



Accelerating tomorrow's economy

Sustainability Improvement Loan

Wholesale Banking



Agenda

Setting the scene

What is the Sustainability Improvement Loan?

KPI Linked Sustainability Improvement Loan

ESG Score Linked Sustainability Improvement Loan

How to get there

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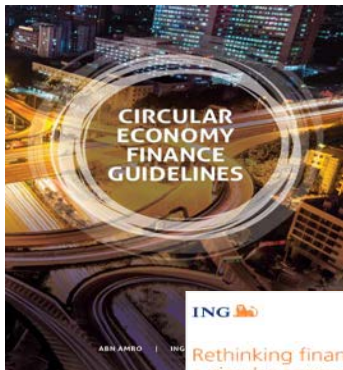
Appendix

Setting the scene

Financing the energy transition, circular economy and water

Thought leadership and collaboration

Circular Economy



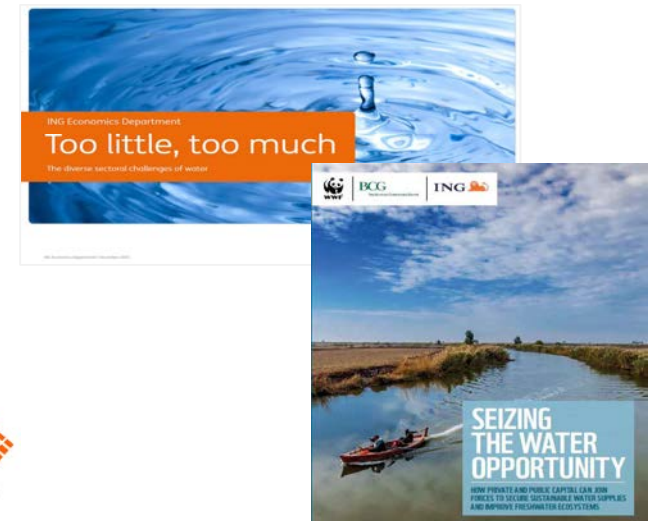
Energy transition



Terra approach



Water



Accelerate Sustainable Financing across Financial value chain

Sustainability Improvement Loan

The loan that can be used for general corporate purposes links the interest margin to the improvement of the client's external ESG score on environmental, social and corporate governance



Sustainable Investment

Innovations in Sustainability can encounter challenges in obtaining finance. Risk bearing capital dedicated to Energy Transition, Circular Economy and Water supports in scale-up opportunities and access to funding



Green Loan

A Green Loan is a corporate loan where the use of proceeds is linked specifically to sustainable projects, green product development or a 'green' project portfolio of the client



Circular Product as a Service (PaaS)

Product as a Service is the most challenging and impactful business model in the Circular Economy. ING offers innovative financing solutions to transition from 'take, make and dispose' to 'reduce, reuse and recycle' and new sustainable business models



Green and Social Bonds

Debt capital markets instruments (bond, Schuldschein, securitization), of which the proceeds are used to finance green or social projects and defined in a green bond framework



Sustainable Supply Chain Finance

To strengthen the supplier base of our clients we offer sustainable suppliers benefits under our supply chain finance program. Linking SCF discount rates or payment terms to sustainability scores of suppliers



Sustainable Project Finance

Cash flow based lending (project finance) on non-recourse basis and with known use of proceeds to finance the construction, and operation of sustainable projects.



Access to funding

Providing promising future ING clients (Start-ups and Scale-ups) access to Sustainable funding through ING Single Family Offices and Wealth management clients or opening up funding opportunities through ING's partnership with the Impact Hub.



What is the sustainability improvement loan

What is the Sustainability Improvement Loan?

The loan pricing linked to a sustainability score – if the score goes up, margin goes down and vice versa

How it works



- ✓ Financing **general corporate purposes** whether new or existing corporate (syndicated) facilities
- ✓ Setting sustainability targets (ESG Score or KPI)
- ✓ Annual Revision Sustainability Score or Sustainability KPIs
- ✓ The ESG performance results in a discount or premium to the loan pricing
- ✓ Framework is **verifiable, transparent and measurable**

Target per KPI



Which KPIs?



Sustainability auditor



Testing schedule

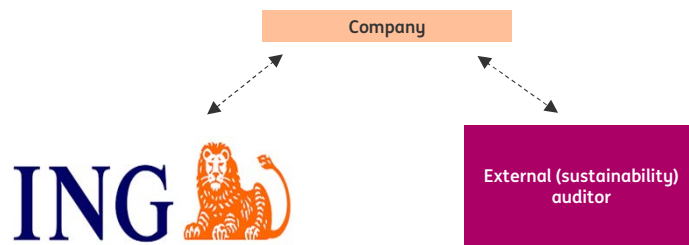


Margin discount / premium

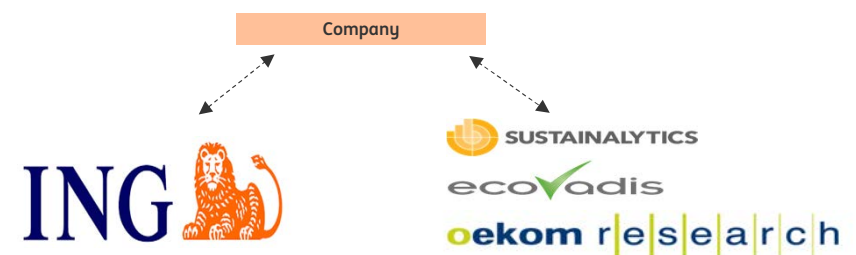


Two types of Sustainability Improvement Loans

KPIs linked SIL



ESG score linked SIL



Link margin-grid to external ratings (e.g. Sustainalytics, EcoVadis,); or
Tie pricing to tailor-made relevant KPIs on sustainable performance

KPI Linked Sustainability Improvement Loan

KPIs linked: guidelines for selecting appropriate sustainability KPIs

KPIs must be S-M-A-R-T:

- Specific
- Measurable
- Ambitious
- Realistic
- Time-bound

KPIs must:

- have current status and/or target value
- have not been reached / surpassed
- have clear connection to the sustainability concept
- Not be sufficiently covered by laws or regulations
- Have a clear methodology behind the KPI
- be auditable

Generally, minimally **3-5 ambitious KPIs** are selected that **should cover the material Environment, Social and Governance (ESG) areas** for that specific company. Only then, an adequate framework to assess the company's sustainability performance and improvement is constructed.

KPIs are subject to a baseline audit/ third party verification (CPs), **plus an annual sustainability audit/ verification report** by this party to determine progress on the KPIs and the respective pricing effect.

Typically, KPIs focus on 3-5 material ESG matters as mentioned above. Yet naturally, **a combination of the ESG score as 1 KPI plus 2-3 additional KPIs based on material ESG matters is also a possibility**. In such case, the ESG score would cover the overall sustainability performance, leaving room for choosing targeted KPIs in e.g. only the Environmental category.

Example Sustainability Programme

Indicators		Initial Score	Target Score					
		2018	2019	2020	2021	2022	2023	2024
	Taken from example's 2018 progress report	2018	2019	2020	2021	2022	2023	2024
GHG emissions (tonnes)	<i>By conserving resources in all areas of the company, we will be climate-neutral by 2030.</i>	15,201						
Women in managerial positions	<i>Example has voluntarily committed to filling at least 33% of managerial positions on the first and second levels below the Management Board with women by 2022.</i>							
Reduction in customers/users CO2 emissions	<i>We will help our customers/users reduce their CO2 emissions by 15% by 2022 (base year: 2018).</i>							
Percentage of renewable energy	<i>All electricity utility contracts will gradually be changed into renewable energy contracts. As a result, we will save 500 tonnes of CO2 in 2025, meaning a 18 % cut in CO2 emissions annually compared with 2018.</i>							

Sustainability Improvement Loan wording for Tailored KPIs

Sustainability clauses to be added to the Syndicated Facility Agreement

Clause on Interest

Margin adjustments

On and from the date of delivery to the Facility Agent of a Sustainability Report until the date of delivery of the next Sustainability Report, the Margin will be adjusted as follows:

- If at any time Successful Completion has been achieved, the Margin shall be reduced by [●] % per annum (the “**Sustainability Discount**”); and
- If at any time Non-Successful Completion has been detected, the Margin shall be increased by [●] % per annum (the “**Sustainability Premium**”).

For the avoidance of doubt, the Sustainability Discount and Sustainability Premium apply for so long as any amount is outstanding under the Finance Documents or any Commitment is in force. If Successful Completion or Non-successful Completion occurs on a day other than the first day of an Interest Period of these Loan(s) of the Facility, the Lenders will reprice the applicable Loan(s) with the Sustainability Discount or the Sustainability Premium at the next rollover date of the Loan(s). At no point will the Sustainability Discount or Sustainability Premium exceed [●] % and, accordingly, the relevant Margin will never be reduced or increased by more than [●] %.

Appendix on Sustainability Programme

Indicators	Initial Score		Target Scores		Target Score
	2019	2020	2021	2022	
#1 (e.g. GHG emissions)	[●] %	[●] %	[●] %	[●] %	≥ [●] % reduction in GHG emissions on a yearly basis.
#2 (e.g. Women in managerial positions)	[●] %	[●] %	[●] %	[●] %	≥ [●] % increase in women in managerial positions on a yearly basis.
#3 (e.g. reduction in customers/users CO2 emissions)	[●] %	[●] %	[●] %	[●] %	≥ [●] % reduction in customers/ users CO2 emissions on a yearly basis.
#4 (e.g. # Percentage of renewable energy)	[●] %	[●] %	[●] %	[●] %	≥ [●] % increase in percentage of renewable energy on a yearly basis.

ESG Score Linked Sustainability Improvement Loan

Environmental, Social & Governance (ESG) – Rating Agencies

Credit Rating Agencies

Companies that assign credit ratings (debtor ability to pay back)



Examples



A- (S&P)
Baa1 (Moody's)
A+ (Fitch)



BBB+ (S&P)
Baa1 (Moody's)



BBB+ (S&P)
A3 (Moody's)

ESG Rating agencies

Companies that assign ESG (Environmental, Social, Governance) ratings



Examples



84/100



61/100



57/100

Example Rating

ING Groep N.V.



ESG REPORT

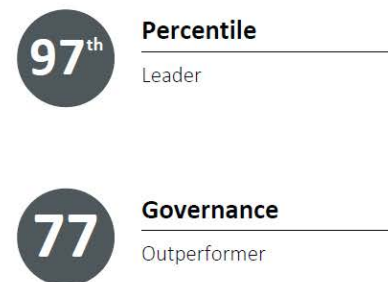
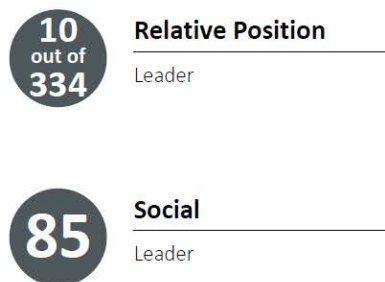
Industry: **Banks**
Domicile: **Netherlands**

Marketcap.: **37,311 mm. USD**
Ticker: **AMS:INGA**

Employees: **58,313**

ESG Summary

Overall Performance



Relative Performance

How to get there

Steps towards the sustainability reward – ESG linked Sustainability Improvement Loan

		COMPANY'S Treasury	COMPANY'S Sustainability Team / Investor Relations	ING	Timeline	
1	Orientation	<ul style="list-style-type: none"> Start of COMPANY – ING dialogue Awareness of reporting/KPI - ESG score & reports in place Benefit of up-to-date ESG score to investors 				2 to 3 weeks
2	ESG Check 1	<ul style="list-style-type: none"> ING and COMPANY to determine Sustainability Programme and/or rating level or KPI levels to be achieved 				3 to 4 weeks
3	Credit Facility	<ul style="list-style-type: none"> Terms & Conditions Credit Approval Loan documentation 				3 to 6 weeks
4	Deal	<ul style="list-style-type: none"> Invite banks Sign and implement loan agreement Fulfill CPs 				
5	Executing the Sustainability Programme	<ul style="list-style-type: none"> Planning and execution of the Sustainability Programme and KPIs Regular discussions COMPANY - ING 				12 to 15 months
6	ESG Check 2	<ul style="list-style-type: none"> Rating agency to provide an updated ESG score/audited KPIs Benefits of improved ESG score to investors 				2 weeks
7	Reward & New Horizons	<ul style="list-style-type: none"> Sustainability reward kicks in New sustainability ambition/KPI level to be determined 				

High involvement Low involvement

Benefits

Benefits



1. Reputation and marketing

- Strengthen the company's sustainable and innovative brand
- Shows that the company is taking sustainability seriously



2. Relatively Easy

- General corporate purpose facility
- Minor documentation changes in the existing Facility Agreement



3. Cost advantage

- Benefit from reduced interest margins when sustainability objectives are met



4. Create internal alignment

- Integrates sustainability goals in your financing/ finance department
- Sustainability efforts of departments will pay off in terms of financials



5. Stakeholder engagement

- Off-takers increasingly set sustainability requirements for their suppliers
- Diversification of financing sources
- Widening of investor base



6. Be a first mover, or somebody else will

- Sustainability is a hot topic nowadays within many sectors
- Considerable chance that another company in your sector will arrange such a loan in the coming period



Business Case

ING fastens a Sustainability rating to the syndicated loan refinancing of NORMA Group



- NORMA Group SE is a global market leader in engineered joining technology with sales of EUR 1bn and offers more than 40,000 high-quality products and solutions in more than 100 countries
- Its connectors & clamps can be found in vehicles, ships, trains, aircraft, domestic appliances, and plumbing systems. Their mission-critical products prevent leakage of fuel, chemicals & other fluids and help to reduce CO₂ emissions
- The company has a strong focus on CSR, incl. work safety & environment, proven by “Prime” status



“By successfully refinancing, we have significantly optimized the financing structure for NORMA Group. This gives us the security and financial scope we need to implement our long-term growth strategy. The inclusion of a sustainability component underscores the high priority NORMA Group attaches to Corporate Responsibility.”

Dr. Michael Schneider, CEO of NORMA Group



Sustainability mechanism

- The EUR 300m 5+1+1 year Term Loan and Revolving Credit Facility incorporates a sustainability improvement mechanism
- NORMA Group will benefit from a lower margin payable on the loans depending on its published Sustainability rating report by Sustainalytics
- Conversely, NORMA Group will pay a premium on its margin when the sustainability objectives are not met

ING's Role

- ING acted as sole Sustainability Agent despite being the “new kid on the block” in the syndicate
- Upfront ING advised the client on the most suitable sustainability rating provider and pricing impact
- A key success factor was the close collaboration from start to finish between NORMA's ESR Officer and ING's Sustainable Finance team



ING is eager to support the transition to a low carbon society

Presenter



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Appendix materials

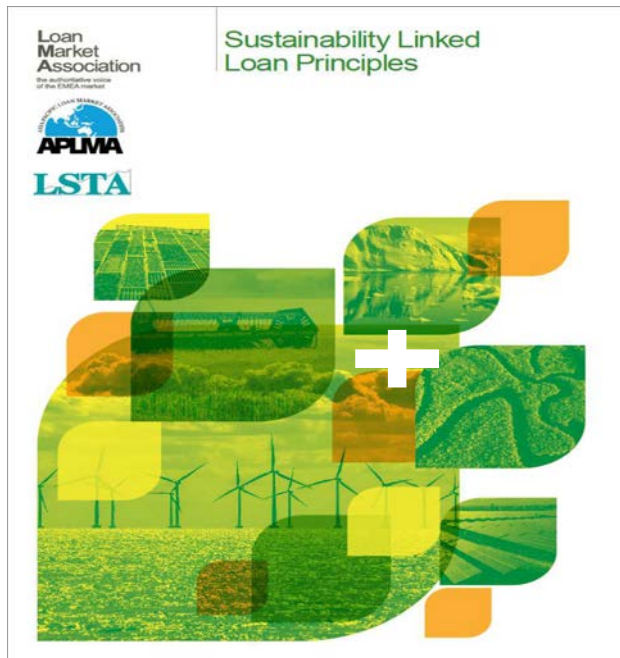
Multiple options to link sustainability to borrower's bank financing

	1 Sustainability Improvement Loan		2 Green Loan	
	External rating agency	Tailored KPIs externally verified	Green Financing Framework	Green loan
Method	External rating-linked to margin grid, e.g. Sustainalytics, Ecovadis, Vigeo Eiris	The Borrower formulates quantitative KPIs and targets, which are all encompassing for E, S and G (no cherry picking) and ambitious	"Green" use of proceeds loan under the Green Financing Framework	Loan proceeds are specifically allocated to eligible projects ¹
Use of proceeds	General corporate purposes	General corporate purposes	Eligible green projects ²	Eligible green asset-backed projects ²
Project evaluation & selection	Up-to-date sustainability rating report required at signing	<ul style="list-style-type: none"> Limited assurance by external auditor at signing Targets sufficiently set into the future (life time of the loan) 	In line with Green Financing Framework Principles	Upfront defined eligible projects
Management of proceeds	Not applicable	Not applicable	Project-by-project or portfolio basis	Project-by-project basis
Reporting	Most recent ESG rating report determines margin discount and premium	External auditor to verify KPIs annually, e.g. by means of integrated or CSR reporting	<ul style="list-style-type: none"> Not necessarily testing eligibility criteria every drawdown Assertion of management letter possible for reporting 	Reporting on the use of proceeds
Considerations	<ul style="list-style-type: none"> Potential margin discount/penalty A fee is charged by the external rating agency for maintaining the external rating Methodology risk on the rating agency 	<ul style="list-style-type: none"> Potential margin improvement Relies on Borrower's data and business processes Fully tailored E, S and G targets Requires industry sector knowledge of banks 	<ul style="list-style-type: none"> No margin upside potential Strategic communication to financial markets To be used for refinancing or new financing Green Financing Framework covers all funding instruments 	<ul style="list-style-type: none"> Need for sustainable projects or targets
Examples in the market	Philips, Barry Callebaut, Bpost, Red Electrica, Adecco, Olam,	Renewi, DSM, Volker Wessels, Corbion, Grupo Siro	Tradebe, Skanska Group, Heerema Marine Contractors, Renewi	Widely used in the Real Estate Finance market

1. Bloomberg League Tables' definition includes not only green loans that explicitly adhere to the LMA/APLMA GLP, but also those loans that have the use of proceeds aligned to the Bloomberg's BNEF definition – broadly in line with LMA/APLMA GLP

2. According to LMA Green Loan Principles and ICMA Green Bond Principles

Sustainability Linked Loan Principles



Sustainability Linked Loan - Core Components

1. Relationship to Borrower's Overall Corporate

Social Responsibility (CSR) Strategy: clear communication on borrowers CSR strategy and how these align with its proposed sustainability performance targets (SPTs).

2. Target Setting – Measuring the Sustainability of the Borrower:

The 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. Market participants recognise that any targets should be based on recent performance levels. SPTs may be either internal (defined by the borrower in line with their global sustainability strategy) or external (assessed by independent providers against external rating criteria).

3. Reporting: Borrowers should, where possible, make and keep readily available up to date information relating to their SPTs, with such information to be provided to those institutions participating in the loan at least once per annum.

Borrowers are encouraged to publicly report information relating to their SPTs together with details of any underlying methodology and/or assumptions.

4. Review: The need for external review is to be negotiated and agreed between the borrower and lenders on a transaction-by-transaction basis.

Source: https://www.lma.eu.com/application/files/8015/5307/4231/LMA_Sustainability_Linked_Loan_Principles.pdf