

SUSTAINABLE FINANCE UPDATE

AN AUSTRALASIAN PERSPECTIVE ON SUSTAINABLE FINANCE MARKETS

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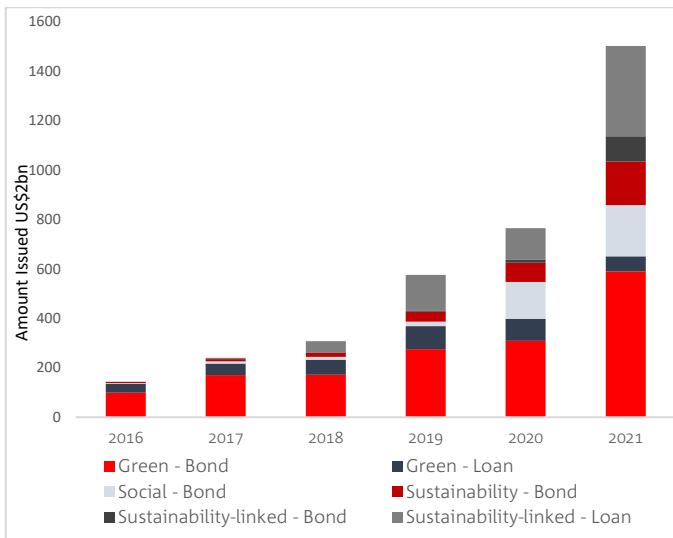
MARKET OVERVIEW

Sustainable Finance Market Overview

- According to Bloomberg New Energy Finance, sustainable debt issuance year to date as at Nov 30 2021 has surpassed US\$1.5 trillion.
- Green bonds were the most popular format, comprising 39.3% of total issuance, followed by sustainability linked loans comprising 24.3%.
- With the exception of green loans, all formats have exceeded their total 2020 annual issuance.

Global Sustainable Debt Annual Issuance

Source: BNEF Sustainable Debt Tool (November 30, 2021)



SELECTED RECENT DEALS

KiwiRail closes the world's first Green Shipping Loan to be certified by the Climate Bond Initiative

- KiwiRail's [NZ\\$350m green loan](#) will be used to finance the acquisition of two new Interisland ferries.
- In order to achieve certification against Climate Bonds standards, KiwiRail had to demonstrate a clear path for fuel and propulsion systems to achieve zero carbon emissions by 2050.
- **NAB acted as a Lender, Arranger & Hedge Counterparty.**

Coles refinancing includes Sustainability Linked Loans

- Coles Group Limited has refinanced its bilateral debt facilities with [4-year sustainability linked loans](#) (SLLs) with a total of A\$1.3bn.

- Loan margins are linked to the reduction of Scope 1 and Scope 2 CO2e emissions, total waste diverted from landfill, and the increase of women in leadership roles.
- **NAB acted as Lender.**

Summerset completes New Zealand's largest SLL to date and a first in the NZ retirement village sector

- Summerset Group Holdings has incorporated a [~NZ\\$700m multicurrency SLL](#) as part of a loan facility refinance.
- Pricing of the loan is linked to the reduction of construction waste to landfill, reduction in emissions intensity, and continued delivery of additional Memory Care Beds and Dementia Friendly Accreditation.
- **NAB and BNZ acted as Lenders.**

Auckland Council issues retail Green Bond

- The Auckland Council has raised NZ\$300m through a [retail green bond](#), marking over NZ\$1bn in funds raised through the Council's [Sustainable Finance Framework](#).
- Proceeds from the bond will go towards eligible sectors for investment.
- **BNZ acted as Joint Lead Manager.**

ICBC issues carbon neutrality-themed Green Bond

- Industrial and Commercial Bank of China Ltd (ICBC) has raised US\$3.23bn equivalent from a multi-currency [carbon neutrality-themed green bond](#) via five branches of the bank.
- Proceeds from the bond will go towards eligible green projects under ICBC's [Green Bond Framework](#).
- **NAB acted as Joint Global Coordinator, Joint Lead Manager and Joint Bookrunner.**

The UK's Green Gilt becomes the largest inaugural sovereign issuance

- The UK has raised [£10bn](#) from the sale of its first green gilt maturing in July 2033.
- The green gilt is the largest-ever sovereign issuance and set a new record for the largest order book. The record was previously held by Italy's €8.5bn green bond issued earlier in the year.
- Proceeds from the bond will be used to finance eligible expenditures set out in the Government's [Green Financing Framework](#) that was published earlier in the year.
- The [UK Government plans](#) to align the Framework with the developing classification of environmentally sustainable economic activities, with the first set of screening criteria planned to be legislated no later than 1 January 2023.

QTC prints largest A\$ Green Bond to date

- The Queensland Treasury Corporation (QTC) has issued a [A\\$3bn March 2032 green bond](#).
- Net proceeds from the bond will be allocated against eligible projects and assets that have an environmental benefit, outlined in QTC's [Green Bond Framework](#).

Woolworths issues Sustainability Linked Bonds

- Woolworths Group has issued its inaugural [€550m 7-year sustainability linked bond](#) (SLB). The bond's margin is linked to a reduction in scope 1 and 2 emissions, tested at the end of FY26. The reduction target is in line with the Group's 2030 carbon emissions reduction goal.
- This is followed by a [dual-tranche A\\$700m SLB](#). Similarly, margins on the notes are linked to scope 1 and 2 emissions reduction targets with test dates for the 6-year and 10-year notes at the end of FY25 and FY29 respectively.

Charter Hall finalises Australia's first CBI certified Green Development Loan

- Charter Hall Group's [A\\$202m five-year green development loan](#) will support the construction of a commercial office development at 480 Swan Street in Richmond, Victoria.
- The building, which will become Australia Post's Melbourne headquarters, will target a 6-star Green Star rating and a 5-star NABERS Energy rating, and plan for a carbon-neutral construction.
- This is the first Green Loan drawn under Charter Hall's Green Financing Framework.

GWOF prices inaugural Green Bond

- GPT Wholesale Office Fund (GWOF) has priced its first [A\\$250m 10-year CBI certified green bond](#), issued under GPT Group's [Sustainable Debt Framework](#).
- Proceeds from the bond will be used to refinance existing GWOF assets that meet CBI's Low Carbon Buildings Criteria.

Christchurch City issues Sustainability Bond

- Christchurch City has issued [NZ\\$150m 5-year sustainability bond](#).
- In accordance with the [Christchurch City Sustainable Finance Framework](#), proceeds from the bond will be used to refinance existing debt relating to the fibre network in greater Christchurch.

Estia completes refinancing with a SLL

- Australian aged care provider, Estia Health Group, has obtained a [A\\$330m syndicated Sustainability Linked Loan](#) to refinance existing facilities.
- The loan's margin is linked to the reduction of greenhouse emissions, improved resident engagement and satisfaction, support for employee well-being and improved environmental performance aligned to the NABERS Star Ratings for residential aged care.

APPF Commercial prints SLB

- Lendlease managed Australian Prime Property Fund Commercial (APPF Commercial) has printed its [\\$250m 10-year SLB](#).

Genesis Energy launches Sustainable Finance Programme

- Genesis Energy has designated an existing bond as a green bond and incorporated a [NZ\\$100m sustainability linked loan](#).

- Interest rate on the loan is linked to reductions across all scopes of emissions, renewable energy generation and a future of work programme, in line with their [Framework](#).

Pamu signs Sustainability Linked Loan

- Pamu, also known as Landcorp Farming Limited, is a New Zealand state-owned farming business and has signed a [NZ\\$85m 3-year SLL](#).
- Pricing on the loan is linked to a 1.5-degree Science-Based emissions reduction target, on-farm sustainability performance and improving employee wellbeing.

Contact Energy readies for Green Bond offer

- Contact Energy Limited has registered a product disclosure statement for a [green bond offering of up to NZ\\$200m](#).
- Proceeds from the Offer will be used to finance and refinance renewable generation and other eligible green assets under Contact Energy's [Green Borrowing Program Framework](#).

ADB issues its first Blue Bonds

- The Asian Development Bank (ADB) has issued its first [dual-tranche blue bonds](#) – A\$208m 15-year and NZ\$217m 10-year.
- The bonds were issued under ADB's expanded [Green and Blue Bond Framework](#) and will finance ocean-related projects in Asia and the Pacific.
- ADB's expanded Green and Blue Bond Framework has received an SPO from CICERO Shades of Green to confirm alignment with the ICMA Green Bond Principles.

BOC issues world first Sustainability Re-Linked Bond

- The Bank of China has issued the world's first US\$300m 3-year [sustainability re-linked bond \(SRLB\)](#).
- Coupon on the bond will be re-linked to underlying SLLs with net proceeds earmarked towards a portfolio of eligible SLLs in accordance with BOC's guidelines.

Global Diversified Infrastructure Fund executes a cash advance facility with a green tranche

- Global Diversified Infrastructure Fund, managed by First Sentier Investors, has signed a [A\\$750m cash advance facility \(CAF\) which includes a Climate Bonds certified green tranche](#).
- Proceeds from the green tranche will go towards eligible projects under the fund's Green Financing Framework, including renewable energy, energy efficiency, waste management, etc.
- **NAB acted as Joint Lead Arranger.**

Spark New Zealand executes debut SLL

- Spark New Zealand has completed refinancing of three existing loans through [sustainability-linked revolving credit facilities totalling NZ\\$425m](#).
- The sustainability targets are based on emissions reduction, suppliers establishing science-based emissions reduction targets as well as diversity and inclusion.

Brighte completes a second Green ABS transaction

- Brighte Capital has completed its second [Climate Bonds certified Green ABS transaction](#), with A\$185m of notes issued, comprising Australian unsecured green and non-green consumer-loan receivables.

- The pool of assets consisted predominantly of solar receivables.
- **NAB acted as Sole Arranger and Lead Manager.**

Treasury Corporation of Victoria issues a Sustainability Bond

- Treasury Corporation of Victoria (TCV) has issued [A\\$2.5bn sustainability bond](#) under its [Sustainability Bond Framework](#).
- This is the second green issuance for TCV, having first come to market in 2016 with a A\$300m five-year Green Bond, the first Green Bond in the Australia/Asia Pacific region Government sector.
- **NAB acted as Joint Lead Manager.**

Optus issues a SLB

- Optus has issued a [A\\$300m 7-year sustainability linked bond](#), becoming the first telco in the Asia-Pacific region to issue a SLB.
- Optus has committed to reducing its absolute greenhouse gas emissions by 25% (scope 1 and 2 in tCO₂e) by 2025, compared to a 2015 baseline.
- The SLB has been issued under the parent company, Singtel Group's Sustainability-Linked Bond Framework.

INVESTOR & MARKET NEWS

Australian Government announces plan to pursue net zero emissions by 2050

- The Australian Prime Minister has announced its goal to pursue [net zero emissions by 2050](#).
- The plan relies on existing and emerging 'low emissions technologies' with plans to invest over AUD20bn in the next decade. This is expected to get the country 85% of the way to net zero.
- The plan also prioritises 'clean hydrogen' and 'ultra-low-cost solar'.

NSW Government sets more ambitious target to deliver 50% emissions cut by 2030

- The NSW Government has raised the bar from its previous target of 35% to [50% emissions reduction](#) below 2005 levels by 2030.
- The State has published its [Net Zero Plan Stage 1: 2020-2030](#) which outlines the State's climate action and how the Government plans to grow the economy and create jobs during this period.

APRA finalises prudential guidance on managing the financial risks of climate change

- APRA has published Prudential [Practice Guide CPG 229 Climate Change Financial Risks \(CPG 229\)](#). The guide is designed to assist APRA-regulated entities to manage climate-related risks and opportunities within existing risk management and governance process.
- The guide imposes no new regulatory requirements or obligations.

COP26 closes with several key outcomes for the global economy including:

- The [Glasgow Financial Alliance for Net Zero](#) (GFANZ) announced, representing over US\$130 trillion of financial

assets committed to accelerating the decarbonisation of the economy.

- 100 central banks have signed the [NGFS Glasgow Declaration](#), including a continued commitment to advance supervisory practices.
- [Article 6 of the Paris Climate Agreement](#) adopted by almost 200 nations and to provide pathway for global carbon markets.

GRI revises its Universal Standards

- The Global Reporting Initiative (GRI) has set a new global benchmark with a major revision to its [Universal Standards](#). The revised standards will be in effect for reporting from 1 January 2023 with early adoption encouraged.
- The revision is supposed to position organisations with GRI aligned reporting to respond to emerging regulatory disclosure needs, such as the EU Corporate Sustainability Reporting Directive and the IFRS plans for enterprise value standards.

SBTi publishes Net-Zero Standard Framework for Corporates and Financial Institutions

- The Science Based Targets Initiative (SBTi) has published the world's first frameworks for [corporate](#) and [financial institutions](#) net-zero target setting that are in line with climate science.
- The Frameworks are consistent with limiting global temperature rise to 1.5°C.

ICMA updates the EU sustainability disclosure regime

- The International Capital Market Association (ICMA) has published a [summary](#) of various sustainability and ESG related disclosure requirements from the new and amended EU legislation.
- The paper aims to provide a comprehensive and practical overview for all participants in the European capital markets.

CME Group launches sustainable derivatives clearing service

- Financial derivatives exchange operator, CME Group, has launched the "first-ever" [sustainable derivatives clearing service](#) and accompanying sustainability guidelines.
- Sustainable derivatives include products such as carbon offsets, battery metals and bioenergy as well as interest rate and foreign exchange futures hedging activity that is carried out to support a sustainable business.

Moody's ESG claim that a materiality lens is key to SPOs

- Moody's ESG has enhanced its [methodology](#) for Second Party Opinions (SPOs) to explicitly quantify the scope of selected Key Performance Indicators (KPIs) in addressing an entity's core sustainability and business strategy and addressing relevant sector ESG challenges.

ECB publishes results from its economy-wide climate stress test

- The European Central Bank (ECB) has tested the [impact of climate change](#) under three climate policy scenarios on more than four million firms worldwide and 1,600 euro area banks.

- The results highlight the benefit for firms and banks from adopting green policies early on to foster the transition to a zero-carbon economy.

BlackRock, on behalf of the European Commission, releases report on Banks' ESG integration

- Lenders need to speed up integrating ESG criteria into their risk management and business strategies according to the [report](#) released by BlackRock, on behalf of the European Commission.
- EU banks need to improve their definitions of ESG, and a lack of data as well as common standards remain key challenges. The report also found that collaboration across all stakeholders will be required, including sufficient supervisory guidance and engagement, and cross-bank collaboration.

Litigation by and against the private sector over climate change targets

- Energy companies, TC Energy, RWE, Uniper, Rockhopper, and Ascent are [suing governments](#) through investor-state dispute settlements (ISDS) for taking climate action that could harm profits.
- Conversely, [German climate activists](#) have filed lawsuits against BMW, Volkswagen and Daimler for refusing to tighten carbon emissions targets and exacerbating climate change.

The Port of Newcastle Green Hydrogen Hub

- The Port of Newcastle has announced a partnership with Macquarie Group's Green investment Group and the Commonwealth Government's Australian Renewable Energy Agency (ARENA) to support the development of a hydrogen economy in the Hunter Region.
- The [Green Hydrogen Hub](#) will start with a 40MW electrolyser in its first phase with plans to reach a capacity of at least 1GW.

The IFRS Foundation has announced a new International Sustainability Standards Board

- The [International Sustainability Standards Board](#) (ISSB) is intended to meet the increasing demand for high quality, transparent, reliable and comparable reporting by

companies on climate and other environmental, social and governance matters.

- ISSB will deliver a comprehensive global baseline of sustainability-related disclosure standards to inform investors and other capital market participants.

Deutsche Bank to increase sustainable business activities and link to compensation

- Deutsche Bank has announced annual growth targets for [sustainable business activities](#) to reach over EUR20bn by 2025.
- The bank has also announced plans to tie management compensation to sustainability criteria from 2021.

Rio Tinto steps up decarbonisation activity

- Rio Tinto has unveiled its [new target](#) to reduce Scope 1 and 2 carbon emissions by 50% from a 2018 baseline by 2050.
- As part of its longer-term business, the company also announced a ~AUD\$7.5bn direct capital expenditure to decarbonise its assets, along with other initiatives.

NSW Circular: COP26 opportunity

- [NSW Circular](#) is a NSW government-funded body with environmental, economic and social goals embedded into its work.
- Circular economy concepts will be at the forefront of Australia's transition to net-zero by 2050 as 45% of emission reductions is embedded in the way products and foods are produced, managed and disposed.

Potential expansion of scope of Directors' Duties

- A [bill](#) is being debated in New Zealand Parliament which, if enacted, would amend the Companies Act to say that directors may consider things such as governance factors, social outcomes and environmental issues in determining the best interest of the company, rather than the financial bottom-line.
- The introduction of the bill to Parliament follows a [paper](#) by the Institute of Directors and MinterEllisonRuddWatts which looked at the evolving corporate governance landscape in relation to stakeholders.

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