

# Second-Party Opinion

## Bank Australia Sustainability Bond

### Evaluation Summary

Sustainalytics is of the opinion that the Bank Australia Sustainability Bond Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds are aligned with those recognized by the Green and Social Bond Principles 2018 and the Sustainability Bond Guidelines. Although the bond is not exclusively project-based, Sustainalytics considers the range of eligible projects to have positive environmental or social impacts and to advance the UN Sustainable Development Agenda.



**PROJECT EVALUATION / SELECTION** Bank Australia's Responsible Banking Steering Committee (RBSC), consisting of representatives from across the company's business units, will be responsible for evaluating and selecting projects. The RBSC will ensure that all eligible projects are in line with the Bank's Responsible Banking Policy. This process is in line with market practice.



**MANAGEMENT OF PROCEEDS** Bank Australia will track the proceeds of the sustainability bond in its internal reporting system to ensure that proceeds are allocated to eligible assets. Pending allocation, proceeds may be invested in Australian government securities. As well, Bank Australia has obtained pre-issuance assurance from EY to confirm that allocation of proceeds is done in accordance with the Sustainability Bond Framework. This is in line with market practice.



**REPORTING** Bank Australia has committed to reporting on the allocation of proceeds semi-annually, with impact information made available annually, as part of their corporate reports. Bank Australia has proposed an indicative list of relevant impact metrics that it will report on a best effort basis. The Bank's reporting commitments are in line with market practice.

<b>Evaluation date</b>	July 6, 2018
<b>Issuer Location</b>	Melbourne, Australia

### Report Sections

Introduction.....	2
Sustainalytics' Opinion .....	3
Appendices .....	10

**For inquiries, contact the Sustainable Finance Solutions project team:**

#### Ankita Shukla (New York)

Project Manager  
 ankita.shukla@sustainalytics.com  
 (+1) 617 603 3329

#### Zach Margolis (Toronto)

Project Support  
 zach.margolis@sustainalytics.com  
 (+1) 647 695 4341

#### Catalina Secreanu (Sydney)

Director, Institutional Relations  
 catalina.secreanu@sustainalytics.com  
 (+61) 2 8015 5651

## Introduction

Bank Australia (the “issuer”) is a customer-owned financial institution, providing banking services to 140,000 Australian individuals and community sector organizations. Founded in 1957, Bank Australia operates on the principle of providing both competitive banking services and progressive values.

Bank Australia has developed the Bank Australia Sustainability Bond Framework (the “framework”) under which it is planning to issue sustainability bonds and use the proceeds to finance and refinance, in whole or in part, projects that promote a climate resilient future; and/or projects with positive social outcomes. The framework defines eligibility criteria in the following categories:

1. Socioeconomic advancement and empowerment
2. Affordable housing
3. Green buildings
4. Environmentally sustainable management of living natural resources and land use

Bank Australia engaged Sustainalytics to review the Bank Australia Sustainability Bond Framework and provide a second-party opinion on the framework’s environmental and social credentials and the alignment of the framework with the Green Bond Principles 2018<sup>1</sup> (the “GBP”) and the Social Bond Principles 2018<sup>2</sup> (the “SBP”), as administered by the International Capital Market Association (the “ICMA”). This framework has been published in a separate document.<sup>3</sup>

As part of this engagement, Sustainalytics held conversations with various members of Bank Australia’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of Bank Australia’s sustainability bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Bank Australia Sustainability Bond Framework and should be read in conjunction with that framework.

<sup>1</sup> ICMA’s Green Bond Principles 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

<sup>2</sup> ICMA’s Social Bond Principles 2018 <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<sup>3</sup> [www.bankaustralia.com.au/sustainabilitybond](http://www.bankaustralia.com.au/sustainabilitybond)

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Issuer's Sustainability Bond Framework

#### Summary

Sustainalytics is of the opinion that the Bank Australia Sustainability Bond Framework is credible and impactful, and aligns with the four core components of the Sustainability Bond Guidelines 2018. Sustainalytics highlights the following elements of Bank Australia's framework:

- The eligible use of proceeds categories (socioeconomic advancement and empowerment, affordable housing, green buildings, and environmentally sustainable management of living natural resources and land use) are aligned with either the Green Bond Principles 2018 or the Social Bond Principles 2018.
  - With regards to social impact, Bank Australia has defined groups that will benefit from the sustainability bond proceeds as those served by charities in the housing, education, health care, social inclusion, or special needs sectors that are registered with the Australian government or government-sponsored housing programs. Sustainalytics is of the opinion that supporting organisations which are registered and regulated by the government ensures that the sustainability bond is credible with respect to targeting vulnerable populations.
  - Sustainalytics recognizes that the GBP and SBP prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. While the Bank Australia Sustainability Bond Framework includes project-based lending, it also considers the inclusion of the following non-project-based lending activities and expenditures:
    - i. Commercial loans to not-for-profit entities registered by the Australian Charities and Not for Profits Commission in the education, health care, social inclusion, or special needs sectors
    - ii. Secured commercial loans to not-for-profit Registered Community Housing organisations regulated within the National Registry Scheme for Community Housing.

Given the targeted nature of these lending activities, Sustainalytics is of the opinion that the proceeds of the sustainability bonds, whether they are used as capital and/or operational expenditures associated with finance/refinance project-based or non-project-based lending/expenditure activities, will contribute to supporting organisations which ensure the provision of services that are necessary to achieving sustainable development in the long-term. Furthermore, the framework specifies impact criteria that will be reported for various types of non-project-based loans.

- Bank Australia has specified that lending through the sustainability bond proceeds will be used to finance residential mortgages for properties constructed since July 2015. Sustainalytics is of the opinion that the year of construction of the residential buildings may act as a safeguard for ensuring that proceeds are only allocated to buildings which are compliant with more recent local building codes and thus meet higher environmental standards. Additionally, building codes in New South Wales, Victoria, and Tasmania were assessed by the Climate Bonds Initiative and met the Low Carbon Buildings criteria when accompanied with certain third-party standards (BASIX, NatHers, NCC BCA), thereby ensuring that buildings are in the top 15% of the market in terms of building performance.<sup>4</sup>
- Additionally, as part of its residential mortgages, the Bank protects land in its conservation reserve equal to the size of the properties to which construction loan mortgages are made. Sustainalytics recognizes that (i) purely philanthropic activities are not considered an eligible use of proceeds under the GBP and SBP, and (ii) bond proceeds will indirectly benefit the conservation reserve. However, by linking lending activities to the expansion of the reserve, and publicly stating this commitment in corporate documents, Bank Australia has

<sup>4</sup> Climate Bonds Initiative, Location Specific Criteria for Residential Buildings: <https://www.climatebonds.net/standard/buildings/residential/calculator>

made the operation of the conservation reserve a part of its overall business activities, and these actions are supplementary to investments in green assets (eligible residential mortgages).

- Commercial lending for green building construction or renovation will be limited to buildings that are rated 7-star or higher by the Nationwide House Energy Rating Scheme (NatHERS).<sup>5</sup> The NatHERS system evaluates buildings in Australia on thermal performance, indicating the level of energy efficiency, on a scale of 1-10. Sustainalytics considers this scheme to be robust. Further, in order to comply with building codes, new homes or major renovations must generally meet a 6-star minimum<sup>6</sup>; by selecting a minimum rating of 7-star, Bank Australia is focusing on eligible projects considered high-performing in terms of thermal efficiency.
- With regard to its selection process, Bank Australia's Responsible Banking Steering Committee (RBSC) comprised of members of the Distribution, Corporate Affairs, Credit, Product, Strategy, Finance and Treasury teams, will be responsible for ensuring that projects or loans financed through proceeds from the sustainability bond meet the eligibility criteria and are in line with the Bank's Responsible Banking Policy. The RBSC will make recommendations to the Managing Director, who has ultimate responsibility for the selection of assets and allocation of funds.
- Bank Australia will track the receipt and use of proceeds through its internal reporting system, with quarterly reports provided to the RBSC. The Bank has established a register of eligible assets, and will record the draw-down amount of these assets as sustainability bond funds are allocated. Unallocated proceeds may be invested in Australian Government securities.
- Bank Australia commits to reporting on the use of proceeds semi-annually, as part of their half-year and full-year results reporting; this report will include the amount allocated to eligible projects, the types of eligible assets funded, and any changes to the mix of eligible assets since the preceding report. Impact reporting will be made available annually, as part of the Bank's annual Corporate Report, and will include quantitative key performance metrics where feasible, including number of people housed, tonnes of CO<sub>2</sub> avoided from green building to which loans are made, number of loans made under affordability schemes, and land area protected.

### Alignment with the Sustainability Bond Guidelines 2018

Sustainalytics has determined that the Bank Australia Sustainability Bond Framework aligns to the Sustainability Bond Guidelines 2018, as well as the four core components of the Green Bond Principles 2018 and the Social Bond Principles 2018. Sustainalytics recognizes that the Bank Australia Sustainability Bond is not exclusively project based, and that proceeds may be allocated to finance general-purpose lending to organizations. Sustainalytics recognizes that (i) the Green Bond Principles and Sustainability Bond Guidelines prefer project based lending, and that (ii) in general, there is lesser transparency associated with reporting on non-project based financing. However, based on Bank Australia's criteria for organizations to which it lends, and its commitment to report on allocation and impacts, Sustainalytics is of the opinion that the Bank Australia Sustainability Bond is transparent. For detailed information please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of the Issuer

### Contribution of framework to issuer's sustainability strategy

Sustainalytics has a positive view of Bank Australia's framework and its alignment with the Bank's sustainability strategies and policies. The Bank's responsible banking strategy<sup>7</sup> includes policy statements in nine different areas, including financial inclusion, affordable housing, and support for the conservation reserve.

<sup>5</sup> <http://www.nathers.gov.au/>

<sup>6</sup> <https://www.victorianenergysaver.vic.gov.au/scorecard/why-have-an-assessment/scorecard-and-nathers>

<sup>7</sup> <https://bankaust.com.au/responsible-banking/>

Although Bank Australia has not set quantifiable targets for social lending and financing, the Bank has demonstrated its commitment to socioeconomic advancement and empowerment through the following initiatives:

- A lending and investment policy,<sup>8</sup> based on five principles:
  - Investing in loans that provide benefits to people, society, or the environment
  - Only lending to people or organizations that have the capacity to repay the loans
  - Marketing all loan products in a responsible manner
  - Offering support to customers facing financial hardship
  - Assisting customers to enhance their financial literacy
- The development of a Financial Inclusion Action Plan (FIAP),<sup>9</sup> which includes a variety of action statements across the following action areas:
  - Products and services (e.g. “continue increasing uptake of Basic Access Account for eligible customers on a low income”)
  - Capabilities, attitudes, and behaviours (e.g. “explore ways to offer high quality financial literacy information to customers”)
  - Awareness and understanding of culture and diversity (e.g. “continue implementing Reconciliation Action Plan (RAP) actions”)
  - Economic participation and status (e.g. “Continue encouraging gender equality in the workplace”)
- The implementation of a hardship support policy,<sup>10</sup> which allows borrowers faced with an unexpected financial hardship to work with the bank to access services such as repayment breaks or extended loan terms.

Bank Australia has a substantial and longstanding commitment to providing financing to the affordable housing sector, to which it has provided over \$170 million in loans. The Bank highlights its involvement with the Women’s Property Initiative, and support for government programs promoting access to housing for vulnerable populations, including the National Disability Insurance Scheme, the Australian Capital Territory’s Land Rent Scheme, and the South Australia Government’s HomeStart Finance program.

The Bank’s commitment to environmental sustainability is demonstrated by its Environmental Policy Statement,<sup>11</sup> which lists a number of key environmental objectives and commits to “the continual improvement of its environmental performance”. Other key environmental initiatives include:

- The Bank Australia Conservation Reserve, which consists of 927 hectares of biodiverse bushland which the Bank has purchased and protected in perpetuity
- Divestment from the fossil fuel industry
- Carbon-neutral operations

Sustainalytics is of the opinion that Bank Australia’s sustainability efforts are indicative of the priority the Bank assigns to achieving positive environmental and social impact. As such, Sustainalytics believes that Bank Australia’s Sustainability Bond Framework is aligned with the Bank’s overall sustainability efforts and serves as a tool to mobilise capital towards a green and inclusive economy.

#### **Well positioned to address common environmental and social risks associated with the projects**

Sustainalytics recognizes that the Bank’s financing activities in the areas of affordable housing and socioeconomic advancement and empowerment generate largely positive social impacts and contribute to economic advancement. However, by offering lending and financial services, banks are exposed to risks associated with controversial companies and/or projects they may finance, and may also be exposed to the possibility of financing activities that have negative social or environmental impacts. Bank Australia has processes in place to address these potential risks, including:

- The Bank’s Responsible Investment and Lending Policy,<sup>12</sup> which states that the company will “Strive to ensure our customers’ funds are invested in loans that provide benefits to people, society or the environment”.

<sup>8</sup> <https://bankaust.com.au/responsible-banking/prosperity/our-lending-and-investment-policy/>

<sup>9</sup> <https://bankaust.com.au/globalassets/bau200-financial-inclusion-action-plan-fa-lr.pdf>

<sup>10</sup> <https://bankaust.com.au/support/hardship-support/>

<sup>11</sup> <https://bankaust.com.au/globalassets/disclaimers/bau026-environmental-policy-dp1.pdf>

<sup>12</sup> <https://bankaust.com.au/responsible-banking/prosperity/our-lending-and-investment-policy/>

- Bank Australia's commitment to not provide any loans to or investment in the fossil fuel industry, including coal and coal seam gas projects.<sup>13</sup>
- The Reconciliation Action Plan,<sup>14</sup> which lays out 17 action items, such as "Strengthen Bank Australia's capacity to develop new business relationships with Aboriginal and Torres Strait Islander customers" and "Incorporate cultural awareness into Bank Australia's training program to increase awareness, knowledge and respect".
- The Bank is a member of the Global Alliance for Banking on Values and a signatory of the United Nations Global Compact.

In addition to these measures, Bank Australia's Annual Report<sup>15</sup> lays out a formal structure to identify and manage risks associated with the Bank's operations, based on "three lines of defence". This structure places the first responsibility with each operation area, a second responsibility with the Bank's risk and compliance team led by the Chief Risk Officer, and a third responsibility with the internal auditor and the audit committee. Sustainalytics is of the opinion that the Bank has sufficient measures to safeguard its lending from activities with negative social or environmental impacts.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories of Bank Australia's sustainability bond are recognized as impactful by the Green Bond Principles or the Social Bond Principles. Sustainalytics has focused on two issue areas below where the impact is specifically relevant in the local context.

#### The role of the financial sector in supporting sustainable economic development and advancement

The proceeds of the Sustainability Bond may be directed towards investment in and supporting the Bank's financing of programs and initiatives related to socioeconomic advancement and empowerment as well as affordable housing programs. These activities may include:

- Commercial lending to registered charities and not-for-profit foundations in the education, health care, social inclusion, or special needs sector<sup>16</sup>
- Commercial lending to registered Specialist Disability Accommodation<sup>17</sup> providers
- Commercial lending to Registered Community Housing<sup>18</sup> providers
- Residential mortgage lending to assets originated from government-sponsored affordable housing programs, including shared equity and land rent schemes.

Sustainalytics views positively the alignment of the framework's lending criteria with the regulatory systems put in place by the Australian Federal, State and territorial governments. Overall, Sustainalytics is of the opinion that the use of proceeds on these programs will have clear social benefits to the targeted populations in Australia. Further context for the impact of social lending in various sectors is provided below.

#### Healthcare

Universal healthcare coverage is provided to all Australian citizens through the Federal Government's Medicare system, with private options available through private insurance. Additionally, some services such as dental care are available primarily through the private sector. The OECD characterizes this multi-actor system as a "complex set of institutions", but notes that as a whole "Australia achieves good health outcomes relatively efficiently", with a life expectancy that is 6<sup>th</sup>-highest among OECD countries.<sup>19</sup> Sustainalytics is of the opinion that the overall quality and effectiveness of the Australian health-care system helps provide access to underserved populations, and that use of the sustainability bond proceeds in the health care sector will provide benefits to these vulnerable groups, including but not limited to senior citizens, low-income residents, inhabitants of remote rural areas, and Aboriginal and Torres Strait Islander people. Furthermore, the non-governmental not-for-profit organizations specified in the framework also deliver Medicare-covered

<sup>13</sup> <https://bankaust.com.au/responsible-banking/planet/divestment-and-bank-australia/>

<sup>14</sup> [https://bankaust.com.au/globalassets/responsible-banking/people/reconciliation-action-plan/bank-australia\\_rap.pdf](https://bankaust.com.au/globalassets/responsible-banking/people/reconciliation-action-plan/bank-australia_rap.pdf)

<sup>15</sup> <https://bankaust.com.au/globalassets/about-us/customer-centre/corp-report/corporate-report-2017.pdf>

<sup>16</sup> Registered with the Australian Charities and Not-for-profits Commission <http://www.acnc.gov.au/>

<sup>17</sup> Registered with the National Disability Insurance Agency <https://www.australia.gov.au/directories/australia/ndia>

<sup>18</sup> Registered with the National Regulatory System for Community Housing <http://www.nrsch.gov.au/>

<sup>19</sup> [https://read.oecd-ilibrary.org/social-issues-migration-health/oecd-reviews-of-health-care-quality-australia-2015\\_9789264233836-en](https://read.oecd-ilibrary.org/social-issues-migration-health/oecd-reviews-of-health-care-quality-australia-2015_9789264233836-en)



## Bank Australia Sustainability Bond

social services for vulnerable people. For residential-aged care providers, the Australian Government has set a minimum ratio of places allocated to supported residents, who receive Government assistance with their accommodation costs.<sup>20</sup>

### Affordable Housing

According to Australia's National Housing Supply Council, in 2011 there was a deficit of approximately 539,000 affordable rental units for lower income renters, and as of 2015 there were 199,133 households on waiting lists of social housing.<sup>21</sup> In 2013-14, over half of low-income renting households were considered "housing stressed", paying more than 30% of their income on rental costs.<sup>22</sup> Bank Australia offers commercial loans to affordable housing providers, on both a general-purpose and project-specific basis, as well as residential mortgages to individuals qualifying for government-sponsored and -administered affordable housing programs. These initiatives, which generally have maximum income criteria, may include shared equity or land rent schemes. Bank Australia does not evaluate or place additional income-based criteria on its affordable housing lending, beyond its credit eligibility check. However, as these activities are aligned with government-sponsored programs that are specifically designed to improve affordability, it is presumed the government is accountable for ensuring impactful qualifying criteria in the different geographies. Sustainalytics considers these programs to be impactful and to have a positive social benefit to renters and low-to-medium income households in Australia's housing market.

### Environmental Sustainability

In addition to the aforementioned social impacts, financial institutions play an important role in the environmental finance landscape by raising and channeling funds in order to help make low-carbon investment projects viable. Scaling up low-carbon investment and finance is a twofold process which involves: scaling up finance for long-term investment in infrastructure; and shifting investments towards low-carbon alternatives. According to estimates, between 2015-2030, the global economy will require \$89 trillion in infrastructure investments across cities, energy, and land-use systems, and \$4.1 trillion in incremental investment for the low-carbon transition to keep within the internationally agreed limit of a 2-degree Celsius temperature rise.<sup>23</sup>

As a signatory of the Paris Agreement, Australia has committed to reducing its greenhouse gas emission by 26% to 28% below 2005 levels by 2030.<sup>24</sup> The residential property sector accounts for nearly 12% of Australia's emissions, according to the Australian Sustainable Built Environment Council.<sup>25</sup> Mortgage lending to support the construction of green buildings can play a significant role in addressing these emissions. Bank Australia has committed to using sustainability bond proceeds to lend only to residential mortgages which align with the most recent building codes. The building codes in the states New South Wales, Victoria, and Tasmania were assessed by the Climate Bonds Initiative and met the Low Carbon Buildings criteria, thereby ensuring that buildings are in the top 15% of the market in terms of building performance.<sup>26</sup> Sustainalytics views positively the use of proceeds categories related to green buildings and the conservation reserve, and considers that they are aligned with Australia's national climate commitments.

### **The importance of nature conservation and biodiversity protection in Australia**

Due to its unique geography, many plant and animal species found in Australia are not present anywhere else on earth, including 84% of plant species and 83% of mammals.<sup>27</sup> Over the last 200 years, many of these native and endemic species have become threatened, due to human activity and landscape changes. According to Australia's Biodiversity Conservation Strategy,<sup>28</sup> "Conserving biodiversity is an essential part of safeguarding the biological life support systems on Earth" and "the resilience of ecosystems in Australia is currently being reduced by a number of threats." The strategy goes on to set ten national targets related to biodiversity protection, which includes an "increase of 600,000 km<sup>2</sup> of native habitat managed primarily for biodiversity

<sup>20</sup> <https://agedcare.health.gov.au/tools-and-resources/ageing-and-aged-care-research-and-statistics/residential-care/supported-resident-ratios>

<sup>21</sup> [https://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/BriefingBook45p/HousingAffordability](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/HousingAffordability)

<sup>22</sup> <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4130.02013-14?OpenDocument>

<sup>23</sup> <http://www.worldbank.org/en/news/feature/2015/04/18/raising-trillions-for-climate-finance>

<sup>24</sup> <http://www4.unfccc.int/ndcregistry/PublishedDocuments/Australia%20First/Australias%20Intended%20Nationally%20Determined%20Contribution%20to%20a%20new%20Climate%20Change%20Agreement%20-%20August%202015.pdf>

<sup>25</sup> <https://www.thefifthestate.com.au/business/finance/nab-in-residential-green-bond-first>

<sup>26</sup> Climate Bonds Initiative, Location Specific Criteria for Residential Buildings: <https://www.climatebonds.net/standard/buildings/residential/calculator>

<sup>27</sup> <http://www.environment.gov.au/biodiversity/threatened>

<sup>28</sup> <http://www.environment.gov.au/system/files/resources/58321950-f8b6-4ef3-bb68-6f892420d601/files/biodiversity-strategy-2010.pdf>

conservation". The Trust for Nature identifies the State of Victoria as the "most highly altered" by habitat loss and degradation, and stresses the importance of partnerships with private-sector organizations to meet conservation goals, due to the high proportion of private land ownership in the state.<sup>29</sup>

Bank Australia's Conservation Reserve, consisting of three properties in the Western Wimmera region of Victoria, seeks to address these threats to native species by protecting 927 hectares of bushland. The Reserve, managed in cooperation with the Trust for Nature and Greening Australia in accordance with principles of the Open Standards for the Practice of Conservation,<sup>30</sup> was first established in 2008. In addition to promoting biodiversity protection and acting as a natural carbon sink, Bank Australia intends to use the Reserve to offset the impacts of its lending activities and, in particular, seeks to expand the protected area to match the footprint of new housing construction financed by the Bank. In this sense, mortgages from Bank Australia are tied to wildlife habitat conservation. This is an additional example of Bank Australia's efforts to "green" its housing-related lending activities. These efforts also include restricting residential lending to properties which are built using the most current building codes, which has resulted in the top 15% of housing stock based on energy performance in the states of New South Wales, Victoria, and Tasmania, as assessed by the Climate Bonds Initiative.

Sustainalytics recognizes (i) that purely philanthropic activities are not considered an eligible use of proceeds under the Green or Social Bond Principles, and (ii) bond proceeds will indirectly benefit the conservation reserve. However, by linking lending activities to the expansion of the Reserve, and publicly stating this commitment in corporate documents, Bank Australia has made the operation of the conservation reserve a part of its overall business activities. Contributions to the conservation reserve are in addition to investments in assets (residential mortgages) which are already considered to be green. Sustainalytics is of the opinion that the Bank's conservation activities will have a clear positive environmental impact.

#### Alignment with and contribution to the UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Socioeconomic advancement and empowerment	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Green Buildings	11. Sustainable Cities and Communities	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries
Environmentally sustainable management of living natural resources and land use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

<sup>29</sup> <https://www.trustfornature.org.au/images/uploads/conservation/SCP/Trust-for-Nature-Statewide-Conservation-Plan-Snapshot.pdf>

<sup>30</sup> <http://cmp-openstandards.org/about-os/>



---

## Conclusion

Bank Australia has developed a Sustainability Bond Framework, under which it intends to issue sustainability bonds. Proceeds of the bonds will be used to finance projects related to socioeconomic advancement and empowerment, affordable housing, green buildings, and environmentally sustainable management of living natural resources and land use. These categories are recognized as having positive environmental and/or social impacts.

Sustainalytics has reviewed the Bank Australia Sustainability Bond Framework with respect to its alignment with the Green Bond Principles 2018, the Social Bond Principles, 2018, and the Sustainability Bond Guidelines 2018. By issuing bonds to fund projects in areas recognized by the GBP and/or SBP as having positive environmental and/or social impacts, Bank Australia is promoting responsible banking, as well as helping to advance SDGs 10, 11, and 15. The Bank's commitments for project selections, management of proceeds, and reporting are in line with market practice.

Overall, Sustainalytics is of the opinion that the Bank Australia Sustainability Bond Framework is credible, transparent, and aligned with the four core components of the Green and Social Bond Principles, and that Bank Australia is well-positioned to issue sustainability bonds.

## Appendices

### Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

#### Section 1. Basic Information

Issuer name:	Bank Australia Limited
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Bank Australia Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 6, 2018
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

#### Section 2. Review overview

##### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

##### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

**EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)**

Please refer to Executive Summary above.

**Section 3. Detailed review**

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

**1. USE OF PROCEEDS**

Overall comment on section (if applicable):

The eligible categories for the use of proceeds are aligned with those recognized by the Green and Social Bond Principles 2018 and the Sustainability Bond Guidelines. Sustainalytics considers that the projects funded will lead to either direct/indirect positive environmental and/or social impacts.

**Use of proceeds categories as per GBP:**

- |  |   |
|--|---|
| <input type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency  |
| <input type="checkbox"/> Pollution prevention and control  | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation   | <input type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management   | <input type="checkbox"/> Climate change adaptation  |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                             | <input checked="" type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify):  |

If applicable please specify the environmental taxonomy, if other than GBPs:

**Use of proceeds categories as per SBP:**

- |  |   |
|--|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services                                   |
| <input checked="" type="checkbox"/> Affordable housing   | <input type="checkbox"/> Employment generation (through SME financing and microfinance) |

- |  |   |
|--|---|
| <input type="checkbox"/> Food security   | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (please specify):                              |

If applicable please specify the social taxonomy, if other than SBPs:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Bank Australia's Responsible Banking Steering Committee, made up of representatives from across the company's business units, will be responsible for evaluating and selecting projects. This is in line with market practice.

### Evaluation and selection

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives                                 | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories    |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                           | <input type="checkbox"/> Other (please specify):   |

### Information on Responsibilities and Accountability

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify):   |   |

## 3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Bank Australia will track the proceeds of the sustainability bond in its internal reporting system to ensure that all proceeds are allocated to eligible assets. Pending allocation, proceeds may be invested in Australian government securities. This is in line with market practice.

### Tracking of proceeds:

- |   |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify):  |

**Additional disclosure:**

- |   |   |
|---|---|
| <input type="checkbox"/> Allocations to future investments only                             | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                             | <input type="checkbox"/> Allocation to a portfolio of disbursements                     |
| <input checked="" type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other ( <i>please specify</i> ):                               |

**4. REPORTING**

Overall comment on section (if applicable):

Bank Australia has committed to reporting on the allocation of proceeds semi-annually, with impact information made available annually, as part of their corporate reports. Bank Australia has proposed an indicative list of relevant impact metrics that it will report on a best effort basis. The Bank's reporting commitments are in line with market practice.

**Use of proceeds reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other ( <i>please specify</i> ):        |

***Information reported:***

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts     | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |   |

***Frequency:***

- |  |   |
|--|---|
| <input type="checkbox"/> Annual                  | <input checked="" type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |   |

**Impact reporting:**

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify):                 |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): |                                      |

**Information reported (expected or ex-post):**

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings  |
| <input type="checkbox"/> Decrease in water use              | <input checked="" type="checkbox"/> Number of beneficiaries                                    |
| <input checked="" type="checkbox"/> Target populations      | <input checked="" type="checkbox"/> Other ESG indicators (please specify): Land area conserved |

**Means of Disclosure**

- |   |   |
|---|---|
| <input type="checkbox"/> Information published in financial report  | <input type="checkbox"/> Information published in sustainability report |
| <input checked="" type="checkbox"/> Information published in ad hoc documents   | <input type="checkbox"/> Other (please specify):                        |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): |   |

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<https://bankaust.com.au/about-us/>

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- |  |  |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit                        | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other ( <i>please specify</i> ):            |  |

**Review provider(s):****Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.



## Disclaimer

© Sustainalytics 2018. All rights reserved. No part of this second-party opinion (the "Opinion") may be reproduced, transmitted or published in any form or by any means without the prior written permission of Sustainalytics.

The Opinion was drawn up with the aim to explain why the analyzed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

## Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider in 2017". In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [info@sustainalytics.com](mailto:info@sustainalytics.com)

