

# CLIMATE-RELATED FINANCIAL DISCLOSURES

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“Companies must improve reporting on their management of carbon risks and opportunities for their shareholders and banks to make more informed decisions. We are doing our part by being an early adopter of the FSB Taskforce recommendations and thus signalling we will be seeking greater disclosure from our customers about their climate-related risks and opportunities.”

Shayne Elliott, ANZ CEO

ANZ supports efforts to:

- limit global warming to less than two degrees above pre-industrial levels; and
- transition to a low carbon economy.<sup>1</sup>

A major development in climate-related disclosure occurred in 2017 when the Financial Stability Board’s (FSB) Taskforce on Climate-related Financial Disclosures (TCFD)<sup>2</sup> released recommendations about how banks and other sectors should disclose climate-related risks and opportunities.

We were the first bank to report using this recommended disclosure in our [2017 Annual Review](#).

The recommendations will make it easier for stakeholders to compare climate-related disclosures and will assist in aligning many of our current regulatory and voluntary reporting requirements.

Companies need to improve reporting on their management of carbon risks and opportunities for their investors and banks to make more informed decisions. We are having climate-related conversations with our customers, discussing their climate strategies and encouraging them to disclose using the TCFD recommendations.

## WE ARE PARTICIPATING IN A UNITED NATIONS PILOT PROJECT

We are one of 16 banks participating in a working group set up by the United Nations Environmental Programme for Financial Institutions to pilot the recommendations of the FSB’s [TCFD](#).

This pilot will help financial institutions around the world to understand their resilience to the risks of climate change and how best to capitalise on the opportunities climate change presents.

<sup>1</sup> You can read about this in our [Climate Change Statement](#)

<sup>2</sup> The FSB is an international body that monitors and makes recommendations about the global financial system, see [www.fsb.org](http://www.fsb.org). You can read the Task Force’s report here.

## OUR CLIMATE-RELATED DISCLOSURES – AS RECOMMENDED BY THE FSB TASKFORCE

This 2017 climate-related disclosure statement reflects the recommendations of the FSB’s TCFD and reports on climate-related risks under the following 4 headings – Governance, Strategy, Risk Management, and Metrics and Targets.

### 1. GOVERNANCE

ANZ’s Board has the highest level of oversight and responsibility for climate change.

Two board committees and an executive committee manage the risk:

- The Board Environment, Sustainability and Governance Committee (ESG Committee), which is responsible for reviewing and approving our climate change-related objectives, including goals and targets;
- The Board Risk Committee, which has formal responsibility for the overview of ANZ’s management of new and emerging risks, including climate change-related risks; and
- The executive Responsible Business Committee (RBC), which is chaired by the CEO and provides strategic leadership on our sustainability risks and opportunities, monitors progress against our targets, and has its minutes reviewed by the Board ESG Committee.

### 2. STRATEGY – INCLUDING SCENARIO ANALYSIS

Our business strategy and our [Climate Change Statement](#) require us to identify and manage our material sustainability risks and opportunities, including those presented by climate change.

The FSB’s TCFD has recommended that banks and organisations should use scenario analysis to assess their resilience to a range of different climate scenarios.

Scenario analysis is a way of testing to see what might happen. We have examined some of our customers who are most exposed to carbon risk under two climate risk scenarios.

#### What is scenario analysis?

A scenario is not necessarily what the company thinks will happen, but what might happen.

Scenario analysis can be used to test whether business strategies are sufficiently robust and flexible to withstand potential implications – in this case from climate change.

#### What did we do to test ANZ’s customers?

We chose two scenarios, and a group of customers, and took all the information we knew about those customers and their strategy for managing climate change transition risks.

Once we understood how each customer had planned for climate change, we assigned a level of customer awareness and a level of resilience to climate change risks.

We also assessed their disclosure of climate-related risks.

#### WHAT WE DID

We completed climate-related scenario testing on customers in the thermal coal supply chain. They included Australian and international customers with operations in thermal coal extraction, coal rail transport, coal-associated ports, and coal-fired power generators.

We tested our customers against two of the International Energy Agency’s scenarios – namely, the ‘New Policies Scenario’ and the ‘450 Scenario’. Both these scenarios assume that policies and measures will be put in place to reduce greenhouse gas emissions. The impact of those policies and measures would reduce demand for the products and services of these customers, which might then reduce their ability to repay loans to ANZ.

We considered the following for each customer:

- their policies on climate change and whether they support government efforts to limit global warming to less than 2 degrees above pre-industrial levels;
- the actions they are taking to respond to climate change – for example: investing in lower carbon manufacturing processes, power generation and transport;
- their resilience to future policy scenarios that may regulate greenhouse gas emissions;
- whether they are ‘stress testing’ their portfolio against a range of possible policy scenarios that may impact their business model and profitability;
- whether they factor a future carbon price into their capital expenditure decisions;
- their ability to diversify their business to invest in more efficient resource use and in products or processes that generate less emissions; and
- the cost of future regulation on their business model and profitability.

### THE WORLD UNDER NEW POLICIES SCENARIO

The New Policies Scenario reflects the policies and measures already in place and the aims, targets and intentions announced by countries including commitments under the Paris Agreement.

The New Policies Scenario assumes that no further policies will be implemented over the next 25 years, and in this case global temperatures in 2100 would warm by approximately 2.7°C.

#### What does it actually mean?

- Emissions would increase by 0.5% each year and they do not peak.
- Coal will generate 28% of electricity by 2040. The use of thermal coal slows but does not peak until 2030.
- Renewables will generate 37% of global electricity by 2040.

### THE WORLD UNDER 450 SCENARIO

The 450 Scenario reflects what would need to happen in order to “limit the average global temperature increase in 2100 to 2 degrees Celsius above pre-industrial levels”.

This scenario has a higher reliance on renewables, particularly wind and solar, to achieve the emissions reductions.

#### What does it actually mean?

- There would be a 50% chance of avoiding 2°C increase. The IEA recognises that this is outside the goals of the Paris Agreement, and has flagged extra policies that might assist.
- Coal will generate 7% of electricity by 2040, but 70% of that will come from power stations fitted with Carbon Capture and Storage technology.
- Renewables will generate 58% of global electricity.

### WHAT WE FOUND

Our scenario testing revealed varying degrees of resilience for thermal coal customers in managing the potential transition risks. We found risks were higher for those companies with:

- higher revenue reliance on thermal coal; and
- business strategies less prepared for an early shift to a low carbon economy.

### WHAT WE PLAN FOR 2018

In 2018, we will use this work to inform our strategy regarding customer engagement and risk evaluation. We will improve our customer conversations and make more informed decisions on who we bank and how we bank them.

We expect our customers will revise their strategies and disclosures, particularly as more companies adopt the FSB’s disclosure recommendations.

This scenario-based assessment is part of a gradual improvement to our climate-related disclosures. We will consider expanding these assessments over future years to include other sectors exposed to the physical and transition risks of climate change.

### 3. RISK MANAGEMENT

Our most material climate change risks and opportunities arise from lending to business and retail customers. Accordingly, we engage with our customers to help them to be – or to become – resilient businesses that are able to successfully manage the transition to a low carbon future.

#### 3.1 RISKS AND OPPORTUNITIES

The following climate change risks and opportunities have the potential to generate substantive change in our business operations, revenue or expenditure:

- **Energy policy/regulation** The government may introduce energy policy and regulations that, by supporting lower emissions and improved reliability, provide a more stable environment for investment – and therefore revenue opportunities – with existing customers and in new markets.
- **Changes in precipitation extremes and droughts** ANZ has a large presence throughout rural and regional Australia and New Zealand. In recent years, severe climatic events, such as drought and high temperatures, have impacted many of these areas. Climate change may increase the frequency and severity of these events. Each event can adversely affect our customers' production levels, and therefore revenue. In turn, these events may impact our customers' ability to repay credit we provide to them.
- **Changing consumer behaviours** As businesses respond to climate change, including by adopting new technologies, they present us with opportunities – for example, providing funding and advisory services to customers involved in:
  - renewable energy generation;
  - construction, and retrofit, of green buildings; and
  - manufacturing and transporting in ways that involve less carbon emissions than existing methods.

We are well placed to maximise these opportunities and we are already doing so. Since 2015, we have funded and facilitated \$6.9 billion (as at 30 September 2017) worth of climate-related business activities, including projects using:

  - renewable, or more efficient, materials;
  - renewable, or more efficient, energy generation; and
  - technologies that reduce greenhouse gas emissions and waste.

#### 3.2 WE ARE REDUCING OUR CLIMATE EXPOSURE

During 2017:

- Our exposure to the most carbon-intensive forms of energy generation declined. This decline is partly an outcome of our active portfolio management, informed by ANZ's credit strategies. These industry credit strategies (known as Risk Appetite Statements):
  - reference ANZ's Climate Change Statement and relevant industry standards; and
  - reflect risks associated with climate change, influencing decisions about ANZ's business strategy and capital allocation.

### 3.3 WE REDUCED THE INTENSITY OF OUR FINANCED EMISSIONS

During 2017, we continued to reduce the emissions intensity of our direct exposure to electricity generation in our project finance portfolio.

#### Average emissions intensity of ANZ financed energy generation Tonnes of Carbon Dioxide per Megawatt hour

	Australia	Outside Australia
2017	0.58	0.24
2016	0.62	0.16
2015	0.64	0.20
2014	0.77	0.25
<b>Movement 2014–2017</b>	<b>-25%</b>	<b>-4%</b>

The average emissions intensity of generation we finance continues to be below the grid average in Australia and internationally.

The reduction in Australia is due to new renewable generation projects we finance. The finance of new windfarms in Australia increased the amount of electricity generated from renewable sources from 30% in 2016 to 35% in 2017.

### 3.4 HOW WE SUPPORT OUR ENERGY CUSTOMERS TO TRANSITION TO A LOW CARBON ECONOMY

ANZ's [Energy Policy](#) sets out clear aims and standards about the sort of activities we will or will not support. We support energy customers that are well placed to successfully navigate the transition to a low carbon economy and we try to support all our customers in their transition.

We are refining our due diligence processes in order to choose the right customers to support. Since 2016, we have been implementing a 'strengthened' due diligence for thermal coal customers.

Typically, thermal coal customers we support are focused on good governance and risk management and:

- have policies on climate change and identify climate change as a material business risk;
- support government efforts to limit global warming – for example, through a public climate change statement or other publications;
- 'stress test' their portfolio against a range of possible policy scenarios that may impact their business model and profitability;
- have a high level of disclosure – including disclosure of their carbon emissions – and are seeking alignment to public benchmarks such as the FSB's recommendations; and
- comply with ANZ's Sensitive Sector Policies.

## 4. METRICS AND TARGETS

We use a range of metrics to assess the impact of climate-related risks on our business activities. In recent years, we have:

- increased transparency regarding our business lending exposure to key industry sectors in Australia and New Zealand to better understand our customers' contribution to the national emissions profiles of our home markets;
- tracked the average emissions intensity of the electricity generation assets to which we provide project finance;
- provided a breakdown of our lending to coal, gas and renewable assets; and
- established Group-wide emissions reduction targets for emissions arising from the energy we use across our building portfolio of commercial offices, branches and data centres. In 2017, we reduced the emissions from premises' energy use by 20% compared to 2013. This exceeded our target of a 1 to 3% reduction by 30 June this year.

### 4.1 OUR BUSINESS LENDING EXPOSURES

In analysing our climate-related lending exposure, we focus on our business customers due to the impact of their operations on overall carbon emissions. Our lending to business makes up 49% of our exposure (the other 51% is consumer lending, including residential mortgages).

We have disclosed which sectors may be at greater risk of climate-related transition risks by overlaying our Australian and New Zealand combined business lending exposures against the greenhouse gas emissions attributable to these sectors. This provides improved transparency of sectors that may be at greater risk of climate-related transitional risks.

Within business lending:

- our largest exposure is to commercial services – including, for example, buildings, food and beverage services, media and telecommunications;
- our second largest exposure is to agriculture, forestry and fishing. Agriculture makes a significant contribution to the New Zealand economy and we are supporting customers in rural businesses to address climate change and environmental issues such as waterway rehabilitation and water efficiency; and
- our exposure to the mining sector decreased by 19% during 2017. The sector increased its scope 1 emissions due to growth in Australian Liquefied Natural Gas production and the associated fugitive emissions released by the production, processing, transport, storage and distribution of raw fossil fuels.

Further information is available in our 2017 Annual Review and 2017 ANZ Corporate Sustainability Review on [anz.com/annual-report](http://anz.com/annual-report)