



NAB's global project finance portfolio helps large customers to invest in infrastructure, energy and mining projects.

National Australia Bank Limited 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, the United States of America, and Asia.

We have been a signatory to the Equator Principles since October 2007 and we take EP requirements into consideration when lending for the purpose of financing specific projects.

Since 2000, we have provided project finance for approximately 65% of Australian utility scale renewable energy projects.¹

Having arranged \$1.87 billion worth of loans over the last eight years, we continue to be the leading arranger (by market share) of renewable energy in Australia.²

- In FY14:
- Project finance represented two per cent of NAB's gross loans and advances, including acceptances. Of this lending, 96% was to designated countries and four per cent was to non-designated countries.
 - We closed 14 new project finance transactions, refinanced 13 existing deals, and 17 deals were removed from our loan book.
 - Although deals can be declined at any stage in negotiation or due diligence, none were declined during the 2014 reporting period specifically on the basis of environmental or social risks or issues.

Equator Principles (EP)

See www.equator-principles.com for more, including the EP definition of project finance that NAB uses.

Designated countries

Non-designated countries are those countries not found on the [list of designated countries](#).

NAB's financial year (FY)

NAB's financial year is the reporting period commencing 1 October and ending 30 September. All data in this report is as at 30 September 2014.

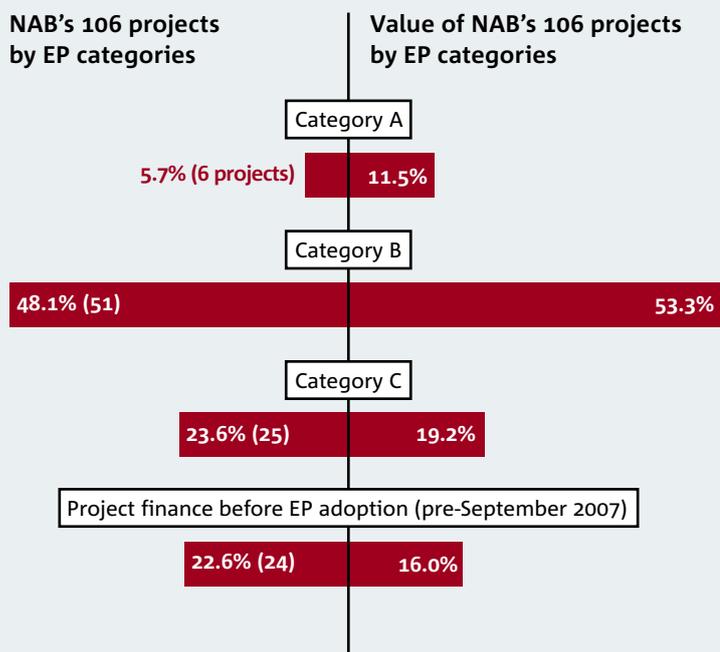
Footnotes

1. Energy Supply Association of Australia Electricity Gas Australia 2014, Appendix 1 Power Stations in Australia 2012-13 (represents NAB's percentage by deal).
2. Project Finance International 2006-2014 APAC Mandated Lead Arranger League Tables US\$ Project Allocation, NAB analysis ranking against four major domestic banks – cumulative volume as at 30 June 2014.

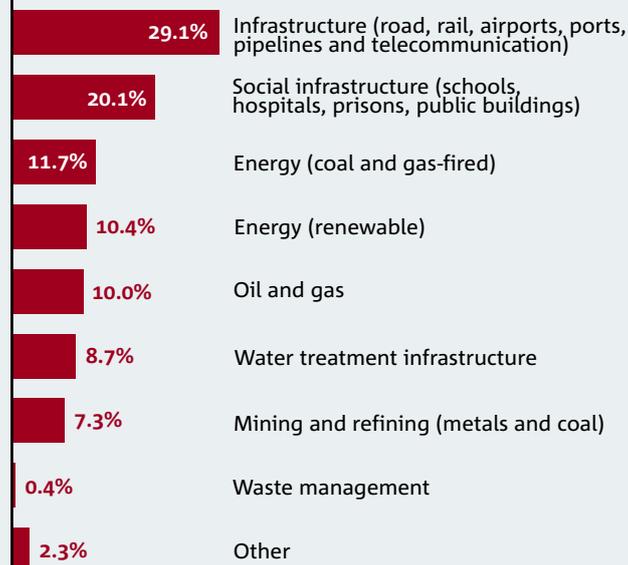
NAB's project finance by Equator Principles category and sector, as percentages of the total project finance portfolio

NAB's 106 projects by EP categories

Value of NAB's 106 projects by EP categories



Value of NAB's 106 projects by sector



In FY14, NAB continued to support the infrastructure demands of a lower carbon economy.

In 2012, NAB publicly committed to continue making significant investments in renewable energy through project finance.

This year, we financed an additional net 167 megawatts (**MW**) of renewable energy generation projects, increasing our total from 2,914 MW in 2013 to 3,081 MW in 2014. This included finance for a geothermal power station in Indonesia and arranging the refinancing for a portfolio of UK wind farms.

Renewable energy project finance case studies

Sarulla Geothermal plant in Indonesia

The Asian Development Bank reported on 29 September 2014 that (upon completion), this will be Indonesia’s largest single-contract geothermal power project. It has a nominal installed capacity of approximately 330 MW. NAB was lead environmental bank (ie. we coordinated the environmental due diligence on behalf of commercial lenders in the bank group) and this transaction was subject to and met the EP requirements.

Infinis operational wind refinancing

This transaction was awarded Project Finance Magazine’s ‘European Onshore Wind Deal of the Year 2013’ and involved the refinancing of a portfolio of 16 onshore operational wind farms in the UK, representing an installed capacity of 274 MW. NAB structured and led the financing.

Natural resources project finance

Roy Hill Project

A major natural resources project finance transaction that closed in FY14 was the Roy Hill Project owned by Hancock Prospecting (70%), Marubeni Corporation of Japan (15%), POSCO of South Korea (12.5%), and China Steel Corporation (2.5%). NAB was joint debt adviser, mandated lead arranger and transactional bank.

This project finance transaction entails funding a greenfield integrated iron ore project which includes the development of an open pit mine, processing plant, dedicated railway and port facilities.

Following ramp up, the project will be capable of producing 55 million tonnes per year of premium lump and fines iron ore products for export. NAB’s due diligence included assessment of the project under the requirements of the EP. This included independent reports from expert environmental consultants, presentations by the company and site visits by NAB’s technical specialists.

The environmental due diligence included ground and surface water investigations, verification of environmental compliance and approvals and a range of extensive environmental impact assessments to evaluate key areas and proper management of areas of cultural significance. The lead environmental consultant for the project helped to verify that the project could meet requirements consistent with the EP and International Finance Corporation (**IFC**) Performance Standards 1 to 8.

Matters to be managed at the mine site include ground disturbance and clearing, impact on dependant ecosystems due to dewatering, and management of saline groundwater. Environmental Protection Authority approvals granted for the project are subject to the implementation of a range of specific conditions and commitments by the Roy Hill Project.

NAB’s project finance as percentages of the total project finance portfolio

Value of NAB’s 106 projects by region



FY14 Equator Principles data

		EP category				
		A	B	C		
Total Equator Principles transactions	Total EP transactions closed between 1 October 2013 and 30 September 2014	2	14	7		
<p>Project finance data The total number of new and refinanced project finance transactions that reached financial close in FY14 was 27. Of these projects, third edition EP (EP III) applied to 23 transactions. (Financial close is defined in the EP as ‘the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived’.)</p> <p>In accordance with EP III reporting requirements, we have provided a breakdown of these 23 project finance transactions by sector, region, country designation and whether an independent review has been carried out during FY14.</p>	By sector	Energy (renewable)	1	3	-	
		Energy (coal and gas-fired)	-	-	-	
		Infrastructure (road, rail, airports, ports, pipelines and telecommunication)	-	5	3	
		Social infrastructure (schools, hospitals, prisons, public buildings)	-	3	4	
		Mining and refining (metals and coal)	-	2	-	
		Water treatment infrastructure	-	1	-	
		Oil and gas	1	-	-	
		By region	Australia and New Zealand	-	12	7
			United Kingdom	-	2	-
			Asia	2	-	-
		By country type	Designated	-	14	7
			Non-designated	2	-	-
		Independent review conducted in accordance with Principle 7	Yes	2	14	4
			No	-	-	3
<p>Project finance project name reporting for the 2014 calendar year In accordance with the reporting requirements of EP III, we have also provided project name reporting for transactions which reached financial close after 1 January 2014 to the end of our FY14 (including September 2014).</p>	Names of projects hosted in Australia in the 2014 calendar year by sector	Infrastructure	Queensland Motorways Limited			
			North West Rail Link PPP			
		Social infrastructure	New Perth Stadium PPP Project			
			Ravenhall Prison PPP			
		Mining	Roy Hill Iron Ore Project			
			Clermont Coal Project			
			Indonesia	Energy – renewables	Sarulla Geothermal Power Project	
	New Zealand	Infrastructure	The Transmission Gully PPP			
		Social infrastructure	Kathleen Kilgour Centre Ltd Partnership			
		Energy – renewables	Middlewick Wind Farm			
<p>Project finance advisory services Five project finance advisory services (as defined in the EP) were mandated between 1 October 2013 and 30 September 2014. All were in Australia or New Zealand.</p>	Number of services mandated by sector in Australia and New Zealand	1	Social infrastructure			
		1	Mining and refining			
		1	Oil and gas			
		2	Other (in FY14, these related to bio-energy generation and biofuels)			

NB. There were no project-related corporate loans (as defined in the EP) that reached financial close during the period 1 October 2013 to 30 September 2014 that required EP application.

NAB teams involved in project finance transactions

Project finance is managed through NAB's Specialised Finance team. From time to time, our Sustainability Governance & Risk (SG&R) team also provides support on specific environmental, social and governance (ESG) risk issues.

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 our 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 our 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 EP implementation. During the credit risk assessment process for corporate and institutional lending, it is our practice to identify potential corporate finance transactions where consideration is given to whether the EP could apply. In the lead up to EP III roll-out, we ran regular meetings with a dedicated working group to ensure all internal stakeholders were aware of new EP III requirements. Our Group credit policy manual (the database for Group credit risk policy) was reviewed and updated accordingly to reflect EP III.

Our Specialised Finance team ensure the EP are applied as required for project

finance. This includes categorisation (A, B or C) of projects.

For project finance transactions, a tailored due diligence is undertaken as required by our general policies. The transaction team will agree the technical, environmental and social scope of work; 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 the transaction team, 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 Specialised Finance or credit teams.

When potential projects occur in non-designated countries (as defined in EP III), this includes applying IFC Performance Standards. During 2014, Standards 5 (Land Acquisition and Involuntary Resettlement) and 7 (Indigenous Peoples) have been particularly relevant, where we have reviewed how our clients are managing the issue of land rights and impacts on local communities.

Loan document covenants are reviewed by the Specialised Finance transaction team, internal legal, and (where appropriate) technical, environmental and social specialists. Our standard facility agreements typically contain covenants sufficient to satisfy EP requirements – where necessary these are amended on a case-by-case basis.

Through our Specialised Finance transaction team we monitor 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 compliance with EP requirements

NAB undertakes an annual internal review of every project finance transaction. This includes targeted site visits by our transaction team and specialist technical resources, as well as independent monitoring where necessary (generally during construction and operations for complex and/or EP Category A projects). We also require 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. Higher risk projects would typically require more frequent reporting so we can check that the project is being developed in accordance with project approvals, project documents, and any additional requirements of the transaction team (in consultation with technical specialists as required).

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 our project finance lending. We also monitor the carbon intensity of our project finance energy generation portfolio as part of our internal management reporting.

Assurance over project finance data

On an annual basis, Ernst and Young (E&Y) independently reviews key project finance data as part of the preparation of our year end reporting. This year, as part of their sample of Corporate Responsibility data, E&Y reviewed our breakdown of project finance data by sector.

IFC performance standards

See http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_pps