

Bank Australia Sustainability Bond Framework

August 2021



The Redwoods (Beech Forest), Otways, Victoria.

Introduction



This document is the Bank Australia Limited (“Bank Australia”) framework (the “Framework”) for issuing Sustainability Bonds.



Meneka, Bank Australia customer, and her daughter.

About Bank Australia

Bank Australia's purpose is to inspire and empower our customers to use their money to create a world where people and the planet thrive. We are customer owned, and we aim to be Australia's most trusted bank and a leading purpose-driven business.

As the first Australian member of the Global Alliance for Banking on Values and a certified B Corporation, we're committed to using banking as a force for good. We have a Responsible Banking Policy that outlines how we do this through our lending and investments and ensures we prioritise our community, the environment, sustainability and serving the real economy.

Global Alliance for Banking on Values

In 2014, we became the first Australian member of the Global Alliance for Banking on Values (GABV). The GABV is an independent network of banking leaders from around the world committed to advancing positive change in the banking sector. Its more than 60 member banks all have a common goal of using finance to deliver sustainable economic, social and environmental development.

B Corporation

Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and accountability to balance profit and purpose. In 2020, we were proud to have our decades of work for people and planet recognised by becoming a certified B Corporation.

Responsible Banking Policy

Our Responsible Banking Policy informs everything we do, from the businesses we loan to, where we invest money, and the organisations we do business with. Our policy is approved by our board and guides how we achieve our purpose through our lending and investments. It ensures we prioritise our community, the environment, sustainability and serving the real economy.



Wetlands at the Bank Australia conservation reserve, Minimay, Victoria.

The Sustainable Development Goals and our impact finance strategy

The Sustainable Development Goals (SDGs) are 17 global goals set by the United Nations with a target date of 2030. They are described as a blueprint to achieve a better and more sustainable future for all, and each goal includes specific targets for the world to work towards.

Bank Australia has an impact finance strategy to grow our assets with a positive impact for people and planet. Our impact finance strategy uses the SDGs as a reference point and identifies key SDGs that align with both our capabilities and the positive impacts our customers want to see.

Our Sustainability Bond Framework is aligned to the SDGs and describes how our lending activities align to four of the goals: SDG 7 Affordable and Clean Energy, SDG 10 Reduced Inequalities, SDG 11 Sustainable Cities and Communities, and SDG 15 Life on Land.

Bank Australia Conservation Reserve

Bank Australia owns a 2117-hectare Conservation Reserve comprised of four properties on biodiverse Australian bushland which is protected from development forever. We purchased the first of our properties in 2008, as a way of acting on customer concerns about climate change and environmental sustainability.

Since 2008, we have been working to restore the properties and to learn more about the unique ecology so that we can find ways to best protect the reserve's habitat and the 225 native plant and 270 native animal species that call the reserve home. Working with our partners, Greening Australia and Trust for Nature, we want to see the reserve become a thriving example of science-based conservation in action. More information about our Conservation Reserve and how it relates to new home constructions we finance is included in the appendix.

Bank Australia Sustainability Bond Framework



**Bank Australia's Sustainability
Bond Framework is in line with the
2021 versions of the ICMA Green
Bond Principles (GBP), Social Bond
Principles (SBP) and Sustainability
Bond Guidelines (SBG).**



Bank Australia Sustainability Bond Framework

Our Framework adopts the four key pillars of the principles

1. Use of proceeds
2. Process for asset evaluation and selection
3. Management of proceeds
4. Reporting

Use of proceeds

The key element of Bank Australia's Sustainability Bond issuances is how the proceeds are used.




The proceeds of our Sustainability Bonds are used to finance or refinance assets that meet the Eligibility Criteria below. Refinanced assets will have a maximum lookback period of 24 months. These assets align with either a green or social category under the GBP or SBP, as well as one of four SDGs.





Jordy and Julia,
Bank Australia customers.



Eligibility criteria

SDG	SDG target	GBP/SBP category	Eligible Asset type	Eligibility Criteria
7 AFFORDABLE AND CLEAN ENERGY 	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix	Renewable energy	Commercial loan: Equipment finance – Environmental Upgrade Agreements (EUAs)	EUA loans to finance on-site renewable energy installations.
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	Socioeconomic advancement and empowerment	Commercial loan: Charity loans	Commercial loans to charities registered by the Australian Charities and Not for Profits Commission in the education, health care, social inclusion, or special needs sectors.
			Commercial loan: Specialist Disability Accommodation loans	Commercial loans for the purpose of building, operating or funding Specialist Disability Accommodation operated by a provider registered with the National Disability Insurance Agency.
			Residential mortgages: Indigenous Business Australia split loans	Residential mortgages that are co-funded with Indigenous Business Australia with the goal of supporting Aboriginal and Torres Strait Islander borrowers on their home ownership journeys.
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	Affordable housing	Commercial loan: Community housing	Secured commercial loans to not-for-profit Registered Community Housing organisations registered with and regulated by State or Federal Government entities.
			Residential mortgages: Affordable housing schemes	Residential mortgage assets originated as part of government sponsored and administered affordable housing programs. These include shared equity and land rent schemes where the borrowers meet certain maximum income qualifying criteria.

Eligibility criteria (continued)

SDG	SDG target	GBP/SBP category	Eligible Asset type	Eligibility Criteria
	11.3 By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries	Green buildings	Residential mortgages: Green mortgages	Residential mortgages that meet one of the following green criteria: <ul style="list-style-type: none"> • For homes constructed after 31 December 2018, a rating of 7 Stars or higher calculated using software accredited under the Nationwide House Energy Rating Scheme (NatHERS); • A one-star uplift in the property's star rating on the Residential Efficiency Scorecard; • Property upgrades, including installation of a solar PV system of at least 5kW or the minimum size required by the Climate Bonds Initiative standards for Australia.
			Commercial loan: Green buildings	Commercial loans to build, renovate or operate buildings to make them sustainable, improve resource efficiency or adopt environmentally sound technologies. The buildings will be 7 star or higher under NatHERS and constructed after 31 December 2018.
			Commercial loan: Equipment finance – Environmental Upgrade Agreements (EUAs)	EUA loans to finance works that improve a commercial building's energy efficiency, where these upgrades are either powered by electricity or are non-motorised.
	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	Environmentally sustainable management of living natural resources and land use	Residential mortgages: Conservation Reserve-backed construction loans and associated ongoing mortgage loans	Residential mortgages where Bank Australia is currently funding construction, or funded the initial construction, since 1 July 2020. These residential mortgage loans: <ol style="list-style-type: none"> 1. are for properties in the states of Victoria, New South Wales and Tasmania meeting a high environmental standard given the date and place of construction and compliance with prevailing building standards, and 2. have protected land in Bank Australia's Conservation Reserve that is equal to the size of building lots of all new homes constructed allowing borrowers to mitigate the impact of their building activity. More information on the Bank Australia Conservation Reserve is contained in the appendix.



Trentham Falls, Victoria

Exclusion criteria

Our Responsible Banking Policy has negative screens that exclude us from providing any loans to:

- The fossil fuel industry
- Intensive animal farming and the live export industry
- The gambling industry
- The arms industry
- The tobacco industry

Process for asset evaluation and selection

Bank Australia's Managing Director approves this Framework, has ultimate responsibility for the Eligible Assets Register and approves all use of funds and impact reporting for Bank Australia's Sustainability Bond. The Managing Director does this based on recommendations from Bank Australia's Responsible Banking Committee (RBC).

The RBC is an executive committee that oversees Bank Australia's approach to responsible banking, including our Responsible Banking Policy, our B Corporation certification, our Impact Finance business, and the governance of our Sustainability Bond Framework.

For both new and existing issuances, the RBC oversees the Eligible Asset selection process, taking into account:

- conformance with the eligible categories set out above;
- conformance with the GBP, SBP and SBG;
- conformance with Bank Australia's Responsible Banking Policy;
- Bank Australia's own professional judgement, discretion and sustainability knowledge; and
- where Bank Australia chooses, conformance with any other principles, standards or tools that may otherwise become commonplace in the market.

Process for asset evaluation and selection (continued)

Assets that do not meet the above will not be considered Eligible Assets. If an Eligible Asset no longer meets the Eligibility Criteria set out in this Framework, then it will no longer be deemed an Eligible Asset and the value of Eligible Assets will reduce by the value of this asset.

The RBC will also oversee the process for determining eligibility of potential new assets as Eligible Assets. This determination will follow the same process as above. If the RBC determines that a potential asset qualifies as an Eligible Asset, then it will recommend to the Managing Director it be deemed an Eligible Asset and included in the next Use of Proceeds Report. It would then be assured at the time of the ongoing annual external review as described below.

The RBC will include on its standing agenda at least semi-annually, prior to half year and full year reporting, a review of the relevant elements of the Framework including, but not limited to:

- reviewing potential Eligible Assets for completeness, suitability and valuation and confirming eligibility of potential Eligible Assets;
- reviewing the schedule of Sustainability Bonds outstanding; and
- reviewing compliance with the Framework against the GBP, SBP and SBG.

Management of proceeds

Bank Australia will track the receipt and use of proceeds via its internal reporting systems, ensuring all Eligible Assets in the Sustainability Bonds are appropriately identified with monitoring reports provided at least semi-annually to the RBC.

To ensure appropriate earmarking for the purpose of internal monitoring and external reporting of proceeds, Bank Australia has established a register that contains all Eligible Assets in the Sustainability Bonds on issue and the drawn value of the Eligible Assets.

Bank Australia will seek to fully allocate proceeds within 12 months of issuance. To the extent that any proceeds from a Sustainability Bond issuance have not been, at issuance or, during the life of the bond, applied directly to finance or refinance Eligible Assets ("Unallocated Proceeds"), those proceeds may be invested in green, social or sustainability debt securities issued by Government or semi-Government entities.



Disclosure and reporting

We recognise the importance investors place on transparency and disclosure relating to Sustainability Bonds and we will make the following information available at www.bankaustralia.com.au/sustainabilitybond

Disclosure item	Timing
Framework	Once off: at the time of first issuance under this Framework, or for subsequent issuances if the Framework is amended
Second Party Opinion	Once off: sought at time of first issuance (may be sought again if Framework changes or a particular issuance requires it)
Assurance statements	At initial issuance and when subsequent assurance occurs, to be made public to the extent allowed by the assurer
Use of Proceeds Report	Semi-annually in line with half and full year results reporting, to include Eligible Asset volume compared to bonds on issue, amounts allocated at an Eligible Asset category level (including any Unallocated Proceeds) and the share of financing vs. refinancing
Impact Reporting	Annually in line with Bank Australia's full year corporate reporting (produced in October based on 30 June financial year end). The first impact report will be provided based on the 30 June 2022 financial year

Impact reporting

A range of impact measures will be used for the different types of loan assets included as Eligible Assets as the RBC deems appropriate and where the data is available from the borrowers and permitted to be disclosed. The table below is not considered exhaustive and reported metrics may be supplemented with qualitative information as appropriate.

Eligible asset type	Indicative impact criteria
Commercial loan: Charity loans	Number and types of charities being supported
Commercial loan: Specialist Disability Accommodation loans	Number of homes built for people with complex care needs
Commercial loan: Community housing	Number of homes built for people who need social or affordable housing
Residential mortgages: Affordable housing schemes	Number of households supported into home ownership
Residential mortgages: Green mortgages	Greenhouse gas emissions avoided
Commercial loan: Green buildings	Greenhouse gas emissions avoided
Commercial loan: Equipment finance – Environmental Upgrade Agreements (EUAs)	Types of green equipment installed and greenhouse gas emissions avoided
Residential mortgages: Conservation Reserve-backed construction loans and associated ongoing mortgage loans	<p>Number of homes built to a high environmental standard</p> <p>Total land area on the Conservation Reserve allocated to balancing the impact of construction loans</p> <p>Scorecard reporting on progress towards longer term conservation objectives during reporting period</p>

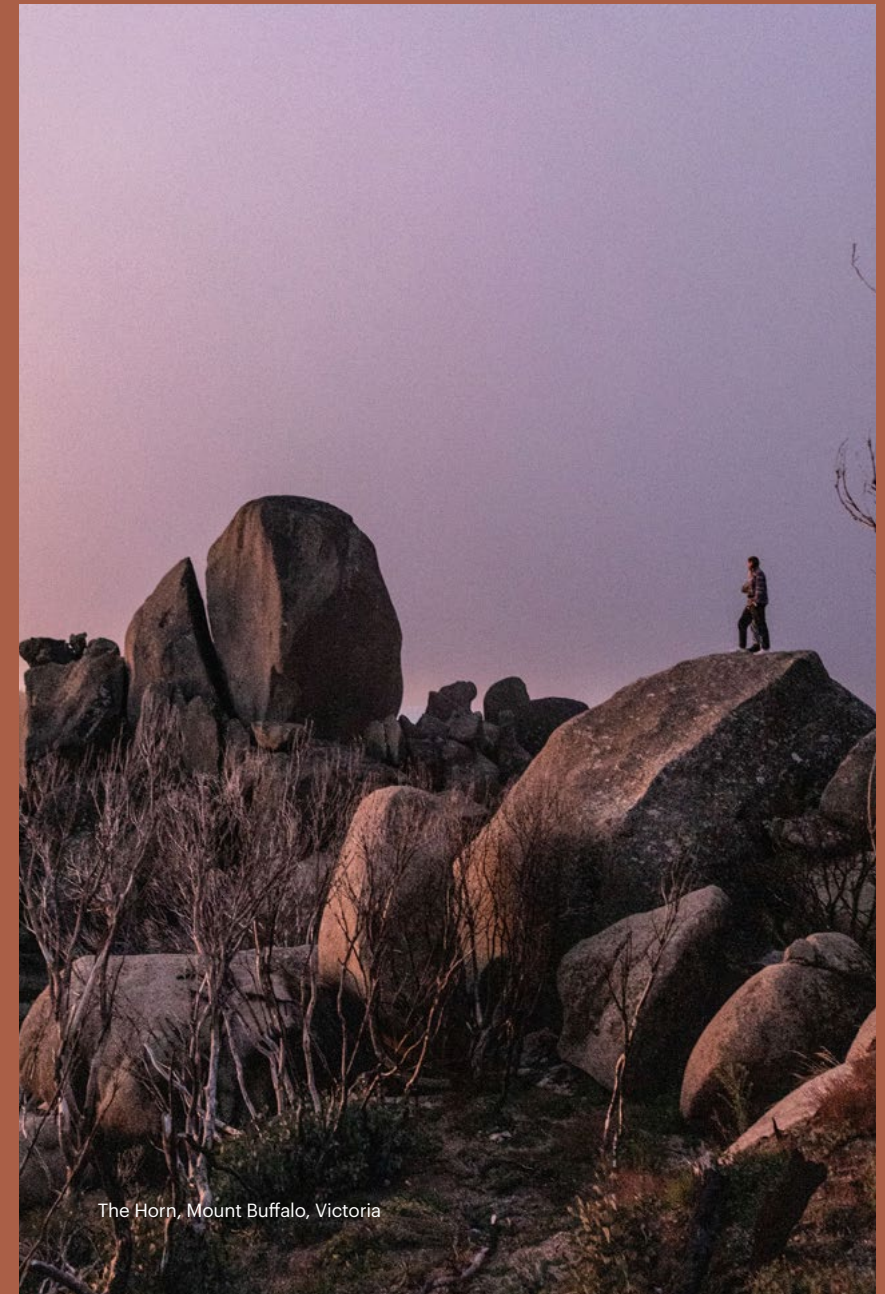
External review

Bank Australia has obtained a second party opinion from Sustainalytics on a once-off basis to confirm the alignment of the Bank Australia Sustainability Bond Framework with the GBP, the SBP and SBG. This opinion will be publicly available per the above reporting table.

Bank Australia has also obtained pre-issuance assurance from EY to confirm that the allocation of proceeds to Eligible Assets has been done in accordance with the Framework. We will continue to obtain assurance on an annual basis. These assurance statements will be publicly available per the above reporting table.

Document history

Date	Details	Review date
06/08/2021	Framework endorsed by the RBC and approved by the Managing Director	06/08/2022



The Horn, Mount Buffalo, Victoria

Appendix: Conservation Reserve

Bank Australia's Conservation Reserve encompasses 2117 hectares of biodiverse Australian bushland in the Western Wimmera region of Victoria, Australia. We purchased the first of our properties in 2008, as a way of acting on customer concerns about climate change and environmental sustainability. The properties are protected from development forever by legal covenant. Since 2008, we have been working to restore the properties and to learn more about the ecology so that we can find ways to best protect the reserve's unique habitat and the 225 native plant and 270 native animal species that call it home.



Diamond Firetail, a priority threatened species on Bank Australia's Conservation Reserve.

To ensure that the bank stays on the cutting edge of conservation and that the reserve is managed effectively and safely we partner with not-for-profit organisations Greening Australia and Trust for Nature to implement our current 10-year strategic vision for the reserve. The strategy includes focusing on several priority endangered species as well as a range of specific conservation, climate change resilience and community engagement objectives.

More information on the Bank Australia Conservation Reserve including our vision for the future is contained here: <https://www.bankaustralia.com.au/responsible-banking/planet/conservation-reserve>

Bank Australia acknowledges that the Conservation Reserve is on the traditional lands of the Wotjobaluk, Jaadwa, Jadawadjali, Wergaia and Jupagalk peoples and we pay respects to their elders past, present and emerging.

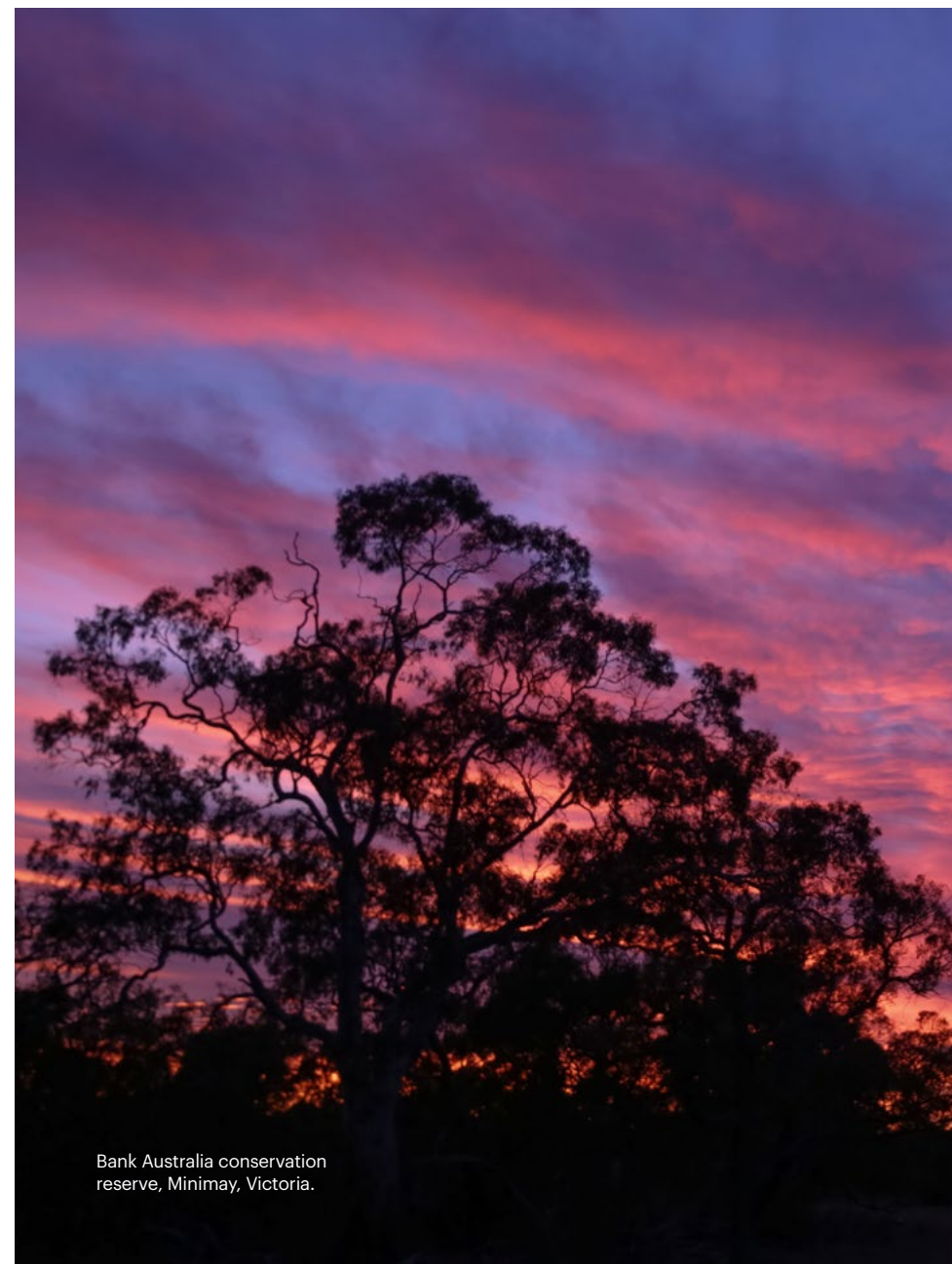
Construction Loan Process

We protect land in the reserve that is equal to the size of building lots of all new home constructions we finance. When a customer takes out a construction loan with us we flag this loan as a Conservation Reserve asset in our systems.

The size of land on which the home is being built is recorded in the loan record. When construction is completed and converts to a mortgage loan we continue to track it in our systems as a Conservation Reserve loan. The aggregate size of the construction loans funded is monitored on an ongoing basis against the total size of the reserve. This provides borrowers who undertake construction loans and then retain a mortgage with us a unique opportunity to balance out the environmental impact of their construction activity. Over time, the reserve will be planted as needed and may be expanded to cover the loss of land associated with further new housing construction.

Eligible Asset Selection Criteria

The bank began registering the land size of construction loans financed when the Conservation Reserve was first purchased in 2008. However, the Eligible Asset Pool includes a smaller subset of these loans that are financed from 1 July 2020. This is to ensure the homes constructed are of high environmental quality given their location and date of construction.





The Horn, Mount Buffalo, Victoria

