ABN·AMRO

Group Economics I Financial Markets Research

ESG Covered Bonds

EEMI Trento Bauhaus Week

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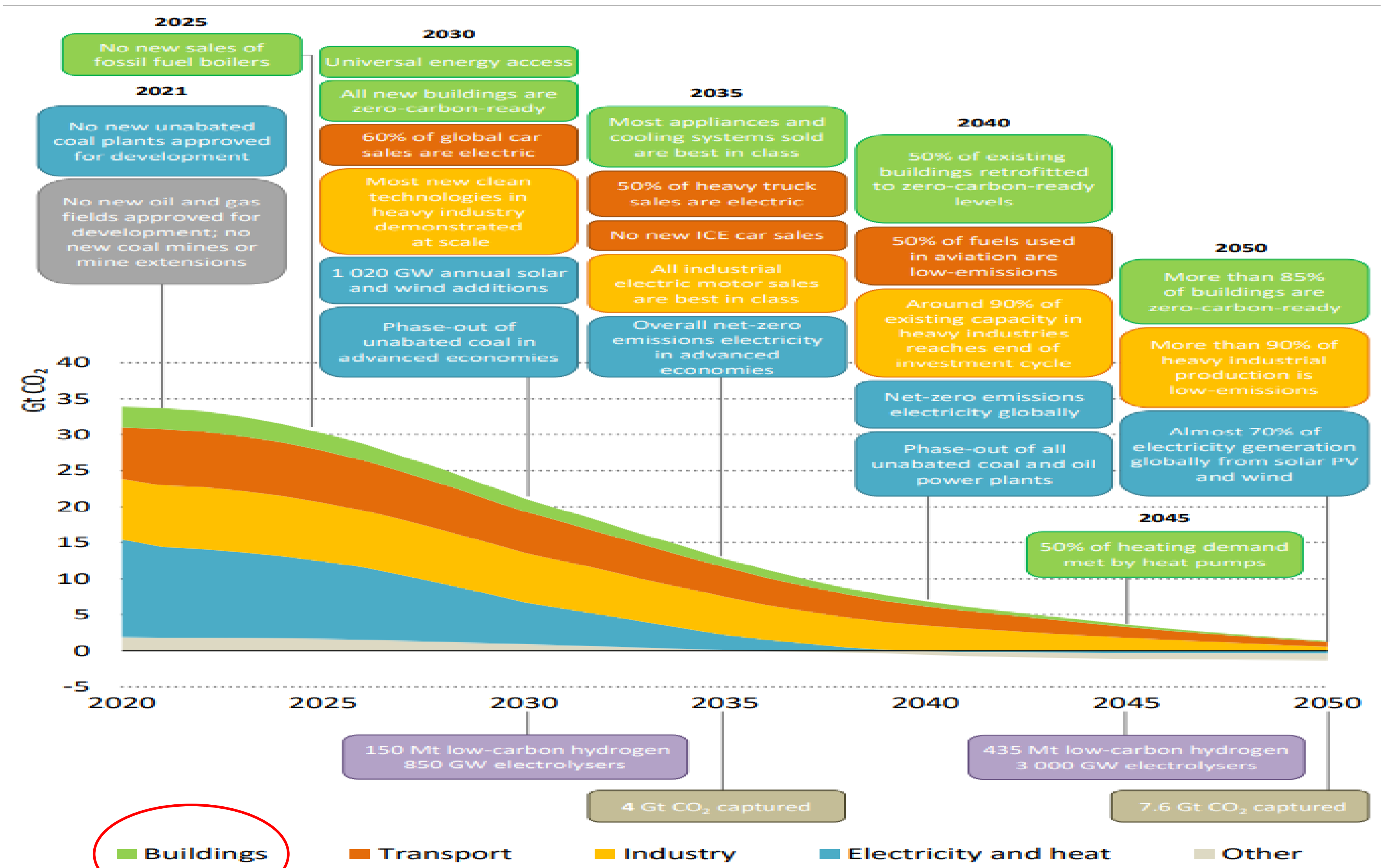
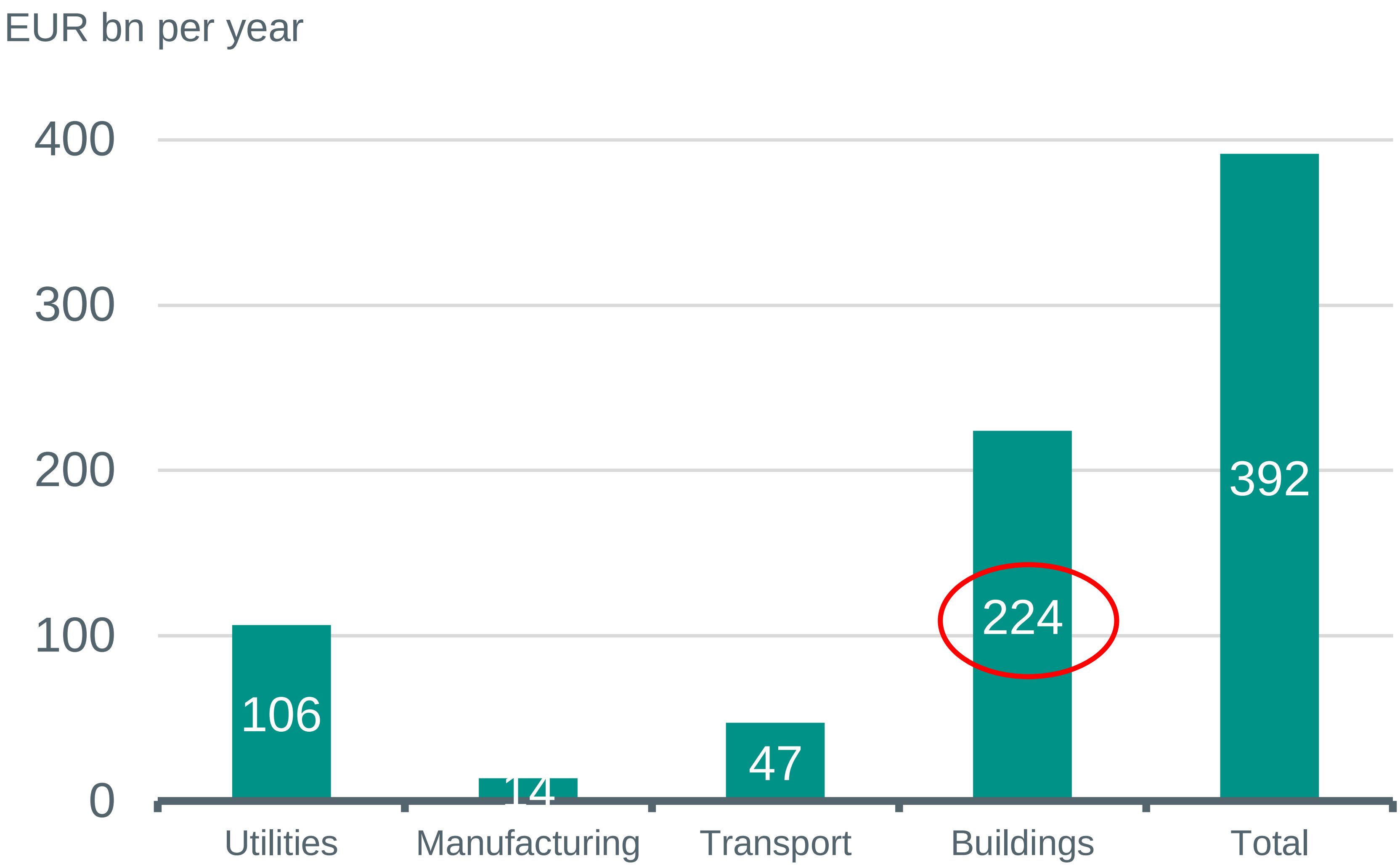
February 2023

Key milestones in Net Zero scenario – 85% of buildings net zero in 2050

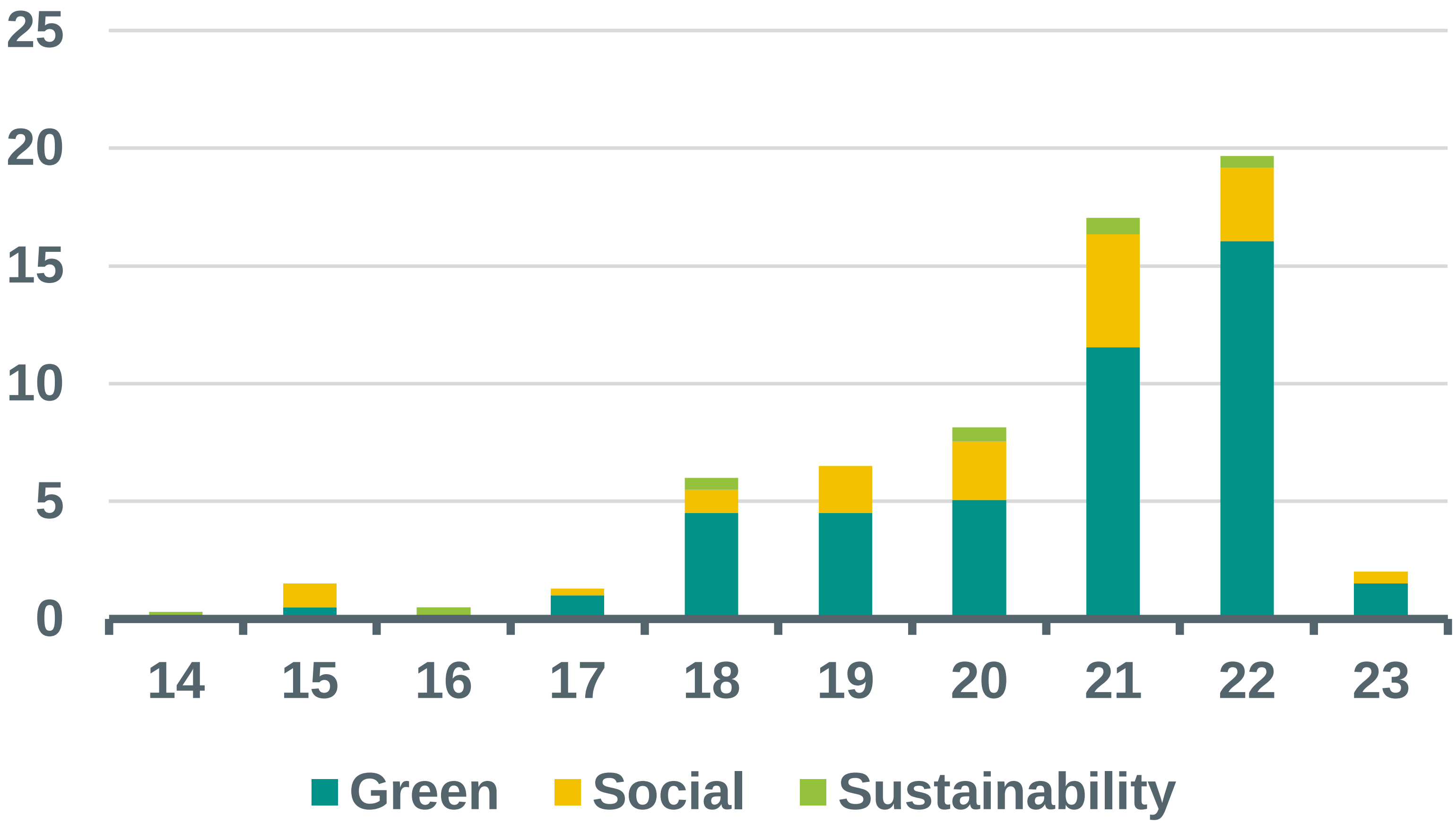


Additional investment needs to meet EU 2030 target

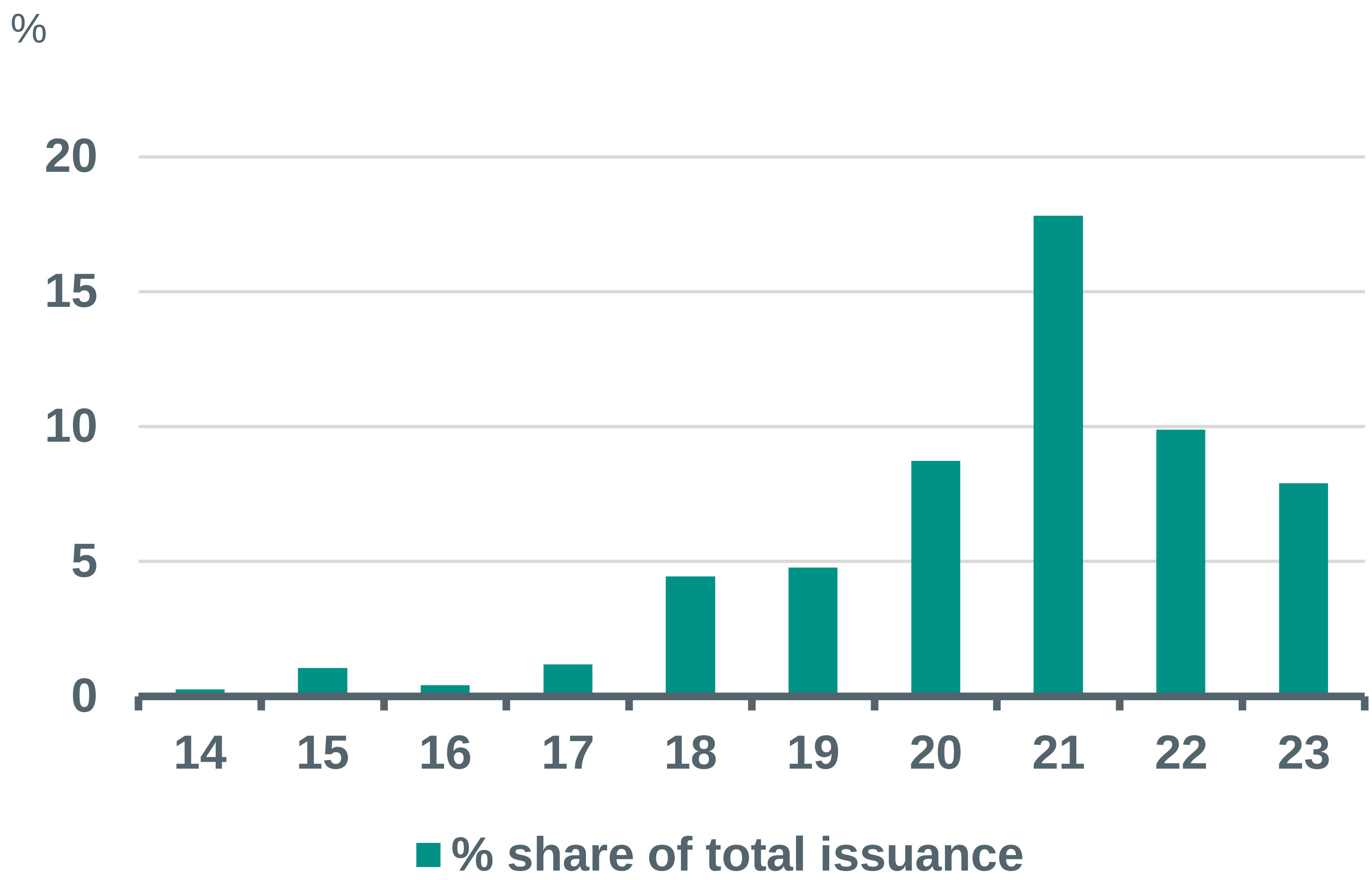


ESG covered bond issuance gained further momentum in 2022

ESG covered bond issuance per year (EUR benchmarks, bn)

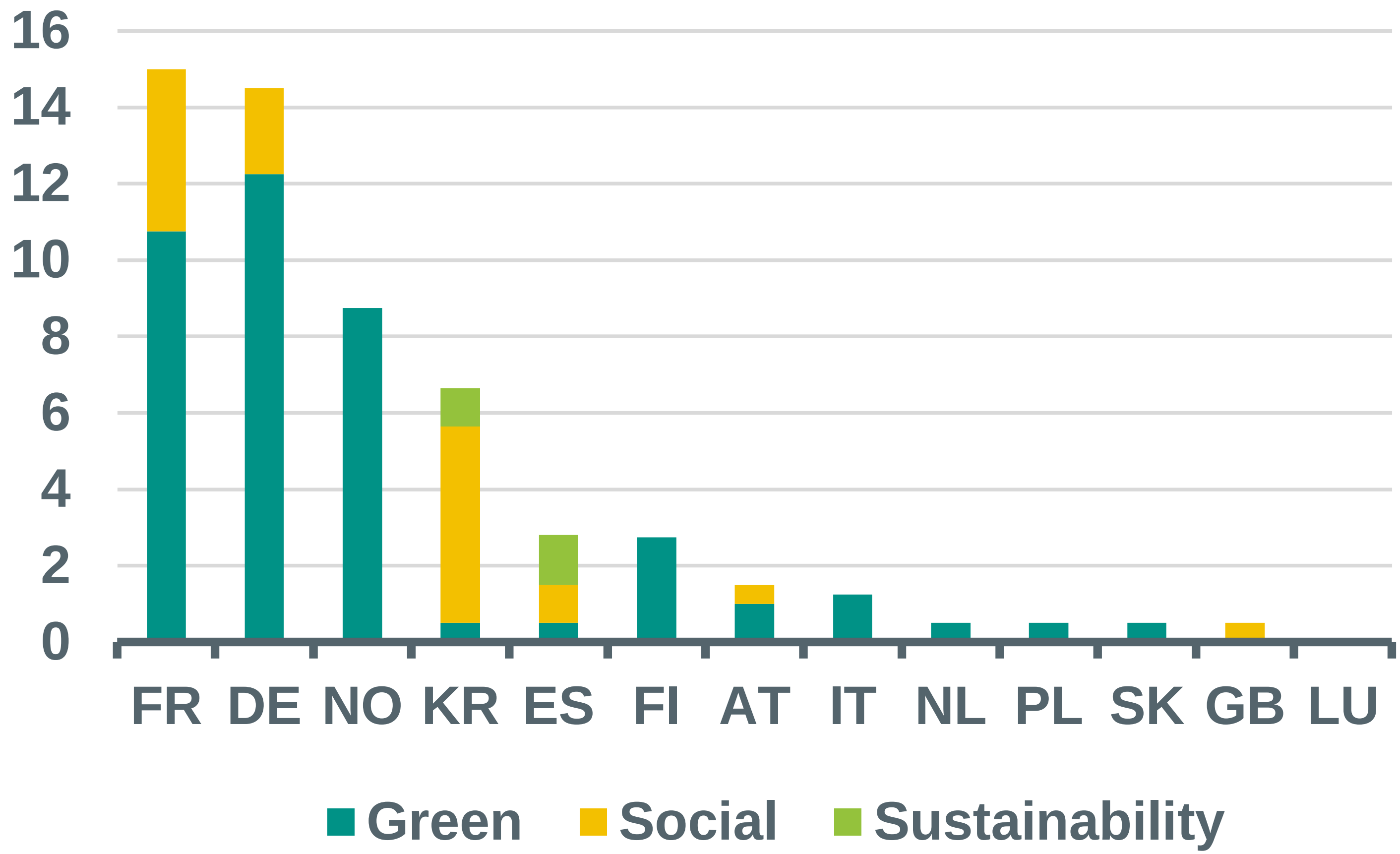


ESG covered bond issuance as share of total issuance



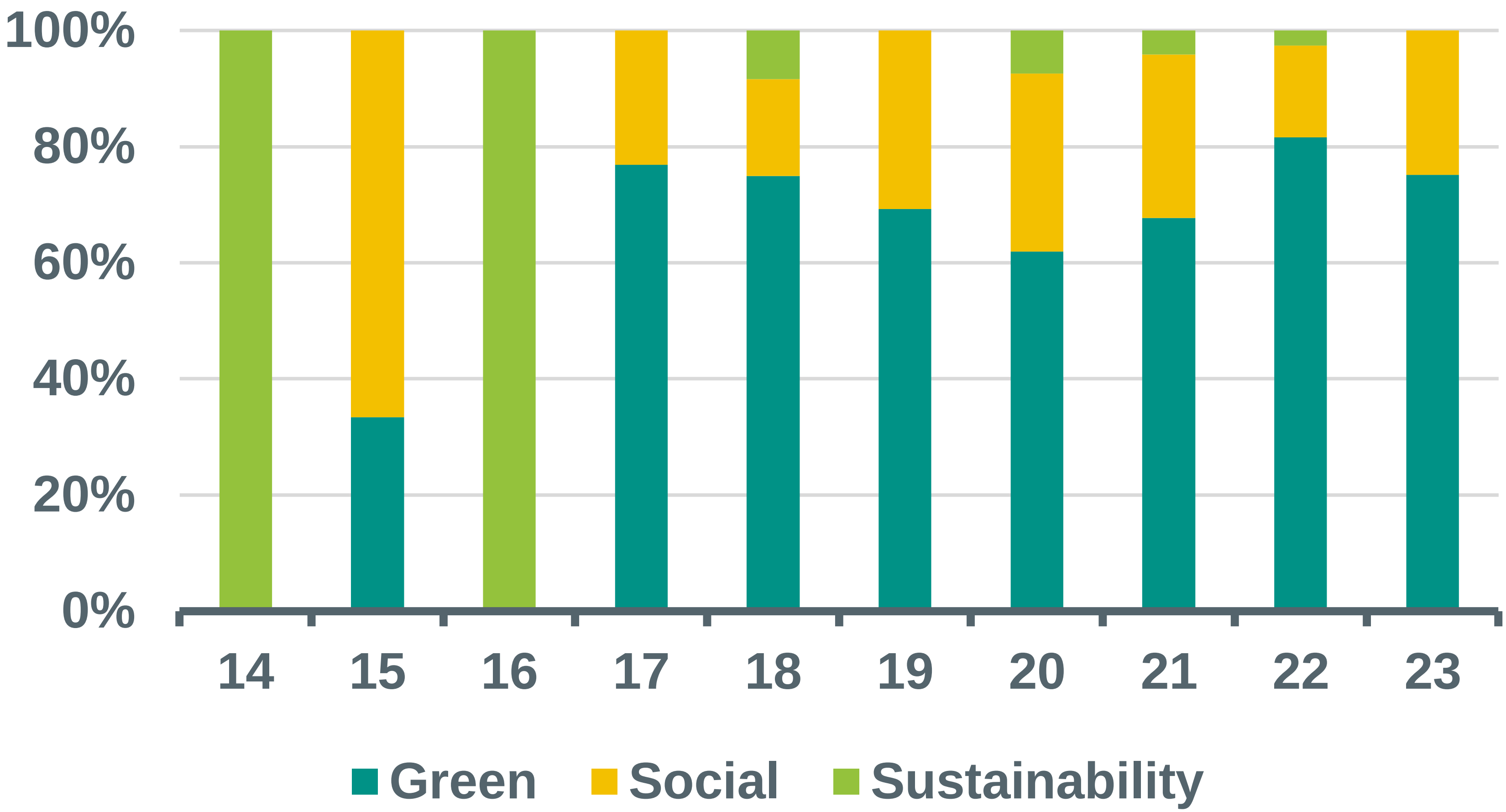
ESG covered bonds issued across the globe

ESG covered bonds outstanding per country (EUR benchmarks)



Most ESG covered bonds are green and social

New issuance of ESG covered bonds by type, %-share



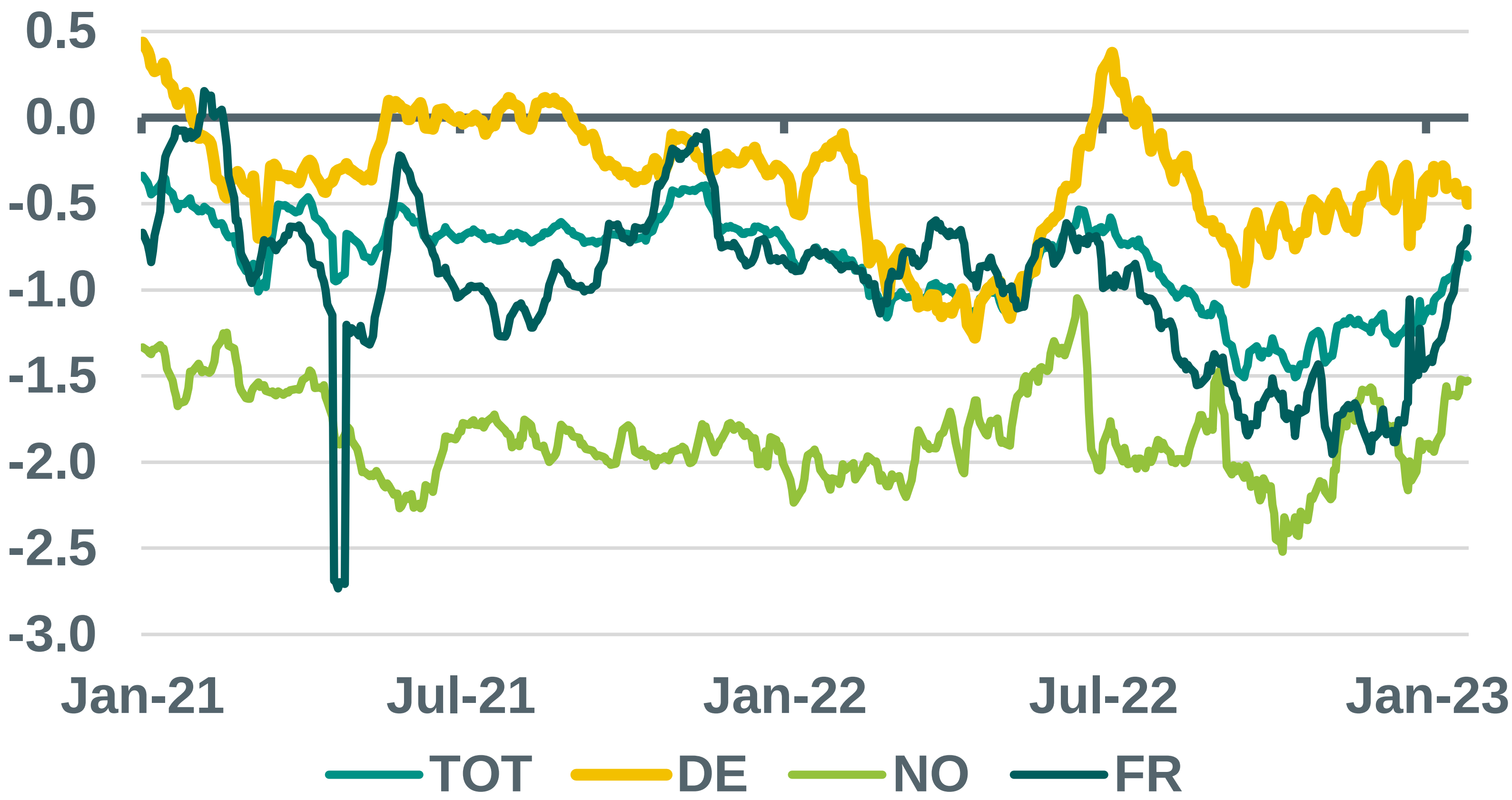
Some small but persistent greenium for covered bonds

%-day moving average of spread difference green and non-green comparables, bp

Source: Bloomberg, ABN AMRO

Greenium largest in Norway, lowest in Germany

%-day moving average of spread difference green and non-green comparables, bp



Source: Bloomberg, ABN AMRO

Demand stronger for green than regular covered bonds

Average bid-to-cover ratio

And new issue premiums smaller

Average new issue premium on covered bonds, bp

Source: Bloomberg, ABN AMRO

ECB set to green CBPP3 portfolio, supporting spreads of green covered bonds

- ECB executive Board member Isabel Schnabel held a speech about monetary policy and the green transition (see here).
- The central bank will move from a flow-based approach to a stock-based approach to greening its stock of corporate bond holdings
- This implies that it will need to actively sell bonds of companies with weaker green credentials and substitute these with bonds of greener companies
- To align monetary policy decisions with the objectives of the Paris Agreement, the ECB is looking to also extend its portfolio greening to its covered bond, ABS and PSPP
- This would require development of a framework in order for the ECB to properly assess the ESG credentials of those exposures
- It is likely to follow the same three pillars chosen on the corporate side: quality of disclosures, backward looking and forward looking emissions
- In the end, it should benefit spreads of green covered bonds (and covered bonds by issuers with a strong green profile) over regular covered bonds

A blueprint for greening CBPP3

Backward-looking (1st pillar):
We expect that it is likely that the central bank will look at the issuer level. Most banks already report scope 1 and 2 emissions, but scope 3 emissions from their lending are the most important element in assessing how carbon-intensive banks are within their lending operations. Not much data available on scope 3 emissions.

The ECB's recent publication of climate-related data could provide insights in a methodology that it will probably use to measure the carbon footprint of banks.

Transition risks are mainly captured by the ECB's indicators about carbon emissions, which are based on two indicators: the financing of emissions as well as the weighted average of the carbon-intensity of bank loan portfolios (measures carbon emissions as share of 1mln euro of revenues).

Forward-looking (2d pillar):
The ECB needs to look at whether banks have climate strategies in place, and if so, what the level of ambition is compared to peers.

To assist with this assessment, it could for example consider whether the strategies have been published and whether they have been incorporated in banks operations as well. A starting point could be whether banks are member of the Net Zero Banking Alliance (NZBA)

Quality of disclosures (3d pillar):
This is about the quality of climate-related public disclosures, which is somewhat related to the first pillar. The ECB will check what level of data banks are reporting when it comes to their carbon emissions.

Important information

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