News Release

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Transcript of bluenotes podcast interview with ANZ Group Executive Institutional Mark Whelan and Chief Risk Officer Kevin Corbally

JO SCOTNEY: Hi, everyone. I'm Jo Scotney, General Manager of Property and Health for Institutional banking. Welcome to everyone listening to today's discussion, which accompanies the release of our annual climate report. I'm speaking today with our Chief Risk Officer, Kevin Corbally, and our Group Executive for Institutional, Mark Whelan.

Mark, one of the key initiatives ANZ has undertaken over the last five years is the engagement with some of our largest emitting business customers. I've been involved with this work myself and have seen how we've worked with customers tackling the transition. Can you talk us through what we are trying to achieve through this program and ultimately what success looks like?

MARK WHELAN: Yeah, terrific. Thanks, Jo. And it's timely to be having this conversation because we are beginning a new phase of engagement with our largest emitting business customers this year. Also, we've been seeing rising investor expectations and regulatory focus for some time. And in Australia, the Safeguard Mechanism reforms kicked in from July, as many of you know. So, there is a lot going on in this space.

Now, specifically, our engagement program focuses on understanding our customers' transition plans and how we can help them to get there. We're looking at their current climate performance, their net zero targets and their public disclosures.

JO SCOTNEY: And also, as a part of this program, we rate these customers transition plans. Mark, can you elaborate on what we're looking for when we rate those plans? And then what are we going to do with that information?

MARK WHELAN: Yeah, sure. We look for three elements: governance, targets and disclosures. And that's been the discussion point with customers for some time. So in addition to that, what we're doing now is really to look to see the good evidence of progress going forward. ANZ publishes what is essentially a report card on these customer group's transition plans in our climate report.

So, what do we do with these ratings? Well, they help us inform our conversations with our customers and how we might be able to help. Ultimately, they feed into our credit decisions alongside considerations of our Net-Zero Banking Alliance pathways.

Now, as an example, in our oil and gas sector earlier this year, one of our customers approached us with a request for new financing. Now, we believe they hadn't sufficiently progressed their transition plan, so we declined to participate in that particular transaction. But we're working with them so that they understand our expectations going forward.

Now, at the same time, another customer was able to show us enough evidence of improvement and progress with their particular transition plan and we felt comfortable participating in a new lending facility for them. We're now monitoring their progress closely for further improvement by the end of 25. So, to summarise, we want to support those customers who are serious and committed to transition.

JO SCOTNEY: And so, is that impacting our exposures to how oil and gas is tracking as a result of the activity?

MARK WHELAN: Yeah, our exposure to the upstream oil and gas sector is trending down, which is a good thing. And today it's almost 30% less than it was in 2020. So, we're challenging ourselves to increase our target and to better communicate our trajectory to the market. In our climate report, you'll see we're planning a 40% reduction by 2025. We think this will allow us to continue to back customers that have 'well-developed' or 'advanced' transition plans, while also recognising there is a need to manage that exposure.

So, this feeds into our thinking about how we continue to support the right customers. Transitioning the global energy system is very complicated and it's going to take time. We have to find the balance between seeking action and understanding that sometimes a lead of several years might be needed to replace the aging plant or get that new piece of technology in place, or to take steps to diversify a business and make the required capital investments.

JO SCOTNEY: Thanks for that, Mark.

Now, Kevin, today we've disclosed progress about our carbon pathways. Can you explain these pathways and what they practically mean?

KEVIN CORBALLY: Thanks, Jo. And look, this can get a little bit complex so what I'm going to try and do is bring it right back to first principles. So, ANZ was the first Australian bank to sign up to the Net-Zero Banking Alliance, which commits us to transition our lending portfolio in line with the goal of net zero emissions by 2050.

So, the pathways are essentially our approach to steer the most carbon intensive parts of our portfolio towards net zero. And to-date, the industry segments we focused on are power generation; oil and gas; thermal coal; transport; steel; aluminium; cement; and commercial real-estate. Now, we're measuring whether our lending within the scope of the pathway in each sector is on-track to achieve net zero greenhouse gas emissions by 2050.

Ultimately, what that means is that when looking at potential transactions in these sectors, the impact of a proposed financing on a sector's pathway, along with our rating of the customer's transition plan that Mark alluded to earlier, ultimately feeds into the final decision.

JO SCOTNEY: There's a lot to think about. Kevin, can you also tell us how climate is being considered as part of our risk management framework?

KEVIN CORBALLY: Thanks, Jo. Look, as with other ESG risks, ANZ has been assessing and managing climate risk for some time and we continue to do so as it evolves. It's actually a timely question because our Board has just approved that we elevate climate to a material risk.

Now what does that mean? Well, to begin with, it means we treat climate on-par with risks such as credit risk. It also means we're strengthening our enterprise-wide approach to managing climate risk, including its impact as a cause of other material risks.

It helps us to bring organisational focus and discipline to meet regulatory requirements and mandatory disclosure obligations, and it assists us with strategic planning and to further develop our capability and expertise.

JO SCOTNEY: It's definitely front of mind in just so many discussions. Another topic which has been emerging over the past few years has been biodiversity. Kevin, can you talk us through what ANZ wants to achieve in this space?

KEVIN CORBALLY: Sure. Look, as you've alluded to, managing biodiversity risk is probably at a more embryonic stage than climate risk. And like many banks globally, we're actually really learning at the moment and identifying good practice as it emerges both locally and internationally.

Now saying that, our Social and Environmental Risk Policy and our Land Acquisition Statement make it clear that we will not knowingly support customer activities that significantly impact on culturally or environmentally sensitive areas, and that includes World Heritage areas, wetlands on the Ramsar list, designated national parks and also conservation assets.

One of the key things we have been doing this year to improve our knowledge on this topic is having discussions with some of our largest emitting business customers through the program of work that Mark spoke about earlier. Through these engagements over the past several years, we're certainly seeing an increased awareness of biodiversity from our customers, but also an increased willingness from those customers to improve their approaches.

And there is some really fascinating work going on. For example, we've seen some of our customers develop technology solutions which draw on third-party databases to assist them in monitoring and reporting biodiversity impacts. This dialogue is helping us to refine our screening, improve our knowledge and enhance our capacity to engage with other large customers that are likely to have significant impacts or dependencies on biodiversity.

This will include some of our multinational agribusiness customers in 2024, and we'll be engaging with them to seek improved disclosure of emissions - known as better ‘data coverage’ - before we consider setting an emissions reduction target for this group in the future. So, we think broadening this to include discussion on nature, including biodiversity, and how they're planning to respond to the Task Force on Nature-related Financial Disclosures framework - or TNFD framework for short - is a very sensible thing to do.

All of this work is supported by a Climate Change Risk Assessment tool, which we upgraded this year to guide our bankers’ engagement with these customers to better understand their climate risks and opportunities and how they're managing their impacts on nature, including biodiversity.

I'll also add this year we're also taking steps towards using the TNFD to enhance our own reporting and are looking to what might be a sensible first step to be an early adopter. So, there's plenty more to do Jo.

JO SCOTNEY: And I'm really loving all the conversations that we have with our customers about the innovative ways they're looking to change the way they do things, and we're all just learning along the way.

That's the end of our chat today. Thank you, Kevin and Mark, for your insights. As I've mentioned to our listeners, there's lots of material available on our website around our ESG and climate-related reporting. So please make sure you check it out. Thanks.

For media enquiries contact:

Elizabeth Rudall
Acting Head of Media Relations
Tel: +61 403 130 207

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