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.

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.

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 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**

<table>
<thead>
<tr>
<th>Date</th>
<th>Issuer</th>
<th>Bond Type</th>
<th>Rating</th>
<th>Size</th>
<th>Interest</th>
<th>Co-Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 2017</td>
<td>Iberdrola</td>
<td>Green Bond</td>
<td></td>
<td>EUR 500,000,000</td>
<td>1.875% PNC 5.5</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Nov 2017</td>
<td>Cassa Depositi e Prestili</td>
<td>Social Bond</td>
<td></td>
<td>EUR 500,000,000</td>
<td>0.765% due Nov 2022</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Mar 2018</td>
<td>Gas Natural</td>
<td>Green Bond</td>
<td></td>
<td>EUR 800,000,000</td>
<td>0.875% due May 2025</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Oct 2017</td>
<td>IREN</td>
<td>Green Bond</td>
<td></td>
<td>EUR 500,000,000</td>
<td>1.500% due Oct 2027</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Sep 2017</td>
<td>DKB</td>
<td>Green Bond</td>
<td></td>
<td>EUR 500,000,000</td>
<td>0.765% due Sep 2024</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Nov 2017</td>
<td>Deutsche Kreditbank AG</td>
<td>Green Bond</td>
<td></td>
<td>EUR 500,000,000</td>
<td>1.500% due Nov 2047</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Feb 2023</td>
<td>Sparebanken 1 Bolgkreditt AS</td>
<td>High Yield Green Bond</td>
<td></td>
<td>EUR 1,000,000,000</td>
<td>1.000% due Sep 2026</td>
<td>Joint Bookrunner</td>
</tr>
<tr>
<td>Jul 2018</td>
<td>Iberdrola</td>
<td>High Yield Green Bond</td>
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<td>EUR 750,000,000</td>
<td>1.000% due Jul 2023</td>
<td>Joint Bookrunner</td>
</tr>
</tbody>
</table>

For institutional clients only
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