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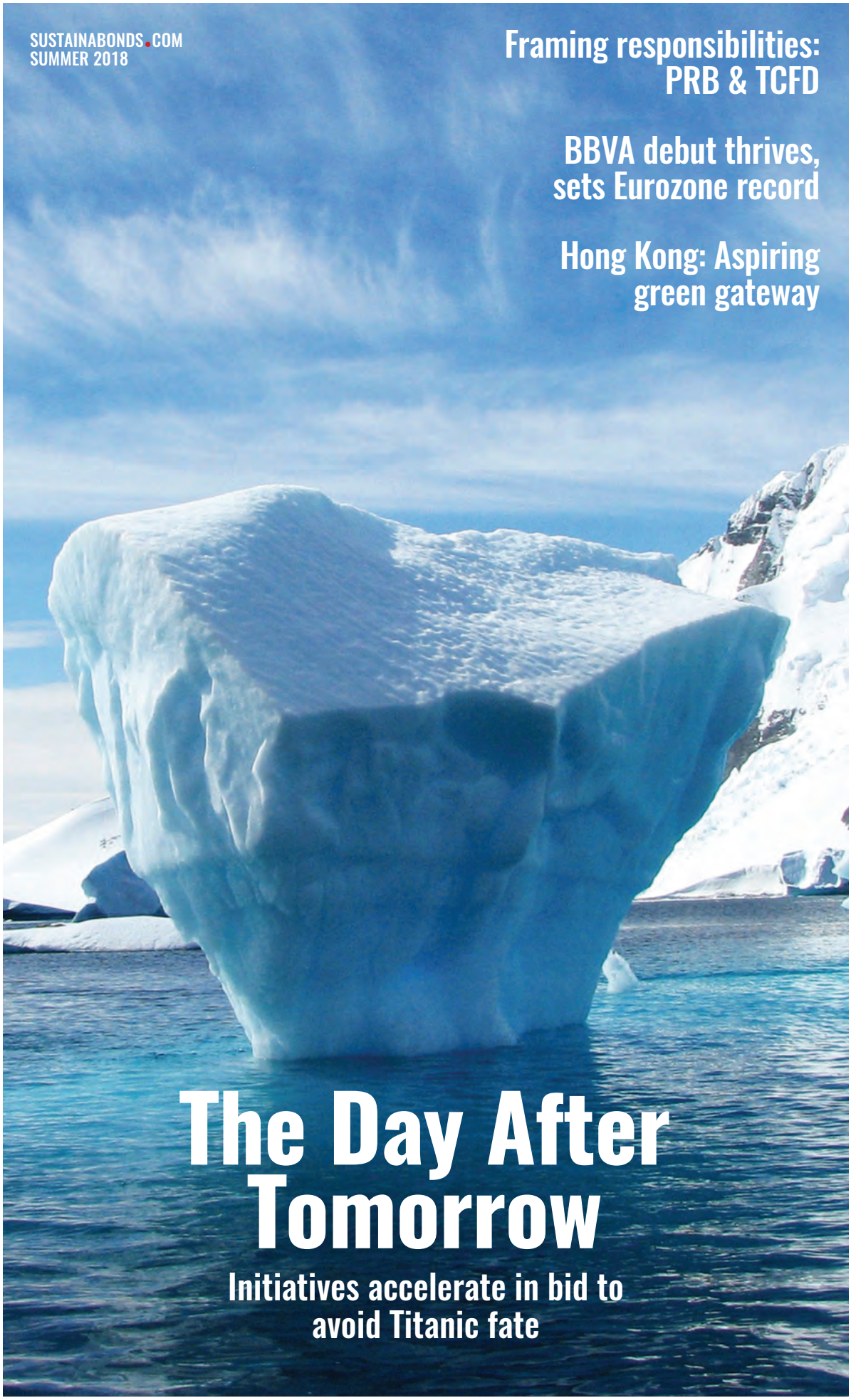


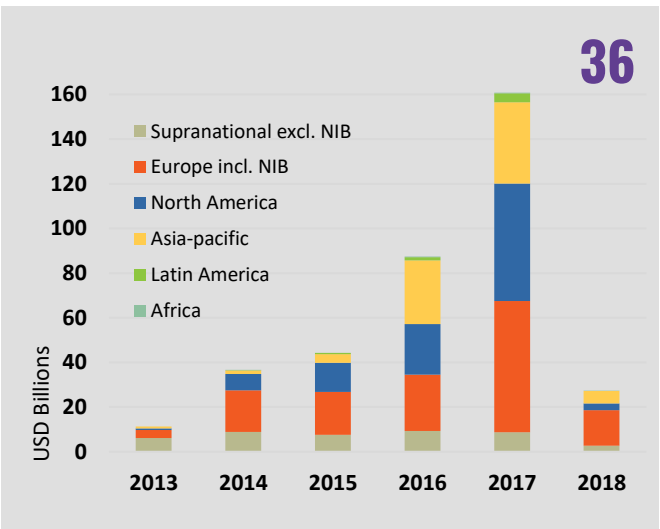
Framing responsibilities: PRB & TCFD

BBVA debut thrives, sets Eurozone record

Hong Kong: Aspiring green gateway

The Day After Tomorrow

Initiatives accelerate in bid to avoid Titanic fate



All hands on deck!

Valdis Dombrovskis's warning that waiting until the last minute to tackle climate change risks suffering a fate akin to the Titanic was not without a degree of irony — Captain Smith would have been only too happy to see icebergs melt away in front of him.

But there is nothing wrong about the urgency of the European Commission vice president's call to arms.

To that end, the Commission has delivered, encouragingly quickly, legislative proposals to make good on its March Sustainable Finance Action Plan announcement. Many details are yet to be worked out, but a picture is emerging of a practical framework that can catalyse concrete actions soon.

Issuing EU Green Bonds that could ultimately emerge under a legislative sustainable finance framework in, say, 2020 would be a welcome step for many financial institutions who have hitherto remained shy of the green bond market.

But investors are demanding more than that, and sooner.

Amundi representatives, for example, say they will soon begin drawing their own conclusions about issuers who are not taking up green bonds.

"If they are not thinking about the climate transition and how to tackle this issue, they are probably an issuer who has no idea of what the future holds and deserve a higher spread just because they are not a well-managed company," says head of euro fixed income Marie-Anne Allier in our roundtable.

Meanwhile, Grégory Schneider-Maunoury, head of SRI at Humanis, calls for a sustainability commitment from issuers beyond their green bond issuances.

"Companies need to set up and implement a green strategy not just for tomorrow, but for the day after tomorrow and into the future."

Initiatives such as the new Principles for Responsible Banking and work on implementing the Task Force on Climate-related Financial Disclosures recommendations will support such efforts.

But is voluntary action enough? The longer action is delayed, the louder calls for regulatory enforcement will become.

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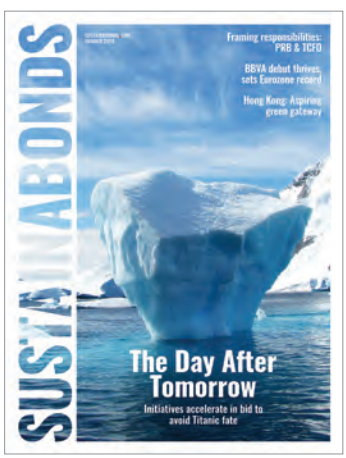


Sustainabonds monitor

Commission unveils first Action Plan legislative proposals

The European Commission unveiled its first legislative proposals aimed at gearing the EU financial system to tackle climate change on 24 May, including steps to establish a "groundbreaking" green taxonomy that could form the basis for an EU green bond label.

The proposals represent the European Commission's first steps in implementing its sustainable finance Action Plan — unveiled on 8 March — into law, and were presented in a press conference by Valdis Dombrovskis, vice president responsible for financial stability, financial services and Capital Markets Union (CMU), and Jyrki Katainen, vice president responsible for jobs, growth, investment and competitiveness.

"The Titanic could not turn to avoid the iceberg at the last minute," said Dombrovskis. "We will soon be in a very similar situation.

"Therefore we must not wait until the last minute, but act now, and the Paris agreement provides the course to follow."

A centerpiece of the measures is a legislative proposal for the introduction of a unified EU classification system, or taxonomy, comprising harmonised criteria for determining whether an economic activity is environmentally sustainable.

"This is a groundbreaking step," said Dombrovskis. "For the first time, we will assess sector by sector which economic activities are good for the climate and the environment, and we will lay the foundations for a single market for sustainable investment."

The Commission said the classification system may serve as the basis for the future establishment of EU standards and labels for sustainable financial products — such as green bonds and investment funds — as announced in its sustainable finance Action Plan. A technical expert group currently being established by the Commission will be asked to issue a report on an EU Green

Bond Standard, laying out the criteria and processes issuers should adhere to.

It will also support sustainable investment by providing certainty to investors and act as a guidebook for the development of green products, it said.

To establish this taxonomy, the Commission proposed a Regulation that lays out

> **We must not wait until the last minute, but act now**

conditions for identifying environmentally sustainable economic activities, defines environmental objectives to which activities must contribute to be considered eligible, and empowers the Commission to establish technical screening criteria and frames how these criteria would have to be defined.

These technical screening criteria, which will be used to determine if and to what extent an economic activity is environmentally sustainable, will be separately established through delegated acts. These will be based upon advice from the technical expert group that is being established by the Commission.

Specific environmental activities will be identified in delegated acts to be adopted between end-2019 and mid-2022, with entry into force six months after the adoption. Dombrovskis said the Commission will start with the most urgent activities, climate mitigation and climate adaptation. He said classifications for these activities should be ready in the second half of 2019 and enter into force six months later.

Giving an example of how the classification system could work, Dombrovskis said that within the building sector, a housing project could be qualified as green based on its energy efficiency or based on the share of recycled building material used.

Long term duties, ambitious benchmarks

The Commission's proposals also include regulation on investors' duties and disclosures. Proposed rules put forward a harmonised EU approach to the integration of ESG risks and opportunities in the procedures of institutional investors, asset managers, insurance distributors and investment advisors, as part of their duties to clients.

"By considering sustainability, these managers can more fully assess long term risks and opportunities, and not only short term financial returns," said Dombrovskis. "That is why we will clarify that their duty towards their clients includes making sustainability risks a part of their decision-making process."

Under the proposals, asset managers and institutional investors who claim to pursue sustainability objectives would have to disclose how their investments are aligned with those objectives, preventing greenwashing, said the Commission.

A public consultation has also been

launched on amendments to MiFiD II and IDD delegated acts that would require investment firms and insurance distributors to ask clients about their ESG preferences and take these into account in their advice. The public consultation will close on 21 June.

"Our proposal will clarify the existing obligation to act in the best interest of the client, and investment advisers and portfolio managers will have to offer investment products that meet client's investment objectives," said Katainen. "This should make it easier for people to access sustainable and green investments, and boost the inclusion of these assets in investment portfolios."

Another legislative proposal puts forward the establishment of a new category of benchmarks. These comprise low carbon benchmarks, selecting underlying stocks on account of their reduced carbon emissions when compared to stocks constituting a standard benchmark, and positive carbon benchmarks, which would select only underlying stocks where carbon emission savings exceed the stock's residual carbon footprint.

The latter — described by Dombrovskis as a "more ambitious benchmark" — is the only type of benchmark that would be compliant with the 2° objective in the Paris Climate Agreement, the Commission said.

Minimum standards for the methodology of these benchmarks would be established by the Commission in a delegated act.

The legislative proposals regarding the EU classification system, low carbon benchmarks, and disclosure requirements are now subject to approval from the European Parliament and Council.

The new measures, and the Commission's wider sustainable finance Action Plan, were informed by recommendations from the EU High-Level Expert Group (HLEG) on sustainable finance, which was appointed by the Commission last year and submitted a final report on 31 January.

In a statement, the HLEG said its members are delighted to see the Commission take the first steps in implementing its Action Plan.

"The legislative package released today honours the ambition and several of the highest priorities of the HLEG," it said. "Comprehensively reforming the financial system to a sustainable approach will take time, and we believe the proposals announced today establish essential reforms and set firm foundations for realising the HLEG vision."

The proposals were welcomed by many in the finance industry. Martin Scheck, chief executive of the International Capital Market Association (ICMA) noted the proposals reflect some of the highest priorities of the HLEG, in which ICMA participated.

"A key priority should be to ensure that there is an appropriate balance between legislative and market initiatives, enabling the capital markets to finance sustainable growth whilst minimising unintended regulatory complexity or legal uncertainty," he said.

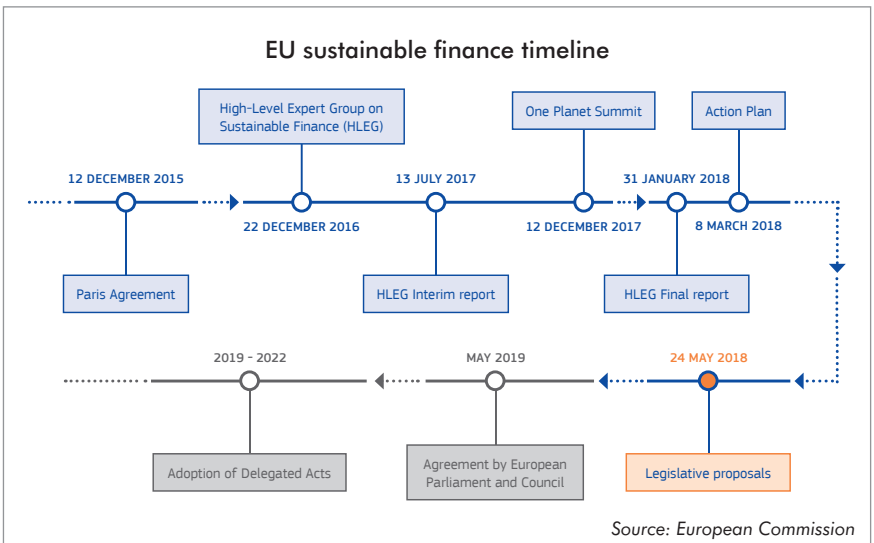
"The financial sector can indeed contribute decisively to Europe's environmental objectives, providing opportunities for its companies and citizens to foster sustainable economic activities leading to growth and job creation, and ICMA looks forward to continuing its work in this important area."

But Invest Europe CEO Michael Collins expressed concerns that the proposed rules "might be too burdensome and even create barriers to entry" to sustainable investments.

"Further work on providing the actual detail should take into account the breadth and diversity of an industry that spans small local VCs and large buyout houses," he said. "The key challenge will be to determine criteria for the environmental objectives so investments can be effectively assessed by investors of all sizes.

"Requirements on incorporating and reporting ESG matters should be proportionate and allow for flexible implementation." ●

Photo: Commission spokesperson Vanessa Mock, Dombrovskis and Katainen; Credit: EC/Georges Boulougouris; Copyright EU



Source: European Commission

BBVA EUR1bn debut in SNP format sets Eurozone record

BBVA issued the largest green bond from a Eurozone bank on 3 May, a EUR1bn seven year senior non-preferred (SNP) deal that inaugurated a new SDG-aligned framework and attracted more than EUR2.5bn of demand despite coming relatively tight in a recovering market.

It is the first bond issued under a Sustainable Development Goals (SDGs) Bond Framework announced by Banco Bilbao Vizcaya Argentaria (BBVA) the previous week, whereby the uses of proceeds are mapped to various SDGs.

"The BBVA SDGs Framework aims to finance projects and entities that support the Global Goals and the 2030 Agenda," said the bank, which structured its own programme.

The proceeds of green bonds issued under BBVA's framework can be used to finance or refinance projects in: energy efficiency, aligned with SDG7 Affordable & Clean Energy; sustainable transport, SDG9 Industry, Innovation & Infrastructure; water SDG11 Sustainable Cities & Communities; waste management SDG12 Responsible Consumption & Production; and renewable energy SDG13 Climate Action.

Under the overall SDGs Bond Framework, BBVA can issue green and social bonds, aligned with the ICMA-led Green and Social Bond Principles, respectively, or sustainability bonds that are a combination of the two and thereby come under the Social Bond Guidelines.

"We are committed to sustainable finance, and this issue is yet another example," said BBVA CEO Carlos Torres Vila.

The establishment of BBVA's SDGs bond framework is part of a climate change and sustainable development strategy announced by BBVA in February, under which the bank pledged to mobilize EUR100bn in green finance, sustainable

infrastructures, social entrepreneurship and financial inclusion through to 2025.

"At BBVA, we want to play a key role in mobilizing resources to halt climate change and promote sustainable development," said BBVA group executive chairman Francisco González at the time. "It is an ambitious, long-term goal in line with our purpose of 'bringing the age of opportunity to everyone.'"

> We haven't seen many 15bp pricing moves in recent months

BBVA's programme has received an independent verification assessment from DNV-GL. The bank will publish annual reporting on each bond issuance within 12 months of the launch date.

Spanish first status boosts demand

Leads BBVA, Commerzbank, Crédit Agricole, HSBC, SG and UniCredit launched the seven year transaction with initial price thoughts (IPTs) of the mid-swaps plus 95bp area. After just over one hour and 20 minutes, the leads announced that books had surpassed EUR1bn. Guidance was subsequently set at the 80bp-85bp area, will price within range, with books in excess of EUR2.3bn. The spread was then fixed at 80bp and the size at EUR1bn with books over EUR2.8bn, pre-reconciliation. The final book stood at over EUR2.5bn good at re-offer, with more than 200 orders.

Syndicate bankers described the result as being particularly impressive given market conditions, noting that heavy supply of TLAC/MREL-eligible debt in the first quarter had led to investor selectiveness, rising premiums and spread widening.

"I think this deal went incredibly well," said a syndicate banker at one of the leads, "especially against a softer backdrop and given this is a peripheral issuer — albeit a national champion — opening the market after a slow period, with the senior unsecured asset class still only half recovered from a hangover on the back of the surge of supply we saw pre-Easter.

"In the end it was really well received by the wider investor community."

Just over half, 51%, of the bond was allocated to SRI investors. Fund managers

'Green bonds are something that we really do take to heart' — page 18

BNPP green senior non-preferred first hits the spot

BNP Paribas "pushed all the right buttons" with the first green senior non-preferred bond on 10 April, a EUR500m six year deal that attracted some EUR1.1bn of orders, offering an in-demand maturity and ultimately pricing with what was deemed to be an impressively small premium.

Other banking groups have sold green bonds in HoldCo or other formats that are aimed at being eligible towards TLAC and MREL buffers, but the French bank's is the first green bond within a specific senior non-preferred framework.

BNP Paribas announced the day before launch that it had mandated itself as sole bookrunner and Danske Bank, SEB and Swedbank as joint lead managers for the euro benchmark green senior non-preferred transaction.

The six year deal was then launched with initial price thoughts of the 65bp over mid-swaps area. Guidance was then set at 55bp-60bp, will price within range, with books over EUR1bn, before the spread was fixed at 55bp for a size of EUR500m, with final books at around EUR1.1.bn. The size was later fixed at EUR500m.

Syndicate bankers at and away from the leads said the deal offered as little as 3bp of new issue premium, based on the issuer's senior curve, which they said was notably small for a senior transaction, especially when compared to the premiums being paid on the same day for secured bonds in the form of non-green covered bonds for HSBC, Erste and Axa Bank Europe.

The deal was issued on the same day as a EUR500m 10 year green senior unsecured bond for Berlin Hyp. The German bank's book was last reported in excess of EUR500m, and the spread was set in the middle of guidance at 60bp.

Syndicate bankers attributed the greater demand for BNP Paribas' deal to its intermediate maturity, which they noted was more popular among investors in the difficult market environment, and its more attractive price, with the French senior market offering greater spread than the German market.

"With the green factor and the six year maturity, this deal was pushing all the right buttons," said a syndicate banker away from the leads.

The new issue is the French bank's second green bond, following a EUR500m long five year debut in senior unsecured format in November 2016, when the use of proceeds was renewable energy loans.

The proceeds of the new issue will be used to finance renewable energy and mass and public transportation projects.

Cecile Moitry, sustainable finance director at BNP Paribas, told *Sustainabonds* that no major changes had been made to BNP Paribas' green bond framework since its last issue, for example on eligible sectors and asset selection, but that some updates had been made to reflect changes to the bank's Corporate Social Responsibility (CSR) policies.

"The logic of the framework was to be very transparent as to what we consider to be eligible for the green bonds of BNP Paribas," she added. ●

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took 77%, insurance companies and pension fund 18%, banks 9%, and others the balance. French accounts were allocated 40%, Germany and Austria 17%, the Nordics 11%, the Benelux 8%, and the UK and Ireland 8%.

The lead syndicate banker said interest in the trade was high given that it is the first green senior non-preferred deal from Spain.

"I think this is going to be the first in a long series of green SNP issuances to come," he added. "We definitely saw very strong interest from dedicated SRI investors."

The bank said that the choice of a senior non-preferred issue to inaugurate its programme surprised investors more used to green bonds coming in senior preferred format or as mortgage-backed securities (MBS).

The lead syndicate banker added that demand was also supported by the relative scarcity of BBVA issuance and its status as a national champion. The issuer had previously announced plans to print EUR2.5bn-EUR3.5bn of senior non-preferred debt this year and had printed EUR1.5bn of this prior to the new trade.

Syndicate bankers at the leads said the deal was priced with no new issue premium, seeing Santander 2024s — a conventional senior non-preferred bond — trading at 77bp-78bp, bid, and noting that BBVA is lower rated than Santander. BBVA's deal had expected ratings of Baa3/BBB+/A- (Moody's/S&P/Fitch); Santander's senior non-preferred issuance is rated Baa2/BBB+/A-.

"We haven't seen many 15bp pricing moves in recent months," added a syndicate banker away from the leads.

BBVA had previously issued two conventional senior non-preferred bonds, a EUR1.5bn five year in August 2017 and a EUR1.5bn five year FRN this February. ●

Green STORM 2018 equals post-crisis tight in widening mart

Obvion Mortgages priced its third green residential mortgage-backed securities (RMBS) issue flat to a post-crisis Dutch RMBS tight on 19 May, and its head of balance sheet management and funding cited its green nature as helping a EUR550m senior tranche achieve the tight pricing against a widening backdrop.

The Rabobank subsidiary launched the first green RMBS in June 2016, a EUR500m deal backed by mortgages against energy efficient properties, and the Dutch issuer followed this up with a second Green STORM transaction last year.

The senior tranche of the latest deal, Green STORM 2018, was increased from a provisional pool of EUR450m to a final size of EUR550m while pricing was tightened from initial price thoughts launched on 16 May of three month Euribor plus the high teens to guidance of 15bp-17bp, and ultimate pricing of 14bp for the five year weighted average life paper. The final order book was well over EUR1bn.

This was inside the 17bp level of Green STORM 2017 and matched the 14bp level of a conventional STORM RMBS from Obvion in January, which had set a post-crisis tight

for Dutch RMBS. Rachelle Rijk, head of balance sheet management and funding at Obvion *(pictured)*, suggested that the green nature of the issue had helped achieve this.

"This was a very good spread level when you look at the development of secondary markets and also primary spreads," she told *Sustainabonds*. "We've seen widening since we priced Storm 2018-I in January and we are very happy that we were able to price this transaction at the same level in spite of that."

Rijk suggested that the pricing advantage of green issuance could compensate for some of the additional costs of issuing green bonds — something she noted could have contributed to the lack of any other green RMBS issuance: since Obvion's debut, no other European green RMBS has emerged. Globally, National Australia Bank included a green tranche on a broader RMBS transaction in February. She also said that launching a green RMBS had attracted investors who are less active in the ABS market.

"It was good for the ABS image to add green," said Rijk. "It's good to have the additional investor base, and also investors that were out of the market for various reasons — having closed their research during the crisis, for example, or because of regulatory factors, or issues with spread levels."

Indeed, she deemed the wider, persistent lull in the ABS market as the main factor behind the lack of further green RMBS.

"But Green STORM has been very successful for us," added Rijk, "and being a socially responsible issuer, it very much fits our corporate strategy. We don't know at the start whether the first Green STORM would be the first of a series, but we have done one every year for three years now, and are happy to contribute to the development of the wider green bond market as much as we can." ●

Green Loan Principles launched in complement to bond growth

Green Loan Principles (GLP) that will provide the first sustainability framework for the syndicated loan market were launched on 21 March by the Europe-based Loan Market Association (LMA) and the Asia Pacific Loan Market Association (APLMA), complementing the Green Bond Principles (GBP) to support a market that could boost climate-related funding.

"This widely supported initiative marks an important first move towards establishing a framework for green lending across global wholesale markets," said Clare Dawson, LMA chief executive. "The LMA will continue to work with market participants and other trade bodies to expand the range of loan products that can follow the GLP and thereby provide an alternative way of funding to a wider range of borrowers."

The loan associations said the aim of the GLP are to create a high-level framework of market standards and guidelines, providing a consistent methodology for use across the wholesale green loan market, whilst allowing the loan product to retain its flexibility.

The International Capital Market Association (ICMA), which runs the GBP, supported the development of the GLP. Like the GBP, the GLP are based on four core components: use of proceeds; process for project evaluation and selection; management of proceeds; and reporting.

The GLP were developed by a working group also including banks active in green loans, and with assistance from the Association of Corporate Treasurers and the European Banking Federation. ●

Spanish positives lift sustainable CRN cédulas to demand high

Caja Rural de Navarra achieved a higher oversubscription ratio than any previous euro benchmark covered bond of 2018 with a EUR500m seven year sustainable cédulas hipotecarias on 25 April, boosted by positive sentiment towards Spain at the time.

CRN debuted in the sustainable bond market in November 2016 with a EUR500m seven year covered bond, and has since issued a EUR100m senior unsecured bond off its programme.

The new issue was only the third cédulas (Spanish covered bond) of the year and the first since January, with overall peripheral covered bond supply having been limited. A softening of the euro market had seen issuers from core Eurozone countries pay increasingly large new issue premiums, with some deals struggling to be fully subscribed. However, Miguel García de Eulate, head of treasury and capital markets at CRN, said the issuer decided to press ahead, expecting that the market would be more receptive to a Spanish name.

"With the reduction in QE, the importance of the central bank could have changed after the summer break, and then you never know what market conditions will be like," he told *Sustainabonds*. "We took the decision to go out before the summer break, and we were proven right in the sense the market was not that bad, at least for peripheral issuers.

"In fact, we believed that the market would be very different for a Spanish name compared to a core name, because of course the pick-up would be different and because of the huge change that means cédulas now trade above the Spanish sovereign — which has not been the case for years."

The Spanish sovereign had tightened significantly in the preceding months, on the back of upgrades and improved sentiment towards the jurisdiction.

Leads Banco Cooperativo Español, Commerzbank, DZ, HSBC and ING launched the EUR500m no-grow cédulas hipotecarias with guidance of the 30bp over mid-swaps area and ultimately set pricing at 24bp, with books closing at EUR1.8bn, pre-reconciliation. Syndicate bankers noted the issuer had come impressively tight to its secondary curve, with some bankers away from the leads putting pricing roughly flat to fair value.

"It was a great outcome," said García de Eulate. "We were surprised by the demand, not just in the size of the book, but also by the granularity, with more than 100 accounts involved."

Analysts noted that the bid-to-cover ratio was the highest of any euro benchmark covered bond this year, at 3.6.

EeMAP, SDG enhancements

A key change to CRN's sustainable bond framework in December was the addition of lending against energy efficient buildings to an existing energy efficiency category in its use of proceeds, said García de Eulate.

"Previously we had no information in our IT systems related to Energy Performance Certificates (EPCs) and the like," he said. "However, due to our involvement in the EeMAP (Energy Efficient Mortgages Action Plan) initiative, we have been internally tagging the mortgages.

"We are working intensively on that and our aim is, as much as possible, to get real EPCs for each and every mortgage."

García de Eulate said CRN's process of sourcing EPC data involves three workstreams: mortgages of individual properties where CRN financed the real estate development, as it may therefore already have the relevant data; existing mortgages; and new origination. EU EPC legislation was implemented in Spain in 2013 and some EUR150m of lending for which CRN has EPCs have already been identified in the first workstream.

Some EUR3bn of CRN's lending is eligible under its sustainable bond framework, and more than half of this is mortgages — not just energy efficient mortgages, but also other lending such as social housing and mortgages for SMEs under its social inclusion use of proceeds category.

"We have been assessing the degree to which our mortgage pool is compliant with our sustainability framework," added García de Eulate, "and we can confirm not only that the use of proceeds of our sustainable covered bond fully follows our framework, but also that enough sustainable mortgage loans exist to back all existing sustainable covered bonds."

The new transaction meets Sustainability Bond Guidelines introduced by ICMA in mid-2017. Sustainalytics mapped the nine project categories against the UN Sustainable Development Goals (SDGs).

"This recognised taxonomy is very important for investors and more and more are asking us to do this," said García de Eulate. "They want to have all the social, sustainable and green bonds they invest in mapped to the SDGs so they can explain this to their final investors." ●

Landshypotek forestry first gets 'greenium', krona record

Landshypotek Bank issued the first green covered bond from Sweden on 16 May, a SEK5.25bn (EUR510m) five year issue that is the largest Swedish krona green bond to date, the first green covered bond backed forestry loans, and which achieved pricing at a sizeable "greenium".

Announced in late April and preceded by two days of investor meetings, the transaction attracted demand of over SEK7bn after the book had peaked at around SEK-12bn before the final pricing was set.

"We feel this deal was a great success," Andreas Birgersson, senior funding manager at Landshypotek Bank, told *Sustainabonds*. "We had big expectations for investor interest, but we could never have dreamed that after half an hour we would have an order book of around SEK12bn — that is a very strong order book in that short time.

"We had great hopes, but in the end they were exceeded."

The deal is the largest green bond denominated in Swedish kronor to date, surpassing SEK5bn issues by German agency KfW and Kommuninvest, the Swedish local government debt office.

"Our intention was always to print the SEK5.25bn size," said Martin Kihlberg, chief sustainability officer and general counsel at Landshypotek Bank *(pictured opposite)*.

Birgersson said the deal was priced with "a very good greenium", offering the issuer a 6bp saving, estimating that an equivalent non-green issue for Landshypotek would have been priced at around 33bp.

"We are very happy with the price," he added.

Charlotte Asgermyr, chief covered bond and FI market strategist at SEB, agreed that the deal was priced with a sizeable saving versus the expected pricing of a corresponding deal on Landshypotek's non-green curve.

"We assess that they saved around 5bp," she said.

Asgermyr added that the green deal was priced 5bp above the five year point on the covered bond curve of compatriot Stadshypotek and estimated that a non-green Landshypotek deal would probably have been priced around 10bp wider than Stadshypotek's curve.

> **We had great hopes, but in the end they were exceeded**

She noted that there has been further evidence of "greeniums" in the Swedish krona market, with Kommuninvest's two Swedish krona green bonds to date having been priced inside its conventional curve.

Birgersson added that through the deal Landshypotek reached some accounts from across the Nordics that had not invested in the bank's issuance before, and that the order book was supported by a number of high quality, dedicated green accounts.

"It is particularly gratifying to be the first to issue a green covered bond backed by Swedish forests," added Kihlberg. "It is unique and is fully aligned with the bank's operations to make a real impact in promoting a sustainable society based on entrepreneurial activity across the country.

"It is positive that investors can see the financial and environmental potential in Swedish forests."

Leads Danske, Handelsbanken and Nordea launched the five year deal with guidance of 29bp-32bp over mid-swaps, indicating that the deal's size was expected to be sufficient to ensure eligibility for Level 1B under bank Liquidity Coverage Ratio requirements.

After around 40 minutes, the leads revised guidance to 27bp-29bp with books around SEK12bn, excluding joint lead manager interest. Some accounts subsequently dropped out of the book, while others came in upon the new guidance. With books still above SEK10bn, guidance was revised again to 26bp-27bp, will price in range. Then, one hour and 30 minutes after launch, the size was set at SEK5.25bn and spread at 27bp. The book

'Financial markets can become a catalyst for action' — page 22

closed at over SEK7.2bn, excluding JLM interest.

Acknowledging how some investors dropped out of the deal when guidance was revised to 27bp-29bp, Birgersson noted that demand nevertheless remained strong throughout the process, with the additional accounts coming in at the new guidance level.

SEB's Asgermyr noted that the execution of Kommuninvest's most recent green bond followed a similar pattern, with demand peaking quickly, then falling when the guidance was revised tighter.

"I wouldn't say this was greater than normal price sensitivity," she said.

Green bonds 'a natural step'

Under Landshypotek's framework, proceeds can be used to finance sustainable forestry, renewable energy and green buildings. The inaugural issue is backed by forestry loans, where the collateral backing the loans is the ranch or real estate upon which the forest stands.

"This new step is in line with the business we have been conducting since 1836," said Kihlberg. "We have been financing sustainable forestry and farming in Sweden from the beginning, for more than 180 years, so to develop a green bond framework is therefore a natural step for us, expanding into a new and exciting market.

"Sustainable forestry is a very important part of a sustainable life and a very important part of reducing CO2 emissions and providing for a low carbon economy going forward."

The loans were already in Landshypotek's cover pool. As of the end of 2017, 98% of Landshypotek's SEK62.9bn (EUR6.1bn) cover pool was agricultural properties, and 2% residential mortgages

— the bank started lending residential mortgages last year.

To be eligible for the bond, the forest properties must have certifications from the Programme for the Endorsement of Forest Certification (PEFC) or the Forest Stewardship Council (FSC) or they must

> **Sustainable forestry is a very important part of a sustainable life**

have green forest management plans that include setting aside areas of particular conservation value. Properties must also have 5% deciduous trees to promote increased diversification, increased biodiversity and storm protection.

The bond is backed by forest holdings totalling 320,000 hectares, encompassing around 1.4% of Sweden's productive forests and absorbing slightly more than two million tonnes of carbon dioxide every year, according to Landshypotek. The forests are privately owned.

Landshypotek's green bond framework is aligned with ICMA's Green Bond Principles and has received a second party opinion from Cicero, which gave the framework a "dark green" shading — the best ranking on its shading scale.

Birgersson noted that covered bonds represent around 70% of the bank's total funding — and said the new green issue was also planned to refinance covered bonds maturing at the end of April.

"Covered bonds remain a key funding source for us," he said.

Landshypotek can under its green bond framework also issue senior unsecured and subordinated notes. Kihlberg said the bank plans to be a frequent issuer in the green bond market using the three formats, while also increasing its financing of green assets.

Only one other green covered bond has been issued out of the Nordic region to date, a EUR1bn issue for Norway's SpareBank 1 Boligkreditt in January. All previous green covered bonds have been used to finance mortgages backed by energy efficient residential or commercial buildings.

Although Landshypotek's new issue is the first green covered bond issued out of Sweden, the country has taken a leading role in the wider green bond market, with EUR9.7bn equivalent of outstandings as of the end of 2017 making it the sixth largest green bond market in the world and by far the largest in the Nordics, according to figures from the Climate Bonds Initiative (CBI). Almost EUR6.5bn equivalent of the Swedish green bonds outstanding are denominated in Swedish kronor.

The CBI states that Nordic investors, in particular large pension funds such as Sweden's AP7, have also played an important role in the development of the green bond market by integrating the sustainability agenda into their investment strategies. ●

ABN AMRO gets green 'execution benefit', adds offshore wind

ABN AMRO lauded the hardiness of green bonds in difficult market conditions after selling a EUR750m seven year green senior unsecured bond against an unpredictable market backdrop on 11 April, achieving its biggest green bond issue to date.

Deals in some FIG markets found only limited demand amid prevailing volatile conditions and increased investor selectiveness, but ABN AMRO's and a green senior non-preferred transaction from BNP Paribas *(see separate article)* proved resilient.

Thijs van der Ven, director, debt syndicate, at ABN Amro, said the green element of the deal helped ensure its success in the difficult environment.

"It was most definitely far better to be issuing a green bond yesterday than a conventional one," he said. "It almost feels like a product in between a conventional senior and a covered bond, because there's a lot less aggressiveness towards issuing a green senior than a conventional senior."

Joop Hessels, head of green, social and sustainability bonds at ABN AMRO, added that the bank's previous green bond issuance had fared well at a time when concerns over Greece were causing volatility in the market.

"The green bond has proven to be a very good product to issue in these moments," he said.

Van der Ven noted that ABN AMRO had not issued any OpCo senior bond since its last green deal, and that OpCo senior supply from core names has recently been limited, meaning demand was also strong from non-green accounts able to invest in such paper.

Leads ABN AMRO, BayernLB, DZ and SEB launched the seven year senior unsecured benchmark with initial price thoughts of the mid-swaps plus 35bp

area. The size was then fixed at EUR750m and guidance set at the 30bp area with books over EUR1.1bn, before the spread was fixed at 28bp with books in excess of EUR1.25bn, pre-reconciliation.

The deal followed a two-day European roadshow that took in several Dutch cities and Paris.

"It went very well," said Hessels. "It is a very strong order book, not only in size but also in the distribution of investors."

The final book stood at EUR1.25bn, with around 100 accounts.

Fund managers were allocated 58%, insurance companies and pension funds 23%, banks and private banks 10%, and central banks and official institutions 9%. Accounts from Germany, Austria and Switzerland took 33%, the Netherlands 22%, France 22%, the UK and Ireland 10%, the Nordics 8%, southern Europe 4%, and others 2%.

"Dark green" accounts were allocated 60% of the deal, "light green" 20% and mainstream accounts 20%, according to the leads.

Syndicate bankers at the leads said that at least 10% of the total investors participating were green investors that had not invested in ABN AMRO's previous green issuance.

"Investors are looking for ways to realise green investments," said Danielle Boerendans in ABN AMRO's treasury *(pictured)*. "This bond's structure comprises all green safeguards currently considered relevant by the market."

Van der Ven noted that ABN AMRO's senior curve is particularly flat, with its green 2022s seen at 14bp, bid, and its conventional 2025s seen at 18bp.

"For three years' maturity extension and with the new issue premium added onto that, printing this 14bp back of the 2022s is definitely a strong outcome," said Van der Ven. "We could have printed this a bit tighter, but this was a sensible decision by the issuer to ensure a healthy trade."

Bankers away from the leads said the deal offered a premium of around 8bp-10bp, which they said represented a good price in the prevailing market conditions.

"You might not see a substantial green benefit on the curve, but I do see a green benefit in execution," said one.

CBI marine renewables first

ABN AMRO has updated its green bond framework since its last deal, adding renewable energy and circular economy projects to those that are eligible to be financed, alongside energy efficient building loans. The proceeds of the new issue will be 77% directed to energy efficient residential mortgages and 23% to offshore wind.

The deal is the first green bond issued that is certified under the Climate Bond Initiative's marine renewable energy criteria.

"This time, we decided to include offshore wind as one of the new categories," said Hessels.

The new issue will also be used to finance only mortgages originated after 1 January 2015, Hessels said, adding that investors like to see more recent projects being financed. ●

DNB sets up for green covered bonds after CBI-led SpaBol tweak

DNB Boligkreditt has established a green covered bond framework based on residential mortgages for the most energy efficient properties in Norway, after compatriot SpareBank 1 Boligkreditt tightened its criteria on the basis of feedback during its Climate Bonds Initiative certification process.

In February 2015 parent DNB became the first Nordic bank to sell a green bond when it issued a NOK1bn (EUR115m) five year senior unsecured deal, with financing renewable energy projects as the use of proceeds. Its new new green covered bond programme was published on 29 May.

"We could have easily done more senior green bonds, but we have very limited needs in senior for the time being," Thor Tellefsen, head of long term funding at DNB, told *Sustainabonds*. "Covered bonds are DNB's absolute largest funding source and it was then natural for us to see if we could actually do green covered bonds, combining the green initiative with our biggest funding source."

However, like SpareBank 1 Boligkreditt (SpaBol) and issuers in other countries, DNB's initial idea of using energy performance certificates (EPCs) as the basis for selecting green buildings was frustrated by a lack of publicly available data. The bank then turned to the idea of using building codes to work out which properties would be the most energy efficient, in line with the methodology used by SpaBol.

SpaBol worked on the basis that newer buildings have to meet stricter energy efficiency criteria as laid down by more modern building codes, and that only allowing properties built according to regulations established in 2007 onwards (and completed from 2009 onwards) would ensure that the selected properties would be among the 15% most energy efficient in Norway — with the 15% cut-off being the typical standard required by the Climate Bonds Initiative (CBI) to achieve its certification.

When SpaBol launched its inaugural green covered bond in January, it was in the process of attaining the CBI certification. However, discussions about the methodology have only just concluded.

"There's been a fair amount of debate between our technical consultants and the CBI about the exact criteria required for certification," said Eivind Hegelstad, CFO and head of investor relations at SpareBank 1 Boligkreditt, "so we have tweaked the baseline a little to give the CBI greater comfort."

The tweak involves moving the cut-off for flats from the 2007 building code (TEK07) to 2010's (TEK10), with the properties having to be completed in 2012 or later. However, Hegelstad notes there is no difference between the building codes TEK07 and TEK10 in Norway when it comes to the required building energy efficiency.

> **We decided to go for an even newer building code for all properties**

"In some countries the CBI already has published its proxy for residential buildings, but the Norwegian one only results from a process begun in January after the SpaBol transaction," said Vincent de Vries, director, FIG DCM at ING, which was the green bond advisor for SpaBol and is sole green structuring advisor for DNB.

"We fully support the structuring of the SpaBol transaction and it is still one that has very significant CO2 emissions savings, it is just that in this case CBI had a slightly different view on the technical details of the applicable building regulation for apartments compared other housing types."

Both Norwegian banks used technical consultant Multiconsult.

DNB's new framework uses a TEK10 baseline, allowing residential properties completed in 2012 or later — whether flats or houses. According to Tellefsen, as DNB was in no hurry to come to market, it could allow the market to digest SpaBol's methodology and wait until the CBI had had its say.

"We have been working on it for a little while in order to make it as prudent as possible," said Tellefsen. "It's a somewhat modified version of what SpaBol did.

"In order to get CBI certification we could only have used houses, and not flats, under TEK07, therefore we decided to go for an even newer building code for all properties, which is cleaner and should give investors even more comfort."

A market participant suggested DNB could also afford to choose a tighter cut-off because its larger cover pool means it can more easily reach the critical mass necessary for a benchmark green covered bond. According to DNB, NOK53bn of assets in its cover pool are eligible under its framework.

The change to SpaBol's criteria means that its pool of eligible assets has fallen by around 10%, according to Hegelstad. He said that this means it may take slightly longer before the issuer returns with a follow-up green benchmark, but he noted the bank hopes that ultimately EPC information will become publicly available and selection will then be done on that basis.

Tellefsen said DNB does not have a fixed timetable for an inaugural issue.

"We will travel and present the framework to investors, and then we will take it from there," he said. "In general DNB is not that seldom in the market — we typically do a couple of covered bond transactions every year — and of course our aim is to utilise this programme.

"But first we want to spend some time getting investors familiar with it." ●

Buyside warning for latecomers, green halo rewards proffered

An SRI portfolio manager warned issuers who are slow to take up green bonds that their credentials may be questioned, at this year's Climate Bonds Initiative conference, although investors said they are open to imperfect issues if they contribute to carbon reduction.

"Currently there is an opportunity for issuers to issue green bonds, because we are very happy to see newcomers," said Alban de Fay, SRI portfolio manager at Amundi. "But next year the question will be, why does this issuer not issue green bonds?

"So pay attention: there is an opportunity for issuers to issue green bonds. But if you wait too long, maybe our confidence regarding your ability to issue green bonds will decrease."

However, de Fay and other buyside panellists at the conference on 20 March said they are willing to engage with issuers who may be at different stages of making or contributing to the low carbon transition.

"We started investing in green bonds in 2013, 2014, and I sat in a conference very like this, trying to figure out what green bonds were, and thinking, they're really easy, aren't they?" said Steve McDowell, head of investments in Barclays' treasury. "It turns out they aren't. The point is, I was actually looking for the perfect green bond, and the answer is, there isn't one.

"You are going to have to accept that whether you are talking about transition or additionality, generally speaking green bonds are not going to be perfect on day one. But I think that's fine, because we need to start somewhere."

Wilfried Bolt, senior investment manager, PGGM Investments, echoed this.

"A green bond per se is not changing the world, because it's a refinancing tool," he said. "But it signals the intention of the issuer regarding its climate policy, and it's the starting point of an engagement, a discussion with the issuer."

It's the starting point of an engagement with the issuer

Felipe Gordillo, SRI/ESG senior analyst, BNP Paribas Asset Management, cited the example of a Repsol bond that had sparked debate over its green credentials due to the company's major oil business.

"It may not be a green bond, because it is not about long term solutions," he said. "But, I think that the most interesting part would be to see those brown companies moving into a pathway in terms of carbon reduction."

Gordillo said that an interesting example is in Asia, where the ASEAN Capital Markets Forum has, alongside a green label, established a transition label. He said that such issuance should be

"very strict and very challenging", requiring issuers to go above and beyond minimum standards that may already be expected of them.

"If you are going to reduce carbon emissions using, for example, gas, then if the IEA says your sector should be reducing 3% every year, you should go for 5% every year," said Gordillo. "It is the only way we are able to ensure an integrity for this kind of bonds.

"We have to be very pragmatic," he added. "We have to make room for both solutions — the long term solutions and the transition solutions."

Ulf Erlandsson, CIO, Glacier Impact climate fund, Strukturinvest, said his fund will go beyond simply investing in issuers' green bonds.

"One idea that we are going to execute in our fund is that we will be invested in the green bond from issuers that we like, but at the same time we are looking to commit to actually buying other parts of the capital structure at the same time," he said. "So when you come with a green bond, we will be buying other things in your capital structure, as a pre-programmed green halo effect to give issuers the incentive to bring supply to the market.

"Now, we will do that using the borrowed capital which we will raise by shorting brown assets. In sum, this becomes a trade on shifting the cost of debt between green and brown assets, which must be — we argue — at the core of a climate-focused investment strategy. At the same time, it offers CFOs a clear example of, and arguments for, the benefits of issuing green bonds, which should be good for the whole green bond market." ●

Photo: Chrissa Pagitsas/Twitter

ABN·AMRO

ABN AMRO's Sustainable Focus

It is ABN AMRO's ambition to be a better bank contributing to a better world. Our products and services have an impact on society and we assume the responsibilities this brings. As such we are convinced that responsible finance and investment is becoming the norm. That's why we are making our finance and investment products increasingly sustainable. By investing capital in a sustainable manner, we can make an important contribution to society and the environment. In doing so, ABN AMRO always seeks to maintain a balance between society's interests and financial returns.

Within our DCM franchise we advise our clients on making an impact and contribute to a better world through structuring and placing Green, Sustainable and Social Bonds.

Our goal is to put our clients first and provide them with the best services and solutions possible. We aim to achieve this by offering them the full value chain in Green, Sustainable and Social Bonds. We believe this is the essence of professional banking.

Top 3 Most Impressive Green/SRI Bank for private sector borrowers 2016

2016 GlobalCapital SRI Awards

Most Impressive Bank Green/SRI Bond Issuer 2016

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No resting on its laurels: Berlin Hyp tightens green bond framework

Ahead of 150th birthday celebrations on 8 May marked by a gift of saplings to its home city, Berlin Hyp tightened its pioneering green bond framework and revealed an increasing positive environmental impact from the programme.

"Ich bin ein neuer Berliner Stadtbaum."

Take a stroll down Schöneberger Hauptstraße in Berlin and you may notice the presence of saplings taking root along the street. Take a closer look and you'll see that many of the self-proclaimed new Berlin "city trees" are there thanks to Berlin Hyp, one of the supporters of a long-standing project to green the capital.

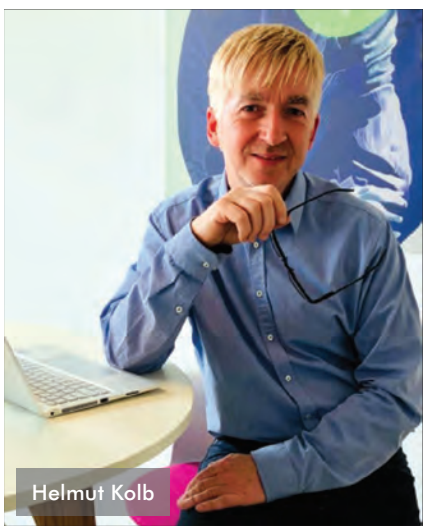
"Berlin has always been a very green city," says Bodo Winkler, head of funding and investor relations at Berlin Hyp. "It is important for Berlin to have companies and private individuals helping the public sector green the city in order to make sure it will be a green city in the future, too."

The German lender chose to donate 150 trees to reflect its 150th birthday on 8 May.

While celebrating this grand old age, the bank has dubbed it "a good start" — they say you're never too old to learn and Gero Bergmann, member of the board of management responsible for markets at Berlin Hyp, says that this is indeed an obligation for the bank.

"Resting on our laurels is not an option for us."

The bank made good on this sentiment on 27 April, the third anniversary of its inaugural green Pfandbrief: before its birthday celebrations the bank had for many months been working on updating its green bond framework to introduce stricter standards, and released this at the same time as publishing the latest annual report for its green bonds.


Helmut Kolb

Three new demands

Being the first issuer of a green benchmark covered bond, Berlin Hyp had no blueprint from which to construct its pioneering programme in 2015. The green bond framework has nevertheless served the issuer well through repeat successful issuances.

Helmut Kolb, real estate valuer and energy efficiency specialist at Berlin Hyp, notes the original green bond framework — which had focussed solely on energy demand for heating — had met investors' expectations, and was verified by a second party opinion.

"However, internal and external discussions indicated that a review of our old framework was necessary in order to take into consideration changes that occurred since we had published our first framework," he says. "The question was how robust are the eligibility criteria on a long term perspective."

The main challenge in this context, says Kolb, has been and continues to be the lack of an official database for energy performance indicators in Germany. Berlin Hyp therefore undertook a joint project with energy consulting firm Drees & Sommer to establish just such a reliable, representative and up-to-date database.

As part of this project, Drees & Sommer subjected the assets in Berlin Hyp's green finance portfolio to a benchmarking test, which confirmed the portfolio's outstanding energy quality and the strictness of the criteria. Still, to safeguard the quality of the portfolio in the medium to long term, Berlin Hyp and Drees & Sommer developed measures that resulted in three major changes implemented in the new framework published on 27 April.

Firstly, the framework's criteria now focus more clearly on the final energy demand of a property, whereas before energy figures could refer to either primary energy demand or final energy demand.

"The final energy demand figure is more convincing than the value of primary energy demand because it refers to the specific energetic quality and performance of buildings," says Kolb.

Primary energy demand can also be used in certain cases where modern technology has been installed to achieve a significant reduction in the property's primary energy demand.

Secondly, eligible green buildings will now have to meet separate requirements with regard to energy demand for heating and energy demand for electricity.

"We became aware that it is not sufficient to only consider the energy demand for heating and that it is also crucial to analyse the energy demand for electricity," says Kolb.

"Why is that? Electricity contributes almost half of the entire energy consumption of a building, so in order to get the total

Gero Bergmann

picture of the environmental and greenhouse gas impact of a property, it has to be included."

The eligibility criteria are generally to be fulfilled on an additive basis, meaning that the main decision criterion is the sum of the energy demand for heating and electricity, although the maximum values in each energy demand category may not be exceeded by more than 20%.

"In other words, a slight excess in either the heating or electricity figure is possible, provided that the overrun is compensated by a lower demand in the other category," says Kolb.

Thirdly, the threshold of the heating component for offices and retail premises — which make up 94% of Berlin Hyp's portfolio — have been lowered by 35% and 14%, respectively.

The revised framework applies to all new loans for green buildings and does not affect assets that are already in the green finance portfolio. Nevertheless, Winkler notes that all of the green loans originated last year would have fulfilled the new criteria relating to heating demand implemented.

Oekom research re-verified Berlin Hyp's framework in light of the amendments, again assessing positively the sustainability of the framework.

'Ambitious, but doable'

Berlin Hyp's third annual reporting shows that the bank's green finance portfolio grew by EUR934m in the reporting period from 1 March 2017 to 28 February 2018, thanks to a EUR561m increase in new green business, comprising 16 loans, and EUR373m in existing loans identified as green financing.

Since the issuance of Berlin Hyp's first Green Pfandbrief, the portfolio has grown by more than 450%.

"We are delighted about this positive development," says Bergmann. "This is all the more true as the growth brings us closer to our ambitious strategic goal of achieving a 20% share of green loans in our overall loan portfolio by the end of 2020."

Winkler notes that the bank's green finance portfolio currently amounts to 14.24% of its total lending, or EUR2.958bn. The 20% target would translate to just over EUR4bn of green lending based on the current size of Berlin Hyp's total portfolio, he says, but potential increases in lending have to be taken into account.

"We are on a good track," says Winkler. "The target remains ambitious, but doable."

In order to support this growth, Berlin Hyp continues to incentivise loans for green buildings with a discount of 10 basis points.

This year's annual impact reporting shows that, depending on the underlying benchmark, every EUR1m invested in Berlin Hyp's green bonds helps to avoid between 8.7 and 36.3 tonnes of carbon emissions per year, up from between 4.7 and 28.7 tonnes of CO_2 in the previous year.

Berlin Hyp was assisted in its calculations by Crédit Agricole CIB's Sustainable Banking Team, and the results were reviewed by oekom in its re-verification of the framework.

"What is quite striking from our point of view is that no matter which baseline you apply, we were able to increase the impact, i.e. the avoidance of greenhouse gasses and of carbon," says Winkler.

"The explanation for that is quite simple — the buildings that we finance get better and better every year. Our hope is to follow this path in the future." ●

Hong Kong Aspiring green gateway

2018 is proving a banner year for green bonds in Hong Kong, with the launch of certification and subsidy initiatives, and a planned green bond programme by the government. Central to these developments is the Hong Kong Monetary Authority (HKMA), which in June is hosting with ICMA the first Green & Social Bond Principles AGM & Conference outside Europe. Ahead of this, *Enoch Fung*, Head of the Market Development Division of the HKMA, spoke to Sustainabonds' *Neil Day* about Hong Kong's green bond hopes.

Neil Day, Sustainabonds: Why are green bonds something that the Hong Kong Monetary Authority is focusing on?

Enoch Fung, HKMA: First of all, the development of the overall bond market has been at the very core of our agenda. At the HKMA we are very much a de facto central bank and also the bank regulator here, but we also have a very clear mandate to develop Hong Kong as an international financial centre. And we believe that fostering the development of capital markets is important for Hong Kong's longer term growth. One of the key elements in that is developing the bond market in Hong Kong, and in fact if you look at the scale of our bond market, it is actually quite sizeable — we are the third largest by issuance last year in Asia ex-Japan markets after China and Korea. This gives us a very strong platform for the promotion and development of the green bond platform, which we see as a subset of the overall bond market development.

As you are very aware, the green bond market has grown rapidly on a global basis in the last few years, and particularly in Mainland China, where there has been a very strong pick-up in terms of issuance. At the same time, we are seeing a quite rapid development in investment demand coming from longer term institutional investors who are increasingly aware when it comes to sustainable finance. So there has been quite a bit of development in the green bond space, in the context of very steady growth in the traditional bond market in Asia. Corporates are coming into the bond market, tapping the liquidity available, and that has helped diversify their longer term funding.

Hong Kong has for many decades been a gateway for Chinese investments and also corporates' overseas financing in the equity and bond markets, and the green bond space is a very natural extension of this. As activity in the international arena and the Mainland market continue to pick up, Hong Kong should continue to play the sort of intermediary role that we have been playing in other aspects of the economy.

Day, Sustainabonds: What steps are you taking to promote green bonds?

Fung, HKMA: In early May we rolled out a subsidy scheme for our overall bond market, what we have called the Pilot Bond Grant Scheme. Essentially that is a scheme to subsidise the issuance costs of first time bond issuers in Hong Kong, covering half of the relevant costs they have incurred in Hong Kong up to a cap. That is one of several

initiatives we are pushing out into the market to draw issuers to come and use Hong Kong as an issuance platform. Now that's for overall bonds — conventional, green, Sukuk, etc.

But green bonds are something that we really do take to heart, and while we hope that these will be a part of this overall strong bond development, we also have a couple of specific initiatives to promote them.

One is that on the green bond side the Hong Kong Quality Assurance Agency, the HKQAA, has started on a certification scheme for green bonds. The HKQAA certifies against international standards in many aspects of business. The green bond certification scheme will certify green bonds against the key international green bond standards, like the Green Bond Principles, Climate Bonds Initiative standards, and also the Chinese Green Bonds Standards that have been promoted by the Chinese authorities.

In the budget speech in February, the Financial Secretary went a step further, advocating a green bond subsidy scheme, so essentially we subsidise 100% of the certifying costs, up to a cap, incurred by using the HKQAA scheme. The details are still being deliberated, but that is another step to demonstrate our commitment.

And the government also announced in the budget speech that we would be issuing on behalf of the government a green bond. We now have a green bond programme of HK$100bn (EUR10.9bn, US$12.7bn), and it is a programme the government has undertaken to again demonstrate its commitment. The HKMA is mainly an implementation agent for the government for this programme. It has to go through various legislative procedures, but it is something we do hope to put out into the market to showcase our commitment, recognising the growth in the green bond space.

> **A big part of the government green bond is really to promote the development of the market and also awareness**
> *Enoch Fung*

Day, Sustainabonds: What is the motivation for a green bond from the Hong Kong government and how might it stimulate the wider market?

Fung, HKMA: If you look at our fiscal position in Hong Kong, we have been running a fiscal surplus for quite a number of years, so it is very strong. So we never really thought of this as a financing exercise per se. The aim of this particular programme is to provide some demonstration effects for the market. In some respects we are quite fortunate to already see that many of the Hong Kong corporates — such as MTR, Link REIT and Swire Pacific, Mainland corporates and also most recently multilateral development banks (MDBs) have actually issued green bonds in Hong Kong – we've seen more than 16 of them. The MDBs like the World Bank, the Asian Development Bank (ADB) and also the European Investment Bank (EIB) have used the Hong Kong platform to issue green bonds. We do hope that this momentum on the issuance side will continue to pick up for green bonds. Some of the Hong Kong corporates actually have green bond programmes and that is also a demonstration of their commitment to the space.

So a big part of the government green bond is really to promote the development of the market and also awareness. It should put us into a good position to discuss green bonds with issuers from a fellow issuer's perspective, and hopefully that would help facilitate the conversation.

Day, Sustainabonds: To what extent is the Belt & Road initiative something you have in mind when working on your initiatives?

Fung, HKMA: The Belt & Road initiative is a very important one in terms of promoting the connectivity of the countries in the region and particularly in emerging

Financial Secretary Paul Chan announced green measures in the February budget

Photo credit: Government of Hong Kong SAR

market countries. So far there has been some concrete progress on that. One of the key elements of that connectivity is really the physical infrastructure, and we are seeing project operators and developers, particularly from the Mainland but also international ones, venturing into the market for project financing and investment. In that context about two years ago the HKMA has set up the Infrastructure Financing Facilitation Office (IFFO) to help facilitate those flows and to promote and develop Hong Kong as an infrastructure financing hub in the region. A key element of that is how to promote sustainable financing, or financing infrastructure with sufficient consideration of the environmental standards and impact, and we are seeing quite a lot of development on that front as well.

A lot of the developments that Hong Kong is experiencing are very much in the context of Belt & Road developments, be it Mainland Chinese corporates venturing into overseas markets using Hong Kong as a springboard, or international firms venturing into the Belt & Road region using Hong Kong service providers and a platform in our capital markets. It is all very much tied in with the overall growth strategy of Hong Kong as an international financial centre, and then clearly there is a good green bond element to it as well.

Day, Sustainabonds: What are your hopes for the future in respect of green bonds?

Fung, HKMA: Overall we do hope to see more issuers coming and using the Hong Kong market to issue their bonds, traditional or green, and hopefully that will grow with all the initiatives that I have mentioned. That would be the main thing. And also the fact that we are raising a lot more awareness of Hong Kong as an international financial centre, and also a green financing hub.

That was one of the reasons why we were very delighted and honoured to be hosting with ICMA the Green & Social Bond Principles AGM and Conference in June. It is another step that we are undertaking to demonstrate our commitment to green bonds and to demonstrate the vibrancy of our market. It is the first time the conference is being held in Asia, and they have chosen Hong Kong. And I think one of the prime reasons is that, in line with our discussions with ICMA ahead of the conference, they really recognised the developments, in Mainland China and the wider region, in green bonds.

So we want to continue to have these kinds of discussions in the market, to generate momentum and awareness. It is key for us to continue to work with the industry, to continue to march forward on that front. ●

Sustainabonds is a media partner of the 2018 Green and Social Bond Principles Annual General Meeting & Conference.

Chagall Peace Window at the UN HQ, New York
Photo credit: United Nations

Framing responsibilities

Principles for Responsible Banking are finally being developed as counterparts to the investment and insurance industry principles, while the first public guidance on how banks can meet Task Force on Climate-related Financial Disclosures recommendations has been released. But although the evolution of the voluntary initiatives are welcome, calls for mandatory action persist. *Tom Revell* reports.

A coalition of 26 banks from around the world are developing Principles for Responsible Banking (PRB), which will seek to align the banking sector with the Paris Agreement and the UN Sustainable Development Goals (SDGs) and are expected to be launched for public consultation in November.

The new principles will be in line with the existing Principles for Responsible Investment (PRI) and Principles for Sustainable Insurance (PSI) — voluntary principles that provide signatories with a list of practices they can adopt to incorporate ESG issues into their business decisions.

The UN Environment Programme Finance Initiative (UNEP FI) announced on 29 May that it has convened 26 of its bank members from five continents to lead the initiative, which, it said, will set a global benchmark for sustainable banking and enable banks worldwide to "reaffirm their purpose and align their business practices" with the objectives of the SDGs and the Paris Agreement.

Christiana Figueres, former UN climate chief and convenor of the Mission 2020 initiative, had been among those calling for a banking equivalent to the investment and insurance principles, challenging UNEP FI to develop them for banks at its last Europe Roundtable in November.

"The material is already right in front of you, you don't have to invent anything and you know what needs to be done, but it needs to be captured in principles that you would draft and that would be taken on board by your members," she said.

UNEP FI said signatories to the principles will be required to set goals for and report on their contribution to national and international social, environmental and economic targets, adding that the principles will ensure accountability and transparency on banks' impacts and challenge the banking industry to play a leading role in creating a more sustainable future.

"Similar to the role the Principles for Responsible Investment play for asset managers and the Principles for Sustainable Insurance for insurance underwriters, these standards will address the longstanding need for an umbrella framework to cover all aspects of sustainable banking," said UNEP FI.

The 26 banks met face to face for the first time in London on 19-20 April. The process of developing the Principles will include consultation with stakeholders including civil society organizations, banking associations, regulators and UN bodies. The participants plan to launch the draft principles for global consultation during a UNEP FI Global Roundtable 2018 in Paris on 26 November.

"I'm delighted to be part of this initiative," said Siobhan Toohill, head of sustainability at Westpac Group, "working with banks from around the world to define the banking sector's role in achieving a sustainable future, including setting out the hallmarks of a sustainable bank, supported by an accountability framework."

The 26 banks participating (and their respective countries) are: Access Bank (Nigeria), Arab African International Bank (AAIB) (Egypt), Banco Pichincha (Ecuador), Banorte (Mexico), Barclays (UK), BBVA (Spain), BNP Paribas (France), Bradesco (Brazil), Commercial International Bank (CIB) (Egypt), First Rand (South Africa),

> **Our purpose at Santander is to help people and businesses prosper**
> *Ana Botín*

Garanti Bank (Turkey), Golomt Bank (Mongolia), Hana Financial Group (South Korea), Industrial & Commercial Bank of China (ICBC) (China), ING (Netherlands), KCB Group (Kenya), Land Bank (South Africa), Nordea (Sweden), Piraeus Bank (Greece), Santander (Spain), Shinhan Financial Group (South Korea), Société Générale (France), Standard Bank (South Africa), Triodos Bank (Netherlands), Westpac Group (Australia), and YES Bank (India).

"Our purpose at Santander is to help people and businesses prosper — and, in large part, that means recognising the key role that banks have to play in supporting inclusive growth, which is the only way to achieve sustainable growth," said Ana Botín, executive chairman of Banco Santander.

First TCFD methodology developed

The Principles for Responsible Banking initiative comes a month after, on 24 April, 16 banks from four continents convened by UNEP FI published a jointly-developed methodology that represents the first publicly available specialised guidance on how banks can assess climate-related risks and opportunities, and be more transparent about their exposure to such risks, in line with the TCFD recommendations.

The Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board, had in June 2017 published final recommendations on how companies can disclose information about the risks and opportunities presented by climate change. The TCFD is industry-led and its recommendations on disclosures are voluntary.

The new methodology is the culmination of a 10 month project, on which the banks and UNEP FI also worked with leading scientists and risk and investment management experts. The methodology is explained in a report that is the first of two, and focuses on transition risks — the risks that assets are devalued in a decarbonising economy. A second report from the working group, focussing on physical climate-related risks, is expected in June.

"Financial markets can become a catalyst for action on sustainability, but for that they need to become more long term-oriented," said Erik Solheim, executive director of UNEP. "The beauty of the TCFD framework is that it encourages organizations to consider and disclose long term impacts.

"This change in perspective is what we need to achieve sustainable development."

Banks must adapt for TCFD, but gains to be made

Participants in the project presented the methodology and described their experiences in a webinar hosted by Environmental Finance on 15 May. They found that banks assessing climate risks and opportunities in line with the TCFD recommendations must look long term, make use of comprehensive scenario analyses, and adapt data collection, according to findings of a UN-convened pilot, which revealed positive impacts such as improved customer engagement.

Simone Dettling, banking programme team lead at UNEP FI, said the TCFD was "a big step" as it brought the importance of climate risks and opportunities to the attention of senior figures in banks and also to departments of banks, such as risk departments and business development departments.

She noted that the TCFD called for a forward-looking and longer-term assessment of risks, requiring new tools and approaches including, most importantly, the use of scenario analysis — not as it is currently used in stress tests, with one scenario used, but with various scenarios under which the 2° objective in the Paris Climate Agreement could be met — including some "extreme" scenarios – and how each of these could impact portfolios. Dettling said this was a key takeaway from the pilot phase.

"This is of course challenging, because it is very new," she said.

"No single scenario is a prediction of the future," she added. "What

> **Financial markets can become a catalyst for action on sustainability, but for that they need to become more long term-oriented**
>
> *Erik Solheim*

scenario analyses are for is to imagine all possible futures, and see how you fare in them, prepare for them, and come up with ways to monitor and try to understand in which direction we are going."

The other key takeaways were that banks must cooperate with scientists — two communities that are beginning to understand each other's needs, said Dettling – and that the current collection and structuring of data is not fit for assessing the implications of climate change. For example, it is insufficient to know that a company is in the motor industry; rather, the bank must know whether a company builds fossil fuel or non-fossil fuel dependent cars.

Representatives of ANZ — a participant in the pilot phase — highlighted the positive impact that carrying out climate-related disclosures has had on customer engagement. The Australian bank has adopted TCFD recommendations on climate-related disclosures, publishing such disclosures alongside its results, and is now recommending that its customers also adopt the TCFD recommendations.

"Pleasingly, we've already had customers approach us understanding that we've used the TCFD recommendations to inform our own disclosures, and they're interested in how we've gone about that and the earlier work we've done in scenario testing," said Ben Walker, head of sustainable development at ANZ. "There have been some great two-way conversations. We're now able to encourage those customers and to help shape their reporting by sharing some of the lessons we've learned.

"It's bearing fruit already."

He said that the bank has also taken questions from investors, who, he said, are looking for comfort that the bank is assessing and managing climate risks.

"They want to see we are fluent in the language of climate risk and opportunities, and I have to say that adopting and seeking to align as closely as possible with the TCFD recommendations has served us well at this stage," he said.

UNEP FI is also currently in the process of recruiting investors for a project piloting TCFD-aligned assessments and disclosures in the investment industry. Some 13 investors have already joined the working group.

Concrete, mandatory actions urged

While the Principles for Responsible Banking and TCFD are voluntary initiatives, there have been ongoing calls for firmer action.

The Bank of England was on 21 May urged to take the lead on climate-related disclosures and make it mandatory for UK banks to require their large corporate borrowers to disclose in line with TCFD recommendations, by Chris Hohn, managing partner and portfolio manager of hedge fund The Children's Investment Fund.

In an open letter addressed to Mark Carney, governor of the Bank of England and chair of the Financial Stability Board, the activist investor said the current disclosure regime is failing to provide adequate information on serious climate-related risks to which UK banks are exposed through their loan portfolios.

"Failing to act risks endangering the long term stability of the UK banking system," said Hohn. "It may also expose banks to litigation for inadequate disclosure under existing law."

He suggested that as the Royal Bank of Scotland is fully controlled by the UK government, its board should set an example and require such disclosures from their borrowers. He added that the Bank of England should run annual stress tests on banks' resilience to climate risks, setting capital requirements accordingly.

Hohn praised Carney, who sits on the TCFD, for his role in raising awareness of the importance of climate-related risks to the financial system.

"It is clear that your early understanding of the seriousness of climate change risks for the financial system must now urgently be translated into concrete and mandatory actions in order to credibly manage the systemic challenges posed by climate change," he said. ●

Photo credits: Santander, UNEP

The Day After Tomorrow

Issuers wishing to win over investors with SRI mandates not only need to deliver green and social bonds, but must demonstrate how these fit into a broader sustainability strategy for the future — that was the key takeaway from a *Sustainabonds* roundtable hosted by SFIL in Paris on 24 May, where the market's growth, EU initiatives, and pricing were among issues debated by market participants at the leading edge of activity.

Neil Day, Sustainabonds: There were quite strong forecasts at the beginning of the year for the amount of green bonds that people were expecting and hoping to see this year after very strong growth last year. But looking at where we are now in late May, we are less than a third of the way towards the kind of numbers that people were forecasting for full year. Is it something to be concerned about?

Grégory Schneider-Maunoury, Humanis: Well, there is a need for a minimum EUR1,000bn per year of investment to achieve the energy transition, according to IEA estimates in 2015. Last year we were at EUR160bn, so there is room for improvement. It's true that so far we haven't seen the huge arrival in the market of non-financial corporates — we are still expecting this move.

But we have already had some excellent green bonds coming to market this year and It's always better to have good quality bonds, and better to have fewer good quality bonds than many low quality ones.

Marie-Anne Allier, Amundi: We are still lacking supply, for sure — just look at the bid-to-cover ratios on the primary market.

Having said that, I tend to agree that quality, size and diversification matter more than just quantity. We also don't want to lose focus and have a lot of different kinds of green, sustainable, social or whatever bonds that end up making the market fragmented rather than being one big market, which is what our investors are looking for.

I won't say we are concerned, but we are vigilant, and we are pushing issuers to issue green bonds.

Muriel Caton, Vigeo Eiris: So far this year we have done almost as many second party opinions (SPOs) as we did in the whole of last year — 23 compared to 30 in 2017 — if we include projects that have not yet been announced but will be coming to market — we are working on 12 of those right now. But it is true that the volume of green bonds is small compared to the total volume of bonds issued globally.

The lack of green bonds may be because bond market conditions have been very, very good for issuers. It was better to be an issuer than an investor. Conditions are changing a little bit, but until now conditions have been very good and a lot of corporates have asked me, why should I do a green bond when I can click my fingers and raise EUR1bn?

At the end of the day it is the investor who has the last word when it comes to asking for green bond issuance. With these green or sustainable bonds there is unprecedented communication between issuers and investors, because there is almost always a roadshow to explain the project, which normally never happens on a vanilla bond for general corporate purposes.

In the last five years we have done 110 transactions, which is a 26% of market share, so we have seen how the market is evolving — but it is not mature. As Grégory said, it is a very small part when compared to the total amount of bonds issued globally — less than 5% of euro issuance and less than 1% of total issuance in all currencies. So a lot of progress should be made.

Joop Hessels, ABN AMRO: The pipeline is still there. There are many potential is-

Roundtable participants *(left to right above)*:

Bodo Winkler
Head of Funding & Investor Relations, Berlin Hyp

Marie-Anne Allier
Head of Euro Fixed Income, Amundi

Eivind Hegelstad
CFO & Head of IR, SpareBank 1 Boligkreditt

Grégory Schneider-Maunoury
Head of SRI, Humanis

Neil Day
Managing Editor, Sustainabonds

Joop Hessels
Head of Green, Social & Sustainability bonds, ABN AMRO

Muriel Caton
Managing Director, Sustainable Finance Strategy, Vigeo Eiris

Patrick Seifert
Managing Director, Head of Primary Markets, LBBW

Sami Gotrane
Head of Treasury & Financial Markets, SFIL

suers looking but, especially for your first transaction, it takes some time to get everything in place — your framework, your asset selection, second opinions and everything — and only then will you look at the market. So there are still a significant number of new issuers coming.

And there aren't any issuers I've spoken to who have said, well, we did it once, we're probably not going to issue green bonds anymore — so there will be repeat issuance from existing issuers as well. Meanwhile, everybody started with assets that they could find relatively easily, and then if you are looking for a wider range of potential projects you will have to dig more deeply inside the organisation.

The big predictions for this year were also partly related to potential sovereign issuance, and although we saw Belgium at the beginning of the year, since then it has been relatively quiet, so there needs to be some more activity there. Also on the Asian side we haven't seen as much as in previous years, especially from China.

What has been said in relation to the corporate side in particular is correct — they have significant alternatives to get funding. We've also seen a sustainable loan market develop that might take away some corporates who could otherwise have stepped into the green bond market. Some corporates also point out that going to the bond market in the first place is a source of diversification and that to justify a green bond they need something extra like a pricing difference. That's different to financial institutions who are typically more frequent issuers and focus more on the potential for investor diversification.

All in all there is still potential to get to a very decent number by year-end — we'll see.

Patrick Seifert, LBBW: I would agree that there is increased awareness, which means increased potential. Maybe it's also fair to realise that we are in a young market,

Joop Hessels, ABN AMRO: 'There is still potential to get to a very decent number by year-end — we'll see'

and young markets don't just develop in a straight line — there are ups and downs. We have perhaps so far benefited from reaping some of the low-hanging fruit because, as Joop said, you have to dig very deep to get these green assets out there. Meanwhile, things are happening beneath the surface that we don't always see in real time, so I wouldn't be too concerned on that front — but it will require ongoing dedication.

It's important to bear in mind how significant a step it is for an institution to enter the green bond market. You basically step out on the stage and say, I hereby commit to this market — it's kind of an irreversible step. And there may be institutions both in the banking world and maybe among corporates, too, that simply have other priorities. So we will probably see that market developing at two speeds: as long as you still have institutions in Europe who are struggling with other topics and sit in front of investors arguing about why their CET1 ratio is so low, green bonds won't be the answer for them; but best in class and good quality institutions, whether financials or non-financials, will take on the challenge.

It typically takes some kind of a facilitator to take the first step. Speaking from our own experience at LBBW, that was management — and also learning from institutions that we had worked with. Once you have that commitment, things can come together nicely — you have that reinforcing effect internally and the whole institution generally becomes more committed to the cause.

The question is how can we bring this about faster while maintaining the quality? Looking at issuance numbers, it also depends how strict or not you are in defining the criteria, because there has been "green" issuance that, for example, is not fully in line with the Climate Bonds Initiative (CBI) criteria. That's also a part of this being a young, developing market. There is a debate about whether or not there is a need for regulation, and we should probably not regulate too fast, but let investors regulate by making their choices.

> **There may be institutions that simply have other priorities**

Bodo Winker, Berlin Hyp: First of all, I would like to see a little bit more of a longer term perspective, not only just looking at this year. Maybe the one or the other is disappointed so far, and maybe somebody will even be disappointed at the end of this year. But if you look like five or 10 years ahead from now, if you are a frequent issuer but not an issuer of green bonds, for at least part of your funding, you will have to justify yourself — that's my conviction. I think there will be a lot of issuers coming to the market in the medium term and really looking at what they can do.

On the one hand, this will be driven by investor demand, because what we already see is this massive growth in green mandates that the likes of Amundi or other asset managers have, so there is much more dedication to this market already on the investor side.

The other thing could be regulation, of course, and I would not only speak of the restrictions that regulation can represent. Indeed, having a clearer view from, let's say, the European regulator about what is green and what is not green could enable issuers to assess more easily what they could do and how they could contribute. I'm quite sure we will touch on this in more detail later, but there is huge potential in this EU Action Plan on Sustainable Finance if it is done correctly and is not strangulating what is already there. So let's see how it goes, but I am very positive for the green bond market overall.

I would also say that while Berlin Hyp is now an established issuer in this market, it took us some time to arrive at this point, and that process is something that new entrants will have to go through, so give them some time.

Initially we had to fight quite a lot of internal barriers to be enabled to issue our first green bond. Then came a period of working out where we would fit in this market, with lots of discussions with investors during which we learned a lot about their needs. I remember my first meeting on my first green bond roadshow was here in Paris with Grégory, and he was already a very educated investor then. Before we finished he asked me, can you tell me yet how your impact reporting will look? I had no clue. It was another new thing to consider.

So it's a long journey to get to a position where you really can say, OK, now I can come frequently to the market. We at Berlin Hyp had the very good fortune that we got the full commitment of the bank's top management and that they really wanted to make amendments to the overall strategy of the bank, saying, OK, by 2020 20%

should be green — and that's only the first step. We will even give you instruments to achieve that: you can offer green loans at a discount to your customers. So in that respect I'm in something of a luxury position, and I wish the same for many other issuers, too.

Eivind Hegelstad, SpareBank 1 Boligkreditt: We were inspired by the German issuers who started out on this. And to latch on to what Bodo said there about being educated on the roadshow — we had the benefit of there being a much more developed market to step into. Even if it's still a young market and is still developing, several aspects were already common knowledge — for example, we had already prepared an impact report with our technical consultants for the roadshow, so we could go straight into that and talk to green investors about CO_2 savings and energy savings.

There were many reasons why we embarked upon the green bond project, but when I think back, there was probably one real trigger: we had started to be contacted by these ESG rating agencies around Europe, particularly the German ones, and they rated our banks very poorly on an ESG scale, and we were shocked by that. We thought, wow, is it really that bad? It quickly became clear that what was bad was the communication about what we were doing, because there is nothing out there about how our banks put policies in place for customer suppliers or outlawed anything that has to do with coal, for example. We'd never thought about actually explaining how their activities might be aligned with the 17 UN Sustainable Development Goals. So it kind of started there, and then we quickly realised that a green bond could also invigorate the organisation to improve its ESG standing.

Of course, there's also the impact on the investor demand side — I don't want to leave that out of the argument here. Being able to diversify the investor base was certainly another key factor for us as.

Marie-Anne Allier, Amundi: 'At a certain point this is a political issue — it is not for a private investor to say what future we need'

What I have been a little bit surprised by this year is that we haven't seen other Norwegians and also Scandinavians following our framework, which is relatively straightforward. There's been a fair amount of debate between our technical consultants and the CBI about the exact criteria required for certification, but that will be finalised in the coming days, and once this verification is given that could maybe trigger others to issue from Scandinavia.

It quickly became clear that what was bad was the communication

Day, Sustainabonds: Sami, you're part of the future growth in social and green bonds. Why are you planning on doing it?

Sami Gotrane, SFIL: First of all, I would like to remind you that we are a very young institution. We were created only five years ago, and last year we were the largest issuer among the French agencies, growing from EUR3bn of bonds priced in the market in 2013 to EUR8bn last year, and possibly this year something around EUR9.5bn. The second thing that I would like to note is that we are a covered bond issuer through Caffil, our covered bond vehicle, and we are issuing unsecured bonds at the level of the parent company SFIL — that's something a bit different from our peers.

As a new institution, we went about things in the correct manner: we began by establishing our signature in the covered bond market and Caffil is now recognised probably as a reference covered bond issuer; then we started issuing unsecured bonds; and last year was dedicated to making our debut on the US dollar market.

The French government has meanwhile led the way in sustainability with legislation such as Grenelle II, while on the asset management side the French industry is probably the largest when it comes to SRI and very well recognised. And on the issuer side we had the green OAT last year and overall French issuers made up roughly a quarter of the green bond market in 2017.

Last year was too early for us, but I would say that the timing is now rather good and we are ready to make our debut after the summer. We have announced that this year we will price a healthcare covered bond, in benchmark size, and we will go beyond that next year by issuing a green bond, too. As Patrick said, it is very important to be a repeat issuer and we will be one.

With the green bond we would like to finance green loans to local authorities in France, to clearly encourage them to invest in green projects, which is very important.

Sami Gotrane, SFIL: 'As Patrick said, it is very important to be a repeat issuer and we will be one'

Generating these loans is a bit more ambitious than what we plan to do with the healthcare covered bond.

Day, Sustainabonds: Coming back to the regulatory aspect, there is the EU Sustainable Finance Action Plan, as Bodo mentioned. Is green bonds an area where regulation can play an encouraging role?

Allier, Amundi: We need a common taxonomy. We probably need that political step in the market because green is a concept, but then green in Europe may be not green in Asia, may be not green in Africa. At a certain point this is a political issue — it is not for a private investor to say what future we need to develop in terms of the energy transition. In that sense a taxonomy is something that we really need. It will also help us to develop the market for people who do not have the resources to dig deep into green bonds to know if projects are really green. So it will help the market develop.

But I tend to agree that too much standardisation too early in a young market is something that we need to be very careful about, because it could just kill innovation. Nobody knows exactly what will be considered green two or three years from now, and if we put up too many regulatory hurdles for new issuers it will probably result in the market shrinking.

Beyond that, some financial institutions and regulators seem to think that climate change and the energy transition is a risk for financial stability. If we are to see that reflected in practice — meaning perhaps that a green loan does not have the same capital charge as a non-green bond, or that the ECB or whoever requires a lower haircut for liquidity purposes — it's impossible without having a legal, official taxonomy.

> **The discounts we are anticipating on traditional bonds have not yet arrived**

But I think that's the future of the market. If we think that it is a good thing for financial stability, then making a green loan shouldn't have exactly the same impact for banks as making a loan to a coal company, for example.

Hessels, ABN AMRO: If you Google "green bonds" there's always this discussion about what is green and who defines what is green. Now of course we have this EU initiative coming with a definition and on the one hand you need to be strict and ensure a certain quality. On the other hand, you want to make it as inviting as possible for issuers to step in and grow this market. For example, I believe Eivind had a challenge with the data that was available and we faced the same issue, and sometimes you have to be flexible and creative to identify exactly what is green. So there is a big risk if it's getting too narrowly defined that you will hinder the market in a way or shrink it — but on the other hand you do need to retain the good quality.

Schneider-Maunoury, Humanis: Maybe the solution is smart regulation, which is found in Scandinavian countries and Germany, but not everywhere in Europe or globally — regulation as an incentive to innovate, an incentive to invest is what we are looking for. Some of the experts are fully aware that this regulation, classification, taxonomy should be a way to open new fields to green bonds, not a way to close it.

Hegelstad, SpareBank 1: Those are very good points, but my impression is that what comes out of this regulation might not be super-specific. I haven't heard anything really negative about the development of the regulation and I see that they reference the CBI standards and the Green Bond Principles (GBP), and I would interpret that to mean that they are going to be guided by what has already been established. We've seen from our work with the CBI that they have very specific standards and I think that the EU may reference their standards in their regulation.

Winkler, Berlin Hyp: I would favour existing criteria like those of the CBI as a foundation for the upcoming taxonomy. But the EU will have to express their own political will and should work on their criteria by themselves. This will be even more necessary as there aren't existing standards for all green finance categories.

Schneider-Maunoury, Humanis: What is fascinating with green bonds is that it's a market being built in the here and now. And it is not just people trying to make more money — a market is a social dynamic. People discussing and saying, OK, what can we do?

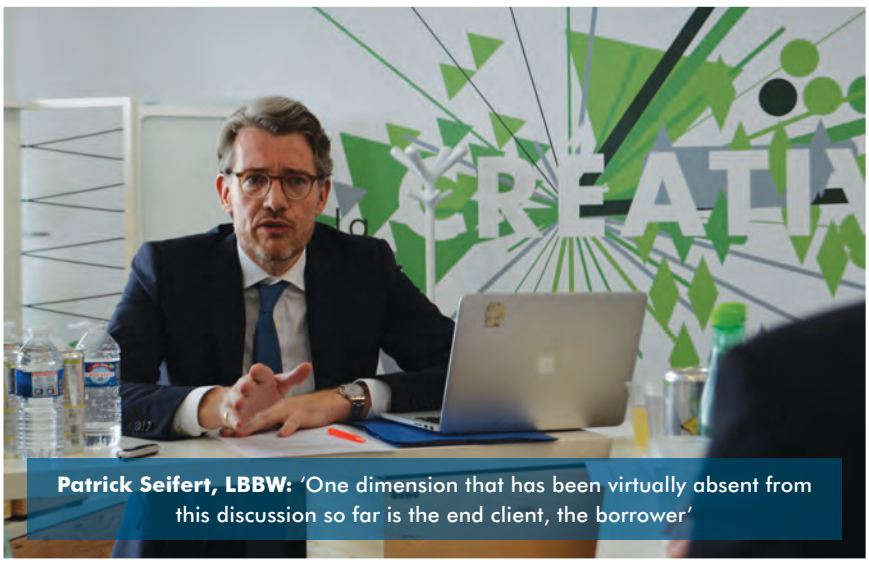
The global angle can certainly cause difficulties in this respect. When I meet people in Singapore, for example, if I talk about SRI they can be kind of reluctant to engage. But if I talk about green bonds I can point out a quantifiable environmental impact — we are happy to say that for every EUR1m invested in our fund, 1,700 tonnes of CO_2 are avoided per year — that's clear enough and they say, OK. This is something that can be quantified in the same way in Europe, Asia or wherever. This is why it is important to quantify impact.

Beyond this, companies need to set up and implement a green strategy not just for tomorrow, but for the day after tomorrow and into the future — sorry to be so flattering, but Berlin Hyp and ABN are good examples of this. Once they have this green strategy, they can ask the market to finance it. And it's not only to appear more beautiful — the assets should have more value in the future.

The problem with the green bond market right now is that the discounts that we are anticipating on traditional bonds have not yet arrived. So we don't see the advantage of green bonds now, but we will see it in the future.

Seifert, LBBW: It's very interesting that you highlighted the social dynamic — well, one dimension that has been virtually absent from this discussion so far is the end client, the borrower, whether that be an institutional one or a retail customer. Bodo hinted at it and others might have similar experiences, that when you do your first green bond you try to pass on any benefit to the end client.

Well, is it the case that these clients are queueing in front of the bank seeking more green loans? It can be a hard sell, I can tell you. And then you face the commercial dilemma: do I do traditional conventional business or only green business? If regulators were smart, they would try to tackle it from both sides. I mean, I used four coffee cups this afternoon that were thrown away, and I can get away with it! Obviously this wouldn't answer the whole question as to how to develop the green bond market. But targeting the end client at the same time is where regulation could achieve something without harming the autonomy of issuers to move at their own pace or of investors to be strict with their mandates.



Patrick Seifert, LBBW: 'One dimension that has been virtually absent from this discussion so far is the end client, the borrower'

Hegelstad, SpareBank 1: We cannot create green finance on our own. We need the end clients, and we need them to be incentivised. Yes, you can incentivise them by investors receiving a lower spread…

Allier, Amundi: No!

Hegelstad, SpareBank 1: …but you don't want that, so at this stage we are strong believers in taxation — tax the bad, and reward the good. That is the only way going forward to create more green assets for us to finance. The best example is one near and dear to my heart — because I drive one — namely electric cars in Norway. Two-thirds of all new cars that are being put on the roads in Norway today are electric cars. We have the world's highest density in electric cars because they are massively subsidised. And the other side is that conventional cars are extremely highly taxed. The benefits are enormous, so people are shifting. And that's what you should also see in housing, for example. You give subsidies and you give tax breaks.

Hessels, ABN AMRO: That's the big challenge when it comes to mortgages, especially with existing buildings: how can you urge people to make their houses more energy efficient? We don't yet have any tax breaks in the Netherlands, so as a bank we gave a discount ourselves, and we see that it's working, that's it's a trigger. It's a very price sensitive market, so if you give a little discount you already see people moving.

ABN AMRO has been involved from the start in the EeMAP initiative to define energy efficient mortgages in Europe. Banks can help to bridge the renovation gap required to reach EU targets. Beneficial capital requirements could be passed on to bank customers, urging them to buy an energy efficient house or even better: make an existing house more energy efficient before moving in.

Allier, Amundi: A word about price: I totally disagree. I'm not waiting for green bonds to be more expensive for me than a non-green bond. As an investor my risk is ultimately on the issuer and, green or non-green — as long as the green is not ring-fenced or you don't have specific covenants on the green bonds — I expect the green and the non-green bonds of the same issuer to be exactly the same price.

Where I tend to agree with Bodo is that maybe tomorrow in one year we will ask

Muriel Caton, Vigeo Eiris: 'When there is the sustainable bond project, everybody is very happy to work together'

companies to explain why they didn't yet issue green bonds. If they are not thinking about the climate transition and how to tackle this issue, they are probably an issuer who has no idea of what the future holds and deserve a higher spread just because they are not a well-managed company. So the question is not, should green bonds be more expensive for an investor? The issue is more that if you don't look at this issue, you are simply managing your company badly, so probably deserve a lower rating and a higher spread.

Winkler, Berlin Hyp: Of course bodies like tax authorities and others could be beneficial in creating additional momentum, but in the end the best way still is if the initiative comes from the issuer itself. The fact that somebody is offering you subsidies should not be the only reason you step into the market. I have my doubts whether you can contribute usefully if the main driver is receiving preferential treatment.

Caton, Vigeo Eiris: I fully agree with Mari-Anne that what we need is a common language everybody can understand because, as I said, today you cannot find a definition of what is green on the market. Nobody knows. So we need a common language — but not too much standardisation that would kill potential innovation in a market that is quite young and needs to evolve.

The funding gap to support a low carbon economy is wide — we need to invest almost EUR200bn a year each year until 2030 — so we need the financial sector and we need everybody. For example, we have worked on a green bond of Repsol and the issue there was, what is green? I can see from the look on Grégory's face that perhaps they should not have said that it is green. But the Repsol bond was to finance existing equipment that is to save two million tonnes of CO_2 emissions per year — that is to say, if you do nothing, it is worse. CBI said, well, this is very good in terms of disclosure and in terms of transparency, but this cannot be said to be a green or a climate bond because it is not ambitious enough for the two degrees trajectory of the Paris Agreement.

We do not have a business — only missions

Meanwhile, as Mari-Anne said, at the end of the day the risk is on the issuer, and that can include potential ESG risks. If you are going to finance a windfarm without, for example, respecting human rights, you will have a big reputational problem and the value to the investor will decrease. What we do in our opinion is not to say this is bad, this is good; we see if the green bond complies with, for example, the Green Bond Principles, but also evaluate the issuer. Eivind referred to how the low score from the rating agency prompted you to do more on the ESG front, and I think it is very important to see the coherence of the green bond projects within the overall strategy of the issuer.

Gotrane, SFIL: For our part, we are not a commercial bank; we are an agency — a public development bank, if you use the EU term — so it's easier for us. And as with other members of the European Association of Public Banks — such as MuniFin in Finland — if you have a government that is a sponsor of green initiatives, which is the case in France, it is very supportive for initiatives such as green bonds — look at what CDC or AFD have done.

In our DNA at SFIL we have only loans that ultimately finance schools, energy, waste treatment, swimming pools — it's important for people, too! — and so on. We do not have a business — only missions. And alongside what I would call the aforementioned historic activity of SFIL, we now have the refinancing of export loans. And our status as a public development bank in France is reflected in the culture of SFIL, too. Ralf Berninger, our head of investor relations, came to me a few months ago explaining that we had very high ratings from the ESG rating agencies, which was a pleasant surprise. I had a look into the details and we had a very high rating on the social pillar. Why? Because notably around 40% of the managing directors are women. So the high ratings are the result of what we were doing naturally but which we were not conscious counted as sustainable activity. Of course we have to follow various policies in this field, but rather than wait until such things become mandatory we feel we have to introduce them as quickly as possible — it's our mission.

We have been very thorough in our preparations for our first social bond and will have a very strong framework. I can tell you that the reporting will provide all

the different ratios that you need to follow the health sector — we have information that not even the French national statistics office INSEE provides — because we have a track record of more than 30 years of financing hospitals in France. This will be of interest to investors because at the end of the day it will give them a better understanding of the fundamentals driving the sector and allow them to make a better assessment.

We will be a repeat issuer and would really like to be able to fuel both the public and private placement markets. Our internal assessment is that almost all our loan portfolio is eligible for the different social or green issuances.

Seifert, LBBW: Sami, you are in an extremely privileged situation: you are social or sustainable, but you haven't issued yet. In most cases it is the other way around — an issuer looks at the idea of a green or social bond, talks to investors, comes up with an idea, and then says, well what do I have to do to get there? And it's only then when all the work starts, and we've heard about how it can take 12 to 18 months to get there — even if this lead time is falling with best practice standards that can be referred to emerging. But clearly you are already at a stage where you have probably done most of the job when it comes to issuing in sustainable formats.

Gotrane, SFIL: In the process of getting the rating from the ESG agencies we have involved various departments, such as the risk department and the human resources department. They were very happy and really motivated, excited at participating in a bond issue, because previously it was just the bizarre guys in the trading room. Now they are involved, they are aware, we have done internal meetings to explain just what a sustainable bond is and what their input is. We can tell someone in the human resources department that it is because of something they have done that we have got such a good rating. It's important internally.

Grégory Schneider-Maunoury, Humanis: 'Nowhere other than in green bonds can we really discuss with companies what we expect of them'

Caton, Vigeo Eiris: This is indeed what we have seen so far, this good example of teams working together, the sustainability team and the finance team. Usually they did not even know each before, but when there is the sustainable bond project, everybody is very happy to work together, to promote what is done internally, and this is a very good exercise, I would say.

The world is in a bad shape and it's not only about CO_2

Day, Sustainabonds: We've heard some positive things so far. Have the investors seen any particular examples of issuers doing or planning to do bad things, and not bought bonds because of that?

Allier, Amundi: Firstly, for us green, sustainable, social, whatever is a real way of engaging in a dialogue with a company. Usually investor relations are speaking to and roadshowing for the equity guys. It is only when you have a debt crisis that they discover they have bondholders. The rest of the time we are told to just look at the rating, etc. A green bond really is a time for us to engage in discussions with them.

Have I seen bad things? Never, but we have discussions about what can be improved, especially on impact reporting — are we satisfied with the report or not? We have more challenging discussions with some issuers than others — probably because investors want different things and at a certain point the company thinks, OK, so she wants black, he wants white, well I will do grey. But I wouldn't say that we have seen bad practices. If it may be the case, it would be on a company where it's obvious that on the ESG side in general we are not comfortable. For example, if on the "G" we are not comfortable with the company, we probably won't discuss green with them. It's a question of governance.

Schneider-Maunoury, Humanis: I would fully agree with Mari-Anne. It's a real way to engage with companies. I have been in SRI for more than 15 years and nowhere other than in green bonds can we really discuss with companies what we expect of them and where exactly they want to go.

Coming back to the question, what is green? It's not obvious. OK, we know CO_2 emissions are a crucial measure. Great. But the world is in a bad shape and it's not only about CO_2.

To give an example: I have been discussing with NRW Bank their renaturisation project of the Emscher river for some years now. The Emscher had basically become a waste water pipe for the Ruhr re-

Bodo Winkler Berlin Hyp: 'What will be interesting for us in Germany is that we will very soon have two different asset classes in senior unsecured bonds'

gion and they want to renaturise it. When they first came to me I said, wow, that's a nice project, obviously green, and they said they could tell me how many kilometres of river would be renaturised. But while that's a good indicator of the degree of achievement of the project, I asked them, what is the target, what is the objective? The objective in terms of quantifiable impact is square metres of wetland restored — that's what the "green" actually is. So I discussed with them the fact that kilometres of river was not exactly sufficient to quantify the impact. Then one year later they said, hey, square kilometres of wetlands could be interesting. And after I reminded them once and then again, last week they sent to me a first estimate of this.

So we can't say with certainty right now or in a room in Brussels or anywhere, this is green. Green is something where we have global targets, like the Paris Agreement, which is all well and good, but we have other issues. In Asia they seem to be keener on investing in waste issues, because when you go to Asia CO_2 is an issue, but you can see that waste is an issue, too. We have to make sure that companies can identify their own key issues regarding green and that this market can grow. So we have stay very relative. Staying relative doesn't mean that we are open to everything, but as investors we are going to engage with companies, that's our job. How you are going to invest in this theme? What exactly are you doing? How are we sure that it's going to improve?

So, green can't be defined at one time in one place, and the same for social. It's relative, and it's down to engagement, dialogue between issuers and investors.

Hessels, ABN AMRO: Based on the experience of myself and my colleagues of dealing with external clients and also within ABN AMRO, the good thing about a green bond is that everybody gets really excited about it and the senior management supports it.

> It would be good to have more clarity on where to draw the line

It also triggers a lot of questions, like, we have these kinds of projects, are they green? Can you make a green bond for this client? And sometimes you have to think twice: is this really such a green project, or is it just extending the fossil fuel lifecycle? And that's something I would like to see from the EU — I don't need a very detailed definition of exactly what building is green and what is not green, but it would be good to say, OK, well, let's come up with a definition of what is a 1.5 or 2 degrees scenario, and what does it entail? We can then ask: is this project part of it is this trajectory to a more sustainable market, or is it just an expansion of the lifecycle?

And what about areas like mining? Of course everybody wants to have solar panels on their roof, but this requires materials that come from mining. You can reuse parts, which is probably a good thing, but how are we treating these kinds of sectors? Is it green because it supports certain elements of the transition even if there are negatives? We have a lot of these kinds of discussions and sometimes we will take a view and sometimes we will ask a couple of investors what they think, or talk with CBI, SPO providers or other parties. But it would be good to have more clarity on where to draw the line in the sand and be transparent about which activities support the 1.5 or 2 degrees scenarios and how significant they need to be to do so.

Caton, Vigeo Eiris: Do you invest in green or social bonds that don't have an external review? Because in fact about one-third of the so-called green bonds in the market lack an external review, with a strong risk of greenwashing.

Allier, Amundi: It has been the case. We have a team of SRI analysts, so we think that we are able to do a bit of the work ourselves. But we tend to push issuers to for a second opinion because, again, it's a question of having a common language. I need liquidity and if tomorrow I want to sell a bond because, for example, the maturity doesn't match what my view on the market or whatever, selling the bond will be easier if it has a second party opinion so every investor understands it. So it's not just because we want to avoid greenwashing — at Amundi we have analysts who are able to do this job — it's also a question of making the market more efficient.

Day, Sustainabonds: Could the issuers sum up their plans?

Hessels, ABN AMRO: One of the elements which was not mentioned in the first question is about funding needs, and we have more green assets than we have funding needs. That's why we were not in the market last year, but we have now issued again and we want to be a regular issuer…

Day, Sustainabonds: Will we see a green covered bond from you?

Hessels, ABN AMRO: As long as we only use our covered bond programme for long-dated funding, like 15 years and longer, we don't expect to use our covered bond programme for green covered bonds.

Winkler, Berlin Hyp: We have done at least one green bond in every year since 2015. We have already done one in 2018. Maybe there will be a second this year — it is too early to say. Our framework requires that the assets be there already before we can issue, so that's a natural limit.

What will be interesting for us in Germany is that we will very soon have two different asset classes in senior unsecured bonds — senior preferred and senior non-preferred — and one of the next exercises will probably be to reflect this in our green bond framework.

Hegelstad, SpareBank 1: It's very simple for us: just covered bonds. We are very keen on doing another green covered bond. The issue is asset eligibility. Just like Berlin Hyp, we have to have the assets first originated by the various owner banks and transferred to the cover pool, and then issue the green bonds.

We had to make a bit of a change to our framework after the discussion with CBI, and we lost about 5% of the volume, just a slight haircut on a few things. So we need to grow it. I doubt that we will manage another green bond this year. But our banks are really focused on being leaders in green mortgages in Norway now, so the second green covered bond is due to come sooner or later.

> **The moment of truth is potentially not far away now**

Seifert, LBBW: As I said before, the moment you step out, you have to stick with it. You asked about any negative behaviour — well, if I were an investor, I would be very concerned by someone coming out with sustainable issuance and then not doing any further sustainable issuance, because at the end of the day this is to me a total breach in logic. You can of course optimise your issuance with different formats and so on — that's a different idea — but when you enter the market you expect investors to do a lot of work — and it's a hell of a lot of work because, as discussed, we lack standards — so I think there should be an understanding that in this market you have to deliver on an ongoing basis.

At LBBW, our intention is to issue at least one more transaction in green format this year. We will have to see whether it is going to be a covered bond or a senior. At the same time, we are also looking into what we can do in social format. So it's definitely something that we will try to broaden further.

The fact that we know the ECB is going to walk away is extremely important and probably one of the reasons why we speeded up our efforts last year. We have been sitting at roundtables for a few years now with Bodo saying how important green bonds could be in attracting investors once the ECB-inspired market distortions went away and that green bonds would be more clearly rewarded — previously, that all sounded quite theoretical and there was no hurry. But I think that the moment of truth is potentially not far away now. In that respect, it's therefore an integral part of good governance to have this tool available. ●

Europe in focus

CBI hails European role, but FI supply still 'relatively small'

Europe's "active and engaged" market is at the forefront of global green bond developments, with its financial institutions playing a crucial role in green financial infrastructure, says the Climate Bonds Initiative (CBI).

As of the end of the first quarter of 2018, EUR122bn of green bonds had been issued in Europe since the launch of the very first green bond, by the European Investment Bank (EIB) in 2007, according to a CBI report published on 9 May.

This represents 37% of the global total and puts Europe well ahead of all other continents. The market is also growing rapidly, as EUR52bn of the EUR122bn outstanding was issued in 2017, with 48 issuers selling their first green bond last year.

"Europe has fostered an engaged and active green bond market," the report says. "European issuers span the continent and the spectrum of issuer types.

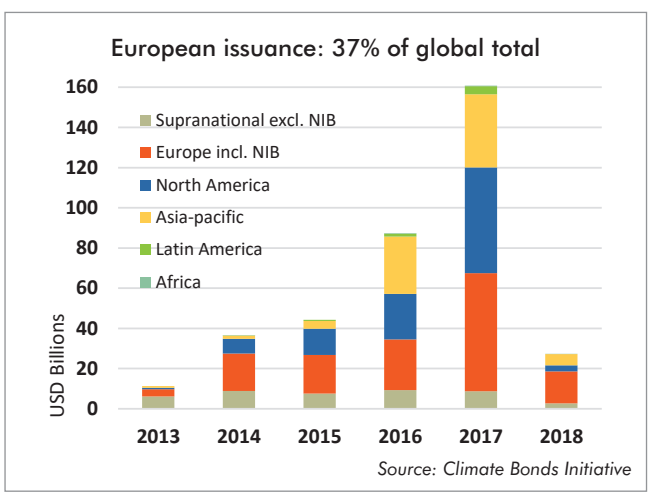
"They have issued in a variety of debt formats, currencies and tenors, and sector diversity has grown over time."

European financial institutions, including both development banks and commercial banks, have issued EUR48bn of green bonds since the first deals emerged in 2010.

Monica Filkova, manager of market analysis at the Climate Bonds Initiative, told *Sustainabonds* that also of note is the crucial role European financial institutions play in the global green bond market as structuring agents and underwriters, with European banks holding seven of the top 10 spots in Thomson Reuters' annual green bond underwriter league table in 2017.

"One point we want to bring out is that financial institutions are much more than just issuers," said Filkova.

"The green financial infrastructure they're putting in place is quite important in supporting the market more broadly."



European investors have also supported global growth by creating dedicated green bond funds, the report adds, while Europe can also lay claim the first stock exchanges to create dedicated green bond lists, in Oslo, Stockholm and London, while Luxembourg was the first country to establish a green exchange.

Of Europe's 145 green bond issuers, 35 are financial institutions.

Excluding development banks, the largest and most prolific European financial corporate issuer is Crédit Agricole, which has issued 100 bonds and has EUR4.6bn outstanding, including a US$3bn synthetic ABS.

However, Filkova noted there is substantial scope for growth in this market segment.

"Compared to the number of financial institutions in Europe, 35 is a relatively small number," she said. "There is definitely scope for more issuance, both from existing issuers and institutions that haven't issued green bonds yet."

A substantial volume of European FIG issuance to date has come from development banks, Filkova added, noting that the CBI expects issuance from financial corporates to increase.

Broadening of instruments, narrowing of use of proceeds

The report notes that most European green bonds are in senior unsecured or senior secured formats — with around three-quarters of issuance from European financial institutions in senior unsecured format — but adds that debt diversity is increasing.

"At present we track EUR15.3bn of perpetuals and hybrids, private placements (including loans and project finance), ABS, RMBS, covered bonds, Schuldschein and an aggregation MTN programme secured on commercial mortgage receivables," says the report.

"Structural diversity bodes well for the investment market's ability to support a range of issuer needs and business/funding requirements."

In the wider European green bond market, the energy sector accounts for the largest share of use of proceeds, although the amounts given to buildings and transport has risen in recent years.

However, among European financial institutions, the report notes that the use of proceeds has become less diverse as the market has grown, and that the mix has shifted to feature an increasing share of property financing, noting examples such as ABN AMRO and Barclays, which have financed energy efficient housing loans via senior unsecured bonds, and Berlin Hyp and LBBW, which have financed commercial property loans.

Financial institutions are much more than just issuers
Monica Filkova

Filkova notes this uptick in the issuance of debt relating to buildings has in part come from property companies, but that "a very substantial amount" has come from banks.

"We expect to see more of that," she said.

She added that the expansion of coverage of benchmarks for buildings' energy performance — the lack of which is often cited by financial institution issuers as one of the greatest challenges in establishing a green bond programme — is key to the market's growth.

"The ability to highlight best performance in more markets will we think also provide impetus," she said.

Similarly, the introduction of an EU sustainable finance taxonomy — expected as soon as next spring — could further support growth.

"A lot of financial institutions are looking into green tagging, with some more advanced than others," said Filkova. "Having a green taxonomy across the EU, based on HLEG work, would certainly help.

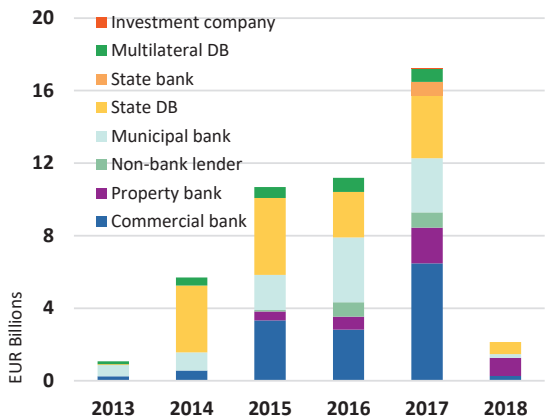
"Once you have tagging in place, that will really facilitate financial institutions bringing green bonds to the market, because it is easier for them to know what they've got on their books and to originate the right sort of loans to support more issuance." ●

European issuance by currency and issuer type

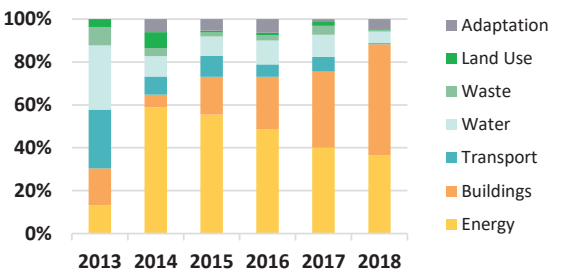
Currency of denomination	EUR	USD	SEK	Other	Total EUR bn
Public sector	14%	5%	4%	2%	29.6
Sovereign	13%	-	-	-	15.9
Corporate	27%	-	3%	1%	38.3
Financial	17%	5%	1%	3%	32.3
ABS and Loans	2%	2%	-	-	5.4
Total	**73%**	**12%**	**8%**	**6%**	**121.6**

Source: Climate Bonds Initiative

Wide range of financial institution issuers



Financial institutions focus on energy and buildings



Source: Climate Bonds Initiative

Methodological note excerpted from the CBI report

Green bonds are issued in order to raise finance for climate change solutions. They can be issued by governments, banks, municipalities or corporations. The green bond label can be applied to any debt format, including private placement, securitisation, covered bond, sukuk. Labelled green loans are an option if they comply with the ICMA Green Bond Principles or the LMA Green Loan Principles. The key is for the proceeds to go to "green" assets.

Only bonds with at least 95% proceeds dedicated to green assets and projects that are aligned with the Climate Bonds Taxonomy are included in our green bond database and figures. For example, sustainability bonds with a wider use of proceeds or bonds which fund large amounts of working capital would be excluded.

A partnership built on trust

Berlin Hyp

Never underestimate the power of your impact!

Berlin Hyp was not only the first bank to issue a Green Pfandbrief, it also was the first institution to issue Green Bonds in more than one asset class. Our ambitious goal is that by 2020, 20 percent of our loan portfolio will be loans for green buildings and will be refinanced via Green Bonds!

Green Pfandbrief #1 € 500 mn I Re-offer Spread –16 bp I Coupon 0.125% I Date of Issuance 27 Apr 2015 I Maturity 5 May 2022
Green Senior Unsecured #1 € 500 mn I Re-offer Spread +52 bp I Coupon 0.50% I Date of Issuance 19 Sept 2016 I Maturity 26 Sept 2023
Green Pfandbrief # € 500 mn I Re-offer Spread –14 bp I Coupon 0.125% I Date of Issuance 7 June 2017 I Maturity 23 Oct 2023
Green Senior Unsecured #2 € 500mn I Re-offer Spread +40 bp I Coupon 1.125% I Date of Issuance 17 Oct 2017 I Maturity 25 Oct 2027
Green Senior Unsecured #3 € 500mn I Re-offer Spread +60 bp I Coupon 1.5% I Date of Issuance 10 Apr 2018 I Maturity 18 Apr 2028

Finanzgruppe