EBRD's Climate Resilience Bonds – Frequently Asked Questions.

1. What are EBRD's climate resilience bonds?

These are one of the three types of green bonds that EBRD issues to provide an opportunity to invest in environmental and sustainable solutions through a triple-A security that supports state and private sector environmental projects in the EBRD's countries of operations. The proceeds from the bonds are directed towards the EBRD's climate resilient investments through legal definitions contained in the bond documentation.

2. How does the EBRD set the criteria for the climate resilience bonds?

The EBRD's Environmental and Sustainability, Banking, Treasury and Legal departments have established the underlying criteria for projects to be designated as part of the Climate Resilience Portfolio that will be funded by the EBRD's climate resilience bonds. The Environmental and Sustainability Department's specialists review the EBRD's committed projects to establish those projects that are consistent with the Climate Resilience Principles launched by the Climate Bond Initiative in September 2019 (https://www.climatebonds.net/adaptation-and-resilience), as well as with any additional criteria established for the Climate Resilience Portfolio.

3. Does the EBRD have an environmental policy?

The 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 10 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 Sustainability bond portfolio. 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.

https://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html

4. Which projects are financed by climate resilience bonds?

The "Climate Resilience Portfolio" shall mean, as determined by the Issuer, the sum of all loans designated as climate resilient investments, and that are consistent with the Climate Resilience Principles. The six principles prescribe a process for identifying and assessing climate change vulnerabilities, mitigating the risks, as well as ongoing monitoring and evaluation of the climate resilience performance of the relevant assets. While all of the loans will include a portion of financing that is specifically designated to ensuring the climate resilience of the asset or project (adaptation finance), the entire amount of any of EBRD's loans that are undertaken and managed in consistency with the Climate Resilience Principles may be included in the Climate Resilience Portfolio, as they may be deemed climate resilient investments.

Examples of projects in the Climate Resilience Portfolio include, without limitation, financings of:

- Investments in climate-resilient infrastructure, which may include:
    - Water infrastructure, such as climate-resilient water supplies, wastewater treatment, water conveyance systems and irrigation systems, etc.
    - Energy infrastructure, such as climate-resilient electricity generation, transmission and distribution systems, etc.
    - Transport infrastructure, such as climate-resilient land transport systems, ports, airports and intermodal transport, etc.
    - Urban infrastructure, such as climate-resilient buildings (e.g. insulation, lighting, heating/cooling systems), and the built environment, etc.
    - Communications infrastructure, such as climate-resilient telecommunications systems, broadband, data servers, etc.

- Investments in climate-resilient business and commercial operations, which may include:
    - Improving water use efficiency in industry, manufacturing etc.
    - Reducing the vulnerability of businesses and their value chains to extreme weather events such as floods, storms, droughts, heatwaves, etc.

- Investments in climate-resilient agricultural & ecological systems, which may include:
    - Sustainable and stress-resilient agriculture, including investments in water-efficient irrigation, etc.
    - Sustainable forest management, reforestation, watershed management, and the prevention of deforestation and soil erosion, etc.

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

5. Is there a project exclusion list?

Projects involving the following activities are not eligible for inclusion in the environmental sustainability bond portfolio:

- Activities listed on the Exclusion list in Appendix 2 of the EBRD's Environmental and Social Policy (
- Construction of new large hydropower installations that is not consistent with the principles of the International Hydropower Association's Hydropower Sector Climate Resilience Guide https://www.hydropower.org/publications/hydropower-sector-climate-resilience-guide

- Nuclear energy generation
- Projects that lead to a significant increase in CO_2 emissions
- Projects that lock-in fossil fuels or undermine any international or national commitments
- Biofuel production (pending the adoption of internationally recognised sustainability criteria)
- Hard Liquor production, defence-related activities, tobacco industry, standalone gambling facilities
- Projects requiring a 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 except in relation to water and wastewater projects that may not meet EU standards immediately, but that will meet them longer term.
- Equity investments (subject to review)
- Projects in EBRD's Green Project Portfolio ("GPP")
- Projects in EBRD's portfolios for Social Bond issuance (microfinance/health)
- Investments in local currency that are specifically funded through dedicated bond financing in that currency.

Specific exclusions, the list of which is maintained, is updated and amended by the ESD on quarterly basis.

6. Does the EBRD finance 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 30 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 nuclear fuel and radioactive waste. More information can be found on the EBRD web site under

http://www.ebrd.com/nuclear-safety.html

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 CRPP.

7. How does the EBRD ensure that projects in the CRPP do not contribute to unacceptable levels of GHG emissions?

In alignment with the Climate Bond Initiative's Climate Resilience Principles, the EBRD will consider the associated GHG emissions of each project in the CRPP, and apply robust climate change mitigation requirements, The Climate Resilience Principles state that climate change mitigation requirements may only be lowered where climate resilience benefits considerably outweigh associated GHG emissions, or serve to avoid GHG emissions in the event of a disaster, following a trade-off analysis that takes into account the specificities of the relevant project.

In every case, each project/investment must not lock-in fossil fuels or undermine any international or national commitments.

8. What is the EBRD stance on forest logging?

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 the EBRD requirements vary between the projects that either involve direct management of the 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 the EBRD's projects using forest resources rely on external wood supplies; hence the focus has been on ensuring the clients will comply with chain-of-custody/wood procurement requirements. Such clients are also required 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.

9. What is the EBRD stance on climate resilience in transport systems?

Building climate resilience in transport systems means directing investments at projects that ensure that transport and mobility systems can support economic activity and meet the needs of populations and communities in the face of a changing and more variable climate. This is an important climate resilience priority, as transport systems are sensitive to a range of physical climate hazards such as floods, landslides, and temperature extremes. Climate-related disruption and damage to transport systems can result in significant economic and social costs.

10. In which currencies and maturities can climate resilience bonds be issued?

The Bank's climate resilience bonds can take the form of eurobonds, global bonds and domestic issues in selected markets, similar to the Bank's general debt issuance. To date, the Bank has issued debt instruments in 39 currencies, the proceeds of which are swapped mostly into floating rate EUR and USD. While the tenors of individual projects in the Climate Resilience Portfolio vary from 1 to 20 years, the Bank will monitor the average life of the climate resilience bonds it has issued, to ensure that it does not exceed that of the Climate Resilience Portfolio.

11. Are there size restrictions on the climate resilience bonds?

There is no minimum issuance size for climate resilience bonds, but no new climate resilience bond will be issued if the total amount of the climate resilience bonds outstanding will exceed 80 per cent of the Climate Resilience Portfolio.

12. Why does the CRPP include projects from 2013?

Projects under the CRPP typically have long disbursement periods with a significant time between signing and the first disbursement, and especially in relation to the numerous infrastructure projects in the CRPP. Indeed, despite the projects in the CRPP having an average age of approximately 3 years, less than 50 per cent of the committed amounts have disbursed.

The relevance of even the more seasoned projects in the CRPP will be further underpinned by ongoing monitoring of climate risks and benefits, in consistency with the Climate Resilience Principles.

13. Why does the CRPP allow for the refinancing of projects?

The average term of projects under the CRPP significantly exceeds that of typical bond tenors, with a weighted initial average term of investments in excess of 13 years, and a weighted remaining average age of over 10 years.

14. How do projects under the CRPP differ from those under EBRD's GPP?

Projects under the CRPP are distinct from those incorporated under the Green Project Portfolio (GPP) that underpins EBRD's Environmental Sustainability bond issuance. While the GPP criteria, in keeping with the eligible Green Project categories under the Green Bond Principles, allow for the inclusion of climate adaptation projects, these would have to be consistent with the GPP requirement that substantially all the proceeds are directed to the intended environmental purpose.

Whereas the CRPP's sole focus is on climate resilience (or adaptation), the primary focus of the GPP is on climate mitigation, with such investments accounting for over 75 per cent, with investments related to environmental services, sustainable public transport, water and waste management being the focus of the remainder.

15. What reporting will EBRD undertake on the CRPP?

EBRD will report on a portfolio level in relation to the Use of Proceeds, providing details of the projects by geography and industry, as well as giving details of the number of projects, total committed amounts, as well as a comparison between the amount drawn-down (“operating assets”) and total Climate Resilience Bonds outstanding.

While impact reporting for climate resilience projects is still at a relatively early stage of development, the EBRD has on projects undertaken since 2018 reported the climate resilience benefits associated with these projects, as part of its Green Economy Transition (GET) MRV approach and in line with emerging work on climate resilience metrics by the MDB Climate Finance Group. Depending on the relevant climate risks to which each project is vulnerable, the expected outcomes are reported both in measurable units (e.g. increased water availability measured in m^3/year, or reduced weather-related downtime measured in days per year, etc.), and also expressed in valorised terms. Further details of this approach can be found in Annex 4.2 GET Climate Resilience Results Reporting of EBRD’s technical guide: “Implementing the EBRD Green Economy Transition” https://www.ebrd.com/cs/Satellite?c=Content&cid=1395274396321&pagename=EBRD%2FContent%2FDownloadDocument

Based on this approach, the results of all committed projects in the CRPP undertaken since 2018 will be reported collectively at least annually in the EBRD’s investor presentation “Focus on Environment”, which will be accessible from the website: https://www.ebrd.com/work-with-us/sri/funding.html. As at 30 June 2019, approximately 30 per cent of the portfolio would be covered by such reporting.