

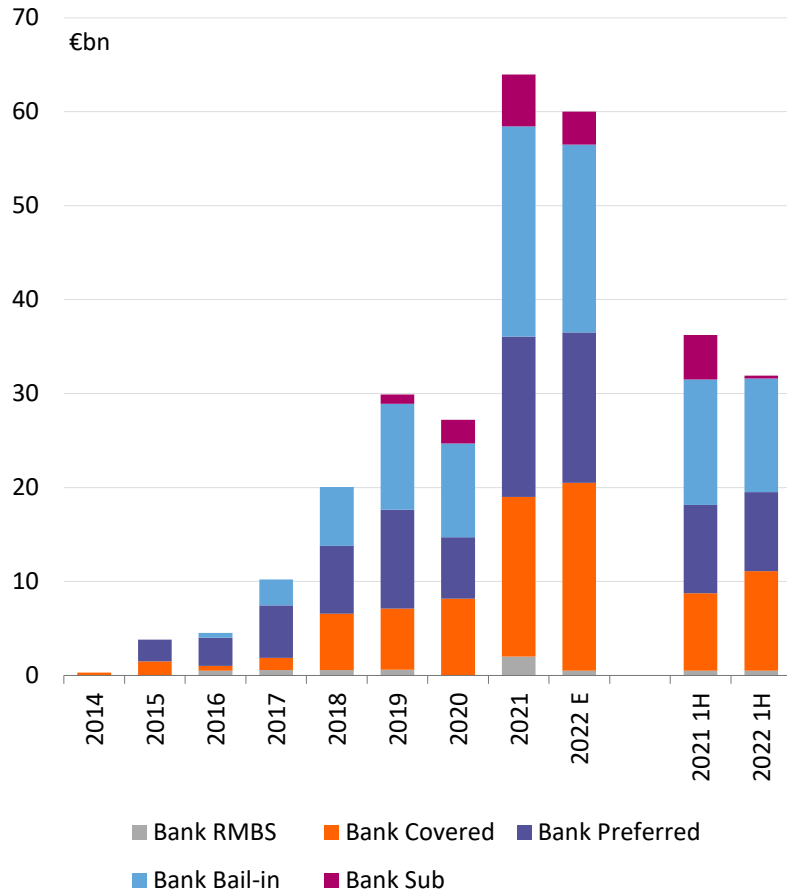
Sustainable covered bonds

In the cross fire of ESG regulation

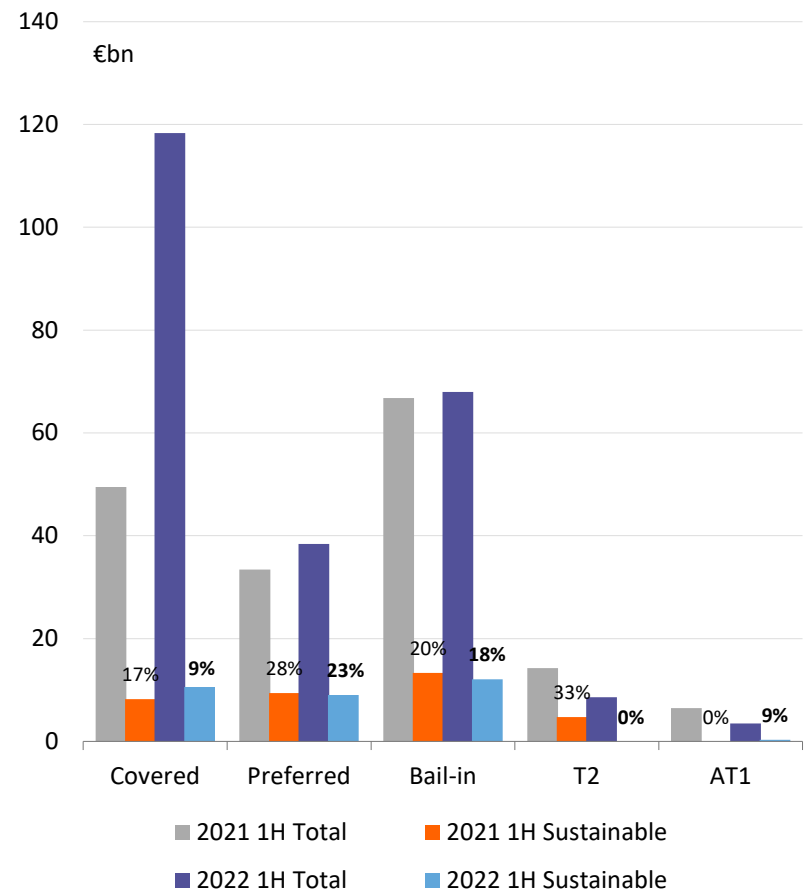
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Financing sustainable growth

Sustainable EUR bank bond supply falls slightly behind 2021, except for covereds

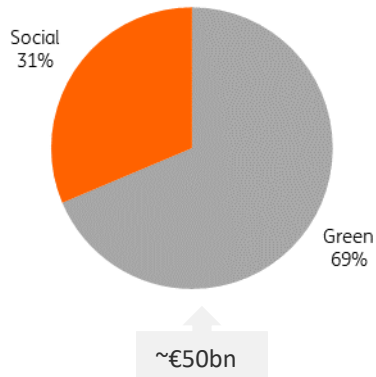


1H rise in sustainable EUR covered bond supply is modest given the chunky supply

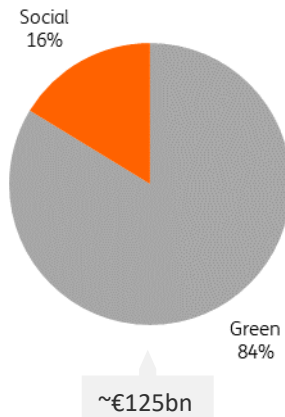


Green bank bonds (€) per use of proceeds type

Covered bonds

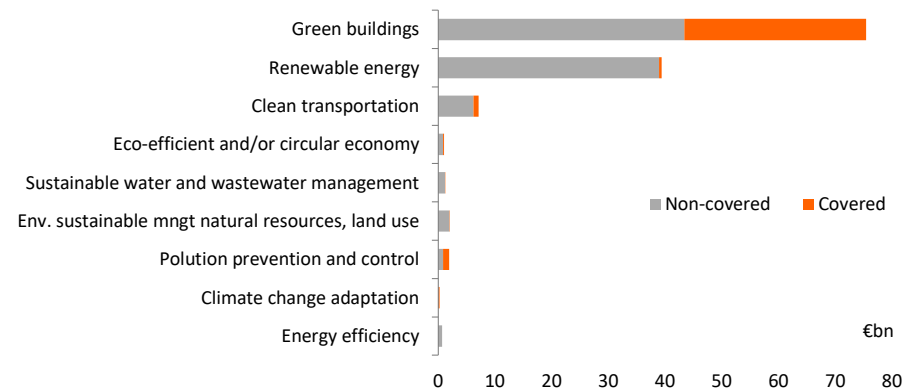


Non-covered bank bonds



Green building loans the most important green use of proceeds category, particularly for covered bonds

Use of proceed categories ICMA's Green Bond Principles



The **EU Green Bond Standard** will raise the bar versus the ICMA's Green Bond Principles where it comes to the use of proceeds. The bonds can solely be used to finance assets related to economic activities that are fully taxonomy compliant. Meeting the technical screening criteria for substantial contribution and doing no significant harm for buildings is crucial.

The technical screening criteria for buildings

Climate change mitigation – low carbon and transitional activities



Construction new buildings per 2021: The **primary energy demand (PED)**, defining the energy performance of the building resulting from the new construction is **at least 10% lower** than the threshold set for the **nearly zero-energy building (NZEB) requirements**. Energy performance is certified using an as built energy performance certificate (EPC). Buildings > 5000 m2: test for air tightness and thermal integrity. Life cycle global warming potential (GWP) calculated for each stage in the life cycle.

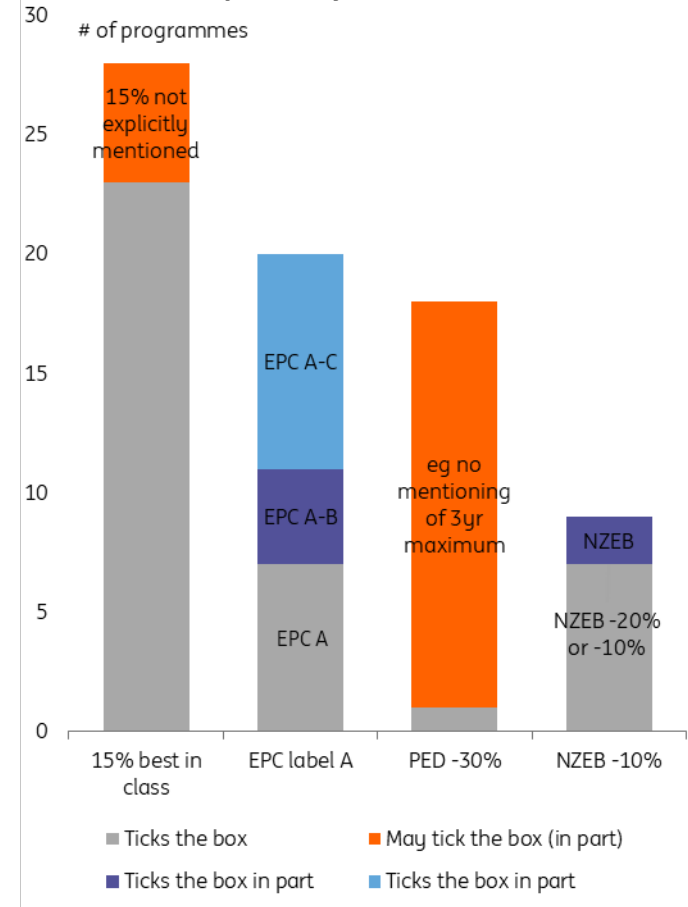


The **building renovation** complies with the applicable requirements for major renovations stipulated by the EPBD. The energy performance of the building or the renovated part that is upgraded must meet EPBD's cost-optimal minimum energy requirements. Alternatively, the renovation leads to a **reduction of PED of at least 30%**, based upon a energy audit. The 30% improvement can be achieved through a succession of measures within max three years.



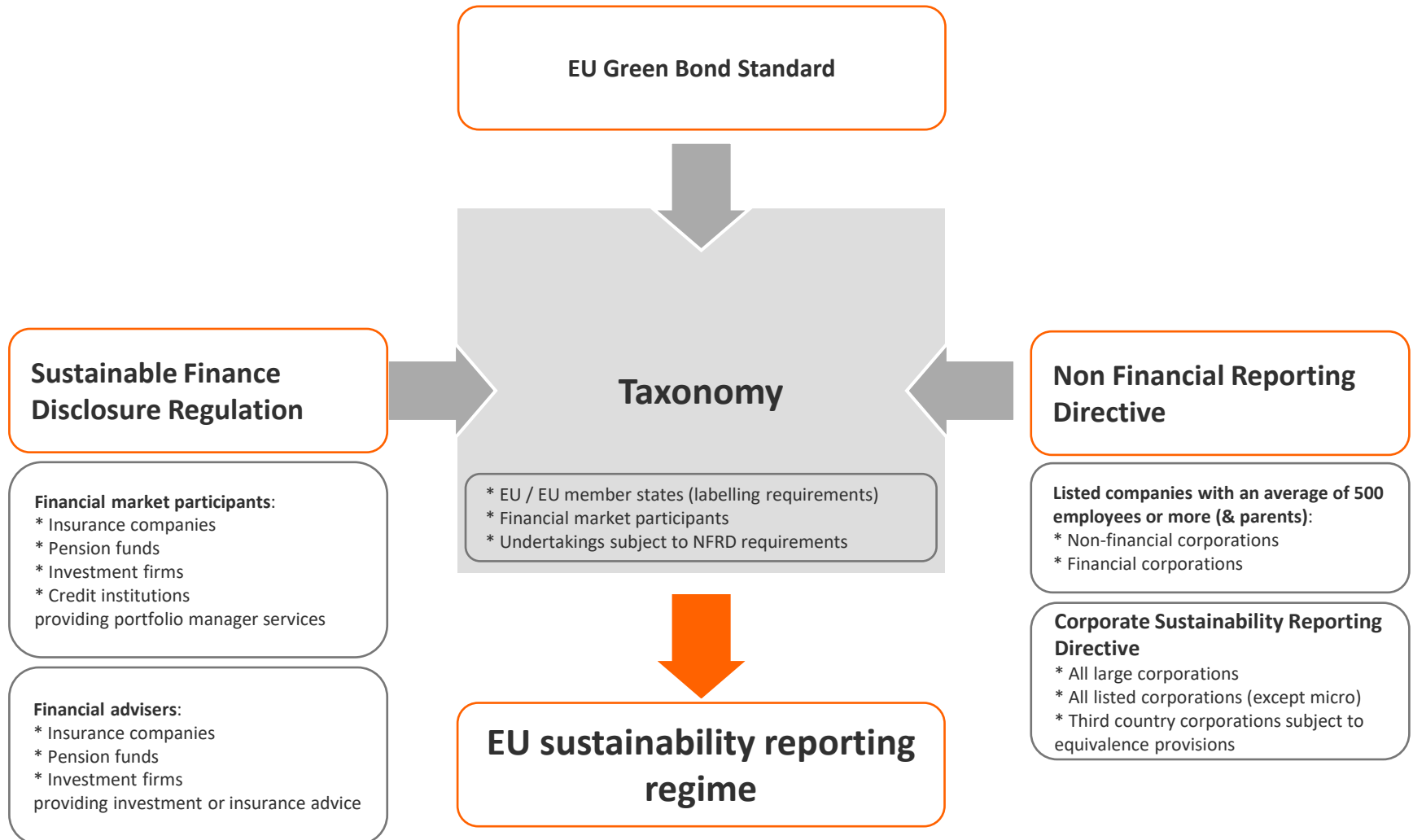
Buildings acquired before 31 December 2020: Building has **at least Energy Performance Certificate (EPC) class A**. As an **alternative**, the building is **within the top 15%** of the national or regional building stock expressed as operational PED and demonstrated by adequate evidence, which at least compares its performance vs the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings.

Covered bonds meet the substantial contribution criterion primarily on 15% best in class



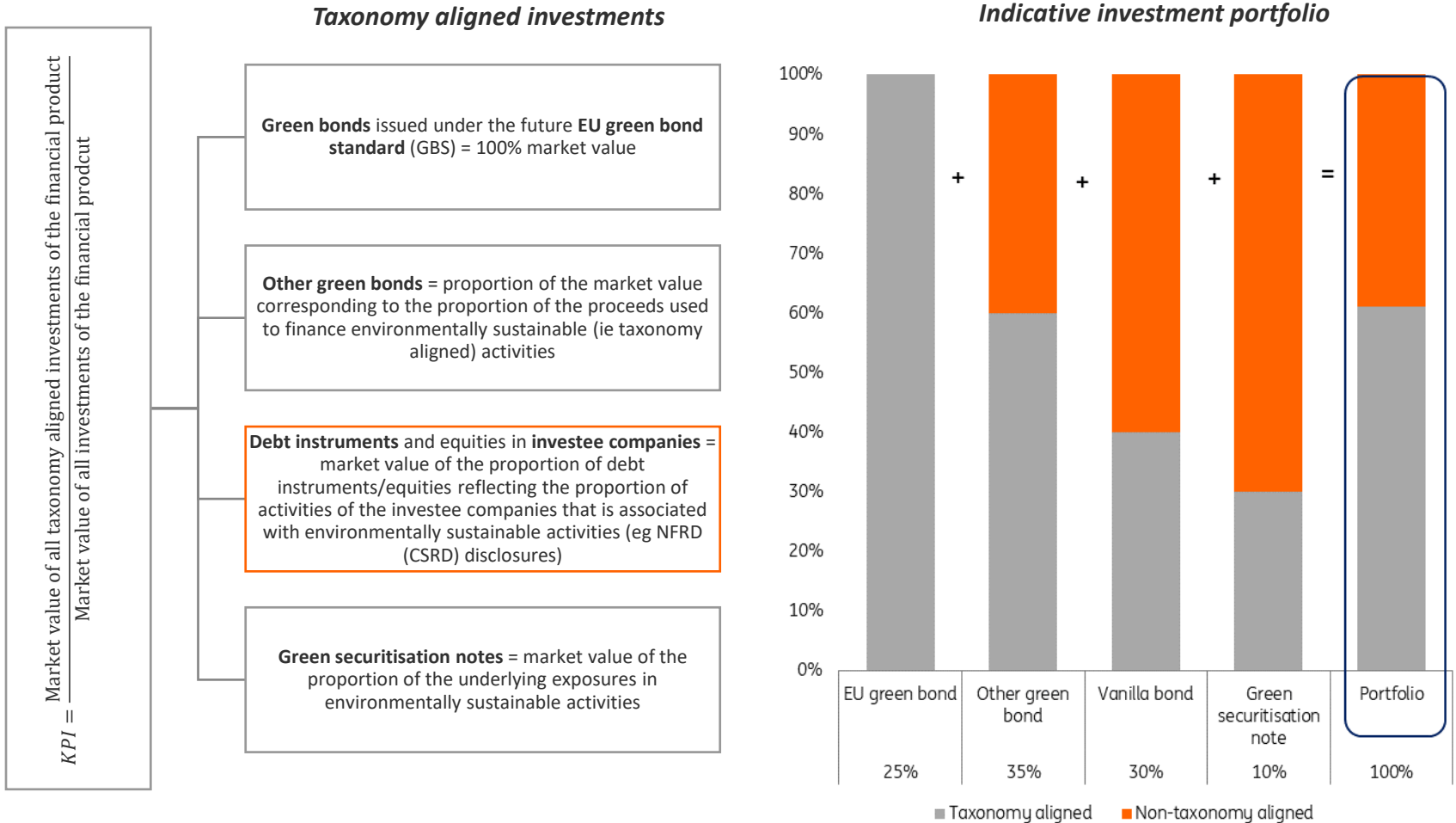
Communicating vessels to sustainability reporting

EU requirements will impact financial and non-financial corporations in and outside the EU



Taxonomy KPI under the SFDR

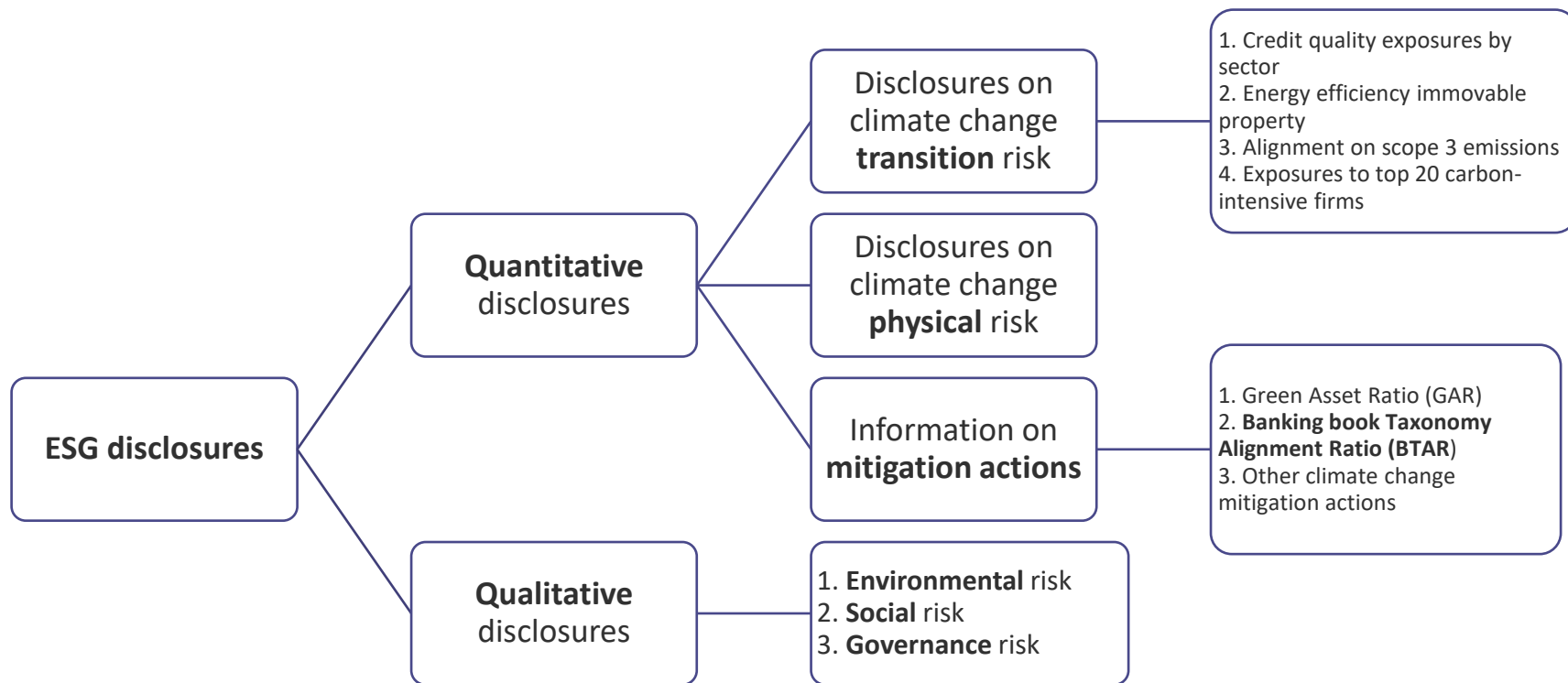
A simple illustration why higher taxonomy alignment by banks and their green bonds matters



Based on European Commission, regulatory technical standards, adopted on 6 April 2022

CRR disclosures on climate change and ESG risks

EBA final draft implementing technical standards (ITS) on CRR Article 449a disclosures



Who: Large institutions with securities traded on a regulated market in any of the EU member states

When: From 28 June 2022: first disclosures early 2023 for FY2022, and semi-annually thereafter

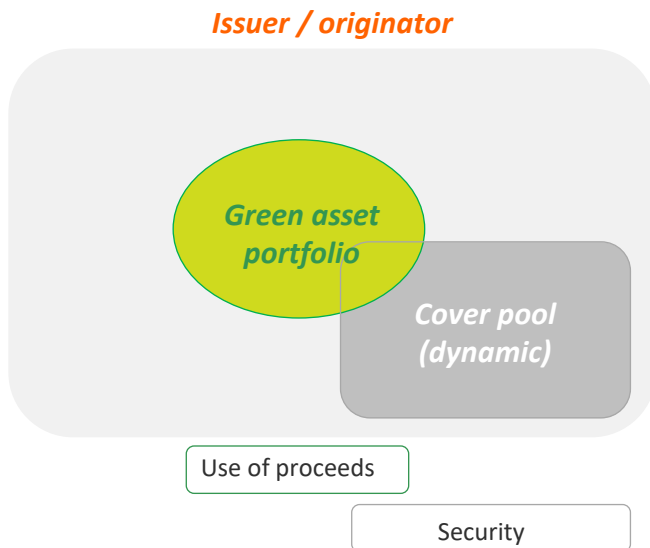
Unlike the GAR (January 2024), the **BTAR** (June 2024) **includes exposures to non-financial corporations not subject to NFRD disclosure requirements (eg SMEs and other non-NRFD companies)**. Banks have flexibility to disclose on a best efforts basis. They can collect information on bilateral basis through lending process, use estimates or use EPC labels/top 15% metric for commercial real estate.

The GAR is anticipated to remain leading to performance.

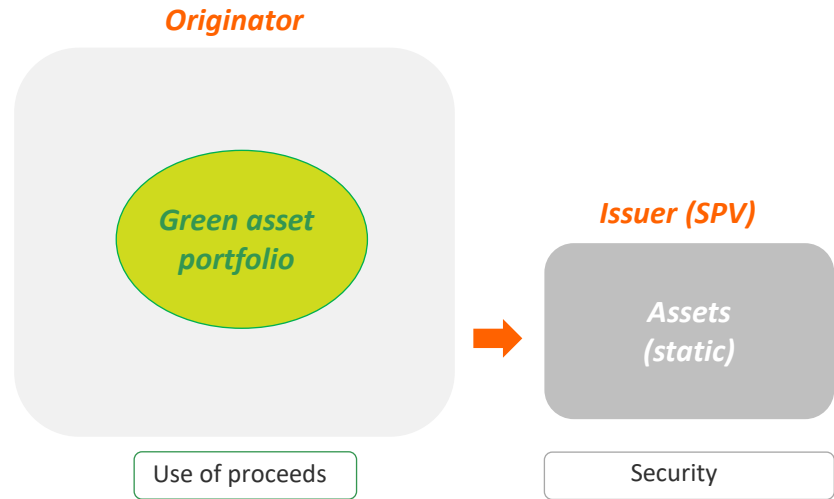
Developments on sustainable securitisations

EU GBS: Use of proceeds approach, no collateral-based approach – just a transition phase?

Green covered bonds



Green securitization notes (true sale)



Will certain proposals for (green) securitisation notes also have future implications for (green) covered bonds?

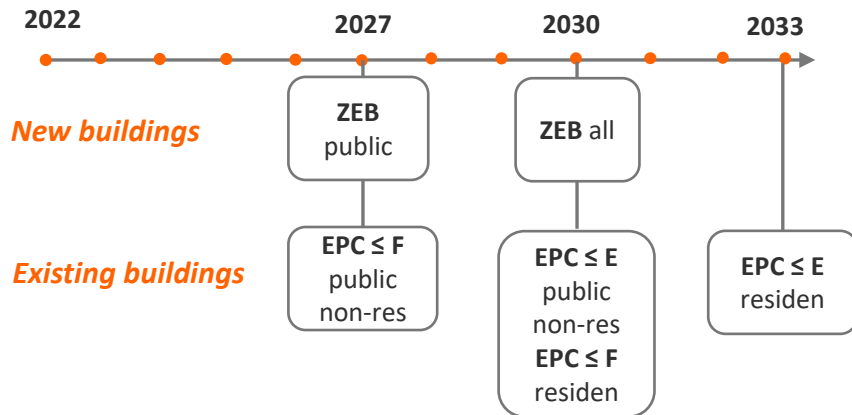
1 Additional EU GBS **disclosure requirements** for green securitisations (disclosure GAR and BTAR of originator and securities exposures in EuGB factsheet), on top of STS securitisations-related sustainability disclosures.

2 A **specific green framework** for securitisation complementing the adjusted EU GBS?

EPBD – moving forward on building renovations

What could be in store for banks and covered bonds?

Timelines December 2021 proposal



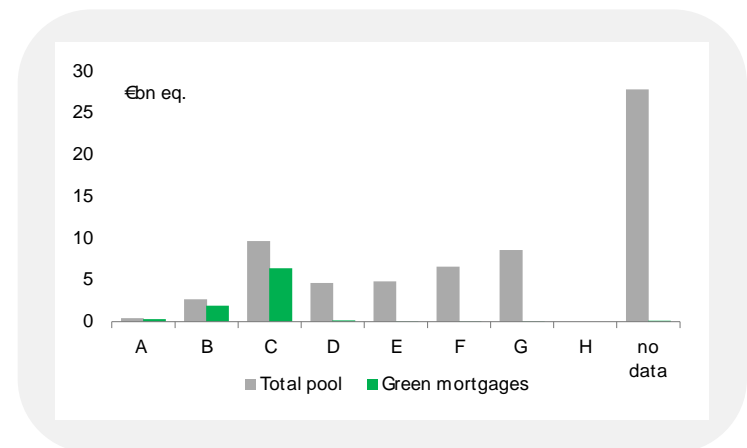
Green covered bonds could play a role in financing energy efficient mortgages granted by banks for certified energy efficient building renovations

Harmonising the scale of energy performance classes by end 2025



- * Harmonising EPC label scales
 - * Improving the availability of EPC labels
 - * Incentivising the renovation of buildings...
- ...but with a risk for properties not meeting the deadline

Cover pool example of EPC information



Source: Issuer HTT information

Expansion of the Taxonomy regulation will give broader opportunities to highlight ESG efforts

Significantly harmful (SH) activities

Classification of activities:

- Green:** Sustainable significant contribution (SC) level
- Amber:** Sustainable (if improving) intermediate performance level
- Red:** Unsustainable significant harm performance level:
 - a) transition or b) exit

Banks will be better able to show the transition away from harmful activities.

Criteria for harmful activities derived from DNSH criteria



Low environmental impact (LEnvI) activities

No significant impact (NSI):

- a:** no potential of making a substantial contribution (except climate adaptation); &
- b:** are not causing significant harm to any of the six EU environmental objectives; &
- c:** meet minimum safeguards

This allows bank to report also their no harmful activities

The Platform of Sustainable Finance proposes to maybe include these activities later into the environmental taxonomy

Social taxonomy

1. Social objectives

a) Decent work (*workers*); b) Adequate living standards and wellbeing for end users (*end users*) c) inclusive and sustainable communities and societies (*communities*)

2. Types of substantial contribution

a) Inherent social benefits of the activity itself; b) Avoiding and addressing negative impacts; c) Enabling activities.

3. DNSH criteria

4. Minimum Safeguards

5. Socially harmful activities

Governance

The social taxonomy will supports the direction of capital to sustainable purposes

The **impact of the social taxonomy** will also depend on how it is **integrated** alongside the environmental taxonomy

DNSH climate change mitigation objective: Real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels. Buildings built after 31 December 2020: PED does not meet the threshold for NZEB.

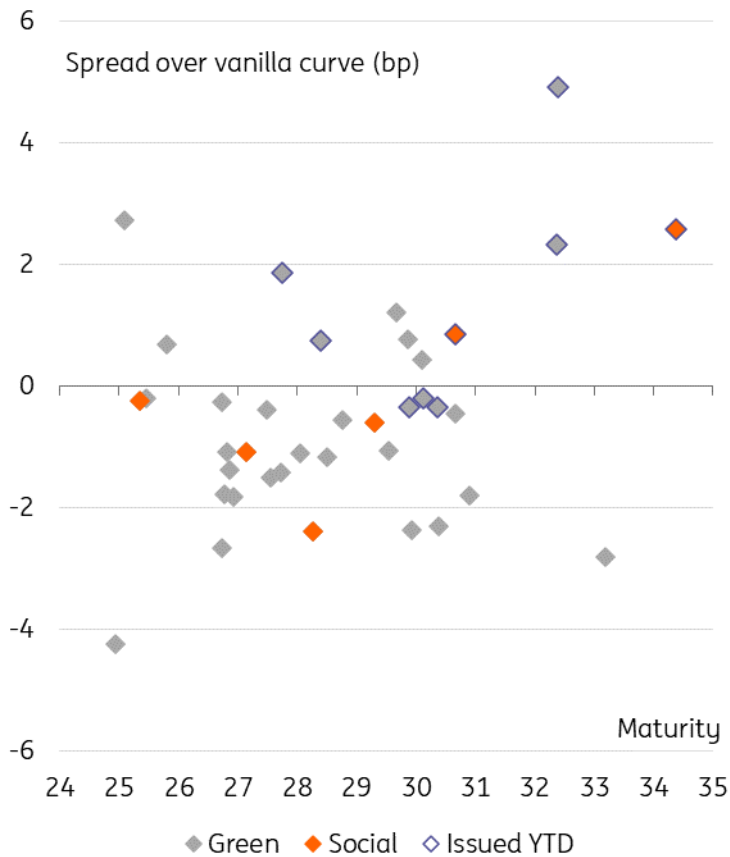
Buildings built before 31 December 2020: EPC of D or lower or not belonging to the top 30% most energy efficient buildings.

(Differs from PAI definition of 'inefficient real estate assets' of an EPC of C or below, without a top (30%) performance boundary).

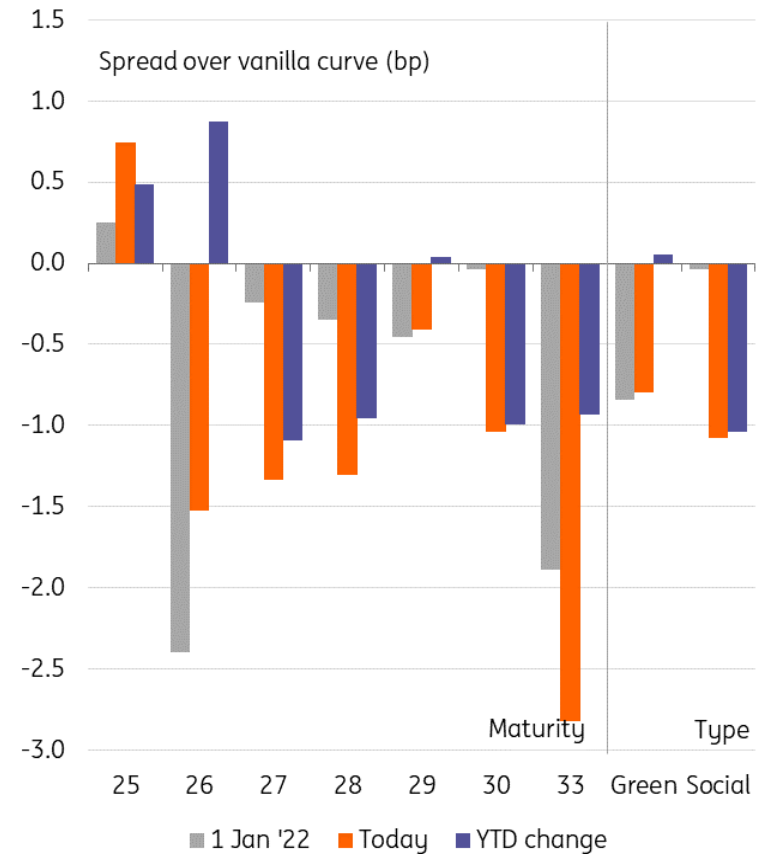
Sustainable versus vanilla covered bonds

Secondary market overview

Most sustainable covereds trade through vanilla



Wider spread levels see greenium improve



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