more than money

nab

2019 EQUATOR PRINCIPLES *Report*

1 October 2018 – 30 September 2019

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 2019 and for the 2019 FY ("FY19").

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

Delivering great outcomes for our customers can also deliver great outcomes for our communities and the environment. Our project finance portfolio plays a big role in supporting Australia and New Zealand's growth. This year (FY2019), we provided project finance for our 130th renewable energy transaction since 2003. This cements our role as Australia's leading arranger of project finance for Australian renewable energy[2], helping our customers and community make the low-carbon transition.

In FY19:

- Project finance represented 1.95% of total Group Exposure at Default ("EAD")[3] at 30 September 2019. Of this lending, 98.1% of projects were in designated countries[4] and 1.9% were in non-designated countries.
- NAB closed 23 new project finance transactions, refinanced 26 existing deals, and removed 29 deals from its loan book.

Transactions can be declined at any stage in negotiation or due diligence. In 2019, no transactions were declined primarily on the basis of environmental or social risk issues.

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

EP category[5]	Number of projects	Projects as a % of total portfolio value
A	5	8
B	81	48
C	23	16
Pre-EP adoption (prior to October 2007)	8	4
Project finance post Equator Principles Version III ("EP III") to which EP do not apply	43	24
Total	**160**	**100**

Figure 1: Project finance portfolio by region as a % of total portfolio value, expressed as EaD (as at 30 September 2019)

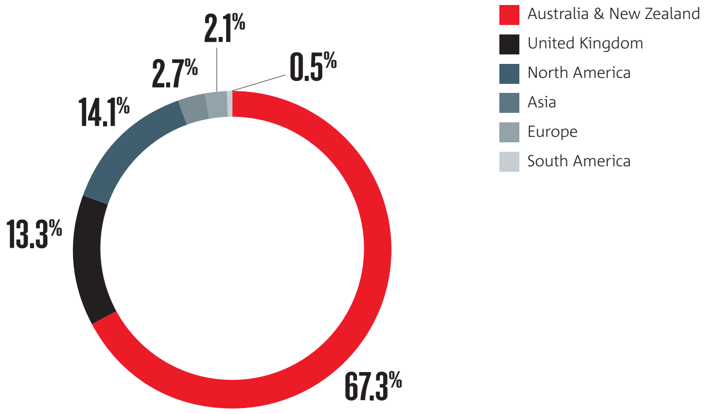
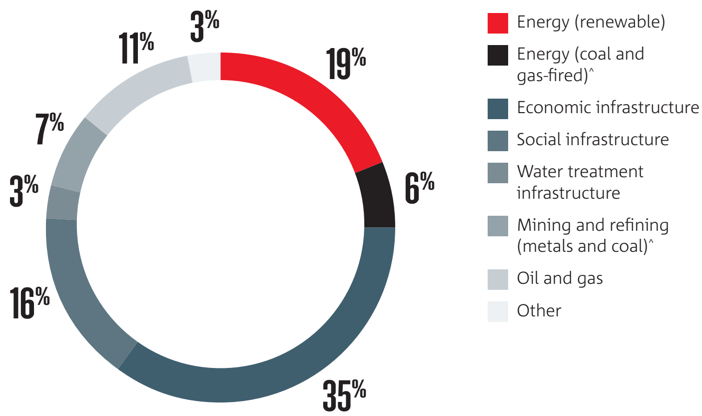


Figure 2: Project finance by sector as a percentage of total portfolio value (expressed as EaD as at 30 September 2019)



^ In 2019, coal-fired power is 0.2% and the remaining balance is gas-fired. Coal is 1.5% of mining and refining.

Sector	2019	2018	2017	2016	2015
Energy (renewable)	19	19	15	11	12
Energy (coal and gas-fired)[1]	6	5	6	6	7
Economic infrastructure	35	36	37	34	33
Social infrastructure	16	16	19	20	21
Water treatment infrastructure	3	4	4	5	7
Mining and refining (metals and coal)[1]	7	7	6	8	7
Oil and gas	11	11	10	12	11
Other	3	2	3	4	2

1 In 2019, coal-fired power is 0.2% and the remaining balance is gas-fired. Coal is 1.5% of mining and refining.

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 Data Source: BloombergNEF Country Profile for Australia - Top Renewable Energy Players (2004 to 3Q 2019). Cumulative totals are in USD as at 30 September 2019. Totals do not include large hydro.
3 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.
4 A list of designated countries is published by the Equator Principles Association. Non-designated countries are those countries not found on the list.
5 The Equator Principles categorises projects into three categories. The categories are: Category A – Projects with potential significant adverse environmental and social risks and/or impacts. Category B – Projects with potential limited adverse environmental and social risks and/or impacts. Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

Project finance for energy infrastructure

NAB has provided $9.4 billion[6] in project finance for renewable energy projects since 2003.

In 2019, NAB provided $1.7 billion[6] (measured as committed debt at 30 September 2019) for renewable energy projects. NAB's current global portfolio of renewable energy generation projects represents a total generation capacity of 10,516 megawatts ("MW"). In 2019, NAB financed an additional 2,520 MW of installed renewable energy generation capacity through renewable energy projects – including finance for wind and solar assets in Australia, US and the UK.

The Group's Climate Change Working Group (CCWG), which consists of management representatives from across the Group, reviews the key risks and opportunities facing the Group and its customers arising from climate change and the Paris Agreement, and monitors and supports the implementation of the Group's climate change strategy. Updates on implementation of the Group's climate change strategy are reported by the CCWG through to management, executive and the Board.

During FY19, NAB Group's climate change strategy was reviewed and a number of our commitments were updated. This included increasing our environmental financing commitment from $55 billion by 2025[7] to $70 billion by 2025 to assist the low carbon transition. This includes:

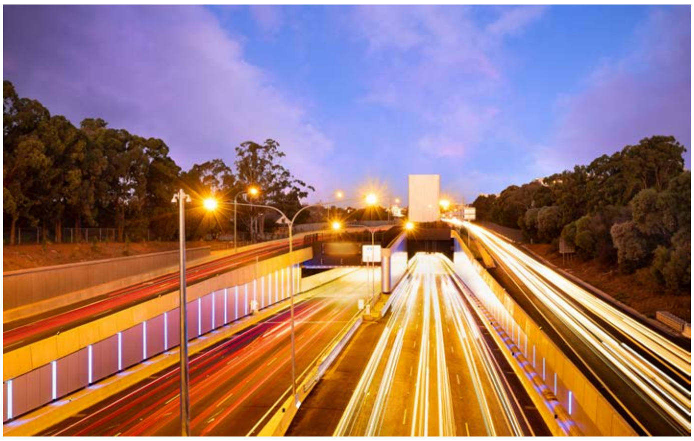
- $35 billion to support green infrastructure, capital markets and asset finance (previously $20 billion).
- $35 billion in new mortgage lending for 6 Star residential housing in Australia.

NAB's project finance lending contributes significantly to achieving NAB's environmental financing commitment and is a key part of delivering on our commitment to help address climate change and support the low-carbon transition. Further detail on NAB's progress against its environmental financing commitment can be found on page 27 of our Sustainability Report 2019. A summary of our FY2019 climate-related commitments can be found here on our website and details of our ESG Risk Policy Settings can be found here.

In FY19, NAB's estimated[8] share of total Scope 1 and 2 greenhouse gas ("GHG") emissions associated with Australian designated[9] generation assets for which NAB provides project finance is 295,330 tonnes of carbon dioxide equivalent ("tCO_2-e"). This estimate is based on NAB's participation in financing for each facility as a percentage of debt as at 30 September 2019 (262,591 tCO_2-e in 2018).

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 infrastructure projects. These case studies illustrate NAB's implementation of the Equator Principles.



CASE STUDY 1 – BUILDING RENEWABLE ENERGY IN THE UK

The UK government has set a net-zero greenhouse gas emissions target by 2050. This means reducing about 15 $MtCO_2$-e of emissions each year and putting in place 320 Terrawatt-hours (TWh) of low carbon electricity generation. Financing the low carbon transition is a key focus of NAB's Climate Change Strategy and our environmental finance commitment.

The Moray East Offshore Wind project is currently under construction and located 22 kms off Scotland's north-east coast. Its construction is estimated to take about 37 months, with the final stage expected to come online in 2022. The wind farm will cover an area of 295 km^2. The total wind farm area is expected to result in the addition of 950 Megawatts (MW) of renewable energy generation capacity to the UK electricity grid – connecting via three export cables of around 86 km in length. The project will help the UK meet its emissions reduction target. It is intended to provide additional energy security, diversify renewable energy supply and reduce reliance on fossil fuel imports. Renewable energy as a generation source surpassed fossil fuels in the UK for the first time in late 2019, with renewable energy producing around 40% of the electricity supply in the 3rd quarter of 2019[10].

As part of NAB's due diligence, credit risk assessment and Equator Principles compliance processes, we undertook an ESG risk assessment which included consideration of a range of environmental aspects related to wind farm development, and social aspects including stakeholder engagement processes. The project also underwent extensive environmental impact assessment to achieve its environmental approvals. These were reviewed as part of the due diligence and credit risk assessment process alongside other information about stakeholder engagement and grievances processes, impacts on biodiversity and other relevant permitting requirements. Environmental and social management plans are being designed to progressively implement the environmental approval requirements as the project proceeds. The project was categorised as a Category B under the Equator Principles.

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6 Amount includes new transactions and re-financing.

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 2019. 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 92.6% 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 7.4% of assets (measured as MW capacity of the power generation facilities) was not available.

10 https://www.theguardian.com/business/2019/oct/14/renewable-electricity-overtakes-fossil-fuels-in-uk-for-first-time

CASE STUDY 2 – CONNECTING SYDNEY AND REDUCING EMISSIONS

Westconnex is a key part of Sydney's integrated transport plan designed to ease congestion and support long-term economic and population growth. It is a 33 km, mostly underground, motorway scheme currently under construction. The motorway scheme is a joint project between Transurban-led Sydney Transport Partners and the New South Wales and Australian governments which encompasses the following:

- M4 Western Motorway (M4) widening (complete);
- M4 East, an eastern extension of the M4 (complete);
- New M5, a new section for the M5 Motorway (M5, opening 2020); and
- M4–M5 link, a new inner western bypass of the Sydney CBD connecting the M4 and new M5 and the future Western Harbour Tunnel.

Together, these projects will create around 16 km of new tunnels.

The new infrastructure is expected to reduce travel times and traffic on local streets and contribute to reducing greenhouse emissions by more than 610,000 tonnes per annum. Significant work has already been completed to expand and improve the M4. Future work will increase capacity and improve the M5. NAB is providing funding for the M4-M5 link – two tunnels linking the M4 and M5 tollways. The two tunnels will provide up to four lanes of traffic in each direction.

As part of NAB's due diligence and credit risk assessment of the M4-M5 link project, we considered a range of environmental and social aspects related to the project, including the project's environmental approvals, its Environmental and Social Management System and stakeholder engagement processes. The project is subject to State environmental regulations, the Commonwealth Environment Protection and Biodiversity Conservation Act and a social risk assessment process. The project was assessed as compliant with Equator Principles requirements and it was classified as Category B project under the Equator Principles. It is expected to open to traffic in 2023.

CASE STUDY 3 – SUPPORTING RENEWABLE ENERGY DEVELOPMENT AND CORPORATE RE COMMITMENTS

NAB is providing a letter of credit to help support the construction of Prospero Solar Holdings LLC ("Prospero"), a greenfield solar project being developed by Longroad Energy. When completed, Prospero will sell its output into the ERCOT[11] market and has entered into an a revenue contract with Shell Energy North America. Facebook Inc. will participate in the transaction as a tax equity investor.

Based in Texas, Prospero will be one of the largest solar farms in the US. It will cover approximately 18 km^2 and will have installed capacity of up to 379 MW (DC), which is considered to be enough to power 72,000 homes based on the US national average. The land was previously used for ranching and agriculture.

As part of NAB's due diligence and credit risk assessment for the project, we considered a range of environmental and social aspects related to the project, including waste water, storm water, impacts of wildlife and wildlife habitats, noise, engagement with Indigenous people and cultural heritage. It was also subject to independent external review. It was classified as Category B project under the Equator Principles. The project is expected to be operational in FY2020.

11 ERCOT Market means the Electric Reliability Council of Texas (ERCOT) market.

NAB Group's FY19 Equator Principles Compliance Data

The total number of project finance transactions that reached Financial Close[13] in FY19 was 49[14]. Of these transactions, 26 were refinancing existing project finance loans, 9 were for operational assets which did not trigger the Equator Principles and 14 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 by sector, region, country type and whether an independent review has been carried out during FY19 referred to above which triggered EP.

Table 2: Project Finance Data For Transactions Triggering Equator Principles

	Breakdown by Category		
	A	B	C
EP transactions closed during the period 1 October 2018 to 30 September 2019	1	11	2
By Sector	**A**	**B**	**C**
Energy (gas-fired)	0	2	0
Energy (renewable)	0	6	0
Oil & Gas	1	0	0
Infrastructure (road, rail, airports, ports, pipelines and telecommunication, student accommodation)	0	3	2
Water infrastructure	0	0	0
Mining and refining	0	0	0
By Region	**A**	**B**	**C**
Australia & New Zealand	0	6	2
North America	1	4	0
United Kingdom	0	1	0
By Country Type	**A**	**B**	**C**
Designated	1	11	2
Non-designated	0	0	0
Independent Review[15]	**A**	**B**	**C**
Yes	1	11	2
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 FY19.

Table 3: Project Finance Project Name Reporting

Project Name	Calendar Year	Sector	Name of Host Country
Sunraysia Solar Finance	2018	Energy (Renewable)	Australia
Westconnex M4 Toll Road	2018	Infrastructure (Road)	Australia
Dundonnell Wind Farm	2018	Energy (Renewable)	Australia
Moray East Offshore Wind Farm	2018	Energy (Renewable)	United Kingdom
Westconnex M4-M5 Link	2018	Infrastructure (Road)	Australia
Junction Road Power Plant	2018	Energy (Gas-fired)	New Zealand
Warradarge Wind Farm	2018	Energy (Renewable)	Australia
Palmetto Solar Farm	2018	Energy (Renewable)	United States
Midship Pipeline	2019	Infrastructure (Pipeline)	United States
Prospero Solar	2019	Energy (Renewable)	United States
Curtin University Exchange Precinct	2019	Infrastructure (Student Accommodation)	Australia
ANU Student Accommodation	2019	Infrastructure (Student Accommodation)	Australia
Sabine Pass LNG Terminal	2019	Oil & Gas	United States
Jackson Generation Energy Center	2019	Energy (Gas-fired)	United States

There were no Project-Related Corporate Loans (as defined in the EP) nor Project Finance Advisory Services mandates that were provided and reached Financial Close during the period 1 October 2018 to 30 September 2019 to which EP applied.

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

Personnel involved in PF transactions

Project finance is managed through NAB's Specialised Finance frontline 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 assists in implementation of the EP 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 Specialised Finance 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 the Specialised Finance frontline 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**[13]. Standards 5 (Land Acquisition and Involuntary Resettlement) and 7 (Indigenous Peoples) are particularly relevant when reviewing how NAB's clients are managing land rights and the associated 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 tracks 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 site visits by TSG and independent monitoring where necessary (generally during construction and operations for complex and/or Category A projects). NAB also requires the client to provide reports on general construction, operations and compliance. 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 PF data

On an annual basis, NAB has key project finance data reviewed by an independent audit firm. In FY19, 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 2019.

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

15 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.