NAB FY23 Climate Finance Assessment

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Summary – this is an update from CEF's FY22 NAB climate finance report.

Energy financing - see page 1

- **NAB's exposure to renewables is higher than its on-book fossil fuel financing for the first time** but the full scope of its fossil value chain exposures and facilitative financing is not disclosed. This is inconsistent with NAB's green financing disclosure and we call on NAB for greater transparency in fossil fuel financing.
- NAB supported the Australian Industry Energy Transitions Initiative (ETI) which models a 36% reduction in Australian LNG exports to 2030 and 75% reduction to 2040 against a 2020 baseline guided by the IEA NZE scenario. However, **NAB's oil and gas (O&G) financing policy does not stack up** to this ambition, with major gaps in corporate finance, bonds, and facilitative finance.
- Similarly in thermal coal, although **NAB reports no on-book exposure**, limited transparency and bank policy surrounding bond financing is a major gap, especially in light of evidence that finds **coal companies to have raised 2.5 times more capital through bond issuance than bank loans since the Paris Agreement**.
- **Metallurgical coal customers will face enhanced ESG due diligence** and reduced lending over time in line with a new 22% absolute emissions reduction 2030 target for iron and steel. This is timely given the momentum building globally to decarbonise the steel sector (e.g. Sweden, Canada, Namibia and Japan).

Transition plan expectations - see page 3

- By 1 October 2025, NAB will require **customers in O&G, metallurgical coal, and some power generation customers to produce credible transition plans**. We call for the **transition plans of the bank and its customers to align with the UK Transition Plan Taskforce (TPT) global standard** to ensure the most impactful transition indicators are assessed, especially for high emitting customers of the bank.
- **NAB is actively designing its role in supporting a just and inclusive transition**, and is the only Australian company to participate in the United Nations Global Compact Think Lab on Just Transition, which explored how a company's business strategy can actively contribute to and participate in a just transition.

Sector targets – see page 5

- Important to see that under the Net Zero Banking Alliance (NZBA), NAB set **new 2030 sector targets for aluminium, iron and steel, and aviation**. It adds to 2030 targets for power generation, oil and gas, thermal coal mining, and cement, all of which NAB is tracking ahead of their respective chosen net zero pathways.
- Sector targets have been approved by NAB's Executive Leadership Team (ELT) and the Board, and the bank is **investing in staff capacity to review sector-relevant transactions, data quality improvements and continuing transition plan assessments of affected customers**.

Climate financing – see page 7

- Last year NAB achieved its $70bn environmental financing goal, and is **establishing a new forward-looking ambition for climate financing**, to be communicated in 2024, which will consider evolving market and regulatory expectations such as the ASFI Australian Taxonomy and the 2022 National Construction Code.
- **This year NAB provided $4.5bn in new environmental lending** comprising green commercial real estate, green securitisation, sustainability-linked lending and new underwriting and arranging activities.
- **NAB also provided $557k in cash grants during the year for disaster relief efforts** in flood-impacted regions. While band aids are helpful, we'd much prefer NAB step up its efforts and advocacy to drive accelerated alignment with the climate science (as outlined in its Powering Ahead report), given their financial power in Australia could really drive systemic change for the good.

1. Energy financing[1] – see Sustainability Data Pack and Climate Report p.24

NAB's FY23 exposure to renewables[2] is higher than its on-book fossil fuel financing for the first time – a promising sign of the tide turning within the bank, however, the pace is still far too slow especially when we consider the potential scope of whole of value chain fossil exposures plus facilitative financing through arranging, advising and underwriting deals.

BloombergNEF estimates the global banking sector will need to reach a point of allocating $4 in clean energy supply for every $1 it allocates in fossil energy supply by the end of this decade – where energy supply is defined as 'the infrastructure built to extract, generate and distribute energy from fossil fuels or low-carbon resources'.

This ratio is impossible to accurately calculate for NAB without transparency on its financing of exploration, refining, transport, and distribution across the fossil fuel value chain, which it does not provide. Using the disclosed fossil fuel exposures, however, NAB's energy supply investment ratio amounts to $1.1 in renewable energy for every $1 in fossil energy. FY23 EAD to upstream and some midstream fossil fuels was $5bn,[3] while renewables (wind, hydro and other/mixed renewables[4] for power generation) was $5.4bn.

Oil and gas

NAB supported an extensive consultation and cooperation between industry and research partners over three years for the Australian Industry Energy Transitions Initiative's (ETI) landmark Phase 3 Report. Guided by the IEA NZE scenario, the Australian Industry ETI assumes a 36% reduction in Australian LNG exports between 2020 and 2030 and a 75% reduction between 2020 and 2040, in response to emissions reductions in key export markets such as China, Japan and South Korea (see page 130).

But unlike its peers CommBank and Westpac, NAB has not restricted project finance for new and expanded fossil fuel projects consistent with the IEA NZE scenario and the climate science, nor bond facilitation for fossil fuel companies without Paris-aligned emissions reduction plans.

Despite being the first big bank to lay out an oil and gas financing restriction policy in 2021, last year NAB participated in three deals in which it loaned $290 million to the Pluto 2 project in March 2022, took part in a $1.8 billion loan helping facilitate Santos' continued fossil fuel expansions in August 2022, and in November 2022 acted as a joint book runner for a $644 million bond to one of the biggest LNG facilities in the world with massive expansion plans, Sabine Pass.

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[1] NAB's reported figures from FY23 are incomparable to previous years due to implementation of APRA's revised capital adequacy and credit risk capital requirements, and unfortunately NAB does not provide FY22 in a comparative format. More info in NAB's Pillar 3 Report.
[2] The boundary for renewables customers includes vertically integrated energy retailers where majority of their generation activities sourced from renewable energy.
[3] Fossil fuel exposures calculated by oil and gas extraction, thermal coal mining, met coal mining, and electricity generation by gas and mixed fuels.
[4] CEF will seek for clarification on what other/mixed renewables consists of.

In Canada, NAB was also involved in refinancing a $1.86 billion loan to the Coastal Gaslink Pipeline, in British Columbia in Canada, in July 2022. Over its lifetime the pipeline would enable the release of at least 610Mt CO_2-e. The project also faces fierce opposition by the Wet'suwet'en First Nations people who have not provided free, prior and informed consent to the project, which violated both international human rights law and NAB's own human rights policy. It demonstrates the reckless behavior of NAB in exploiting loopholes in their O&G policy that they themselves created as a key feature of their net zero commitment.

Coal

In a welcome announcement, NAB reports no outstanding on-book lending to thermal coal mining customers or assets, and the bank declares their intention to maintain this position into the future (Climate Report, p.24). It's a sign of early progress towards their 2030 commitment to exit thermal coal – a fight hard won by communities, environmentalists, and in recognition of the stranded asset risks that exist today.

However, since the Paris Agreement, coal companies with the largest expansion plans have raised 2.5 times more capital through bond issuance than through bank loans. We urge NAB to place restrictions and provide transparency over bond financing for coal companies.

Metallurgical coal customers will face enhanced due diligence measures with respect to ESG risks, which will support its 22% reduction in absolute emissions in its iron and steel portfolio by 2030. So far, there is no commitment from NAB to working with the sector, or to nudge systems levers, to bring forward decarbonisation of the sector, such as the commitment made by Westpac to support the development of alternative products and processes in low emissions steel making.

2. Transition plan expectations and engagement

Transition plan expectations - Climate Report, p.12

Building on last year's commitment to required all O&G customers to produce credible transition plans by 1 October 2025 (FY22 Climate Report, p.30), NAB will require the same of high-emitting customers (corporate and projects) metallurgical coal, and power generation where > 25% electricity is generated by thermal coal.

We note the transition plan expectation aligns behind federally mandated climate-related financial disclosures to commence for the reporting period starting 1 July 2024 for Australia's largest companies, including NAB.

NAB intends to assess their customer's transition plan based on a framework that will include science-aligned interim and long term targets, scope 1, 2 and 3 emissions disclosures, emissions reduction actions backed by capex allocations, and a plan for reducing reliance on carbon offsets over time.

But the application of this framework and the expectation placed on NAB's customers is still two full years away. Reporting on paper use, sourcing and recycling is nice, but accelerated focus on substantive scope 3 financed emissions and facilitating customer alignment is the absolute priority, as is climate advocacy to ensure policy frameworks are credible, expedited and science target aligned.

We argue that by 1 October 2025, transition plans of the bank and its customers should be aligned to the UK Transition Plan Taskforce (TPT) global standard to ensure the broadest and most comprehensive set of transition indicators is assessed, especially for high emitting customers of the bank.

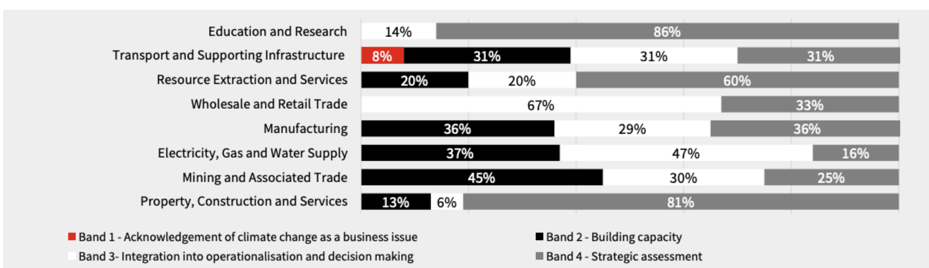
Transition plan engagement – Climate Report, p.12

This year NAB completed a transition maturity assessment of 100 of its highest-emitting customers. More than two thirds of the customers were rated as "relatively transition mature" as they had TCFD reporting commitments and/or a long term goal to be net zero by 2050 or sooner.

Of note is 8% of NAB clients within 'transport and supporting infrastructure' who have low levels of transition maturity that don't yet go beyond acknowledging climate change as a business issue (Fig 1).

We call for transparency in the assessment results to better understand NAB's current standard/definition of "transition maturity", given the real time escalation of ecological tipping points that push beyond the boundary of a safe living environment for humans and most other species.

Figure 2: Transition maturity of 100 of our largest emitting customers by sector(1)



(1) The Diagnostic assists in the classification of transition maturity in the following bands: 0 – Unaware of (or not acknowledging) climate change as a business issue, 1 – Acknowledgement of climate change as a business issue, 2 – Building capacity, 3 – Integration into operational decision making, 4 – Strategic assessment. Note, no clients were assessed at the '0' level of maturity. Percentage breakdown per sector may not sum to 100 due to rounding.

Figure 1 – Climate Report, p.12

The banks' transition plan – Climate Report, p.15 and Annual Report, p.48

We applaud that NAB discloses their use of internal sector transition plans (aligned to the Glasgow Financial Alliance for Net Zero Transition Plan framework) to guide decision making and stakeholder engagement within their power generation, thermal coal, oil and gas and cement portfolios, all of which have NZBA emissions reduction targets.

In line with [best practice transition plan disclosure for banks](#) published this week by the UK Transition Plan Taskforce (UK TPT), we expect NAB to provide transparency over the internal transition assessment framework used, as well as additional disclosure on how the bank is supporting a 1.5°C aligned, whole-of-economy transformation through its products and services and systems levers like policy advocacy.

Just transition

NAB is the only Australian company to participate in the United Nations Global Compact (UNGC) Think Lab on Just Transition and contributed to the development of five key business briefs. These briefs seek to identify good business practices and advocacy opportunities, address key business challenges and define leadership on critical areas linked to the transition. NAB will base its role in supporting a just and inclusive transition on the four principles outlined in Figure 2.

Table 1: NAB's guiding principles for a just and inclusive transition

Principle	Details
Build awareness and advocate	• Initiatives and activities to raise awareness and build understanding of the social dimensions in the transition. • Identifying opportunities to include considerations around just transition in policy advocacy activities.
Operationalise just transition	• Embedding just transition as an important factor of climate strategy. • Improving understanding of how just transition considerations can be better embedded in ESG due diligence, decision making and product development processes. • Empowering colleagues to raise questions and concerns to better inform the overall approach.
Engage and develop partnerships	• Engaging across sectors, customers and governments. • Seeking to collaborate through partnerships with key stakeholders to facilitate a cohesive, comprehensive, and inclusive transition.
Improve transparency	• Importance of including just transition considerations and social dimension in climate-related reporting.

Figure 2 – Climate Report, p.15

3. Sector targets – see Climate Report pp. 30-53

In an important step forward, this year, NAB established 2030 decarbonisation targets for another three emissions-intensive sector targets – for aluminium, iron and steel, and aviation – under its Net Zero Banking Alliance (NZBA) commitment. It adds to targets already established for power generation, oil and gas, thermal coal mining, and cement production, all of which NAB is tracking ahead of their respective chosen net zero pathways.

Figure 3 – Investor Presentation, p.121

By May 2024, NAB will set targets for agriculture, commercial and residential real estate, as well as closing the gap on decarbonising road and rail transport which has been split out from aviation to create effectively 11 carbon-intensive sectors (see Figure 3).

All sector targets have been reviewed and approved by the ELT and the Board, and NAB reports implementing processes to monitor and manage the decarbonisation targets and to assist colleagues in reviewing potential transactions (Climate Report, p.41). It also reports investments in data quality to better inform decision-making, training for staff in relevant sectors, and continuing its transition plan maturity assessments of 100 high-emitting customers.

We assess the new targets of aluminium, iron and steel, aviation and project the need for an agricultural target

Aluminium – Climate Report p.47

NAB's sector target for aluminium is higher than its FY22 portfolio emissions. NAB explicitly boils this down to the role that aluminium will play in the energy transition, rather than an intention to support existing customers to increase the emissions intensity of their production.

CEF sees carbon pricing, policy developments, bilateral agreements with our key international trade partners and supportive climate science aligned financing as keys to collectively driving development of green aluminium markets for Australia, both domestic and export. Australia is perfectly positioned to be a renewable energy powered minerals and metal export superpower, exporting embodied decarbonisation to aid our neighbours' decarbonisation objectives as well as our own. This should mobilise billions of new investments and underpin the sustainable pivot of the Australian economy.

Iron and steel – Climate Report p.31, 51

NAB's FY22 iron and steel EAD was $341 million and represented 28% of the bank's financed emissions. This year NAB sets a 2030 sector target of 22% absolute emissions reduction in its iron and steel.

NAB is expecting to reduce lending exposure to metallurgical coal extraction over time, as technology matures and demand for metallurgical coal decreases as global steel manufacturers pivot from high emissions blast furnaces to electric arc furnaces, recycling, green hydrogen and green iron. Again this opens up a massive $100bn annual value-added export opportunity for Australia to export embodied decarbonisation whilst aiding the drive towards global decarbonisation.

Financing to customers will be subject to enhanced due diligence which further considers underlying environmental, social and governance risks. Additionally, metallurgical coal customers come under NAB's customer transition plan expectations from 1 October 2025 for new or renewed corporate lending or project-related lending.

Aviation – Climate Report, p.53

In 2019, domestic aviation was responsible for 8% of Australia's total national emissions.

NAB's sector target for aviation is a 26% emissions intensity decrease by 2030, against a 2019 baseline to adjust for anomalous sector emissions baselines in the years 2020-2022 due to the pandemic. The banks' aviation portfolio is a mix of corporate lending to airlines and asset financing to aircraft lessors.

The new target leverages national efforts to decarbonise aviation through commitments to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) which will mandate the use of at least 10% blend of Sustainable Aviation Fuel (SAF) by 2027, which should in turn unlock financing of new low emissions new technologies at commercial scale. Australia has been a participant since the CORSIA's inception and continues to contribute to the development of the CORSIA through active membership in ICAO's Committee on Aviation Environmental Protection and its working groups.

NAB will decarbonise its aviation loanbook by primarily allocating capital to corporate airlines with 2030 decarbonisation commitments, as well as providing finance for efficient aircraft with emissions intensity values that are in line with NAB's target.

During the years 2020-2022, the sector's absolute emissions decreased due to the Covid-19 pandemic and reduced flight numbers, which caused an increase in the emissions intensity metric due to emissions that were incurred having to be spread across less km traveled, therefore the CO_2-e per km traveled was skewed. This scenario demonstrates some of the weaknesses in relying upon emissions intensity metrics for financed emissions calculations.

Agriculture – Climate Report, p.38

At 15% of NAB's financed emissions, Agriculture is the second highest carbon intensive sector on the books, after iron and steel (28% FY22 financed emissions). Next year, NAB will establish and disclose a 2030 agriculture portfolio emissions reduction target.

Decarbonisation targets set for Agriculture would complement NAB's green agriculture lending activity (Climate Report, p. 74), as well as NAB's $2.9m investment in a banking hub in the booming Wagga Wagga, a well-known agribusiness hub in regional NSW, as well as agribusiness climate banker training being delivered in partnership with Melbourne Business School.

4. Climate financing – Climate Report, pp. 55, 74

Excellent to see that last year, NAB achieved its 2025 $70bn environmental financing target and exceeded it by $800m.

This year, NAB added to this by providing $4.5bn of new environmental lending comprising green commercial real estate[5] ($1.93bn), green securitisation ($0.09bn), sustainability-linked lending ($0.60bn) and new underwriting and arranging activities ($1.89bn) as at 30 September 2023.

[5] Commercial real estate includes financing and refinancing of commercial property within NAB's real estate investment trust (REIT) customer base within the NAB Corporate and Institutional Bank.

NAB also reported a further $2bn outstanding in green bonds as at 30 September 2023, and $0.08bn in new lending towards green agriculture and asset finance over the course of FY2023.

With such expansive and inclusive boundaries for what constitutes green finance, we call on NAB to expand the boundaries of its fossil fuel disclosures to include things such as, but not limited to, arranging, advising, underwriting, and other debt market activity.

NAB's lending under the new environmental financing definitions is targeted towards sectors and technologies consistent with the Climate Bonds Taxonomy and leverages the Climate Bonds Standard Sector Criteria to screen and select "use of proceeds" consistent with a pathway to net zero by 2050 and a maximum temperature rise of 1.5°C.

This FY24, NAB is establishing a new forward-looking ambition for climate financing expected to be communicated in 2024, that will be developed with respect to evolving market and regulatory expectations such as the ASFI Australian Green Taxonomy and adoption of the National Construction Code (2022). CEF strongly advocates for a recognition that Net Zero Emissions targets for developed world countries like Australia need to be accelerated by a decade to align with the climate science.

Green asset class (drawn/outstanding as at 30 September)	$bn
New 2023 green lending and green commercial real estate	1.93
New 2023 securitisation activity	0.09
New 2023 sustainability linked-lending	0.60
Total underwriting and arranging activities	1.89
Total green bonds	2.00
Total green agriculture and asset finance	0.08

Figure 4 - Sustainability Data Pack

Green Homes

Last FY, NAB reported $5.5bn lending to 6-star residential development. This year, while it doesn't disclose any additional financing, the bank reports that it is investing in specialist banker capabilities to develop future Home Lending Executives. It also reports having re-designed its 'Home Lending Fundamentals' program, a secured lender accreditation program focused on skills broader than home lending, including customer conversation practice – this is the pointy end of the deal where the opportunity exists to nudge consumer financing of electrified homes.

We hope to see NAB continue its focus on accelerating green financing of this asset class in its revised ambition next year, as this is one of the largest decarbonisation opportunities in Australia that is already entirely commercially viable, but much stronger advocacy is needed, aligned with the Green Building Council of Australia.

Disaster relief financing – Climate Report p. 15 and Annual Report p.26

NAB's Ready Together program supported customers impacted by natural disasters with disaster relief cash grants worth $557,000 during the year for customers and colleagues impacted by floods in NSW, VIC, TAS, SA, WA and NT.

Source list

Link to NAB's 2023 Annual Reporting Suite found here, as well as individual links below:

- Annual Report
- Climate Report
- Sustainability Data Pack
- Full Year Results Investor Presentation
- 'All Systems Go: Powering Ahead' by Deloitte Access Economics
- NAB's Climate Change Page