

**2017 HALF YEAR CORPORATE
SUSTAINABILITY UPDATE**

CEO'S MESSAGE



SHAYNE ELLIOTT
CEO

A handwritten signature in black ink, appearing to read 'Shayne Elliott'.

**“THE REALITY IS, A
THRIVING BANK, A SAFE
AND RESPECTED BANK,
IS GOOD FOR ALL OF
OUR STAKEHOLDERS.”**

The impacts of our actions are felt by many different stakeholders, including shareholders, customers, employees and the communities in which we operate.

We have a responsibility to report on those impacts, and we do so through our sustainability reporting. Transparency on our social and environmental impacts is just as important as reporting on our financial performance — we would not be able to operate a profitable business were it not for the social licence to operate granted to us by the community.

This update tracks our progress against sustainability targets we set at the end of 2016. While we are aiming to achieve a number of these targets by the end of this reporting year, many of them are longer-term targets, requiring sustained effort and focus in order to deliver meaningful change. This is especially true for the target we have set to help enable social and economic participation of one million people by 2020 – key to our organisational purpose to help shape a future in which people and communities thrive.

I am particularly proud of the positive social impacts arising from our long standing commitment to building financial wellbeing and capability. In collaboration with our community partners, we have reached almost 500,000 people through our MoneyMinded and Saver Plus financial inclusion programs. We are also striving to create an inclusive workforce by promoting gender diversity and workplace flexibility, and employing under-represented groups such as people with a disability, Aboriginal and Torres Strait Islanders and refugees.

A community cannot truly thrive without a healthy environment. We are continuing to reduce the environmental footprint of our operations and are addressing the many risks and opportunities associated with climate change. I'm pleased that in the past 18 months we have funded and facilitated \$5 billion in a diverse range of low carbon and sustainable projects.

We recognise that there is more we can, and need to do, to ensure our impacts are positive for both the community and the environment. Our employees have told us they also care deeply about the issues discussed in this update, and I am confident they will play a central role in helping us to create a successful and sustainable bank for future generations.

2017 SUSTAINABILITY TARGETS AND PERFORMANCE

Each year we set public sustainability targets and a corresponding Group wide program of work to support the delivery of our business strategy and respond to our most material sustainability issues. Progress against our targets¹ is reviewed quarterly by the Corporate Sustainability and Diversity Committee, chaired by our CEO, and twice a year by the Board Environment, Sustainability and Governance Committee, led by our Chairman. A number of these targets are aligned with the United Nations Sustainable Development Goals.



OUR CORPORATE SUSTAINABILITY FRAMEWORK



 **FAIR AND RESPONSIBLE BANKING**

Earn trust by keeping pace with the changing expectations of our stakeholders, maintaining high standards of conduct and understanding the social and environmental impacts of our business decisions.

 **SOCIAL AND ECONOMIC PARTICIPATION**

Build strong customer relationships and connect with our communities, supporting a diverse and inclusive society in which everyone can participate.

 **SUSTAINABLE GROWTH**

Create opportunities for all of our customers and enable sustainable growth for individuals, businesses and industry.

1. Unless stated targets are at Group level.



FAIR AND RESPONSIBLE BANKING

Targets

Commentary

Create the best experience for our customers, measured by improving Net Promoter Score relative to peers (Retail, Commercial and large Corporate/ Institutional customers, Aus & NZ).



- **Australia**
 - **Retail:** NPS score is -2.2 as at end March 2017 (ranked 2nd)²
 - **Corporate and Commercial:** NPS score is -13.8 as at end March 2017 (ranked 2nd)³
 - **Institutional:** 2016 NPS score of +7 (ranked 1st) — 2017 annual results published in June 2017.⁴
- **New Zealand**
 - **Retail:** NPS score is +9.9 as at end March 2017 (ranked 4th)⁵
 - **Corporate and Commercial:** NPS score is 0 as at end March 2017 (ranked 4th)⁶
 - **Institutional:** in 2016 59% of respondents would 'Recommend ANZ to associates' (ranked 1st) — 2017 annual results published in August 2017.⁷

Improve customer cyber security awareness through proactive engagement and provision of simplified cyber education materials and programs, reaching >60,000 customers in 2017.



- ANZ's Information Security Office is tracking customer engagement on cyber security and our cyber education activities to date include:
- an expanded presence on social media channels across specific campaigns (including Identity Theft, Stay Smart Online Week and Safer Internet Day)
 - face to face information sessions for corporate and commercial customers in Australia
 - increasing the number of customers reporting phishing emails
 - increasing the number of customers downloading ANZ Shield (two factor authentication application — over 230,000 downloads)
 - producing new cyber fact sheets; and
 - launching in-branch messages via digital screens in New Zealand to raise cyber security awareness amongst customers.

Implement our revised Human Rights Standards in 2017.



- We have established a three year program of work to guide implementation of our revised standards.
- Implementation of key priorities for FY17 is well progressed. We have updated the social and environmental screening tool used by our bankers to include our 'zero tolerance for land grabs' commitment. We are also piloting strengthened customer due diligence processes in a selected Asian location, as well as reviewing and updating employee training programs to reflect our revised standards.

Apply a strengthened third party ESG screening process to all suppliers in high risk countries,⁸ including ongoing monitoring of compliance with ANZ's Supplier Code of Practice by 2017.



- We have identified 12 countries as high risk in our supply chain.
- We have revised our Supplier Code of Practice (SCOP) and, together with our Modern Slavery Act statement, it is available on anz.com.
- We have engaged a third party to issue questionnaires on behalf of ANZ to a selection of suppliers in countries identified as high risk for attestation of compliance to the revised SCOP.

2. Roy Morgan Research Single Source, Australian population aged 14+, Main Financial Institution, six month rolling average to March 2017. Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld

3. Main Financial Institution (MFI) customers of four major banks during the 6 month period ending Mar'17. Ranking based on simple scores, not statistically significant differences. MFI Net Promoter Score (NPS) defined: On an 11pt advocacy scale, bank's MFI customers rate their likelihood to recommend their MFI to others for banking. NPS = % Promoters (score 9-10) - % Detractors (score 0-6).

4. 2016 Peter Lee Associates Large Corporate and Institutional Relationship Banking survey, Australia, ranked against the Top 4 competitor banks

5. Retail Market Monitor, Camorra Research, April 2017 (monthly)

6. Business Finance Monitor, TNS Kantar Research, April 2017 (quarterly)

7. 2016 Peter Lee Associates Large Corporate and Institutional Relationship Banking survey, New Zealand DBM's Business Financial Services Monitor (BFSM). Corporate & Commercial Banking (<\$500m annual turnover).

8. High risk countries are those that score <70 on the Transparency International Corruption Perceptions Index



SOCIAL AND ECONOMIC PARTICIPATION

Targets

Commentary

Help enable social and economic participation of 1 million people through our targeted inclusion programs by 2020 by:

Reaching >519,000 participants through delivery of MoneyMinded and Saver Plus, employment and community programs (coming off a baseline of >420,900 participants in financial inclusion programs up to end 2016).



- MoneyMinded delivery currently on track for 60,000 participants this year. Since 2003, more than 450,000 people have been reached through this program.
- There have been 35,750 Saver Plus participants since the program started in 2004.

Supporting >70,000 new small businesses through our 'start up' banking packages.



6,300 start up banking packages have been taken up by customers starting a new small business since 1 October 2016.

Register 240,000 customers for goMoney™ Mobile Phone Banking in the Pacific by 2017 (cumulative total since launch in 2013).



177,149 customers are registered for goMoney™, with 102,407 being new ANZ customers.

Build an engaged, diverse and inclusive workforce by:

Increasing the representation of Women in Management by 3% from 2015 to 2018.



Group-wide representation of Women in Management is at 41.4% (down from 41.5% as at 30 September 2016).

Extending flexible working policies in place for a minimum of 90% of ANZ geographies by 2018.



In addition to the eight countries reported for FY16, flexible working policies are also now effective in Indonesia, Fiji, Thailand, and Vietnam bringing the total number of countries to 12. ANZ flexible working policies are currently published in 38% of countries, covering 92% of employees.

Recruiting >1,000 people from under-represented groups including Indigenous Australians, people with a disability and refugees by 2020.⁹



Against a target of 280 we have recruited 155 people to date:

- 57 students have accepted our offer of an Indigenous School Based Traineeship; 18 Indigenous full time trainees have been employed, and we have appointed 5 Indigenous employees directly
- 28 refugees have been employed via our refugee employment program, Open Door
- 47 people with a disability have been employed.

Improving employee engagement by 3% to 77 % by FY19.



Results for employee engagement will be available in our annual Corporate Sustainability Review.

Increase employee volunteering participation rate in FY17 to 30%.



We are progressing towards this target with a volunteering participation rate of 13%.

9. This target will contribute to the 'help enable social and economic participation of 1 million people' target above.



SUSTAINABLE GROWTH

Targets

Commentary

Fund and facilitate at least \$10 billion by 2020 in low carbon and sustainable solutions including renewable energy generation, green buildings and less emissions intensive manufacturing and transport.



ANZ has funded and facilitated \$5 billion in low carbon and sustainable solutions, such as green buildings, low emissions transport, green bonds, renewable energy (wind, solar and geothermal), efficient irrigation and low emissions gas power generation, since 1 October 2015.

By 2017, reduce the direct impact of our business activities on the environment by:¹⁰

Reducing absolute GHG emissions from premises energy by 1 to 3% (against a 2013 baseline) and maintaining carbon neutrality.



We are on track to exceed our emissions reduction target, largely due to consolidation within our property portfolio and subdued growth of our data centres, where energy and operational efficiencies have been introduced.

Reducing paper consumption by 15% across material operations (against a 2013 baseline).



We are on track to exceed this target, with paper consumption reduced by around 19% in Australia and New Zealand as a result of continued digitisation and employee-focussed behavioural change programs.

Expanding number of recycling programs across material commercial offices and establish a waste baseline.



We are on track to meet this target. We have established a waste baseline which categorises material sources of waste (e-waste, furniture, waste to landfill, co-mingle, paper, document destruction) which is informing the development of new waste initiatives.

Applying eco-efficient design standards to improve water efficiency in our material branches and offices.



Water efficiency standards continue to be applied. As at end March 2017, 18 retail branch refurbishments have been completed with improved water saving appliances.

Developing a weather and natural disaster property resilience strategy.



Improvements in our weather and natural disaster resilience strategy was recently evidenced in our operational response and recovery planning efforts following Cyclone Debbie in Australia. In the Pacific, three forthcoming branch refurbishments will adopt the Climate Change Resilience Guidelines. These sites will compliment and build-on the resilience and durability lessons learnt from our Nandi (Fiji) branch, which was designed and constructed in response to routine climatic flooding.

10. All environmental targets are 3 year targets expiring June 2017. Environmental reporting year is 1 July–30 June, in line with the Australian regulatory reporting year.



CASE STUDY
RESTORING CUSTOMER
CONFIDENCE IN BANKS

We are working with our industry on reforms including changes to product sales commissions, better tracking of poor conduct by bank employees and strengthening the Code of Banking Practice.

We have introduced a new 'balanced scorecard' incentive plan for frontline sales staff in our branches and contact centres. The plan focuses on customer outcomes, team work and 'well managed' metrics (70% weighting), as well as financial performance relative to targets (30% weighting).

This significant reform was developed in 2016 following a 15 month trial during which we undertook a different approach to frontline incentives and measuring performance.

This represents a move away from incentive plan structures that are solely based on sales performance relative to target or that include financial gateways such as accelerators.

In coming months, we will introduce a Conduct Background Check Protocol for new hires. In addition, we are helping to redraft the industry's retail code of practice. The new Code will extend further banks' commitments to customers, including small businesses and those in financial difficulty. We are also continuing to advocate for an industry-funded last resort compensation scheme which will assist victims of poor financial advice.



CASE STUDY
KRYSTLE'S STORY

Queensland mother of four, Krystle, began the Saver Plus program in March 2016 to save for a laptop for her eldest daughter Hayley, 11.

"Hayley's high school has a 'bring your own device' rule. Without a laptop she wouldn't be able to complete assignments or sit exams. Even my younger children need access to a computer and the internet to do homework," Krystle said.

Krystle completed the program in December and received \$500 in matched savings from ANZ the following month, so was able to purchase the laptop for the start of the school year.

Krystle says the real benefit of Saver Plus has been learning to budget and save.

"I'd be really stuck if I didn't have the money skills I learnt through Saver Plus. Budgeting and changing little things, like buying groceries on sale and buying in bulk, has all added up," she said.

Krystle says she recommends Saver Plus to anyone, even those who don't think they can save.

"As little as \$12.50 a week adds up really quick, and you don't even notice it's missing," she said.

Saver Plus is a financial education and matched savings program developed jointly in Australia by the Brotherhood of St Laurence and ANZ to assist low-income earners develop a savings habit.



CASE STUDY
SUPPORTING THE TRANSITION
TO A LOW CARBON ECONOMY

ANZ is a market leader in the Australian and New Zealand green bond market, having issued our first AUD\$600m green bond in June 2015.

A green bond is a bond where proceeds are used to finance or re-finance climate-friendly or environmental projects. The market has been in existence since 2008, and as at the end of 2016, reached USD\$81bn of labelled green bonds issued globally.

Up until early 2017, the Australian green bond market has been dominated by supranational agency and bank issuance. In recent months, however, the first two corporate issuances occurred in Australia, in addition to a second semi-government issuance. ANZ held joint or sole lead roles in the issuance of these three green bond transactions, totalling AUD\$1bn. We support issuers by advising on green bond market application, bond structure and framework, investor demand and execution.

ANZ has been developing the Australian green bond market by arranging and engaging in private dialogue with issuers and investors, as well as forums bringing together the two to discuss green bonds. We have also participated in conferences and written opinion pieces, helping to educate wider audiences on the processes involved in issuing a green bond and the market more generally.

Highlights of the transactions ANZ has led (on a joint or sole basis) in the past six months are set out below:

Investa Commercial Property Fund

Date: April 2017
Amount: AUD 100,000,000
Rate: Fixed Rate Senior (Unsecured Notes)
ANZ Role: Joint Lead Manager

Investa Office Fund

Date: March 2017
Amount: AUD 150,000,000
Rate: Fixed Rate Senior (Unsecured Notes)
ANZ Role: Sole Lead Manager & Green Bond Coordinator

Queensland Treasury Corporation

Date: March 2017
Amount: AUD 750,000,000
Rate: Fixed Rate Green Bond
ANZ Role: Joint Lead Manager

IMPROVING OUR CLIMATE RISK DISCLOSURES

Climate risk reporting continues to evolve in Australia and internationally with increasing pressure on companies to disclose the financial risks and opportunities associated with climate change, including detail on how risks are being identified and managed.

Over the past six months there have been a number of developments, perhaps the most significant being the February 2017 release of the Recommendations Report of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).¹¹ While the final recommendations will be released in the coming months, our intention is to adopt many of them as soon as practicable. We believe the recommendations for the banking sector are reasonable and can largely be met through our existing regulatory and voluntary reporting.

While many investors have been discussing the importance of climate risk disclosures for some time, regulators too are becoming more explicit about climate-related financial risks. This was clearly evidenced in a speech delivered earlier this year by Geoff Summerhayes, an Executive Board Member of the Australian Prudential Regulation Authority, in which he stated:

"Some climate risks are distinctly 'financial' in nature. Many of these risks are foreseeable, material and actionable now. Climate risks also have potential system-wide implications that APRA and other regulators here and abroad are paying much closer attention to."¹²

In our 2016 Corporate Sustainability Review we expanded our climate risk disclosures, including information on the emissions intensity of our project-financed power generation portfolio, and emissions intensity relative to our industry exposures for Australia and New Zealand. We will next update these metrics in our full year Corporate Sustainability Review. As we prepare our end of year disclosures to meet the TCFD's recommendations we are undertaking a number of activities, including:

- Scenario analysis to explore the transition risks associated with carbon-intensive industries within ANZ's portfolio
- Discussions with stakeholders to understand what disclosures they find most useful
- Reviewing our external reporting suite to ensure that our climate risk disclosures are integrated with relevant financial and risk management disclosures.

From a governance perspective, the CEO and Board are engaged in this process and oversee the bank's climate change strategy.

11. See <https://www.fsb-tcfd.org/>

12. See <http://www.apra.gov.au/Speeches/Pages/Australias-new-horizon.aspx>

FEEDBACK

To provide feedback on ANZ's sustainability performance or for any queries about our sustainability reporting, please email corporate.sustainability@anz.com.

For 2017 Half Year Results visit anz.com/results