

FROM THE EDITOR

Have you ever wondered, dear readers, why banks operating in Poland do not offer mortgage loans secured against residential property with a fixed interest rate for a period longer than 5 years? By way of comparison: in France, residential mortgages are available with a fixed rate for a term exceeding 20 years, with the option of early repayment at any time without incurring costs for the borrower. At the time of publication of this issue of *Bezpieczny Bank*, the cost of such a loan in France is around 3% (in Poland it is around 6% for a 5-year fixed-rate period). Similarly, in many other EU countries, such as Germany and Denmark, banks commonly offer residential mortgages with a fixed interest rate for a period of over 20 years.

The requirement for banks to offer fixed-rate loans in Poland was imposed by the KNF's Recommendation "S", in the version adopted at the end of 2019. The introduction of this obligation to offer such loans met with strong resistance, particularly within the banking sector itself. It was argued that banks did not possess the necessary know-how to effectively offer fixed-rate loans without incurring excessive interest rate risk themselves. Therefore, the minimum period for which the interest rate was required to be fixed, set at 5 years in 2019, was a compromise. Over the following years, banks were to gradually develop both fixed-rate loans and interest rate risk management tools within their banking books, so as to be able to gradually extend the interest rate fixation period. Seven years have passed since then, and the maximum fixed-rate period for mortgage loans in Poland is still 5 years, with isolated exceptions (though no longer than 10 years of fixed interest).

And this brings us to the significance of covered bonds: the fact that banks in Poland do not utilise them hinders the proper refinancing of a portfolio of genuinely fixed-rate loans. Covered bonds should, in fact, be viewed through the prism of their intended purpose, rather than the issuance itself.

We present to our readers a special issue devoted mainly to covered bonds as a financial instrument with significant economic and social objectives, the structure of which is tailored to these objectives.

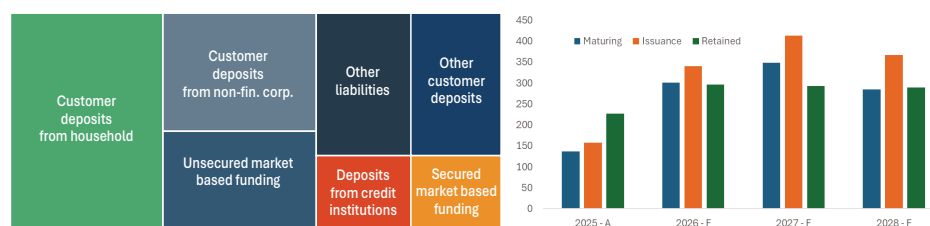
In Poland, there is a gap in the literature and a lack of knowledge among practitioners regarding this financial instrument, which is already well-established in developed markets. Without the development of mortgage bonds in Poland – as the experience of the last 36 years shows – it is unlikely that product maturity in the field of housing loans will be achieved.

It is worth highlighting the scale of use of this instrument as a tool for raising funds by banks in the European Union (EU) and the European Economic Area (EEA), as well as the greatest advantage of covered bonds from the issuers' perspective: low cost and the resilience of covered bonds to market turbulence.

In EU/EEA banks, deposits play a key role in the funding structure. This largely reflects the historically established and fundamental business model of banks. Nevertheless, market funding also constitutes an important pillar of banks' refinancing, accounting for around 20% of their total liabilities. Within this, secured funding – which is largely driven by covered bonds – accounts for over 30%.

The structure of banks' liabilities varies significantly across countries. Whilst market-based funding plays a much greater role in Northern European countries, its importance is much lower in Eastern European countries. In countries where market-based funding is more significant, the share of secured funding in total market-based funding is higher than that of unsecured funding. In Denmark, the share of secured funding is the highest, accounting for almost 50% of banks' liabilities.

Figure 1. Structure of bank liabilities in the EU/EEA (as at end-2025; left), volumes of maturing, issued and retained covered bonds of EU/EEA banks (in EUR billion) in 2025 (actual data – A) and in subsequent years (forecasts – F; right)



Source: EBA (European Banking Authority) risk dashboard.

In the projections, covered bonds will retain their role as an important financing tool. The EBA's financing plans for 2026 show that EU/EEA banks plan to increase the volume of covered bond issuances. Compared to 2025 – when issuance volumes were relatively low (likely due, among other things, to the relatively attractive valuations of senior preferred bonds) – banks plan to significantly increase covered bond issuance in both 2026 and 2027. Market data analysis confirms this trend. Furthermore, the technology for trading covered bonds is also evolving. In his paper „The role of tokenization in the development of the retail covered bond market”, Rafał Włoczka describes the mechanism and legal aspects of covered bond tokenisation, which may enhance the attractiveness of this instrument, particularly in the context of the retail market's development on the demand side.

Data from banks' financial plans submitted to the EBA indicate that covered bonds are not only an important instrument in primary market activity. Banks also hold them on their balance sheets to have recognised financial instruments that can be used as collateral (e.g. in central bank financing operations). This is another important function of covered bonds, particularly during periods of crisis.

When analysing the historical issuance activity of EU/EEA banks, a certain pattern emerges: banks issue more covered bonds during periods of tension or crisis. In other words, in times of crisis, activity in the primary market is driven to a greater extent by covered bonds than by senior unsecured debt or subordinated debt. This demonstrates that the primary market for covered bonds continues to offer access to relatively more favourable pricing levels than other segments of bank financing.

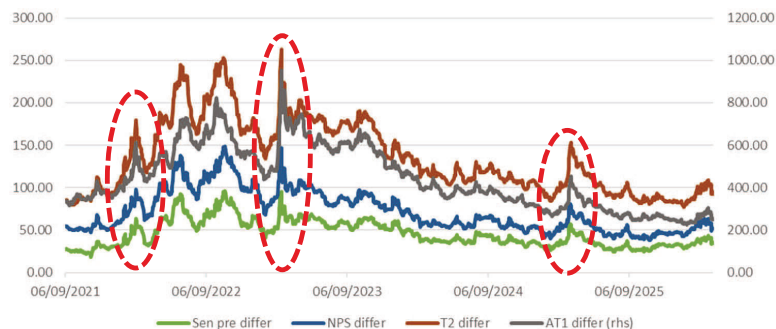
This was particularly evident at the onset of the COVID-19 pandemic in 2020, as well as following the start of Russia's full-scale invasion of Ukraine in 2022. This phenomenon was less pronounced – though still noticeable – during the crisis triggered by the collapse of SVB in the US in 2023 and following the announcement of new US tariffs ('Liberation Day') in 2025. It is worth noting that in March 2020, the total volume of all bank bond issues was significantly below average, which may have encouraged a greater role for covered bonds, whereas during other periods of tension, issue volumes were indeed reduced but did not experience a significant collapse.

In contrast, during the first weeks of the attack on Iran in March 2026, the increase in covered bond issuance was not quite as pronounced. This coincided with a less significant increase in asset swap (ASW) spreads for bank funding instruments, meaning that banks' funding costs did not show sharp increase, as in previous crisis periods.

In the context under analysis, attention should be drawn to the characteristic events resulting from the political crisis in France, leading to a repricing of its government debt in 2025. However, the rise in yields on French government securities translated into falls in the prices of bank bonds, including covered bonds. The study by Marcin Liberadzki and Arkadiusz Orzechowski, entitled "Structural changes and market integration: an analysis of the effects of the legislative crisis in France in 2024 and the downgrade of the country's credit rating in 2025".

Differences in the pricing of covered bonds and unsecured and subordinated bonds – as measured by differences in ASW spreads – mean that changes in covered bond spreads are significantly more limited during periods of market stress: spread differentials for unsecured and subordinated debt often widen substantially during crises. This justifies the importance of having access to these relatively safe funding instruments: thanks to covered bonds, banks can continue to secure cost-effective funding, even under stressed conditions. It also means that banks are less dependent on 'market windows' allowing the issuance of other bonds. Furthermore, this is an important reason for having accessible and effective market-based funding instruments, rather than relying solely on, for example, customer deposits. Generally speaking, the relatively low level of risk attributed by investors to covered bonds is reflected in their ASW spreads. ASW spreads for covered bonds are consistently lower than for other market financing instruments, such as senior unsecured bonds (Figure 2).

Figure 2. Differences in ASW spreads relative to covered bonds (in bps) for various EUR-denominated bank funding instruments, by seniority, over time (red circles indicate selected crisis events in the following order: the Russian war, the SVB-induced crisis, US tariffs – ‘Liberation Day’)



Sen pre differ → spread relative to senior bonds; NPS differ → spread relative to Senior non-preferred; T2 differ → spread relative to T2; AT1 differ (rhs) → spread relative to AT1 (basis points, right-hand axis).

Source: Markit IHS iBoxx.

Investors' perception of the safety of EU/EEA bank covered bonds is reflected, among other things, by a comparison of their yields with those of government bonds (of the issuing bank's home country). Depending on the country, there are surprisingly many periods in which covered bond yields are at a similar level to, or even below, government bond yields¹.

Yields on German bank covered bonds have been higher than Bund yields for a number of years, but since 2025 they have been at relatively comparable levels. In Italy, however, yields on covered bonds have remained below those on government bonds since 2021, whilst in France this has been the case since 2024. Similarly in Spain, although between 2021 and 2024 covered bond yields were close to government bond yields (see Figure 3). The perception of the security of mortgage bonds stems, among other things, from their structure. This primarily concerns the so-called 'dual recourse', i.e. double security; the claims of mortgage bond holders are secured both on the mortgage bank's balance sheet and in the loan portfolio itself. However, there are more sophisticated methods of enhancing the security of mortgage bonds, such as the institution of the trustee provided for in the Polish financial system. The role of the trustee is analysed by Dorota Podedworna-Tarnowska in the article "The role of the trustee in strengthening the covered bonds investment security."

¹ There is a certain difference in maturity between the instruments analysed. The analysis is based on 10-year government bonds, which are frequently used in this type of research and are likely to have a longer maturity than the average maturity of the mortgage-backed securities included in the indices used to determine their yields.

However, it can be assumed that even after taking this difference in maturity into account, the overall conclusion – that mortgage bond yields are similar to government bond yields – remains valid.

Figure 3. Cover bond yields vs. 10-year government bond yields for selected jurisdictions (top left: Germany; top right: Spain; bottom left: France; bottom right: Italy).



Source: Markit IHS iBoxx, S&P Capital IQ.

Differences in the valuation of mortgage bonds across EU countries (Figure 3) can be explained not only by the valuation levels of their sovereign debt but also by the specific nature of legal regulations, the structure of their collateral, methods of investor protection, etc. A measure of this specific quality and strength of the legal and institutional environment for covered bonds in individual countries is the Mortgage Bond Institutional Framework Index. This issue is addressed in a study by Piotr Wiśniewski, which discusses the scoring framework and a pilot study in Germany and Poland.

It is a tradition of Bezpieczny Bank to publish articles that contribute to the current debate among practitioners and theorists. In the 'Issues and Views' section, the series of articles on mortgage bonds expands on the article by Arkadiusz Lelek entitled "Environmentally friendly crypto-assets in the context of sustainable development in the digital economy".

In the Miscellanea section, we publish a study by Patryk Grochowski and Krzysztof Koźmiński with the instructive title "Why WIBOR Cannot Be Challenged by the Common Courts? A Gloss (Approving) to the Judgment of the Court of Justice of the European Union in Case C-471/24".

I encourage you to read the articles and hope you find them interesting.

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