

Thursday, 6 June 2024

ASX ANNOUNCEMENT

NAB RELEASES SUPPLEMENTARY CLIMATE DISCLOSURES

National Australia Bank (NAB) today released its Supplementary Climate Disclosures in support of the bank's strategy to transition to net zero emissions by 2050. The supplementary disclosures follow the release of NAB's [2023 Climate Report](#) in November 2023.

The Disclosures provide an outline of:

- NAB's new \$80 billion by 2030 environmental finance ambition.
- Progress on NAB's proposed Customer Transition Plan assessment framework.
- As part of NAB's participation in the Net Zero Banking Alliance (NZBA), five additional interim decarbonisation targets.
- NAB's approach to the agricultural sector, and the bank's reasons for deferring the setting of an interim decarbonisation target for this sector.

Media

Mark Alexander

M: +61 (0) 412 171 447

Jo Beckwith

M: +61 (0) 411 208 101

Investor Relations

Sally Mihell

M: +61 (0) 436 857 669

Belinda Bowman

M: +61 (0) 416 752 597

Approved for distribution by Nathan Goonan, Group Chief Financial Officer.



Supplementary Climate Disclosures

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Contents

Customer Transition Plans	3
Environmental finance ambition	6
Sector decarbonisation targets	8
Supporting information	23
Financed emissions methodology	24
Environmental finance methodology	32
Additional information	33
Glossary	34

Customer
Transition Plans

Environmental
finance ambition

Sector
decarbonisation
targets

Supporting
information

About these Disclosures

The Supplementary Climate Disclosures ('Disclosures') are to be read in conjunction with NAB's [2023 Climate Report](#). These Disclosures outline how we are supporting customers in the transition to an inclusive, net zero economy and to build climate resilience through:

- Assessing Customer Transition Plans.
- Our environmental finance ambition.
- Five further decarbonisation targets in two high-emitting sectors.

Refer to NAB's [2023 Climate Report](#) for further details on NAB's climate strategy, existing sector decarbonisation targets and how we are reducing operational emissions. References to 'NAB', 'our' and 'the bank' are intended to refer to National Australia Bank Limited, which excludes Bank of New Zealand (BNZ). BNZ has its own climate strategy and its climate reporting is available at www.bnz.co.nz/about-us/sustainability/reports.

Where relevant, these Disclosures have been aligned to the target setting requirements of the Net Zero Banking Alliance (NZBA), of which we are a member, informed by the United Nations Environment Programme Finance Initiative *Guidelines for Climate Target Setting for Banks version 1* (UNEP FI Guidelines). In future reporting periods, we will have regard to version 2 of the UNEP FI Guidelines, which were released at a late stage in the development of the sector decarbonisation targets in these Disclosures.

Acknowledgement of Country

NAB acknowledges Australia's First Nations people as the Traditional Custodians of the land and their continuing connection to country, sea and water. We pay respect to their Elders past and present.

We make this acknowledgement with the ambition to continue supporting a reconciled Australia through our actions and voice. This is backed by why we are here: to serve customers well and help our communities prosper.



Important information

These Disclosures contain statements that are, or may be deemed to be, forward looking statements, including climate-related goals, targets, pathways and ambitions. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Group. This may cause actual results to differ materially from those expressed or implied in such statements. There are uncertainties, assumptions and judgements underlying climate-related metrics that limit the extent to which climate-related metrics are useful for decision-making and you are cautioned not to place undue reliance on the information in these Disclosures. The measures and forward-looking statements in these Disclosures reflect the Group's best estimates, assumptions and judgements (including in relation to customer and other third party data over which the Group has no control) as at the date of these Disclosures, however, the uncertainty in climate-related metrics, methodologies and modelling may lead to the Group changing its views in the future.

Certain definitions

The Group's financial year ends on 30 September. The financial year ended 30 September 2023 is referred to as 2023 and other financial years are referred to in a corresponding manner. References in these Disclosures to the year ended September 2023 are references to the twelve months ended 30 September 2023. References in these Disclosures to the environmental reporting year are references to the twelve months ended 30 June 2023, unless otherwise stated. Other twelve month periods referred to in these Disclosures are referred to in a corresponding manner.

The abbreviations \$m and \$bn represent millions and thousands of millions (i.e. billions) of Australian dollars respectively.

Exposure at default (EAD) is an estimate of the credit exposure amount outstanding if a customer defaults. EAD is presented net of eligible financial collateral.

EAD used in financed emissions baselines and for setting sector targets excludes securitisation exposures within the scope of APS 120 *Securitisation*, off-balance sheet EAD (including performance guarantees to rehabilitate existing thermal coal mining and oil and gas assets) and markets-related EAD (including derivative exposures). Australian Energy Market Operator (AEMO) bonds have also been excluded as they are a requirement to participate in domestic electricity and gas markets for any entity not regulated by the Australian Prudential Regulation Authority (APRA). To maintain consistency and comparability, EAD used in financed emissions has not been adjusted to account for changes through the revised capital framework implemented from 1 January 2023. Re-baselining sector decarbonisation targets for the revised capital framework is an ongoing programme of work.

Key terms used in these Disclosures are contained in the *Glossary*.

Customer Transition Plans

Customer
Transition Plans

Environmental
finance ambition

Sector
decarbonisation
targets

Supporting
information

Customer Transition Plans

We are building on our efforts to support some of the economy's largest emitters with their climate transition. Considerable capital is required to help customers decarbonise, and this represents a significant opportunity.

Assessing Customer Transition Plans

How customers progress their transition plans is an important driver for us to achieve our interim sector decarbonisation targets.

In 2021, we commenced work to understand the transition maturity of 100 of our largest greenhouse gas (GHG) emitting customers. This work was completed in 2023 and enabled NAB to form a view on the transition maturity of the assessed customers as well as individual sectors across the economy. It highlighted transition risks and opportunities to support our customers in their transition. It also demonstrated that transition maturity varied both across and within sectors. For further details refer to NAB's [2023 Climate Report](#).

Building on this work, NAB's [2023 Climate Report](#) detailed our intention to require a Customer Transition Plan to be in place from 1 October 2025 for new or renewed corporate lending or project-level lending⁽¹⁾ for Corporate and Institutional Banking customers in the following sectors⁽²⁾:

- Power generation, where at time of lending, 25% or more of the electricity generated by the customer is from thermal coal.
- Oil and gas.
- Metallurgical coal.

In addition to new or renewed corporate lending or project-level lending this requirement will also be extended to NAB's capital markets activities⁽³⁾ for customers in these sectors.

Proposed Assessment Framework






NAB has developed a proposed assessment framework to support the review of Customer Transition Plans and engagement with customers on their actions and progress. To align with international best practice, we drew from existing transition plan assessment frameworks and guidance including materials published by:

- Climate Bonds Initiative.
- Glasgow Financial Alliance for Net Zero.
- World Benchmarking Alliance.
- Transition Plan Taskforce.
- Investor Group on Climate Change.
- Climate Action 100+.

Based on these, NAB's proposed assessment framework will be used to help NAB form a view on the level of ambition and the quality of individual Customer Transition Plans to inform appropriate actions. This is based on criteria across five pillars: *Target; Strategy, Action & Delivery; Reporting & Disclosure; Accountability; and Independent Validation*.

An overview of the key considerations included in NAB's proposed assessment framework is provided in Figure 1.

Figure 1: NAB's Proposed Assessment Framework

Sectors covered	Pillar	Criteria to be considered
<p>NAB intends to require a Customer Transition Plan from 1 October 2025 for Corporate and Institutional Banking customers in the following sectors:</p> <ul style="list-style-type: none"> • Power generation, where at time of lending, 25% or more of the electricity generated by the customer is from thermal coal. • Oil and gas. • Metallurgical coal. 	 Target	<ul style="list-style-type: none"> • Net zero target aligned with well below 2°C, pursuing efforts for 1.5°C. • Time horizon (including short and medium-term targets). • Emission Scopes covered (Scope 1, 2 and material Scope 3). • Scientific pathways referenced. • Inclusion of a review schedule.
	 Strategy, action & delivery	<ul style="list-style-type: none"> • Connection between net zero strategy and business strategy. • Details of actions to achieve targets, including progress metrics, review schedule, and capital expenditure alignment. • Level of reliance on offsets and future technology developments. • Consideration of Just Transition.
	 Reporting & disclosure	<ul style="list-style-type: none"> • Approach to monitoring and reporting on performance. • Approach to climate advocacy and alignment to targets.
<p>Facilities covered</p> <ul style="list-style-type: none"> • New or renewed corporate lending. • New or renewed project level lending. • Capital markets activity (new requirement). 	 Accountability	<ul style="list-style-type: none"> • Role and capacity of Board in oversight of transition plans progress. • Link between targets and remuneration.
	 Independent validation	<ul style="list-style-type: none"> • Approach to independent assessment or assurance of targets and actions.

(1) This includes (i) lending at a corporate level (for example, general facilities made available to the parent company of a group of companies), or (ii) at a project-level (that is on an individual project basis for a specific project purpose), and (iii) trade finance.

(2) Referenced sectors are consistent with sector definitions used for NAB's target setting emissions baseline, although metallurgical coal forms part of the iron and steel sector. Refer to Supporting information on page 71 of NAB's [2023 Climate Report](#) for further details. NAB does not intend to apply this requirement to customers in the thermal coal sector because NAB has set a target to reduce financed emissions for this sector to zero by 2030 (refer to page 44 of NAB's [2023 Climate Report](#) for further details).

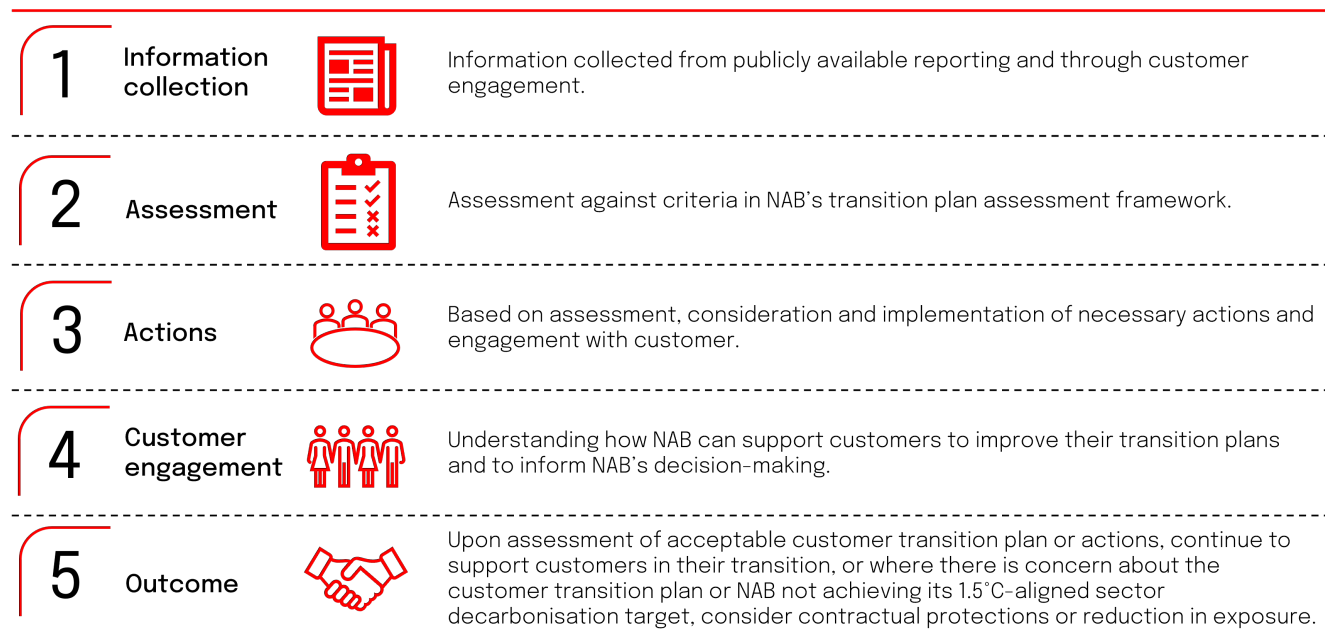
(3) The definition of capital markets activities is drawn from the Partnership for Carbon Accounting Financials (PCAF) *Facilitated Emissions Standard* December 2023 being the primary issuance of capital market instruments and loan syndication, whether debt or equity-based. Examples include: all types of bonds arranged for general purposes including sustainability-linked bonds, corporate bonds and syndicated loans. It includes the role of arranger, lead/joint bookrunner as well as co-manager/lead manager.

Customer Transition Plans (cont.)

NAB's expected approach

An overview of how we expect to implement the proposed assessment framework is provided in Figure 2.

Figure 2: NAB's expected approach



The transition looks different from customer to customer and sector to sector, and we may need to (a) take a sectoral approach and (b) consider Australia's energy security requirements (which may in rare circumstances be an important factor) when applying the proposed framework. Consideration will also be given to how the relevant customer transition plans may, in aggregate, impact on NAB's interim sector decarbonisation targets.

We also recognise that this is a fast-changing area with our reference frameworks being updated regularly and sector-specific research and plans driving understanding of the levers needed for decarbonisation in each sector. We expect this proposed assessment framework to evolve over time as our reference frameworks are updated and as best practice develops.

Next Steps

NAB intends to have the proposed framework externally reviewed by 30 September 2024. This will support NAB to refine application of the proposed framework, consider any improvements, and to inform engagement with customers ahead of formal implementation from 1 October 2025.



**Environmental
finance
ambition**

Environmental finance ambition

NAB's new environmental finance ambition and its purpose

NAB's Group Strategy includes a strong focus on how we can drive commercial responses to societal challenges. This includes setting financing ambitions for priority areas of climate action, affordable and specialist housing and indigenous economic advancement.

From 2015 to 2022, a key measure of our progress on sustainable finance was our target to provide \$70 billion in environmental finance by 2025. This was met and retired in 2022⁽¹⁾.

In the lead-up to 2030, Australian businesses are estimated to require substantial investment to secure a competitive edge in the net-zero global economy⁽²⁾. Recognising this challenge and in support of NAB's climate strategy, NAB has established a new environmental finance ambition of \$80 billion for the period 1 October 2023 to 30 September 2030. The ambition aims to support customers as they invest in their sustainable future towards 2030 and beyond.

Overview of NAB's environmental finance ambition

NAB's new environmental finance ambition of \$80 billion by 2030 is expected to be comprised of approximately 70% eligible lending activity and 30% capital markets and trading activity⁽³⁾⁽⁴⁾. Environmental finance includes utilising our existing products and continuing to look for opportunities to scale them in pursuit of the ambition. Over time, we may develop our product suite to enhance our environmental finance offering to help customers mitigate, adapt and build resilience to the impacts of climate change.

NAB's environmental finance ambition is in addition to other lending targets we have set to support our customers. This includes our target to lend at least \$6 billion by 2029 to help more Australians access affordable and specialist housing, and our target to lend at least \$1 billion to First Nations businesses and community organisations by the end of 2026. More details are available in NAB's [2023 Annual Report](#).

Guiding principles

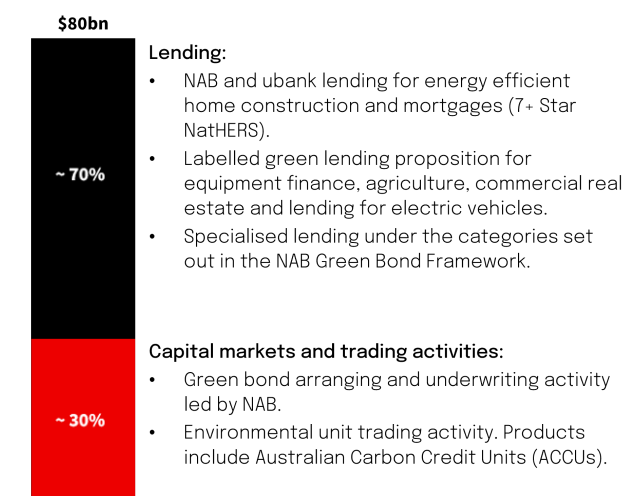
In setting our environmental finance ambition, we were guided by:

- The lending and capital markets activities that contribute towards our overall climate strategy. Refer to NAB's [2023 Climate Report](#) for further details.
- Transparency of how we define eligible lending and capital markets activities for inclusion in our ambition.
- A recognition that as market standards and taxonomies change in terms of what is considered "green" our ambition may need to be updated to meet these new standards.

What is included

The environmental finance ambition has been designed to cover eligible lending and capital markets activity including:

Figure 1: NAB's new environmental finance ambition



Basis for calculation

- For the period from 1 October 2023 to 30 September 2030.
- On a cumulative basis, new and refinanced lending facilities, NAB's share of arranging and underwriting activity, and trading volumes for environmental units.
- Measured by reference to facility limits at origination.
- Annual reporting of progress towards the ambition to be provided in NAB's Annual Reporting Suite.
- Scope to update the ambition for quantum and composition through the period.
- Where lending presents both environmental and other relevant social benefits they may be reported under both those respective social targets and this ambition.

See the *Environmental finance methodology* section on page 32 for further details on how our environmental finance is defined and calculated.

(1) Refer to NAB's [2023 Climate Report](#) for further details.

(2) All systems go: Powering ahead | Deloitte Australia. Available at <https://news.nab.com.au/news/all-systems-go-powering-ahead/>

(3) Contributions towards NAB's \$80 billion ambition from lending and capital markets and trading activities are indicative only. Actual contributions from these will be reported on an annual basis.

(4) Capital markets activity in this context differs from that referred to under NZBA and UNEP FI Guidelines in that the environmental finance ambition definition relates to capital markets activity associated with green uses of proceeds and trading activity for environmental units. See the *Environmental finance methodology* section on page 32 for further details on how our environmental finance is defined and calculated.



Sector decarbonisation targets

Metrics and targets

This section provides an update on NAB's sector decarbonisation targets. The targets detailed in these Disclosures are in addition to those described in NAB's 2023 Climate Report and they should be read in conjunction.

NAB's approach

NAB has developed metrics and targets to track progress against its climate strategy, and to measure and manage its climate-related risks and opportunities. In developing these metrics and targets, NAB continues to work on and improve methodologies, including adding granularity and updating external customer and industry data as it becomes available over time. Changes to previously disclosed data or methodologies are stated where relevant.

Supporting customers through the transition to net zero

These Disclosures outline exposures and five further decarbonisation targets in two high-emitting sectors: (1) Real estate, with targets set for commercial real estate (CRE - office and CRE - retail) and residential real estate (RRE) and (2) Transport, with targets set for road and shipping. Refer to pages 13 to 22 for further details. NAB has now published twelve decarbonisation targets, including eight of the nine carbon-intensive sectors identified by the NZBA in the UNEP FI Guidelines. NAB's approach to the ninth sector, agriculture, is also outlined on page 22. These Disclosures should be read in conjunction with NAB's [2023 Climate Report](#).

Understanding financed emissions

NAB is connected to all parts of the economy through its lending and other banking activities and has an important role to play in financing the net zero transition. In estimating financed emissions, NAB can monitor the impact it has, through its customers, on the climate transition.

Economy-level decarbonisation will be primarily driven by decarbonisation of the electricity grid. This is particularly true for the real estate sectors (RRE and CRE), where the majority of emissions are Scope 2 but also has an impact for many other sectoral targets. Decarbonisation of the electricity grid is therefore critical to meeting Australia's and NAB's sector decarbonisation targets.

Decarbonisation of the electricity grid

Decarbonisation of the electricity grid is an urgent medium-term challenge and opportunity for the transition in Australia and will require a co-ordinated approach from governments, business and the community to be achieved. NAB is committed to playing its part in this effort. We note the thoughtful work by AEMO in the Electricity Statement of Opportunities (2023) and the scale of the investments required in new transmission infrastructure and firming developments, and the current discussions about the level of gas-fired electricity generation required to provide energy security for Australia. NAB also recognises that against this backdrop, many of our targets will be influenced by the speed and energy mix of the grid decarbonisation effort for some time to come.

Emissions reduction across the lending portfolio is unlikely to be linear. Subject to NAB's Environmental, Social and Governance (ESG) risk policy settings and appetite, and stated requirements around Customer Transition Plans, new lending will occur, including to enable and accelerate Customer Transition Plans to achieve net zero. This may lead to a temporary increase in absolute financed emissions and emissions intensity in some reporting years between now

and 2030, however these are intended to decline over time towards NAB's sector decarbonisation targets.

The Group's customer-related ESG risk policy and risk settings relevant to carbon-intensive sectors complement its sector decarbonisation targets. Refer to page 23 of NAB's [2023 Climate Report](#) for further details.

Challenges associated with measuring financed emissions and target setting

Measuring financed emissions and setting sector decarbonisation targets involves considerable complexity and uncertainty. Despite the challenges and issues associated with setting such targets, NAB considers that there is still considerable value in doing so as the targets help to guide organisational decisions over time.

Data availability, quality and data reporting periods vary within and across businesses, industries and geographies. Consistency in reporting guidance and frameworks is improving, though reporting is often completed on a voluntary basis and requirements vary across jurisdictions⁽¹⁾.

Climate science is continuously evolving. Methodologies and assumptions underpinning scenarios NAB relies on for setting targets are subject to change and may require targets to be revised. Scenarios may also rely on the development of potentially impactful but largely unproven technologies, with risk that investment in these areas fails to achieve intended outcomes.

Targets have been set with reference to the best science currently available, as detailed in *Reference scenario selection* on page 10. At a minimum, NAB will review its sector targets on a five-yearly basis in alignment with NZBA requirements. NAB may also review and update targets when better data becomes available, to ensure they remain in line with 'best available science', if there are changes to the target-setting guidelines, if more relevant or localised reference pathways become available, and/or if material assumptions on which the targets are based change.

Where available, Customer Transition Plans have been taken into account as part of the target-setting process. Many of the uncertainties described above will also impact customers' plans and their ability to achieve them.

These challenges impact the ability to accurately and consistently measure attributable financed emissions and to set and achieve appropriate targets to reduce attributable financed emissions.

For further information on challenges associated with attributable financed emissions data and target setting, refer to *Complexities and limitations in measuring financed emissions and setting targets* on page 28.

Further information on important factors that could impact NAB achieving its climate-related ambitions, including its sector targets, is contained in the discussion on sustainability risk in Risk factors on pages 97 to 98 in NAB's [2023 Annual Report](#). This includes information on how physical, transition

(1) The Australian Accounting Standards Board (AASB) is in the process of incorporating climate-related financial disclosure requirements (based on IFRS Sustainability Disclosure Standards) into Australian Sustainability Reporting Standards (ASRS). These Standards are expected to be issued in calendar year 2024 and based on the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth)* and will be effective for certain Australian reporting entities for annual reporting periods commencing on or after 1 January 2025.

Metrics and targets (cont.)

and nature-related risks may impact NAB, such as the relationship between more frequent and acute physical climate events on the value of NAB's collateral assets.

Sector target-setting

Approach to sector target-setting

In setting sector decarbonisation targets, NAB has been informed by the UNEP FI Guidelines and has considered key principles in its approach to decision-making.

Twelve targets have now been set in eight of the nine carbon-intensive sectors listed in the UNEP FI Guidelines. This includes power generation, thermal coal, oil and gas, cement, aluminium, iron and steel⁽¹⁾, transport (aviation, road, shipping), and real estate (CRE - office, CRE - retail and RRE). A target has not been set for agriculture. Refer to *Approach to agriculture* on page 22 for further details on how NAB is supporting customers to decarbonise their operations in the interim while work towards setting a target continues. Refer to Table 1 for reference details of each sector decarbonisation target.

Table 1: Sector decarbonisation targets set to date

Sector	Document reference
Power generation	NAB's 2023 Climate Report
Thermal coal	NAB's 2023 Climate Report
Oil and gas	NAB's 2023 Climate Report
Cement	NAB's 2023 Climate Report
Aluminium	NAB's 2023 Climate Report
Iron and steel	NAB's 2023 Climate Report
Transport - aviation	NAB's 2023 Climate Report
CRE	Refer to <i>Commercial real estate</i>
RRE	Refer to <i>Residential real estate</i>
Transport - road (cars and light commercial vehicles (LCVs))	Refer to <i>Transport - road (cars and LCVs)</i>
Transport - shipping	Refer to <i>Transport - shipping</i>
Agriculture	Target deferred. Refer to <i>Approach to agriculture</i>

NAB has estimated that sector decarbonisation targets cover approximately 70% of financed emissions arising as a result of NAB's total Australian lending portfolios and approximately 75% of estimated financed emissions arising from NAB's total lending to the nine carbon-intensive sectors⁽²⁾⁽³⁾ listed in the UNEP FI Guidelines. The methodology for these estimates uses a combination of NAB portfolio data and third-party proxy data, and requires certain qualitative judgements and assumptions. Refer to *NZBA targets-related financed emissions coverage estimation methodology* on page 24 for further details.

The UNEP FI Guidelines expressly acknowledge that methodological and data limitations present challenges for precisely measuring financed emissions and are therefore subject to a degree of uncertainty. NAB's methodology for estimating financed emissions portfolio coverage will continue to be refined and improved over time as methodology and data allow, including independent review at an appropriate future time.

(1) Includes metallurgical coal customers.

(2) The 70% and 75% financed emission coverage estimates are not comparable on a like-for-like basis as the 75% figure associated with NAB's total lending to the nine required NZBA carbon-intensive sectors includes emissions arising from non-Australian lending where included in the scope of NAB's decarbonisation targets.

(3) Refer to the list of carbon intensive sectors located in *NZBA targets-related financed emissions coverage estimation methodology* on page 24.

Key principles for target-setting

The following principles have guided NAB's approach to sector decarbonisation target setting.

- **Alignment with UNEP FI Guidance** and decarbonisation objectives.
- **Scientifically credible pathway** to achievement, in line with Australian market conditions.
- **Consistency** in decision-making across the portfolio where possible; departures may be made where the resulting baseline and/or target is more consistent with local market conditions and/or portfolio make-up.
- **Consideration of market practice** and alignment to emerging disclosure regimes.
- **Simplicity in reporting and operationalising** the targets that have been set.

Reference scenario selection

NAB assessed a range of net zero scenarios aligned to its net zero by 2050 ambition to inform target setting. NAB selected scenarios which have the following characteristics:

- Widely accepted, science-based from credible and well recognised sources.
- Limited reliance on negative emissions technologies and carbon sequestration achieved through nature-based solutions and land use change, and aligned to "no overshoot" or "low-overshoot" scenarios.
- Designed to maximise alignment with other Sustainable Development Goals, where possible.
- Closely aligned to Australian market conditions, including underlying assumptions and scope inclusions.
- Suitable for use by banks (i.e., with large and diverse portfolios).

The science of pathways, new decarbonisation technologies and reference scenarios continue to develop and evolve. NAB will review reference scenario selection (and associated targets) as more relevant, localised or improved scenarios are published. The Australian Government has committed to developing sectoral pathways for key sectors, and NAB will continue to support this process, and if appropriate, adopt Australian reference scenarios in the future.

A summary of the scenarios that have been used are available in *Target setting baseline methodology* on page 29. Sector specific scenario assumptions are outlined in the following pages for each sector target. Additional assumptions relevant to the achievability of sector targets are also noted in the relevant sector section below.

For further details on how NAB draws on scenarios for target setting and more generally risk management and strategy, refer to page 26 of NAB's [2023 Climate Report](#).

Absolute or intensity metric selection

NAB has considered whether emissions intensity or absolute emissions reduction metrics are appropriate for each sector.

It is appropriate to adopt absolute emissions reduction targets for fossil fuel industries, as decline in the use of fossil fuels is a key driver of emissions reductions.

Sector target-setting (cont.)

Note that enterprise value is used in the calculation of absolute financed emissions, and volatility in this value may lead to volatility of reported absolute financed emissions, even if exposure and customer emissions are unchanged. This external driver of emissions change is noted where pertinent in the relevant sector metrics and targets section.

Emissions intensity targets require emissions reductions to outweigh growth in production and are appropriate for sectors expected to grow to support living standards (such as RRE) and transition activities (such as transport). Setting emissions intensity targets for these sectors will enable NAB to identify and preferentially allocate capital towards investments and businesses whose activities are in line with its net zero ambitions.

Scope of emissions

NAB's approach to emissions scope inclusion has been informed by the UNEP FI Guidelines.

NAB's sector targets include Scope 1, 2 and 3 emissions for fossil fuel sectors, Scope 1 and 2 emissions for all sectors except transport - road and transport - shipping which include only Scope 1 emissions. NAB has obtained, or where unavailable estimated, production data and applied emission coefficients to calculate Scope 3 emissions for lending to fossil fuel sectors.

In line with *UNEP FI Guidelines version 2* (April 2024), and as part of our periodic target review processes, NAB will seek to expand and include additional customer Scope 3 emissions where methodologies, factors and data allow.

NAB prioritises use of emissions data from customer-reported sources, such as compliance reporting required under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) and assured company reports. Where verified customer emissions data is not available, third-party data sources are relied upon.

NAB has followed the PCAF recommendation to publish scores to illustrate NAB's assessment of the quality of data relied upon and methodology for target setting. These are provided alongside each sector target on pages 13 to 22.

Scope of financing activities

Relevant exposures are identified primarily through Australian and New Zealand Standard Industrial Classification (ANZSIC) codes. Financed emissions baselines and targets have been set using EAD. For the purposes of setting sector targets, this measure covers NAB's on-balance sheet lending to relevant customers, including:

- Any on-balance sheet loans and lines of credit with general use of proceeds to businesses, non-profits and any other structure of organisation.
- Revolving credit, overdraft facilities and loans secured by real estate or other assets, and secured lines of credit.
- Business loans, short-term debt and lines of credit.
- Project finance.

Financial guarantees, including trade finance, are also included in scope.

For the purposes of setting sector targets, references to EAD exclude:

- Off-balance sheet EAD (including capital relief Residential Mortgage Backed Securities) and markets-related EAD (including derivatives).
- Other financial services including transactional banking (including deposit services), risk management products,

and ancillary products and services, recognising that these activities are not in scope of accepted approaches for net zero-aligned target setting.

Targets do not include capital markets activity (i.e. facilitated emissions), however in line with NZBA's updated *UNEP FI Guidelines version 2* (April 2024), NAB will seek to include this activity in future reporting. AEMO bonds have been excluded as they are a requirement to participate in domestic electricity and gas markets for any entity not regulated by APRA.

EAD used in financed emissions

APRA's prudential standards for the revised capital framework (RCF) came into effect on 1 January 2023. As part of the regulatory reforms, aspects of the methodology for calculating EAD changed. The sector decarbonisation targets published in these Disclosures were calculated as of 30 June 2022 (31 December 2022 for transport - shipping) and reference EAD prior to the RCF. In future reporting periods NAB may re-baseline its sectoral decarbonisation targets to align with the updated definition of EAD.

Note that EAD figures for sector decarbonisation targets are as at 30 June 2022, to align with publication in February 2023 by the Clean Energy Regulator of emissions data for the year ended 30 June 2022 for companies reporting under the NGER Act. This is consistent with the approach taken in NAB's *2023 Climate Report* (where 30 June 2022 EAD was used to align with emissions for the year ended on 30 June 2022 reported in February 2023)⁽¹⁾. EAD figures for the transport - shipping sector are as at 31 December 2022 to align with the reporting timelines for the International Maritime Organisation (IMO). Refer to the *Glossary* term 'EAD used in financed emissions' for further detail on exposure exclusions that are particular to financed emissions reporting.

UNEP FI Guidelines 5% revenue threshold

UNEP FI Guidelines state that banks should include on-balance sheet investments held for the purposes of investment. For NAB, this would include investments made by NAB Ventures, however there are currently no investments held in the sectors covered by sector targets.

Customer use of offsets

As with NAB's own approach, the expectation of customers is to prioritise investments in avoiding or reducing emissions before relying on offsets in accordance with the emissions reduction hierarchy. However, NAB recognises that for certain harder-to-abate sectors, offsets have a role to play in the short-to-medium term.

NAB's strategy is focused on supporting our customers to decarbonise and build resilience. The limited role we see for offsets in pursuing sector decarbonisation targets is explained where relevant to sector targets, and more broadly in the development of our Customer Transition Plan assessment framework (refer to *Customer Transition Plans* for further details).

BNZ's NZBA commitment

NAB has prioritised target-setting for its lending portfolio, recognising the most significant impact NAB has on emissions is through the finance it provides. NAB's baselines and targets for its sector decarbonisation targets currently exclude BNZ, which has separately signed up to the NZBA and is setting its own sector decarbonisation targets. This allows BNZ targets to reflect the different sector profile of the New Zealand

(1) The exception to this is that a 31 December 2022 baseline was used for shipping to align with the IMO reporting periods.

Sector target-setting (cont.)

economy. Learn more about BNZ's progress in its climate reporting at www.bnz.co.nz/about-us/sustainability.

Operationalising the targets

Governance, approval and oversight

NAB's sector decarbonisation targets have been subject to internal Risk review including model validation and independent limited assurance, and have been reviewed and approved by the Executive Leadership Team (ELT) and the Board.

The sector decarbonisation targets now impact customers in each of NAB's customer business units. Our latest set of targets continue to be embedded in processes and controls as appropriate to the nature of the customers and the data and methodologies available.

NAB's governance of climate-related risks and opportunities, including sector targets, is discussed further in the Governance section of NAB's [2023 Climate Report](#).

NAB's climate-related obligations, including those related to the NZBA, are recorded and managed in our enterprise risk management system. Accountabilities are assigned to relevant executives, with associated controls reviewed on an annual basis.

Integrating sector decarbonisation targets within NAB's processes

Where sector decarbonisation targets have been set, NAB has implemented a range of processes to monitor and manage progress towards them which it will mature over time, and, in certain sectors, to assist colleagues in reviewing potential transactions. This includes:

- Regular internal portfolio reporting to inform portfolio steering and decision-making.
- Additional, tailored policy guidance on NAB's status as a signatory to NZBA, NAB's sector targets, and the obligations that flow from them, to support colleagues.
- Training for colleagues with responsibility for lending decisions within relevant sectors.

NAB is building maturity in its approach to meeting requirements of its participation in the NZBA and is evolving enablers, such as data systems, policy and risk settings, and training and partnerships, required to achieve its strategic ambition.

From 1 October 2025, Customer Transition Plans will be required for new or renewed corporate lending or project-level lending for Corporate and Institutional Banking customers in the following sectors:

- Power generation, where at the time of lending, 25% or more of the electricity generated by the customer is from thermal coal.
- Oil and gas.
- Metallurgical coal.

Refer to requirements for *Customer Transition Plans* on page 4 for further details.

In addition to new or renewed corporate lending or project-level lending this requirement will also be extended to NAB's capital markets activities for customers in these sectors.

The proposed assessment framework provided on page 4, along with the decarbonisation targets and NAB's risk settings, will help guide decision-making for lending in these sectors.

Important note about sector targets

Other sections of these Disclosures include important information that is relevant to NAB's sector decarbonisation targets and which will assist readers in assessing and understanding the targets NAB has set. Please also refer to the following sections of these Disclosures for information relevant to NAB's sector targets:

- *Complexities and limitations in measuring financed emissions and setting targets* on page 28.
- Information relating to financed emissions methodology, target setting methodology and other measures, metrics and methodologies relevant to sector targets in *Supporting information* from page 24.
- *Notes on forward looking statements* on page 33.

Commercial real estate

Sector overview

The commercial real estate (CRE) sector in Australia comprises over 1 million properties and encompasses a range of property types, with commercial office buildings representing the largest proportion by building count at 16%, followed by industrial at 15% and retail at 10%⁽¹⁾.

In Australia, CRE buildings are responsible for around 24% of overall electricity use and more than 10% of total carbon emissions⁽¹⁾. Energy delivered to commercial buildings generates 5% of its emissions as Scope 1, primarily from natural gas and 95% of its emissions from electricity consumption as Scope 2 emissions.

Decarbonisation of Australian CRE will be primarily driven by the transformation of the electricity grid (at least 82% renewables, in line with government commitment). Other levers include increased adoption of rooftop solar, reduced consumption of gas, and increased energy efficiency of CRE buildings by 2030.

The Australian Government is working with State and Territory Governments to improve energy efficiency of new and existing buildings and is expected to release its sectoral plan for the Built Environment, including CRE, later this year.

Sector inclusions

CRE sector inclusions have been defined according to APRA Reporting Standard *ARS 230.0 Commercial Property*, which outlines NAB's CRE reporting obligations to APRA. The scope includes all secured, on-balance sheet CRE lending where the collateral is located in Australia and where the property is used for CRE purposes. The scope does not include vacant land or pre-development sites. NAB has initially set targets for the Office and Retail sub-sectors as they are the largest (by EAD) of the sub-sectors. This scope includes 54% (by EAD) of all NAB's CRE lending⁽²⁾.

Other sub-sectors, such as industrial buildings, are excluded at this stage due to methodology and scenario limitations, and unsecured assets have been excluded as data limitations prevent the application of the emissions estimation methodology. NAB is currently planning to enhance collateral and other systems with the intention to extend scope once the data is available.

Decarbonisation target overview

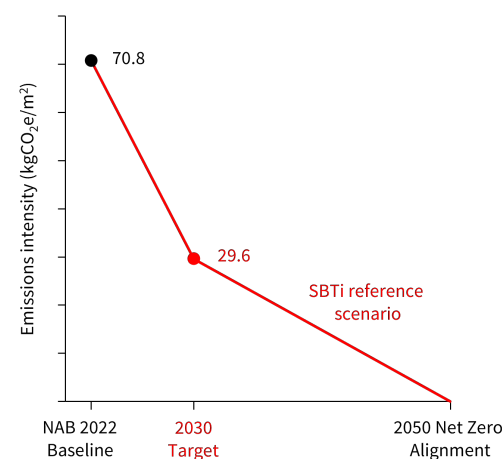
Element	Approach
2022 Baseline	Office 70.8 kgCO ₂ e/m ² Retail 78.4 kgCO ₂ e/m ²
Metric	Emissions intensity (kgCO ₂ e/m ²)
Emissions Scope⁽¹⁾	Scope 1 and 2 of the building
2030 Target	Office 29.6 kgCO ₂ e/m ² (58% reduction against 2022 baseline) Retail 32.6 kgCO ₂ e/m ² (58% reduction against 2022 baseline)
Scenario	SBTi Buildings (Australia) Office, Retail
Data quality score	Average PCAF score: 4.0

- (1) We note that emissions associated with energy purchased by tenants, which may be categorised as Scope 3 (category 13 downstream leased assets) emissions for building owners, have been included in our Scope 1 and 2 target. It does not include other categories of Scope 3 emissions, such as embodied emissions. In addition, our Scope 1 and 2 target is limited to gas and electricity energy-based emissions, and excludes other forms of building emissions such as refrigerant gas hydrofluorocarbons.

NAB's 2030 target for Office buildings represents a 58% decrease in emissions intensity by 2030 against a 2022 baseline. NAB's lending (EAD) to office buildings totals \$15.2 billion, around 1.5% of total EAD as at 30 June 2022.

NAB's 2030 target for Retail buildings represents a 58% decrease in emissions intensity by 2030 against a 2022 baseline. NAB's lending (EAD) to retail buildings totals \$16.4 billion, around 1.6% of total EAD as at 30 June 2022.

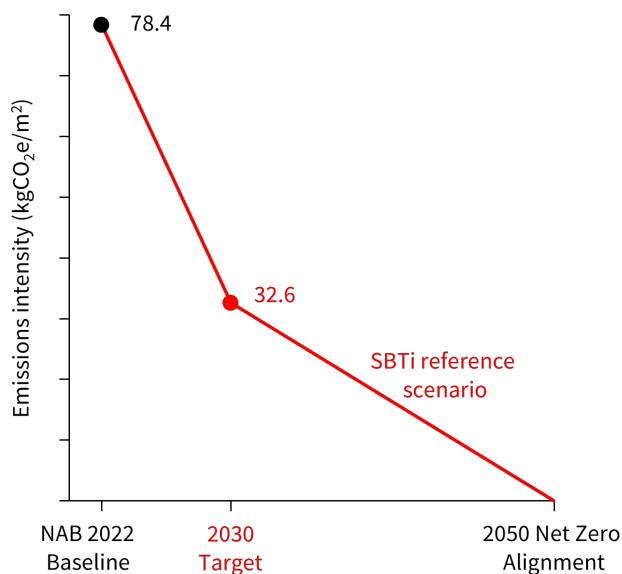
Figure 1: CRE Office sector target and SBTi reference scenario



(1) Available at [DCCFEW Commercial Building Baseline Study 2022](#)

(2) Note: NAB's portfolio mix is not reflective of the national property mix.

Figure 2: CRE Retail sector target and SBTi reference scenario



NAB's approach

NAB has aligned to the subsector-specific Science Based Targets initiative (SBTi) Buildings (Australia) reference pathways for the office and retail sub-sectors, which are downscaled from the International Energy Agency's Net Zero by 2050 scenario (IEA NZE 2050 (2021)) pathway with regional specificity. The pathways, which are specific to CRE sub-sectors, were developed in partnership with the Carbon Risk Real Estate Monitor (CRREM) which sources AEMO's emission factors (see below Additional NAB assumptions).

NAB's 2030 targets are split into office and retail sub-sectors, reflecting the different baseline emissions intensities across the building types as well as different decarbonisation strategies.

NAB is working to support decarbonisation of this sector through a range of levers. These include:

- Public advocacy through participation in government initiatives and ongoing engagement with key industry groups in the CRE sector, in addition to NAB's active input on relevant government consultations related to decarbonisation, climate reporting and disclosures.
- Financing decarbonisation through:
 - Deployment of innovative finance offerings such as green equipment finance lending and green CRE propositions, supporting customers to invest in or refinance existing green commercial buildings, develop new green commercial buildings, and retrofit commercial buildings to reduce carbon emissions.
 - Providing finance to large scale renewable energy and battery projects, transmission grid upgrades and advocating for conducive policy settings to support decarbonisation of Australia's CRE sector.
- Bank-wide climate training with foundational and CRE-specific modules to help bankers to support customers in their decarbonisation journey.

Depending on portfolio trends over time and the rate of energy grid decarbonisation, these levers alone may not result in portfolio intensity aligned with the target. Accordingly, NAB has identified a range of further strategies with the potential to assist meeting the target. NAB will continue to

assess the impact of these strategies, and the combination of levers that should be deployed in response to portfolio and external decarbonisation trends, as it monitors portfolio progress against targets.

Key scenario assumptions

SBTi (Australia) Buildings - Office and retail

Key assumptions for this reference pathway include:

- 1.5°C-aligned pathways used by the SBTi stay within the 500 GT carbon budget and reach net-zero CO₂ at the global level by 2050, under the assumption of at least 1-4 GT CO₂ removal per year by 2050.
- Global floor area will increase by around 15% to 2030⁽¹⁾.
- Sector emissions converge to net zero by 2050.

SBTi pathways were developed in partnership with CRREM, which references the AEMO Integrated Systems Plan (ISP) 2022 in its emission factor development. Both the AEMO ISP 2022 and the AEMO Electricity Statement of Opportunities (ESOO) 2023 align to the Federal Government's legislated commitment of 82% renewable energy by 2030.

Additional NAB assumptions

NAB has applied assumptions set out in the AEMO ES00 2023 Step Change scenario to model pathways to the 2030 Office and Retail targets. Key assumptions of this model include:

- Achievement of the Federal Government's legislated commitment to 82% renewable energy.
- Reduced gas consumption in CRE buildings (6% reduction by 2030).
- Increased energy efficiency of CRE buildings producing energy savings of 4% by 2030.

Given the dependence on the electricity grid for decarbonisation, along with investment in building-level improvement, commitments made by Federal, State and Territory governments to support these levers are all critical to reducing emissions at a rate required to rapidly decarbonise the sector and any delays or changes to government commitments or the above assumptions will make it difficult for NAB to meet this target.

Decarbonisation is also reliant on the property owners' willingness and ability to install rooftop solar systems and battery storage and invest, over time, in building upgrades to improve energy efficiency to reduce the property's carbon emission footprint, particularly for existing buildings.

Should the above key scenario assumptions not occur as anticipated, for example if the electricity grid does not decarbonise in line with current government ambition, or if policy settings to support building energy reduction are delayed or are not implemented, then the gap to target will increase and make it very difficult for NAB to achieve its CRE sector target.

Sourcing sector data

NAB has calculated its attributable financed emissions intensity (Scope 1 and 2 for each asset) by aggregating the emissions and floorspace of its CRE portfolio.

Floorspace for each property was estimated using a third-party provider. This was for the entire building area including any tenanted areas. Where the third party was unable to provide floorspace, NAB has used SA4 geographic region averages for floorspace by asset type.

(1) This is a global assumption and is differentiation for Office and Retail sub-sectors.

Sectors (cont.)

Emissions were estimated at the asset level using electricity and gas consumption averages based on sub-sector and geographic information sourced from the Department of Climate Change, Energy, the Environment and Water (DCCEEW).

Emissions intensity for each sub-sector was then calculated by dividing each property's emissions by its floorspace and weighting it by its EAD relative to NAB's total in-scope CRE EAD for that sub-sector.

Over time, more property-level data will be required to distinguish NAB's portfolio from the sector averages. Further adoption of the National Australian Built Environment Rating System (NABERS) is one important initiative to achieve this.

A range of initiatives are being explored to improve data availability and quality. As NAB's reliance on proxy data reduces and the inclusion of actual portfolio data increases, it is possible that the trajectory of NAB's CRE portfolio decarbonisation against target will not be linear. NAB will monitor the need for re-baselining to reflect any such changes in data quality and composition.

Residential real estate

Sector overview

The residential real estate (RRE) sector in Australia comprises over 9 million properties of which approximately 30-35% are mortgaged. Standalone properties represent around 85% while 15% are apartments or flats. Property type determines the array of decarbonisation strategies available to customers, whereby apartment/flat owners may have less ability to make structural building efficiency upgrades or install rooftop solar.

In Australia, residential buildings are responsible for around 24% of overall electricity use and more than 10% of total carbon emissions⁽¹⁾. Energy delivered to households generates around 28% of its emissions as Scope 1, primarily from natural gas, and around 72% of its emissions from electricity consumption as Scope 2 emissions.

The Australian Government is working with State and Territory Governments to improve energy efficiency of new and existing homes and later this year is expected to release its sectoral plan for the Built Environment which includes RRE.

Sector inclusions

Includes all on-balance sheet residential lending where the collateral is located in Australia and the property is used for residential purposes⁽²⁾.

Decarbonisation target overview

Element	Approach
2022 baseline	35.1 kgCO ₂ e/m ²
Metric	Emissions intensity (kgCO ₂ e/m ²)
Emissions Scope	Scope 1 and 2
2030 Target	15.4 kgCO ₂ e/m ² (56% reduction against 2022 baseline)
Scenario	SBTi Residential Buildings (Australia)
Data quality score	Average PCAF score: 4.0

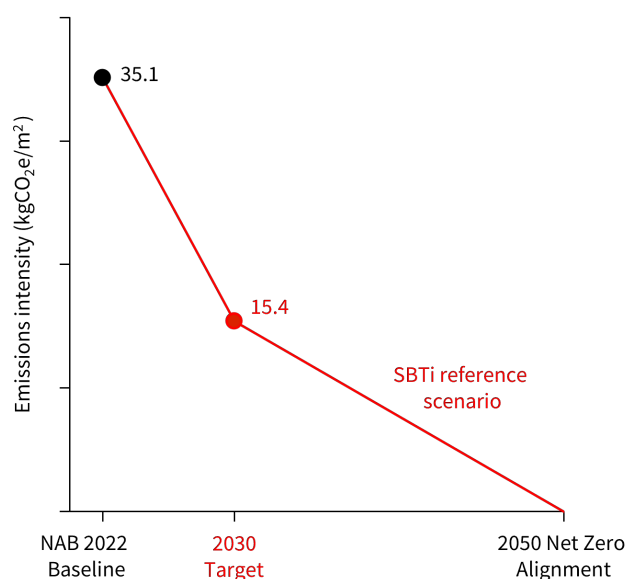
NAB's sector target for RRE represents a 56% decrease in emissions intensity by 2030, against a 2022 baseline. NAB's lending (EAD) to the RRE sector totals \$344.1 billion representing around 34% of total NAB EAD as at 30 June 2022.

NAB's home lending exposure is spread across all states with a slight skew to Victoria (30% of NAB's portfolio compared to 26% of the national housing stock). Given Victoria's higher reliance on emission-intensive energy sources like coal and gas, this skew increases the relative emissions intensity of NAB's baseline.

NAB's approach

NAB has selected the SBTi Residential Buildings (Australia) reference scenario. This is a downscaled IEA NZE 2050 (2021) pathway with regional specificity. It was developed in partnership with CRREM which sources AEMO's emission factors (see below Additional NAB assumptions).

Figure 3: RRE sector target and SBTi (Australia)



NAB does not intend to manage its target by restricting lending where customers do not meet 'green' criteria, however it is working to support decarbonisation of the sector through a range of levers. These include:

- Public advocacy through participation in government initiatives and ongoing engagement with key industry groups in the RRE sector, in addition to NAB's active input on relevant government consultations related to decarbonisation, climate reporting and disclosures.
- Financing decarbonisation
 - Development of propositions to support decarbonisation of homes via partnerships.
 - Providing finance to large scale renewable energy and battery projects, transmission grid upgrades and advocating for conducive policy settings to support decarbonisation of Australia's RRE sector.
- Bank-wide climate training with foundational and RRE-specific modules to help bankers to support customers in their decarbonisation journey.

We will continue to assess the impact of these levers, and the combination of options that should be deployed in response to portfolio and external decarbonisation trends, as we monitor portfolio progress against our target.

Key scenario assumptions

SBTi (Australia) Buildings - Residential

Key assumptions for this reference pathway include:

- 1.5°C-aligned pathways used by the SBTi stay within the 500 GT carbon budget and reach net-zero CO₂ at the global level by 2050, under the assumption of at least 1-4 GT CO₂ removal per year by 2050.
- Global floor area will increase by around 15% to 2030⁽³⁾.
- Sector emissions converge to net zero by 2050.

SBTi pathways were developed in partnership with CRREM, which references the AEMO ISP 2022 in its emission factor development. Both the AEMO ISP 2022 and the AEMO ES00 2023

(1) Available at <https://www.dceew.gov.au/energy/energy-efficiency/buildings/residential-buildings>

(2) Off-balance sheet exclusions, such as undrawn but committed mortgages and capital relief Residential Mortgage-Backed Securities (RMBS) amount to \$56 billion. Lending activity to Special Purpose Vehicles to finance third-party lenders and investments in RMBS securities are also excluded.

(3) This is a global assumption and is not specific to Residential Real Estate.

Sectors (cont.)

align to the Federal Government's legislated commitment of 82% renewable energy by 2030.

Additional NAB assumptions

NAB has applied the assumptions set out in the AEMO ES00 Step Change scenario to model pathways to the 2030 RRE target. Key assumptions of this model include:

- The Australian Government's 82% renewable energy commitment being achieved by 2030.
- Increased energy efficiency of homes through home improvements and new builds (10% improvement by 2030).
- Increased household rooftop solar adoption (over 50% of households by 2032).
- Reduced gas consumption (27% reduction by 2030).

Further, decarbonisation relies on the willingness of home owners to install rooftop solar and battery storage systems. It also depends on home owners investing in more energy efficient products and appliances over time to reduce the property's carbon emission footprint – this is particularly important for existing properties.

Commitments made by Federal, State, and Territory governments to support decarbonisation are critical to reducing household emissions at a rate required to rapidly decarbonise this sector, and any delays or changes to government commitments or the above assumptions will make it difficult for NAB to meet this target.

Sourcing sector data

NAB has calculated its attributable financed emissions intensity (Scope 1 and 2) by aggregating the emissions and floorspace of its RRE portfolio.

Floorspace for each property was estimated using a third-party provider.

Emissions were estimated at the property-level by estimating inhabitants per property, sourced from ABS, and applying electricity and gas consumption per inhabitant by climate zone sourced from the Australian Energy Regulator (AER). Conversion of consumption to emissions was estimated using state averages, sourced from DCCEEW.

Rooftop solar uptake within the NAB portfolio was estimated using a third-party provider. This estimate was based on AER state-averages and reflects a reduction in household electricity consumption.

Over time, more property-level data will be required to distinguish NAB's portfolio from the sector averages and initiatives to achieve this are progressing, including the roll out of smart meters. As NAB's reliance on proxy data reduces and the inclusion of actual portfolio data increases, it is possible that the trajectory of NAB's RRE portfolio decarbonisation against target will not be linear. NAB will monitor the need for re-baselining to reflect any such changes in data quality and composition.

Transport - road (cars and light commercial vehicles)

Sector overview

In 2022, global emissions from transport grew to nearly 8Gt CO₂-e⁽¹⁾. In Australia, transport made up approximately 20%⁽²⁾ of total emissions, equivalent to 94Mt CO₂-e, with cars and light commercial vehicles (LCVs) contributing 56Mt CO₂-e⁽³⁾. Sector decarbonisation will be driven by the uptake of electric vehicles (EVs) and hybrids, particularly in the car and LCV segments (responsible for approximately 60%⁽³⁾ of Australia's transport emissions).

Decarbonisation of the road transport sector is a priority for the Australian Government, with recent initiatives including the National EV Strategy, a House of Representatives Committee inquiry into the transition to electric vehicles and the planned New Vehicle Efficiency Standard. Significant investment and co-operation between Local, State, Federal governments, and private industry (including banks) will be required to enable the EV transition in Australia.

Sector inclusions

Sector scope includes loans secured by cars⁽⁴⁾ and LCVs⁽⁵⁾.

We are continuing to monitor data and methodologies in the heavy vehicle (trucks) sub-sector (EAD \$2.6 billion) for which decarbonisation levers differ to the car and LCV segments. Buses, and motorbikes have also been excluded due to our relatively small exposure (EAD \$0.3 billion and \$3 million respectively). Personal or business loans for the use of financing of cars and LCVs (including through mortgage offsets and redraw facilities) that are not explicitly secured against specific vehicles have been excluded due to data limitations. We will continue to monitor developments within the excluded sub-sectors with a view to expanding our targets as data and methodologies allow.

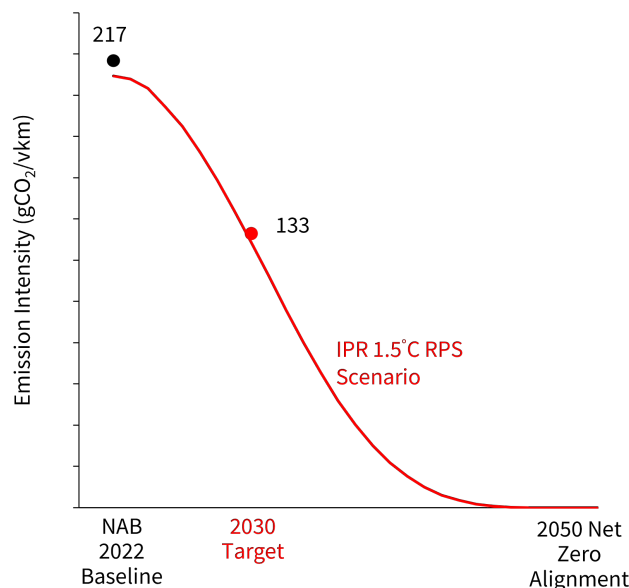
Decarbonisation target overview

Element	Approach
2022 baseline	217 gCO ₂ /vehicle kilometre (vkm)
Metric	Emissions intensity (gCO ₂ /vkm)
Emissions Scope	Scope 1 ⁽¹⁾
2030 Target	133 gCO ₂ /vkm (2050 convergence, 39% reduction against 2022 baseline)
Scenario	Inevitable Policy Response 1.5 degree aligned Required Policy Scenario (IPR 1.5°C RPS)
Data quality score	Average PCAF score: 5.0

(1) The national average emission intensity is limited to Scope 1 CO₂ tailpipe emissions of vehicles.

NAB's sector target for transport - road (cars and LCVs) represents a 39% emissions intensity reduction by 2030, against a 2022 baseline. NAB's lending (EAD) to cars and LCVs totalled \$2.7 billion as at 30 June 2022.

Figure 4: Transport - road (cars and LCVs) sector target and UN PRI 1.5°C



NAB's approach

NAB has selected the IPR 1.5°C RPS Australian scenario commissioned by the UN PRI as the reference pathway. This pathway does not consider emissions on a per vehicle kilometre basis, NAB has used activity forecasts published by DCCEEW⁽⁶⁾ to derive the relevant emission intensity pathway, necessitating a 39% reduction in portfolio emission intensity between 2022 and 2030. NAB's road portfolio is skewed towards larger cars and LCVs, reflecting the customer base financing vehicles through Business and Private Banking.

The decarbonisation of the car and LCV portfolio is heavily dependent on an accelerated switch from internal combustion engines (ICE) to EV and hybrid vehicles, and increases in the fuel efficiency for new ICE vehicles prior to their phase-out. As set out under the scenario assumptions below, these changes are in turn heavily dependent on Australian government policies in both the vehicle and stationary energy sectors. NAB is working to support decarbonisation initiatives through a range of levers. These include:

- Policy advocacy through participation in government initiatives. NAB is actively providing input on relevant government consultations related to decarbonisation, climate, reporting and disclosures.
- Financing decarbonisation by providing finance to customers to buy EVs and hybrids through NAB's green equipment finance proposition (in Business and Private Banking) and via a commercial partnership with Plenti (in Personal Banking).
- Bank-wide climate training with foundational and transport-specific modules to help bankers to support customers in their decarbonisation journey.

(1) Available at <https://www.iea.org/energy-system/transport>

(2) Available at <https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-gas-inventory-quarterly-update-december-2022>

(3) Available at <https://www.dcceew.gov.au/energy/transport>

(4) Cars include sedans, hatches, sports utility vehicles and 4WDs.

(5) LCVs are defined as goods vehicles with a 'Gross Vehicle Mass' not exceeding 3.5 tonnes including utes and vans.

(6) Available at <https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2023.pdf>, Table 21

Sectors (cont.)

Key scenario assumptions

IPR 1.5°C RPS assumptions⁽¹⁾

Key assumptions that underpin this scenario include:

- 33% reduction in absolute emissions from cars and LCVs in Australia between 2022 and 2030.
- New fossil fuel vehicles are phased out by 2035 in Australia (and globally by 2045).

Additional NAB assumptions

In considering its portfolio decarbonisation trajectory, NAB has assumed:

- Legislation of the New Vehicle Efficiency Standard (NVES) as passed in Federal Parliament on 16 May 2024 (i.e., an average emissions intensity reduction of 60% for cars and 50% for LCVs by 2030), effective 1 January 2025⁽²⁾.
- There will be a 10% increase in total vehicle kilometres travelled between 2022 and 2030 (in line with DCCEEW's estimate)⁽³⁾.
- The electricity grid will decarbonise in line with AEMO's ESOO 2023 Step Change scenario (which assumes an 82% renewables mix by 2030).
- Governments and industry invest in the required infrastructure to support an increase in demand for EV charging.

Should the above key scenario assumptions not occur as anticipated, for example if the electricity grid does not decarbonise in line with current government ambition or if policy settings to accelerate EV adoption, including investment in the required infrastructure, it will be difficult for NAB to achieve this target.

Sourcing sector data

Top-down industry-level data has been used to estimate the emissions intensity of the portfolio.

The majority of the secured assets within NAB's portfolio are heavy sports utility vehicles (SUVs) and LCVs. Accordingly, we have applied the national average emission intensity for the SUV and LCV segments as a proxy for the emissions intensity for this portfolio⁽⁴⁾. 2020 data was used to reflect the average age of loans in the 2022 baseline year.

NAB is continuing to work to improve its asset-level data in forthcoming systems updates.

(1) NAB's consideration of key assumption from the IPR 1.5°C RPS scenario. This list is not exhaustive.

(2) Available at <https://parlinfo.aph.gov.au/parlinfo/search/display/display.w3p;query=id%3A%22legislation%2Fbillhome%2F7183%22>

(3) Available at <https://www.dcceew.gov.au/sites/default/files/documents/australias-emissions-projections-2023.pdf>, Table 21

(4) Available at <https://www.ntc.gov.au/sites/default/files/assets/files/CO2 Emissions Intensity for New Australian Light Vehicles 2022.pdf>

Transport - shipping

Sector overview

Globally, the shipping sector contributes 706Mt⁽¹⁾ CO₂-e (2% of total global CO₂-e emissions) annually and demand is forecast to grow. In Australia, the sector is responsible for around 2Mt CO₂-e (0.4% of total)⁽²⁾ per annum and is responsible for transporting over 99% of our international trade volumes, making it vital to our economy.

The IMO, the United Nations agency responsible for the safety and security of shipping and the prevention of marine and atmospheric pollution by ships, has a GHG strategy to reach net zero total emissions by or around 2050, with an interim ambition to reduce absolute emissions by 20-30% by 2030⁽³⁾ compared to 2008 levels.

In the short term, decarbonisation of the sector will be driven by gains in operational efficiencies, improved ship maintenance and improved engine and ship design. Longer term, low and zero emission fuels such as green methanol and ammonia (hydrogen) will drive decarbonisation of the sector.

Industry momentum behind the transition is building, with approximately 45% of tonnage ordered globally in 2023 being low and zero carbon fuel-capable⁽⁴⁾.

Sector inclusions

Sector inclusions have been determined in reference to the data and methodology requirements of the Poseidon Principles (PP), which are linked to IMO emissions standards reporting requirements, and includes secured lending to customers in Corporate and Institutional Banking for:

- Vessels governed by IMO emission standards and mandatory reporting of data to the IMO Data Collection System (DCS) applies.
- Vessels over 5,000 GT that are engaged in international freight.
- Vessels for which a PP trajectory exists.

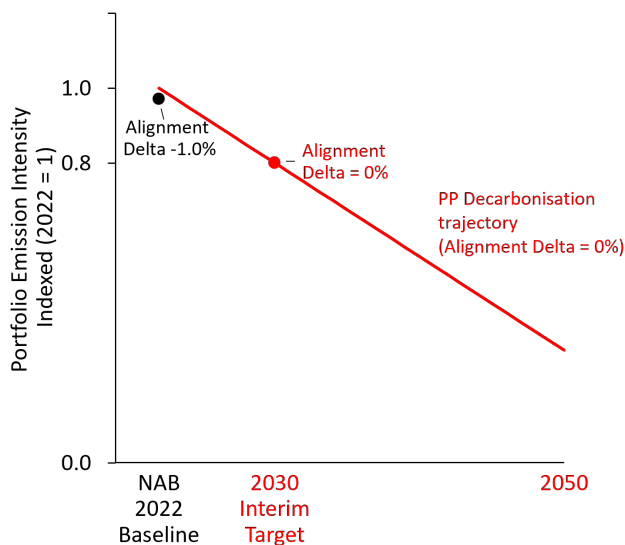
Passenger vessels have been excluded (EAD \$0.5 billion) due to lack of available data (including proxies). Unsecured lending to shipping companies (EAD \$0.04 billion) and domestic freight vessels (EAD \$0.01 billion) have been excluded due to the small size of the exposure as at 31 December 2022.

Decarbonisation target overview

Element	Approach
Metric	Alignment delta % (measures the difference between the portfolio's average carbon-efficiency rating (adjusted for vessel type) and the PP pathway ⁽¹⁾)
2022 baseline	-1.0% alignment delta (i.e., NAB's portfolio currently sits slightly under (is more efficient than) the PP pathway)
Emissions Scope	Scope 1 ⁽²⁾
2030 Target	0% alignment delta (i.e. NAB's portfolio aligned with the PP pathway) which will require a 19% reduction in emission intensity ⁽³⁾ .
Scenario	Poseidon Principles (PP) Pathway (2018)
Data quality score	Average PCAF score: 2.5

- (1) If the Portfolio Alignment Delta % is positive, the portfolio is said to be misaligned, i.e. the average carbon intensity of the portfolio is greater than the carbon intensity required for decarbonisation in line with the reference scenario. If the Alignment Delta % is 0%, the portfolio is aligned with the reference scenario, and if it is negative, it is outperforming the reference scenario.
- (2) Scope 1 emissions from the combustion of fuel represent the majority of emissions for this sector.
- (3) For a portfolio to maintain a 0% alignment delta, it will need to reduce its emissions intensity by 20% between 2022 and 2030. Given NAB is starting below the pathway (i.e. portfolio has a slight negative Alignment Delta %), the resulting reduction in carbon intensity that is required for NAB portfolio to achieve the target alignment delta of 0% by 2030 is 19%.

Figure 5: Transport - shipping sector target and Poseidon Principles Pathway



The target emissions intensity reduction (Annual Efficiency Ratio (AER) gCO₂/dwt.nm) by 2030 for shipping is 19%. NAB's lending (EAD) to the shipping sector totalled \$3.1 billion as at 31 December 2022 (noting that the 31 December 2022 baseline has been selected to align with the IMO reporting periods).

(1) Available at <https://www.iea.org/energy-system/transport/international-shipping>

(2) Available at <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/maritime/charting-australias-maritime-emissions-reductions>

(3) Available at <https://www.imo.org/en/OurWork/Environment/Pages/2023-IMO-Strategy-on-Reduction-of-GHG-Emissions-from-Ships.aspx>

(4) Available at <https://www.tradewindsnews.com/insight/clarksons-hails-hugely-significant-year-for-shipping-industry-decarbonisation/2-1-1578209>

Sectors (cont.)

NAB's approach

The PP were selected as they provide a framework and methodology for measuring performance, leverage data required to be provided to the international shipping regulator and are used widely in the industry to measure emissions performance.

NAB has chosen to adopt the 2018 version of the PP pathway, which is aligned to the IMO's 2018 GHG strategy, noting however that while the 2018 PP pathway is in line with IEA's Beyond 2°C Scenario (B2DS) it is not 1.5°C aligned.

In February 2024, PP released a methodology for a more ambitious pathway (requiring approximately a 60% reduction in emissions intensity over the same 2022 to 2030 period⁽¹⁾) (Updated Methodology).

However, NAB has determined that it is premature to adopt the Updated Methodology at this time. This is for reasons that include a number of outstanding pathway assumptions (many of which remain subject of on-going debate within the shipping industry) and the fact that the IMO regulations by which the pathway will be operationalised are not scheduled to be finalised until 2025⁽²⁾.

NAB will monitor the finalisation of the Updated Methodology and review the updated pathway and target as appropriate.

NAB's shipping portfolio is a mix of lending to shipping companies and asset financing to tonnage providers secured over vessels. The primary lever to achieve the target will be to preferentially allocate capital to customers with 2030 decarbonisation commitments and provide finance for efficient vessels with emissions intensity in line with NAB's target.

Key scenario assumptions

Poseidon Principles (2018)

Key PP assumptions include:

- Widespread reporting of tank-to-wake emissions⁽³⁾.
- Annual Efficiency Ratio is based on a vessels capacity rather than tonnage carried.
- Fuel emission factors account for CO₂ emissions only and do not incorporate other GHG's.
- Global transport demand (billion tonnes nautical miles) increases by 160%⁽²⁾ between 2008 and 2050.
- Absolute emissions reduce by 50% between 2008 and 2050.
- Reduction in intensity of 81% between 2008 and 2050.
- The trajectory assumes a constant rate of improvement in emission intensity on average across the fleet year on year between 2012 and 2050, i.e., on a straight-line basis.

Note: The PP trajectory is more ambitious than the IMO Initial Strategy Objective 2 emission intensity reduction values of 40% (2030) and 70% (2050), because it is derived to ensure achieving the IMO Initial Strategy Objective 3 (the absolute emissions objective)⁽²⁾.

Additional NAB assumptions

In assessing NAB's portfolio trajectory, NAB has assumed modest operational and maintenance efficiency gains of at least 15% by 2030, as required by IMO minimum standards.

NAB has assumed that no material prolonged disruption to shipping routes will occur. Such disruptions could reduce

operational efficiency of vessels and impact NAB's ability to achieve its target. In addition, should the above key scenario assumptions not occur as anticipated, it will be challenging for NAB to achieve this target.

Sourcing sector data

49% of vessel emissions data (based on EAD) was sourced directly from customers and represents actual performance. Emissions intensity for the balance of the portfolio has been estimated on a vessel-by-vessel basis via a specialist third-party provider. The modelled data considers ship design characteristics and operational parameters to calculate an estimate for the vessel's emission intensity. Following mandatory IMO data reporting requirements which commenced on 1 January 2023, NAB intends to improve data quality and access over time by increasing the percentage of actual versus estimated emission data used in target setting.

(1) When compared to an equivalent portfolio which would require a 20% reduction in emission intensity under the 2018 PP Methodology to achieve an Alignment Delta of 0% in 2030.

(2) Refer PP version 4.1, August 2022, page 51. Available at http://www.poseidonprinciples.org/finance/wp-content/uploads/2019/07/Poseidon_Principles.pdf

(3) Emissions that result from burning of fuel once it is already onboard. It does not include emissions related to upstream or downstream activities associated with the fuel production, storage, or transportation.

Approach to agriculture

Sector overview

Australia's agriculture sector is important. It is a key contributor to jobs, GDP⁽¹⁾ and exports, and it provides high quality food and fibre to Australians and the rest of the world. Demand for the commodities produced by the Australian agricultural sector is forecast to continue to grow to meet the needs of a growing population.

In Australia, the sector emits 77Mt CO₂e per year (18% of national total)⁽²⁾ with the majority of emissions coming from livestock: beef (49%), sheep (19%), dairy (9%) and remaining subsectors collectively contributing the remaining 23%.

Decarbonisation and adaptation will become critical for the ongoing sustainability of the sector from productivity and market access perspectives but must be balanced with care for its role in regional communities and the domestic and global food supply chain.

Near-term emissions reductions are likely to be driven by livestock and fertiliser productivity improvements, however technologies to reduce enteric fermentation (the largest source of sector GHG emissions) are likely to be viable at commercial scale over the medium term.

NAB's approach

NAB's lending to the agriculture sector totalled \$40 billion as of 30 June 2022, approximately 3.9% of total EAD.

The Australian agriculture sector is unique in its scale and its diversity of farming systems and has already benefited from significant improvements in productivity. NAB has assessed a number of credible, science-based agriculture reference pathways and has concluded that none are both sufficiently localised (i.e., use decarbonisation assumptions that are reasonable in the Australian context) and are capable of being applied to NAB's large and heterogeneous portfolio, in the way the pathway model was intended. However, NAB expects that the work currently underway by well-recognised organisations to produce new and updated reference pathways (including, but not limited to, the Food and Agriculture Organisation food systems regional update, expected end of 2024) may help to resolve challenges with reference pathway availability in the shorter term.

Feedback from NAB customers and industry bodies is that farmers are acutely aware of the risks and impacts of climate change, and many have already commenced reducing their climate impact where they can. NAB's view is that further support and/or incentive from government and industry along the value chain is required to drive decarbonisation of this sector.

NAB expects that the work underway by the Australian Government on the Agriculture and Land sectoral plan, which will outline the government's approach for how transitioning to a net zero economy can be achieved for the agriculture sector, will provide further certainty for investment and decision-making and may provide the basis for acceleration of decarbonisation at the farm level. NAB is providing input into the sectoral plan work.

Given i) material improvements to data and methodologies are imminent through the reference pathways work that is

underway; and ii) the Australian Government's sector plan for agriculture is expected to be released in late 2024, NAB believes that it is more efficient and effective to temporarily defer setting an agriculture sector target. NAB will continue to monitor government-led policy developments, ongoing research and emerging pathways, and continue to engage with customers. NAB will update the market on its approach to decarbonising its agriculture portfolio in the 2025 Climate Report.

Accuracy and reliability of data in the agriculture sector is a challenge. NAB is working with customers and third parties to improve quality and availability of data to provide insights to customers and to inform target-setting.

Pending introduction of a formal target, NAB is working to support decarbonisation of this sector through a range of levers. These include:

- Policy advocacy through participation in government and industry initiatives and providing input on relevant government consultations related to decarbonisation, climate reporting and disclosures.
- Financing decarbonisation through deployment of innovative finance offerings such as green equipment finance lending and green agri propositions, supporting customers to invest in activities to reduce carbon emissions.
- Bank-wide climate training with foundational and agri-specific modules to help bankers to support customers in their decarbonisation journey.

NAB is also developing a roadmap and investing in initiatives that will help to capture farm-level emissions data and share actionable insights with customers, and exploring opportunities to invest in technologies and partnerships in emissions reduction technology and data capture.

(1) Available at <https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/latest-release>

(2) Available at <https://greenhouseaccounts.climatechange.gov.au/>

Supporting information

Customer
Transition Plans

Environmental
finance ambition

Sector
decarbonisation
targets

Supporting
information

Financed emissions methodology

NAB's approach to financed emissions

NAB has estimated attributable financed emissions for two high-emitting sectors of its Australian lending portfolio for the purposes of these Disclosures: (1) Real estate with sub-sector targets set for CRE - office, CRE - retail and RRE, and (2) Transport with sub-sector targets set for road and shipping.

NAB reported absolute emissions (MtCO₂-e) for these sectors in NAB's [2023 Climate Report](#) and will do so again in NAB's 2024 Climate Report. This will also capture methodology improvements made between reporting periods.

These sectors are aligned with the NZBA priority sectors. Emissions were attributed to NAB in accordance with PCAF GHG accounting methodologies, as outlined in the second edition of *PCAF's Global GHG Accounting and Reporting Standard for the Financial Industry* (PCAF Standard)⁽¹⁾. Note that for these Disclosures, NAB has aligned the dates used for its financed emissions estimate to 30 June 2022 except for transport - shipping which is 31 December 2022 to align with IMO reporting periods. There is a time lag between the customer emissions data being available for these calculations and NAB's reporting year end. NAB will continue to work with customers, industry, government, and partners to improve the quality, and reduce the time lag in emissions data, over time.

Table 1: Geographic boundary and Scope inclusions for NAB's sectoral decarbonisation targets⁽¹⁾

Sector	EAD (\$bn)	EAD (% of NAB's total EAD)	Geographic boundary ⁽²⁾	Operational boundary	Metric	Baseline	Baseline year
Power generation	6.7	0.66	Global	Scope 1 and 2	tCO ₂ -e/MWh	0.20	2021
Thermal coal	0.6	0.06	Global	Scope 1, 2 and 3	MtCO ₂ -e	5.1	2021
Oil and gas	1.3	0.13	Global	Scope 1, 2 and 3	MtCO ₂ -e	4.1	2021
Cement	0.8	0.08	Global	Scope 1 and 2	tCO ₂ -e/t	0.60	2021
Aluminium	0.07	0.01	Global	Scope 1 and 2	tCO ₂ -e/t	1.7	2022
Iron and steel	0.3	0.03	Global	Scope 1, 2 and Scope 3 for metallurgical coal	MtCO ₂ -e	6.8	2022
Transport - aviation	3.2	0.3	Global	Scope 1 and 2	gCO ₂ -e/pkm	104	2019
CRE - office ⁽³⁾	15.2	1.5	Australia	Scope 1 and 2	kgCO ₂ e/m ²	70.8	2022
CRE - retail ⁽³⁾	16.4	1.6	Australia	Scope 1 and 2	kgCO ₂ e/m ²	78.4	2022
RRE ⁽³⁾	344.1	33.8	Australia	Scope 1 and 2	kgCO ₂ e/m ²	35.1	2022
Transport - road (cars and LCVs)	2.7	0.3	Australia	Scope 1	gCO ₂ /vkm	217	2022
Transport - shipping	3.1	0.3	Global	Scope 1	Alignment Delta %	-1.0	2022

(1) Note: Percentage coverage at a sector level will be provided in NAB's 2024 Climate Report.

(2) Global exposures include NAB's exposures outside of Australia, excluding exposures of NAB's New Zealand banking subsidiary, BNZ, which has separately signed up to the NZBA.

(3) Sector EAD has been updated from previously reported figures in NAB's 2023 Climate Report to reflect refinements in the methodology.

EAD used in financed emissions

NAB's estimation of sector baselines was determined with reference to EAD measured prior to APRA's Revised Capital Framework (RCF). APRA's prudential standards for the RCF came into effect on 1 January 2023. As part of the regulatory reforms, aspects of the methodology for calculating EAD changed. The sector decarbonisation targets published in these Disclosures reference EAD numbers calculated prior to the RCF. In future reporting periods NAB may re-baseline its sectoral decarbonisation targets to align with the updated definition of EAD. This may be to update the EAD used to the RCF, or to another baseline metric considered more appropriate. NAB has not yet determined when this should occur.

NZBA targets-related financed emissions coverage estimation methodology

NAB has estimated its financed emissions coverage, represented by the NZBA sector decarbonisation targets it has set to date, using a combination of portfolio data and third-party proxy data from the Australian National Greenhouse Accounts (NGA) in the 2022 Paris Inventory⁽²⁾.

The coverage calculated incorporates the following sectors:

- Power generation
- Thermal coal
- Oil and gas
- Cement
- Aluminium
- Iron and steel
- Transport with sub-sector targets for aviation, road and shipping
- Real estate with sub-sector targets for CRE - office, CRE - retail and RRE

Sector coverage estimate

To enable an estimate of financed emissions attributable to the decarbonisation targets NAB has set to date as a proportion of financed emissions attributable to NAB's lending portfolios within the nine carbon-intensive sectors identified by the NZBA, NAB has taken the calculated financed emissions for the decarbonisation targets it has set and divided this by an estimate of financed emissions attributable to NAB's lending portfolios within the NZBA carbon-intensive sectors. The estimate of financed emissions for the NZBA carbon-intensive sectors has been determined by reference

(1) Available at www.carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

(2) Available at <https://greenhouseaccounts.climatechange.gov.au/>, Emissions inventories - Paris Agreement inventory.

Financed emissions methodology (cont.)

to calculated financed emissions for the decarbonisation targets NAB has set and, where top-down⁽¹⁾ approaches have been taken, by reference to sectors in the NGA⁽²⁾, aligning these to the extent possible.

In simplified form, this may be presented as *Estimated Sector Coverage* = A/B, where:

A = calculated financed emissions for the decarbonisation targets NAB has set

B = A + estimated financed emissions attributable to the portion of the NZBA carbon intensive sectors not covered by NAB's decarbonisation targets⁽³⁾

Australian portfolio coverage estimate

To enable an estimate of coverage of financed emissions attributable to the decarbonisation targets NAB has set to date as a proportion of financed emissions attributable to NAB's Australian lending portfolio, NAB has taken the calculated Australian financed emissions for the decarbonisation targets it has set and divided this by an estimate of financed emissions attributable to NAB's Australian lending portfolio. The estimate of financed emissions for NAB's Australian lending portfolio has been determined by reference to Australian financed emissions for the decarbonisation targets NAB has set. NGA data has been used to estimate financed emissions for the remainder of NAB's lending portfolios.

In simplified form, this may be presented as *Estimated Portfolio Coverage* = A/B where:

A = calculated Australian financed emissions for the decarbonisation targets NAB has set

B = A + (estimated financed emissions attributable to NGA emissions aligned to NAB's Australian lending portfolio⁽⁴⁾ minus A)

The specified NZBA carbon-intensive sectors do not precisely align to the sectors defined in the NGA. Therefore, matching to enable the estimate requires some qualitative judgement and assumptions. Due to this, there may be some inconsistencies in the data used.

These coverage ratios have an implicit assumption that factors such as market share, attribution factor and lending to total sector or industry⁽⁵⁾ are equivalent to NAB's Australian portfolio data in sectors that NAB has not estimated financed emissions. These initial estimates have not been subject to independent review, but will be at an appropriate future time. While this is currently the best methodology available to us for the purpose of estimating financed emissions coverage, the assumptions applied in this estimation have the potential to impact the accuracy of the ratio. NAB's methodology for determining financed emissions portfolio coverage will continue to be refined and improved over time as data and methodologies allow.

Partnership for Carbon Accounting Financials alignment

NAB's financed emissions calculations are aligned with the PCAF methodology, however NAB has expanded its definition to include financial guarantees and trade finance⁽⁶⁾.

NAB's financed emissions baselines and sector targets currently exclude Business and Private Banking and Personal Banking exposures in sectors where they account for less than 5% sector EAD, as well as exposures relating to NAB's New Zealand banking subsidiary BNZ, which has separately become an NZBA signatory. Refer to BNZ's climate and sustainability reporting for more details about BNZ's progress⁽⁷⁾. NAB's investing activities, (including via NAB Ventures) have been excluded from estimates of financed emissions because they are immaterial. Page 66 of the PCAF Standard outlines financed emissions calculation methodologies by asset class, (e.g., business loans and unlisted equity etc.) however, NAB has reported its financed emissions at a more granular industry sector level as NAB considers this provides a more detailed and meaningful representation of its lending portfolio. NAB has not applied any inflation adjustments to enterprise value including cash for any of its valuations.

Estimation approaches

NAB applies two approaches to estimating financed emissions based on the availability of data:

1. A bottom-up approach – based on individual customer emissions data.
2. A top-down approach – based on industry level data where bottom-up information was unavailable.

These approaches are detailed below.

Bottom-up approach

The bottom-up approach was applied to sectors where individual company emissions data was available. As a first priority, emissions data was sourced from customer-reported sources. If individual company data was not available, the PCAF data hierarchy, as documented in the PCAF Standard, was followed to complement and complete the data set. The hierarchy specifies that if reported emissions are not available, emissions should be calculated using production-based estimates. If production information is not available, emissions should be calculated using revenue-based estimates, if revenue-based estimates are not available or feasible, sector wide averages are to be used. NAB will continue to refine this methodology and attempt to expand its coverage using primary data sources in future years.

The bottom-up approach was applied to exposures in the following sectors:

- Transport - shipping
- Real estate - CRE
- Real estate - RRE

Top-down, intensity measure approach

A top-down approach using industry-level emissions intensity data was applied to estimate NAB's financed emissions for the transport - road (cars and LCVs) sector.

A more detailed description of the methodologies used to estimate NAB's attributable financed emissions for each sector is provided over the following pages.

(1) This term is in reference to this calculation only and not the calculation within NZBA sectors.

(2) NGA has only been used for estimating sector emissions for the denominator (B) within Australia.

(3) Including financed emissions associated with rail, heavy vehicles, CRE sub-sectors outside of Office and Retail, and agriculture.

(4) Converted to financed emissions using the ratio of NAB financed emissions to NGA emissions in matching sectors.

(5) Market share is based on total lending. 'Lending to total industry activity' may include additional categories of financial activity. To arrive at the ratio, we have made some assumptions about what level of activity does not have lending associated with it.

(6) Page 47 of the PCAF Standard, available at www.carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

(7) Available at <https://www.bnz.co.nz/about-us/sustainability>

Baseline calculation methodology by sector

Commercial real estate (CRE)

CRE emissions can be split into commercial gas use (Scope 1, approximately 4% of Australian CRE energy use) and commercial electricity use (Scope 2, approximately 96%). Fugitive hydrofluorocarbon emissions from refrigerants have not been estimated and Scope 3 emissions are not included in the baseline calculation.

The scope of the CRE sector has been defined according to *ARS 230.0 Commercial Property* (see *In-scope assets* section below) post September 2023.

In-scope assets

CRE definition is aligned to *ARS 230.0 Commercial Property*, which can be summarised as follows:

Property with both of the following characteristics have been included within scope:

- Facility purpose is flagged as 'Commercial Property'.
- CRE ANZSICs is 7711 or 7712.

In addition, properties with all of the following characteristics have also been included:

- Facility purpose is flagged as 'Commercial Property'.
- A property is flagged as 'Investment'.
- Servicing is flagged as 'Property-related'.

Vacant land and properties under development are excluded from scope. Any assets that are not Office or Retail are also excluded from scope.

Baseline calculation

- NAB commercial lending data comprises EAD, property location (e.g., property addresses and other location identifiers), asset type (e.g., office) and associated property value.
- Floor space estimates (F) in m² were obtained using a third-party capability by matching property details (parcel IDs) from internal NAB data. The third-party provider modelled floor space (building area, height and volume) based on satellite and aerial imagery to estimate whole-of-asset floorspace⁽¹⁾.
- Electricity and gas consumption intensity (T) in MJ/m² was obtained from the [DCCEEW Commercial Building Baseline Study 2022](#). Intensities are given by SA4 geographic region and asset type. The DCCEEW Baseline Study uses Gross Lettable Area (GLA), consistent with our floorspace estimate.
- Electricity consumption (E) in MJ is the product of an asset's consumption intensity (T) and floorspace (F).
- Electricity and gas emission factors (K) were sourced from [DCCEEW National Greenhouse Accounts Factors 2022](#).

Figure 1: Baseline emissions calculation

$$\text{Collateral emissions intensity} \left(\frac{\text{kgCO}_2\text{e}}{\text{m}^2} \right) = \frac{\left(\text{Energy consumption}_{(E)} \times \text{Emission factor}_{(K)} \right)}{\left(\text{Floorspace}_{(F)} \right)}$$

$$\text{Baseline emissions intensity} \left(\frac{\text{kgCO}_2\text{e}}{\text{m}^2} \right) = \sum_{\text{collateral}_i} \left(\text{Collateral}_i \text{ emission intensity} \times \frac{\text{Collateral}_i \text{ EAD}}{\text{Total in-scope sub-sector EAD}} \right)$$

Complexities and limitations

- Our third-party capability was only able to match 41% of properties. Where a property could not be matched, [SA4 geographic region averages](#) for floorspace by asset type have been used.
- The DCCEEW Commercial Building Baseline Study has captured actual grid consumption data which is net of any solar installed. It therefore means our grid consumption data is net of average rooftop solar rather than rooftop solar specific to NAB's portfolio.

Residential real estate (RRE)

RRE emissions can be split into residential gas use (Scope 1, approximately 28% of Australian RRE energy use) and residential electricity use (Scope 2, approximately 72%). Scope 3 emissions are not included in the baseline calculation.

All NAB's on-balance sheet Home Loan exposures to Australian residential property have been included in the calculation of emissions for this sector.

Baseline calculation

- NAB residential lending data was taken across all home lending products.
- NAB residential lending data comprises EAD, property details (i.e., property addresses), and associated property value at origination.
- Floor space estimates (F) in m² were obtained by a third-party provider by matching property addresses from NAB portfolio data. The third-party provider obtained the floor space estimates from several sources including Valuers General (availability differs by state), listing sources and valuation data where permitted (e.g., NAB PAD licence) and this data is not derived.
- Conversion factors from floor area to person headcount was then obtained using [National Construction Code \(NCC\) whole-of-home-component 2022](#) resource from Federal Government (necessary as energy consumption estimate is done based on a per person basis).
- Electricity and gas consumption data by climate zone and postcode were calculated using the [Australian Energy Regulator \(AER\) 2021 estimates](#) relative to household size. This is based on actual measured grid consumption which therefore factors in rooftop solar. We have added back the consumption that would have been associated with rooftop solar based on state average solar uptake as this is accounted for below using a separate third-

(1) Alignment with National CRE baseline methodology (DCCEEW and CSIRO).

Financed emissions methodology (cont.)

party provider to estimate solar uptake specific to NAB's portfolio.

- Base solar estimate (reducing electricity usage) has been calculated using a separate third-party provider. The third-party provider estimates solar panel area and capacity based on satellite data and aerial imagery. This provides rooftop solar uptake specific to NAB's portfolio by matching parcel IDs between both third-party providers. Multi-dwelling parcels are excluded from the matching due to inability to attribute solar to the exact property/address.
- Electricity and gas emission factors (K) were sourced from [DCCEEW National Greenhouse Accounts Factors 2022](#).

Figure 2: Baseline emissions calculation

$$\text{Baseline emissions intensity} = \frac{\sum_{\text{Collateral}} \left(\text{Energy consumption}_{(E)} \times \text{Emission factor}_{(K)} \right)}{\sum_{\text{Collateral}} \left(\text{Floorspace}_{(F)} \right)} \left(\frac{\text{kgCO}_2\text{e}}{\text{m}^2} \right)$$

Complexities and limitations

- There was no third-party data readily available for the Advantaged portfolio (approximately 13% EAD) at the time of target setting, preventing us from accessing our other third-party provider data for that portion of our portfolio. Therefore, our method for estimating base solar cannot be applied to this portion of the book. Third-party data will be made available for this portion in future.
- We are currently unable to disaggregate EV energy consumption at the home from residential energy consumption. Therefore, the consumption data we have relied upon will include electricity to charge EVs. Given we are using an intensity target, this additional consumption is not expected to significantly impact our trajectory.
- Loans for vacant land and construction are included in scope. Since these properties do not have a measurable floorspace, they are assigned a floorspace based on NAB's RRE portfolio average. It is not expected that their inclusion and treatment will materially impact the intensity baseline or ability to reach the target.
- NAB has not applied an attribution factor (e.g., Loan to Value Ratio) to our financed emission calculation of each property. Internal analysis found that leverage ratios did not materially differ between states and therefore this omission is not expected to be material.

Transport - road (cars and LCVs)

Baseline calculation

Top-down industry-level data has been used to estimate the emissions intensity of the portfolio. The majority of the secured assets within NAB's portfolio are heavy sports utility vehicles (SUVs) and LCVs. Accordingly, we have applied the national average emission intensity for the SUV and LCV segment as a proxy for the emissions intensity for this portfolio.

2020 data was used to reflect the average age of loans in the 2022 baseline year.

Complexities and limitations

Due to data limitations, unsecured personal or business loans for the use of financing of cars and LCVs have been excluded as they are not able to be clearly identified. It is the intention that any future secured Personal Banking loans will

be captured within the scope - including future loans via the partnership with Plenti.

Transport - shipping

Baseline calculation

Emissions have been estimated at the asset level for this sector (bottom-up methodology). Actual customer fuel consumption data has been used where available, and where unavailable, a modelled estimate from a specialist third-party provider has been used. The third-party provider models vessel emissions based on several factors including vessel type, vessel capacity, actual distance travelled and fuel type.

The PP methodology has been used to calculate NAB's baseline in this segment.

The PP use a carbon intensity metric, the Annual Efficiency Ratio (AER), to calculate the carbon intensity of a given vessel.

Figure 3: AER calculation

$$\text{AER} = \frac{\text{Fuel consumed} \times \text{fuel emissions factor}}{\text{Distance travelled (nm)} \times \text{dwt}^{31}}$$

The AER is compared to a predetermined trajectory for a given vessel type and size to generate an alignment delta (%).

Figure 4: Alignment delta calculation

$$\Delta_i = \left(\frac{x_i - r_s}{r_s} \right) 100$$

where x_i is the carbon intensity of vessel i and r_s is the required carbon intensity for the ship type and size class for time period t multiplied by 100 to convert into percentage terms.

The portfolio delta is the weighted average delta (by EAD) of each of the individual vessel alignment deltas.

Figure 5: Portfolio delta calculation

$$\Delta_p = \sum_{i=1}^N w_i \Delta_i$$

where w_i is the vessel's EAD as a share of the total EAD and Δ_i is the vessel alignment delta %.

- Data used to compute a vessel's AER is either:
 - Actual data received from customers; or
 - Modelled from a third-party provider.
- An alignment delta of 0% implies the portfolio is aligned with the pathway, a positive delta implies the portfolio is misaligned (i.e., more energy intensive), and a negative delta implies the portfolio is outperforming the pathway.

Complexities and limitations

There are no complexities or limitations to note in this sector.

Complexities and limitations in measuring financed emissions and setting targets

Climate-related metrics are underpinned by methodologies containing uncertainties, assumptions and judgements that limit the extent to which they can be relied upon. This applies to all climate-related metrics, including (without limitation) historical metrics relating to emissions and forward-looking climate metrics, such as goals, targets, climate scenarios or projections and pathways.

A summary of NAB's understanding of the main challenges associated with climate-related data, methodology and metrics follows. This is a non-exhaustive thematic summary of certain key risks that are relevant to consider in relation to climate related metrics and information, but they are not the only risks, and each thematic risk will in turn involve a range of particular and specific risks that impact the quality, utility and effectiveness of climate-related information:

- Data availability, quality and timeliness vary considerably within and across businesses, industries and geographies. This impacts both the ability to measure existing financed emissions and to set appropriate targets to reduce financed emissions. Measurement of financed emissions is, in many cases, based on estimates, and relies on data that NAB does not generate or control. The methodologies for estimating and calculating GHG emissions or emissions intensities and other climate-related metrics vary widely in their approaches. This may result in under or overestimates of climate-related risks or performance and/or financed emissions.
- While there has been improvement, there is a lack of common definitions and standards for reporting climate-related information, which may impact on the accuracy of estimates of financed emissions and targets based on existing estimates. In particular, climate metrics, measurement, other methodologies and reporting are not supported by a globally accepted framework or standard that facilitates efficiency, comparability and transparency. Frameworks and methodologies are often voluntary and a range of frameworks and methodologies are used by corporate organisations reporting on climate related information and metrics. This makes comparison by investors and others evaluating the climate performance of corporate organisations difficult.
- Estimating financed emissions is complex and requires significant methodological choices, judgements and assumptions. Methodologies to estimate financed emissions are evolving as understanding increases and data availability changes. This means methodologies used

to estimate financed emissions are likely to change over time, impacting existing estimates, and targets based on existing estimates.

- When setting targets for reducing financed emissions, the inherent uncertainty in estimating financed emissions is exacerbated by the long time periods involved, for example, to set targets aligning to net zero by 2050.
- Climate science, and the decarbonisation trajectory that it implies, is continually evolving. Climate scenarios are inherently uncertain, and there are limitations of climate modelling, including climate scenario modelling. Climate scenarios are modelled over a significantly longer time frame than more traditional financial scenario modelling and therefore the complexity and risk of error is higher.
- Many factors relating to the achievement of financed emissions sector decarbonisation targets are outside the control of NAB.
- NAB's customer base is not fixed. Changes to NAB's customer base over time can alter both the absolute level of financed emissions and the intensity of financed emissions. In addition, revenue and production for individual customers is volatile and subject to variation year-on-year.
- The reliance on customer data can lead to significant lags between the time of the emissions being generated, and the publishing of NAB's financed emissions reporting. For example, financed emissions data published in NAB's [2023 Climate Report](#) is based on emissions data, and in order to match this timing, EAD, as at 30 June 2022.
- Scenarios, and customers' transition plans, may have varying reliance on the commercialisation of currently unproven technologies to meet emissions reduction targets. Investment in these technologies may fail to achieve the intended outcomes. Over reliance on unproven technologies to meet targets may impact NAB's assessment of those transition plans.

These challenges reduce the accuracy of estimated financed emissions, and mean that targets may not always be achieved despite NAB using best efforts to pursue its targets.

Data quality assessment

NAB's assessment of data quality in accordance with the PCAF Standard is shown below, where a score of 1 equals highest data quality and a score of 5 equals lowest data quality. Refer to *Partnership for Carbon Accounting Financials alignment* for further details.

Table 2: Sector data quality

Sectors	2022	
	Scope 1 and 2	Scope 3
Commercial real estate	4.0	n/a
Residential real estate	4.0	n/a
Transport - road (cars and LCVs) ⁽¹⁾	5.0	n/a
Transport - shipping ⁽¹⁾	2.5	n/a

(1) Includes only Scope 1 emissions.

Challenges in allocating emissions to sectors

ANZSIC codes

When a lending transaction is created in NAB's systems, for most loans, the relevant customer is assigned an ANZSIC code based on their primary business activity. It is not NAB's current practice, and NAB does not consider it to have been historic common industry practice, to assign or otherwise record secondary ANZSIC codes for customers with diversified business activities.

As such, under NAB's current methodology for most loans, estimated customer emissions and sector-specific emissions estimates are applied to each customer's EAD with the assumption that the emissions are 100% attributable to the assigned primary business activity. Accordingly, if a customer is diversified across business activities, the estimate of their emissions may be under or overstated in sectors for which they have secondary operations.

Further limitations associated with reliance on ANZSIC codes to identify financed emissions, which could impact the accuracy of the sector under which financed emissions are captured and/or the accuracy of total financed emissions captured, include:

- The possibility of manual processing errors in ANZSIC coding at the time of loan origination and/or renewal.
- Any changes in customer activities between origination and renewal.
- Any lending undertaken by NAB without an ANZSIC code being recorded for the borrower. Manual efforts to identify all such lending may not have been successful.

Target setting baseline methodology

Target scope and boundaries

An overview of the coverage, scope and boundaries of NAB's decarbonisation targets is provided in Tables 3, 4 and 5.

Scenario summaries

Table 3: SBTi (Real estate - CRE (Offices and Retail) and RRE)

Theme	Summary of key points
Temperature alignment	<ul style="list-style-type: none"> • 1.5°C
Key scenario assumptions	<ul style="list-style-type: none"> • 1.5°C-aligned pathways used by the SBTi stay within the 500 GT carbon budget and reach net-zero CO₂ at the global level by 2050, under the assumption of at least 1-4 GT CO₂ removal per year by 2050. • Global floor area will increase by around 15% to 2030. • Sector emissions converge to net zero by 2050.
Limitations	<ul style="list-style-type: none"> • Does not provide a pathway for all Commercial Property types that NAB finances (e.g., no clear alignment between NAB's 'Industrial' property type classification and SBTi pathway for this property type). • No immediate link between SBTi and AEMO or DCCEEW resources, however pathways have been formulated in partnership with CRREM which does reference AEMO. • Does not facilitate detailed asset emissions monitoring. This means that bankers do not have the ability to see how their portfolio of clients are performing and therefore cannot provide as granular discussion or recommendations on environmental matters. • Does not provide state decarbonisation view, noting that each Australian state has a unique energy grid and decarbonisation trajectory. However, does provide a view by climate zone.
Rationale for selection	<ul style="list-style-type: none"> • Provides Australia-specific pathways for Residential Buildings, Office, and Retail. • Uses same metric as our baseline (kgCO₂e/m²). • Works with portfolio-level rather than asset-level data which is appropriate for CRE and RRE where there are substantial assets and inputting each one into the tool would require an excessive manual effort.

Table 4: UN PRI - IPR 1.5°C RPS (Transport - road (cars and LCVs))

Theme	Summary of key points
Temperature alignment	<ul style="list-style-type: none"> • 1.5°C
Key scenario assumptions	<ul style="list-style-type: none"> • Fast policy and technological change. • New fossil fuel light duty vehicle sales are phased out by 2035 in Australia and globally by 2045. • Trajectories provide granular region specific data: Australia is designated as its own region. • Limited use of carbon removals. • Universal access to affordable, reliable, sustainable and modern energy services by 2030. • Low reliance on negative emission technologies. • Does not rely on emissions reductions from outside the energy sector. • Some countries achieve net zero CO₂ emissions on a territorial basis, while others require international carbon offsets to meet commitments.
Limitations	<ul style="list-style-type: none"> • Does not provide emissions on a per vehicle kilometre basis.
Rationale for selection	<ul style="list-style-type: none"> • High sectoral granularity. • From a credible and recognised source. • Well accepted and understood by industry, investors and peers.

Financed emissions methodology (cont.)

Table 5: Poseidon Principles (2018) (Transport - shipping)

Theme	Summary of key points
Temperature alignment	<ul style="list-style-type: none"> Less than 2°C
Key scenario assumptions	<ul style="list-style-type: none"> Modelled off the Initial IMO GHG Strategy. 50% reduction in Global CO₂ Emissions by 2050 (compared to 2008). Increase in transport demand of 160% over the same period. Granular decarbonisation trajectories based on vessel type and size. Does not rely on emissions reductions from outside the energy sector.
Limitations	<ul style="list-style-type: none"> Not 1.5°C, not net zero. Only covers CO₂ not CO₂e. Does not cover scope 2 or 3 emissions. Assumes linear improvements in carbon intensity. Significant reliance on alternative fuels for decarbonisation.
Rationale for selection	<ul style="list-style-type: none"> Data availability. Transparent framework and calculation methodology. International coverage – enabling the inclusion of majority of exposures. Well accepted and understood by customers, industry and peers. Consistent with current regulation in the sector.

Sector definitions

ANZSIC 1993 and 2006, and International Standard Industrial Classification of All Economic Activities (ISIC) Rev. 4 have been used to define the shipping portfolio.

A combination of ANZSICs, ISICs and APRA definitions have been used to define the CRE portfolio.

Product types have been used to define the RRE and transport - road (cars and LCVs) portfolio. The table below sets out these definitions.

Table 6: Sector definitions for NAB's target setting emissions baseline

Sector	NAB definition ⁽¹⁾	ANZSIC (1993)	ANZSIC (2006)	ISIC (Rev. 4)	Product types
CRE⁽²⁾	Residential Property operators - Self Managed Superannuation Fund (SMSF) - Multi (4+)	7711	6711	6810	Commercial Real Estate Lending Products
	Residential Property operators - residential property/ies Single Site - Multi (4+)	7711	6711	6810	
	Commercial property/ies	7712	6712	6810	
	Commercial property and developers - Large Real Estate Investors ⁽³⁾	7712	6712	6810	
	Commercial property and developers - SMSF	7712	6712	6810	
RRE	Lending for Australian residential properties	N/A	N/A	N/A	Home Lending Products
Transport - road (cars and LCVs)	Australian cars and light commercial vehicles	N/A	N/A	N/A	Secured lending for Australian cars and LCVs
Transport - shipping	International Sea Transport - Freight Transport Service	6301	4810	5012	Secured lending for eligible International Freight Vessels
	International Sea Transport n.e.c	6301	4810	5012	
	Other Transport Equipment Leasing	7742	6619	7730	

(1) NAB has used an internal classification system that provides greater granularity than ANZSIC 4 digits. The names of sectors included in NAB's targets and the concordance to ANZSIC 4 digit 1993 and 2006 are found within the table.

(2) ANZSICs determined by APRA ARS230.0 Commercial Property definition. Internal classification of asset type (Office, Retail) determined by Commercial Property Returns (CPR) flag in internal systems and banker knowledge of assets.

(3) Greater than \$250 million assets.

Target metrics

NAB has set physical emissions intensity targets for power generation, cement, aluminium, aviation, shipping, road, CRE and RRE, and absolute emissions reduction targets for thermal coal, oil and gas, and iron and steel. NAB considers physical intensity metrics appropriate for sectors that will require growth to support living standards and expected population increases. In alignment with NAB's chosen reference scenarios, physical intensity targets will require emissions reductions to outweigh growth in output, ultimately supporting real world emissions decreases. Key scenario assumptions and limitations are shown in Tables 3, 4 and 5.

Setting absolute targets for fossil fuel dominated sectors is designed to achieve an absolute reduction in lending over time to these sectors. NAB considers it appropriate to adopt absolute targets for fossil fuel industries, as decline in the use of fossil fuels is a key driver of emissions reductions for the economy.

Establishing a baseline

Calculation methodologies

For sectors where we have set emissions intensity targets, we have calculated the baselines using the approach illustrated in Figure 6 below. This approach, known as the weighted average method, involves weighting company-level emissions intensities by the outstanding loan amount for each customer. This approach is consistent with global peers⁽¹⁾ and removes the need to use company valuations in financed emissions estimations when calculating emissions intensity.

Figure 6: Emissions intensity baseline calculation methodology

$$\frac{\sum_{Customer} \left(\frac{Emissions}{Production} \times Outstanding\ loan\ amount \right)}{\sum_{Customer} Outstanding\ loan\ amount}$$

Treatment of lending for project finance and corporate entities

Lending can occur at a corporate level (for example, general facilities made available to the parent company of a group of companies), or at a project level, that is on an individual project basis for a specific project purpose.

EAD has been assigned to the entity it was lent to, or the operator of a particular asset. This may mean that NAB has separate line items for project level finance and then the corporate entity that controls the project. NAB has kept these separate so as to preserve the valuation to EAD dynamics and apportion emissions as per the PCAF standard. Emissions have been captured at the level of the corresponding counterparty where possible.

Data collection

Emissions

NAB's collection of emissions data is detailed in *Financed emissions methodology by sector*, above.

(1) We undertook a benchmarking exercise to assess how global and local peers have calculated intensity measures. We found this method to be commonly used across multiple peer banks.

Environmental finance methodology

This section summarises the financing NAB considers to be eligible for inclusion in its ambition to provide \$80 billion in environmental finance to help address climate change and support the transition to a low-carbon economy.

Projecting environmental finance ambition

NAB's environmental finance ambition has been established through internal review, modelling and forecasting of future lending for the bank's potential eligible lending and capital markets and trading activity to 2030. The ambition is approved by the ELT and the Board.

Environment focused lending activity

The eligibility criteria for each category of activity classified by NAB as falling within its environmental finance criteria is set out in the NAB Green Bond Framework⁽¹⁾, Agriculture Green Loan⁽²⁾, Green Finance for CRE⁽³⁾ and finance for green equipment⁽⁴⁾ pages. A brief summary of the nature of in-scope activities is set out below.

Specialised and structured finance

- Includes specialised lending and structured financing⁽⁵⁾ for various activities which are set out in the NAB Green Bond Framework including renewables, transportation, electrical grid and storage investments.
- This category also includes finance for low carbon businesses such as providers of solar and energy storage systems, and solar installers.
- Where only a proportion of the activities or assets funded are eligible, NAB only counts the proportion of funding provided that is attributable to the eligible activity or asset.
- If the lending is a syndicated facility only the NAB proportion is counted.

Green commercial property

- This category of environmental finance includes new financing or re-financing of commercial property within NAB's Green Finance for CRE lending proposition.
- NAB includes finance for properties which qualify for the Green CRE product through demonstration of a NABERS 5.5-6 Star rating or through compliance with the Climate Bonds Standard Low Carbon Buildings criteria.
- This meets the criteria set out in the Green Building Council of Australia and NABERS Sustainable Finance Guide⁽⁶⁾.

Energy efficient residential real estate

- Mortgage lending for new construction and major renovation of freestanding and semi-detached homes which rank within the top 15% of energy efficiency based on the approach set out in the Climate Bonds Standard Buildings criteria⁽⁷⁾ for energy performance and utilising the National House Energy Rating Scheme (NatHERS) ratings as a benchmark; and
- For all homes (freestanding, semi-detached and apartment) built from 1 October 2023 onwards which have a minimum 7-Star NatHERS (or equivalent) energy efficiency rating have been selected.

- To estimate and monitor eligibility within the top 15% of the percentage of lending for homes within the selected benchmark, total housing stock is calculated using census data and construction start data from the Australian Bureau of Statistics.

Green Equipment finance

- NAB's finance offering for green equipment includes support for a range of vehicles, energy efficient equipment and renewable energy sources, and sets out specific performance criteria for each equipment related use of proceeds.

Equipment eligible includes:

- Electric vehicles.
- Electric and hybrid trucks and buses.
- Renewable energy generation equipment, including solar panels.
- Sustainable agricultural equipment.
- Waste management and recycling equipment.
- Manufacturing equipment dedicated to zero emissions technology.

Green agriculture lending

NAB Agri Green Loan includes financing and refinancing for a range of agricultural practices, on-farm equipment and projects. The NAB Agri Green Loan proposition sets out specific performance criteria for each related use of proceeds or qualifying activity. Eligibility requirements are linked to the Climate Bonds Standard Agriculture criteria. Eligible activities and investments include:

- On-farm solar projects.
- Projects to reduce emissions from fertiliser use.
- Registered land-based Emissions Reduction Fund (ERF) projects.
- Establishing legumes in a livestock-pasture system.
- Tree planting activities.
- On-farm bioenergy projects.
- Sustainable use of crop residues.
- Other sustainable and low emissions projects and practices.

Lending linked with the Climate Bonds Standard Agri criteria is assessed on an annual basis as part of NAB's programmatic certification under the Climate Bonds Standard.

(1) Available at <https://capital.nab.com.au/content/dam/nab-capital/documents/green-and-sri-bonds/2022-NAB-Green-Bond-Framework-April-2022.pdf>

(2) Available at <https://www.nab.com.au/business/loans-and-finance/agribusiness-loans/green-finance-agri#ciypmbe>

(3) Available at <https://www.nab.com.au/business/loans-and-finance/business-loans/commercial-real-estate>

(4) Available at <https://www.nab.com.au/business/loans-and-finance/vehicle-or-equipment/green-equipment-finance/asset-eligibility>

(5) NAB is proposing to include renewables as a dedicated metric for reporting.

(6) Available at <https://gbca-web.s3.amazonaws.com/media/documents/gbca-sustainable-finance-final.pdf>

(7) Available at <https://www.climatebonds.net/files/files/sector-criteria-buildings-criteria-v2-1-dec2023.pdf>

Environmentally-focused capital markets and trading activity

Arranging and underwriting

- NAB includes the value of bond issuances where it is arranging or underwriting provided that the activities meet the definitions of green financing as per the NAB Green Bond Framework or are otherwise deemed to be eligible as green under such benchmarks as the Climate Bonds Standard or Green Bond Principles by external review.
- If NAB is not the sole advisor, arranger or underwriter, then NAB only includes its proportion of the advisory, arranging

or underwriting activity towards NAB's environmental finance target.

Environmental unit trading activity

- NAB's Carbon trading and related derivative offerings for Australian Carbon Credit Units (ACCUs) and trading including swap activity for customers.
- ACCU trades for thermal coal customers are excluded from contribution to the ambition.

Additional information

Limited assurance

NAB has sought limited assurance from KPMG over specified financed emissions data covering baselines for NAB's interim sector-specific decarbonisation targets for commercial real estate, residential real estate and transport - road, as at 30 June 2022, and transport - shipping, as at 31 December 2022, presented in the Supplementary Climate Disclosures.

KPMG's limited assurance statements

www.nab.com.au/about-us/sustainability/reporting-policies-approach/performance-reporting

Understanding this report

All figures quoted are in Australian dollars unless otherwise stated. A reference to '\$' is to an amount in Australian dollars. References to 'NAB', 'our', 'the bank' or the 'Company' are to National Australia Bank Limited ABN 12 004 044 937. The 'Group' refers to NAB and its controlled entities.

The Group's financial year ends on 30 September. The financial year ended 30 September 2023 is referred to as 2023 and other financial years are referred to in a corresponding manner. References in these Disclosures to the year ended September 2023 are references to the twelve months ended 30 September 2023. References in these Disclosures to the environmental reporting year are references to the twelve months ended 30 June 2023 (except for Shipping, where the reporting year is the twelve months ending 31 December 2022).

Data for NAB's 'financed emissions' is based on the year from 1 July 2021 to 30 June 2022 as this aligns with customers' emissions data availability, reported in alignment with the *National Greenhouse and Energy Reporting Scheme Act 2007*.

Further information on non-financial information boundaries is available in NAB's [2023 Sustainability Data Pack](#). Any references to changes (including an increase or decrease) relate to the previous year, unless otherwise stated.

Note on forward looking statements

These Disclosures contain statements that are, or may be deemed to be, forward looking statements, including climate-related goals, targets, pathways and ambitions. These forward looking statements may be identified by the use of forward looking terminology, including the terms "believe", "estimate", "plan", "project", "anticipate", "expect", "goal", "target", "intend", "likely", "may", "will", "could" or "should" or, in each case, their negative or other variations or other similar expressions, or by discussions of strategy, plans, objectives, targets, goals, future events or intentions. Indications of,

and guidance on, future earnings and financial position and performance are also forward looking statements. The NZBA 2030 interim sectoral decarbonisation targets set out on pages 13 to 22, and the environmental finance ambition set on page 7 are all forward looking statements.

As at the date of these Disclosures (6 June 2024), NAB considers there to be a reasonable basis for making the forward looking statements contained in these Disclosures. However, you are cautioned not to place undue reliance on such forward looking statements. The measures and forward looking statements in these Disclosures reflect best estimates, assumptions and judgements (including in relation to customer and other third-party data over which the Group has no control) as at the date of these Disclosures. There is a risk that these judgements, estimates or assumptions may subsequently prove to be incorrect.

Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of NAB. This may cause actual results to differ materially from those expressed or implied in such statements.

There are many other important factors that could cause actual results to differ materially from those projected in such statements, including (without limitation) a significant change in the Group's financial performance or operating environment; a material change to law or regulation or changes to regulatory policy or interpretation; and risks and uncertainties associated with the ongoing impacts of the Russia-Ukraine, and Israeli-Palestinian conflicts and other geopolitical tensions, the Australian and global economic environment and capital market conditions.

Forward looking statements may also be made - verbally and in writing - by the Group's directors or management in connection to these Disclosures. Such statements are subject to the same limitations, qualifications and assumptions set out in these Disclosures.

Subject to applicable disclosure requirements, NAB expressly disclaims any obligation to update or revise the information, measures, or forward-looking statements contained in these Disclosures, whether to reflect any change in its expectations regarding those forward-looking statements, any change in events, conditions or circumstances on which any statement is based, or otherwise.

Glossary

AASB

Australian Accounting Standards Board.

ACCU

Australian Carbon Credit Units.

AER

Australian Energy Regulator.

ANZSIC

Australian and New Zealand Standard Industrial Classification (2013).

APRA

Australian Prudential Regulation Authority.

BNZ

Bank of New Zealand, a subsidiary of National Australia Bank Group.

Climate-related opportunities

Refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market and industry in which an organisation operates.

Climate-related risks

Refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses and reputational considerations.

CO₂-e

Carbon dioxide equivalent (CO₂-e) is a measurement used to compare emissions from various GHG emissions based on their global warming potential. Other gas amounts are converted into the equivalent amount of carbon dioxide to provide a single emissions metric. Conversion factors vary based on the underlying assumptions.

Customer Transition Plan

A customer's time-bound decarbonisation plan which details the customer's interim and long-term emissions reduction targets and outlines the overall strategies and actions to meet those targets. Such plans may also cover other climate-related issues including governance, just transition and scenario analysis.

EAD used in financed emissions

EAD used in financed emissions baselines and for setting sector targets excludes securitisation exposures within the scope of APS 120 Securitisation, off-balance sheet EAD (including performance guarantees to rehabilitate existing thermal coal mining and oil and gas assets) and markets-related EAD (including derivative exposures). Australian Energy Market Operator (AEMO) bonds have also been excluded as they are a requirement to participate in domestic electricity and gas markets for any entity not regulated by the Australian Prudential Regulation Authority. EAD for used in financed emissions baselines has not been adjusted to account for changes through the revised capital framework implemented from 1 January 2023.

Environmental finance ambition

NAB's projected ambition for new lending, capital markets activity and trading activity where the uses of proceeds and activities are linked to an environmental benefit.

Environmental year

Year ended 30 June, in alignment with relevant environmental regulatory reporting requirements.

ESG

Environmental, Social and Governance.

ESOO

Electricity Statement of Opportunities.

Executive Leadership Team (ELT)

Executive Leadership Team means the Group CEO and the Group Executives.

Exposure at Default (EAD)

EAD is an estimate of the credit exposure amount outstanding if a customer defaults. EAD is presented net of eligible financial collateral.

Financed emissions

Indirect GHG emissions attributable to financial institutions due to their involvement in providing capital or financing to the original emitter. Financed emissions are included within Category 15 'Investments' of the Greenhouse Gas Protocol Standard.

Financial year

Year ended 30 September.

Green equipment finance

Green equipment finance refers to financing provided to categories of vehicles and equipment that NAB has determined are eligible to be financed under its Equipment Finance Green Asset framework.

Greenhouse gas (GHG) emissions

Gaseous pollutants released into the atmosphere that amplify the greenhouse effect. Gases responsible include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Greenhouse Gas Protocol

Comprehensive global standardised frameworks to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions. The GHG Protocol supplies the world's most widely used GHG accounting standards.

Group

NAB and its controlled entities.

IEA

International Energy Agency.

IEA NZE 2050 (2021)

Refers to the International Energy Agency's Net Zero Emissions by 2050 scenario and report, October 2021 (4th revision).

IEA NZE 2050 (2022)

Refers to the International Energy Agency's Net Zero Emissions by 2050 scenario and report, October 2022 (5th revision).

Interim 2030 sector-specific decarbonisation targets (sector decarbonisation targets)

Refers to targets set at intervals towards over-arching net zero by 2050 targets. NAB's first wave of interim targets are set for 2030. Also referred to as 'sector targets'.

Just Transition

Global effort to transition to a low carbon economy in a way that is as fair and inclusive as possible to all people, creating decent work opportunities and leaving no one behind.

NAB

'NAB', 'our', 'the bank' or 'the Company' means National Australia Bank Limited ABN 12 004 044 937.

NAB Agri Green Loan

The NAB Agri Green Loan is a tailored NAB business loan to finance eligible activities that are aligned to the independent taxonomy and requirements set out under the Climate Bonds Standard Agriculture Criteria.

NABERS

National Australian Built Environment Rating System.

NATHERS

Nationwide House Energy Rating Scheme is administered by the Australian Government and accredits a number of tools that can measure and rate a home's energy efficiency.

National Construction Code (NCC)

The NCC is a uniform set of technical provisions for the design, construction and performance of buildings and plumbing and drainage systems throughout Australia. The 2022 update includes, among other things, new requirements to facilitate the future installation of electric vehicle charging infrastructure in carparks.

National Greenhouse Accounts (NGA)

A collection of Australia's historical greenhouse gas emissions data. Australia uses this data to track progress towards national emissions reduction targets.

Net zero by 2050

Net zero emissions refers to achieving an overall balance between GHG emissions produced and GHG emissions taken out of the atmosphere. NAB's approach is informed by the UNEP FI Guidelines pathways to net zero that are aligned with limiting warming to a maximum of 1.5°C above pre-industrial levels.

New Vehicle Efficiency Standard (NVES)

A new vehicle efficiency standard is a legislative framework that regulates CO₂ emissions from vehicles, by applying an average CO₂ target to a suppliers' fleet of new vehicles.

NZBA

Net Zero Banking Alliance.

Paris Agreement

Refers to the agreement adopted within the United Nations Framework Convention on Climate Change in December 2015 and entered into force in November 2016. The agreement commits all participating countries to limit global warming to well-below 2°C, striving for 1.5°C above pre-industrial levels, to build resilience to adapt to impacts of climate change, and regularly increase efforts over time.

Paris Agreement Inventory 2022

Australia's greenhouse gas inventory reported under the United Nations Framework Convention on Climate Change, submitted under the Paris Agreement.

PCAF

Partnership for Carbon Accounting Financials.

Plenti

Plenti Group Limited.

Poseidon Principles

The Poseidon Principles are a global framework for assessing and disclosing the climate alignment of financial institutions' shipping portfolios.

Revised capital framework (RCF)

APRA's revised capital framework, applied since 1 January 2023.

Scope 1

This includes direct emissions from within an organisation's boundary. These emissions are from sources that the organisation owns or controls such as:

- Combustion of fuel in boilers, furnace or generators that are owned or controlled by the reporting company.
- Generation of electricity, steam or heat in equipment that is owned or controlled by the reporting company.
- Business travel in vehicles such as company cars or corporate jets that are owned or controlled by the reporting company, colleague commuting in company-owned or controlled vehicles, such as company cars.
- Hydrofluorocarbon emissions from company-owned or controlled refrigeration or air-conditioning equipment.

Scope 2

Indirect emissions from electricity that is used by the organisation but is generated outside the organisation's boundary by another company, such as an electricity provider. This is called 'purchased electricity'. This includes indirect emissions from purchased or acquired electricity, steam, heat or cooling.

Scope 3

All other indirect emissions that occur outside the boundary of the organisation as a result of the activities of the organisation, including indirect emissions from:

- Business travel in non-company owned or controlled vehicles, such as rental cars, colleague cars, rail and commercial planes.
- Combustion of fuel in boilers or furnaces not owned or controlled by the reporting company.
- Energy used by colleagues working from home.
- Third-party production or manufacture of materials and resources used by the reporting company, such as furniture, paper and equipment.
- Indirect losses resulting from the transmission of electricity and other fuels.
- Emissions generated through the investments a company makes, see definition for 'Financed emissions'.

SDGs

Sustainable Development Goals.

Thermal coal

Coal that is almost exclusively used as a fuel for steam-electric power generation.

Trade finance

Trade finance exposures included within NAB's sector decarbonisation targets are considered lending for the purpose of this requirement.

Transport - road (cars and LCVs)

Australian cars and light commercial vehicles.

UNEP FI

United Nations Environment Programme Finance Initiative.

UNEP FI Guidelines

UNEP FI Guidelines for Climate Target Setting for Banks version 1.

