Investor briefing

ANZ and NAB investors were sent one briefing and two updates:

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8 Oct 2020: Investor briefing

ANZ (ASX:ANZ)

- 5 October 2020: resolutions announced to the ASX

NAB (ASX:NAB)

- 5 October 2020: resolutions announced to the ASX

Resolution

Shareholders request the Company disclose, in subsequent annual reporting, strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030.

As set out in this briefing, investor support for these resolutions is required to bring ANZ and NAB's strategic planning into line with their stated support for the climate goals of the Paris Agreement and investor expectations regarding climate risk disclosure.

Contents (October brief)

"Transition risk will be greatest for banks that lend to firms in carbon-intensive industries and to individuals or businesses that are reliant on these firms."

[Reserve Bank of Australia, October 2019 Financial Stability Review]

Introduction

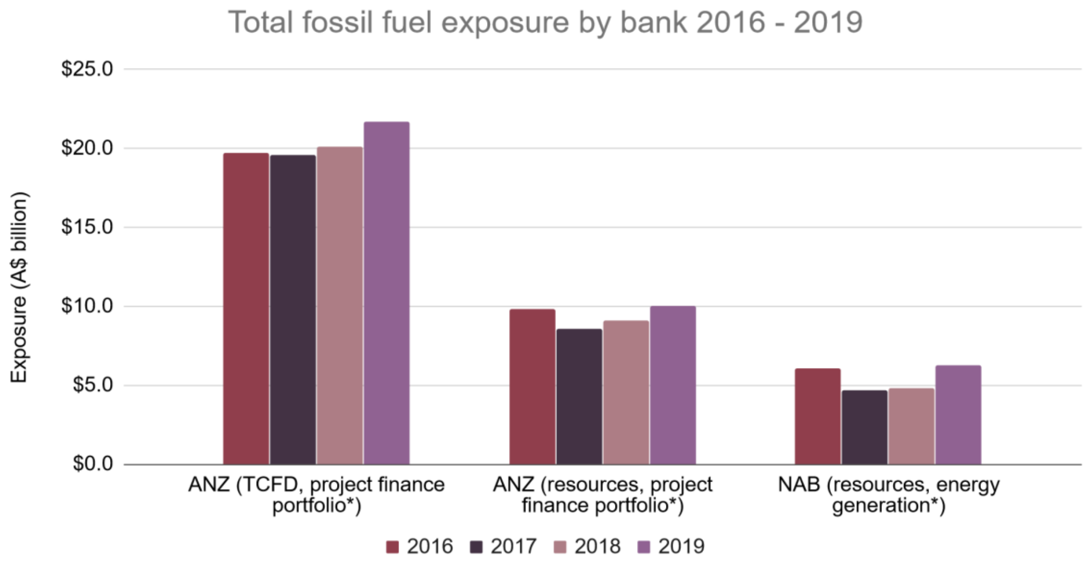
Signed by 197 nations, the [Paris Agreement] aims to limit "the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C".

ANZ and NAB have both committed to support these Paris climate goals. However, the banks' current lending practices and policies are failing to live up to these commitments.

This inconsistency exposes each of the banks to climate change transition risks, with market and regulatory action to achieve the Paris climate goals expected to devalue carbon intensive assets and companies.

As part of a responsible approach to managing these risks on behalf of shareholders, ANZ and NAB must disclose clear strategies and targets to reduce exposure to coal, oil and gas assets in line with the Paris climate goals.

Both banks have failed to reduce exposures to fossil fuel assets since the Paris Agreement was signed. In fact, both reported increased total fossil fuel exposure in 2019, demonstrating their current policies are insufficient to manage climate change transition risk.



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* Both ANZ and NAB disclose fossil fuel exposure within their 'resources', and 'project finance' or 'energy generation' portfolios (respectively). Additionally, ANZ reports more comprehensive exposures within its TCFD reporting, which apparently overlaps with its resources reporting. For comparison, all sets of reporting are included.

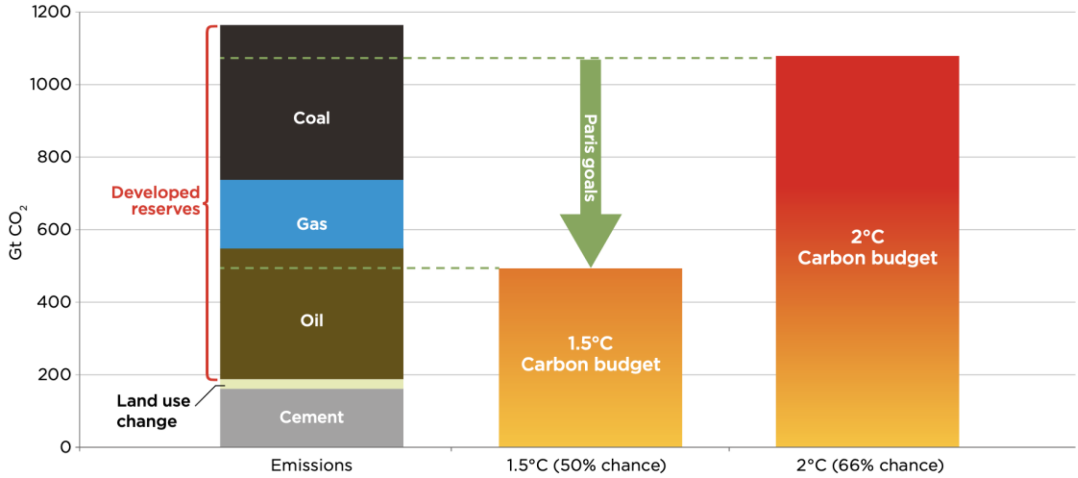
> ***"To meet the upper Paris goal ('well below 2C'), we must achieve net zero emissions by 2040-2050. This requires a rapid phase-out of existing fossil fuel infrastructure, leaving no room for expansion of the gas industry."***
> 25 leading scientists at Australian universities, 24 August 2020

Aligning lending with Paris

Meeting the climate goals of the Paris Agreement requires a rapid transition away from coal, oil and gas use. In order to support the Paris climate goals, banks must stop financing the expansion of the fossil fuel sector and start reducing exposure to these sectors in line with a 1.5°C decarbonisation pathway.

The Executive Director of the International Energy Agency stated in 2018 that to limit temperature rise to 2°C, let alone the Paris Agreement's 1.5°C target, "We have no room to build anything that emits CO_2 emissions". Indeed, peer-reviewed research published in *Nature* concludes that achievement of the Paris Agreement means "little or no additional CO_2-emitting infrastructure can be commissioned".

FIGURE ES-1: CARBON DIOXIDE (CO_2) EMISSIONS FROM DEVELOPED GLOBAL FOSSIL FUEL RESERVES, COMPARED TO CARBON BUDGETS WITHIN RANGE OF THE PARIS GOALS



Source: *Oil Change International analysis based on data from Rystad Energy, IEA, World Energy Council, IPCC and Global Carbon Project*

Existing coal power capacity must be phased out completely by 2030 in OECD countries, and by 2040 globally.

The IPCC's Special Report on Global Warming of 1.5°C states: "In model pathways with no or limited overshoot of 1.5°C, global net anthropogenic CO_2 emissions decline by about 45% from 2010 levels by 2030 ... reaching net zero around 2050".

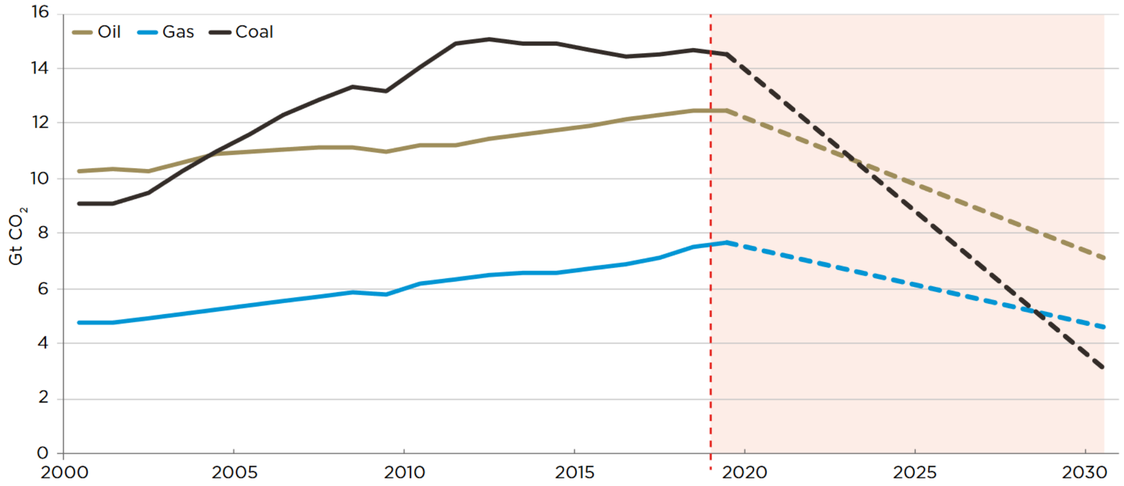
The IPCC report demonstrates that, without relying on assumptions that carbon capture and storage technology will play a significant future role, the role of gas for primary energy must decline globally (from a 2010 baseline) by 25% by 2030 and 74%

by 2050, with oil's share of primary energy falling 37% and 87% over the same time frames.

Analysis of the IPCC's modelling has found that "over the next decade any production from new oil and gas fields, beyond those already in production or development, is incompatible with limiting warming to 1.5°C".

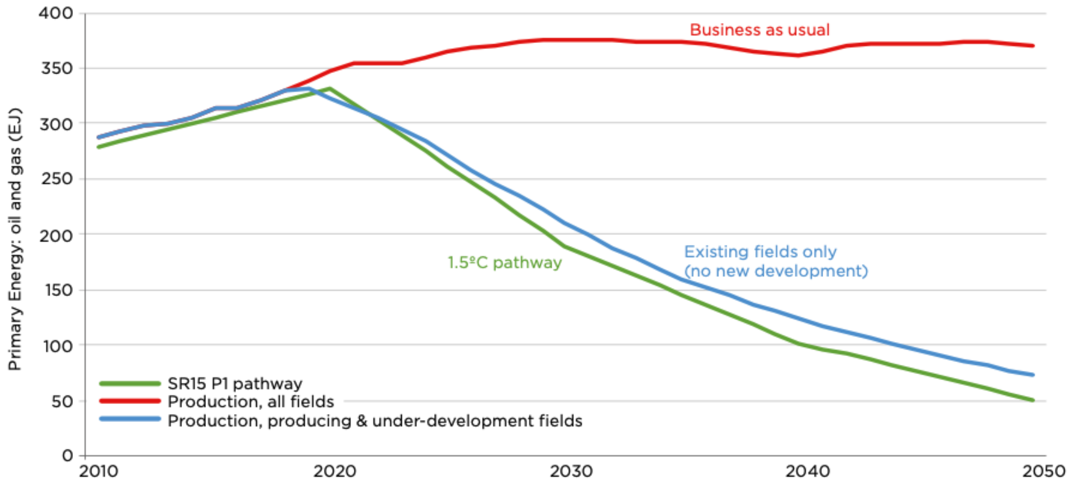
The science is clear: meeting the Paris goals means no new fossil fuels, and rapid phase outs of coal, oil and gas use.

FIGURE 2: PROJECTED DECLINE OF OIL, GAS, AND COAL EMISSIONS THIS DECADE TO LIMIT WARMING TO 1.5°C (P1 PATHWAY)



Source: Carbon Brief analysis of data from IPCC SR15 and Global Carbon Project, as cited by Oil Change International

FIGURE ES-4: GLOBAL OIL AND GAS EXTRACTION WITH AND WITHOUT NEW DEVELOPMENT, COMPARED TO DEMAND ALIGNED WITH 1.5°C



Source: IPCC SR15 and Rystad Energy UCube, as cited by Oil Change International

ANZ and NAB being left behind

Major financial institutions have joined calls for action to reduce emissions in line with the Paris climate goals, including the phase out of coal power in OECD countries by 2030. Signed by 631 investors representing over US$37 trillion in assets, the Global Investor Statement to Governments on Climate Change calls on governments to "phase out thermal coal power worldwide by set deadlines". Its accompanying Briefing Paper sets out these deadlines, including the elimination of coal power in OECD countries by no later than 2030.

Commonwealth Bank has committed to "reduce our exposures to thermal coal mining and coal fired power generation, with the view to exiting the sector by 2030, subject to Australia having a secure energy platform" and "only providing Banking and Financing activity to New oil, gas or metallurgical coal projects if supported by an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement".

Westpac has committed to "continue to support our existing thermal coal customers, managing our portfolio in line with a commitment to reduce our exposure to zero by 2030".

Suncorp "has a target to phase out existing thermal coal exposures by 2025, as well as phase out underwriting oil and gas by 2025. Suncorp will phase out of directly investing in oil and gas by 2040 by:

- immediately avoid the top 10% by kg CO2 per barrel of oil equivalent
- the top 25% by 2025
- the top 50% by 2030
- phase out of all oil and gas exploration and production by 2040."

Internationally, 10 banks have fully excluded direct finance to new thermal coal mines worldwide, and 14 banks have fully excluded direct finance for new coal power plants worldwide. In Rainforest Action Network's 2020 Fossil fuel finance report card, ANZ and NAB's fossil fuel finance policies consistently scored below many international peers, averaging just 10.5 and 21 points (respectively) out of a possible 200.

ANZ and NAB's laggardly approaches leave the banks and their investors exposed to not only climate change transition risks, but also to the reputational risks associated with failure to act in line with community expectations. These risks should be of utmost concern to such large public institutions still trying to restore public trust after the governance failures exposed during the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Increasing regulatory expectations

Compliance with the OECD Guidelines, TCFD recommendations, and Australian regulator expectations requires ANZ and NAB to disclose strategies and targets to reduce exposure to coal, oil and gas assets in line with the climate goals of the Paris Agreement.

In June 2017, the Task Force for Climate-related Financial Disclosures (TCFD) published its final recommendations designed to allow investors to "appropriately assess and price climate-related risk and opportunities".

Recognising "Banks are exposed to climate-related risks and opportunities through their lending and other financial intermediary activities as well as through their own operations," the TCFD recommends:

> *"Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term."*

The TCFD also states:

> *"Organizations should describe their key climate-related targets ... in line with anticipated regulatory requirements or market constraints or other goals."*

Both ANZ and NAB claim to have adopted the TCFD recommendations. However, the above extracts make it clear that, in order to properly comply with the TCFD's recommendations, ANZ and NAB must disclose targets to manage down exposure to fossil fuel sectors, in line with the carbon constraints that can be anticipated under the Paris climate agreement.

Australian regulators have been calling for robust, TCFD-aligned climate risk management from financial institutions. The Reserve Bank of Australia (RBA) has warned of the material transition risks climate change poses:

> *"Australian financial institutions that have exposure to carbon-intensive industries – such as power generation and mining, or to energy-intensive firms – will also be exposed to transition risk ... Sudden or unexpected regulatory change could quickly lower the value of such assets or businesses, some of which may become economically unviable or 'stranded'. Such regulatory changes could either be domestic or come from abroad, given the carbon intensity of Australia's exports."*

The RBA goes on to explain the essential role financial regulators, including APRA and ASIC, must "play in ensuring that climate risks are effectively managed by financial institutions". Both APRA and ASIC have warned of their increasing focus on climate risk disclosure and management, with APRA Executive Board Member Geoff Summerhayes stating: "APRA wants to see continuous improvement in how organisations disclose and manage these [climate] risks over coming years".

On top of the clear guidance provided by local regulators, ANZ and NAB are subject to international regulatory regimes, including the OECD Guidelines for Multinational Enterprises. The Dutch National Contact Point for the OECD Guidelines in April 2019 concluded these guidelines require commercial banks to formulate concrete goals for aligning their financial services with the Paris Agreement.

ANZ is currently facing a complaint under the OECD guidelines, claiming the bank failed to disclose scope 3 emissions, has inadequate systems of due diligence and environmental management, lacks policies to reduce fossil fuel investment, and is misleading the public and consumers by publicly supporting the Paris Agreement targets, while continuing to invest in projects that undermine those targets.

ANZ

ANZ's approach to coal, oil and gas exposure and lending falls far short of the action required to align with ANZ's stated support for the Paris Agreement. ANZ's reported exposure at default (EAD) to coal mining and oil & gas has each increased every year since FY17.

Data compiled by Market Forces shows that between 2016-2019 ANZ loaned at least $2.2 billion for 16 projects which expand the fossil fuel industry.[1] These projects are expected to enable the release of 4.1 billion tonnes of CO_2, equivalent to almost 8 times Australia's national emissions in 2019.

Expansionary fossil fuel projects funded by ANZ, 2016-2019

Project name	Location	Lifetime emissions enabled (mt CO_2)
Ichthys LNG	Australia	1,131
Johan Sverdrup offshore oil field	Norway	966
Refinery and Petrochemical Integrated Development (RAPID) Complex	Malaysia	583
Elk-Antelope gas fields	PNG	342
Pluto LNG train 2	Australia	311
Block A Aceh gas field	Indonesia	295
New Acland Stage 3 coal mine	Australia	174
Curragh coal mine expansion	Australia	109
Carborough Downs coal mine expansion	Australia	46
Jawa 2 gas power plant (800MW)	Indonesia	42
Tambak Lorok gas power plant (780MW)	Indonesia	37
Black Point gas power unit (550MW)	Hong Kong	26
Muara Karang gas power plant (500MW)	Indonesia	24
Atlas and Western Surat gas fields	Australia	16
Senoro Phase 2 gas field	Indonesia	15
Sole gas field	Australia	13
Total		4,129

Source: Market Forces

[1] All values in Australian dollars (AUD) unless otherwise stated

Over the same timeframe, ANZ loaned $1.9 billion to 12 ASX300 companies with business plans that rely upon the failure of the Paris Agreement:

AGL Energy, APA Group, Aurizon, Beach Energy, Cooper Energy, New Hope Group, Oil Search, Origin Energy, Santos, Senex Energy, Whitehaven Coal and Woodside Energy.

In September 2020, ANZ expressed a willingness to drop customers that lack appropriate plans to deal with climate risk, and the bank has reportedly exited lending syndicates for at least 7 fossil fuel-based clients since 2018, including Whitehaven Coal. However, it has not been confirmed that these investment decisions reflect a permanent change in policy or strategy. Without clearly articulated policies, strategies, and goals, this apparently ad-hoc approach to managing fossil fuel exposure creates uncertainty for staff, customers, and investors. It is also inconsistent with ANZ's acknowledgement that "the time has come to manage this transition in a clearer way".

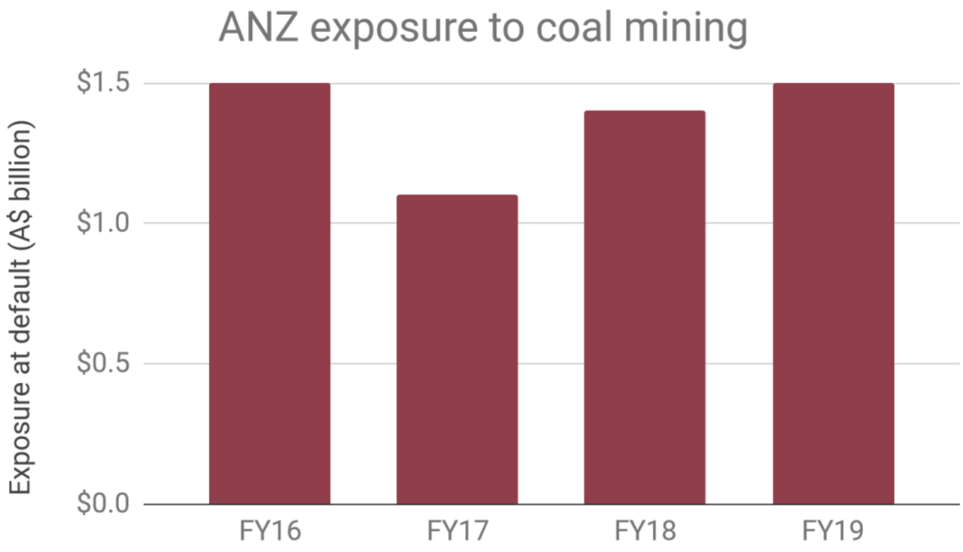
ANZ is clearly aware of the need to set systematic fossil fuel exposure reduction targets and strategies, and must do so to ensure transparency and accountability. ANZ must adopt these targets as part of its "suite of new and upgraded carbon policy measures and targets" to be announced at its FY results in October 2020.

Market Forces has clearly informed ANZ that if its upgraded carbon policy measures and targets meet the requests of this resolution, it will be withdrawn. However, the bank has provided no details to suggest the substance of this resolution will be met by the upcoming policy update.

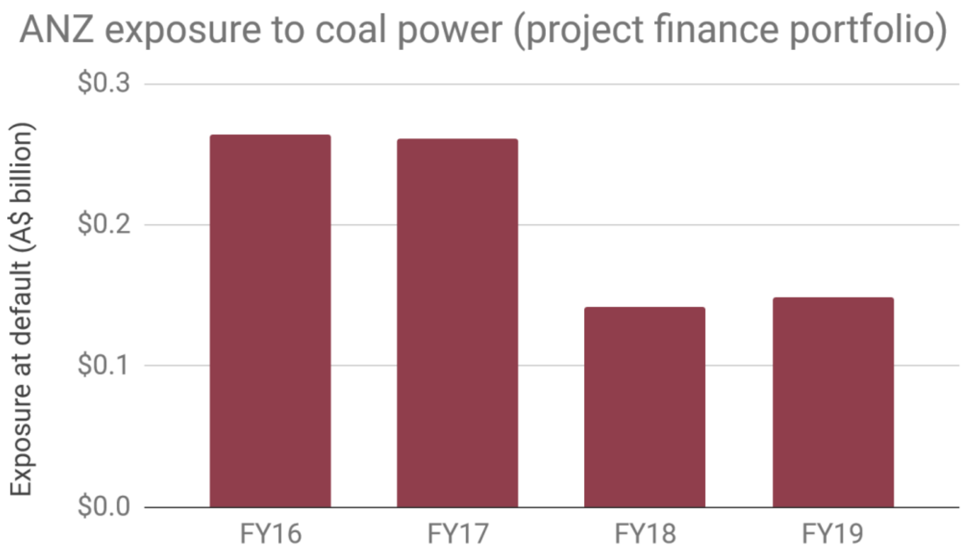
Coal

ANZ's disclosed strategies with respect to coal are not resulting in exposure reductions in line with the goals of the Paris Agreement.

ANZ's willingness to finance new thermal coal power plants with an emissions intensity below 0.8 t CO_2/MWh is clearly inconsistent with the climate goals of the Paris Agreement. As discussed above, there is no room for any new coal power developments in a Paris-aligned carbon budget, regardless of emissions intensity. ANZ's current policy is little more than greenwash as it only rules out financing obsolete technology that is rarely considered in new plant developments.



ANZ FY19 Results Presentation, p.88

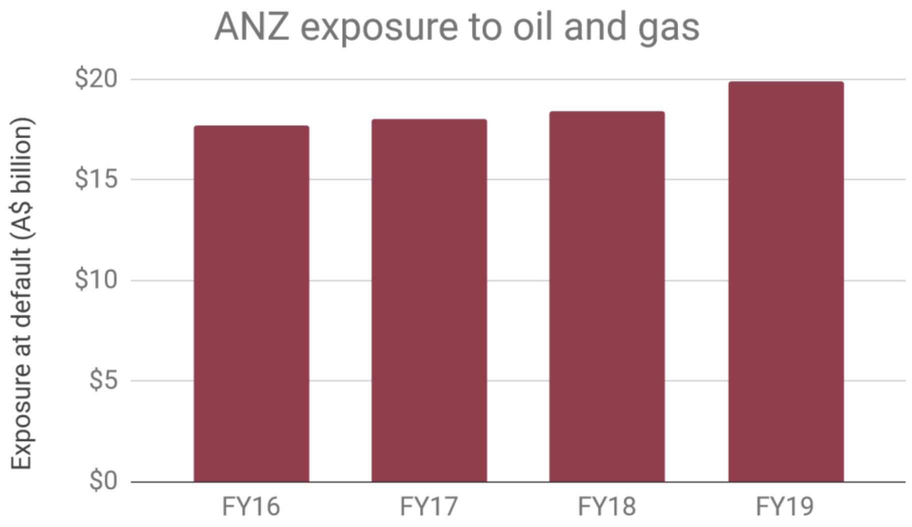


ANZ 2019 Annual Report, p.65

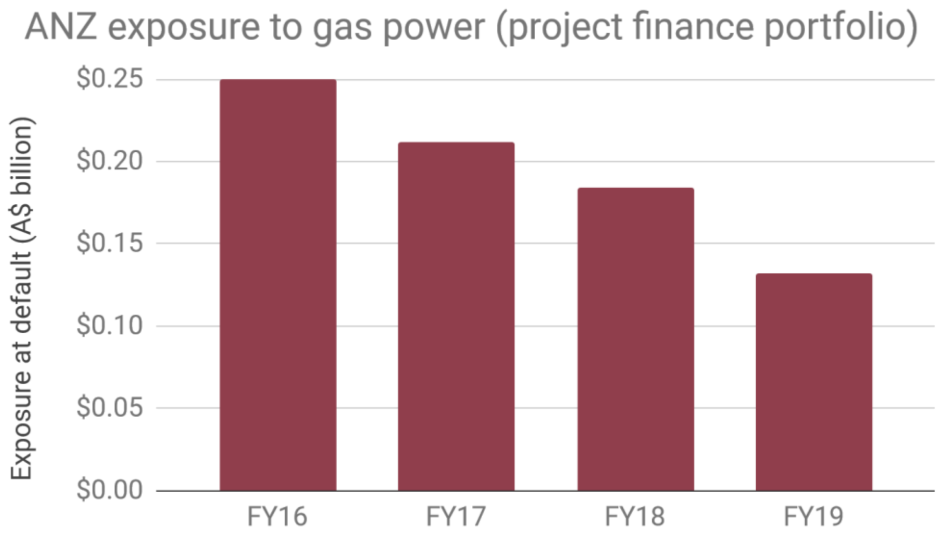
The bank's only other disclosed strategy to reduce coal exposure is: "only lending to new customers where their thermal coal operations are less than half their revenue, installed capacity or generation". ANZ has so far failed to identify any potential clients that have been, or could be, captured by this policy. Moreover, ANZ has no strategy to ensure its exposure to coal through existing customers will fall in line with the Paris climate goals. The bank's current thermal coal customers, including New Hope Corporation and Yancoal Australia justify their expansion plans with demand projections consistent with 4°C of warming, while AGL Energy plans to continue producing coal power until 2048.

It is unsurprising ANZ's currently disclosed strategies are insufficient to guide Paris-aligned coal exposure reductions, as they are not supported by transparent targets with corresponding accountability mechanisms. This shareholder proposal seeks clear, measurable targets to reduce exposure to all fossil fuels, in line with the goals of the Paris Agreement, which would ensure ANZ implements effective strategies to meet these targets as a necessary demonstration of transitional climate risk management.

Oil and gas



ANZ 2019 TCFD report, p.9



ANZ 2019 Annual Report, p.65

ANZ's view of the future for oil and gas demonstrates a concerning lack of awareness of the energy transition required to meet the climate goals of the Paris Agreement. The bank's approach and rhetoric fails to recognise that a Paris-aligned energy transition requires significant declines in oil and gas use, as set out above.

This failure is allowing the bank to continue financing the expansion of the oil and gas sectors, increasing its exposure to climate change transition risks:

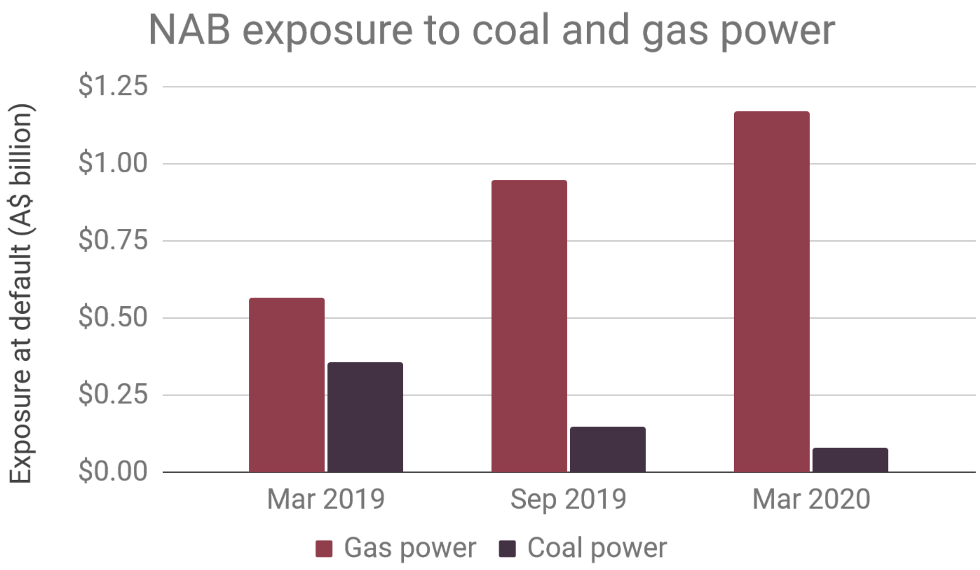
- In December 2019, ANZ participated in a US$10 billion revolving credit facility to Royal Dutch Shell, then in April 2020, a US$6.35 billion bridge loan to Total and a US$10 billion revolving credit facility to BP. A September 2020 assessment by Oil Change International found that none of these companies have "climate strategies, plans, and pledges [that] come close to alignment with the Paris Agreement".
- In March 2020, ANZ loaned $23.2 million to Energy Infrastructure Investments for expansion to the Tipton West Gas Processing Facility in Queensland, which currently processes up to 33 TJ of Coal Seam Methane/day.
- In November 2019, ANZ loaned US$174 million to the Pengerang Refinery and Petrochemical Integrated Development (RAPID) Complex in Malaysia. Market Forces estimates that, over its lifetime, this project would enable the release of 583 million tonnes of CO_2, equivalent to 110% of Australia's 2019 emissions.

Investor support for this resolution is necessary to ensure ANZ brings its oil and gas lending practices and policies into line with mainstream scientific projections of the energy transition required to meet the goals of the Paris Agreement.

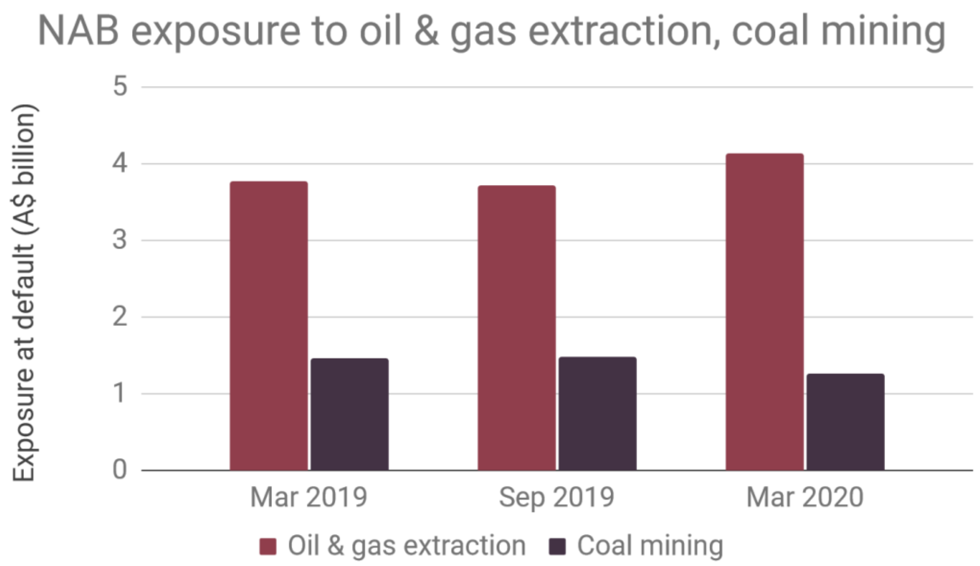
NAB

Current lending practices

Despite the rapid declines in fossil fuel use that can be expected under a Paris-aligned transition, NAB's loan book exhibits no clear trajectory that reflects this. NAB's reported net exposure at default (EAD) to fossil fuels increased by 8% in the year to March 2020, with notable increases in exposure to oil & gas extraction and gas-fired power (as demonstrated by the figures below).



NAB 1H20 Investor Presentation, p.47



NAB 1H20 Investor Presentation, p.47

According to data compiled by Market Forces, between 2016-2019 NAB loaned at least $1.2 billion for 12 projects which expand the fossil fuel industry, enabling the release of 1.9 billion tonnes of CO_2, equivalent to 3.5 times Australia's national emissions in 2019.

Expansionary fossil fuel projects funded by NAB, 2016-2019

Project name	**Location**	**Lifetime emissions enabled (mt CO_2)**
Corpus Christi LNG	USA	775
Midship Pipeline	USA	698
Sabine Pass LNG Terminal	USA	272
Freeport LNG train 2	USA	253
New Acland Stage 3 coal mine	Australia	174
Curragh coal mine expansion	Australia	109
Jackson Generation gas power plant (1,200MW)	USA	57
South Field Energy gas power plant (1,182MW)	USA	56
Cricket Valley gas power facility (1,100MW)	USA	52
CPV Fairview gas power facility (1,050MW)	USA	50
Hickory Run gas power plant (1,000MW)	USA	47
CPV Towantic gas power plant (785MW)	USA	37
Total		2,580

Source: Market Forces

Over the same timeframe, NAB loaned $843 million to 10 ASX300 companies with business plans that rely upon failure of the Paris Agreement:

AGL Energy, APA Group, Aurizon, Beach Energy, Cooper Energy, Mineral Resources, New Hope Group, Oil Search, Origin Energy and Whitehaven Coal.

Many of these companies have plans to significantly increase fossil fuel production that are entirely inconsistent with the Paris climate goals, such as:

- Beach Energy's plans to spend AU$4 billion to increase production by around 50% over the next 5 years,
- Oil Search, Origin Energy and BHP's capital expenditure plans, which have been found to be incompatible with a Paris-aligned warming outcome, and
- Whitehaven Coal and New Hope's expansion plans, which the companies justify with energy demand projections consistent with 4°C of warming.

NAB continues to finance the expansion of the fossil fuel industry:

- In May 2020, NAB loaned C$117.5 million for development of the 670km Coastal GasLink Pipeline project in British Columbia, Canada. Market Forces estimates that, over its lifetime, the pipeline would transport enough gas to emit 610 million tonnes of CO_2 if combusted. That is equivalent to 114% of Australia's national emissions for the calendar year 2019.

- In April 2020, NAB acted as lead arranger in a US$1.05 billion debt financing of GasLog Ltd for the building of seven new LNG vessels. This deal is the subject of a shareholder complaint at Commonwealth Bank, which also participated in the financing.
- In March 2020, NAB loaned $12.8 million to Energy Infrastructure Investments for expansion to the Tipton West Gas Processing Facility in Queensland, which currently processes up to 33 TJ of Coal Seam Methane/day.

Current commitments

NAB's currently disclosed climate commitments are insufficient to rein in the bank's exposure to fossil fuels in line with the Paris climate goals. The bank's 2019 Sustainability Report sets out the banks commitments with respect to coal finance:

- Commitment 1: *"Supporting current coal-fired power generation customers implementing transition pathways aligned with Paris Agreement goals of 45% reduction in emissions by 2030 and net zero emissions by 2050. NAB will not finance new or material expansions of coal-fired power generation facilities unless there is technology in place to materially reduce emissions."* – NAB 2019 Sustainability Report

This commitment lacks any promise to end support for customers that fail to implement Paris-aligned transition plans, so does nothing to ensure NAB reduces exposure to coal power assets. This is already demonstrated by NAB's continued investment in AGL and Origin Energy, two major Australian greenhouse gas emitting companies that either have failed to set targets for emission reduction, or their stated targets clearly fall short of NAB's apparent expectations.

The emission reduction pathway NAB refers to fails to recognise two integral elements of a Paris-aligned energy transition. Firstly, it is well established that the energy sector must deliver more than its proportional share of emissions reductions in order to meet the Paris goals, due to the availability and low cost of zero-carbon alternatives. Secondly, developed nations—including Australia, where NAB's exposure to coal-fired power generation customers lies—must reduce emissions sooner than the global average. NAB's commitment with respect to coal power customers is therefore inconsistent with the Paris climate goals it purports to support.

NAB also fails to define the emissions reduction technology that must be in place for coal-fired power stations to be eligible for funding, and the extent to which this technology must reduce emissions. This criteria leaves the door wide open for NAB to fund new coal-fired power stations.

- Commitment 2: *"Capping thermal coal mining exposures at current levels and reducing thermal coal mining financing by 50% by 2028 and intended to be effectively zero by 2035, apart from residual performance guarantees to rehabilitate existing coal assets."* – NAB 2019 Sustainability Report

Mainstream climate science demonstrates OECD countries, including Australia, must phase out coal power by 2030 in order to play their part in a Paris-aligned transition. NAB's coal commitments allow the company to retain exposure to thermal coal mining and generation well beyond this point, demonstrating gross inconsistency with the Paris climate goals.

- Commitment 3: *"Although NAB continues to support existing customers across the mining and energy sectors to facilitate an orderly transition to a low-carbon economy, we will not finance: New thermal coal mining projects or new-to-bank thermal coal mining customers."* – NAB 2019 Sustainability Report

It appears NAB has breached this commitment, to not fund new thermal coal mining projects (adopted in 2017), on multiple occasions:

In December 2018, NAB participated in a $600 million financing of New Hope Group, which New Hope stated "will be sufficient for the Company to also fund its medium term growth projects including New Acland Stage 3".

NAB also provided funding to Coronado Global Resources on two occasions in connection with its extension and planned expansion of the Curragh coal mine (further details here).

NAB's July response to a House of Representatives Committee question regarding the apparent breaches was interpreted as insufficient and prompted a request to revisit the issue:

> *Mr Bandt: "I also asked you some questions on notice previously about New Hope Coal and Coronado Global Resources, and the answer you provided, with respect, didn't answer the question directly. I'll ask it again, and maybe you'll need to take it on notice again. I don't understand how these loans are consistent with a ban on financing new thermal coalmining projects, when you have companies that are talking about new or expansion at a time when you're saying that you want to contract."*

NAB's only commitments with respect to oil and gas are to not finance oil/tar sands extraction projects, or oil and gas projects within or impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge. This sends a positive signal, but prior to introducing this policy, NAB had told Market Forces repeatedly it was not involved in these sectors and never would be. We therefore understand this to have made no material change to the bank's lending.

The bank has failed to recognise that oil and gas use must decline over time in order to meet the Paris climate goals. As such, NAB has no strategies to guide any reduction in its exposure to the oil and gas sectors. NAB is planning to review its policies regarding oil and gas "over the next 6 to 12 months," providing an opportunity for investors through this resolution to voice support for NAB to adopt clear strategies and targets to reduce exposure to these sectors in line with the Paris climate goals. However, as it stands, the bank's exposure to the climate change transition risks facing the oil and gas industry therefore remains unchecked, demonstrating the need for investor support for this resolution.

No resolution proposed for Commonwealth Bank or Westpac

ANZ and NAB's major peers in this sector are Commonwealth Bank and Westpac. Market Forces did not proceed with similar shareholder resolutions for Commonwealth Bank and Westpac in 2020. With regards to:

- Commonwealth Bank, this decision was taken to allow room for an ongoing shareholder process to be resolved regarding adherence to its climate policy.
- Westpac, this decision was taken to allow for its May position statement to take effect and this is being closely monitored.

While we do not regard Commonwealth Bank nor Westpac's actions as a complete response to the management of climate risks, we believe it is appropriate to allow for their commitments to take effect. As such, we intend to closely monitor their implementation and regularly reassess the need for shareholder proposals for each of the major banks moving forward.

Engagement

Market Forces has been engaging with each of the four major banks in Australia since we commenced operations in 2013. Throughout that time we have maintained constructive dialogue internally with various stakeholders, from rank and file staff, to Corporate Social Responsibility and Corporate Affairs representatives, heads of Investor Relations, Company Secretaries, CEOs and Board members.

Since 2016 we have maintained a consistent set of asks of the banks in relation to their fossil fuel lending and exposure, which reflect the request of these current resolutions.

The resolutions are the consequence of many years of engagement failing to deliver the basic outcomes that would align fossil fuel lending and exposure with the climate goals of the Paris Agreement, and come as no surprise to the banks receiving the resolutions.

Market Forces lodged very similar resolutions with ANZ and NAB in 2019. Despite considerable shareholder support for those resolutions, against the boards' recommendations, neither ANZ nor NAB has moved to meet their requests.

Investor support required

Despite their stated support for the Paris Agreement, ANZ and NAB remain active investors in an expanding fossil fuel sector, further exposing shareholders to financial risks associated with the economic transition required to meet the Paris climate goals.

Shareholder support for this resolution is required to ensure these banks set out clear and appropriate plans with measurable targets to manage transitional climate risk.

We urge shareholders to vote in favour of these resolutions and expect the many institutional investors already outspoken on this issue to offer their support.

26 Nov 2020: UPDATE to October investor briefing (ANZ)

ANZ (ASX:ANZ)

- 5 October 2020: resolutions announced to the ASX
- 20 October 2020: Market Forces investor briefing
- 13 November 2020: Notice of Meeting

> Resolution
>
> Shareholders request the Company disclose, in subsequent annual reporting, strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030.

On 29 October 2020, ANZ released its suite of new and updated climate and fossil fuel policies that takes some necessary steps on thermal coal but remains insufficient to align ANZ's exposure to fossil fuel assets with the climate goals of the Paris Agreement.

Thermal coal exit by 2030

A major component of ANZ's policy update is that it will exit direct finance for thermal coal by 2030.

ANZ was the last of Australia's 'big four' banks to commit to a thermal coal exit, after both Commonwealth Bank and Westpac announced plans to exit the sector by 2030. NAB, which has committed to a 2035 exit, is now the only major Australian bank left willing to finance thermal coal after 2030.

No finance for new or expanded thermal coal

ANZ has committed to no longer fund new coal power stations and thermal coal mines, including expansions.

These exclusions replace ANZ's outdated policy, introduced in 2015, of excluding finance for new coal power stations based on an emissions intensity threshold, ruling out plants emitting more than 0.8 tonnes of CO_2 per MWh.

Coal-fired power

ANZ's commitment to rule out funding new coal-fired power stations is immaterial, as the bank almost certainly never intended to finance a new coal-fired power station moving forward. Indeed, its 2020 Notice of Meeting states "we have not directly financed any new coal-fired power stations since 2015". There are almost no serious proposals to build such assets in Australia and, globally, coal power faces a litany of significant and rapidly increasing risks including a precipitous decline in the cost of renewable energy.

Thermal coal mines

ANZ's commitment to rule out funding new thermal coal mines only applies to coal mines with greater than 35% thermal coal. This would prevent ANZ from funding proposals such as New Hope Group's New Acland Stage 3 thermal coal mining project, but may still allow ANZ to fund new projects such as Whitehaven Coal's Vickery coal mine, which is reportedly 30–40% thermal coal.

ANZ should strengthen this commitment to ensure it does not finance any material thermal coal mining proposals. The bank should also demonstrate how it will ensure exposure to metallurgical coal will be managed in line with the Paris goals.

Rewarding climate-destructive companies

Despite there ***currently*** being no room for expansion of the fossil fuel industry in a Paris-aligned decarbonisation pathway, ANZ hasn't even scratched the surface when it comes to ensuring its fossil fuel-based clients align their business activities with the Paris Agreement, with many of its customers continuing to pursue new and expanded fossil fuel projects.

ANZ says it will:

> *"[Engage] with existing customers who have more than 50% thermal coal exposure 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."*
>
> *"We will progressively reduce the 50% threshold so that by 2030 the requirement for a diversification strategy will apply to mining, transport and power generating customers with more than 25% thermal coal exposures."*

There are many obvious problems with this.

Another five years for most climate risk-exposed companies

First and foremost: despite coming five years after the Paris Climate Agreement, the diversification strategy gives the most coal-exposed companies, including those pursuing expansion of the coal industry, **another five years** to formulate transition plans.

Narrow scope, disregards oil and gas

Further, the scope of the strategy is incredibly narrow. Only the most heavily exposed thermal coal companies are captured, and oil and gas clients are entirely disregarded. It is difficult to imagine any more than a handful of companies being captured by the strategy.

In other words, the plan excludes the vast majority of companies whose business plans rely on the failure of the Paris Agreement. Since 2016, ANZ has loaned at least $1.9 billion to such companies, including AGL Energy, APA Group, Aurizon, Beach Energy, Cooper Energy, New Hope Group, Oil Search, Origin Energy, Santos, Senex Energy, Whitehaven Coal and Woodside Energy.

In October, ANZ co-arranged a US$750 million loan to Santos, with the bank taking on US$50 million of the debt itself. Santos is expanding the gas sector with projects including its highly controversial Narrabri Gas Project, and its board rejected a shareholder proposal to align capital expenditure and emission reduction plans with the Paris climate goals.

Requirements and consequences unclear

Even if diversification plans were formulated by the bank's most coal-exposed customers, it is entirely unclear what ANZ requires of them in order to justify continued or restricted funding. In other words, ANZ could simply continue funding these companies irrespective of whether Paris-aligned transition plans are developed.

ANZ states that if its undefined expectations are not met, it "will cap limits to customers … and reduce our exposure over time". However, it has also failed to define what these limits and reductions in exposure will be.

Questionable methodology

Another concern is the bank's coal customers could ostensibly skirt the bank's revenue thresholds by growing revenue in segments of the business other than thermal coal, leaving revenues and emissions from coal operations only slightly decreased or even unchanged. For example, if a customer with thermal coal revenues of 60% today were to grow revenues from metallurgical coal, resulting in the same level of thermal coal production accounting for a lower *proportion* of revenues (e.g. 45%) by 2025, it would not be captured by ANZ's strategy.

Oil & gas

ANZ has failed to address its problematic oil and gas investments, leaving the door wide open to maintaining levels of exposure inconsistent with the Paris Agreement, and to funding new projects and companies expanding those sectors.

This is especially concerning seeing as, since 2016, the bank has loaned $2.2 billion to 17 projects that expand the fossil fuel industry, enabling the release of 4.1 billion tonnes of CO_2, many of them oil or gas projects.

In this light, ANZ's claim (its in 2020 Notice of Meeting) that the statement "ANZ remains an active investor (sic) in an expanding fossil fuel sector" is "not supported by the facts" is patently false.

In comparison to its major competitors:

- CommBank last year committed to "only providing Banking and Financing activity to New oil, gas or metallurgical coal projects if supported by an assessment of the environmental, social and economic impacts of such activity, and if in line with the goals of the Paris Agreement".

- This year, Westpac indirectly committed to not finance any new oil and gas projects by indicating that any financing of the sector from this point on will need to be in line with its commitment to the Paris Agreement. It has committed to undertake "a 'deep dive' on the oil and gas sector under Paris-aligned scenarios".
- NAB has made no such commitments but its CEO says the bank will review its oil and gas policy "over the next six to 12 months" and that it has "a lot of work to do in having a look at that whole issue".

ANZ also failed to set targets to reduce exposure to oil and gas, despite notable fluctuation in exposure to these sectors in recent years.

ANZ exposure at default (EAD) to oil and gas

Financial year	Exposure at default (EAD)	yoy change (%)
FY17	$18.0 billion	
FY18	$18.4 billion	+2%
FY19	$19.9 billion	+8%
FY20	$17.6 billion	-12%

Investors should note that ANZ's disclosure of its oil and gas exposures vary between its mainstream financial reporting and its climate-related disclosures. ANZ's 2020 full year results presentation discloses exposure of $8.2 billion to 'Oil & Gas Extraction', while the bank's 2020 Climate-related Financial Disclosures disclosure exposure of $17.6 billion to the 'Oil and Gas' industry. Market Forces notes that ANZ's 2020 Notice of Meeting references the $8.2 billion figure in relation to its oil and gas exposures.

Excluding 'new-to-bank' coal customers

ANZ also announced an update to its previous policy of excluding "new-to-bank lending to customers whose thermal coal assets exceed 50% of revenue, installed capacity or generation (mining, transport, ports and power generation)".

The updated version is that ANZ will "no longer [bank] any new business customers with material thermal coal exposures", with 'material' defined as "more than 10% revenue, installed capacity or generation from thermal coal".

This appears to be another fairly meaningless commitment, given the extremely limited scope of companies this could apply to. Market Forces notes that, at the time of the policy's release, ANZ was unable to identify any companies that this policy would apply to.

Clearing the remaining hurdles

ANZ has cleared the first hurdle of committing to exit direct finance for the most carbon intensive sector of the economy, thermal coal, by 2030. However, its approach to climate risk management remains deeply flawed.

ANZ has failed to adopt an appropriate strategy to manage its exposure to fossil fuel-based clients (corporate finance), including those with significant thermal coal interests. Nor has the bank adopted any sort of strategy to manage exposures to oil and gas and metallurgical coal, which must decline in order to align with the Paris goals.

There is no room for any new fossil fuel projects in a Paris-aligned decarbonisation pathway, meaning ANZ’s current policies fail to live up to its stated support for the Paris Agreement.

The fact that ANZ is setting policies that allow for clients whose business strategies are consistent with the failure of the Paris Agreement, or that leave the door wide open to finance new and expanded fossil fuel projects, mean ANZ’s energy policies are a recipe for climate disaster and increasing stranded asset risk.

26 Nov 2020: Update to October investor briefing (NAB)

NAB (ASX:NAB)

- 5 October 2020: resolutions announced to the ASX
- 20 October 2020: Market Forces investor briefing
- 16 November 2020: Notice of Meeting

Resolution

Shareholders request the Company disclose, in subsequent annual reporting, strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030.

On 5 November 2020, NAB released its full-year results, followed by its Sustainability Report on 11 November.

These reports failed to move the needle with regards to setting Paris-aligned fossil fuel exposure reduction targets.

Thermal coal exit still not Paris-aligned

NAB's full year results presentation failed to bring forward its inadequate official commitment to exit thermal coal mining by 2035, instead revealing the bank is "expected" to exit the sector by 2030.

Therefore, Market Forces reinforces the need for NAB to institute a formal policy commitment to exit the thermal coal sector by 2030 or earlier.

Signed by 631 investors representing over US$37 trillion in assets, the Global Investor Statement to Governments on Climate Change calls on governments to "phase out thermal coal power worldwide by set deadlines". Its accompanying Briefing Paper sets out these deadlines, including the elimination of coal power in OECD countries by no later than 2030. This goal has been matched by each of Australia's big four banks, except NAB.

Decarbonisation pathway is not a commitment

As referenced in its 2020 Notice of Meeting, NAB's Sustainability Report purportedly presents a 1.5°C-aligned decarbonisation pathway for the bank's lending portfolio. This pathway appears to be intended for advisory purposes only and does not constitute an exclusion of finance to companies and projects expanding the scale of the fossil fuel industry. Nor does it constitute a disclosure of Paris-aligned exposure reduction targets for the oil and gas sectors.

NAB confirms intention to review oil and gas policy by 2021

In September, NAB's CEO Ross McEwan told a House of Representatives Committee the bank would review its oil and gas policies "over the next six to 12 months", telling the Committee "I think we've got a lot of work to do in having a look at that whole issue and its impact across all of Australia and all the constituent parts, including what energy sources Australia needs to have."

NAB's Sustainability Report confirmed this update will be completed in 2021.

Our initial investor briefing document makes clear that NAB's provision of finance for the oil and gas sectors is severely misaligned with the Paris Agreement. Given NAB is currently reviewing its finance to these sectors, this resolution represents an important opportunity for investors to encourage NAB to align its oil and gas finance activity with the Paris Agreement.

With regards to exposure to the oil and gas sectors, NAB's recent reporting reveals:

- NAB's exposure to gas-fired power generation increased by 4% in the year to September 2020, from $0.94 billion to $0.98 billion. As such, NAB has retained its position as the major Australian bank reportedly most exposed to gas-fired power generation, with Westpac reporting exposure of $0.67 billion, Commonwealth Bank $0.6 billion, and ANZ $0.14 billion.
- Reported exposure to oil and gas extraction fell by a third, from $4.09 billion to $2.74 billion. However, NAB attributed the drop to "AUD currency appreciation of USD denominated exposures and lower mark-to-market position of treasury related products". It is unclear what the underlying change to oil & gas extraction exposure was net of these effects.

NAB repeats thermal coal exclusion claim

NAB's 2020 Notice of Meeting repeats the claim that "the Company will not finance new thermal coal mining projects" despite apparently having breached this commitment on numerous occasions since adopting it in 2017.

For example, in December 2018, NAB participated in a $600 million financing of New Hope Group, which New Hope stated "will be sufficient for the Company to also fund its medium term growth projects including New Acland Stage 3". New Acland Stage 3 is a new thermal coal mining project that NAB has told Market Forces would be excluded under the policy.

There are further details on these breaches in the initial investor briefing document.

Investor support required

Despite its stated support for the Paris Agreement, NAB remains an active investor in an expanding fossil fuel sector, further exposing shareholders to financial risks associated with the economic transition required to meet the Paris climate goals.

Shareholder support for this resolution is required to ensure NAB sets out clear and appropriate plans with measurable targets to manage transitional climate risk.

We urge shareholders to vote in favour of these resolutions and expect the many institutional investors already outspoken on this issue to offer their support.