ANZ

CLIMATE CHANGE STATEMENT

We support the Paris Agreement's goal of transitioning to net zero emissions by 2050.

The transition will require more than US$1.5 trillion to be invested annually in clean energy and efficient infrastructure. Bank lending will be the most significant source of funding for that investment. This is why the decisions we make today – and tomorrow – about who and what we lend to are so important.

We want to support customers and projects that contribute to reducing emissions and are resilient to a changing climate. And we want our products and services, knowledge and relationships, to contribute positively to the social and economic transition already underway.

By taking the actions outlined in this statement we are committing to play our part in improving social and environmental sustainability for future generations, in line with our purpose to help shape a world in which people and communities thrive.

UNDERSTANDING AND MANAGING CLIMATE CHANGE RISK

Climate change creates risks and opportunities for business and investment. Our communities and customers could be impacted by climate change – directly through increasing severity of weather events ('physical risks'), or through legislative, regulatory or policy responses, such as carbon pricing and climate change adaptation or mitigation policies ('transition risks'). We factor these risks into our lending decisions, primarily through an assessment of our customers' capacity to respond to climate change and changes to regulatory environments.

We expect our business customers in higher emitting sectors to build climate change mitigation and adaptation risk into their strategies. We will support them in establishing specific, time bound and public transition plans and diversification strategies.

Through our Social and Environmental Risk Policy and our requirements for our lending to energy, extractive industries, forestry and forests, water, military equipment and hydropower, we support customers who strive to improve their social and environmental performance.

ENGAGING CONSTRUCTIVELY AND TRANSPARENTLY WITH STAKEHOLDERS

We are taking the following actions to explain how we are managing our long-term carbon risks and opportunities:

- disclosing how we identify, assess and manage climate-related financial risks and opportunities.
- providing clear, decision-useful disclosures for our investors using the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- providing regular and transparent updates on our progress in our external reporting, including disclosing our financing of sectors most exposed to the physical and transitional risks of climate change.
- providing investors with information about how we are identifying and managing climate-related risks and opportunities through our CDP disclosures.
- participating in a pilot project on implementing the TCFD recommendations for banks – an initiative to develop methods that enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities. The initiative is led by the United Nations Environment Program Finance Initiative (UNEP FI).
- engaging, as appropriate, in public policy discussion on climate change and increasing transparency on our approach. This includes disclosing the industry associations we are members of and reviewing alignment on key relevant policy positions.

THE NEED FOR AN ORDERLY AND JUST TRANSITION

We understand that some of our stakeholders view our financing of fossil fuel industries as in conflict with our stated positioning of the need to reduce emissions. Today, around 56%[1] of Australia's electricity comes from coal-fired power stations. Many communities, particularly those in regional areas, are reliant on the coal industry for employment.

We believe that all stakeholders should give careful consideration to the impacts of the transition on local communities. Employment opportunities have been created by the transition, but some communities, particularly in regional areas, face significant challenges. If the transition is not managed appropriately, these communities may suffer substantial social and economic costs.

In supporting the shift to a net zero emissions economy, we will be mindful of balancing the need for industry certainty, new economic opportunities for local communities, and improved environmental outcomes.

1. https://www.energy.gov.au/publications/australian-energy-statistics-table-o-electricity-generation-fuel-type-2018-19-and-2019

This is one of the reasons why we will continue to seek long-term, publicly available transition plans from our major emitting customers. This will help communities and government anticipate and adjust to change over time. We expect our customers with large coal-fired power plants to provide at least three years' advance notice of closures, and engage with all of their stakeholders to minimise the impact on their workers, local communities and downstream energy users.

OUR ACTION ON CLIMATE CHANGE

We will act in support of customer, community and government efforts to facilitate an orderly and just transition to net zero emissions by 2050.

Our actions are focused on three areas:

1. Help our customers by encouraging them to identify climate risks and opportunities, create transition plans and report publicly on their progress

- We will do this by:
  - engaging with 100 of our largest emitting customers to support them to establish and strengthen their transition plans by 2021. This work will be undertaken through a structured and ongoing engagement process.
  - improving transparency to show how our financing decisions are supporting the achievement of the Paris Agreement goals. We will do this by disclosing better metrics so that the emissions impact of our financing can be tracked, beginning with commercial property and power generation. Starting in 2020, we will disclose these metrics annually and will set targets by 2021 to reduce the financed emissions of each sector between now and up to 2030.
  - ensuring that discussion of climate risk becomes a part of our everyday client engagement. By 2030 we expect to have a deeper understanding of all our customers' transition plans, and the implementation of those plans will be well-advanced. Over time, we will move away from working with customers that don't have specific, time bound and public transition plans.
  - funding and facilitating at least $50 billion by 2025 to help our customer's lower carbon emissions. This may include increased energy efficiency, low emissions transport, green buildings, reforestation, renewable energy and battery storage, emerging technologies (such as carbon capture and storage, and hydrogen-based technology), disaster resilience and climate change adaptation measures.
    - allocating $1 billion of this towards supporting customers and communities' disaster recovery and resilience. We will do this by allocating capital to fund or facilitate resilience initiatives for weather related events, or to build resilience against non-weather related disasters such as pandemics.

2. Support transitioning industries to help grow the economy

- We support the evolution of sectors and the development of new industries and innovative business models that underpin the transition. This will include supporting more diversified energy companies and increasing our lending to lower carbon energy.
- We will do this by:
  - further reducing the carbon intensity of our electricity generation lending portfolio by only directly financing low carbon gas and renewable projects by 2030.
  - continuing to support diversified customers, which means we will no longer bank any new business customers with material[2] thermal coal exposures.
  - engaging with existing customers who have more than 50% thermal coal exposure[3] to support existing diversification plans. Where these are not already in place, we will expect specific, time bound and public diversification strategies by 2025. We will cap limits to customers which do not meet this expectation and reduce our exposure over time[4].
  - not directly financing any new coal-fired power plants or thermal coal mines[5], including expansions. Existing direct lending will run off by 2030.
  - only financing the construction of new large-scale office buildings if they are highly energy efficient, and being built to either at least a NABERS[6] 5-star energy rating or 5-star Green Star Design rating (or equivalent international rating)
  - facilitating concessional loans for business customers to buy energy-efficient equipment.
  - applying strengthened lending due diligence processes

3. Reduce our own impact by managing and reducing emissions from our own operations:

- We will do this by:
  - accelerating the reduction of our own emissions by sourcing 100% of the electricity needed for our business operations from renewables by 2025.
  - setting public targets to lower our greenhouse gas emissions by 24% by 2025 and 35% by 2030 (against a 2015 baseline).
  - equipping our employees with knowledge and training to minimise their own environmental footprint.

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2. More than 10% revenue, installed capacity or generation from thermal coal.
3. We will progressively reduce the 50% threshold so that by 2030 we will seek a diversification strategy from mining, transport and power generating customers with more than 25% thermal coal exposures.
4. We will continue to provide rehabilitation bonds for those existing customers with some thermal coal exposure to ensure their responsibilities with exiting mine sites are fulfilled. Transaction banking/markets 3-day settlement limits will be excluded from this cap.
5. These are mines whose reserves or production are at least 35% thermal coal.
6. NABERS (National Australian Built Environment Rating System) is a rating system measuring the environmental performance of Australian buildings, tenancies and homes, e.g. energy efficiency, water usage, waste management and indoor environment quality.