



22/04/2022 • Patrick Seifert, Head of Primary Markets

**LB≡BW**  
Bereit für Neues

# The future is now: How green covered bonds help dealing with the energy crisis

12<sup>th</sup> VIRTUAL EEMI BAUHAUS EVENT

# Climate impact of the housing sector

Buildings consume ~35% of physical resources

## Causes are

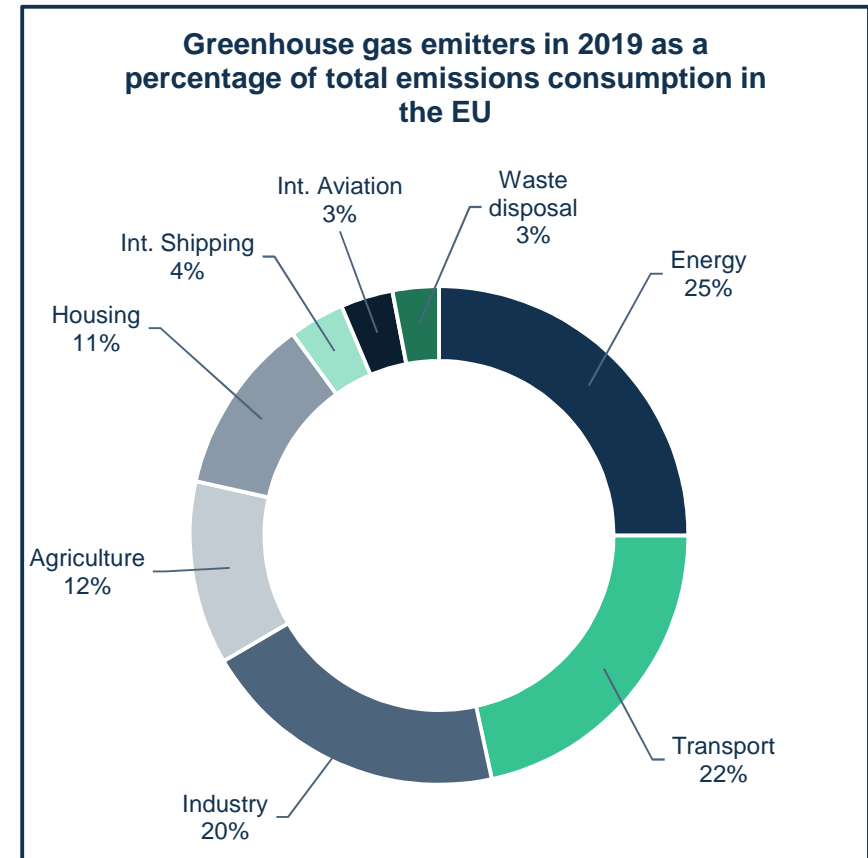
1. **One-off ( $t_0$ ):** Consumption of natural resources in the building sector (wood, water, minerals, energy)
2. **Running ( $t_{1-n}$ ):** Pollution because of emissions produced in buildings or their impact on the ground



## Historic reallocation of capital expected

- Environmentally-friendly materials or green building materials (wood etc.)
- Sustainable tech materials and products (isolation renewable materials)
- Lower energy consumption, local generation / storage

Source: Active Sustainability, LBBW Research



# Green Bonds have become the format of choice

2015:

## Signing of the Paris Climate Agreement

- Limit global warming to well below two degrees.
- In addition: limit maximum global warming to 1.5 °C compared to pre-industrial levels.

2018:

European Union incorporated the **UN Sustainable Development Goals** and published the **Sustainable Growth Financing Action Plan**, which includes the following three goals:

1. Redirecting capital flows to sustainable investments
2. Managing sustainability risks
3. Promoting transparency & longevity

**EU taxonomy:** Conditions for standardization of sustainability reporting require a disclose of certain taxonomy key figures such as **the Green Asset Ratio**.

**European Green Bond Standard:** Once the European Green Bond Standard (EU GBS) is applied, an EU Green Bond can only be issued on the basis of a taxonomy classification.

**EEMI business case:**

- originating new EEM;
- issuing green (covered) bonds and facilitating ESG investor due diligence; and
- tagging existing EEM in banks' loan portfolios;
- evidencing compliance with regulatory reporting requirements

✓

Financial Institutions are shifting towards exposures that are classified as taxonomy-compliant

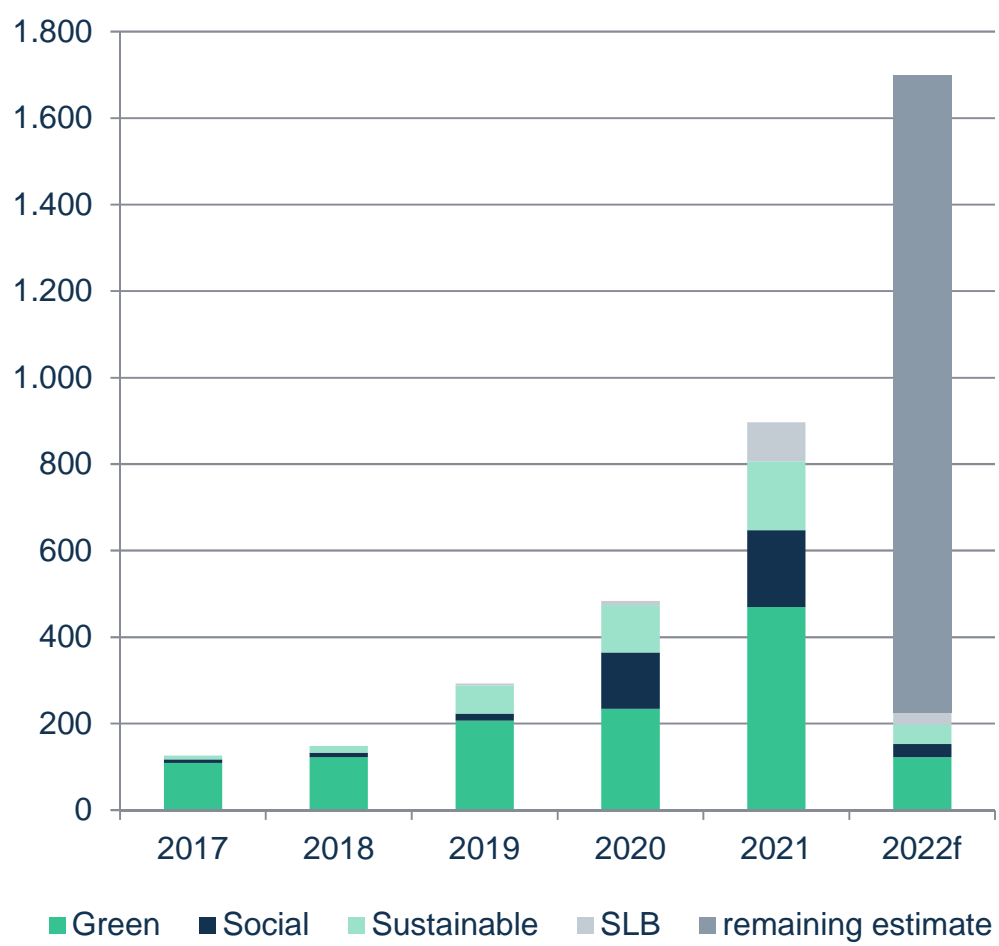
**More demand + more supply (because of more green collateral) for Green Covered Bonds.**



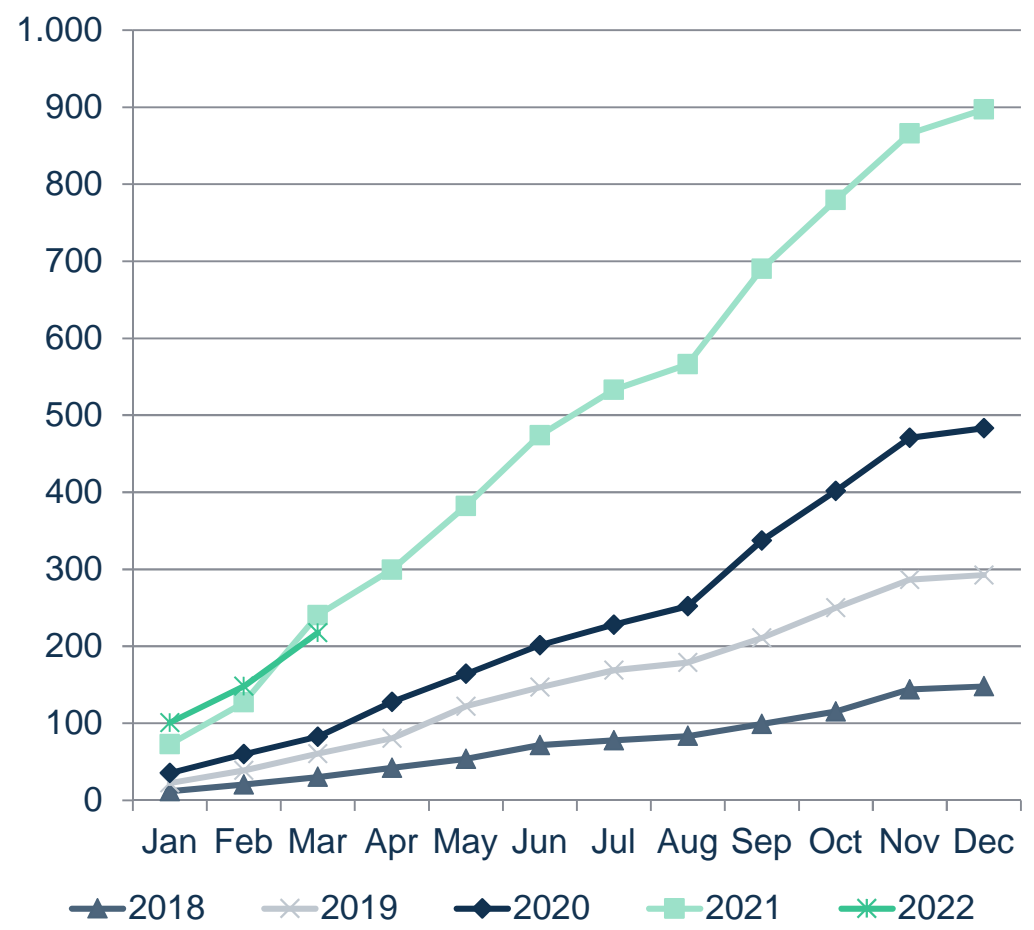
Source: EU Taxonomy Compass, LBBW Research, United Nations, EEMI

# The ESG trend is your friend

**Issue volume of the individual years**  
in EUR billion



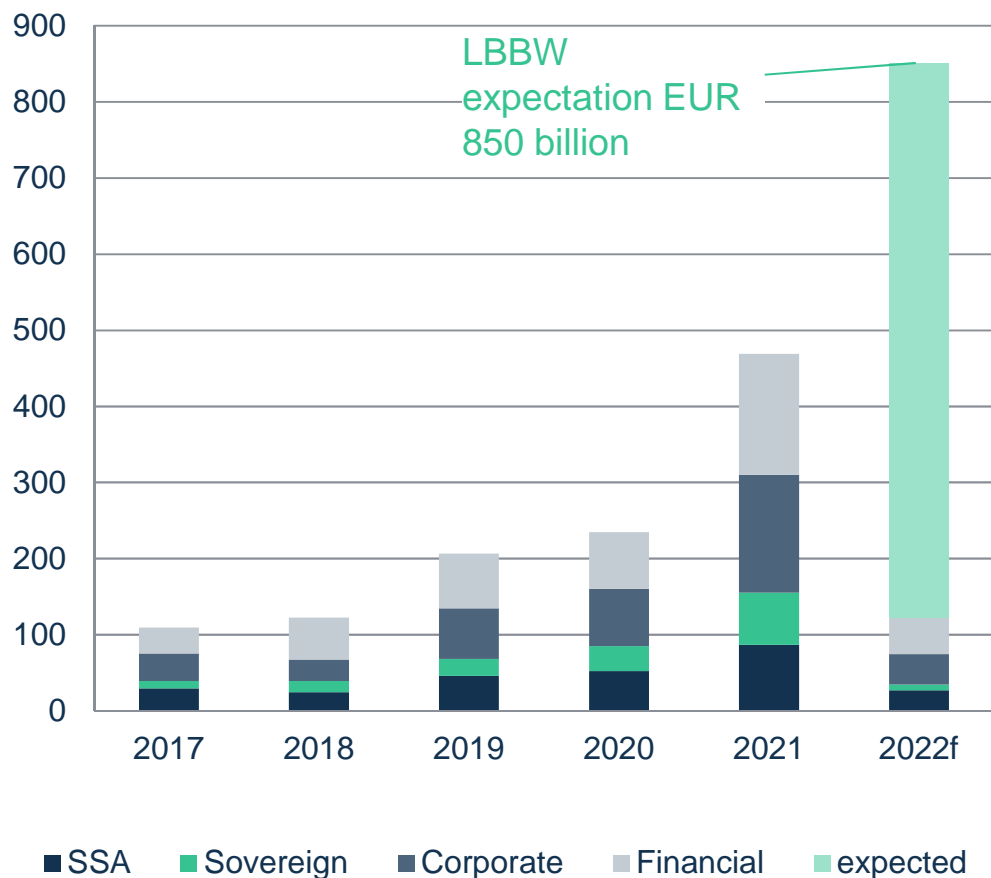
**Cumulative volume per year**  
in EUR billion



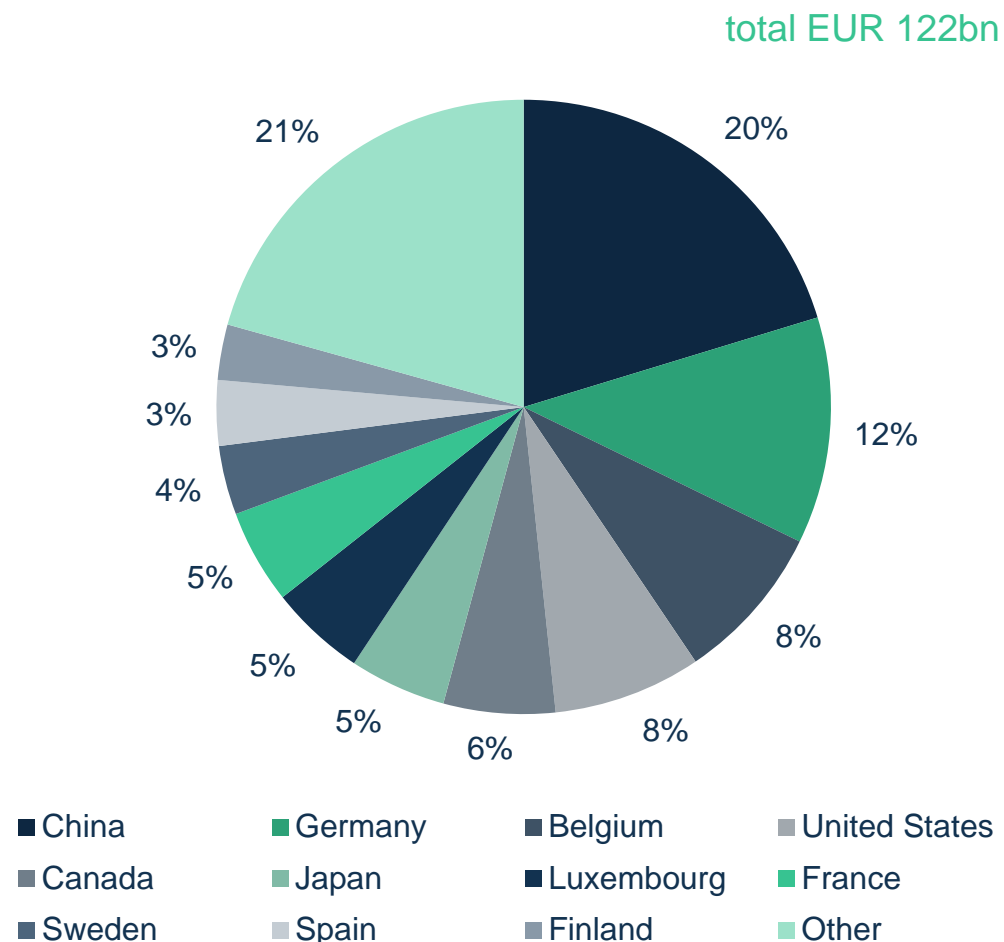
Source: Bloomberg, LBBW Research

# The Green Bond market at the core of Europe

**Issue volume per year**  
in EUR billion



**Issue volume 2022 by origin**  
in %



Source: Bloomberg, LBBW Research

## OP Mortgage Bank – 5.5Y EUR 1bn Green Covered Bond

Tuesday, 29 March 2022

### Final Terms

Issuer:	OP Mortgage Bank
Expected Rating:	Aaa (Moody's) / AAA (S&P)
Issue Size:	EUR 1,000,000,000
Type of Note:	Green Covered Bond backed by 100% prime Finnish Collateral
Coupon:	1.00% annual, Act/Act ICMA, short first
Tenor:	5.5Y
Trade Date:	29 March 2022
Settlement:	05 April 2022
Maturity Date:	05 October 2027
Reoffer Price:	99.741%
Reoffer Spread:	MS +2bp
Reoffer Yield:	1.049%
Govt. Spread:	OBL 0% 16 April 2027 +63.5bps
Denomination:	€100k + €1k
Listing/ Law:	Irish Stock Exchange / English
Documentation:	Issuer's EUR20bn Euro Medium Term Covered Note Programme dated 2 November 2021
Use of Proceeds:	Green Bond, in accordance with the OP Mortgage Bank's Green Covered Bond Framework
Joint Leads:	Barclays, BNP Paribas, <b>LBBW</b> , OP Corporate Bank
ISIN Code:	XS2465142755
Final Order B.:	> 2bn (incl. €55m JLM interest)
# of Accounts:	> 50 accounts involved

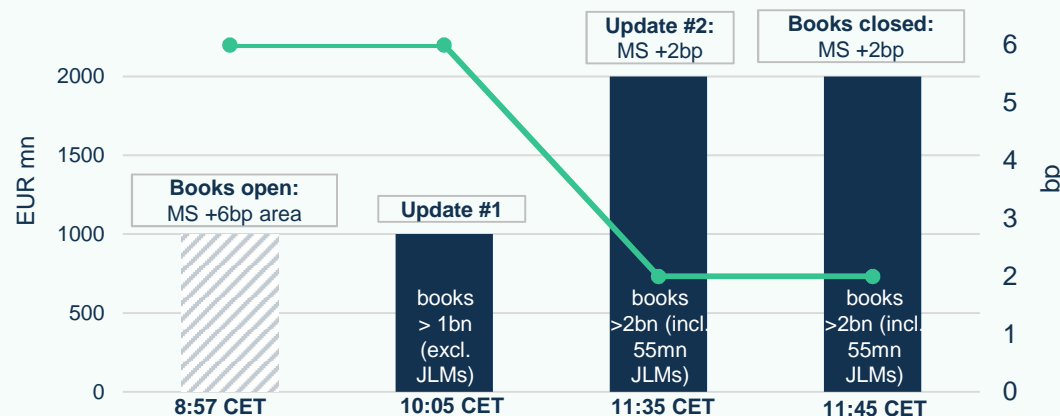
### Transaction Details

#### Transaction Rationale

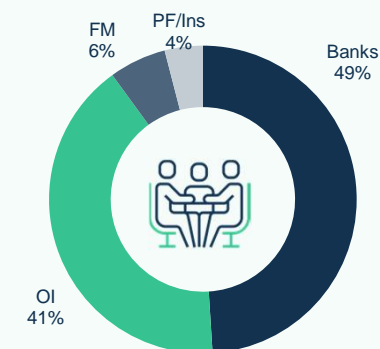
- On Tuesday, 29 March 2022, **OP Mortgage Bank** successfully launched a new **5.5Y EUR 1bn Green Covered Bond**. The second Green Covered Bond based on green Finnish Collateral proved the current solid investor appetite for the medium tenor segment. The issuer made use of an encouraging market opening in a still volatile market environment to present their new offering to the market.

#### Book Building and Outcome

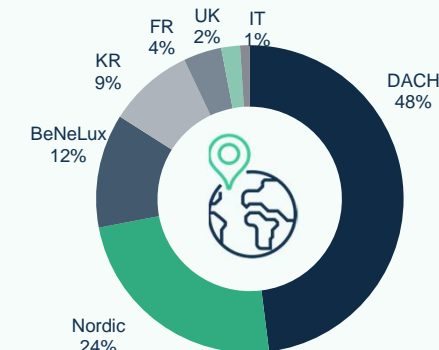
- Books opened early Tuesday morning just before 09:00 CET officially, with an initial guidance of MS +6bps area. The initial spread together with the intraday market approach proved to be the right decision for the Finnish benchmark issuer. The order book gathered momentum throughout the morning, with books above EUR 1bn (excl. JML interest) at around 10:05 CET.
- The issuer's quality cover pool in combination with the green format generated solid response from AAA investors and ESG investors alike, as seen at the 11:35 CET update to the market. With order book around EUR 2bn (incl. 55mn JML interest) the issuer set size and spread to EUR 1bn and MS +2bps respectively. Ultimately, investors were given around 10 minutes to firm up their orders as final terms hit screens.
- All in all, the deal concludes another successful market appearance of the Finnish issuer cementing their strong market reception and an outstanding ESG commitment.



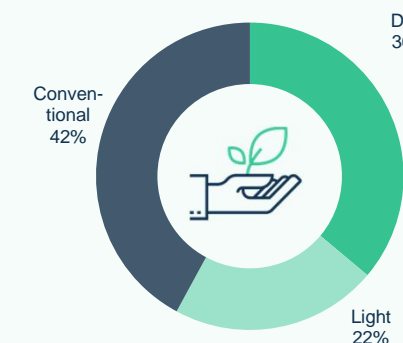
### Allocation by type



### Allocation by region



### ESG categorisation



## Case Study

# OP Mortgage Bank – Eligible Use of Proceeds

## Green Buildings: Eligible Economic Activities



### 1. Acquisition and ownership

For buildings built before 2021: energy performance must be among top 15% of similar stock (in terms of number of buildings) which corresponds to EPCs A or B (if issued under 2018 legislation) or equivalent (if issued under 2013 legislation). For buildings built after 2021: primary energy demand 20% lower than NZEB (Nearly Zero Energy Buildings) requirements\*.

### 2. Construction of new buildings

Primary energy demand\* 20% lower than NZEB requirements. (For buildings built from 2021 onwards, for buildings built before YE2020 the top 15% criteria is applied).

### 3. Building renovation

Complies with relevant local „major renovation“ regulations (based on the Energy Performance of Buildings Directive, EPBD) or delivers 30% energy savings.

### 4. Individual measures and professional services

List of eligible measures and services with individual criteria as outlined in the Taxonomy\*\*.



#### Affordable and clean energy

**7.2.** By 2030, increase substantially the share of renewable energy in the global energy mix

**7.3.** By 2030, double the global rate of improvement in energy efficiency



#### Sustainable cities and communities

**11.6.** By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

\*In Finland EPCs and NNZEB definition are based on „E-value“ which is used to assess the energy efficiency of buildings

\*\*The eligible measures and services with individual criteria are listed in the Technical annex to the TEG final report on the EU Taxonomy

# The cost of waiting has just increased massively

## EEMI vision

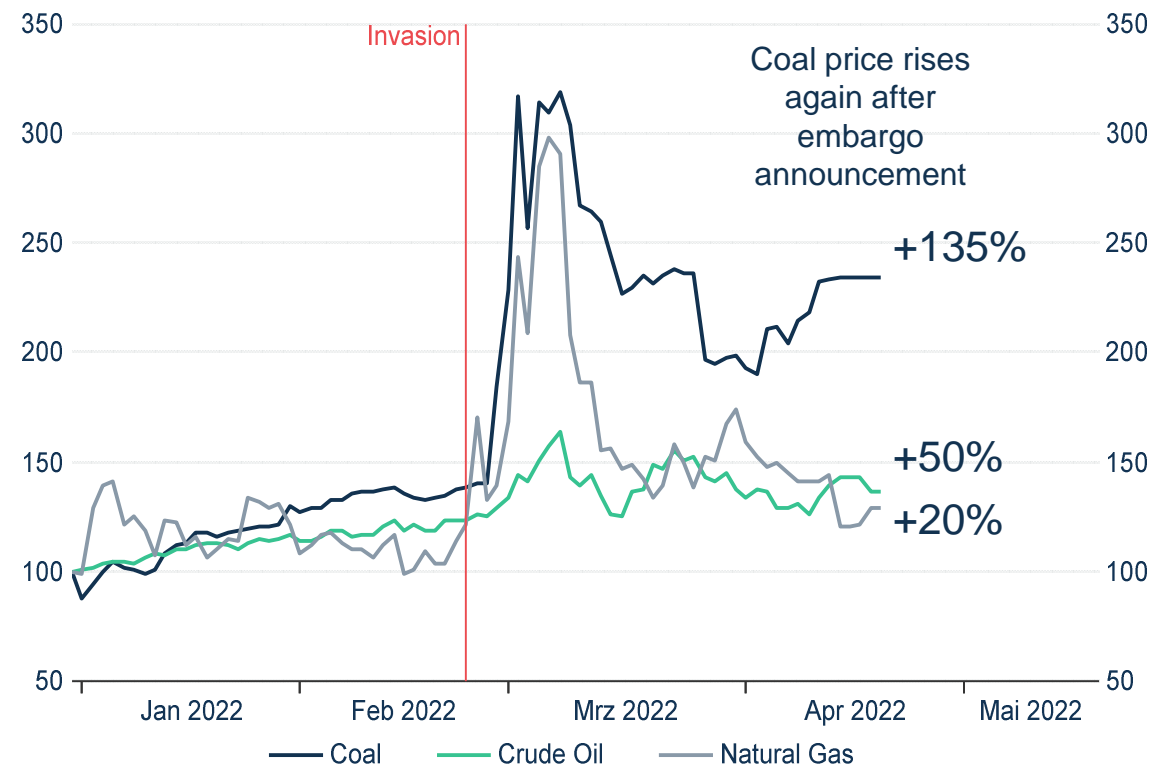
- EU to reduce own primary energy consumption by 32% by 2030
- Building sector globally identified as one of the main producers of CO2 emissions
- Legally enshrined efforts need to be supported by adequate funding (energy savings targets alone need investments of ca. €180 billion p.a)



- **Gas prices** rose massively after the invasion. Significant decline recently as gas continues to flow to Central Europe.
- **Crude oil price** currently increased to USD 112 per barrel of Brent.
- **Coal price** has recently risen again significantly. The main reason for this is likely to be the recently announced embargo against Russia.

## Prices for fossil fuels in Europe

at 100 Indexed development since the beginning of 2022





# If you wait, all that happens is you get older!

From status quo to **Green Renaissance**

New sources of value from **decarbonized real estate**

1. **Climate Risk to reduce annual returns by 40% until 2030**
2. **Real estate drives 39% of total global emissions**
3. **Net Zero by 2050 will require USD 9.2tn globally per annum**
4. **Need to respond to de-globalisation and build a stronger & independent Europe**

- **Local energy generation & storage**
- **Green buildings attract more tenants**
- **Green building materials**
- **Extra services (vehicle charging)**
- **Services for tracking emissions**
- **Differentiated capital allocation**



**Speeding up the energy-efficiency turned from individual task to a European duty**

## All for One (energy-efficient Europe)

Promoting energy-efficient product bundles with owners (individual & institutional)

Developing European energy-efficient technologies for building stock

Redirecting fiscal policy initiatives to support market mechanism

Facilitating re-investments of energy-efficient housing returns\*\*

Russia calling: Increasing cost of waiting for owners over time

Respecting green covered bond standards yet...

...providing additional flexibility on transition (Amber market / Sustainability-Linked Bonds)

Realigning ECB policies in support of net-carbon objectives (20% green bonds ECB eligible)



It is 7 years since the Paris Agreement  
**The future is now**

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