

Summary

Climate solutions financing - page 3

- **CEF estimates ANZ's FY23 environmental lending to be ~\$2.5bn** (~\$1.7bn in 1H23 plus \$0.74bn reported for 2H23) – i.e. on par with Westpac's FY23 allocation at \$2.6bn, but significantly less than CommBank's \$11bn and NAB's \$4.5bn.¹ We commend ANZ on a material \$9.6bn in environmental lending over 3 years (FY20 to FY22 inclusive) at an average of \$3.2bn per year.
- **ANZ closed off its \$50bn sustainable solutions target at 1H23 at \$47bn**, citing it was forecast to meet its \$50bn target well in advance of 2025. ANZ has begun reporting under its new \$100bn "environmental and social outcomes target" as of 2H23.
- **ANZ funded \$0.74bn in climate solutions (energy, green buildings, transport) in 2H23**, i.e. 8% of the total \$8.8bn funded and facilitated under the new \$100bn target.
- **CEF notes the \$100bn was originally positioned as transition finance²** to support ANZ customers, including high-emitting customers with good transition plans, to invest in emissions reduction and sustainable solutions. This year, the \$100bn was rebranded to a wider "environmental and social outcomes target" with eligible activities governed by [ANZ's 2020 SDG bond framework](#) (currently under review). A 2024 Australian sustainable finance taxonomy with green and transition labels may provide more insight down the track.

Energy financing trends – page 4

- **Oil and gas (O&G):** ANZ reports 4% decrease to \$15.5bn exposure across the O&G value chain in FY23, driven in part by APRA's capital reforms, but also some lower lending balances. Comparatively, last year ANZ grew its O&G book by 10% and it still has the highest reported on-book exposure to the sector.
- **Coal mining:** FY23 thermal coal exposure was \$0.3bn, up slightly from \$0.2bn due to APRA's capital reforms. Last year, combined thermal and metallurgical coal exposure was falling rapidly, 36% yoy.
- **Renewables:** Impressively, ANZ's FY23 power generation portfolio was 97% renewable energy (RE) with ANZ funding 2.3GW of greenfield renewable projects including 1GW in Australia.
- **Policy:** Energy lending is now governed by a new "energy transactions escalation process" where "material" energy transactions are escalated – three deals were rejected this year. However, ANZ again fails to meet the global, and Australian, benchmark of ending project finance for new O&G. ANZ has a long way to go before it can credibly call itself a climate leader.
- **Energy supply investment ratio:** ANZ's ratio of RE to fossil fuel energy is 0.15: 1 (i.e. \$15 in renewables for every \$100 in fossils) which needs to accelerate to a minimum 1: 4 by 2030 to meet global climate goals.

¹ CEF notes methodological differences across the banks that we will aim to explore in 2024.

² See [ANZ's FY22 Investor Presentation](#), [CEF's FY22 commentary](#), and the [AFR article 'ANZ to boost oil and gas funding', 25 November 2022](#).

Transition plan expectations – page 5

- **With [ANZ in court over allegations](#) that it failed to manage material climate change and biodiversity risks**, ANZ's Large Emitters Engagement Program could be a major intervention point for risk mitigation, with select bankers being trained in its newly digitised Climate Change Risk Assessment that will continue to assess customers' transition plan maturity including exposure to physical and transition risks, supporting robust engagement with high emitters to 2025.
- **ANZ will expect energy customers to have specific and measurable, net zero, transition plans by 2025 end.** But we ask ANZ to take a stronger stance on requiring transition plans to follow best practice guidance such as the UK Transition Plan Taskforce, including insisting on, 1.5 degree aligned transition plans, Scope 3 emissions reduction targets and demonstrable progress in line with credible science-aligned pathways and evidence that climate ambition has been integrated within the business model, especially resourcing and operational and capital expenditure.
- **ANZ must insist that the failed experiment of carbon capture and storage (CCS) is absolutely unviable and unacceptable as emissions reduction strategies of its energy customers.** Forecast capital expenditure must be allocated towards economically viable and scientifically credible emissions reduction technologies – i.e. CCS has not proven viable and [this month's IEA Oil and Gas Industry report](#) confirms this by saying, "limiting the temperature rise to 1.5 °C would require an entirely inconceivable 32bn tonnes of carbon captured for utilisation or storage by 2050, including 23bn tonnes via direct air capture [and] the amount of electricity needed to power these technologies would be greater than the entire world's electricity demand today."

Sector decarbonisation targets – page 7

- **ANZ is the first bank to establish targets across three modes of transport** – aviation, shipping and auto manufacturing. However, we urge ANZ to extend its ambition from focus on the auto manufacturers, which involves investment in the production of zero emissions vehicles to reduce carbon intensity of the sector, into ambition to finance and support EV adoption in Australia.
- **We also expect ANZ to be on the front foot about modernising and decarbonising the \$10tn housing stock**, like CBA and Westpac, especially as a climate and risk mitigation strategy where housing insurance is becoming [unaffordable](#) and ANZ aggressively competes to sweep up mortgage market share. It would complement ANZ's existing \$10bn commitment in affordable, secure and sustainable housing financing target to 2030, preliminary residential emissions analysis (see [climate-related financial disclosures](#) pp.71-74) and findings from its [Putting Energy Efficiency to Work](#) report which highlights significant energy bills savings emissions reduction benefits of investing in energy efficiency and electrification.

1. Climate solutions financing – [ESG Supplement](#) p.22

\$50 billion sustainable solutions target

ANZ wrapped up its 2025 sustainable solutions target on 31 March 2023 at \$47bn (\$3bn short of its promised \$50bn), citing it was forecast to meet its \$50bn target well in advance of 2025. It, therefore, started reporting against its new \$100bn target from 2H23.

ANZ funded and facilitated an additional \$7bn towards this target in 1H23. CEF estimates the 1H23 environmental funding portion to be \$1.7bn (based on FY22 environmental funding which was 24% of the total funded and facilitated).

Environmental funding in the 3 years from FY20 to FY22 inclusive was a staggering \$9.6bn in new and incremental financing towards green energy, green buildings, waste, water, transport, environmental markets and ICT (we note some categories are not climate specific) – an average of \$3.2bn per year.

\$100 billion social and environmental outcomes target

In 6 months from 1 April 2023, when reporting under this framework began, ANZ reports funding \$0.74bn in climate solutions – i.e. energy, green buildings, transport.³ This represents 8% of the total \$8.8bn funded and facilitated in 2H23.

Adding the estimated \$1.7bn from 1H23 and \$0.74bn from 1H23, puts ANZ at ~\$2.5bn in environmental funding in FY23 – i.e. on par with Westpac who reported \$2.6bn. We note the high incomparability across the sector and hope that reporting under a sustainable finance taxonomy, once released, would provide comparability.

ANZ reports a further \$4.6bn in ESG-format bonds (i.e. 100% environmental) which is an encouraging sign of potential environmental impact.



Figure 1 - ESG Supplement, p.22

³ CEF will look to take a leaner approach to calculating ANZ's share of climate finance ongoingly, by not including other environmental or sustainability-linked measures.

Last year, [CEF reported on this announcement](#) which ANZ had positioned the \$100bn as ‘financing to support their customers emissions reduction efforts’, including high-emitting customers with good transition plans in place, plus a commitment to 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, see Fig 2). ANZ had also announced part of the \$100bn pledge would go towards financing corporate customers’ energy efficiency plans to reduce their energy costs during the time of unprecedented high energy costs.

This year, ANZ has repackaged this commitment as “environmental and social outcomes” with eligible activities detailed in [ANZ’s 2020 SDG bond framework](#), which ANZ reports as currently under review and to be updated as appropriate, and considering evolving market frameworks, principles and guidance.

Part of ANZ’s climate financing strategy is to support new technology projects focused on upstream hydrogen and carbon capture use and storage. For an Australian sector that booked an estimated \$65bn gross profit last year, O&G companies should be using their balance sheet to invest in experimental technologies, leaving ANZ’s balance sheet to go toward genuine transition-ready technologies.

Being a founding member of the Australian Sustainable Finance Institute (ASFI), we question how much swing ANZ has in influencing transition capital taxonomy outcomes and look forward to the release of ASFI’s green and transition methodologies next week.

From ANZ’s limited commentary around this change, it is unclear whether the eligibility criteria for the \$100bn capital allocation has been widened to accommodate greater ESG alignment (and if so, why?) or whether there is a degree of rebranding to obfuscate [criticism of \\$100bn to support its high emitting customers](#). In either case, it is good to see ANZ maintain its ground-breaking \$100bn commitment towards financing sustainable outcomes.

2. Energy financing trends – [Climate-related Financial Disclosures](#) p.45

O&G exposures grew last year in FY22 by 10% to \$16.1bn. This year ANZ reports a 4% decrease to \$15.5bn exposure across the O&G value chain including exploration, extraction, transport, refining and retail. This year’s decrease was driven in part by APRA’s capital reforms, but also lower lending balances and decreases in trade and markets exposures.

Thermal coal mining exposures are \$0.3bn, up slightly on last year from \$0.2bn. Nearly all of thermal coal book’s increase can be attributed to the impact of APRA’s capital reforms. Exposure to combined thermal and metallurgical coal was falling rapidly last year, 36% yoy (incomparable this year due to the APRA capital reforms).

Impressively, ANZ’s power generation portfolio is 97% renewable energy, and in FY23 ANZ funded 2.3GW of greenfield renewable projects which included 1GW in Australia. We hope to see this increase exponentially this decade.

ANZ’s energy lending is backed by a new “Energy Transactions Escalation Process” (Climate-related Financial Disclosures, pp.11, 39), where material energy transactions undergo additional screening by

subject matter experts and senior executives where required. In 2023, 22 transactions were escalated to the senior executives with three declined and 19 approved or conditionally approved.

Even with the escalation process, we call on ANZ to align with the science and the minimum benchmark set by their peers in establishing restrictions on project finance on any new O&G. Bond financing is another major gap in ANZ's climate financing policy, where fossil fuel bonds have been a [leading source of capital for the sector since the Paris Agreement](#). We urge ANZ to place restrictions and provide transparency over bond financing for fossil fuel companies.

Full disclosure of ANZ's fossil fuel energy value chain makes it possible to calculate BloombergNEF's minimum projected 'energy supply investment ratio',⁴ where [energy supply is defined](#) as 'the infrastructure built to extract, generate and distribute energy from fossil fuels or low-carbon resources.'

ANZ's ratio is 0.15: 1, renewable energy to fossil fuel energy, which means for every \$15 in renewables ANZ finances \$100 towards fossil energy – a ratio which [needs to pivot to 4: 1 this decade](#) and then to 6: 1 and 10: 1 by 2050 if the world is to have a chance at limiting global warming to 1.5°C.

3. Transition plan expectations

Energy customer expectations – [Climate-related Financial Disclosures p.38](#)

From the end of 2025, ANZ will expect existing customers and projects in the energy sector⁵ to produce transition plans that are net-zero aligned, public, specific and measurable. The new expectations sit alongside ANZ's standard practice in credit risk and [Equator Principles](#) for project finance (ESG pp.50-51).

It is an important step that lines up behind federally mandated [climate-related financial disclosures](#) to commence for the reporting period starting 1 July 2024 for Australia's largest companies, including ANZ.

There seems to have been some progress at the bank in enforcing transition plan standards already. This year, ANZ reports declining to finance one oil and gas (O&G) customer who hadn't sufficiently progressed their transition plan and will continue to seek improvements up to the end of 2025 on another.

ANZ dictates the transition plan should have the following parameters:

- **Specific, time bound, public transition plans** and diversification strategies that are Paris-aligned
- **Measure and disclose Scope 3 downstream emissions** and progress in emissions reduction
- **Transparency on climate risks and opportunities** outlining how their business will be resilient in a range of climate scenarios, including Paris-aligned scenarios

⁴ The 'energy supply investment ratio' provides an indication of the minimum rate at which the global banking sector needs to finance clean energy supply compared to fossil energy to have a chance at limiting global warming temperatures to within 1.5 degrees Celsius. [Energy supply is defined](#) as 'the infrastructure built to extract, generate and distribute energy from fossil fuels or low-carbon resources. In built in the modelling are IEA, NGFS, IPCC scenarios that predicate declining investment requirements for fossil fuels, and increasing in clean energy.

⁵ ANZ defines energy sector as including 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 renewables and coal.

- **Participation in industry initiatives that contribute to emissions reduction** – for example, capturing and storing methane emissions from O&G in line with the [Methane Guiding Principles](#)
- **Measure and disclose progress in reducing value chain emissions** – for example, by reducing emissions from shipping and distribution.

Shortfalls in these criteria include, but are not limited to, the following:

- **No clear 1.5°C temperature alignment:** there is no clarity on whether ANZ will assess transition plans against a 1.5 degree or 2 degree pathway, noting the draft AASB standard prescribes a 1.5°C temperature goal in line with the Paris Agreement
- **No scope 3 emissions reduction requirements:** while ANZ will expect customers to measure and disclose scope 3 emissions, it is not clear that the transition plan will need to be inclusive of emissions reduction in this area. This is wholly inadequate given scope 3 emissions account for 90% of many upstream energy customers emissions.
- **No capex disclosure requirements:** projected capex towards economically viable and scientifically credible technologies must be disclosed for transition plan credibility. In this instance, carbon capture and storage (CCS) is neither, as evidenced by [Chevron’s failed Gorgon CO₂ injection project](#) and the [IEA’s recent Oil and Gas Industry report](#).
- **No lobbying disclosure requirement:** Energy customers should need to disclose the nature of political lobbying, and ANZ to require that lobbying be 1.5°C aligned.

We also urge ANZ to act in concert with IEA modelling of the global energy sector and the climate science, and place firm restrictions on finance that makes its way towards new O&G fields, usually through project or corporate finance, or capital facilitation.

Customer engagement

Results from ANZ’s Large Emitters Engagement Program (LEEP) show 64 of 100 of ANZ’s highest emitting customers now having ‘well developed’ or ‘advanced’ transition plans, up from 42 in Sep 2021 (Fig. 2).

With [ANZ in court over allegations](#) that it failed to manage material climate change and biodiversity risks, ANZ’s LEEP could be a major intervention point for risk mitigation at the bank. ANZ cites rising investor expectations, regulatory focus, and Safeguard Mechanism reforms as creating the timeliness to intensify its focus on the top 100 largest emitters.

ANZ’s newly digitised Climate Change Risk Assessment (CCRA) is set to be a critical tool that supports robust customer engagement to 2025. The CCRA is an internal risk management tool that includes an assessment of customers’ exposure to physical and transition risks and the customer’s transition plan maturity (Climate-related Financial Disclosures p.29).

In this FY24, ANZ commences a new phase of its LEEP which includes focused engagement and raised expectations. Application of the CCRA has been extended beyond project finance and into high emitting customers, such as those covered by NZBA targets, and ANZ provided CCRA training in FY23 for relevant bankers to embed and drive effective customer engagement in the lead up to transition plan expectations for energy customers at the end of 2025.

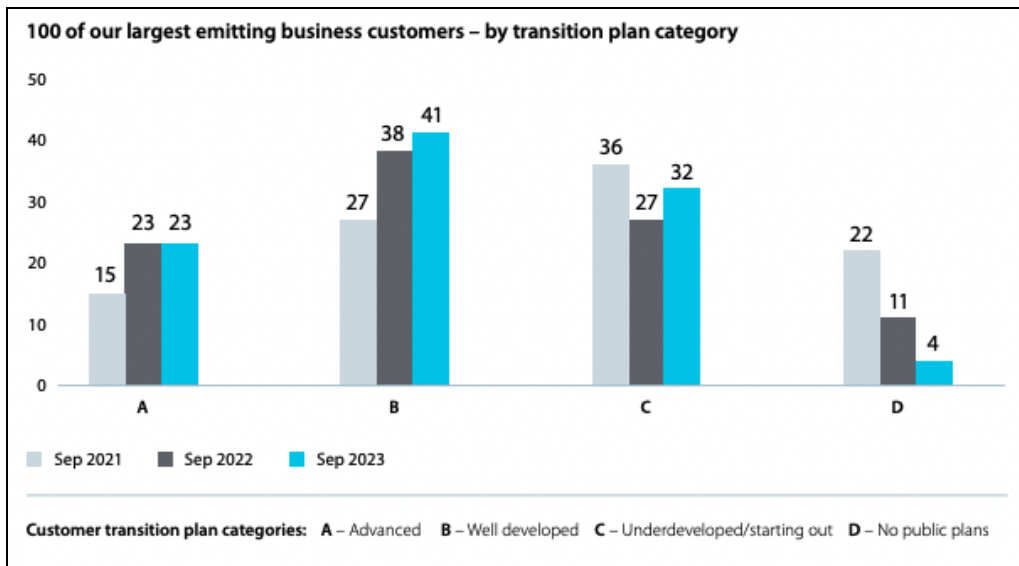


Figure 2 – Climate-related Financial Disclosures, p.23

4. Sector decarbonisation targets – [Climate-related Financial Disclosures pp.43-77](#)

This year, new 2030 decarbonisation targets and emissions reduction pathways were set for thermal coal, aviation, shipping and auto manufacturing under ANZ’s Net Zero Banking Alliance (NZBA) commitments. It takes ANZ target coverage to 8 of 10 high emitting sectors.

Great to see ANZ disclose the governance arrangements. A Climate Advisory Forum oversees coordination between the bank’s Environmental Sustainability (ES) Strategy and sector pathways, as well as other parts of ANZ’s Climate Change Commitment.

Sector targets are set according to an exposure at default (EAD) metric, which ANZ defines as total committed loans, i.e. drawn loans plus a proportion of off-balance sheet exposures as specified by APRA (Climate-related Financial Disclosures p.47). We applaud this approach by ANZ which is a more complete picture, albeit slightly at odds with the PCAF framework which recommends excluding undrawn amounts.

Transport - new targets

ANZ is the first to set transport targets in three sectors – aviation, shipping and auto manufacturing.⁶ Figure 3 illustrates the value chain component to which these targets apply.

We would advise ANZ to broaden its road transport emissions reduction efforts, by extending its focus downstream to support and finance EV adoption in Australia.

⁶ [NZBA Guidelines for Climate Target Setting for Banks](#) says banks may prioritise sub-sectors within their agriculture and transport portfolios based on GHG emissions and financial exposure and/or data and methodology availability.

We also note no plans by ANZ to decarbonise its metallurgical coal book which would support its targets and efforts in steel production later down the value chain.

Thermal coal – new target

Complementing ANZ’s previously stated commitment to exit thermal coal by 2030, this year ANZ is measuring and disclosing progress against a IEA NZE 2050 Pathway. The commitment is backed in by policy measures – in its [Climate Change Commitment](#) and [Extractive Industries Policy](#) – that dictate ANZ will no longer onboard new business customers with material thermal coal exposures, and/or directly finance new thermal coal mines or power plants.

Existing targets

Existing targets in oil & gas, power generation, commercial real estate, and cement are on track with their respective 2030 decarbonisation pathways.

The emissions intensity of ANZ’s aluminium book increased 14% yoy due to portfolio changes (a decrease in exposure to a customer with relatively low emissions, coupled with an increased exposure to a customer with a relatively high emissions intensity).

Steel is also currently tracking 8.5% higher in emissions intensity than the IEA Net Zero Emissions 2050 Pathway, however, emissions (absolute and intensity) fell yoy with ANZ citing improvements in their steel customers’ climate performance as an attributing factor.

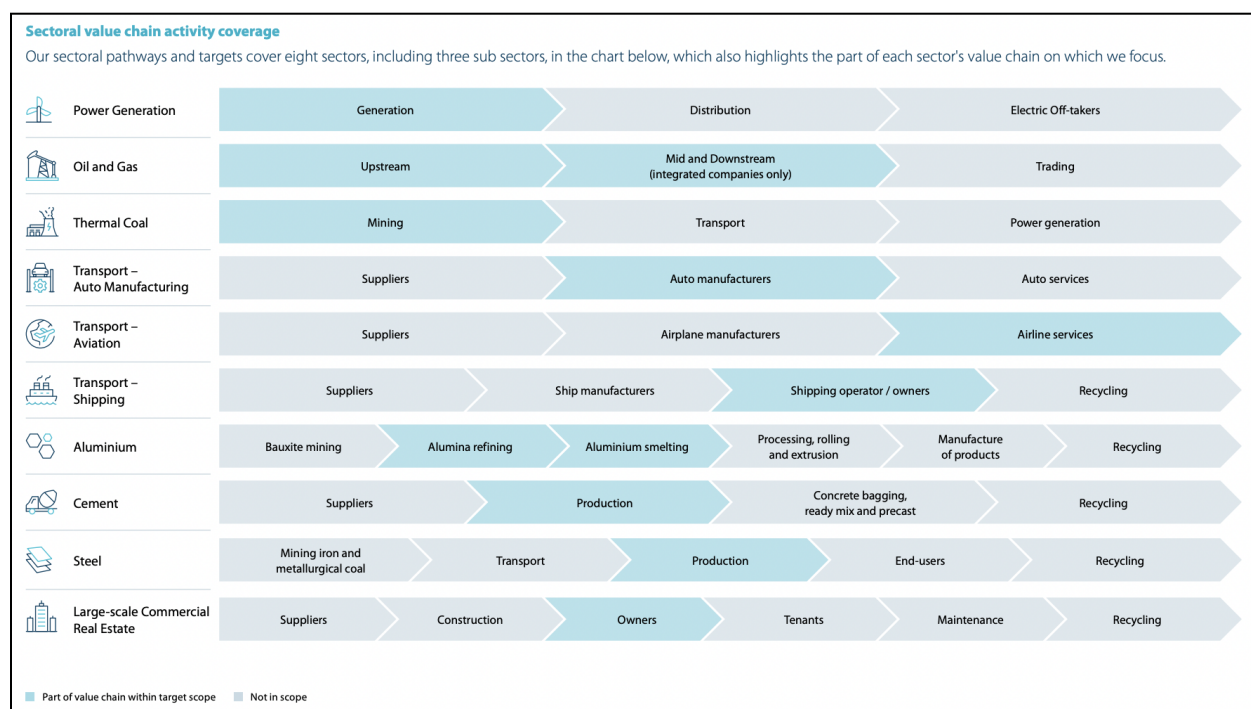


Figure 3 – Climate-related Financial Disclosures p.48

Residential real estate – to be established

Residential real estate, along with agriculture, are two key sectors that ANZ is yet to establish targets for.

With [ANZ competing aggressively in FY23 to sweep up mortgage market share](#), we expect ANZ to be on the front foot about modernising and decarbonising the \$10tn housing stock and it is pleasing to see preliminary emissions analysis laid out in ANZ's climate-related financial disclosures (pp.71-74) including a forward looking recognition of ANZ's role in supporting this outcome over coming decades.

It would complement findings from its "[Putting Energy Efficiency to Work](#)" report produced in partnership with the Energy Efficiency Council plus ANZ's existing \$10bn in affordable, secure and sustainable housing financing target to 2030.

The report highlights the significant contribution energy efficiency and electrification can make to cutting energy bills and decarbonising the Australian economy, including a benefit of delivering almost 40% of Australia's 2050 net zero target.

Source list

Link to [ANZ's 2023 Annual Reporting Suite found here](#), as well as individual links below:

- [Annual Report](#)
- [ESG Supplement](#)
- [ESG Data Pack](#)
- [Full Year Results Investor Discussion Pack](#)
- [Climate-related Financial Disclosures report](#)
- [Social Environmental Sustainability Target Methodology](#)
- [Climate Change Commitment](#)
- [Financed Emissions Methodology](#)
- [Responsible Business Lending landing page](#) including:
 - [Energy Policy 2023](#)
 - [Extractive Industries Policy 2023](#)