SUSTAINABLE FINANCE AND OPPORTUNITIES FOR FINANCING SOCIAL INFRASTRUCTURE

MARCH 2022

DAVID JENKINS
GLOBAL HEAD OF SUSTAINABLE FINANCE
NATIONAL AUSTRALIA BANK

IPFA

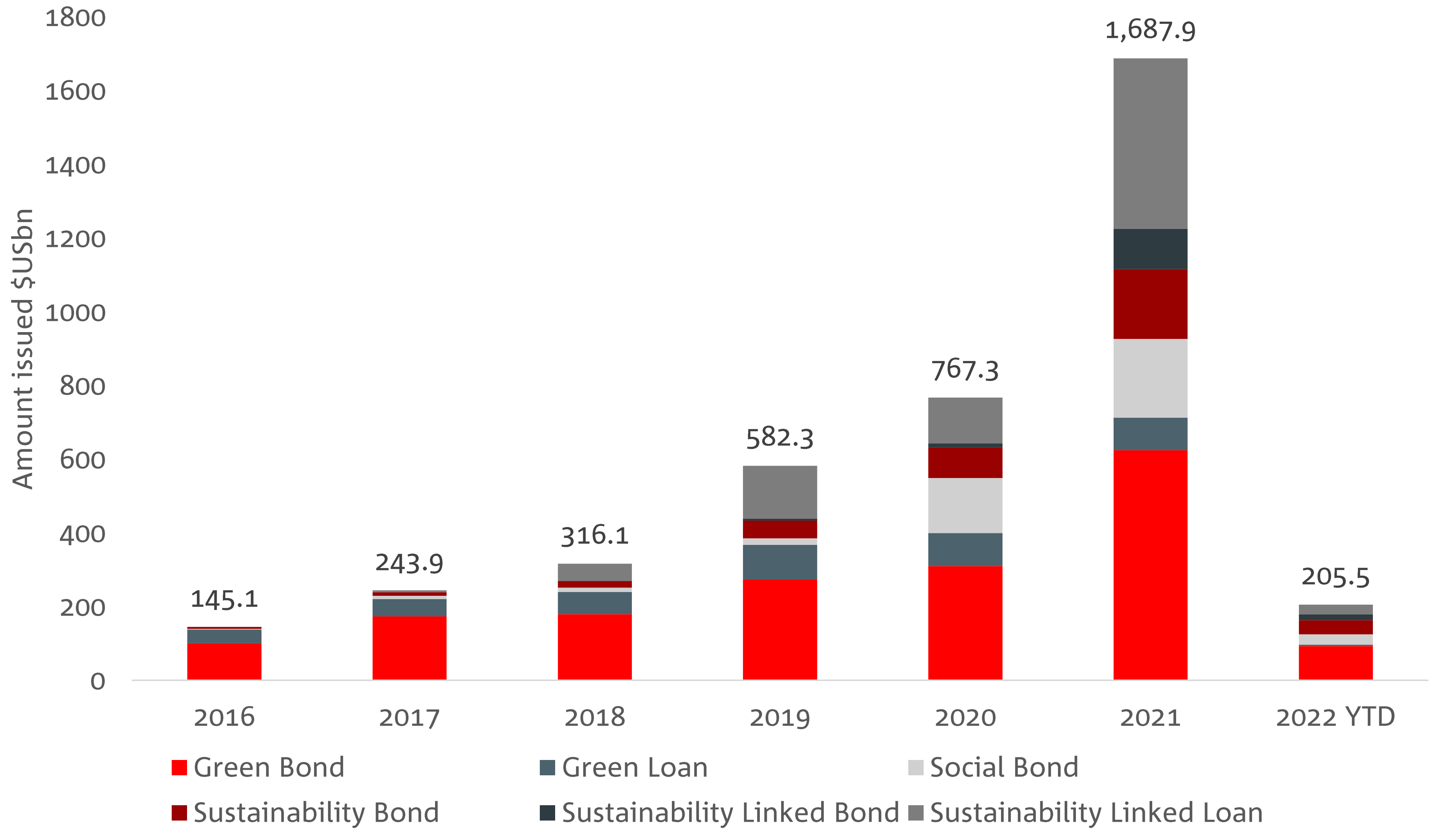
nab

SUSTAINABLE FINANCE

Year-to-Date Update

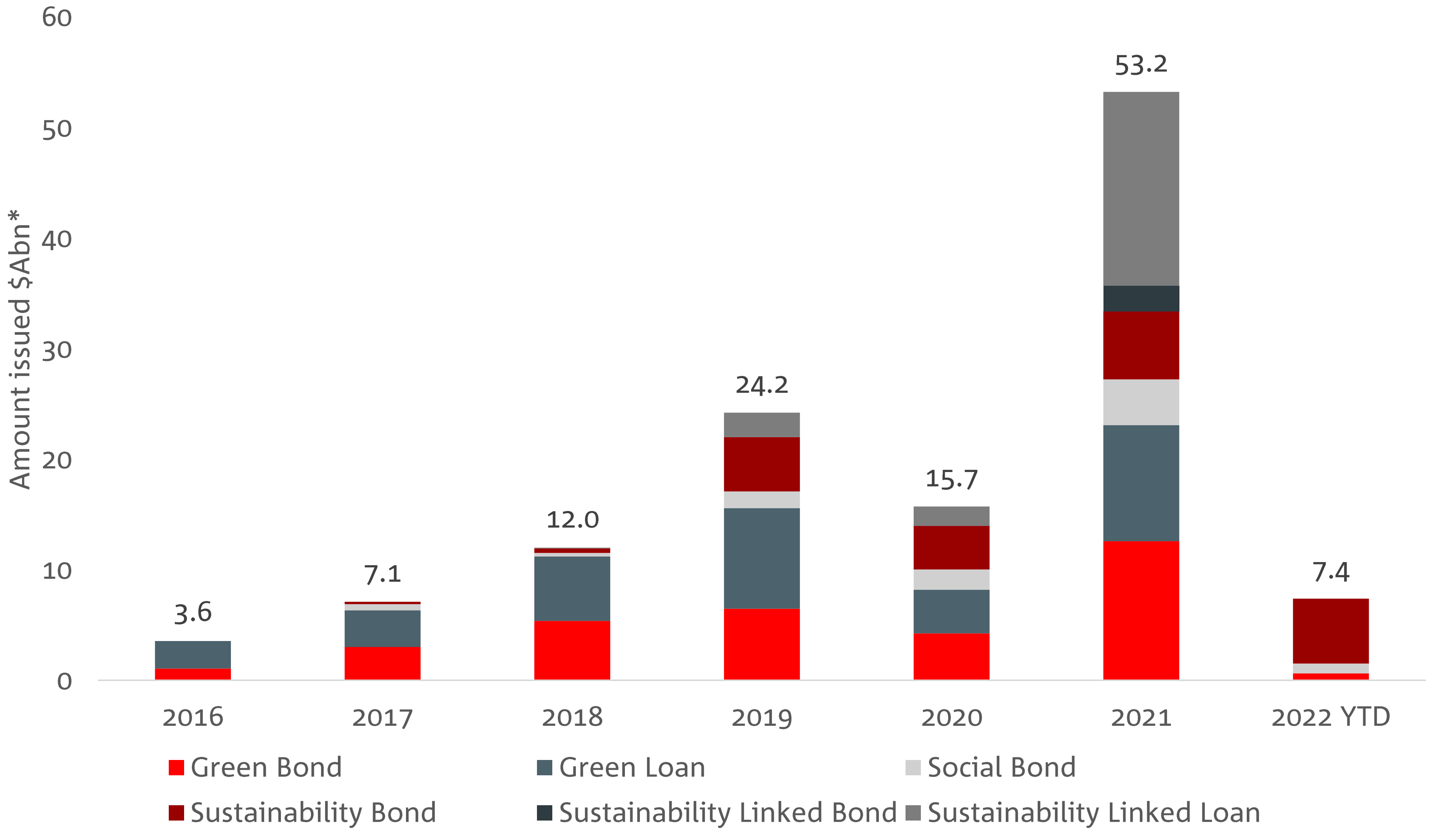
GLOBAL SUSTAINABLE DEBT ANNUAL ISSUANCE

- According to Bloomberg New Energy Finance, US$205.5bn of sustainable debt was issued in the year to date (Feb 2022), this is slightly lower compared to US$217.5bn issued during the same period in 2021.
- Green bonds continue to be the most popular format accounting for ~45% of total sustainable debt issuance, followed by sustainability bonds comprising ~19%.



AUSTRALIAN SUSTAINABLE DEBT ANNUAL ISSUANCE

- A$7.4bn of sustainable debt was issued in the Australian market in the year ending 28 February 2022, over double the amount issued during the same period in 2021.
- Sustainability bonds made up the majority of debt issued with a total volume of A$5.9bn. The main issuers of these bonds were government entities and supranationals.



Source: BNEF Sustainable Debt Tool – February 28, 2022
*RBA AUD/USD historical monthly exchange rate – February 28, 2022

SUSTAINABLE FINANCE IS EVOLVING

PROCEEDS BASED DEBT

GREEN BONDS[1] AND GREEN LOANS[2]

Debt instruments labelled as green bonds or green loans, with proceeds earmarked to finance/refinance 'green' projects & expenditures that deliver **positive environmental benefits**.

SOCIAL BONDS[3] AND SOCIAL LOANS[4]

Debt instruments labelled as social bonds or social loans, with proceeds earmarked to finance/refinance projects & related expenditures that deliver **positive socio-economic outcomes**.

SUSTAINABILITY BONDS & LOANS[5]

Proceeds earmarked to finance/refinance a **combination of green and social projects that deliver positive environmental benefits and socio-economic outcomes**.

Other proceeds based deal types:

- Green Securitisation
- Green Funds
- Green CP
- SDG Bonds
- Green Hybrids
- Social RMBS
- Social Hybrids

BEHAVIOUR BASED DEBT

SUSTAINABILITY LINKED LOANS[6] AND BONDS[7]

Sustainability Linked Loans ("SLL") or Sustainability Linked Bonds ("SLBs") are any types of debt instrument and/or contingent facility (such as bonding line, guarantee line or letter of credit) which incentivise the client's achievement of ambitious, predetermined sustainability performance objectives.

The use of proceeds in relation to a SLL or SLB is not a determinant in its categorisation and, in most instances, sustainability linked loans will be used for **general corporate purposes**.

Other behaviour based deal types:

- Sustainability Linked Derivatives
- Sustainability Linked Trade and Supply Chain Finance

1. LMA/APLMA's Green Loan Principles
2. ICMA's Green Bond Principles
3. LMA/APLMA's Social Loan Principles
4. ICMA's Social Bond Principles
5. ICMA's Sustainability Bond Guidelines
6. LMA/APLMA and LSTA's Sustainability Linked Loan Principles
7. ICMA's Sustainability-Linked Bond Principles

SOCIAL LOANS & SOCIAL BONDS

Use of proceeds based

Social Loans/Bonds are any type of financing instrument where the proceeds will be exclusively applied to finance or re-finance existing eligible **Social Projects**. Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a defined target population(s).

SOCIAL LOAN & BOND PRINCIPLES – THE 4 CORE COMPONENTS

1. Use of Proceeds

All eligible Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the client.

2. Process for Project Evaluation & Selection

The client should clearly communicate their selection process, social objectives, eligibility criteria, and any complementary information.

3. Management of Proceeds

The client is encouraged to establish an internal governance process through which they can track the allocation of funds towards Social Projects.

4. Reporting

The client should make and keep readily available up to date information on the use of proceeds to be renewed annually until fully drawn/allocated, and as necessary thereafter in the event of material developments.

Review

Pre-issuance external review is recommended which may be:

- **Verification**: alignment with internal standards or claims.
- **Second Party Opinion**: pre-issuance external review of Framework and transactions for alignment with SLB/SLP.

FOOD SECURITY

AFFORDABLE HOUSING

SOCIOECONOMIC ADVANCEMENT & EMPOWERMENT

EMPLOYMENT GENERATION

ACCESS TO ESSENTIAL SERVICES

AFFORDABLE BASIC INFRASTRUCTURE

Example target populations:

- Living below the poverty line
- Excluded and/or marginalised populations and/or communities
- People with disabilities
- Migrants and/or displaced persons
- Aging population and vulnerable youth
- Underserved, owing to a lack of quality access to essential goods and services
- Unemployed
- Women and/or sexual and gender minorities
- Other vulnerable groups, including as a result of natural disasters
- Undereducated

LMA/APLMA Social Loan Principles; ICMA Social Bond Principles

SUSTAINABILITY LINKED LOANS & BONDS
Behaviour based

Sustainability Linked Loans/Bonds are general corporate purpose financings which incentivise borrowers/issuers to achieve material, ambitious, pre-determined and externally verified sustainability performance improvements through the life of the facility as determined by performance against material KPIs with ambitious and credible SPTs.

SUSTAINABILITY LINKED LOAN PRINCIPLES – THE 5 CORE COMPONENTS

1. Selection of Key Performance Indicators (KPIs)

- KPIs should be material to the client's core sustainability and business strategy, and address relevant environmental, social and/or governance ("ESG") challenges of the industry sector.
- Loan: 3 to 5 KPIs to demonstrate comprehensive coverage of material sustainability issues. Bond: typically 1 to 2 KPIs.

2. Calibration of Sustainability Performance Targets (SPTs)

- SPTs should be set in good faith and remain relevant (so long as they apply) throughout the life of the loan.
- SPTs express the level of ambition the client is ready to commit to and should encourage positive change.

3. Loan Characteristics

- Loan: economic outcome is linked to whether the selected predefined SPT(s) are met, typically a two way adjustment mechanism.
- Bond: financial and/or structural outcome linked to whether the selected SPT(s) are met on a test date, typically a coupon variation.

4. Reporting

- The client should keep readily available up-to-date information sufficient to monitor performance of the SPTs and to determine that the SPTs remain ambitious and relevant.
- Such information should be made available at least once per annum.

5. Verification

- The client should seek independent and external verification of performance level against each SPT for each KPI, at least annually.
- Verification in the form of a Second Party Opinion is strongly recommended to demonstrate ambition and maximise credibility.

LMA/APLMA Sustainability Linked Loan Principles; ICMA Sustainability Linked Bond Principles

DEVELOPING KPIS & SPTS
Materiality & Ambition

In an SLL and SLB, the borrower is incentivised to improve their sustainability performance through the life of the instrument using predefined sustainability performance targets (SPTs), which are measured against material Key Performance Indicators (KPIs).

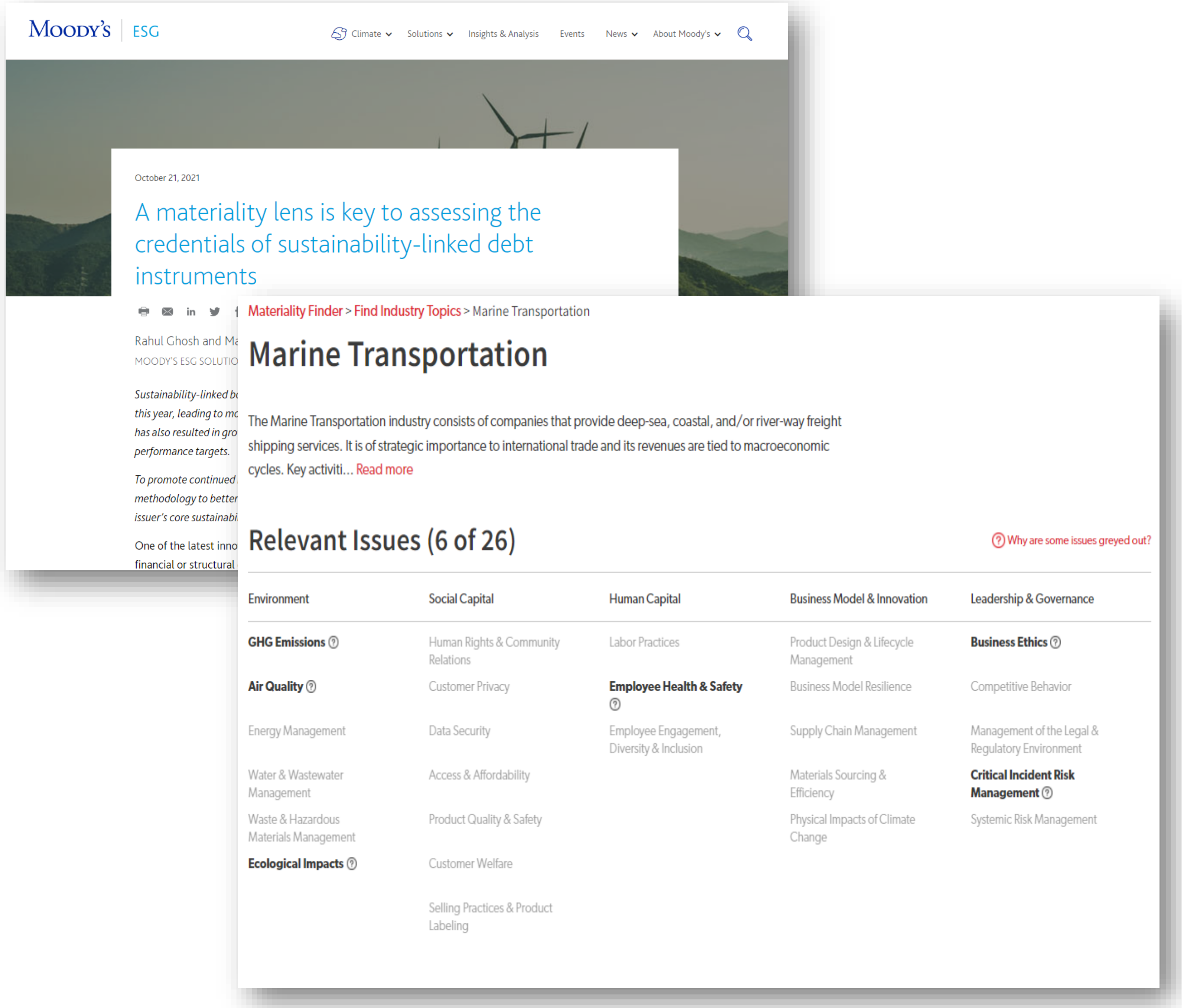
KEY PERFORMANCE INDICATORS

The credibility of the sustainability linked debt market hinges on the selection of appropriate KPIs and SPTs. Key to this is avoiding use of KPIs that are not material and SPTs that are not credible or ambitious and may attract greenwashing claims.

- **Relevant, core and material** to the client's overall business and sustainability strategy, addressing **key ESG issues** of the sector and **be under management's control** operations;
- **Measurable** or **quantifiable** on a **consistent** methodological basis; and
- **Externally verifiable** and able to be **benchmarked**, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition.

SUSTAINABILITY PERFORMANCE TARGETS

- Represent a **material improvement** in the respective KPIs and be beyond a 'Business as Usual' trajectory;
- Be compared to a **benchmark** or an **external reference** such as own or peers past performance (ideally three years) **and reference to science based targets or scenarios**;
- Be consistent with the issuers' overall strategic **sustainability/ESG strategy**; and
- Disclose actions to meet SPTs with pre-defined timelines and a verified baseline.



Moody's: A materiality lens is key to assessing the credentials of sustainability-linked debt instruments; SASB Materiality Finder

SUSTAINABLE FINANCE FOR SOCIAL INFRASTRUCTURE

Case studies

- Reliance Rail PPP achieves financial close on a new green sustainability linked loan (GSLL) to fully refinance its existing bank debt facilities.
- **Transaction**: AUD$1.8bn Climate Bonds certified GSLL closed in February 2022.
- **Eligible green project:** low carbon transport.
- **KPIs/SPTs:** four metrics including Infrastructure Sustainability Council (ISC) Operations Rating score, energy intensity of the AMC and Waratah Trains, solar PV generation at the AMC, and operational water consumption.
- **NAB acted as Joint Sustainability Co-Ordinator and Lender.**
- DNV provided Second Party Opinion and verification.

- Alternative asset manager Morrison & Co has closed the first New Zealand sustainability loan for NZ Schools III PPP.
- The NZ Schools III PPP was established in 2017 to design, finance, construct and maintain, for 25 years following construction, five new schools in Auckland, Hamilton and Christchurch.
- **Transaction:** NZD183.2m 5-year sustainability loan closed in February 2022.
- **Details:** project-specific factors including building energy efficiency, waste management, green building standards, water management and social features such as high quality, inclusive learning environments for students, access to local residents for community use, and dedicated satellite classrooms for students with disabilities.
- DNV provided third-party opinion and verification.

- Royal Adelaide Hospital ("RAH") commercial operator, Celsus, closed the world's largest sustainability loan in the healthcare sector (at the time), and the largest project finance green/social loan in Australia.
- **Transaction**: AUD2.2bn 4-year sustainability loan (green and social) closed in July 2021.
- **Eligible green projects**: green buildings. RAH is the first large hospital complex in Australia to secure a four-star green star – healthcare "as built" rating from the Green Building Council of Australia (GBCA), based on sustainable design and construction, as well as its operations, fit-out and positive impact on staff and patients.
- **Eligible social projects:** access to essential services (healthcare).

NAB SUSTAINABLE FINANCE TEAM

SUSTAINABLE FINANCE AUSTRALIA

David Jenkins
Global Head of Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 415 130 227
Email: David.B.Jenkins@nab.com.au

James Waddell
Director, Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 410 451 563
Email: James.Waddell@nab.com.au

Sharyn Jaques
Director, Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 460 008 398
Email: Sharyn.Jaques@nab.com.au

Olivia Rosewall
Associate Director, Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 460 036 886
Email: Olivia.Rosewall@nab.com.au

Susanne Wightman
Senior Associate, Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 421 737 558
Email: Susanne.Wightman@nab.com.au

Theresa Tran
Associate, Sustainable Finance
Corporate & Institutional Banking | National Australia Bank
Phone: +61 452 671 525
Email: Theresa.Tran@nab.com.au

SUSTAINABLE FINANCE NEW ZEALAND

Louise Tong
GM – Toitu Putea (Sustainable Finance)
Corporate & Institutional Banking | Bank of New Zealand
Phone: +64 21 199 5306
Email: louise_tong@bnz.co.nz

Jacqui Macalister
Director, Toitu Putea (Sustainable Finance)
Corporate & Institutional Banking | Bank of New Zealand
Phone: +64 21 226 7504
Email: jacqui_macalister@bnz.co.nz

DISCLAIMER

IMPORTANT NOTICE:

The information in this document or discussed in the presentation (if any) ("Information") is for information purposes only. The Information does not constitute investment, legal or tax advice, is not intended to create any legal or fiduciary relationship, nor does it purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability and obtain appropriate professional advice. Nothing contained in this document shall be construed, in any jurisdiction, to be a recommendation, invitation, offer or solicitation or inducement to buy or sell any securities, financial instrument or product, or to engage in or refrain from engaging in any transaction. Any pricing information, fees and charges quoted are indicative only and subject to change.

National Australia Bank Limited, its related bodies corporate (as defined by the Corporations Act 2001 (Cth)), associated entities and its officers, employees, agents, or contractors ("NAB") do not warrant or represent that the Information is accurate, reliable, complete or current. All Information is as of the date referenced and subject to change without notice, and NAB shall not be under any duty to update or correct it. Any statements as to past performance do not represent future performance and any statements as to future matters are not guaranteed to be accurate.

To the extent permissible by law, NAB shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, NAB limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

NAB takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. NAB may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.
The Information may not be reproduced or distributed without NAB's prior written consent. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.