Sustainable Finance Insights

The UniCredit view – Edition November 2020

Dear readers,

We are very pleased to share with you our second edition of the **Sustainable Finance Insights** to provide you the **latest news and trends on sustainable finance**.

Here you will find relevant information about:

- The **European Central Bank** accepting as collateral sustainability-linked bonds
- How UniCredit is **integrating Environmental, Social and Governance (ESG)** considerations into our **Working Capital** offer, provided jointly with **FinDynamic**
- The **EU's largest ever social bond** and other deal highlights
- **ESG & Green Research update**
- Highlights of the recently concluded pan-European **ESG "on the road"** client series

We hope you will find the **Sustainable Finance Insights** inspiring and valuable and we very much welcome your feedback on this and future editions. Please click here (#SFI20) to share your view.

Thank you and please get in touch with your personal contact in the bank for more information on ESG and how we can support you.

The view from Sustainable Finance Advisory

EUROPEAN CENTRAL BANK

Starting from **1 January 2021, the European Central Bank (ECB) will accept sustainability-linked bonds** (also known as KPI-linked bonds) as collateral under the asset purchase programme (APP) and the pandemic emergency purchase programme (PEPP) subject to compliance with programme-specific eligibility criteria.

The coupons must be linked to a **performance target** referring to one or more of the environmental objectives set out in the **EU Taxonomy** Regulation and/or to one or more of the **United Nations Sustainable Development Goals (SDGs)** relating to climate change or environmental degradation (https://sdgs.un.org/goals). This further broadens the universe of Eurosystem-eligible marketable assets and signals the Eurosystem's support for innovation in the area of sustainable finance.

In our view, more corporates will consider KPI-linked structures, especially upon continued evidence for a pricing advantage also following the ECB announcement. With proceeds of offerings not being limited to eligible projects, we believe that many issuers will prefer to choose the KPI-linked structure amid the flexible General Corporate Purpose language on usage of proceeds.

The **ECB's emphasis on environmental** concerns will mean that sustainability-linked bonds from the eurozone will now focus on targets such as e.g. carbon emissions, renewable energy, water efficiency and waste reduction, rather than social targets in the UN SDGs. **Social objectives are currently not included in the ECB decision** and thus assets with a coupon structure linked to both an environmental and a social objective would not satisfy the necessary criteria to become eligible.

EUROPEAN COMMISSION NEW INSTRUMENT

Recently the European Commission announced a new instrument for temporary **S**upport to mitigate **U**nemployment **R**isks in an **E**mergency (SURE), which is designed to help protect people at work and jobs affected by the coronavirus pandemic.

The financial support, of up to EUR 100 b, will be provided in the form of loans granted on favourable terms from the EU to Member States.

The EU Commission has adopted a **Social Bond Framework**, which is meant to provide investors with confidence that the funds will serve the social objective of alleviating the social impact of the coronavirus pandemic and its consequences across the EU. The Commission's Social Bond Framework has been established in full compliance with the Social Bond Principles (SBP). It has received a Second Party Opinion (SPO) by ESG rating agency Sustainalytics.

Global Transaction Banking (GTB) with a sustainable angle

UniCredit strengthens working capital offering with Italy's first sustainable dynamic discounting programme

WHAT IS NEW

As part of the bank's innovative approach to working capital management, **UniCredit has begun integrating Environmental, Social and Governance (ESG) considerations into its services.** As a first step, the bank is working with clients, including Italian retailer **Gruppo Arena** to incorporate a social impact dimension into its existing dynamic discounting solution, offered in partnership with fintech **FinDynamic**.

HOW DOES IT WORK

The solution enables UniCredit clients to use a mobile- and web-based platform to pay suppliers in advance of their invoice due dates, earning a discount that varies on a sliding scale depending on how early the payment is made. For suppliers, this offers a guarantee of early liquidity, which can be hugely valuable, shortening their cash conversion cycle and simplifying forecasting.

Extending this support to a range of small and medium enterprises (SMEs) with a very low discount rate, also qualifies as a programme with **high social impact**. UniCredit clients are now able to capitalise on this by securing validation from a third-party certificatory and formalising the commitment as an **ESG transaction**.

The transaction with Gruppo Arena, a retailer based in Sicily and very active in the south part of Italy, became Italy's first supply chain management initiative with an ESG angle eligible to be validated by a recognised third party.

BACKGROUND

This new solution comes against a backdrop in which support for supply chains and **momentum for ESG initiatives are growing in prominence.** The coronavirus pandemic and subsequent economic downturn has put pressure on global supply chains, making supply chain management more important than ever, particularly in markets such as Italy that are chiefly populated by small and medium enterprises. Consequently, **working capital** management is no longer solely focused on supporting the biggest suppliers.

Instead, the focus has shifted to strengthening the relationship between buyers and suppliers throughout the entire production chain. This is natural progression, with corporates increasingly aware that insolvent suppliers have the potential to disrupt production lines, and social responsibility and ESG factors will affect their public reputation and desirability among investors.

Deal Highlights and Credentials

Recently **UniCredit acted as Joint Bookrunner in the following landmark transactions**:

European Union
EUR 17,000,000,000
SURE Dual Tranche
2030 + 2040
Joint Bookrunner
Luxembourg, Oct 2020

EUROPEAN UNION ("EU") EUR 17 B DUAL TRANCHE SOCIAL BOND

This landmark transaction is the **largest ever social bond**, with approximately 63 per cent of the tranches allocated to ESG investors. With a total of EUR 233 billion collected orders, this issue is the largest orderbook from a supranational institution to date with more than 1000 investors participating in both tranches. It also marks the **largest bond transaction** in terms of total size ever issued.

The proceeds from the EU SURE social bonds will be used exclusively to finance programmes with a **positive social impact**.

Federal Republic of Germany
EUR 6,500,000,000
Green Twin Bond
0.00% due 2030
Joint Bookrunner
Germany, Sep 2020

FEDERAL REPUBLIC OF GERMANY'S EUR 6.5 B INAUGURAL GREEN BOND BENCHMARK

Germany became the eighth sovereign in Europe to issue a benchmark Green Bond. **Germany decided on a new approach to its green bond** issuance. Each Green Federal security will have a conventional twin, with the same maturity and coupon. On the back of an order book exceeding EUR 33 b, the final spread of the Green Bond was set at DBR Aug 2030 -1 bp, i.e. 1 bp inside its conventional twin bond that was issued with the same bond parameters already on 17 June 2020. The Green Bund evidenced a "Greenium" (i.e. a pricing advantage for issuers to go green vs standard offerings).

Daimler AG
EUR 1,000,000,000
Senior Green Bond
0.750% due 2030
Joint Bookrunner
Germany, Sep 2020

DAIMLER'S EUR 1 B INAUGURAL GREEN BOND

Daimler AG decided to benefit both from the favourable market environment and the outstanding success of the Green Bund of the German sovereign and offered a **EUR 1 b 10 years green inaugural senior bond**, a deal considered the **first of its kind** for the European auto sector. Demand was mainly driven by green investors, making one of the largest and most granular orderbooks of the past years for Daimler (final book 4.2 x oversubscribed). Pricing was an astonishing 20/25 bps through Daimler's (conventional) bond curve. The Green Daimler evidenced a "Greenium." for Daimler's EUR 1 b inaugural Green Bond.

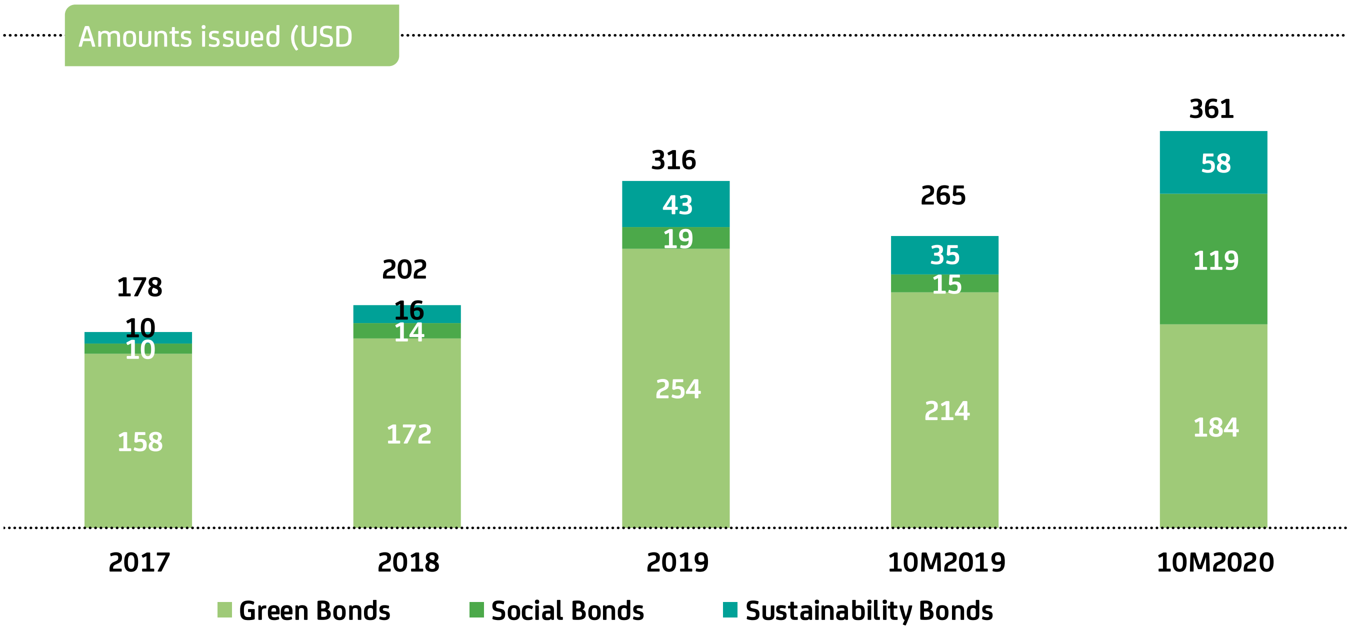
Suez
EUR 100,000,000
Social Revolving
Credit Facility
Underwriter, Sole
Bookrunner, MLA, Facility
Agent, Sust. Coordinator
France, Jul 2020

SUEZ EUR 100 M SOCIAL REVOLVING CREDIT FACILITY

UniCredit acted as **sole Underwriter, Bookrunner, Sustainability Coordinator and Facility Agent in SUEZ's EUR 100 m social revolving credit facility**. As an innovative transaction dedicated to the financing of actions to fight the effects of COVID-19, this is the **first syndicated social loan ever made**.

ESG & GREEN RESEARCH UPDATE

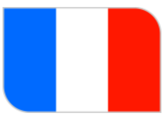
In the **first ten months of 2020**, global issuance of green, social and sustainability bonds increased by around 36% yoy and amounted to USD 361 b. This was primarily driven by the significant increase in the issuance of social and sustainability bonds related to COVID-19.



Source: Climate Bonds Initiative, Bloomberg, UniCredit Research

European issuers, in particular, will further drive the green, social and sustainability bond market.

The EU will finance 100 per cent of its SURE program through the issuance of social bonds and is to issue up to EUR 100 b worth of these bonds by 2021 to preserve employment in the EU member states. Consequently, the **EU will become** not only the **largest issuer of social bonds** but also the **largest issuer of green bonds**, as the EU plans to issue EUR 225 b of green bonds between 2021 and 2026 to finance 30% of its Next Generation EU program.



The French agency Cades, which manages the social debt of France, is increasingly issuing social bonds in benchmark format.

The German federal government plans to issue very liquid green bonds each year and the European Stability Mechanism (ESM) is prepared to fund any drawings of member states under the Pandemic Crisis Support credit line through the issuance of social bonds.

It is not only governments and government-related issuers that are key-drivers in the market. Financials and corporates are also increasingly tapping the sustainable bond market and two German car producers recently kicked-off the green bond market in the German automotive sector.

FORECAST

We expect 2020 issuance of green, social and sustainability bonds to amount to USD 420 b and forecast total green bond issuance of USD 220 b this year. We expect combined issuance of social and sustainability bonds to amount to USD 200 b. In our view, more and more issuers will consider issuing sustainability-linked bonds (SLBs), following the ECB's decision to deem SLBs with coupons linked to sustainability-performance targets as eligible to be used as central-bank collateral from 1 January 2021. Such bonds' coupons must be linked to a performance target that pertains to environmental objectives. Furthermore, SLBs are potentially eligible for the ECB's asset -purchase programs.

As a MifiD professional you will be able to gain access to all our relevant ESG & Green Research on: UC Research portal*.

*If you have not yet full access to our Research Portal please get in touch with your Sales representative

ESG on the road

On 5 November, we concluded the European part of the **ESG "on the road"** for corporate clients which started in September and covered Italy, Germany, Austria and CEE. Antonio Keglevich, Head of Sustainable Finance Advisory and members of his team moderated this series of events. Held in local language, the series delivered expert insights from top-ranking representatives including the European Investment Bank (EIB), rating agencies Standard & Poors and Sustainalytics alongside corporate issuers BayWa, ERG, Nordex, Russian Railways, Snam and Verbund, Amundi and Union Investment representing the investor view. The series will now move on to the US and is planned thereafter to also cover the MEA region. To read more about this series click here:

- ESG on the road in Italia (in italiano)
- ESG on the road in Southern Bavaria (auf deutsch)
- ESG on the road in Northern Germany (auf deutsch)
- ESG on the road in Austria (auf deutsch)
- ESG on the road in CEE (in English)

Sustainable Finance brochure

UNICREDIT – YOUR PARTNER FOR SUSTAINABLE FINANCE

UniCredit's Sustainable Finance Advisory team aims to deepen the dialogue with clients on ESG topics and facilitate their access to Europe's sustainable finance market. Leveraging on our market expertise and track record in the delivery of tailored solutions, we have published a sustainable finance brochure that delivers relevant information on the development of the market, while highlighting our credentials, advisory expertise and client offerings. You can read it here.