Webinar: Environmental Information Disclosure by Financial Institutions and Green Bond Issuers

Session II: Disclosure by Green Bond Issuers

Presented by

Ms. Tan Ai Chin
Managing Director
Senior Banker Client Coverage &
Head of Investment Banking
OCBC Malaysia

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Green & Sustainable Financing – OCBC’s Journey

- At OCBC, we are committed to developing a comprehensive and innovative range of solutions targeted at promoting sustainable development in key focus industries and ultimately supporting the achievement of our focus SDGs.

- Our goal is to double the Sustainable Financing portfolio by 2025 and reduce the financing of coal fired power generation.

### Our Focus Areas

<table>
<thead>
<tr>
<th>Financing Solutions</th>
<th>Project Finance</th>
<th>Green Loans and Green Bonds</th>
<th>Sustainability-Linked Loans</th>
<th>Green Capital Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus Industries</td>
<td>Renewable Energy</td>
<td>Green Buildings</td>
<td>Water Management</td>
<td>Clean Transportation</td>
</tr>
</tbody>
</table>

### Our Sustainable Finance Market Leadership

**APAC (EX-JAPAN) GREEN LOANS (2019)**

<table>
<thead>
<tr>
<th>Position</th>
<th>Institution</th>
<th>Amount (USD m)</th>
<th>Market Share (%)</th>
<th>No. of Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OCBC</td>
<td>2,416.53</td>
<td>9.02</td>
<td>21</td>
</tr>
<tr>
<td>2</td>
<td>DBS</td>
<td>2,220.54</td>
<td>8.28</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>SMBC</td>
<td>1,857.68</td>
<td>6.93</td>
<td>18</td>
</tr>
</tbody>
</table>

### Notable Sustainable Financing Deals

- **MYR245m ASEAN Sustainability SRI Sukuk**
  - OCBC
  - Bookrunner
  - Principal Adviser / Lead Arranger / Lead Manager

- **EUR500.0m Green Bond**
  - OCBC

- **SGD670.0m Green Loan**
  - OCBC
  - Bookrunner

- **USD650.0m Sustainability-linked Loan**
  - OCBC
  - Green Loan Adviser

- **USD2.1b Sustainability-linked Loan**
  - OCBC
  - Mandated Lead Arranger
  - Bookrunner

- **USD200.0m Sustainability-linked Loan**
  - OCBC
  - Sole Financier
# Green Financing Standards – A Malaysian Snapshot

<table>
<thead>
<tr>
<th>Product Developer</th>
<th>Global Bond Standards</th>
<th>Developed from ICMA’s Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Green Bond Standard</strong></td>
<td>The Green Bond Principles 2017</td>
<td>ACMF ASEAN Green Bond Standards</td>
</tr>
<tr>
<td><strong>Social Bond Standard</strong></td>
<td>The Social Bond Principles</td>
<td>ACMF ASEAN Social Bond Standards</td>
</tr>
<tr>
<td><strong>Sustainability Bond Standard</strong></td>
<td>The Sustainability Bond Guidelines</td>
<td>ACMF ASEAN Sustainability Bond Standards</td>
</tr>
<tr>
<td><strong>Sustainable and Responsible Sukuk Standard</strong></td>
<td></td>
<td>SRI Sukuk Framework (under SC’s Guidelines on Unlisted Capital Market Products)</td>
</tr>
</tbody>
</table>

Malaysian Corporate Bond / Sukuk issuers are highly encouraged to adopt these standards / frameworks, subject to meeting eligibility criteria.
Sustainability Bonds / Sukuk – What Are They?

- Sustainability Bonds / Sukuk are essentially corporate bonds / Sukuk which incorporate features of both Green Bonds and Social Bonds in one issuance / facility.
- The International Capital Market Association (“ICMA”) had developed the Sustainability Bond Guidelines in 2018, which was subsequently adopted by the ASEAN Capital Markets Forum and the Securities Commission of Malaysia (“SC”) to develop the ASEAN Sustainability Bond Standards.

### Green Bonds

**Key Project Categories**
- Renewable energy
- Energy Efficiency
- Sustainable Water and Wastewater Management
- Pollution Prevention & Control
- Environmentally sustainable Management of Living Natural Resources & Land Use
- Terrestrial and Aquatic Biodiversity Conservation
- Clean Transportation
- Climate Change Adaptation
- Eco-efficient Adapted Products / Production Technologies / Processes
- Green Buildings

### Core Components

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

### Social Bonds

**Key Project Categories**
- Affordable Basic Infrastructure e.g. clean water, sewers, transport, energy etc.
- Access to Essential Services e.g. healthcare, education etc.
- Affordable Housing
- Employment Generation (through SME Financing & Microfinance)
- Food Security
- Socioeconomic Advancement and Empowerment

**Sustainability Bonds**

Combination of Green AND Social Elements
Malaysia’s Renewable Energy Financing Journey

- Renewable energy financing via Green bonds / Sukuk has been a key segment of Malaysia’s capital markets since the first Sukuk issuance to finance a large scale solar photovoltaic plant in 2017.
- Since then, the large scale solar bonds / Sukuk continue to dominate sustainable capital market financing activities, which has largely been driven by the award of large scale solar (LSSPV) projects by the Energy Commission, Malaysia – the process has gradually shifted from direct awards towards a more competitive tendering process by promoters / sponsors.
- To date, 3 rounds of competitive bidding have successfully closed, with phase 4 targeted for launch by end 2020.
- The LSSPV scheme is envisaged to support the Government’s target to achieve a 20% contribution of renewable energy sources in the electricity generation mix, up from the c.2% contribution at present.

<table>
<thead>
<tr>
<th>Direct Awards</th>
<th>LSSPV 1</th>
<th>LSSPV 2</th>
<th>LSSPV 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity of Projects Awarded (MW)</td>
<td>Bilateral negotiations with each project sponsor</td>
<td>3 to 50</td>
<td>1 to 30</td>
</tr>
<tr>
<td>Total Capacity Awarded (MW)</td>
<td>451</td>
<td>562</td>
<td>491</td>
</tr>
<tr>
<td>COD Date</td>
<td>2017 - 2018</td>
<td>2019 - 2020</td>
<td>Expected 2021</td>
</tr>
<tr>
<td>Bond / Sukuk Project Financing Transactions</td>
<td>Tadau Energy, Quantum Solar, Edra Solar</td>
<td>Sinar Kamiri, UiTM Solar</td>
<td>TBD</td>
</tr>
</tbody>
</table>

*Competitive Bidding process overseen by the Energy Commission*
OCBC’s Sustainability Sukuk Case Study – Edra Solar

<table>
<thead>
<tr>
<th>Deal Summary</th>
<th>Deal Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer/Project Company</strong></td>
<td>▪ <em>First ASEAN Sustainability SRI Sukuk in Malaysia</em></td>
</tr>
<tr>
<td>Edra Solar Sdn Bhd (&quot;Edra Solar&quot;)</td>
<td>▪ <em>First Solar Socio-Agricultural Sukuk</em></td>
</tr>
<tr>
<td><strong>Sponsor/Shareholder</strong></td>
<td>▪ <em>First Project Financing Sukuk for a completed solar power plant</em></td>
</tr>
<tr>
<td>China General Nuclear Power Corporation (&quot;CGN&quot;)</td>
<td>▪ <em>First Solar Sukuk via book building mode of issuance</em></td>
</tr>
<tr>
<td><strong>Facility</strong></td>
<td>▪ <em>First time participation from high net worth investors in Solar Sukuk</em></td>
</tr>
<tr>
<td>MYR245.0 million ASEAN Sustainability Sustainable and Responsible Investment (SRI) Sukuk (&quot;Sukuk&quot;)</td>
<td>▪ <em>Unprecedented bid to cover ratio of more than 11 times</em></td>
</tr>
<tr>
<td><strong>OCBC’s Roles</strong></td>
<td>▪ OCBC’s pioneering role in sustainable and responsible financing has allowed us to work with clients to bring high quality and socially responsible Sukuk to investors and it is our testament of our pledge to drive towards a low carbon and self-reliant society.</td>
</tr>
<tr>
<td>▪ Sukuk Sustainability Framework Adviser</td>
<td>▪ The success of Edra Solar’s Sustainability SRI Sukuk is evidence that focusing on sustainability agenda which combines social and environment as pillars to a project will allow project sponsors to derive the most cost optimal financing for their projects.</td>
</tr>
<tr>
<td>▪ Shariah Adviser</td>
<td></td>
</tr>
<tr>
<td>▪ Sole Principal Adviser / Lead Arranger</td>
<td></td>
</tr>
<tr>
<td>▪ Joint Lead Manager / Bookrunner</td>
<td></td>
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<tr>
<td>▪ Facility and Security Agent</td>
<td></td>
</tr>
</tbody>
</table>

Best SRI Sukuk
Alpha South East Awards 2019

Malaysia Capital Markets Deal of the Year
IFR Awards 2019
### OCBC’s Sustainability Sukuk Case Study – Edra Solar (cont’d)

<table>
<thead>
<tr>
<th>Sustainability ‘Pillar’</th>
<th>ASEAN Green Bond Standards</th>
<th>ASEAN Social Bond Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> <strong>Use of Proceeds</strong></td>
<td>Development of a 50MWac solar photovoltaic generation facility (“Solar Project”)</td>
<td>Development of a 40-acre fruit farming area surrounding the Solar Project</td>
</tr>
<tr>
<td><strong>2</strong> <strong>Process for Project Evaluation and Selection</strong></td>
<td>Conducted feasibility and environmental studies on the project site</td>
<td>Conducted studies covering the soil conditions, suitability of fruit farming as well as the social impact arising from the agriculture activities</td>
</tr>
</tbody>
</table>
| **3** **Management of Proceeds** | Proceeds generated from the Solar Project will be deposited into the accounts and utilised in accordance with the terms and conditions under the financing documents | The Issuer will enter into a tenancy agreement with a government agency which will:-
- Provide the land usage to the local farmers without any charges
- Manage the farming together with the local farmers through a joint venture with a shared capital commitment of 70:30 between the farmers and the government agency |
| **4** **Reporting** | - Sustainability Sukuk Framework and the external review report will be made publicly available on Edra Group’s website
- The Issuer shall also provide annual reporting via newsletters, website updates, annual report or any other communication channels on the amounts earmarked and utilized for the Project, impact objectives, and other performance-related reporting | |
Sustainability-Linked Financing – An Overview

Purpose: Subjected to the use of proceeds being in accordance with identified UN SDG’s

Key Feature: Financial incentives to Issuer, via reduction in profit margin, for achieving the SPTs

Result: Positive contribution towards sustainable development and being environmentally responsible

Examples of SPT’s:
- Alignment with the Issuer’s CSR objectives
- Increase in the energy efficiency level
- Reduction in greenhouse gas emission
- Increase in use of renewable energy
- Reduction in carbon footprint
- Reduction in water consumption
- Increase in the use of verified sustainable raw materials / supplies

*Note: Driven by the Issuer’s overall Sustainability Agenda / Objectives
OCBC’s Sustainable Investment – Ihsan Sukuk

### Deal Summary

<table>
<thead>
<tr>
<th><strong>Issuer</strong></th>
<th>Ihsan Sukuk Berhad (“Ihsan Sukuk”)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsor/Shareholder</strong></td>
<td>Khazanah Nasional Berhad (“Khazanah”)</td>
</tr>
<tr>
<td><strong>Issuances</strong></td>
<td>Two Sukuk issuances under an MYR1.0B Sustainable and Responsible Investment (SRI) Sukuk Programme:</td>
</tr>
<tr>
<td></td>
<td>1. MYR100.0 million (2015)</td>
</tr>
<tr>
<td></td>
<td>2. MYR100.0 million (2017)</td>
</tr>
<tr>
<td><strong>OCBC’s Role</strong></td>
<td>Sukuk investor</td>
</tr>
</tbody>
</table>

### Deal Highlights

- **The Sukuk programme was the first programme approved by the Securities Commission under the Sustainable and Responsible Investment (SRI) Framework in 2015.**

- **Proceeds from the Sukuk issuances were channeled to Yayasan Amir (see diagram below) to manage its cash flow under the Trust Schools Programme.**

- **This Sukuk presents a new method of funding for the purpose of education and a means for investors to fulfil their corporate responsibility.**

- **‘Pay-for-success’ structure – if at maturity, the KPIs are met, the investors will forego a pre-agreed percentage of the nominal amount due under the SRI Sukuk as part of their social obligation. Investors are given option to waive their rights, benefits and entitlements to interest and principal.**

- **OCBC was the sole foreign bank to subscribe to the issuances in 2015 and 2017 – our investment into the SRI Sukuk was part of OCBC’s overall CSR programme.**

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84 schools across 10 states.

“Working towards a better Malaysia, one school at a time”
## Sustainability Disclosure Requirements for MYR Bonds / Sukuk

To ensure adherence with each of the **4 Core Components** under the **ASEAN Green / Social / Sustainability Standards**, MYR bond / Sukuk issuers will typically ensure adequate disclosure of information via the following:

<table>
<thead>
<tr>
<th>Typical Disclosure Documents</th>
<th>Timeline for Release</th>
<th>Description</th>
<th>Method of Disclosure</th>
</tr>
</thead>
</table>
| 1 Green / Social / Sustainability Framework | Prior to deal launch | ▪ Framework to be developed and established prior to deal launch, to ensure compliance with applicable sustainability standard / guideline  
▪ May be project-specific (i.e. limited to that of the project company) or part of the Sponsors’ overall sustainability framework (i.e. group-wide corporate initiatives) | ▪ To be made available on the issuer’s / sponsors’ corporate website, or a public domain to be identified  
▪ Appended to bond / Sukuk marketing documents |
| 2 External Review / Verification / Certification | Prior to deal launch | ▪ Optional review on the applicable sustainability framework | |
| 3 Information Memorandum / Offering Circular | At deal launch | ▪ Key marketing documents containing financial and non-financial information with regards to the issuance  
▪ Would include the sustainability framework and external review report, if applicable | ▪ Circulated by deal lead managers to prospective investors  
▪ Uploaded onto publicly-available domains (i.e. SC’s website) |
| 4 Periodic Reports | To be disclosed on a periodic basis | ▪ Annual (or more frequent) reporting by issuer to maintain up-to-date information (project details, financing amounts, impact) on use of proceeds  
▪ External review / verification / certification highly recommended | ▪ To be made available on the issuer’s / sponsors’ corporate website, or a public domain to be identified |
Thank You

Disclaimer

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