

# 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.

---

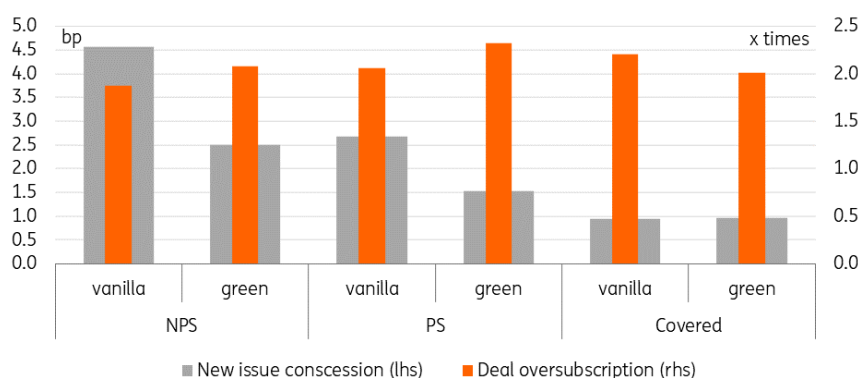
*We expect banks to issue €75bn in sustainable EUR bonds in 2022*

---

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



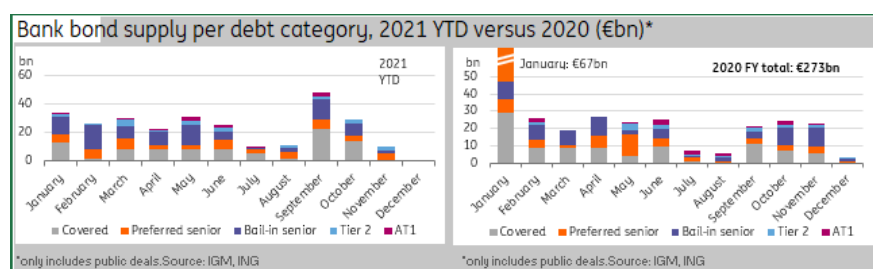
Source: IGM, ING

## 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.



## Authors

### Maureen Schuller

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

### Suvi Platerink Kosonen

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.