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National Australia Bank (NAB) FY22 Full Year Results – *Climate Finance Assessment*

**Note a previous version of this analysis stated that NAB was involved in a minimum of $9bn worth of off-book debt arranging activities for companies with oil and gas expansion plans. This has now been updated to $5.4bn.*

In this second in CEF's series of climate finance analyses of Australia's Big 5 banks, we review NAB's disclosure efforts against four criteria that are key to assessing progress on financing decarbonisation in line with science-based targets.

Top level insights:

- NAB's achievement of its **$70bn environmental finance target three years ahead of schedule**, places within its reach a renewed 2030 climate finance stretch target in the realm of $200bn, should NAB choose
- Engagement with NAB's highest emitting customers needs to be scrutinised against net zero science with **transparency over internal transition assessment frameworks**, or risk artificially inflating progress in this area
- NAB's power generation loan book is already **heavily decarbonised**
- Ambition in emissions reduction across oil and gas and cement must lift in line with **the 2030 national 43% legislated reduction**
- NAB has the furthest to go in **decarbonising thermal coal**
- Combined coal, oil and gas balance sheet is **increasing more rapidly than renewable energy** – a trend that needs to be reversed
- NAB was involved in **a minimum of $5.4bn worth of off-book debt arranging activities** for companies with oil and gas expansion plans

The bottom line:

NAB has made a solid start across the four themes, but still requires an exponential uplift in ambition to match the capital pivot necessary to limit global warming to 1.5°C and in line with Australia's rapidly accelerating momentum.

Globally, US$4 trillion is required annually to 2030 to fund global energy systems and decarbonisation, representing a more than US$100 trillion investment opportunity to 2050. Despite our current position as the world's third largest exporter of fossil fuels, Australian exports could also play a leading role in reducing global embodied emissions in critical mineral supply chains, meaning Australian financial institutions have a world leading opportunity to facilitate and even lead the way.

Global momentum is building in terms of policies, finance, scale and technology development, and those planning to lead the decarbonisation of the global economy will be rewarded. Last week at COP27, UN Secretary General António Guterres reaffirmed that humanity must co-operate or perish and made clear his zero tolerance for net-zero greenwashing, as he launched the new UN report, "Integrity Matters". The report confirms

that net zero claims will not succeed on the basis of cheap carbon credits, in the presence of continued fossil fuel investments, by virtue of anti-climate science government lobbying, or with anything less than absolute value chain emissions reductions.

This week, the Net-Zero Asset Managers initiative (NZAM) announced reaching AU$100 trillion (US$66tn) in global AUM committed to being managed in line with achieving net zero by 2050 or sooner – showing that growth in net zero adoption outweighs the laggards who choose not to play ball. And momentum keeps building, with GFANZ having grown to US$150 trillion in total.

Last month, the International Sustainability Standards Board (ISSB) updated disclosure regulations to include scope 3 emissions, indicating that the mirroring of global accounting standards with investor expectations of global comparability and full transparency is on the horizon.

Private capital flows to zero carbon technology are accelerating – in just one transaction last week, $38bn was mobilised when Canadian private equity giant, Brookfield Asset Management, laid down an $18bn joint takeover bid for Origin Energy, and promised to invest an additional $20bn to fund Australian clean energy – demonstrating that a single deal can make a step-change in the climate agenda.

With these important shifts in mind, NAB's FY2022 results have been assessed against the same four themes we are applying consistently across our analyses in this series – NAB's climate financing pledge, customer engagement, emissions reduction by sector, and its energy balance sheet.

We find that NAB has made a solid start across the four themes, but still requires an exponential uplift in ambition to match the size of capital pivot required to limit global warming to 1.5°C. The bank, this year, appears far less confident in its net zero claims which were last year propped up on largely immaterial inhouse scope 1 and 2 emissions reduction claims, when attention to financed or scope 3 emissions is key to banks' decarbonisation progress. This perhaps indicates acknowledgement of evolving investor appetite for real climate progress and the regulatory loopholes closing on greenwash.

1. Climate finance pledge

This year NAB achieved its FY2025 10-year target of $70bn environmental financing[1], three years ahead of schedule. NAB has achieved a combined $70.8bn in environmental finance – $40.7bn from green lending, bonds, advisory, underwriting and arranging activities, and $30.1bn from lending to support 6-star residential property development.

[1] NAB environmental financing includes lending for green commercial buildings, specialised lending, corporate and securitisation finance for applicable projects, asset finance, green term deposits, and lending to support development of 6-Star residential properties as well as green bonds, advisory, underwriting and arranging activities.

This year, NAB financed $14.5bn towards environmental activities, up 5% relative to FY2021 with strongest growth this year in green bonds and project finance. This year, FY2022, insights include:

- $5.5bn lending to 6-star residential development, up 6% on last year
- $5bn in green project finance, up 39% on last year
- $1.5bn in green bonds, up from $0 in the previous two years
- 53% reduction in green deals where NAB played a facilitative role through advisory, underwriting and arranging, down to $1.7bn this year
- 46% reduction in lending for green commercial buildings, down to $0.7bn this year

By comparison, ANZ's environmental financing looks on par or greater than NAB, in the realm of $15bn in new environmental funding and facilitation[2] in FY2022. There are some important differences in NAB vs ANZ climate pledge – NAB's $70bn pledge is for "environmental activities" whereas ANZ's $50bn pledge is for sustainable activities across the ESG spectrum – limiting comparability across the Australian banking sector given different interpretations of definitions, measurement and reporting frameworks. Given NAB's market cap is 30% greater than that of ANZ's, we still feel it valid to ask NAB to increase its ambition commensurately, in line with both their overall size and their commitment to finance a Paris compliant world.

On the global stage, NAB has a huge opportunity to lift its ambition and leadership as sustainable finance market growth is set to explode this decade. It is a worthwhile reference to look to global peers such as Citigroup's sustainable finance pledge of US$1 trillion, where the relative environmental portion of this pledge is worth US$500bn.

We would therefore expect to see NAB set new ambitious green financing targets upwards of $200bn by 2030. Given its track record to date, NAB will easily surpass $120bn in sustainable financing to 2030 in what is quickly becoming 'business-as-usual' financing due to the global pivot of markets towards ESG considerations. We need to see NAB's ambition lift in line with a 1.5°C warming scenario for it to capitalise on the multi-trillion dollar decarbonisation opportunity.

NAB is well informed on the size of the prize – its Deloitte Access Economics' commissioned report on the economic value and opportunity of Australian decarbonisation found:

- The Australian economy stands to gain around **$890bn over 50 years** if coordinated and early action on decarbonisation is taken.
- **$420bn in new investment** required in Australia to achieve a productive and competitive net-zero economy by 2050 - 95% of this investment coming from four

[2] Calculated across ANZ's new lending in FY2022 under its '$50bn sustainable finance pledge', excluding our estimate of the portion that is social lending applied to Sustainability-linked facilities, ESG format bonds and advisory services, at a rate consistent with its explicit social v environmental lending portfolios. It would help comparability if the majors could agree on a consistent terminology.

priority sectors - energy, critical minerals and manufacturing, mobility/EVs, and food and land use.

- **$70bn** is to be reallocated away from emissions intensive assets by 2030.

NAB's critical role in financed emissions and energy decarbonisation cannot be overstated, and we look forward to seeing how NAB raises its sights to aligning with the Science Based Targets initiative (SBTi) and being a global leader in climate financing to 2030 and beyond.

2. Customer engagement

NAB is engaging with 86 of its highest emitting corporate and institutional customers with its own rubric – a 'Transition Framework Diagnostic' – used to assess the relative 'transition maturity' of each organisation. NAB reports 60% of its 'resource extraction and service' clients to be at transition Band 4 indicating the highest level of maturity within the rubric, and 40% overall at Band 4. However, the definition of Band 4 - 'Strategic Assessment' - is opaque, not coupled with any meaningful reportable benchmarks, and can at most be approximated by reference to its distinction from Band 1 - 'Acknowledgement of climate change as a business issue', Band 2 - 'Building Capacity', and Band 3 - 'Integration into operationalisation and decision-making'.

This definitional opacity leaves the rubric open to critique of greenwashing.

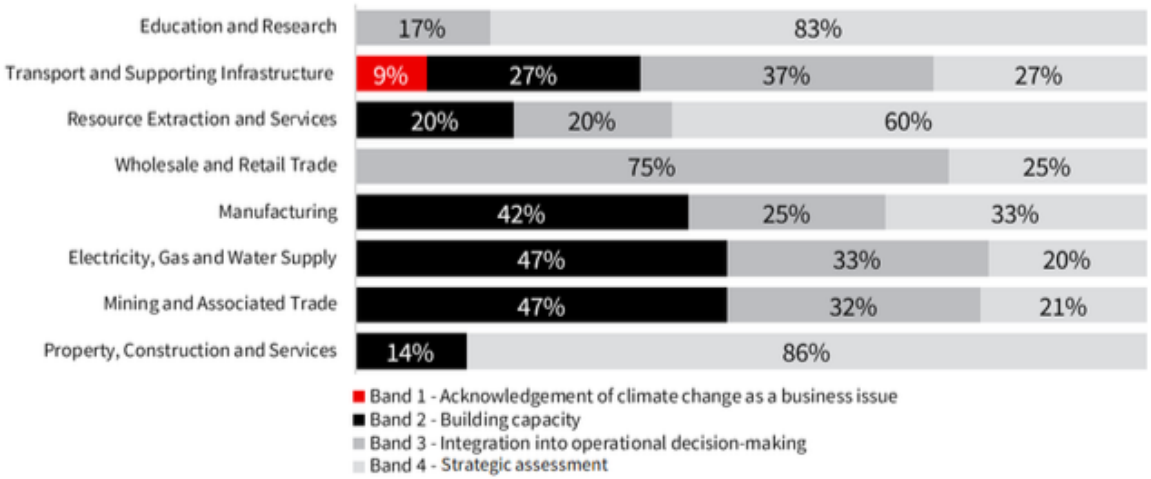

Figure 1 – Transition maturity of 86 assessed customers by sector

NAB reports 63% of its highest emitting customers have set a goal to be net zero by 2050. However, this is too loose: we know that long-term emissions reduction targets must be coupled with interim targets this decade, ensuring year-on-year sustained emissions reductions to align with 1.5°C. Moreover, last month's Climate Action 100 (CA100) benchmarking of high-emitting global companies revealed net zero commitments are still

not matched by credible transition plans – while 75% of CA100's focus companies have a NZE commitment by 2050 or sooner, only 10% have committed to aligning their capex plans accordingly. The above observations lead us to the conclusion that it strains credulity that 60% of NAB's resource extraction customers, for example, and 40% of NAB's customers overall have transition plans of the highest level of maturity.

We do note that NAB commits to building on its transition maturity assessment capability, including through 'operationalising interim sector decarbonisation targets'. It also notes that 'it is important that consistency and comparability is developed in how financial services institutions assess transition plans'. The Australian Sustainable Finance Institute is in the process of establishing a taxonomy geared to science based targets that will provide a shared baseline for measuring heavy emitting customers' progress to decarbonisation, and provide transparency and assurance over transition plan assessments.

This is a welcome move. Notwithstanding NAB's demonstrable initial efforts on customer engagement, global finance, including in Australia, needs to move to more closely aligning with science-based targets, particularly with regards to capex commitments. We therefore expect NAB to become significantly more aggressive, transparent and rigorous in the near term in the scoring and benchmarking of its customers.

3. Emissions reduction by sector - NAB climate report 2022

NAB has established 2030 emissions reduction targets on four sectors – power generation, thermal coal, oil and gas, and cement – and is working on establishing targets across six more – commercial properties, residential real estate, iron and steel, aluminium, agriculture, and transport.

Sectoral emissions are measured against a 2021 EAD baseline because of the lag between when NAB's customers report their emissions (e.g. to the Clean Energy Regulator through obligations under the National Greenhouse and Energy Reporting Act) and the availability of this data for NAB's reporting, which is one year in arrears. A move towards near-real-time emissions data availability would provide investors and lenders greater information to make Paris-aligned capital allocation decisions.

NAB aligns their sectoral targets with UNEP FI's Guidance for Climate Target Setting including their approach on emissions reduction scope and metric (see Figure 2):

- On **emissions scope**, NAB's targets addresses scope 1, 2 and 3 emissions with some limitations on scope 3 coverage where they report data inadequacies:
    - Scope 3 emissions reduction targets are established for thermal coal and oil and gas where it is significantly material
    - Scope 3 targets are not established for power generation and cement due to a combination of lower data quality and availability, and because the majority of emissions in each of the sector value chains are scope 1 and scope 2 – noting a SBTi verified target would require NAB to address scope 3 where a

company's relevant scope 3 emissions are 40% or more of total scope 1, 2, and 3 emissions

- On **emissions reduction metrics**, NAB uses two metrics indicating the appropriateness of each measure:
  - Absolute emissions reduction targets for thermal coal, oil and gas, consistent with achieving an absolute reduction in lending over time to these sectors
  - Physical intensity reduction for power generation and cement which means reducing emissions per MWh of power, and per tonne of cement, while absolute emissions will increase with any EAD increase in the sector

	Emissions reduction scope		Emissions reduction metric	
Sector	**Scope 1 and 2**	**Scope 3**	**Physical intensity reduction**	**Absolute emissions reduction**
Thermal coal	✓	✓		✓
Oil & gas	✓	✓		✓
Power generation	✓		✓	
Cement	✓		✓	

Figure 2 – NAB's sectoral emissions reduction, scope of emissions and chosen metric

In **thermal coal**, NAB targets a full 100% emissions reduction by 2030, in line with its commitment towards no new financing of thermal coal mining projects or new thermal coal mining customers. But NAB has a lot further to go than other Big 4 banks – NAB's FY2021 baseline EAD was $0.7bn, while in the same year ANZ's was $0.4bn (which then halved in FY2022), CBA $0.33bn, and Westpac's $0.22bn.

In **oil and gas extraction and production**, NAB's 21% absolute emissions reduction target by 2030 is less than half the Federal Government's ambition of 43% economy wide emissions reduction target to 2030. We know rapid decarbonisation of the global oil and gas is critical for limiting 1.5°C global warming temperatures, and Australian LNG exports account for about 20% of global LNG exports, and Australia is rife with new methane gas expansion plans totally unaligned with SBTi..

In **power generation**, NAB targets a 32% reduction in emissions to 2030 from a 2021 baseline of 200 $kgCO_2$-e/MWh. The NEM's 2022 market average is 810 $kgCO_2$-e/MWh[3], making NAB's power generation book is already 75% lower in emissions and heavily decarbonised in advance of the market – a trend we expect to continue as 92% of committed new generators in the pipeline[4] are solar or wind.

In **cement**, NAB targets 2030 emissions reduction to 0.46 tCO_2-e per tonne (24% reduction against 2021 baseline), which is almost half the legislated 43% emissions reduction target to 2030. Given the cement sector is, globally, the third largest industrial energy consumer and the second largest industrial CO_2 emitter and represents 7% of emissions globally, we need

[3] Average emissions per MWh from NEM installed capacity (existing generators only) – AEMO 2022
[4] Portion of committed and anticipated generators that are renewable (solar or wind) – AEMO 2022

to see NAB move to aligning with SBTi guidance for the cement sector which was delivered this year.

NAB's 2022 climate report also recognises current loopholes where sectoral emissions reductions targets do not include 'facilitated emissions'.[5] As investor expectations move towards global comparability and full transparency, we would expect to see facilitated emissions become a feature of high emitting sector disclosures.

4. Energy loan book

NAB's 2022 exposure to renewable energy is $5.36bn[6] – a 5% increase on last year – while its combined exposure to coal, oil and gas is $4.72bn[7] – a 10% increase on last year.

Even though it is positive that NAB's renewables loan book is larger in absolute dollar terms than fossil fuels, and notwithstanding fossil fuel hyperinflation globally in 2022, we are seeing the banks' combined coal, oil and gas balance sheet increase more rapidly than renewable energy – directionally wrong.

The global energy and climate crises mean we need significantly bigger renewables investments from major banks now so that Australia sets up itself up for both accelerated decarbonisation and sustainably reduced energy costs in future – coupled with a rapid diminution in the fossil fuel loan book.

Furthermore, CEF calculates an additional $5.4 billion worth of NAB activity in 2022 that 'facilitates' oil and gas expansion[8] – which is entirely incompatible with the International Energy Agency's global net zero pathway and its landmark finding in 2021 that there can be no new coal and gas if the world is to avoid climate breakdown. This suggests, as we noted in our previous analysis of ANZ, that corporate loans and 'off balance sheet' facilitative financing for fossil fuels – where, for example, a bank acts as lead arranger of a loan as opposed to making a direct capital allocation – exceeds Australian banks' public energy loan book disclosures. In this case, NAB's off-book financing of oil and gas expansion is more than double its on-book exposure to upstream oil and gas.

An encouraging development is that since last year, NAB is operating under a self-imposed exposure cap of US$2.4bn – the first Australian bank to set such a cap, which likely predated Russia's war on Ukraine and consequent energy market hyperinflation and volatility. However, CEF notes that this year, there was a change in reporting methodology, where

[5] Facilitated emissions may include emissions occurred from NAB's advisory, underwriting, loan syndication or debt capital markets activity
[6] Sum of wind, hydro, and other/mixed renewables from electricity generation portfolio
[7] Sum of O&G extraction (lending and other markets-related exposures – e.g. derivatives, foreign exchange, repurchase agreements), thermal coal mining, and electricity generation by coal and gas
[8] Includes only deals to companies held on Urgewald's Global Oil and Gas Exit List

NAB now reports on oil and gas (O&G) extraction in two categories – lending and other[9] – instead of one.

This change in methodology makes it more challenging to identify NAB's level of exposure relative to the cap. The key points are as follows:

- NAB's US$2.4bn exposure cap on O&G extraction covers O&G extraction (upstream) and LNG production (including wellhead and integrated LNG, but not at downstream refineries), and includes all lending, derivatives, and performance guarantees for the rehabilitation of existing asset.
- However, in this year's O&G extraction reporting methodology, derivatives are split out from lending and masked in with a stew of 'other' instruments. It is not clear why NAB does this, but it does make it more challenging to identify NAB's level of exposure under the cap.
- NAB hasn't breached its exposure cap – with total O&G extraction exposure in 2022, comprising lending plus other, at AU$3.6bn, or US$2.34bn (at the same rate of exchange used by NAB). We do note that this is just US$60m shy of its O&G extraction exposure cap.

While there is no overt breach of the cap here, there does not appear to be a well justified reason for the change in methodology, and there is no indication in the reporting as to why this change was made. We would expect NAB's disclosures to become more transparent and more consistent over time and that any changes in methodology to be clearly explained.

We further expect to see NAB pivot their financing towards clean energy at a rate consistent with the International Energy Agency's pathway to net zero and the SBTi.

Reference to NAB's 2022 reporting suite:

- 2022 Full Year Results Investor Presentation
- 2022 Climate Report
- 2022 Annual Review

[9] Includes 'other' markets-related exposures – e.g. derivatives, foreign exchange, repurchase agreements