

EBRD's Green Bond Issuance and the Procedures for Selection of the Green Project Portfolio

The purpose of this document is to outline the procedure for EBRD's Green Bond issuance, and the process for ongoing GPP selection, approval and monitoring.

1. EBRD's Green Bonds ¹ and the Green Project Portfolio ("GPP").
2. Institutional Mandate and Environmental Policy.
3. Green Project Selection Procedure.
4. Legal Definitions in EBRD's Green Bond Documentation
5. Annex:
 1. Criteria
 2. Exclusions
 3. Further details on EBRD's stance on nuclear energy, forestry, biomass power and urban transport.

1. Background to EBRD's Green Bond issuance and GPP definitions.

Bond investors are increasingly interested in gaining specific exposure to 'green projects in sectors such as sustainable energy, clean technology, sustainable agriculture and environmental infrastructure. In response to this market demand, EBRD started to issue Environmental Sustainability Bonds (or "Green Bonds") to provide retail and institutional investors with an opportunity to invest in environmental and sustainable solutions through triple-A rated securities that support state and private sector environmental businesses in EBRD's countries of operations.

The proceeds of the bonds are earmarked to support a specific portfolio of environmentally and socially sustainable projects (the "Green Project Portfolio" or "GPP") through legal definitions contained in the bond documentation. (See section 4. Legal Definitions in EBRD's Green Bond Documentation.)

The GPP comprises investments in the following areas:

energy efficiency	clean energy
water management	waste management
sustainable living ²	environmental services and sustainable public transport.

As part of this GPP, environmental sustainability bonds fund the rehabilitation of municipal water infrastructure to reduce water consumption and waste water discharges. Funding also goes towards upgrading power and heating plants and transmission and distribution facilities, thereby reducing total greenhouse gas (GHG) emissions.

In selecting projects involving energy efficiency and fuel-switching to lower carbon intensive fuels (that qualify) for the GPP, the Bank takes into consideration the longer-term impact of each project towards the goal of a low carbon society and excludes projects that could lock EBRD clients in carbon intensive energy solutions.

¹ The terms "Green" bonds and "Environmental Sustainability" bonds terms are used interchangeably.

² Includes Energy Efficiency in residential buildings but not in industry.

While EBRD aims to ensure that all projects we finance are socially and environmentally sustainable, only investments in respect of which the entire or substantially the entire amount disbursed or invested is directed at environmental and social sustainability objectives in the above areas are included in GPP.

EBRD's Environment and Sustainability Department ("ESD"), Banking, Treasury and Legal departments established the underlying criteria for projects to be designated as part of the GPP that will be funded by EBRD's environmental sustainability bonds with reference to widely accepted "green" investment principles. The GPP criteria is reviewed and amended periodically to ensure it remains consistent with investor and market requirements for "green" investments. The ESD specialists review EBRD's committed projects to ascertain which projects are consistent with the criteria established for the GPP.

The EBRD's environmental sustainability bonds can take the form of Eurobonds, Global bonds and domestic issues in selected markets, similar to the Bank's general debt issuance. The bank has issued debt instruments in over 40 currencies, the proceeds of which are swapped mostly into floating rate EUR and USD. While the tenors of individual projects in the Green Project Portfolio vary from 1 to 20 years, the Bank will monitor the average life of the environmental sustainability bonds it has issued, to ensure that it does not exceed that of the GPP.

2. Institutional Mandate and Environmental Policy.

2.1. Mandate and policies.

EBRD is committed to promoting "in the full range of its activities environmentally sound and sustainable development" pursuant to its constituent treaty (the Agreement Establishing the European Bank for Reconstruction and Development). The EBRD's Environmental and Social Policy is a key document of the Bank which further details such commitments. The Policy includes environmental and social performance requirements ("PRs") which all EBRD-supported projects are expected to meet, whether or not they are eligible for inclusion in the GPP. The PRs are consistent with the IFC/Equator Principles' Performance Standards, but include a number of additional requirements, such as compliance with EU environmental standards.

<http://www.ebrd.com/pages/about/principles/sustainability/policies.shtml>.

2.2. Ongoing project monitoring.

All new projects proposed for EBRD investment are reviewed by the environmental and social specialists in ESD, in addition to the financial and legal analyses undertaken and an assessment of each project's impact on transition. Their due diligence benchmarks projects against the Bank's environmental and social PRs, and an environmental and social monitoring plan is developed for each project. At a minimum, this will require clients to report their environmental and social performance annually, which is tracked in the EBRD's systems.

Depending on the complexity and the risk profile of the project, in addition to monitoring visits by EBRD staff, periodic visits by independent consultants may be required. Monitoring allows the EBRD to identify problems we may need to help to address. We help our clients to improve their sustainability performance through project structuring, expert advice, technical cooperation and policy dialogue.

3. GPP Selection Procedure.

- (i) **Proposed project list:** Following each quarter end, Operational Strategy and Planning produces a list of new projects in accordance with the criteria of the GPP (See Annex). The list contains projects, tenors and operating assets among other details.
- (ii) **Approval:** Treasury, Funding, reviews the list against the criteria in general and against exclusion and derogation lists in particular. ESD reviews the list and provides final approval.
- (iii) **Use of proceeds:** The proceeds from all EBRD's environmental sustainability bonds are directed towards EBRD's GPP through legal definitions contained in the bond documentation. (See section 4. Legal Definitions in EBRD's Green Bond Documentation.) EBRD also seeks to ensure that the bond proceeds can be directed in full to its GPP by limiting the total amount of environmental sustainability bonds outstanding to 70 per cent of the GPP. More regular monitoring and reporting will be undertaken ahead of additional issuance by the Bank of green bonds if the amount issued is expected to exceed 60 per cent of the underlying operating assets. Treasury, funding desk, monitors this limit.
- (iv) **Reporting:** The annual status report on the GPP and projects financed by EBRD's environmental sustainability bond issuance is provided to investors in the Bank's Sustainability Report.

Further information on case studies and more frequent updates are provided on the EBRD's website under <http://www.ebrd.com/pages/workingwithus/capital/sri.shtml>.

4. Legal Definitions in EBRD's Green Bond Documentation

The language set out under the heading "Use of Proceeds" in EBRD's Offering Circular (<http://www.ebrd.com/pages/workingwithus/capital/investor.shtml>) shall be replaced for Green Bonds by the following:

"The proceeds of the Notes issuance will be used towards the Issuer's environmental projects in accordance with and subject to the following provisions:

- An amount equivalent to the net proceeds of the Notes will be allocated within the Issuer's Treasury liquidity pool to a portfolio that is separately monitored by the Issuer. So long as any of these Notes is outstanding, if the overall balance of such portfolio exceeds the overall amount of the Issuer's Green Project Portfolio (as defined below), the remaining balance may only be invested by the Issuer in certificates of deposits, commercial paper, bank deposits, repurchase transactions or other money-market instruments, as determined by the Issuer.

“Green Project Portfolio” shall mean, as determined by the Issuer, the sum of all loans and equity investments that are funded, in whole or in part, by the Issuer and in respect of which the entire or substantially the entire amount disbursed or invested is directed at, as determined by the Issuer, any of the following areas: energy efficiency, clean energy, water management, waste management, sustainable living, environmental services, and sustainable public transport.

Examples of projects in the Green Project Portfolio include, without limitation, financings of:

- Renewable energy projects, such as
 - photovoltaic installations, and production of photovoltaic cells/modules,
 - installation of wind turbines,
 - construction of mini-hydro cascades,
 - geothermal and biomass facilities
- Rehabilitation of power and heating plants and transmission/distribution facilities to reduce total greenhouse gas ("GHG") emissions
- Modernisation of industrial installations to reduce total GHG emissions
- New technologies that result in significant reductions in total GHG emissions, e.g. smart distribution networks
- Fuel-switching from carbon-intensive (coal, heating oil, oil shale) to less carbon-intensive fuels such as natural gas
- Greater efficiency in mass transportation, such as investment in fuel-efficiency (fleet replacement) or more energy efficient infrastructure
- Methane capture on waste landfills and waste water treatment plants
- Rehabilitation of municipal water/waste water infrastructure to reduce water consumption and waste water discharges
- Improvements to solid waste management (minimisation, collection, recycling, storage and disposal)
- Energy efficiency investments in existing buildings (insulation, lighting, heating/cooling systems)
- Investments to improve efficiency of industrial water use
- Sustainable and stress-resilient agriculture, including investments in water-efficient irrigation
- Sustainable forest management, reforestation, watershed management, and the prevention of deforestation and soil erosion.

The above examples are illustrative only and no assurance can be provided that investments in projects with these specific characteristics will be made.”

5. Annex.

5.1. Criteria.

The Green Project Portfolio is defined in terms of those projects which comply with the Bank’s Environmental and Social Policy and where substantially all the monies are directed towards: energy efficiency, clean energy, water management, waste management, sustainable living, environmental services, and public transport:

- The Sustainable Energy Efficiency (“SEI”) component of EBRD finance being at least 90%³
<http://www.ebrd.com/pages/sector/energyefficiency/sei.shtml>)
- Municipal and Environmental Infrastructure projects in the following Standard Industry Classifications:
 - Water and Sewage
 - Solid Waste Management
 - Steam and Air Conditioning Supply
 - Public Transport

5.2. Exclusions:

EBRD does not finance projects in any of the following areas:

- Activities listed on the Exclusion list in Appendix 1 of the EBRD’s Environmental and Social Policy (<http://www.ebrd.com/downloads/research/policies/esp-final.pdf>);
- Construction of new large hydropower installations (as defined by ICOLD);
- Biofuel production (pending the adoption of internationally recognised sustainability criteria);
- Nuclear energy generation;
- Alcohol production, defence-related activities, tobacco industry, standalone gambling facilities.

Projects involving the following activities are not eligible for inclusion in the GPP:

- Fossil fuel production and projects with significant consumption of fossil fuels (coal, heating oil, oil shale) (as determined by ESD);
- Projects approved on the basis of derogation from the Environmental and Social Policy for not being able to meet the Bank’s environmental and social Performance Requirements within the term of the EBRD transaction;
- Equity investments (subject to review);
- Investments in RUB (Russian Rouble) (subject to review).

5.3. Further details on EBRD’s stance on nuclear energy, forestry, biomass power and urban transport.

5.3.1. Nuclear Energy:

The EBRD’s involvement in the nuclear sector is restricted to improving nuclear safety. The EBRD manages six donor funds on behalf of 29 donors, including the G-8 countries and the European Commission, who together have pledged more than €3 billion to enhance nuclear safety of high-risk existing nuclear plants in the region. The funds provide support in the decommissioning of outdated power plants, the safety of Chernobyl nuclear power plant and the legacy of the operations of the Russian nuclear fleet in North West Russia, in particular with the resulting spent

³ *Approximately 95% of SEI projects included in the GPP as at 31 December 2013 have 100% SEI component.*

nuclear fuel and radioactive waste. More information can be found on the EBRD web site under <http://www.ebrd.com/pages/sector/nuclearsafety.shtml>.

With regard to the use of its own ordinary capital resources to complete or upgrade nuclear plants, the Bank will not consider providing financing to new reactors. However, it may provide financing to an operating facility in relation to nuclear safety improvements, or for the safe and secure management of radioactive waste and spent nuclear fuel, as well as for decommissioning.

Please note that none of the above activities are eligible for inclusion in the Sustainability Bond portfolio.

5.3.2. Forestry:

The EBRD promotes sustainable forest management through its investments in the forest products industry and biomass energy projects. Forest resource use is carefully reviewed during the environmental and social due diligence and the Bank requires its clients to adhere to rigorous corporate wood procurement policies and procedures aimed at ensuring that all wood used for EBRD forest industry projects is of legal and sustainable origin.

The degree of EBRD's requirements varies between those projects that involve direct management of forests and those that are fully dependent on external wood supplies. Clients involved in forest management are required to ensure that all forest areas over which they have management control are independently certified to internationally accepted principles of sustainable forest management. This entails that forest areas of high biodiversity value must not be converted or degraded and the harvesting of wood must be undertaken in a sustainable way. Those clients that rely on external suppliers are required to adopt and implement sustainable wood procurement procedures so as to ensure that wood for their operations does not originate from protected or high biodiversity value forests, that the origin of the wood is monitored and that the wood is supplied by responsible harvesting companies that operate in accordance with the principles of sustainable forest management.

Most of EBRD's projects using forest resources rely on external wood supplies; hence the focus has been on ensuring that clients comply with chain-of-custody/wood procurement requirements. Such clients are also required to give preference to purchasing resources certified to internationally accepted principles of sustainable management, where available.

The EBRD also encourages its clients to engage in dialogue with governments to support the development of state controlled legal enforcement and governance systems towards sustainable forest management and to promote certification of state-owned forests.

5.3.3. Biomass power projects:

EBRD finances biomass (using forest or agriculture residues as fuel) power projects. The key eligibility criteria for biomass power projects seeks to ensure the sustainability of the biomass fuel supply (e.g. forest certification). EBRD also may finance biofuel production, subject to use of feedstock that is produced in a sustainable manner so that adverse effects on ecosystems and the biodiversity they

support as well as the use of, and impacts on, land, water and other resources needed to produce each unit of energy are minimised. The projects will adopt and implement relevant EU principles and standards or guidelines for biofuel feedstock production.

Biofuel production projects are not eligible for inclusion in the GPP.

The examples of the biomass projects included in the GPP are:

- ASIF Victoria Oil Energy Efficiency and ASIF Sojaprotein Energy Efficiency, Serbia, signed in 2012 - biomass-fired boilers at Sojaprotein and Victoria Oil fuelled by organic residues (oilseed shells) from the production process as well and straw collected from nearby agriculture businesses;
- LEF: Lesieur Cristal, Morocco, signed in 2012 - a biomass boiler that would be fuelled by olive pomace.

To clarify the terminology:

Biomass power - means thermal power (or heat) generated by burning of biomass as fuel, where such biomass fuel may comprise one or more of the following: timber, forestry/logging residues, wood processing residues, straw and other organic agricultural waste material.

Biofuels - mean bioethanol or biodiesel, that are produced by refining of vegetable oils yielded from organic feedstock, such as palm oil, corn, rapeseed, etc, or in some cases waste vegetable oils. Biofuels are mainly used for substituting a fraction of fossil fuels (petrol or diesel fuel) in transport fuels to reduce carbon emissions.

5.3.4. Urban transport.

Urban infrastructure and services. Sustainability in urban transport means directing investments at projects that enhance and sustain the underlying economic and social vibrancy of cities. While covering both public transport and streets, this will involve primarily modernising existing services and infrastructure networks, while also providing financing for strategic missing links where justified. Due to the importance of city centres in areas with stable populations, focusing investment on the core areas should also help to sustain urban areas. The Bank will aim to improve the sustainability of the sector by focusing on certain goals:

Urban Transport - Sustainability Goals:

- Increase walking, cycling and public transport usage.
- Reduce traffic congestion through traffic reduction measures.
- Increase the energy efficiency of urban transport systems.
- Introduce the use of sustainable renewable energy for urban public transport.

Environmental and social sustainability. The selection of both the type of project and the choice of technology is important. Generally, projects that reduce the carbon intensity of the sector contribute to sustainable transport, with electric transport (tram, trolley, light rail transit and metro) being prime examples. Dense urban cities that favour walking and cycling also rank highly. Finally, when public transport is well planned with gender aspects in mind (e.g., with well-lit, secure streets, stations and vehicles), this type of investment can contribute to further promoting services that allow women, who typically make up the majority of users, to use public transport to a greater degree.

Energy efficiency and climate change. While cities with extensive and well-managed public transport systems are inherently more energy efficient, the financing of ‘best available technology’ is another means of fostering the conversion to a low-carbon economy. Rolling-stock renewal is important: replacement of dirty diesel buses with clean diesel and compressed natural gas bus units, as well as new trams and metro cars with regenerative braking capabilities reduce energy consumption by up to 30 per cent. Public lighting, which accounts for typically 25 per cent of a city’s electricity bill, can be reduced by up to 70 per cent with new light emitting diode technology. Finally, traffic management systems that smooth traffic flow reduce vehicle emission per car by approximately 50 per cent versus cars in stop-and-go conditions.