



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

## About the Equator Principles

NAB has been a signatory to the **Equator Principles (EP)** since October 2007. NAB has adopted the EP definition of project finance (**PF**) and takes EP requirements into consideration when lending for the purpose of financing specific projects.

## NAB's project finance portfolio

In FY15:

- Project finance represented 1.3% of total NAB Group exposure at default<sup>1</sup> (**EAD**) at 30 September 2015. Of this lending, 99% of projects were in **designated countries** and one per cent were in non-designated countries.<sup>2</sup>
- NAB closed 18 new project finance transactions, refinanced 11 existing deals, and removed 13 deals from our loan book.
- Although transactions can be declined at any stage in negotiation or due diligence, none were declined during the 2015 reporting period specifically on the basis of environmental or social risk issues.

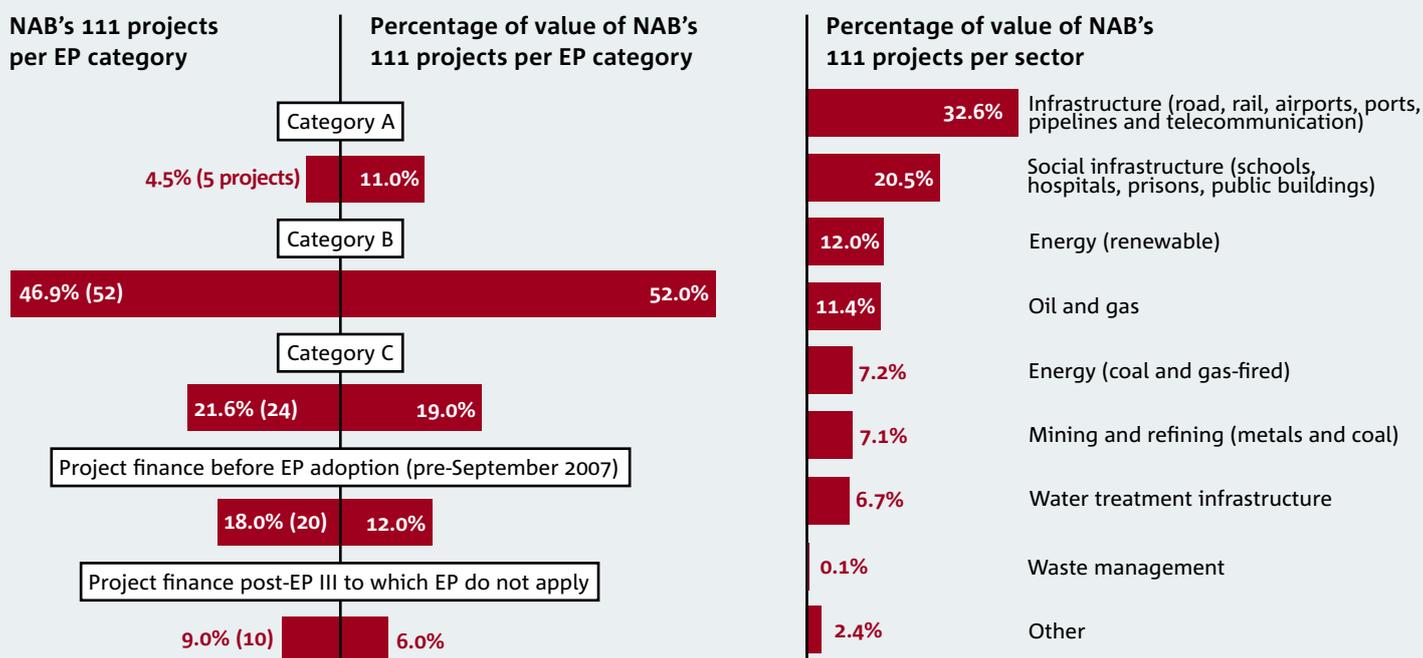
## About NAB

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, 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 2015, ie. FY15.

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



## Project finance for energy infrastructure

NAB has provided project finance to 62% of Australian utility-scale renewable energy projects commissioned since 2000<sup>3</sup>

Having arranged \$2.04 billion worth of loans since 2006, NAB continues to be the leading arranger (by market share)<sup>4</sup> of project finance to Australian renewable energy sector. In 2012, NAB made a public commitment to continue to make a significant investment in renewable energy through project finance.

In FY15, NAB continued to deliver on this commitment, by financing an additional 86.5 megawatts (MW) of renewable energy generation projects, including finance for wind and solar assets in the UK. Our current global portfolio of renewable energy generation projects represents a total generation capacity of 2,785 MW.

To continue to build on this commitment, in FY15, NAB set a new commitment to finance \$18 billion over the next seven years (to 30 September 2022) to help our customers undertake climate change mitigation/adaptation activities, eg. renewable energy generation, energy efficiency (including low carbon property development) and low emission transport.

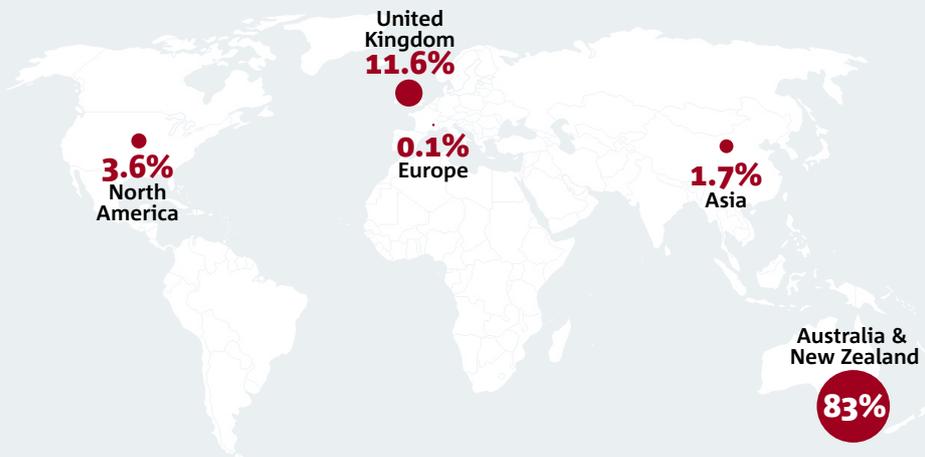
In addition to providing information on megawatts of renewable energy generation financed, in FY15 we also estimated<sup>5</sup> our share of the total Scope 1 and 2 greenhouse gas (GHG) emissions from Australian designated<sup>6</sup> power generation assets we finance in our PF portfolio. We estimate an amount of 1,878,547 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>-e) based on NAB's participation in financing for each facility as a percentage of debt as at 30 September 2015.

### References

1. 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.
2. Non-designated countries are those countries not found on the **list of designated countries** published by the Equator Principles Association.
3. Energy Supply Association of Australia Electricity Gas Australia 2015, Appendix 1 Power Stations in Australia 2013–14 represents NAB (% by deal).
4. Project Finance International 2006-2015 APAC Mandated Lead Arranger League Tables US\$ Project Allocation – NAB analysis ranking the four major Australian banks – cumulative volume as at 30 June 2015.
5. As these GHG emissions are not generated directly by NAB, we have 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. Our methodology involved:
  - identifying the reported Scope 1 and 2 GHG emissions associated with each generation facility NAB project financed in Australia
  - multiplying these emissions by NAB's participation in financing each facility as a percentage of debt as at 30 September 2015
  - aggregating our share of Scope 1 and 2 GHG emissions to get the total tCO<sub>2</sub>-e for the portfolio of power generation assets NAB project financed in Australia.
6. '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 our PF portfolio of Australian designated generation facilities covers 96% of the Australian power generation assets (measured as MW capacity of the power generation facilities) included in NAB Group's PF portfolio. Data for the remaining four per cent of assets (measured as MW capacity of the power generation facilities) was not available.

### NAB's project finance as percentages of NAB's total project finance portfolio

Percentage of value of NAB's 111 projects per region



PF portfolio value is expressed as total committed and uncommitted exposure, as at 30 September 2015, for the purpose of determining the portfolio (%) by region.

## Project finance case studies

This year's case studies on agribusiness, renewable energy and transport sector projects illustrate NAB's implementation of the Equator Principles.

NAB provides project finance across a range of sectors. Where relevant, Project Name data (as defined in the EP) will be reported to the EP secretariat.

### Sydney Light Rail Project (Australia)

The Sydney Light Rail (**SLR**) project comprises two inter-connected light rail services, the CBD South East Light Rail (**CSELR**) and Inner West Light Rail (**IWLR**).

The CSELR involves the construction of a green-field light rail line from Circular Quay to Sydney's south-eastern suburbs. It is approximately 12km in length and there will be a total of 19 light rail stops along the route. Intersection interfaces with traffic will be signalised with a priority arrangement in place to maintain consistency of train travel times.

The IWLR is an existing light rail service that operates into the CBD. It opened on 27 March 2014 following the completion of an extension of circa 5.6km between Lilyfield and Dulwich Hill for a total line length of approximately 12km. Light rail vehicles (**LRV**) travel from the Dulwich Hill terminus north to Lilyfield and thereafter east to Central Station in the CBD. The IWLR is primarily on a dedicated corridor, with the exception of a short length of traffic interface from Haymarket to Central Station.

The SLR is being developed under 'significant State infrastructure' requirements. Its environmental impact statement (**EIS**) was placed on public exhibition from 14 November to 16 December 2013. On 4 June 2014 planning approval was granted for the 'new CBD and South East Light Rail project.'

Key State issues are the management of environmental risks such as surface

water and ground water, land and water ecology, land contamination, air quality, waste management, and handling of industrial waste. The most important environmental aspect of this project is the control of noise and vibration. Minimising noise has an impact on LRV design, the track, and future general maintenance. Other issues that had to be addressed in project design included sustainability with regard to energy/water consumption and materials use.

Design/construct and operations/maintenance contractors maintain environmental management systems certified to international standard ISO 14001, which requires project specific construction and operational environmental management plans.

An independent environmental due diligence review of the EP requirements for the SLR project was undertaken and provided the following conclusions:

- Comprehensive social and environmental assessment had been undertaken by the State.
- Australia is a designated country (as defined by the EP) with regulatory, permitting, and public comment process requirements that meet/exceed IFC performance standard requirements and EHS guidelines.
- The SLR project had undertaken consultation and engagement with various members of the Sydney business community and residents. It is a requirement that during the construction phase that engagement with key stakeholders is maintained.
- The EP assessment resulted in a Category B project designation.

NAB's Technical Services Group (**TSG**) concurred with the EP designation of Category B. Furthermore, based on the environmental and social information provided, TSG considered that the environmental and social risks of the SLR project were relatively low – as long as the project developers and contractors established and maintained good

industry practice, and work in accordance with the project licences and approvals.

### Grange Wind Farm (United Kingdom)

Grange Wind Farm (**GWF**), near Scunthorpe in North Lincolnshire UK, was in the pre-construction phase when NAB UK provided project finance debt (in December 2014). GWF is owned by Blue Energy Group. The project will consist of six Wind Turbine Generators (**WTG**) with a total capacity of 12.3 MW. Overall the project includes low technical-commercial risks and a nominal operational life of 20 years. GWF is being delivered using a multi-contract arrangement with a planned completion date in February 2016. Construction costs are circa £17 million. The project is currently on schedule and within budget.

Although a relatively small project, a full independent technical and environmental due diligence was undertaken in line with NAB Group's PF credit policy.

Planning permission was granted in March 2012 with substantial conditions, of note was the requirement for a construction method statement (**CMS**) to be approved by the local planning authority prior to commencement of the development. The approved CMS is a comprehensive document proposing methodologies for various construction activities including site tracks, foundations, ancillary buildings, pollution prevention, archaeology and drainage. Full implementation of the CMS is expected to ensure construction does not give rise to any non-compliance with the applicable environmental and planning regulations.

Specific environmental and social impact issues managed during project delivery include surveys and protection of ecology, noise monitoring, and controls and a trial transport run over the (main component) haulage route. Planning conditions state that construction can be delayed or rescheduled in order to prevent disturbance to animals or birds.

An archaeological investigation was also included in the approvals for the works and is being implemented accordingly.

No environmental incidents have been reported since works commenced. Multiple audits have been carried out by the ecological 'Clerk of Works'. Environmental monitoring is ongoing for nesting birds and water voles in line with the project's environmental commitments and regulatory requirements.

Independent construction monitoring and reporting is also being provided to NAB on a monthly basis during construction. Monitoring of breeding birds, wintering birds and bats is required for the first two years of operations.

### **Barrhill Chertsey Irrigation (New Zealand)**

Barrhill Chertsey Irrigation Limited (**BCI**) is a New Zealand joint venture between a cooperative of farmers and Electricity Ashburton Limited, and was established to develop and own water irrigation infrastructure assets. The assets comprise distribution systems to deliver water from the Rakaia River in New Zealand's South Island to farmers.

BCI has constructed Stage 1 of the scheme and is now developing new infrastructure (**Stage 2**). Stage 2 provides for extraction of water from the south bank of the Rakaia River near Barrhill and then transports the water approximately seven kilometres by pipeline down the river bank from Barrhill for distribution through irrigation infrastructure to farmers in the Barrhill and Chertsey areas.

New Zealand Resource Consent was applied for in 2013 and granted in 2014

by the Canterbury Regional Council under Section 104 of the NZ Resource Management Act. The Resource Consent covers the construction works, ongoing river management works, and modifications to existing take and use consents (held by BCI) to include for the Stage 2 intake location. The irrigation scheme has been designed within the requirements of the Resource Consent which are included in the project design specification. The project design specification requires the contractor to comply with the Resource Consent conditions which are annexed to the contract for the works.

Availability of water from the Rakaia River is governed by the terms of the (BCI) Resource Consent which imposes minimum river flows at which abstraction can occur based on the National Water Conservation Order (Rakaia). Flow through the scheme is set on a daily basis by downstream irrigators and monitored, in accordance with the Resource Consent, by flow meters. Irrigation reliability assessments have been undertaken by reviewing historical flow records against theoretical scheme demand. This ensures appropriate water remains for environmental flows.

All of the In-River and Plains Distribution works have received Resource Consent approvals. BCI obtained landowner approval to cross road and rail corridors as the work progressed. There is no known existing land contamination as the previous land use has been for agricultural/pastoral activities.

NAB's TSG assessed Stage 2 as a Category B project.

## NAB Group's FY15 Equator Principles data

		EP category			
		A	B	C	
<b>Total Equator Principles transactions</b>	Total EP transactions closed between 1 October 2014 and 30 September 2015	-	7	1	
<p><b>Project finance data</b> The total number of project finance transactions that reached Financial Close<sup>7</sup> in FY15 was 29.<sup>8</sup> Of these transactions, 11 were refinancing existing project finance loans, 10 were for brownfield assets which did not trigger the Equator Principles and eight were for projects which triggered EP requirements.</p> <p>In accordance with the reporting requirements of EP III, the table provides a breakdown of our relevant project finance data with respect to the eight transactions referred to above by sector, region, country designation and whether an independent review has been carried out during FY15.</p>	<b>By sector</b>	Energy (renewable)	-	2	-
	Energy (coal and gas-fired)	-	-	-	
	Infrastructure (road, rail, airports, ports, pipelines and telecommunication)	-	3	-	
	Social infrastructure (schools, hospitals, prisons, public buildings)	-	1	1	
	Mining and refining (metals and coal)	-	-	-	
	Water treatment infrastructure	-	-	-	
	Oil and gas	-	1	-	
	<b>By region</b>	Australia and New Zealand	-	4	1
	United Kingdom	-	2	-	
	North America	-	1	-	
	<b>By country type</b>	Designated	-	7	1
	Non-designated	-	-	-	
	<b>Independent review<sup>9</sup></b>	Yes	-	7	1
No	-	-	-		
<p><b>Project finance project name reporting for the 2015 calendar year</b> In accordance with the reporting requirements of EP III, we have also provided project name reporting for transactions which reached financial close in FY15.</p>	<b>Names of projects hosted in Australia by sector</b>	Infrastructure	2015 – Sydney Light Rail		
			2015 – Toowoomba bypass		
	Social infrastructure	2014 – University of Wollongong Student Accommodation			
		2015 – Northern Beaches Hospital Project			
	<b>New Zealand</b>	Infrastructure	2015 – Barrhill Chertsey Irrigation		
	<b>United Kingdom</b>	Energy – renewables	2014 – A'Chruach Wind Farm		
		2014 – Grange Wind Farm			
<b>United States</b>	Oil and gas	2015 – Freeport LNG Train 3 Liquefaction Project			
<p><b>Project-related corporate loans</b> There was one project-related corporate loan (as defined in the EP) that reached Financial Close during FY15 that required EP application (Category B).</p>	<b>By sector</b>	1	Mining and refining (metals and coal)		
	<b>By region</b>	1	Australia and New Zealand		
	<b>By country type</b>	1	Designated		
	<b>Independent review<sup>9</sup></b>	1	Yes		
<p><b>Project finance advisory services</b> One project finance advisory service (as defined in the EP) was mandated in FY15.</p>	<b>Number of services mandated by sector</b>	1	Water treatment infrastructure (Australia/New Zealand)		

<sup>7</sup> Defined in the EP as the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived.

<sup>8</sup> This is the total for new and refinanced deals regardless of whether the EPs apply.

<sup>9</sup> Conducted in accordance with Equator Principle 7 – Independent Review.

### Personnel involved in PF transactions

PF is managed through NAB's frontline Specialised Finance team and supported by our in-house 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) 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 implementation of the EP. 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. During the lead up to EP III roll-out, NAB ran regular meetings with a dedicated working group to ensure all internal stakeholders were aware of new EP III requirements. NAB's 'Group Credit Policy Manual' (the database for Group credit risk policy) was reviewed and updated accordingly to reflect EP III.

Our 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 PF transactions, a tailored due diligence is undertaken as required by our general policies. For all PF 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 PF transaction, SG&R may also review material relevant to a transaction after referral from either the frontline Specialised Finance team, Credit group, 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**. Standards 5 (Land Acquisition and Involuntary Resettlement) and 7 (Indigenous Peoples) are particularly relevant, when we review how our clients are managing the issue of land rights and impacts on local communities.

Loan document covenants are reviewed by Specialised Finance, NAB Legal, and where appropriate TSG. Standard facility agreements typically contain covenants sufficient to satisfy 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 PF transaction. This includes targeted site visits by our frontline team, TSG, and independent monitoring where necessary (generally during construction and operations for complex and/or 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. A higher risk project typically requires more frequent reporting so we can check 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 PF lending. NAB also monitors the carbon intensity of our PF energy generation portfolio as part of our internal management reporting.

### Assurance over our PF data

On an annual basis, NAB has key PF data reviewed by an independent audit firm. In FY15, this assurance was provided by KPMG. **KPMG provided assurance** over project finance by sector as a proportion (%) of total PF portfolio value, expressed as total committed and uncommitted exposure, as at 30 September 2015.

Further information on the Equator Principles can be found at [www.equator-principles.com](http://www.equator-principles.com).