



NATIONAL AUSTRALIA BANK LIMITED

Group Environmental Reporting and Offset Management Policy

Policy Governance Schedule

Approval date	June / 2020
Next approval date	June / 2022
Policy Owner	Executive, Resilience Risk
Division	Resilience Risk
Approval Authority	Group Chief Risk Officer

1. PURPOSE AND SCOPE

- 1.1 The purpose of this Policy is to specify the National Australia Bank Group (“the Group”) requirements for managing its environmental finance and operational performance data, information and reporting (both internal and external) to help the Group manage and meet regulatory obligations and voluntary commitments.
- 1.2 The Policy covers:
- i. Regulatory reporting on greenhouse gas (GHG) emissions, energy and pollutants arising from operations;
 - ii. Management of, and reporting on, the Group’s environmental operational performance, carbon neutral certification, carbon offset portfolio, renewable energy certificates and RE100;
 - iii. Climate risk information reported to meet: (i) NAB’s commitment to implement the recommendations of the Taskforce on Climate-related Financial Disclosures and (ii) other voluntary commitments¹;
 - iv. Environmental finance information reported to show progress against the Group’s environmental finance and climate change commitments²;
 - v. Green and SDG³ Bond certification, annual reporting and disclosures; and
 - vi. Equator Principles disclosures.
- 1.3 It applies to all employees, including contingent (contract) labour, within National Australia Bank Limited (NAB), its divisions, its wholly-owned subsidiaries and extends to joint ventures and entities where the Group has operational control.

2. ROLES AND RESPONSIBILITIES

- 2.1 The Board is ultimately responsible for the Group’s public reporting on environmental management, performance and risk including but not limited to, operational environmental performance, climate and natural capital-related risks; environmental finance and carbon neutrality.
- 2.2 All Business Units are responsible for monitoring and reporting on environmental performance, risks and opportunities. This includes implementing and confirming effectiveness of processes and controls to comply with the requirements of this Policy relevant to their business operations and activities.
- 2.3 The Group Non-Financial Risk Committee is responsible for review and oversight of the Group’s environmental performance, commitments, targets and, voluntary and regulatory environmental reporting associated with non-financial risks (Operational, Compliance and Regulatory Risks) and performance.
- 2.4 The Group Credit and Market Risk Committee is responsible for review and oversight of environmental risk disclosures and regulatory reporting, including climate and natural capital-related risks, associated with credit and market risks and related emerging environmental risks.

¹ NAB Group has become a signatory to the following voluntary initiatives which include environmental, including climate-related commitments: [Climate Active](#) (carbon neutral certification), the [Principles for Responsible Banking](#), the [Collective Commitment to Climate Action](#), the UN [Global Compact](#), [RE100](#), and the Natural Capital Declaration.

² NAB’s climate change commitments can be found [here](#).

³ SDG means Sustainable Development Goals.

- 2.5 Material risk owners, Technology and Operations, BNZ and policy owners are responsible for incorporating environmental considerations, including those related but not limited to climate change and natural capital, into relevant policies and procedures for internal and external reporting and disclosure.
- 2.6 Technology and Enterprise Operations are responsible for centrally managing the Group's offset portfolio and renewable energy certificates.
- 2.7 NAB Divisions, offshore branches and entities responsible for geographical environmental operational performance and targets include:
- Enterprise Sustainability (Technology and Operations) in Australia;
 - BNZ and JB Were in New Zealand;
 - New York Branch in the USA;
 - London Branch in the United Kingdom; and
 - Shared Services (nabAsia) coordinating with other nabAsia branches and representative offices.

3. POLICY REQUIREMENTS

General requirements

- 3.1 The Group must:
- i. Monitor and report on compliance with all relevant environmental laws, regulations and voluntary commitments.
 - ii. Set, monitor and, at a minimum, annually review environmental and supply chain-related commitments, performance and targets related to operations, and where applicable, for environmental financing across the Group.
 - iii. Measure its environmental performance and prepare reporting in keeping with relevant national and international standards, guidelines and methodologies.
 - iv. Prepare climate and carbon risk and environmental financing disclosures on at least a half-yearly basis.
 - v. Review its GHG emissions calculations methodologies, in consultation with NAB Divisions and entities responsible for regional environmental operational performance, to reflect changes in regulatory requirements, industry standards and common practice.
 - vi. Align its climate-related risk disclosures to the recommendations of the Taskforce on Climate-related Financial Disclosures.
 - vii. Publicly report on Green Bonds issued in accordance with the NAB SDG Green Bond Framework, including annual impact and allocation reporting.
 - viii. Publicly disclose its approach to environmental performance and reporting, including carbon inventory and carbon offset portfolio management and environmental finance reporting.

Carbon inventory and environmental performance metrics

- 3.2 The Group must establish and document guiding principles for determining which emission sources (Scope 1, 2 and 3 – refer Glossary) must be included in each regional carbon inventory and for aggregation into the Group's carbon inventory.

- 3.3 NAB Divisions and entities responsible for regional environmental operational performance must:
- i. Manage and report on the defined Scope 1, 2 and 3 GHG emissions and environmental performance indicators set out in the Group Environmental Reporting and Offset Management Policy Standard Operating Procedures.
 - ii. Develop appropriate programs or activities to influence employee and third-party behaviour to reduce indirect operational environmental impacts and Scope 3 emissions.

Environmental performance reporting

- 3.4 NAB Divisions and entities responsible for regional environmental operational performance must:
- i. Collate, prepare and enter operational environmental performance source data into the Group's environmental reporting system in accordance with this Policy and associated Standard Operating Procedures (SOPs) and reporting Guidelines;
 - ii. Report on key operational environmental programs for internal and external environmental operational performance monitoring and reporting at least six-monthly;
 - iii. Escalate and report instances of environmental non-compliance, spills, fines and penalties in accordance with the Group's Risk Management Framework and notify the Policy Owner as soon as practical; and
 - iv. Develop, document and maintain regional SOPs or provide work instructions in the Group environmental reporting system for environmental operational performance activity data capture, calculation, reporting and quality control.

Operational environmental performance targets

- 3.5 Group and regional operational environmental reduction targets must be set for a minimum five-year period.
- 3.6 Science-based operational GHG emissions reduction targets must be set in line with the methodologies endorsed by the Science-Based Targets Initiative.
- 3.7 If targets are changed mid-timeframe, they must be clearly restated in public disclosures. Target restatements must meet the requirements of the Environmental Performance Reporting Restatement SOP.

Offset portfolio and renewable energy certificates management and reporting

- 3.8 The Group must centrally manage its carbon offset portfolio and renewable energy certificates in accordance with Group's Environmental Reporting and Offset Management Policy.
- 3.9 The Group must purchase carbon offsets (offsets) that are real, quantifiable, 'additional' and permanent. Once purchased, the offsets must be retired on a reputable registry as approved by Sustainability Governance & Risk.
- 3.10 Purchased offsets must be generated in accordance with best practice standards (national and international as defined in SOP) and requirements for carbon neutral certification.
- 3.11 The Group must maintain a centrally maintained portfolio of offsets, on behalf of all NAB Divisions and entities, which satisfies the following conditions:
- i. No one project to comprise more than 40% of the retired offsets in any one year.
 - ii. No one project type to comprise more than 50% of the retired offsets in any one year.

- 3.12 The Group must purchase some offsets generated within the regions in which the Group operates at least once in every two years. These offsets must have co-benefits that are additional to carbon reduction.

Forward purchase model and offsets register

- 3.13 To maintain the Group's carbon neutral status, the Group must use a forward purchase model⁴, which must be annually reconciled with previously forecast emissions.
- 3.14 The Group must centrally keep records of due diligence, offset purchase and retirement processes for each offset purchase in accordance with the Environmental Reporting and Offset Management SOP: *How to Record Offsets Purchases*.

Products and Services

- 3.15 Where NAB Divisions and entities within the Group develop, market or sell products and services which claim to be:
- 3.15.1 Carbon neutral, they must take a life cycle approach to calculating the GHG emissions associated with the relevant product or service and retain supporting documentation to support the life cycle analysis.
 - 3.15.2 Green, they must document the methodology used and retain documentation to support the green labelling.
- 3.16 Relevant NAB Divisions and entities must document and disclose, as defined in the SOPs, frameworks or criteria for green products and services, and methodologies for carbon risk and environmental financing disclosures.
- 3.17 Green products and services must be aligned to recognised international or national standards and/or market best practice.
- 3.18 NAB Divisions and entities must have external independent verification or assurance of the green credentials of products and services.

Second line oversight and external assurance

- 3.19 The Group must undertake second line oversight and independent external assurance over its carbon risk and environmental finance disclosures (including Green Bonds), and environmental performance and reporting.
- 3.20 At a minimum the Group must undertake: (i) reasonable level assurance over regulatory reporting, and (ii) limited level assurance where assurance is specifically required for accreditation or certification purposes or voluntary commitments.
- 3.21 The Group must obtain annual independent assurance from a suitably qualified provider.

4. POLICY EXEMPTIONS

- 4.1 An exemption is required where a business is unable to comply with the mandatory requirements of this Policy for a defined period of time no greater than 12 months and immediate action cannot be taken to achieve compliance⁵.
- 4.2 The Approval Authority delegates the approval of exemptions to the Policy Owner.

⁴ A forward purchase model calculates forecast greenhouse gas emissions for the forthcoming year using the actual GHG emissions reported in the prior year's audited carbon inventory.

⁵ If there is an inconsistency between regional legislative requirements and the Group, the regional requirements will take precedence unless the Policy places a higher requirement. In this case, the Policy will apply unless it results in a breach of local legislation. Where local legislation results in non-compliance to Policy a breach, exemption or exception is not required.

- 4.3 Exemption requests⁶ must be submitted to the Policy Owner and will be granted at their discretion. Refer to the Exemptions Procedure Guide for further detail.

5. POLICY EXCEPTIONS

- 5.1 An exception is required where a business is unable to comply with the mandatory requirements of this Policy for a defined transaction on a case-by-case basis and immediate action cannot be taken to achieve compliance⁴.
- 5.2 Exceptions requests must be submitted to the Policy Owner and will be granted at their discretion.

6. POLICY BREACHES

- 6.1 Breaches of this Policy (ie. non-compliance that is not managed via the formal exemption or exception process) must be managed in accordance with the Employee Conduct Management Policy and recorded per the Events Management Standard Operating Procedures or regional equivalents⁴.
- 6.2 All Policy breaches must be communicated immediately to divisional / regional Chief Risk Officer Teams. Any material or systemic breach of this Policy must be communicated to the Policy Owner and appropriate remediation measures agreed and implemented.

7. POLICY CHANGE

- 7.1 Administrative changes⁷ to this policy must be submitted to the Policy Owner and will be approved at their discretion⁸.
- 7.2 All other changes to this policy must be submitted to the Approval Authority and will be approved at their discretion⁷.

8. RELATED DOCUMENTS

- Environmental Reporting and Offset Management Standard Operating Procedures
- Environmental Management Policy
- Environmental Management Policy Standard Operating Procedures
- Event Management Standard Operating Procedures
- Group Supplier Sustainability Principles
- NAB SDG Green Bond Framework
- NAB Social Bond Framework

⁶ Exemptions must go through the Exemption database for endorsement by CRO and Policy Owner. It then goes to the Approval Authority for approval via the appropriate governance pathways listed in the NAB Ltd Policy Approval and Review Matrix. Regional exemptions (excluding Australia) will follow their own exemption procedures.

⁷ As defined in the Group Policy Governance Framework.

⁸ For publishing of Policies on Group Policy Central a Policy Change Request must be submitted with evidence of approval.

9. GLOSSARY

Term	Definition
Additionality	Additionality is a term used in markets for tradable greenhouse gas (GHG) emissions reductions (carbon offsets). It means that a project or activity that reduces GHGs would not have happened without the offset buyer or collective buyers in the market.
Business Leader	All references to Business Leaders correspond to first line Division/BU/PU management accountabilities. The role of Management Assurance is to support the Business Leaders to execute their risk management accountabilities. The Business Leaders remain accountable.
Business Unit (BU)	For the purposes of this Policy, Performance Unit/Business Unit ("PU/BU") incorporates all of the various naming conventions in place across the Group.
Carbon inventory	A defined list of greenhouse gas emission sources that an organisation uses to calculate its carbon footprint.
Carbon offset	A credit that is purchased to negate an amount of carbon (one tonne) included in an organisation's carbon footprint.
Carbon Neutral	Means a situation where the net emissions associated with an organisation's activities, products or services are zero.
Environmental performance	Measurement and monitoring of how well an organisation manages the environmental aspects of its activities, products and services, and the impact they have on the environment. This also includes reporting on its implementation of voluntary environmental commitments and environmental financing goals.
Environmental operational performance	Includes consideration of energy consumption and production, greenhouse gas emissions arising from direct and indirect operations (Scope 1, 2 and 3), paper usage, waste and recycling, transport and travel, water consumption and trade effluent discharge, reduction targets, offset activities and natural value. See Standard Operating Procedure for details of each Scope.
GCRO	Group Chief Risk Officer
CRO	Chief Risk Officer
Divisions	All references to Division relate to Divisions, Divisional Areas, Functional Business Line, Region or Legal Entity (NAB Ltd, BNZ, NAB Wealth) unless otherwise stated.
Group	National Australia Bank Limited (NAB) and its controlled entities
Scope 1 Greenhouse Gas (GHG) emissions	Scope 1 GHG emissions are direct GHG emissions which occur from sources that are owned or controlled by a company. For example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment.
Scope 2 GHG emissions	Scope 2 GHG emissions are a special type of indirect emissions. They account for GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organisational boundary of a company via a third-party

Term	Definition
	supplier. Scope 2 emissions physically occur at the facility, owned by the supplier, where electricity is generated.
Scope 3 GHG emissions	Scope 3 GHG emissions represent an optional reporting category that allows for the treatment of all other indirect emissions. Scope 3 emissions are a consequence of the activities of a company as a result of its use of third-party products and services and activities, where the emissions sources are not owned or controlled by the company. Some examples of scope 3 emissions generating activities are extraction and GHG emissions arising from corporate travel, water use, paper use and the companies that we lend to.