

# Project Finance and the Equator Principles

## Reporting on performance FY2016

### The Equator Principles

**Westpac was the first Australian bank, and one of 10 founding signatories globally to adopt the Equator Principles (the “Principles”). In adopting the Principles, we agreed to provide loans only for projects whose sponsors can demonstrate their ability and willingness to comply with processes that ensure they are developed in a socially responsible manner, according to sound environmental management practices.**

Westpac applies the most recent, third version of the Equator Principles (EP III), which expands the range of financing activities from project finance to project-related corporate loans or bridge loans, as well as enhancing the disclosure requirements and carbon considerations.

### About Project Finance

Project finance is the most common form of finance to which the Principles are applied. Project finance is a form of debt financing that relies on repayment from the underlying project cash flows, with no recourse provided to other assets or from parent company support. Project financing is most common for projects that typically require relatively large capital commitments and whose operations can be easily “ring-fenced” from other projects.

Typical sectors include transport infrastructure (e.g. motorway, airports, ports), social infrastructure (e.g. schools, hospitals, prisons), power generation (e.g. wind, solar, hydro, gas) and natural resources (e.g. gold, iron ore, oil & gas). All of these projects have the potential to impact the environment and the social community, and require a detailed assessment and an understanding of the ability to manage these issues.

With the increasing need for spending on public infrastructure, the development of new sources of renewable power, and continuing growth in demand for natural resources, project finance represents a growing form of financing provided by Westpac.

### Applying the Equator Principles

The Principles constitute an integral part of our financing evaluation and decision-making process. EP III requires their application to the following when supporting a new project<sup>1</sup>:

- Project finance transactions
- Project-related corporate loans
- Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance or a project-related corporate loan

Based on the requirements of EPIII, the Principles formally apply only to project finance with a capital cost of \$US 10m or more. However, we apply the Principles to all project finance transactions assessed, as we do not consider size to be the principal driver of environmental and social risk.

In addition to meeting these requirements, Westpac also undertakes refreshed Principle assessments for certain refinancings of operational projects (whether they technically fit into the project finance definition or not) to ensure that all our transactions meet the high standards of our Sustainability Risk Management Framework.

To meet our commitments we apply a detailed process of assessment against the Principles, including:

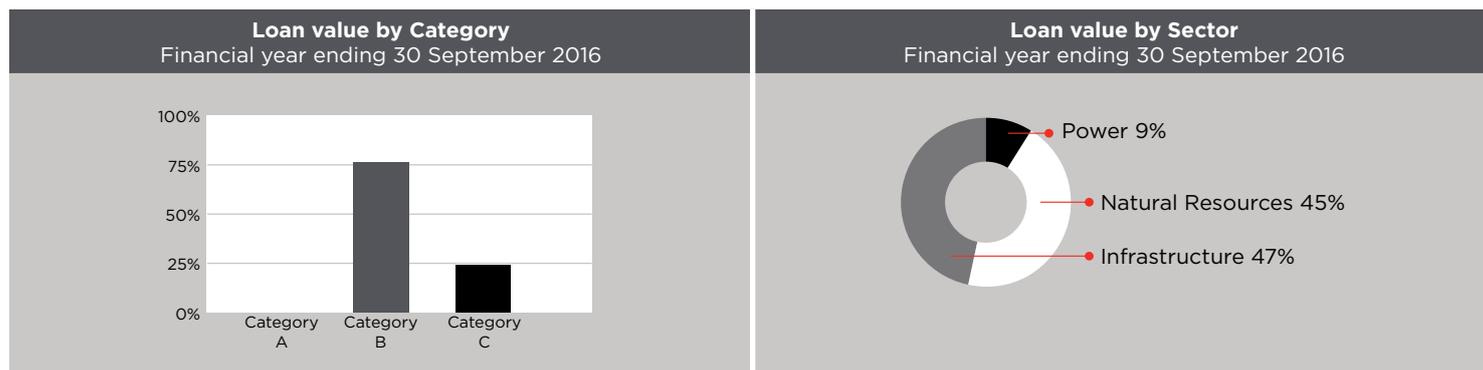
- Categorising all new and existing projects as category A, B or C
- Completing internal documentation using the Principles as the process benchmark
- Detailing any special conditions or covenants to apply
- Monitoring compliance with conditions subsequent and other material obligations of the borrower.

All relevant personnel involved in the evaluation and approval process are informed of the Principles’ requirements and implications of each project, and the Head of Project Finance (or a senior delegate) is required to sign off on the assessment of each project finance transaction against the Principles.

<sup>1</sup> EPIII also requires their application to Project Finance Advisory Services – not relevant for the Westpac Group based on the products and services we offer.

## Reporting on Performance

In 2016, Westpac financed four greenfield project finance transactions. The projects ranged across a number of sectors including transport infrastructure, natural resources and power. In 2016, Westpac provided finance to one Project-Related Corporate Loan assessed under the Principles.



In 2016, 100% of projects financed were in Australia.

Total value of project-related finance	AUD \$ million
Total Westpac loan share (for 12 months to 30 September 2016)	617.4

## Details of Project Finance Transactions in Accordance with EP III<sup>2</sup>

Sector	Project Name	Independent Due Diligence
<b>Australia</b>		
Natural Resources	Nyrstar	✓
Natural Resources	Doray	✓

Sector	Project Name	Independent Due Diligence
Infrastructure	WestConnex Stage 2	✓
Power	White Rock Wind Farm	✓

## Assessing Impacts

The following has been highlighted amongst the main environmental impacts of projects approved by Westpac in 2016:

Main environmental impacts	
<b>Transport and Social Infrastructure</b>	
<ul style="list-style-type: none"> <li>Noise pollution</li> <li>Air pollution</li> <li>Ground and surface water management</li> </ul>	<ul style="list-style-type: none"> <li>Archaeological and Heritage</li> <li>Impact on terrestrial flora and fauna</li> </ul>
<b>Power</b>	
<ul style="list-style-type: none"> <li>Carbon Emissions and Containment</li> <li>Noise Pollution</li> <li>Contaminant management</li> </ul>	<ul style="list-style-type: none"> <li>Archaeological and Heritage</li> <li>Impact on terrestrial flora and fauna</li> </ul>
<b>Natural Resources</b>	
<ul style="list-style-type: none"> <li>Noise pollution</li> <li>Air pollution</li> <li>Contaminant management</li> </ul>	<ul style="list-style-type: none"> <li>Ground and surface water management</li> <li>Archaeological and Heritage</li> <li>Impact on terrestrial flora and fauna</li> </ul>

<sup>2</sup> Ordinarily Westpac does not disclose details regarding companies or projects. However, as per the requirement of Equator Principles reporting, and with approval from customers, we disclose details regarding specific transactions.

## Project case study



### **White Rock Wind Farm Northern New South Wales, Australia**

- White Rock Wind Farm is a green field renewable energy project currently being developed in the north of New South Wales, approximately 20km west of the town of Glenn Innes.
- In June 2016, Westpac participated in the financing of the construction facility.
- The Project was subject to Westpac's Equator Principles assessment. Westpac applied the Equator Principles based on due diligence material and concluded that the Project was a Category B Project, defined as having potential limited social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.
- The project is a joint venture between CECWPC (a company backed by China Energy Conservation and Environmental Protection Group, a large scale group with expertise in clean energy and environment protection in China) and Goldwind Capital (the largest wind farm equipment manufacturer in China).