



# BANKING ON SUSTAINABLE BUSINESS

**Understanding the social and environmental performance of our business clients is now a core element of risk assessments at ANZ.**

How a client identifies and manages these issues is just as important as the more traditional concerns of credit risk, quality of management and business strategy.

Over the past five years, we have established a framework to help us better understand how the clients we bank, and the projects we finance, impact society and the environment. This framework

assists us in managing challenging issues and making better decisions about the transactions we should or should not be involved in.

This year, we've seen specific examples of how this work can improve our decision-making processes and encourage real improvement in our clients' practices.

**“Our approach is not all about declining clients or deals. Instead, we will measure our success in this area based on how many businesses we help to transform.”**

— CHRIS PAGE, CHIEF RISK OFFICER

## BUILDING STANDARDS AND CHANGING PRACTICES

ANZ released four social and environmental management policies in 2008 which set out the standards that guide our decision-making on transactions involving clients in sensitive sectors.

We will use the policies as a framework for working with clients to respond to the social and environmental issues facing their business. The policies also help us meet society’s expectations of our responsibilities which go beyond the provision of banking services and capital.

**“Encouraging improvement in the way our clients balance these issues with other business considerations is, for us, what sustainable development is all about,” says Chief Risk Officer, Chris Page.**

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This year we worked with forestry clients to ensure their operations are consistent with the standards described in a new Forests Policy introduced in March.

The Policy outlines the type and location of forestry activities we will support, including our expectations regarding the management and measurement of social and environmental impacts.

It applies to new and existing clients, and rather than being used to ‘redline’ or exclude certain businesses, we work with clients to agree on action plans that will move them towards conformance with our policies.

In some cases, we engaged independent experts to assist with the review of clients’ practices and identify steps required to align these with the Policy and other industry standards.

Recommendations from these reviews range from measures to improve the management of employee issues to promoting more effective reforestation of disturbed areas.

Actions agreed with clients have included commitments to local legal compliance verification programs through to participation in schemes designed to verify the origin of timber products through all stages of production.

The Forests Policy can in this way provide a ‘roadmap’ for clients to meet evolving global forestry management

trends, and represents another way we can add value to their business. Adherence to such standards are increasingly required to establish the ‘sustainability credentials’ expected by many potential customers and to effectively compete in the international market for forestry products.

Our approach is also helping us identify new business by attracting clients who are starting to think about these issues, especially their potential exposure to mandatory carbon constraints, but need assistance in finding a practical way to respond.

For example, we are currently working with an Australian-based timber company on a model to measure the value of their plantations as a store of carbon in addition to their worth as a supply of timber.

This involves helping the client understand the alternate income stream that could be generated through tradeable carbon credits derived from their plantations relative to the returns that are normally expected through timber production.

### OUR SOCIAL AND ENVIRONMENTAL POLICIES – AT A GLANCE

POLICY	FORESTS	GREENHOUSE AND ENERGY	WATER	MINING AND MINERALS
What does it say?	ANZ to avoid support of logging in high conservation value and protected areas and will encourage clients to seek certification of their practices	ANZ to assess emissions intensity of client against industry and sector benchmarks and identify potential for improvement	Client to develop water management plans according to international standards	Client to demonstrate best practice control of social and environmental mine legacies and establish community engagement plans
What type of businesses does it apply to?	Forestry, logging and related primary production companies	Power generation companies and high-emission manufacturers	High-use customers including irrigators, food processors and manufacturers	Mining and mineral processing companies
Applies to existing customers?	Yes	Yes	Yes	Yes
When did it commence?	March 2008	September 2008	September 2008	September 2008

More information: [www.anz.com/policies](http://www.anz.com/policies)

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## THE PRINCIPLES OF BETTER DECISION-MAKING

When it comes to large infrastructure projects, the social and environmental stakes can be particularly high. Poorly managed projects can have serious impacts on pollution levels, endangered species, water sources, delicate ecosystems and local communities. Developers and their financiers are as a result placed under close scrutiny.

However, these projects are important, even necessary, for the long-term health and viability of many communities. Hydro projects are an example. While their impact on natural waterways and ecosystems can be significant, they also deliver economic, social and environmental benefits including a clean, sustainable and reliable source of energy to developing communities throughout the world, particularly in South East Asia.

The Equator Principles (EP), a decision framework used by financiers to effectively manage the social and environmental factors in project finance,

effectively set the standard for developers and help ensure the impacts of these important projects do not outweigh the benefits.

### Identifying issues as early as possible

ANZ has used the EP since 2006 to improve the quality of our decision-making and the support we provide to clients. We use the Principles at all points of the project financing process, rather than solely at the final approval stage, when formal EP reviews are traditionally conducted.

We look for evidence that potential clients are 'geared up' to meet EP requirements in the early stages of a relationship. This might include, for example, work completed on social and environmental assessments on a proposed project or consultation underway with impacted communities and regulatory authorities.

From here, we can work with clients and provide additional support to assist them in meeting EP requirements which, in most cases, will help improve the long-term viability of their project.

It also enables us to decline potential projects at an earlier stage when the development standards applied by us, as financier, and the proponent clearly differ. This year, for example, we withdrew from a proposed hydro power plant in South-East Asia before formal review stage, in part because the developer was reluctant to appoint an independent technical advisor to the project, an EP requirement for a Category A or 'high potential environmental impact' project. While this will not appear in our statistics as a 'declined' project, it is an example of the Equator Principles at work.

"The Equator Principles have sharpened our focus on social and environmental issues – we now take a more holistic approach to the question of whether we should even begin discussions about a project or not," Global Head of Specialised Lending, Christina Tonkin, explains.

"This way we are more likely to identify insurmountable problems before we spend time and resources on what will ultimately be a non-compliant project."

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— CHRISTINA TONKIN,  
GLOBAL HEAD OF  
SPECIALISED LENDING

### EQUATOR PRINCIPLES PROJECTS REVIEWED 2008

	REVIEWED	CONFORM TO EP	FINANCED
High Impact	3	2	0
Medium Impact	16	16	14
Low Impact	14	14	10
Total	33	32	24

#### Reasons for non-finance of projects

Nine projects reviewed under the Equator Principles this year were not financed.

Four of these projects are still subject to further consideration by project financiers and/or the project sponsor before a final decision is made. The remaining five did not proceed for a range of reasons, which may include the sponsor not being able to meet our funding conditions; the project not proceeding; or ANZ's bid not being accepted by the project sponsor.



## MORE ABOUT ANZ'S APPROACH:

- Social and Environmental Policies  
[www.anz.com/policies](http://www.anz.com/policies)
- Equator Principles  
[www.anz.com/equator](http://www.anz.com/equator)
- Energy efficiency loans in NZ  
[www.anz.com/financial-solutions](http://www.anz.com/financial-solutions)
- Bringing renewable energy to Pacific Islands  
[www.anz.com/financial-solutions](http://www.anz.com/financial-solutions)

### Following through on client promises

While project proponents are in the best position to consider and respond to concerns raised by groups impacted by the project, we have a clear responsibility to work with the client on their commitments.

This was highlighted this year by the closure of a polymetallic mine in the Philippines which ANZ financed (along with five other banks) a number of years before becoming an EP bank. The mine was impacted by a series of environmental events during its operation, including an accidental effluent spill in 2005, with consequences for both surrounding communities and the project's overall financial viability.

We now commonly conduct site visits for higher impact projects with our clients to jointly review their progress in managing these types of social and environmental risks. For example, an agreement we signed this year to fund the development of hydro scheme in Laos includes a requirement that ANZ conduct quarterly reviews, including

site visits, of the project with the assistance of technical advisers. These inspections will monitor engineering issues as well as how the project is impacting local communities and the surrounding environment.

### The future

The EP have clearly helped improve our decision-making, but it is by no means a perfect process.

From ANZ's perspective, one future challenge to their effectiveness is the quality and consistency of advice provided by external experts. We rely heavily on experts to help us identify social and environmental risks in projects and to assess the adequacy of the client's planned response. The Principles also require us to engage an independent social and environmental expert to review projects with potential high social and environmental impact.

Our experience is there is a limited pool of experts who can advise on these technical matters and understand how to conduct reviews in line with the EP. Independence can also be a problem,

as many engineering firms who offer EP assessments are involved in the design of the project being reviewed, if not directly, then through a related entity.

More importantly, the consistency in quality of these expert reviews varies markedly between firms offering these services, particularly in their advice relating to the 'local' context, including regulatory and political issues.

We are raising these issues with other EP banks. One response may be to develop a form of accreditation for external experts and establish a system to grade the expertise of consultants advising on the Principles.

### EQUATOR PRINCIPLES PROJECTS REVIEWED BY COUNTRY 2008

	PROJECTS IN HIGH-INCOME OECD COUNTRIES	PROJECTS OUTSIDE HIGH-INCOME OECD COUNTRIES
High Impact	1	2
Medium Impact	16	0
Low Impact	13	1
Total	30	3

### EQUATOR PRINCIPLES PROJECTS REVIEWED BY SECTOR 2008

	NATURAL RESOURCES	INFRASTRUCTURE	POWER & UTILITIES	DIVERSIFIED
High Impact	0	0	2	1
Medium Impact	7	3	6	0
Low Impact	1	2	6	5
Total	8	5	14	6