

**MITIGATION & ADAPTATION  
NON-BLENDED**

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| <b>PROJECT NAME</b>   | <b>Netcare Sustainability-Linked Bond<sup>1</sup></b>   |
| <b>COUNTRY</b>  | South Africa  |
| <b>SECTOR</b>   | Healthcare  |
| <b>PROJECT/INVESTMENT AMOUNT</b>  | Standard Bank acted as Sole Arranger and Sustainability Agent. The total budget of the project is confidential  |
| <b>DEVELOPMENT PARTNER(S)</b>   | N/A   |
| <b>BENEFICIARY MINISTRY/INSTITUTION</b>   | Netcare Group (South Africa's largest hospital group)   |
| <b>INVESTOR(S) AND FUNDERS</b>  | Wide range of investors, including institutional investors, through the Johannesburg Stock Exchange (JSE)<br>Guarantor: Netcare Limited   |
| <b>GUIDEBOOK TAXONOMY<br/>FINANCIAL SYSTEM ACTOR</b>  | Private Institutional Investors and Asset Managers  |
| <b>PROJECT OVERALL GOAL</b>   | The issuer wants to lead the transformation to climate-smart healthcare, and the bond contributes to achieving their longer-term sustainability goals <sup>2</sup>  |
| <b>PROJECT OUTCOMES</b>   | Netcare raised a ZAR 1 billion (~US\$ 65 million), 3-year, unsecured bond priced at 5.4% (3-month Jibar <sup>3</sup> +175bps)   |
| <b>ALIGNMENT WITH COUNTRY IDENTIFIED<br/>CLIMATE STRATEGIES, NDCs, ETC. (IF<br/>APPLICABLE)</b> | N/A   |
| <b>CONTRIBUTION OF THE PROJECT TO THE<br/>UN SDGs<sup>4</sup></b>                               | SDG 6: Clean Water and Sanitation<br>SDG 6: Clean Water and Sanitation<br>SDG 7: Affordable & clean energy<br>SDG 12: Responsible consumption and production<br>SDG 13: Climate action  |
| <b>SOCIOECONOMIC IMPACT</b>   | The funds raised will help Netcare continue to develop its mission of changing healthcare for the better in South Africa, where Netcare is also a leading private trainer of emergency medical and nursing personnel                                  |
| <b>ENVIRONMENTAL IMPACT (ON CLIMATE<br/>MITIGATION AND/OR ADAPTATION)</b>                       | Adaptation and mitigation. The bond has an associated environmental target to reduce energy consumption (reduction of 22% on energy intensity per bed by 2023) and increase water efficiency, partly by increasing its capacity to recycle grey water |

<sup>1</sup> This case was provided by CrossBoundary as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

<sup>2</sup> Netcare, 2021. Netcare and Standard Bank launch Africa's first sustainability-linked bond.  
<https://www.netcare.co.za/News-Hub/Articles/netcare-and-standard-bank-launch-africas-first-sustainability-linked-bond>

<sup>3</sup> Johannesburg Interbank Average Rate

<sup>4</sup> Standard Bank, 2021. [https://www.standardbank.co.sz/static\\_file/CIB/PDF/2021/Investment%20Banking/CIB\\_Case\\_Study\\_Netcare.pdf](https://www.standardbank.co.sz/static_file/CIB/PDF/2021/Investment%20Banking/CIB_Case_Study_Netcare.pdf)

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| <b>ENABLING ENVIRONMENT (SUPPORTING POLICIES)</b>             | The Johannesburg Stock Exchange (JSE) introduced the Sustainability Segment, which enables companies to raise debt for green, social, and sustainable initiatives on a trusted, global marketplace <sup>5</sup>   |
| <b>TECHNICAL ASSISTANCE (IF PROVIDED)</b>                     | Provided on a commercial basis by Standard Bank.<br>Phase 1: A workshop on broader sustainable bond product developments conducted by Standard Bank<br>Phase 2: A workshop on detailed sustainability-linked bond offering conducted by Standard Bank and Netcare, whereby the Bank advised on meaningful sustainability performance targets aligned to Netcare's corporate strategy <sup>6</sup>   |
| <b>FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)</b>         | Standard commercial bond  |
| <b>RATIONALE FOR FINANCING MODEL/APPROACH</b>                 | Corporate with sufficient ability and willingness to fund services on a commercial basis  |
| <b>FINANCIAL INSTRUMENT(S) (LOANS, GRANTS, BONDS... ETC.)</b> | Sustainability-Linked Bond  |
| <b>DIAGRAM OF THE FINANCING STRUCTURE</b>                     | <p>The diagram illustrates the financing structure. On the left, a box labeled 'Investors' has a dashed line connecting it to a box labeled 'JSE (Stock Exchange)'. On the right, a box labeled 'Netbank (Issuer)' has a dashed line connecting it to a box labeled 'Standard Bank (Arranger and Agent)'. A double-headed arrow between 'Investors' and 'Netbank (Issuer)' shows '\$\$ Investment' flowing from investors to the issuer and '\$\$ Coupon' flowing from the issuer to investors. To the right of the 'Netbank (Issuer)' box is a 'Sustainability-linked component' box. This box contains three sequential steps: 'KPI set' (Water and energy efficiency), 'Achieve sustainability performance targets (SPT)', and 'Consequence meeting target (coupon reduction)'.</p> <p>Note: The structure is a simplified illustration and does not represent a full depiction of all the actors involved in the transaction.</p> |

### Executive Summary

With the increased interest in green, sustainable, social, and blue (“labeled”) bonds, concerns over greenwashing have also increased. Labeled bonds are typical “plain vanilla” fixed income issues in the capital markets whose use of proceeds is addressed to environmental and social projects. However, a common criticism of labeled bonds is that they do not require the issuer to make enforceable achievements beyond the outcome expectations expressed in the use-of-proceeds framework. Sustainability-Linked Bonds (SLBs) address this concern by shifting the focus from reporting on the use of proceeds to achieving pre-specified results from which tangible consequences follow. In short, an SLB is a bond whose structural characteristics (typically, the coupon rate) change if the issuer fails to achieve a pre-specified environmental or social performance target. Netcare, a leading South African private healthcare provider, launched Africa’s first sustainability-linked bond in March 2021, with the target to reduce energy consumption (a reduction of 22% on the energy intensity per bed by 2023) and increase water efficiency. If the company achieves its mitigation and water efficiency targets, it will benefit from a step down in the coupon rate – that is, it will become less expensive for the issuer.<sup>7</sup> The bond received a great deal of interest by institutional and private investors as demonstrated by the fact that it was oversubscribed. Standard Bank acted as arranger and sustainability agent.

### Analysis

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| <b>WHAT MADE THIS PROJECT SUCCESSFUL? (STAKEHOLDER INVOLVEMENT, INNOVATION, ADDRESSING BARRIERS TO INVESTMENT, ETC.)</b> | <p>This project has been made successful by multiple factors:</p> <ul style="list-style-type: none"> <li>• Standard Bank worked with Netcare and investors providing training and workshops on this innovative structure. The bank also provided advice on sustainability performance targets, ensuring these were aligned with the group’s long-term strategy.</li> <li>• The bond issuance was also made possible by the fact that the Johannesburg Stock Exchange (JSE) had introduced relevant regulations through its Sustainability Bond Standard. The</li> </ul> |
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<sup>5</sup> JSE. <https://www.jse.co.za/raise-capital/debt-market/sustainability-linked-bonds>

<sup>6</sup> Standard Bank, 2021. [https://www.standardbank.co.sz/static\\_file/CIB/PDF/2021/Investment%20Banking/CIB\\_Case\\_Study\\_Netcare.pdf](https://www.standardbank.co.sz/static_file/CIB/PDF/2021/Investment%20Banking/CIB_Case_Study_Netcare.pdf)

<sup>7</sup> Theresa Smith. Africa’s first sustainability-linked bond now available. ESI-Africa, 2019. <https://www.esi-africa.com/industry-sectors/business-and-markets/africas-first-sustainability-linked-bond-now-available/>

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|  | criteria broadly consider the following principles: i) disclosure of proceeds, ii) external review, and iii) commitment to regular post-issuance reporting. <sup>8</sup>   |
| <b>TO WHAT EXTENT IS THIS MODEL SCALABLE?</b>                              | This model is highly scalable and can be utilized across sectors, geographies, and type of issuers (corporate, financial, sovereign, municipal, etc). It is also scalable across other types of instruments (not only bonds but also loans and alternative financing structures)   |
| <b>TO WHAT EXTENT IS THIS MODEL REPLICABLE IN OTHER COUNTRIES/REGIONS?</b> | This model is highly replicable across geographies.<br>The first SLB was issued in September 2019 by Enel, an Italian multinational energy company. Netcare's bond issuance in March 2021, was Africa's first SLB. In February 2022, Chile became the first country to issue an SLB  |
| <b>CONSTRAINTS/DRAWBACKS OF FINANCING MODEL</b>                            | This model does not completely eliminate the risk of greenwashing. As the market for sustainability-linked structures evolves and investors become more aware of environmental and social impact measures, they should increase their demands on the climate-related objectives that are set and penalize more strongly if they are not met. In a similar vein, issuers need to set challenging targets and report transparently   |
| <b>LESSONS LEARNT</b>  | <ul style="list-style-type: none"> <li>• Appropriate regulations and sustainability frameworks issued by financial conduct authorities are an enabling factor, as well as an avenue to incentivize awareness and increase the issuance of SLBs</li> <li>• The model of linking climate-related outcomes to the characteristics of a financial instrument provides an opportunity to invest in climate-related mechanisms, as investors are increasingly aware of the importance of engaging with companies to reduce emissions, rather than excluding or disinvesting</li> </ul> |

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<sup>8</sup> Johannesburg Stock Exchange, <https://www.jse.co.za/our-business/sustainability/sustainability-bonds>