

Green loans – what is happening in the market?

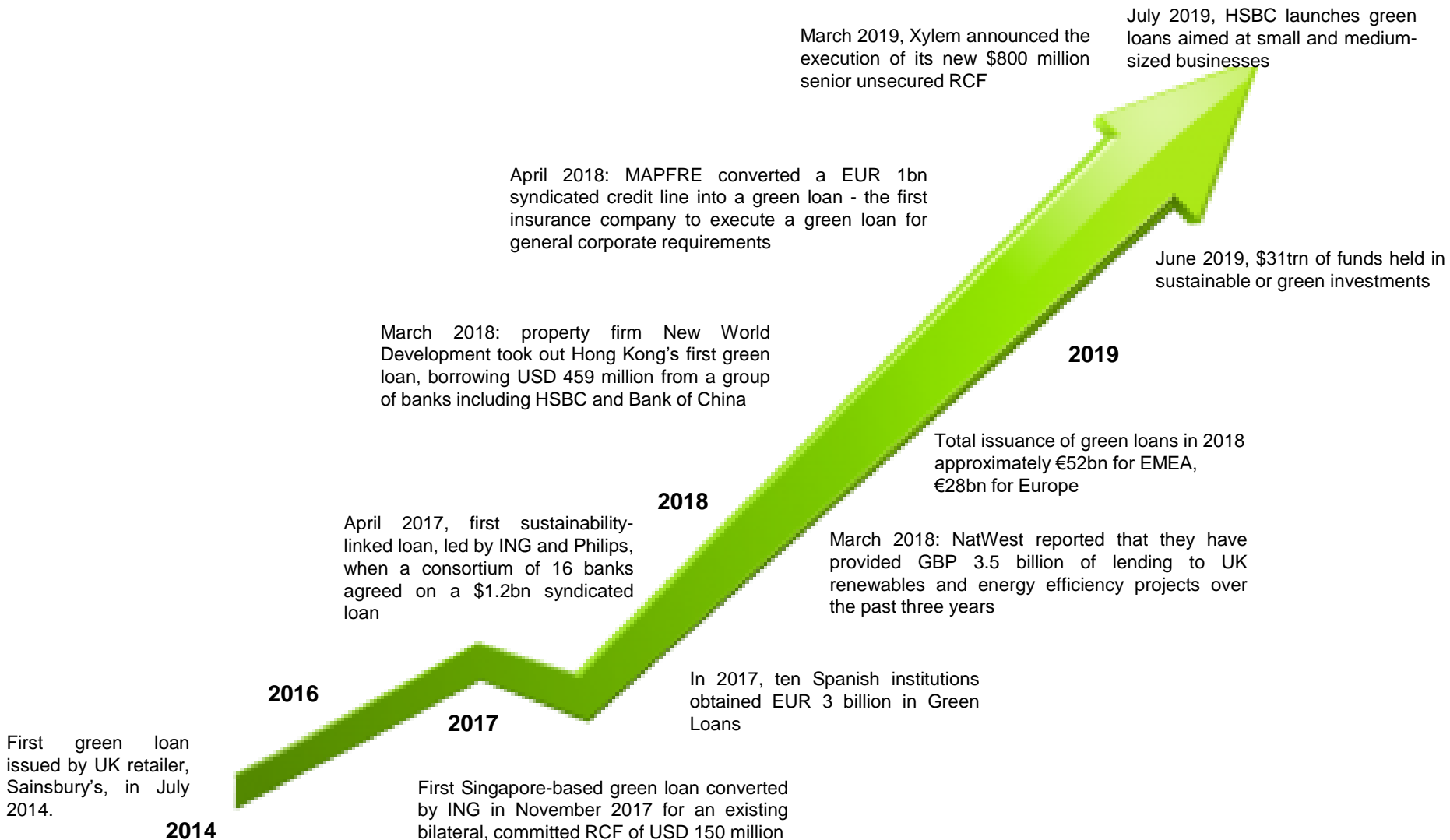
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Introduction

- Background
- Green Loan Principles
- Sustainability Linked Loan Principles
- Recent market trends
- LMA workstreams

The global use of green Loans



What is driving growth?

- Issuers
- Lenders
- Investors
- Regulators

Green Loan Principles

- Launched March 2018
- Second iteration published December 2018 – application to RCFs
- High-level framework of market standards and guidelines
- Four core components:-
 1. Use of Proceeds
 2. Process for Project Evaluation and Selection
 3. Management of Proceeds
 4. Reporting

Use of proceeds

- To be utilised for Green Projects (including other related and supporting expenditures, including R&D)
- Ensure appropriately described in finance documents and marketing materials
- May form one or more tranches of a loan facility - tranches to be clearly designated and proceeds of the green tranche(s) to be credited to a separate account
- Appendix 1 (*Green Projects*) – Indicative only and non-exhaustive.

Process for project evaluation and selection

- Borrower to clearly communicate to its lenders:
 - its environmental sustainability objectives
 - the process by which it determines how its project fits within the eligible categories of Green Projects
 - the related eligibility criteria – including if applicable exclusion criteria or any other process applied to identify and manager potentially material environmental risks associated with the proposed project
- Encouraged to position within overarching objectives, strategy, policy and/or processes relating to environmental sustainability
- Green standards or certifications?

Management of proceeds

- Proceeds to be credited to dedicated account or otherwise tracked by the borrower in an appropriate manner
- Where one or more tranches of loan facility – each tranche to be clearly designated and credited to separate account or tracked by the borrower in an appropriate manner
- Borrowers encouraged to establish internal governance process to track allocation of funds

Reporting

- Borrowers to make and keep available information on use of proceeds – to be renewed annually until fully drawn and, thereafter, in the event of material developments.
- To keep list of Green Projects which the green loans have been allocated to, including their expected impact.
- Qualitative and, where possible, quantitative performance measures recommended.
- Disclosure of methodology and/or assumptions used in quantitative determinations.
- Encouraged to include impacts in regular reporting.

Sustainability Linked Loan Principles

- Launched March 2019
- Incentivise borrowers to improve sustainability profile by aligning loan terms
- Four core components:-
 1. Relationship to the borrower's overall CSR strategy
 2. Target setting – measuring the sustainability of the borrower
 3. Reporting
 4. Review
- Do not focus on use of proceeds – usually for working capital
- Possible to align loan to the SLLP and the GLP

Relationship to the borrower's overall CSR strategy

- Borrower to communicate sustainability objectives, as set out in its CSR strategy and how these align with sustainability performance targets.
- Borrower's are encouraged to position information within the context of their overarching objectives, strategy, policy and/or processes.

Target setting

- Appropriate sustainability performance targets (SPTs) should be negotiated between the borrower and lender group for each transaction.
- SPTs should be ambitious and meaningful to the borrower's business and should be tied to a sustainability improvement in relation to a predetermined performance target benchmark.
- SPTs may be internal or external.

Reporting

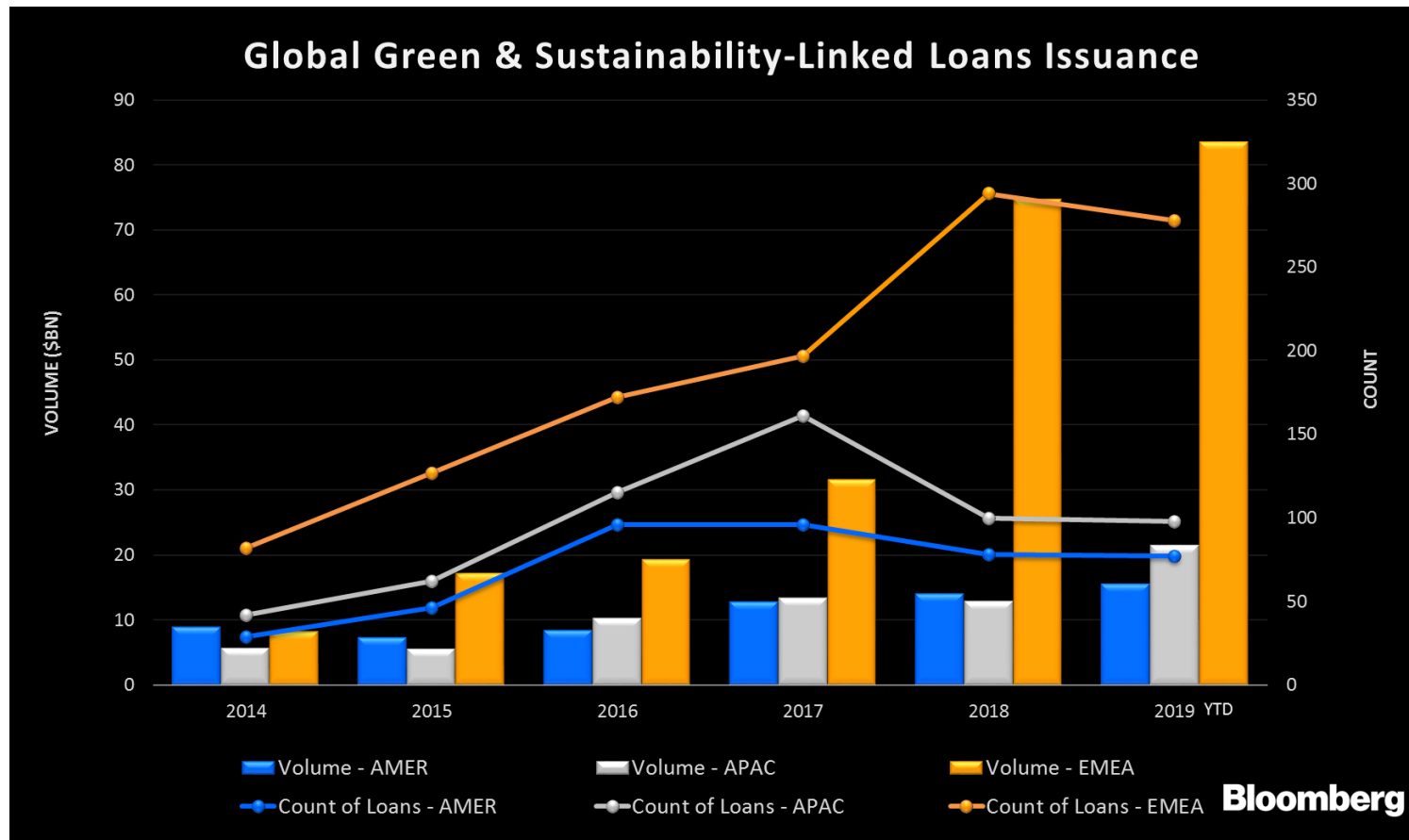
- Borrowers should make and keep readily available up to date information relating to the SPTs, which such information to be provided to lenders at least once per annum.
- Borrowers should be encouraged to publicly report information relating to their SPTs.

Review

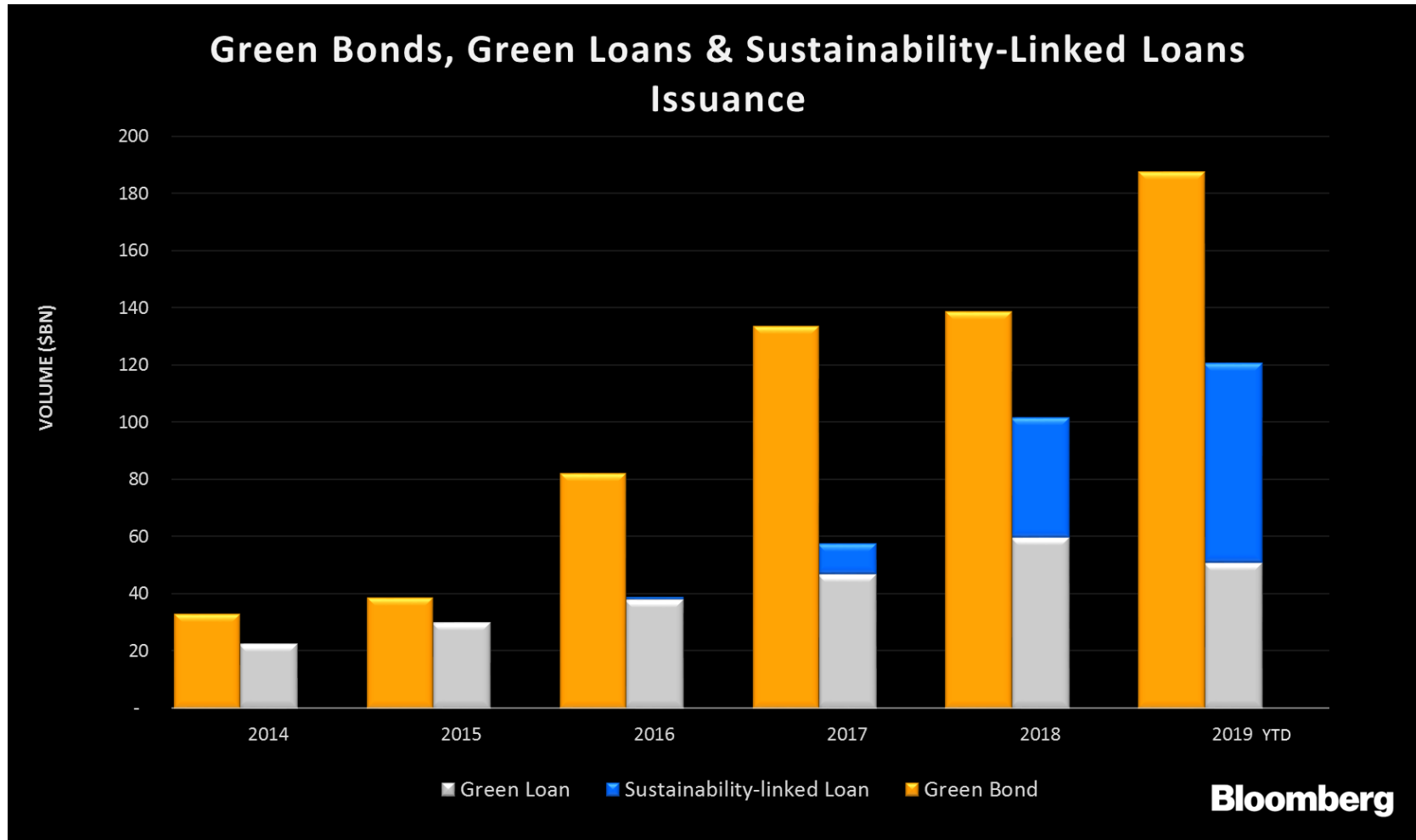
- Need for external review is to be negotiated and agreed between the borrower and lenders on a transaction-by-transaction basis.
- Where external review is sought, the borrower's performance against its SPTs should be verified by a qualified external reviewer, such as an auditor, environmental consultation and/or independent ratings agency.
- If no external review is sought, it is strongly recommended that the borrower demonstrates or develops internal expertise to validate the calculation of its performance against its SPTs.
- Once reporting has been completed and external review (if any) has taken place, the lenders will evaluate the borrower's performance against the SPTs based on the information provided.

Global Green & Sustainability-Linked Loans

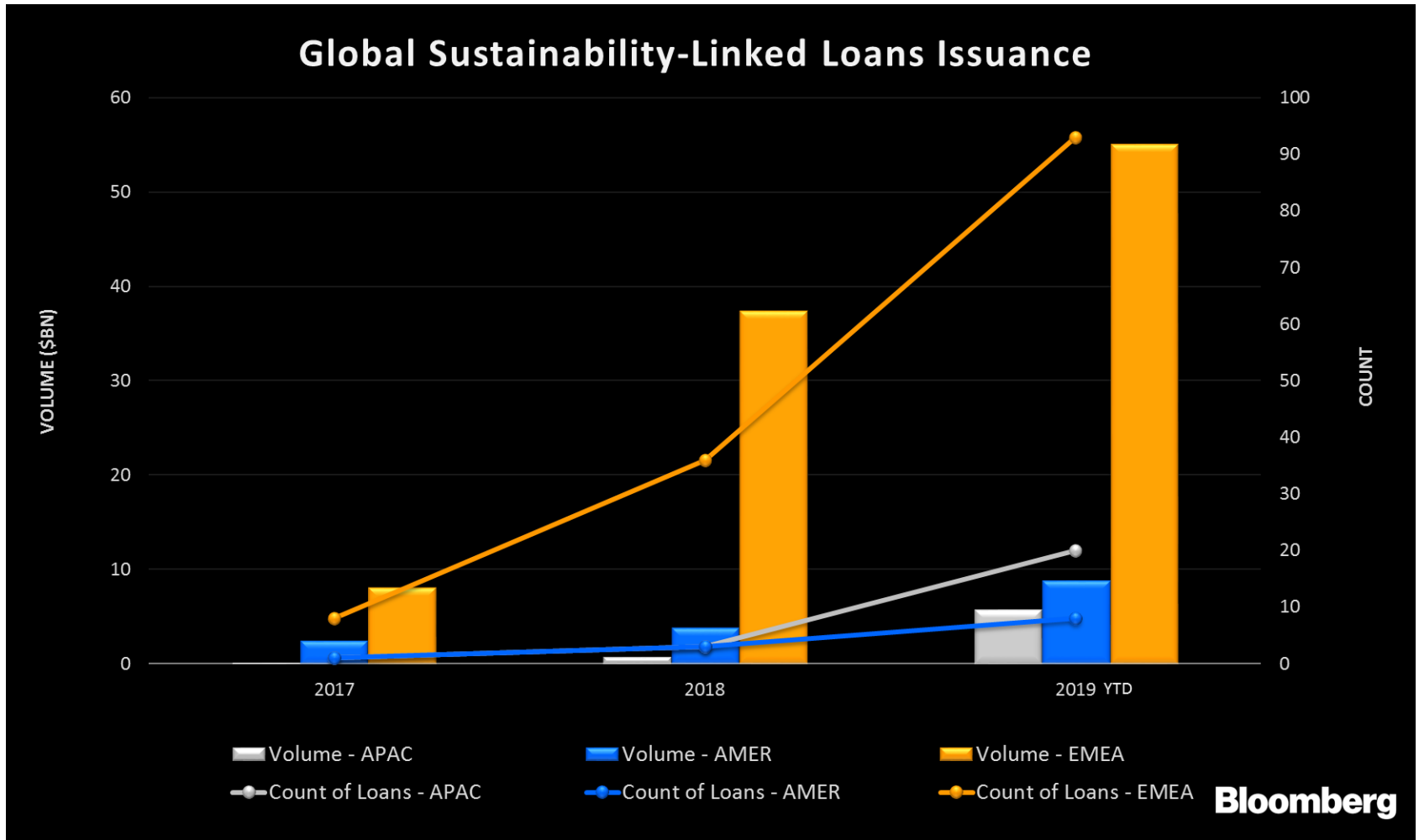
GLOBAL GREEN PROCEEDS & SUSTAINABILITY-LINKED LOANS (2014 - 2019 YTD)



Green Bonds, Green & ESG-Linked Loans Issuance

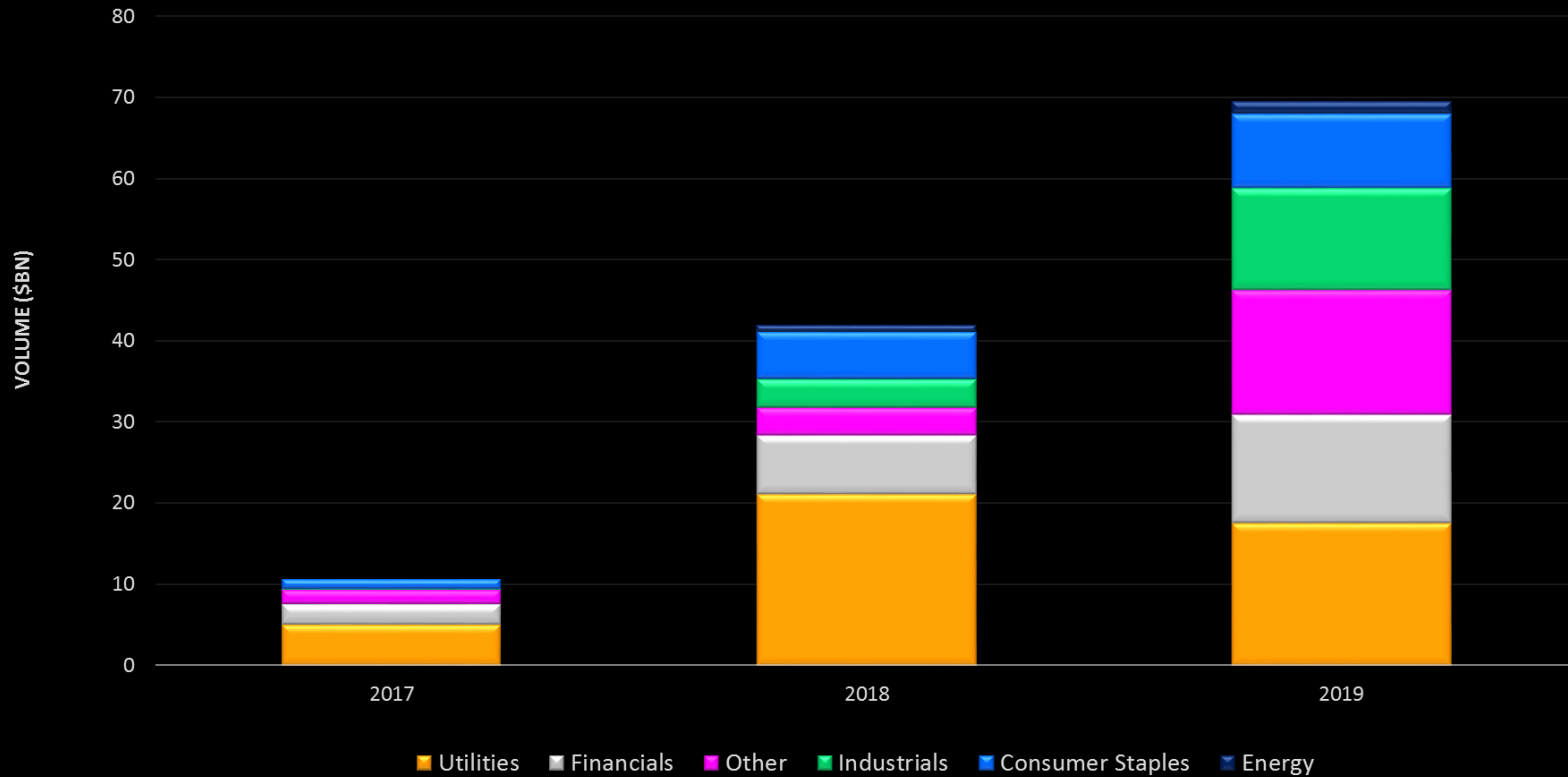


Global Sustainability-Linked Loans Issuance



Global Sustainability-Linked Loans Issuance

Global Sustainability-Linked Loans Issuance by Sector



Bloomberg

LMA Workstreams

- Responding to consultations across EMEA
- Further guidance to accompany GLP and SLLP to be produced alongside APLMA and LSTA
- ISO standards for green debt instruments
- Webinar
- Upcoming events



Sustainability Linked
Loan Principles



S&P Green
Bond Index



Green Loan
Principles



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