more than money
nab

2017 EQUATOR PRINCIPLES *Report*

1 October 2016 – 30 September 2017

About NAB

National Australia Bank Limited (NAB) is a financial services organisation that provides a comprehensive and integrated range of banking and financial products and services including wealth management. NAB has operations based in Australia, New Zealand, the United Kingdom, North America and Asia.

NAB's financial year

NAB's financial year (FY) is the reporting period commencing 1 October and ending 30 September. All data in this report is as at 30 September 2017 and for the 2017 FY (FY17).

About the Equator Principles

NAB became a signatory to the Equator Principles[1] (EP) in October 2007. NAB considers EP requirements when lending for specific projects.

NAB's project finance portfolio

As part of its global project finance portfolio, NAB helps its customers invest in infrastructure, energy and resources projects.

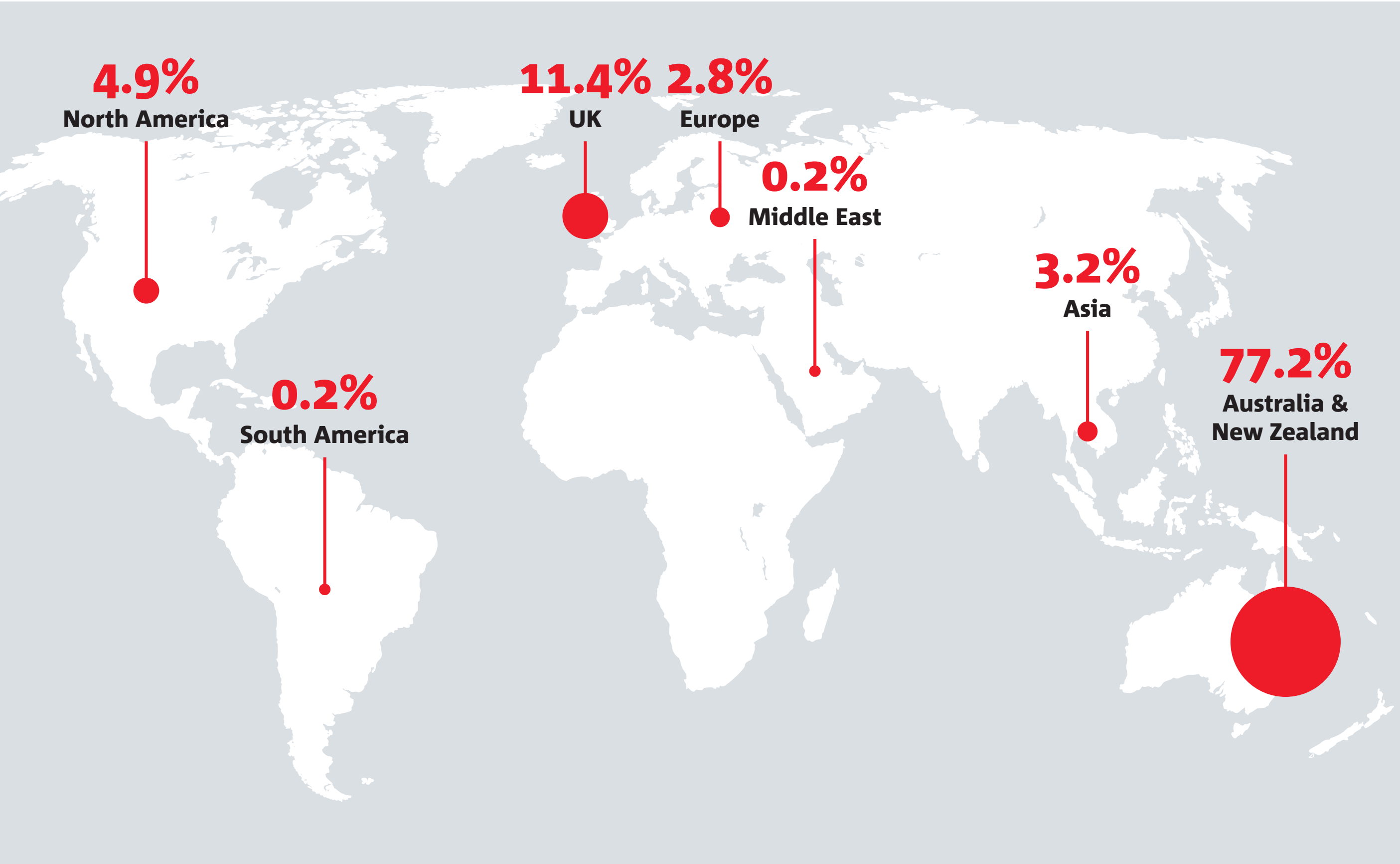
In FY17:

- Project finance represented 1.5% of total Group Exposure at Default (EAD)[2] at 30 September 2017. Of this lending, 97.2% of projects were in designated countries[3] and 2.8% were in non-designated countries.
- NAB closed 34 new project finance transactions, refinanced five existing transactions, and removed six transactions from its loan book.
- Transactions can be declined at any stage in negotiation or due diligence, and although none were declined during the 2017 reporting period specifically on the basis of environmental or social risk issues, one was declined in part due to these factors.

Table 1: Total project finance portfolio: Transactions by EP Categories

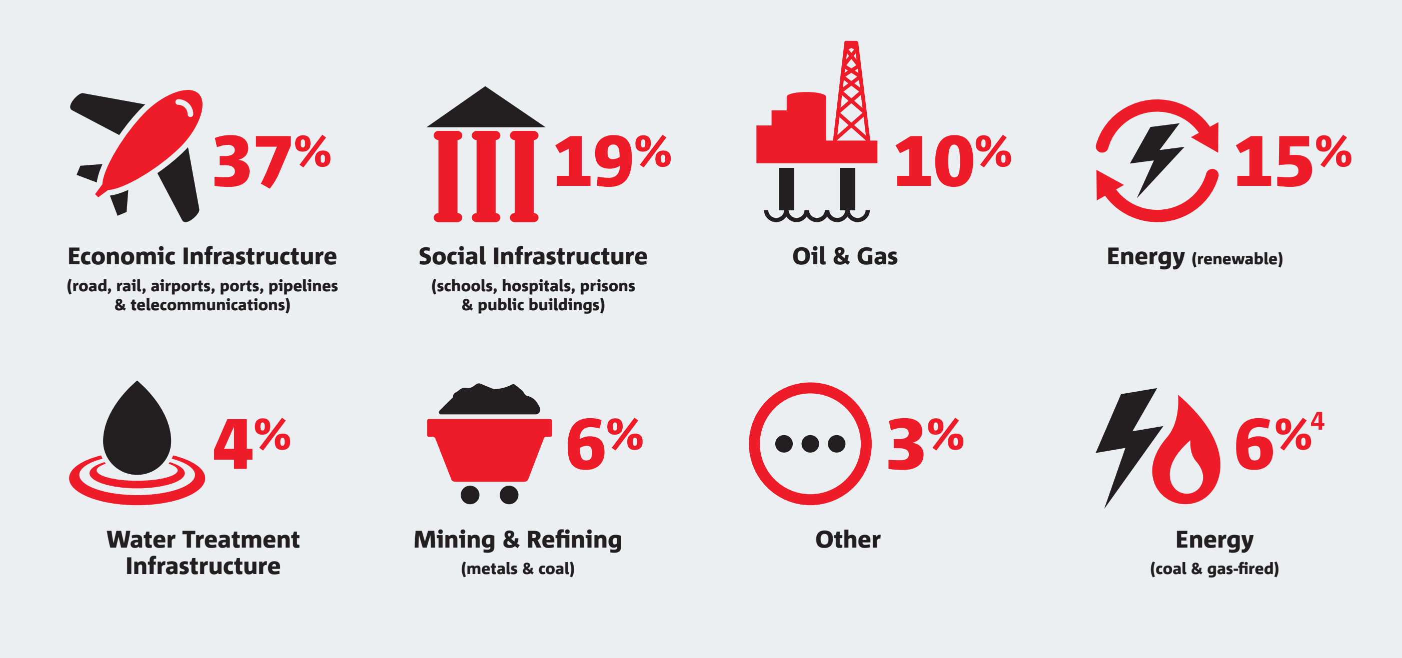
EP category	Number of projects	Projects as a % of total portfolio value
A	3	8
B	69	49
C	25	20
Pre-EP adoption (prior to October 2007)	16	8
Project finance post EP III to which EP do not apply	28	15
Total	**141**	**100**

Figure 1: Project finance portfolio by region as a % of total portfolio value, expressed as Exposure at Default (as at 30 September 2017)



1. See http://www.equator-principles.com/ for more information, including the Equator Principles definition of project finance which is used by NAB and its subsidiaries (together, the NAB Group).
2. EAD is a parameter used in the calculation of economic capital or regulatory capital under Basel II for a banking institution. It is the gross exposure under a lending facility upon default of a customer.
3. A list of designated countries is published by the Equator Principles Association. Non-designated countries are those countries not found on the list.

Figure 2: Project finance portfolio by sector as a % of total portfolio value, expressed as Exposure at Default (as at 30 September 2017)



Project finance for energy infrastructure

NAB has provided $6.2 billion[5] in project finance for renewable energy projects since 2003. NAB continues to be the leading arranger (by market share)[6] of project finance to the Australian renewable energy sector.

In 2017, NAB provided $1.25 billion[5] (measured as committed debt at 30 September 2017) for renewable energy projects. NAB's current global portfolio of renewable energy generation projects represents a total generation capacity of 6,561 megawatts (MW).

In late 2016, a Climate Change Working Group (CCWG) was formed with management representatives from across the NAB Group to review the key risks and opportunities facing NAB's business and customers arising from the Paris Agreement to limit global warming to less than two degrees above pre-industrial levels. During FY17, the CCWG refreshed the NAB Group's climate change strategy, which included increasing NAB's current environmental financing commitment from $18 billion by 2022, to $55 billion by 2025[7] to assist the low carbon transition.

This includes:

- $20 billion to support green infrastructure, capital markets and asset finance.
- $35 billion in new mortgage lending for 6 Star residential housing in Australia.

NAB's project finance lending contributes significantly to achieving NAB's environmental financing commitment. Further detail on NAB's progress against its environmental financing commitment can be found on page 58 of our **Sustainability Report 2017**.

In FY17, NAB also estimated[8] the share of the total Scope 1 and 2 greenhouse gas (GHG) emissions from Australian designated[9] power generation assets which NAB financed, being an estimated 1,726,175 tonnes of carbon dioxide equivalent (tCO2-e) (2,655,650 tCO2-e in 2016). This estimate is based on NAB's participation in financing for each facility as a percentage of debt as at 30 September 2017.

4. Coal-fired power represents 1% and gas-fired power 5%.
5. Amount includes new transactions and re-financing.
6. Project Finance International 2006-2017 Asia Pacific Initial Mandated Lead Arrangers League Tables Midyear 2017 US$ Project Allocation, NAB analysis ranking against four major Australian banks – cumulative volume as at 30 June 2017.
7. Represents total cumulative new flow environmental financing from 1 October 2015.
8. As these GHG emissions are not generated directly by NAB, NAB has relied on public information disclosed by the Australian Clean Energy Regulator, which is information reported by designated generation facilities for the purpose of National Greenhouse and Energy Reporting. The methodology involved identifying the reported Scope 1 and 2 GHG emissions associated with each generation facility NAB project financed in Australia. These were then multiplied by NAB's participation in financing for each facility as % of debt as at 30 September 2017. NAB's share of Scope 1 and 2 GHG emissions were then aggregated to get the total tCO_2-e for the portfolio of power generation assets NAB project financed in Australia.
9. Designated generation facilities are facilities where the principal activity is electricity generation and where the facility is not part of a vertically-integrated production process. The emissions figure calculated for NAB's project finance portfolio of Australian designated generation facilities covers 97.9% of the Australian power generation assets (measured as MW capacity of the power generation facilities) included in NAB's project finance portfolio. Data for the remaining 2.1% of assets (measured as MW capacity of the power generation facilities) was not available.

Project finance case studies

NAB provides project finance across a range of sectors. This year's project finance case studies feature examples of finance for power generation and social infrastructure projects. These case studies illustrate NAB's implementation of the Equator Principles.

Case study 1 – Bungala Solar Farm – Australia

NAB is providing project finance for the first two stages of the Bungala Solar Farm. This is aligned to NAB's environmental financing commitment (refer to page 58 of NAB's **Sustainability Report 2017**). Post completion, this will be Australia's largest solar farm to date.

The project is located in South Australia, north east of Port Augusta, and once completed will have a generation capacity of up to 300 MW. The project is expected to generate around 570 GWh of renewable energy each year, which is sufficient to power around 82,000 homes and avoid 520,000 tonnes of CO2-e.

The solar farm is being built on land leased from the Bungala Aboriginal Corporation, providing significant economic benefits to the local Indigenous community.

As part of NAB's due diligence and credit risk assessment process, a range of social and environmental matters were considered. These included community engagement and consultation and available complaints and grievance mechanisms. NAB also considered heritage values, Indigenous community engagement and economic benefits, governance performance, environmental management policies, processes, approvals and requirements including potential for impacts on ecology, biodiversity and land management, contribution to climate change mitigation and requirements of the EP.

The project has been rated as an EP Category B project.

Case study 2 – CPV Fairview Energy Centre

The USA has increased investment in efficient gas-fired power generation to assist with short to medium term reduction in GHG emissions and to provide a flexible back up to intermittent renewable energy generation resources.

In 2017, NAB was a coordinating lead arranger and the swap coordinating bank for the project financing of the CPV Fairview Energy Centre. CPV Fairview is a greenfield 1,050 MW combined cycle gas-fired power station development located in Jackson Township, Pennsylvania, USA. The plant will provide energy into the PJM (Pennsylvania-New Jersey-Maryland Interconnection) market, the largest deregulated energy market in the US covering 13 states and over 60 million people. The power station is expected to generate enough electricity to power over 1 million homes and businesses and will replace coal-based power generation.

CPV Fairview will combine the most advanced generation technology available with a natural gas/ethane fuel blend and state-of-the-art emissions controls, to be one of the cleanest, most efficient conventional generation facilities in Pennsylvania. The power station will conserve natural resources by utilising industrial water from the Cambria Somerset Authority (CSA) for non-contact cooling purposes. After cycling through the plant multiple times, the water will be treated and returned to the CSA via a pipeline for further use for industrial processes.

CPV Fairview will build the power plant on a site that was used as a petroleum storage terminal and salvage operation, and so will redevelop the site and remediate any possible contamination found. During the due diligence and credit risk assessment, NAB considered a range of social and environmental matters including community engagement, consultation and complaints processes, environmental management, noise controls, GHG emissions, wetlands protection, water and air quality permits, land development, and the requirements of the EP.

The banking syndicate financing this project, including NAB, will monitor social and environmental performance through the final planning, construction and commissioning phases of the project in accordance with EP requirements. The project has been rated as an EP Category B project. Further information on the project is available at **CPVFairview.com**.

Case study 3 – NZ Schools Public Private Partnership

NAB believes financing of social infrastructure is important to support the standard of living and quality of life in local communities. NAB and New Zealand subsidiary Bank of New Zealand (BNZ)'s project finance portfolio therefore includes projects such as hospitals, schools and social housing.

In 2017, BNZ financed New Zealand's third education public private partnership (PPP). BNZ is the sole mandated lead arranger to finance the ShapEd Consortium[10] for the design and construction of schools across New Zealand, as well as providing facilities maintenance for the following 25 years. The project will see three new primary schools and two relocated secondary schools open in 2019. The New Zealand Ministry of Education has the ability to add additional schools to the scope of the project.

The project will comply with New Zealand's permits and planning process, which is intended to minimise any environmental impact and will consider the impact of the development on local residents. The schools are to be designed using as many viable ecologically sustainable development initiatives as possible. Energy and resource efficiency has been optimised through the design approach to architecture, site master planning, services and structure.

As part of BNZ's due diligence and credit risk assessment process, a range of social and environmental risks associated with the school development project were considered, including historical use and contamination of the land and remediation planned to address this through the development process. The project is not expected to have a negative impact upon the social, economic or ecological status of the sites and surrounding areas. The schools are expected to make a positive contribution to the local community. The sites are being designed not only to provide comfortable learning environments both inside and outside, but also to encourage learning about sustainability and the environment by enabling students and staff to monitor energy and water usage data, and by incorporating learning tools into landscape design.

The EP assessment resulted in a Category B designation.

10. ShapEd Consortium includes the following organisations: Morrison & Co PPP GP II Ltd, Pacific Partnerships Pty Ltd, CPB Contractors Pty Ltd, Southbase Construction Ltd and Spotless Facility Services (NZ) Ltd.

New schools to open as a result of NAB's subsidiary BNZ financing New Zealand's third education public private partnership.

NAB Group's FY17 Equator Principles Data

The total number of project finance transactions that reached Financial Close[11] in FY17 was 39[12]. Of these transactions, five were refinancing existing project finance loans, 16 were for brownfield assets which did not trigger the Equator Principles and 18 were for projects which triggered EP requirements.

In accordance with the reporting requirements of Equator Principles Version III (EP III), Table 2 provides a breakdown of NAB's relevant project finance data with respect to the 18 transactions referred to above by sector, region, country type and whether an independent review has been carried out during FY17.

Table 2: Project Finance Data

	Breakdown by Category		
	A	**B**	**C**
EP transactions closed during the period 1 October 2016 to 30 September 2017	0	17	1
By Sector	**A**	**B**	**C**
Energy (gas-fired)	0	3	0
Energy (renewable)	0	11	0
Oil & Gas	0	1	0
Economic Infrastructure (road, rail, airports, ports, pipelines and telecommunication)	0	1	0
Social Infrastructure (schools, hospitals, prisons and public buildings)	0	1	1
By Region	**A**	**B**	**C**
Australia & New Zealand	0	8	1
North America	0	5	0
United Kingdom	0	4	0
By Country type	**A**	**B**	**C**
Designated	0	17	1
Non-designated	0	0	0
Independent Review[13]	**A**	**B**	**C**
Yes	0	17	1
No	0	0	0

In accordance with the reporting requirements of EP III, Table 3 provides project name reporting for transactions which reached financial close in FY17.

Table 3: Project Finance Project Name Reporting

Project Name	Calendar Year	Sector	Name of Host Country
Kiata Wind Farm	2016	Energy (renewable)	Australia
Westconnex M4	2016	Economic Infrastructure	Australia
Mount Emerald Wind Farm	2016	Energy (renewable)	Australia
Clare Solar Farm	2016	Energy (renewable)	Australia
Silverton Wind Farm	2017	Energy (renewable)	Australia
Bungala One Solar Farm	2017	Energy (renewable)	Australia
Bungala Two Solar Farm	2017	Energy (renewable)	Australia
New Grafton Correctional Centre PPP	2017	Social Infrastructure	Australia
ShapEd NZ Limited Partnership	2017	Social Infrastructure	New Zealand
Race Bank Wind Farm	2016	Energy (renewable)	United Kingdom
Kype Muir Wind Farm	2017	Energy (renewable)	United Kingdom
Middle Muir Wind Farm	2017	Energy (renewable)	United Kingdom
Moor House Wind Farm	2017	Energy (renewable)	United Kingdom
Cricket Valley Energy Centre	2017	Energy (gas-fired)	USA
CPV Fairview Energy Centre	2017	Energy (gas-fired)	USA
Elba Island LNG	2017	Oil & Gas	USA
Willow Springs Wind Farm	2017	Energy (renewable)	USA
Hickory Run Energy Station	2017	Energy (gas-fired)	USA

There were no Project-Related Corporate Loans (as defined in the EP) that reached Financial Close during the period 1 October 2016 to 30 September 2017 to which EP applied.

There was one Project Finance Advisory Service (as defined in the EP) mandated during the period from 1 October 2016 to 30 September 2017. Data on this Project Finance Advisory Service is provided in Table 4 (overleaf).

11. Defined in the EP as "the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived".
12. This is the total for new and refinanced deals regardless of whether the EP apply.
13. Conducted in accordance with Principle 7 – Independent Review.

Table 4: Project Finance Advisory Services

By Sector	Number of Services mandated
Energy (renewable)	1
By Region	**Number of Services mandated**
Australia & New Zealand	1

Personnel involved in project finance transactions

Project finance is managed through NAB's Specialised Finance team and supported by its in-house Technical Services Group (TSG) and Credit groups. From time to time, our Sustainability Governance & Risk (SG&R) team also provides support on specific Environmental, Social and Governance (ESG) risks.

EP implementation

NAB recognises that businesses today operate in an environment which includes many environmental and social challenges that affect our economy and society. These include issues such as human rights, climate change and natural capital loss and degradation. To assist in managing these issues, NAB has a set of **ESG Risk Principles** which provide an overarching framework for integrating ESG risk considerations into NAB's day-to-day decision-making.

NAB considers exposure to ESG risk at both a lending portfolio and an individual client level. At the client level, ESG risk is assessed on a case-by-case basis as part of the credit risk assessment and due diligence process. This includes an assessment of ESG risks associated with particular sectors.

In addition to NAB's general credit risk policies and practices, NAB has a specific credit policy that addresses implementation of the EP. During the credit risk assessment process for corporate and institutional lending, it is NAB's practice to identify potential corporate finance transactions where the EP could apply. NAB's Group credit risk policy reflects EP III requirements.

The NAB TSG team is required to ensure the EP are applied as required for financing of projects. This includes categorisation (A, B or C) of projects.

For project finance transactions, tailored due diligence is undertaken as required by NAB's general credit policies. For all project finance transactions, a TSG member is allocated to the transaction prior to the commencement of due diligence. The frontline team, in conjunction with TSG will agree the technical, environmental and social scope of work, the requirements for site visits during the due diligence process, and the selection of independent experts/consultants.

Independent environmental and social experts are used to assist TSG, where applicable, and in accordance with the EP.

Where there are potentially controversial issues or significant ESG risks associated with a potential project finance transaction, the SG&R team may also review material relevant to a transaction after referral from either the frontline Specialised Finance team, Credit team or TSG.

As project-related lending usually involves a syndicate of banks, it is NAB's general experience that there is usually consensus reached amongst the bank group on the project category assignment, and in most cases, a conservative approach is taken.

When potential projects occur in **non-designated countries** (defined in EP III), this includes applying **IFC Performance Standards**[14]. Standards 5 (Land Acquisition and Involuntary Resettlement) and 7 (Indigenous Peoples) are particularly relevant as part of reviewing how NAB's clients are managing land rights and impacts on local communities.

Loan document covenants are reviewed by the Specialised Finance frontline team, NAB Legal, and where appropriate, TSG. Standard facility agreements typically contain covenants sufficient to satisfy the EP covenant requirements – where necessary these are amended on a case-by-case basis.

TSG is tasked with tracking a project's compliance with the EP. This includes seeking client consent for Project Name reporting. Client consent requests are tracked, recorded and held in a central location.

Monitoring ongoing EP compliance

NAB undertakes an annual review of every project finance transaction. This includes targeted site visits by TSG and independent monitoring where necessary (generally during construction and operations for complex and/or Category A projects). NAB also requires general construction, operational and compliance reporting from the client. The frequency and scope of this reporting is based on the risk associated with a project. A higher risk project typically requires more frequent reporting so NAB can monitor that it is being developed in accordance with project approvals, project documents and any additional requirements of NAB's banking team/TSG.

Reporting to management

NAB's executive committee and board of directors receive reports on NAB's lending book exposure to a list of industry sectors with potentially higher ESG risk sensitivities (as designated by NAB internally), such as mining and energy generation. This reporting includes project finance lending. NAB also monitors the carbon intensity of its project finance energy generation portfolio as part of internal management reporting.

Assurance over project finance data

On an annual basis, NAB has key project finance data reviewed by an independent audit firm. In FY17, this assurance was provided by KPMG. **KPMG provided assurance** over project finance by sector as a proportion (%) of total project finance portfolio value, expressed as EAD, for the year ended 30 September 2017.

Further information on the Equator Principles can be found at **www.equator-principles.com**.

14. See http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes.