Alliance for Green Commercial Banks
Standard Chartered Training Session - Green and Sustainable Capital Market Evolution

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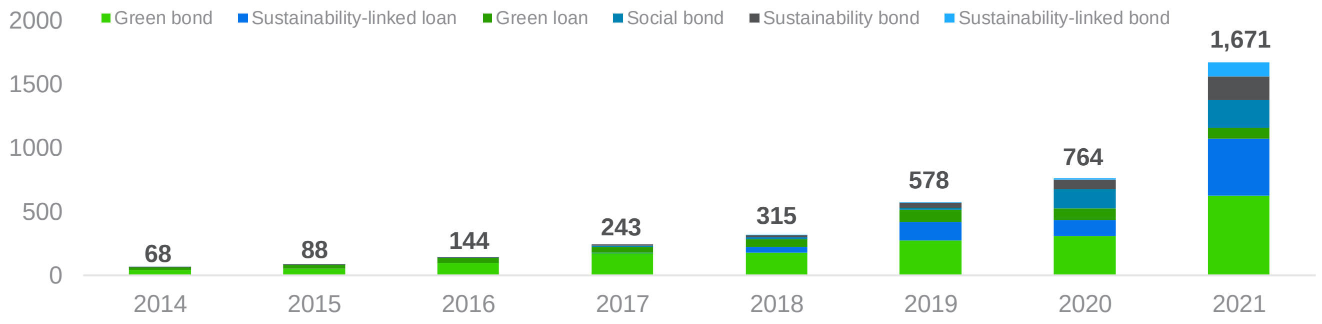
Sustainable Finance Market Update

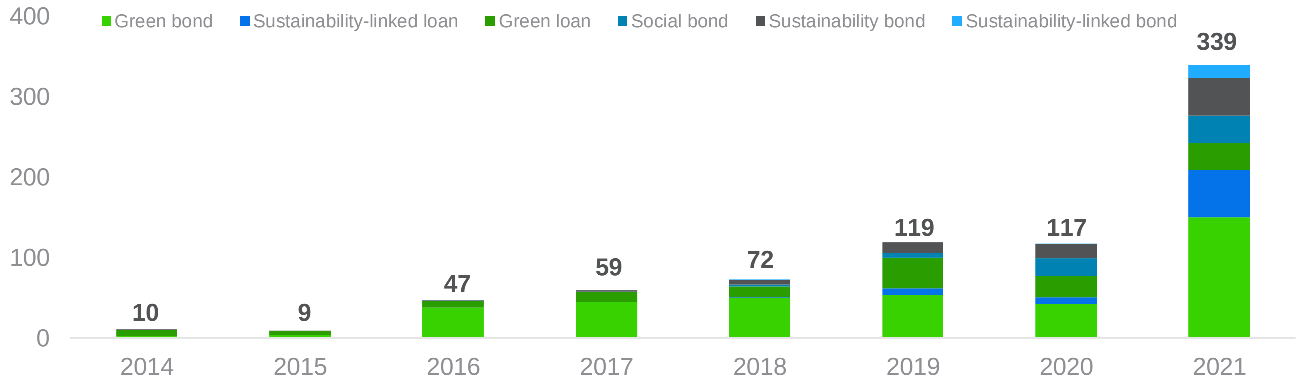
Accelerating Growth in Sustainable Finance

There has been steady and increasing growth in Sustainable Finance issuances and borrowings in the recent years. The market is also exhibiting increasing sophistication, evidenced through growing volumes in issuances and lending in formats other than green bonds and green loans.

Global Sustainable Finance Growth (USD4.528 bn)



Asia Region (USD bn)



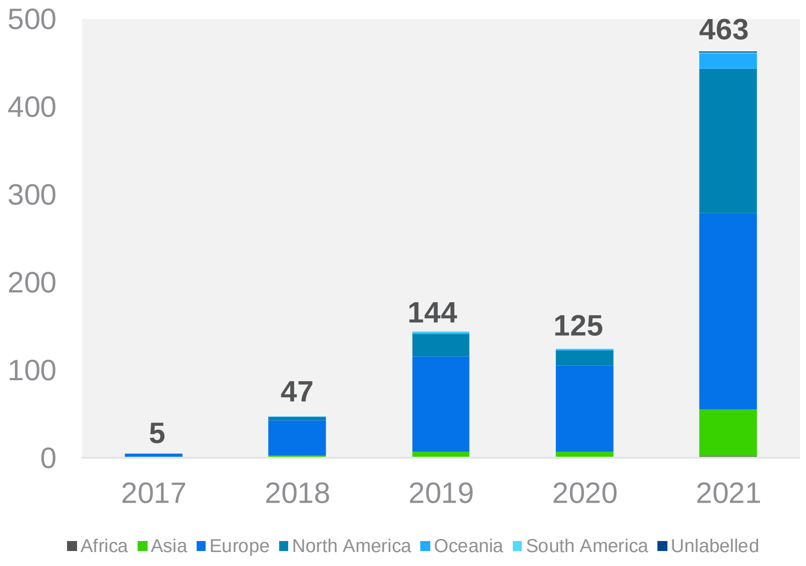
Global Sustainable Finance Growth

- In 2021, **more than $1.6tn** in sustainable debt instruments were issued, setting a new milestone as the sustainable finance market totaled more than **US$ 4tn** for the first time since its inception
- The growth came against the backdrop of COP26, among other events, which brought renewed commitments to mobilise public and private climate finance from governments, and brought together private actors through initiatives like the Glasgow Financial Alliance for Net Zero
- Sustainability-linked loans show the strongest growth, reached >$530 billion – four times the volume offered in 2020.
- Segment share across sustainable-labelled bonds and loans in 2021 is as follows:
  - Green bonds marked the highest proportion **(38%)** worth **$620bn**, a **100% increase** from 2020
  - Sustainability linked loans took the second largest share **(27.5%)** worth **$453bn**
  - Social bonds comprised **13%** of total issuances worth **$210bn**

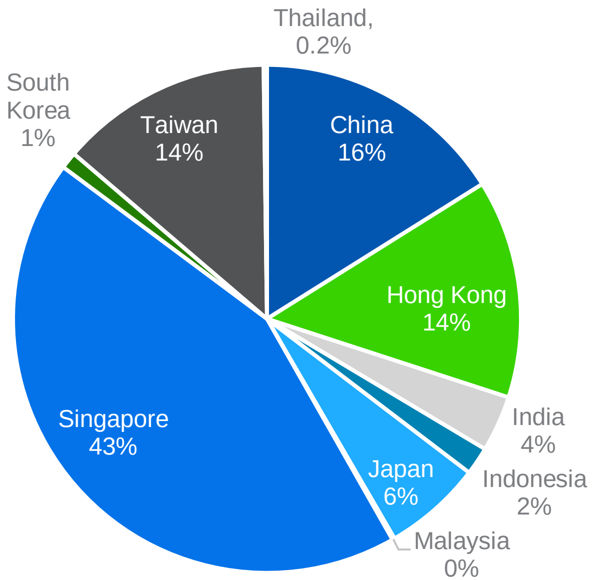
 Source: BloombergNEF, last updated 23 February 2022

Rise in Issuance of Sustainability-Linked Loans

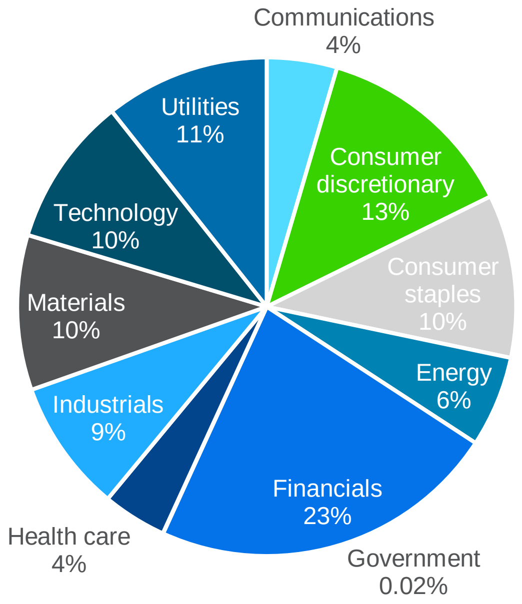
Sustainability-Linked Loan Growth (USD bn)



2021 SLLs in Asia – Split by Jurisdiction (%)



2021 SLLs by Issuer Segment (%)



Exponential growth in sustainability-linked loans issued globally in 2021

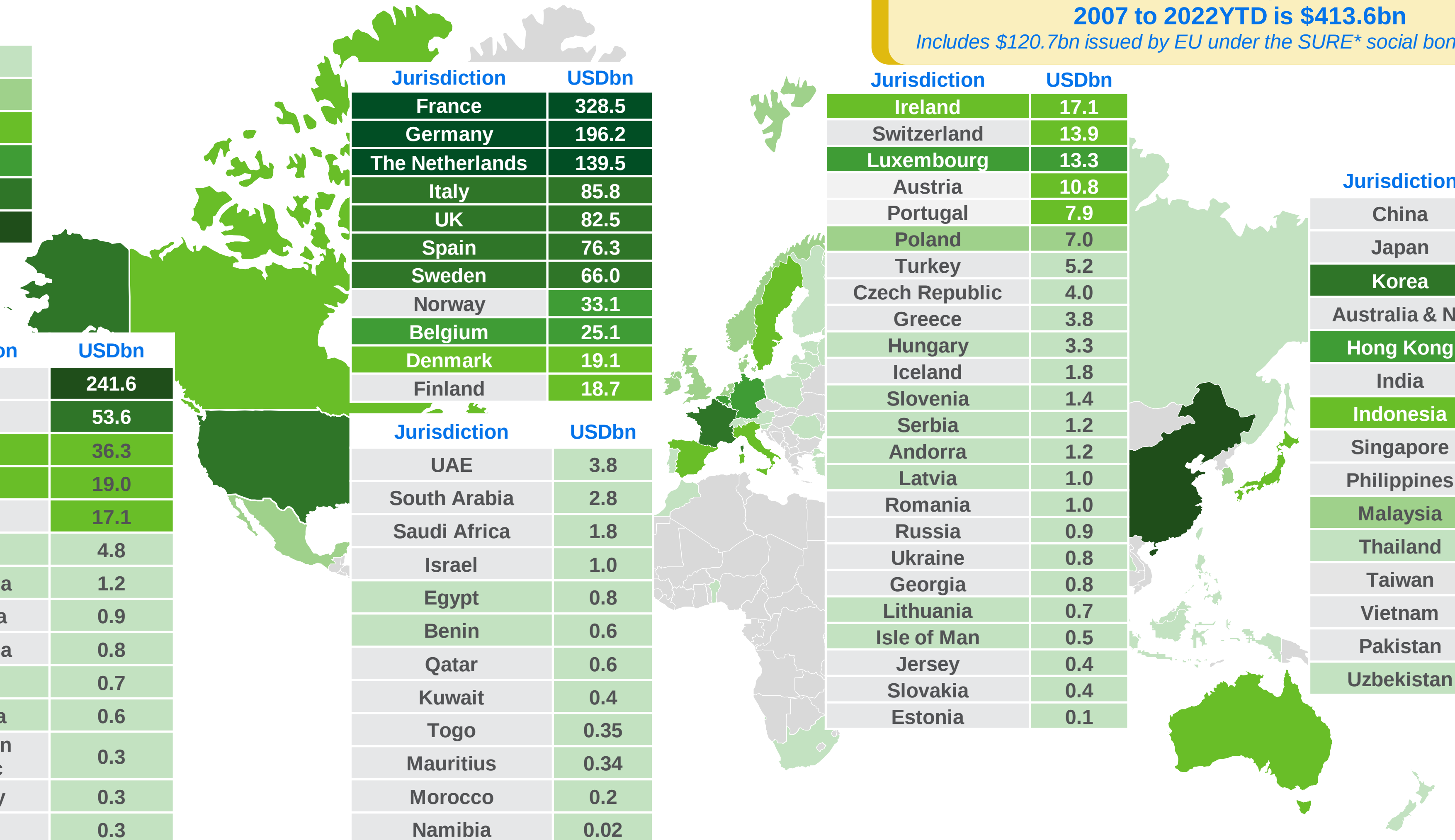
- Out of all sustainable-labelled debt in 2021, sustainability-linked loans took the second largest share at **27.5%,** worth a total of **$453bn,** with **Financials (23%), Consumer Discretionary (13%) and Utilities (11%)** accounting for the greatest share of issued SLLs by industry in the same year.
- In 2021, **Europe issued the most sustainability-linked loans at 48% ($224bn)**, followed by **North America at 36% ($164bn)**, and **Asia at 12% ($53bn)**
- Sustainability-linked loans saw a staggering **700% increase in issuance in APAC in 2021** from 2020, worth almost **$60bn,** with **Singapore** leading the share of SLLs issued in Asia in the same year at **43%.**
- Rising environmental and social pressure and market regulation or governmental policies have driven more companies to issue sustainability-linked loans
- Additionally, improvements in quality of disclosure on non-financial performance metrics, such as ESG performance data, has also been instrumental to the growth of sustainability-linked debt issuance
- The updated sustainability-linked loan principles promote greater transparency and integrity of the product and an increased sophistication in how key performance indicators are established, driving increased popularity in the issuance of sustainability-linked loans

Geographical Growth of Labelled Green/Sustainability Bonds

From tall trees to green shoots: green bonds are spreading across the world

Total issuance volume for Supranational entities from 2007 to 2022YTD is $413.6bn

Includes $120.7bn issued by EU under the SURE social bond instrument*



<USD5bn
5-10bn
10-20bn
20-50bn
50-100bn
> 100bn

Jurisdiction	USDbn
US	241.6
Canada	53.6
Chile	36.3
Mexico	19.0
Brazil	17.1
Peru	4.8
Guatemala	1.2
Argentina	0.9
Costa Rica	0.8
Ecuador	0.7
Colombia	0.6
Dominican Republic	0.3
Paraguay	0.3
Panama	0.3
Fiji	0.184

Jurisdiction	USDbn
France	328.5
Germany	196.2
The Netherlands	139.5
Italy	85.8
UK	82.5
Spain	76.3
Sweden	66.0
Norway	33.1
Belgium	25.1
Denmark	19.1
Finland	18.7

Jurisdiction	USDbn
UAE	3.8
South Arabia	2.8
Saudi Africa	1.8
Israel	1.0
Egypt	0.8
Benin	0.6
Qatar	0.6
Kuwait	0.4
Togo	0.35
Mauritius	0.34
Morocco	0.2
Namibia	0.02
Seychelles	0.015

Jurisdiction	USDbn
Ireland	17.1
Switzerland	13.9
Luxembourg	13.3
Austria	10.8
Portugal	7.9
Poland	7.0
Turkey	5.2
Czech Republic	4.0
Greece	3.8
Hungary	3.3
Iceland	1.8
Slovenia	1.4
Serbia	1.2
Andorra	1.2
Latvia	1.0
Romania	1.0
Russia	0.9
Ukraine	0.8
Georgia	0.8
Lithuania	0.7
Isle of Man	0.5
Jersey	0.4
Slovakia	0.4
Estonia	0.1

Jurisdiction	USDbn
China	258.8
Japan	89.5
Korea	77.6
Australia & NZ	36.8
Hong Kong	28.8
India	22.0
Indonesia	12.6
Singapore	10.6
Philippines	5.6
Malaysia	5.1
Thailand	4.6
Taiwan	3.8
Vietnam	0.6
Pakistan	0.5
Uzbekistan	0.2

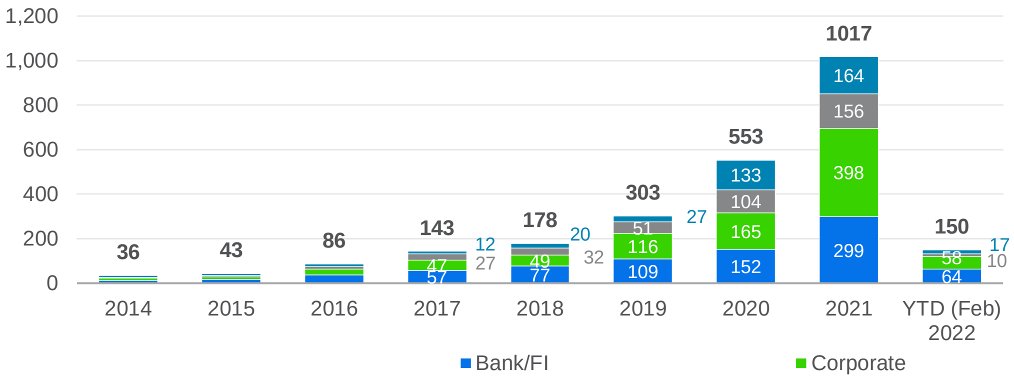
Source: Dealogic and Bloomberg as of 28 February 2022
* Support to mitigate Unemployment Risks in an Emergency (SURE)

ESG Bond Issuance Trends

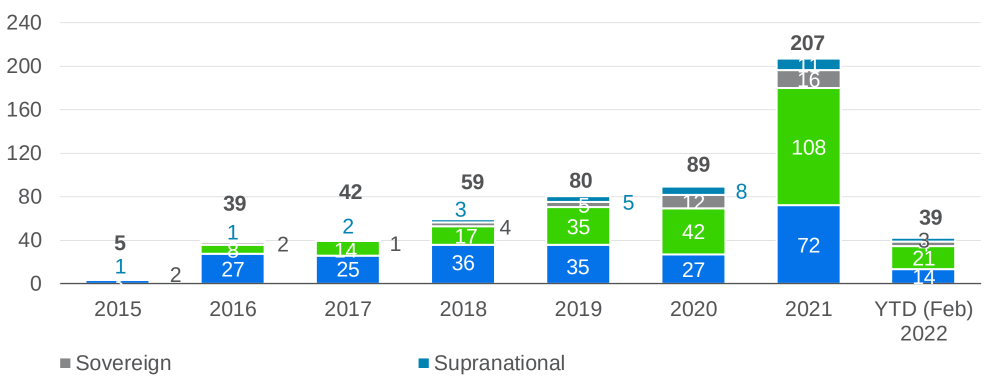
Globally, and in Asia, there has been steady and increasing growth in Sustainable finance issuance and borrowing in the recent years. The market is also exhibiting increasing sophistication, evidenced by growing volumes in issuances, and issuance in varied formats.

Total ESG Bond Issuances (bn)

Global

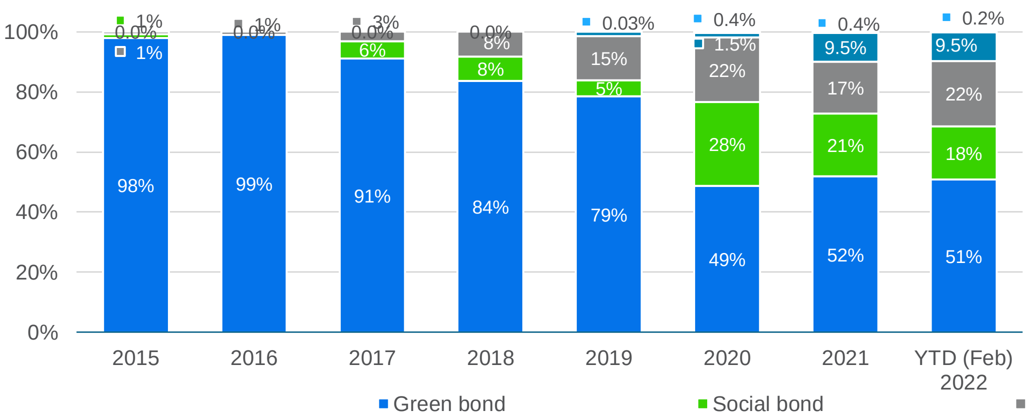


Asia

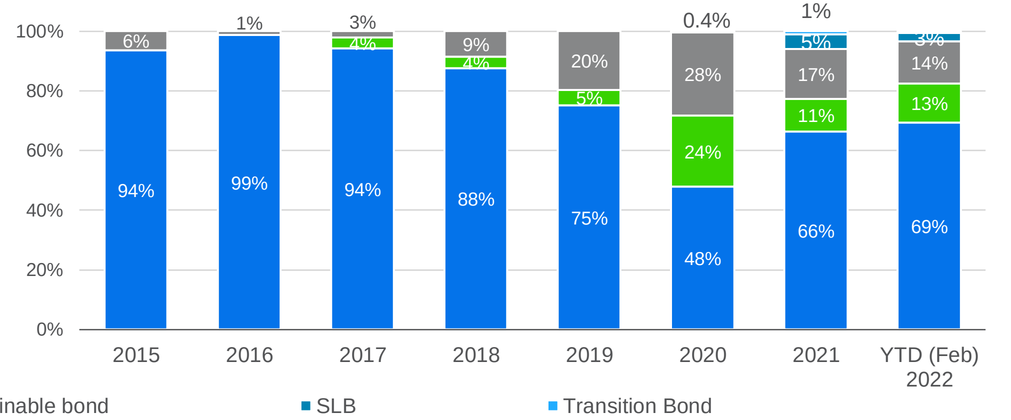


Green, Social and Sustainability Bonds Issuance Split (%)

Global



Asia



 Source: Climate Bonds data, Dealogic and Bloomberg as of 28 Feb 2022

Sustainable Finance Principles

We will help our clients navigate each relevant guideline across the various sustainability categories

	Use of Proceeds Instruments				Sustainability-Linked
	Green	**Social**	**Sustainability**	**Transition**	
Guidelines	The Green Bond Principles 2017; Climate Bonds Initiative; Green Loan Principles	The Social Bond Principles; Social Loan Principles	The Sustainability Bond Guidelines	Climate Transition Finance; Climate Bonds Initiative	The Sustainability-Linked Bond Principles; Sustainability Linked Loan Principles
Financing Type	**Bonds / Loans**	**Bonds / Loans**	**Bonds**	**Bonds**	**Bonds / Loans**
Starting	2014	2018	2019	2020	2020
Last updated	2021	2021	2021	n/a	2022 (Loans)
Aim	To facilitate and support **environmentally sustainable** economic activity.	To facilitate **socially sustainable** economic activity.	To facilitate and support **environmentally AND socially sustainable** economic activity.	To facilitate **climate transition-related** activity in line with the goals of the Paris Agreement	To facilitate and support improvements in **Issuer-level sustainability performance**
Applications / Eligible Projects	• The **finance or re-finance** of **new and/or existing** eligible "**green**" projects • The Green Bond/Loan Principles lists 10 categories of green projects including but not limited to **climate change adaption, clean transportation, renewable energy, natural resource conservation, biodiversity conservation and pollution prevention / control.**	• The **finance or re-finance** of **new and/or existing** eligible "**social**" projects • The Social Bond Principles set out a non-exhaustive list of 6 categories of social projects including **affordable basic infrastructure, access to essential services, affordable housing, employment generation through SME financing / microfinance, food security and socioeconomic advancement / empowerment.**	• The **finance or re-finance** of **new and/or existing** eligible "**green**" and/or "**social**" projects (see prior column for eligible green and social projects)	• The **finance or re-finance** of "**transition**" projects to reach their **climate change strategy** • Eligible Transition Projects – These are typically **sector-specific or sector-driven** projects aligned with established science-based trajectories and pathways • Additional **Issuer-level disclosures** are required on: The company's climate transition strategy and governance; Business model environmental materiality; Climate transition strategy to be 'science-based' including targets and pathways; and Implementation transparency	• The use of proceeds can be unlinked to categories and typically used for **general corporate purposes**. • The company's performance against predetermined sustainability objectives **affects** the interest rate, **incentivising improved performance over time** • Typically includes a **pricing discount or penalty** dependent on the **instrument and market conditions**

Standard Chartered has developed 3 Sustainable Finance Frameworks…

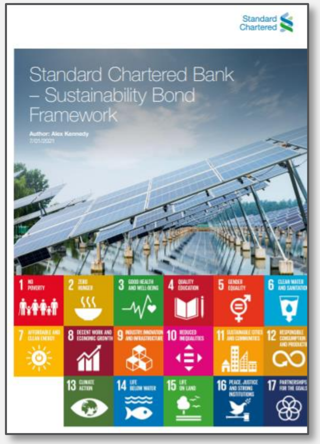
Green and Sustainable Product Framework

Our Green and Sustainable Product Framework sets out the themes and activities that are eligible for labelling as ‘Green’ or ‘Sustainable’.

It sets out themes under green, social and COVID-19 categories with accompanying narrative around our broader approach to Sustainability at Standard Chartered, including our Position Statements.

The Framework has been reviewed by Sustainalytics and is updated on an annual basis, in collaboration with them. Each year the list of eligible activities is refined to reflect current best practice in the market.

It notes areas where there is broad alignment between the Framework and the EU Taxonomy at sub-theme level.



Sustainability Bond Framework

Our Sustainability Bond Framework has received a Second Party Opinion from Sustainalytics.

It is closely linked to our Green and Sustainable Product Framework and allows us to issue Group Sustainability Bonds.

It aligns to the ICMA Sustainability Bond principles, setting out eligible use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.

We go through an annual process of updating our Sustainability Bond Framework to reflect updates to our Green and Sustainable Product Framework.

To date we have issued three Group Sustainability Bonds (EUR 500m in 2019; USD 500m and EUR500m in 2021).

Transition Finance Framework

Our Transition Framework sets out the themes and activities that are eligible for labelling as ‘Transition’. Products which are eligible under the Green and Sustainable Product Framework will remain labelled as ‘green’ or ‘sustainable’.

The Transition Framework also sets out the governance processes around how we will consider assets not on the list of qualifying activities for transition labelling.

The Framework is based on the IEA Net Zero Emissions by 2050 scenario (“NZE”). It will support achievement of SCB’s Net Zero targets, and our USD 300bn Green and Transition Finance target.

It will be reviewed on at least an annual basis to reflect latest developments in science and technology. At present it only allows for an asset-based assessment. We expect this to evolve to include an entity-level approach going forward.

SCB's Sustainable Finance Value Proposition

Standard Chartered is supporting sustainable finance across our dynamic footprint.
We strongly believe that we can help our clients with innovative and sustainable solutions.

Overview

- At Standard Chartered, we have **dedicated Sustainable Finance teams** based in London, Singapore, HK, Dubai and Nairobi working on wide range of innovative solutions. The team brings together our experience and expertise in managing ESG risks as well as spotting opportunities and structuring solutions to drive positive impact financing.
- Our Green and Sustainable Finance Framework is **mapped to the UN Sustainable Development Goals (SDGs)** and lists what we as an organisation view as sustainable activities. It has received a Second Party Opinion from Sustainalytics, an independent verifier, who verified that it aligned with the green, social and sustainable financing principles.

Product Suite

Loans

- **Green Loans**: Green use of proceeds
- **Sustainability-linked Loans (SLL):** pricing is linked to ESG performance
- **Transition Loans**: for companies which are in greenhouse gas (GHG) intensive industries such as extractives, chemicals and transportation, but do have financing needs to reduce their GHGs

Bonds

- **Green Bonds:** enable capital-raising for new and existing projects with environmental benefits
- **Social Bonds:** proceeds exclusively applied to finance social projects
- **Sustainability Bonds:** bonds with a mix of social and green elements
- **Transition Bonds**: for companies which are in greenhouse gas (GHG) intensive industries such as extractives, chemicals and transportation, but do have financing needs to reduce their GHGs

Deposits

- **Sustainable Deposit:** deposits which allow the clients to have their capital referenced against sustainable assets*
- Can be booked in Hong Kong, London, New York, and Singapore with the following currencies:
  - **Hong Kong** – HKD and USD
  - **London and New York**: EUR; GBP and USD
  - **Singapore** – SGD and USD

ESG Advisory

- Provide thematic and bespoke advice to support our clients on environmental and social issues across topics such as
  - **ESG ratings advisory**
  - **ESG KPI Benchmarking**
  - **ESG Strategy Advisory**
  - **Climate Risk**
  - **Framework creation**

Derivatives

- **'Use of Proceeds' ESG Derivatives**: Derivatives that hedge market risks arising from ESG financing
- **ESG Performance Linked Derivatives**: Derivatives that link the payoff with ESG performance

Trade Finance

- Sustainable use of proceeds or sustainability linked structures to support our clients' Trade Financing flows:
  - **Import and Export Letter of Credits**
  - **Guarantees**
  - **Supplier Finance**
  - **Receivables Services**
  - **Import and Export Invoice Financing**

Cash Management

- **Sustainable Accounts:** Funds deposited will be used to fund projects that are aligned to Standard Chartered's Green and Sustainable Product Framework.
- Can be booked in London and UAE with more markets live in 2022

Carbon Trading

- Emissions trading products that will assisting clients in the
  - **Trading,**
  - **Financing,** and
  - **Investment**

emissions reduction / carbon credits

Introduction to ESG Bonds and Loans

Green, Social and Sustainability Bonds / Loans Overview

Green, Social and Sustainability Financing Instruments (bonds, loans, sukuk) are **Use of Proceeds** instruments where proceeds are allocated to finance green and/or social projects. GSS Instruments are governed under the relevant International Capital Market Association ("ICMA") / Loan Market Association ("LMA") Principles.

Green Bond/Loan Proceeds would be used to fund eligible green projects.

Eligible Green Projects (ICMA/LMA Green Bond/Loan Principles):

Renewable Energy	Energy Efficiency	Pollution prevention and control	Terrestrial and Aquatic Biodiversity	Clean Transportation
Sustainable Water and Wastewater Management	Climate Change Adaptation	Eco-efficient products etc	Environmental Sustainable mgmt. of living natural resources and land use	Green Buildings

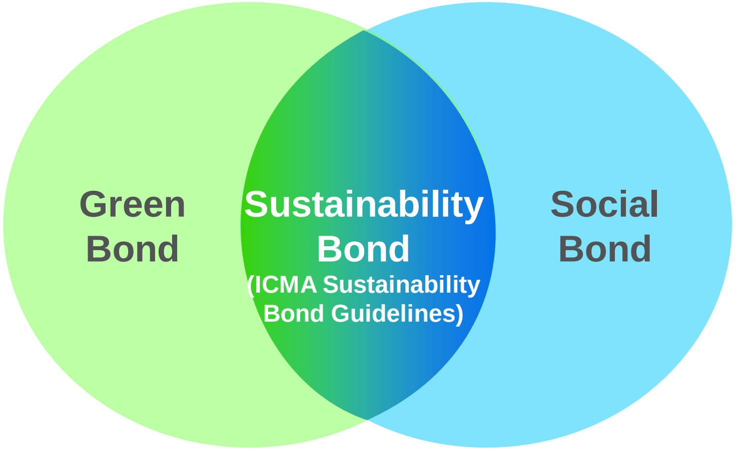
Social Bond/Loan Proceeds would be used to fund eligible social projects serving specified target populations.

Eligible Social Projects (ICMA/LMA Social Bond/Loan Principles):

Affordable Basic Infrastructure	Access to Essential Services e.g. Healthcare, Education
Affordable Housing	Employment Generation
Food Security	Socioeconomic advancement and empowerment

A social target population should be identified

Sustainability Bonds combine green and social use of proceeds. Additionally, sustainability bonds may have a Sustainable Development Goals (SDG) angle where they are aligned toward achieving specific SDGs.

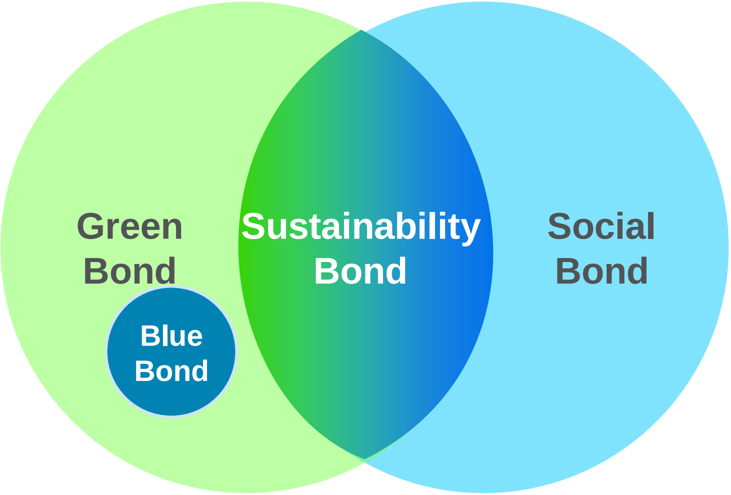


Source: ICMA, Climate Bonds

Green, Social and Sustainability Bonds Overview (cont'd)

Green, Social and Sustainability Bonds ("GSS Bonds") are **Use of Proceeds** bond where proceeds are allocated to finance green and/or social projects.

- Under these broad types, there may be other variations / "thematic" bonds, such as **Blue Bonds**



- As there are no separate widely-accepted market based principle for Blue Bonds, Blue Bonds are generally follow the Green Bond Principles
- Proceeds are targeted toward **marine and ocean-based projects** that have positive environmental, economic and climate benefits

Potential Use of Proceeds

- ✓ Sustainably manage and protect marine and coastal ecosystems including restoration
- ✓ Reduction in marine pollution, including marine debris and nutrient pollution
- ✓ Minimize and address the impacts of ocean acidification
- ✓ Effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices

Issuers of Blue Bonds

Republic of Seychelles

ADB **Asian Development Bank**

NIB NORDIC INVESTMENT BANK

中国银行 BANK OF CHINA

seaspan

Source: ICMA, Climate Bonds

Sustainability-Linked Bonds / Loans

- **Sustainability-Linked Bonds ("SLBs")** are any type of bond instrument for which the **financial or structural characteristics (coupon etc.)** can vary depending on whether the issuers achieve predefined Sustainability/ ESG objectives. It is a forward-looking performance-based instrument.
- Similarly, **Sustainability-Linked Loans ("SLL")** are like a standard facility, but pricing is linked to a specific set of metrics; pricing falls/rises depending on our client's achievement or non-achievement of Sustainability Performance Targets (SPTs).
- Proceeds can be used for **General Corporate Purposes**
- The key difference between SLB and SLL is that SLB typically has an **asymmetrical payoff structure** (coupon step-up only), while SLL may have a **pricing benefit (coupon reduction to borrower)** should the company meet its sustainability performance targets.

ICMA Sustainability-Linked Bond Principles / LMA/ APLMA/ LSTA Sustainability-Linked Loan Principles:

Selection of Key Performance Indicators (KPIs)	Calibration of Sustainability Performance Targets (SPTs)	Bond Characteristics	Reporting	Verification

Example: Enel – First ever Sustainability-Linked Bond

Scope 1 Greenhouse gas (GHG) emissions (measured in grams of CO2 per kWh)	**2017 (Baseline):** 414 **2023 Target:** 148 *(64% reduction)* **2030 Target:** 82 *(80% reduction)*	25bp step up in Coupon in interest payment dates following the reference date	KPI will be reported on an annual basis in its Sustainability Report	Performance at the reference date will be verified by External Verifier

1. Recommended specially where benchmarks are not available or lack clear performance thresholds pertinent to the issuer

Transition Bonds

- **Transition bonds** are intended for companies which are:
  - In **greenhouse gas-intensive industries / 'hard to abate sectors'** such as materials, extractives, chemicals and transportation
  - In industries which currently do not (and for the foreseeable future may not) have sufficient green assets to finance but do have financing needs to reduce their greenhouse gas footprint of their business activities
- Companies should have an **overall "Transition" strategy** to reduce their emission in alignment with Net-Zero

Example Applicable Sectors

Shipping

Aviation

Gas Distribution

Power Generation

Steel Production

- Generally, Transition Bonds follow a **Use of Proceeds structure, adhering to the Green Bond Principles** as an overall guidance
- Besides following the four pillars of the GBP, Transition Bonds should also adhere to the recommended disclosures under the **ICMA Climate Transition Finance Handbook**
  - **Issuer's transition strategy and governance** (Should be aligned with goals of Paris agreement)
  - **Business model environmental materiality** (Investments to be materially relevant to business model)
  - **Science-based targets and pathways** (Should follow existing science-based guidance toward emissions reduction relevant for the sector)
  - **Implementation transparency** (Detailed capex plan should be laid out)

ESG Bond and Loan Issuance Process

Key Client Decision Pathways

Sustainable Finance structures have two broad categorisations

1) Financing where the **use of proceeds** will result in tangible social or environmental benefit linked to the SDG's, can be verified and monitored. Though not always requires companies typically outline guidelines on acceptable Use of proceeds is outlined in a framework and verified via a second party opinion
2) **Sustainability linked transactions** where there use of proceeds in not specific but the structures incentivises or disincentivises performance against pre agreed sustainability KPI's. An external verification provides third-party oversight for the method, monitoring, and reporting of such targets.

	Framework	SPO/ Verification	Proceeds
Green, Social, Sustainability Bond (Bullets)	Framework needed	Second Party Opinion External Verification	Specific Use of Proceeds
Sustainability-linked Bond	Framework needed Issuer-Level Strategy	Second Party Opinion External Verification of Targets	General Corporate Purposes
Green Loan	Framework optional	If no Framework: External Verification If Framework: Second Party Opinion	Specific Use of Proceeds
Sustainability-linked Loan	No Framework needed ESG Ratings Transition Strategy	External Verification License Rating	General Corporate Purposes

Source: Sustainalytics, SC

Creating a Sustainable Finance Framework

The process for issuing a Green, Social or Sustainability bond or loan entails drafting a **Sustainable Finance Framework (“Framework”)** that is aligned with the relevant market principles, and obtained a **Second Party Opinion (SPO)** or review of the Framework.

Green, Social, Sustainability, Transition Bond / Loan Framework

- A **Green, Social, Sustainability, Transition Bond / Loan Framework** will be aligned to one, or a combination of, the ICMA’s **Green Bond Principles**, **Social Bond Principles**, **Sustainability Bond Guidelines** and **Green Loan Principles and/or Social Loan Principles**
- As well as detailing different expenditure categories, the Framework will lay out the internal governance to **select projects** and **manage proceeds** and commitment to both **allocation and impact reporting**

Use of Proceeds

Process for Project Evaluation and Selection

Management of Proceeds

Reporting

Sustainability-Linked Bond / Loan Framework

- A **Sustainability Linked Framework** will be aligned to the ICMA’s **Sustainability Linked Bond Principles** and LMA/APLMA/LSTA’s **Sustainability Linked Loan Principles**
- The Framework will specify the **ESG targets** the financing can align to as well as the **rationale** for choosing the targets. It will also specify the **commitment to reporting** on progress and for **external verification**

Selection of KPIs

Calibration of SPTs

Bond Characteristics

Reporting

Verification

Annual Reporting

- Green, Social or Sustainability Bonds and loans: Annual Reporting will highlight the bond proceeds being allocated to pre-defined projects. Impact reporting is increasingly being considered by issuers as it provides information to investors on the positive externalities of their investments

	Allocation Reporting	Impact Reporting
What is it?	• A list and brief description of projects to which proceeds have been allocated and amount allocated	• Reporting that seeks to quantify the climate, environmental and/or social impact of a project/asset
Is it mandatory?	• **Mandatory**	• **Not mandatory but recommended**, and also in order to meet market best practice and investor expectations
Specific Considerations	• No fixed format, but issuer can report on a **Project level or a Portfolio / Category level**	• ICMA Harmonized Handbook for impact reporting provides guidance on impact reporting indicators per Eligible category.

- Sustainability-Linked Bonds and Loans: Annual Reporting will highlight the **performance against the specific KPIs and pre-defined targets**. This should be audited / externally verified at least on an annual basis

Selecting a Second Party Opinion Provider

A independent review is a **'hygiene factor'** for any green/ sustainability bond. The most commonly used formula is to obtain a **pre-issuance SPO** on the framework and a **post-issuance verification report** on the bond. At the minimum, investors would ask for a pre-issuance review of the framework. A comparison of key SPO Providers are as follows:

	SUSTAINALYTICS	DNV	ISS CORPORATE SOLUTIONS	CICERO	MOODY'S ESG Solutions	S&P Global
SPO Scope Details	Issuer's ESG evaluation and framework analysis	Issuer's framework analysis	Issuer's ESG evaluation and framework analysis	Issuer's framework analysis	Issuer's ESG evaluation and framework analysis	Issuer's framework analysis
Market Share (2021)	**Largest provider with 27% market share**	**2nd largest provider with 18% market share**	**3rd largest provider with 15% market share**	**4th largest provider with 10% market share**	**5th largest provider with 7% market share**	**8th largest provider with 5% market share**

Note: Highlighted SPO providers are eligible under HKMA's Green and Sustainable Finance Grant Scheme (GSF Grant Scheme)

Kick-off Meeting	Evaluations	Feedback	Final Document	Marketing	Annual Reviews
Understand issuer's framework and sustainability objectives	Evaluate use of proceeds, governance processes, KPIs and reporting commitments	Negotiation between SPO provider and our client, led by SC, to align Framework and SPO	Finalized Second Party Opinion received	Coordinated press releases and published on both our client and SPO provider's website	Optional review of projects financed by any transaction using the Framework

Case Studies

The Republic of Ghana's Innovative Framework

StanChart supported the Republic of Ghana in **breaking new ground** for a sovereign globally by creating a framework with **both Use of Proceeds and Sustainability Linked** features. This is also the **first time ever** that a sovereign has published a sustainability linked framework.

Sustainability Linked Financing Framework

KPI1: Completion Rate in Senior High Schools

Definition: The number of persons in the relevant age group who have completed the last grade of a given level of education is divided by the total population of the same age group.

SPT 1: Increase the Completion Rate in Senior High Schools to at least 75% by 2029/30 (from 2017/18 baseline)

	2016/17	2017/18 (Baseline)	2018/19	2019/20	2029/30 (Target)
Completion Rate in SHS	48.0	52.5	55.9	64.1	↑ 75

KPI2: Hospital Beds per Capita

Definition: *The number of hospital beds (including labor and delivery beds) is divided by the total population and multiplied by 10,000*

SPT 2: Increase Hospital beds per capita (per 10,000 population) to 14 *(54% increase)* by 2030 from 2020 (baseline)

	2016/17	2017/18 (Baseline)	2018/19	2019/20	2029/30 (Target)
Hospital beds per capita	9.68	10.05	9.98	9.07	↑ 14

Green, Social and Sustainability Financing Framework

- RENEWABLE ENERGY
- ENERGY EFFICIENCY
- POLLUTION PREVENTION & CONTROL
- SUSTAINABLE LAND USE & CONSERVATION
- SUSTAINABLE WATER & WASTEWATER MANAGEMENT
- CLEAN TRANSPORTATION
- CLIMATE CHANGE ADAPTATION
- GREEN BUILDINGS
- ACCESS TO ESSENTIAL SERVICES
- SOCIOECONOMIC ADVANCEMENT AND EMPOWERMENT
- AFFORDABLE BASIC INFRASTRUCTURE
- AFFORDABLE HOUSING
- EMPLOYMENT GENERATION
- FOOD SECURITY

Sustainalytics' Second Party Opinion

Use of Proceeds Instruments

SUSTAINALYTICS SECOND-PARTY OPINION

Sustainalytics is of the opinion that the Republic of Ghana's Sustainable Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021 (the "Use of Proceeds Principles").

Sustainability Linked Instruments

KPI	SPT	Strength of the KPI	Ambitiousness of the SPT
KPI 1 - completion rate in senior high schools	Increase the completion rate in senior high schools, to 75% by 2030	Very strong	Ambitious
KPI 2 - hospital beds per capita	Increase hospital beds per capita to 14 per 10,000 population by 2030	Strong	Ambitious

Etihad Airways (Transition Sukuk) Case Study

In October 2020, Etihad announced its inaugural Sustainability Linked Transition Sukuk under its Transition Finance Framework. This issuance was the first ever combination of a transition and a Sustainability Linked issuance globally and first sustainability-linked/transition bond for the aviation sector.
The Transition Finance Framework includes both a Use of Proceeds Framework and a Sustainability-Linked Framework.

Etihad's Transition Targets

- In response to the goals of the Paris Agreement, Etihad formed a dedicated **Sustainable Development Committee** in November 2019 to define, foster and facilitate sustainability efforts within the organization.
- Etihad a **signatory of CORSIA (under the ICAO)** as well as of the EU-ETS
- Etihad follows the following emission-reduction pathways: (i) sustainable aviation fuels, (ii) voluntary carbon-offsets and (iii) operational efficiencies
- Etihad has been an active supporter of alternatives to fossil fuel, and reports that in 2020 the airline has operated four flights using synthetic fuels, including a flight of the signature 'Greenliner' 787

Short Term Target

- **20% reduction in emissions intensity** (CO_2/RTK) in our passenger fleet by 2025, based on EAG fleet transformation plan initiated in 2017

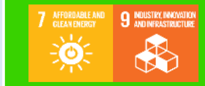
Long Term Target

- **Reduce 2019 net emissions levels by 50% by 2035**
- **Net zero emissions by 2050**

Etihad's long-term target is more ambitious than the IATA target to reduce by 50% net CO_2 emissions from aviation by 2050 compared to 2005 figures.

1 Use of Proceeds Framework

The Use of Proceeds Framework allocates funds to eligible projects that achieve improvements in energy efficiency (i.e., fleet upgradation) as well as R&D into biofuels

Eligible category	Description	Examples
Energy Efficiency 	Development, manufacture and/or installation of energy efficiency aviation technologies and products with least 15% improvement in energy efficiency	• Investments in next generation aircraft to replace old fleet (such as Boeing 787-9 and Boeing 787-10)
	R&D in sustainable aviation fuels, including biofuels, for improved fuel efficiency with at least 80% reduced direct emissions	• Research and development into Sustainable Aviation Fuels • Exclusions: (a) Aviation fuels derived from non-RSPO certified Palm oil (b) Non-waste biofuels that compete with food production and (c) Biofuels that negatively impact biodiversity

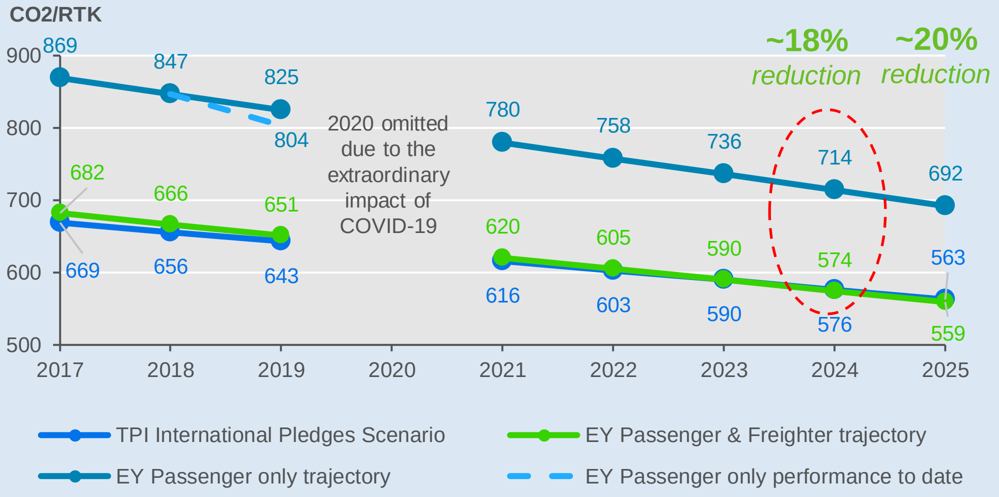
Etihad Airways (Transition Sukuk) Case Study

2 Sustainability-Linked Framework

Etihad commits to a carbon intensity KPI (CO2/RTK) on its passenger and freighter business to be assessed as at end 2024. Should Etihad miss the target, it commits to purchase additional carbon offsets on top of existing CORSIA commitments.

Eligible category	Description
Key Performance Indicator (KPI)	CO2/RTK (entire fleet – passenger & freight) Carbon Emissions per revenue tonnes kilometres
Sustainability Performance Target (SPT)	**714 CO2/RTK** for passenger fleet, which results in **574 CO2/RTK for entire fleet** • Represents ~18% reduction in emissions intensity by 2024, against 2017 baseline • In line to achieve ~20% reduction by 2025
Sukuk Characteristics	Etihad **commits to purchase additional carbon offsets** on top of existing CORSIA commitments if it misses the target, following a scale of 5-25bps on the sukuk notional. Offsets purchased will be cancelled for use

Offset Purchase (equivalent amount on sukuk notional)	CO2/RTK Range (g/tonne Km)	
	From	**To**
25bps	>736	
20bps	>730.5	736
15bps	>725	730.5
10bps	>719.5	725
5bps	>714	719.5



Etihad's SPT trajectory up until 2024 exceeds the CORSIA target to reduce emissions intensity by 2% per annum to 2050 using a 2010 baseline and below Transition Pathway Initiative's (TPI) International Pledges Scenario

Vigeo Eiris was the SPO provider for Etihad's Transition Finance Framework and provided the following assessment:

Use of Proceeds:

- The framework is fully **Aligned** with the pillars of the GBP
- The ESG risk management is **Robust** across its projects
- The impact to sustainability on R&D is **Robust** and that on the fleet upgradation is Limited (this is because the benchmark is Green Bond Principles given the lack of internationally accepted Transition Bond Principles)

Sustainability-Linked:

- The relevance of the KPIs is **Advanced**
- The ambition of the SPT is **Robust**

Selected Sustainability-linked Loan Case Studies

Semiconductor Manufacturer

USD2,000 Mn

Largest Global SLL in Foundry

Sustainability Coordinator

Nov 2021

- Largest Sustainability-linked Loan in Global Foundry Industry
- One of the world's largest semiconductor foundry for its market dominance and leading technology
- KPI's include
    - **GHG emissions**
    - **Air pollutant emissions**
    - **Water quality**
    - **Increasing share of renewable energy**

China Gas Capital Management Limited

USD900 Mn

Sustainability-linked Syndicated Term Loan Facility

Mandated Lead Arranger & Bookrunner

Aug 2021

- Landmark Sustainability-linked Loan within the Gas Industry
- China Gas is a top 2 city gas distributor in China in terms of total volume of gas sold
- KPI's include:
    - **Both environmental and social KPI's**

CSSC Shipping Co,

USD96 Mn

First Shipping Transaction in GCNA

Sustainability-Linked Structure Coordinator and Mandated Lead Arranger

June 2021

- First Sustainability-linked Shipping Finance for Greater China and North Asia
- CSSC (HK) Shipping is the first ship-yard-affiliated leasing company in China
- KPI's include:
    - **Average efficiency ratio of the vessels**
    - **Other sustainable indicators**

Baring Private Equity Asia

USD3,200 Mn

First GCNA SLL Fund Finance with Carbon Mechanism

Sustainability Coordinator, Original Lender

Oct 2021

- First ESG-linked Subscription Facility incorporating all three ESG factors and with a carbon offset mechanism
- BPEA is one of the leading private investment firms in Asia advising over USD23bn of assets under management
- KPI's include:
    - **Investment process**
    - **Diversity KPI**
    - **SBTi commitments**

ASE Group

USD505 Mn

First Global SLL Semiconductor OSAT

Sustainability Coordinator

Jul 2021

- First Sustainability-Linked Loan Globally for the semiconductor industry
- The ASE Group is the world's largest Outsourced Semiconductor Assembly & Test ("OSAT") service provider
- KPI's include:
    - **GHG (Green House gas emission)**
    - **DJSI (Dow Jones Sustainability Indices) rating**

Republic of Ghana

Sustainable Finance Framework

First sovereign published a sustainability linked framework

Framework Drafting

Jul 2021

- First Sustainability-linked Framework for a Sovereign
- The Republic of Ghana is based in sub-Saharan Africa
- KPIs include:
    - **Completion rate in senior high schools**
    - **Hospital beds per capita**

Baring Private Equity Asia

ISS ESG

BPEA
Baring Private Equity Asia

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Borrower and
Sustainability-Linked Subscription Facility

SUSTAINABILITY CREDIBILITY OF KPIs AND SPTs

KEY PERFORMANCE INDICATORS (KPIs) & SUSTAINABILITY PERFORMANCE TARGETS(SPTs)

	Relevant	Core	Material		Past Performance	Peers	International Targets
KPI 1*	✓	✓	MM	SPT 1	AL	LI	LI
KPI 2*	✓	✓	✓	SPT 2	LI	A	LI
KPI 3*	✓	✓	✓	SPT 3	LI	A	LI
KPI 4*	✓	✓	✓	SPT 4	NB	A	A

Legend
A = Ambitious
AL = Ambitious, with limitations
LI = Limited information available to assess level of ambition
MM = Moderately Material
NB = Not Benchmarkable
*For further information on KPIs and SPTs, please refer to page 2.

CREDIBLE

SUSTAINABILITY-LINKED LOAN PRINCIPLES ALIGNMENT

PRINCIPLES ALIGNMENT

1. Relationship to Borrower's Overall Sustainability Strategy ✓
2. Selection of KPIs ✓
3. Calibration of SPTs ✓
4. Loan Characteristics ✓
5. Reporting ✓
6. Verification ✓

ALIGNED

SUSTAINABILITY PERFORMANCE ASSESSMENT

ISSUER SUSTAINABILITY PERFORMANCE

Baring Private Equity Asia (BPEA) is among the largest private alternative investment firms in Asia with investment strategies focusing on private equity, real estate, and credit.

ISS ESG finds that the KPIs selected by the borrower constitute material sustainability topics to its operations. Further, this transaction is in line with the borrower's sustainability strategy. The rationale for issuing Sustainability-Linked Securities is clearly described by the issuer.

CONSISTENT WITH BORROWER'S SUSTAINABILITY STRATEGY

ISS ESG's SPOs provide bond and loan issuers with a credible and independent assessment of the sustainability quality of their transactions.

Those that meet ISS ESG's rigorous global standards give sustainability-oriented investors security that the projects they fund have a material ESG impact.

ISS ESG

BPEA
Baring Private Equity Asia

ANNEX

Key Performance Indicators (KPIs) and associated Sustainability Performance Targets (SPTs)

KP1: Increase ESG Risk and Opportunity Assessment during Due Diligence	•For at least 75% of the total number of investment opportunities that advanced to FDIR (First Draft Investment Recommendation) stage, there is an enhanced, standalone ESG Risk and Opportunity Assessment, with sector-specific focus topics that guide more targeted ESG due diligence and inform ESG value creation plan during ownership.
KPI2: GHG Emissions Reporting and Reduction at Portfolio Company Level	•At least 75% of Portfolio Companies achieve their respective GHG emissions target. •a) Reporting on Scope 1, 2 and 3 GHG emissions, noting Scope 3 will only be included when > 40% of total emissions •b) If a Portfolio Company is already reporting emissions, setting a GHG emissions reduction target •c) If a Portfolio Company is already reporting emissions and has set a target, meeting the reduction target
KPI3: Gender Diversity in Portfolio Company's Senior Management	•At least 75% of Portfolio Companies achieve their respective gender diversity target: •a) If a Portfolio Company's gender diversity is below 25%, target is set at 25% •b) If a Portfolio Company's gender diversity is below 40%, target is set at 40% •c) If a Portfolio Company's gender diversity is 40% or above, staying at or above 40% is considered meeting the target
KPI4: GHG Emissions Reduction Pathway validated by SBTi	•Set and meet a Science-Based Target for the entire BPEA platform, covering both its own operations and its Portfolio Companies. •a) Submit the SBTi Commitment Letter •b) GHG Emissions Reduction Targets to be validated by SBTi •c) Meet the Target SBTi Portfolio Coverage

HKSAR Green & Sustainable Finance Grant Scheme

HK Green and Sustainable Finance Grant Scheme

To encourage more Green and Sustainable bond issuance in Hong Kong, HKMA introduced the Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) starting from 10 May 2021 and effective for 3 years. The GSF Grant Scheme consists of two tracks:

1. General Bond Issuance Costs (up to HKD2.5 million for rated issuer / up to HKD1.25 million for unrated issuer): covering bond issuance expenses (e.g., arrangement, legal, audit, listing fees, etc.) for **eligible first-time green and sustainable bond issuers**
2. External Review Costs (up to HKD800,000): covering transaction-related external review fees (e.g. including pre-issuance external review and post-issuance external review or reporting) for **eligible green and sustainable bond issuers** and **loan borrowers**, **including first-time and repeated issuers and borrowers**

	Track I – General Bond Issuance Costs	Track II – External Review Costs
Effective Period	10 May 2021 and last for three years	
Eligible Issuers	**First-time green and sustainable bond issuers**, defined as issuers who have not issued green and sustainable bonds in Hong Kong in the rolling five-year period prior to the bond's pricing date (Issuers who have issued only non-green and sustainable bonds during the five-year period will still be eligible.)	**Green and sustainable bond issuers and loan borrowers**, including **first-time** and **repeated** issuers and borrowers
Eligible issues	Eligible green and sustainable **bond** criteria: • having procured pre-issuance external review services related to the bond issue by a recognised external reviewer; • being issued in Hong Kong • having an issuance size of at least **HK$1.5 billion** (or the equivalent in foreign currency) • CMU clearing OR HKSE listing • More than 10 investors (if less than 10 investors, none of whom is an associate of the issuer)	Eligible green and sustainable **bond and loan criteria**: • having procured pre-issuance external review services related to the bond issue by a recognised external reviewer; • being issued in Hong Kong (**half or more of the lead arrangers are recognised arrangers or loan amount is from Hong Kong)** • having an issuance size of at least **HK$100 million** (or the equivalent in foreign currency) • CMU clearing OR HKSE listing • More than 10 investors (if less than 10 investors, none of whom is an associate of the issuer) Eligible green and sustainable loan must satisfy the following criteria: • having procured pre-issuance external review services related to the loan by a recognised external reviewer • being issued in Hong Kong

HK Green and Sustainable Finance Grant Scheme (Cont'd)

	Track I – General Bond Issuance Costs	Track II – External Review Costs
Grant Amount	The grant amount for each green and sustainable bond issue is equivalent to half of the eligible expenses, up to the following limits: • HKD2.5 million if the issuer/guarantor is rated • HKD1.25 million if the issuer/guarantor is unrated Each issuer can apply for a grant for two green and sustainable bond issuances at most	Full cost of eligible expenses paid to recognised external reviewers, capped at HK$800,000 per bond issuance/loan
Eligible expenses	• Bank fee • Legal counsel fee • Auditor fee • Ratings fee • SEHK listing fee • CMU Lodging / Clearing fee (Expenses relating to external review services are covered separately under Track II - External Review Costs)	Eligible expenses include all transaction-related fees for: • pre-issuance external review (including, for example, certification, second-party opinion, verification, ESG scoring/rating, assurance, consultation to develop the green and sustainable bond/loan framework) • post-issuance external review or reporting
Application Process	• **Pre-application consultation:** Prior to or after the issuance of the bond/loan, the lead arranger(s)/lender(s) may, on behalf of the issuer/borrower, consult the HKMA via gsfgs@hkma.gov.hk on a pre-application before submitting the formal application. The HKMA will give a no-objection to the pre-application if it is satisfied that, based on the preliminary information provided by the lead arranger(s)/lender(s), the eligibility requirements for the GSF Grant Scheme are met • **Formal application:** A formal application may be made by the lead arranger(s)/lender(s) within three months after the bond/loan is issued, or within three months of the invoice date in the case of post-issuance external reviewer costs7. Applicants may obtain the Issuer/Borrower Application Form, Arranger Information Form and External Reviewer Information Form from the HKMA via gsfgs@hkma.gov.hk. The HKMA will process applications in monthly batches	
Remark	• A bond is considered issued in Hong Kong if half or more of the involved lead arranger(s) are recognised arrangers. Bond arranging activities comprise originating and structuring, legal and transaction documentation preparation, and sale and distribution • A loan is considered issued in Hong Kong if at least half of the loan amount is borrowed from Hong Kong-based lenders • The rating agencies recognised by the HKMA are: Fitch Ratings, Moody's Investors Service, Rating and Investment Information, Inc, and Standard and Poor's Ratings Services • Expenses covered by another grant scheme(s) in Hong Kong or outside Hong Kong are ineligible	

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