



2021 / CLIMATE-RELATED FINANCIAL DISCLOSURES

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This report has been prepared in accordance with the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) framework. It covers all ANZ operations worldwide over which, unless otherwise stated, we have control for the financial year commencing on 1 October 2020 and ending 30 September 2021. Monetary amounts in this document are reported in Australian dollars, unless otherwise stated.

KPMG has performed limited assurance over the disclosures in this report. A copy of KPMG's limited assurance report is on page 18.

Our approach to climate change

We support the Paris Agreement's goal of transitioning to net zero emissions by 2050 and are committed to playing our part.

We want to be the leading Australia – and New Zealand – based bank in supporting customers' transition to net zero emissions by 2050. We have increased our ambition to help achieve that goal through a series of commitments and measures set out in our updated Climate Change Commitment (available on anz.com).

Our environmental sustainability strategy identifies priority sectors, technologies and financing opportunities to help achieve our ambition. ANZ has also joined the Net-Zero Banking Alliance (NZBA) reflecting our commitment with other leading banks globally to enable the transition by aligning our lending portfolio with net zero emissions.

Reducing carbon emissions is a shared societal responsibility and requires a 'whole-of-economy' approach.

We are focused on four key areas:

- 1 supporting our customers and industries to transition
- 2 aligning our lending decisions to the Paris Agreement goals
- 3 reducing our impact by managing and reducing emissions from our operations
- 4 engaging constructively and transparently with stakeholders.

1. For further information on how we are supporting our customers to transition see our 2021 ESG Supplement (pages 27-28) and 2021 Annual Report (pages 19-21; 38) available at anz.com/annualreport. 2. Our \$50 billion target is directed towards sustainable solutions for our customers, including initiatives that help improve environmental sustainability, increase access to affordable housing and promote financial wellbeing. The majority of the target is directed towards environmental sustainability initiatives that help customers to lower their emissions. Explanatory notes relating to our \$50 billion sustainable finance target are on page 80 of our 2021 ESG Supplement available at anz.com/annualreport.

1. SUPPORTING OUR CUSTOMERS AND INDUSTRIES TO TRANSITION

The most important role we can play in enabling the transition to net zero is to support our customers to reduce emissions and enhance their resilience to a changing climate.¹ We will achieve this by:

- executing our environmental sustainability strategy and providing finance, services and advice that support customers' shift to low carbon business models and operations that put them on a path to net zero emissions.
- encouraging and supporting 100 of our largest emitting business customers to implement and, where appropriate, strengthen their low carbon transition plans and enhance their efforts to protect biodiversity, by end 2024. This work will be undertaken through a structured and ongoing engagement process.
- funding and facilitating at least \$50 billion by 2025 to help our customers lower their carbon emissions.² This may include increased energy efficiency, low emissions transport, green buildings, reforestation, Indigenous land management practices, renewable energy and battery storage, emerging technologies (such as carbon capture and storage, and hydrogen-based technology), disaster resilience and climate change adaptation measures.
 - We will allocate \$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.
- equipping our employees with a deeper understanding of climate risks and opportunities, including the potential of emerging technologies, focussing on our Institutional bankers in key customer segments.

2. ALIGNING OUR LENDING DECISIONS TO THE PARIS AGREEMENT GOALS

Our success in supporting and accelerating a net zero transition will be driven by our ability to help our customers reduce their emissions. To reduce our portfolio emissions, we commit to aligning our lending with the Paris goals by:

- developing metrics and targets for our lending to key sectors, starting with our power generation portfolio and large-scale commercial buildings. We will progressively expand our coverage of key sectors, in line with our NZBA commitment and the evolution of globally recognised standards and methodologies, noting there is no single method that covers all relevant sectors and asset classes.
- factoring climate change risk into our lending for large business customers, primarily by assessing their capacity to respond to climate change and the evolving regulatory landscape.
- expecting new business customers or projects in the energy sector to disclose Paris-aligned business plans.³ This includes the extent to which their company strategy, emissions reduction targets and planned capital expenditure is aligned with the Paris goals.
- expecting our existing business customers in higher-emitting sectors, such as energy and transport, to integrate climate change risk into their company strategies. Specifically, by 2025 we expect our energy customers to:
 - establish specific, time bound, public transition plans and diversification strategies

- report transparently on climate risks and opportunities – outlining how their business will be resilient in a range of climate scenarios, including scenarios aligned with the Paris goals – preferably using the TCFD framework
- participate in industry initiatives that will contribute to reducing emissions, for example, in the oil and gas sector, capturing and storing methane in line with the Methane Guiding Principles
- measure and disclose the Scope 3 emissions from use of their products and any progress in reducing those emissions
- measure and disclose their progress in reducing emissions in their value chains – for example, by reducing emissions from shipping and distribution.

3. REDUCING OUR IMPACT BY MANAGING AND REDUCING EMISSIONS FROM OUR OPERATIONS

We are committed to reducing our operations' Scope 1, 2 and 3 emissions to manage our climate impact and are:

- accelerating the reduction of our own emissions by sourcing 100% of the electricity needed for our business operations from renewables by 2025.
- lowering our Scope 1 and 2 greenhouse gas emissions by 24% by 2025 and 35% by 2030 (against a 2015 baseline).
- seeking to empower our employees to live and work more sustainably by providing access to relevant information and incentives.

4. ENGAGING CONSTRUCTIVELY AND TRANSPARENTLY WITH STAKEHOLDERS

We recognise it is vital to work collaboratively with our stakeholders to help support the transition to net zero emissions and are therefore:

- continuing to engage with 100 of our largest emitting business customers to support them to improve their low carbon transition plans.
- engaging with stakeholders on climate change and increasing our transparency on our approach through ESG market briefings, investor roundtables and other avenues.
- disclosing how we identify, assess and manage climate-related financial risks and opportunities using the TCFD recommendations.
- disclosing metrics on the emissions impact of our financing, and setting targets to reduce this impact, starting with commercial property and power generation.
- developing an enhanced climate risk management framework by end 2022 that strengthens our governance and is responsive to climate-related risks and opportunities.
- participating in efforts to develop appropriate regulatory and prudential frameworks, including working closely with the Australian Prudential Regulation Authority (APRA) and participating banks on its first climate vulnerability assessment.
- 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.

³ The energy sector includes integrated oil and gas companies involved in exploration, development and refining as well as low carbon energy solutions, thermal coal mining, and integrated power utility companies such as renewable energy and coal.

Summary of our progress in aligning with the TCFD

This is the fifth year we have reported using the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD).

Our aim is to provide investors and other stakeholders with clear information, enabling them to assess the adequacy of our approach to climate change and our ability to manage the associated risks and opportunities. We acknowledge the TCFD has recently released updated guidance on implementation of the framework, as well as guidance on metrics, targets and transition plans, which we will use to inform future disclosures.

TCFD theme	Our progress to date	Focus areas – 2022/23	Beyond 2022 vision
Governance	<ul style="list-style-type: none"> Board Risk Committee oversees management of climate-related risks Board Ethics, Environment, Social and Governance (EESG) Committee approves climate-related objectives, policy and targets Ethics and Responsible Business Committee (executive management) oversees our approach to environment, social and governance (ESG) risks and opportunities, and reviews climate-related risks 	<ul style="list-style-type: none"> Aligning with regulatory guidance on climate-related risk governance, including stress-testing of selected portfolios 	<ul style="list-style-type: none"> An enhanced risk management framework that anticipates potential climate-related impacts, and associated regulatory requirements
Strategy	<ul style="list-style-type: none"> ANZ's Climate Change Commitment (available on anz.com) confirms support for the Paris Agreement goals and transition to a net zero carbon economy Managing the net zero carbon transition focuses on an orderly transition that recognises and responds to social impacts Participated in APRA's climate vulnerability assessment (CVA) to assess portfolio transition and physical risks Low carbon products and services within our Institutional business focused on climate-related opportunities Analysis of flood-related risks for our home loan portfolio in a major regional location of Australia and associated test-pilot of socio-economic indicators showing financial resilience of home loan customers with respect to flood risk 	<ul style="list-style-type: none"> Extending analysis of flood-related risks to incorporate bushfire and other risks relating to retail customers through the CVA Including climate risk reference in lending guidance documents for relevant industry sectors used by our front line bankers 	<ul style="list-style-type: none"> ANZ business strategy to grow in a way that is more closely aligned to a resilient and sustainable economy that supports the Paris Agreement goals and Sustainable Development Goals (SDGs)

TCFD theme	Our progress to date	Focus areas – 2022/23	Beyond 2022 vision
Risk management	<ul style="list-style-type: none"> Climate change risk added to Group and Institutional Risk Appetite Statements Climate change identified as a Principal Risk and Uncertainty in our UK Disclosure and Transparency Rules (DTR) Submission Guidelines and training provided to over 1,000 of our Institutional bankers on customers' transition plan discussions Enhanced financial analysis and stronger credit approval terms applied to agricultural property purchases in regions of low average rainfall or measured variability New agribusiness customers assessed for financial resilience and understanding of rainfall and climate trends in their area, and water budgets considered if irrigating 	<ul style="list-style-type: none"> Encouraging and supporting 100 of our largest emitting business customers to implement and, where appropriate, strengthen their low carbon transition plans and enhance their efforts to protect biodiversity, by end 2024 Undertaking customer engagement to identify customer or sector-specific transition or physical risks, focused on corporate and Institutional customers Further developing an enhanced climate risk management framework that strengthens our governance and anticipates potential climate-related impacts and associated regulatory requirements 	<ul style="list-style-type: none"> Further integrate assessment of climate-related risks into our Group risk management framework Standard discussions with business customers include climate-related risks and opportunities Assessment of customer transition plans part of standard lending decisions and portfolio analysis
Metrics and targets	<ul style="list-style-type: none"> Support 100 of our largest emitting business customers to establish or strengthen low carbon transition plans by 2021, with metrics developed to track progress Metrics to enable our progress to be tracked in reducing 'financed emissions', beginning with two key sectors: large-scale commercial property and power generation. Metrics are tailored to each sector (e.g. carbon emissions per square metre of net lettable space for commercial property) and disclosed every 12 months \$50 billion target to fund and facilitate sustainable solutions by 2025 Target to procure 100% renewable electricity for ANZ's operations by 2025 Ongoing emissions reduction targets for ANZ energy use aligned with the Paris Agreement goals 	<ul style="list-style-type: none"> Completing transition plan engagement with high emitting customers and consider how to integrate into our regular customer assessments Establishing pathways and set targets to reduce metrics for 'financed emissions' in key sectors by 2030 towards a long-term net zero goal by 2050 Consider expanding new metrics for measuring impact of our progress on environmental sustainability to other key sectors 	<ul style="list-style-type: none"> Continue to evolve our reporting with leading practices to measure the alignment of our lending with the Paris Agreement goals Reduce ANZ's operational emissions in line with the decarbonisation trajectory of the Paris Agreement goals

Governance

Our Board Ethics, Environment, Social and Governance (EESG) Committee, led by the Chairman, is responsible for reviewing and approving our climate-related objectives and performance, including goals and targets to support action on climate change. The Board Risk Committee has responsibility for the overview of ANZ's management of new and emerging risks, including climate-related risks.

At an executive level, the Ethics and Responsible Business Committee (ERBC), led by the CEO, sets policy as detailed in our Climate Change Commitment. The ERBC provides leadership on our ESG risks and opportunities, monitoring progress against targets, including those related to climate change.

The ERBC is also responsible for:

- guiding which industry sectors, customers and transactions we bank, to align with our purpose, strategy and values, and our public statements on issues such as climate change
- assessing current and emerging ethical, social, environmental and governance risks and opportunities.

Strategy

Our climate change strategy is shaped by two guiding principles:

- All sectors of the economy have a role to play in driving the transition.
- The transition needs to be orderly, with all stakeholders giving careful consideration to the impacts on affected workers and communities.

We recognise that over the longer term (more than 5 years), material risks are likely to emerge unless we take steps to manage the potential impacts of climate change. We regularly review our business strategy to ensure it is responsive to future risks and opportunities associated with the transition to a net zero emissions economy.

Climate change creates risks and opportunities for business and investment. Outlined below are the climate-related risks that have the potential to impact ANZ's financial performance:

TRANSITION RISKS

Policy risk: climate and energy policy uncertainty in Australia has impacted the energy sector and renewable energy developments. This uncertainty has impacted our lending and advice to the energy sector and driven higher risk profiles for energy developments. The combination of compressed returns and higher risk profiles has meant that we have been selective in participating in green-field renewable energy transactions. Future policy uncertainty or changes may affect our capacity to finance customers' projects that contribute to emission reductions.

Market risk: market demand, supply and prices for renewable and other forms of energy are subject to a number of influences and may change unpredictably. Our climate change strategy and involvement in the energy sector will need to take account of these dynamics and manage risk appropriately.

Regulatory risk: prudential regulators across the developed world are now moving to identify and potentially price carbon risk through measures such as capital overlays on high carbon assets. This may affect the amount of capital we are required to hold against loans and may, in turn, lead to a decline in our future earnings. Increased regulatory oversight will require financial institutions to dedicate additional and ongoing resources to identify, assess, compare and disclose climate risks and opportunities, leading to increased operational costs.

Technology risk: new technologies may affect the economics of supply of different forms of energy and impact ANZ customers in the energy industry. For example, reduced demand for coal in electricity generation in the future may impact the ability of our customers in the thermal coal supply chain to meet their repayment obligations.

For ANZ, transition risks may manifest as credit losses, which can occur when a customer becomes unable or unwilling to repay debt. We seek to minimise the risk of losses, including by banking larger, well-rated customers, working actively with those facing difficulties and actively managing our exposure.

Reputational risk: we are being scrutinised by a range of stakeholders regarding our role in financing industries with environmental impacts, such as power generation, mining, forestry and large infrastructure projects. Failure to apply appropriate standards to our decisions and respond effectively to stakeholder concerns about our involvement in particular transactions can result in public criticism and activism, potentially damaging our brand and reputation. Negative stakeholder perceptions may adversely affect our business relationships and access to funding. It may also give rise to credit, liquidity, market, compliance and operational risks affecting earnings, liquidity and capital position.

PHYSICAL RISKS

Acute physical risk: customers exposed to acute climate-related events (including storms, cyclones, floods as well as fires) may adversely affect our financial condition or collateral position in relation to credit facilities extended to those customers. While any single weather-related event or wildfire is unlikely on its own to result in any material credit related impacts for the bank, the severity and frequency of these events may increase in the future.

Chronic physical risk: farming and grazing in Australia and New Zealand has traditionally been undertaken in regions with productive soils and sufficient water. However, in recent years many of our farming customers have had to alter their production and investment profiles in response to climate change. Those that experience substantially lower incomes in response to, for example, severe drought, risk falling into arrears, presenting a potential credit risk to the bank.

CLIMATE-RELATED OPPORTUNITIES

All sectors have a role to play in the transition to a net zero emissions economy by 2050. ANZ will have an opportunity to assist customers as they invest in new capabilities, technologies and assets, provide lower emissions energy and power, or adapt to a less carbon intensive economy. This is important because we will need to replace lost revenue as a result of the policies we are applying to customers in carbon-intensive industries.

ANZ is executing a bank-wide environmental sustainability strategy in which we have identified 12 priority sectors, technologies and solutions which collectively provide material commercial growth and environmental transition opportunities. To successfully deliver this strategy at scale we are:

- continuing to expand our financial products, services and solutions to support investment in our environmental priority growth areas; and
- building and strengthening core capabilities and enablers across the bank including, for example, ESG culture and mindset, data, insights and technology and risk.

Other key opportunities we have identified are outlined below.

Market opportunities: we are capitalising on opportunities to advise our customers on and arrange sustainable finance solutions such as green, social and sustainability (GSS) bonds and loans. These facilities provide borrowers with access to the capital required to help transition to a net zero emissions economy and adapt to the physical impacts of a warming climate, as well as respond to social and sustainability risks.

The sustainable finance market is driving incremental and replacement revenues, and strengthening our relationships with our borrower and investor client base who are seeking our expertise. Increasing demand for these and other similar products is assisting us to re-orientate our balance sheet away from sectors that are more exposed to the transition and physical risks of climate change. Our \$50 billion sustainable finance target is helping to drive this change. As at 30 September 2021 we have funded and facilitated \$21.95 billion in sustainable solutions for our customers since 2019.

During 2021 we participated in 81 sustainable finance deals with a total deal value of \$119 billion, compared to 39 deals with a total deal value of \$59 billion in 2020. Of the 81 deals we participated in, \$5.7 billion was attributed to ANZ via our distribution capability, and \$4.8 billion via our lending capacity.

ANZ is also a sustainable finance market participant, having issued a total of four GSS bonds since mid-2015 as part of Group Treasury's annual funding and capital program. Our inaugural 2015 Green Bond matured in June 2020. In addition, we currently have three Sustainable Development Goal (SDG) bonds on issue, totalling equivalent to around \$4 billion. The proceeds of these bonds are financing a portfolio of customer loans aligned to several SDGs including those aligned to environmental impacts such as 'SDG 13 – Climate Action', and 'SDG 7 – Affordable and Clean Energy'.

Low emission goods and services: demand is increasing for ESG/ green credit lines from customers seeking to manage the transition to a net zero carbon economy. Product offerings include green loans, sustainability linked loans, and lending into, for example, green buildings. We have set targets to fund and facilitate billions of dollars in environmentally sustainable solutions for our customers such as low carbon buildings, low emissions transport, green bonds and renewable energy.

Use of lower-emissions sources of energy: we joined the RE100 initiative in 2019, which commits us to 100% renewable electricity by 2025 across our operations. We will achieve this target through solar installations, solar leasing and power purchase agreements (PPA) and purchasing renewable energy certificates (International Renewable Energy Certificate (I-RECs), New Zealand Energy Certificate System (NZECS) etc) in countries where solar and PPAs are not appropriate. In 2021, our operations were powered by 36% renewable energy, avoiding approximately 38,400 tonnes of greenhouse gas emissions.

FINANCIAL IMPACTS ON ANZ

Operating costs and revenues: managing and supporting the effort to transition to a net zero carbon economy may affect ANZ revenues and costs. As our customers set ambitious emissions reduction targets and other sustainability goals, we expect to see continued strong demand for climate-related financing solutions in the form of GSS bonds and other green/ESG credit lines. This will represent a growing source of revenue for the bank.

Revenue growth from increased sustainable financing activity has been offset by reduced revenue from customers with operations in carbon-intensive sectors, in particular the thermal coal supply chain. This has largely occurred due to the introduction of policy positions on thermal coal mining, transport and power generation since 2015.

Increasing oversight by prudential regulators will also require additional resources enabling us to identify, manage and disclose climate risks and opportunities.

Capital allocation: in recent years we have been increasingly financing companies that contribute to reducing emissions and are resilient to a changing climate, and less from high-emitting sectors such as coal-fired electricity generation. Although the thermal coal value chain represents a relatively small component of our overall loan book, when considered in isolation, the impacts of this capital shift are pronounced. In the last six years, we have reduced our lending to thermal coal mining by around 75% and have not directly financed any new or expanded coal-fired power stations. At the same time, we have increased our direct lending to renewables by around 55%, with renewable energy projects dominating our project finance power generation lending.

We are committed to further reducing the carbon intensity of our electricity generation lending portfolio by only directly financing renewables and low carbon gas projects by 2030. We will also no longer bank any new business customers that have material thermal coal exposures, i.e. more than 10% of their revenue, installed capacity or actual generation from thermal coal.

APPROACH TO KEY SECTORS

Our strategy is designed to deliver sustainable returns for our shareholders, while achieving a balance between growth and return, short and long-term performance and social and environmental impacts. The management of climate-related risks and opportunities is a key part of achieving this balance and our business needs to be resilient under a range of different climate-related scenarios.

Thermal coal value chain: various low-carbon scenarios, including those published by the International Energy Agency (IEA), show that the achievement of the Paris Agreement goals will require significant reduction in primary demand for thermal coal over the coming decades, especially in electricity generation.

To help us understand the potential impact of reduced demand, we are engaging with customers with significant operations across the thermal coal supply chain including extraction, transportation, ports and generation.

We seek information from our customers about how their business strategies may be impacted by the transition and physical risks of climate change. This is undertaken for all existing and new customers in the thermal coal value chain and updated at each annual customer review. It includes an assessment of their resilience to two climate scenarios published by the IEA – the Stated Policies Scenario and the Sustainable Development Scenario that is aligned with the ‘well below 2 degrees’ objective of the Paris Agreement, in addition to other SDGs. These scenarios have played an influential role in shaping our policy positions – particularly in regards to the thermal coal value chain.

The engagement is driving improved conversations with our customers about climate change risks, allowing us to make more informed lending decisions and policies. Over time we expect more of our customers to report on their transition plans. We also intend for discussions on climate-related risks and opportunities to become part of regular discussions with all Institutional and corporate customers.

Retail mortgages: despite their severity and widespread geographical impact, the 2019-20 bushfires on Australia's east coast did not result in any material credit related impacts in our retail mortgages portfolio. While many homes were unfortunately lost in the fires, most customers were protected by an insurance policy (in accordance with their mortgage contract) resulting in minimal losses to the bank.

We are continuing to develop scenarios estimating the potential financial impact of extreme weather events in the future. In coming years, we will seek to identify geographic areas that are most exposed to acute physical risks of climate change and overlay this information with socio-economic characteristics of households that could indicate a higher incidence of either a lack of insurance, or under insurance.

Agricultural sector: we have worked with the United Nations Environment Programme for Financial Institutions (UNEP FI) on a pilot scenario analysis project. We stress tested our agricultural portfolio for physical risk under two warming scenarios and the results were in line with our expectations – that customers with weaker credit profiles would experience more significant impacts in a warming climate. This work is summarised in the UNEP FI report, ‘Navigating a New Climate: Assessing Credit Risk and Opportunity in a Changing Climate’ and has been updated by a further group of banks that builds on our initial work.

The findings of this scenario testing were borne out during 2018 and 2019 with New South Wales and Queensland enduring one of the worst droughts in recorded history, as well as the 2019-20 bushfires (which also impacted parts of Victoria). A large number of customers were affected by this severe drought and the bushfires. However, customer defaults were minimal and, to date, the bank has experienced a low level of loss.

FIGURE 1
Rainfall annual
30-year average
 (1986–2015)



**Projection: Lambert conformal
 with standard parallels 10°S, 40°S**

© Commonwealth of Australia, 2017
 Data sourced from the Bureau of Meteorology

This positive outcome for customers and the bank arises in part because our agricultural lending is well secured with an average loan-to-value ratio of less than 60% and in the case of the bushfires, customer losses were insured.

With the combined insights of previous experience and stress-testing of possible future warming scenarios, we undertake a number of steps to ensure the resilience of our agricultural loan book to the physical risks of climate change:

Engaging annually with the Australian Bureau of Meteorology (BoM): for the past seven years we have engaged with the BoM to ensure we have current information to determine the medium term weather outlook. We examine variability in average annual rainfall in recent decades to see how climate change may affect the suitability and volatility of farming in given regions (see Figure 1 for an illustrative rainfall variation map for Australia). This informs customer discussions on how they are responding, possibly by changing their farming practices, including investing in technology and crop/stock sciences, and how they are structuring their finances to ensure ongoing viability.

Testing of customer's financial resilience to climatic events: when customers purchase properties in areas identified as having low rainfall or more likely to experience rainfall variation, we test their financial resilience to climatic events like drought and rainfall variation. Customers with lower resilience may be subject to enhanced underwriting standards – for example, loan approval may be dependent on a lower loan to valuation ratio, higher repayments, or evidence of savings or equity. Our bankers also need to document the customer's knowledge of recent rainfall and climate trends where their farm is located.

Risk management

We have disclosed our most material economic, social and environmental risks in our 2021 Annual Report (available on anz.com/annualreport) in accordance with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 4th edition'. Our most material climate-related risks and opportunities result from our lending to business and retail customers, including credit-related losses incurred as a result of a customer being unable to repay debt.

Under our risk management framework, our material risk category of Credit Risk incorporates the risks associated with lending to customers that could be impacted by climate change or by changes to laws, regulations, or other policies such as carbon pricing and climate change adaptation or mitigation policies. It also considers the impact to customer revenue and changes to the cost and level of insurance cover available to customers.

We include climate change as one of our Principal Risks and Uncertainties (available on anz.com/annualreport). Climate change risk is included in the Group and Institutional Risk Appetite Statements to ensure the risk is appropriately identified and assessed. New technologies and markets required for the transition to net zero emissions may require a change to risk appetite and accordingly we will refine our Risk Appetite Statements, or equivalent documents, across the Group as appropriate.

We continue to develop an organisational culture that encourages regular discussion and consideration of emerging climate-related risks. Our Risk team is working with our bankers, to seek an ongoing engagement with customers about managing the risks and opportunities associated with climate change, assisting us to progress our engagement with our largest emitting business customers on their transition plans.

Over the past year we have been developing an enhanced climate risk management framework that strengthens our governance and is responsive to climate change.

We have established a Climate Advisory and Coordination Forum, chaired by Mark Whelan, Group Executive Institutional, and including our Chief Risk Officer and other executives. The forum shapes the future direction of climate policy, disclosures and related matters across the Group.

Subject matter experts are overseeing the development of the climate risk management framework, across five working groups focused on regulatory monitoring, policy governance, risk appetite, the Australian Prudential Regulatory Authority's (APRA) Climate Vulnerability Assessment (CVA) and analytics.

Our priority this year has been to ensure we are compliant with current regulation. We have change management processes in place to ensure we can comply with new regulatory obligations when they come into effect in the jurisdictions in which we operate.

In some jurisdictions, climate-related risks are being integrated into micro prudential supervision of banks and insurance firms, including via requirements for firms' stress testing and disclosure. Some authorities report having set out – or being in the process of setting out – their expectations as to firms' disclosure of climate-related risks. In some cases, such expectations explicitly refer to the recommendations of the TCFD.

Regulators in our home markets of Australia and New Zealand have flagged closer supervision on climate risk. APRA commenced its CVA this year. In New Zealand, the government has introduced legislation that would make climate risk reporting mandatory for banks, asset managers and insurers by 2023, based on the TCFD framework.

We continue to measure the carbon intensity of industry exposures within our portfolio and are investigating opportunities to enhance our ESG data collection and analytical capabilities. Improved data and insights will allow us to define a Group-wide strategy that will inform appetite settings, enabling us to develop scenarios to stress test particular portfolios.

PARTICIPATING IN APRA'S 2021 CLIMATE VULNERABILITY ASSESSMENT

We are participating in APRA's Climate Vulnerability Assessment (CVA), which examines the material exposures and financial risks that banks, the financial system and economy may face due to climate risks.

The three key objectives of the CVA are: to assess potential financial exposure to climate risk; to understand how banks may adjust business models and implement management actions in response to different scenarios; and to foster improvement in climate risk management capabilities. APRA's CVA comprises two stress tests, a qualitative counterparty assessment and data assessment.

APRA intends to disclose the outcomes of the CVA in 2022, which may also be used to inform future supervisory guidance. In this regard, APRA has already released draft prudential guidance to assist supervised entities to identify, monitor and manage the climate-related risks they are exposed to, which they expect to finalise by the end of 2021. The prudential practice guide has been informed by stakeholder consultation and provides guidance on prudent practice in the management of financial risks arising from climate change, including with respect to governance, risk management, scenario analysis and disclosure.

Engaging with our customers on their transition plans

Since 2019, we have engaged with 100 of our largest emitting business customers, supporting them to establish and, where appropriate, strengthen existing transition plans.

Customers have valued our engagement on this topic, and our perspectives. A number of customers outside of the 100 have sought to engage with us, seeking clarity on our expectations or requesting suggestions to improve their approach.

While our original target was aimed at supporting customers (where applicable) to establish their plans, we recognise that amongst the group of 100 there are now few at that stage – rather, they are at various stages of implementation even if they have not disclosed their plans publicly. Our focus now is on supporting our customers' efforts to implement or, where a plan is less developed, strengthen their transition plans.

To equip our staff with the skills and knowledge to undertake these customer engagements, we have provided training to over 1,000 frontline bankers in our Institutional and corporate businesses since 2019.

The training covers how climate-related risks and opportunities might manifest for our customers and what elements we would expect to see in a robust transition plan. Our Risk, Group and Institutional ESG specialists assisted with the training, also attending team meetings and customer discussions about low carbon transition plans and the TCFD framework.

We consider three key elements constitute a robust low carbon transition plan:

- governance
- targets/long-term plans; and
- disclosures that are preferably TCFD-aligned.

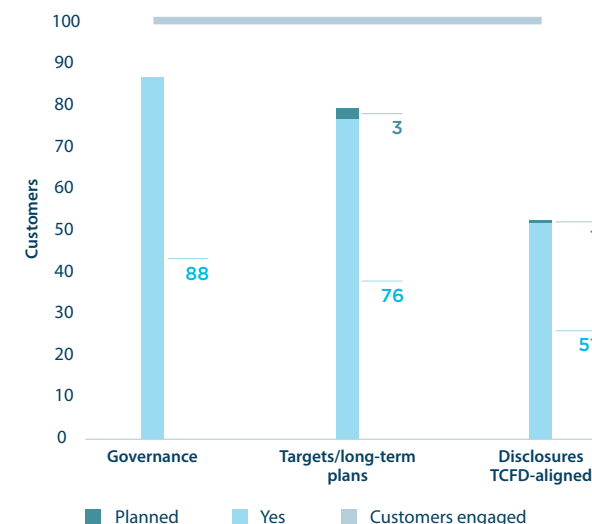
Transition plans vary depending on the sector. Some sector-specific measures we expect are:

- energy customers seeking to diversify energy sources towards less carbon-intensive fuels and outlining their plans by 2025. If diversification is not feasible, we expect they will identify how their business is resilient under 'Paris-aligned' scenarios in which demand for their commodities declines more rapidly than a 'business as usual' scenario;
- transportation customers moving towards more fuel-efficient vehicle fleets or undertaking other steps, such as switching from road to rail transport that will reduce their carbon emissions; and
- property developers or retailers reducing building energy consumption and refrigerant-based emissions using best available, commercially viable technologies.

Our engagement with energy customers is well-progressed. While we initially focused on customers with thermal coal operations, we have broadened this to include major upstream oil and gas producing customers. While the impacts of COVID-19 have affected short-term demand, some customers are continuing to see strong demand for high-quality, low-cost Australian thermal coal for use in high efficiency, lower emissions (HELE) plants across Asia. Their strategy is focused on developing high quality thermal coal assets and they are committed to improving their external disclosures. Other customers have undertaken scenario analysis (aligned with TCFD recommendations), revealing that some of their commodities will not perform well under a low carbon transition. In response, they are limiting expenditure on thermal coal (with most capital directed to maintenance rather than expansion), or seeking to divest those assets. Some companies are starting to set firmer targets to work with their suppliers and customers in their 'value chain' to seek to reduce the emissions associated with the use of their mining commodities, i.e. Scope 3 emissions.

Of the 100 customers we have engaged with over the last three years, the diagram to the right shows how many we have assessed as having met each of the three transition plan elements.

CUSTOMER TRANSITION PLAN STATUS



Following our initial engagement, customer transition plans were grouped this year into four levels of maturity – advanced, developing/intermediate, underdeveloped/starting out, and no public plans.

Overall, customers have improved their governance, strategies and targets or disclosures. Many customers have clearly demonstrated their intention to develop 'Paris aligned' or 'science-based' targets, and a similar interest in engaging with ANZ on this topic. We will continue to work with these customers and expect them to make substantive progress towards their targets. While we consider this to be good progress, we understand there is still much to be done. That is why we have committed to continue supporting these larger emitting customers to implement and, where appropriate, strengthen their low carbon transition plans and enhance their efforts to protect biodiversity, by the end of 2024.

Metrics and targets

TCFD-RELATED METRICS AND INDUSTRY EXPOSURES

For the fourth consecutive year we have disclosed credit metrics and our exposure to various sub-industries in four key sectors identified by the TCFD to be most exposed to climate-related risks: energy; transportation; materials and building; and agriculture, food and forest products. This is in response to the TCFD recommendations that 'banks should describe significant concentrations of credit exposure to carbon related assets'⁴ and provide a breakdown of this data by industry, geography, credit quality and average tenor.

Our overall exposure to these four sectors is around 16% of the Group exposure at default (EAD), down from 19% in FY20. In terms of credit metrics, we have observed an increase in the percentage of exposures rated as investment grade with 52% of our exposures across the four sectors achieving this benchmark in FY21 compared to 49.9% in FY20. The increase in the proportion of our loans rated investment grade has been matched by a corresponding decrease in the proportion of loans rated as non-performing with 0.3% of our exposures across the four sectors falling into this category, down

from 0.5% in FY20. The decrease in the percentage of non-performing loans is partly attributable to the agriculture sector, which had a strong year due to commodity prices despite the impacts of the COVID-19 pandemic. The consistently low levels of non-performing loans across the four sectors identified by the TCFD, indicates that transition and physical risks of climate change have not yet manifested as material credit risks for ANZ. The average loan term is relatively short for the majority of our exposures – 92% of total loans to customers in the four sectors are due for repayment in less than five years.

ANZ acknowledges stakeholder interest in banks' exposure to the transition risks faced by some customers in the energy sector, including the potential risk of 'stranded assets' in the transition to a net zero economy.

For ANZ, transition risks may manifest as credit losses which can occur when a customer becomes unable or unwilling to repay debt. Our total exposure to the energy sector at the end of FY21 was \$27.9 billion – which is 2.6% of the Group EAD. With over 85% of these exposures rated as investment grade, and a consistently low proportion of non-performing loans, this reflects our strategy to bank larger, well-rated clients that are adapting their business strategies to pursue opportunities available in the long-term decarbonisation of the energy sector.

Also disclosed is a more detailed industry and sub-industry breakdown of our exposures to the four sectors identified by the TCFD (see following page).

Our exposure to the most carbon-intensive forms of energy generation has declined since 2015. This decline is largely an outcome of active portfolio management, informed by our credit strategies. Our Risk Appetite Statements reference our Climate Change Commitment and relevant industry standards. They reflect risks associated with climate change, influencing decisions about business strategy and capital allocation.

Industry groups and credit quality summary^{5,6}

Group	Exposure at Default (\$bn)			Non-performing loans (% of sector EAD)			Investment grade (% of sector EAD)		
	FY21	FY20	FY19	FY21	FY20	FY19	FY21	FY20	FY19
Energy	27.9	31.2	31.9	0.1	0.1	0.1	85.1	80.1	81.5
Transportation	15.5	16.9	18.1	0.5	0.6	0.2	67.2	62.2	65.6
Materials and Building	92.3	96.2	93.6	0.3	0.4	0.4	47.2	45.9	46.6
Agriculture, Food and Forest Products	41.7	41.2	42.3	0.5	1.1	0.8	36.5	32.6	35.2
Total	177.4	185.6	185.9	0.3	0.5	0.4	52.4	49.9	51.8

4. Implementing the Recommendations of the TCFD, June 2017 (p24). 5. Values may not add to totals due to rounding. 6. The industry split has been revised for September 2020 and September 2019 comparatives to align to AP5330 Pillar 3 disclosure.

Exposures to key TCFD sub-industries⁷

Group	Industry/Sub-Industry	FY21	FY20	FY19
Energy	Oil and Gas ⁸	14.6	17.6	19.9
	Coal Mining ⁹	1.1	1.2	1.5
	Electric Utilities ¹⁰	12.3	12.4	10.4
Transportation	Air Freight	3.0	3.7	3.7
	Maritime Transportation	1.5	1.8	2.4
	Rail Transportation	1.8	1.9	1.7
	Trucking Services	4.5	4.3	5.6
	Automobiles	4.5	5.2	5.1
	Passenger Air	0.2	0.0	0.1
Materials and Building	Metals and Mining	7.2	8.8	8.5
	Chemicals	2.1	2.8	3.1
	Construction Materials	1.3	1.7	1.6
	Capital Goods	17.3	18.2	19.8
	Real Estate Management and Development	64.4	64.7	60.4
Agriculture, Food and Forestry	Beverages	3.3	3.4	3.2
	Agriculture	30.6	30.2	30.6
	Packaged Foods and Meats	7.0	6.7	7.6
	Paper and Forest Products	0.8	0.9	1.0
Total		177.4	185.6	185.9

While supporting our customers to reduce their emissions, we are also seeking to reduce the environmental impact of our own operations. We have a suite of environmental sustainability targets aimed at lowering our carbon emissions, reducing waste to landfill, and reducing water use and paper consumption.



See our 2021 ESG Supplement available at anz.com.au/about-us/esg/reporting/esg-reporting/ for further detail.

⁷ The industry split has been revised for September 2020 and September 2019 comparatives to align to APS330 Pillar 3 disclosure. Values may not add to totals due to rounding. ⁸ Exposure to oil and gas includes all of the oil and gas value chain such as exploration, extraction, transport, refining and retail. Page 46 of ANZ's full year results investor discussion pack includes exposure to "upstream" exploration and extraction only as the focus is on resources (mining) exposure in line with ANZSIC industry groupings: <https://www.anz.com/content/dam/anzcom/shareholder/2021-FY-results-investor-discussion-pack.pdf>. ⁹ Coal mining includes exposures to metallurgical (coking) coal used for steel making (~\$0.6bn) and thermal coal used for energy generation (~\$0.4bn). ¹⁰ Electric utilities includes exposures to electricity generators that own or operate a mix of thermal and renewable generation assets as well as transmission and distribution infrastructure.

FINANCED EMISSIONS FOR OUR PROJECT FINANCE PORTFOLIO

At 88%, renewable generation assets make up most of our total exposures to electricity generation assets in our project finance portfolio, which is a subset of our overall power generation portfolio featured on pages 13–14. We have reported continually on this portfolio since 2014 to track the impact of our direct lending.

Our financing has helped bring online a further 260 megawatts (MW) of solar projects in Australia over the past year, building on the 859MW of renewables projects we helped bring online in FY20. This has contributed to a rapid reduction in the emissions intensity of the electricity generation assets we directly finance to 0.28 tonnes of CO₂ for every megawatt-hour generated – down 31% from FY20 and the lowest level recorded for this metric in the eight years we have reported it. Given our commitments not to directly finance any new or expanded coal-fired power stations and to phase out our existing exposures by 2030, we expect to see continued reductions in the emissions intensity of our Australian-based generation portfolio over the coming years.

The average emissions intensity of generation we finance continues to be well below the grid average in Australia of 0.73 tonnes of carbon dioxide per megawatt-hour.¹¹

For electricity generation assets located outside of Australia, we have for the second consecutive year achieved an emissions intensity of 0.01tCO₂ for every megawatt-hour generated. We are scheduled to achieve a major milestone in FY22 with the exiting of our last ever directly financed coal-fired power station outside of Australia. This will put us on track to achieve a near zero emissions portfolio with the scheduled commissioning of a new 376MW offshore wind farm in Taiwan in late FY21 that was part financed by ANZ.

With the introduction of our interim target setting at 2030 to measure our financed emissions to the electricity generation sector, this will be the last time we separately report our financed emissions for our project finance portfolio.

Tonnes CO ₂ -e per MWh electricity generated	Australia	Outside Australia
2021	0.28	0.01
2020	0.40	0.01
2019	0.54	0.02
2018	0.66	0.08
2017	0.58	0.24
2016	0.62	0.16
2015	0.64	0.20
2014	0.77	0.25
Movement		
2014–2021	-64%	-96%

NEW PATHWAYS AND TARGETS FOR TWO KEY SECTORS

Financial institutions are being asked to demonstrate how their lending is supporting the achievement of the Paris goals. In response we are disclosing two new pathways and associated targets for the power generation sector and large-scale commercial buildings in Australia (shopping centres and large office buildings).

We chose to start with these two sectors because electricity generation is responsible for around one third of Australia's national emissions, with the non-residential buildings sector among the largest final end users of electricity. Supporting our customers' efforts to decarbonise the electricity supply and reduce the energy needs of commercial buildings will be a key focus for ANZ over the coming decades. While they cover a relatively small part of our overall loan book at this stage, the new targets we have set are aimed at providing greater transparency about how our financing is aligned with climate scenarios. They will also provide insights into how we are managing the risks of the transition and capturing the growing opportunities.

In the short term, we expect companies will focus their efforts on setting decarbonisation targets. We expect this will lead to more transparent disclosure, including improved data for use in scenario analysis which, in turn, should enable more meaningful outcomes.

Power generation portfolio metric

For the Paris goals to be met in full, the world needs substantially more electricity to be generated in 2050 than it does today – according to the International Energy Agency (IEA) in one scenario, by more than 2.6 times 2020 levels.¹² Almost 88% of the electricity generated in 2050 will need to come from renewables, while generation from unabated fossil fuels – responsible for around 61% of global electricity generation in 2020 – shrinks to almost nothing.¹³ The scale of this challenge is immense but 'cleaning up the electricity mix and extending the electrification of end-uses' were among the key findings in scenarios presented by the IEA in its 2021 World Energy Outlook.

We are committed to supporting the clean electrification of the world's energy supply and have set a target to reduce the emissions intensity of our power generation portfolio by 50% on 2020 levels by 2030. Our 2030 target of 129 kgCO₂/MWh is below the global average of 138 kgCO₂/MWh modelled by the IEA for its Net Zero Emissions by 2050 (NZE) Scenario.

Given the scale of the required increase in electricity generation, we consider the emissions intensity of our portfolio (kg CO₂ per megawatt-hour of electricity generated) is an appropriate and relevant measure to track. There are several ways to achieve the targeted reductions in emissions intensity of our loan book – not all of them within our control.

Firstly, because it is a debt-weighted metric, we will need to prioritise financing projects and customers generating electricity at an average intensity below our FY20 baseline portfolio average of 258kg CO₂/MWh. Those that generate electricity above this average will have to be offset by increased limits to projects and customers with an intensity lower than the baseline, or have their limits reduced so they become a smaller proportion of the total book. This does not mean

11. Australian Government Department of Industry, Science, Energy and Resources, National Greenhouse Accounts (NGA) Factors, August 2021. 12. Based on the Net Zero Emissions by 2050 Scenario (NZE) presented in the International Energy Agency's (IEA) 2021 World Energy Outlook. 13. IEA NZE Scenario 2021.

we will no longer support corporate customers who generate above this average – in fact, lending to support our customers' transition plans may mean that the emissions intensity of our portfolio goes up for a period as we may have increased exposure, however over time, and as our customers bring online new clean generation capacity and retire their existing fossil fuel assets, we expect to see the emissions intensity of our portfolio decline. The timing of these retirements and new capacity additions is the second key determinant that will influence the emissions intensity of our portfolio. Decisions by our corporate customers on the potential retirement and/or running hours of their existing fossil fuel generation capacity will be the third key determinant of whether we are able to achieve our targeted reductions – and we expect this to be a key consideration in their transition plans.

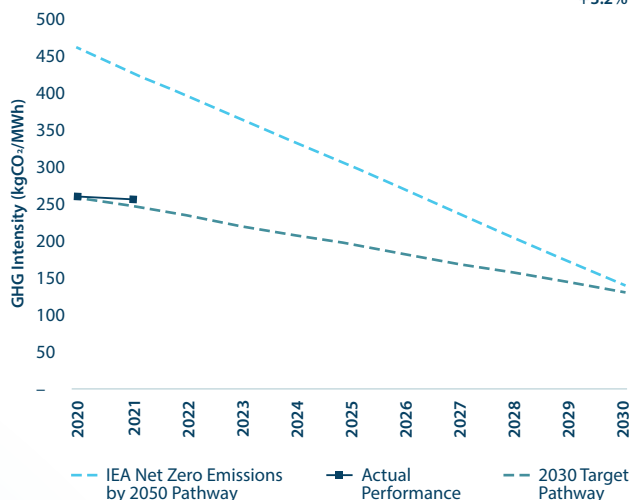
Our FY20 portfolio baseline of 258 kgCO₂/MWh is well below the 2020 global average of 459 kgCO₂/MWh. In large part this is due to 39% of our exposures at the end of FY20 relating to renewable projects or corporate customers whose generation fleets were entirely composed of renewable technologies. Our funding of renewables projects and companies has decreased slightly at the end of FY21 to 38% of our portfolio total.

The emissions intensity of our portfolio has decreased slightly during FY21 to 253 kgCO₂/MWh. While this is 3.2% above a linear pathway to our 50% reduction target, for the reasons outlined above, we do not expect to see a linear trend towards the 50% reduction target for 2030. The emissions intensity of our power generation portfolio remains well below the global NZE trajectory.

Our engagement with power generation customers – large and small – will be focused on how they intend to reduce the emissions intensity of electricity supplied to their customers.

We know that decarbonising other sectors like transport, buildings and industry will require an increase in electricity generation. The challenge will be to meet that demand growth with clean energy sources. Our new target seeks to meet this challenge and will have considerable influence in terms of the customers and projects we choose to support in future.

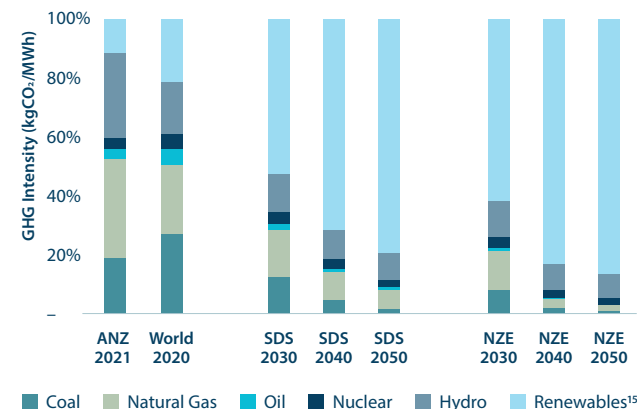
POWER GENERATION



A complementary metric that we will measure and report against is the debt weighted generation stack of our portfolio across six generation technologies – coal, gas, oil, nuclear, hydro and renewables. This metric is based on the Paris Alignment Capital Transition Assessment (PACTA) approach developed by the 2°C Investing Initiative (2dii) in collaboration with global banks. Given the metric skews results towards large generators, it highlights those parts of our portfolio potentially more exposed to transition risks which, could in turn, manifest as credit risks for ANZ. It also allows us to compare our portfolio with various published climate scenarios.

At the end of FY21, fossil fuels comprised 56% of our debt-weighted generation stack with gas assets making the largest contribution to this at 33% of the total. Coal capacity remained stationary at 19%. Our commitment to support the clean electrification of the world's energy supply is reflected in renewables increasing from 8% to 12% of the total portfolio over the past year. We expect this trend to continue. ANZ's power generation portfolio at the end of FY21 closely resembles the global mix. However, compared to various Paris-aligned scenarios for the power sector out to 2050, it shows there is significant opportunity for ANZ to finance the growth of renewables – especially over the next decade to 2030.

POWER GENERATION FINANCING MIX



Commercial buildings portfolio metric

In FY20, ANZ reported for the first time on the emissions intensity of large commercial buildings and shopping centres that are either fully or partially owned by large Real Estate Investment Trust (REIT) and property fund customers in our Australian Institutional loan book. The carbon intensity metric is calculated by adding the carbon emissions from our customers' office building and shopping centre portfolios and dividing this by their 'net lettable area' (NLA), which is a recognised metric in the commercial buildings sector. Reliable public information is available on the environmental performance of commercial buildings in Australia, which is why we chose it as one of the first two sectors to report our financed emissions.

Non-residential buildings are one of the largest final end users of electricity in Australia and will play a critical role in Australia's path to net zero emissions. We recognise there will be significant and growing opportunities to support our customers to reduce their energy use and the carbon intensity of the energy that they use – both for new buildings and the retrofit of existing buildings.

This is why we have set a target to reduce the emissions intensity of our Australian large-scale commercial real estate portfolio by 60% on 2019 levels by 2030.¹⁴ This exceeds the 50% reduction target we have set for our global power generation portfolio and takes into account the opportunities for faster and deeper cuts in emissions presented by improved energy efficiency; greater electrification of final energy

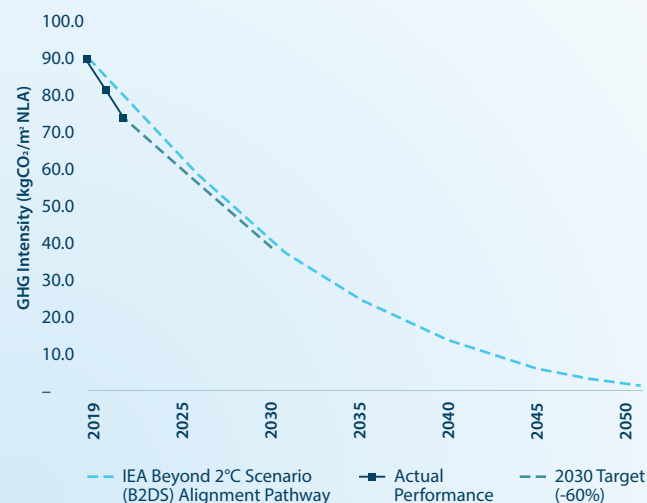
¹⁴ ANZ's target to reduce the emissions intensity of select buildings in our Australian commercial real estate portfolio by 60% was guided through the use of the Commercial Real Estate and Residential Mortgage Tool (April 2021 version) accessed from the Science Based Targets Initiative (SBTi) website (available at <https://sciencebasedtargets.org/sectors/financial-institutions#resources>). The tool is yet to be updated with information from the IEAs Net Zero by 2050 scenario and ANZ will assess any implications for our target if and when this information is released by the SBTi. ¹⁵ Represents combined generation capacity from non-hydro renewable sources like solar, wind and geothermal as well as battery storage and hydrogen and ammonia. All data for the global scenarios is sourced from the 2021 World Energy Outlook published by the International Energy Agency.

use; voluntary purchases of green electricity; and self-generation of electricity from solar PV installations. It is important to note we will be seeking opportunities to support our customers to improve the environmental performance of their buildings across our entire portfolio – not just those covered by the target.

The graphs below show that our large REIT and property fund customers in Australia have made a strong early start to reduce the emissions intensity of their office and shopping centre buildings. We are also encouraged that several of our customers in the commercial buildings sector have committed to achieving net zero emissions targets by 2050 and are making strong progress towards their goal. At the end of FY21 the office building portfolio was 24% below the FY19 baseline and the shopping centre portfolio 18% below. The reductions in emissions intensity for both portfolios is also well ahead of the IEA's Beyond 2°C (B2D) scenario for service buildings presented in the 2017 Energy Technology Perspectives report. The B2D scenario puts service buildings on a pathway to achieve net zero emissions by 2050, with most of these savings to be achieved before 2030. These reductions will primarily be achieved through energy efficiency improvements, increased electrification of final energy use and the decarbonisation of global electricity production. The 2050 convergence to net zero emissions for service buildings aligns closely with the Net Zero Emissions by 2050 scenario published by the IEA in May 2021.

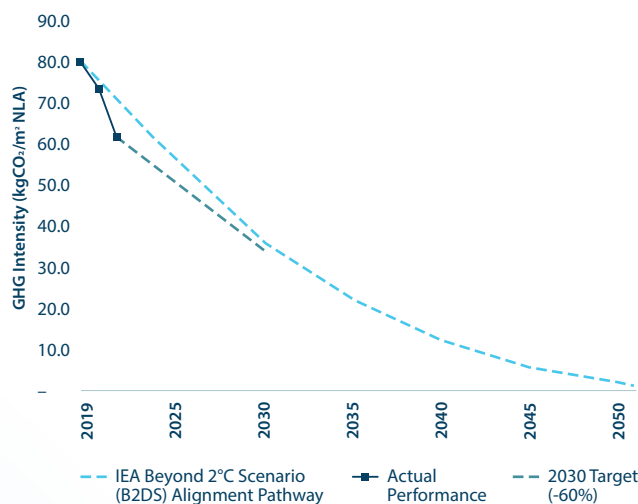
COMMERCIAL REAL ESTATE Shopping Centres

ANZ vs. pathway
-7.5%



COMMERCIAL REAL ESTATE Office Buildings

ANZ vs. pathway
-13.9%



While the building assets covered by the target represent around 20–25% of our total exposures to the non-residential building sector, we believe it provides valuable insight on the operational performance of hundreds¹⁶ of office buildings and shopping centres we have helped our customers to construct or upgrade in prior years. The metrics will also reflect any steps that our customers take in the future to improve the environmental performance of their portfolio, which may be supported by lending from ANZ. We acknowledge that our customers have multiple sources of capital and so we do not claim that the reported reductions in emissions intensity are entirely due to ANZ's financing. We will seek to better understand the attribution of our financing to emissions savings in the years ahead to ensure we are aligned with leading methodologies for the reporting of our portfolio emissions.

There are other reasons we track the environmental performance of our customers' buildings – both at a portfolio level and at the individual customer level. Research in Australia and internationally suggests 'greener' office buildings attract higher sale prices. Analysis by Knight Frank¹⁷ of more than 300 office sales over the past decade in Sydney and Melbourne revealed that offices with NABERS energy ratings of up to 4.5 stars are worth an average of 8% more than unrated buildings on a per square metre basis. Buildings rated between five and six stars attracted an 18% premium. Their research also showed that on the rental side, many occupants are willing to pay a rental premium for a building that reflects their preference for environmental sustainability. Higher property values and lower vacancy rates translates into lower risk profiles and therefore better risk adjusted returns for our shareholders. Tracking the green ratings and emissions performance of hundreds of office buildings and shopping centres will therefore help us to identify the risk profiles of individual customers and buildings and how they are performing relative to the rest of the portfolio.

NEXT STEPS IN 2022

We will progressively expand our coverage of key sectors up to 2024, in line with our NZBA commitment and the evolution of globally recognised standards and methodologies, noting there is no single method that covers all relevant sectors and asset classes. In 2022 we expect to set out pathways and targets for more key sectors.

¹⁶. At the end of FY21, the metrics captured the collective performance of 455 office buildings and 156 shopping centres across Australia that were either fully or partially owned by our customers. ¹⁷. Based on findings contained in the October 2021 report by Knight Frank, *Active Capital: Trends in Global Real Estate Investment* (available at <https://content.knightfrank.com/research/1801/documents/en/active-capital-the-report-2021-8447.pdf>).

Explanatory notes

FINANCED EMISSIONS FOR PROJECT FINANCE

Reported figures reflect actual generation from financed assets over the period 1 October 2020 to 30 September 2021, or an annual reporting period as close to those dates as possible. The proportion of generation attributable to ANZ finance was based on the ratio of our Class 1 Debt Limits to Total Syndicate Debt. They do not include generation assets under construction.

Australian financed emissions are calculated using generation and emissions data from four sources:

1. Australian Energy Market Operator (AEMO) for scheduled generators connected to the National Electricity Market (NEM) grid¹⁸ and the South West Interconnected System in Western Australia;
2. The register of large-scale generation certificates (LGC's) for non-scheduled renewable energy assets connected to the NEM;
3. 2019–20 National Greenhouse and Energy Reporting (NGER) data for designated generation facilities (available from Australian Clean Energy Regulator website); and
4. Client supplied data for remaining generators where there was no data available from the first three sources. Overall, AEMO, LGC and NGER data was available for more than 98% of electricity generation from projects financed by us in 2021.

Financed emissions outside Australia are calculated using generation and emissions data from four sources:

1. The New Zealand Electricity Authority's Electricity Market Information website for New Zealand generation assets;
2. Carbon Monitoring for Action database maintained by the Centre for Global Development;

3. Client supplied data; and
4. Estimates by ANZ for remaining generators where there was no data available from the first three sources or where there was doubt over the accuracy from the first three sources.

The overall emissions intensity of our project finance portfolio is calculated in accordance with the following formula:

$$\sum_{\text{Projects}} \left[\frac{\text{Project Emissions}}{\text{Electricity Sent Out}} \times \frac{\text{Project Class 1 Limits}}{\text{Total Syndicate Debt}} \right]$$

POWER GENERATION PORTFOLIO METRIC

The figure reported reflects the debt weighted carbon intensity of electricity generation (i.e. carbon emissions per unit of generation) for Institutional customers whose main business activity is the generation of power for distribution. Customers included in the metric each year are those who we have more than \$1m exposure at default (EAD) as at 30 September 2021.

The emissions intensity for each of our customers is calculated by summing up their total Scope 1 emissions from generation assets either in their ownership or operational control, and dividing this by their total gross electricity generation. To determine the portfolio average emissions intensity, we apply a debt-weighted calculation approach based on the following formula:

$$\frac{\sum_{\text{Customer}} \left[\frac{\text{Customer emissions}}{\text{Electricity generated}} \times \text{ANZ Financing} \right]}{\sum_{\text{Customer}} \text{ANZ Financing}}$$

It is important to note that this is a different calculation methodology for determining the emissions intensity of our power generation portfolio to the one we applied last year.¹⁹ That methodology was based on a derivative of the Paris Alignment Capital Transition Assessment (PACTA) approach developed by five international banks together with the 2°C Investing Initiative (2dii).²⁰ While there are many strengths to the PACTA methodology, we consider the new methodology provides improved insights on the environmental impact of our financing and the collective efforts of our customers to transition their electricity supply towards zero emissions. By focusing on each customer's emissions intensity of generation – irrespective of the size of their fleet – it removes skewing the metric towards customers with large generation portfolios. It also forms an important metric on which to engage with our customers with respect to their transition strategies.

We relied on a variety of different sources to calculate each customer's emissions intensity of generation. For our customers with assets in Australia, our preference was to use the Scope 1 emissions and gross generation data they report each year to the Australian Clean Energy Regulator (CER) (responsible for administering Australia's *National Greenhouse and Energy Reporting Act*). We used the latest available data submitted to the CER to calculate the emissions intensity of our customers' generation fleets, meaning we used generation and emissions data applicable for the year ending 30 June 2020 for our FY21 calculations.

Our second preference was to use emissions and generation data reported in corporate publications, the main method we applied for customers with assets outside of Australia. Where this information was unavailable, or deemed unreliable, we estimated our customers' emissions intensity of generation based on their ownership stake in generation capacity that we sourced from an Asset Level Database (ALD), compiled and updated regularly by climate and energy data

¹⁸. Generation data for scheduled generation assets connected to the NEM was supplied by Energy One Limited. ¹⁹. The emissions intensity of our power generation portfolio was reported in 2020 as 472 kgCO₂/MWh. The new calculation methodology has resulted in this being revised to 258 kgCO₂/MWh. ²⁰. A full description of the methodology we applied in FY20 is available from the 2 Degrees Investing Initiative website at the following link: <https://2degrees-investing.org/wp-content/uploads/2020/09/Katowice-Banks-2020-Credit-Portfolio-Alignment.pdf>.

specialist Asset Resolution. The annual generation from these assets was calculated by applying global average capacity factors for the relevant technology type reported in the International Energy Agency's (IEA) 2021 World Energy Outlook. Emissions factors were sourced from the IEA's Emissions Factors 2021 publication and applied based on the country that the customer's assets were located in and the relevant technology type of the plant i.e. coal, gas or oil. Assets that were based on nuclear, hydro and renewables technologies were assumed to have an emissions intensity of zero. This calculation approach was also used to 'sense-check' the reported emissions intensity of all our customers to ensure we could have confidence in their reported information.

Because the metric is (for the most part) based on real emissions and generation data from our customers, it allows us to benchmark the portfolio average against Paris-aligned climate scenarios such as those published by the IEA. We have chosen to benchmark our portfolio against the IEA's Net Zero Emissions by 2050 Scenario which illustrates a pathway for the electricity sector to play its proportionate role in driving the world's energy sector to net zero emissions by 2050.

For the first time, we have also reported a new metric that shows the debt-weighted generation stack of our customers. The methodology used to report the metric is based on the PACTA for Banks methodology developed by the 2dii.²¹ Under the methodology, the installed capacity of generation assets owned by our customers is allocated to ANZ based on the proportion of their loan to our overall exposures to the electricity sector. For example, if a customer owns a 600 megawatt (MW) gas-peaker power station and a 200MW wind farm and their loan makes up 2% of our overall exposures to the electricity generation sector, ANZ is allocated 12MW of the gas-fired power station and 4 MW of the wind farm.

For each customer, the installed capacity of generation assets allocated to ANZ are aggregated and assigned to one of six technology types:

- Coal
- Gas
- Oil
- Nuclear
- Hydro
- Renewables

The debt-weighted generation stack of our customers is presented as a 100% stacked bar chart, which again allows benchmarking with climate scenarios that show how electricity generation capacity could change in future to meet the goals of the Paris Agreement. We have chosen to benchmark with the Sustainable Development and Net Zero by 2050 scenarios that were published by the IEA in the 2021 World Energy Outlook.

COMMERCIAL BUILDINGS PORTFOLIO METRIC

This metric covers our commercial office and shopping centre portfolio in Australia, where the majority of exposures are located. The carbon intensity metric is calculated by adding up the carbon emissions from our customers' office building and shopping centre portfolios and dividing this by their 'net lettable area' (NLA). This is calculated in accordance with the following formula:

$$\frac{\sum_{\text{Customer}} \text{Building Emissions (kg CO}_2\text{)}}{\sum_{\text{Customer}} \text{Net Lettable Area (m}^2\text{)}}$$

Carbon emissions data for our customers' office and shopping centre buildings is based on Scope 1, 2 and 3 emissions associated with fuel and electricity consumption. Any purchases of accredited green power by our customers is assumed to have zero emissions.

Emissions data is sourced from NABERS Energy rating certificates that are issued to our customers and includes a mixture of both Whole Building and Base Building ratings. The ratings are accessible from a public register.²²

Data on the NLA of office buildings is sourced from the Australian Government's Building Energy Efficiency Register.²³ For office buildings and shopping centres that don't have a Building Energy Efficiency Certificate, the NLA of our customers' buildings is back-calculated based on information appearing in the NABERS Energy Rating. This is calculated by dividing the total energy use of the building by the published energy use per m² of NLA.

The inclusion of our customers' buildings and shopping centres in the overall metric is dependent on whether the building has a current NABERS energy rating at a given point in time e.g. 30 September or that it has expired within the previous 12 months of that date. If those criteria are not met, the building is not considered as part of the overall calculation. Priority is given to using emissions data from current NABERS energy ratings and in cases where a building is jointly owned by two or more customers, the building is only counted once in our calculation.

21. A full description of the PACTA for Banks methodology that is applied to the power generation sector is available at the following link: https://www.transitionmonitor.com/wp-content/uploads/2021/07/PACTA-for-Banks-Methodology-document-02-07-2021_v1.2.0_v4.pdf
22. See <https://www.nabers.gov.au/ratings>. 23. See <https://www.cbd.gov.au/registers/downloadable-cbd-program-data-set>.

Independent Limited Assurance Report to the Directors of Australia and New Zealand Banking Group Limited

CONCLUSION

Based on the evidence we obtained from the procedures performed, we are not aware of any material misstatements in the ANZ FY2021 Climate-related Financial Disclosures report which has been prepared by ANZ in accordance with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) framework and ANZ's Basis of Reporting, for the year ended 30 September 2021.

WHAT DID KPMG'S WORK INVOLVE – SCOPE OF WORK

Australia and New Zealand Banking Group Limited (ANZ) engaged KPMG to perform a limited assurance engagement in relation to the ANZ 2021 Climate-related Financial Disclosures. KPMG's scope of work comprised limited assurance over all material text and data claims in the ANZ 2021 Climate-related Financial Disclosures report.

The ANZ 2021 Climate-related Financial Disclosures report covers ANZ's global operations for the year ended 30 September 2021 unless otherwise indicated. A copy is available at anz.com/shareholder/centre/reporting.

WHAT WAS THE REPORTING CRITERIA USED?

The ANZ 2021 Climate-related Financial Disclosures was prepared in accordance with the Financial Stability Board's Task Force on Climate-related Disclosures (TCFD) Framework and ANZ's Basis of Reporting ("the criteria").

WHAT WAS THE BASIS FOR KPMG'S CONCLUSION?

We conducted our work in accordance with International Standard on Assurance Engagements ISAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the ANZ 2021 Climate-related Financial Disclosures report, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

WHAT DID KPMG DO TO SUPPORT THE SCOPE OF WORK – OUR PROCEDURES

Our limited assurance conclusion is based on the evidence obtained from performing the following procedures:

- enquiries of relevant management to understand ANZ's process for determining material climate risks and related disclosures;
- interviews with relevant management concerning ANZ's climate change risk management framework;
- interviews with relevant staff responsible for developing the content (text and data) within the ANZ 2021 Climate-related Financial Disclosures reporting to understand the approach for management, monitoring, collation, and reporting of such information;
- comparing text and data (on a sample basis) presented to underlying sources. This included considering whether all material matters had been included or excluded; and
- an assessment that information reported was in accordance with the TCFD Framework.

WHAT IS LIMITED ASSURANCE AND MATERIAL MISSTATEMENT

A limited assurance engagement is restricted primarily to enquiries and analytical procedures. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The Standard requires our report to be worded around what we have not found, rather than what we have found.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Directors of ANZ.

USE OF THIS ASSURANCE REPORT

This report has been prepared for the Directors of ANZ Banking Group Limited for the purpose of providing an assurance conclusion on the ANZ 2021 Climate-related Financial Disclosures report and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Directors of ANZ, or for any other purpose than that for which it was prepared.

ANZ is responsible for:

- determining that the criteria is appropriate to meet their needs;
- preparing and presenting the ANZ 2021 Climate-related Financial Disclosures report and other ESG related information in accordance with the criteria; and
- establishing internal controls that enable the preparation and presentation of the ANZ 2021 Climate-related Financial Disclosures report that is free from material misstatement, whether due to fraud or error.

KPMG

Melbourne,
22 November 2021

KPMG is responsible for:

Our responsibility is to perform a limited assurance engagement in relation to the ANZ 2021 Climate-related Financial Disclosures report for the year ended 30 September 2021, and to issue an assurance report that includes our conclusion.

KPMG Independence and Quality Control

We have complied with our independence and other relevant ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Australian Professional and Ethical Standards Board, and complied with the applicable requirements of Australian Standard on Quality Control 1 to maintain a comprehensive system of quality control. We have also complied with ANZ's Stakeholder Engagement Model for Relationship with External Auditor (available at anz.com).

Adrian King | Partner

Melbourne,
22 November 2021



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