Sustainability Linked Loans (SLLs)

A cost efficient way to make Sustainable change

What are Sustainability Linked Loans?

Sustainability Linked Loans are made available to:

- facilitate and support **environmentally and socially sustainable** economic activities and growth.
- link the borrower's cost of capital to Environmental, Social and Governance (ESG)/sustainability metrics.

SLLs are similar to normal corporate loans, but should follow the **Sustainability Linked Loan Principles** (SLLPs), which are voluntary recommended guidelines issued by the Loan Market Association (LMA) and other global bodies (LSTA, APLMA), to be applied on a deal-by-deal basis.

SLLs can take the form of **any type of loan instrument and/or contingent facilities** (e.g. bonding lines, guarantee lines or letters of credit) which incentivise the borrowers to achieve ambitious, pre-determined **sustainability performance targets** (SPTs).

The borrower's sustainability performance is measured using SPTs, which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.

In order to assess internal performance, you will need to either **engage a third party to support** or leverage an existing auditor/ internal expertise and demonstrate this through public annual reports.

Why use Sustainability Linked Loans?

Reputation	Gain positive reputation and brand value around ESG.
Shareholders	Demonstrate commitment to Sustainability by integrating as a core metric within your financial activities.
Cost	SLLs offer the potential to reduce the cost of borrowing if the targets are met. Although it should be noted that poor performance can lead to increased costs.
Growth	Faciliate the goal of integrating sustainability into your business strategy, products and services to enable long-term growth.

What are the key benefits?

1 **Simplicity:** It has a vanilla structure, which is very similar to normal loan structure.

2 **Flexibility:** It can be a bilateral or syndicated loan, depending on your needs.

How do Sustainability Linked Loans work?

The SLLPs set out a framework, enabling borrowers and lenders to clearly understand the characteristics of a sustainability linked loan, based around the following four core components:

	Component	Description	Steps for Borrowers
1	**Relationship to borrower's overall ESG strategy**	Borrower should clearly communicate to its lenders its sustainability objectives, and how these align with its proposed SPTs.	Consider how sustainability objectives align with proposed SPTs.
2	**Target setting – measuring the sustainability of the borrower**	◆ SPTs should be ambitious and meaningful and tied to a sustainability improvement in relation to a predetermined performance target benchmark. ◆ Data for the benchmark should be based upon recent performance (6-12 months) and can be internal or external but must be meaningful over the life of the loan.	Get a third party opinion to verify that chosen methodology is appropriate for the business model; or demonstrate internal expertise.
3	**Reporting**	◆ Borrower should maintain and make readily available up-to-date information relating to their SPTs. ◆ Where possible borrower should be encouraged to publically report information relating to their SPTs.	Report on SPTs at least once a year, e.g. in Annual Report/ESG Report.
4	**Review**	◆ Requirement for an external review will be agreed between the borrower and the lender group. ◆ If information relating to an SPT is not public, the borrower group should seek an external review of performance on SPTs. ◆ Where independent verification is sought this should be independently verified at least once yearly.	Attain an external review of sustainability performance – by auditors, environmental consultants or ratings agencies.

Should you expand into a new business area, the Framework will need to be updated if it is not covering the new business already.

What are the common SPTs?

Renewable energy

Affordable housing

Greenhouse gas emissions

Circular economy

Water consumption

Sustainable sourcing

Energy effiency

Biodiversity

Global ESG assessment

Sustainable farming and food

How to find out more?

Please contact your HSBC Relationship Manager to find out more about the opportunities for Sustainability Linked Loans to support your business needs. You may also visit our website www.business.hsbc.com.mt/bpfp

If you do not have a Relationship Manager, or are not an HSBC customer, call our Business Banking Direct on 2380 8000. Our lines are open from 8.00am to 5.00pm Monday to Friday (excluding public holidays).

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