



Sustainable Investment Banking

Presentation on Green Bonds

Presentation by

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Private & Confidential

YES Bank Green Bond's Experience

Funds raised

YES BANK Ltd.

India's FIRST Green Infrastructure
Bond
10 Yrs. Tenor



INR 10,000 mn

February 2015

- YES BANK issued India's first ever Green Bonds (AA+ by CARE) and one of the first amongst emerging economies raising an amount of 160 million USD (INR 1000 crore), in accordance with Green Bond Principles in February 2015
- The issue was a resounding success as it was subscribed 2x
- Originally intended to be 80 million USD plus green shoe option, which witnessed strong demand from leading investors resulting in a total subscription of 160 million USD.
- These bonds are for a tenor of 10 years with a coupon of 8.85%

YES Bank Limited

World's First Masala Bond listed in
LSE, issued by IFC and proceeds
invested in YES Bank Green Bond



INR 3,150 mn

August 2015

- Following YES BANK's successful issue, IFC raised INR 3.15 billion, a 5-year Green Masala bond on the London Stock Exchange in August 2015. The bond was issued under IFC's USD 3 billion offshore rupee Masala bond program. The bond yields 6.45% p.a. and were privately placed in YES BANK green bond (8.95%) for a tenor of 10 years, as a part of its Green Masala bond program.
- This first-ever investment by IFC in an emerging markets green bond further validates the tremendous commitment that global institutions have in YES Bank's Responsible Banking ethos. This transaction cements YES Bank's status as a pioneer in green energy financing in India.

YES Bank is engaged with Dutch Development Bank FMO to raise INR 3,300 Mn (approx. USD 50 million equivalent) through an issue of a 7-year Green Infrastructure Bonds on a private placement basis. This would be FMO's 1st Investment in a Green Bond issued by a bank in India

Application of Bond Proceeds

- YES BANK was the **first Bank to have made a commitment of funding 5 GW** of Renewable Energy projects and the funds raised via this bond issue will be utilized towards meeting this commitment.
 - YES BANK has also made a commitment of funding Clean Energy projects at the United Nations Climate Change Summit 2014.
 - YES BANK has always placed considerable emphasis on providing banking and financial solutions to Sunrise sectors of the Indian economy. Renewable energy is one such focus area identified by the Bank which also fits in perfectly with YES BANK's Responsible Banking ethos of mainstreaming a business case for sustainability across a wide spectrum of stakeholders.
- The amount raised used by YES BANK to finance Green Infrastructure Projects in Renewable Energy
 - ✓ Solar Power
 - ✓ Wind Power,
 - ✓ Biomass
 - ✓ Small Hydel Projects
 - These bonds were issued on the lines of Green bond principles
 - Key Pillars of YES Bank Green bonds :
 - ✓ Use of proceeds
 - ✓ Management of proceeds
 - ✓ Project Evaluation & Selection
 - ✓ Reporting
 - The use of the revenue raised verified through a third-party audit, and subject to external annual review
 - KPMG, India provides the assurance services on the use of proceeds in accordance with the Green Bond Principles

Motivations to issue Green Bonds

Benefits

- Following YES BANK's first issuance, other institutions followed suite, thus creating a market towards green financing: EXIM Bank, CLP India, Renew Power, IDBI, Axis Bank, HDFC, NTPC
- SEBI announced disclosure requirements for issuance and listing of Green Bonds in India

Exposure to positive Impact Sectors

- Proactive approach towards growing book in positive impact sectors

Commitment made during the UN climate Summit

- Commitment announced during the UN Climate Summit in September 2014 to invest in 500 MW annually, which was revised later to a 5000 MW commitment over five years

First Movers advantage

- Realizing the potential of Green Bonds, being issued in developed nations, YES BANK saw an opportunity to demonstrate this in a developing economy, and became the first bank in the country to issue Green bonds

Ethos of Responsible Banking

- An ethos of Responsible Banking and a strong 360° framework on ESG embedded with the credit policy, provides YES Bank with an edge to adopt the voluntary principles such as Green bonds Principles

Support RE target of Government of India

- Support the mammoth renewable energy target taken by GoI by providing access to domestic and foreign capital as well as better financing terms, including lower interest rates with longer lending terms

Learnings

Development of the High Yield Bond Market and Credit enhancement structures

- We believe that development of the high yield bond market (to support renewable energy debt), credit enhancement structures (to make renewable energy credit investment grade), REIT structures (infrastructure investment trusts) is key to attract long term yield investors in this sector.
- Participation by Indian long term yield investors (pension funds, insurance companies) in these products will then act as a catalyst for some of the global funds to follow.

Yieldco and Green bonds as vehicles

- Yieldco and Green bonds are excellent vehicles to channel equity and debt respectively.
- Right now the market for Yieldcos in emerging markets is somewhat poor but with stability in currency and market growth we expect the same to start generating interest among yield equity investors very soon.

Investor risks and Issuer Challenges

The key to enhance foreign investment flows in the renewable energy sector via Green bonds is to address some of the key risks which are perceived by market

External

- Poor financial health of the Discoms resulting in payment delays to renewable projects is the foremost risk that increases the riskiness of renewable energy projects, and thus either deters investor or increases their expected threshold return from the sector.
- Amongst the macro factors, currency volatility and past instances of changes in policy worry foreign investors.
- Lack of market understanding for Green bond market principles & standards which is a must for funding projects
- Pricing & tenor of loans isn't attractive in comparison to other products available in the market
- Community challenges with respect to Land acquisition

Internal

- Issues faced by YES Bank while moving to issue the first green bond in India
 - i. Unable to draw any pricing benefit at the time, owing to the nascent stage of the market
 - ii. Apprehension about investor appetite, as these instruments were new in the market
 - iii. Institutional alignment to Green bond proceeds through processes, personnel and communication, as new linkages had to be established

Recommendations

Steps towards Mainstreaming Green Bonds

Suggest a suitable definition for Green Finance

Devise a methodology for identifying and tagging existing as well as new loans

Develop a metric for analyzing the impact of green finance

Green products and services which can be introduced by banks in India

Regulatory measures to ensure end-use of green bonds

Measures for reducing the carbon foot-print in banking operations

Select Recommendations

Consider providing a long hedging window for debt / equity at concession rates to green infrastructure companies

Carve out separate sectoral limits for sectors/sub-sectors under green finance

Address pricing of Green bonds through credit enhancement ;existing Credit Enhancement schemes (ex. IIFCL) need to be mainstreamed with banks and borrowers

Relax rating thresholds for green investments compared to other investments

CRR/SLR exemptions on green financing

Mandate a percentage of AUM to be invested in Green Bonds , Reduce risk weights for banks on green financing



Thank You