Socially Responsible Investment Opportunity in EBRD Bonds: Focus on the Environment

European Bank
for Reconstruction and Development

EBRD and commitment to the environment

The European Bank for Reconstruction and Development is committed to promoting environmentally sound and sustainable development in the full range of its investment activities. The EBRD seeks to ensure that the projects it finances:

- Are socially and environmentally sustainable;
- Respect the rights of affected workers and communities; and
- Are designed and operated in compliance with applicable regulatory requirements and good international practices.

In December 2010 EBRD issued its **first "*Environmental Sustainability Bond*"**, arranged by Deutsche Bank AG and distributed by SMBC Friend Securities Co. Ltd. In March 2011 EBRD issued its **second *"Environmental Sustainability Bond"*,** arranged by JPMorgan Securities Ltd and distributed by Chugin Securities. Both issues were distributed to Japanese retail and institutional investors. The bonds represent an opportunity to invest in environmental and sustainable solutions through a triple-A security that supports state and private sector environmental businesses in EBRD's countries of operations. The proceeds of the bond are specifically earmarked to support a portfolio of "green" projects.

How we set the criteria for the Green Project Portfolio

- EBRD's Environmental, Banking, Treasury and Legal departments established the criteria for the use of proceeds on EBRD's "green" bonds with reference to widely accepted "green" investment principles.
- EBRD's Environmental specialists review our committed projects and establish a subset that are consistent with these criteria (the Green Project Portfolio). The only projects included are those where the entire, or substantially the entire amounts disbursed are directed at environmental goals.

The EBRD's Green Project Portfolio comprises investments in the following areas: energy efficiency, clean energy, water management, waste management, sustainable living, environmental services and public transport.

At the end of December 2010, EBRD's Green Project Portfolio comprised 199 loans across 25 countries of operations, totalling €4,372 million, of which €2,108 million was drawn down. The average tenor of the projects was 11 years and the average remaining life was 8.5 years.

The projects in the portfolio include, without limitation, the financing 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 preventing deforestation and soil erosion.

EBRD does not finance:

- Activities listed on the Exclusion list in Annex 1 of EBRD's Environmental and Social Policy
- Construction of new large hydropower installations (as defined by ICOLD)
- Nuclear energy generation
- Biofuel production (pending the adoption of internationally recognised sustainability criteria)

Projects involved in alcohol production are not eligible for inclusion in the Green Project Portfolio.

About EBRD

- Established in 1991
- Owned by 61 countries and 2 intergovernmental organisations, the EU and the EIB
- AAA/Aaa/AAA rating by S&P/Moody's/Fitch
- Investing in 30 countries from central Europe to central Asia
- Cumulative investments 1991-2010 are €56.7 billion in 3,221 projects (at end-2010)
- Approved capital base is €30 billion
- Headquartered in London, UK, with 34 regional offices.
- Only International Financial Institution with an environmental mandate
- A record €9 billion of projects (386) was invested in 2010. The net profit of €1.4 billion for 2010 with reserves rising to €6.8 billion.

More information:

Website: www.ebrd.com
Capital markets: http://www.ebrd.com/pages/workingwithus/capital.shtml
Sustainability: www.ebrd.com/pages/about/principles.shtml
Sustainable Energy Financing Facility www.ebrdseff.com/en/home.html
Climate Change Finance:
www.ebrd.com/pages/sector/energyefficiency.shtml
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In Q4 2010 the following projects in the Green Project Portfolio received funds, among others:

Neva Discharge, St Petersburg, Russia

Dilapidated plumbing has, for years, carried St Petersburg's wastewater (around 40 per cent of which was untreated) and industrial pollution into the famously photogenic river Neva and on to the Baltic Sea.

Over the years, the EBRD has financed a total of four projects in St Petersburg's water and wastewater sectors, which have played a key role in bringing the infrastructure of Russia's second city closer to the standard of other leading European conurbations. These include the completion of a state-of-the-art sludge incinerator, solving the twin problems of a full landfill site and preventing the discharge of heavy metals into the Neva.
In 2009 the Neva Direct Discharges Closure programme was initiated with a new 10-year EBRD loan for €17.5 million. The project will eliminate 98 per cent of the city's untreated discharges of wastewater from the city of St Petersburg.

Almaty Electrotrams, Almaty, Kazakhstan

With 1.5 million inhabitants, Almaty is Kazakhstan's biggest city and serves as an important transport hub. Workers commute from surrounding towns and villages while international visitors fly in to take advantage of Almaty's business opportunities and good connections to other Central Asian cities.
The solution to its transportation challenges is to have a better, more environmentally-friendly public transport system. As well as being much cleaner than motorised vehicles, trams and trolley buses are more energy efficient. Electric transport consumes less than half the energy per kilometre compared with regular diesel buses.

In 2009, the EBRD signed a 10-year USD 10 million loan for a project which is currently being implemented to modernise electric substations which will improve the reliability of the city's transport system.

Sustainable Energy Initiative

In 2006, the EBRD launched the Sustainable Energy Initiative (SEI), framework to scale up energy efficiency and renewable energy financing.

Improving energy efficiency in buildings is a priority for the SEI.

Many residential houses in EBRD's countries of operations are in need of maintenance upgrades and repairs are necessary to preserve their life. Modernisation projects can bring substantial energy savings.

EBRD facilities are currently operating in Bosnia-Herzegovina, Bulgaria, Georgia, Hungary, Kazakhstan, FYR Macedonia, Montenegro, Moldova, Romania, Russia, Serbia, Slovakia, Turkey and Ukraine. Overall the EBRD has committed over €900 million to Sustainable Energy Finance Facilities in these countries.

Suvorovo wind farm, Bulgaria

The EBRD is supporting the development of renewable energy in Bulgaria with a €42.5 million loan to Eolica Bulgaria to finance the development of the Suvorovo wind farm, in the north-eastern region of the country.

Similar to many countries in the region, Bulgaria relies significantly on thermal and nuclear sources to satisfy its power needs, with less than 10 per cent of its electricity generated from renewable sources, of which just one per cent is from wind power. The project will help Bulgaria meet its EU set target to increase its renewable energy production to 16 per cent by 2020.

This is the EBRD's second wind farm project in Bulgaria. In 2008 the Bank and the International Financial Corporation provided a €198 million investment for the construction of the St. Nikola wind farm.

Sophisticated Energy Management

Smart grids allow consumers to tailor their consumption, reducing demand or reallocating it to different times of the day; and allow grid operators to reduce their losses, whether through theft or inefficiencies and in the future to accommodate increasing amounts of renewable power such as wind.

The EBRD has historically supported investments in these grids.

A €42 million loan was provided to Armenia to support the refurbishment of the distribution network.