



28 February 2020

Dear Trustees,

Thank you for your letter dated 25 September 2019 for inclusion in the Green Investment Group ("GIG") *Progress Report 2019* and the UK Green Investment Bank Limited ("GIB") *Annual Report and Financial Statements for the financial year ended 31 March 2019*.

We welcome the constructive observations set out in your letter as part of our wider dialogue including our quarterly meetings. We have had subsequent discussions on several of the points that your letter raised and look forward to continuing to work with you on these points.

We set out here our position on the areas of interest identified in your letter, which we hope forms a helpful part of our ongoing discourse.

Green assessments

Transparency

We believe that we report on our green impact with a degree of transparency unmatched by any other private or public sector investor: our demonstrable track-record of transparency and commitment to disclosure of green impact since 2012 goes beyond that of any other equivalent financial organisation. Our priority is to maintain and enhance our market-leading position through continual improvement and we seek to improve our approach each year. Your comments and insights are an important part of helping us do that.

You proposed that we apply a higher degree of transparency to our green impact reporting at an asset level, with use of independent experts to validate the robustness of our reporting. As we have since discussed, we are in the process of commissioning an independent peer review of our approach that we hope will provide useful insights into how we can improve both the robustness and transparency of our reporting. We welcome that you will be feeding your views into that review and as discussed, we will share the review's findings with you for discussion.

You also suggested that we report publicly the green impact of all investments at the time of announcement: please be assured that we certainly seek to do this each time we make an announcement, but as we have discussed, in certain cases there may be commercial sensitivities that prevent us making such disclosures on a disaggregated, individual project basis. We appreciate your understanding in these specific cases.

Using the latest available data

We are committed to using globally applicable best available data in our assessment methodology and reporting. Furthermore, as one of the world's leading green infrastructure investors, we acknowledge the importance of using globally consistent data to enable projects and investments to be compared on a direct like-for-like basis in all markets where we are active.

UK Green Investment Bank Limited is registered in Scotland (Company number SC424067). The registered office is Atria One, 144 Morrison Street, Edinburgh, EH3 8EX.

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As you are aware, we have been pioneering development of the global greenhouse gas (GHG) accounting methodology by chairing the working group for the harmonised approach to project-level GHG accounting, which includes participation from 25 international finance institutions, and is supported by the United Nations Framework Convention on Climate Change (UNFCCC) as secretariat. It is this standardised and consensus-driven framework, agreed by leading global experts, that enables both comparison and credibility in assessment of a project's performance, and in aggregate when reported as a portfolio.

Of course, we recognise that no approach or methodology is without some limitations; nevertheless, this methodology is recognised as the best globally applicable framework for consistency and comparability, and given the consensus and active input from world leading experts, we are confident that it offers a robust and credible approach. Indeed, divergence from this approach would be detrimental to our reputation and diminish our credibility within the wider community of GHG accounting experts on a global basis. As our investment activities grow in geographical reach and application, it is of high importance that we can both assess and report comparative project performance using this framework in line with global best practice. That said, we continue to monitor changing best practice and seek to align our methodology as this evolves in the future.

We confirm that we have adopted the latest version of the harmonised approach to project-level GHG accounting emission factors dated July 2019 and will continue to update based on new emission factors as they are issued. We also trust that the independent peer review of our approach will give you comfort on the applicability of the approach.

Reporting against all five Green Purposes

The five Green Purposes have been an integral part of our green objective since GIB's inception in 2012, and they remain so. The Green Purposes are the primary framework for our green impact assessment and rating of new projects. We apply this same framework across all global activity using the GIG brand – testament to the central role the Green Purposes play in GIG's global investment activity.

GIG's business, as it was under public ownership, is to invest in commercial, risk-adjusted market-driven opportunities, and as such our focus has been on projects which have a clear revenue stream and deliver against one or more of the Green Purposes. We assess all prospective projects originated by GIG against all five Green Purposes, equally and without prejudice. However, projects which contribute to the protection or enhancement of biodiversity or the natural environment (e.g. natural capital or nature-based solution projects) tend to be rarer or may not meet current risk-adjusted commercial investment thresholds. Nonetheless, we share your ambition to broaden the range of our investments and make demonstrable contributions to all the Green Purposes.

In terms of reporting, as we have discussed, the assessment of contribution to the protection or enhancement of biodiversity or the natural environment Green Purposes is undertaken qualitatively. It therefore does not lend itself to aggregated reporting in a way that is achievable with quantitative metrics. This notwithstanding, we hope that the independent peer review of our approach may identify areas in which to improve our reporting against these Green Purposes.

External green assurance

Since 2012 we have subjected our data and processes to external assurance. This has provided internal and external stakeholders with confidence and trust in our governance and reporting, and we believe this assurance process to be good practice and well above normal practice in the financial sector. However, we welcome your comments and trust that our independent green assurers give you comfort on the data integrity of our green impact statements. With regards to integrity of our green impact assessment approach, we hope that the forthcoming independent peer review will give you additional and greater comfort in this regard.

Investment strategy

We welcome your positive comments on our commitment to development and creating new, investible projects. We will ensure that we provide you with regular updates on the progress of our development activity through our quarterly meetings.

GIG now has a global development pipeline of over 20 GW. Many of these projects are at a very early stage, creating new opportunities in new markets. A significant proportion of these projects are in solar, but the pipeline also includes projects utilising new technologies such as floating offshore wind. We are investing heavily in our in-house development capabilities to support this activity and as we grow our expertise, we hope to broaden the range of technologies with which we work.

Thought leadership

In line with our mission, we remain committed to accelerating the transition to a greener global economy. We will continue to play an active role in the energy transition and green economy community. Our UK-hosted Green Energy Conference continues to grow in strength: our 2019 event was attended by 500 stakeholders and featured discussions on topics ranging from transformative technologies to pathways to net zero. We are already looking forward to our 2020 event.

We are also looking across the whole Macquarie business at the role we can play to support an ambitious outcome for COP26 and look forward to further outputs from both the Global Commission on Adaptation and the Climate Finance Leadership Initiative, where, as founding members, we continue to play an active role.

Innovation

Over the reporting year in question, we expanded the range of technologies in which we have invested, making our first investments into battery storage and floating offshore wind developments. While we acknowledge our UK and European portfolio retained a focus on established technologies, we are looking to undertake activity with a broader range of technologies over the coming years. Projects in our medium-term global pipeline include usage of innovative technologies such as hydrogen, fuel cells, energy storage, and floating wind, in a number of territories including several in Europe. It is our ambition to be a leader in both financial and technological innovation in all markets. We welcome feedback or suggestions from Trustees on potential opportunities to support earlier stage and innovative projects.

Investment record

We are proud to be exceeding the commitments we made to the UK Government on taking ownership of GIB. In particular, we're proud to have met and exceeded the target to invest or arrange at least £3 billion of funding in the UK and Europe in the three years from September 2017 by investing or arranging almost £4 billion, whilst being transparent about the methodology by which we measure our progress.

Divestments

In keeping with our investment strategy, we will see a regular flow of asset divestments once we have supported new green projects through the development phase and into the lower-risk construction or operations phase. We believe this is where we can play the most valuable role in pursuing our mission, by using our technical, commercial and green skill set in taking on higher risk projects beyond the risk appetite of other investors, and then divesting these de-risked projects to long term owners such as pension and infrastructure funds.

We trust that our clarifications subsequent to your letter on the treatment of divestments in green impact reporting have helped address your concerns, and that our quarterly reporting process will provide a clear picture of our investment portfolio at any one time.

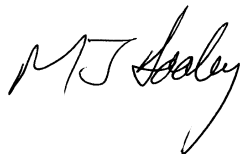
For the avoidance of doubt, we will always seek to re-estimate green impact for all our investments, including ones from which we have divested, should we become aware that the estimated green impact is likely to be materially incorrect. However, we acknowledge that in such circumstances our ability to re-estimate green impact accurately may be limited by our reduced access to project information (e.g. on technical operating parameters) following divestment.

Forward look

Over the forthcoming year, GIG will continue to focus on the delivery of our global development pipeline, finding innovative financing and technological solutions to accelerate the global green energy transition in both established and emerging markets. We continue to expand our service and product offering to drive the energy transition. It is our firm belief that this diversity of activity, coupled with our scale and global reach, makes us a unique platform at the forefront of the growth of the green economy. Importantly, as we diversify and grow, our mission remains constant, as does our commitment to maintaining our market leading green assessment procedures.

We look forward to a continued constructive relationship and to ensuring that our reporting and regular meetings supports your areas of focus.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M Dooley', with a stylized flourish at the end.

Mark Dooley

Global Head of Green Investment Group