



National
Australia
Bank

DISCUSSION: TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

FINANCE4CHANGE: JC3 FLAGSHIP CONFERENCE

Presented by Rosemary Bissett, Head of ESG Risk Management, National Australia bank

24 June 2021

NAB *An introduction*

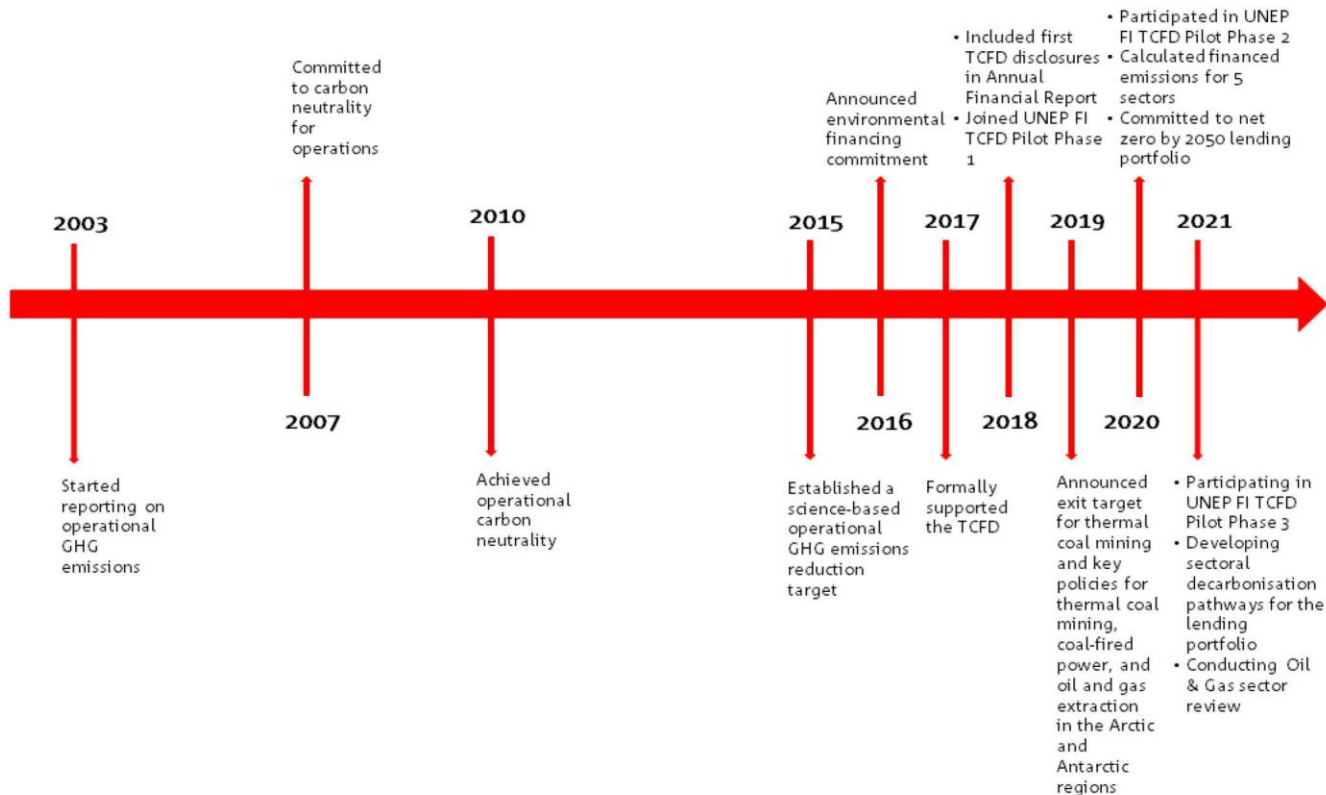


- A financial services company providing a comprehensive range of financial products and services
- Key businesses operating in Australia and New Zealand
- Branches in Asia, the UK and the US.
- Our portfolio includes:
 - Business and Private Banking
 - Personal Banking
 - Corporate and Institutional Banking
 - Bank of New Zealand
 - Wealth Management
- More than 34,000 people
- Serving around 9 millions customers
- At around 900 locations¹



¹ Data represents 'points of presence' or physical locations of branches and business banking centres in our global network, to avoid double-counting branches and business banking centres at the same address.

OUR JOURNEY – *A timeline*



WHY IMPLEMENT TCFD?

“Increasing transparency makes markets more efficient, and economies more stable and resilient.” — Michael R. Bloomberg.



TCFD | TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

SUMMER 2020 *an example of motivation*

- **More than 12.6 million hectares across Australia** burned (an average fire season New South Wales is typically burns 300,000 hectares)
- **434 million tonnes of carbon dioxide** emitted to atmosphere
- **11.3 million Australians** were affected by smoke
- **Over 1 billion animals** killed
- **Insured Losses for 2019/2020 Australia Bushfires** Estimated at **A\$1.9B (US\$1.3B)**

Sources:
<https://www.abc.net.au/news/science/2020-03-05/bushfire-crisis-five-big-numbers/12007716> [Last accessed 7 September 2020]
<https://www.insurancejournal.com/news/international/2020/07/07/574617.htm>
[Last accessed 7 September 2020]



Source: Photograph – Markus Dirnberger
<https://www.abc.net.au/news/science/2020-03-05/bushfire-crisis-five-big-numbers/12007716>
No copyright infringement is intended.

WHERE WE STARTED?

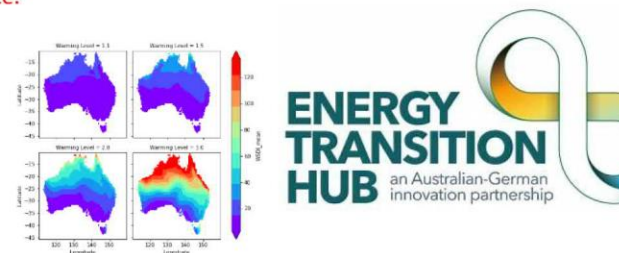
- Industry collaboration – peer learning:
 - UNEP FI TCFD Pilot Phase 1, 2 and 3
 - Climate Measurement Standards Initiative
- Analysis of opportunities – \$70bn environmental finance commitment by 2025
- Qualitative risk assessment: heat mapping
- Commenced piloting scenario analysis
- Commenced review of key sectors
- Changed ESG-related credit policy and risk appetite
- Formed collaborative relationships with academic and scientific research organisations:
 - CSIRO – Climate scenarios/futures
 - University of Melbourne – Energy Transitions Hub: physical risk scenario analysis
 - Climate-KIC and IAG – adaptation



Figure 12: Sector level heatmap- Absolute (sectors compared to each other)

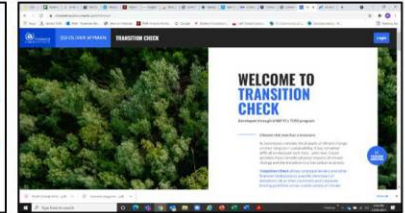
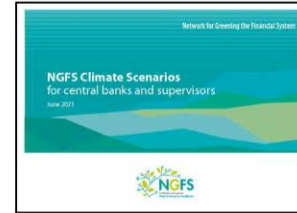
Sector	Direct Emissions Cost	Indirect Emissions Cost	Low-Carbon CapEx	Revenue	Overall
Oil & Gas	High	Low	Moderately High	High	High
Agriculture	Moderate	Moderate	Moderate	Moderate	Moderate
Real Estate	Moderately Low	Moderate	Moderate	Moderately Low	Moderate
Power Generation	Moderately High	Moderate	Moderately High	Moderate	Moderately High
Metals & Mining	Moderately High	Moderately High	Moderate	Moderately Low	Moderate
Industrials	Moderate	Moderately High	Moderate	Moderately Low	Moderate
Transportation	Moderately High	Moderate	Moderate	Moderate	Moderate
Services and Technology	Low	Moderately Low	Moderately Low	Low	Low

Source:

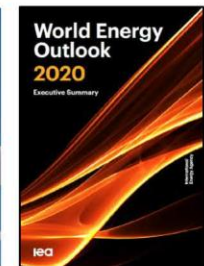
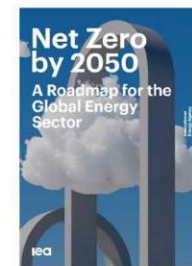


WHERE TO NOW?

- New collaborations:
 - ClimateWorks Australia
 - Australian Industry Energy Transitions Initiative
- Delivering on the Collective Commitment to Climate Action
- Expanding sectoral coverage of attributable financed emissions
- Developing sectoral decarbonisation pathways, metrics and targets to help transition our lending portfolio to net zero by 2050
- Quantitative risk assessment of climate risk – Regulatory Climate Vulnerability Assessment (CVA): a climate stress test
- Identifying useful tools and data sources (espec. open-source)
- Augmenting bank systems to better capture climate-related data
- Piloting/developing methodologies for climate risk measurement and target setting



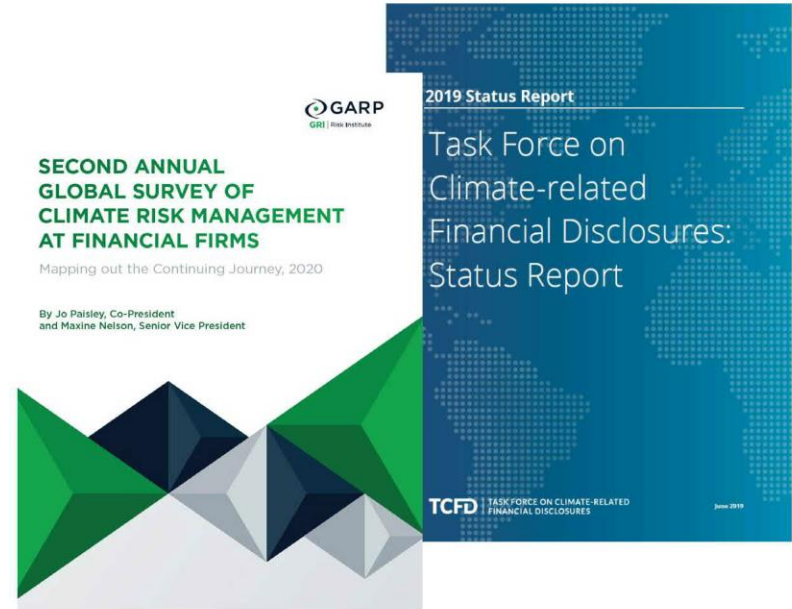
<https://www.climatetransitioncheck.com/#/home>



OPERATIONALISING CLIMATE RISK MANAGEMENT

- Clear governance for climate-related strategy and risk management – starting at the top with Board
- Allocating resources – building internal capability
- Integration of climate risk into:
 - Risk Appetite Statement and the Risk Management Framework
 - Risk assessment (counterparty and portfolio level)
 - Policy (e.g. exclusions)
 - Portfolio reporting
 - Limits (caps), metrics and targets
 - Business strategy – products and services e.g. climate finance to support mitigation, transition, adaptation and resilience
 - Climate-related customer engagement
- Scenario analysis to inform strategy and risk management
- Disclosure – in a mainstream financial report

What does evolving best practice look like for banks?



REPORTING & DISCLOSURE


Examples of disclosure

- Investor Presentation (Half and Full Year)** – provides updates on our progress against strategic leadership commitments and key portfolio metrics and:
 - our environmental financing commitment
 - portfolio exposures to resources (mining and minerals) and power generation
- Annual Financial Report** – provides high level disclosures set out under the key headings recommended by the Taskforce on Climate-related Financial Disclosures

FULL YEAR RESULTS 2020

Investor Presentation 5 November 2020
 Ross McEwan
 Chief Executive Officer
 Gary Lennon
 Chief Financial Officer

© 2020 National Australia Bank Limited ABN 100 146 127 AFPL and ACN 100 146 127



COMMERCIAL RESPONSES – CLIMATE CHANGE

OUR COMMITMENTS

Commitment	Progress
Achieving a Paris Agreement aligned net zero emissions lending portfolio by 2050	Initial financed emissions estimate completed, pathway mapping underway (next slide)
Environmental financing target of \$70bn by 2025	\$42.5bn cumulative progress ¹
Cap thermal coal mining exposures at Sep 2019 levels, reduce thermal coal mining financing by 50% by 2028 to be effectively zero by 2035	11.4% (\$87m) reduction from FY19. Expected 50% reduction by 2026, and effectively zero by 2030
Source 100% of our electricity consumption from renewable sources by 2025	7% of electricity use from renewable sources in FY20 Signed up to RE100
8 Environmental operational performance targets: 2025	Detailed performance in 2020 Sustainability Report

OUR EXPOSURES

Energy generation EAD by fuel source ⁽²⁾ (\$bn)					Resource EAD by type ⁽³⁾ (\$bn)				
	Mar 19	Sep 19	Mar 20	Sep 20		Mar 19	Sep 19	Mar 20	Sep 20
Gas	0.89	0.94	1.16	0.96	Gold Ore Mining	10.47	10.64	11.54	9.33
Coal	1.25	1.18	1.15	1.04	Metallurgical Coal Mining	0.20	0.20	0.24	0.08
Mixed Fuel	1.42	1.51	1.94	1.74	Thermal Coal Mining	1.64	1.57	2.39	2.74
Other/Mixed Renewables ⁽⁴⁾	0.89	1.03	1.87	1.58	Iron Ore Mining	0.00	0.00	0.00	0.00
Hydro	2.18	2.09	2.35	2.35	Other Mining	1.47	1.31	1.40	2.95
					Other Services	3.74	2.73	4.00	1.40
					Oil & Gas Extraction ⁽⁵⁾	0.00	0.00	0.00	0.74

(1) Represented as a cumulative amount of new environmental finance since 1 October 2019. Detailed breakdown available in 2020 Sustainability Data Pack, available 16 November.
 (2) All methodology based upon the 100% MENDS model of EAD basis. Excludes exposures to transportation and distribution. Vertically integrated stations provided and contracted to renewable where majority of their generation output is sourced from renewable energy. More info at <https://naab.com.au/our-environmental-impact>.
 (3) A significant contributor to the reduction of 10.7% in the Resources portfolio since Sep 19 is a 60% currency appreciation in USD-denominated exposures, and lower market value positions of heavy metals products in the US & Gas extraction sector.
 (4) Other/Mixed Renewables includes wind, solar, hydro, geothermal, biomass, and other renewable energy sources.
 (5) Oil & Gas Extraction includes upstream and downstream activities.

ANNUAL FINANCIAL REPORT 2020

www.nab.com.au

REPORT OF THE DIRECTORS

OTHER MATTERS (CONTINUED)

Climate Change and Environmental Matters

The Board is committed to the long-term success of the Bank and its stakeholders, and to the sustainable development of the financial system. This includes the management of climate change and environmental risks, and the promotion of sustainable financial products and services.

The Bank has adopted a climate change strategy that is aligned with the Paris Agreement and the Taskforce on Climate-related Financial Disclosures. The strategy focuses on reducing the Bank's own carbon footprint, and on providing financing to support the transition to a low-carbon economy.

The Bank has set a target of reducing its own carbon footprint by 50% by 2030, and of providing financing to support the transition to a low-carbon economy of \$70 billion by 2025.

The Bank has also established a climate change and environmental risk management framework, which includes a risk assessment process, a reporting process, and a disclosure process.

The Bank's climate change and environmental risk management framework is designed to identify, assess, and manage the risks to the Bank's business arising from climate change and environmental factors. The framework also includes a process for identifying and managing the opportunities arising from climate change and environmental factors.

The Bank's climate change and environmental risk management framework is a key part of the Bank's overall risk management framework, and is integrated with the Bank's other risk management processes.

The Bank's climate change and environmental risk management framework is a key part of the Bank's overall risk management framework, and is integrated with the Bank's other risk management processes.

REPORT OF THE DIRECTORS

OTHER MATTERS (CONTINUED)

Climate Change and Environmental Matters

The Bank has set a target of reducing its own carbon footprint by 50% by 2030, and of providing financing to support the transition to a low-carbon economy of \$70 billion by 2025.

The Bank has also established a climate change and environmental risk management framework, which includes a risk assessment process, a reporting process, and a disclosure process.

The Bank's climate change and environmental risk management framework is designed to identify, assess, and manage the risks to the Bank's business arising from climate change and environmental factors. The framework also includes a process for identifying and managing the opportunities arising from climate change and environmental factors.

The Bank's climate change and environmental risk management framework is a key part of the Bank's overall risk management framework, and is integrated with the Bank's other risk management processes.

The Bank's climate change and environmental risk management framework is a key part of the Bank's overall risk management framework, and is integrated with the Bank's other risk management processes.

Presentation name | Date 9

CHALLENGES & OPPORTUNITIES

CHALLENGES

- Dealing with uncertainty and complexity
- Long time frames – 2050 and beyond
- Data accessibility and quality
 - Internal/customer: need for geocoded asset location
 - External – climate/emissions/other
- Internal systems need augmenting: loan tagging
- Skill mix – need for cross functional collaboration



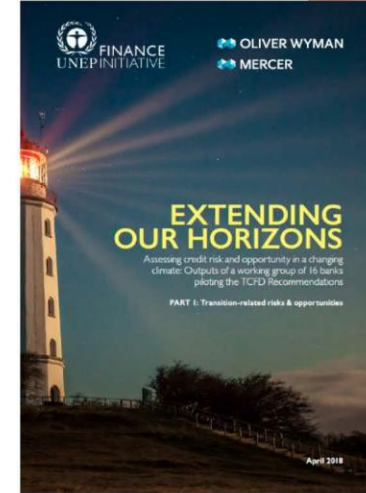
OPPORTUNITIES

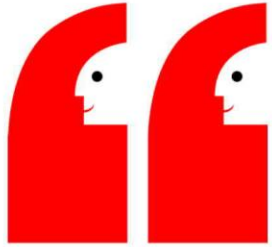
- Financing the low-carbon transition: corporate and retail appetite for green products and services – need to be careful of greenwashing.
- Deeper client/customer engagement
- New collaborations
- Better risk management
- Building new capabilities



GETTING STARTED

1. Support discussion at Board level – include climate-related strategy and risk management in the Board agenda
2. Provide climate-related development for Board and Executive
3. Assign accountability for strategy and risk management – get the right teams involved
4. Undertake a gap analysis and get started – tackle what you think is easiest first
5. Identify existing data sources
6. Identify industry initiatives and methodologies that can help you make progress
7. Develop relationships with peers, new partners (academics, research institutions, etc)
8. Develop a plan to progress to full disclosure





QUESTIONS?

