



Green and sustainability-linked finance

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Sustainable finance has grown in Finland – overall green is most common, but sustainability linking is becoming mainstream

Market has grown rapidly

Green finance is still the most common with some 60% proportion of all sustainable finance since 2010. Finnish bond market consisted of some 35% of green bonds in 2021.

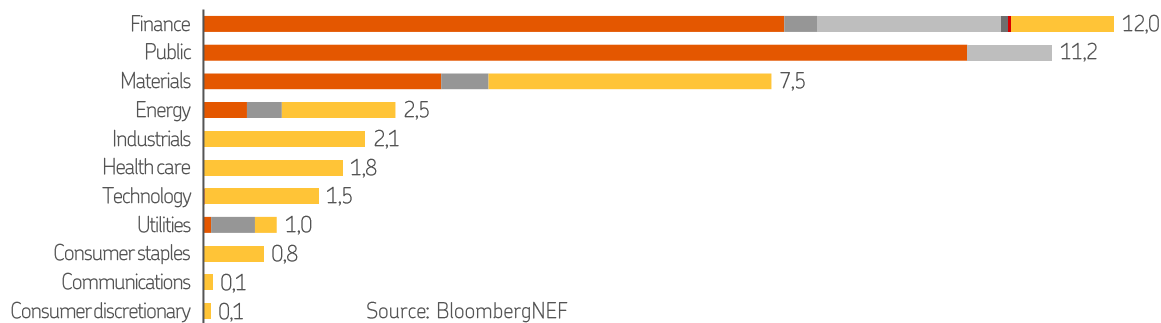
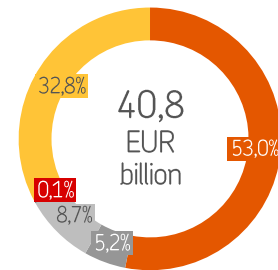
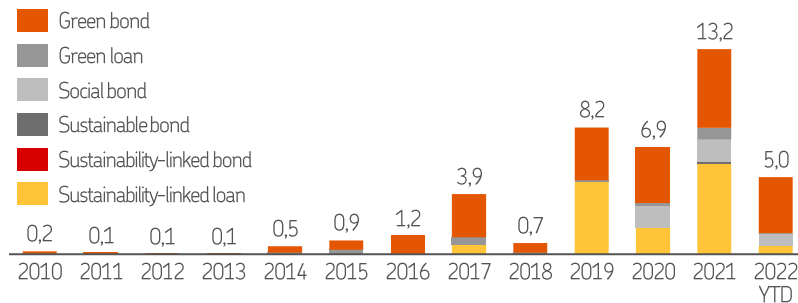
Activity focuses on some industries

Especially active market participants have been public finance institutions, banks, forest industry and real estate sector.

Sustainability linking is mainstream

Most new corporate loans consider linking – now also the Finnish sustainability-linked bond market has opened.

Sustainable finance in Finland 2010-4/2022, EUR billion

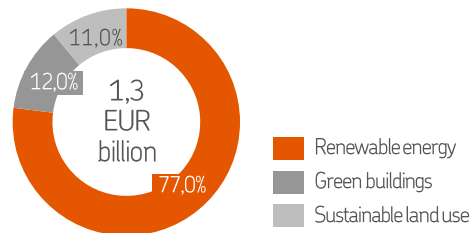


Source: BloombergNEF

Updated OP Green Bond Framework to fund and support green lending at OP Corporate Bank

OP Corporate Bank has issued two Green Bonds

Since 2019 the bank has granted green loans and maintained a green registry of projects that are eligible to Green Bond. At year end 2021 the portfolio was some 1,3 billion euros.



Examples of eligible projects (detailed criteria can be found from the [framework](#))

Renewable energy	<ul style="list-style-type: none">Wind power, solar power, hydropower, bioenergy, and ground source heat pumps and geothermal projects
Transmission of energy	<ul style="list-style-type: none">Transmission of electricity produced by renewable sources from the production site to the system gridSystem grids for electricity (over a rolling five-year period, 67% of newly connected generation capacity in the system is below 100g CO₂e/kWh or the average system grid emissions factor is below 100gCO₂e/kWh)
Energy efficiency	<ul style="list-style-type: none">Infrastructure, equipment, technology, and processes that significantly reduce energy consumption and increases energy efficiency
Green buildings	<ul style="list-style-type: none">Certified buildings (at least LEED "gold", BREEAM "very good", the Nordic Swan Ecolabel certification, EDGE, RTS "3 stars")Energy class A or top 15% or relevant building stockRenovations that reduce annual primary energy demand per square meter by at least 30%
Pollution prevention & control	<ul style="list-style-type: none">Pollution prevention and control, sustainable water and wastewater management, waste to energy facilities following waste hierarchy
Sustainable land use	<ul style="list-style-type: none">Sustainable forestry projects (FSC or PEFC), sustainable agriculture (Organic), sustainable aquaculture (ASC)
Clean transportation	<ul style="list-style-type: none">Fully electric and other low carbon vehicles or mobility as a service and the supporting infrastructure. Light vehicles (incl. vehicle categories M1 and N1) should have specific emissions lower than 50gCO₂/km.

Available at OP
Green Bonds
website!



EU Green Bond Standard is expected to bring EU taxonomy to the bond market

The European voluntary Green Bond Standard is expected to bring uniform rules for green bonds. Currently, green bonds are structured according to the ICMA Green Bond Principles.

The standard brings the EU taxonomy thresholds for green use of proceeds definitions. It will also bring more requirements for external reviewers and reporting.

The standard is currently being discussed in political decision making and discussions have revolved around for example:

- What happens if EU taxonomy is changed during the bond maturity (full grandfathering)? The latest outcome seems to favor green definitions at time of bond emission as proposed by financial sector participants.
- The voluntary nature of the standard is being discussed and EU Commission has at times flashed an idea of a mandatory standard in the longer term.
- Eligibility of the complementary climate delegated act (if passed) i.e. nuclear and natural gas has been questioned in addition to other proposed flexibilities to full EU taxonomy alignment.

	ICMA Green Bond Principles	EU Green Bond
Core components	<ul style="list-style-type: none"> • Use of proceeds • Project evaluation and selection • Management of proceeds • Reporting 	<ul style="list-style-type: none"> • Use of proceeds • Transparency and reporting
Framework	Key recommendation of the GBP	Mandatory EU GB Factsheet
Green projects	10 indicative categories of green projects such as energy efficiency, clean transportation, climate change adaptation and green buildings	Green projects to be aligned with EU Taxonomy at issuance or within 5 to 10 years in the context of a Taxonomy alignment plan
External Review	<p>Key recommendation of the GBP Independent external reviews may be a Second Party Opinion, a Verification, a Certification, and/or a Green Bond scoring/rating</p> <p>GBP Guidelines for External Reviews</p>	<p>Mandatory at two stages: Pre-issuance to confirm alignment of the EuGB Factsheet with the EU Green Bond Standard. Post-issuance review of the first allocation report following full allocation of bond proceeds (or every year for issuers using a portfolio approach).</p> <p>External reviewers to be supervised by ESMA. For sovereigns possible reliance on internal state auditors instead of external third parties</p>
Reporting	<ul style="list-style-type: none"> • Mandatory allocation reporting, at least annually • Recommended impact reporting 	<p>Mandatory allocation reporting at least annually and until full allocation</p> <p>Mandatory impact reporting at least once in the Green Bond lifetime</p>

Sustainability linked debt supports sustainability integration – most KPIs focus on the environment

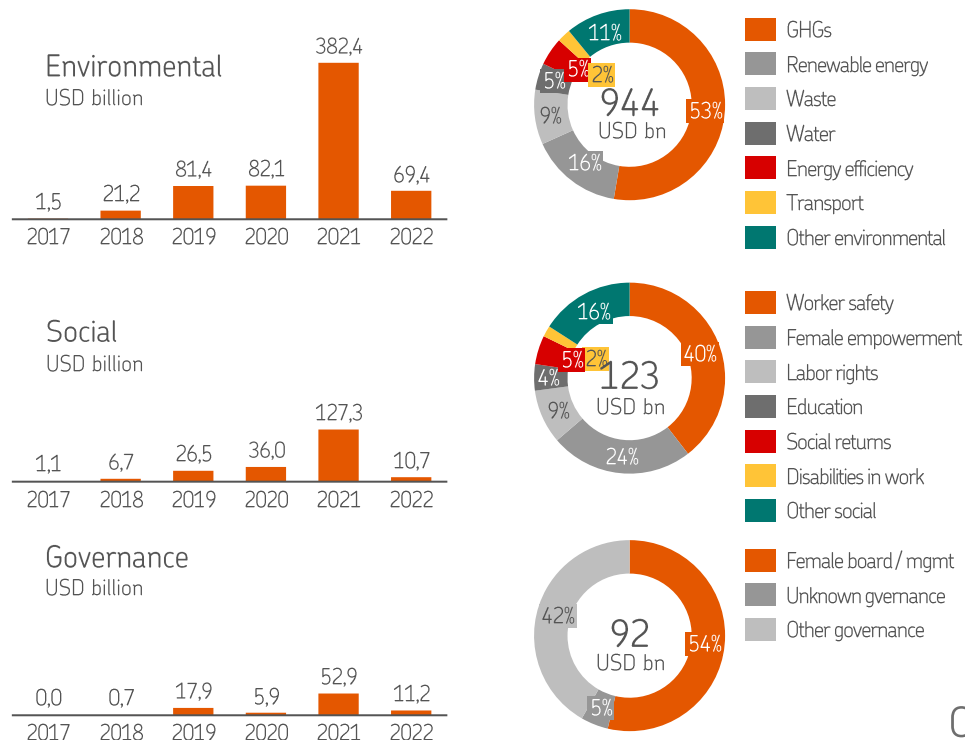
Sustainability linked-debt is suitable for companies committed to sustainability improvements

The proceeds may be used for general corporate purposes. Companies must report according to agreed sustainability performance metrics (KPIs).

The requirements for metrics and targets are similar to loans and bonds, but for bonds special considerations need to be taken as investors may have varying preferences.

Sources: OP, Data for graphs from BloombergNEF (31.3.2022),
Note: KPI data includes all linked debt (loans and bonds). Values are total amounts per issued security, and not net amounts attributable to individual KPIs (e.g. if a USD 100 million security includes three KPIs, each KPI is attributed USD 100 million).

Key performance indicators used globally in sustainability-linked debt



Strong momentum in the sustainable debt market is backed by benefits to companies, banks and investors

The growth in the popularity of sustainable financing has continued strong as both companies and investors have become increasingly aware of ESG related matters

Via sustainable financing companies can communicate their commitment to sustainability, enhance their responsibility image and access more affordable financing, while investors get to actively steer and encourage companies towards more sustainable future.

Sustainability topics have never been more prevalent. During both loan and bond processes company's sustainability agenda and future actions are discussed extensively between financiers, investors and companies even if the financing is going to be structured in a more traditional way.

Communicate
commitment to
sustainability to
stakeholders

Tighter prices and
wider investor
demand

Increase bond
transaction
certainty

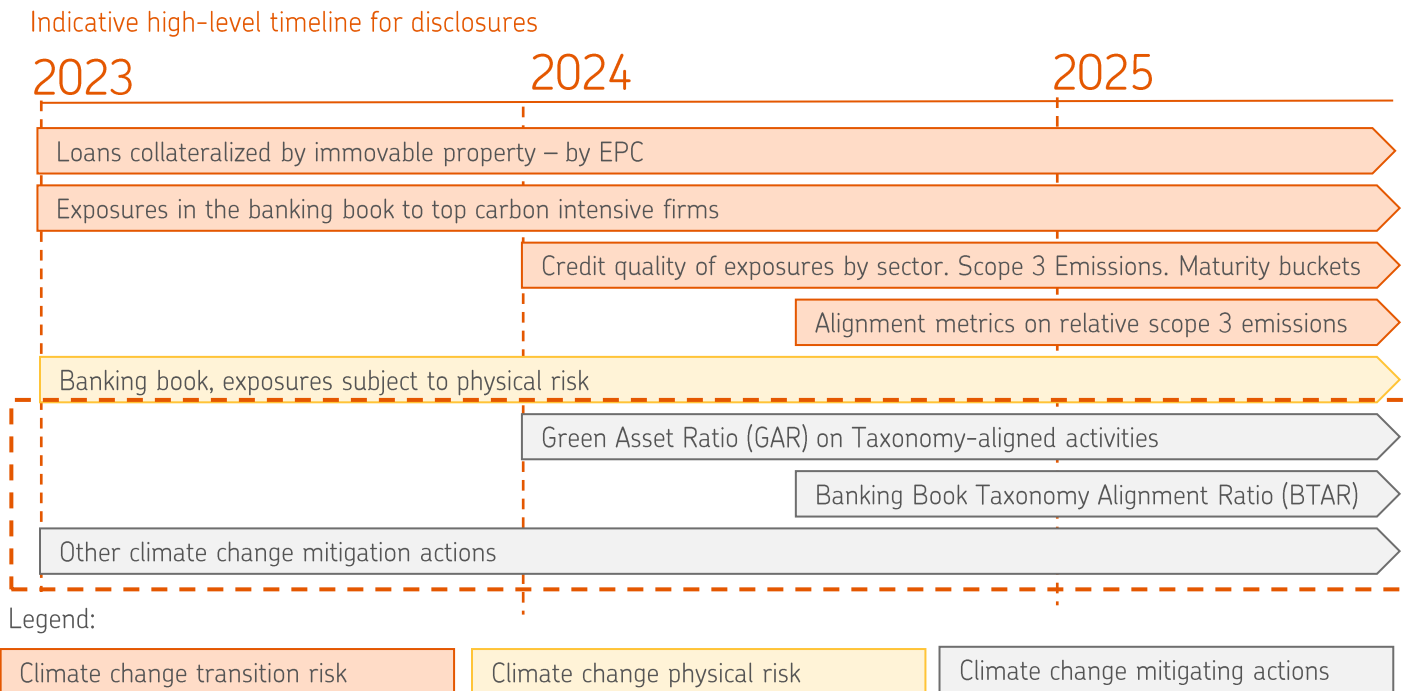
Reduce
bank/investor
portfolio risk

Banks respond to
client demand

Climate to be included in banks' risk disclosures on ESG already by end of year 2022 – includes sustainable lending

Published in January 2022, EBA final draft ITS on Pillar 3 disclosures on ESG risks, which put forward instructions to disclose prudential information on environmental, social and governance (ESG) risks

The framework supports institutions in the public disclosure of meaningful and comparable information on how ESG-related risks and vulnerabilities may exacerbate other risks in their balance sheet.



In conclusion

1. Sustainable finance is mainstream practice – if use of proceeds is not suitable, linking is considered

2. Sustainability-linked finance is rather simple, but companies should also show a certain level of readiness

3. Supervisors link sustainable lending to banks' risk reporting – likely to be reported as part of Pillar 3 ESG disclosures



Thank you!