

THE GREEN BOND MARKET WHERE ARE WE, AND WHERE NEXT?

CORPORATE & INSTITUTIONAL BANKING
Corporate Social Responsibility

The bank for a changing world

A PRODUCT WHOSE TIME HAS COME?

FINANCING THE TRANSITION TO A SUSTAINABLE WORLD

The capital markets are central to financing the two big challenges of today:

1. Energy transition: keeping the growth in global warming to no more than 2 degrees above pre-industrial levels

2. Meeting the United Nations Sustainable Development Goals agreed in September 2015: the 17 "goals to transform our world" which aim to "end poverty and protect the planet, and ensure prosperity for all"

... and all this in a world where population is expected to grow to 9 billion by 2040

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GREEN BONDS – WHAT AND WHO?



GREEN BONDS – ENVIRONMENTAL, SOCIAL OR BOTH ?

“GREEN” BONDS



Energy
Waste Management
Pollution Control
Water Treatment
Transport
Agriculture
Building....

“SOCIAL” BONDS

Housing for elderly
Food security
improvement
Microfinance
Education and youth...



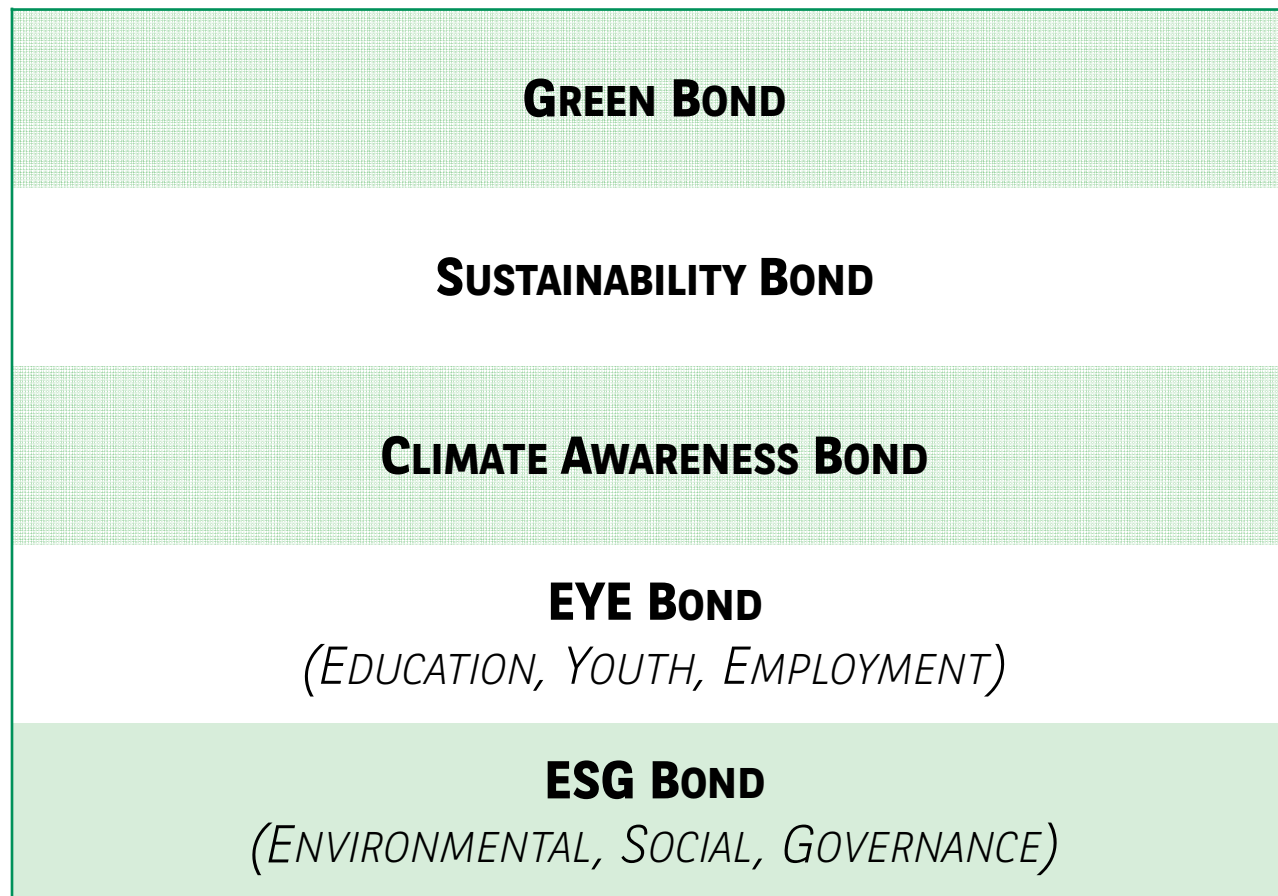
“ESG” BONDS



Homecare projects
Social housing meeting with high
environmental quality standards
Mass transportation

GREEN BONDS- INTRODUCTION

WHAT KIND OF SUSTAINABLE OR GREEN BOND?



▶ The market operates on the basis of a self-labelling system with **no standardisation** on definitions, structure and process



GREEN BONDS – TOWARDS A COMMON APPROACH

No universally accepted definition of a Green Bond. However, market participants are largely finding common ground on 3 basic requirements:

Environmental, Social, Governance (“ESG”) performance of the issuer

SRI funds typically apply ESG eligibility criteria:

- ESG/Green ratings
- Broker Reports
- Indices
- External ESG data providers
- Dedicated SRI Analysts
- Direct engagement with companies

Commitment on Use of Proceeds

Clear link between proceeds and specific projects

Clarity on process by which projects are selected

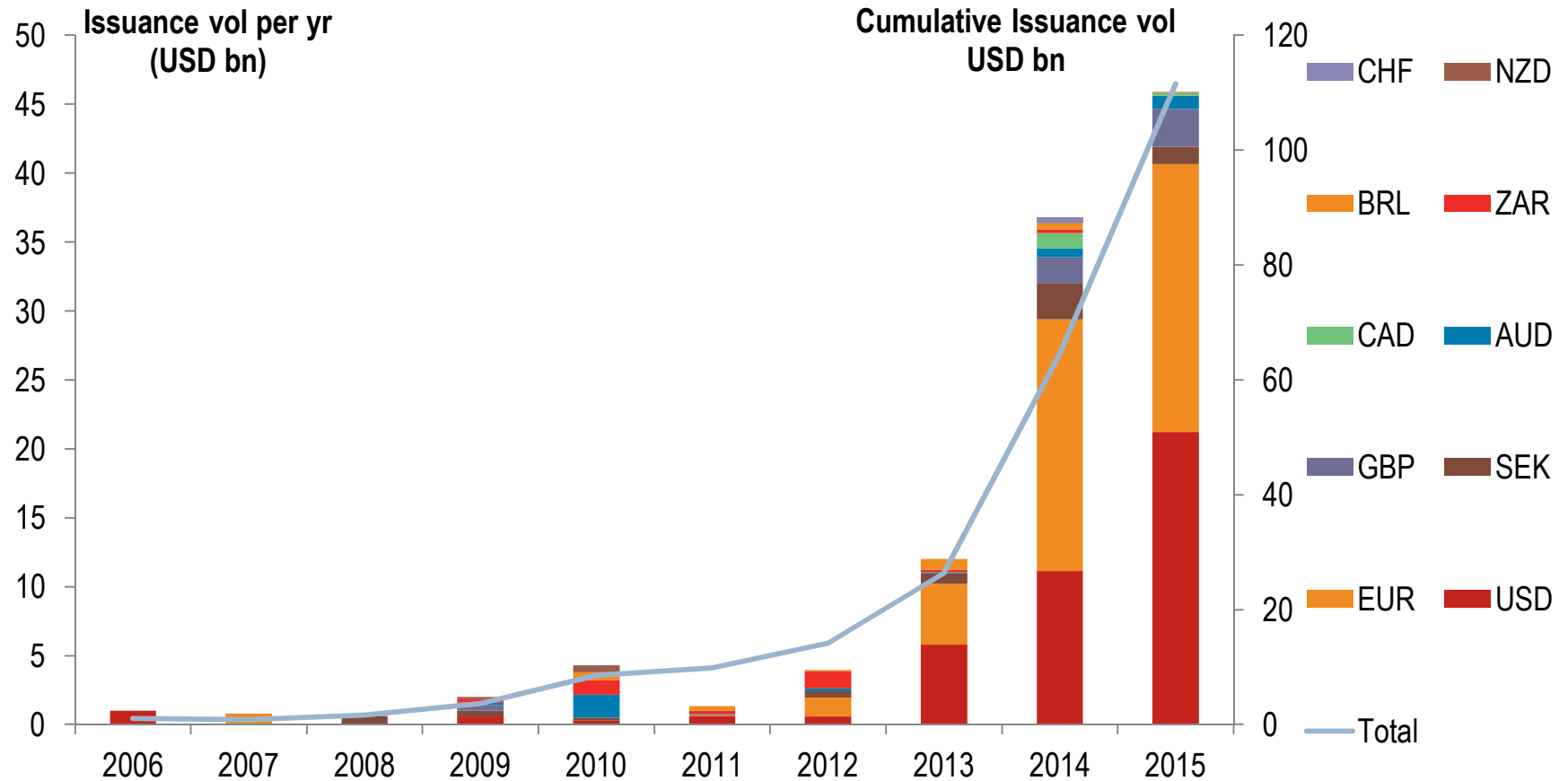
Structuring and reporting process

- Compliance **Green Bond Principles:**
- Focus on transparency
- Monitoring of use of proceeds
- Commitment to impact reporting



A GROWING GREEN BOND MARKET

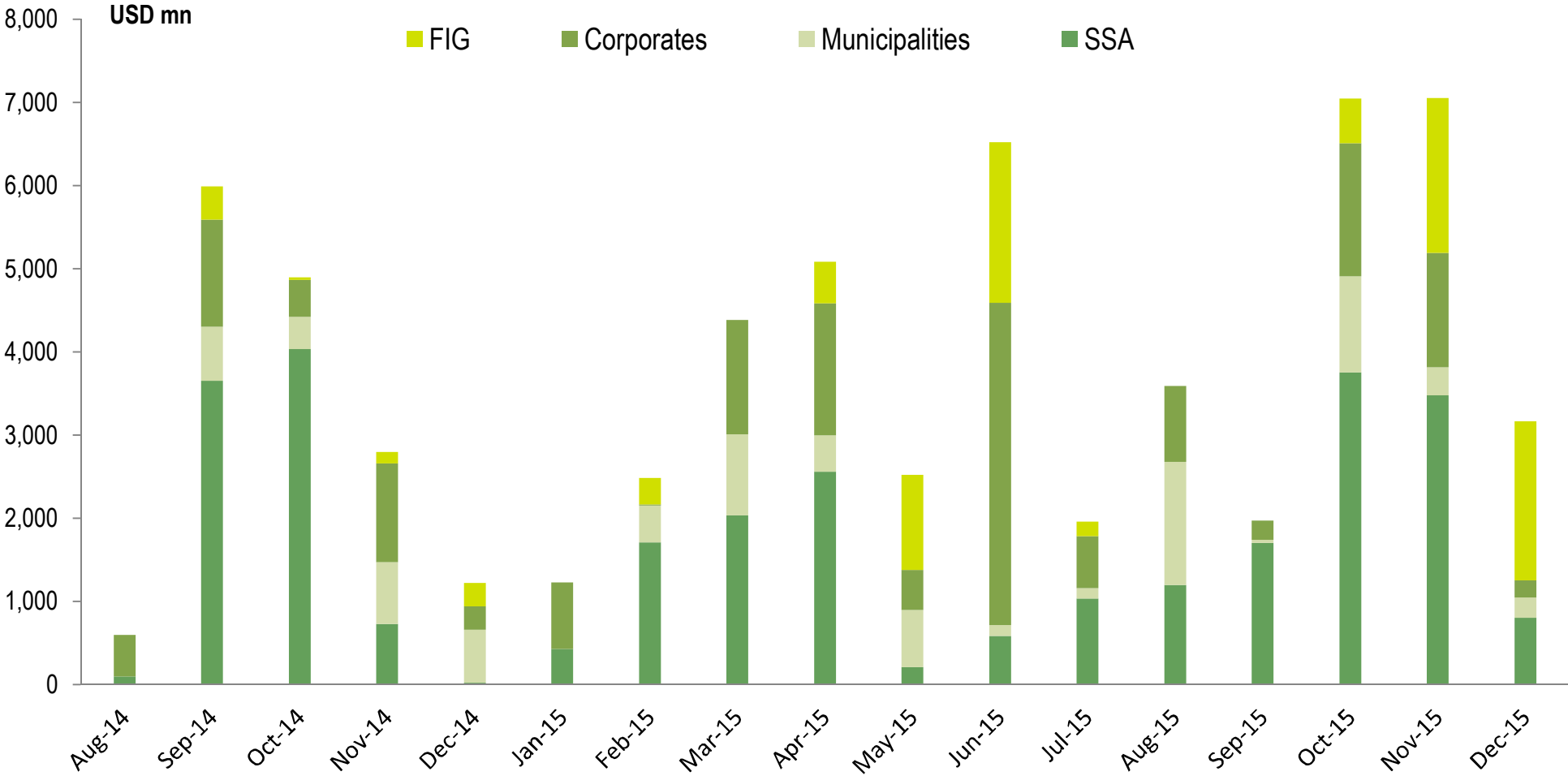
LABELLED GREEN/SUSTAINABLE BOND ISSUANCE BY CURRENCY



Source: Bloomberg, BNP Paribas, Data from Dec-31, 2015



GREEN BONDS – WHO HAS ISSUED?

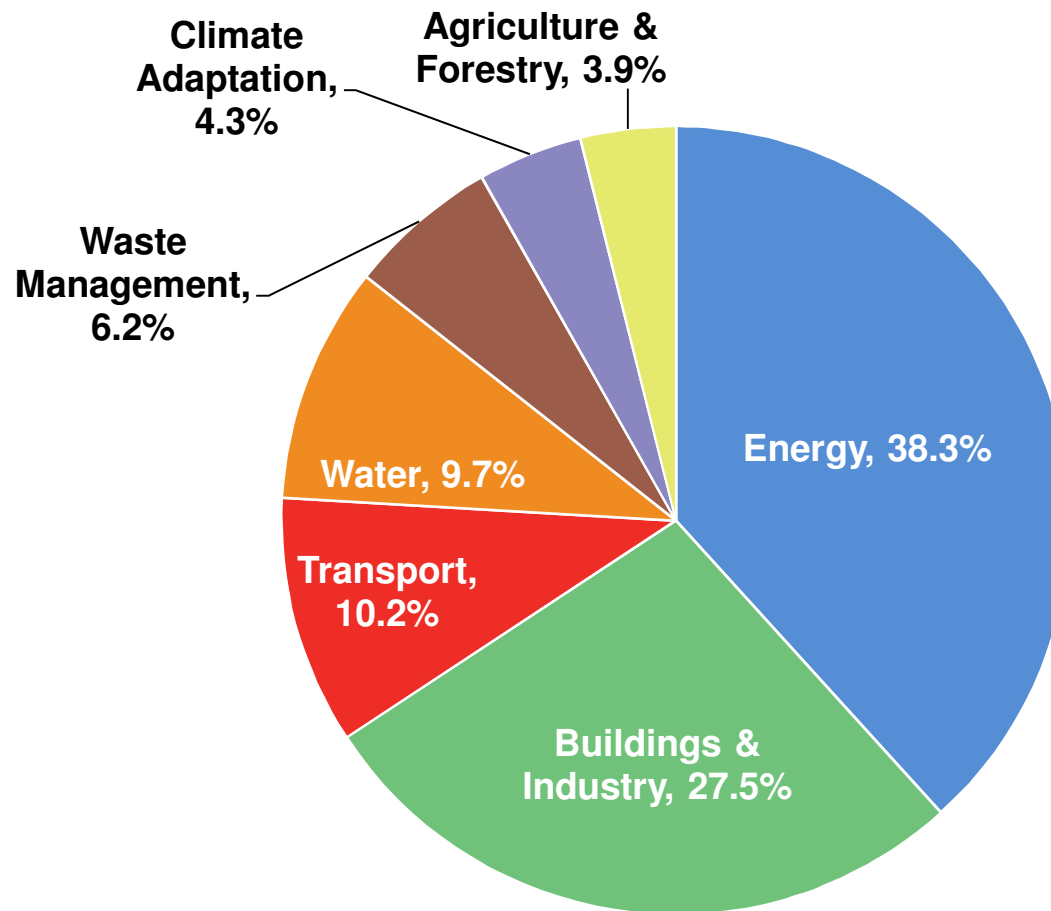


Source: Bloomberg, BNP Paribas, Dec-31 2015



GREEN BONDS – “USE OF PROCEEDS”

USE OF GREEN BOND PROCEEDS BY SECTOR (%)



Source: Use of green bond proceeds, Climate Bonds Initiative, 'Bonds and Climate Change: The State of the Market in 2015', July 2015



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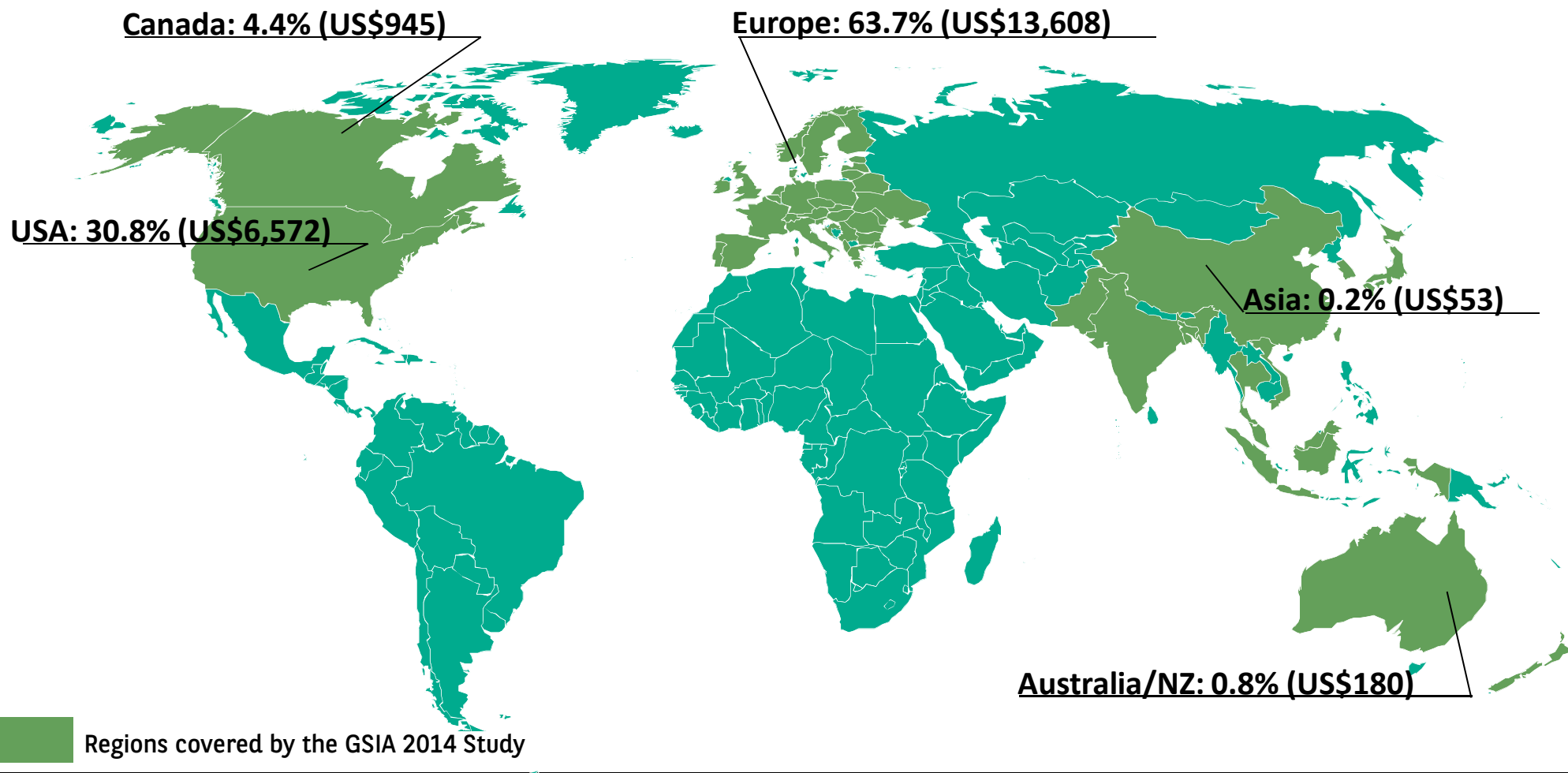
OVERVIEW: INVESTORS



WORLDWIDE SRI ASSETS UNDER MANAGEMENT: +61% FROM 2012 TO 2014

According to the latest Global Sustainable Investment Alliance (GSIA) study...

SRI assets represented in 2014 ~ **30.2%** of the professionally managed assets in the main regions of the world (US\$21.4trn), vs 21.5% in 2012



WHAT GUIDES THE INVESTOR?

Any investment strategy that factors in both financial returns and social good

- **Risk mitigation, which may be**

- **Financial** (e. g. stranded assets; labour unrest; environmental disasters)
- **Reputational** (garment industry abuses; child labour; agricultural commodity trading)

- **Social and ethical concerns**

- **Regulatory** (statutory exclusions or sanctions)

▶ There is a wide range of approaches and methodologies captured under the broad heading of Socially Responsible Investments (“SRI”)



SOCIALLY RESPONSIBLE INVESTING – REGULATORY DRIVERS

SOCIAL AND REGULATORY PRESSURE COMBINING TO CHANGE BEHAVIOUR

- **France** published guidelines for reporting of ESG factors fund managers' portfolios and created a government-backed SRI labelling system.
- **FSB** sets up task force to get firms to disclose climate risks at the request from the G20.
- **China** became the first country to establish official "Green Bond Guidelines".
- **Securities and Exchange Board of India (SEBI)** finalised their official green bond standards.
- After the **Paris Agreement** consideration is being given to how private green bonds may contribute to countries' INDCs.
- **BoE** highlighted the "profound environmental and social challenges" posed by climate change, and the threat to financial stability.



“What gets measured, gets managed”



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WHERE NEXT?



OPPORTUNITIES & CHALLENGES – THE MARKET

Opportunities

- Strong impetus to responsible behaviour
- Austerity constrained public sector needs to crowd in private investors
- Banks under pressure to finance responsible business
- Green/social bonds an easy fix for an investor looking to “decarbonise” its portfolio
- Growth of dedicated green bond funds makes diversification easier to argue
- No sacrifice in spreads required
- Excess of demand over supply leading to ease of execution?

Challenges

- Perceived burden of issuing a green bond in terms of admin and cost
- Lack of funding advantage
- The “darkest green” investors requiring more comprehensive impact reporting
- Lack of clarity on standards feeds scepticism
- No recourse to issuers for non-delivery on projects
- Some second opinion/standard providers lack credibility
- The perfect as the enemy of the good?



MARKET OVERVIEW AND OUTLOOK FOR 2016

GROWTH EXPECTED TO BE STEADY, WITH DIVERSIFICATION INCREASING

- **Issuer diversification is increasing**; new supply from financial institutions and local authorities
- **Diversification by jurisdiction and rating** is a major trend
- Strong **efforts by China** to tackle their environmental crisis
- Continuing commitment of the largest multi-lateral development banks
- **Smaller public sector financial institutions** are increasingly present in the Green market
- USD issuance is continuing to gain share because of the strong and growing interest from municipal issuers in the US
- **Investment grade corporates in Europe** are new in the market, notably **utilities and real estate**
- Vocal investor demand for responsible investments and steady growth of dedicated “green” funds which ensure diversification for the issuer



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