INTRODUCTORY WEBINAR ON GREEN FINANCE AND GREEN BONDS
SOME INGREDIENTS FOR THE SUCCESS OF GREEN FINANCE...

Green bonds
ESG investment
Institutional set-up for domestic cooperation
International cooperation
Environmental risk management
Green loans
Research and education
The goal is to ensure that firms have favourable financing options to make green/sustainable investments. Importance of ESG risk management and the post-covid recovery context.
<table>
<thead>
<tr>
<th>More and better financing to sustainable activities</th>
<th>Less and stricter financing to unsustainable activities</th>
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**THE WAY SUSTAINABLE FINANCE CAN WORK**
More and better financing to sustainable activities
Green loans, bonds and mutual funds etc.
Retail, corporate, municipal, government segments

Less and stricter financing to unsustainable activities
Importance of ESG risk management
Emerging concept of climate risks
REDUCING THE FUNDING OF UNSUSTAINABLE ACTIVITIES
DECREASING THE FINANCING OF UNSUSTAINABLE ACTIVITIES

Physical risk

Risk of losses due to physical events linked to climate change (droughts, floods etc)

Transition risk

Risk of losses due to the transition to a low-carbon economy

+ Other environmental (or social sustainability risks)
REGULATORY STEPS

• ECB Climate Guide
• MNB Green Recommendation
• Upcoming EU legislation in the Capital Requirement Framework
MNB’S GREEN RECOMMENDATION ALSO REQUIRES THE INTEGRATION OF ENVIRONMENTAL RISKS

- Assessment of environmental risks, integration into strategy
- Allocation of responsibilities regarding environmental risks
- Reducing/stopping the financing of unsustainable activities
- Development of green financial products and solutions
- Transparency
- Reduction of ecological footprint and offsetting

*English translation available at www.greenfinance.hu*
IMPORTANCE OF TRANSITION FINANCE

...The goal is to reduce the funding of unsustainable projects/activities

...companies with currently unsustainable activities should still get financing – in fact, they should be the targets to provide green loans to finance their transition
THE WAY SUSTAINABLE FINANCE CAN WORK

**More** and **better** financing to sustainable activities
- Green loans, bonds and mutual funds etc.
- Retail, corporate, municipal, government segments

**Less** and **stricter financing** to unsustainable activities
- Importance of ESG risk management
- Emerging concept of climate risks
GREEN FINANCING: A PRIMER
TWO MAIN TYPE OF INSTRUMENTS FOR BOTH BONDS AND LOANS

**Use of Proceeds***
Green, Social, Sustainability Bonds ("GSS" or "UoP")

**Core Components:**
1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

**Key Recommendations:**
1. Bond Frameworks
2. External Reviews

**General Purposes***
Sustainability-Linked Bonds ("SLBs")

**Core Components:**
1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

Source: ICMA
The key is the utilisation of the proceeds of the bond (loan) for eligible Green Projects, which should be appropriately described in the legal documentation of the instrument.

All designated eligible Green Projects should provide clear environmental benefits.

Importance of external reviews

Climate Bond Standards and EU Green Bonds with more stringent criteria

Typical eligible categories under the GBP

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Clean transportation
- Sustainable water and wastewater management
- Circular economy
- Etc.

Source: ICMA
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SUSTAINABILITY-LINKED INSTRUMENTS

- The bond’s financial and/or structural characteristics vary depending on whether the selected KPI(s) reach the predefined targets
- The potential variation of the coupon is the most common example

The KPIs should be:

- relevant, core and material to the issuer’s overall business, and of high strategic significance to the issuer’s current and/or future operations;
- measurable or quantifiable on a consistent methodological basis;
- externally verifiable; and
- able to be benchmarked

Examples: Annual energy savings, renewable energy capacity, Scope 1-3 GHG emission reduction etc

Source: ICMA
WHAT WE SEE ON MORE DEVELOPED MARKETS...

Sustainable Financing for SMEs
Grow your business with HSBC’s green financing solutions.
Get in touch

BBVA extends its green loan portfolio to help SMEs and the self-employed purchase sustainable vehicles

Barclays Green Loan
Good for the planet, good for your business
COULD SERVES AS INSPIRATION FOR HUNGARY AND OTHER COUNTRIES IN THE REGION...

Starting point (2019) in HU

- High exposure of the financial system to environmental risks
- Low preparedness to address risks
- Very little green financial product supply
- Low level of awareness among senior management and lack of ESG expertise for staff

Objectives in HU

- A financial system resilient to environmental risks
- Assessed and managed individual and system level risks
- The financial system acting as the engine of the green transition of the economy
- Adequate awareness and ESG expertise at banks
MNB STRATEGIC APPROACH TO GREEN BONDS

Need for the development of the bond market in general

Dilemmas to set the bar at the right level (market barriers vs. greenwashing)

Demand driven aspects (green/ESG mutual funds)
GREEN BOND SEGMENTS

- Sovereign
- Corporate
- Bank (covered)
GREEN BOND SEGMENTS

Sovereign

- The successful issuances bring a strong message to markets

Corporate

- Rapid growth in 2020-21
- GBP-alignment
- Dominance of domestic investors
- Role of central bank measures

Bank (covered)

- First issuances taking place in 2021
- Huge potential in modernizing the building stock
- Role of central bank measures
HU GREEN CORPORATE BONDS: IMPORTANCE OF DOMESTIC BANKS AS INVESTORS

Data includes 12 green corporate bonds issued until 2021 Q2
Funding for growth bond purchase program (stopped)

Capital requirement incentives to purchase green bonds / provide green loans

Green covered bond purchase program
WHAT THE CENTRAL BANK IS DOING

- Funding for growth bond purchase program (stopped)
- Capital requirement incentives to purchase green bonds / provide green loans
- Green covered bond purchase program
CAPITAL REQUIREMENT INCENTIVES TO PURCHASE CORPORATE GREEN LOANS AND BONDS

- 5 year program to jump-start the market
- Deduction of 5% (GBP or other general green definition) vs. 7% (EU Taxonomy) of national amount from capital requirements
FURTHER CENTRAL BANK PLANS

- Green financial product finder website
- Practical guide on how to issue green bonds
- Helping full implementation of SFDR regulation to support ESG/green fund segment
- Education, training, university research

Retail demand
Corporate supply
Institutional investor demand
Retail demand and supply capacity
THE WAY FORWARD...

First sovereign green bond

First corporate green bond

First EU GBS aligned bond?

From quantity to quality

How to move from GBP-aligned bonds to CBS / EU green bonds

First green covered bond
THANK YOU FOR YOUR ATTENTION!

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