

Australia and New Zealand Banking Group Ltd (ANZ)

**SUBMISSION TO THE CARBON
DISCLOSURE PROJECT (4)**

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Prepared by

GAVIN MURRAY
Head of Institutional & Corporate Sustainability





1 GENERAL

How does climate change represent commercial risks and/or opportunities for your company?

As a signatory member to the CDP, ANZ acknowledges the growing significance of global warming for society, the environment and the economy, and therefore more specifically for ANZ itself. ANZ supports the adoption of a determined and progressive movement towards a low carbon economy to avoid the possibility of future shocks at a macro-level.

ANZ also recognises that these impacts will not necessarily affect all sectors of society, industries and enterprises equally. As indicated in previous submissions, despite there being a likely overall net cost to society, moving towards a low carbon economy presents both risks and opportunities for ANZ and its customers.

Risks and Areas of Concern

- Increased credit risk and decreased asset valuations due to the changing operating environment for our customers as a result of impacts of changing weather patterns, extreme weather events, rising sea-levels, prolonged drought conditions and the tightening climate regulation.
- Increased operating costs (i.e. infrastructure, insurance, abatement measures, taxes etc) incurred by some of our customers as they adapt/mitigate exposure to changing weather and public policy responses such as abatement, carbon taxes, emissions trading etc.
- Increased public scrutiny and reputation damage due to ANZ's support to existing carbon intensive sectors and also our support to climate neutral projects i.e. wind farms and hydro-power schemes, which often generate community outrage and public opposition.
- Increased costs incurred by ANZ in understanding climate change, the monitoring of policy developments/implications and in managing/reducing its own greenhouse gas emissions.

New Business Opportunities

- Engaging clients in understanding their climate risks and developing advisory and financial services to assist them in improving their performance and manage their risks (e.g. emissions trading, CDM's).
- Developing new lending, investment, and advisory services to support the development of a viable renewable energy sector.
- Providing guidance, incentives and finance to customers to encourage energy efficiency and greenhouse gas abatement measures.
- Developing and piloting new renewable energy and energy efficiency financial products and services.
- Developing partnerships with renewable and energy efficiency service providers.
- Reducing operating costs by implementing energy efficiency initiatives in our own property portfolio on a cost-benefit analysis.
- Enhancing our brand and reputation with stakeholders (staff, customers, government and non-government organisations).



Based on our assessment of the climate related risks and the opportunities likely to impact on our customers and ANZ, we are committed to:

1. Reducing our own greenhouse gas emissions, including an evaluation of a progressive commitment to becoming carbon neutral.
2. Developing performance benchmarks to inform our engagement with clients in the energy intensive sectors.
3. Collaborating with clients in energy related industries to better understand carbon exposures and explore innovative financial solutions.
4. Accelerating our support for new policy initiatives at the regional, national and state levels including a priority focus on new technologies and market instruments.
5. Engaging our stakeholders, specifically environmental groups, to explain our approach and challenges and where possible, solicit their advice on ways to improve our performance and support our customers.
6. Raising awareness of our staff, customers and business partners around the need for us all to appreciate the significance of the issue and contribute to solutions.

2 REGULATION

What are the financial and strategic impacts on your company of existing regulation of GHG emissions, and what do you estimate to be the impact of proposed future regulation?

ANZ, like most financial institutions, has a minor direct GHG emissions footprint and therefore is not likely to be the focus of future GHG regulation. With the exception of New Zealand, ANZ also operates mainly in jurisdictions where current GHG regulation is either limited (e.g. Australia where the focus is on encouraging renewable energy, clean technology and energy efficiency) and/or non-existent (e.g. Asia Pacific region).

Notwithstanding this, evolving GHG-related regulation does have varying impacts on our clients and is likely to have an increasing impact over time. The impact of the current GHG regulation in Australia (e.g. Federal Government's Mandatory Renewable Energy Target and the NSW Greenhouse Benchmark Scheme) is not material at present, however is likely to increase should the Federal and State governments move to further limit GHG emissions. The strategic impact of future GHG regulation will be particularly relevant to our clients in the energy intensive sectors.

We believe this is essential to protect the interests of our customers and our business, while encouraging a range of new cost effective low carbon technologies. It is important to note that ANZ is a financier of a wide range of energy assets, including coal, hydropower, gas, wind and solar. ANZ's investments in the coal mining and coal-based generation sectors is currently being criticised by some national and international environment groups. Similarly, our support to some wind farms and hydro-power attract negative attention from local community groups.

Many of ANZ's clients also operate in jurisdictions that have ratified the Protocol and therefore could be impacted by the climate-based regulations adopted by these countries. The risks and opportunities for our lending and investing activities in these countries are taken into consideration as part of normal



customer engagement and credit assessment processes. Evolving GHG regulation and policies in some jurisdictions have also created new advisory, lending, trading and investment opportunities for the bank (e.g. emissions trading, CDM, renewable energy and energy efficiency).

ANZ has undertaken a number of activities to help address our overall exposure to climate change (risks and opportunities) including the following:

- Developing a new ANZ Environment Charter which specifically recognises both direct (footprint) and indirect (products and services) impacts of our operations. (<http://www.anz.com/aus/values/default.asp>)
- Embarked on a process of increasing our understanding and awareness of climate risks and policy/regulatory developments in relevant business units through ongoing dialogue with our clients and specific stakeholder interaction.
- Established an internal climate working group that has developed an internal discussion paper which assesses the business risks and opportunities associated with evolving GHG regulation.
- Is a member of The Climate Group's Financial Leaders Group and is participating in a collaborative process with other leading international banks to examine ways of assessing the risks of lending and investments in energy intensive sectors.
- Has developed a portfolio assessment tool to assist ANZ business units to better understand climate-based regulatory and physical risks.
- Where appropriate, business units factor GHG risks (regulatory and physical) impacts into borrower assessments in our institutional, corporate and structured financing products and services along with other relevant lending and investing decisions.
- Is currently engaging clients on a range of new climate-based business opportunities in the Asia Pacific region that have arisen due to energy efficiency and/or Kyoto-based regulation.

3 PHYSICAL RISKS

How are your operations affected by extreme weather events, changes in weather patterns, rising temperatures, sea level rise and other related phenomena both now and in the future?

As a large urban-based, services organisation ANZ's operations are unlikely to be materially impacted by the physical impacts of climate change. Clearly, should changes in weather patterns have a material impact on the entire economies where ANZ operates, the ability of ANZ to carry out its business will be compromised. Given ANZ's significant operations in the Pacific Islands region, ANZ could have a large exposure to physical impacts from extreme weather conditions in some of these jurisdictions.

ANZ's lending and investments in some sectors could be immediately negatively impacted from extreme weather conditions (e.g. agriculture, insurance, tourism and utilities). In other sectors the impacts could be positive (e.g. engineering, consulting, technology and construction services).

As indicated Q2 above, ANZ has begun to factor climate-based risks and impacts (regulatory and physical) in its normal lending and investment due diligence and credit assessment processes.



4 INNOVATION

What technologies, products, processes or services has your company developed, or is developing, in response to climate change?

As a large financial institutional, ANZ has a relatively low direct greenhouse impact. However, we constantly research new innovations and opportunities to implement energy efficiency measures to reduce our emissions (see Q8 below).

ANZ is an active participant in providing financial services to the emerging renewable energy and alternative fuels market and is currently designing and piloting a number of new financial products and services that will encourage the uptake of energy efficiency technology and GHG abatement.

In 2005, ANZ continued to strengthen its position as a market leader in the financing of renewable energy projects. We are not able to assess the greenhouse gas emissions savings associated with lending and investing in 2005, but ANZ does provide significant ongoing financial support to range of clean energy assets. For 2005, ANZ's energy portfolio in Project Finance comprised of 48% clean energy assets, including gas, wind, landfill and hydro. ANZ also maintained its support to a number of existing assets and is actively developing new opportunities. A sample of these is indicated below:

- A wind farm at Challicum Hills, Central Victoria (52.5 MW).
- The Coya Pangal Hydro scheme in Chile (76.3 MW).
- Waste coal mine gas power station in Queensland (10.6 MW).
- The construction of a large biodiesel plant in northern Victoria.
- Refinancing of a portfolio of Australian remote area power generation, landfill gas and coal mine waste methane power generation projects (252MW).
- Solar Cities – ANZ is currently the banking partner in three bids under this Commonwealth Government sponsored program to promote the development and uptake of solar power in Sydney, Perth and Adelaide.
- Residential energy products – ANZ continues to pilot and explore a range of new energy efficiency and renewable energy products.

5 RESPONSIBILITY

Who at board level has specific responsibility for climate change related issues and who manages your company's climate change strategies? How do you communicate the risks and opportunities from GHG emissions and climate change in your annual report and other communications channels?

ANZ's overall performance against commitments in the Environment Charter is monitored by the ANZ Board Governance committee. This is achieved through formal reports presented to the Board on a quarterly basis. ANZ's progress and performance on environmental performance, including climate related issues is also reviewed quarterly by the Corporate Responsibility Council.

At an executive level, accountability for managing ANZ's commitments for supporting the business in reducing its direct GHG emissions lies with the Managing Director - Operations, Technical and Shared Services and the program to achieve this is coordinated by ANZ's Head of Environment.



With respect to the indirect impacts of lending and investing, ANZ's Group Managing Director, Institutional has overall accountability for ensuring climate related risks are factored into lending and investment decision-making. The Head of Sustainability, Institutional has responsibility for developing and implementing policies and programs to assist business units to assess climate risks and develop new lending and investing opportunities.

Increasingly, the key result areas of ANZ executives and senior managers include environmental performance targets. Depending on their specific role and function, these could include reference to the attainment of GHG reduction targets.

ANZ reports its GHG emissions publicly in its annual corporate responsibility report and bi-annually on its web-site. Performance data in these reports is externally verified by KPMG on an annual basis.

6 EMISSIONS

What is the quantity in tonnes CO₂e of annual emissions of the six main GHG's produced by your owned and controlled facilities in the following areas, listing data by country?

- Globally.
- Annex B countries of the Kyoto Protocol.
- EU Emissions Trading Scheme.

ANZ is a member of the Australian Federal Government's Greenhouse Challenge Program and uses the Australian Greenhouse Office's (AGO) Greenhouse Challenge Factors and Methods Workbook for calculating GHG emissions. We believe this to be consistent with international GHG accounting standards.

For FY 2005 (1 Oct 2004 to 31 Sept 2005) ANZ's operations in Australia generated 167,000 tonnes CO₂ eqv. (see Annexure 1). The majority of the emissions generated were from the purchase of electricity, gas a transport and consisted mainly of Scope 2 emissions derived from coal-fired generation (as defined by the AGO). Full details of ANZ's environmental performance can be found in our 2005 corporate sustainability report referenced below.

ANZ does not currently report the GHG emissions in other jurisdictions at present, however is in the process of developing the systems to do this in New Zealand (2007) and for the rest of global operations (2008). Our GHG direct impacts in Annex B and EU ETS countries consist of office-based emissions and are not material in the context of our own overall direct emissions.

ANZ's 2005 greenhouse gas performance and reported data was externally verified by the AGO and KPMG.



7 PRODUCTS AND SERVICES

What are your estimated emissions in tonnes CO₂e associated with the following areas and please explain the calculation methodology employed.

- Use and disposal of your products and services?
- Your supply chain?

The direct GHG emissions associated with our products and services are indicated in Q6 above.

As indicated in Q2 above, ANZ currently assesses the emissions related risks and opportunities associated with its lending activities. ANZ is also

- Investigating ways to better understand the greenhouse gas emissions profile and risks of our lending and investment portfolio and energy intensive customers.
- Supporting our clients in the energy intensive sectors to better understand their carbon exposure risks and propose financial solutions to assist their performance improvement and help manage their risks.
- Continue to assess and support emerging energy technologies and markets.
- Raising the awareness of our staff and customers around the significance of these issues and the role all of us need to play in contributing to the solutions.

In December 2005 ANZ established a sustainable procurement policy and process to encourage suppliers to improve their environmental performance. In 2006 ANZ will enhance the current supplier self-assessment tool and decision-making criteria by including specific references to improving and assessing GHG emissions and energy efficiency performance. ANZ has developed a new transport and operating standard to guide purchasing decisions and included specific greenhouse gas criteria and benchmarks into the new fleet vehicle tender which is currently being evaluated.

8 EMISSIONS REDUCTION

What is your firm's current emissions reduction strategy? How much investment have you committed to its implementation, what are the costs/profits, what are your emissions reduction targets and time-frames to achieve them?

ANZ has no mandatory obligation to reduce its emissions. However, as a major financier of energy assets in the region and consistent with commitments in our Environment Charter, core values and business strategy, ANZ has made a commitment to deduce energy consumption by 5% (and associated emissions) from October 2005 to September 2007. ANZ is currently in the process of implementing an internal energy efficiency program to support this objective. This program consists of a range of policy, capital expenditure and behavioural change programs that are currently being rolled out in our property, information technology and transport functions.

In addition to our commitment to reduce energy consumption, ANZ is currently investigating options to reduce greenhouse gas emissions through the purchase



of accredited green power and/or procurement of carbon offsets that meet international standards.

9 EMISSIONS TRADING

What is your firm's strategy for, and expected cost/profit from trading in the EU Emissions Trading Scheme, CDM/JI projects and other trading systems, where relevant?

In 2004 ANZ developed its trading capabilities for the emerging Australian renewable energy market. ANZ actively trades Renewable Energy Certificates generated in the Federal Governments Mandatory Renewable Energy Target scheme and was the first bank to be transacting abatement certificates to meet the requirements NSW Greenhouse Abatement Certificates scheme. ANZ also provides information on renewable obligations to corporate and institutional customers.

During 2005 ANZ carried out a commodities review in its Markets business. An outcome of the review was to develop a new electricity trading service and to increase ANZ's activities and participation new business activities in the emerging carbon market in the region. Participation in these emerging markets has enabled ANZ develop new capabilities and products/services to assist our clients in managing their climate risks. We are currently participating in a number of deals to secure and trade CERs from CDMs projects established in the region. We are also in discussion with a range of private and government clients about developing new ANZ branded energy efficiency and climate-related products.

For FY 2005 the following was applicable for ANZ's emissions trading activities with respect to the EU ETS:

- EU ETS related revenue was currently zero.
- Non-compliance fines were zero.
- Sale of surplus credits was zero.
- In 2006 ANZ intends developing new trading products in the Asia Pacific region that will generate new revenue streams.
- CDM and JI investments to date are zero.
- ANZ is currently assessing the appropriateness of voluntarily offsetting a proportion of its emissions over the next two years.

10 ENERGY COSTS

What are the total costs of your energy consumption, e.g. fossil fuels and electric power? Please quantify the potential impact on profitability from changes in energy prices and consumption.

For FY 2005 ANZ's expenditure on energy (electricity, gas, diesel, fleet vehicle fuel) was AU\$18.5 million. This represents approximately 0.4 of 1 % of our total operating costs. Projected increases in energy prices, greenhouse gas regulations and/or the procurement of green power/offsets is unlikely to have a material impact on the contribution of energy to ANZ's overall cost to income ratio.



ANNEXURE 1 ANZ Environment Performance

Natural resource efficiency and emissions

Indicator	Performance
Total staff (average for year)	16,657 FTE
Occupied building space	497,277 m ²
Electricity consumption	130,134 MWH
	7.81 MWH/FTE
	0.26 MWH/m ²
% Renewable or offset	0%
Gas consumption	9,773 GJ
Diesel fuel purchased	44 kL
Petrol fuel consumed (1 Apr 04 to 31 Mar 05)	1,624 kL
Paper usage	3,921 tonnes
	235 kg/FTE
Office copy paper	806 tonnes
Print paper	3,115 tonnes
Corporate travel	91,361,735 km
	5,485 km/FTE
Fleet car travel (1 Apr 04 to 31 Mar 05)	14,126,138 km
Car rental travel	508,654 km
Air travel – domestic	41,303,604 km
Air travel – international	35,423,339 km
Paper recycling	1,329 tonnes
Equivalent CO ₂ emissions*	166,698 tonnes
	10.01 tonnes/FTE

* Includes electricity consumed, gas consumed, petrol consumed and diesel purchased

References: ANZ Corporate Responsibility Report 2005 - <http://anz.com/aus/values/default.asp>