PRESS RELEASE

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Leading European banks show how Green Tagging can drive Energy Efficiency Financing

ABN AMRO, BBVA, Berlin Hyp, HSBC, ING, Lloyds, SEB, Suedtiroler Volksbank, Triodos and UniCredit all part of new European study on sustainable finance

Paris, 12 December *Green Tagging is emerging as the new strategy for Europe's leading banks to scale up financing of energy efficient housing and real estate, concludes a new report from Climate Strategy and the UN Environment Inquiry into the Design of a Sustainable Financial System.* The report is being released in Paris alongside the One Planet Summit hosted by France's President Emmanuel Macron.

"This report describes how 10 European banks - ABN AMRO, BBVA, Berlin Hyp, HSBC, ING, Lloyds, SEB, Suedtiroler Volksbank, Triodos and UniCredit - are beginning to identify, analyse and promote green finance for housing and real estate through the direct attribution of environmental characteristics in their lending and debt capital markets operations" introduced Peter Sweatman, co-author of the report and chief executive of Climate Strategy & Partners.

Nick Robins, co-author and co-director of the UN Environment Inquiry added "Green Tagging is in an early stage of development, but the pace of change is now striking. Key banks are now recognising that they need to understand the environmental performance of their real estate lending book in order to better serve their clients and deliver their sustainability goals."

Green Tagging refers to a systematic process where banks identify the environmental attributes of their loans and underlying asset collateral as a tool for scaling up sustainable finance. The Green Tagging of bank assets allows for easier access to green bond markets, better tracking of green loan performance and provides greater transparency of climate risks and portfolio resilience.

""We considered that real estate energy efficiency in our loan book was a useful place for ING to start, given its importance both as a proportion of our balance sheet, in climate change terms, and due to the existence of established systems for energy performance labelling as a basis for tagging" said Peter Göbel from ING Real Estate Finance in the Netherlands. "With around €30 billion in commercial real estate loans, ING also offers Netherlands-based borrowers an app-based tool that allows them to identify optimal energy efficiency measures and thereby green their buildings."

Green Tagging is applicable for all areas of banking and investment, but he pace of change is clearly accelerating around real estate and energy efficiency and is driven by a number of factors:

1. Financial innovation: Banks are designing a new range of green finance products both in terms of lending, but also in debt capital markets and securitisation.

2. Policy priority: Energy efficiency in buildings is the area where there is the greatest investment gap to deliver Europe's climate goals.
3. Market disclosure: Initiatives such as the FSB's Task Force on Climate-related Financial Disclosures (TCFD) are prompting banks to become more focused on quantitative reporting on green finance.
4. Financial regulation: The EC's review of the European Supervisory Authorities concluded that the ESAs should now "promote sustainable finance, while ensuring financial stability". Sustainability is part of the new securitisation framework and is being taken forward by national regulators in France, Italy, Netherlands, Sweden and the UK

"Tagging our commercial real estate and mortgage loans to existing energy and environmental standards enabled our internal transparency and supported our issuance of the first green covered bond" said Bodo Winkler from Berlin Hyp, currently the largest European commercial bank Issuer of green bonds. "The green tagging data provided us valuable insights into the relative credit and economic performance for our loans to green buildings compared to standard ones."

Joop Hessels from ABN AMRO noted that "Identifying and tagging green buildings in the bank systems in a European context was essential for the world's first green bond to define green real estate, issued by ABN AMRO, and in advising other new green real estate backed bond issuers. Better base line data and comparability between countries is critical for the further development of this green bond market. In a 'Mission 2030' initiative, the bank has a clear ambition to increase the average energy performance of all buildings financed to energy label 'A' by 2030 and green tagging is essential to measure performance and progress towards these targets", he added.

Based on a survey of the 10 participating banks, the report identifies five key trends around green tagging:

1. New green business opportunities are a stronger incentive for green tagging than improved risk management for banks at present and that this practice is often led by commercial real estate groups and wholesale finance in banks.
2. While there is no clear definition of "green", energy efficiency and greenhouse gas emissions are the green attributes seen as most material by banks and their stakeholders.
3. The financial case for green is sufficiently compelling for banks to undertake green tagging without a perfect, multi-annual green performance data history.
4. There is a strong case for connecting green tagging with the maturing agenda on the links between sustainability factors and prudential regulation as the inherent risks of non-green assets is not yet a leading driver for banks to implement green tagging.
5. Financial institutions want to continue to investigate the correlations between financial performance in mortgage portfolios with energy performance.

"SEB has a 'green virtual balance sheet' which employs various tagging and related processes for defining, selecting, verifying, monitoring and reporting on our Green Asset and Liability Management" said Christopher Flensborg at SEB Group. "We have led by example, having underwritten USD17.5 billion green bonds, and acted as green structural adviser for issuers representing almost a third of all reviewed green issuance to date."

"Since 2016, Lloyds Bank has been offering green incentives for clients (through discounted loan margins on £1bn of financing) to improve the energy efficiency of their investment portfolios and cut carbon emissions" said Richard MacDowel from Lloyds Bank. “We fundamentally believe in the correlation between green performance and financial performance in this asset class, although multiple barriers remain including data availability and a common taxonomy for classifying ‘green lending’ that would help support a wider range of clients in the transition towards a lower carbon economy.”

The report concludes by recommending series of next steps for 2018:

1. Assess the quantitative relationships between building performance and loan performance: Market players and policymakers still lack more robust analysis of how energy performance of buildings related to loan performance. This would provide the foundation for better loan pricing, stimulus for market development and feed-into regulatory alignment.
2. Build a common EU database of EPCs and other building data: Tagging is currently held back by a variety of barriers that prevent easy matching of EPCs with loan data. Banks need more transparent availability of EPCs and buildings performance and energy usage data across Europe.
3. Evaluate the links between building performance and regulatory capital: In the context of the review of the European Supervisory Authorities, green tagging needs to be considered as an important tool for banks to understand the environmental exposures in their balance sheets.
4. Focus on real estate as a pilot for a common classification system: Efficient markets require shared protocols for defining financial attributes. Work is underway for a common EU classification system for sustainable assets. After renewable energy, real estate offers a financially sizeable and environmentally significant sector to focus on for convergence.
5. Connect green tagging with the new EU securitisation rules: To help implement Article 10 3a, banks could begin to tag the energy performance of the underlying property as a voluntary data field.

Luca Bertalot, EeMAP Coordinator & EMF-ECBC Secretary General, said: “Today’s publication represents an important insight into the current green financing practices. The findings of the survey can help the market develop best practices within the area of property lending going forward which, in turn, can help ensure that energy efficient lending products are strong contributes to the transition to a more energy efficient building stock in the EU.”

The report is being launched at a high-level event in Paris hosted by the Energy Efficiency Financial Institutions Group (#EEFIG), co-convened by the European Commission and the United Nations Environment Programme – Finance Initiative.

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Notes to Editors

About Climate Strategy & Partners

Climate Strategy & Partners is a leading consultant in climate finance, energy efficiency investments and the corporate strategies and Government policies required to up-scale both. For 8 years, the Climate Strategy team has been providing global companies, banks and Governments advice on how to accelerate the economic transition to a low carbon economy. Climate Strategy's chief executive, Peter Sweatman, has authored or co-authored thirteen white papers, is rapporteur to the G20's Energy Efficiency Financial Task Group and the EU Commission and UN Environment Finance Initiative's Energy Efficiency Financial Institutions Group (EEFIG). Climate Strategy has supported energy transition policy development in Mexico, France, UK and Spain and continues to implement leading low carbon business solutions for clients. Two years ago, Climate Strategy launched a subsidiary, Energy Efficiency Capital Advisors (EECA), which has advised on the refinancing of multiple energy efficiency investments in Spain and is considered a leader in that sector in the region. More information can be found at www.climatestrategy.com

About the UN Environment Inquiry

The Inquiry into the Design of a Sustainable Financial System has been initiated by the United Nations Environment Programme (UN Environment) to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy—in other words, sustainable development. Established in January 2014, the Inquiry published its first global report, 'The Financial System We Need' in October 2015, with the second edition launched in October 2016. The Inquiry has worked in around 20 countries and produced a wide array of briefings and reports on sustainable finance.

Energy Efficiency Financial Institutions Group (EEFIG)

EEFIG was established as a specialist expert working group by the European Commission and United Nations Environment Programme Finance Initiative ("UNEP FI"), in late 2013, as a result of the dialogue between Directorate-General for Energy ("DG Energy") and UNEP FI, as both institutions were engaging with financial institutions to determine how to overcome the well documented challenges inherent to obtaining long-term financing for energy efficiency. EEFIG's 2015 landmark report was the consensus effort of over 120 active participants from around 100 organizations, 40% of which represent financial institutions and the remainder are leading experts in energy efficiency in Europe. EEFIG has launched two key tools for de-risking energy efficiency investments in 2017: The DEEP database – Europe's largest registry of energy efficiency investments in buildings and industry with over 10,000 records (found at deep.eefig.eu) and the EEFIG Underwriting Toolkit – developed to help financial institutions better understand and engage with the risks around energy efficiency investing. EEFIG was supported by a consortium led by COWI with the Buildings Performance Institute Europe (BPIE), Fraunhofer, the National Technical University of Athens (NTUA), Climate & Strategy Partners, and EnergyPro as partners. The work is funded by DG Energy which also chairs the EEFIG meetings that are moderated by the EEFIG rapporteur, Peter Sweatman, CEO of Climate Strategy & Partners.

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Inquiry: Design of a Sustainable Financial System

More information on the Inquiry is available at: web.unep.org/inquiry and www.unepinquiry.org or from:

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