ANZ

Climate Change Commitment

Supporting our customers in the net zero transition

To meet the Paris Agreement goals, significant greenhouse gas emission reductions are required across all sectors of the economy. Trillions of dollars are needed to invest in new and existing technologies for clean energy and sustainable infrastructure.

The many financing opportunities linked to our business strategy will contribute to the achievement of the Paris Agreement goals and the transition to a net zero economy. The opportunities will also deliver appropriate returns for our shareholders.

We want to be the leading Australia- and New Zealand-based bank in supporting customers' transition to net zero emissions by **2050**.

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.

This commitment summarises our climate change approach and respective targets. Additional disclosures and policies are available at anz.com.au/about-us/esg/.

The opportunity:

Society is responding to the shared task of creating a pathway to net zero emissions[1]. To achieve the Paris Agreement goals, historic levels of investment and lending will be needed from businesses, governments and financial institutions. This creates significant financing opportunities for ANZ, which we will realize together with our customers.

By anticipating changes to financial markets and financial systems we will seek to better manage climate risks and opportunities. These changes include:

- regulatory expectations, including disclosure;
- customer, shareholder and civil society expectations; and
- how climate risk is assessed, managed and priced.

We are responding to these changes and opportunities in four key areas:

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.

We will achieve this by executing our environmental sustainability strategy and providing finance, services and advice that support customers to shift to low carbon business models and operations that put them on a path to net zero emissions.

We support an orderly transition that recognises and responds to social, economic and environmental impacts of a net zero transition. This aligns with our purpose to shape a world in which people and communities thrive.

To achieve this, we are:

- Funding and facilitating AU$50 billion to support our customers to achieve improved environmental outcomes, including the reduction of their greenhouse gas emissions. This includes supporting increased energy efficiency[2], low-emissions transport, green buildings[3], reforestation, indigenous land management practices, renewable energy and battery storage, emerging technologies (such as carbon capture and storage, and hydrogen-based technology), disaster resilience[4] and climate change adaptation measures.
- 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. This expertise will help us develop products and services to meet our customers' needs, for example in:
  - green, social and sustainability-linked loans and bonds
  - lending and advisory services to help our customers buy, sell and raise capital for renewable energy and other low-emissions projects
  - project finance to support the development of long-term sustainable infrastructure.

1. Net zero emissions in this statement relates to net zero human-made emissions. **2.** Includes facilitating concessional loans for business customers to buy energy-efficient equipment. Further details on the criteria and standards we use to assess qualifying activities is set out in our ESG Supplement: https://www.anz.com.au/about-us/esg/reporting/esg-reporting/ **3.** ANZ will only finance the construction of new large-scale office buildings if they are highly energy efficient, and being built to either at least a NABERS (National Australian Built Environment Rating System) 5-star energy rating or 5-star Green Star Design rating (or equivalent international rating). This is the same standard we apply for inclusion in our AU$50 billion target. **4.** ANZ has allocated AU$1 billion of its AU$50 billion target to supporting customers' and communities' disaster recovery and resilience. This may include resilience initiatives for weather-related events or non-weather-related disasters.

2. ALIGNING OUR LENDING DECISIONS TO THE PARIS AGREEMENT GOALS

Our success in supporting and accelerating a net zero transition by 2050 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 goals of the Paris Agreement. We will consider use of emerging tools used by peer banks to measure and compare our efforts in reducing emissions, including how we can report on the impact of our lending decisions.

Our initial work in this area has focused on the development of metrics and targets for our power generation portfolio and large-scale commercial buildings[5]. 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.

To decrease our portfolio emissions, we are focusing our efforts on high-emitting sectors, such as the energy sector[6] which plays a key role in the transition, with around 75% of global emissions attributed to energy use[7]. This is especially the case for the power generation sector which is essential in decarbonising other high emitting sectors such as transportation and buildings.

To achieve this, we will:

- Factor climate change risk into our lending for large business customers[8], primarily by assessing their capacity to respond to climate change and the evolving regulatory landscape. We undertake customer due diligence through application of our Social and Environmental Risk Policy (Policy) and requirements for lending to 'sensitive sectors'[9].
- Expect new customers or projects in the energy sector to disclose Paris-aligned business plans. This includes the extent to which their company strategy, emissions reduction targets and planned capital expenditure is aligned with the Paris goals.
- Change the mix of our energy financing portfolio, as we support our customers' expansion into low- or zero-emission technologies. We acknowledge oil and gas are still needed as we transition, especially gas as 'firming' for renewable energy and in industrial uses[10]. We will continue to assess the role of oil and gas within the context of the broader energy market, public policy developments and stakeholder and shareholder expectations. Our exposure to thermal coal will continue to decline in line with our existing commitments, which includes no longer banking any new business customers with material thermal coal exposures, or directly financing new thermal coal mines or power plants[11].
- Expect 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 Task Force on Climate-related Financial Disclosures (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[12]
  - 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.

We may decline lending to projects and customers – new or existing – that do not meet our expectations.

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

We are also committed to reducing our operations' Scope 1, 2 and 3 emissions to manage our climate impact. That's why we are:

- Sourcing 100% of the electricity needed for our business operations from renewables by 2025.
- Lowering our Scope 1 and 2 greenhouse gas emissions by at least 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. That's why we are:

- 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 Environmental, Social and Governance (ESG) market briefings, investor roundtables and other avenues[13].
- Using the TCFD to disclose how we identify, assess and manage climate-related financial risks and opportunities.
- Disclosing metrics on the emissions impact of our financing and setting targets to reduce this impact, starting with power generation and large-scale commercial buildings.
- Developing an enhanced climate risk management framework by end 2022 that strengthens our governance and is responsive to climate-related risks and opportunities.

5. Our new targets for power generation and commercial buildings are on pages 13–15 of our 2021 Climate-related Financial Disclosures, available here: https://www.anz.com.au/about-us/esg/reporting/esg-reporting/. We have used an 'emissions intensity' metric for power generation and commercial buildings. For power generation we calculate the debt-weighted average of our customer's emissions intensity (kg CO_2 per megawatt-hour of electricity generation). For commercial buildings we calculate the emissions from these buildings and divide them by the net lettable area to define an emissions intensity metric. **6.** 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. **7.** Energy use includes transport in addition to the power generation sector. The percentage of global emissions from energy use is sourced from the International Energy Agency (IEA), Net Zero by 2050: A Roadmap for the Global Energy Sector, October 2021. **8.** Our lending is informed by our evolving social, environmental and credit policies, which includes commitments relating to thermal coal. Information on our policies is available here: https://www.anz.com.au/about-us/esg-priorities/fair-responsible-banking/responsible-business-lending/ **9.** These include energy, extractive industries, forestry and forests, water and hydropower. **10.** Considering the intermittent generation of renewables, gas will continue to play a balancing role. **11.** See footnote 8. **12.** https://www.ipieca.org/our-work/climate/emissions-management/ipieca-and-the-methane-guiding-principles/ **13.** This includes an avenue for complaints that is available to stakeholders who have concerns about whether our business lending is consistent with our climate statement. Complaints can be made by contacting the Group ESG Lead or Chief Risk Officer.

- Participating in efforts to develop appropriate regulatory and prudential frameworks, including working closely with the Australian Prudential Regulation Authority 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.

BIODIVERSITY

We acknowledge the need to protect and restore ecosystems and mitigate biodiversity loss, including working to halt and reverse forest loss and land degradation. We understand the impacts – positive and negative – our business customers can have on biodiversity.

In line with our Policy, we expect our business customers to use internationally accepted industry practices to manage social, environmental and economic impacts, including potential results on biodiversity.

We are:

- Broadening our engagement with our largest emitting business customers to include a focus on biodiversity, encouraging and supporting them to identify and manage their potential impacts on biodiversity. We are also encouraging them to establish or strengthen their approach to biodiversity through effective Board governance, policies, strategies and disclosures using recognised indicators or metrics[14]. We will also apply what we learn from this engagement to help us identify and engage with other business customers that are likely to have significant impacts on biodiversity.
- Collaborating with industry groups and customers to identify investment opportunities that have improved biodiversity outcomes and commercial benefits. For example, increased yields and longer-term productive outputs, such as soil health and flood-risk mitigation.

We welcome the establishment of the Taskforce on Nature-related Financial Disclosures (TNFD) and have joined the TNFD Forum to support their work. We recognise the TNFD's important role in driving widespread and improved disclosure of biodiversity impacts.

HUMAN RIGHTS AND SOCIAL IMPACTS OF THE TRANSITION

The transition will create significant employment and lending opportunities. However, the social costs of a net zero transition could be significant for workers in regions currently dependent on fossil fuels for employment.

We also recognise the physical impacts of climate change and potential threats to some vulnerable communities, particularly Indigenous, agricultural and coastal communities. We recognise Indigenous peoples' unique connection to the land, which includes management practices such as annual early burning and wildfire suppression activities in Australia that contribute to reducing emissions.

We expect customers to avoid or manage potential adverse human rights impacts and social costs, including by:

- Providing and disclosing management plans to engage with local communities and minimise impacts[15].
- For customers with large coal-fired power plants – developing closure plans that provide at least three years advance notice of closures and engaging with all of their stakeholders to minimise the impact on their workers, local communities, and downstream energy users.

We are engaging with our largest emitting customers to better understand how they manage their actual and potential adverse human rights impacts – whether direct or indirect via their business relationships.

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14. For example, oil and gas sector guidance on reporting on biodiversity and sustainability: https://www.ipieca.org/resources/awareness-briefing/biodiversity-and-ecosystem-services-horizon-scanning-report-2021/ and https://www.ipieca.org/media/5111/ipieca_sustainability-guide_2020_mod4-env.pdf **15.** For example, mining companies may operate large projects that could disturb sites with significant cultural heritage value. Our expectations regarding these customers are outlined in our sensitive sector requirements for energy and extractive industries: https://www.anz.com.au/about-us/esg-priorities/fair-responsible-banking/responsible-business-lending/