

# Second-Party Opinion

## Bank Australia Sustainability Bond Framework

### 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 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Socioeconomic Advancement and Empowerment, Affordable Housing, Green Buildings, Renewable Energy and Environmentally Sustainable Management of Living Natural Resources and Land Use – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories may provide improved energy efficiency of residential buildings and positive social impacts for vulnerable groups in Australia while advancing the UN Sustainable Development Goals, specifically SDG 7, 10, 11 and 15.



**PROJECT EVALUATION / SELECTION** Bank Australia’s Responsible Banking Committee (“RBC”) oversees the process for project evaluation and selection. The RBC’s project selection process takes into account assets that conform with eligible use of proceeds categories and alignment with relevant market standards and practices. Bank Australia has in place a Responsible Banking Policy which takes into account environmental and social risk management and are applicable to all allocation decisions made under the Framework. The Bank’s Managing Director has final approval for all use of proceeds and is ultimately responsible for the eligible assets register. Sustainalytics considers the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Bank Australia has established a register that contains all eligible assets and the drawn down value of those assets. The RBC will track the proceeds using its internal reporting systems, ensuring eligible assets are identified with monitoring reports provided at least semi-annually to the RBC. Bank Australia has established a 24-month lookback period for the refinancing of assets and expects to achieve full allocation of proceeds within 12 months of issuance. Pending full allocation, unallocated proceeds may be applied to finance and refinance green, social or sustainability debt securities issued by the government or governmental entities. This is in line with market practice.



**REPORTING** The Bank has committed to allocation and impact reporting, on an annual basis and to be made available on the Bank’s website. Allocation reporting will include eligible asset volumes, amounts allocated at an Eligible Asset category level, any unallocated proceeds and the share of financing versus refinancing. Additionally, Bank Australia will report on relevant impact metrics. Sustainalytics views Bank Australia’s allocation and impact reporting as aligned with market practice.

<b>Evaluation date</b>	August 04, 2021
<b>Issuer Location</b>	Melbourne, Australia

### Report Sections

Introduction .....	2
Sustainalytics’ Opinion .....	3
Appendices.....	11

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## Introduction

Bank Australia (the “Issuer”, or the “Bank”) is a customer-owned financial institution that provides banking services to 175,000 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 intends to issue sustainability bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that improve the energy efficiency of residential buildings and provide positive social outcomes for vulnerable groups in Australia. The Framework defines eligibility criteria in four areas:

1. Socioeconomic Advancement and Empowerment
2. Affordable Housing
3. Green Buildings
4. Renewable Energy
5. Environmentally Sustainable Management of Living Natural Resources and Land Use

Bank Australia engaged Sustainalytics to review the Bank Australia Sustainability Bond Framework, dated July 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).<sup>1</sup> This Framework has been published in a separate document.<sup>2</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>3</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.10, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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 the Framework. Bank Australia representatives have confirmed (1) they understand it is the sole responsibility of Bank Australia to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Bank Australia.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market

<sup>1</sup> The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

<sup>2</sup> The Bank Australia Sustainability Bond Framework is available on Bank Australia’s website at: [www.bankaustralia.com.au/sustainabilitybond](http://www.bankaustralia.com.au/sustainabilitybond)

<sup>3</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Bank Australia has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Bank Australia Sustainability Bond Framework

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

- Use of Proceeds:
  - The eligible categories – Socioeconomic Advancement and Empowerment, Affordable Housing, Green Buildings, Renewable Energy and Environmentally Sustainable Management of Living Natural Resources and Land Use – are aligned with those recognized by the GBP and SBP. Sustainalytics considers that investments in the eligible categories may provide improved energy efficiency of residential buildings and positive social impacts for vulnerable groups in Australia.
  - In regard to refinancing, the Bank has incorporated a look-back period of 24 months from the issuance, which Sustainalytics considers to be in line with market practice.
  - 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:
    - Commercial loans to charities registered by the Australian Charities and Not for Profits Commission.<sup>4</sup> The issuer has confirmed that loans will be provided to charities whose charitable purposes are aligned with the objectives of the SBP such as advancing health, advancing education and advancing social or public welfare.
    - Secured commercial loans to not-for-profit Registered Community Housing organizations<sup>5</sup> registered with and regulated by State or Federal Government entities. Community Housing is affordable housing managed by not-for-profit organizations and provides housing to households defined as low income by regional governments or to people with special needs. Rent is 25-30% of combined gross income for eligible applicants.

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 organizations 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.

<sup>4</sup> Australian Charities and Not-for-profits Commission, "Charitable Purpose", at: [Charitable purpose | Australian Charities and Not-for-profits Commission \(acnc.gov.au\)](https://www.acnc.gov.au/charitable-purpose)

<sup>5</sup> HousingVic, "Community housing" (2021), at: [Community housing | Housing.vic.gov.au](https://www.housing.vic.gov.au/community-housing)

- Within the ‘Socioeconomic Advancement and Empowerment’ category, Bank Australia may finance commercial loans to charities described above, commercial loans for Specialist Disability Accommodation, and residential mortgages to Indigenous Australians.
  - o The provision of commercial loans for the purpose of building, operating or funding Specialist Disability Accommodation,<sup>6</sup> which is operated by providers registered with the National Disability Insurance Agency. Participants who are eligible for the accommodation are those with extreme functional impairment or those who have very high support needs.
- In collaboration with Indigenous Business Australia,<sup>7</sup> the provision of residential mortgages, “Split Loans”,<sup>8</sup> to Aboriginal and Torres Strait Islander borrowers with the objective of increasing access to capital for vulnerable and marginalized populations. Sustainalytics notes the responsible lending practices of Bank Australia (Please see Section 2) that ensures avoidance of predatory lending for vulnerable groups, and considers the characteristics of the loans as advantageous for the target populations. The characteristics include low interest rate<sup>9</sup> and deposit requirements, and no establishment costs.
- Within the ‘Affordable Housing’ category, Bank Australia intends to finance secured commercial loans to community housing organizations described above and residential mortgages under two affordable housing programs, The Homes Victoria Shared Equity Initiative and The ACT Land Rent Scheme, which are sponsored and administered by the government. The Homes Victoria Shared Equity Initiative<sup>10</sup> is administered by the Victorian Government and sets the eligibility criteria of earning no more than AUD 84,555 per year and being a first-time home buyer. The ACT Land Rent Scheme<sup>11</sup> is a part of the ACT Government’s Affordable Housing Action Plan and provides the opportunity to rent land through a land rent lease rather than purchasing the land to build a home. The Government restricts access to the Land Rent Scheme to low-to-moderate-income households,<sup>12</sup> who are eligible for a discounted land rent of 2%. Sustainalytics recognizes that market standard suggests limiting the target group of affordable renting schemes to low-income groups and notes that the target population set by the government includes low-to-moderate-income groups.<sup>13,14</sup> Sustainalytics notes that the median rental prices in the ACT and Victoria are considered the highest in Australia and that, despite the government’s affordable housing action plan, the share of vulnerable populations that are reliant on the private market is increasing, indicating the need to promote affordable housing at all income levels.
- Under the ‘Green Buildings’ category, the Bank may finance residential mortgages, commercial loans and Environmental Upgrade Agreements loans for building equipment that meet the following criteria:
  - Regarding residential mortgages, Bank Australia defines the following criteria:
    - i. Buildings with the National Construction Code (NCC) 2016 and NatHERS rating 7 stars or higher. Sustainalytics is of the opinion that a 7-star NatHERS energy equivalence rating for residential buildings ensures the thermal efficiency of the building’s envelop, and notes that thermal energy (heating and cooling) accounts for a large part of energy demand in residential homes.<sup>15</sup> Sustainalytics also notes that the NCC 2016<sup>16</sup> (or later) includes mandatory energy performance requirements in the areas of equipment and

<sup>6</sup> Specialist Disability Accommodation (SDA) is a form of housing that is designed to enable eligible National Disability Insurance Scheme (NDIS) participants to receive the support they need to live in the community and improve the delivery of their supports, at: <https://blcw.dss.gov.au/grow/specialist-disability-accommodation>

<sup>7</sup> Indigenous Business Australia, “About Us”, at: [About us - Indigenous Business Australia \(iba.gov.au\)](https://iba.gov.au)

<sup>8</sup> Indigenous Business Australia, “Split Loans”, at: <https://iba.gov.au/home-ownership/iba-housing-loan-features/loan-interest-rates/>

<sup>9</sup> Bank Australia, “Basic Home Loan Interest Rates”, at: [Basic Home Loan Interest Rates | Bank Australia](https://www.bankaustralia.com.au/basic-home-loan-interest-rates)

<sup>10</sup> Victorian Government, “HomesVic Shared Equity Initiative”, (2021), at: [HomesVic Shared Equity Initiative | Victorian Government \(www.vic.gov.au\)](https://www.vic.gov.au/homesvic-shared-equity-initiative)

<sup>11</sup> ACT Government, “Land Rent Scheme”, (2017), at: [Land rent scheme | ACT Revenue Office - Website](https://www.act.gov.au/land-rent-scheme)

<sup>12</sup> Low to moderate income households in Victoria refers a range of income between to \$19,020 – 131,500 in 2020, based on geographical area and number of household participants. Victorian Government, (2020), at: [Government-Gazette-Order-2.pdf \(planning.vic.gov.au\)](https://www.vic.gov.au/government-gazette-order-2-pdf-planning)

<sup>13</sup> Victorian Government, “Specification of Income Ranges for Affordable Housing”, at: [Government-Gazette-Order-2.pdf \(planning.vic.gov.au\)](https://www.vic.gov.au/government-gazette-order-2-pdf-planning)

<sup>14</sup> ACTCOSS, “ACT Cost of Living” (2020), at: [ACT Cost of Living Report: Tracking changes in the cost of living for low-income households in the Australian Capital Territory, September 2020 \(actcoss.org.au\)](https://www.actcoss.org.au/act-cost-of-living-report)

<sup>15</sup> EIA, “Use of Energy Explained”, at: [Use of energy in homes - U.S. Energy Information Administration \(EIA\)](https://www.eia.gov/use-of-energy-in-homes)

<sup>16</sup> The Australian Building Codes Board, “National Construction Code 2016”, (2016), at: [NCC 2016 Volume One \(abcb.gov.au\)](https://www.ncc.gov.au/ncc-2016)

- building management systems, such as lighting, HVAC, water heating systems, and energy monitoring facilities.<sup>17</sup> Given this context, Sustainalytics views NatHERS 7 star and above coupled with limiting investments to buildings that follow NCC 2016 or later as aligned with market standards.
- ii. Buildings that have achieved a one-star uplift based on the Victorian Residential Efficiency Scorecard<sup>18,19</sup> in a 12-month period. Sustainalytics understands that renovation or refurbishments that result in a one-star uplift will improve energy efficiency by at least 20%, and therefore Sustainalytics considers the energy savings provided as aligned with market practice.
  - iii. Building with three renewable energy or energy efficiency upgrades that are installed in a 12-month period. Sustainalytics considers these expenditures as aligned market practice given that the Issuer has confirmed alignment to CBI proxy criteria for eligible residential buildings.<sup>20</sup>
    - Commercial loans to build, renovate or operate buildings that have achieved or are expected to achieve a NatHERS 7 star or higher certification for buildings following NCC 2016 or later.
    - Under Environmental Upgrade Agreements (EUAs), Bank Australia intends to finance non-motorized or electrified energy efficiency building components, such as HVAC systems, lighting technology and control upgrades, green and cool roof installations, water efficiency and treatment systems.
- Under the 'Renewable Energy' category, Bank Australia intends to invest in EUA's to finance on-site renewable energy installations, namely solar photovoltaic panels. Sustainalytics considers these investments to be aligned with market practice.
  - Within the category 'Environmentally Sustainable Management of Living Natural Resources and Land Use', the Bank may finance residential mortgages for Conservation Reserve-backed construction loans and associated ongoing mortgage loans. 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 made the operation of the conservation reserve a part of its overall business activities, and these actions are supplementary to investment in green assets. Additionally, the Bank has confirmed with Sustainalytics that the construction of homes is based on the CBI criteria for Australian residential buildings,<sup>21</sup> which Sustainalytics considers to be aligned with market practice.
  - Sustainalytics notes that Bank Australia excludes the financing of certain industries, as an extension of its Responsible Banking Policy, which excludes fossil fuels, intensive animal farming, live exports, gambling, arms and tobacco. Sustainalytics considers these exclusionary criteria to strengthen the Framework.
  - Project Evaluation and Selection:
    - Bank Australia's Responsible Banking Committee ("RBC") oversees the process for project evaluation and selection. The RBC's selection process takes into account projects that conform with eligible use of proceeds categories and alignment with relevant market standards and principles. Bank Australia has in place a Responsible Banking Policy which takes into account environmental and social risk management and are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. The Bank's Managing Director has final approval for all use of proceeds and is ultimately responsible for the eligible assets register.

<sup>17</sup> National Construction Code, Australia, [NCCI Australian Building Codes Board \(abc.gov.au\)](http://NCCI.AustralianBuildingCodesBoard(abc.gov.au))

<sup>18</sup> The Residential Efficiency Scorecard is a Victorian Government methodology for reflecting energy costs to run a home and is calculated using the inputs of energy use (MJ/year) and energy price.

<sup>19</sup> Victoria State Government, "Save Energy and Money", at: [What is a Scorecard assessment? \(victorianenergysaver.vic.gov.au\)](http://What is a Scorecard assessment? (victorianenergysaver.vic.gov.au))

<sup>20</sup> Climate Bonds Initiative, "Eligible Residential Buildings – Australia", at: [Residential AUS - Rooftop solar proxy April 21 \(climatebonds.net\)](http://Residential AUS - Rooftop solar proxy April 21 (climatebonds.net))

<sup>21</sup> *Ibid.*

- Based on these processes, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Bank Australia has established a register that contains all eligible assets and the drawn down value of those assets. The RBC will track the proceeds using its internal reporting systems, ensuring eligible assets are identified with monitoring reports provided at least semi-annually to the RBC. Pending full allocation, unallocated proceeds may be applied to finance and refinance green, social or sustainability debt securities issued by the Government or Government entities.
  - Based on presence of an internal register, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - The Bank has committed to allocation and impact reporting, on an annual basis and to be made available on the Bank's website. Allocation reporting will include eligible asset volume compared to bonds on issue, amounts allocated at an Eligible Asset category level, any unallocated proceeds and the share of financing versus refinancing. Impact reporting will include a range of metrics such as number of homes built for people with complex care needs, for social and affordable housing, number of households supported into home ownership, and greenhouse gas emissions avoided.
  - Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Bank Australia Sustainability Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 2: Sustainability Bond/ Sustainability Bond Programme External Review Form.

## Section 2: Sustainability Strategy of Bank Australia

### Contribution of Framework to Bank Australia's sustainability strategy

Sustainalytics is of the opinion that Bank Australia demonstrates a commitment to sustainability through its Responsible Banking Policy<sup>22</sup> that focuses on following environmental and social areas: (i) Clean Money, (ii) Impact Finance (iii) Conservation Reserve (iv) Impact Fund and (v) Planet. The policy is core to the Bank's corporate strategy and operations, products, and services.

Bank Australia was certified by B Corp in June 2020.<sup>23</sup> This implies that the Bank follows the highest level of environmental and social standards in the world. The bank scored an 'Outstanding' 104.2 in the B Impact Assessment, which assesses the business based on how it operates and affects the environment and society and places Bank Australia well above average.<sup>24</sup> The Bank Australia Impact Fund<sup>25</sup> supports projects that deliver positive outcomes for people and the planet. In 2020, AUD 729,000 (approx. USD 539,200) was disbursed for projects under different eligible categories. Through their community customer grants initiative launched in 2016, the Bank has been supporting projects addressing issues including climate change, environmental conservation, diversity and inclusion, disadvantaged, and education and educational disadvantaged.<sup>26</sup> Staying true to its commitment towards carbon neutrality, the Bank has remained carbon neutral since 2011, while also sourcing 100% of its electricity demands from renewable electricity.<sup>26</sup> Through Climate Active certification in 2018, the Bank got its carbon neutrality formally recognized.<sup>27</sup> The Bank has set its emission reduction target, by committing to reduce its absolute Scope 1 and Scope 2 emission by 16% by 2025 from 2017 levels.<sup>28</sup> Through its Conservation Reserve initiative,<sup>29</sup> the Bank is helping to offset carbon and protect biodiversity. The Bank, through its Impact Finance business, lends to and invests in projects,

<sup>22</sup> Bank Australia, "Responsible Banking", at: <https://www.bankaustralia.com.au/responsible-banking>

<sup>23</sup> Bank Australia, "Certified B Corp Bank", at: <https://www.bankaustralia.com.au/responsible-banking/bcorp>

<sup>24</sup> Bank Australia, "What is B Corp and why should you care?" at: <https://www.bankaustralia.com.au/about-us/news/corporate/articles/what-is-a-b-corp-and-why-should-you-care>

<sup>25</sup> Bank Australia, "Impact Fund" at: <https://www.bankaustralia.com.au/responsible-banking/bank-australia-impact-fund>

<sup>26</sup> Bank Australia, "Impact Report 2020" at: <https://www.bankaustralia.com.au/globalassets/assets/reporting-governance-policies/corporate-financial-reports/2020/2020-impact-report-fa-lr.pdf>

<sup>27</sup> Climate Active, "Bank Australia" at: <https://www.climateactive.org.au/buy-climate-active/certified-members/bank-australia>

<sup>28</sup> Bank Australia, "Our new emission reduction targets" (2018) at: <https://www.bankaustralia.com.au/about-us/news/planet/articles/our-new-emissions-reduction-target>

<sup>29</sup> Bank Australia, "Conservation Reserve" at: <https://www.bankaustralia.com.au/responsible-banking/planet/conservation-reserve>



organizations and businesses that have a positive impact on people and the planet, such as energy efficient mortgages, home loans, social impact businesses and community housing.<sup>30</sup> The bank has launched “Clean Energy Home Loans” in 2020 to reduce their customer’s ecological footprint through building eco-efficient homes.<sup>31</sup>

In 2018, Bank Australia issued a sustainability bond, the proceeds of which are used to finance loans in an eligible asset pool of AUD 309 mn (USD 226 mn approx.), as of 30 June 2020, this included mortgages related to community housing, Specialist Disability Accommodation, affordable housing and mortgages for energy efficient homes with an added environmental offset.<sup>32</sup>

Sustainalytics is of the opinion that the Bank Australia Sustainability Bond Framework is aligned with the company’s overall sustainability strategy and initiatives and will further the Company’s action on its key environmental priorities.

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

While Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive environmental impact. 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 such as pollution and impacts on biodiversity from construction projects, worker health and safety, impacts on local communities. Bank Australia has processes in place to address these potential risks, including:

- The Bank’s Responsible Banking Policy aims to ensure that the Bank’s operations are responsible to the environment and society. In conjunction with the objective of its Responsible Banking Policy, the Bank is part of the “Clean Money Movement”<sup>33</sup> to ensure the Bank doesn’t invest in industries that cause harm. The Responsible Banking Policy includes details on positive and negative screening of the investments the Bank finances and excludes activities and businesses that are associated with fossil fuel industry, live animal export, intensive animal farming, tobacco industry, arms and gambling.<sup>34</sup>
- The Bank considers ESG factors in its lending decisions to help manage risk and ensure alignment with the Company’s values. These ESG factors include but are not limited to fair payment and treatment of workers, adherence to laws regarding bribery, corruption and environmental regulation, and human rights abuses. Additionally, the Bank’s Commercial Credit Policy, in line with its Impact Finance Strategy, intends to support positive impact outcomes on People, planet and Prosperity. The Bank assess each commercial lending through its risk assessment processes and based on the unique merits of each project and its Impact, the loans are disbursed.<sup>34</sup>
- Bank Australia commits to not provide any loans to or investment in the fossil fuel industry, including coal and coal seam gas projects.<sup>22</sup>
- The Bank has a Responsible Banking Management Plan<sup>Error! Bookmark not defined.</sup> that monitors the operating environment. It is designed as a “three line of defense framework” which 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.<sup>26</sup>
- Bank Australia’s Consumer Credit Policy<sup>35</sup> is in place to assess the viability and affordability of every lending decision of the Bank. Thus, ensuring that loans are provided to only those borrowers who can afford to repay the loan and not get exposed to unreasonable debt. The policy also limits the Bank’s exposure to credit risks and large liabilities.

<sup>30</sup> Bank Australia, “Impact Finance”, at: <https://www.bankaustralia.com.au/business-and-community/borrow>

<sup>31</sup> Bank Australia, “Clean Energy Home Loan”, at: <https://www.bankaustralia.com.au/personal/borrow/home-loans/clean-energy-home-loan>

<sup>32</sup> Bank Australia, “Bank Australia Sustainability Bond” (2020) at: <https://www.bankaustralia.com.au/globalassets/assets/reporting-governance-policies/sustainability-bond/impact-report/bau643-2020-sustainability-bond-impact-report-fa-lr.pdf>

<sup>33</sup> SBS, “Understanding Clean Money movement” (2019) at: [https://www.sbs.com.au/topics/article/2019/06/12/understanding-clean-money-movement%3Futm\\_medium%3Dpartnerships%26utm\\_source%3Dsbs%26utm\\_campaign%3Dclean%2Bmoney%26utm\\_content%3Dbra\\_pl\\_awa\\_dir\\_nat\\_q1\\_cm](https://www.sbs.com.au/topics/article/2019/06/12/understanding-clean-money-movement%3Futm_medium%3Dpartnerships%26utm_source%3Dsbs%26utm_campaign%3Dclean%2Bmoney%26utm_content%3Dbra_pl_awa_dir_nat_q1_cm)

<sup>34</sup> Bank Australia, “Our Responsible Banking Policy”, at: <https://www.bankaustralia.com.au/globalassets/assets/reporting-governance-policies/policies-plans-positions/responsible-banking-policy/responsible-banking-policy-statement.pdf>

<sup>35</sup> Bank Australia has provided the Consumer Credit Policy to Sustainalytics.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Bank Australia has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on the below where the impact is specifically relevant in the local context.

#### Significance of financing green homes in Australia

Australia is heavily dependent on coal for electricity, more so than any other developed country.<sup>36</sup> As of 2019, about 60% of electricity production is derived from coal.<sup>37</sup> Regarding energy mix, the residential housing sector uses 7.4% of the total energy consumption in 2018-19, a rise of 1% over the last year and 0.4% over the decade.<sup>38</sup>

Australia has committed to reduce greenhouse gas emissions by 26%-28% by 2030 compared to the emission levels in 2005.<sup>39</sup> In February 2019, Australia's energy ministers committed to a Trajectory for Low Energy Buildings – a national plan that sets a pathway towards zero energy and carbon ready buildings. As part of this plan, the Australian Building Code Board aims to strengthen the energy efficiency measures in the National Construction Code. This would be applicable for new residential and commercial buildings, from 2022, and the government may also include measures to improve energy efficiency of existing buildings.

As per projections by the government of Australia, indirect emissions from the residential sector accounted for 20% of the net emissions in 2020.<sup>39</sup> The main source of residential emissions is heating and cooling, which accounted for 40% of net emissions, followed by appliances at 25% and water heating at 23%.<sup>40</sup> However, it is estimated that the residential sector might see a decline in the share of indirect emissions by 5% in 2030.<sup>39</sup> This can be aided through an increase in the uptake of renewables and the energy efficiency of homes.<sup>40</sup> With Australia still building four out of five homes to meet the minimum requirement of NatHERS<sup>41</sup> standard and a negligible proportion to an optimal performance standard<sup>42</sup>, a green home loan is expected to fill the gap in the market and provide a financial incentive to adopt sustainable design principles.<sup>43</sup>

Given the above context, Sustainalytics recognizes the importance of financing green homes in Australia by improving energy efficiency in residential buildings. Bank Australia intends to use the proceeds to finance mortgages for green residential buildings and Sustainalytics is of the opinion that Bank Australia's financing is expected to increase the share of residential green buildings in Australia.

#### Importance of building Specialist Disability Accommodation

In Australia, there are around 4.4 million people with some form of disability, of which 2.1 million people are of working age.<sup>44</sup> The country has a low rank among the OECD members regarding relative income of people with disabilities.<sup>45</sup> Additionally, people aged between 15 and 64 years with disability have comparatively low labor force participation (53.4%) and high unemployment rates (10.3%).<sup>44</sup> At permanent residential aged care centers, 88% of young people with disability (<64 years) face limitation to self-care.<sup>46</sup> In the financial year 2018-

<sup>36</sup> UN, "Country Classification" at: [https://www.un.org/en/development/desa/policy/wesp/wesp\\_current/2014wesp\\_country\\_classification.pdf](https://www.un.org/en/development/desa/policy/wesp/wesp_current/2014wesp_country_classification.pdf)

<sup>37</sup> World Nuclear Association, "Australia's Electricity" (2019), at: <https://www.world-nuclear.org/information-library/country-profiles/countries-a-f/appendices/australia-s-electricity.aspx>

<sup>38</sup> Department of Industry, Science, Energy and Resources, "Australian Energy Statistics" (2020) at:

[https://www.energy.gov.au/sites/default/files/Australian%20Energy%20Statistics%202020%20Energy%20Update%20Report\\_0.pdf](https://www.energy.gov.au/sites/default/files/Australian%20Energy%20Statistics%202020%20Energy%20Update%20Report_0.pdf)

<sup>39</sup> Department of Industry, Science, Energy and Resources, "Australia's emissions projections 2020", (2020) at: <https://www.industry.gov.au/data-and-publications/australias-emissions-projections-2020>

<sup>40</sup> CEFC, "Green Home Loans in Australia", (2021), at: <https://www.cefc.com.au/media/3mvpoxki/kanganews-article.pdf>

<sup>41</sup> NatHERS, "The National Construction Code and State and Territory Regulations" at: <https://www.nathers.gov.au/governance/national-construction-code-and-state-and-territory-regulations>

<sup>42</sup> Domain media, "Not easy being green: Australia is still building four in every five new houses to no more than the minimum energy standard" (2019) at: <https://www.domain.com.au/news/not-easy-being-green-apparently-australia-is-still-building-four-in-every-five-new-houses-to-no-more-than-the-minimum-energy-standard-851761/>

<sup>43</sup> CEFC, "CEFC launches first green home loan with Bank Australia Clean Energy Home Loan", at: <https://www.cefc.com.au/media/media-release/cefc-launches-first-green-home-loan-with-bank-australia-clean-energy-home-loan/>

<sup>44</sup> Australian Network on Disability, "Disability Statistics" at: <https://www.and.org.au/pages/disability-statistics.html>

<sup>45</sup> Australian Human Rights Commission, "Face the Facts: Disability Rights", at: <https://humanrights.gov.au/our-work/education/face-facts-disability-rights>

<sup>46</sup> Australian Human Rights Commission, "People with Disability in Australia 2020", at: <https://www.aihw.gov.au/getmedia/ee5ee3c2-152d-4b5f-9901-71d483b47f03/aihw-dis-72.pdf.aspx?inline=true>



19, disability discrimination accounted for the highest volume of complaints across the board to the Australian Human Rights Commission.<sup>47</sup>

A 2018 survey by Household, Income and Labour Dynamics in Australia (HILDA) found that 11.2% of disabled Australians were living in unaffordable housing, i.e. households that falls in the bottom 40% of Australia's income distribution and are paying more than 30% of their income to housing costs<sup>48</sup>. This was substantially higher for those with intellectual disability (19.1%) and psychosocial impairments (17.3%).<sup>49</sup> Specialist Disability Accommodation (SDA) is a form of housing that is designed to enable eligible National Disability Insurance Scheme (NDIS) participants to receive the support they need to live in the community and improve the delivery of their supports.<sup>50</sup> This provides the potential for those living with disabilities to live independently and away from institutional/communal disability facilities or care in the family home. This shift has resulted in increased development of new custom designed or retrofitted housing to meet the needs of people with a spectrum of disabilities and care needs.<sup>51</sup> According to the NDIS, there are approximately 28,000 individuals who are eligible for SDA. This demand will be met by a mix of new construction and refurbishment of existing dwellings, requiring an estimated AUD 5 bn of new capital.<sup>52</sup>

Sustainalytics recognizes that SDA funding will enable eligible people better outcomes by providing less expensive and fit for purpose dwellings for people with disability. Sustainalytics is of the opinion that Bank Australia's financing for SDA providers is expected to reduce person-to-person support needs and allow for choice in models that utilize shared supports for person with disability, thus providing them the best possible living conditions.

#### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) issued under the Bank Australia Sustainability Bond Framework advances the following SDG's 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
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.
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>47</sup> Australian Human Rights, "2018 – 2019 COMPLAINT STATISTICS" at: [https://humanrights.gov.au/sites/default/files/2019-10/AHRC\\_AR\\_2018-19\\_Stats\\_Tables\\_%28Final%29.pdf](https://humanrights.gov.au/sites/default/files/2019-10/AHRC_AR_2018-19_Stats_Tables_%28Final%29.pdf)

<sup>48</sup> Ahuri, "Understanding the 30:40 indicator of housing affordability stress" at: <https://www.ahuri.edu.au/research/ahuri-briefs/3040-indicator>

<sup>49</sup> University of Melbourne, "Why Housing Is A Major Public Health Issue For Australians With Disability" at: <https://pursuit.unimelb.edu.au/articles/why-housing-is-a-major-public-health-issue-for-australians-with-disability>

<sup>50</sup> Department of Social Services, "Specialist Disability Accommodation", at: <https://blcw.dss.gov.au/grow/specialist-disability-accommodation>

<sup>51</sup> Lexology, "Specialist disability accommodation: an emerging asset class for investors" (2020) at:

<https://www.lexology.com/library/detail.aspx?q=cf860209-5973-4440-8d1d-4943e6c6ff80>

<sup>52</sup> NDIA, "The Specialist Disability Accommodation Provider and Investor Brief" at: <https://blcw.dss.gov.au/media/1099/ndia-specialist-disability-provider-update.pdf>

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## Conclusion

Bank Australia has developed the Bank Australia Sustainability Bond Framework under which it may issue sustainability bonds and use the proceeds to finance Socioeconomic Advancement and Empowerment, Green Buildings, Renewable Energy, Affordable Housing and Environmentally Sustainable Management of Living Natural Resources and Land Use. Sustainalytics considers that the projects funded by the sustainability bond proceeds are expected to provide positive environmental and social impact.

The Bank Australia Sustainability Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that Bank Australia Sustainability Bond Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7, 10, 11, 15. Additionally, Sustainalytics is of the opinion that Bank Australia has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Bank Australia is well-positioned to issue sustainability bonds and that that Bank Australia Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles (2021) and Social Bond Principles (2021).

## Appendices

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

#### Section 1. Basic Information

Issuer name:	Bank Australia
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Bank Australia Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 30, 2021
Publication date of review publication:	

#### 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 GBP and SBP:

- |  |  |
|--|--|
| <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 Evaluation 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 – Socioeconomic Advancement and Empowerment, Affordable Housing, Green Buildings, Renewable Energy and Environmentally Sustainable Management of Living Natural Resources and Land Use – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories may provide improved energy efficiency of residential buildings and positive social impacts for vulnerable groups in Australia while advancing the UN Sustainable Development Goals, specifically SDG 10, 11 and 15.

### Use of proceeds categories as per GBP:

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

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

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Bank Australia's Responsible Banking Committee ("RBC") oversees the process for project evaluation and selection. The RBC's project selection process takes into account assets that conform with eligible use of proceeds categories and alignment with relevant market standards and practices. Bank Australia has in place a Responsible Banking Policy which takes into account environmental and social risk management and are applicable to all allocation decisions made under the Framework. The Bank's Managing Director has final approval for all use of proceeds and is ultimately responsible for the eligible assets register. Sustainalytics considers the project selection process 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 has established a register that contains all eligible assets and the drawn down value of those assets. The RBC will track the proceeds using its internal reporting systems, ensuring eligible assets are identified with monitoring reports provided at least semi-annually to the RBC. Bank Australia has established a 24-month lookback period for the refinancing of assets and expects to achieve full allocation of proceeds within 12 months of issuance. Pending full allocation, unallocated proceeds may be applied to finance and refinance green, social or sustainability debt securities issued by the government or governmental entities. 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 (please specify):  |

**4. REPORTING**

Overall comment on section (if applicable):

The Bank has committed to allocation and impact reporting, on an annual basis and to be made available on the Bank's website. Allocation reporting will include eligible asset volumes, amounts allocated at an Eligible Asset category level, any unallocated proceeds and the share of financing versus refinancing. Additionally, Bank Australia will report on relevant impact metrics. Sustainalytics views Bank Australia's allocation and impact reporting as aligned 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 (please specify):                 |

**Information reported:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Allocated amounts  | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (please specify): eligible asset volume compared to bonds on issue, unallocated proceeds, the share of financing versus refinancing. |   |

**Frequency:**

- |  |                                      |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual       | <input 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):                 |

**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 type="checkbox"/> Other ESG indicators (please specify): number of homes built for people with complex care needs, for social and affordable housing, number of households supported into home ownership, and greenhouse gas emissions avoided. |

**Frequency:**

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

**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://www.bankaustr.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 (please specify):                     |  |

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

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's

overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.

- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. **Certification:** An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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