

# GLS Bank: Starting an IPP with international wind ambitions

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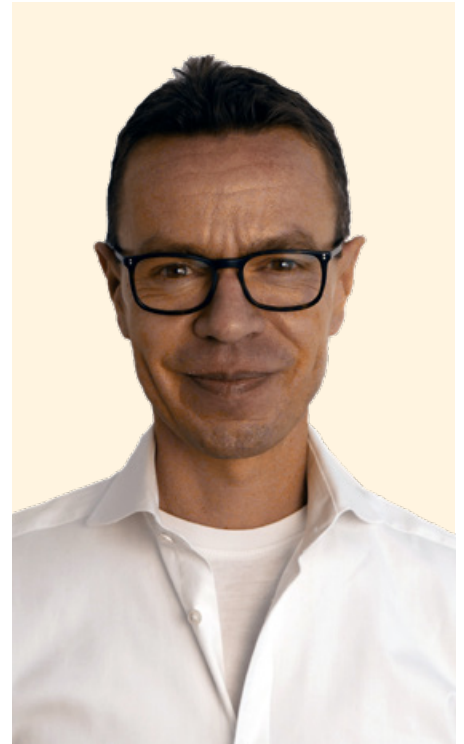
The German bank has been developing its renewable asset managing and owning IPP arm over the past few years. It also has its eye on buying in Scotland, France, Spain and Greece and notes inflation's potential impact on development projects. Marcus Fütterer, a Senior Manager in Structured Participations and Financing at GLS Beteiligungs, says, "We want to finance wind projects, the more the better." We spoke to Fütterer in mid-January.

GLS Bank's wind financing story goes back three decades, since tentatively supporting early wind parks in the 1980s. About 20 years ago it began to issue smaller, closed investment funds in wind parks for private investors. Since then, GLS Bank has made wind into a core focus area. "The whole bank lives renewable energy. The balance sheet is €10 billion and €2.5 billion of that is renewables.

"Our clients were looking to offer ownership in wind parks, and later on, also solar parks. The farms had to be operated by somebody, so the bank started subsidiary GLS Energie to own and operate parks by itself," says Fütterer.

GLS Energie is a holding company for all of the bank's renewable energy participations, with no employees, managed by another fully-owned GLS Bank subsidiary, GLS Beteiligungs. This affiliate has been around for over two decades and has about 25 employees.

The bank took on a larger chunk of the supply chain in time. "The investment contract of the fund itself had to be managed and that was how GLS bank stepped into that business, and a short time later we realized we can do it ourselves: We can own all those assets and refinance them with bonds, for example, mainly with GLS Bank's clients as investors."



Marcus Fütterer, a Senior Manager in Structured Participations and Financing at GLS Beteiligungs

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“So, we began to build up our own portfolio which is now about 250MW, of which 100MW is solar and 150MW is wind farms, all in Germany.”

GLS Bank is a co-operative, which meant it was legally permitted to operate wind farms it owns. Now, it is operating wind farms and selling power in Germany. But it also seeks to do so abroad.

It is not restricted to German investments when it operates as an asset manager and an IPP, Fütterer says. “As a bank we are restricted to German business. We are not allowed to give loans to UK-based companies or Italy-based companies whatsoever. That’s restricted by law because of the form of incorporation. But as a subsidiary, asset owner and IPP, we are basically not limited,” he explains.

“So, in theory, we can own assets and operate assets, but we have always been limited by personnel. People were completely busy with opportunities in Germany. This is the only reason why we are not in France, in Spain and in Greece.”

“We were in Scotland, we were in France and we looked at Scottish projects, but we have not realised those so far and are very eager to go abroad,” adds Fütterer, noting the IPP’s international plans.

“In other markets than Germany we cannot offer any services, we demand services, we need services – for example, technical services to operate the assets, tax and legal services to operate the SPV, and in France and the UK we will need help. We will only own the assets and operate them and sell the energy.”

# Germany breeds diverse offerings

“In Germany, our homebase, we offer much more. We know our core is financing. We offer refinancing of equity, we offer second-tier equity for clients of the bank we structure bonds for them,” says Fütterer. The bank acts as the arranger for the debt and provides all tiers: first tier, second tier or mezzanine financing. What’s more, it offers equity and can buy projects.

GLS Bank says it is the only bank in Germany that can provide this combination of services: placing bonds for structures, providing loans, placing green bonds, and stepping in with equity. “I know only one or two other very small co-operative banks which have taken shares in wind plants as well, the wind farms are near their locations,” confides Fütterer. German developer ABO Wind is a long time and fast-growing client of the bank it serves with bond prospectus and distribution power.

The bank also continues to partner with local landowners on co-ownership of wind projects. When GLS looks to acquire wind and solar farms abroad, it will do so using the same model, for example partnering with owners of agricultural or brownfield land. It does not currently work on offshore projects.

## Equity demand amid inflation

Looking to the future, Fütterer says 2023 could be a boom year for wind development, but new development projects will need more equity and less step or debt finance as banks exercise caution amid inflationary risks.

“At the moment, it looks like it will become a very difficult market because interest rates are rising rapidly,” Fütterer observes. “Costs also, because inflation is rising very rapidly. So, I don’t know how this all will affect the overall market. The market is very promising, because regulation in Germany has been made easier, and accelerators and so on. Everybody is very enthusiastic in our market, but I’m not sure whether it will grow exponentially because it’s limited by interest rate and inflation problems at the moment.”

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The inflationary cost of debt, growing to account for greater risks, will mean less demand for debt and more for equity for at least the next two years, he predicts. “We had past years where some projects could get 100 per cent debt finance, and I think this will be over in 2023,” says Fütterer.

For GLS Bank, it’s a chance to issue more equity to its developer clients. “The investor bases are still there for equity and we can help to issue green bonds for our clients, which is quasi-equity finance. It’s not really debt; it’s not really equity. From the bank’s position it’s treated as equity, and I think that we will see a couple of interesting placings next year in Germany and German-speaking countries.”



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