ANZ ESG INVESTOR RONDTABLE – LONDON

31 May 2022

OVERVIEW

Investor roundtable hosted by ANZ Group Executive Institutional, Mark Whelan, ANZ Chief Risk Officer, Kevin Corbally and ANZ Group General Manager ESG, Gerard Brown.

The roundtable, hosted via telephone conference, provided an opportunity to discuss and expand on ANZ's approach to aligning with net zero by 2050, including ANZ's customer engagement to finance lower emissions.

TRANSCRIPTION – ABRIDGED VERSION

Gerard Brown: Thank you. Good morning everyone. This is Gerard Brown speaking and with me is the Head of Institutional, Mark Whelan, and the CRO Kevin Corbally. I'll make some brief remarks and then we'll pass to Mark and then Kevin and then we'll go to Q&A.

Firstly, I'd like to reference our disclosures from 26 November last year when we spoke to our environmental sustainability strategy and our climate change commitment. Today we wanted to give Northern Hemisphere shareholders in particular the opportunity to speak with us about that. Our particular focus is on an update on the strategies rollout, how we're supporting our customers and industries in the transition, and how we're aligning our lending decisions to Paris Agreement.

With those remarks I'll hand over to Mark.

Mark Whelan: Thanks Gerard … I wanted to cover effectively just three areas.

First of all, the governance structure that we have in place to develop, monitor and action our climate actions with our customers and within the Bank.

The second… to give you some updates on the progress that we've made which are against some key indicators so you can see what we're doing and the results that we're getting.

Then finally, I thought I'd touch on our partnership with Pollination which we announced a little bit earlier in the year.

Now I would say at the beginning the approach that we're taking with regards to climate, we see significant opportunities. We know there's a number of risks and challenges with regards to the transition that we're all facing, but we see more opportunities in addressing those risks and working with our customers which is effectively the attitude that we're taking within the Bank. We've structured ourselves internally to ensure that we have appropriate governance, development of our strategy, execution of that strategy, and overall oversight and governance from the Board. I will just run you through briefly how we've done that.

First [we have] a subcommittee of the Board that's been formed, which is our EESG committee. That's chaired by Paul O'Sullivan. It's effectively there to oversee the strategy and approve the strategy, monitor our performance against that and challenge us based on what we're seeing in the market and any changes that we're seeing in this pretty fast-moving area. We report up to the Board in each Board meeting and each subcommittee Board meeting.

The second area that we have that we've formed internally is our ethics and responsible business committee. Now that's chaired by Shayne [Elliott]. It's got a broader remit than the EESG committee, and it's effectively focused on things like reputation, our business practices across all parts of the business, things like responsible banking, sensitive sectors, and reputational issues, and picks up elements of what we're doing with regards to climate. A number of deals may go to that committee for review post our implementation to ensure that we're meeting our requirements and external disclosures, et cetera, and if there's any sensitive transaction we refer that up to that committee.

The third area is our climate and advisory forum… I chair that and it's more of an execution forum. We've established our disclosures, our policies, our strategies, and this particular forum is around ensuring that we're executing to them and growing and supporting our customers but also looking at those opportunities.

Now this is a Group-wide focus, it's not just Institutional, and has reps from all business divisions across the Bank, and geographic areas. It's represented by Risk, so Kevin Corbally sits on that, corporate affairs with Gerard Brown sitting on it, strategy and also communications. We meet monthly and effectively set targets and disclosures.

We review products, where we are with our products and development, review our customer impacts that we're having with the top 100 emitters and the progress with that particularly, but also a number of customers are coming to us so we'll refer to the activities we have with those that sit outside the top 100. Any market and regulatory changes that we're seeing that we need to be aligned to, and also progress on our investment approach.

The other key area that we monitor within this committee is our training and education of our staff and implementations of our policies throughout the Bank so that we're ensuring that our decisions are aligned with our commitments externally. This is very effective in keeping the Group informed, but more importantly, coordinating activities right across the Group and we find it a very effective committee.

Where are with our progress? I'll concentrate on six areas which reflect the key indicators we're monitoring and how we're progressing and give you an update on that.

We made a $50 billion low emission target commitment back in 2019. We are progressing very well against that to 2025 was the expected end date. At the end of September last year we were about $22 billion of that target; we think that's now in this first half we would have put on about another $6 billion against that so it looks about $28 billion. My full expectation is that we'll hit that 2025 target between 12 and 18 months ahead of schedule. The volume of transactions that we're seeing that meet the criteria here are still quite strong.

To give you an example of that, the second thing that we do monitor is our sustainable finance market participation, so how are we going vis-à-vis what we're seeing in the marketplace. In 2020… we've participated in 39 deals with total volumes of about $59 billion. In 2021, we did 81 deals… that represented $119 billion in transactions. If you look at it on a global scale, we think we're around about 4% to 5% of global market activity participating in it, so we're quite happy with our position.

Third area has been our engagement with our 100 emitters…we've engaged with all of the 100 emitters over the last two years, even despite the COVID situation we all found ourselves in, and we've now had multiple interactions with each of them, so that's progressed very well.

We look at what they are doing in three areas: their governance they have themselves, the disclosures that they're making to the market, and how they're going against their targets. We measure their ability to meet each of these and where they are via an ABCD sort of classification. Now, 88% of that 100 now have governance in place, 51% have disclosures, and 76% have specific targets so there's still some way to go but we're certainly seeing it move in the right direction and we measure this on a quarterly basis.

Fourth area is governance. 25% of what we see going through the ERBC agenda, the second forum I mentioned, is on who we bank and why we bank, which obviously picks up the climate initiative, and there's obviously other things that are measured there but we would expect that number to be holding around that area as climate remains a specific focus of us as a Group.

The fifth area is Scope 1 and 2 emissions and we see that for the Bank has come down about 47% since 2015, so we have good momentum there, and then finally in our thermal coal exposures which are down significantly over the course of the last six years where it's now at a very minimal amount of our overall portfolio. We also measure the direct exposures we have to renewables, which is up about 45% over that period.

The final thing before I pass to Kevin is around our partnership with Pollination. We're very excited about this. We made an equity investment in this organisation and we also have entered into an MOU with them around how we will work with them cooperatively on specific transactions and areas where we may not. Pollination you will know have a very strong advisory capability. They are active in funds both in a joint venture but also standalone funds within Pollination and they also have the ability with the customer basically working with - to being involved in some transactions which will feed the funds, but also obviously have banking opportunities.

In dealing with and looking at Pollination, we felt what they had was first of all a very strong culture aligned to the way that we were approaching this, which we felt was very important as we do with any particular partner, but secondly, their skillset was highly complementary to what ANZ had. While we have a small advisory function that works more into our corporate area, Pollination deal with the largest companies around the world and we felt that working with them as they work with their customers to develop strategies, we can be a recipient in delivering product and also lending et cetera that will support the transition.

So we're very excited about this, we've already identified about eight opportunities with them that are underway, and we've already identified around 28 strategic clients that we think that we can do significant work with. So, that's in its early days so we're expecting big things from the pollination partnership which will obviously support our approach to climate and the transition. I'll finish there and pass to you, Kevin.

Kevin Corbally: Thanks Mark, I thought it might be helpful to provide a little bit of an update from our last disclosures last November in terms of some recent regulatory developments both in Australia and in New Zealand.

I might start with New Zealand where some of you may be aware that in December of last year a law was passed such that New Zealand became the first country in the world to make climate reporting mandatory for large publicly listed companies, for banks, for asset managers and also for insurers. Really the reporting is around governance, risk management and strategies for mitigating climate change impacts, pretty much in line with the TCFD and would commence for most companies, or in our case anyway in terms of financial year 2024.

Turning then to Australia, a couple of recent developments.

One was that APRA, the prudential regulator, undertook itself - asked a range of banks, the 21 largest banks in Australia, to complete a self-assessment survey on governance of climate risk. The report on that is due out we believe in July from APRA in terms of the findings.

Secondly, APRA, and in fact I signed off literally the day that I left to come here, asked the five major banks to complete what it called a climate vulnerability assessment which was an exploratory exercise investigating both physical and transition risk of climate change. Probably somewhat similar to what some of you may be familiar here that the Bank of England undertook an exercise which was the Climate Biannual Exploratory Scenario, so CBES that the Bank of England launched last week, and I think there's a report in the last week or so in terms of the findings of that…But in APRA's context, what we had was a couple of elements of it. One was a climate scenario analysis using two scenarios and they're both from the Network for Greening the Financial System, so the NGFS. The first one was a hot house world which basically saw no action from governments around the world and that global temperatures would exceed three degrees above pre-industrial levels, and that resulted obviously in some serious environmental impacts, extreme weather events, destroyed ecosystems, increasing sea levels…

Then the second piece was a delayed transition scenario where the policy measures are effectively delayed until 2030 and then implemented in a way to get to net zero emissions by 2050, and ultimately global warming under that scenario would see temperatures increase by 1.8 degrees by 2050. Then the second component of what they did or asked the banks to complete was a counterparty assessment where we were asked to undertake a detailed qualitative and quantitative assessment of a sample of 25 counterparties who were selected based on the materiality of the exposure in their industry classification.

As I said, I literally signed that off before I left to come here, so we believe APRA's looking right now at the results from all of the banks who participated in that exercise, and I have no doubt they'll look to publish the findings in the coming months. So, that was all I just wanted to update from a regulatory perspective.

Gerard, can I just hand back to you and I think we're going to go to some questions….

Gerard Brown: … To kick things off I'll speak a little bit more about the top 100 emitter engagement program, which historically at least we've had quite a deal of interest in. Mark's touched on it already.

As mentioned, a number of these companies would be on possibly their third or fourth cycle of engagement with us in relation to this program. Really what we're looking for there as the disclosed material indicated last year and in particular on slides 24 and 25 [ESG investor pack, Roundtable, 26 November 2021] are a number of elements.

Very important to us is governance, so as Mark outlined our own climate change governance arrangements, what governance arrangements are in place at a particular customer in relation to their climate change response plans. In relation to the plans themselves, we look for plans that are credible, specific and timebound with medium-term and long-term targets. Also, we look to their disclosure, the substance and robustness of the disclosure and which forum, which governance forums within the organisation signs off on those disclosures.

As the material we disclosed at the end of last year indicates on slide 25 [ESG investor pack, Roundtable, 26 November 2021], we do grade the company's concern which overall those companies account for about 30% of Australia's national emissions. As you can see in the material, we've provided some examples there of what we will regard as good practice and we set out here an energy company which has got specific plans, acknowledges climate risk, that climate resilience is a key part of its sustainability strategy. It's got public goals, it's got TCFD aligned report it and strong governance.

As Mark referenced, we're seeing companies move up the continuum from D towards A. We have in the past had questions about what do we do if we have a customer who for argument sake has been sitting at C for several years? We would continue to engage with that company and try to assist in the development of their approach and thinking.

But then obviously over time if they didn't further mature with their approach, then we'd need to have further discussions with the companies concerned. So, that's just trying to bring that aspect of it alive a little bit. People might be interested to know that regulators are particularly interested in this aspect of our work, and they engage with us quite closely about it. They see it as making an important and credible contribution to the transition of the Australian economy in particular and no doubt, as Kevin continues to engage with our regulators on these issues, this work will continue to be an important part of that.

Participant question: … I have two questions, the first one is what is your percentage exposure in your loan book toward the oil and gas industry and are you actively working to reduce this exposure? My second question is, are there any activities that you exclude from your loan book? For example being new oil and gas sales… or other activities? Thank you.

Gerard Brown: This is Gerard speaking and I'll deal with the latter in relation to how do we think about oil and gas customers, future plans?

Our engagement with the oil and gas customers, the centre of gravity in relation to that is their climate transition plans. We're looking for the elements that I touched on earlier. If they were considering new developments, we would look at that through the lens of their transition plans and how were they proposing to manage the issues that would arise as a result of that. To date, those specific issues haven't arisen as yet, they may in the future but that should give you a good sense of the lens through which we would look at that.

In relation to the exposures questions, I'll just hand over to Kevin.

Kevin Corbally: … thank you for the question. In terms of the size of our exposure relative to the size of our loan book, it is approximately 0.8% of our loan book.

Participant question: Hi, thank you and thank you for that broad overview of the areas you're working on. I'm interested in the progress you're making with the hundred biggest emitters and particularly in fact what sort of challenges and what are the largest challenges you face in terms of engaging these people in this journey?

Mark Whelan: … Mark Whelan here. It's actually been a bit of a journey, we've been engaging with top 100 emitters now for well over two, three years and it's fair to say I think in the initial discussions that we had with them, there was a little bit of questioning about why we were there in some circumstances. The approach that we'd taken was that we weren't there to tell them what to do, we were there and seeking to understand the approach and the attitude that they had to climate change and their position on that from the Board down and the way that they were positioning for that.

Many discussions, some were difficult, I have to say, others were we would discover that the companies were very engaged in determining what they needed to do to support transition and for climate change. So, it was quite varied, I think over the course of the two to three years the discussions have matured a lot, there's more structure to the discussions. Those areas that I talked to around looking at disclosures and targets, setting them publicly, meeting them, have basically formed the basis of our discussions with them, so we can see what have they committed to, how are they actioning that and what the progress is.

So, I think the discussions have matured now, of the top 100 I think as you can see through the slide that Gerard referenced, there was still 20 odd or 20% that had not necessarily started the journey as well as we had thought. Since then I think some have moved up into category C. It's an evolution I suppose that we're seeing and the pace that we're seeing particularly with our bigger emitters, I think's moved to a whole new level in the last 18 months. So, I wouldn't see it necessarily as a challenge now about getting

	the discussions occurring, it's more now getting the pace to move to areas that we feel are appropriate with the 2050. But they're much more fulsome discussions, to be frank, and significantly, more mature than I would say happened at the beginning.
Participant question	Just a follow-up question, if I may? So, have you got to a stage where you haven't been able to move a company forward, or come to an agreement with them? If that's the case, what action do you take?
Mark Whelan:	Yes, we have, in one particular sector, and when that's occurred, we've agreed what our transition to exit would be, and we've actioned that... We have exited some relationships when we've felt that they've not engaged, and they'd had no real commitment. Then when that happens, we usually add someone else on, so we keep the 100 emitter whole.
Participant question:	Thank you for arranging the call. Can I just ask, have your transition plans, or the transition plan of your customers changed? I know it hasn't been long, but has it changed since the election of this new government? I guess a more progressive government when it comes to climate transition? What are your thoughts on what the medium term looks like under this new government, please? Thank you.
Gerard Brown:	This is Gerard speaking. It's a little bit difficult to tell, at this stage. You're probably aware that the then opposition's platform was more thematic than specific, and they have some decisions that need to be made in relation to how are they going to proceed with the national target and a range of supporting initiatives? There's quite a bit of water to pass under the bridge in relation to that. Another factor, as I'm sure you're aware, is that the upper house in Australia, the Senate, will be controlled by the Greens Party, and I'm sure the incoming government is probably recalibrating their plans in that context. We'd anticipate that between now and the end of the calendar year we'll get a firmer view of how specifically they intend to pursue the broad themes that they've set out in their election campaign. So, the short answer to that is, it's too early to tell.

Gerard Brown: It almost goes without saying that subsequent to the call, which Cameron Davis, from our investor relations team is listening in on, very happy to take follow-up questions…

Well, thank you. Everyone for your interest, and again, repeat the offer, if you've got follow-up queries, don't hesitate to get in touch.

I should also mention that in the first half of September we'll be conducting a broader ESG market briefing, as we have done for the last several years, and obviously, today's subject matter will be an important part of that, and Cameron Davis and our investor relations team will be in touch about that in due course.

So, thank you again, everyone. Appreciate you giving us some time this morning. Thank you.

[END OF TRANSCRIPT – ABRIDGED VERSION]