

Transitioning to a sustainable future

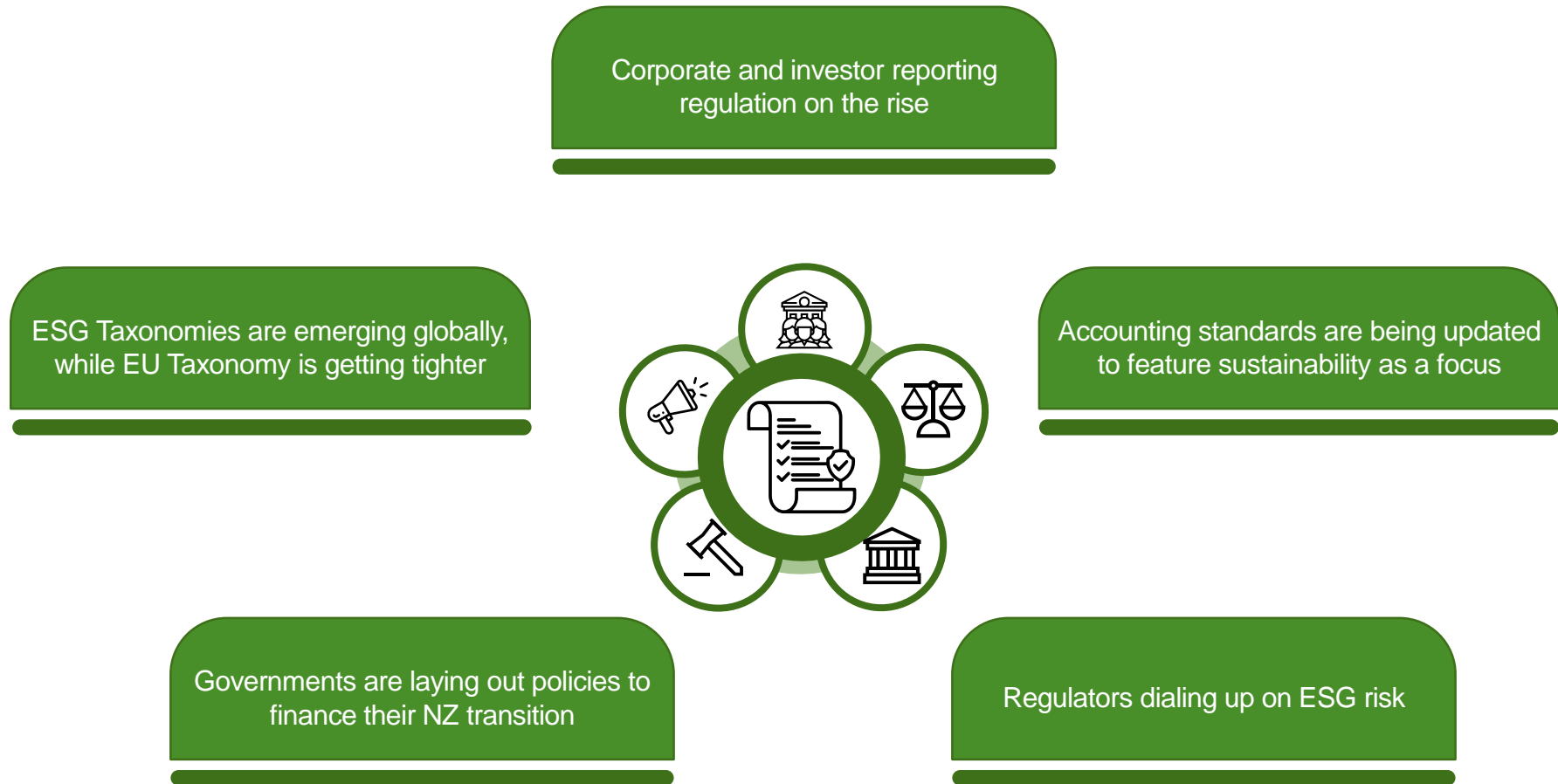
The role banks play in delivering a net zero economy

22 Aug 2023



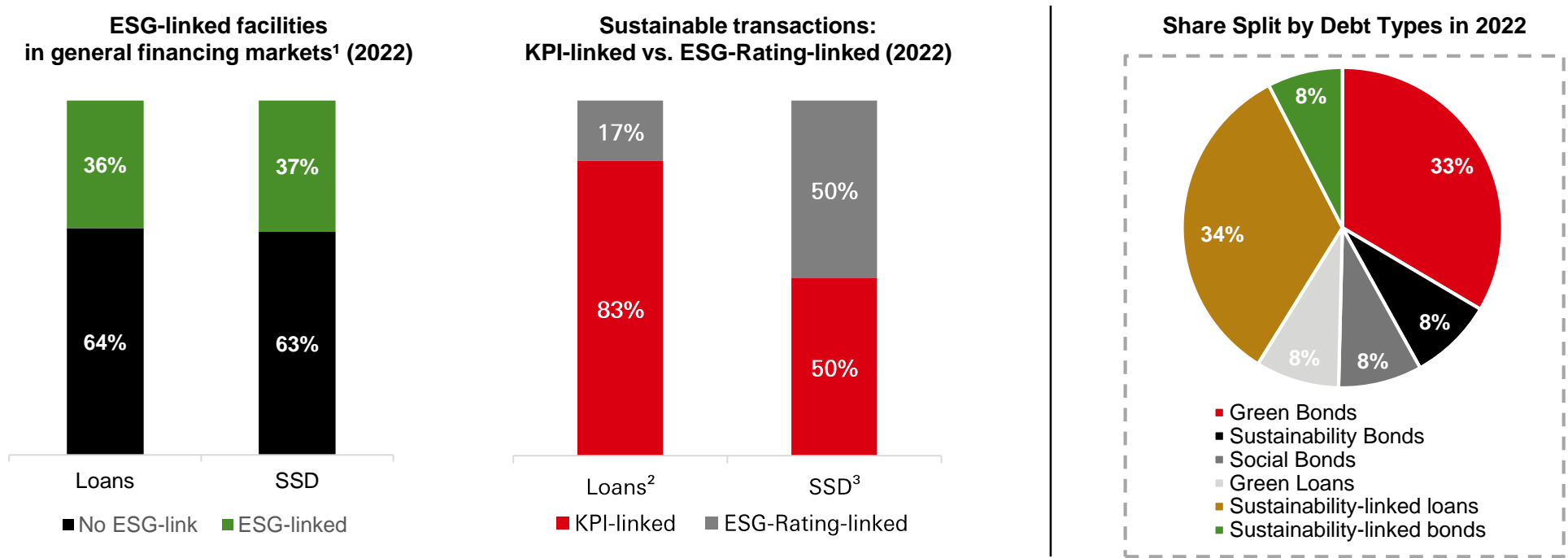
Global Policy is driving the evolution of ESG finance

Global developments impacting banks, issuers and investors



Summary of Sustainable Finance Market

- **Share of ESG-linked facilities in general financing markets:** According to Bloomberg, 36% of EMEA's investment grade loans were linked to ESG components in 2022. The outlook for 2023 predicts almost half of new loan issuances to be tied to environmental, social and governance targets. In Schuldschein markets, a similar share of 37% of sales were ESG-linked in 2022, also projected to reach 50% in 2023¹.
- **Share of KPI-linked vs. ESG-Rating-linked Syndicated Loans and Schuldschein:** In 2022, only 17% of Sustainable Linked Loans were linked to ESG-Ratings², compared to almost 50% of ESG-structured Schuldschein³ transactions.

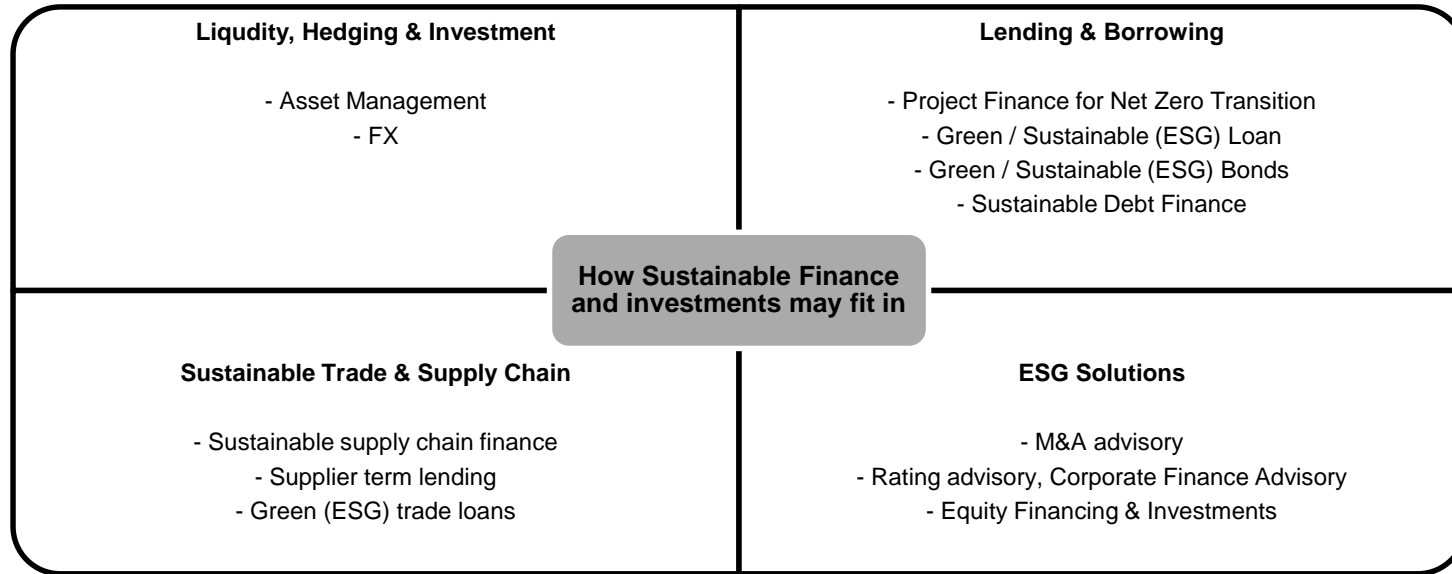


Sources:

1. Bloomberg – “ESG Is Taking Over the Loan Market”
2. Goethe University Frankfurt – Center for Financial Studies
3. HSBC Research

Supporting ambitious stakeholder targets in the global economy

Where can financing help on this journey?



Embedding sustainability can help improve business performance:



Creates cost reduction & efficiency gains



Increases reputation among buyers and suppliers



Enables risk mitigation and resilience



Meet regulatory requirements



Attracts wider investor base



Enables growth in new markets



Enhances staff pride and purpose

Tailor-made solutions to link ESG parameters to financing





“Classic” sustainable finance instrument toolbox

Use of Proceeds Instruments – Built on ICMA Green & Social Bond Principles

Green Bonds/Loans

Finance projects that address environmental objectives




Examples:

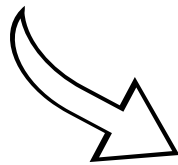
-  Renewable energy
-  Sustainable water and wastewater management
-  Green buildings
-  Sustainable management of natural resources

Social Bonds/Loans

Finance projects that address social objectives

Examples:




-  Affordable basis infrastructure
-  Access to essential services
-  Affordable housing

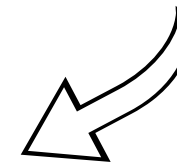


Sustainability Bonds/Loans

Finance any combination of green and social projects, allowing greater flexibility in asset pools:

Examples:

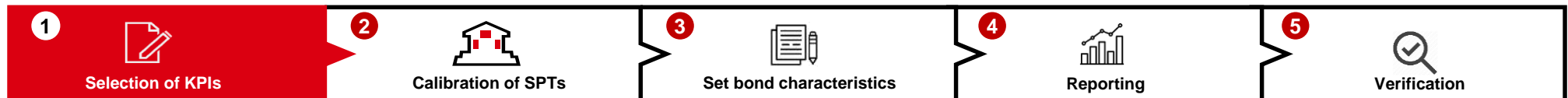
-  Energy efficient buildings for social housing
-  Renewable energy projects for SMEs
-  Clean public transport



Performance Based Structures – Built on ICMA Sustainability-Linked Bond Principles

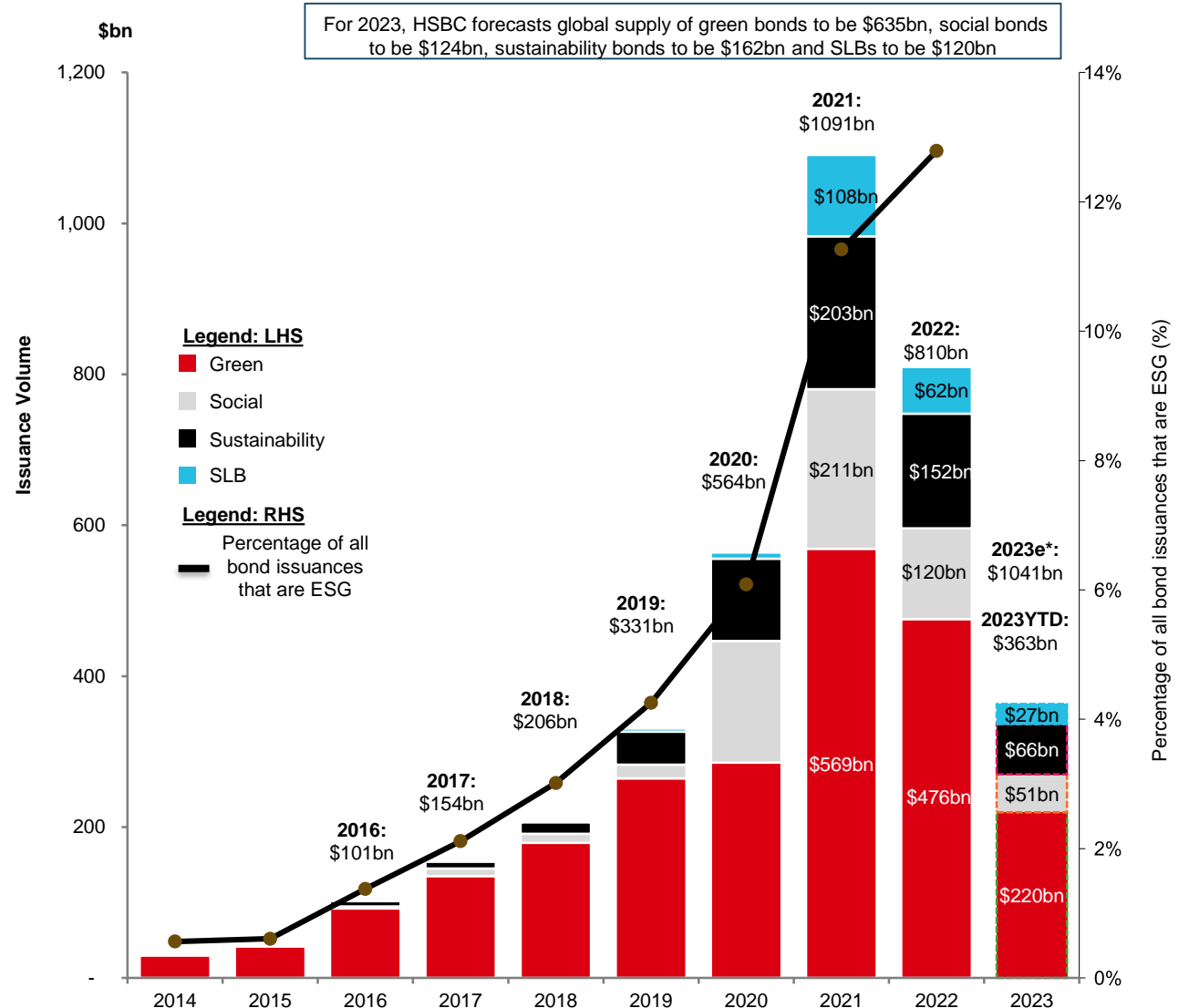
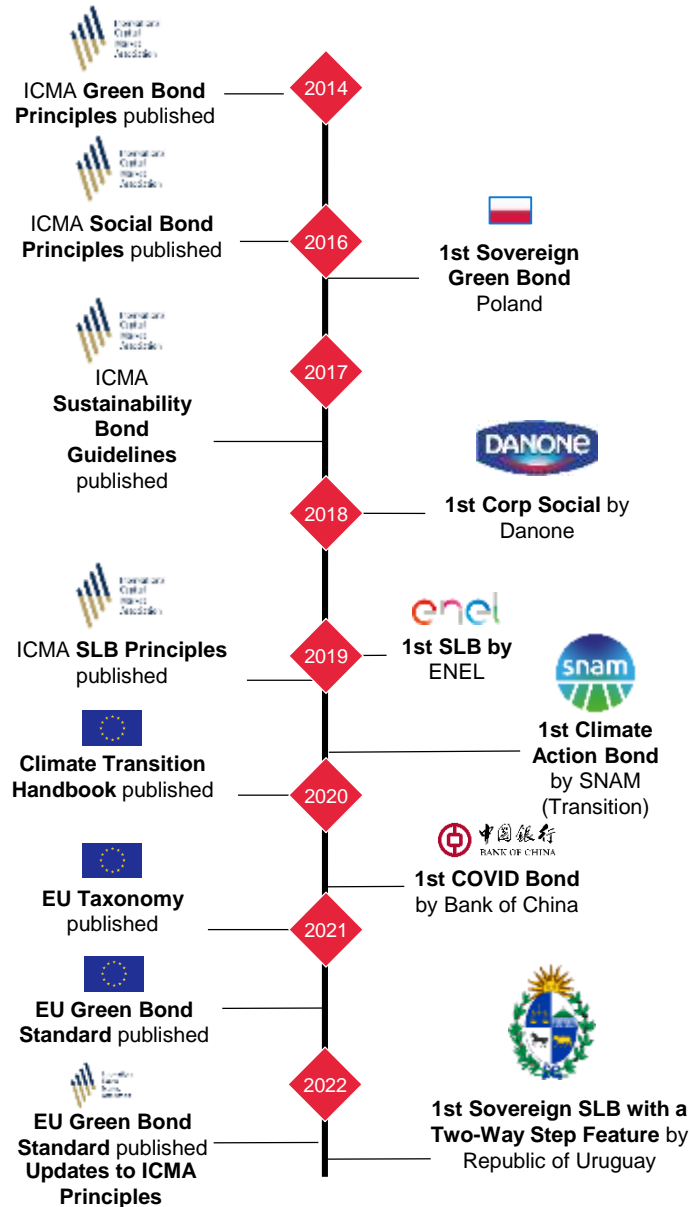
Sustainability-Linked Bonds/Loans

General corporate purpose loans/bonds where financial/structural characteristics are tied to key Sustainability Performance Targets (e.g. failure to meet emissions intensity tied to coupon step up or margin increase). Five core components:



Key deals and market guidelines have helped accelerate the sustainable bond market

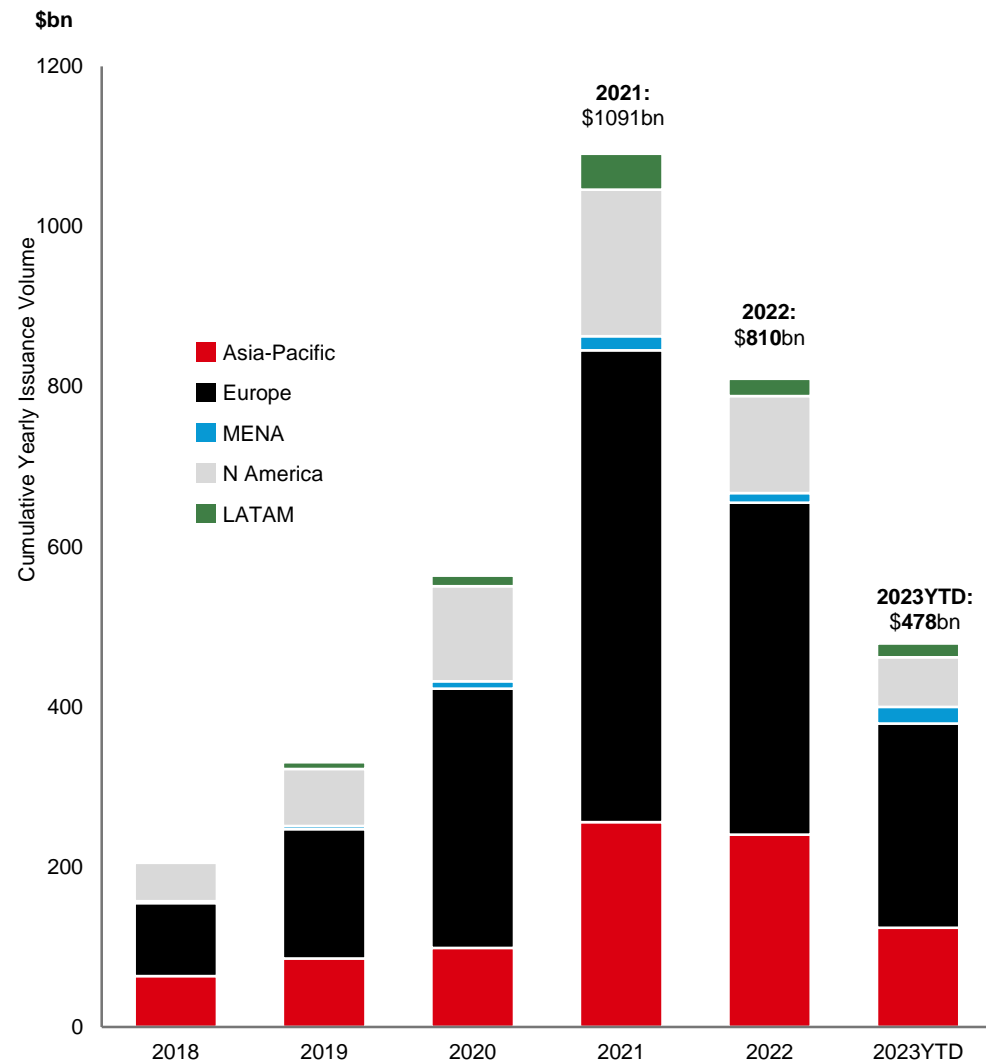
13% of all bond issuances are in ESG Format, with “Green” bonds being the dominating product



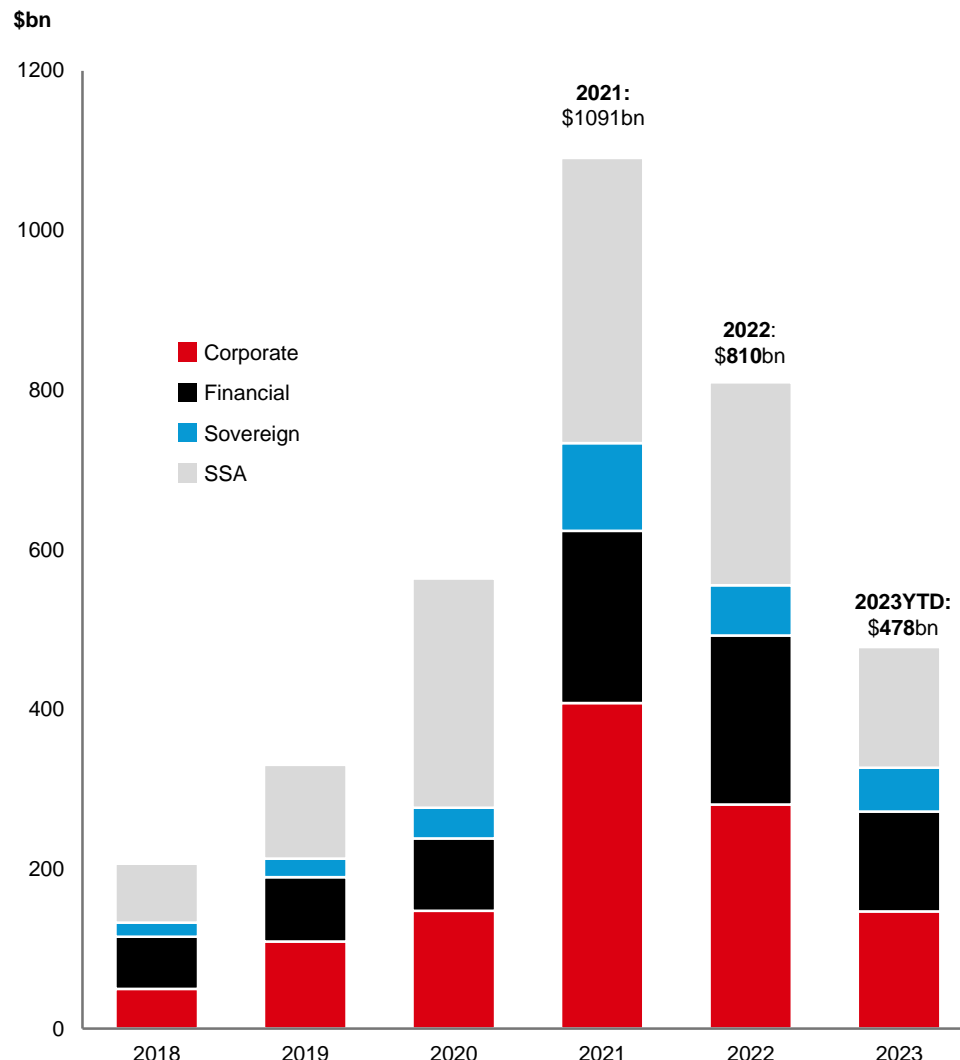
European issuers are driving ESG bond market growth

Slight reduction of cross-product ESG bond volumes in line with conventional market

ESG bond issuance volumes by issuer region



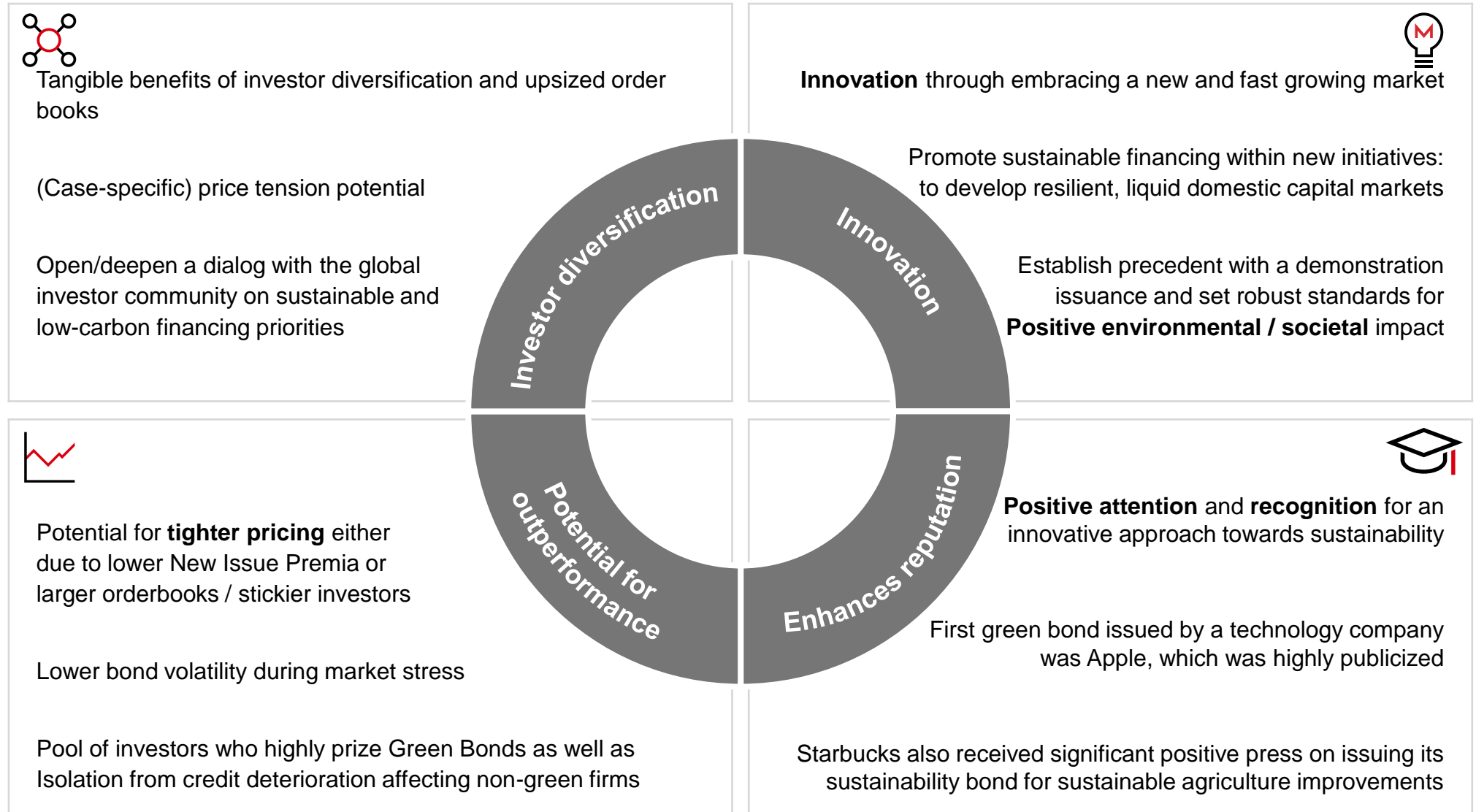
ESG bond issuance volumes by issuer type



1. HSBC Green, Social, Sustainability Bond database (including PP) – based on Dealogic, CBI, Bloomberg, as of 11th July 2023
 2. The data presented above is to the best of our knowledge and may not be fully representative of the SRI market

Why should someone issue a Green bond?

Advantages of green bond over an ordinary bond issuance



Challenges of Sustainable Finance

Two major hurdles for the development of Sustainable Finance

Although the ESG segment has witnessed **very impressive growth figures** both in terms of the volumes taken up by Corporates, Public sector and the Financial industry via Loans, Bonds and other instruments as well as in the Asset Management, there are still significant hurdles for the further growth of this segment

1 Data

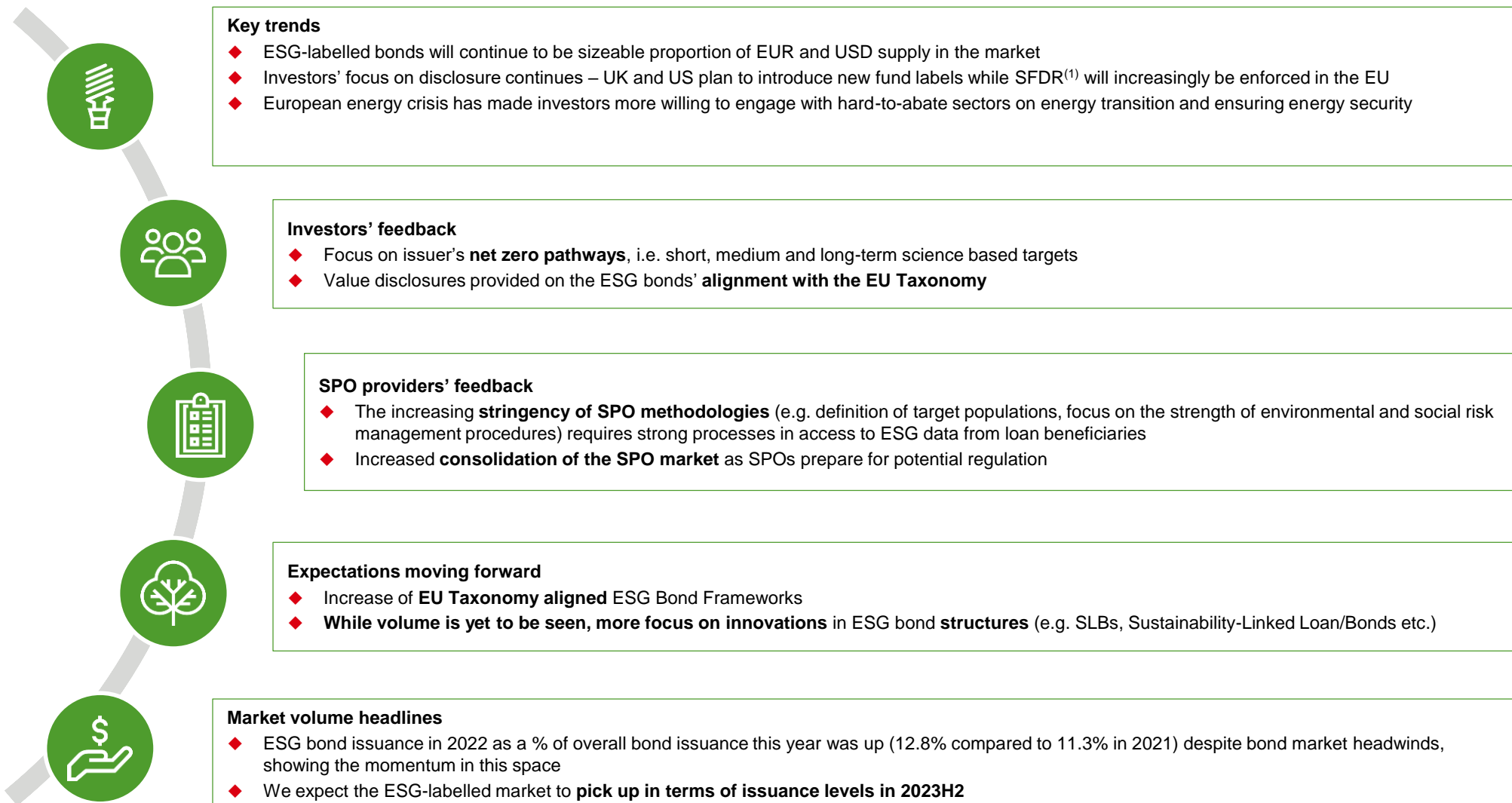
- ❖ **Lack of available data** in order to measure transitory and physical risks in a scientifically acceptable way
- ❖ **Difficulty of translating the ESG risks** into tangible figures and instruments that can be applied by banks, regulators and other stakeholders

2 Political Angle

- ❖ **Anti-ESG movement**, most prominent in the US, poses a real obstacle, which might delay or even stop the implementation of ESG in the financial industry significantly
- ❖ Switching from **“Greenwashing”** to **“Greenhushing”** so companies do not to expose themselves too much

What's next in ESG bond market?

Our views on the direction and focus of the market in ESG





Case study 1: Sustainability Bond of Federal State of North Rhine-Westphalia

EUR 2bn 10y due 15th June 2032 & EUR 1.5bn 30y due 14th June 2052

On Wednesday, 08th June 2022, the Federal State of North Rhine-Westphalia (NRW) issued a highly successful sustainable bond transaction with a EUR 2bn 10yrs and a 30yrs 1.5bn tranche.

The proceeds of the bond will be used to finance several environmental and social projects as specified in the State's Sustainability Bond Framework and Eligible Assets document.

Despite volatile markets due to the latest geopolitical tensions the issuance was very well received.

After two weeks of extensive investor work, the books for the 10y and 30y tranche were opened with an initial guidance of MS -5bps and MS +37bps respectively.

On the back of very strong demand, NRW was able to set the final spread at MS -6bps, orders amounted to EUR 4.8bn for the 10yrs tranche. For the 30yrs bond, the final spread was set at MS +35 bps with a final order volume of over EUR 3.3bn.

Overall a highly successful sustainable transaction for the Federal State of NRW, underlining its reputation as a very stable and reliable issuer in the international SSA market and its strong following in the ESG investor base.

HSBC acted as Joint Bookrunner on this transaction.

Summary Terms and Conditions

Issuer	Federal State of North Rhine-Westphalia	
Ratings	Aa1 (St.) / AA (St.) / AAA (St.) by Moody's, S&P, Fitch ESG rating 64/100, Advanced (Vigeo Eiris)	
Format	Collective Debt Register Claim	
Use of Proceeds	State's environmental and social expenditures ("Eligible Assets") as specified in the State's Sustainability Bond Framework	
Tranche	EUR 10y	EUR 30y
Size	EUR 2bn	EUR 1.5bn
Settlement Date	15 th June 2022	15 th June 2022
Maturity Date	15 th June 2032	14 th June 2052
Coupon	2.000% (ACT/ACT ICMA)	2.250% (ACT/ACT ICMA),
Re-offer	99.901 / 2.011% / MS -6bps	99.268 / 2.284% / MS +35bps
Bund reference	DBR 0% 15/02/32 +65.9bps	DBR 0% 15/08/52 +70.1bps
Denominations	1k x 1k	
Target Market	Eligible counterparties, professional clients and retail clients (all distribution channels)	
Documentation	Stand alone	
Listing / Law	Düsseldorf / German	
HSBC Role	Joint Bookrunner	

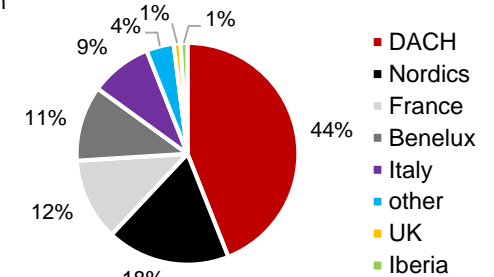
Execution Highlights

- ◆ The books for the 10y and 30y tranche were opened with an initial guidance of MS -5bps and MS +37bps respectively. Final order volumes amounted to over EUR 4.7bn (incl. JLM interest) for the 10yrs and 3.3bn (incl. JLM interest) for the 30yrs. The final spread was set at MS -6bps for the 10y and at MS +35 for the 30y.
- ◆ Investors from the DACH region took the lion's share in the transaction, while the remaining volume was mostly attracted by investors from the Nordics (10y: 18% & 30y: 11%) and Benelux (10y: 11% & 30y: 12%). The transaction was well supported by high quality accounts from several investor types, led by banks (10y: 48% & 30y: 23%), followed by asset and fund managers (10y: 34% & 30y: 40%) and official institutions (10y: 13% & 30y: 21%).
- ◆ Out of the 106 investors in the 10y, 36% were ESG-conscious and an additional 25% were ESG-focused. 82 investors were participating in the 30y, 31% of them were ESG-conscious and an additional 13% were ESG-focused.

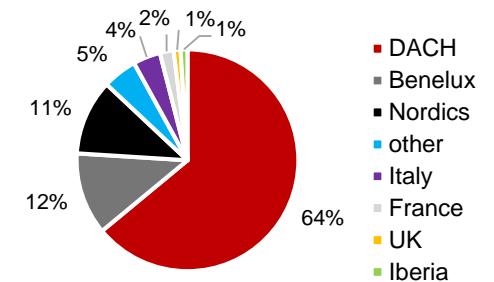
Distribution by Geography

% of allocation

10 years



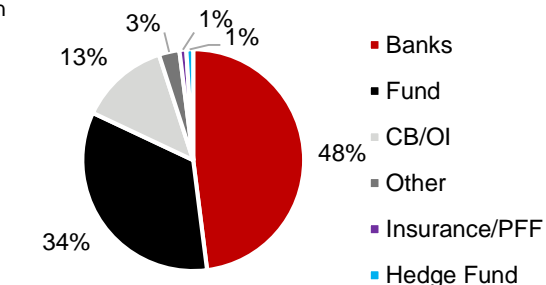
30 years



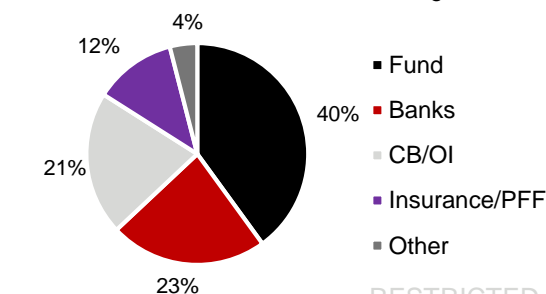
Distribution by Investor Type

% of allocation

10 years



30 years



Case study 2: Inaugural Sustainability-linked Bond by Deutsche Post AG

EUR 500m (no-grow) 3.375% due July 2033

On 26 June 2023, Deutsche Post AG (“DPDHL”) announced its 10yr EUR 500m (no-grow) **inaugural Sustainability-linked bond**.

The first issuance by the company since 2020 marked not only DPDHL’s inaugural SLB, but also the first SLB bond ever issued by a European logistics company. It followed DPDHL’s SLB framework announcement back in November 2022.

High quality and diversified real-money demand – including c. 50 double-digit orders – allowed for a substantial 40bps intra-execution spread compression.

Thereby, the SLB structure helped cementing incremental demand given investor’s increased scrutiny on ESG and DPDHL’s strong ESG story / ESG ratings.

Final pricing of EUR MS+45bps for this transaction comes inside recent supply by frequent A / AA rated credits. Also, the pricing spread marks the tightest 10-year print by a ‘Single A’ rated corporate in the Eurobond market since Jan 2022.

Overall, the outstanding transaction outcome is a very strong testament to DPDHL’s brand recognition in the Global Debt Capital Markets.

HSBC acted as Global Coordinator, Active Bookrunner and B&D

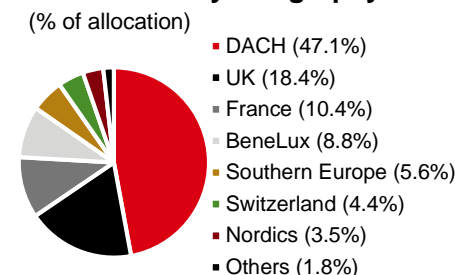
Final Terms & Conditions

Issuer	Deutsche Post AG
Bond ratings (exp.)	A2 / BBB+ (Moody’s / Fitch)
Format	Senior, Unsecured
Pricing date	26 June 2023
Settlement date	3 July 2023 (T+5)
Size	EUR 500m (‘no-grow’)
Maturity date	3 July 2033 (10 years)
Coupon	3.375% p.a.
Re-offer spread	MS+45bp
Re-offer price / yield	99.824% / 3.396%
Sustainability Performance Targets (SPTs)	<p>SPT for KPI 1: Reducing absolute Scope 1 and 2 GHG emissions by 42% by 2030 from a 2021 base year</p> <p>SPT for KPI 2: Reducing absolute Scope 3 GHG emissions by 25% by 2030 from a 2021 base year</p>
Step Up Mechanism	If one or both SPTs are not met: Original Interest Rate plus 0.25 percentage points per annum for the interest periods commencing on 3 July 2031 (Interest Rate Step-Up Date) to the Maturity Date.
Denominations	EUR 1,000 x EUR 1,000
Listing / ISIN / Law	Regulated Market Lux Stock Exchange / XS2644423035 / German
HSBC role	Global Coordinator (B&D)

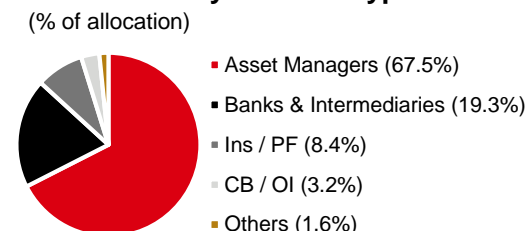
Execution Highlights

Transaction Rationale	<ul style="list-style-type: none"> ❖ Sustainability-linked bond format used for alignment of financing strategy with DPDHL’s strong overall ESG strategy ❖ 10yr tenor chosen to make use of an inverted yield structure and renewed demand for 10-12yr tenor bucket, allowing for tighter pricing ❖ Also, tenor choice in alignment with company’s SPTs dated 2030 as well as the outstanding debt maturity profile
Use of Proceeds	GCP including refinancing of existing financial liabilities
Execution Strategy	Intraday Execution
Pricing	IPTs MS+85bps area
Orderbook size	Guidance MS+55bps area
	Final Terms MS+45bps
	Orderbook size EUR >2.5bn
	Final Terms EUR >2.9bn
Final Orderbook	In excess of EUR 2.3bn

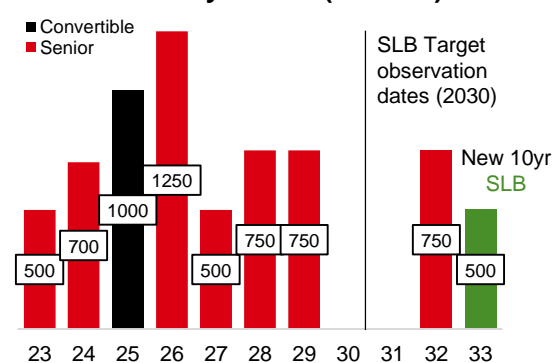
Distribution by Geography



Distribution by Investor Type



Issuer Maturity Profile (EURmn)



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