

Powering up with Sustainable Finance

Louise Tong

Toitū Pūtea (Sustainable Finance)



Contents



Overview - What is sustainable finance?



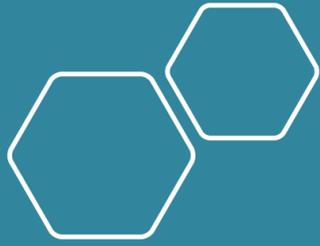
Why is the finance sector focused on sustainability?



Implications for energy sector

Sustainable Finance





Sustainable Finance

- “Greening finance” : lenders & investors factor in ESG considerations into decisions & processes
- “Financing green” : lending & investing in projects and activities that have positive environmental & social impacts.

“allocating capital in a way that integrates environmental, social and governance (ESG) criteria for the lasting benefit of lenders/investors, borrowers and society at large.”

Focusing solely on traditional metrics just won't cut it anymore!

Top Risks

by likelihood

- 1 Extreme weather
- 2 Climate action failure
- 3 Human environmental damage
- 4 Infectious diseases
- 5 Biodiversity loss
- 6 Digital power concentration
- 7 Digital inequality
- 8 Interstate relations fracture
- 9 Cybersecurity failure
- 10 Livelihood crises

Top Risks

by impact

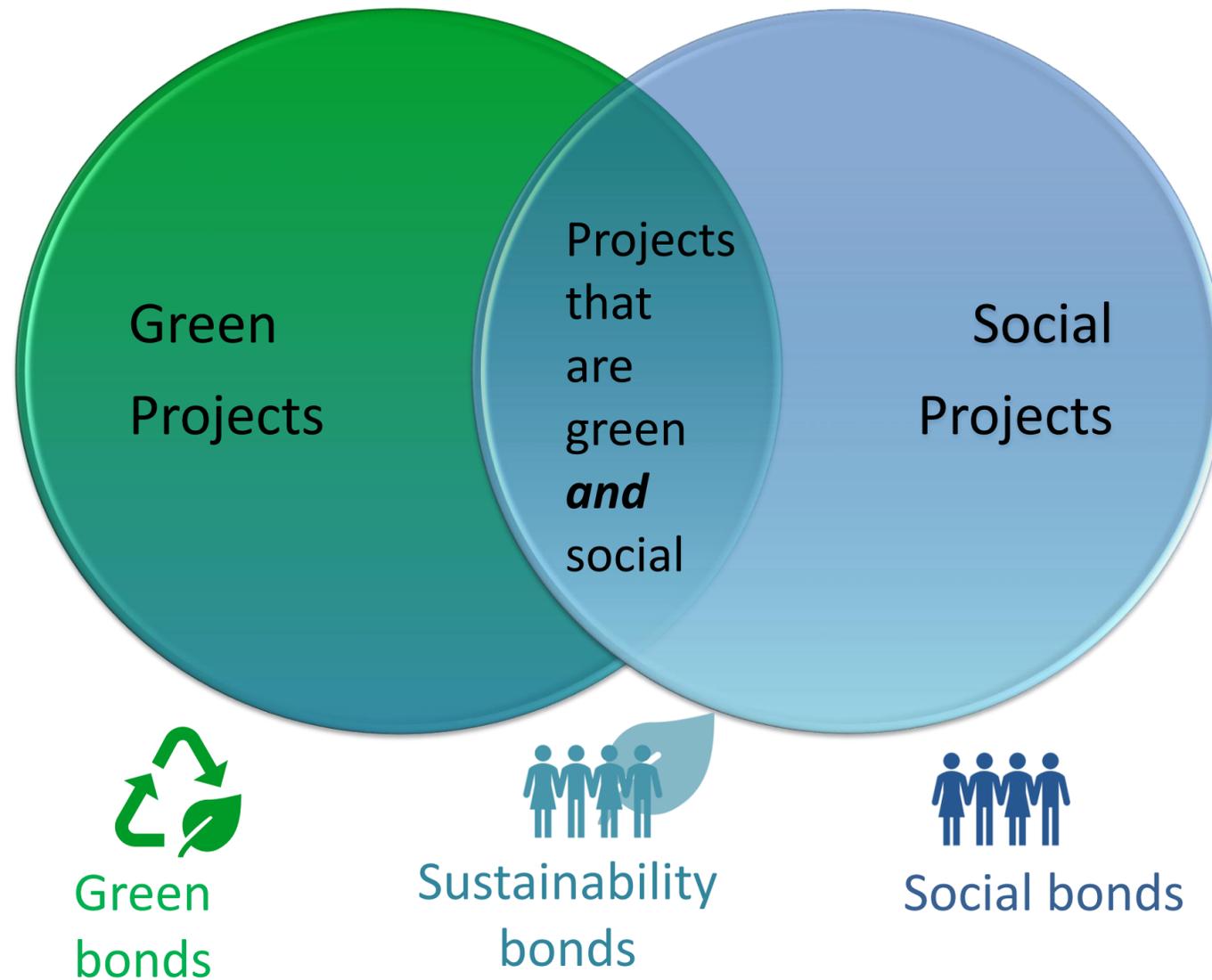
- 1 Infectious diseases
- 2 Climate action failure
- 3 Weapons of mass destruction
- 4 Biodiversity loss
- 5 Natural resource crises
- 6 Human environmental damage
- 7 Livelihood crises
- 8 Extreme weather
- 9 Debt crises
- 10 IT infrastructure breakdown

Risk categories

-  Economic
-  Environmental
-  Geopolitical
-  Societal
-  Technological

Source: World Economic Forum Global Risks Perception Survey 2020

“Proceeds-based” sustainable finance



“Impact-based” sustainable finance



“Proceeds-based” sustainable finance : green bonds, green loans



“Impact-based” sustainable finance: Sustainability linked bonds & loans

Linking cost of capital to performance against agreed, ambitious, material and relevant targets such as:

-  Emissions reduction
-  Increasing renewable energy
-  Improving energy efficiency
-  Improving supply chain sustainability
-  Improving water quality or efficiency

-  Improving biodiversity outcomes
-  Reducing waste to landfill
-  Improving health & safety
-  Improving diversity & inclusion
-  Improving holistic ESG rating

But what are the benefits of sustainable finance?



Greater ability to attract capital – with potentially lower funding cost.



Firms can align capital with sustainability ambitions



Highlight and reflect sustainability credentials – bringing greater transparency and clarity



Lifts staff engagement; changes the conversation internally

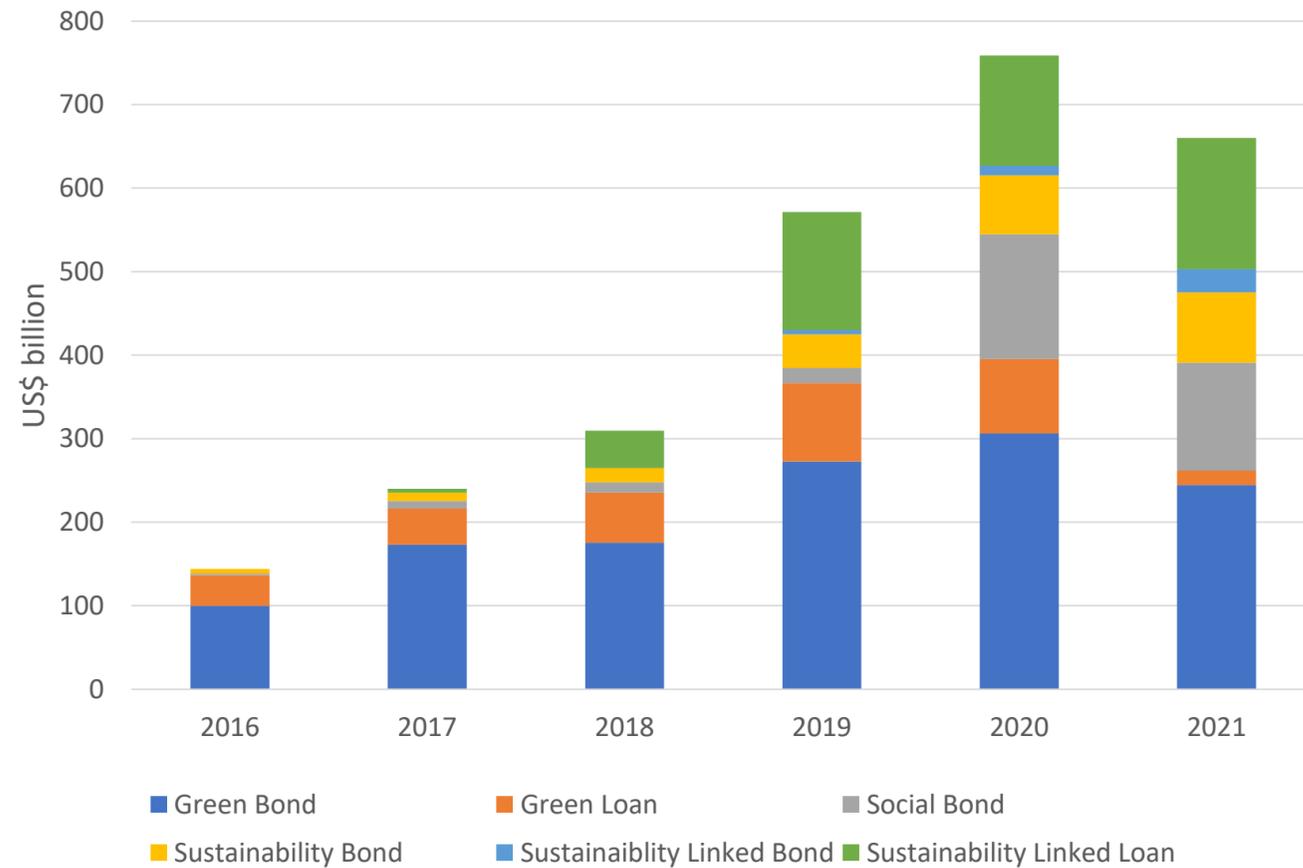


Lifts engagement between lenders/investors and companies

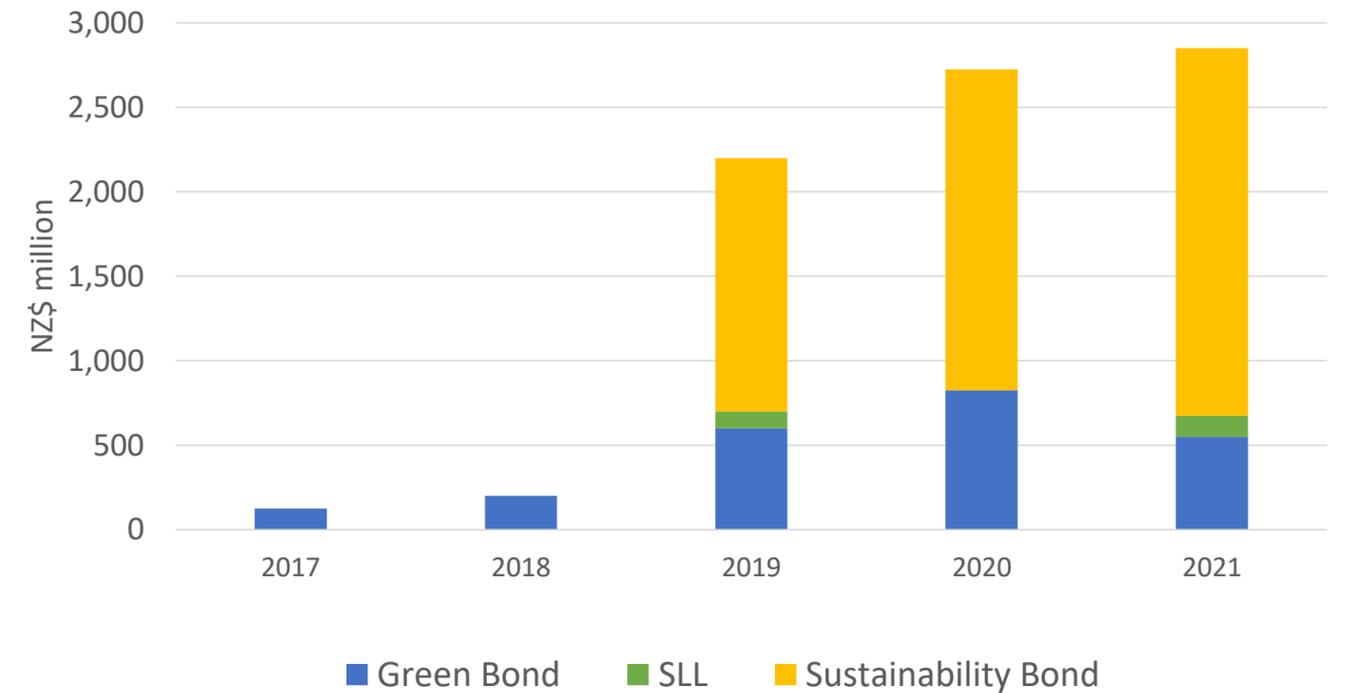


Issuers and borrowers are increasingly active

GLOBAL SUSTAINABLE FINANCE MARKET – \$1TRILLION IN 2021?



NZ SUSTAINABLE FINANCE MARKET – NASCENT BUT GROWING



- For Use of Proceeds instruments, categories were dominated by energy, building, transport and water sectors.
- The SF market in NZ has come roaring into life in April/May with three large labelled bond issues from Kainga Ora, World Bank, EIB, ADB.

Case Studies

SOUTHERN PASTURES



- Ethical dairy investor Southern Pastures owns 20 farms in Waikato & Canterbury, producing milk under an independently certified 10Star Programme. SP is a long-standing PRI signatory.
- In March 2021, BNZ executed a \$50m syndicated 3y SLL with Southern Pastures, the first on-farm SLL in New Zealand.
- KPIs are tied to **water quality, GHG emissions and two biodiversity impacts**. AsureQuality is acting as independent on-farm auditor to verify progress against targets.
- **BNZ acted as Sustainability Arranger.**

MERCURY



- Mercury is a 100% renewable electricity generator and retailer.
- In 2020, Mercury developed a Green Financing Framework to demonstrate its commitment to a more sustainable future and drive prioritisation toward more renewable energy investments.
- Eligible categories for bond proceeds include re/financing **renewable energy, energy storage, low carbon transport and associated infrastructure**.
- Mercury has issued two \$200m Green Bonds in 2020 (7y) and 2021 *5.5y)
- **BNZ acted as JLM on Mercury's 2020 Green Bonds.**



CONTACT ENERGY



- Contact Energy has entered into a total of \$430m of SLLs with all seven of its banks, the first a \$50m 4y facility in Dec 2019 and, more recently, a **\$50m facility with BNZ in July 2021**.
- The pricing is linked to **Contact's score in the RobecoSAM ESG survey**. The outcome of this survey is the determinant for inclusion in the Dow Jones Sustainability Index (for equities), and rated companies can be assigned "Bronze, Silver or Gold" status.
- Contact also has a "Green Borrowing Programme" where all its debt is certified green by Climate Bonds Initiative, reflecting the company's low emissions generation portfolio. Contact has three certified green bonds trading on the NZX.

Executive Chairman Southern Pastures, Prem Maan : *"farming in New Zealand should be driven by the ambition to become carbon-neutral. This deal recognizes that farming to mitigate climate change and environmental impacts is in our common interest."*

Why?



Why is the finance sector focused on sustainability?



Stakeholder
expectations



ESG risk =
financial risk



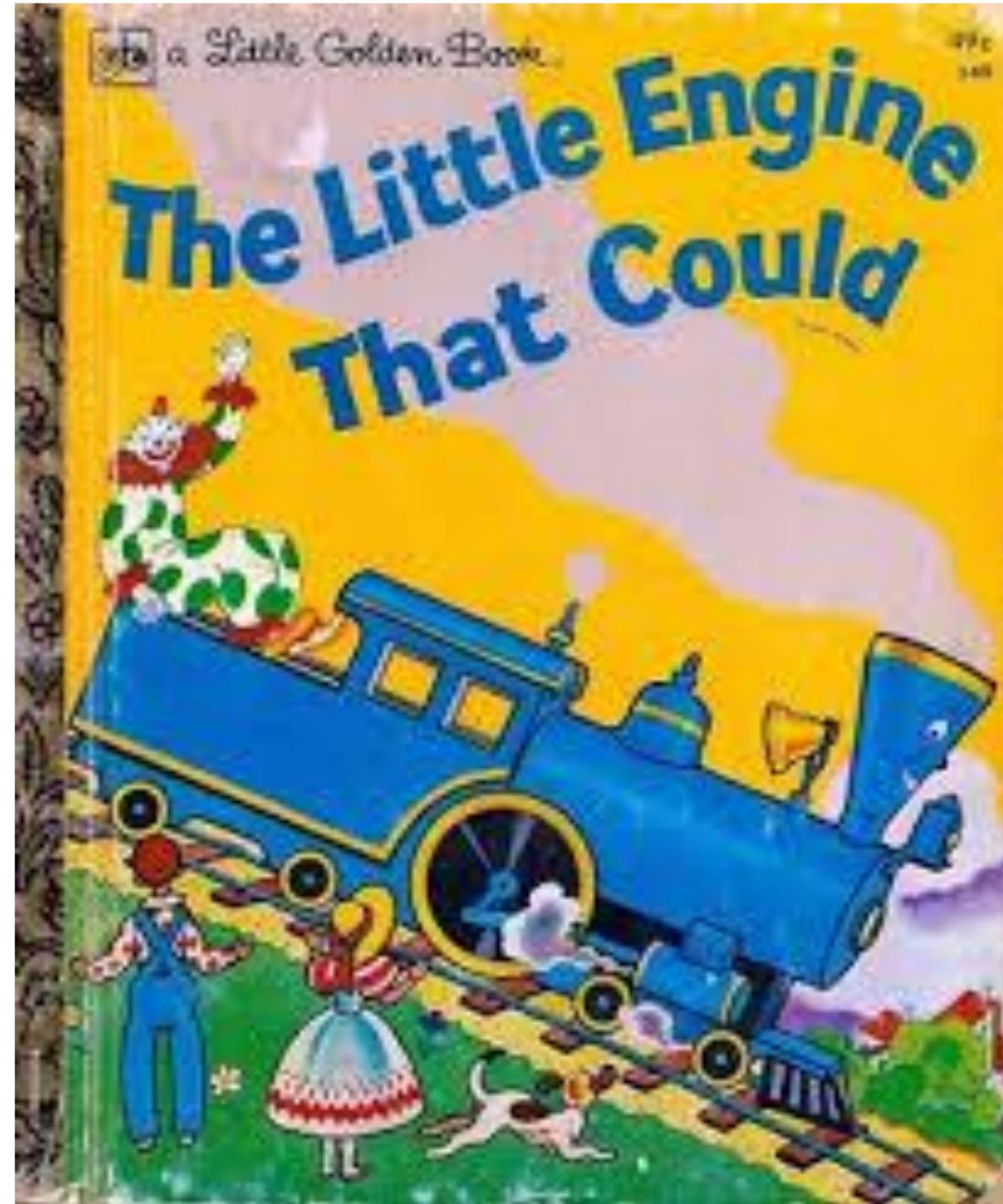
Public
commitments



Disclosure &
transparency

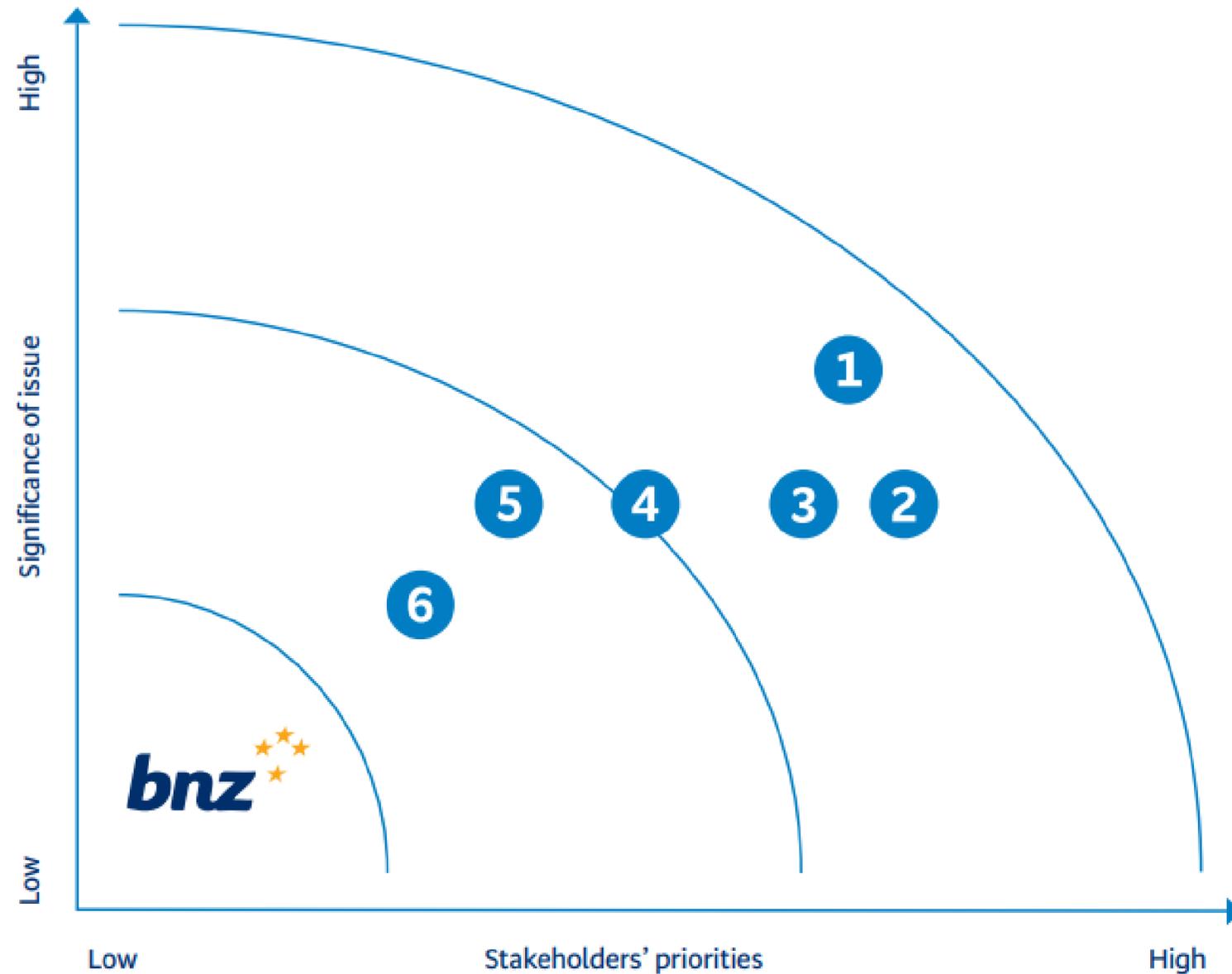
.... and it's the right thing to do

But first, a story...



Key material issues for all stakeholders

Every year we will undertake a similar stakeholder engagement process to ensure our Strategy continues to evolve and remains both ambitious and relevant. This figure illustrates the key outcomes of our material assessment and shows their significance to our business and the level of priority for our stakeholders.



“There are real opportunities with responsible lending if BNZ is prepared to be brave.”

Social enterprise sector

“Te Ao Māori should be across everything.”

Impact investing sector

“BNZ became more conservative about five years ago and has got stuck there.”

Customer

Key

- 1. Leadership, governance, and ethics
- 2. Responsible lending
- 3. Responsible investing
- 4. Employee wellbeing and culture
- 5. Financial wellbeing
- 6. Operational environmental footprint

ESG Risk = financial risk



Operational costs eg; carbon, fuel



Litigation risk



Regulatory risk



Ability to attract & retain talent



Consumer demands & trends



Obsolescence risk



Transition risk



Adaptation risk



Investor demands and trends



Social license to operate

Public commitments

 <p>PRINCIPLE 1: ALIGNMENT</p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>	 <p>PRINCIPLE 2: IMPACT & TARGET SETTING</p> <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>	 <p>PRINCIPLE 3: CLIENTS & CUSTOMERS</p> <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>
 <p>PRINCIPLE 4: STAKEHOLDERS</p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p>PRINCIPLE 5: GOVERNANCE & CULTURE</p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p>PRINCIPLE 6: TRANSPARENCY & ACCOUNTABILITY</p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>

Sunlight is a great disinfectant : TCFD



Governance

Disclose the organization's governance around climate-related risks and opportunities



Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material



Risk management

Disclose how the organization identifies, assesses, and manages climate-related risks



Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Implications for energy sector



The power of capital...



...will drive positive change



Capital attracted to renewable energy investment



Corporates will become less agnostic about source of generation



Opportunity to differentiate with low carbon products



Capital attracted to renewable energy investment



Development & generation will have greater focus on social & environmental impacts

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