2020

ANZ ESG UPDATE

NOVEMBER 2020

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OUR APPROACH TO CLIMATE CHANGE

Supporting the Paris Agreement's goal of transitioning to net zero emissions by 2050

- Transition will require more than US$1.5 trillion to be invested annually in clean energy & efficient infrastructure
- Bank lending will be the most significant source of funding for that investment
- Supporting customers and projects that contribute to reducing emissions
- Our products, services, knowledge, relationships contribute positively to transition

Understanding and managing climate risk

- Understanding impacts on communities & customers - physical & transition risks
- Factoring risks & capacity to respond to climate & regulatory change in lending decisions
- Encouraging largest emitting customers to build climate change mitigation & adaptation risk into their strategies
- Supporting customers & assessing risk through the application of our Social & Environmental Risk Policy & Sensitive Sector requirements

FURTHER DETAIL ON OUR APPROACH TO CLIMATE CHANGE IS PROVIDED ON SLIDE 10

OUR 2020 CLIMATE CHANGE STATEMENT

OUR PRIORITY AREAS AND HOW WE ARE MAKING CHANGE

Help our customers

by encouraging them to identify climate risks and opportunities, create transition plans and report publicly on their progress

Support transitioning industries

to help grow the economy

Reduce our own impact

by managing and reducing emissions from our own operations

OUR 2020 CLIMATE CHANGE STATEMENT IS AVAILABE ON ANZ.COM/ANNUALREPORT; FURTHER DETAIL ON OUR PRIORITY AREAS IS PROVIDED ON SLIDE 11

OUR PATHWAY TO 2030

OUR RESPONSE TO SUPPORTING THE TRANSITION

2015

Support customers' low carbon transition

- fund & facilitate >$10b by 2020
- not finance any new build of conventional coal fired power plants
- implement strengthened due diligence lending processes

2019

Transition plans for top 100

- fund & facilitate $50b by 2025
- encourage & support 100 of our largest emitting customers' transition plans
- reduce exposure to thermal coal

2020

New commitments to support efforts to achieve net zero emissions by 2050

- no longer bank any new business customers with material[1] thermal coal exposures
- engage with existing customers with >50% thermal coal exposure[2] to seek specific, time bound & public diversification strategies
- disclose more robust & credible metrics
- only finance the construction of new large-scale office buildings if they are highly energy efficient[3]

By 2030

Our portfolio and approach

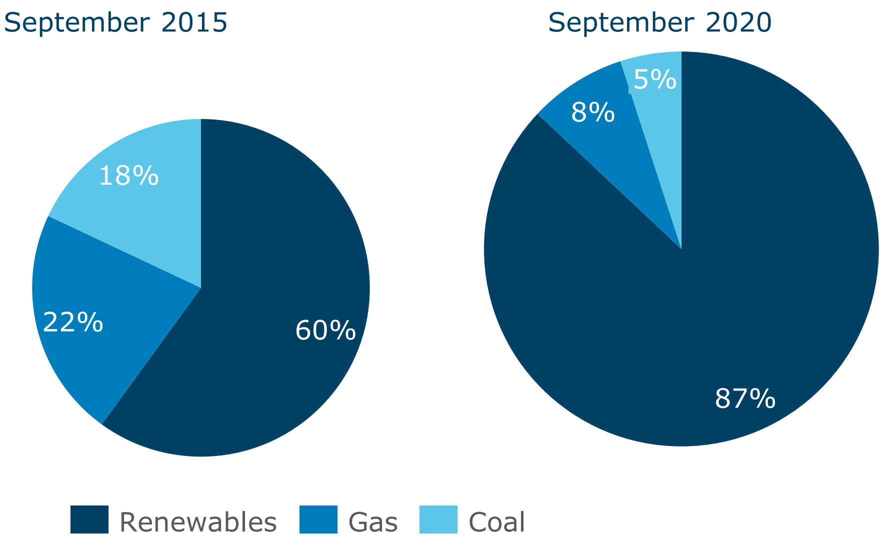
- our power generation direct lending will be only to gas and renewables
- reduced exposures to customers (>50% thermal coal) without a diversification strategy
- deeper understanding of all our business customers transition plans
- $1b+ of our sustainable finance fund now supports disaster resilience
- own footprint and operations 100% powered by renewable electricity
- more of our commercial building lending portfolio is comprised of highly efficient, low or net zero carbon buildings

FURTHER DETAIL ON OUR PATHWAY AND REFERENCE FOR FOOTNOTES 1,2,3 IS PROVIDED ON SLIDE 12

HOW OUR LENDING IS SUPPORTING THE PARIS GOALS

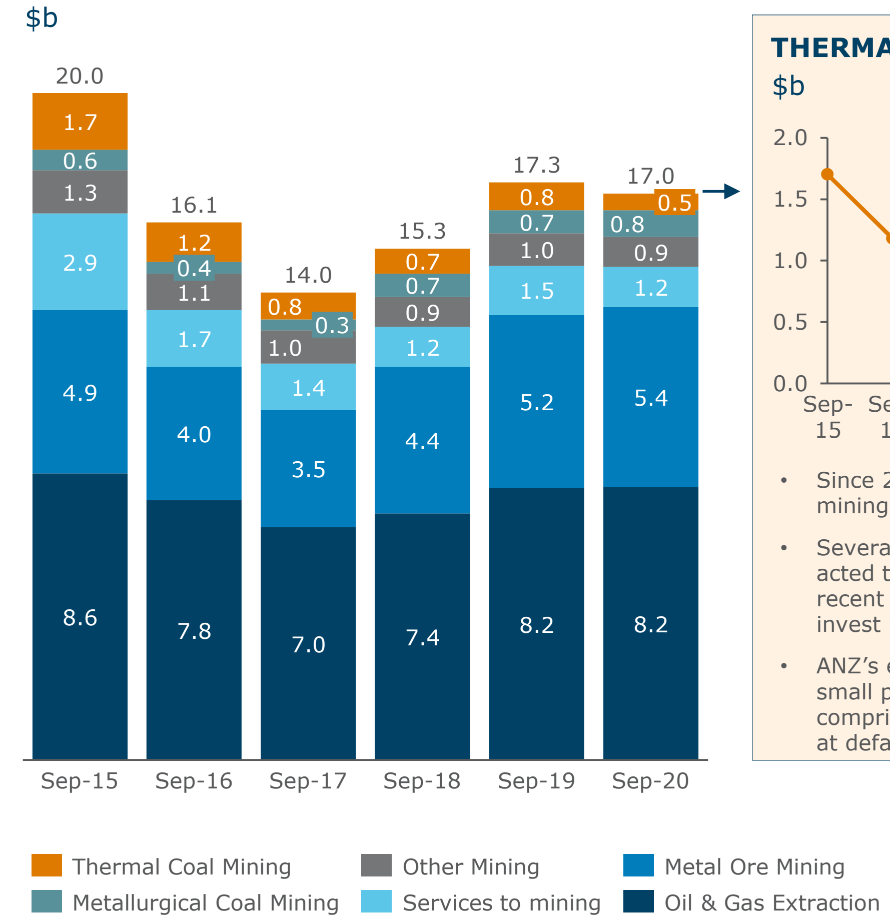
EXPANDING OUR LENDING SUPPORT TO THE RENEWABLE ENERGY SECTOR; WHILE EXPOSURES TO THERMAL COAL MINING HAS REDUCED BY ~70% IN 5 YEARS

DIRECT LENDING POWER GENERATION PORTFOLIO

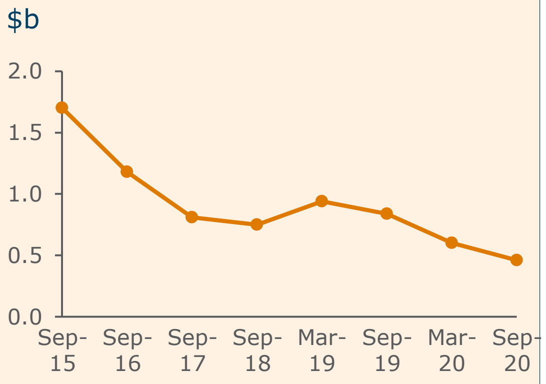


Our direct lending to renewable energy has increased from $0.9b in 2015 to reach $1.5b in FY20

RESOURCES PORTFOLIO



THERMAL COAL EXPOSURE (EAD)



- Since 2015 our exposures to thermal coal mining has reduced by ~70%
- Several diversified mining customers have acted to divest thermal coal interests in recent years, or signalled intention to not invest in expansionary capex
- ANZ's exposure to thermal coal mining is a small portion of our overall lending (now comprising <0.05% of our Group exposure at default)

GROWTH IN THE FINANCING OF SUSTAINABILITY

WORKING WITH OUR INSTITUTIONAL CUSTOMERS TO FUND THE DIVERSE AND RAPIDLY GROWING MARKET

FOUR KEY PRODUCT AREAS

‘Green’ and Sustainability Linked Loans

- Lending to deploy capital into ‘green’ and sustainability initiatives
- ‘Green’ Loans require borrowers to invest in qualifying ‘green’ assets

‘Green’ and Sustainable Infrastructure Project Finance

- Greenfields Project Financing to support the development of long term sustainable infrastructure
- e.g. renewable energy, light rail

‘Green’, Social and Sustainability Bonds

- Distribution of capital into ‘green’, and sustainability initiatives
- e.g. ‘green’ buildings, renewable energy

Corporate Finance Advisory Services for Renewables

- Providing advisory services in relation to the purchase, sale and raising of capital for renewable energy projects

EXAMPLES OF THE FOUR KEY PRODUCT AREAS ARE PROVIDED ON SLIDE 13

SUMMARY OF OUR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

FUTURE FOCUS AREAS AND ACTIONS 2021/22

Governance
- Align with regulatory guidance on climate-related risk governance
- Including stress testing of selected portfolios

Strategy
- Extend analysis of flood-related risks to incorporate bushfire & other risks to retail customers
- Include climate risk reference in lending guidance documents for relevant industry sectors used by our front line bankers

Risk management
- Engage with 100 of our largest emitting customers on transition plans by 2021
- Customer engagement to identify customer or sector-specific transition or physical risks
- Develop an enhanced climate risk management framework

Metrics & Targets
- Complete transition plan engagement with top emitting customers & metrics to track progress
- Target to fund & facilitate $50b by 2025 in sustainable solutions
- New metrics for our financing of power generation & commercial buildings
- Target to procure 100% renewable electricity for ANZ's operations by 2025

OUR 2020 TCFD REPORT IS AVAILABE ON ANZ.COM/ANNUALREPORT; OVERVIEW OF OUR BEYOND 2020 VISION IS PROVIDED ON SLIDE 14

IMPLEMENTATION OF CUSTOMER TRANSITION PLAN TARGET

BACKGROUND

Engage with 100 of our largest emitting customers

to encourage & support them to establish &, where appropriate, strengthen their transition plans by 2021

MEASURING SUCCESS

Customers reporting on their transition plans by 2021

providing stakeholders with public, specific & time bound information

To date, engaged with 83 of our largest emitting business customers on their low carbon transition plans

Established a 'baseline' for how these customers are responding to climate-risk, (which will inform our ongoing engagement)

NEXT STEPS

- Disclosing progress against the target in our full year reporting
- Six-monthly updates to our Executive ERB Committee and Board EESG Committee

CUSTOMERS IN SCOPE

Customer selection process is informed by criteria including:

- Direct emissions, i.e. from company owned or operated assets
- Indirect emissions from their 'value chains', i.e. both upstream & downstream from their operational footprint
- The depth of our relationships also considered to maximise prospects for engagement

EXAMPLES OF WORKING WITH OUR CUSTOMERS TO HELP THEM TRANSITION ARE PROVIDED ON SLIDE 15

2020

ANZ ESG UPDATE

ADDITIONAL INFORMATION

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

- The global transition to net zero emissions by 2050 requires enormous investment in clean energy and efficient infrastructure[1]
- Bank lending makes up the most significant source of funding for this investment. This is why the decisions we make today - and tomorrow - about who and what we lend to are so important
- We want to support customers and projects that contribute to reducing emissions and are resilient to a changing climate
- We want our products and services, knowledge and relationships, to contribute positively to the social and economic transition already underway
- By taking the actions outlined in our Climate Change Statement, we are committing to play our part in improving social and environmental sustainability for future generations, in line with our purpose to help shape a world in which people and communities thrive

UNDERSTANDING AND MANAGING CLIMATE RISK

- Communities and customers could be impacted by climate change – directly through increasing severity of weather events ('physical risks'), or through legislative, regulatory or policy responses ('transition risks')
- We factor these risks into our lending decisions, primarily through an assessment of our customers' capacity to respond to climate change and changes to regulatory environments
- **We encourage our largest business customers in higher emitting sectors to build climate change mitigation and adaptation risk into their strategies. We will support and encourage what many are largely already doing in establishing and strengthening specific, time bound and public transition plans and diversification strategies**
- Through our Social and Environmental Risk Policy and our requirements for our lending to 'sensitive sectors' - energy, extractive industries, forestry and forests, water, military equipment and hydropower - we support customers who strive to improve their social and environmental performance

1. International Energy Agency estimates US$1.5 trillion annually.

OUR 2020 CLIMATE CHANGE STATEMENT

DURING THE YEAR, WE REVIEWED OUR APPROACH TO CLIMATE CHANGE TO ENSURE WE ACT IN SUPPORT OF CUSTOMER, COMMUNITY AND GOVERNMENT EFFORTS TO FACILITATE AN ORDERLY AND JUST TRANSITION TO NET ZERO EMISSIONS BY 2050

OUR PRIORITY AREAS AND HOW WE ARE MAKING CHANGE

Help our customers by encouraging them to identify climate risks and opportunities, create transition plans and report publicly on their progress

- Engage with 100 of our **largest emitting customers to support them to establish and strengthen their transition plans** by 2021
- **Disclose better metrics** so the emissions impact of our financing can be tracked annually, starting with commercial property and power generation. From 2021 will set targets to reduce the financed emissions of each sector between now and 2030
- Ensure discussion of **climate risk becomes part of our everyday client engagement** to have a deeper understanding of all our customers' transition plans. Over time, we will move away from working with any large business customers that do not have clear and public transition plans
- Fund and facilitate at least $50 billion by 2025 towards sustainable finance to help our customer's lower carbon emissions. We will **allocate $1 billion of this towards supporting customers' and communities' disaster recovery and resilience**

Support transitioning industries and help grow the economy

- Further reducing the carbon intensity of our electricity generation lending portfolio by **only directly financing low carbon gas & renewable projects** by 2030
- Continuing to support diversified customers, which means **no longer banking any new business customers with material[1] thermal coal exposures**.
- **Engaging with existing customers** who have more than 50% thermal coal exposure[2] **to support existing diversification plans**. Where these are not already in place, we will expect specific, time bound and public diversification strategies by 2025. We will cap limits to customers which do not meet this expectation and reduce our exposure over time[3]
- **Not directly financing any new coal-fired power plants or thermal coal mines**[4], including expansions. Existing direct lending will run off by 2030.
- **Only financing the construction of new large-scale office buildings** if they are highly energy efficient, and being built to either at least a NABERS[5] 5-star energy rating or 5-star Green Star Design rating (or equivalent international rating)

Reduce our own impact by managing and reducing emissions from our own operations

- Accelerating our own emission reductions by **sourcing 100% of the electricity needed for our business operations from renewables by 2025**
- **Setting public targets to lower our greenhouse gas emissions** by 24% by 2025 and 35% by 2030 (against a 2015 baseline)
- **Equipping our employees with knowledge and training** to minimise their own environmental footprint
- *Note: Further updates on our progress to minimise our own carbon footprint can be found in ANZ's ESG Supplement*
- *https://www.anz.com.au/about-us/sustainability/*

1. More than 10% revenue, installed capacity or generation from thermal coal. 2. We will progressively reduce the 50% threshold so that by 2030 we will seek a diversification strategy from mining, transport and power generating customers with more than 25% thermal coal exposures 3. We will continue to provide rehabilitation bonds for those existing customers with some thermal coal exposure to ensure their responsibilities with exiting mine sites are fulfilled, and transaction banking / markets 3-day settlement limits. 4. These are mines whose reserves or production are at least 35% thermal coal. 5. NABERS (National Australian Built Environment Rating System) is a rating system measuring the environmental performance of Australian buildings, tenancies and homes, e.g. energy efficiency, water usage, waste management and indoor environment quality

OUR PATHWAY TO 2030

OUR RESPONSE TO SUPPORTING THE TRANSITION HAS EVOLVED OVER TIME, AND TO DATE, WE'VE MADE STRONG PROGRESS

2015

Facilitate orderly transition:

- Fund & facilitate >$10b by 2020 to support customers transition to low carbon economy
- Consider financing new coal fired power plants only if using advanced technology & higher quality thermal coal
- Not finance any new build of conventional coal fired power plants
- Implement strengthened due diligence lending processes to coal mining, transport & power generation

Support customers' transition to low carbon economy:

- Provide finance & advisory services, energy efficiency improvements, low carbon energy generation, resilient infrastructure & carbon abatement
- Direct investment through green bonds that develop low or zero emissions industries, technologies & practices

2019

Renewed commitments to facilitate orderly transition:

- Fund & facilitate $50b by 2025 to support customers transition to low carbon economy
- Encourage & support 100 of our largest emitting customers
- Reduce exposure to thermal coal: Focus on existing customers that produce higher quality coal, only lend to new customers where thermal coal operations are <50% revenue, installed capacity or generation
- We will not finance any new build of conventional coal fired power plants

2020

New commitments to support efforts to achieve net zero emissions by 2050:

- Continue to support diversified customers, which means we will no longer bank any new business customers with material[1] thermal coal exposures
- Engage with existing customers with >50% thermal coal exposure[2] to seek specific, time bound and public diversification strategies by 2025. If they don't, we will cap limits and reduce exposure over time
- Disclose more robust & credible metrics so the emissions impact of our financing can be tracked: beginning with power generation and commercial property, and disclosed annually. Targets will be set by 2021 to reduce financed emissions for each sector up to 2030
- 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[3] 5-star energy rating or 5-star Green Star Design rating (or equivalent international rating)

By 2030

Our portfolio and approach will look like this:

- Our power generation direct lending will be only to gas and renewables (as we will have exited all direct lending to coal-fired power generation and thermal coal mines)
- We will have reduced exposures to customers (>50% thermal coal exposure) without a diversification strategy
- We have a deeper understanding of all our customers transition plans, as climate-risk forms part of our everyday client engagement
- $1b+ of our sustainable finance fund now supports disaster resilience
- Our own footprint and operations 100% powered by renewable electricity
- More of our commercial building lending portfolio is comprised of highly efficient, low or net zero carbon buildings

1. More than 10% revenue, installed capacity or generation from thermal coal. 2. We will progressively reduce the 50% threshold so that by 2030 we will seek a diversification strategy from mining, transport and power generating customers with more than 25% thermal coal exposures. 3. NABERS (National Australian Built Environment Rating System) is a rating system measuring the environmental performance of Australian buildings, tenancies and homes, eg energy efficiency, water usage, waste management and indoor environment quality

GROWTH IN THE FINANCING OF SUSTAINABILITY

OUR SUSTAINABLE FINANCE, CAPITAL MARKETS, PROJECT FINANCE AND ADVISORY TEAMS WORK WITH INSTITUTIONAL CUSTOMERS TO FUND THE DIVERSE AND RAPIDLY GROWING MARKET, ACROSS FOUR KEY PRODUCT AREAS

	'Green' and Sustainability Linked Loans	**'Green' and Sustainable Infrastructure Project Finance**	**'Green', Social and Sustainability Bonds**	**Corporate Finance Advisory Services for Renewables**
Scope	Lending to deploy capital into 'green' and sustainability initiatives. Green Loans require borrowers to invest in qualifying 'green' assets such as green buildings, renewable energy or low carbon transport projects. Sustainability-Linked Loans can be used for general corporate purposes with pricing linked to improved sustainability performance.	Greenfields Project Financing to support the development of long term sustainable infrastructure, e.g. renewable energy, light rail.	Distribution of capital into 'green', and sustainability initiatives, for example 'green' buildings, renewable energy, and the provision of hospitals and schools.	Providing advisory services in relation to the purchase, sale and raising of capital for renewable energy projects.
Example	In 2020, ANZ arranged a US$450 million syndicated Green Loan facility for SK Battery America, Inc., a subsidiary of one of Korea's largest energy companies, SKI, with a focus on expanding Electric Vehicle Battery capacity. SK	In August 2020, ANZ provided $90 million in financing for CPE Renewable Investment Unit Trust This transaction will fund the development and acquisition of behind the meter solar, battery, thermal and renewable energy systems. CleanPeak ENERGY	In September 2020, ANZ jointly arranged Mercury NZ Limited's inaugural Green Bond. Mercury is an electricity retailer and generator providing around 16% of New Zealand's total electricity generation. The NZ$ 200 million seven-year 'Green' Bond proceeds will fund the construction of the Turitea wind farm, expected to be New Zealand's largest wind farm. Mercury	In 2020, ANZ completed an equity and debt raising for the Yandin Wind Farm, a 214 MW wind farm in mid-west Western Australia. The project achieved electrification and commenced delivery of energy to the grid in July this year. Once completed, Yandin will be Western Australia's biggest wind farm providing renewable energy to over 200,000 households a year. alintaenergy

SUMMARY OF OUR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

THROUGH OUR TCFD REPORTING, WE SEEK TO PROVIDE INFORMATION ON OUR APPROACH TO CLIMATE CHANGE AND ABILITY TO MANAGE THE ASSOCIATED RISKS AND OPPORTUNITIES.

BELOW IS A SUMMARY OF FUTURE FOCUS AREAS AND ACTIONS

TCFD Theme	Focus Areas 2021/22	Beyond 2020 Vision
Governance	• Align with regulatory guidance on climate-related risk governance, including stress testing of selected portfolios	• An enhanced risk management framework that anticipates potential climate-related impacts, and associated regulatory requirements
Strategy	• Extend analysis of flood-related risks to incorporate bushfire and other risks relating to retail customers • Include climate risk reference in lending guidance documents for relevant industry sectors used by our front line bankers	• ANZ business strategy more closely aligned to a resilient and sustainable economy that supports the Paris Agreement and Sustainable Development Goals
Risk Management	• Support 100 of our largest emitting customers to develop and disclose their transition plans • Customer engagement to identify customer or sector-specific transition or physical risks • Develop an enhanced climate risk management framework that strengthens our governance and is responsive to climate change	• 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 & Targets	• Complete transition plan engagement with high emitting customers and consider how to integrate into regular customer assessments • Target to fund and facilitate $50b by 2025 in sustainable solutions • New metrics for our financing of power generation and commercial buildings to demonstrate how we are taking steps towards the goal of net zero emissions by 2050 • Target to procure 100% renewable electricity for ANZ's operations by 2025	• 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

WORKING WITH OUR CUSTOMERS TO HELP THEM TRANSITION

WITHIN EACH INDUSTRY OUR CUSTOMERS HAVE DIFFERENT STARTING POINTS & TRANSITION PLANS VARY DEPENDING ON THE SECTOR

SOME SECTOR-SPECIFIC MEASURES WE ENCOURAGE ARE

Energy

- <u>Example:</u> we encourage customers looking to diversify their energy sources towards less carbon-intensive fuels. If diversifying isn't possible within the timeframe (to 2030) we work with them to help identify how their business can be resilient under scenarios where demand for their commodities declines more rapidly than a 'business as usual' scenario
- Our engagement has focused on customers with thermal coal operations. We are now broadening this to include major upstream oil and gas producing customers

Transport

- <u>Example:</u> an airline sector customer has committed to carbon neutral growth from 2020 and halving 2005 emissions from international flights by 2050, aligning with the goals of the international aviation sector
- We encourage customers moving towards more fuel-efficient vehicle fleets or taking other steps, such as switching from road to rail transport that will reduce their carbon emissions

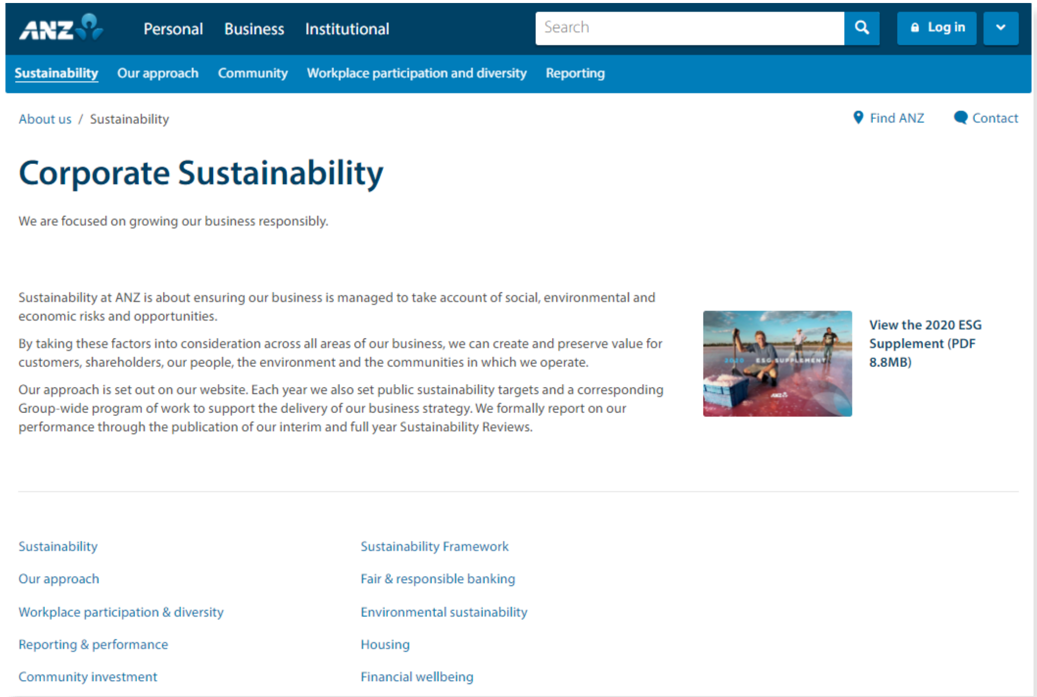
Buildings

- <u>Example:</u> a number of customers have established and are now implementing net zero carbon 2030 targets, to be achieved mainly by improving their energy efficiency and installing solar onsite.
- We encourage property developers or retailers to reduce building energy consumption and refrigerant-based emissions using the best available, commercially viable technologies

CASE STUDY: WESFARMERS

- Diversified operations across 30 retail and industrial businesses.
- Consumer brands such as Bunnings, Kmart and Officeworks, but also interests in fertilizers, chemicals and in the energy sector.
- In September 2020, Wesfarmers announced an accelerated agenda to set and achieve net zero emissions for its retail operations by 2030, and its industrial businesses by 2050. This is on top of existing 2025 emissions reduction targets.
- Wesfarmers is pulling on numerous levers to significantly reduce its emissions.
- Investing heavily in energy efficiencies in its retail businesses through new technology, solar panels and LED.
- In its industrial business, investing in technologies to reduce emissions intensity.
- ANZ has banked Wesfarmers since the 1980s and is supporting it on its transition journey.

FURTHER INFORMATION



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