

ANZ Corporate Responsibility Report

INTERIM REPORT 2012

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We live in your world



A Message from the CEO

I am pleased to present our Interim CR Review for 2012.

We have achieved a solid first half underlying profit of \$2.97 billion, a 5 percent increase on the previous half, which continues progress in executing our super-regional strategy. We are creating a strong foundation for current and future growth by responding to the more constrained environment for banking in Australia and in New Zealand, and to the significant opportunities that are available to us beyond a domestic-only focus.

In our home markets of Australia and New Zealand, we expect credit growth will remain subdued for the foreseeable future. Combined with cost pressures associated with intense competition for deposits, higher wholesale funding costs and increased regulatory capital requirements, this has led us to some restructuring of our operations and to freezing executive salaries. In Australia in particular, we have faced some difficult pricing decisions in mortgage and small business lending as margins fell in the first half of the year.

Nevertheless, we are very well positioned to benefit from growth within the Asia Pacific Region. We have a unique opportunity to support and facilitate social and economic development – helping people progress - as our neighbouring countries continue to grow.

As we adapt and build our business across our Region, we are conscious of the need to do so responsibly and sustainably. Among the challenges we face as a super-regional bank are managing risks in our supply chain, ensuring respect for human rights and ensuring social and environmental impacts are properly considered in our lending decisions.

We are making good progress in embedding our human rights standards – *Respecting People and Communities* – across our operations, including in our supply chain and in our lending decisions. In Australia, carbon will be priced from July: we have been preparing our staff, understanding the implications and working with our clients to assist them to prepare for this significant change.

This report provides some case studies on how we bring our Corporate Responsibility framework alive, as well as progress against the targets we set for this year. We are on track or making good progress to achieve the majority of the targets.



For example, we have launched a money transfer card that significantly reduces the cost of sending money home for people from Pacific countries who work in Australia and we are doing a better job to identify and assist customers at risk of financial difficulty.

Some areas remain challenging, for example, improved senior management gender balance. I am taking a direct interest in this and our efforts to advance women in leadership roles.

Finally, I want to acknowledge the hard work and ongoing commitment of our staff to serving our customers and building a business that creates sustainable value for both our shareholders and the communities we serve.

Mike Smith
Chief Executive Officer

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ANZ's Approach to Responsible Financing

As a responsible lender, our financing decisions take into account social and environmental impacts.

Our approach is to support our clients who are committed to managing their impacts responsibly. In most cases, this leads to improved social and environmental outcomes. In some cases, where clients are unable to manage issues to our expectations, we bring existing relationships to a close or elect to not finance a prospective client or project.

We evaluate impacts in accordance with our sensitive sector policies for Energy, Extractive Industries, Water, and Forestry and Forests. ANZ is a signatory to a number of external social and environmental standards and while compliance with them is considered in decision-making, our own sensitive sector policies set more stringent requirements. Our business and human rights standards – *Respecting People and Communities* – also inform decision-making. The case studies below illustrate the application of our approach.

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CASE STUDY 1

Hydro Electric Plant

In 2011, a joint venture consortium approached us seeking finance for a hydro-electric power project in South East Asia.

Hydro-electric projects provide affordable sources of energy essential for development, but they can also impact significantly on local communities and environments.

We undertook an extensive due diligence assessment of the project, appointing an independent advisor and reviewing the technical reports provided by the prospective client, including the Environmental Impact Assessment and the Resettlement Plan for affected communities.

Our assessment identified impacts including the relocation of one village and limited downstream environmental effects. We engaged closely with the prospective client to better understand the likely scale of environmental impacts and the mitigation measures put in place to address issues of concern raised by local communities.

Our Reputation Risk Committee considered the proposal, the responses provided by the prospective client and the independent advisor's report. The proposal was also subject to an assessment of compliance with the Equator Principles.

Funding for the project was approved subject to conditions including ongoing monitoring by an independent technical advisor during construction.

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CASE STUDY 2

Mining Project

In 2011 a resources company approached us seeking funding for a planned mining project.

We applied our Extractive Industries policy and also assessed the proposal under the Equator Principles.

Our Extractive Industries policy details our view of the critical importance of effective and consultative engagement with local communities in considering natural resources projects.

The project included a proposed tailings dam positioned near a village of approximately 5000 people. This raised concerns about the effectiveness of the company's community engagement strategies regarding the benefits and risks of mining activity in proximity to local communities.

We sought more information from the prospective client on its proposed approach to addressing potential social and environmental impacts. In addition, further independent technical reports were required to be prepared for the lenders.

In this instance, the prospective client was reluctant to provide all of the information and assurance sought by ANZ. As we were not able to verify that the proposal complied with our Extractive Industries policy, funding for the project did not proceed.

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Implementing our Approach to Business and Human Rights

We have made good progress in implementing our business and human rights standards *Respecting People and Communities*.

Our standards help to ensure we avoid violating human rights or being complicit in human rights abuses, through supporting development of a culture of respect in the way we treat our employees, work with our customers and suppliers and contribute to the communities where we operate.

Operating a 'super-regional' business across 32 countries brings challenges of applying our standards in a range of local conditions, cultures and legal frameworks. Our standards apply across our region and are available in four languages in addition to English: Bahasa, Vietnamese, Simplified Chinese for mainland China staff, and Traditional Chinese for our staff in Hong Kong and Taiwan.

We recently made available to all staff a practical, user-friendly 'Frequently Asked Questions' document that seeks to further embed *Respecting People and Communities* into our staff practices, customer engagement, and risk identification and management processes. The FAQs have been designed for use by staff across the bank including the branch network, product development, operations and risk. This document is available at www.anz.com/cr

Our standards have also been incorporated into revised occupational health, safety and wellbeing plans for all countries in our network. We have also set public targets to employ more people from under-represented and disadvantaged communities across our business.

Since March 2011, mandatory risk training for lenders in our International and Institutional and Global Commercial Divisions has included our standards as well as building awareness and understanding of environmental, social and governance issues.

To complement the risk training, we have aligned our social and environmental screening tools with *Respecting People and Communities*. This ensures that our lending staff and risk officers are given practical guidance on our approach to responsible financing practices and decision-making in transactions and relationships.

Our Global Sourcing business is also an area of focus for educating and helping our staff to improve their awareness of human rights. Further information on our Responsible Sourcing program can be found in the case study below.

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CASE STUDY

Responsible Sourcing

For financial year 2012, ANZ set a public target to 'Implement a Responsible Sourcing Program with a focus on our ten highest impact categories and report the progress of our supplier education and auditing strategy'.

The Responsible Sourcing Program aims to improve our understanding and management of the social and environmental risks in our supply chain. Our focus is on sourcing categories where we have high spend and high risk. For example, spending on professional services and IT is our largest category and risks we identify include the environmental impact of the energy used in our data warehouses and labour practices of IT hardware and professional services suppliers. In the first half of 2012, our Global Sourcing Category Managers received 'Responsible Sourcing' training. Training covered our Responsible Sourcing Framework and Tools, our commitments on environment, human rights and support for employment of people with disabilities.

We are also developing a more extensive and rigorous process to understand and audit the corporate responsibility credentials of our suppliers.

In June and July, we will conduct supplier forums for groups of small to medium sized enterprises (SMEs) in China and Indonesia, to improve our understanding of human rights and corporate responsibility issues associated with our manufacturing and services providers respectively.

These forums will engage suppliers regarding ANZ's Supplier Code of Practice and help our partners better understand how to implement a pragmatic approach to compliance with the Code – including our human rights standards - for SMEs in the Asia-Pacific region.

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Our Progress

Each year we set public targets and a corresponding Group-wide program of work to respond to the most material CR issues and opportunities for our industry, customers, employees and the community.

The following is a summary of how we are progressing against these targets.








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OUR PROGRESS

Responsible Practices



Our work focuses on: providing uncomplicated products and services; strengthening our business decisions by taking account of economic, social and environmental issues and opportunities and treating our customers and employees fairly and with care.

Responsible Practices

Target	Progress to Date	Status
Improve customer satisfaction and achieve the No. 1 or 2 position amongst major banks for our retail, commercial and institutional businesses.	<p>After leading ratings for the past eight years, retail customer satisfaction fell in April and we are now placed third. We are taking actions to improve our position in line with our target. In commercial we share second position. In the institutional market, as measured by the Peter Lee and Associates survey, we have retained our first place rating.</p> <p>In New Zealand, our ANZ brand holds the top position in the institutional market and is 4th in the commercial market (3% behind 2nd place), and our National Bank brand is placed third in the retail market (1% behind 2nd place).</p>	
Resolve 90% of customer complaints within 5 business days.	We have improved the proportion of complaints in Australia resolved within 5 business days from 82% in 2011 to 86% in 2012 to date. We have plans in place to lift this level and actions are underway.	
Improve employee engagement, including perceptions of 'values-based leadership'.	Our annual My Voice Employee Engagement survey ran from May 3 to 17 2012. We will report results when they are available.	
Increase our project finance lending for lower carbon emission power generation (i.e. renewables and gas) by 15-20% as a proportion of our total project finance energy portfolio by 2020, and publicly report on our progress against this target each year.	This is a long term target and we are on track.	
Publicly report progress on the implementation, application of and training in our sensitive sector lending policies and human rights statement.	Case studies on the implementation and application of our sensitive sector lending policies and our business and human rights approach are published in this report and we will report further over the year..	

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Responsible Practices

Target	Progress to Date	Status
Reduce LTIFR in Australia and New Zealand by between 5-10% and continue implementation of our safety and well being programs globally.	We have achieved the following: Australia 1.59 (down 25%), New Zealand 0.92 (down 49%).	
Implement our Responsible Sourcing Program with a focus on our top 10 highest impact categories and publicly report the progress of our supplier education and auditing strategy.	We have implemented our Responsible Sourcing program in seven out of ten categories with action plans in place for the other three.	
Develop and pilot a program to improve staff understanding of customers in financial difficulty to aid early identification of and assistance to affected customers.	The initiative is on track for pilot implementation prior to September 2012.	
Review ANZ's procurement criteria to include provision/consideration of purchasing from Australian Disability Enterprises or suppliers that support disability and equal opportunity	The recent round of responsible sourcing training workshops included the promotion of disability and equal opportunity considerations. Further mechanisms to support procurement from Australian Disability Enterprises or suppliers that support disability and equal opportunity are being explored.	

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OUR PROGRESS

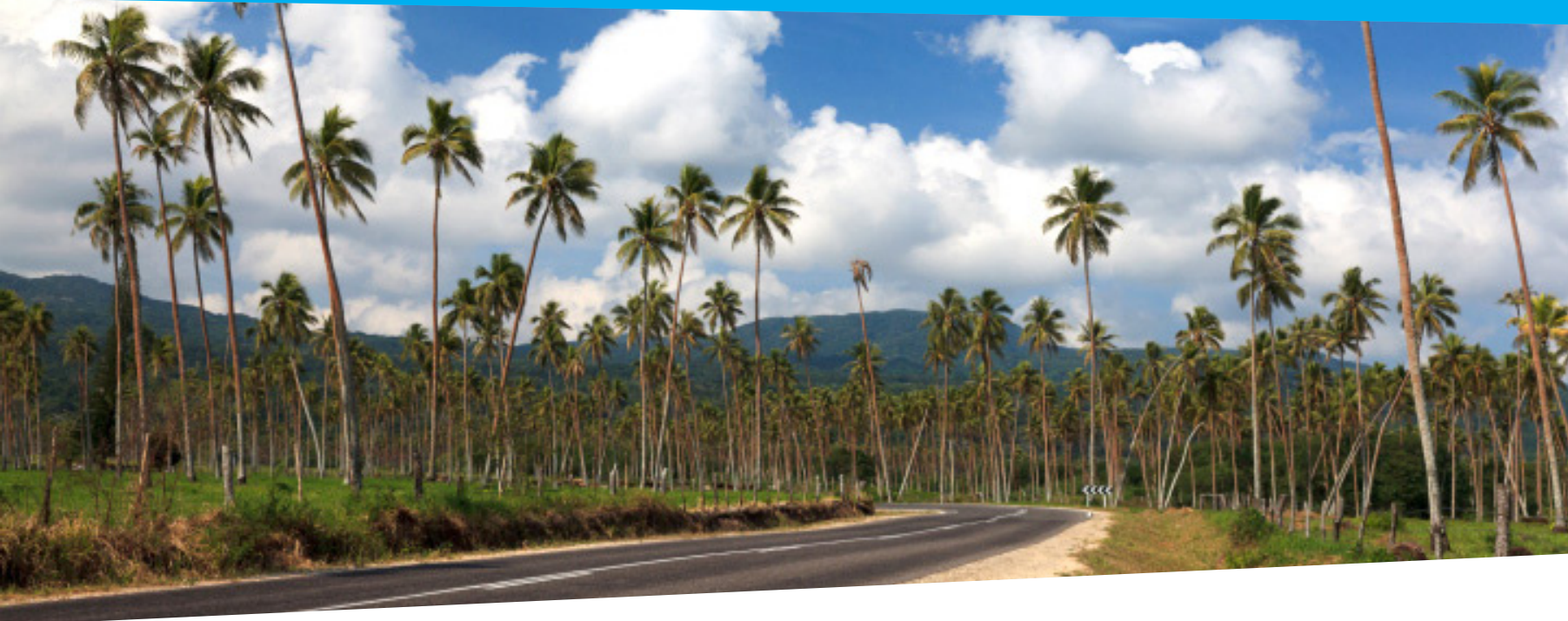
Education and Employment Opportunities

We are strengthening and expanding our programs to create education and employment opportunities to improve economic and social inclusion.

Education and Employment Opportunities

Target	Progress to Date	Status
Reach at least 40% representation of women in management and achieve gender balance and greater cultural diversity in our key recruitment, talent development and learning programs.	The representation of women in management remains steady at 38.1%. 44% of participants in our Generalist Bankers Program and 52% of participants in our Graduate Program respectively are women.	
Provide 230 positions through our traineeships, graduate program and permanent employment to people from disadvantaged backgrounds and enhance purchasing criteria to develop more relationships with companies which employ and support people with disability.	We have employed 12 people with disability. 65 Indigenous trainees and 13 Indigenous candidates have been successfully recruited. Overall limited recruitment opportunities in the past six months as we restructured parts of our business provide a challenging environment for achieving this target. Our focus is on retention and development of the staff recruited in recent years. To help meet our target we are seeking to increase employment of people with disability in our offshore hubs.	
Advance the role of women in society through engagement on key public policy issues, including advocacy for more accessible, affordable and flexible childcare in Australia.	We announced a new partnership with Chief Executive Women focused on research and advocacy to advance women in leadership positions. Our CEO conducted focus groups with senior ANZ women to better understand the conditions and culture that enable women to thrive. Insights and recommendations from these discussions are being used to enhance our leadership and talent programs and key policies related to parental leave, flexibility and childcare.	

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OUR PROGRESS

Bridging Urban and Rural Economic and Social Divides

Helping bridge rural and urban economic and social divides is perhaps the most significant challenge for many governments and communities. Banking access and financial inclusion are key strategies where we can make a difference.

Bridging Urban and Rural Economic and Social Divides

Target	Progress to Date	Status
Implement mobile phone banking in Papua New Guinea, Vanuatu, Samoa and the Solomon Islands in 2012, then in Timor-Leste in 2013.	The project has experienced delays which will result in implementation in some countries occurring in 2013.	
Launch the Pacific Money Transfer Card to enable cost effective remittances and sign up 2,800 customers.	We have successfully launched the Pacific Money Transfer Card and are examining ways to improve the marketing of the card to drive customer uptake.	
Support the operation of Microfinance Institutions through measures including lending and placement of skilled volunteers.	On track with support through lending to MFIs and building financial capability of MFI customers.	

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OUR PROGRESS

Financial Capability

We are strengthening our commitment to improving social and financial inclusion.

Financial Capability

Target	Progress to Date	Status
Reach 30,000 people from low-income and disadvantaged backgrounds with our MoneyMinded financial capability program.	MoneyMinded is being delivered in Australia (by 7 partners) and in PNG, Fiji, Solomon Islands, Hong Kong and Vietnam. New pilots commenced in Timor-Leste and India in April. Formal reporting will be conducted at end of year, but estimates are on track at around 15,000 facilitators and participants reached to date.	
Report publicly and engage key stakeholders in the outcomes of a strategic review of our Australian financial literacy programs including our future priorities.	Strategic review completed with future priorities to be reported in coming months.	
Enrol 14,750 people in our Saver Plus program across Australia.	Saver Plus partners have recruited 2314 participants in the year to date, against the first year target of 4,750. This period includes start-up of the new phase under Government funding, with recruitment closed in some months to allow administration and site setup. Momentum in recruitment is increasing.	
Implement a financial inclusion strategy for our business in New Zealand.	On track for piloting MoneyMinded with new partner organisations in coming months.	

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OUR PROGRESS

Urban Sustainability





We seek to better understand the social and environmental pressures on urban communities and identify how we can help to improve sustainability.

Urban Sustainability

Target	Progress to Date	Status
Maintain carbon neutrality across our global operations.	ANZ was again awarded Carbon Neutral certification by Low Carbon Australia for FY11 and an offset procurement strategy is being developed for FY12.	
Evaluate the pilot of our revised Environmental Management System and expand to cover two markets in our Asian business.	Progress towards this target is on track with the Cambodian Environmental Management System close to finalisation and the second underway for ANZ's operations in India.	
Work towards achieving our three year environmental targets in Australia and New Zealand.		
Greenhouse gas	We are on track to outperform against our FY14 GHG targets in both Australia and New Zealand. This is due to the implementation of energy efficiency initiatives across our commercial building portfolio along with large reductions in air travel. In New Zealand, improved vehicle fleet efficiency and decreased paper use have also contributed to the reduction.	
Premises energy	While growth in data centre energy use has been significant, strategies are in place to contain and reduce consumption to meet the FY14 targets.	
Commercial waste	As a result of improved data collection, adjustments have been made to the FY11 baseline year. We are on track to achieve high levels of recycling in Australia and New Zealand.	

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Urban Sustainability

Target	Progress to Date	Status
Water	Water efficiency continues to be maintained at high levels.	
Paper - office	A significant focus on office paper use and costs combined with the continued roll out of 'follow you' printing in Australia means ANZ is currently on track to exceed this target.	
Paper - customer	Changes to ANZ marketing practices and processes and an increased focus on electronic marketing are resulting in significant reductions in customer paper use.	
Air travel	A focus on minimising operational costs together with the continued rollout of telepresence video conferencing and other forms of virtual communication technology has resulted in significant reductions in air travel by ANZ staff	

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Find out more



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