Investor Briefing

ACCR/AODP ANZ resolution ‘carbon asset risk - improve disclosure and target reduced exposure’

Ticker: ANZ

AGM Date and location: Thursday, 17 December 2015 in Adelaide

Resolution:

Ordinary resolution: That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company: (a) request that the Board of Directors report to shareholders by end-August 2016, at reasonable cost and omitting proprietary information, their assessment of our exposure to climate change risk and carbon intensive businesses in our lending, investing, and financing activities (utilising whatever metrics the board finds most appropriate); and (b) express our view that it is in the best interests of our company that, by end-August 2016 our board set public targets and a timetable for reductions in the extent of that exposure.

Background

Under the United Nations Framework Convention on Climate Change countries have agreed that 2° C of global warming is the maximum acceptable upper threshold. This agreed ceiling sets a ‘budget’ on worldwide fossil fuel emissions. Currently, fossil fuel companies are estimating that they will be able to extract freely (for subsequent sale and combustion) over three times more carbon than is compatible with this internationally agreed ceiling. This contradiction is referred to as the ‘unburnable carbon bubble’.\(^1\) It creates “carbon asset risk” for financiers.\(^2\)

Top 4 Australian banks - (ANZ, CBA, NAB & Westpac)

Because they finance emissions-intensive businesses the 4 major Australian banks are potentially exposed to “carbon asset risk”. In 2014 the ACCR released a research paper which used information publicly available and data supplied by CAER/EIRIS\(^3\) to evaluate the ‘post-treatment’ exposure of the top 4 Australian banks to this unburnable carbon risk.\(^4\) That paper ranked ANZ (equally with CBA) as most exposed based on the (in some cases sketchy) data available. Seeking to improve shareholder capacity to understand these risks the ACCR lead-filed resolutions with 3 of these

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banks in 2014 (ANZ, CBA & NAB.) As a consequence all banks disclosure improved. In 2015, utilising the improved data available, the ACCR updated its research. See appendix below.  

**ANZ**

Since its 2014 AGM ANZ has significantly improved disclosure in regard to carbon asset risks and policy to address those risks. But, on balance sheet it still appears to be the most exposed of the top 4 Australian banks. Unlike the other three banks a significant part of ANZ’s business involves financing projects in emerging Asian and Pacific economies. In addition it has an equity market exposure to carbon asset risk via the listed company holdings in its insurance portfolio. Its wealth management arm ‘One Path’ scores poorly on the Asset Owners Disclosure Project climate ratings index.

In our view it is in the interests of ANZ shareholders the ANZ board broadens its disclosure of the carbon asset risk the bank faces and commits to targeting reduced exposure.

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7 ANZ’s on balance sheet exposure to highly carbon intensive businesses (for example, coalminers/coal ports) is estimated as 42% of bank equity. See appendix below.

8 See [https://www.anz.com.au/resources/a/d/ad910911-a4f9-4dc0-a2a4-ec258a51a2d/sustainability-review.pdf?MOD=AIPERES](https://www.anz.com.au/resources/a/d/ad910911-a4f9-4dc0-a2a4-ec258a51a2d/sustainability-review.pdf?MOD=AIPERES) p 33. 29% of project finance deals done by ANZ subject to the Equator principles in 2014 were done in Asia, compared with 5% by number for CBA, 3% by value for NAB & 10% by value for WBC.

9 See [http://aodproject.net/climate-ratings/aodp-global-climate-500-index.html](http://aodproject.net/climate-ratings/aodp-global-climate-500-index.html). Though note, ANZ was the only bank in the Boston Common survey which included climate related goals in its management compensation processes.
APPENDIX

The ACCR’s 2014 paper *Financed emissions, ‘Unburnable Carbon’ Risk and the Major Australian Banks* dealt with three sources of exposure to carbon asset risk:

- on balance sheet exposure, for example, as a consequence of project finance;
- equities market risk exposure, for example, as a consequence of falls in the market value of equity holdings held by bank insurance operations;
- regulatory, reputational and legal risk exposure, for example, stemming from risk management failures in wealth management operations.

As a consequence of the resolution and engagement activity conducted by ACCR in 2014 better information is now available on the extent of balance sheet exposure. It is set out in the table below. As yet little additional information has been provided in regards the second and third sources of exposure. Prima facie ANZ has the second largest equity market exposure (behind NAB).

<table>
<thead>
<tr>
<th>Bank</th>
<th>Original estimate¹¹ ($b)</th>
<th>Original estimate as % of equity¹²</th>
<th>New estimate¹³ ($b)</th>
<th>New estimate as % of equity¹⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ</td>
<td>17.5</td>
<td>38%</td>
<td>21.6</td>
<td>42%</td>
</tr>
<tr>
<td>CBA</td>
<td>8.3</td>
<td>18%</td>
<td>19.2</td>
<td>38%</td>
</tr>
<tr>
<td>NAB</td>
<td>6.1</td>
<td>13%</td>
<td>10.9</td>
<td>22%</td>
</tr>
<tr>
<td>WBC</td>
<td>6.3</td>
<td>14%</td>
<td>8.7</td>
<td>17%</td>
</tr>
</tbody>
</table>

¹⁰ Coal export ports, coal mining, oil & gas extraction, coal and gas fired power stations.
¹¹ See Table 2 *Financed emissions, ‘Unburnable Carbon’ Risk and the Major Australian Banks*, ACCR, 2014 p 9 and also p 18. The ranking in order from most to least accurate was ANZ, WBC & NAB then CBA.
¹² As at 2013 Annual Report.
   The ranking in order from most to least accurate is now ANZ, CBA and NAB then WBC.
¹⁴ As at 2015 half yearly report.