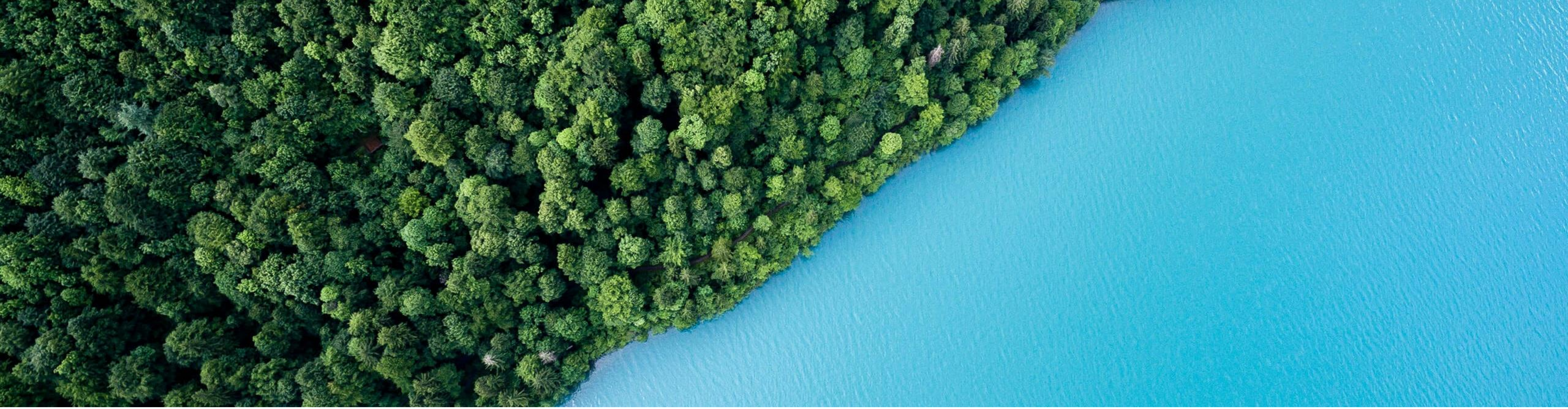

GSSSB Outlook 2023

Key Drivers and Themes

S&P Global Ratings

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April 18, 2023

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S&P Global acquires Shades of Green business from CICERO

- In recent years CICERO has developed significant expertise in climate finance and in 2018 established CICERO Shades of Green, a subsidiary to professionalise the climate risk services to the financial sector, acquired by S&P Global Ratings in 2022.

- Shades of Green methodology assigns shadings to investments and activities to reflect the extent to which they contribute to the transition to a low carbon and climate resilient future.

°CICERO Shades of Green

now a part of

S&P Global

Market Overview

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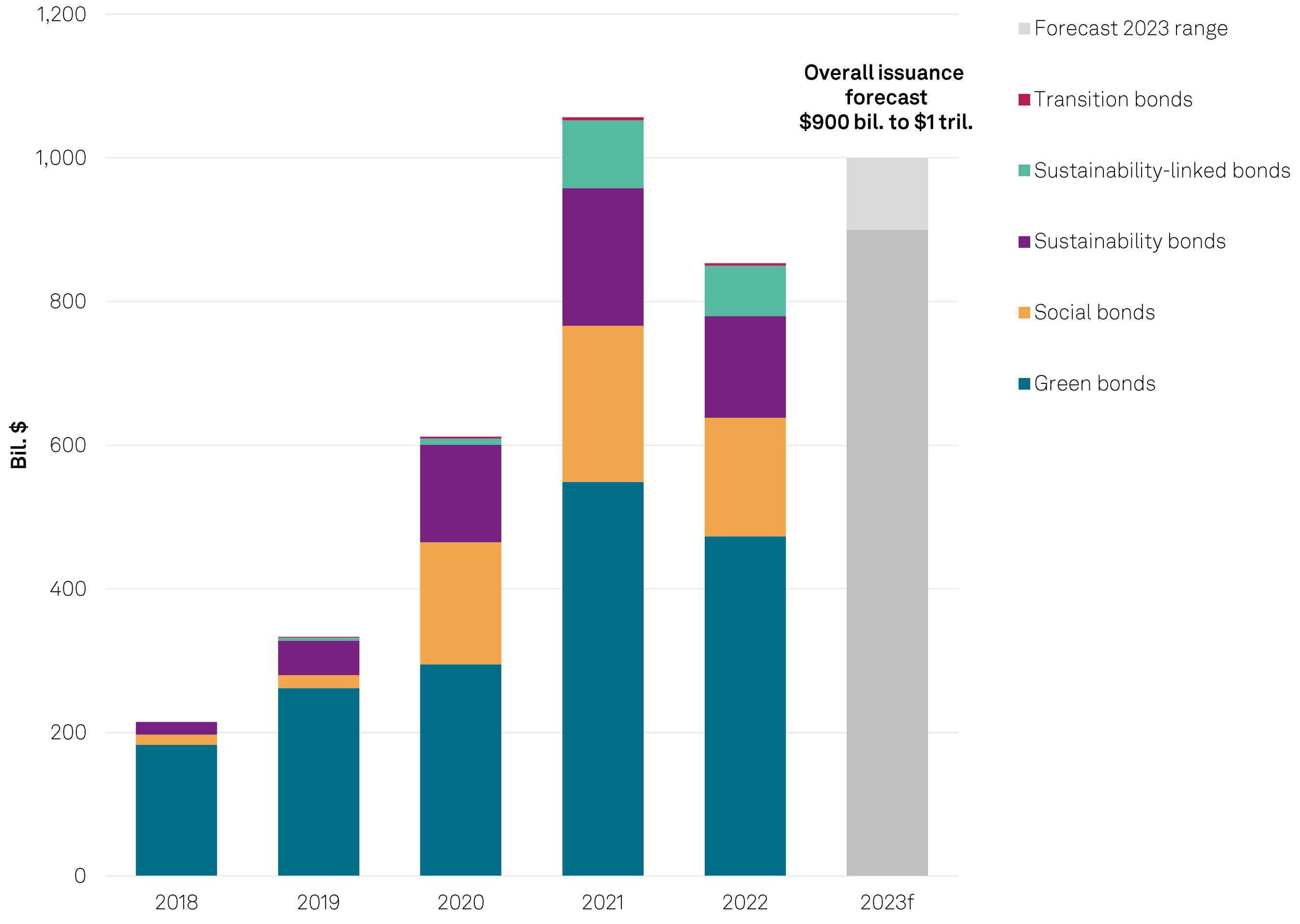
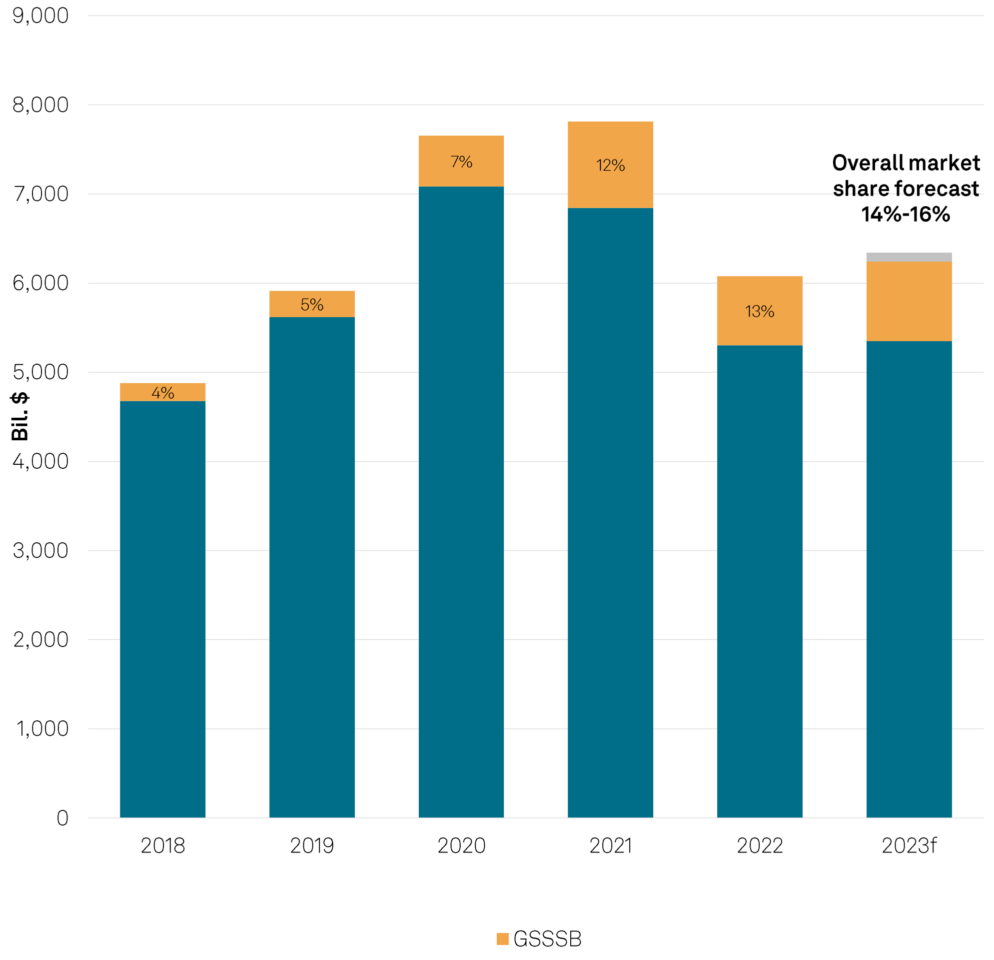
Sustainable Bond Issuance Will Return to Growth in 2023

SPGR forecasts that total GSSSB issuance will be between $900 billion - $1 trillion (5% - 17% growth)





Source: Environmental Finance Bond Database, S&P Global Ratings

Market Composition: Green Bonds Will Continue to Set the Pace

Green bonds still account for more than half of total GSSSB issuance

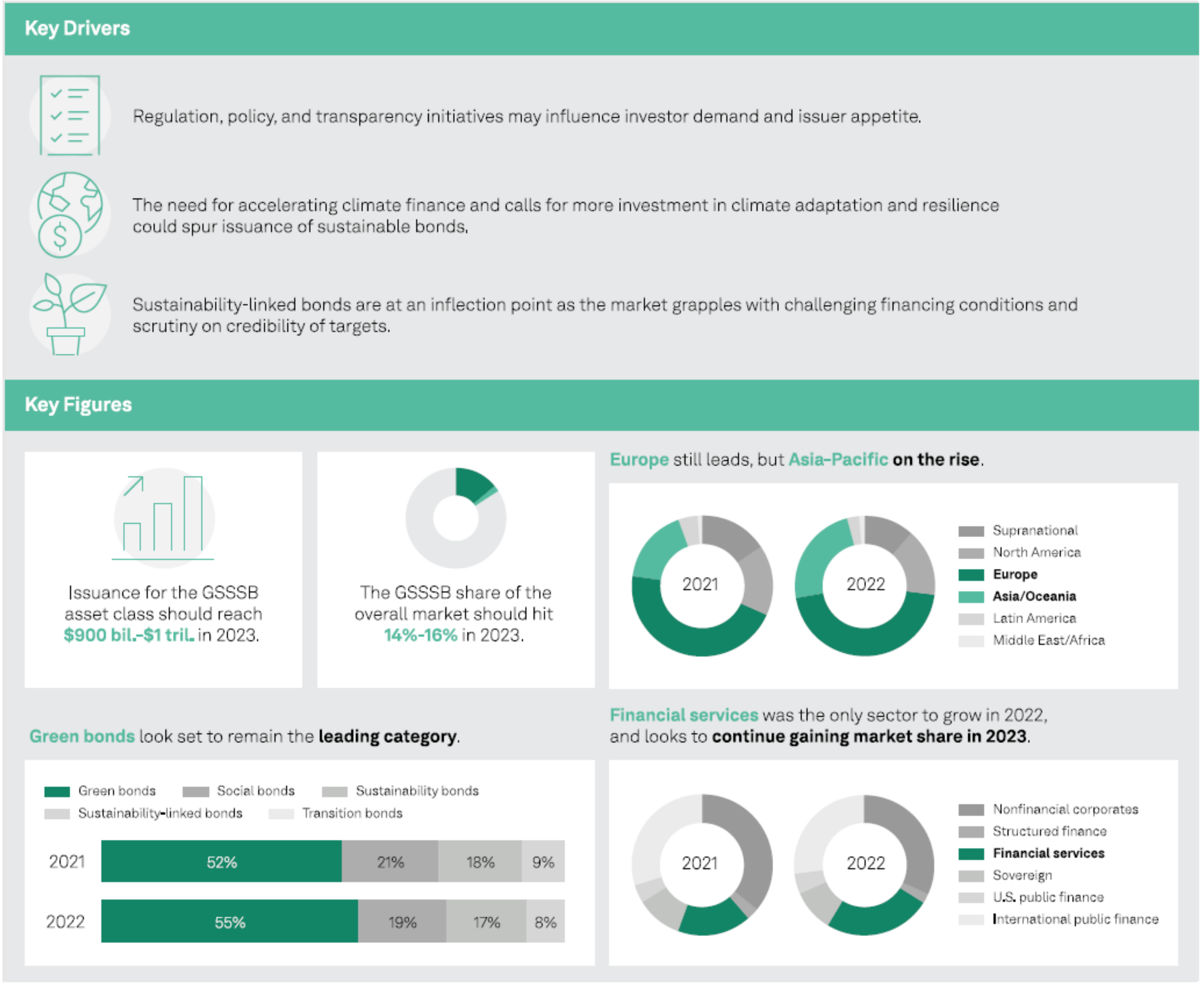
- **Green bonds:** will continue to drive the GSSSB market as issuers across sectors look to finance projects to align themselves with NDCs and NZ commitments
- **Social bonds:** issuance contracted 24% in 2022, largely due to the need for pandemic relief financing tailing off. Affordable housing projects may become more prevalent as interest rates rise
- **Sustainability-linked bonds (SLBs):** SLBs will have to find ways to address concerns around issuer ambitions and incentives to achieve sustainability goals if they are to continue their recent growth

(Bil. US$)	Green bond	Social bond	Sustainability bond	Sustainability -linked bond	Transition bond	Total
2018	182.51	14.29	17.80	0.00	0.00	**214.60**
2019	261.53	18.01	48.06	4.46	1.05	**333.11**
2020	294.96	169.90	135.62	8.79	2.43	**611.71**
2021	548.71	217.56	191.70	94.38	4.26	**1,056.61**
2022	473.06	164.95	141.55	70.45	3.50	**853.51**

Source: Environmental Finance Bond Database, S&P Global Ratings

Key Drivers for GSSSB Issuance

These factors could either drive or hamper issuance growth



- **Regulation, policy, and transparency initiatives**
  - The US Inflation Reduction Act is already driving issuance, while EU Taxonomy and EU Green Bond Standard are unlikely to significantly influence issuance levels this year
- **Adaptation and resilience financing**
  - Public sector will remain the leader in financing adaptation and resilience, may begin using GSSSBs to achieve its aims in this area
- **SLBs at an inflection point**
  - SLBs offer increased flexibility for issuers, especially for those who are not suited to issue use-of-proceeds bonds

Source: S&P Global Ratings.

Key Drivers by Sector

We anticipate a return to growth in all sectors, at least in line with the expected growth in overall bond issuance

1
Nonfinancial Corporates

- Growing maturity of corporates' sustainability strategies may lead to growth in issuance
- Energy sector could play important role given Inflation Reduction Act and REPowerEU

2
U.S. Public Finance

- USPF activities are naturally aligned with environmental and social purposes
- Growth may be tempered by issuers preferring not to offer bonds under GSSSB labels

3
International Public Finance

- Issuance unlikely to reach the highs of 2021, as pandemic relief financing continues to decline
- Calls for IPF issuers to invest in adaptation and resilience could lead to growth in GSSSB

4
Structured Finance

- GSSSB will be slightly stronger than the 7% decline forecasted for total structured issuance
- Challenges include lack of sustainable collateral originations and standardization

5
Sovereigns

- Continued use of SLBs looks likely for sovereigns following other successful cases
- Developed markets may prefer green/social bonds due to high liquidity and wide appeal

6
Financial Services

- Financial institutions continue to increase transparency around sustainability strategies
- Sustainability bond issuance may increase as issuers combine green and social objectives

Deep dive: Zooming in on Sustainability Linked Bonds (SLBs)

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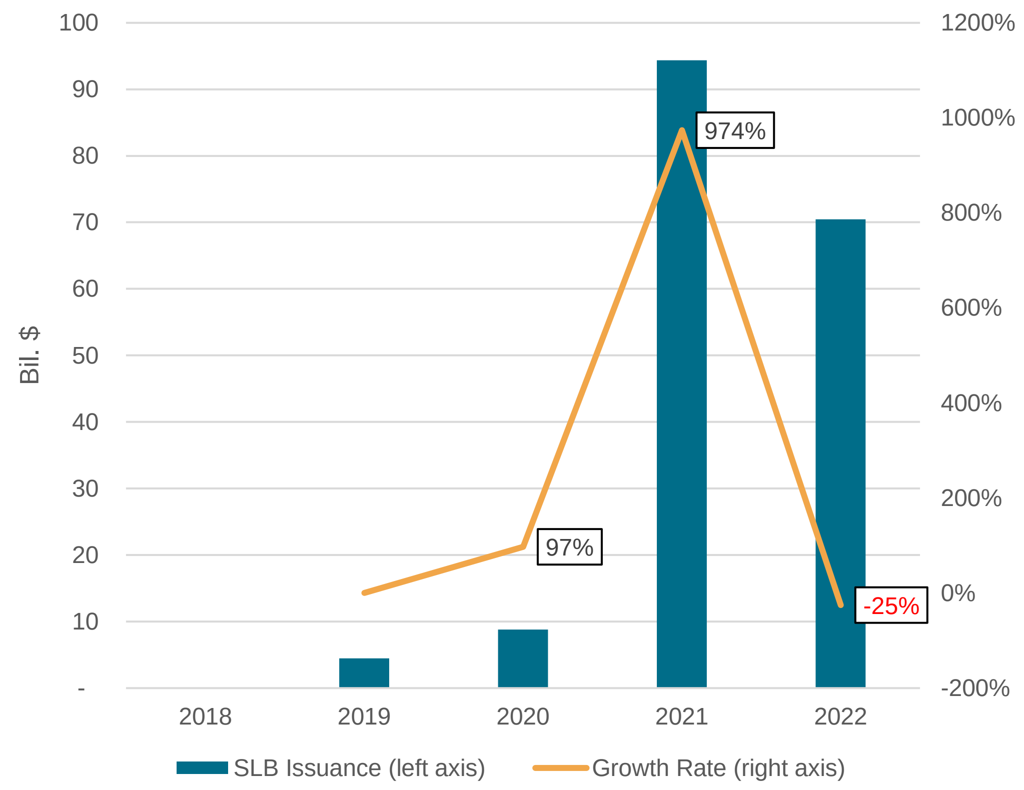
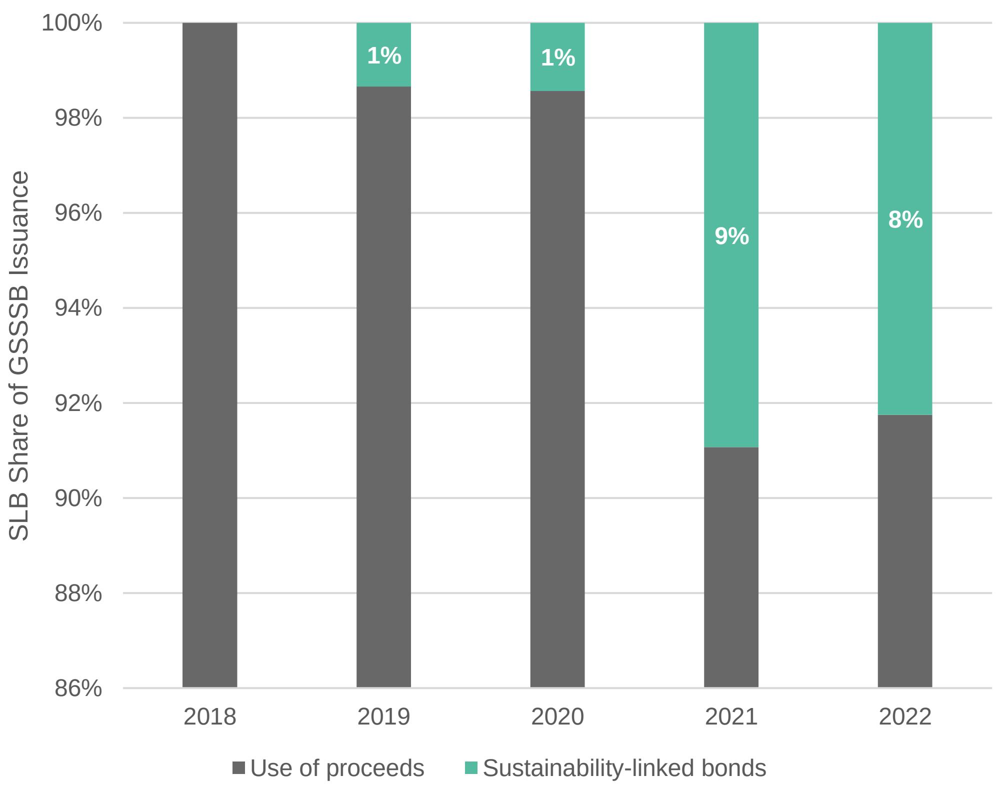
Zooming in on Sustainability-Linked Bonds (SLBs)

SLBs will have to address concerns around issuer ambitions and incentives to achieve sustainability targets in order to get back to growth

Sharp decline for SLB issuance in 2022



SLBs lost share of GSSSB issuance for the first time



Source: S&P Global Ratings, Environmental Finance Bond Database

Sustainability-Linked Bonds (SLBs)

Key risks and red-flags

Scope of KPI linked to Materiality

- Most issuers understand their main sustainability issues and have defined KPIs to address them. But often leave out of scope material operations/segments or activities → KPI related to scope 1 & 2 when largest source of emissions is scope 3
- Proxies vs. Sustainability outcomes

Target ambitiousness

- Targets that are not ambitious enough. For example, some issuers have already achieved a lot of progress at the point of issuance. Getting to the target may not require much more effort.
- Targets are not set within at least one benchmarking approach (historical, peers, sector, science) as required by ICMA – or not sufficient data is provided to understand how targets compare internally/ or externally.

Changes of perimeter/scope lead to target not remaining material throughout the life of the instrument

- Issuers often lack commitment to disclose any re-assessments of KPIs and/or restatement of the SPTs and/or pro-forma adjustments of baselines or KPI scope.

Sustainability-Linked Bonds (SLBs)

How to address stakeholder concerns regarding issuer ambitions and incentives?

The KPI's are relevant, and its scope, objective and calculation are clearly articulated and disclosed

- The KPI should tackle a relevant topic for the issuer and its industry
- The scope of the KPI should be relevant and material to the issuer and its strategy
- The KPI methodology should follow international standards, allowing for external benchmarking where available

The target is ambitious and constitutes an improvement beyond BAU

- SPTs should be set to remain ambitious and relevant: benchmarked both internally (issuer's own performance) and externally (peer benchmarking/sector standard) and demonstrate an improvement beyond business as usual (useful historical data and an adequate peer benchmarking is used to set the targets
- The issuer should have defined a clear and defined strategy to achieve the target

Clear link between the sustainability performance and the financial characteristics to provide robustness and credibility

- Target testing should happen al least at the middle of the maturity of the instrument, to ensure at least 50% of the interest payments will be subject to penalties

Questions?

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Appendix

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Process

<u>Time for completion</u>

- Use of Proceeds SPO: 10 business days
- Sustainability-Linked SPO*: 15 business days**
- Use of Proceeds SPO + EU taxonomy analysis: up to 25 business days

Kick Off Call with Issuer & Analytical Team → Analytical Team completes first review → Call with leadership team of the issuance* → Analytical Team Completes Analysis & Drafts Report

→ Analytical Committee Review → Feedback Call with Issuer to Discuss Opinion & Draft Report Provided → Issuer Review Report & Makes Confidential/ Public Determination → Report Finalized

Issuer Touch Points

*For Sustainability-Linked the leadership team of issuance must include representatives from the Finance and Sustainability department that can provide input on how the issuance aligns with the overall corporate and sustainability strategy.
**15 days from date of sustainability strategy meeting with relevant documentation provided at least 3 working days ahead of the meeting

SPO Report

Example

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This S&P Global Ratings Second Party Opinion (SPO) represents our opinion on whether the documentation of a sustainable finance framework or program aligns with certain third-party published sustainable finance principles, guidelines, and standards ("Principles"). This SPO does not assess the alignment of any individual transaction or financing with the Principles. For more details, please refer to the Analytical Approach and Analytical Supplement, available at spglobal.com under Sustainable Financing Opinions. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings.

Second Party Opinion

Energy and Infra Co.'s Green Bond Framework

July. 16, 2022

Energy and Infra Co. is a European independent producer of renewable energy and infrastructure developer. In 2021, the issuer's clean energy assets, located in Spain, accounted for 80% of its revenues. The remaining 20% was related to infrastructure assets, which include the construction of new buildings also Latin American countries.

In our view, Energy and Infra Co.'s Green Bond Framework, published on 16th July, is aligned with:

✓ Green Bond Principles, ICMA, 2021

The second party opinion was conducted for a framework and does not assess the alignment of any individual transaction with Green Bond Principles and EU taxonomy

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EU Taxonomy Alignment

In our opinion, the Energy and Infra Co.'s Green Bond Framework, published on 16th July, is partially aligned with the EU taxonomy.

Not aligned	**Partially aligned**	Fully aligned

This analysis only includes an alignment opinion on European Commission technical screening criteria (TSC) for environmental objectives that have been published in the Official Journal of the European Union and transposed into the European Commission (EC) EU Taxonomy Compass as of this report's publication. If there are no published technical screening criteria for an EU environmental objective, we highlight relevant text in the financing documentation (see "Analytical Approach: Sustainable Financing Opinions," published June 27, 2022.)

Issuer's Sustainability Objectives

Energy and Infra Co. has a sustainability plan for 2025 in which climate change mitigation and water stress reduction are the most relevant pillars. Its climate strategy was designed taking as reference the Paris Agreement to limit global warming by 1.5ºC above pre-industrial levels.

The company has been carbon neutral since 2020, reducing its emissions and voluntarily offsetting those that cannot be reduced. Looking ahead to 2030, the company committed to reducing its greenhouse gas emissions by 55% (baseline 2017) in line with the 1.5ºC scenario. The issuer has the target of allocating 100% of CAPEX to activities aligned with the EU taxonomy by 2030.

Second Party Opinion Summary

Use of proceeds

Alignment ✓ Energy and Infra Co.'s Green Bond Framework is aligned with this component of the Green Bond Principles (GBP).

Score	Not aligned	Aligned	**Strong**	Advanced

Energy and Infra Co. clearly identifies the environmental objectives supported by the financing under its framework contributing particularly to the objectives of climate change mitigation and sustainable use and protection of water and marine resources which map to the EU environmental objectives.

Net proceeds will be exclusively allocated to the categories of renewable energy, green buildings, and sustainable water and wastewater management, which correspond to eligible categories under the principles.

Process for project evaluation and selection

Alignment ✓ Energy and Infra Co.'s Green Bond Framework is aligned with this component of the Green Bond Principles (GBP).

Score	Not aligned	Aligned	**Strong**	Advanced

Energy and Infra Co. identifies internal bodies responsible for the process and incorporates clear eligibility criteria following international standards. The process incorporates E&S risk assessment as well as compliance of eligible project with applicable local regulations.

Management of proceeds

Alignment ✓ Energy and Infra Co.'s Green Bond Framework is aligned with this component of the Green Bond Principles (GBP).

Energy and Infra Co. will track the net proceeds by establishing a Green Registry that the committee will review at least annually and intends to allocate the proceeds within 24 months from issuances.

Unallocated green financing proceeds will be held temporarily in cash or cash equivalent and other liquid marketable instruments. The issuer will disclose to investors the balance of unallocated proceeds.

Reporting

Alignment ✓ Energy and Infra Co.'s Green Bond Framework is aligned with this component of the Green Bond Principles (GBP).

Score	Not aligned	Aligned	Strong	**Advanced**

Energy and Infra Co. commits to annually report on the allocation and impact of proceeds on an aggregated basis. The annual report will be verified and/or prepared in collaboration with an independent third party.

The impact reporting will be conducted in line with ICMA's Harmonized Framework for Impact Reporting for the GBP.

SPO Resources

Analytical Approach

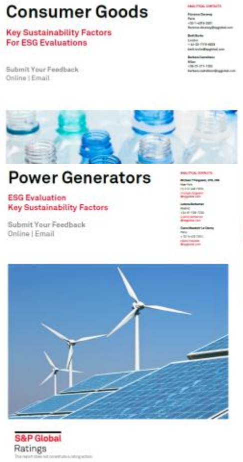
[S&P Global Website]

Public SPOs

All Public SPO can be found on the [S&P Global Website]

Key Sustainability Factors (KSF)

All KSF can be found on the [S&P Global Website]



Commentaries

S&P Global Ratings ESG Research can be found on the [S&P Global Website]