



Sustainable covered bonds

Maureen Schuller

May 2024



do your thing

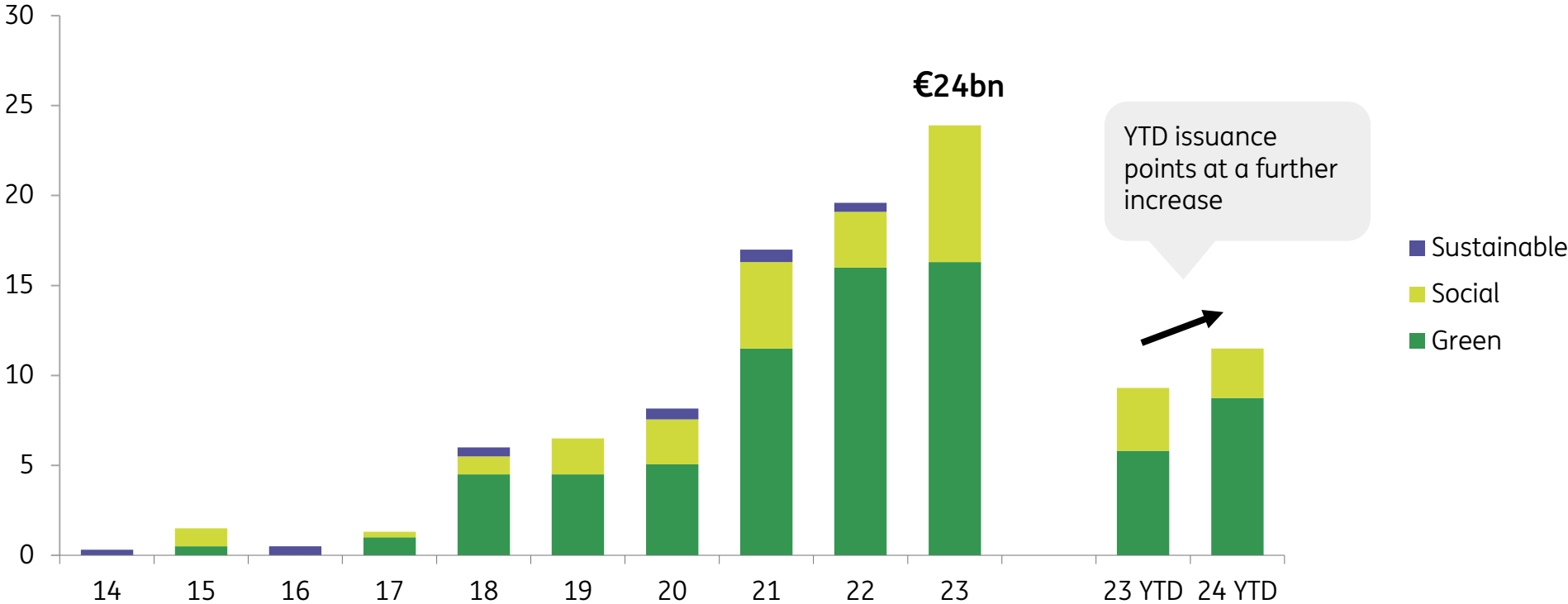
Sustainable covered bond supply rises...

...but ESG supply focus remains on senior

Sustainable EUR covered bond supply

Sustainable covered bond supply rose to €24bn in 2023

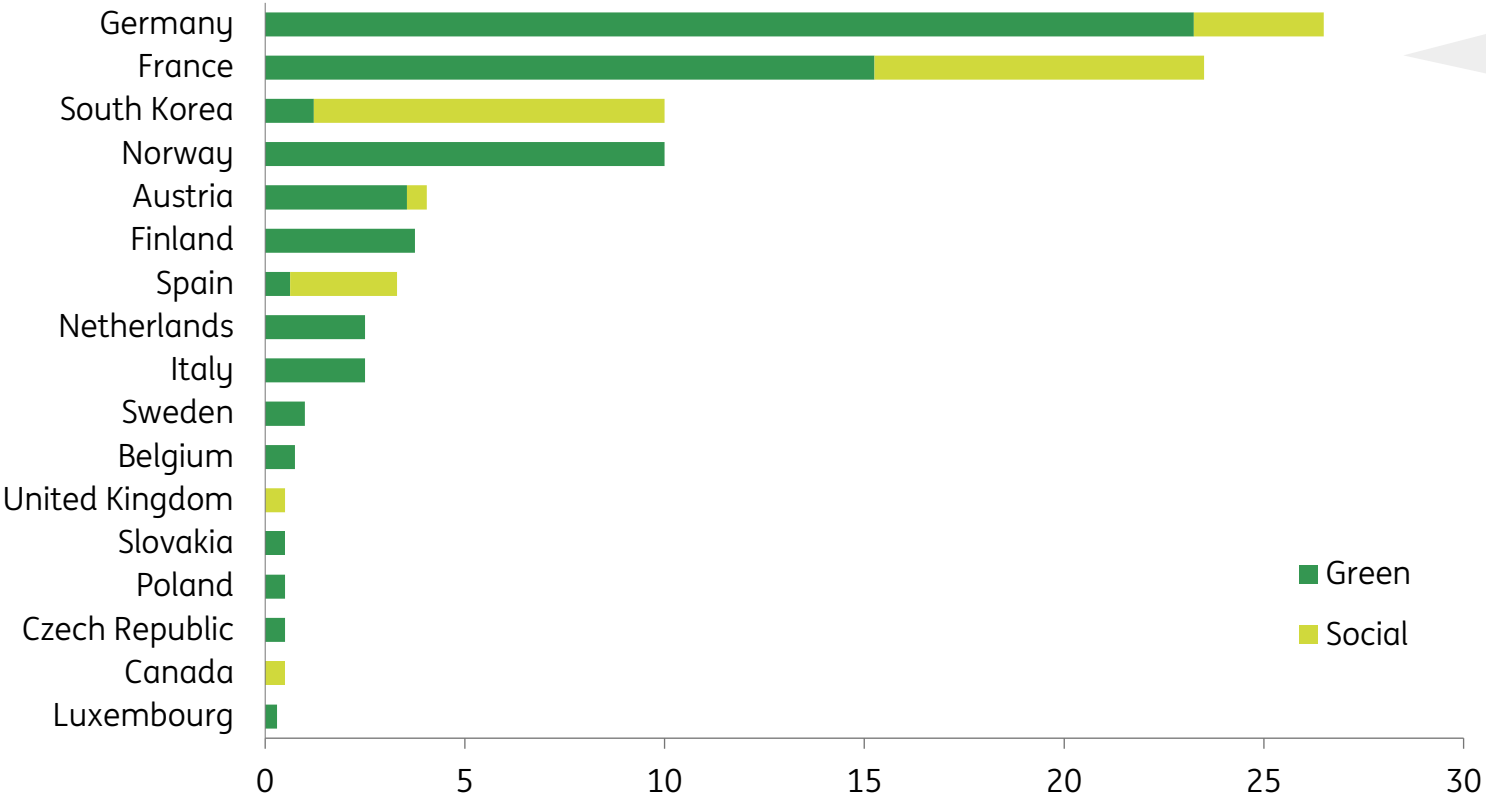
ESG supply by use of proceeds, in €bn



Sustainable EUR covered bond markets

Over €90bn in EUR sustainable covered bonds outstanding

ESG covered bonds outstanding per country by use of proceeds, in €bn

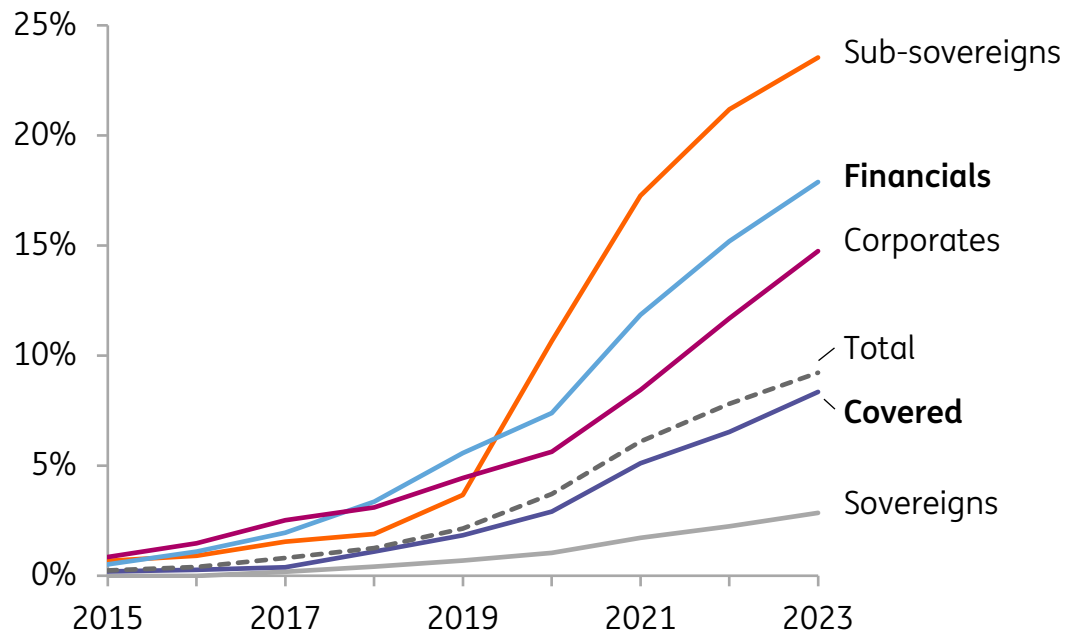


German and French banks dominate with a share of 55%

A broader market perspective on sustainable covered bonds

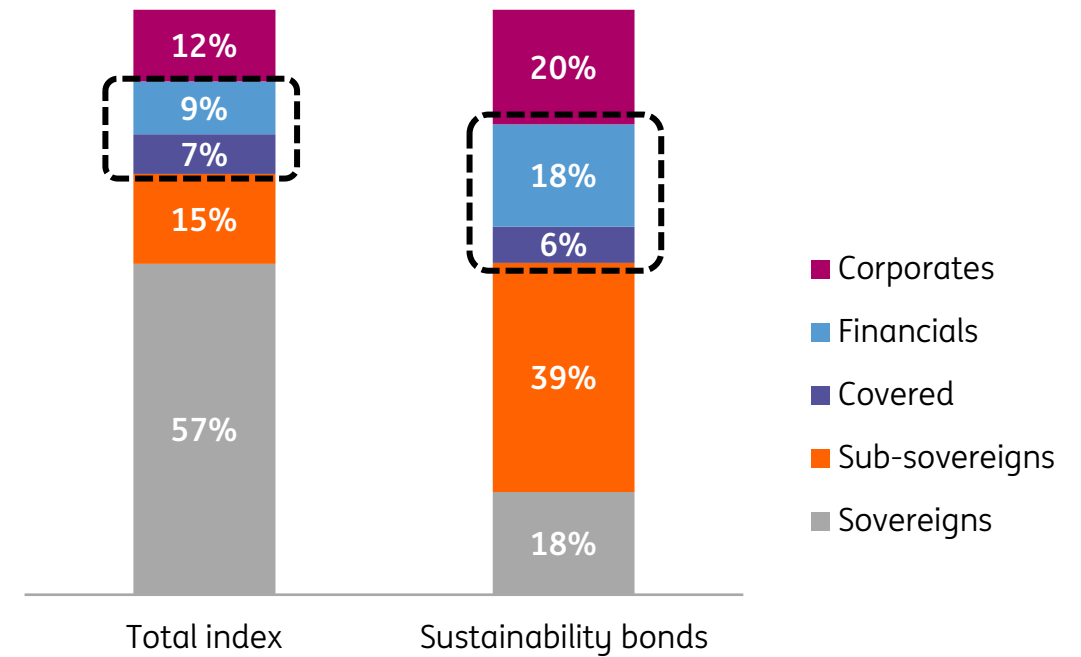
Sustainable bonds gain in importance across the board

Share of bonds that are sustainable, per asset class



Share of covered bonds in total ESG print is small

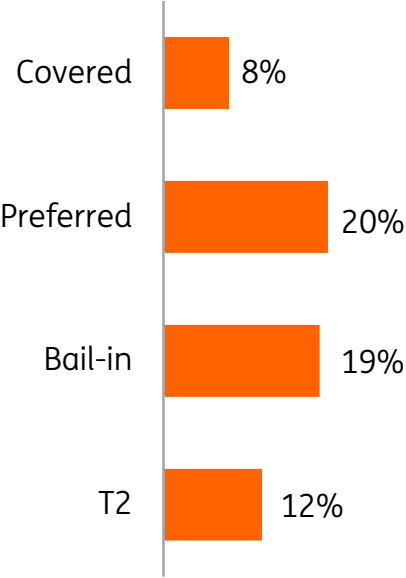
Share in EUR bonds outstanding



Sustainable covered bonds versus other bank bonds

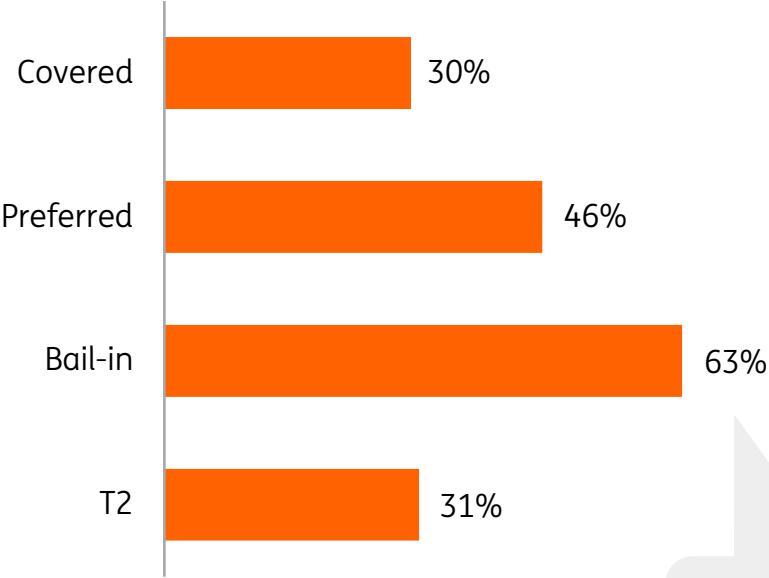
Share of ESG covered bonds relatively low

Share of sustainable bonds versus total per type



Less than a third of the covered bond issuers print in ESG format

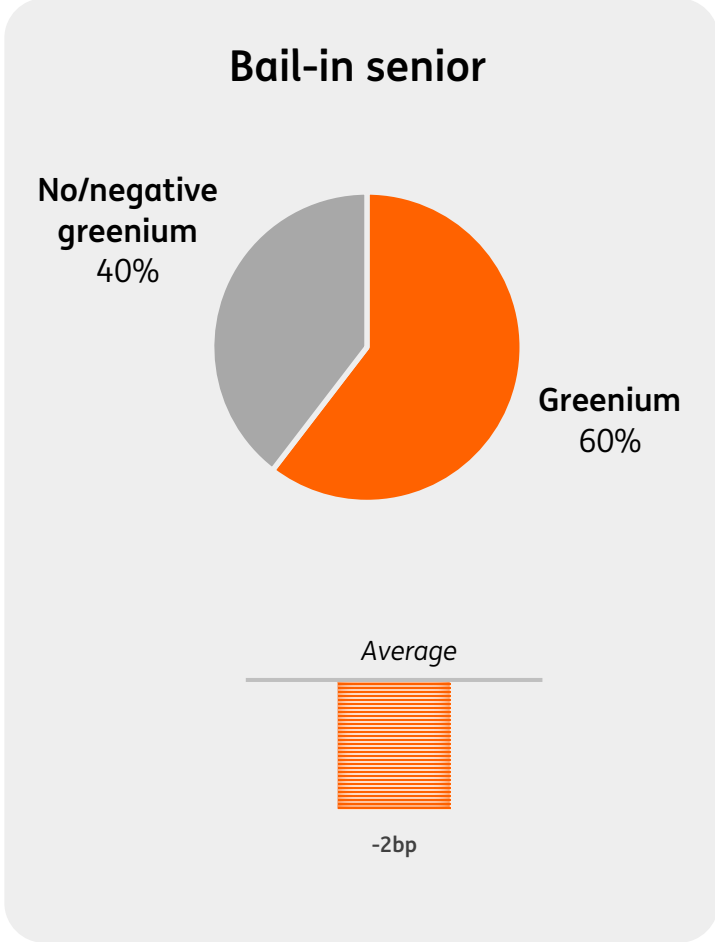
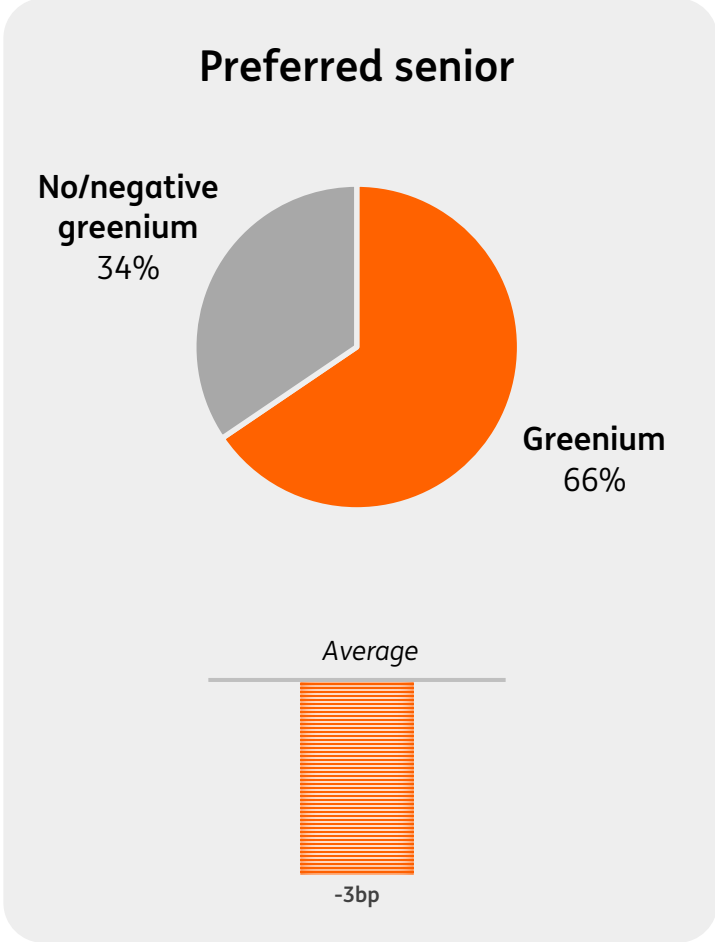
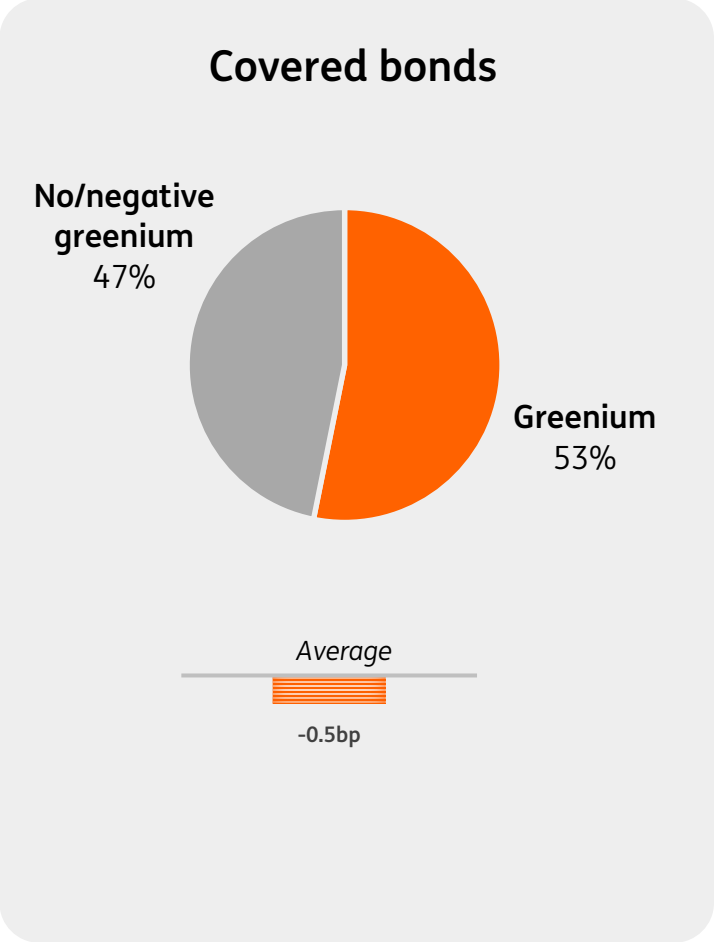
Share of issuers that print in ESG format per type



The share of ESG issuers is more than twice as high in bail in senior

Based upon the IHS Markit iBoxx indices

A smaller greenium for covered bonds



ICMA's definition for green/social secured bonds

Secured green/social collateral bond

Net proceeds exclusively applied to (re)finance green/social projects securing the specific bond only

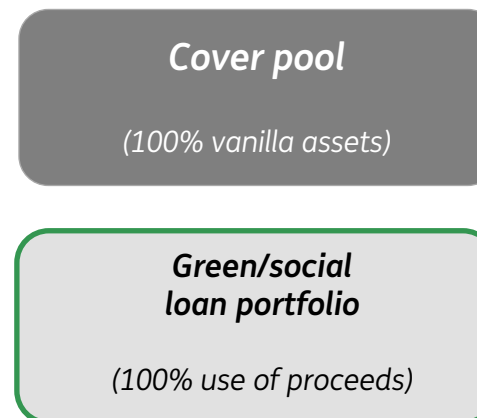
1. Cover pool = green/social loan portfolio



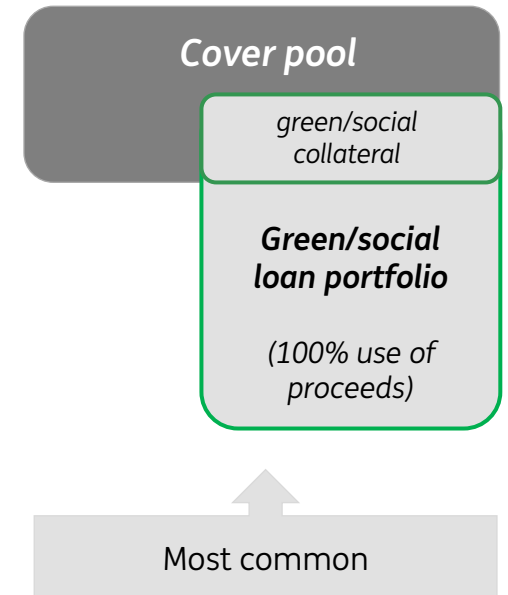
Secured green/social standard bond

Green/social projects (re)financed may or may not be securing the bond in whole/part

2. Cover pool ≠ green/social loan portfolio



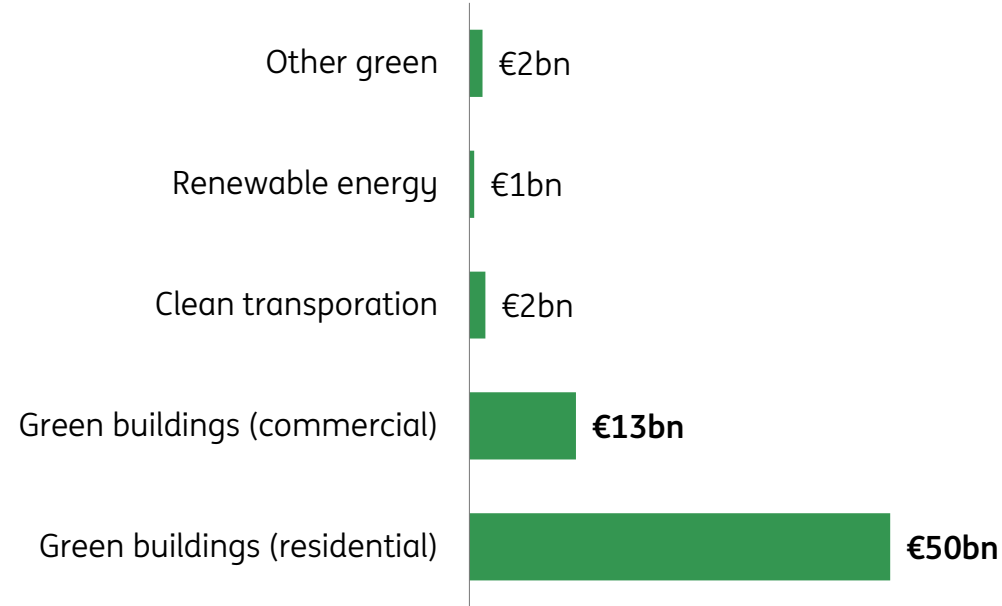
3. Green/social loan portfolio = (partially) part of cover pool



Sustainable covered bond use of proceed types

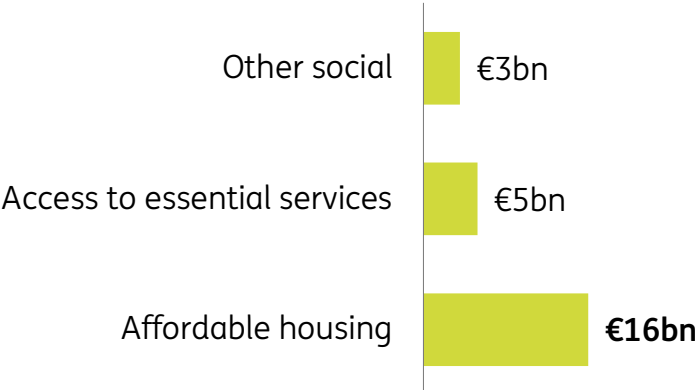
Green buildings dominate in green

Green use of proceeds, in €bn



Affordable housing dominates in social

Social use of proceeds, in €bn



Prospects for issuance under the EU GBS

Investor demand will not be a major push...yet

Compliance with the EU taxonomy regulation

Six environmental objectives



1. **Substantial contribution** (SC) to one or more environmental objective



2. **Do no significant harm** (DNSH) to any other environmental objective



3. Compliance with **minimum safeguards** (MS)



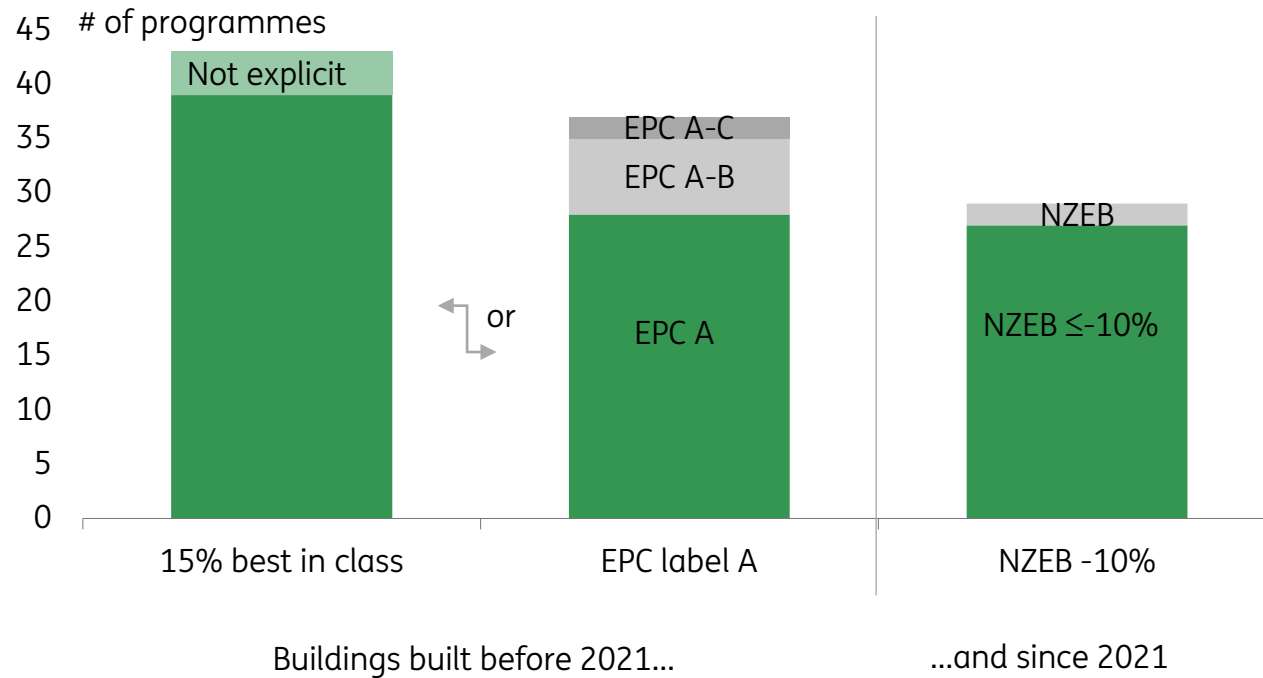
4. Compliance with the **technical screening criteria** (TSC)



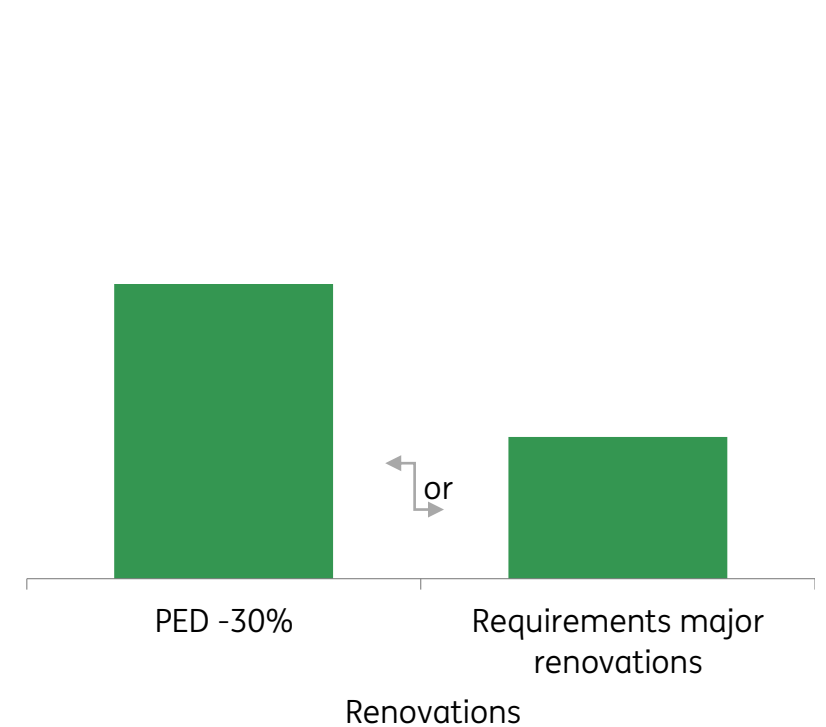
EU Taxonomy's substantial contribution criteria for buildings

Green covered bonds well aligned with the top 15% criterion

Number of frameworks for green covered bonds



Almost 40% lack criteria for green renovations



Meeting the EU Taxonomy's do no significant harm criteria

Acquisition of buildings must meet the 'do no significant harm' criteria for only one other environmental objective

The 'do no significant harm' criteria that construction and real estate activities should meet

	Construction of new buildings	Renovation of existing building	Acquisition and ownership of buildings
Climate change mitigation	✔	✔	✔
Climate change adaptation	✔	✔	✔
Sustainable use and protection of water and marine resources	✔	✔	
Transition to a circular economy, waste prevention and recycling	✔	✔	
Pollution prevention and control	✔	✔	
Protection and restoration of biodiversity and ecosystems	✔		

✔ = Contributing substantially to

✔ = Doing no significant harm to

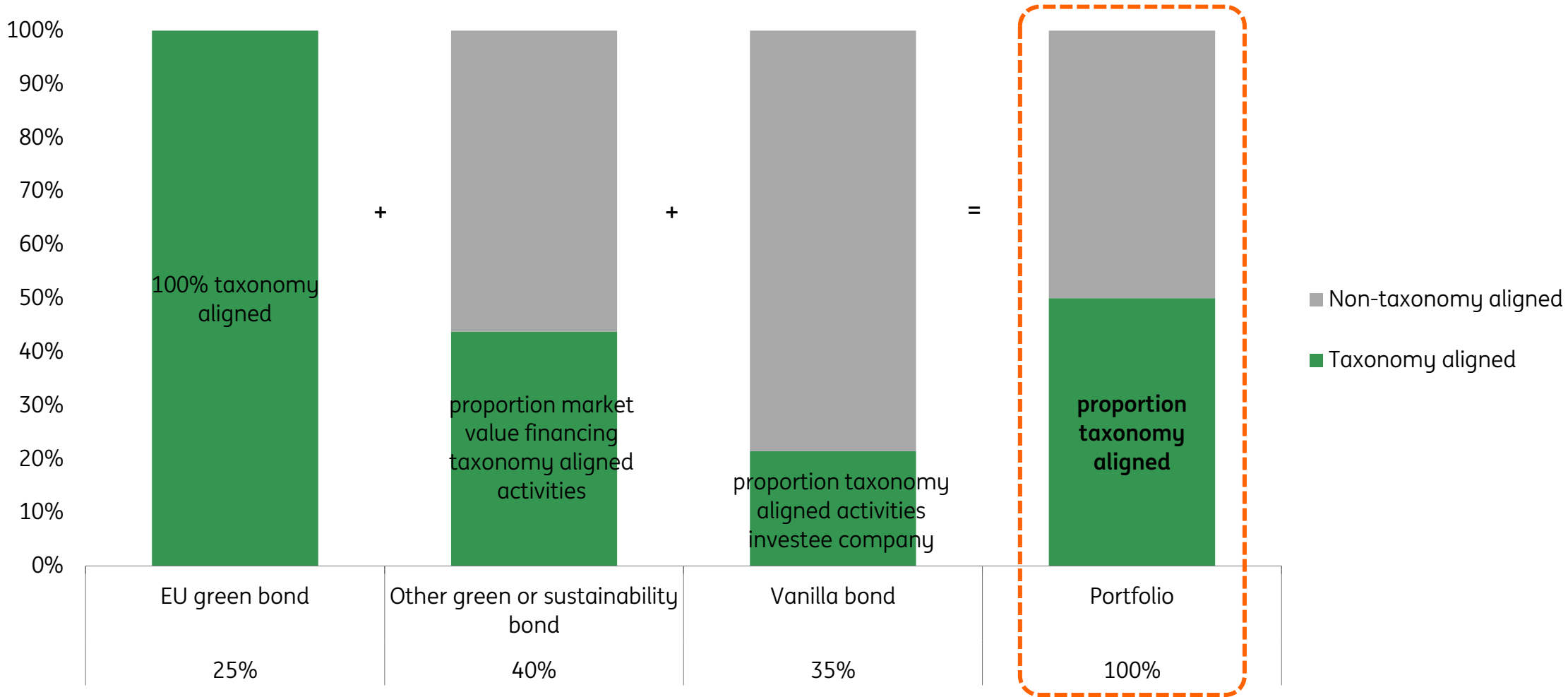
Meeting the EU Taxonomy's minimum safeguards

Mortgage loans granted to households for house purchases not subject to minimum safeguards



“Households are not considered to be covered by the minimum safeguards under the EU taxonomy”

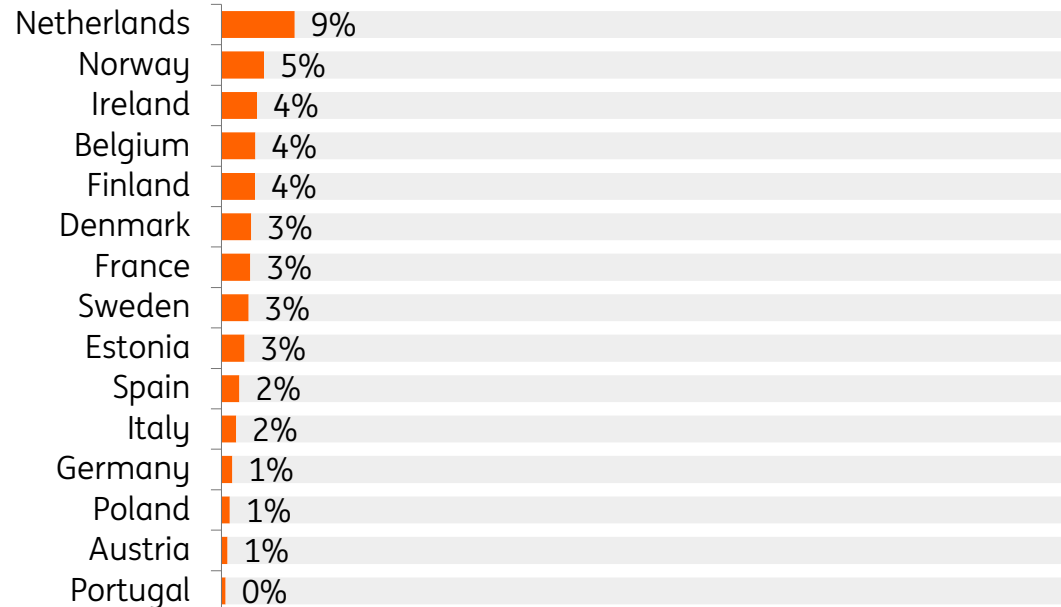
Taxonomy alignment matters for all bonds



Green asset ratio disclosures

First green asset ratio disclosures by EU banks are low

Green asset ratio (Stock) based on Turnover



Based upon the 2023 Pillar 3 disclosures of 43 EU banks

Taxonomy eligible: Economic activities covered by the EU Taxonomy (EUT)

Taxonomy aligned: Taxonomy eligible activities compliant with criteria EUT delegated acts

Taxonomy alignment rises with higher eligibility

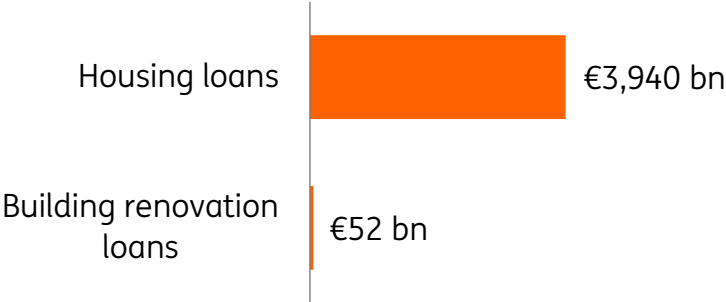
Proportion of covered assets (Stock) based on Turnover



Taxonomy alignment of housing loans

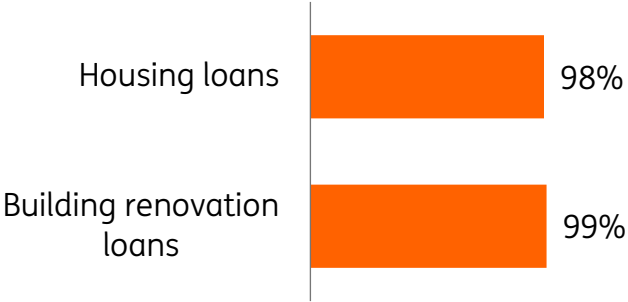
Few loans for building renovations

Amount of loans outstanding



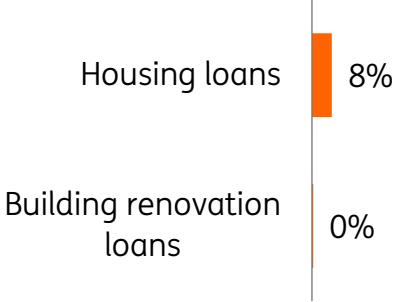
Most housing loans are Taxonomy eligible

Share of Taxonomy eligible versus total loans



But not many are Taxonomy aligned

Share Taxonomy aligned versus eligible loans

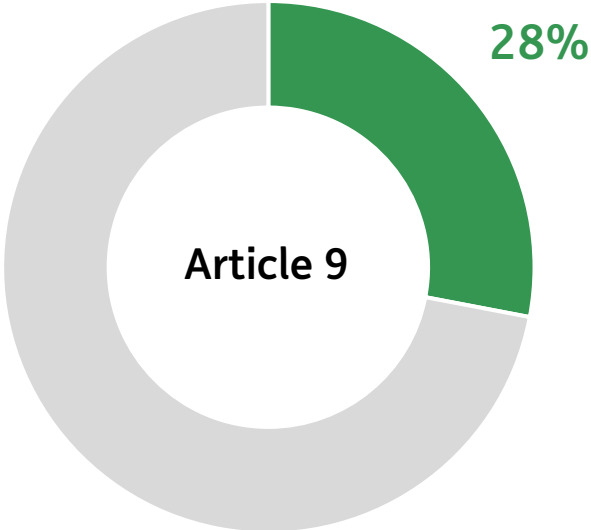
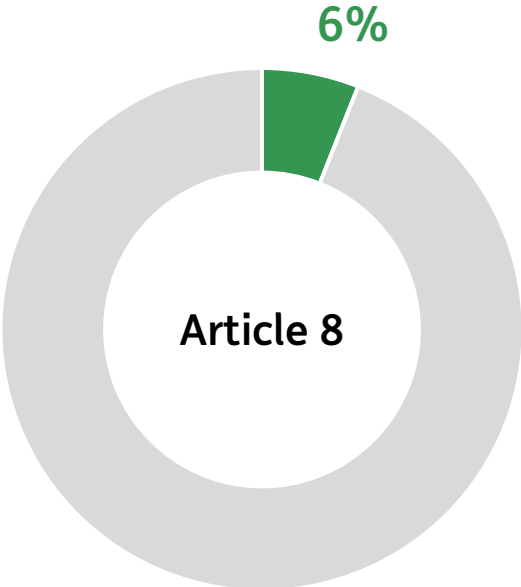


Based on the 2023 Pillar 3 disclosures of 43 European banks

Investor commitment to Taxonomy alignment

Few funds commit to (partially) Taxonomy aligned sustainable investments

Proportion of funds with some Taxonomy alignment commitment



Disclosures on the level of the cover pool

What is there and what to expect?

Can covered bonds escape tougher ESG disclosure rules?

Call for advice to EBA

Assess the relevance of introducing **disclosure requirements of ESG risks of cover pools**, considering interlinkages with Pillar 3 disclosures on ESG risks and March 2023 ESA/ECB joint statement (response no later than 30 June 2025)



March 2023 EBA/ECB joint statement

Key points

- Commitment to promote better sustainability disclosures for structured finance products
- Climate related disclosures for securitisations should also become relevant for covered bonds
- In absence of mandatory disclosure requirements issuers urged to make certain climate-related metrics voluntarily available



May become relevant for ECB collateral acceptance of covered bonds

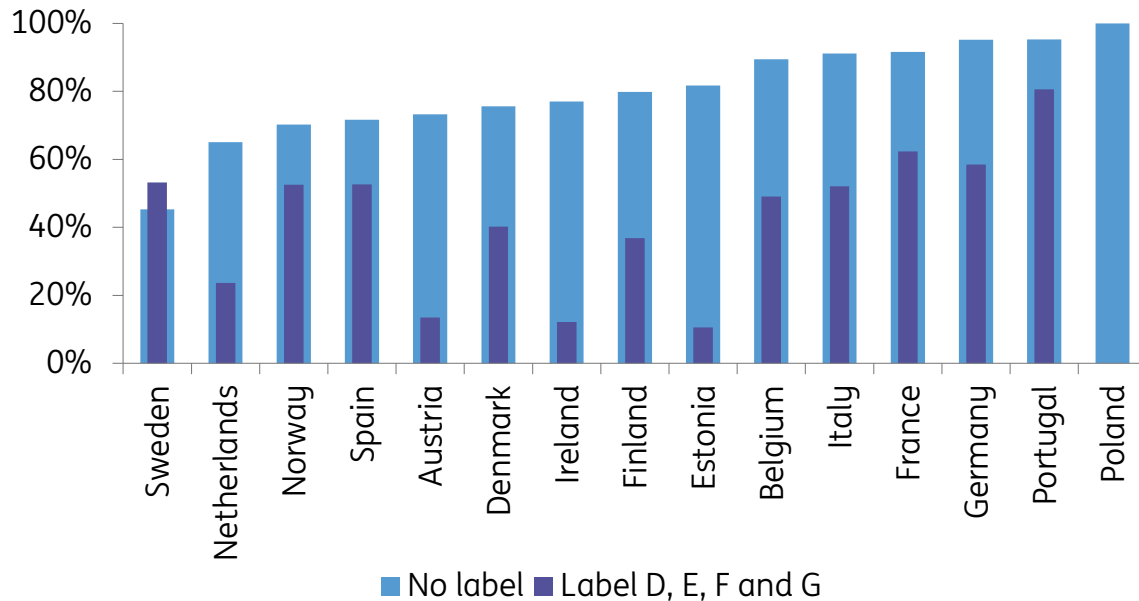
Per 2026 the ECB also anticipates to accept only marketable assets as collateral of companies/debtors compliant with the CSRD

Pillar 3 disclosures: energy performance of real estate collateral

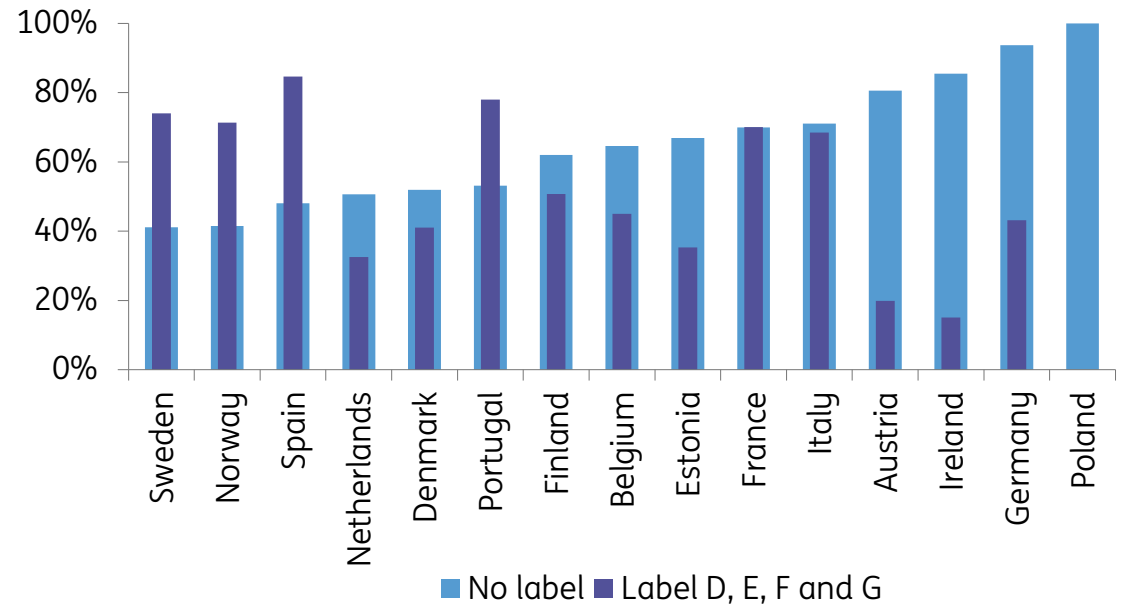
Better EPC label availability for residential versus commercial real estate loans coincides with higher share of low EPC labels

Shares of D, E, F and G labels as percentage of labelled properties

CRE properties



RRE properties



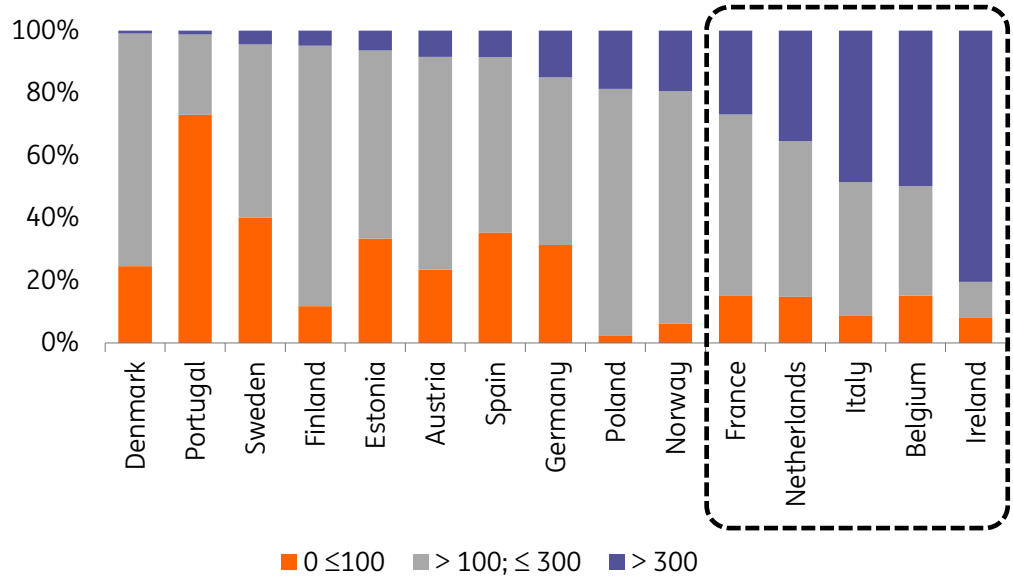
Based on the 2023 Pillar 3 disclosures of 43 European banks

Pillar 3 disclosures: energy performance of real estate collateral

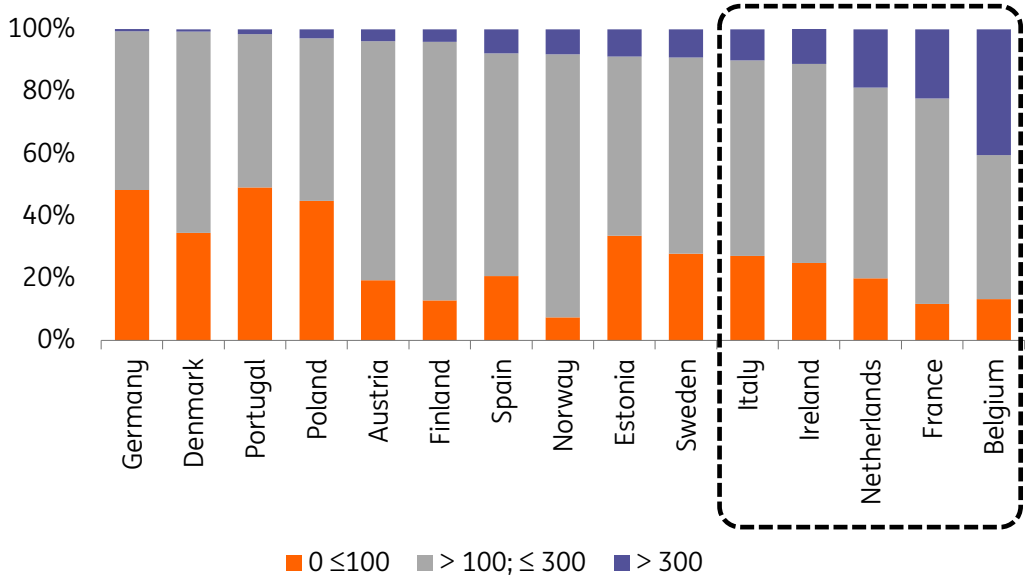
Energy performance scores real estate collateral see most transition risks arise for Irish, Belgian, Dutch French and Italian banks

Energy performance in kWh/m2

CRE properties



RRE properties



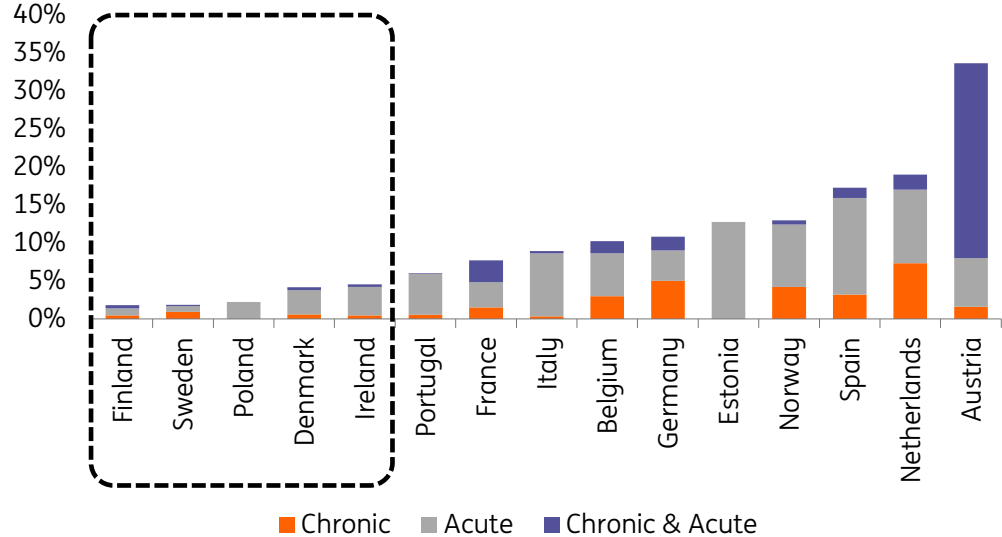
Based on the 2023 Pillar 3 disclosures of 43 European banks

Pillar 3 disclosures: physical climate risk of real estate collateral

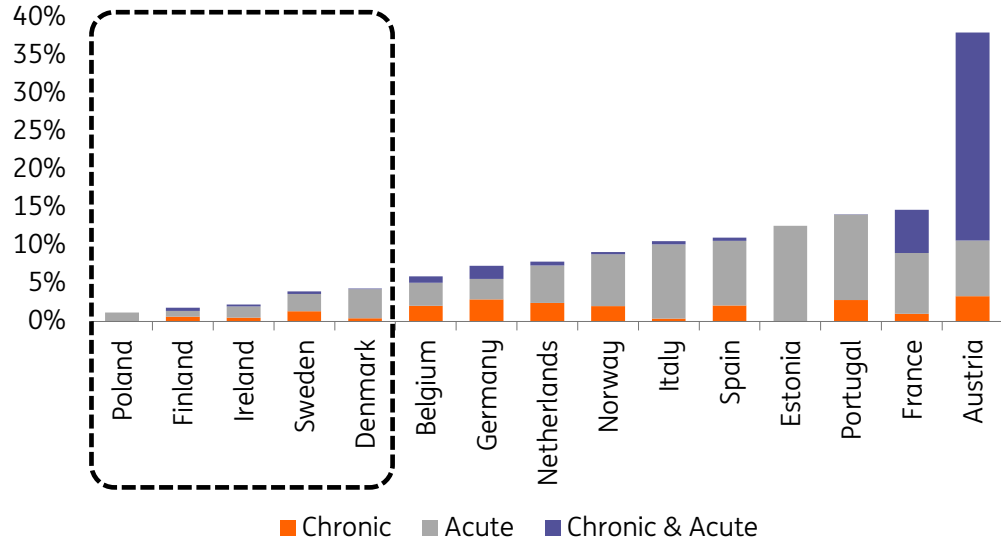
Nordic banks among the less exposed banks to physical climate risks

Exposures subject to physical climate risks as percentage of total exposure

CRE properties



RRE properties

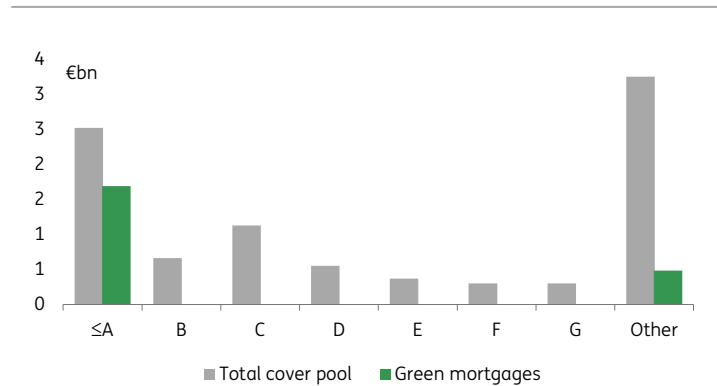


Based on the 2023 Pillar 3 disclosures of 43 European banks

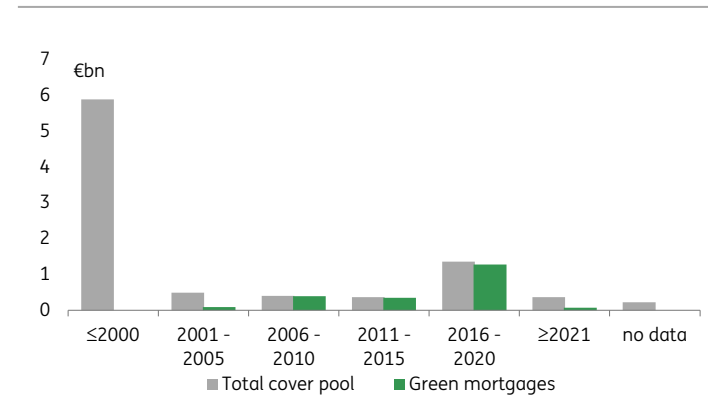
Voluntary cover pool ESG disclosures via the HTT

Dutch example

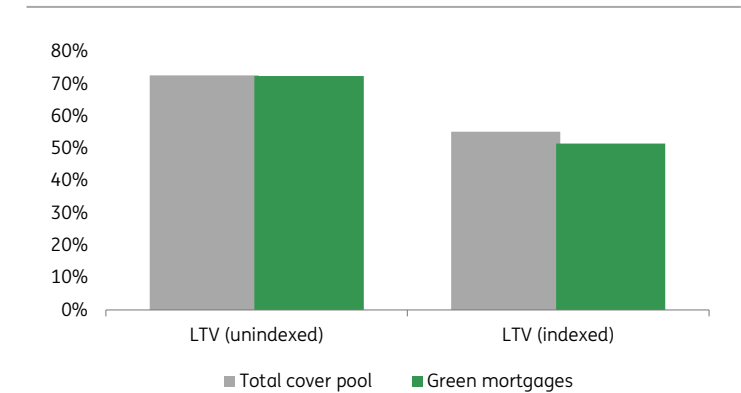
Distribution by EPC label



Year of construction

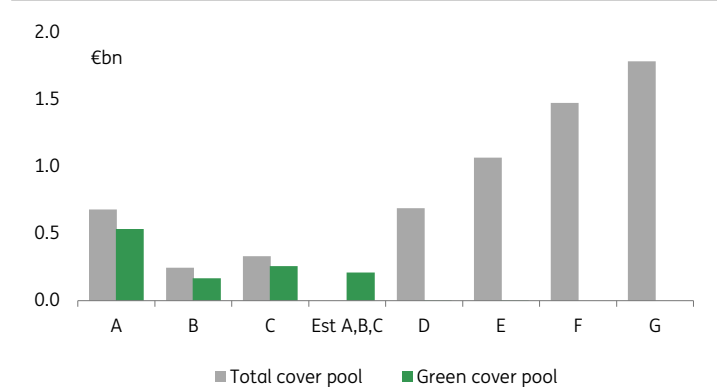


LTV levels green and total pool

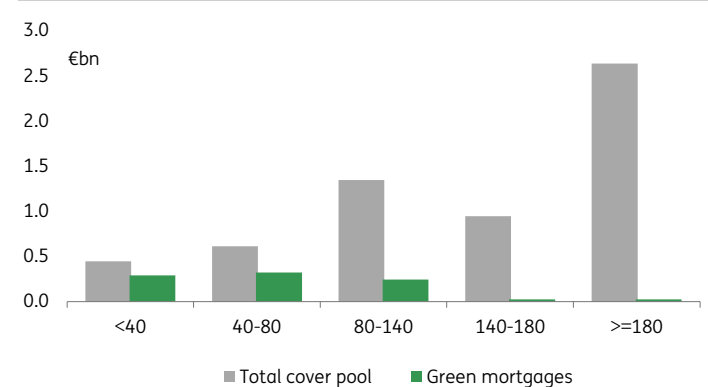


Italian example

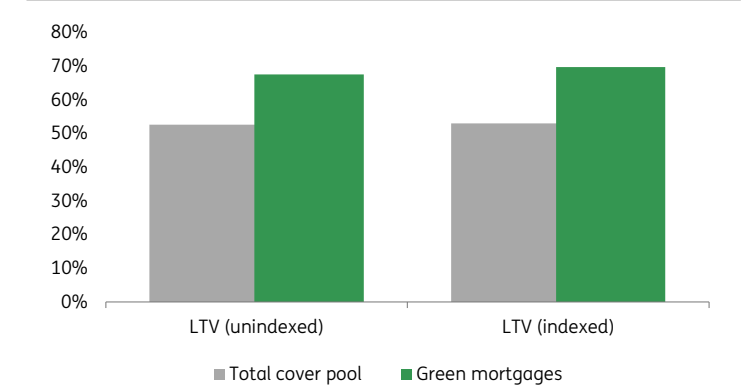
Distribution by EPC label



Primary energy intensity (kWh/m2 per year)



LTV levels green and total pool



Regulatory disclosure requirements for green securitisations

EU GBS disclosures for securitizations

1 Taxonomy eligibility

2 Taxonomy alignment

3 Do-no significant harm

Voluntary PAI disclosures for securitizations (residential)

Mandatory

Energy efficiency

Exposures through **fossil fuels** through real estate assets

Exposures to **energy-inefficient real estate assets**

Voluntary

GHG emissions

Scope 1, 2, 3 and total GHG emissions real estate assets

Energy consumption

Energy consumption real estate assets in GWh/m²

Waste

Real estate assets without waste sorting/recycling

Resource consumption

Share raw materials/total building materials used

Biodiversity

Share non-vegetated surface area/total surface area

Energy-inefficient real estate assets:

Built before 2021: EPC label of C or lower

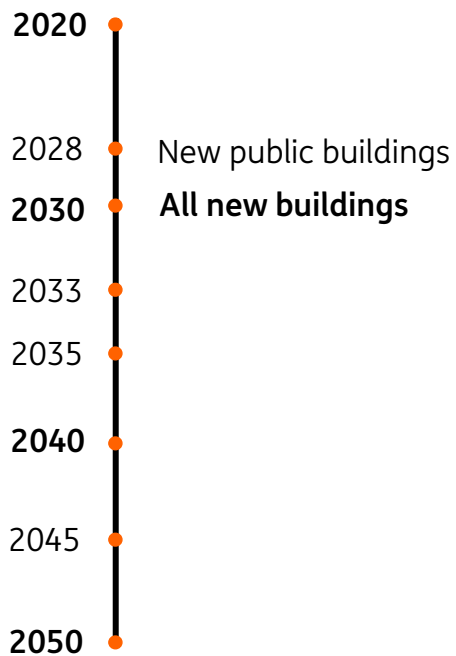
Built after 2020: Worse primary energy demand (PED) than nearly zero emission buildings (NZEB)

Improving the energy performance of buildings

More assets for green covered bond supply

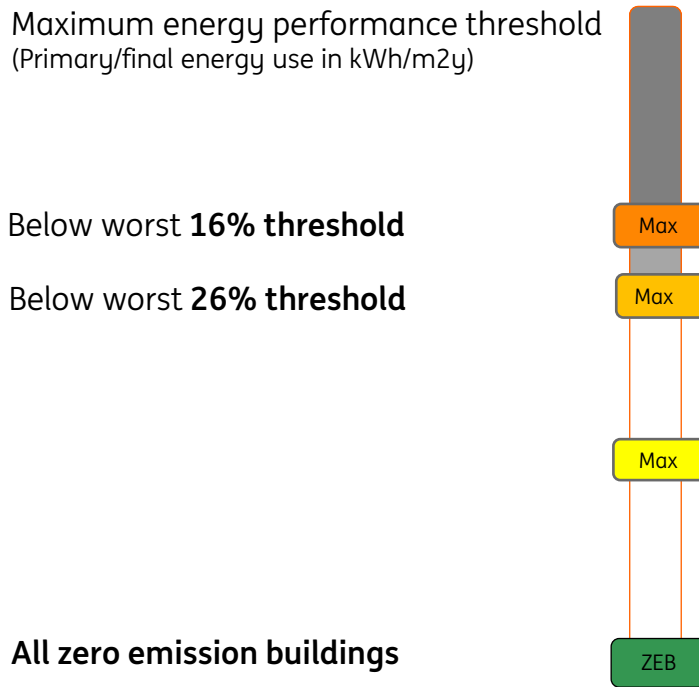
Energy Performance of Buildings Directive

New buildings Zero emission

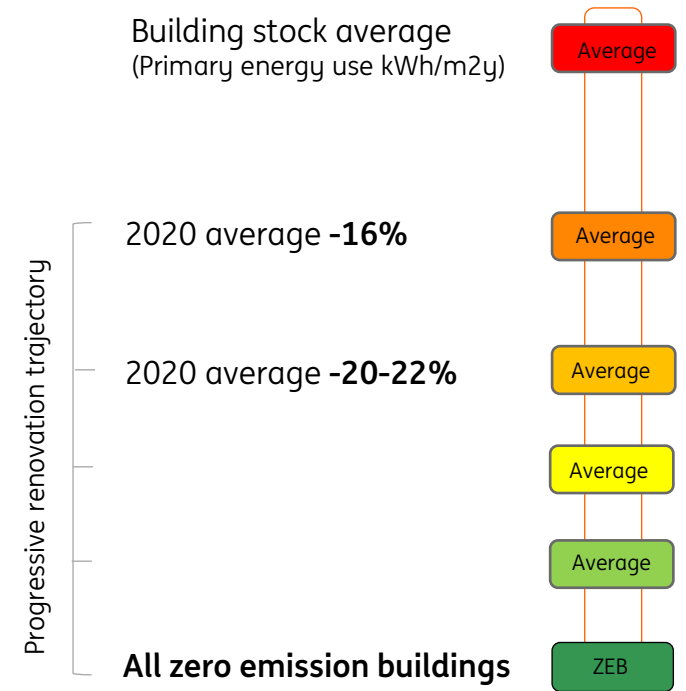


ZEB threshold = NZEB -10% threshold on 28 May 2024

Non-residential buildings Minimum energy performance standards



Residential buildings National trajectories

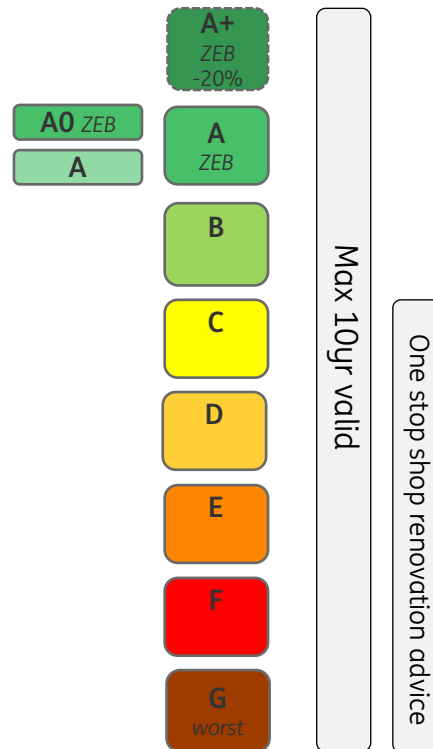


55% of the decline through renovation of the worst 43%

Improving the availability of energy performance certificates

Establishing an EPC system

A closed scale from A to G



When

29 May 2026

31 December 2029

if energy performance classes were rescaled between 1 January 2019 and 28 May 2024

Better availability of EPC labels

How

Digital energy performance certificates

- new construction
- major renovation
- sale
- new rental contract
- public buildings

National database for energy performance of buildings

- info on individual buildings and building stock
- EPC labels are uploaded to this data base

EU Building Stock Observatory

- annual transfer of national database via common template
- implementing act adopted by 30 June 2025