2020 EQUATOR PRINCIPLES REPORT

1 October 2019 – 30 September 2020

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 2020 and for the 2020 FY ("FY2020").

About the Equator Principles

NAB became a signatory to the Equator Principles[1] ("EP") on 25 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 the communities in which we operate and the environment. Our portfolio of project-related financing plays a big role in supporting Australia and New Zealand's growth. Our current global portfolio of renewable energy projects represents a total generation capacity of 13,684 MW and we have arranged $10.2 billion worth of loans since 2003. Our role as the leading arranger of project finance for Australian renewable energy[2] is helping our customers and community make the low-carbon transition.

In FY2020:

- Project finance represented around 2.2% of total Group Exposure at Default ("EAD")[3] at 30 September 2020. Of this lending, 98% of projects were in designated countries[4] and 2% were in non-designated countries.
- NAB closed 30 new project finance transactions, refinanced 27 existing deals, and removed 7 deals from its loan book.

Transactions can be declined at any stage in negotiation or due diligence. In 2020, only one was declined specifically on the basis of social or environmental risks or 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	6	6
B	86	43
C	24	13
Pre-EP adoption (pre-2007)	8	4
Project finance post EPs III to which EPs do not apply	62	34
Total	**186**	**100**

Figure 1: Project finance portfolio by region as a % of total portfolio value, expressed as EaD (as at 30 September 2020)

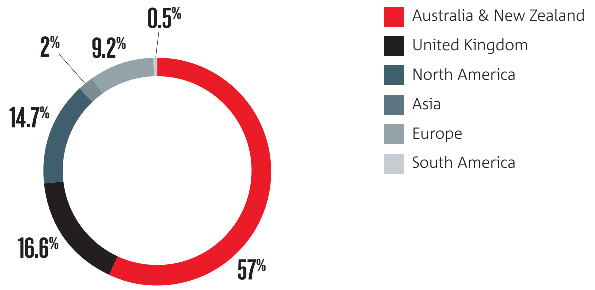
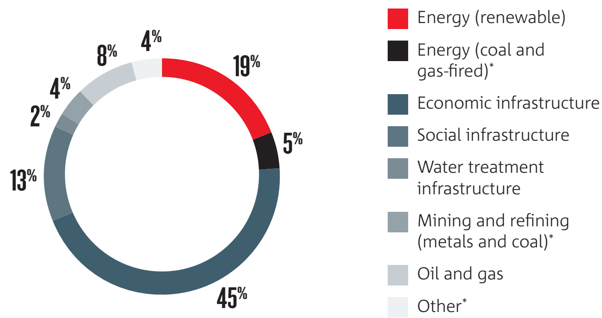


Figure 2: Project finance by sector as a percentage of total portfolio value (expressed as EaD as at 30 September 2020)



The economic infrastructure segment of the project finance portfolio (as Exposure at Default) breaks down into the following key areas:

- Airports – **5.7%**
- Communications, data and metering networks – **13.7%**
- Pipelines & transmission assets – **9.8%**
- Ports – **18.6%**
- Rail – **8.8%**
- Roads & tollways – **23.5%**
- Terminals – **14.5%**
- Other infrastructure – **5.4%**

The social infrastructure segment of the project finance portfolio (as Exposure at Default) breaks down into the following key areas:

- Government buildings – **20%**
- Hospitals and medical centres – **25%**
- Schools – **18%**
- Student accommodation – **16%**
- Other – **21%**

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

Sector	2020	2019	2018	2017	2016
Energy (renewable)	19	19	19	15	11
Energy (coal and gas-fired)*	5	6	5	6	6
Economic infrastructure	45	35	36	37	34
Social infrastructure	13	16	16	19	20
Water treatment infrastructure	2	3	4	4	5
Mining and refining (metals and coal)*	4	7	7	6	8
Oil and gas	8	11	11	10	12
Other*	4	3	2	3	4

*As at 30 September 2020, Exposure at Default for Energy (coal and gas-fired) consisted of around 0.4% coal (co-generation) and 4.6% gas-fired and coal mining was around 1.1% of mining and refining. Of the 4% that constitutes "Other", 0.4% is related to waste management.

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 2020). Cumulative totals are in USD as at 30 September 2020. 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 here. 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

In FY2020, we provided a further $800 million[6] in financing for renewable energy projects, taking the cumulative value of financing provided for renewable energy projects since 2003 to $10.2 billion[6] (measured as committed debt at 30 September 2020). NAB's current global portfolio of renewable energy generation projects represents a total generation capacity of 13,684 megawatts ("MW"). In 2020, NAB financed an additional 4,303 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.

In FY2020, for the first time, sustainability has been anchored in the Group's corporate strategy. This approach will help guide us in addressing some of society's biggest challenges, such as climate change, with commercial responses, sustainable business practices and innovation for the future. We also made progress against our environmental financing commitment[7] reaching a total of: (i) $23.1 billion against the Group's commitment to provide $35 billion to support green infrastructure, capital markets and asset finance by 2025; and (ii) $19.4 billion against the Group's commitment to provide $35 billion in new mortgage lending flow for 6-Star residential housing in Australia (new dwellings and significant renovations) by 2025. In the 2020 financial year, BNZ (NAB's New Zealand-based subsidiary) also made a commitment to provide NZ$10 billion in sustainable financing by 2025.[8]

NAB's project-related 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 31 of our Sustainability Report 2020. A summary of our FY2020 climate-related commitments can be found here on our website and details of our ESG risk policy settings can be found here.

In FY2020, NAB's estimated[9] share of total Scope 1 and 2 greenhouse gas ("GHG") emissions associated with Australian designated[10] generation assets for which NAB provides project finance is 23,351 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 2020 (295,330 tCO_2-e in 2019).

Project finance case studies

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

CASE STUDY – CREATING ENERGY FROM WASTE

NAB is providing project finance for the East Rockingham Resource Recovery Facility ("ERRRF"). It is also funded by the Australian Government's Clean Energy Finance Corporation and Australian Renewable Energy Agency. The facility will have an annual treatment capacity of 300,000 tonnes of waste and an electrical output of 28.9 MW, which is enough to power more than 36,000 homes. The facility will be located in the north of Rockingham Industry Zone, approximately 40 kilometres south of the centre of Perth, Western Australia (WA).

The ERRRF is the second biggest facility of its type. The facility will help to address waste management issues and provide sustainable and affordable electricity. Australia currently disposes of over 23 million tonnes of waste to landfill every year, with Western Australia having the highest waste generation rate per capita coupled with the lowest recovery rate.

As part of NAB's due diligence and credit risk assessment for the project, we reviewed how the project was planning to manage environmental and social risk including environmental approvals and management of water, wastewater, ash, air quality and stakeholder engagement/community consultation. This included site visits in September 2019. The facility will have strict quality control requirements to ensure that non-permissible waste types do not get processed in the facility. The Environment Protection Authority of Western Australia has granted the project full approval. It was also subject to independent external review. Facility construction is expected to take almost three years, with the facility expected to begin operations by the end of 2022. The project was categorised as Category B under the Equator Principles.

6 Amount includes new transactions and re-financing.
7 Represented as a cumulative amount of new environmental finance since 1 October 2015. Refer to the Group's 2020 Sustainability Data Pack for a further breakdown of this number and reference to how the environmental financing commitment is calculated.
8 BNZ's sustainable financing commitment applies to the period from 1 October 2020 to 30 September 2025. The environmental financing component of BNZ's NZ $10 billion sustainable financing commitment will contribute to the Group's $70 billion environmental financing commitment.
9 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 2020. 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.
10 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 91% 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 9% of assets (measured as MW capacity of the power generation facilities) was not available.

CASE STUDY – SUPPORTING RENEWABLE ENERGY IN THE NORDICS

In 2020, NAB UK provided financing for the Fortum and Energy Infrastructure Partners wind farm portfolio. The financing was for a wind farm portfolio of three operational wind farms (46% of the installed capacity) and one wind farm under construction, the 90 Megawatt Kalax Wind Farm in Finland. These assets are part of a wider wind farm portfolio of five wind farm assets planned to be completed by the end of 2020. The total capacity of all five projects is 345.4 MW.

The wind farm portfolio is located across Norway, Finland and Sweden. In 2019, these countries signed the 'Declaration on Nordic Carbon Neutrality' to demonstrate their cooperation to fast-track climate action and to work towards carbon neutrality. All three countries aim to be carbon neutral within the next 25 years; Norway in 2030[11], Finland in 2035, and Sweden in 2045. Sweden also has a target of 100 per cent renewable electricity production by 2040. These projects will contribute to meeting these carbon neutral objectives.

As part of NAB's due diligence and credit risk assessment for the portfolio, we applied the Equator Principles to the Kalax Wind Farm project. We reviewed relevant impacts (in particular, around the construction project) which included details around country specific risks e.g. cold climate, environmental, social and community-related risks. This included key cultural heritage matters relating to reindeer management by local Sami. Appropriate management plans and strategies are in place to manage the impacts identified. We reviewed independent external due diligence reports and ensured that issues identified were addressed appropriately. The construction (and ongoing operational) processes including the intended formal management thereof, for the Kalax Wind Farm, were considered appropriate. The Kalax Wind Farm was categorised as a Category B project under the Equator Principles.

CASE STUDY – PRESERVING WATER RESOURCES THROUGH WASTEWATER TREATMENT

The Cardrona Valley is located in Otago in the South Island of New Zealand, approximately 450 kilometres south west of Christchurch, and 280 kilometres north west of Dunedin. The area is predominately used for recreational skiing. Mt Cardrona Station Ltd (MCS) holds land, consents and easements required to construct and operate a new wastewater plant in Cardrona, as existing wastewater treatment facilities in the Cardrona Valley and Cardrona Alpine Resort are at capacity. Once complete the plant will vest, in and be operated by, the Queenstown Lakes District Council (QLDC).

NAB's New Zealand subsidiary, BNZ, was approached by MCS to provide senior debt facilities and is the sole provider of debt financing for the wastewater treatment facilities.

The wastewater treatment facilities will be constructed in two stages. The first stage of the facilities will treat at least 684 cubic metres per day of peak dry weather wastewater flows and 1,258 cubic metres per day peak wet weather wastewater flows. Future Stages will be developed as demand from MCS and QLDC requires. The land treatment area allows for the discharge of treated water in designated areas. Drains are laid across the designated land treatment area to facilitate water dispersal.

As part of the due diligence and credit risk assessment for the project, we undertook our own technical review and a review of environmental and social requirements for the project including discharge parameters and monitoring requirements, noise and emissions. We applied the Equator Principles to this Project even though it is a small-scale project which did not trigger the Equator Principles threshold. The project was categorised as Category C.

11 2050 domestically and 2030 with international offsets.

NAB Group's FY2020 Equator Principles Compliance Data

The total number of project finance transactions that reached financial close[12] in FY2020 was 57[13]. Of these transactions, 27 were refinancing existing project finance loans, 24 were for operational assets which did not trigger the Equator Principles: 5 were for projects which triggered EP requirements and one was for a small asset to which we applied EP, but which was under the PF trigger threshold requirements.

In accordance with Equator Principles Version III ("EP III")[14] reporting requirements, Table 3 provides a breakdown of NAB's relevant EP project finance data by sector, region, country type and whether an independent review has been carried out during FY2020.

Table 3: Project Finance data for transactions triggering EPs

	Breakdown by Category		
	A	B	C
EP transactions closed during the period 1 October 2019 to 30 September 2020	1	4	1
By Sector	**A**	**B**	**C**
Energy (gas-fired)	0	0	0
Energy (renewable)	0	2	0
Oil & Gas	0	0	0
Infrastructure (road, rail, airports, ports, pipelines and telecommunication, student accommodation)	1	1	0
Infrastructure (water)	0	0	1
Mining and refining	0	0	0
Infrastructure (waste management)	0	1	0
By Region	**A**	**B**	**C**
Australia & New Zealand	0	2	1
North America	1	1	0
UK/Europe	0	1	0
By Country Type	**A**	**B**	**C**
Designated	1	4	1
Non-designated	0	0	0
Independent Review[15]	**A**	**B**	**C**
Yes	1	4	0
No	0	0	1

In accordance with the reporting requirements of EP III, Table 4 provides project name reporting for transactions which reached financial close in FY2020.

Table 4: Project Finance project name reporting

Project Name	Calendar Year	Sector	Name of Host Country
Sydney Metro City & Southwest	2019	Infrastructure (rail)	Australia
East Rockingham Resource Recovery Facility	2019	Infrastructure (waste managment)	Australia
Prospero II Solar Farm	2020	Energy (renewable)	United States
Coastal GasLink Pipeline	2020	Infrastructure (pipeline)	Canada
Kalax Wind Farm	2020	Energy (renewable)	Finland
Cardrona Valley Wastewater Treatment Plant[16]	2020	Infrastructure (water)	New Zealand

Financial close occurred for one Project-Related Corporate Loan (PRCL) provided in FY2020. This was a Category B renewable energy project in Australia, which underwent Independent Review as required by the EP. There was also one Project Finance Advisory Service mandate provided in FY2020 for renewable energy in Australia.

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 Equator Principles IV came into effect on 1 October 2020 and have not been applied to projects and data in this report which covers the FY2020 reporting year – 1 October 2019 to 30 September 2020.
15 Conducted in accordance with Principle 7 – Independent Review.
16 We have included Cardrona Wastewater Treatment Plant as we have applied the EPs even though the transaction was under the EPs threshold. Consent to disclose has been provided.

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 colleagues. From time to time, our ESG Risk Management ("ESGRM") 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 specific credit policy requirements that address 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 ESGRM 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[17]. 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 FY2020, 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 2020.

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

17 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.