Bank Pulse: Banks continue to reap pricing benefits from sustainable bonds issuance

Banks issued a record amount of EUR bonds this year financing loans with dedicated environmental or social purposes. Helped by the strong demand for ESG-related investment opportunities, these bonds continue to offer banks funding cost advantages in the primary market

A booming year for sustainable bond supply by banks

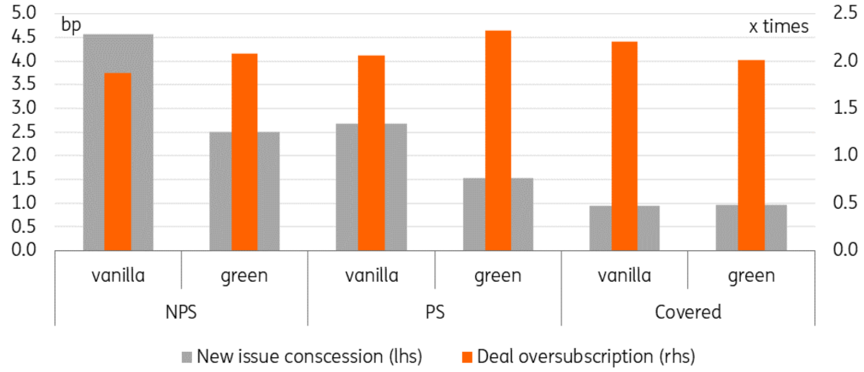
2021 has seen an incredibly strong rise in ESG-related bond issuance by banks. Over the first ten months of 2021 they issued €55bn in bonds with a sustainable use of proceeds. This was double the amount issued for the whole of 2020. The issuance has been particularly strong in the unsecured segment, with 31% of the preferred senior unsecured supply and 28% of the bail-in senior unsecured supply issued in green, social or sustainability format.

We expect banks to issue €75bn in sustainable EUR bonds in 2022

In our credit outlook 2022, we argued that the significant demand for ESG debt, and the related outperformance hereof in primary markets, will remain an important incentive for banks to issue sustainable bonds. We expect the supply of EUR sustainable bank bonds to rise from roughly €60bn in 2021 to €75bn in 2022.

Even though the premium banks have to pay versus their outstanding bonds (ie the new issue concession (NIC)) has become smaller in the past three years as credit spreads have become more compressed, banks still have to pay a lower premium if they finance themselves with a sustainable bond than they do if they finance themselves with non-sustainable bonds. Also this year, the funding cost advantages of issuing sustainable bonds have remained visible for banks, despite the step-up in their ESG related supply.

Covered bank bonds reaped least primary market benefits from sustainable issuance in '21



Source: IGM, ING

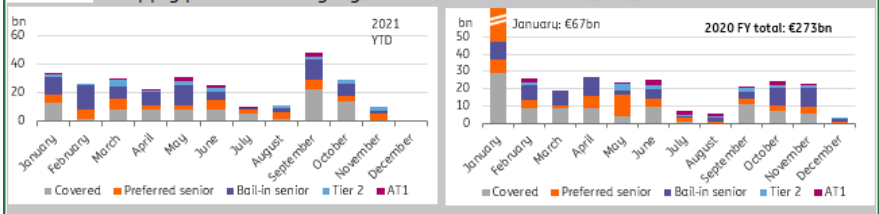
Sustainable bonds benefit from extra strong investor demand

The more favourable pricing of sustainable bank bonds in the primary market is a reflection of the wider investor base for sustainable bonds which, besides traditional investors, also includes dedicated ESG investors. Regulatory developments, pushing investors to disclose their ESG efforts, such as the EU sustainable finance disclosure regulation (SFDR), have only served to increase the demand for ESG-related assets. As a consequence, sustainable bank bonds are often more oversubscribed versus the bond's issue size than non-sustainable bank bonds.

Thanks to their tight credit spread levels, covered bonds remain the only exception where sustainable issuance did not really result in a more favourable new issue concession in the primary market, nor in a higher deal oversubscription this year. We base our findings here only on a selection of countries in our database for this year, from which we have seen both green and vanilla supply for the senior unsecured and covered bond segments distinguished in the chart you can see above.

This remains one of the important reasons why banks more often tend to opt for unsecured issuance with a green and/or social use of proceeds rather than for secured issuance in the form of covered bonds. That said, ESG issuance is also increasingly embraced by banks in covered bonds, with a new high of more than €15bn in sustainable EUR covered bonds printed this year, making up 17% of the total EUR covered bond supply in 2021 YTD.

Bank bond supply per debt category, 2021 YTD versus 2020 (€bn)*



*only includes public deals.Source: IGM, ING

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