New EIB Sustainability Awareness Bond*

"With our new Sustainability Awareness Bond we hope to launch a new dialogue on sustainable investment. We want to discuss how we can contribute to raising the trillions that we know are needed to tackle poverty, raise living standards and combat disease around the world."

Werner Hoyer, President, EIB

*UniCredit introduced the EIB's new program to investors in Munich on 3 July 2018.

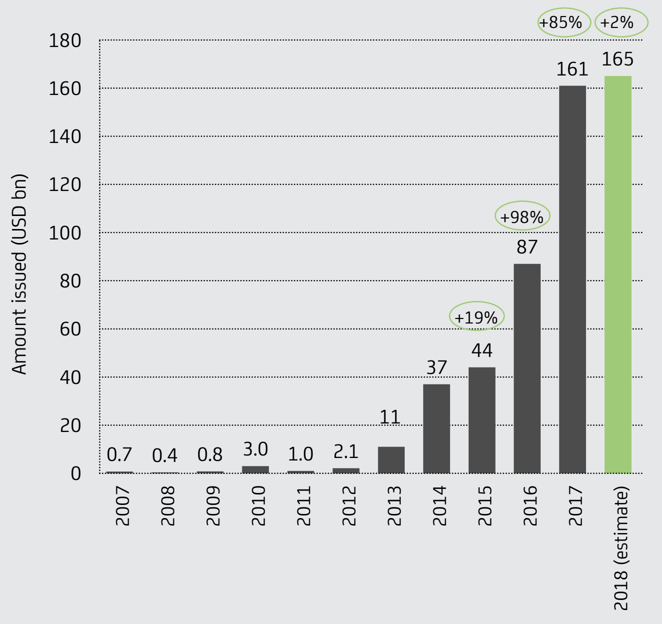
Green, Social and Sustainability Bonds – Entering a new era

Green, Social and Sustainability Bonds are entering a new phase. Issuance in this market segment concentrates on Europe. Regulatory developments in light of the European Commission Action Plan are fostering market growth. Issuance volumes are growing apace and should reach USD 165 bn in 2018, a new record, according to UniCredit Research. The main sectors for Green Bond issuance in 2018 are: 1. banks (senior, senior non-preferred and covered bonds); 2. corporates (mainly utility companies) and 3. sovereign issuers. European issuers dominated in 1H18 with around 44% of new deals.

Corporate Green Bonds, Green Covered Bonds and sovereign issuers play an important role in 2018. Green Covered Bonds offer the same security as traditional covered bonds, while attracting a wider and more diversified investor base. Sovereign Green Bond issuance will likely accelerate, as governments seek to raise capital for climate mitigation. Banks and supranationals will continue to support growth in the Green Bond market. The European Commission Action Plan is a further positive factor for growth in green investment.

Social and Sustainability Bonds on the rise. Social Bonds raise funds for projects with positive social impact in the areas of affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and socioeconomic advancement and empowerment. Sustainability Bonds, by combining green and social assets, allow issuers to diversify their investor base with a growing number of socially responsible investment funds. Newly issued Green, Social and Sustainability Bonds in 1H18 summed up to a total of USD 83 bn, out of which Social Bonds accounted for USD 3.3 bn and Sustainability Bonds USD 6.6 bn, respectively.

Market development by outstanding volume (in bn USD)



Source: Climate Bonds Initiative, UniCredit Research

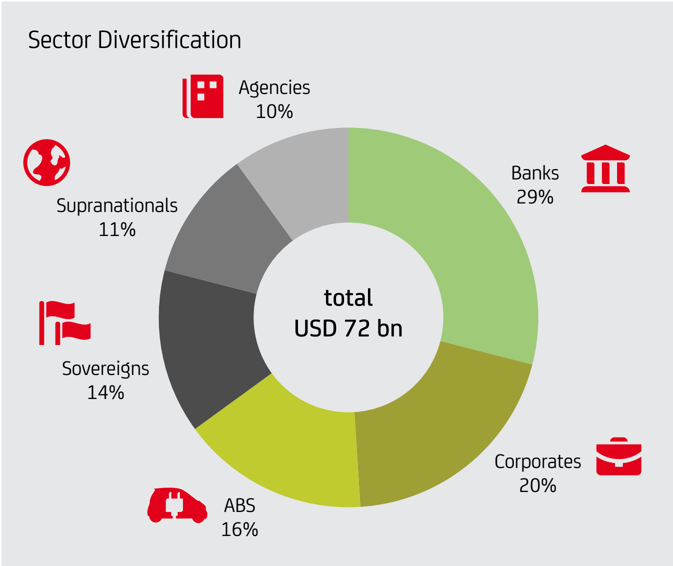
What is the motivation to issue a Green, Social or Sustainability Bond? Issuing this type of ‚use-of-proceeds' bonds is a strategic decision. It underlines an issuer's environmental, social and governance strategy. It shows evidence of an issuer's green business and assets and commitment to being a good corporate citizen.

Most recent political events are supporting the market. An action plan on sustainable finance by the European Commission (EC) aims at supporting the growth of Green, Social and Sustainability Bonds. The EC estimates a yearly investment gap of almost EUR 180 bn to achieve climate and energy targets by 2030 according to the Paris Agreement from 2015. At the core of the EC plan, which is consisting of 10 explicit actions, is a unified EU classification system that will bring more clarity as to which activities can be considered sustainable. This classification is referred to as a taxonomy and one of its important aspects is long termism: the practice of making decisions that have long-term objectives or consequences.

Pricing difference

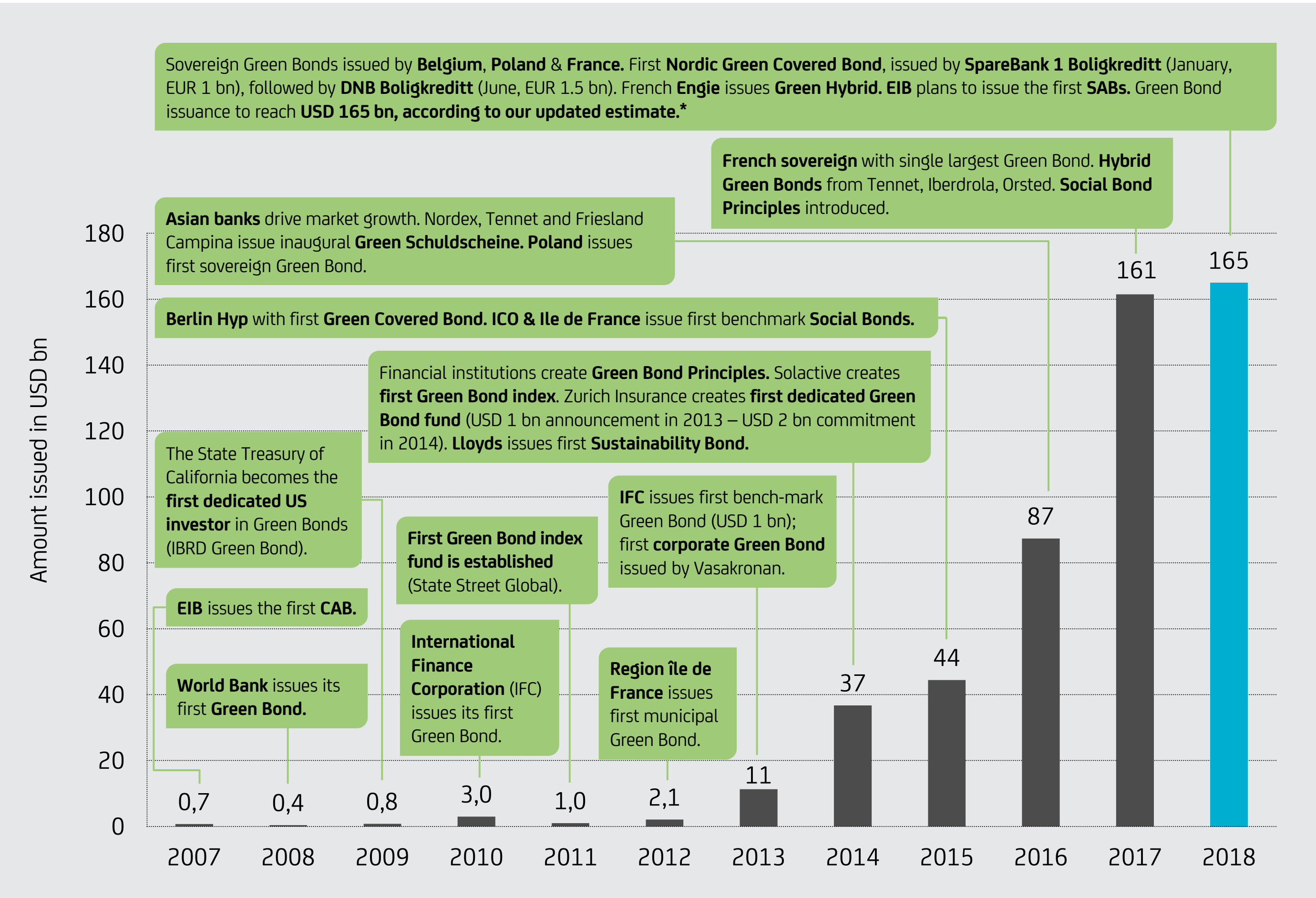
Driven by high demand and a diversified investor base, there is clear evidence of a pricing advantage in terms of a lower new issue premium in comparison to standard non-green offerings. "There is a green demand by all means. Hardly any institutional asset manager can do without some form of ESG or SRI fund", says Antonio Keglevich, Head of Sustainability Bond Origination at UniCredit. "As a result, Green Bonds are often more heavily oversubscribed than conventional bonds. This in turn allows issuers to benefit from lower new issue premia." The risk of a Green Bond is identical to that of non-Green Bonds, as the vast majority comes in the form of the so called ‚use-of-proceeds' Green Bonds, offering direct recourse to the issuer. In terms of rewards, secondary market trading levels show that outstanding Green Bonds trade in line with non-Green Bonds. Yield advantages or disadvantages are not visible, particularly in the current market environment of compressed spreads.

New Green Bond issuance 1H18



Source: Bloomberg, Environmental Finance, CBI, UniCredit Research

The Green Timeline



Source: Climate Bonds Initiative, Bloomberg, Environmental Finance, UniCredit Research
*Note: We revised our historical data and forecast upwards due to a new data source. In the last report we stated USD 119 bn for 2017 and a forecast of USD 130 bn for 2018.

UNICREDIT – A PIONEER IN BRINGING GREEN BONDS TO MARKET

UniCredit has been active in the market for Green, Social and Sustainability Bonds from the start. In 2007, UniCredit acted as Joint Lead Manager in the European Investment Bank's Climate Awareness Bond – the first Green Bond to come to market. As a key instrument of EU public policy, the EIB has been called on to reinforce its contribution in the field of clean energy. UniCredit has since underlined its expertise through numerous mandates in landmark Green, Social and Sustainability Bonds.

Why Green Bonds?

To issue a Green Bond is a strategic decision that underlines the Environment Social Governance (ESG) of any potential issuer and also opens up a new investor base. Green Bonds are a preferred asset class for a growing number of Socially Responsible Investors (SRI) who by definition are allowed to invest into environmental and climate friendly instruments only. These do not only cover renewable energy and energy efficiency, but also pollution prevention, sustainable management of living natural resources, terrestrial and aquatic biodiversity conversation, clean transportation, sustainable water management, climate change adaptation, eco-efficient products and green buildings.

Why Green Bonds with UniCredit?

The EIB engaged the services of UniCredit when they pioneered the first ever Climate Awareness Bond in 2007. A dedicated team of Green Bond specialists along the value chain has a deep insight to address all Green Bond related topics. In 2015, Berlin Hyp opened a new market segment by bringing the first Green Covered Bond, or Green Pfandbrief, to market. UniCredit acted as a Joint Bookrunner on the covered bond – one of the core products of UniCredit's offering. In March 2016, Nordex, a leading German company for wind energy successfully priced the first Green Schuldschein ever. UniCredit acted as green structuring advisor and arranger (bookrunner). This was followed by other Green Schuldschein issuance (e.g. Acciona) and UniCredit expects the Green Schuldschein market to develop further. According to oekom research UniCredit Bank enjoys the highest sustainability rating of all private banks in Germany and belongs to the top 10 worldwide. We are listed in the "prime universe" by oekom.

UniCredit supports Green Bonds throughout its value chain in Origination, Research, Sales and Trading and is dedicated to the development of the Green Bond market. UniCredit's Green Bond research ranks #5 among all banks active in the market, according to Euromoney. UniCredit's bond trading offers investors access to outstanding Green Bonds through the Bloomberg platform HVBT / Green Bonds <GO>. Our colleagues in rates and credit sales have in depth knowledge and access to the European investor base for Green Bonds.

Selected Green Bonds Lead Managed by UniCredit

Inaugural Green Bond	Terna	EUR 750,000,000	Green Bond	1.000% due Jul 2023	Joint Bookrunner	Jul 2018
10th Green Bond	Iberdrola	EUR 750,000,000	Green Bond	1.250% due Oct 2026	Joint Bookrunner	Jun 2018
1st & largest Green CB	DNB Boligkreditt AS	EUR 1,500,000,000	Green Covered Bond	0.625% due Jun 2025	Joint Bookrunner	Jun 2018
1st Green Bond	Banco Bilbao Vizcaya Argentaria	EUR 1,000,000,000	Green Senior non-preferred	1.375% due May 2025	Joint Bookrunner	May 2018
10th Anniversary CAB	European Investment Bank	EUR 250,000,000	Climate Awareness Bond	1.500% due Nov 2047 tap	Joint Bookrunner	Mar 2018
4th Sustainability bond	Land Nordrhein Westfalen	EUR 2,025,000,000	Sustainability Bond	0.950 % due Mar 2028	Joint Bookrunner	Mar 2018
High Yield Green Bond	Nordex SE	EUR 275,000,000	High Yield Green Bond	6.500% due Feb 2023	Joint Global Coordinator Green Structuring Advisor	Jan 2018
1st Green Covered Bond	Sparebanken 1 Boligkreditt AS	EUR 1,000,000,000	Green Covered Bond	0.500% due Jan 2025	Joint Bookrunner	Jan 2018
2nd Green Bond	Enel	EUR 1,250,000,000	Green Bond	1.000% due Sep 2026	Joint Bookrunner	Jan 2018
Green Hybrid Bond	Engie	EUR 1,000,000,000	Green Hybrid Bond	1.375% PerpNC5.25	Joint Bookrunner	Jan 2018
1st Green Pfandbrief	Deutsche Hypothekenbank AG	EUR 500,000,000	Green Pfandbrief	0.125% due Nov 2023	Joint Bookrunner	Nov 2017
1st EUR Green Bond	Toyota Motor Credit Corporation	EUR 600,000,000	Green Bond	0% due Jul 2021	Joint Bookrunner	Nov 2017
Green Hybrid Bond	Iberdrola	EUR 500,000,000	Green Hybrid Bond	1.875% PNC 5.5	Joint Bookrunner	Nov 2017
1st Social Bond	Cassa Depositi e Prestiti	EUR 500,000,000	Social Bond	0.750% due Nov 2022	Joint Bookrunner	Nov 2017
1st Green Bond	Gas Natural	EUR 800,000,000	Green Bond	0.875% due May 2025	Joint Bookrunner	Nov 2017
1st Green Bond	IREN	EUR 500,000,000	Green Bond	1.500% due Oct 2027	Joint Bookrunner	Oct 2017
2nd green senior bond	Deutsche Kreditbank AG	EUR 500,000,000	Green Bond	0.750% due Sep 2024	Joint Bookrunner	Sep 2017
10th Anniversary CAB	European Investment Bank	EUR 1,000,000,000	Climate Awareness Bond	1.500% due Nov 2047	Joint Bookrunner	Jun 2017

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