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ANZ 2022 Climate Change Investor Roundtable

Climate Finance Assessment

Presenting an ANZ special update in CEF's series of climate finance analyses of Australia's Big 5 banks – ANZ, CBA, Westpac, NAB and Macquarie Bank – where we review ANZ's 2022 Climate Change Investor Roundtable (ESG Update), released 25 November 2022.

We continue to assess against four material decarbonisation criteria for the banking sector – climate solutions financing, customer engagement, financed emissions reduction by sector, and the bank's energy loanbook trends.

In the same week that the CSIRO announced Australia's average climate has reached 1.47°C warming above pre-industrial levels – 0.03 degrees shy of the Paris threshold – we were pleased to see ANZ renew its climate change commitment, boasting a massive uplift in decarbonisation finance with a $100bn pledge over 8 years, from FY2023 to FY2030.

Just last month, CEF called for ANZ to target a "more ambitious $100-200bn by 2030 pledge" – the new $100bn pledge by ANZ is an encouraging sign that Australia's banking sector is willing to start really walking the talk, taking meaningful strides towards seizing the $100tn global investment opportunity in decarbonisation.[1] ANZ's recent climate ambition is a far cry from the ANZ of 10 years ago, under then CEO Mike Smith, undisputedly the nation's premier coal bank.

Summary/highlights:

- ANZ's global share in sustainable finance continues to grow, at the same time it's $50bn ESG financing pledge nears completion and the bank establishes a new $100bn 8-year pledge to FY2030 focussed specifically on helping their highest emitting customers decarbonise – a new benchmark in Australian climate finance
- Strengthened customer engagement to FY2025 is backed by transition financing under the new $100bn pledge, and a commitment to reducing exposure to companies who show no improvement
- ANZ sets 2030 financed emissions reduction targets for six sectors (four newly added) leading the NZBA race to zero, but its oil and gas targets are not ambitious enough
- Thermal coal exposure is trending downwards, while its ratio of oil and gas to renewables exposure is not reflective of the growing investment opportunity in renewables
- Additionally, ANZ participated in $3bn worth of financing in FY2023 to date that facilitates expansion of gas supply not aligned to the IEA's Net Zero by 2050 pathway

The bottom line:

Climate Energy Finance (CEF) estimates ANZ to be the Australian big bank leader in its climate finance pledge and customer engagement efforts, and on par with NAB in its financed emissions reduction targets. While its oil and gas heavy energy loanbook is suboptimal, ANZ is continuing its progress towards aligning with its Glasgow Financial Alliance for Net Zero (GFANZ) commitments.

[1] CEF estimate based on the global IEA World Energy Outlook $4tn annual investment estimate

In the context of the exceptionally fossil fuel heavy Australian economic backdrop, it is challenging for ANZ to be a world leader on decarbonisation, but the bank is making strong headway and we look forward to more ambitious efforts as Australia continues its pivot to seizing the massive investment, employment and export opportunities as a renewable energy and critical minerals superpower.

1. Climate solutions financing

Sustainable finance trends

ANZ's FY2022 global share of sustainable finance was $155bn, increasing 30% YoY and with an impressive 66% CAGR since FY2020 – indicating accelerated growth in global sustainable finance.

Of the total $155bn deal size, ANZ's average share through its funding and distribution channels was $17.4bn (11%). The remaining 89%, whilst funded by other banks, demonstrates the capability of Australian financial institutions to leverage the power of investors collectively, distributing risk, and 'crowding in' capital in areas of need.

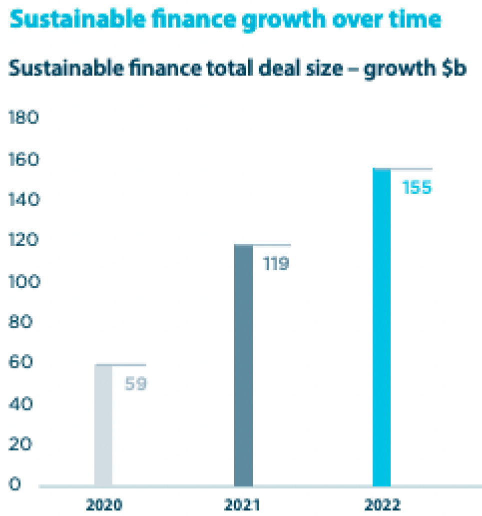

Figure 1. Source: 2022 Climate-related Financial Disclosures, p.10

ANZ's presence as a major player on the Asian stage is evident, with $112bn (72%) of its sustainable finance activity landing in international deals, driven by a larger than average international deal size and frequency when compared with regional deals.

Region	Total deal size ($bn)	Capital distribution	Number of deals in FY2022	Average deal size ($bn)	Deal distribution
International	112	72%	64	1.8	50%
Australia	33	21%	41	0.8	32%
NZ	10	6%	22	0.5	17%
Total	155		127		

Table 1: ANZ's global sustainable finance footprint. Source: 2022 Climate-related Financial Disclosures, p.10

ANZ's existing $50bn sustainable solutions target (6 years, FY2020 to FY2025)

ANZ hit $40bn in social and environmental financing under this target, moving $18bn in FY2022. Financing activities within this pledge involve both an environmental and social component where ‘environmental financing’ comprises mostly decarbonisation solutions. For comparability across banks, CEF isolates the environmental financing portion where applicable and, in the case of ANZ, removes the social lending component (an estimated 17% share of the combined environmental and social lending ANZ reports).

That equation leaves us with ANZ having financed approx. $33bn environmental activities since FY2020 with a 44% CAGR – the next in place was NAB with a CAGR of 20% in the same time period, although noting that NAB had moved first and already financed nearly $50bn environmental activities when ANZ started counting theirs. Annually, ANZ and NAB both average $7bn per year environmental financing over their respective pledge lifetime to date.

Further, we have assessed ANZ’s funding from its facilitative financing[2], enabling comparability against Westpac and CBA (we look forward to the Australian banks aligning their disclosures to improve comparability). On environmental lending only, CBA averaged $15.1bn per year in 2 years, ANZ $7.1bn over 3 years and Westpac $1.9bn over 2 years – while a much bigger bank in absolute terms, CBA’s progress illustrates the market potential for even larger sums of environmental lending to be in play.

On its own, ANZ’s $50bn pledge barely makes a dent in the $100tn global decarbonisation investment opportunity through to 2050. But ANZ’s announcement of a new $100bn by 2030 pledge lifts Australian climate finance ambition to another level and places ANZ miles ahead of its Australian peers.

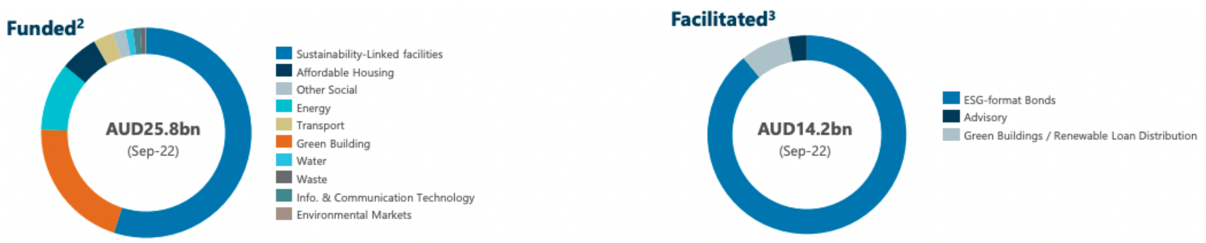

Figure 2. Source: [2022 Climate Change Roundtable Investor Presentation]

<u>ANZ’s new $100bn by 2030 customer climate financing (8 years, FY2023 to FY2030)</u>

ANZ’s new 8-year $100bn financing target to FY2030 is aimed at helping ANZ customers lower their carbon emissions and achieving improved sustainability outcomes – it is wholly environmentally/climate focussed and at an average annual pledge of $12.5bn, doubles the bank’s current run rate establishing a new benchmark in Australia’s climate financing landscape. Importantly, the $100bn pledge is in addition to the $50bn target specified above, and a huge step in the right direction.

[2] Funding involves ANZ’s balance sheet loans and other credit lines, while facilitative financing includes ANZ advisory services, ESG-format bonds, and loans initially underwritten by ANZ and subsequently sold on to other lenders.

The $100bn financing will focus on supporting their highest emitting customers decarbonisation transitions, with priority going to customers who are committed to improving their plans – this includes customers already with good transition plans in place, plus ramping up assistance for companies who ANZ rates as being in category C and D (i.e. with no public transition plan, starting out or underdeveloped plans). Part of the $100bn pledge will also go to financing corporate customers' energy efficiency plans to reduce their energy costs during this time of unprecedented high energy costs.

In comparison with its peers, ANZ's $12.5bn average annual ambition is well ahead of the pack, and setting a new standard for its competitors to aspire to. In the remaining 8 years that both CBA and Westpac have to reach their FY2030 environmental finance target, their average annual ambition is $4.9bn and $1.4bn respectively. NAB averaged $10bn environmental financing per year in the 7 years from FY2016 to FY2022 – having hit its target this year, we wait to see how NAB's new ambition to FY2030 will compare to that of ANZ in a growing environmental market.

ANZ's additional $100bn pledge by ANZ is an encouraging sign that Australia's banking sector is willing to take meaningful strides towards seizing the global decarbonisation opportunity, even as the market awaits the build out of Australia's renewables / grid transmission infrastructure and critical minerals projects pipeline post policy uplift by the new government earlier this year.

2. Customer engagement

The new $100bn pledge demonstrates the bank's commitment to supporting the transition of some of Australia's highest emitting corporates through to the end of this crucial decade – a group of companies constituting about 30% of national emissions. Targeted and well-informed transition financing is a sign of financial institutions working with companies to pivot to solve the climate problem and decarbonise Australia. What ANZ has done well in its customer engagement strategy is:

- Started early – as early as 2018/2019;
- Continued to report publicly on progress with these customers;
- Increased financing ambition ahead of completing their existing $50bn pledge, and at a scale moving more in line with the global momentum and opportunity size; and
- Committed to reducing exposure to companies not showing positive transition progress by 2025 after significant engagement and financing support.

The framework behind ANZ's transition ratings

Compared to the findings of our previous analysis, ANZ provides additional detail on what they consider a "robust transition plan" from the customers they engage (see figure 3). The same three core elements exist – good governance, targets and disclosures that are TCFD or similarly aligned. This time, detailed examples across the bank's six priority decarbonisation sectors also suggest the existence of strong interim targets backing long term net zero objectives among this group.

What's obviously missing from the rubric is consideration of their customers' capability to operationalise the decarbonisation agenda. But, absent a KYC level of interrogation, it might seem reasonable to assume at this nascent stage of global transition alignment that good governance and strong targets will set the scene for appropriate strategy, risk management, and organisation-wide decision processes to follow.

And as the Australian policy landscape is shifting so fast at federal and state level (e.g. Victoria's new 95% renewables by 2035, Queensland's 70% renewables by 2032), even incumbent boards of some of the country's biggest emitters are starting to awaken to the stranded asset risks, or like AGL, being reformed by shareholders who see the need for time limits on engagement strategies, excuses, obfuscation and continued shareholder wealth destruction.

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

Good Governance	A clear framework outlining Board and senior management accountability and oversight of management of climate change risks and opportunities.
Targets & Policies	Public greenhouse gas emission reduction targets to support government policies up to 2030 in key markets of operation, ie. at a minimum aligning with country-specific Nationally Determined Contributions (NDCs). Company policies or statements setting out long-term goals, including whether they support or commit to achieving net zero emissions by 2050.
Public Disclosures	Public reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, or comparable framework(s), to enable stakeholders to assess the robustness of their business plans against a range of climate scenarios, preferably including a "well below" 2-degree scenario or 1.5 degree-aligned scenario.

Figure 3. Source: 2022 Climate Change Roundtable Investor Presentation, p.15

Further examples indicate that an A/B rating under the engagement rubric would warrant the three core assessment elements being in place, or met in a meaningful way, while a rating of C/D would arise from 1 or more criteria not satisfied (see figure 4).

Examples of characteristics of customers within categories:

In place/met · In progress

Energy company – Category A	Diversified industrial company – Category B	Large commodities company – Category C	Large retailer – Category D
Governance (in place/met)	Governance (in place/met)	Governance (in place/met)	Governance (in progress)
Targets (in place/met)	Targets (in place/met)	Targets (in place/met)	Targets (in progress)
Disclosures (in place/met)	Disclosures (in place/met)	Disclosures (in progress)	Disclosures (in progress)

Figure 4. Source: 2022 Climate Change Roundtable Investor Presentation, p.23

Progress and promise

The trend of continued progress and transition plan strengthening continues, evident by the fall in the number of ANZ customers rated C & D, at the same time as A/B rating numbers are increasing (see figure 5). ANZ indicates their commitment to supporting C/D customers to improve their transition plans by 2025, through engagement efforts and financing, and makes a promise to reduce exposure where progress is not achieved in this time. Additionally, for existing customers in the energy sector, ANZ expects their transition plans to be net zero-aligned, public and specific by 2025. Ongoing successful engagement with this group will also assist the bank in achieving its sectoral decarbonisation targets, which means it's not all stick – there is some carrot in the game.

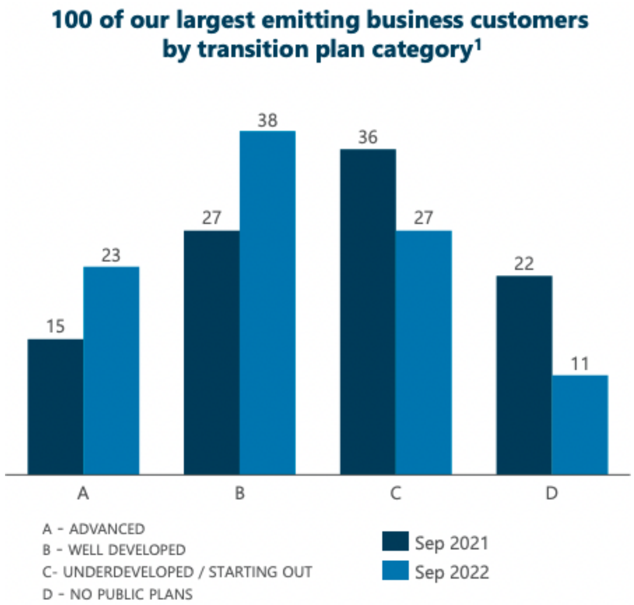

Figure 5. Source: 2022 Climate Change Roundtable Investor Presentation, p.20

3. Financed emissions reduction pathways by sector

Global momentum is building, with even the global laggards at the six major US banks — JPMorgan Chase, Wells Fargo, Citibank, Morgan Stanley, Bank of America, and Goldman Sachs — committing to net-zero financed emissions by 2050 and publishing interim targets for reducing emissions in oil and gas and power sectors by 2030.

In Australia, ANZ was the first to commit to the Net Zero Banking Alliance (NZBA) in October 2021, along with Macquarie later that month and the rest of the big banks following. The NZBA puts Australian banks on a pathway towards decarbonising all or a substantial majority of the bank's financed emissions across nine sectors by 2030 – agriculture, aluminium, cement, coal, commercial and residential real estate, iron and steel, oil and gas, power generation, and transport. ANZ added four new sectors this November, establishing itself as the leader in this area with targets and pathways established for six sectors in total.

Table 2 illustrates the state of financed emissions reduction targets across major Australian banks. Although ANZ leads in the total number of targets set, NAB is closely following with an additional commitment towards setting a target for its residential real estate portfolio.

Table 2: Benchmarking Australian major banks financed emissions reduction commitments under the NZBA framework

NZBA requirements	**ANZ**	**NAB**	**Westpac**	**CBA**	**Macquarie**
Date of joining the NZBA	*Oct-21*	*Dec-21*	*Jul-22*	*Jan-22*	*Oct-21*
18 months – first round targets	*Apr-23*	*Jun-23*	*Jan-24*	*Jul-23*	*Apr-23*
36 months – targets for remaining/majority of carbon intensive sectors	*Oct-24*	*Dec-24*	*Jul-25*	*Jan-25*	*Oct-24*
NZBA prescribes 9 carbon-intensive sectors (10 sectors after separating commercial and residential real estate)					
1. Coal	Thermal coal exit by 2030, but no pathway	Yes - thermal coal only	Yes - thermal coal only	Yes - thermal coal only	No clear evidence of first round target setting which is due by Apr-23. Macquarie's Net Zero report is still to be released this calendar year.
2. Oil and gas	Yes	Yes	Yes	Yes	
3. Power generation	Yes	Yes	Yes	Yes	
4. Commercial real estate	Yes - office buildings and shopping centres	In progress	Yes - large customers with office properties		
5. Residential real estate		In progress			
6. Cement	Yes	Yes	Yes		
7. Iron and steel	Yes - steel only	In progress			
8. Aluminium	Yes	In progress			
9. Agriculture		In progress			
10. Transport		In progress			
Total sectors established	**6**	**4**	**5**	**3**	**0**
No. of known sectors in progress	**3** (anecdotal evidence)	**6**	**0**	**0**	**0**

Given that NAB is next most advanced in disclosing its financed emissions reduction strategy, we compare ANZ with NAB sector decarbonisation targets across four sectors – thermal coal, oil and gas, power generation and cement.

Table 3: Comparative assessment between ANZ and NAB's 2030 sector decarbonisation targets

NZBA sector	ANZ	NAB
Thermal coal		
2030 target	Exit thermal coal by 2030	100%
Emissions measurement	Pathway not established, but significant progress made	Absolute emissions
Baseline year / measurement		2021 / 5.1 MtCO2-e
Scenario		IEA NZE 2050
Scope 1		Yes
Scope 2		Yes
Scope 3		Yes
Detail		Mining of black coal, brown coal and lignite. Including diversified companies where these activities make up greater than 5% of their revenues. Excludes emissions associated with metallurgical coal mining customers, including those with more than 5% revenue from thermal coal sales, as these are captured within the 'Iron and Steel' sector emissions per UNEP FI Guidelines.
CEF Insight	● Presumably ANZ is working on its thermal coal emissions reduction pathway under NZBA guidelines, which would most likely constitute a 100% absolute emissions reduction in scope 1, 2 and 3 emissions by 2030 given ANZ's commitment to exit thermal coal by 2030 and the very substantial progress made to-date.	
Oil and gas		
2030 absolute target	11.1 Mt CO2-e	3.2 Mt CO2-e
2030 target	26%	21% to 3.2 MtCo2-e
Emissions measurement	Absolute emissions	Absolute emissions
Baseline year / measurement	2020 / 15 Mt CO2-e	2021 / 4.1 MtCO2-e

NZBA sector	ANZ	NAB
Scenario	IEA NZE 2050	IEA NZE 2050
Scope 1	Yes	Yes
Scope 2	Yes	Yes
Scope 3	Yes	Yes
Detail	Exploration and production (includes dedicated upstream companies, and LNG producers), and integrated oil and gas producers.	Extraction and production of natural gas, liquefied natural gas (LNG), liquefied petroleum gas (LPG) and oil shale (i.e. upstream oil and gas activities). Excludes exploration activities due to immateriality of emissions associated with exploration.
CEF Insight	● ANZ's 26% oil and gas emissions reduction target is greater than NAB's 21%, however, ANZ's 2030 absolute target is more than three times NAB's due to ANZ's much higher emissions baseline. ● Coming into alignment with the IEA NZE 2050 scenario by 2030 is needed, but it won't make up for excess emissions above the pathway (currently 7% in excess) as ANZ works its way to scenario alignment between now and 2030. Accelerated oil and gas decarbonisation must be coupled with a pivot toward financing the solution – i.e. more finance for renewables, grid transmission infrastructure and critical minerals projects, and not for projects or companies expanding oil and gas supply. ● Methane leak detection and repair, identified by ANZ as an enabling industry solution to reaching the oil and gas sector target, is likely to strengthen over time if accompanied by real time public disclosure and with Australia joining the Global Methane Pledge and reforms to the Safeguard Mechanism. ● We also encourage NAB to include oil and gas exploration disclosure under this sector due to the material level of scope 3 emissions from financing explorations, and the obvious point that this is the entry point to aligning with the climate science.	
Power generation		
2030 absolute target	0.12 tCO2-e/MWh	0.14 tCO2-e/MWh
2030 % reduction target	50%	32%
Emissions measurement	Emissions intensity	Emissions intensity
Baseline year / measurement	2020 / 0.24 tCO2-e/MWh	2021 / 0.20 tCO2-e/MWh
Scenario	IEA NZE 2050	IEA NZE 2050
Scope 1	Yes	Yes
Scope 2	No	Yes

NZBA sector	ANZ	NAB
Scope 3	No	No
Detail	Companies that own or operate one or more electricity generation facilities that dispatch electricity into transmission grids.	Electricity generation from fossil fuels and renewable sources. Excludes transmission and distribution due to their immateriality to value chain emissions.
CEF Insight	• In absolute terms, ANZ's 2030 power generation target is 14% or 20kg CO_2-e/MWh less than NAB's, but ANZ does not propose to include scope 2 emissions reduction under this sector. • Both banks are heavily carbonised in advance of the market – 2022 NEM market average is 0.81 tCOz2-e/MWh – and the new 82% renewables by 2030 target for the NEM is going to drive over $100bn of new investment opportunities, largely bank debt financed.	
Cement		
2030 absolute target	0.49 tCO@-e/t cement	0.46 tCO2-e/t cement
2030 % reduction target	20%	24%
Emissions measurement	Emissions intensity	Emissions intensity
Baseline year / measurement	2021 / 0.61 tCO2-e/t cement	2021 / 0.6 tCO2-e/t cement
Scenario	IEA NZE 2050	IEA NZE 2050
Scope 1	Yes	Yes
Scope 2	Yes	Yes
Scope 3	No	No
Detail	Companies that own or operate one or more cement plants.	Portland and hydraulic cement manufacturing. Excludes concrete and lime manufacturing.
CEF Insight	• In absolute terms, ANZ's 2030 power generation target is 6% or 30kg CO_2-e/tonne cement more than NAB's 2030 target. • NAB's definition, although more prescriptive, may have the same real world effect in emissions reduction as the vast majority of cement production volumes and emissions today are from "traditional" (Portland) cement. • We would encourage the banks to validate cement targets with the Science-Based Targets Initiative to ensure the target holds up to scrutiny.	

4. Energy loanbook trends

ANZ reports the following highlights:

- Since 2015, direct lending to thermal coal mining has been reduced by around 83% to $0.2bn, and is now less than 0.02% of Group EAD
- At the same time, direct lending to renewables projects has gone up by around 63%
- 90% of the project finance portfolio consists of renewables projects

CEF insights:

- ANZ's FY2022 oil and gas exposure is different depending on how you look at it (all EAD as at 30 Sep 2022):
    - Approx. $134m in gas project finance
    - $7bn in "oil and gas extraction" within its resources (mining) balance sheet which is aligned to ANZSIC industry groupings
    - $9.56bn in oil and gas under its financed emissions targets – inclusive of exploration, production, and integrated oil and gas producers
    - $16.1bn oil and gas per ANZ's "climate exposed sub-industry exposure" in its climate-related financial disclosures – includes "all of the oil and gas value chain such as exploration, extraction, transport, refining and retail"
- At $16.1bn, ANZ's oil and gas exposure across the value chain is ten times more than known figures for renewable energy which are $1.5bn under project financing
- At $14.9bn, ANZ's FY2022 'electric utilities' exposure – involving electricity generators who own or operate a mix of thermal/renewable generation assets, as well as transmission and distribution infrastructure – is an interesting climate exposed sub-industry category likely to constitute utilities majors, such as Origin, AGL, Energy Australia and Snowy Hydro and therefore a major subject of ANZ's customer engagement strategy, as has been seen on the shareholder backlash against AGL's board in recent months.
- To-date this FY2023, ANZ has already participated in US$2.2bn (approx. AU$3.2bn) worth of expansionary gas deals, on top of nearly AU$5bn last FY, with a small number of companies doing outsized climate damage – the carbon emissions from these deals alone have the potential to render ANZ's climate solutions funding "net futile".

The IEA's World Energy Outlook (WEO) 2022 report released in October highlights for the first time that an 80-90% reduction in oil, gas and coal emissions globally by 2050 is needed to align with a 1.5°C outcome. World expectations for investing in alignment with a sustainable economy are moving rapidly and ANZ's leadership here is strategically important for Australia, given Australia is one of the three largest fossil fuel exporters in the world, right up there with Saudi Arabia and Russia. The bank needs to progressively and systematically reduce lending to high emissions sectors, as well show how it is seizing the massive and growing investment opportunities as Australia shifts to becoming a renewable energy and critical minerals superpower.

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