Sustainable Finance Insights – The UniCredit View

Dear readers,

We are pleased to share our fifth edition of Sustainable Finance Insights, providing you with the latest news and trends in the sustainable finance space.

Here you will find relevant information about:

- Science Based Targets Initiative
- Journey to Net Zero
- ESG deal highlights and credentials
- Our latest ESG and Green Research updates

We hope you will find Sustainable Finance Insights inspiring and valuable, and we welcome your feedback on both this and future editions. Please click here to share your view.

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

The view from Sustainable Finance Advisory

SCIENCE BASED TARGETS INITIATIVE

Spices and seasonings of sustainability-linked financing

When perfecting a new recipe, getting the balance of ingredients right is paramount to creating something enjoyable. Similarly, the ingredients for sustainability-linked financing instruments – including the “meaningfulness” of Key Performance Indicators (KPIs) and the “ambitiousness” of Sustainable Performance Targets (SPTs) – must harmonise in order to create a convincing financial structure and to mitigate the risk of greenwashing.

At the beginning of the process, when companies and bankers screen sustainability reports for potential KPIs, the first thing they assess is greenhouse gas **(GHG)** emissions. This is all well and good, but the challenge arises when SPTs must be calibrated. For that, a combination of benchmarking approaches is applied, taking into consideration the borrower’s own performance, that of its peers, and reference to science. While the first two can be challenging, the latter is almost a no-brainer if the company has its emission reduction targets validated by the Science Based Targets initiative **(SBTi)**.

The SBTi was established in 2015 to help companies set targets for emissions reductions in line with climate science and the Paris Agreement.

As of today, 2,844 companies worldwide have made a public commitment to set science-based targets aligned with the SBTi’s criteria within 24 months. Almost 50% (1,309) of these have finalised the process and had their targets approved by the initiative.

In the sustainable finance field, a validation by SBTi is considered the gold standard and market participants commonly accept GHG reduction targets approved by SBTi as ambitious without scrutinising them to the usual extent.

Almost logically, however, the downside to SBTi’s success is the considerable waiting time: the next available opening to begin the validation process is in six months’ time.

UniCredit’s Sustainable Finance Advisory has advocated the SBTi’s approach in countless situations, but we have also encountered circumstances where companies have been unable to comply with its strict requirements. In an attempt to provide for the necessary level of flexibility, we are currently exploring an alternative route to validating ambitious target setting with some of our clients. It remains to be seen whether this route will lead to the desired results, but we are quite confident that the ingredients we have collected will be easily digestible.

Author: Stephan J Mussong

The view from Natural Resources

JOURNEY TO NET ZERO

Over the past two years, we have observed multiple ESG reporting standards coming into play with continuously evolving criteria. Focusing on a wide variety of topics – ranging from social aspects to net-zero GHG emissions targets – it can be challenging for corporates, financial institutions, and investors alike to grasp the goals and related commitments.

Several reporting requirements are led by regulators: within the EU, a prime example is the EBA ESG Pillar III disclosures, which come into play next year and set mandatory technical standards at EU level. Financial institutions are facing their own set of challenges with these reporting requirements as they strive to fit their business models into this framework and adopt a new set of KPIs and policies to guide their credit processes.

Alliances such as the Net Zero Bank Alliance – which UniCredit became a member of last year – were found to provide a common approach and incentivise financial institutions to adopt a long-term strategy to decarbonise their portfolios.

Countering this reactive approach, several industry-led initiatives are looking at the pathways to a carbon-neutral world from a different angle. These initiatives are identifying the essential steps to decarbonise carbon-intense industries by adopting a bottom-up approach, while maintaining an economically sound mindset. Such initiatives have the advantage of understanding the economic impact of required decarbonisation pathways, sharing industry know-how and best practices, encouraging dialogue at managerial level, and identifying barriers while highlighting industry specific solutions.

Financial institution participation in industry-led initiatives is crucial, providing the tools required to support clients on their journey to net-zero, developing concrete investment projects, and arranging financing. In turn, this fundamental dialogue allows corporates to understand how to make their projects bankable.

UniCredit has recognised the importance of such alliances through its participation in the Steel CAF[1] Working Group – which seeks to support decarbonisation in an industry responsible for 8% of CO2 emissions – in turn positioning itself as a leading bank accompanying its clients on their respective journeys to a greener world.

[1]Steel Climate-Aligned Finance Working Group facilitated by RMI's Center for Climate-Aligned Finance

ESG Deal Highlights and Credentials

Selection of recent landmark transactions with UniCredit in prominent roles:

SUCAFINA ESG-LINKED REVOLVING CREDIT FACILITIES

Sucafina
SUCAFINA
USD 740,000,000
ESG-linked Revolving Credit Facilities
Bookrunner, MLA
Switzerland, Jan 2022

- Sucafina group is a top global coffee merchant house providing 1 in every 20 coffee cups sold worldwide, with a clear vision to "be the leading sustainable 'Farm to Roaster' coffee company in the world".
- Sucafina has implemented the IFC performance Standards since 2014 and has published Sustainability Reports since 2019.
- Sucafina's 2030 Sustainability Strategy is focused on three pillars: Caring For People, Investing In Farmers and Protecting Our Plant.
- UniCredit acted as BMLA in the facility.

DEUTSCHE GLASFASER EUR 5.75 BN PROJECT FINANCING

Lightboost – FTTH
Deutsche Glasfaser
EQT OMERS
EUR 5,750,000,000
Project Financing FTTH roll-out
Underwriter, Bookrunner, MLA
Germany, Jan 2022

- Deutsche Glasfaser ("DGF"), owned by EQT and OMERS, is the leading independent Fiber-to-the-Home ("FTTH") network operator in Germany's rural and suburban areas, with 1.1 million homes already covered. The project aims to roll-out the FTTH network to about 4 million households by 2026.
- The transaction has attracted high market attention, with 10 Underwriters (including UniCredit) plus 5 cornerstone investors providing certainty of funds via substantial (underwriting) commitments.
- Largest FTTH financing in Germany to date including ESG-linked features (3 KPIs) tested each year.
- Senior debt consisting of 7yrs. EUR 3.0 bn term loan (refinancing of existing acquisition financing), EUR 2.5 bn capex facility supplemented by EUR 250 m RCF plus EUR 1.5 bn (uncommitted) accordion facility.

RWE EUR 5 BN ESG-LINKED REVOLVING CREDIT FACILITY

RWE AG
RWE
USD 3,000,000,000
ESG-linked Revolving Credit Facility
Underwriter, Bookrunner, MLA
Germany, Mar 2022

RWE AG
RWE
USD 2,000,000,000
ESG-linked Revolving Credit Facility
Coordinator, Bookrunner, MLA
Germany, Apr 2022

- RWE AG is one of the world's leading players in the renewable energy sector. The company invests billions in renewable energy and consistently reduces its greenhouse gas emissions with a goal to be climate-neutral by 2040.
- In March and April 2022, UniCredit successfully placed and signed EUR 5 bn in ESG-linked Revolving Credit Facilities for RWE AG.
- The sustainability concept implemented in both facilities provides for potential pricing adjustments via testing of the following KPIs: renewable capacity share, CO2 intensity and sustainable investment share.
- UniCredit acted as Bookrunner and Mandated Lead Arranger in both facilities, as well as Underwriter on the EUR 3 bn facility.

AURUBIS EUR 350 M ESG-LINKED REVOLVING CREDIT FACILITY

Aurubis AG
Aurubis
EUR 350,000,000
ESG-linked Revolving Credit Facility
Coordinator, Sustainability Coordinator, BMLA
Germany, Feb 2022

- Headquartered in Hamburg, Aurubis is the largest integrated copper processor globally, covering the value chain from copper smelting and refining to the production of semi-finished goods. The company has an international footprint, with over 7,000 employees spread across more than 20 countries.
- Aurubis successfully completed its inaugural EUR 350 m Sustainability-Linked Revolving Credit Facility (RCF) in February of 2022. It underlines the company's commitment to its sustainability strategy as, for the first time, the company has linked the margin of its RCF to sustainability features – specifically, the company's ESG rating by EcoVadis. The transaction follows a Sustainability-Linked Schuldschein with a similar mechanism issued by the company.
- UniCredit took a leading role in the transaction, acting as Coordinator, joint Sustainability Coordinator, Bookrunner and Mandated Lead Arranger for the EUR 350 m 5+1+1yr Sustainability-Linked RCF.

ASTM EUR 3 BN DEBUT SUSTAINABILITY-LINKED BOND

ASTM
EUR 3,000,000,000
Debut SLB
Due 26/30/33
Baa3/NR/BBB-
ESG Structuring Advisor,
Joint Bookrunner
Italy, Nov 2021

- First ever Sustainability-Linked bond in the motorway sector for which UniCredit acted as ESG structuring advisor and Joint Bookrunner (B&D)
- The bond was 3.7x oversubscribed (EUR 11.2 bn)
- ASTM is the first European motorway operator and the world's largest in terms of km managed to set SBTi-certified GHG emissions reduction targets and the bond KPIs cover all the tranches and are referred to the GHG emissions
- The second party opinion released by Moody's ESG confirmed an "advanced" KPI relevance and a "robust" ambition.

ESG & Green Research Update

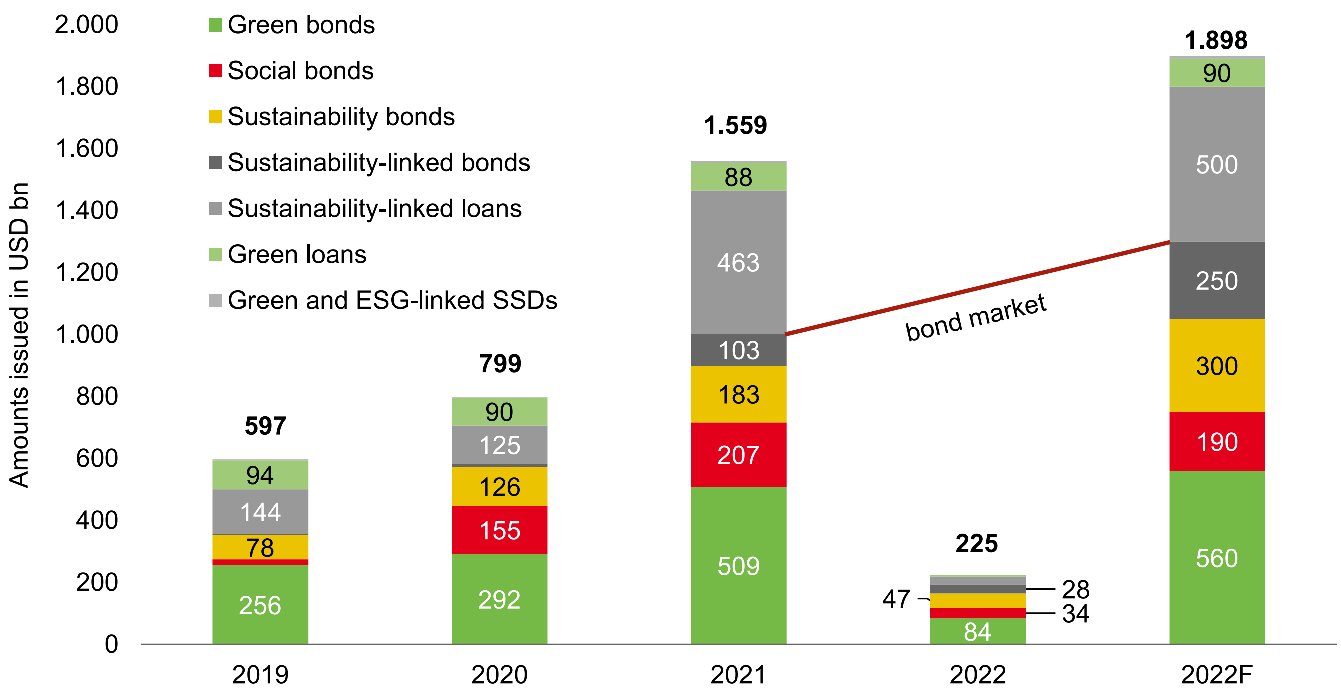
A tremendous supply of green, social, sustainability and sustainability-linked bonds (SLB) were on offer in 2021, and a new record was set in January 2022. Nevertheless, inflation risk and geopolitical circumstances have weighed on issuance since February. As a result, 1Q22 supply lagged behind that of 1Q21. Combined global bond issuance amounted to USD 192.8 bn in the first three months of 2022 (down by 28% yoy), and although issuance of green bonds was lower than it was last year, the green bond segment remained the largest segment (USD 84.3 bn, down by 32%).

Social bond issuance declined the most (down by 62% to USD 34.2 bn), but this was expected to some extent due to significantly lower supply from the EU via the SURE programme. On the other hand, issuance of sustainability bonds (USD 46.6 bn, up by 16%) and sustainability-linked bonds (SLBs) (USD 27.7 bn, up by 138%) had a stronger start to the year. Given we have also observed strong growth in the sustainability-linked-loan market, we expect the pipeline for future SLB transactions will be well filled as issuers take the subsequent step of entering the broader SLB market.

As such, we expect the SLB market to continue to grow sharply. SLBs present an excellent opportunity for issuers to step into the ESG bond market – particularly those that do not have sufficient green assets to issue bonds in a green format. In addition, this kind of bond can also be used to enable transformation financing to a more sustainable business model.

Alongside the bond market, the ESG loan and Schuldschein markets have experienced significant growth. These more than doubled in size in 2021 to an overall volume of USD 557 bn. But just like the bond market, data from February suggests the loan market has declined as issuance in this market for the first two months of the year amounted to just USD 31.8 bn.

YEARLY OVERVIEW AND FORECAST[2]



FORECAST

Although increasing inflation risks and geopolitical circumstances have weighed on overall issuance in 1Q22, we are keeping our forecast unchanged from late last year: The ESG bond market is set to continue to grow in 2022 and to breach the trillion-dollar barrier in terms of size.

We expect global issuance of green, social, sustainability and sustainability-linked bonds to amount to USD 1.3 trn. Green bond supply is expected to set a new record at USD 560 bn in 2022. We expect the issuance of sustainability bonds to almost double to EUR 300 bn, and estimate that the issuance of SLBs will more than double to USD 250 bn. Meanwhile, social bond issuance is expected to decrease in 2022 to EUR 190 bn. Including loans and Schuldscheine, we expect the size of the global sustainable debt market to approach USD 1.9 trn.

[2]Source: Climate Bonds Initiative, Bloomberg, UniCredit Research