national australia bank

2022 Equator Principles Report

1 October 2021 – 30 September 2022

About NAB

National Australia Bank Limited ("NAB") and its controlled entities ("Group") is a financial services organisation that provides a comprehensive and integrated range of banking and financial products and services. The Group has operations based in Australia, New Zealand, the United Kingdom, France, North America and Asia.

Financial year and currency

The Group'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 2022 and for the 2022 FY ("FY2022") unless otherwise stated. All references to currency are in Australian dollars unless explicitly stated.

About the Equator Principles

The Group became a signatory to the Equator Principles[1] ("EP") on 25 October 2007. The Group considers EP requirements when lending for specific projects.

NAB's project finance portfolio

The Group's future depends on acting now for the long term. We're here to serve customers well and help our communities prosper. As a major bank, our business touches almost all areas of the Australian and New Zealand economies. The Group's portfolio of project-related financing plays an important role in supporting Australia and New Zealand's growth, as well as providing key infrastructure in other countries where the Group operates.

Climate action is everyone's job. The Group needs to be part of the solution and support its customers as they take action too. The Group is connected to many parts of the economy through our lending and other banking activities and has an important role to play in financing the low-carbon transition. The Group's current global portfolio of financing for renewable energy projects represents a total generation capacity of 13,157 MW and we have arranged $12.8 billion worth of loans since 2003. Our role as a leading arranger of project finance and the number one Australian bank for global renewable energy transactions[2] is helping the Group's customers and community make the low-carbon transition.

In FY2022:

- Project finance represented around 1.72% of total Group Exposure at Default ("EaD")[3] at 30 September 2022. Of this lending, 98.3% of projects were in designated countries[4] and 1.7% were in non-designated countries.
- The Group closed 27 new project finance transactions, refinanced 33 existing deals, and removed 24 deals from its loan book.

Transactions can be declined at any stage in negotiation or due diligence. In FY2022, 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	8	4
B	72	29
C	23	9
Pre-EP adoption (pre-2007)	7	3
Project finance post EPs III to which EPs do not apply	96	55
Total	**206**	**100**

Figure 1: Project finance portfolio by region as a % of total portfolio exposure (expressed as EaD as at 30 September 2022)

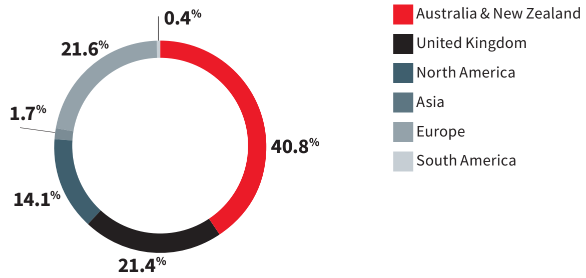
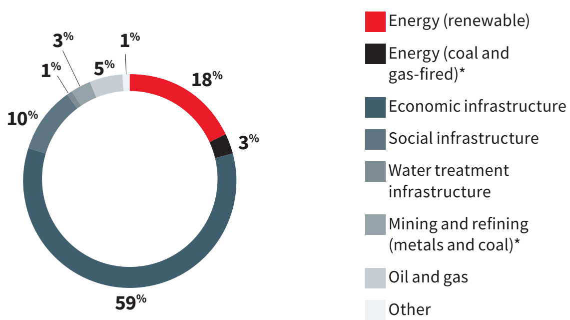


Figure 2: Project finance by sector as a percentage of total portfolio exposure (expressed as EaD as at 30 September 2022)



*As at 30 September 2022, Exposure at Default for Energy (coal and gas-fired) is all gas-fired. The Group's project finance portfolio no longer contains coal-fired power generation projects. Within mining and refining, coal mining is around 1.2% of EaD.

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

- Airports – 9%
- Communications, data and metering networks – 19%
- Pipelines & transmission assets – 17%
- Ports – 14%
- Rail – 4%
- Roads & tollways – 12%
- Terminals – 15%
- Other infrastructure – 12%

1 See http://www.equator-principles.com/ for more information, including the Equator Principles definition of project finance which is used by the Group.
2 Data Source: Rankings based on IJGlobal League Table MLA, Renewables, both cumulative data from 1 Jan 2010 to 30 September 2022 and for the 12 months ending 30 September. Also refer to slide 116 in NAB Group's 2022 Full Year Results Investor Presentation 9 November 2022
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.

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

- Government buildings – 29.2%
- Hospitals and medical centres – 27.6%
- Schools – 20.6%
- Student accommodation – 6.1%
- Other – 16.5%

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

Sector	2022	2021	2020	2019	2018
Energy (renewable)	18	20	19	19	19
Energy (coal and gas-fired)*	3	4	5	6	5
Economic infrastructure	59	48	45	35	36
Social infrastructure	10	13	13	16	16
Water treatment infrastructure	1	2	2	3	4
Mining and refining (metals and coal)*	3	3	4	7	7
Oil and gas	5	7	8	11	11
Other*	1	4	4	3	2

*As at 30 September 2022, Exposure at Default for Energy (coal and gas-fired) is all gas-fired. The Group's project finance portfolio no longer contains coal-fired power generation projects. Within mining and refining, coal mining is around 1.2% of EaD.

Project finance for energy infrastructure

In FY2022, the Group provided a further $1.25 billion[1] in financing for renewable energy projects, taking the cumulative value of financing provided for renewable energy projects since 2003 to $12.8 billion (measured as committed debt at 30 September 2022). The Group's current global portfolio of renewable energy generation projects represent a total generation capacity of 13,157 megawatts ("MW"). In FY2022, the Group financed an additional 991 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 Sustainability Council, which consists of management representatives from across the Group, oversees sustainability-related matters and alignment of activity to the long-term pillar of the Group's strategy. This includes consideration of climate-related opportunities and monitoring and supporting the implementation of the Group's climate change strategy. Updates on implementation of the Group's climate change strategy are reported through to management, executive and the Board. Public disclosure is provided in the Group's 2022 Climate Report and the 2022 Annual Report, page 42.

In FY2022, sustainability continued to be anchored in the Group's corporate strategy. This approach helped guide the Group in addressing some of society's biggest challenges, such as climate change, with commercial responses, sustainable business practices and innovation for the future.

As part of our climate strategy, NAB and BNZ are supporting customers to decarbonise, build their climate resilience and help achieve the goals of the Paris Agreement. The Group has adopted a whole-of-bank approach by developing sustainable product offerings across divisions to support customers to reduce their emissions. Further, in 2020, NAB set a target to work with 100 of its largest GHG emitting customers by September 2023 to support them as they developed or improved their transition plans. 86 transition maturity assessments have been completed for these customers as at 30 September 2022[2].

In FY2022, the Group met and exceeded its target to provide a cumulative flow of new environmental financing activities of $70 billion over the ten years to 30 September 2025 (off a 2015 baseline) to help address climate change and support the transition to a low-carbon economy. In FY2022, this totalled $70.8 billion which consisted of (i) $40.7 billion to support green infrastructure, capital markets and asset finance; and (ii) $30.1 billion in new mortgage lending flow for 6-Star residential housing in Australia (new dwellings and significant renovations). In FY2020, BNZ (NAB's New Zealand based subsidiary) also made a commitment to provide NZ$10 billion in sustainable financing by 2025.[3] So far, BNZ has achieved NZ $2.9 billion towards this goal.

The Group's project-related lending contributes significantly to achieving the Group'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 the Group's progress against its environmental financing commitment can be found on the Financing tab of our 2022 Sustainability data pack and 2022 Climate Report (page 34). A summary of our climate-related commitments can be found here on the Group's website and details of our ESG risk policy settings can be found here.

In FY2022, the Group's estimated[4] share of total Scope 1 and 2 greenhouse gas ("GHG") emissions associated with Australian designated[5] generation assets for which NAB provides project finance was 26,362 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 2022 (45,144 tCO_2-e in 2021).

1 Amount includes new transactions and re-financing.

2 Data source: refer to page 6 of NAB Group's 2022 Climate Report. Also refer to slides 116 and 117 of the 2022 Full Year Results Investor Presentation 9 November 2022.

3 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 contributed to the Group's $70 billion environmental financing commitment.

4 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 2022. 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.

5 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 100% of the Australian power generation assets (measured as MW capacity of the power generation facilities) included in NAB's project finance portfolio.

Project finance case studies

The Group provides finance for projects across a range of sectors. This year's project finance case studies feature examples of finance for a wind farm, a solar farm and a metallurgical coal mine. These case studies illustrate the Group's implementation of the Equator Principles.

Case Study – Panorama Wind Farm

Reducing greenhouse gas emissions and a State-wide transition to clean energy are integral to Colorado's goal of having fully renewable energy generation by 2040 and aligns with the United States' pledge to achieve carbon neutrality by 2050. Financing of renewable energy projects, like Panorama wind farm, is part of the Group's climate strategy to act as a catalyst for climate action, supporting emissions reduction and aligning with the pathways to net zero by 2050.

NAB provided construction and term financing to the Panorama wind farm project. The wind farm is owned by Leeward Renewable Energy LLC (LRE) and is located in Weld County, Colorado. The wind farm has 66 wind turbines with the capacity to generate 145 megawatts (MW) of power. The wind farm, in partnership with Guzman Energy, a wholesale power provider in North America, will provide renewable energy to approximately 53,000 homes or businesses across Colorado and New Mexico. The project was well into the construction phase at the time NAB provided finance and was completed on schedule during 2022.

NAB undertook independent technical review of the arrangements in place to identify and manage environmental and social risks as part its ESG risk assessment and due diligence process during its credit risk assessment for the project. NAB's due diligence included independent external review to ensure relevant risks and issues were identified and appropriately managed. The project was categorised as a Category B under the Equator Principles.

Case Study – Gemini Solar Farm

In 2022, NAB (acting through its New York branch) provided debt financing facilities to Primergy's Gemini solar projects. It is one of the biggest solar and energy storage project in the United States located in Clark County, Nevada, 48 km North-East of Las Vegas. The total project capital investment will be around US $1.2 billion. The project has a 690MW solar array and a 380MW battery system capable of storing more than 1,400MWh of solar power. The power generated by the Gemini solar project will go directly to the Las Vegas electricity grid and beyond, supplying affordable, renewable energy for residents and businesses, and reducing pollution and greenhouse gas emissions in the county.

The project also features a battery energy storage system that will provide a consistent, dispatchable energy resource designed to ensure that power needs are met during peak demand in Nevada. This system can store up to 1,416MWhr of power, enough electricity to power 400,000 homes during super peak periods. The project is estimated to displace 1.5m tonnes of carbon dioxide annually and is expected to create around 1,300 jobs during the construction phase, with completion expected in 2023.

As part of NAB's due diligence and credit risk assessment for the project, NAB reviewed the arrangements in place to identify and manage environmental and social risks. Due diligence included independent external review to identify relevant risks and issues and their management. This included environmental risks related to land use, pollution and environmental discharge, habitat and wildlife conservation including impacts on migratory species, wetlands and waterways, noise and visual impacts. Social risks included consideration of impacts on Indigenous peoples and cultural resources. The project has obtained relevant permits and approvals which have addressed the key impacts associated with the project. The construction and operation processes, including the management of the project risks, were assessed as being appropriate. The project was categorised as a Category B project.

The environmental impact assessment process for the project identified risks to the desert ecosystem flora and fauna. As a result, Primergy has dedicated resources to minimise the physical footprint of the project, including establishing a partnership with biologists to create a Desert Tortoise Relocation Plan that monitors, cares for, and plans to reintroduce, the protected species back into its natural habitat once construction is complete. Primergy's construction processes aim to minimise environmental impact through taking actions such as establishing narrow road corridors into the project site and building appropriately spaced, raised rows of solar modules to ensure around 80 percent of the land on site remains open to the sky.

From a social risk perspective, the project has an agreement in place with the Moapa Band of Paiute Indians, who are one of Primergy's primary partners. The project relies on their leadership and participation. The Moapa Band have 20 years of experience in solar energy development, including having been involved in the first large-scale solar project ever built on tribal trust land. They provide generational knowledge of the land on which the project is being constructed and a valuable perspective, as landowners, project neighbours, and experts in regional infrastructure development. Additionally, tribal members are participating in the development by working as equipment operators, biological monitors, and cultural monitors to name a few key roles. The Moapa Band's community equity partnership is critical to project success.

Case Study – Biodiversity Monitoring at Olive Downs

The Group recognises that currently there are no commercially available substitutes for the use of metallurgical coal in steel production. Therefore, we continue to provide finance to customers in this segment, subject to enhanced due diligence which further considers underlying environmental, social and governance risks.

NAB provided debt facilities to Pembroke Resources for the Olive Downs coking coal project (“the project”), a greenfield open cut metallurgical coal mine, located in an existing mining region within the Bowen Basin in Queensland, approximately 40km South-East of the town of Moranbah. The project involves developing a metallurgical coal resource within the Bowen Basin mining precinct which will deliver up to 15 million tonnes of metallurgical coal per annum. The coal extracted from the mine will be transported by rail to the Dalrymple Bay coal terminal for export to key international markets including Japan, South Korea and India. Construction of the mine is expected to take more than 18 months.

As part of NAB’s due diligence and credit risk assessment for the project, an independent technical review was undertaken which included looking at the environmental and social requirements of the project. NAB reviewed a broad range of information including, but not limited to, environmental and social impact assessments and work completed, in progress or planned relating to:

- biodiversity – this included baseline studies for threatened species (including koalas and greater gliders) and rehabilitation planning to contribute to a more stable and sustainable landform that supports future grazing and returns mining areas to woodland vegetation and habitat;
- cultural heritage management – this included looking at: (i) plans to manage impacts on Aboriginal cultural heritage and agreements reached with the Barada Barna People for managing cultural heritage, and (ii) the Indigenous Land Use Agreement (ILUA) with the Barada Barna Aboriginal Corporation as the traditional owners of the land on which the Olive Downs project will be developed. This agreement provides for a commercial benefits package for the entire life of the mine and includes:
  - certain upfront and annual monetary payments into a trust for the Barada Barna native title holders;
  - training and employment programs for members of the Barada Barna community;
  - community, Indigenous peoples, and other stakeholder engagement;
  - water resource impacts and management planning; and
  - waste management planning.

This project was categorised as a Category A project under the Equator Principles.

Pembroke Resources is working to create new, higher standards in the mining industry through its development of the Olive Downs Complex, including through the ethics permits Pembroke Resources now have in place. All aspects of Pembroke Resources’ ESG initiatives, including biodiversity programs, have been embedded into Pembroke Resources’ core business well before any on-site activity, and even prior to the granting of formal approvals.

Pembroke Resources has applied the mitigation hierarchy to the decisions it has made in its business. This is particularly evident with respect to the planning, development and implementation of the baseline and monitoring program for threatened species, both flora and fauna, in the vicinity of mining operations.

Mitigation Hierarchy

The Olive Downs Complex has been planned from the ground up with the environment in mind.

Avoid	Mitigate	Manage	Remediate & Rehabilitate
Avoid direct and indirect adverse impacts where possible through project design	Mitigate direct and indirect adverse impacts where impacts cannot be avoided through actions	Implement management actions to prevent or reduce impacts over a longer timeframe	Actively remediate and rehabilitate impacted areas to promote and maintain long- term recovery

One of the key components of the Pembroke Resources' baseline biodiversity program is the Icon Initiative. This is a purpose-built program developed to contribute to the research, conservation and protection of the greater glider and koala on several levels, including locally, regionally and nationally.

It is a multifaceted program that identifies the active location of all koalas and greater gliders in a surveyed area utilising latest technologies and techniques such as infrared drones and elevated work platforms to physically survey all habitat trees. Once located, the individual animals are transported to the purpose-built on-site koala and greater glider clinic for thorough health checks by a team of specialised wildlife veterinarians, nurses and ecologists.

Once a clean bill of health is given, a range of samples and measurements are taken and the animals are tagged and released. Intensive real-time monitoring is undertaken utilising a purpose-built bio-telemetry system allowing the specialist team to monitor from anywhere in the world. It is the first time this level of intensive baseline monitoring and management of these two threatened species has been undertaken in Australia (based on ethics permits received).

Pembroke Resources has developed a three-phase clearing protocol for development of the mine. This includes:

- ***Koala Surveys*** – The dedicated koala specialist team utilise infrared drones during night surveys to locate all koalas within the survey area. Results indicate this technique has a 100% success rate in locating koalas within an identified zone. Once the koalas are located and health checks are undertaken, they are tagged and released to be monitored through the Icon Initiative.

Member of the specialist wildlife team in the Pembroke Resources greater glider & koala clinic collecting koala data

- ***Ecology Surveys*** – The ecology team undertakes day and night surveys to identify the presence of greater gliders as well as every habitat tree which may be housing endangered species, particularly the greater glider. Each identified habitat tree is marked to be checked.
- ***Fauna Spotter Catcher Surveys*** – During the third phase, Fauna Spotter Catchers (FSCs) utilise elevated work platforms and snake cameras to check every hollow of the habitat trees marked by the ecology team. Any gliders located are transported to the veterinarian clinic for health checks and tagging. They are then released to be monitored through the Icon Initiative. Any other species found are also removed and relocated to conservation areas.

The tagging and tracking of greater gliders is paramount to the research, conservation and protection of the species

After the three-phase clearing protocol has been completed, then the dozer operators begin activities under the instructions of the FSCs.

The above initiatives and protocols form just one part of Pembroke Resources' broader Biodiversity Program. Another part of the program is the biodiversity conservation activities which include:

- an 8,000 hectares biodiversity conservation area;
- facilitating the reconnection of high value regrowth, which has been historically cleared for cattle farming, through rewilding activities with preference to vegetation species for koala and greater glider habitat and food;
- performance indicators for the long-term revegetation of rehabilitation zones;
- koala protection fencing to ensure the safe movement of koalas within the conservation zones and separating them from any activities to eliminate the risk of direct interactions with mining operations;
- nest boxes program including installation of 500 nest boxes constructed of various materials;
- remote monitoring of greater gliders and koalas, utilising purpose-built programs and infrared cameras
- installation of koala and greater glider movement controls, such as rope ladders and natural hides;
- removing and replacing barbed wire across entire land holdings; and
- contributing much needed information to research through health checks, collection of samples and tagging and monitoring of the koala and greater glider populations.

The research program aims to provide vital information into the behaviours of greater gliders, particularly on the successful translocation of the species. Any success Pembroke Resources has in this process can be used as a precedent for future research and could be used nationally to help foster greater glider survival.

The Group's FY2022 Equator Principles Compliance Data

The total number of project finance transactions that reached financial close[1] in FY2022 was 60[2] . Of these transactions, 33 were refinancing existing project finance loans, 23 were for operational assets which did not trigger the Equator Principles: 4 were for projects which triggered EP requirements.

In accordance with Equator Principles Version IV ("EP IV")[3] reporting requirements, Table 3 provides a breakdown of The Group's relevant EP project finance data by sector, region, country type and whether an independent review has been carried out during FY2022.

Table 3: Project Finance data for transactions triggering EPs

	Breakdown by Category		
	A	**B**	**C**
EP transactions closed during the period 1 October 2021 to 30 September 2022	1	3	0
By Sector	**A**	**B**	**C**
Energy (gas-fired)	0	0	0
Energy (renewable)	0	2	0
Oil & Gas	0	1	0
Infrastructure (road, rail, airports, ports, pipelines, and telecommunication)	0	0	0
Social Infrastructure (schools, hospitals, prisons, and public buildings)	0	0	0
Infrastructure (water)	0	0	0
Mining and refining	1	0	0
Infrastructure (waste management)	0	0	0
By Region	**A**	**B**	**C**
Americas	0	2	0
Europe, Middle East & Africa	0	0	0
Asia Pacific	1	1	0
By Country Type	**A**	**B**	**C**
Designated	1	3	0
Non-designated	0	0	0
Independent Review [4]	**A**	**B**	**C**
Yes	1	3	0
No	0	0	0

In accordance with the reporting requirements of EP IV, Table 4 provides project name reporting for transactions which reach financial close in FY2022.

Table 4: Project Finance project name reporting

Project Name	Calendar Year	Sector	Name of Host Country
Panorama Wind Farm	2021	Energy (renewable)	USA
Olive Downs	2021	Mining (coal)	Australia
Pluto Train 2	2022	Oil & Gas	Australia
Gemini Solar Project	2022	Energy (renewable)	USA

In addition, there was one project-related corporate loan, and no refinance transactions or acquisition transactions which triggered the EP. The Group no longer offers project-related advisory services.

Table 5: Project-related Corporate Finance data for transactions triggering EPs

	Breakdown by Category		
	A	**B**	**C**
EP transactions closed during the period 1 October 2021 to 30 September 2022	0	0	1
By Sector	**A**	**B**	**C**
Energy (gas-fired)	0	0	0
Energy (renewable)	0	0	0
Oil & Gas	0	0	0
Infrastructure (road, rail, airports, ports, pipelines, and telecommunication)	0	0	0
Social Infrastructure (schools, hospitals, prisons, and public buildings)	0	0	1
Infrastructure (water)	0	0	0
Mining and refining	0	0	0
Infrastructure (waste management)	0	0	0
By Region	**A**	**B**	**C**
Americas	0	0	0
Europe, Middle East & Africa	0	0	0
Asia Pacific	0	0	1
By Country Type	**A**	**B**	**C**
Designated	0	0	1
Non-designated	0	0	0
Independent Review [5]	**A**	**B**	**C**
Yes	0	0	0
No	0	0	1

1 Defined in the EP as "the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived".
2 This is the total for new and refinanced deals regardless of whether the EP apply.
3 Equator Principles IV came into effect on 1 October 2020 and have been applied to projects and data in this report which covers the FY2022 reporting year – 1 October 2021 to 30 September 2022.
4 Conducted in accordance with Principle 7 – Independent Review.
5 Conducted in accordance with Principle 7 – Independent Review.

Personnel involved in project finance transactions

The Group's Corporate & Institutional banking client facing teams originate project finance and project-related corporate loans. These origination teams are supported by Client Management and Execution ("CME"), Credit Decisioning and ESG Risk Management ("ESGRM") teams. The ESGRM team provides Environmental, Social and Governance ("ESG") and EP subject matter expertise.

EP implementation

At the heart of the Group's strategy is the ambition to serve customers well and help our communities prosper. The Group 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, biodiversity loss, ecosystem degradation and impacts on local and Indigenous communities. To assist in managing these issues, the Group has a set of ESG Risk Principles which provide an overarching framework for integrating ESG risk considerations into the Group's day-to-day decision-making.

The Group 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 the Group's general ESG risk policies and practices, the Group has specific 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 project finance and corporate finance transactions where the EP could apply. The Group's EP policy reflects EP IV requirements.

For relevant project and corporate finance transactions, tailored due diligence is undertaken as required by the Group's general credit policies and the Group's EP Policy. This includes categorisation (A, B or C) of projects.

The relevant origination team will typically 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 as part of their preparatory work on a transaction. The extent of NAB's or BNZ's involvement in scoping the environmental and social due diligence requirements will vary with NAB's or BNZ's role in a syndicate (whether we have a lead role or not) and the type of transaction/finance involved.

Independent environmental and social experts may be used to assist the origination teams, 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 origination deal team, CME or Credit team.

As project-related lending usually involves a syndicate of banks, it is the Group'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 IV), this includes applying IFC Performance Standards[1]. Standards 5 (Land Acquisition and Involuntary Resettlement) and 7 (Indigenous Peoples) are particularly relevant when reviewing how the Group's clients are managing land rights, Indigenous rights and the associated impacts on local communities.

Loan documentation covenants are reviewed by the relevant transaction team, and where appropriate, NAB or BNZ legal teams. Standard facility agreements typically contain covenants sufficient to satisfy the EP covenant requirements – where necessary these are amended on a case-by-case basis.

The transaction team 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

At a minimum, the Group undertakes an annual review of every EP transaction. This may include site visits by the relevant transaction team (and may also include Credit and ESGRM colleagues) and independent monitoring where necessary (generally during construction and operations for complex and/or Category A projects).

The Group also requires the client to provide reports on general construction and operational compliance. The frequency and scope of this reporting is based on the risk associated with a project – for example, it may be monthly, quarterly, half-yearly or annually. A higher risk project typically requires more frequent reporting so the Group can monitor that it is being developed in accordance with project approvals, project documents and any additional requirements of the relevant Group transaction team.

Reporting to management

The Group's executive committee and board of directors receive reports on the Group's lending book exposure to a list of industry sectors with potentially higher ESG risk sensitivities (as designated by the Group internally), such as mining and energy generation. This reporting includes project-related lending. The Group also monitors the carbon intensity of its project finance energy generation portfolio and has publicly disclosed interim decarbonisation targets for priority sectors developed to satisfy the requirements of the Group's commitments under the Net Zero Banking Alliance.

1 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.

Training

In FY2022, the ESG Risk Management Team, in collaboration with the Corporate & Institutional Banking (C&IB) Division Training, Change and Client Management and Execution teams, ran EP refresher training for relevant C&IB colleagues on EP implementation. This covered scope of application, project categorisation and other EP requirements.

Reporting methodology

The Group produces data and provides case studies to meet EP reporting requirements associated with Principle 10 and to demonstrate implementation of the EP. The project finance data published in this report represents the Group's identified project finance portfolio managed by C&IB Division and BNZ. The project finance portfolio data is validated and reconciled through interviews and data checks with colleagues across NAB's offices in Australia, New York and London and BNZ in New Zealand. The Group's project finance portfolio is segmented in a variety of ways to produce the data.

Assurance over project finance data

On an annual basis, the Group has key project finance data reviewed by an independent audit firm. In FY2022, this assurance was provided by KPMG. KPMG provided assurance over: (i) project finance by sector as a proportion (%) of total project finance portfolio value, expressed as EaD, for the year ended 30 September 2022; and (ii) estimated[1] share of total Scope 1 and 2 GHG emissions associated with Australian designated[2] generation assets for which NAB provides project finance.

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

1 Refer to Footnote 4 on page 3.

2 Refer to Footnote 5 on page 3.