

China Green Bond Market Q3 Report 2017

中国绿色债券市场2017季报

JULY - SEPTEMBER 2017 2017年7月至9月

Market Overview

China Green Bond Market was up 13% qoq in 2017Q3: As of the end of September, China's green bond issuance year-to-date totaled USD 20.91bn (RMB 141.87bn), which represents 11.2% increase compared to the first 9 months of 2016 and more than 23% of global green bonds. In Q3 this year, China green bond market gained further momentum, bolstered by city commercial banks and local government investment and financing vehicles, the issuance amounted to RMB62.36bn, up 13% qoq, making the largest quarterly issuance of the year, with 38 issuers in the market issued 43 green bonds.

Albeit seeing more green bonds issued in Q3, the percentage of internationally-aligned Chinese labelled green bonds slipped to 63.5%, vis-à-vis 78.2% in the first half of this year. This was mainly due to the fact that quite a number of the green bond issuers allocate more than 5% of proceeds to finance working capital expenditures, which are acceptable under the relevant guidelines set forth by the National Development and Reform Commission (NDRC), nevertheless, according to the Climate Bonds Standard, these bonds are not defined as green and thus ineligible for inclusion in the green bond list.

All investment-grade with more diverse notches: Except for privately placed debt financing tools and subprime asset-backed securities where publicly available information is limited, green bonds issued in the third quarter of 2017 were all rated A+ or above, and prime-rated (AAA) bonds made up the largest proportion (59%) of total issuance. Nonetheless, more diversity on green bond ratings in the third quarter is observed - while AAA-rated bond issuance dropped 21.26 percentage points, AA-rated bond issuance moved up 25.15 percentage points, as opposed to the first 6 months this year, and accounted for 34.92%, indicating that more local issuers as well as small and medium-sized issuers are entering China's green bond market.

More long-term Chinese green bonds emerged: 84% of Chinese green bonds have tenor from 1 to 7 years - in the third quarter of 2017, tenor of Chinese green bonds ranged from six months to 15 years, of which 3-year and 7-year bonds took up the largest batches, accounting for 44.82% and 21.29%. There was an increase in long-term green bond issuance in the quarter, almost RMB 6bn or 10% of the green bonds have 10-year tenor or above, and there were two 15-year green bonds issued, with a total of RMB 5bn.

Majority of green bonds issued at a higher cost than their non-green equivalents: Based on like-for-like comparison of bonds having the same ratings, same tenor, same type and same issuance time, excluding privately placed debt financing tools and subprime asset-backed securities where publicly available information is limited, it is found that 77% of the green bonds were issued at a higher cost of funding than their comparable non-green equivalents, only 23% of issuance enjoyed a lower pricing.

57% of issuance received second party reviews: Less issuance went for second opinion in the third quarter, the ratio fell 26 percentage points from the first half (83%), in part because of inadequate disclosure from green bond issuers. A second party opinion is an assessment of the green credentials of a bond provided by an organisation with environmental expertise and commissioned by the issuer. External reviews of green bonds are intended to provide investors with confidence in the issuer's claims on the environmental credentials of the bond.

At a Glance

Total Third Quarter Chinese Issuance:
USD 9.38bn / RMB 62.36bn

Issuance that meets international definitions:

USD 4.31bn/RMB 28.73bn

Largest issuer: **Wuhan Metro**

Largest issuing sector: **Transport**

Total Third Quarter Approved:

USD 4.41bn/RMB29.31bn

Total Year-to-date Chinese Issuance: **USD 20.91bn/RMB 141.87bn**

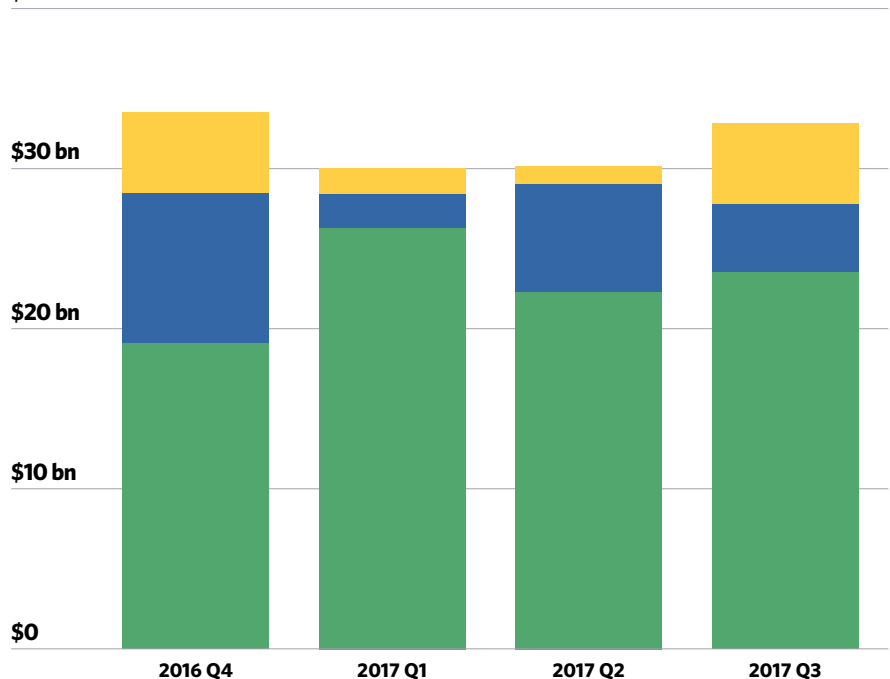
Issuance that meets international definition:

USD 13.12bn / RMB 89.96bn

China Green Bond Issuance

- China Issuance-aligned with international definition
- Global issuance-aligned with international definition (except China)
- China Issuance not aligned with international definition

\$40 bn



News and Events

Local governments actively promote green financial reform and establish innovation pilot zones:

Subsequent to the State Council's decision in June to set up pilot zones in 5 provinces to promote green finance, different pilot zones announced one after the other in the third quarter the experimental programs or to-do lists on developing green loan, green bonds, green insurance and accelerate the construction of multi-level green financial system. Guian New District in Guizhou Province, Huadu District in Guangdong Province and also Jiangxi Province has either laid out reform tasks or signalled to push ahead green financial system construction.

Release of Xiongan New District Green Financial Planning Report:

On August 19, the then Chief Economist of the People's Bank of China Research Bureau Ma Jun announced in the second "Tianjin Green Finance Forum" the release of the "Xiongan New District Green Financial Planning Report." The report puts forward the concrete idea of green finance development, and points out that the choice of financing channels available to Xiongan includes policy and commercial loans, bonds, trusts, finance leasing and equity financing.

Nine local government bonds included in the ChinaBond Green Bond Indices:

On August 31, CCDC announced that nine local government bonds were included into their ChinaBond China Green Bond Index and ChinaBond China Green Bond Selected Index. It was based on publicly available information, and outstanding bonds which are green in nature were identified. Through this, CCDC hopes the indices can reflect the performance of the green bond market more comprehensively, entice the local governments to be more actively involved in green project investments, and promote the improvement of quality of environmental disclosure in the bond market.

2017 China-UK Green Finance Forum: On September 4, China-UK Green Finance Forum was convened in Beijing to review the main research achievements of the China-UK Green Finance Task Force Workstreams, and also discuss future collaboration, as a part of the 9th China-UK Economic and Financial Dialogue. The Task Force interim report Globalising Green Finance: Turning Green Momentum into Actions was released at the Forum. The China-UK Green Finance Task Force, established by Green Finance Committee of China Society for Finance and Banking and the City of London's Green Finance Initiative, is tasked with increasing financial cooperation between the two nations and growing green investment and opportunities.

The first retail green bonds on sale: On September 12, China Development Bank issued green financial bond in support of the "Yangtze River Economic Zone Water Resources Protection". The issuance size was RMB 5bn, of which RMB 4.4bn was issued in the interbank bond market and the remaining RMB 600mn

was sold to retail investors through outlets and electronic channels of Industrial and Commercial Bank of China, Agricultural Bank of China and Bank of China. This is a breakthrough that helps not only broaden the public participation in green investment channels and amplify the social impact of green finance, but also helps to establish an innovative, safe and standardised channel for the development of green finance and inclusive finance, giving a positive meaning to green finance development.

Shanghai Stock Exchange and Luxembourg Stock Exchange tightened partnership to promote green bonds:

On September 28, the Shanghai Stock Exchange and the Luxembourg Stock Exchange signed a memorandum of cooperation in Shanghai. In the future, the two bourses will strengthen further cooperation in the field of green bonds, particularly on increasing market transparency through green bond information display and so on.

Policy Update: China

The fifth national financial work conference encourages the development of green finance.

The two-day national financial work conference was held in Beijing from July 14 to July 15.

Chinese President Xi Jinping attended the meeting and delivered the keynote speech. He stressed that financial sector is the facilitator of real economy. China needs to build an inclusive financial system, and to encourage the development of green finance.

Green Bond Discussion

Call for better environmental disclosure on local level green bonds

In the third quarter, China saw rapid expansion of green finance from state to local level, and the growing trend of local green project financing through debt capital markets, evident by a surge of City Commercial Banks and Local Government Financing Vehicles (LGFV) tapping into the market.

While it is important to draw a line between LGFV and sub-sovereign agencies, we expect to see cities and sub-sovereigns increasingly turning to the green bond market, and that sovereign or sub-sovereign issuance to fuel China's market momentum going forward.

As Climate Bonds Initiative noted in the Bonds and Climate Change: State of the Market 2017" report,

in China, 90% of climate-aligned bonds in China (bonds with proceeds used for climate-resilient projects but have not yet been labeled as 'green') were issued by entities backed by the sovereign or sub-sovereign government. Apart from Government's commitment to a green economy in China's 13th Five Year Plan, there have been a number of regulatory developments that are also supportive of a green financial system and green infrastructure projects have been planned in line with these policy directions.

We also see the need for better disclosure on use of proceeds and environmental benefits of bond issuance.

China Central Depository and Clearing (CCDC) announced in late August that they

would include nine local government bonds in their ChinaBond China Green Bond Index and ChinaBond China Green Bond Selected Index. The newly added constituents are from Chongqing, Ningxia, Hubei, Yunnan and Xiamen, with total issuance of RMB 26bn.

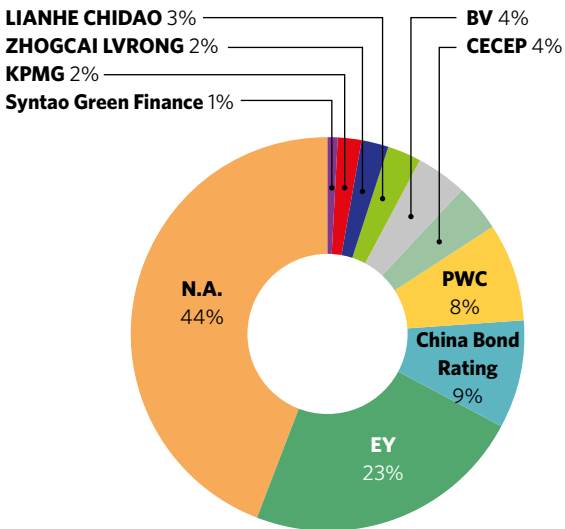
The nine local government bonds raised funds and invested in areas including municipal infrastructure, road and bridge, land reserves, agriculture, forestry and water conservation, transportation, ecological construction and environmental protection, which are public welfare facilities generating certain level of return. The corresponding green projects are mainly pollution prevention, transportation, ecological protection and adaptation to climate change.

However, throughout the identification process, it is found that in terms of environmental disclosure on special bonds, there is still room for local government to improve. There are huge discrepancies in the level of disclosure on underlying projects information, and the absence of disclosure about quantitative indicators of the projects.

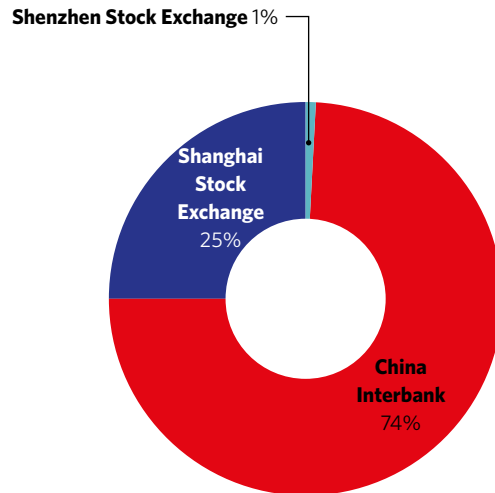
In order to further improve the quality and standardization of environmental information disclosure of green bonds, it is crucial to study and enhance the environmental impact indicator system of green projects.

Market Data

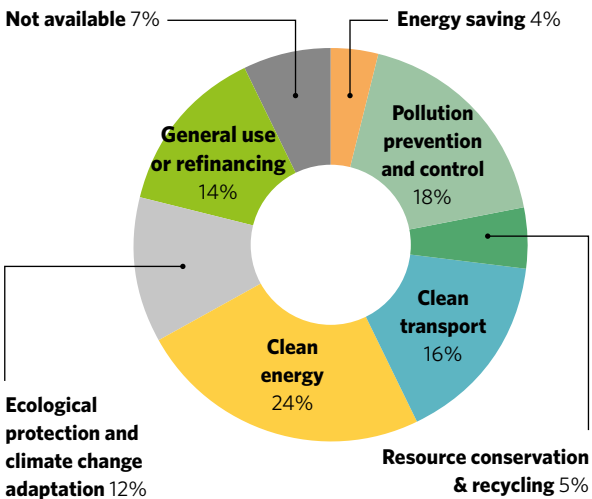
Second party reviews



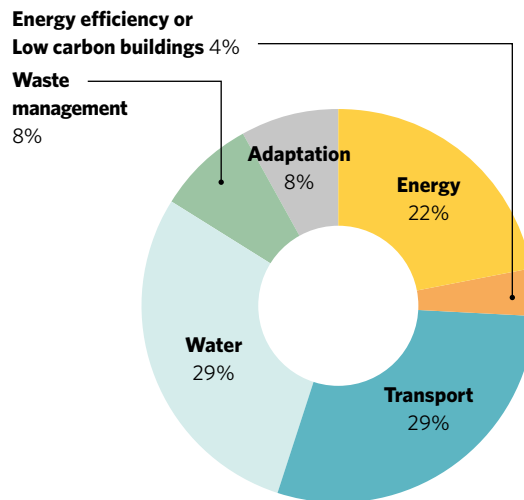
China green bond issuance by markets



Allocation of proceeds according to PBoC's Green Bond Endorsed Project Catalogue

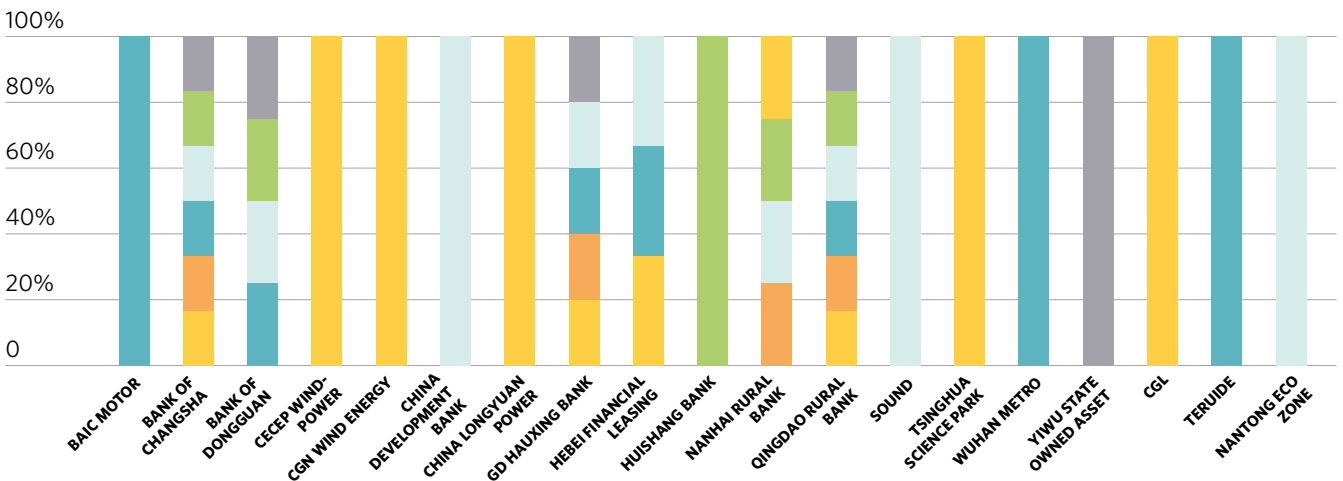


Allocation of proceeds according to CBI Taxonomy



Chinese green bond market recorded 33% growth in the first half of 2017

Energy Waste Management Energy Efficiency Or Low Carbon Buildings
Transport Adaptation Water



Green Bond Issuance in Third Quarter 2017

ISSUER	MARKET	DATE	ISSUED AMOUNT (RMB)	SECOND REVIEWER	RATING AGENCY	RATING	USE OF PROCEEDS*
BAIC Motor	China Interbank	04-07-2017	2.3bn	N/A	Dagong	AAA	Transport
Yiwu State Owned Asset	China Interbank	13-07-2017	800mn	China Bond Rating	China Chengxin	AA+	Adaptation
Wuhan Metro	Shanghai	18-07-2017	1.5bn	N/A	China Chengxin	AAA	Transport
	China Interbank	25-07-2017	2bn	China Bond Rating	China Chengxin	AAA	Transport
	China Interbank	22-08-2017	3bn	N/A	China Chengxin	AAA	Clean Transport *
Danyang Investment Group	China Interbank	18-07-2017	1.5bn	N/A	China Chengxin	AAA	Pollution Prevention
Nanjing Fullshare Industrial	Shanghai	19-07-2017	2bn	BV	N/A	N/A	N/A
	Shanghai	08-09-2017	500mn	BV	N/A	N/A	N/A
Bank of Changsha	China Interbank	20-07-2017	3bn	EY	Lianhe Zixin	AA+	Mixed
China Huadian	Shanghai	20-07-2017	1.5bn	N/A	Lianhe Zixin	AAA	Clean Energy*
	Shenzhen	18-08-2017	1.5bn	EY	Lianhe Zixin	AAA	Clean Energy*
Jingjiang Binjiang New Town Investment Development	China Interbank	25-07-2017	970mn	N/A	Lianhe Zixin	AAA	Ecological Protection and Climate Change Adaptation
China Longyuan Power Group	China Interbank	01-08-2017	3bn	N/A	Dagong	AA	Energy
Jiangsu Hongzehu Shenzhou Tourism Development	China Interbank	01-08-2017	1bn	N/A	China Chengxin	AA	Ecological Protection and Climate Change Adaptation
Qingdao Rural Commercial Bank	China Interbank	01-08-2017	1bn	KPMG	Lianhe Zixin	AA+	Mixed
GCL Power Group	China Interbank	03-08-2017	375mn	N/A	N/A	N/A	Energy
Gezhouba Huanjia (Dalian) Renewable Resource	Shanghai	03-08-2017	1.304bn	N/A	N/A	N/A	Clean Energy*
Liuyang Modern Manufacturing Construction Investment Development	China Interbank	10-08-2017	900mn	N/A	Lianhe Zixin	AA+	Resource Conservation and Recycling
Leshan City Commercial Bank	China Interbank	11-08-2017	2bn	China Bond Rating	Lianhe Zixin	AA	*
	China Interbank	11-09-2017	1bn	China Bond Rating	Lianhe Zixin	AA	Mixed*
China Three Gorges	China Interbank	15-08-2017	3.5bn	EY	China Chengxin	AAA	Clean Energy*
Tianjin SDIC Jinneng Electric Power	China Interbank	15-08-2017	200mn	Lianhe Chidao	Lianhe Zixin	A-1	Clean Energy*
Guangdong Nanhai Rural Commercial Bank	China Interbank	16-08-2017	300mn	CECEP	Lianhe Zixin	AA+	Mixed
Hebei Financial Leasing	China Interbank	18-08-2017	500mn	EY	China Chengxin	AA+	Mixed
Qidi Holdings	Shanghai	18-08-2017	350mn	N/A	China Chengxin	AA+	Energy
Sichuan Naxing Group	China Interbank	18-08-2017	1bn	N/A	Other	AA+	N/A
Beijing Jingyushun Environmental Protection	Shanghai	23-08-2017	820mn	Syntao Green Finance	China Chengxin	AA+	Water
Shaanxi Xixian Xinqu Fengxi Development and Construction	China Interbank	23-08-2017	1.5bn	N/A	Dongfang Jincheng	AA	Mixed
Guangdong Huaxing Bank	China Interbank	25-08-2017	2bn	CECEP	China Chengxin	AA	Mixed
Inner Mongolia M-Grass Ecology And Environment Group	Shenzhen	01-09-2017	250mn	Lianhe	Lianhe Zixin	AAA	Ecological Protection and Climate Change Adaptation
Guangzhou Development Group	China Interbank	06-09-2017	2.4bn	N/A	China Chengxin	AAA	Energy
Xuzhou Economic and Technology Development Zone State-Owned Assets Management	China Interbank	06-09-2017	500mn	Zhongcai Lvrong	Dagong	AA	Ecological Protection and Climate Change Adaptation
Bank of Zhengzhou	China Interbank	07-09-2017	3bn	EY	China Chengxin	AAA	Mixed
CECEP Wind Power	Shanghai	07-09-2017	300mn	CECEP	Dagong	AAA	Energy
Huishang Bank	China Interbank	08-09-2017	1bn	EY	Lianhe Zixin	AA+	Waste

Note: * The CBI Taxonomy excludes clean coal projects, although they are eligible under the China Green Bond Endorsed Project Catalogue. Also, large hydropower projects are currently excluded from our taxonomy due to issues of reservoir emissions and other social and environmental impacts. There may be scope to include these in the future but more research will be required from our recently convened technical working group.

**Policy banks effectively act as agents of the state, notwithstanding the issuance didn't seek a credit rating, it is deemed equivalent to AAA.

Green Bond Issuance in Third Quarter 2017 continued

ISSUER	MARKET	DATE	ISSUED AMOUNT (RMB)	SECOND REVIEWER	RATING AGENCY	RATING	USE OF PROCEEDS*
Kaifeng Development Investment	China Interbank	08-09-2017	1.3bn	N/A	Dagong	AAA	Ecological Protection and Climate Change Adaptation
Bank of Dongguan	China Interbank	12-09-2017	2bn	EY	Lianhe Zixin	AA+	Mixed
Qingdao Tgoad Electric	Shenzhen	14-09-2017	983mn	China Chengxin Int'l	China Chengxin	A+/AAA	Transport
China Development Bank	China Interbank	15-09-2017	5bn	PWC	N/A	None**	Water
Nantong Eco & Tech Development Zone	Shanghai	15-09-2017	510mn	Zhongcai Lvrong	N/A	None	Water
CGN Wind Energy	China Interbank	18-09-2017	1bn	Lianhe Chidao	Lianhe Zixin	AAA	Energy
Pingxiang Huifeng Investment	China Interbank	21-09-2017	2bn	N/A	Other	AAA	Ecological Protection and Climate Change Adaptation
Shanxi Jinmei Huayu Coal Chemical	Shanghai	26-09-2017	800mn	N/A	N/A	N/A	N/A

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Financial Institutions, Industrial and Utilities companies are the largest issuers*

SECTORS	ISSUANCE SIZE (BN, RMB)	% OF ISSUANCE	NO. OF BONDS	% OF BONDS
FINANCE	208	33.35%	12	17.14%
INDUSTRIAL	188.74	30.27%	36	51.43%
UTILITIES	151.05	24.22%	13	18.57%
MANUFACTURING	32.83	5.26%	5	7.14%
PROPERTY	25	4.01%	2	2.86%
ENERGY	8	1.28%	1	1.43%
TOURISM	10	1.60%	1	1.43%
TOTAL	623.62	100.00%	70	100.00%

* According to the CCDC's classification, ABS are separately counted.

Approved Green Bonds in the Third Quarter 2017

ISSUER	Amount approved (RMB)	Approval Date	Regulatory Authority
Qidi Holdings	1.5bn	Jul-2017	SSE
Gezhouba Xinye Renewable Resource Co. Ltd. & Gezhouba Huanjia (Dalian) Renewable Resource Co. Ltd.	1.304bn	05-07-2017	SSE
Risen Energy Co., Ltd.	650mn	06-07-2017	CSRC
Shanxi International Energy Group	2bn	07-07-2017	CSRC
Tianjin SDIC Jinneng Electric Power Co. Ltd.	1bn	20-07-2017	NAFMII
Guangdong Nanhai Rural Commercial Bank	1.5bn	20-07-2017	CBRC, PBOC
Zhongmin International FinanceLeasing Co. Ltd.	1bn	Aug-2017	SSE
Nantong Economic & Technological Development Zone Corporation	510mn	Aug-2017	SSE
Bank of Dongguan	4bn	03-08-2017	CBRC, PBOC
Inner Mongolia M-Grass Ecology And Environment Group	250mn	11-08-2017	CSRC
Xuzhou Economic and Technology Development Zone State-Owned Assets Management Co. Ltd.	500mn	22-08-2017	NAFMII
Tianjin Union Electronic Technology Co. Ltd.	800mn	24-08-2017	NAFMII
CGN Wind Energy Co., Ltd.	2bn	24-08-2017	NAFMII
Shandong Lipeng Co. Ltd.	600mn	Sep-2017	SZSE
China Jushi Co. Ltd.	700mn	19-09-2017	NAFMII
Yangzhong Construction Investment Development General Company	2bn	30-09-2017	NDRC
Anji County Urban Construction Investment Group Co. Ltd.	1bn	30-09-2017	NDRC
Bank of Lanzhou	3bn	N/A	CBRC, PBOC
Yantai Bank	5bn	N/A	CBRC, PBOC

Reports



Bonds and Climate Change: State of the Market 2017

The 'Bonds and Climate Change: State of the Market 2017' report is an in-depth analysis of the climate-aligned and labelled green bond markets. The Report quantifies all bonds where proceeds are being used to finance low carbon and climate resilient infrastructure.

[Download the report.](#)



Green Bond Pricing in the Primary Market: April - June 2017:

Our Quarterly comparison between the behaviour of selected green and vanilla bonds in the primary market continues. The data sample expands further with the second report of the Green Bond Pricing in the Primary Market series. [Download the report.](#)

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