



# Climate Risk Disclosure Statement

**November 2021 (for year end 30 September 2021)**

BNZ will accelerate the just transition to a net zero emissions economy in New Zealand -  
“What we have before us are some breathtaking opportunities disguised as insoluble problems.”<sup>1</sup>

# Introduction

Over the past three and a half years, the New Zealand Government has committed to decarbonising the New Zealand economy through legislation and policy development. Then in December 2020, the Government declared a climate emergency. The Government is preparing its first emissions reduction plan, which will be published in May 2022. Drawing on the Climate Change Commission's advice, released in July 2021, this is expected to set out how New Zealand will achieve its first emissions budget (2022-2025) and contribute to the achievable and affordable transition to a net zero emissions future. This transition will require significant public and private financing.

In August 2021, the United Nations Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate change, released its sixth report providing further confirmation that we are in a global climate crisis. Major physical changes to our climate are inevitable and irreversible; some physical climate change impacts, including more frequent and extreme weather events and rising sea levels, are already locked in; and this is likely to be the last time the IPCC can report that we are not yet at the point of no return. We are on the brink of irreversible damage from climate change and only rapid and drastic reductions in greenhouse gases in this decade can prevent a climate breakdown.

These inevitable physical changes to the climate will impact our own business operations, as well as those of our customers and increasingly so – whether it be a residential customer located in a coastal area, an agricultural customer dealing with increasing drought conditions, or a small business managing disruption to supply chains because of extreme weather. Alongside these physical changes, we will be increasingly impacted alongside our customers and communities by the transition risks arising from climate change through legislative, regulatory, and policy responses, such as carbon pricing and climate change adaptation or mitigation policies, as well as market and consumer preference shifts towards low-emissions products and services.

In October 2021, the Reserve Bank of New Zealand's Report 'Climate Changed 2021 & Beyond' reinforced the impact of these changes when it recognised that 'The climate has already changed and with it we face a new financial, legal, economic, and policy climate. Business as usual no longer exists.' The Reserve Bank Governor, Adrian Orr, says that the challenge of understanding and managing climate-related risks is here. "Ongoing climate change has brought with it material economic and financial risks that we are obliged to identify, manage, and mitigate as part of our daily activities. The financial stability risks associated with climate change are significant, necessitating an urgent and collaborative response."

It is clear we are at a pivotal point. Lenders, investors, markets, companies, governments, and regulatory agencies must act. We know the way BNZ chooses to lend and invest, as well as our operational emissions, contributes to climate change. We intend to make our contribution a positive one by taking transparent, immediate, and accountable action before 2030. We are taking an integrated, holistic approach by reducing our operational emissions and rebalancing our lending and investment portfolios in favour of a net zero emissions economy by supporting customers and communities to make their own transition.

BNZ is proud to be the first New Zealand bank to align to the industry led, UN-convened [Net Zero Banking Alliance](#). As a signatory, we are committed to aligning our lending and investment portfolios with net zero emissions by 2050 and to set immediate targets for 2030 using robust, science-based guidelines, recognising the vital role of banks. Further detail will be published in the BNZ Transition Pathway Plan and future annual sustainability reporting.

As well as these commitments to reduce emissions and limit the future impacts of climate change, we are committed to transparently disclosing how we are managing our exposure to climate change that is already inevitable. The following summary of BNZ's approach to climate-related governance, strategy, risk management, and metrics and targets is prepared in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). Where relevant, we refer to BNZ as part of the National Australia Banking Group (the Group).

# Governance

## BNZ Board

While BNZ is owned by National Australia Bank (NAB), the BNZ Board retain ultimate oversight for Environment, Social and Governance (ESG or sustainability) risks and issues within the New Zealand business, including climate-related risks and opportunities. In 2020, the Board approved the [BNZ Sustainability Strategy](#). This has two core pillars, Kaitiakitanga and Manaakitanga. Kaitiakitanga addresses BNZ’s strategic response to climate change and our commitment to accelerating the just transition to a net zero emissions economy, one that supports the regeneration of the natural environment. Further details can be found in the [strategy section](#) below and our [2021 Sustainability Report](#).

The Board Risk and Compliance Committee (BRC) receives periodic reports on climate-related issues, regulatory developments, and other related matters that fall under its charter, including emerging risk, risk appetite, scenarios, and stress testing. The Chief Risk Officer (CRO) Report is provided to the BRC which includes a specific update on a range of climate-related issues. This reports progress against external commitments, climate-related credit risk, climate-related commitments and targets, environmental operational performance including carbon neutral status, policy and regulatory developments, and any concerns raised by stakeholders.

We have been progressively increasing the climate-related reporting and analysis provided to the BRC and will be providing quarterly focus sessions on climate risk management in 2022.

The Board also approves the bank’s overarching Risk Appetite Statement (RAS). This sets out specific targets and metrics that reflect acceptable limits of risk, including climate change, and the commitments the bank has made to address those risks.

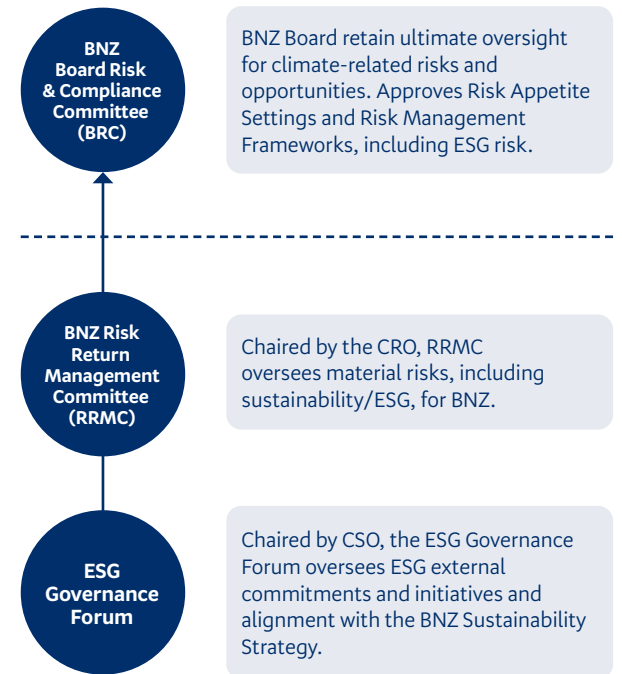
The Board has an increasing role directing the bank’s response to climate-related issues so needs to be equipped with the necessary expertise. In the 2021 financial year, the Board has had sessions with climate science and risk management specialists, covered the changing regulatory and supervisory response to climate change risk (specifically focused on transitional and physical risk and the framework for assessing climate risk), and discussed the implications of the Climate Change Commission’s final advice to Government – Ināia tonu nei – with Climate Change Commission members. This will continue throughout 2022, with increased climate-related training and updates including (i) the global carbon budget; (ii) the role of transition pathways to achieve net zero by 2050; and (iii) the changing regulatory and supervisory responses to climate-related risk.

## BNZ Executive

To support the Board with its oversight and governance of the bank’s operations, the BNZ Risk Return Management Committee (RRMC), the executive forum for risk matters, is charged with the management of the bank’s material risks. Sustainability, including climate risk, is included as a material risk category within the bank’s risk management framework alongside strategic, credit, market, liquidity, operational, compliance, and conduct risk. The RRMC reports through to BRC (mentioned earlier).

Within the business, the Chief Sustainability Officer chairs a monthly ESG Governance Forum. This is attended by senior managers from across BNZ that are responsible for delivering on each accountable executive’s actions and deliverables under the Sustainability Strategy. Quarterly updates are then provided to the Executive. To ensure intra-Group consistency and facilitation of expertise, the Chief Sustainability Officer is a permanent member on both the NAB Climate Change Working Group and the NAB Sustainability Council.

## BNZ governance and leadership structures



This is a snapshot of our governance structure. Our full governance and leadership structures can be found in our FY21 Sustainability Report, [here](#).

# Strategy

A key pillar of BNZ's business strategy is a long-term sustainable approach consisting of commercial responses to society's biggest challenges; resilient and sustainable business practices; and innovating for the future. BNZ's [Sustainability Strategy](#) sets out our goals and ambitions in this area. BNZ recognises that while we monitor and are actively reducing our own greenhouse gas (GHG) emissions, and have been carbon neutral across our operations since 2010, the greater contribution BNZ can have to addressing climate change is by supporting our customers and communities. We can finance the actions needed by our customers to transition New Zealand to a net zero emissions economy. We are developing our climate-related sectoral policies and portfolio reduction actions to align with a 1.5°C pathway as part of our 2021 commitment under the Net Zero Banking Alliance. This will be released in a BNZ Transition Pathway Plan.

## Our strategic commitments are:

- Aligning the operational and attributable emissions from our lending and investment portfolios<sup>2</sup> with pathways to net zero by 2050, or sooner, in line with the best available scientific knowledge.
- Working with our 50 most emissions intensive customers to develop climate change transition plans, focusing on decarbonisation and building resilience, and setting reduction targets based in science.
- Supporting our customers and suppliers, economy wide, to measure, reduce, and report on their climate impacts. We are the banking partner in a public and private sector collaboration to deliver the free-to-use Climate Action Toolbox to support small and medium businesses to understand and reduce their emissions and will continue to enhance the usefulness of the Toolbox.
- Transparently measuring and managing our exposure to climate risk and setting 2030 and 2050 emissions reductions targets for our portfolios.
- Product innovation to support our customers' transition pathways to net zero emissions (e.g. scalable sustainable finance products).
- Supporting our colleagues to understand climate risk, how it relates to the decisions they make, and how their actions impact the climate by committing to ongoing climate risk and opportunity training.
- Engaging with regulators and collaborating, where appropriate, with industry to determine best practice, and to contribute to important conversations needed to support New Zealand to achieve net zero by 2050 and make decisions to adapt/mitigate climate change impacts.
- Climate stress testing as outlined by the Reserve Bank of New Zealand (RBNZ)<sup>3</sup>.
- Undertaking physical and transition climate risk scenario analysis and continuing to develop the breadth and depth of our climate risk analysis.
- Reviewing our Environmental Reporting and Offset Management Policy to align with current best practice, ensuring offsets are additional and certified.

## Opportunities

It is not enough to manage climate risk; we must be a key part of financing climate resilience and the transition to a net zero emissions economy. BNZ is focused on identifying and prioritising current and future business opportunities that address resilience to climate impacts and decarbonisation at both an organisation level and for our customers.

Sustainable finance products and consideration of environmental impacts when lending provide significant opportunities for the banking sector. Key areas of focus for sustainable finance include decarbonisation initiatives and a just transition to a net zero emissions economy. BNZ has already made significant commitments to sustainable finance and has identified working with customers to transition to a low-emissions economy as a major area of focus. Further details can be found in our [2021 Sustainability Report](#).

BNZ continues to identify potential collaboration opportunities with peers, policymakers, investors, research organisations and other stakeholders, including, for example, engaging with the External Reporting Board as it prepares New Zealand's first 'climate standard', submitting in support of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, partnering with the Sustainable Business Network to develop the Climate Action Toolbox, and joining as a founding partner of Toitū Tahua, the Centre for Sustainable Finance.

## Risk

We are constantly considering ways we can incorporate climate change considerations into business, strategy, financial planning, and decision-making. In particular:

- BNZ is continuously improving how sustainability risk and opportunity is managed and embedded into organisational frameworks, policies, and processes.
- BNZ maintains a Prohibited, High Risk and Sensitive Sector list to help bankers and procurement professionals know which sectors and activities may have higher inherent exposure to sustainability-related risks and the additional due diligence required when banking customers and suppliers operate in such sectors. This list is reviewed and updated to incorporate emerging and changing sustainability considerations and applies to onboarding and credit assessments.

In FY20, BNZ committed to no new lending to coal mining, an exit from thermal coal mining by 2025, and an exit from all other coal mining activities by 2030. We monitor exposure levels and are actively engaged with impacted customers. We are currently developing an oil and gas sector position and will publish details in FY22. Further details on our actions to achieve net zero emissions by 2050 will be published in the BNZ Transition Pathway Plan and actively monitored and managed.

# 2021 Climate-related risk assessment

In 2021, BNZ undertook its first pass, voluntary climate-related risk assessment. This considered sea-level rise, exposure to local government coastal hazard areas, financed emissions, and the financial impact of a carbon price that may affect BNZ's residential housing and agricultural portfolios. At the time, this accounted for 52 per cent of our total portfolio. This preliminary risk assessment used two climate change models (RCP 4.5 and RCP 8.5<sup>4</sup>) and showed that, even at RCP8.5, portfolio risk exposure is unlikely to start to materialise until 2030 with security price impacts unlikely to crystallise until 2050. While this assessment provides us with strong, indicative information, it has significant limitations and assumptions, as set out in this disclosure.

While an assessment based on a dynamic climate model incorporating multiple physical and transitional risks was not possible in FY21, this first pass risk assessment has provided us with insights about data modelling and further information that we require to lift the certainty around forecast impacts to the required level for it to be decision-useful, to inform considerations of materiality of risk, and to meet anticipated standards for disclosure from 2023 onwards.

This risk assessment will be developed into a dynamic model and extended to cover more of our portfolio (e.g., commercial real estate) as well as other physical risks (e.g., storm intensity and drought) and economic risks (consumer and market demand shifts), resulting in more granular disclosure for FY22.

## Approach used

The assessment for 2021 used geographical information systems (GIS) and other data analysis techniques to identify BNZ's climate-related exposure for the risk categories set out above. The scope of this analysis included all residential and agribusiness properties (excluding forestry) held as security within BNZ's lending portfolio. The data collection and analysis methods used included identification of information, data blending, and spatial overlay analysis. A range of coastal hazard maps were overlaid with a geocoded map of BNZ's exposure to individual residential and agribusiness properties to identify potentially impacted security assets. RCP 4.5 and 8.5 for sea-level rise, temperature, and precipitation change formed preliminary, indicative climate change projections generated for 2030, 2050, and 2100.

Inundation from sea-level rise was modelled using Light Detection and Ranging (LIDAR) data, sea-level rise projections and a simple 'bathtub'<sup>5</sup> approach.

We used this approach because there are significant limitations on currently accessing data to develop dynamic models to assess physical climate risk in New Zealand. This aligns with the Reserve Bank of New Zealand 'Climate Changed 2021 & Beyond' Report which notes that the RBNZ have identified data gaps and more analysis is needed to establish data sources 'needed to gain a more accurate assessment of how climate change could affect financial stability'.<sup>6</sup>

The Government's Emissions Reduction Plan (ERP) discussion document provides useful context to the **transition risks** impacting BNZ and its customers. The draft ERP draws heavily on the recommendations in the Climate Change Commission's final report. Examples of possible transition risks to BNZ and our customers include:

- The level of emissions budgets to meet New Zealand's emissions reduction targets. These will impact on the price of New Zealand Units (NZUs) available for purchase within the Emissions Trading Scheme (ETS). NZU prices have risen significantly through 2021, with a clearing price of \$53.85 at the third auction on 1 September 2021. The clearing price has increased 29 per cent compared to the last auction in June 2021. Outside of these auctions, the NZU spot price continues to rise on the secondary market.
- Pricing of agricultural emissions which will likely impact the price of agricultural products and, consequently, the viability of some agricultural businesses<sup>7</sup>.
- A stricter Nationally Determined Contribution (NDC) to adhere to New Zealand's commitment of limiting warming to 1.5°C was released on 31 October 2021<sup>8</sup>. National commitments to emissions reductions equates to emissions reductions for our portfolio and, therefore, a need for our customers to reduce their emissions. This will not impact customers equally or equitably and will be easier for some of our customers. We are committed to financing our customer's transition, where appropriate.

- Regulations requiring that information about emissions and lifetime costs of alternative products and technologies is made available. For example, this could see the requirement to begin calculating and disclosing embedded carbon.
- Improving building code and energy performance standards. The more efficient buildings are, the less both the demand for electricity and the emissions created. Disclosure of the energy efficiency of buildings, including residential properties, will help with the calculation of Scope 3 emissions.
- Standards or target dates for phasing out certain technologies. For example, removal of coal as an option for process heat or electricity generation will impact the speed and cost of transition.
- Changes to the Resource Management Act 1991 including, but not limited to, climate change adaptation legislation. This needs to be an economy-wide discussion given the number of properties in New Zealand that are in close proximity to the coast and at risk from longer term physical climate changes.
- Insurance premium increases, higher excesses, or exclusions in cover for some hazards that property owners may face in the next 3-5 years. Higher premiums may impact a customer's ability to service debt, while an inability to adequately insure properties could lower their value. In some cases, property owners may be unable to afford to renew insurance. This could create a credit risk for BNZ depending on how any changes to the cost and availability of insurance are implemented; and how the regulatory system adapts in response to the emerging physical risks from climate change. The potential credit risks are lower in the agriculture sector due to the different terms of lending e.g., lower loan-to-value ratios, shorter loan terms, and the different nature of property use.

## Financed emissions and carbon price impact

BNZ used two indicators as an initial proxy of exposure to transition risk: financed emissions and the financial impact of a carbon price. BNZ has used the same methodology applied by NAB, based on the Partnership for Carbon Accounting Financials (PCAF) framework. Financed emissions represent the absolute GHG emissions that BNZ finances through its lending portfolios. The financial impact of a carbon price for each BNZ client is calculated by multiplying attributed emissions by a range of potential price differentials. In this first pass risk assessment, we considered financed emissions for our agricultural and residential loan portfolio, subject to a number of significant assumptions hampered by limited access to granular data. As noted above, this produced initial results that allow us to identify where we need to obtain further data to build out these models for FY22, providing us with a baseline for emissions reduction target setting and future scenario analysis.

## Limitations and assumptions

BNZ's first pass climate risk assessment has produced many insights not previously identified as well as material gaps and barriers which limited the ability to build dynamic models and, consequently, impacted the decision-usefulness of our analysis to date. With the wide range of possible scenarios and interconnectedness of physical and transition risk, BNZ's ability to accurately estimate future financial impacts with any degree of certainty, for disclosure purposes, is limited with point in time modelling. To achieve increased transparency of climate-related risks, dynamic (rather than point in time) modelling is required.

- **Physical impacts:** BNZ's risk assessment focuses on certain physical risks (sea-level rise, coastal inundation, temperature change, and rainfall change) but not all physical risks. We experienced significant limitations on the data currently available to dynamically assess climate risk in New Zealand. We are working to increase the granularity of data used in our modelling with the intention to report on a dynamic set of physical risks in FY22. Equitable access to physical climate data is an economy-wide discussion that needs to be had to ensure a just transition to a net zero economy. Examples of data limitations include:
  - o Regional variability and limited availability of data in some areas means that datasets are not complete. For example, Gisborne, Hawke's Bay, Southland, Taranaki, and the West Coast have limited publicly available data.
  - o Some other physical risks, e.g., storm surge modelling and perturbed pluviial flood risk data were not used because of restricted data access.
- **Financed emissions:** A range of assumptions were made when estimating financed emissions by BNZ. For example, broad indicators at a national level were used to estimate head count of different stock on different farms, when much more granular data would be needed to properly understand stock levels. Animal ratios (e.g., dairy cattle vs. non-dairy vs. sheep vs deer) were taken from generic statistics and assumptions necessarily applied. Emissions factors (a specific type of factor to a certain type of livestock) were derived from broad, publicly available Ministry for the Environment figures applied at a national level.
- **Transition impacts:** BNZ's risk assessment focuses on exposure to local government coastal inundation regulation, financed emissions, and the impact of a carbon price. Other transition risks, such as the impact of changing consumer and market preferences, may have an even more significant impact on BNZ's customers' exposure to climate change risk than they may face from direct physical risks.
- **Portfolio inclusion:** For FY21, the assessment was limited to BNZ's housing and agricultural portfolios (excluding forestry). As more granular and consistent data about the potential impacts of climate change are modelled, BNZ's risk assessments will expand to include other material categories within the bank's lending portfolio – e.g., commercial real estate, markets, corporate and institutional business, and small medium size enterprise (SME) exposures.

# Risk management

Strong risk management is an essential foundation for strong governance. The Group's Risk Management Framework sets out our material risks. The Group's Risk Management Strategy describes how we manage those risks. Sustainability risk, including climate change, is identified, measured, monitored, reported, and overseen in accordance with the Risk Management Framework and as described in the Risk Management Strategy.

We reinforce expectations of our risk culture and behaviours by aligning executive and staff remuneration with performance outcomes, including risk management. Proactively managing risk is such an important element of performance that it forms a specific goal in all BNZ staff performance plans. For FY22, executive scorecards include a requirement to deliver ESG commitments, as set out in the [BNZ Sustainability Report](#). This cascades down through responsible senior managers.

Sustainability risk can arise directly through the things we do in our own operations, or indirectly through the actions of our customers, suppliers, and other third parties. BNZ has an ESG policy that is applicable across the bank, from onboarding, to transactional, and lending activities to manage this risk. Our ESG policy identifies which sectors and activities may have higher inherent exposure to sustainability-related risks and applies to onboarding and credit assessments.

We also contribute to the management of climate-related risk in the Group. Details of Group climate-related risk management and additional disclosures about NAB's approach to climate risk, aligned to TCFD, can be found [here](#).

As part of the Group, BNZ is committed to NAB's [ESG Risk Principles](#). 'Environmental responsibility principles include consuming resources responsibly, looking for opportunities to minimise both the direct and indirect negative environmental risk and impacts from our operations, products and services, and giving consideration to reducing the indirect environmental risks that may arise from relationships with customers and suppliers.'

As noted by the RBNZ 'Both the physical impact of climate change and the impacts of transitioning to a low carbon economy hold risks for the financial system... anything that challenges the stability of the financial system and our economy is our core business.'<sup>9</sup> Climate-related risk is a prudential and financial risk and, therefore, has an elevated focus alongside liquidity and credit risk. Over FY21, we have undertaken foundational work to understand the climate-related risks impacting our portfolios in line with the TCFD recommendations. We have reviewed our existing risk management framework where we currently manage credit, operational, compliance, strategic, market trading, market non-trading/banking positions, and liquidity risks, and are embedding climate-related risk throughout our existing Risk Management Framework as each risk category is impacted in some way by physical, transition and/or liability climate-related risks.

We consider climate-related **physical risk** or impacts to include the economic costs and financial losses resulting from the increasing severity and frequency of extreme climate change-related weather events (such as heat waves, landslides, floods, wildfires, and storms), as well as longer term progressive shifts of the climate (such as changes in precipitation, extreme weather variability, ocean acidification, rising sea levels, and average temperatures).

We consider climate-related **transition risk** or impacts to include the risks associated with the process of transitioning towards a low-emissions, climate-resilient economy; emissions must reach net zero by 2050 to ensure we keep global warming within 1.5 degrees of pre-industrial levels.

Transition risks include, but are not limited to, market impacts for BNZ and our customers, technology changes, and policy and regulatory changes. This will apply to changing requirements due to physical changes such as local government development zoning changes and RBNZ stress testing requirements.

The process of reducing emissions is likely to have significant impact on all sectors of the economy affecting financial assets values, particularly where lending has been provided to carbon-intensive businesses. While urgent action is needed, an abrupt transition will have an impact on financial stability and the economy more broadly. This supports the need to urgently begin a managed transition to a net zero emissions economy to minimise the transitional impact of climate change on the bank and its customers; delay will result in a disorderly transition.<sup>10</sup> Examples of transition risk are set out on [page 5](#).

We consider climate-related **liability risk** to include the risks of potential claims against us or our customers in relation to management of climate risk or response to climate change, and potential claims against local or central government entities that impact us or our customers.

# Metrics and targets

## Operational emissions

While we know that the most significant impact we can have is through financing the transition of our customers, we continue to work hard to reduce the environmental impact of our operations, delivering on our targets and implementing key reduction projects.

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In 2020, we set a target of reducing our operational emissions by 60 per cent by 2025 (against a 2019 baseline). Since 2019 we have already reduced our operational emissions by 50 per cent.

Emissions for the purpose of this target are Scope 1, Scope 2, and operational Scope 3 (i.e., business travel (flights, rental, hotel stays) and waste) only. This does not include broader Scope 3 emissions, such as our lending or investment portfolio or suppliers.

While we set our emissions target in 2020 against a 2019 baseline, in 2021 we worked with Toitū Envirocare to ensure our operational emissions target adheres to science-based standards. Following this work, we can confirm our operational target and progress meets and exceeds science-based reduction pathways to keep global warming within 1.5 degrees of pre-industrial levels by over 10 per cent.

We will be working to set a 2030 operational target to further our ambitions. Further details of the key reduction projects, are set out in the [BNZ Sustainability Report](#).

## How we are tracking

|            | Action  | 2021 (% completed) |
|------------|---|--------------------|
| Governance | Continued board training and external engagement on climate risks and opportunities.  |                    |
|            | Management updates to BRC on climate risks and opportunities, supported by the ESG Governance Forum.  |                    |
|            | Board approved ESG focus areas for FY22 to continually improve our approach to climate risks and opportunities.   |                    |
|            | Oversight and management accountability for sustainability risks and opportunities, including climate change.   |                    |
|            | ESG accountability in scorecard linked to remuneration:<br>- CEO performance assessment and remuneration outcomes consider ESG commitments and progress.<br>- ELT performance assessment and remuneration outcomes consider ESG commitments and progress. |                    |
|            | ESG framework outlining climate commitments.  |                    |

How we are tracking

|                        | Action  | 2021 (% completed)  |
|------------------------|---|---|
| <p><b>Strategy</b></p> | <p>Support a transition that is just and considers social, financial, and environmental impacts and benefits.</p>   |    |
|                        | <p>Develop a BNZ transition pathway plan to align our operational and attributable GHG emissions from our lending and investment portfolios with pathways to net zero by 2050, or sooner, consistent with a maximum temperature rise of 1.5° above pre-industrial levels by 2100.</p> |    |
|                        | <p>Support our customers to develop and publish transition pathway plans, and set reduction targets based in science.</p>   |    |
|                        | <p>Product innovation to support our customers’ transition pathways to net zero emissions (e.g., low carbon/sustainable finance and green loans).</p>   |    |
|                        | <p>Support our customers and suppliers, economy wide, to measure, reduce, and report on their climate impacts.</p>  |    |
|                        | <p>Support our colleagues to understand the climate risk, how it relates to the decisions they make, and how their actions impact the climate by committing to ongoing climate risk and opportunity training.</p>   |    |
|                        | <p>Engage with regulators and collaborate, where appropriate, with industry to determine best practice and to contribute to important conversations needed to support New Zealand to achieve net zero by 2050 and make decisions to adapt/mitigate climate change impacts.</p>        |    |
|                        | <p>Climate stress testing by BNZ for both internal purposes and regulatory requirements.</p>  |    |
|                        | <p>Climate scenario analysis</p> <ul style="list-style-type: none"> <li>- Undertake physical and transition risk analysis on areas that are material to BNZ and our customers.</li> <li>- Continue to develop the breadth and depth of our climate risk analysis.</li> </ul>          |   |
|                        | <p>Review our Group Environmental Reporting and Offset Management Policy and ensure it aligns with current best practice with offsets additional and certified.</p>   |  |

How we are tracking

|                              | Action   | 2021 (% completed) |
|------------------------------|--|--------------------|
| <b>Risk management</b>       | Continue enhancing methodologies, tools and data for identification, measurement, and aggregate reporting of E&S risk exposures.                             |                    |
|                              | Develop quantitative Sustainability Risk Appetite (RAS) measures for ongoing monitoring.   |                    |
|                              | Review of our BNZ ESG Policy and BNZ ESG Framework to incorporate emerging and changing sustainability considerations.                                       |                    |
|                              | Evolve our ESG Assessments and expand the methodology to apply more extensively to all onboarding and lending.   |                    |
|                              | Set limits to manage exposure to physical climate risk and reduce portfolio emissions through portfolio budgets.   |                    |
| <b>Metrics &amp; targets</b> | Set and track progress towards absolute, science based operational emissions reduction target of 60% by 2025, from a 2019 baseline.                          |                    |
|                              | Source renewable electricity equivalent to 100% of our electricity needs.  |                    |
|                              | Report on financed emissions on a sector basis beginning with agriculture and residential mortgage portfolio then expanding to all other portfolios by 2024. |                    |
|                              | Set a Scope 3 emissions reduction target, which includes our customers Scope 1, 2 and 3 emissions, where significant and where data allows.                  |                    |
|                              | Revise our emission reduction targets at least every five years.   |                    |
|                              | Support 50% of our small and medium enterprise customers to measure, reduce, and report on their emissions by 2025.  |                    |
|                              | Committed to no new lending to coal mining and an exit from thermal coal mining by 2025, and an exit from all other coal mining activities by 2030.          |                    |
|                              | Publish a sector transition plan for oil and gas sector to align to a 1.5°C pathway.   |                    |
|                              | Committed to \$10bn of sustainable finance by 2025.  |                    |

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<sup>1</sup> John Gardner Speech accepting US President Johnson's offer to serve as US Secretary of Health, Education, and Welfare, July 1965

<sup>2</sup> This refers to on-balance sheet investment and lending activities with the exclusion on on-balance sheet securities held for client facilitation and market making purposes (as opposed to being held for investment purposes).

<sup>3</sup> Referenced throughout Climate Changed 2021 and Beyond – [The Reserve Bank Climate Change Report](#)

<sup>4</sup> RCP stands for 'Representative Concentration Pathway' and were developed by IPCC. The RCPs try to capture future emission trends by making predictions of how concentrations of GHGs in the atmosphere will change in future because of human activities. There are four RCPs ranging from very high (RCP 8.5) through to very low (RCP2.6) future concentrations. The numerical values of the RCPs (2.6, 4.5, 6.0 and 8.5) refer to the concentration in 2100. Current emissions are tracking close to the RCP8.5 pathway (or approximately 3°C of warming by 2100).

<sup>5</sup> Bathtub modelling considers anything below an estimated water elevation to be underwater and does not include dynamic processes – see Hansen (2016).

<sup>6</sup> Page 30, Climate Changed 2021 and Beyond – [The Reserve Bank Climate Change Report](#)

<sup>7</sup> For example, the Climate Change Commission has a current programme of work to consider the measurement, management, and pricing of [agricultural emissions](#)

<sup>8</sup> This was released on 31 October - [beehive.govt.nz/release/govt-increases-contribution-global-climate-target](https://www.beehive.govt.nz/release/govt-increases-contribution-global-climate-target)

<sup>9</sup> Page 4, Climate Changed 2021 and Beyond – [The Reserve Bank Climate Change Report](#)

<sup>10</sup> Ināia tonu nei: a [net zero emissions future for Aotearoa](#) which details selected decarbonisation paths New Zealand can take. The [National Climate Change Risk Assessment for New Zealand](#) provides a national picture of how New Zealand may be affected by climate change-related hazards. Together these provide insight on how New Zealand may be affected by climate-related transition and physical risk.