Socially Responsible Investment Opportunity in EBRD Bonds, December 2014 update

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.

EBRD green bonds

Since December 2010 EBRD issued 19 "**Environmental Sustainability Bonds**", denominated in Australian Dollar, Brazilian Real, Indonesian Rupiah and US Dollars for a total of €530 million equivalent (as of December 2014). 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 bonds are specifically earmarked to support a portfolio of "green" projects. The EBRD also seeks to ensure that the bond proceeds can be directed in full to its Green Project Portfolio by limiting the total amount of environmental sustainability bonds outstanding to 70 per cent of the Green Project Portfolio.

In September 2013 the Bank issued USD 250 million 1.625% public listed bond due 10 April 2018, aimed specifically at institutional investors seeking to support environmentally sustainable projects, bringing the total number of green bonds to 10 for an equivalent of EUR 370 million. In total 14 investors participated in the bond, including TIAA-CREF, AP2, AP3, State Street Global Advisors, Omega Global Investors and Everence: 51% was placed with US accounts, 31% with European accounts and 18% with Asian accounts. The sector allocation was as follows: 64% to pension funds, 18% to central banks, 12% to asset managers, 5% to state related investors and 1% to Bank treasuries and foundations. Morgan Stanley and SEB were joint-lead managers in this transaction.

In March 2012 EBRD provided a new 6-year €10 million loan to Victoria Oil (Serbia) to install two biomass-fired boilers at its oilseed crushing subsidiaries.

How we set the criteria for the Green Project Portfolio

EBRD's Environmental and Sustainability, 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 is 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 sustainable public transport.

At 31 December 2014, EBRD's Green Project Portfolio (GPP) comprised 329 loans, totaling €5.3 billion, of which €3.1 billion was drawn down. The average tenor of the projects was 11.4 years and the average remaining life was 8.8years.

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
- Investments to improve efficiency of industrial water use
- Sustainable, stress-resilient agriculture, including water-efficient irrigation
- Sustainable forest management, reforestation, watershed management, and the prevention of preventing deforestation and soil erosion

Projects involving the following activities are not eligible for inclusion in the Green Project Portfolio:

- Fossil fuel production and projects with significant consumption of fossil fuels (coal, heating oil, oil shale)
- 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

EBRD does not finance any projects in sectors listed below:

- 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 International Commission on Large Dams (ICOLD))
- Nuclear energy generation
- Biofuel production (pending the adoption of internationally recognised sustainability criteria)
- Alcohol production, defense-related activities, tobacco industry, stand-alone gambling facilities (*)

About EBRD

- Established in 1991
- Owned by 64 countries and the EU and the EIB
- AAA/Aaa/AAA (all stable) rating by S&P/Moody's/Fitch
- Investing in more than 30 countries from central Europe to central Asia and SEMED
- Operating Assets of €27.2 billion (1,827 active projects) as at 4Q14
- Approved capital base is €30 billion plus reserves and earnings of €8.9bn (3Q14)
- Headquartered in London, UK, with 43 regional offices.
- Only International Financial Institution with an environmental mandate
- 3Q14 net profit of €0.2 billion (FY 2013: €1 billion)
- 0% risk weighted (Basel II), Global MTN programme, SEC exempt

In June 2011 EBRD signed a 20-year €151 million loan to improve energy efficiency in Russian Railways, of which €130 million has been disbursed.

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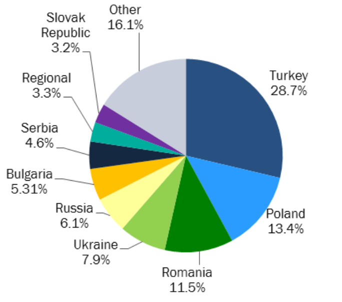
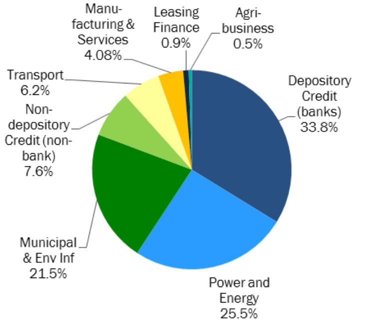
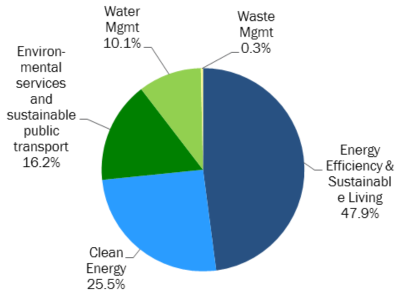
Green Project Portfolio (at 31 December 2014)

- €5.3bn committed amounts
- €3.1bn operating assets (vs €435mn green bonds outstanding)
- 329 projects
- 11.4 years weighted average tenor
- 8.8 years weighted average remaining life

Operating Assets by Region, Industry and Class







Clean seawater for southern Turkish city

Borrower: Mersin Wastewater Project, City of Mersin, Turkey
Facility: €20 million loan, and technical assistance
Signed: 18 June 2012
Tenor: 15 years

The southern city of Mersin, with population one million, is a major commercial shipping centre where leisure boats are still a new sight; it is better known for its industrial zones than tourism, despite sharing the Mediterranean coast with the nearby resort of Antalya. But the city does want an attractive beach for its citizens and soon it will have one.

Until a few years ago, Mersin had no choice but to dump its wastewater into the sea. Today, it treats 80 per cent of its own wastewater in a newly-built facility and recently started construction of an EBRD-financed wastewater treatment plant which will take care of the remaining 20 per cent. Once the EBRD-financed facility is operational, the city can build a beach, which contributes to tourism industry of the city and the region.

Improving energy efficiency in paper production

Borrower: Metsä Tissue Oyj, Poland and Russia
Facility: €25 million loan (Poland) and €10 million loan (Russia)
Signed: 28 August 2012
Tenor: 8 years

Metsu Tissue projects will upgrade existing mills and provide brand-new ultra energy-efficient equipment setting up new standards not only for the pulp and paper sector in Poland and Russia, but also for all other paper companies in Europe. The company plans to replace the old and inefficient paper machines; close down the existing coal plant and install two new natural gas boilers to meet the heating requirements, reducing CO2 emissions by 35,000 tonnes per year. The gas turbines will have negligible air emissions of sulphur oxides and dust and meet European Union emission standards. The new tissue paper machines' energy consumption will be below European Union Best Available Techniques (BAT) resulting in significant energy savings and further CO2 reduction.

The project will increase the utilization of recycled paper, which has positive effect on the waste management. As a result significant Energy Efficiency and environmental benefits (lower CO2/SO2 emissions, water and wood consumption under EU BAT) will be realized.

Almaty Bus Sector Reform Project

Borrower: Almatyelectrotrans, a municipal urban transport company operating trams, trolleybuses and CNG buses in Almaty, Kazakhstan
Facility: USD39.3 million loan
Signed: 30 January 2013
Tenor: 10 years

The Loan proceeds will be used to procure up to 200 new compressed natural gas ("CNG") buses. The Project is a complementary follow-on transaction to the existing Almaty Bus Sector Reform project which was signed in 2010. Project's success will be monitored through (a) implementation of the operational plan (i.e. delivery of the vehicle kilometres ordered by the City under the Public Service Contract) on annual basis by at least 95 per cent; and (b) reduction of CO2 emissions by 60 tonnes p.a. in public transport sector. Ninety per cent of all existing buses in the city are classified at EURO-0 or EURO-1, whereas the new CNG units will be EURO-4 or better.

Construction of the first wind farm in Mongolia

Borrower: Clean Energy LLC, Salkhit Wind Park, Mongolia
Facility: USD 45 million loan
Signed: 21 March 2012
Tenor: 15 years

Mongolia is a record-breaker in many ways: due to its mining boom, the country is one of the fastest growing economies globally. Its main city Ulaanbaatar also comes in first as coldest capital in the world. And with energy needed for companies and to keep citizens warm, it doesn't come as a surprise that the city is also one of the most polluted capitals in the world. While the country has so far almost exclusively relied on old coal-fired plants for its energy supply, Mongolia's Salkhit wind farm is expected to produce up to five per cent of the country's electricity demand.

This is the first wind farm is Mongolia and it is is expected to be operational this summer and will reduce carbon emissions by approximately 164,000 tonnes annually – an amount equivalent to the emissions of about 30,000 passenger cars – while producing up to 5 per cent of the country's electric demand.

An EBRD landmark deal, the Salkhit wind farm in Mongolia, was named Asia-Pacific Renewable Deal of the Year by Project Finance Magazine in March 2013.

More information:

Website: www.ebrd.com
Capital markets: http://www.ebrd.com/pages/workingwithus/capital.shtml
Socially Responsible Investments:
http://www.ebrd.com/pages/workingwithus/capital/sri.shtml
Sustainability: www.ebrd.com/pages/about/principles.shtml