very supportive of our credit in covered bond format. Investors clearly recognise the heavy work that has been done by Portuguese banks over recent years, as well as the resilience and quality of Portuguese cover pools, and all that. And up until the end of the first quarter, we were still quite intensively touching base with investors.

But at the end of the day, we are a relatively small bank, and we need to be highly focused in the execution of our funding strategy. As we are currently pursuing balance sheet growth strategy, with a corresponding increase in RWAs, we had to



Lasse Henningsen, DZ BANK: 'Portuguese assets have clearly overperformed for a couple of years now'

change the focus to senior preferred issuance. That strategic choice explains why we did not access the covered bond market during this period. Otherwise, we would have been present on the market. Going forward, our intention of returning to the market remains unchanged. We have done three public issuances so far and we continue to see considerable value in the instrument. We therefore expect to be an active participant in the covered bond market going forward.

Day, The CBR: Lasse, what do you make of the trajectory of Portugal and its banks? Have you been involved in their issuance for long?

Henningsen, DZ BANK: DZ BANK is rather conservative in some regards, so after the great financial crisis, there was a time when we were not active in Portugal. But things have definitely improved and Portuguese assets have clearly overperformed for a couple of years now. We were a little bit late to the party, but at least have now been able to buy Portuguese assets for a couple of years — not only covered bonds, but also government bonds.

Day, The CBR: What can you tell us about your issuance plans going forward, and perhaps how deposit and lending trends are playing into this?

Ferreira, Novobanco: We expect to issue once or twice every year, in benchmark sizes. We reserve our liquidity needs on covered bonds for the public market, meaning that we are currently not looking for private placements or taps.

Portuguese banks are mainly deposit-funded, which is also applicable to us. While the deposit base in Portugal is quite stable, the increase in interest rates usually puts a bit of pressure on deposits, and we are now seeing increased competition on the deposits. On the other hand, loan demand in Portugal is picking up, which naturally also increases liquidity needs. So liquidity may become a concern in a way it hasn't for many years.

So, we will remain flexible, but I don't see us going beyond

once or twice a year when it comes to covered bonds. And this should be very manageable.

Grencho, Montepio: Something that we try to convey to investors is that, due to our strong liquidity position, we are not under pressure to return to the market with covered bonds and, although it is a goal, we have the flexibility to be selective and carefully manage the timing of any return to the market. We nevertheless understand investors' preference for regular issuance and continued market presence. Internally, we would like to have a profile like other issuers, such as BPI, which has been active in the market annually. However, as is also the case for other Portuguese issuers, deposits remain our main source of funding. Ultimately, they continue to represent a very competitive funding source relative to covered bonds and, accordingly, we need to remain disciplined and measured in our capital markets activity. Looking ahead, our objective would be to establish a more regular issuance pattern, ideally with at least one benchmark covered transaction per year, even if deposits are expected to remain the main source of funding.

Nunes, Banco BPI: Our plan since 2023 has been very simple, namely one benchmark transaction per year, and this is what we have done in recent years. Since 2025, credit has grown more than deposits — which was in our case, at least, a different trend to previously. There's also, as Carla mentioned, some competition in deposits, including from fintechs or neo-banks that are increasing their presence in the market and also on the deposit side. Regarding deposits, it's worth noting that there is a very significant

difference in loan-to-deposit ratios among Portuguese banks, ranging roughly from 70% to 120%. We are around 100%.

To sum up, our plan is to continue issuing at least one benchmark covered bond transaction per year.

Guerreiro, Santander Totta: We intend to be present in the market at least once per year. This year was an exception. Sometimes we need to approach the market twice in order to manage our liquidity.

In terms of funding, I think that we are pretty much aligned with our peers. Customer deposits is the main source of funding that we all have.

I agree with Jorge that credit is growing more than deposits right now. We have a loan-to-deposit ratio above 100% — historically, it has been always like that — and this year we have been growing a lot on the credit side. Deposits have also grown, but credit has grown even more, and that's why we need to approach the market at least once or twice per year.

We also actually have a bucket of repos that we manage for our funding, and it's also quite an important tool. And actually, the perception of retained Portuguese covered bonds has improved a lot in the past few years because of the rating evolution, and it has become quite well accepted for repos and other types of trades. For each of us, it provides a welcome alternative.

Ferreira, Novobanco: I agree. Retained covered bonds are an important strategic tool. They are not our main funding option, but in terms of liquidity and collateral management, they are very relevant. For example, we have €7bn of bonds outstanding, and more than 70% are retained.

Nunes, Banco BPI: And they are flexible: easy to issue, easy to cancel.

Day, The CBR: Matthias, how do you see the market developing and the prospects for new issues, if it's not too difficult to make such forecasts these days?

Ebert, DZ BANK: Right now, French covered bonds are still under pressure, but the rest of the market is actually okayish. Where do we go from here? Our forecast for covered bonds is at the moment pretty rangebound, in the index around 30. We're at 32 at the moment, so slightly tighter but basically rangebound in the next 12 months. But there's a high level of uncertainty baked into this forecast, right? Geopolitical risks are the buzzwords here.

Guerreiro, Santander Totta: What do you think about the outcome of the mid-terms? Because every time the mid-terms happen, we talk about them constantly for the six months beforehand, and then nothing happens when they arrive. Do you feel that it could be any different this time around?

Ebert, DZ BANK: I'm no political expert, but I personally think that Trump will probably win either a majority in the Senate or in the House — so either/or, not both. That's my personal conviction. Will that have a large impact on the euro covered bond market or the euro fixed income market in general?

I personally doubt that.

The bigger question mark is, how will investors look at private sector debt versus public sector debt? I remember the times of the great financial crisis when investors were quite keen on holding public sector debt, and then we ran into the sovereign crisis, and suddenly it flipped towards private sector debt. If I look at markets today, we increasingly see covered bonds pricing through their underlying sovereign — France is a great example, but we have that in Italy and other countries like Hungary. That is a result of the better rating, but it could also be because some investors want to shift away from public sector debt to private sector debt. And overall that could be positive for covered bonds, because if you shift from public sector to private sector, you don't want to shift into risky assets, you rather want to shift into double-A or triple-A rated paper.

What concerns me a bit is, for covered bonds, the leverage that we already have in the market. If you look at the asset management industry, we see that a number of these asset managers are working with leveraged funds, and there are some funds that are up to 20 times leveraged, and clearly if that needs to be



Carla Ferreira, Novobanco: 'It's just a question of being ready to move when the right market comes'

revised, the only way to reduce leverage is by aggressive selling. And I think we witnessed a little bit of that over the last two weeks. Some asset managers — some hedge funds, but also some ordinary asset managers — had to liquidate positions, and that ended up on trading books. That is a bit of a concern, that there is that overall positive trend in favour of euro covered bonds, but on the other hand, we have much more leverage now than a few years ago. But, to summarise, the outlook is rather bright.

And I think the outlook for the Portuguese covered bonds is bright, too, because you have such a strong economy. You will likely have a fiscal surplus next year, so the Portuguese government is even thinking about lowering taxes. Your debt-to-GDP ratio is around 80%-plus. So, very sound country fundamentals that support you as issuers. The banks are healthy and have strong parent companies, too. And you will not flood the market with paper. So the overall outlook for

Portuguese covered bonds is bright and, as I said, I think you will rather benefit from funds that are looking for a new home than vice versa.

Ferreira, Novobanco: I think we will still have good market windows going into year-end. I'm not sure if the mid-terms will be a non-event, but they could be. There will still be a lot of redemptions and volumes have come down significantly. So maybe we'll see some good trades in November.

As just discussed, we do have the option of repo funding, for example. We would favour a benchmark covered bond, but 5bp concession is very significant in this market. January is usually a good month. It's just a question of being ready to move when the right market comes.

Henningesen, DZ BANK: With regard to the mid-terms, there shouldn't be much change. I believe that whoever sits in the driving seat in the US will increase the deficit even further, so there will be quite some pressure on US debt, and the question

'The overall outlook for Portuguese covered bonds is bright'



Daniel Grencho, Banco Montepio:
'Conditions are probably as favourable as they have
been for many years'

of sustainability of government debt, in particular in the US, will persist for quite some time. And the pressure that is coming from those US yields over to Europe will remain, regardless of whether the Democrats or the Republicans are in power, in my opinion.

Secondly, for the remainder of the year, the best case scenario, in my opinion, is that spreads are going sideways. We are already in the steering for year-end, which means that dealers are trying to get rid of their positions, they want to shrink their books. Indeed, a dealer told me yesterday that of the 10 largest inquiries he received, just one person wanted to buy bonds, and all the other clients wanted to sell bonds to him. That tells me that investors are still trying to offload their risk right now. And, as always, when conditions allow, even if they are not ideal, we will see some new supply, which will weigh on spreads once again. I do believe that we will have a better situation in January when investors are getting new risk budgets and when dealers are able to take risk. So I do not in the short term see a strong rally in spreads or a strong improvement.

Day, The CBR: We've already referred to the improvements in sentiment towards Portugal and its banks, but what would you highlight as the fundamental reasons for such shifts in attitude, at the bank and then country level? What did you perhaps focus on in meetings with investors at the recent Seville gathering?

Nunes, BPI: In our case, we've traditionally been a conservative bank in terms of credit underwriting. That's pretty much understood by investors, and covered bond investors tend to like stability. So we are not the most profitable bank, but we have one of the best asset quality indicators.

Investors also understand that Portuguese banks in general are in a slightly different situation in terms of credit growth, with credit growing much more than the European average, and they understand the reasons for that. The deleveraging trend

that we had after the Troika is now being reversed.

There was a time three or four years ago when we had a mix of high interest rates and high inflation, and there was a question, from investors but even among banks, of how asset quality indicators would behave. But the truth is that they behaved very well. There were no significant changes in terms of asset quality. That is also a good indicator regarding the current situation, even if inflation and interest rates are below what we experienced in the past.

Grencho, Montepio: Our story is quite different. If we go back some six years, we were well below investment grade. Since then, we have had quite a positive rating trend. Currently, we are rated investment grade by Moody's, Fitch and DBRS. We had a huge deleveraging programme that was achieved completely without government support. It took us time. And this is something that investors, and specifically covered bond investors, tend to be surprised at — partly because we were away from these covered bond investors for quite a long time. We have resumed contacts in the last two years, and when we show them the KPIs and the way that they have evolved, this is much appreciated. Just to give you an idea, we had a NPE ratio of around 20% back in 2015. Nowadays we have 1.6%. So, we are below the Portuguese market average on NPEs. We have managed to attain a steady positive trend on P&L. The rating improvements reflect that progress. And this all speaks to the resilience of our business model.

One of the things that investors always ask about is the resilience of the real estate market. We explain the structural features of the Portuguese real estate market to them, and these are basically confirmed by the rating agencies, which gives them some confidence, of course.

Like Jorge was saying, the trajectory of banks, but also the sovereign over the last few years is highly recognised by investors. So, the overall the message I would say is that, at this point, conditions are probably as favourable as they have been for many years. Portuguese banks have significantly strengthened their balance sheets, improved asset quality, increased capital levels and regained the capacity to support economic growth through new lending. As a result, investors' sentiment towards the Portuguese banking sector and, in particular, Portuguese covered bonds, is currently very constructive.

Ferreira, Novobanco: Every time we have a marketing exercise, we still meet investors that are looking to enter into Portuguese market, and it is quite nice to see the investor base is still expanding. Investors are bullish on Portugal, because both the country and the banks have clearly done really well. Cost-to-income ratios are very appealing. There are no credit quality issues anymore. And the Portuguese mortgage and real estate markets have been doing really well, too. So overall, for a covered bond investor, I think it's a highly valuable asset. And it offers a big pick-up when compared to Portuguese government debt.

'The investor base is still expanding'

So we have come a long way in attracting new investors, but there are still a few more out there to enter the market, which is good news for Portugal and Portuguese issuers. I am optimistic.

Guerreiro, Santander Totta: I think it's relatively easy for us to meet investors and market the Portuguese story right now, because Portugal is a very strong credit story. The banking system is in very good shape. I won't say the best shape ever, but certainly with very solid capital levels and, as Carla mentioned, high levels of efficiency. NPLs have come down so much that I sometimes joke that, from here, they can only get worse.

I also agree with Carla that we always have new investors to meet. We are not reaching the whole industry yet, so we have room to grow. So we are in a good moment for Portugal and for Portuguese banks, no doubt about it.

Day, The CBR: Focusing a bit more on the housing and mortgage markets, what is driving them? To what extent is the trajectory being driven by supply and/or demand considerations, and factors such as immigration?

Guerreiro, Santander Totta: There is a big imbalance between demand and supply. The level of new construction is quite subdued compared to 10 or 15 years ago. We have a shortage of around 300,000 homes — which is impossible to cope with right now — and until this supply issue is resolved, this imbalance will persist. So from my point of view, it is nothing to do with any bubble.

You still have demand coming from people from abroad, but also from the Portuguese themselves. The Portuguese government has put in place some measures for young people to be able to buy new homes, because as prices are going up at a double-digit percentage, it's near impossible for anyone, and especially young people, to buy new homes. Then on the supply side, we need workers, which we don't have. Immigrants can be part of the solution to that problem.

We need to have a more balanced demand-supply situation so that prices do not continue rising so much, because they have been increasing for more than two years at double-digit levels — we are currently at around 16%.

Ferreira, Novobanco: The regulator is pushing for public and private investment in real estate because there is such a shortage of housing. A lot of construction companies have disappeared during the crisis and have not returned or been replaced. And we need the labour force for construction, but we currently have a low unemployment rate and good levels of employment, so without the immigration flows, the situation would be even more difficult.

Ebert, DZ BANK: I took a look at Portugal's numbers: back in 2019, the country had a population of 10.4m, and that has picked up to 11.4m, so growth of around 10%. That's a lot for a coun-



try to handle. I've seen exactly what has been highlighted here in other markets: people come in, skilled workers from wealthy countries, and they bid up house prices, mainly in the larger cities. But while immigration is good for the housing market and the fiscal balance of the country, with new tax income, it also puts heavy pressure on the healthcare system and schools.

Grencho, Montepio: The contribution of foreigners coming into the country is still net positive on what concerns social welfare. Even if you look at the social welfare system, for example, the issue is not with foreigners coming into the country, because ultimately, they will be net contributors to the system. The issue is rather the profile of the ageing population. If you look into healthcare, take a young professional contributing to the system and then someone who is retired: that

retiree's healthcare costs will probably be more than 10 times the younger person's. That, and the dimensioning of healthcare apparatus vis-à-vis the rapid development of immigration, are the main pressures that we are facing. In the end, there's too much weight being put on immigration and on the impact it may have on social welfare and the healthcare system, because ultimately this immigration has a positive impact on the country's accounts — even if it puts some upward pressure on the real estate market.

Day, The CBR: To what extent are green, social and sustainability bonds on the agenda for Portuguese banks, particularly when it comes to covered bonds?

Grencho, Montepio: We put in place a green, social and sustainability bond framework back in June and used it immediately. The framework was published on 5 June, with a second party opinion from DNV, and roughly a week later we issued a €350m five year green senior preferred bond. We will continue to issue such bonds. We feel that it is the right step. The way we see this internally is that social responsibility was embedded in

'There is a big imbalance between demand and supply'



Jorge Nunes, Banco BPI:
'We are working to be ready to issue green bonds'

our organisation long before it became a broader market focus. We were founded by a mutual institution back in the 1800s and remain linked to one of the first private social welfare organisations in Portugal, and so social responsibility was always part of our DNA. Having said that, while these principles are deeply embedded in the way we operate and interact with our clients, we also recognise the importance of communicating this clearly to investors, and that is one of the reasons why we have put this framework in place. Green bonds provide a visible demonstration of our sustainability credentials and our commitment to these principles, while also giving investors a clear way to engage with our sustainability strategy.

When it comes to green covered bonds, they have been rather left on the sidelines. And we do not anticipate being the first Portuguese bank to issue a green covered bond. For the time being, we will use the framework mainly for EMTN issuances. But of course, we are attentive to how the market evolves, and if green bonds in covered bond format become a trend, then we may follow this development.

Guerreiro, Santander Totta: Is there some benefit in pricing? There was in the past, but I don't feel there is any difference right now.

Grencho, Montepio: The way we see it — and bear in mind we use this on senior preferred issuance — is that there is not a clear advantage on pricing. It is true that the overall push towards ESG was probably more evident in the past; investors today tend to place greater emphasis on valuation, spread and underlying credit quality.

Nevertheless, we still see parts of the market that are quite focused on ESG and we have seen that a number of dedicated investors active on the ESG spectrum were quite keen on participating in the new issue. At the end of the day, this gives you more safety regarding book size and quality of the books. So there is a positive impact, but I'm not sure if there is a greenium or not.

Ebert, DZ BANK: When the whole ESG topic started, there was very little issuance, but a lot of inflows into the asset management industry, so there was an imbalance. This meant that it was easy to achieve a greenium in senior, and maybe a basis point or two in covered. Any pricing difference was often down to the offer size, too. ESG bonds were often capped — typically due to the limited green collateral available — and so you had the pricing of a €500m no-grow trade. So the greenium was a combination of the two, additional investors and capped size.

In the meantime, ESG supply has picked up, while inflows into ESG funds are more moderate. As a result, the market is more in equilibrium, and therefore we hardly see a significant greenium for ESG paper. Nonetheless, there may still be a marginal pricing advantage for issuers in senior, but none in covered.

So as you mentioned, ESG issuance is a question of broadening the investor base, and that, at the end of the day, leads to reduced execution risk. So we usually advise issuers that, if they have an ESG bond pencilled into their funding plan, they should add the ESG feature on a riskier trade at the longer end of the curve.

Nunes, Banco BPI: We are working to be ready to issue green bonds, in case we decide to do so in the future. And since, in our case, covered bonds are the only product we place in the market, if we decide to issue ESG, it would be in the

form of a green covered bond. We are gathering all the necessary information and also making sure that we have the reporting capabilities in place.

We already have green mortgages, backed by energy efficient buildings, some of which are already in the cover pool — so in a way, investors are already benefiting from participating to an extent in sustainable financing in our covered bond issuance.

We are not chasing a greenium, either — there is basically no relevant greenium at the moment. But we may seek additional investors, broadening investor scope to include some dedicated ESG accounts, who also tend to be less volatile holders.

Ebert, DZ BANK: It's interesting to see how such trends come in waves. A few years ago, we had a very strong ESG wave, where all the issuers were pushing their credentials and the second section of the investor presentation was usually about ESG, how the firm is progressing, etc. And now it's basically moved either to the appendix or section six.

But climate change cannot be ignored away. It will definitely come back. We already have major floods and wildfires in Europe. It's just a question of time until climate change has a greater impact on banks' balance sheets. And investors will ask questions like, how large is the climate risk on banks' balance sheets?

Ferreira, Novobanco: We seem to observe a shift among investors whereby they are less focused on the green issuance and more on the bank's sustainability policy. So in the end, we be-

'Social responsibility was always part of our DNA'



Photography: Nikita Kruglov

lieve it is more important for us to have a strong ESG policy at the bank level, or a good ESG rating.

Grencho, Montepio: We have been seeing a similar trend even on securitisation. If you do an auto loan securitisation, you have a number of investors that are quite keen on knowing everything that you do in relation to sustainability, regardless of whether or not the transaction is green. They will send you their own ESG questionnaire and you have to fill it in if you want to get an order from that investor. At the same time, if it's not a securitisation, if it is, for instance, a senior preferred or covered bond, you'll have investors that again are quite keen on knowing your sustainability policy. However, there are specific pockets of demand among asset managers where an issuer needs to go beyond having a general sustainability strategy and provide the type of labelled instrument investors are looking for. For dedicated ESG funds, the label often remains a prerequisite for participation in a transaction. If the bond does not meet those criteria, they may simply be unable to invest.

From a practical perspective, bear in mind that we are increasingly being pushed by regulators to provide more disclosure on physical and transition risks, and on the green characteristics of the balance sheet exposures that we originate. At some point there may also be an impact on capital requirements linked to ESG considerations. So, if we already have to do all that work, why not make use of it through an ESG framework? At the end of the day, it is simply an extension of the push coming from the regulator on the one hand, and from the investors on the other.

'All in all, the ESG label is still positive'

Day, The CBR: Lasse, what's your perspective from the buy-side, even if you are not a dedicated ESG investor?

Henningesen, DZ BANK: I agree that the greenium has apparently disappeared. There's no longer much difference between ESG-labelled bonds and non-ESG-labelled bonds, especially for covered bonds. So that doesn't make a big difference to us. However, as all of you mentioned, the investor base is broader if the issue is ESG-labelled, which means that I'm more confident with putting an order into a book for an ESG-labelled bond then because I know there's more stability in the investor base and those investors are a little bit more long term orientated, I do believe. So, all in all, the ESG label is still positive for us.

Day, The CBR: Will we see more public sector covered bonds issued out of Portugal? Jorge, among the issuers here today, you are the only one active on this front.

Nunes, Banco BPI: In our case, it's very simple: we have a public sector covered bond programme that we have been using since its inception for retained transactions only. We have no plans to issue public sector bonds in the market.

The public sector has been deleveraging over the years and there is a lot of competition for the limited volume of public sector credit. Therefore, spreads are very tight and it's not very easy to efficiently price covered bonds backed by public sector collateral.

So I don't see public sector covered bonds being an asset class for Portuguese banks. ■

DZ BANK – ACTIVE IN SOUTHERN EUROPE IN 2026

 EUR 500 million Covered 3.375% 2026 / 2029 Joint Bookrunner 	 EUR 500 million Covered 3.125% 2026 / 2032 Joint Bookrunner 	 EUR 500 million Covered 2.875% 2026 / 2031 Joint Bookrunner 	 EUR 1 billion Covered 2.750% 2026 / 2032 Joint Bookrunner 
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DZ BANK – RELIABILITY IN CHALLENGING MARKETS – OCTOBER 2026 TRANSACTIONS

 EUR 500 million Covered 3.750% 2026 / 2032 Joint Bookrunner 	 EUR 500 million Covered 3.750% 2026 / 2033 Joint Bookrunner 	 EUR 500 million Covered 3.500% 2026 / 2030 Joint Bookrunner 	 EUR 500 million Covered 3.750% 2026 / 2029 Joint Bookrunner 
 EUR 750 million Covered 3.375% 2026 / 2028 Joint Bookrunner 	 EUR 500 million Covered 3.750% 2026 / 2029 Joint Bookrunner 	 EUR 1.5 billion Covered 3.500% 2026 / 2029 Joint Bookrunner 	 EUR 250 million Covered 3.750% 2026 / 2032 Joint Bookrunner 

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