

Green OR Sustainability-linked Financing?

Wednesday, 8 June 2022

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Agenda

- 1) Overview
- 2) Market highlights
- 3) NIB's view on sustainability-linked financing
- 4) Key takeaways

Overview

NIB IN A NUTSHELL

A bank with a mission

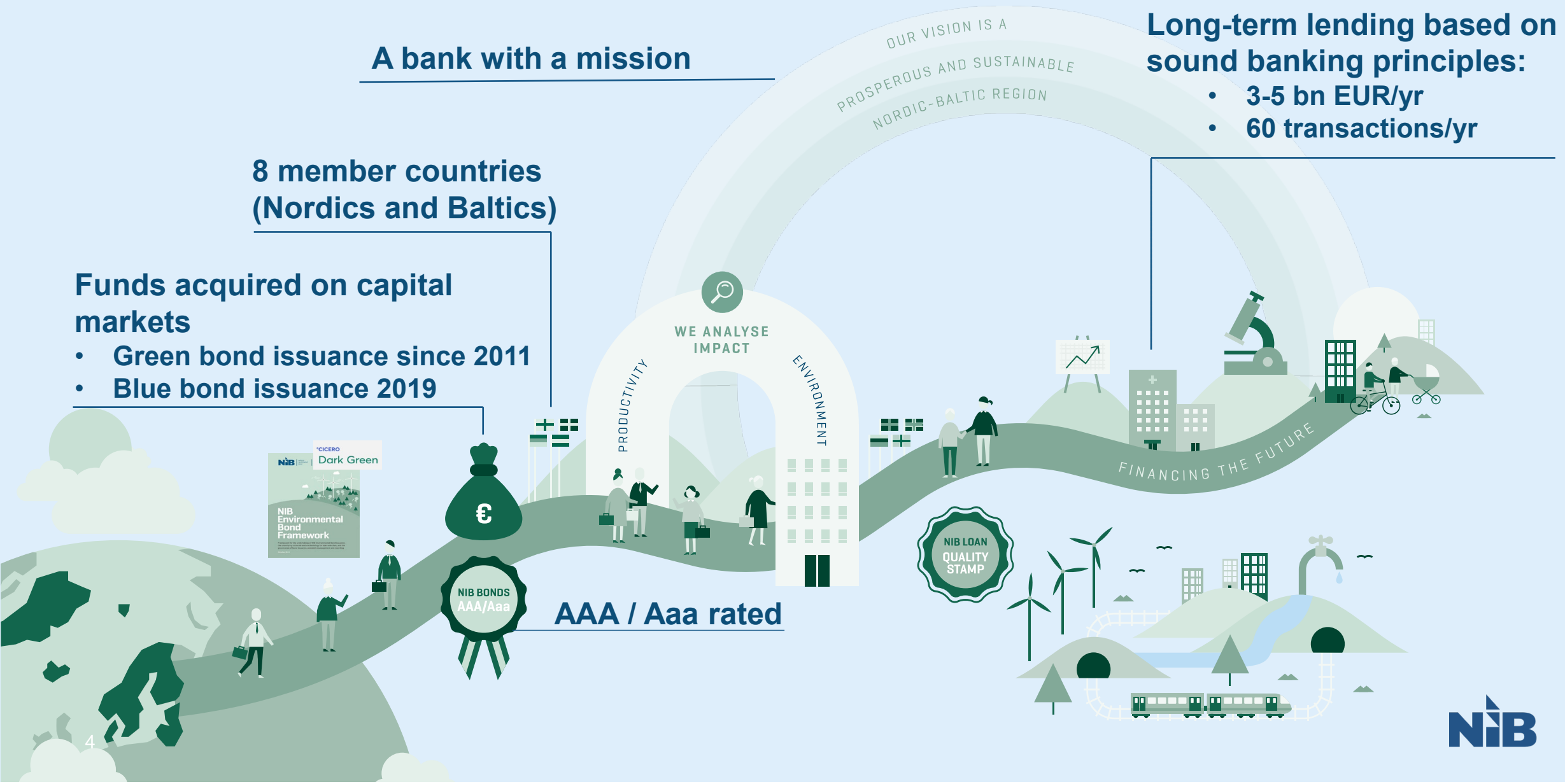
**8 member countries
(Nordics and Baltics)**

**Funds acquired on capital
markets**

- Green bond issuance since 2011
- Blue bond issuance 2019

**Long-term lending based on
sound banking principles:**

- 3-5 bn EUR/yr
- 60 transactions/yr



AAA / Aaa rated

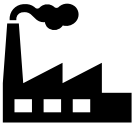
5 good reasons for sustainability-linked financing...



1. Joining sustainability and finance strategies



2. Developing sustainable finance market (especially term loan market)



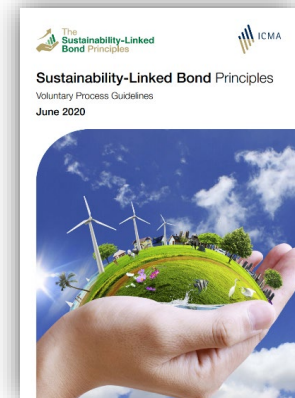
3. Possibility to finance sustainability transition of industry and asset light companies



4. Impact based on corporate sustainability transitions more relevant for clients than linking impact to specific assets



5. Promote good quality standards (target definition and verification)



Complementary approaches in sustainable finance

Use of proceeds vs performance based

	Use of proceed loans	Sustainability-linked loans
Use of funds	Earmarked for predefined projects or assets	General purpose aligned with a corporate direction
Commitment	Commitment to spend and allocate according to a framework	Forward looking commitment to a future target
Structure	Structure of instrument constant with no adjustments	Financial or structure characteristics adjusted to outcome of performance (linked to a KPI)
Impact	Impacts achieved from investment into a project or asset	Change in sustainability performance of issuer
Outcome	Outcome monitored with quantified impact from a specific project or asset	Outcome monitored with documented sustainability targets of issuer

Approach in credit process

Use of proceeds loans

- Project definition
- Mandate: environmental benefits & productivity gains
- Sustainability of project

- Ex-ante impact of project
- Eligibility for environmental bond financing
- Pricing of loan

- Realized impact assessed 3 yrs after project completion

Knowing our customers & ESG assessment

Structuring and analysis

Execution and disbursement

Relationship management

Sustainability-linked loans

- Client's corporate sustainability strategy
- Ambition level of targets
- Set material KPI's

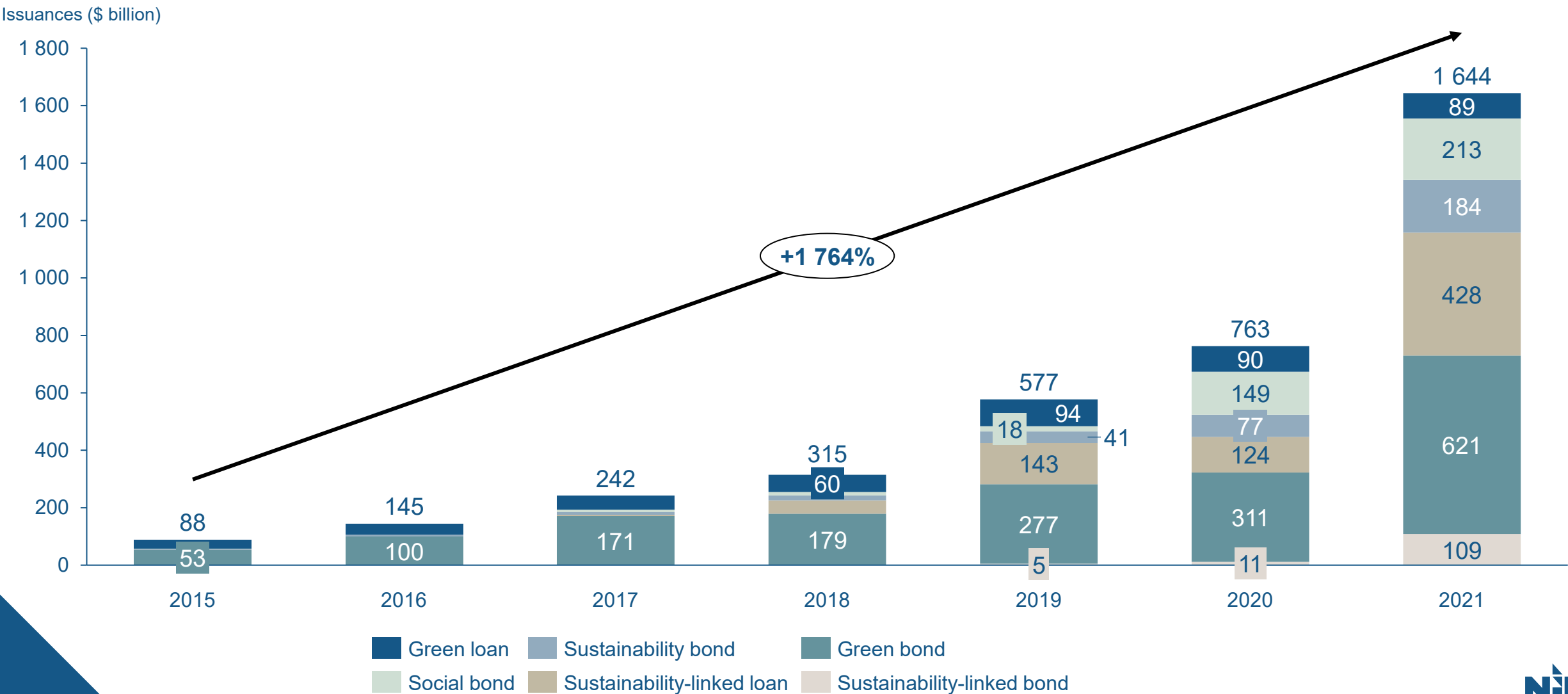
- Agree on pricing mechanism for target achievement

- Regular monitoring of sustainability performance
- Transparent reporting of KPI's with external verification

Market highlights

Global sustainable finance market

Issuances have grown at a high rate between 2015 and 2021

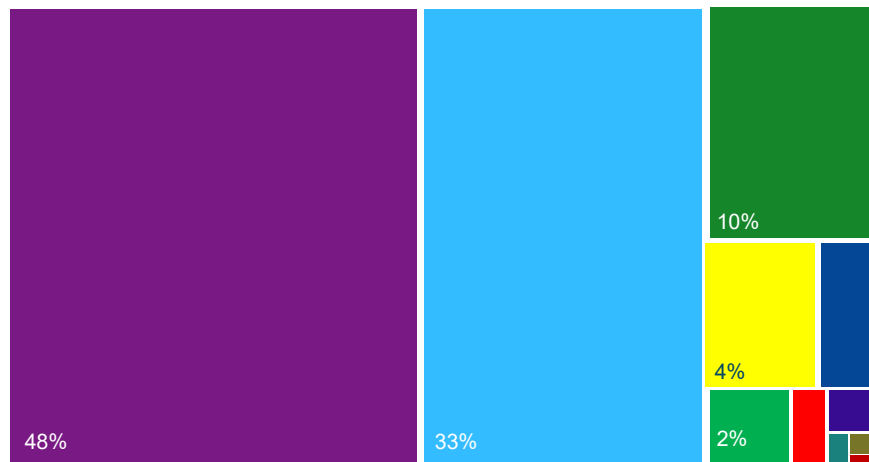


Data source: BloombergNEF (2022)

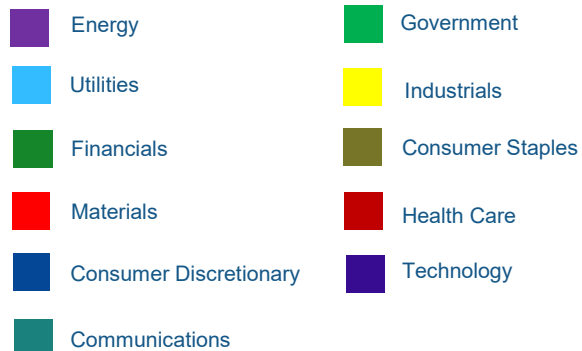
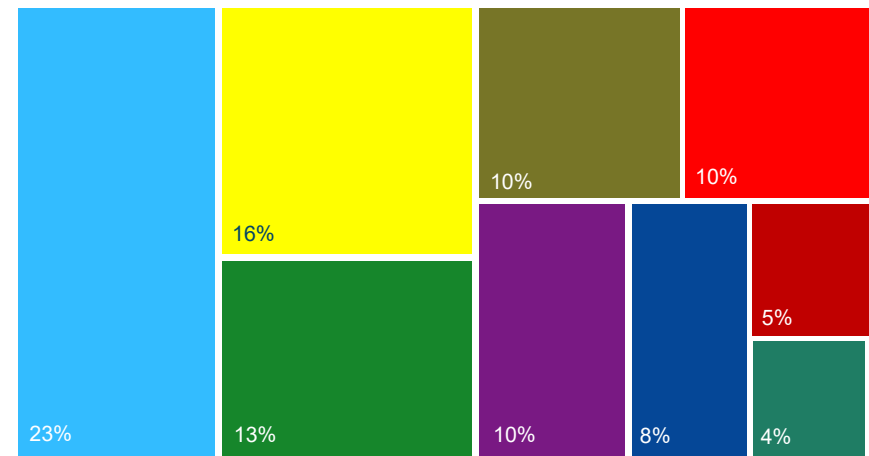


Sectoral breakdown of sustainable financing

Environmental loans

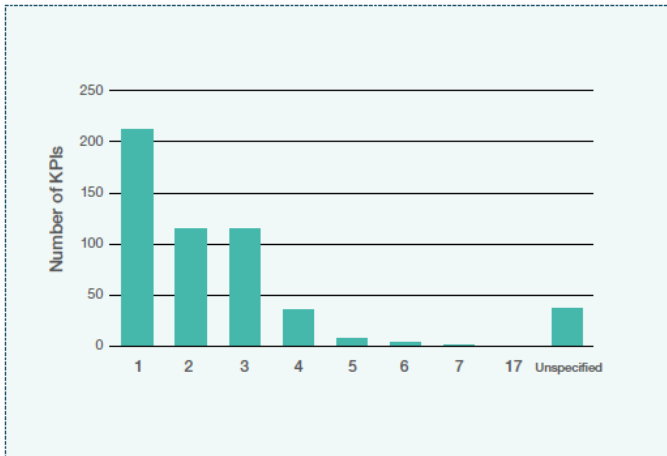


Sustainability linked loans

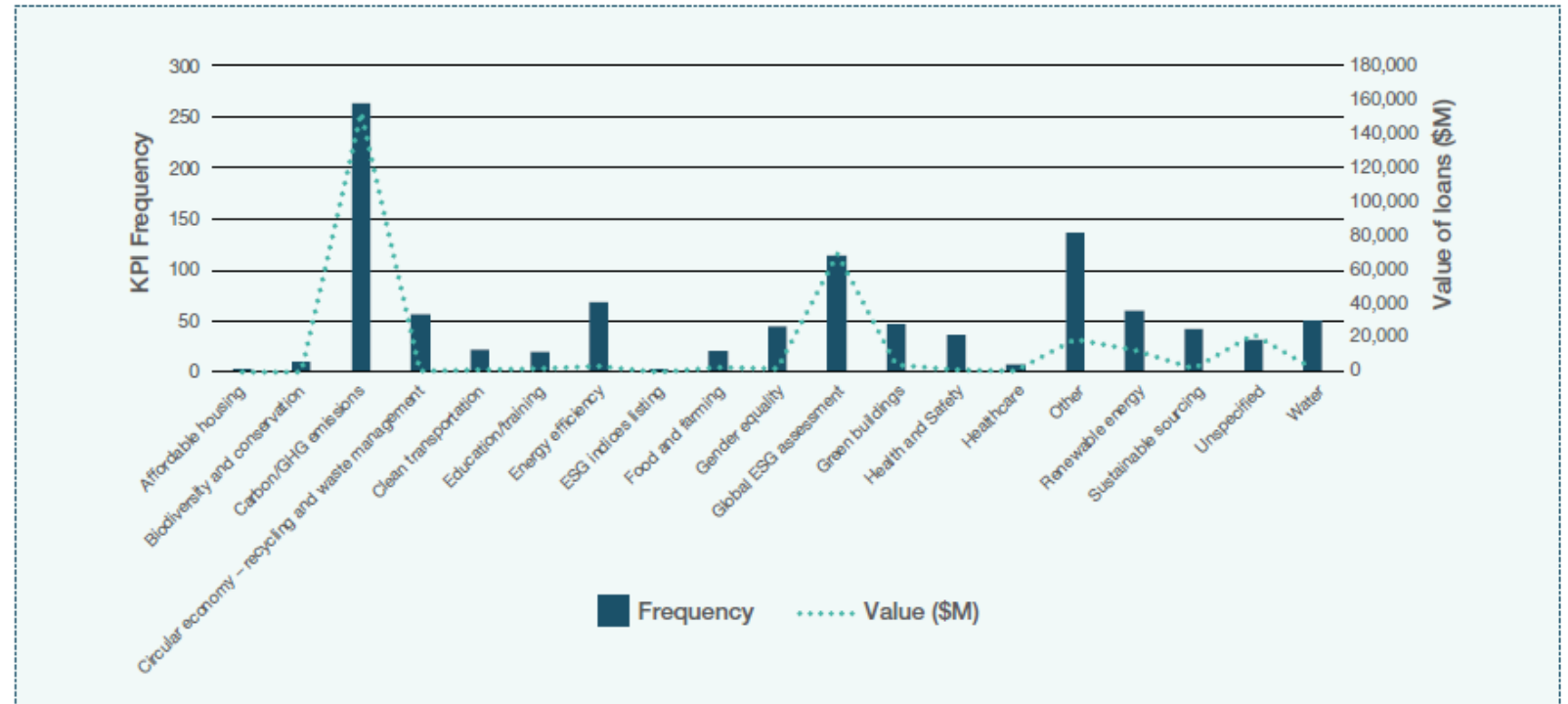


Environmental loans and SLLs have different sector profiles

Key performance indicators in SLL's



Number of KPI's per sustainability-linked loan



KPI frequency and value in sustainability-linked loans

Finnish sustainability-linked revolving credit facilities (RCFs)



Valmet has signed a EUR 300 million syndicated revolving credit facility with a margin linked to its climate targets



TEKNOS TIES SUSTAINABILITY TARGETS TO ITS LOAN – “A TANGIBLE ACTION TO LINK SUSTAINABILITY TO OUR FINANCES”



NOKIA TAKES €1.5 BILLION GREEN LOAN LINKED TO COMPANY'S GREENHOUSE GAS EMISSIONS



Neste signs a new EUR 1.2 billion Revolving Credit Facility with a margin linked to its greenhouse gas emissions reduction target



Fingrid Oyj signs a EUR 300 million sustainability linked Revolving Credit Facility



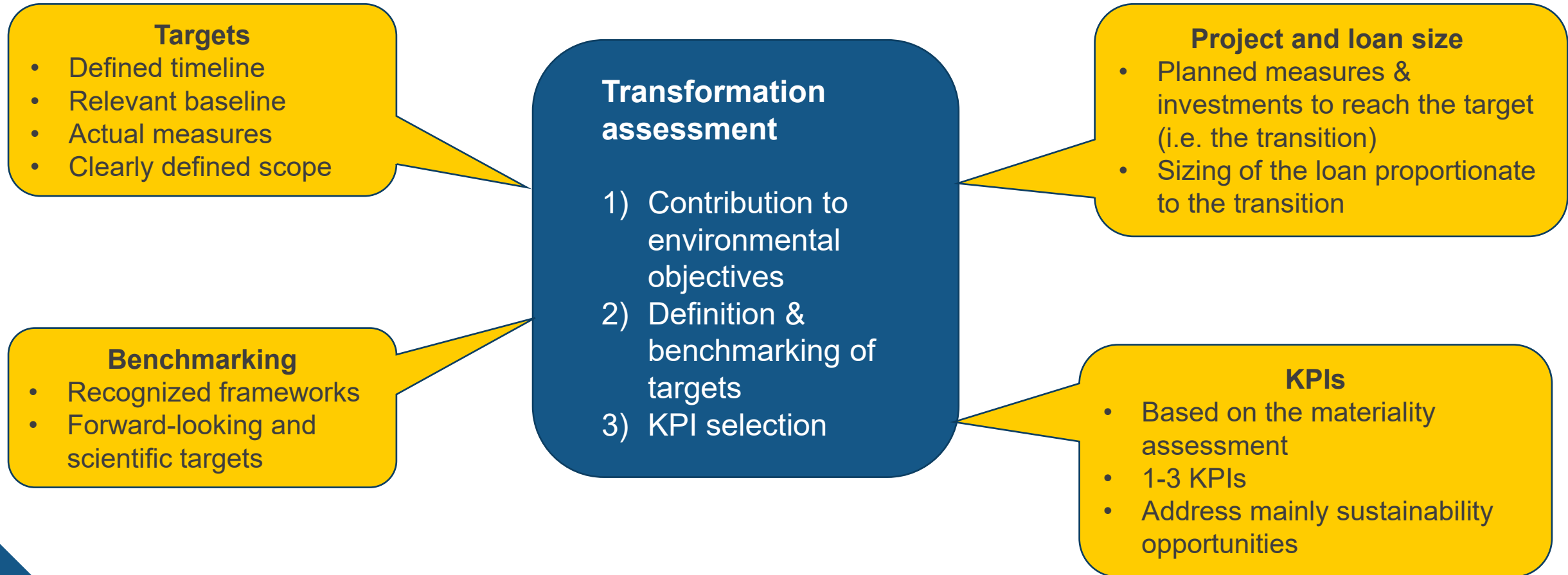
Elisa signs EUR 130 million sustainability-linked revolving credit facility

NIB's view on sustainability-linked financing

Sustainability-linked loan principles

Targets	The company should have an ambitious sustainability strategy and targets , which refer to benchmarks, a credible timeline and planned measures
Indicators	KPIs to address issues that are core and material to sustainability strategy , such as: <ul style="list-style-type: none">• Climate: targets related to CO₂ emissions or energy use• Business specific: e.g. water or material consumption
Reporting	Performance reporting against set targets and achieved impact required
Verification	3rd party performance verification required

Assessing sustainability transformation



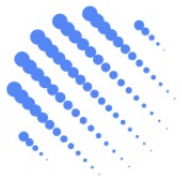
Benchmarks for sustainability-linked targets

Carbon emission targets

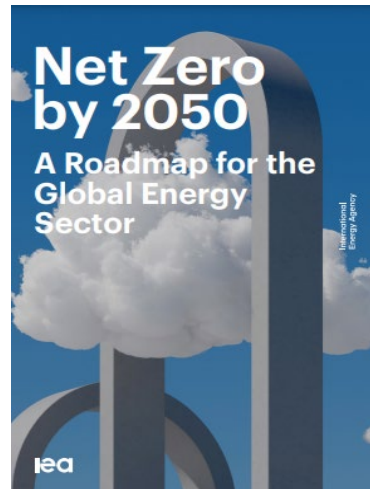


SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

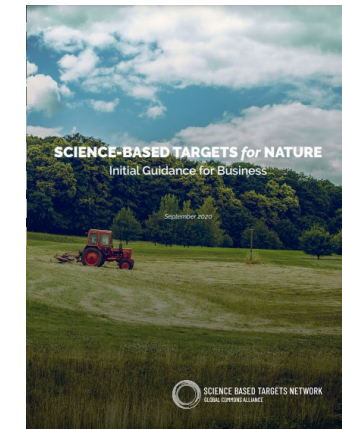


Transition
Pathway
Initiative



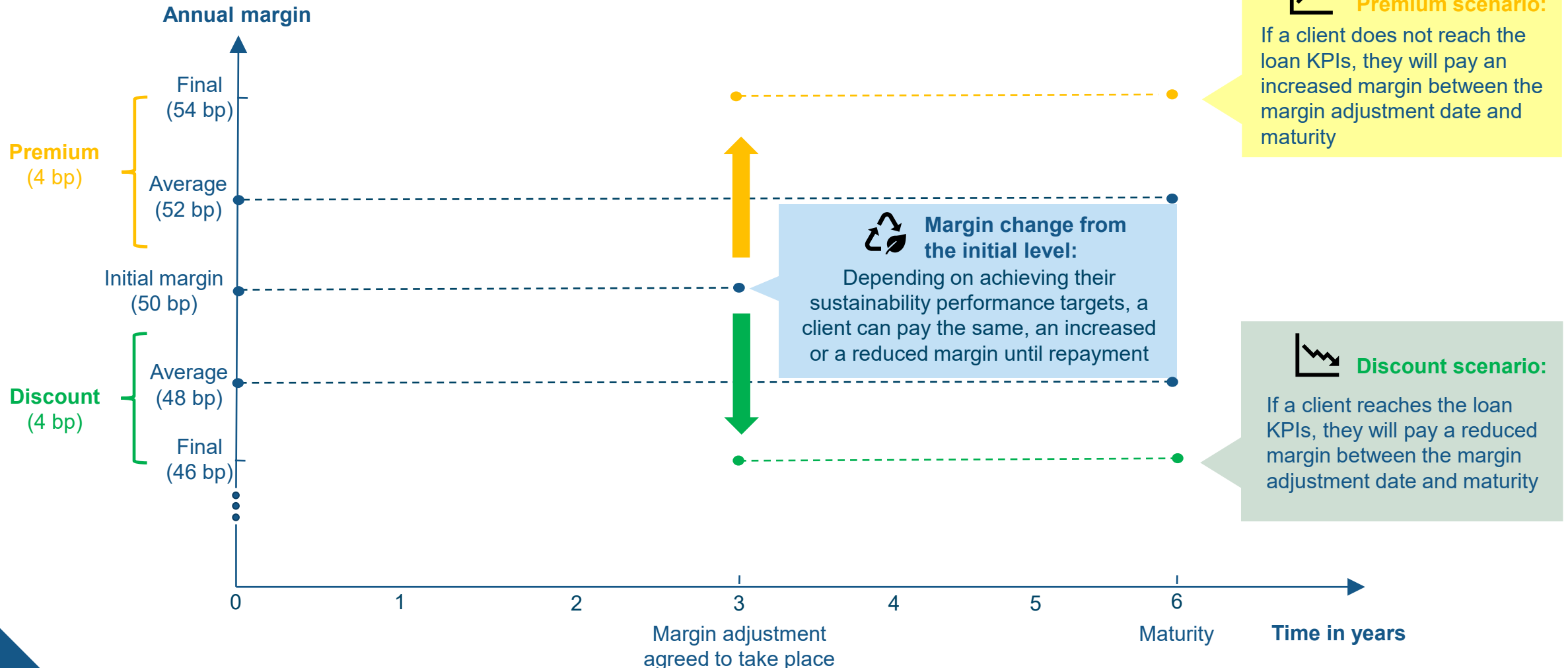
Other sustainability targets

- Peer comparison
- Industry standards
- Client's past performance



Pricing and sustainability performance targets

Illustration of margin in fictional premium and discount cases



Note¹ Actual pricing impact varies depending on e.g. credit risk, the magnitude of a company's sustainability ambitions and sector

Note² Structure to be determined on a case by case basis

Lessons learnt from SLL cases

- Not the right financing instrument for all
- No sustainability-linked loans are alike – tailormade solutions required
- Requires time and efforts on both sides
- Standards differ – more collaboration in the market needed
- Continuous learning process
- Development of impact reporting needed

NIB loan cases

Green



Fingrid (Finland)

Upgrade of transmission grid substations (35 mEUR)



Danish State Railways (Denmark)

Acquisition of new rolling stock (133 mEUR)



Pomerania Wind Farm (Poland)

Construction of a 94 MW onshore wind farm (34 mEUR)

Sustainability-linked



Metso Outotec (Finland)

Reduction of CO₂ emissions from operations and supply chain in line with SBTi 1.5°C (100 mEUR)



Borregaard (Norway)

Reduction of CO₂ emissions (SBTi 2°C), water effluents and total recordable injuries (45 mEUR)



Electrolux Professional (Sweden)

Reduction of CO₂ emissions from production and value chain via HFC phaseout and better water efficiency (60 mEUR)

Key takeaways

1. Green and sustainability-linked financing are complementary

➔ Choose the right instrument!

2. Focus on material issues and impact

3. Credibility and transparency

4. Tailormade structuring of loan agreement





Thank you!

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