

# **Unlocking Green Products: Future Opportunities for Green and Sustainable Financing**

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**Presented by Frank Heung**

**Head of Structured Finance,  
Commercial Real Estate & Corporate Advisory  
Hang Seng Bank Limited**

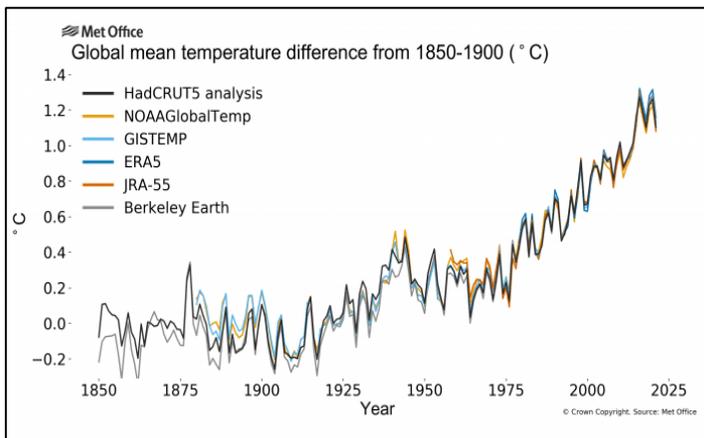


# Future Opportunities for Green and Sustainable Financing

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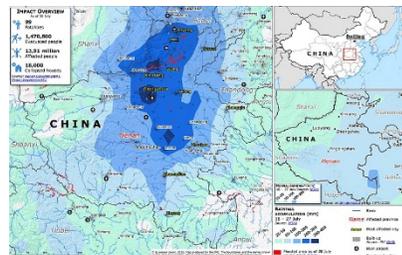
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## Environmental Impact Globally



### The world becoming warmer and warmer

- Globally, 2021 was likely to be one of the seven warmest years on record, according to six leading international datasets consolidated by the World Meteorological Organization.



### Climate Disasters in 2021

- The 2021 Henan Floods were the result of heavy rainfall in China's Henan Province from 17 – 31 July 2021.
- The floods caused the evacuation of >1million people, and overall affecting 14 million people around the province. The intensity of the floods were believed to have been exacerbated by extreme weather caused by climate change in China.
- Worst bushfire in Australia in recorded history, causing an estimated damage of **AUD103 billion**.
- Hurricane Ida striking the United States, causing a damage of **USD75 billion**.



### Environmental Impacts in Hong Kong

- Leads to huge financial damage → Poses enormous risks to businesses all across the globe
- Super Typhoon Mangkhut in 2018 → A direct loss of **HKD\$4.6 billion** to the local economy → Insurance claims incurred from the typhoon were to cost sector up to **HKD\$ 3.7 billion** in total
- 2019 and 2020 were the two hottest years in Hong Kong; In 2021, both the number of very hot days and number of hot nights have broken the records
- In Hong Kong, with record-breaking monthly mean temperatures, 2021 was the warmest year on record with an annual mean temperature of 24.6 degrees, 1.1 degrees above the 1991-2020 normal.

## Global Efforts in Tackling Climate Change



### Paris Agreement on Climate Change

- Developed countries must make good on their promise to mobilise at least **\$100bn** in climate finance per year by 2020.



### Carbon Neutrality

- China aims to hit peak emissions before 2030 and for carbon neutrality by 2060.
- Hong Kong announced its Climate Action Plan 2050 on 8 October 2021, which clearly sets out the target of achieving carbon neutrality before 2050.



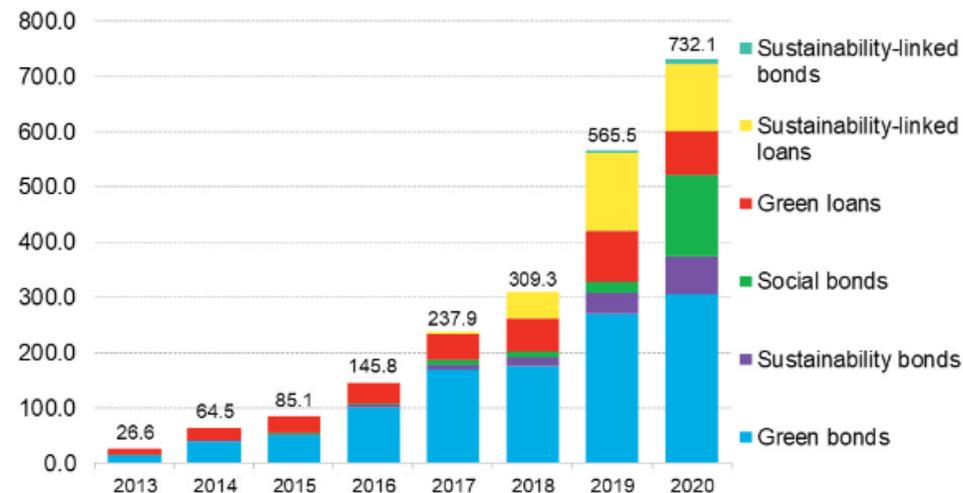
### White Paper on Green and Sustainable Banking

- Published by the Hong Kong Monetary Authority in 2020
- Outlines HKMA's initial views on the supervisory expectations for authorized institutions (AIs) in addressing climate-related issues.
- According to the HKMA, total green bond and loans issued in Hong Kong amounted to **USD12 billion**, which was triple the amount in 2017.

White Paper on Green and Sustainable Banking

## Sustainable Finance becoming a global trend

### Global Green and Sustainability Debt Issuances (2013-2020)



Source: BloombergNEF, Bloomberg L.P.

## Moving towards a more sustainable future



### How sustainable finance may fit in

<b>Sustainability Linked Loan</b>	<b>Green loan</b>	<b>Sustainable supply chain finance</b>	<b>Advisory</b>
<b>Social Loan</b>	<b>Green bond</b>	<b>Supplier term lending</b>	
	<b>Transition bond</b>	<b>Green trade loan</b>	

# Hang Seng Bank's Role and Achievements in Green and Sustainable Financing



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## Hang Seng Bank's achievement in Green and Sustainable Financing

Aspires to become a leading entity to drive ESG in the banking industry.

### Establishment of Green Loan Team

- Green loan team was established in 2020.
- In 2021, Hang Seng Bank has approved over **HKD7.3 billion** green loans which was **14 times** of the HKD495 million in 2020 and exceeded the HKD5 billion target set at the beginning of 2021.

### Market Recognitions

- **MOU signing** with the Hong Kong Quality Assurance Agency (HKQAA) in August 2021.
- **“Outstanding Award for Green and Sustainable Loan Structuring Advisor (Greater Bay Area Corporate)”** is presented to Hang Seng Bank from HKQAA in December 2021.

### Products offering:

- Apart from **Green Loan** facilities program, our **Sustainability Linked Loan (SLL)** program was launched in 2021.



# Green Loan

## The Green Loan Principles (GLP)

Green loans are any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects:

Green Loan Principles		Steps for Borrowers
<b>Component 1</b> Use of Proceeds	<ul style="list-style-type: none"> <li>The utilisation of the loan proceeds must be for green projects</li> </ul>	<ul style="list-style-type: none"> <li>Consider which projects align with GLP</li> </ul>
<b>Component 2</b> Process for Project Evaluation and Selection	<ul style="list-style-type: none"> <li>The borrower should communicate to the lender what their environmental sustainability objectives are and how they have assessed the project as being green/sustainable</li> </ul>	<ul style="list-style-type: none"> <li>Evidence of the Environmental and/or Sustainability policies.</li> <li>Evidence project has met Regional, National, or Internationally recognised standards or certifications</li> </ul>
<b>Component 3</b> Management of Proceeds	<ul style="list-style-type: none"> <li>The borrower should appropriately track the loan proceeds to ensure transparency and integrity in the use of the proceeds</li> </ul>	<ul style="list-style-type: none"> <li>Establish an internal governance process through which it can track the allocation of funds towards green projects</li> </ul>
<b>Component 4</b> Reporting	<ul style="list-style-type: none"> <li>The borrower should report on the use of proceeds and the progress of the project to the lender on an annual basis, or until the funds are fully drawn</li> </ul>	<ul style="list-style-type: none"> <li>Where external review is required, this can be done by auditors, environmental consultants or ratings agencies</li> </ul>

## Green Loans are to support green projects including, but not limited, to....

-  Renewable energy, including storage & smart grids
-  Green buildings
-  Pollution prevention & control, including reduction of air emissions & greenhouse gas control
-  Eco-efficient &/or circular economy adapted products; production technologies & processes
-  Clean transportation
-  Sustainable management of living & natural resources and land use
-  Energy efficiency
-  Terrestrial & aquatic biodiversity conservation
-  Climate change adaptation
-  Waste prevention, reduction, recycling; waste to energy; products from waste
-  Sustainable water & wastewater management
-  Sustainable animal husbandry; climate smart farm inputs (e.g. crop protection)

## FAQs related to Green Loans

**Q: If a tranche of a loan is green, is the whole loan deemed green?**

A: No, only the green tranche will be classified as green.

**Q: Any excluded sector for green financing?**

A: Yes. Green financing does not extend to sectors including nuclear power generation, weapons, alcohol, gambling and adult entertainment. Updated IFC exclusion list shall also be followed. Except for excluded sectors above, it is encouraged to promote and explore green financing with customers from various sectors.

**Q: Any geographical restriction for green projects?**

A: No geographical restriction in principle.

**Q: Violation of green provision will cause event of default?**

A: In case it is concluded that the facility no longer complies Green Loan Principles, the facility shall be declassified as Green Loan immediately. Both lender and borrower shall cease disclosing such facility as green loan in all publications and marketing materials.



# Sustainability Linked Loan



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**Sustainability linked loans are any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivize the borrower’s achievement of ambitious, predetermined sustainability performance objectives.**

**The Sustainability Linked Loan Principle set out a framework, enabling all market participants to clearly understand the characteristics of a sustainability linked loan, based around the following five core components:**

SLLPs	Steps for Borrowers	
<p><b>Component 1</b> Selection of KPIs</p>	<ul style="list-style-type: none"> <li>◆ The borrower of a SLL should clearly communicate to its lenders the rationale behind the selection of KPIs</li> <li>◆ The KPIs should be material to the borrower’s core sustainability and business strategy, and address relevant ESG challenges of the industry sector.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Consider how KPIs are material to the core business, provide a definition of a baseline and benchmarked against industry standards</li> </ul>
<p><b>Component 2</b> Calibration of SPTs</p>	<ul style="list-style-type: none"> <li>◆ The SPTs should be ambitious and represent a material improvement in the respective KPIs; where possible be compared to a benchmark or an external reference; be consistent with the borrower’s overall sustainability ESG strategy; and be determined on a predefined timeline, set before or concurrently with the origination of the loan.</li> <li>◆ Where possible, make reference to the science behind the SPTs</li> </ul>	<ul style="list-style-type: none"> <li>◆ Ensure suitable benchmarks are in place based on internal historical performance and external peer comparison</li> <li>◆ Consider external second party opinion on appropriateness of SPTs</li> </ul>
<p><b>Component 3</b> Loan Characteristics</p>	<ul style="list-style-type: none"> <li>◆ An economic outcome is linked to whether the selected predefined SPTs are met.</li> <li>◆ The margin under the relevant loan agreement may be reduced when SPTs are met as measured by the pre-determined KPIs or vice versa.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Ensure performance metrics are clear between both parties</li> </ul>
<p><b>Component 4</b> Reporting</p>	<ul style="list-style-type: none"> <li>◆ Provide annual reporting to lenders participating in the loan with up-to-date information to allow them to monitor the performance of the SPTs</li> </ul>	<ul style="list-style-type: none"> <li>◆ Consider publically reporting performance, whether in annual reporting or CSR</li> </ul>
<p><b>Component 5</b> Verification</p>	<ul style="list-style-type: none"> <li>◆ Annually obtain independent and external verification of the performance level against each SPT for each KPI</li> <li>◆ Once reporting has been completed and external review has taken place, the lenders will evaluate the performance against the SPTs and KPIs based on the information available</li> </ul>	<ul style="list-style-type: none"> <li>◆ Verification is necessary for an SLL</li> <li>◆ Consider also making the verification public</li> </ul>

\*KPI: Key Performance Indicator

\*SPT: Sustainability Performance Target

## Environmental



Category	Example
<b>Energy Efficiency</b>	Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower.
<b>Greenhouse Gas Emissions</b>	Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle.
<b>Renewable Energy</b>	Increases in the amount of renewable energy generated or used by the borrower.

## Social



Category	Example
<b>Affordable Housing</b>	Increases in the number of affordable housing units developed by the borrowers.
<b>Employee Training</b>	Increasing training hours for employees.

## Governance



Category	Example
<b>Building Strong Corporate Governance &amp; Transparency</b>	Improvements in expertise of individuals sitting on the borrower's governance committees, e.g. audit committee, compensation committee, compliance committee and so forth.

## FAQs related to Sustainability Linked Loan (SLL)

### Q1: Is self certification allowed?

A: Self-certification is permitted provided that the information relating to SPTs is made publicly available or accompanied by an audit/ assurance statement, and the auditor should be reputable, independent and acceptable as per Hang Seng Bank's internal policy.

### Q2: Which companies are eligible reviewers for syndicated and bilateral transactions under Hang Seng Bank's SLL program?

A: For bilateral SLLs, Hong Kong Quality Assurance Agency (HKQAA) and recognized external reviewers under the HKMA Green and Sustainable Finance Grant Scheme are acceptable.

For syndicated/ club sustainability linked loans, the external certifier will be jointly assessed and agreed by all participating banks on a case-by-case basis.

### Q3: How many ESG Targets should be included?

A: 2 aspects are preferred (say "E" plus "S").

### Q4: Will failure to meet SLL provisions trigger event of default?

A: No. The loan will only be declassified as SLL.



## FAQs related to Sustainability Linked Loan



**Q5: how much does it cost to obtain external review export/opinion?**

A: depends on the complexity of the loan structure and number of Sustainability Performance Targets (SPTs) set.

In May 2021, HKMA has announced Green and Sustainable Finance Grant Scheme to reimburse review expenses to eligible green and sustainable loans.

Eligible criteria:

- recognized external reviewer (by HKMA)
- issued in Hong Kong loan size of at least HK\$200 million equivalent Grant amount capped at **HK\$800,000** per loan

**Recognized external reviewer include:**



The logo for Deloitte, consisting of the word 'Deloitte' in a bold, black, sans-serif font with a small green dot at the end.



# Comparison between Green Loans and Sustainability Linked Loans



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Feature	Green Loans	Sustainability Linked Loans
Definition	Any type of loan instrument made available <b>exclusively</b> to finance or refinance, in whole or in part, new and/or existing eligible 'green projects'	Any type of loan instrument and/or contingent facility that incentivizes the borrower's achievement of ambitious, predetermined <b>sustainability performance objectives</b> .
Loan Purpose	To finance/refinance <b>dedicated green project(s)</b>	To incentivise borrower's achievement of SPTs. In most instances, <b>for general corporate purposes</b> .
Market standards and principles	Green Loan Principles 1. Use of proceeds 2. Evaluation of underlying activities 3. Management of proceeds 4. Reporting	Sustainability-Linked Loan Principles 1. Selection of KPIs 2. Calibration of SPTs 3. Loan / Instrument Characteristics 4. Reporting 5. Verification
Target Setting	N/A	Sustainability Performance Targets (SPTs) setting is required
Loan Proceeds Control	Loan proceeds could only be used in the green projects	N/A
Margin Adjustment	N/A	Loan margin will be adjusted if SPTs are/ are not met



# Hang Seng Bank's Sustainable Finance Offerings and Procedures



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## Bilateral Loans

### Greenness Assessment Program

- Corporate customers who would like to obtain bilateral loans for financing/refinancing green projects exclusively with HKQAA's third party opinion.
- Corporate's green framework is assessed to be in accordance with the Green Loan Principles.

### Sustainability-Linked Loan Assessment Program

- Newly launched in September 2021.
- In accordance with the Sustainability-Linked Loan Principles.
- Common categories of KPIs (Key Performance Indicators) include energy efficiency, greenhouse gas emissions, water consumption, renewable energy, etc.

### Green Building Financing Program (*to be launched*)

- To be launched in January/February 2022.
- In accordance with the Green Loan Principles.
- Obtain the highest two-level grading from recognized Green Building Certifiers (e.g. LEED, BEAM Plus)



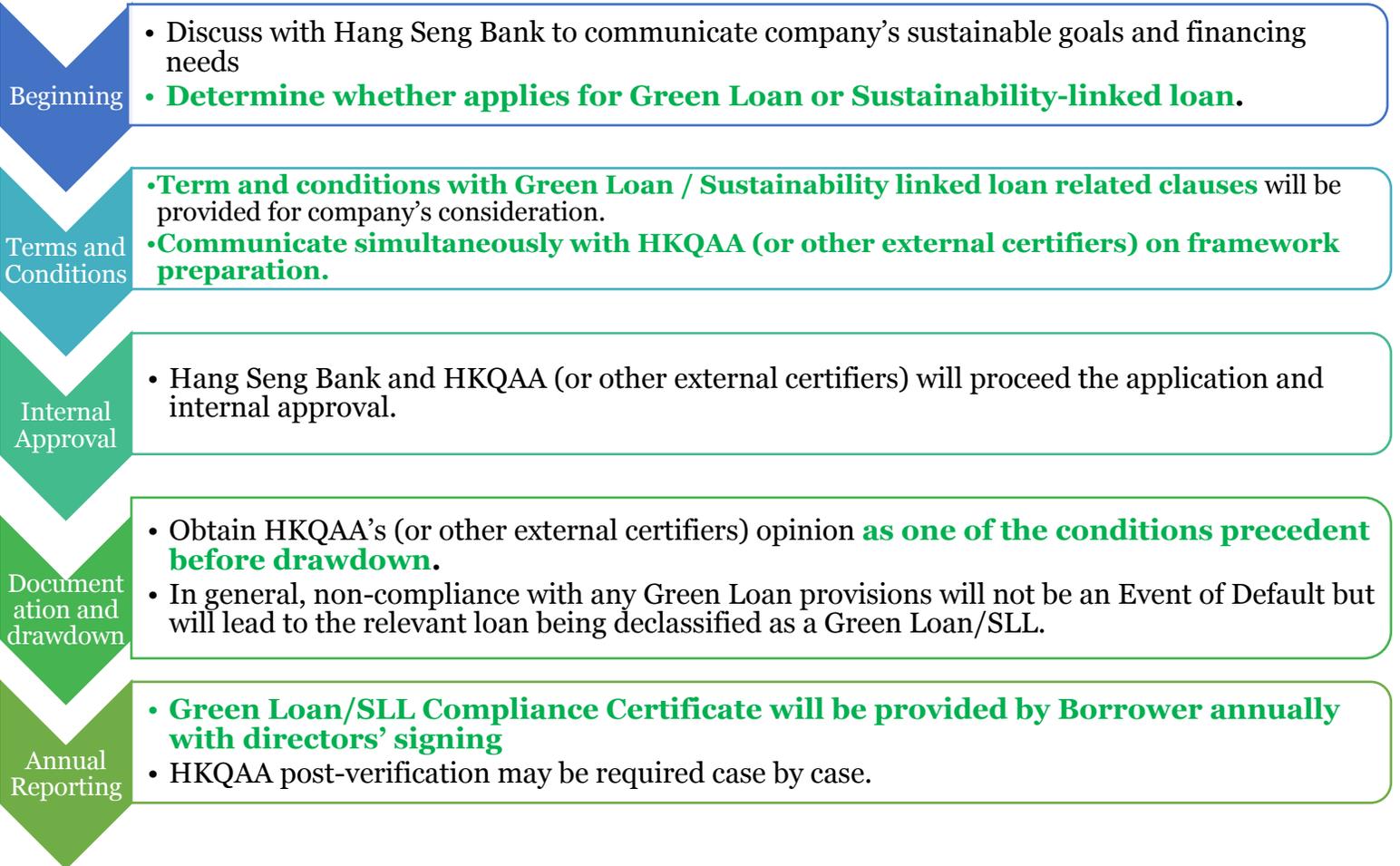
## Bilateral Loans

**Greenness and SLL Assessment programs** refers bilateral programs co-developed between **Hang Seng Bank and HKQAA**. A specialized and simplified Greenness and SLL Assessment checklist report is designed for client's application purpose.

-  Guidance on Green framework and SLL framework setting
-  Shorter turnaround time
-  Lower assessment cost compared to HKQAA "Green and Sustainable Finance Certification Scheme" open to public
-  Eligible under HKMA's Green and Sustainability Finance Grant Scheme  
*(Subject to requirements under HKMA's guideline of the Green and Sustainability Finance Grant Scheme)*
-  Standardized template for annual reporting
-  Suitable for first-time green loan applicant

# Bilateral Loans

## Application Process Highlights



# Case Studies



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## Case Study



- An externally certified green syndicated loan (verified by HKQAA) to a joint venture formed by two PRC real estate developers was closed.

	Summary
<b>Key Green Element</b>	Green Building
<b>Use of Proceeds</b>	To refinance a residential project which has obtained provisional BEAM Plus Gold rating.
<b>Project evaluation &amp; selection</b>	One single green project is identified.
<b>Monitoring of Proceeds</b>	Internal register is to be maintained on use of proceeds.
<b>Reporting</b>	Annual reporting to all lenders on loan proceeds allocation, project energy consumption and water consumption. Update on final BEAM Plus rating is required.
	<b>Key Required Document</b>
<b>Pre-drawdown</b>	Provisional BEAM Plus Gold Rating Certificate and Assessment Report Project Budget & Existing Facility Agreement Green Finance Framework and External Review Report by HKQAA
<b>Post-drawdown</b>	Annual Green Finance Report Final BEAM Plus Rating Certificate



## Common green building tools in Hong Kong

Hong Kong	BEAM Plus
US	LEED
China	China Green Building Label

BEAM Plus  
綠建環評



## Case Studies



- A bilateral green loan to a local pharmaceutical manufacturer in Hong Kong is closed under HKQAA Greenness Assessment Program.

	Summary
<b>Key Green Element</b>	Renewable Energy
<b>Use of Proceeds</b>	To finance capital expenditure of a solar panel installation project at its self-owned manufacturing site.
<b>Project evaluation &amp; selection</b>	One single green project is identified.
<b>Monitoring of Proceeds</b>	A designated account is set up to separate green loan proceeds.
<b>Reporting</b>	Annual reporting on loan proceeds allocation and solar energy generated under the project.
	Required Key Documents
<b>Pre-drawdown</b>	CLP Approval Letter on FiT Scheme Project Budget, Contract & Invoice HKQAA Greenness Assessment Checklist & Report
<b>Post-drawdown</b>	Hang Seng Bank Green Loan Certificate

Name	Title	Email	Direct Line
Frank Heung	Head of Structured Finance, Commercial Real Estate & Corporate Advisory	frankheung@hangseng.com	(852) 2198 4613
Marco Chan	Senior Vice President, Syndicated Finance, Green and Sustainable Financing and Corporate Advisory Department	marco.y.c.chan@hangseng.com	(852) 3662 0410

# Thank you!