

**2018 HALF YEAR CORPORATE
SUSTAINABILITY UPDATE**



CEO'S MESSAGE

SHAYNE ELLIOTT

I am here again firmly committing to the changes we are making — to governance, accountability and systems — to build an ANZ worthy of the community's trust and respect.

At the Royal Commission we have heard customers who have suffered financial harm and emotional distress. There is no doubt that our conduct has at times been unacceptable. We are making changes, some of which are discussed in this report, to fix these matters and reduce the risk of them happening again.

Transparency on our financial performance is critical — as important is open dialogue about how we are managing the environmental, social and governance (ESG) risks and opportunities facing the bank. Beyond our own reputation and social licence to operate, it is also well recognised that organisations with a strong focus on ESG issues are likely to perform better in the longer term financially.

My hope is the Royal Commission serves as a watershed moment in restoring the trust of customers and the community in our bank and the sector. I recognise we have much to do but I am confident that with the continued dedication of our people we will deliver on our purpose to shape a world in which people and communities thrive.

Shayne Elliott
CEO

OUR SUSTAINABILITY PERFORMANCE

Towards the end of last year we decided on three issues that we believe we can have a positive impact on — financial wellbeing, environmental sustainability and housing. A number of the sustainability targets we set for 2018 and beyond are focussed on helping us progress our work on these issues. While we are making good progress and will achieve most of our targets by the end of this reporting year, some of them are longer term targets, requiring focus and sustained effort.

Highlights for the year to date include:

- together with our community partners, we have now reached more than 533,000 people through our MoneyMinded, MoneyBusiness and Saver Plus financial inclusion programs;
- the release of a report on the Financial Wellbeing of adults in Australia and New Zealand, the findings of which will inform development of products and services and other initiatives to build financial wellbeing of our customers, communities and employees;
- the launch of our first Sustainable Development Goals bond, raising €750 million to support sustainable lending; and
- our low carbon and sustainable finance commitment, which was raised from \$10 billion to \$15 billion by 2020 at the end of last year, has seen us continue to support the transition to a low carbon economy. Since 2015 we have financed more than \$8 billion in a diverse range of projects, ranging from 'green' buildings to renewable energy generation.

Note: The information provided in this half year update covers the period 1 October 2017 to 31 March 2018. It has not been independently assured. KPMG will provide assurance over ANZ's annual Corporate Sustainability Review, to be released in December 2018. Monetary amounts in this document are reported in Australian dollars, unless otherwise stated.

2018 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, environmental, social and governance issues. Progress against our targets¹ is reviewed quarterly by the Responsible Business Committee, and twice a year by the Board Environment, Sustainability and Governance Committee.



OUR CORPORATE SUSTAINABILITY AGENDA

As part of our strategic priority to drive a purpose and values-led transformation of the bank, we are prioritising our efforts on issues relating to environmental sustainability, financial wellbeing and housing. Our Corporate Sustainability Framework supports our business strategy and is aligned with the bank's purpose. The Framework has three key areas of focus:

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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

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

Improve senior leaders' role modelling of ANZ values by 2% to 74% in 2018.

Extend ANZ's cyber security education and awareness program in 2018 by:

- embedding cyber security information into key business processes (e.g. security tips when establishing new customer accounts) and customer 'touchpoints' (e.g. ANZ website); and
- collaborating with others (e.g. government, universities and industry) to help build a 'pipeline' of cyber security professionals and raise community awareness of cyber security.

Implement strengthened due diligence for our Human Rights Standards by end 2018.

Commentary

→ Australia

- **Retail:** Ranking increased to 3rd from 4th at the end of 2017.²
- **Corporate and Commercial:** Ranking of 4th remained steady from end of 2017.³
- **Institutional:** Ranked 2nd in 2017 (2018 results will be available in our annual Corporate Sustainability Review).⁴

New Zealand

- **Retail:** ranking of 4th remained steady from end of 2017.⁵
- **Corporate and Commercial:** ranking of 4th remained steady from end of 2017.⁶
- **Institutional:** Ranked 3rd in 2017 (2018 results will be available in our annual Corporate Sustainability Review).⁷

→ Results for senior leaders' role modelling of ANZ values will be available in our annual Corporate Sustainability Review.

✓ We are providing our frontline banking staff with educational materials enabling them to have conversations with customers about cyber security and protecting personal information.

✓ We are engaged in several cyber security partnerships, including with:

- the Australian e-Safety Commission to support global 'Safer Internet Day' Campaign in February 2018;
- the TAFE sector in Australia to develop a national, consistent cyber security curriculum; and
- CERT Australia (the Australian Government's national computer emergency response team) to provide intelligence and knowledge sharing with the Australian Joint Cyber Security Centre.

We are also delivering customer and community cyber security education sessions across Australia at conferences and client presentations.

✓

- We implemented our updated Social and Environmental Risk screening tool (including zero tolerance for land grabs) in October 2017.
- Our updated online Social and Environmental Risk training program commenced for staff in February.
- We also continue to pilot our strengthened human rights customer due diligence, involving up to three locations in Asia in the second half of the year. We commenced the pilot in Thailand in 2017.

2. Roy Morgan Single Source. Base: Australian population aged 14+, Main Financial Institution, six month rolling average to Mar'18. Ranking based on the four major Australian banks.
 3. DBM Business Financial Services Monitor. Base: Corporate & Commercial Banking (<\$500m annual turnover), Main Financial Institution customers. Data based on 6 month average to Mar'18. Ranking based on the four major Australian banks.
 4. Peter Lee Associates Large Corporate and Institutional Relationship Banking surveys, Australia 2017, ranked against the Top 4 competitors.
 5. Retail Market Monitor, Camorra Research, Mar'18 (monthly).
 6. Business Finance Monitor, TNS Kantar Research, Q1'18 (quarterly).
 7. Peter Lee Associates Large Corporate and Institutional Relationship Banking surveys, New Zealand 2016-17, ranked against the Top 4 competitors.



SOCIAL AND ECONOMIC PARTICIPATION

Targets

Help enable social and economic participation of 1 million people by 2020 through our initiatives to support financial wellbeing, including our financial inclusion, employment and community programs, and targeted banking products and services for small business and retail customers.

Build an engaged, diverse and inclusive workforce by:

- increasing the representation of Women in Leadership by 3% to 34.1% by 2020;
- maintaining an organisation inclusiveness score of at least 93% in 2018;
- recruiting >1,000 people from under-represented groups including Indigenous Australians, people with a disability and refugees⁹; and

- improving employee engagement by 6% to 80% by 2020 (against 2016 baseline score of 74%).

Increase employee volunteering participation rate in 2018 to 30%.

Commentary

- MoneyMinded delivery is currently on track to reach 76,000 participants this year and, to date, 2,178 participants have been recruited to Saver Plus. Since 2003, more than 533,000 people have been reached through our financial inclusion programs MoneyMinded, MoneyBusiness and Saver Plus.
- The number of people assisted through programs other than our financial inclusion and employment programs will be available in our annual Corporate Sustainability Review.

- Group-wide representation of Women in Leadership has increased to 31.9% (up from 31.1% as at September 2017)⁸.

- Results for organisation inclusiveness will be available in our annual Corporate Sustainability Review.

- We have recruited 115 people to date (against an annual target of 250):

- 43 students have accepted our offer of an Indigenous School Based Traineeship; 11 Indigenous full time trainees have been employed and we have appointed 10 Indigenous employees directly;
- 7 refugees have been employed via our refugee employment program; and
- 44 people with disability have been employed.

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

- We are progressing towards this target with a volunteering participation rate of 11%.

8. Employee headcount is used for the basis of this disclosure. Includes all employees regardless of leave status excluding contractors (which are included in FTE).

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



SUSTAINABLE GROWTH

Targets

Fund and facilitate at least \$15 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 \$8.3 billion in low carbon and sustainable solutions, such as green buildings, renewable energy (wind, solar and geothermal), low emissions transport and efficient irrigation since 1 October 2015.

By end 2018, ensure emerging issues and leading practices are reflected in the policies and procedures guiding our business lending decisions by:

- reviewing and, where necessary, updating our Social and Environmental Risk Policy (including sensitive sector standards); and
- amending our risk appetite and customer assessment processes to increase emphasis on climate change risks and management.

→ We have identified a set of priority issues and sectors to focus on in the review and are engaging with stakeholders for feedback on our current policy.

✓ Climate change risk has been added to the Group and Institutional Risk Appetite Statements.

By 2020, reduce the direct impact of our business activities on the environment by¹⁰:

- reducing scope 1 and 2 emissions by 24% by 2025 and by 35% by 2030 (against a 2015 baseline);

✓ Scope 1 and 2 emissions have decreased by 13% against a 2015 baseline, tracking ahead of the required reduction to meet our targets. This has been achieved through ongoing improvements in energy efficiency and consolidation of our property portfolio.

- increasing renewable energy use in our Australian operations by 13% by 2020 (against a 2017 baseline);

→ We have entered into a Power Purchase Agreement to 'off-take' power from a windfarm under development in Murra Warra (Victoria), due for completion in 2019. Once operational, this is forecast to increase our renewable energy use by approximately 18% by 2020.

- reducing paper consumption in Australia and New Zealand (office and customer paper use only) by 40% by 2020 (against 2015 baseline);

✓ Paper consumption has decreased by 28% (against the 2015 baseline) due to ongoing digitisation and changing work practices.

- increasing recycling rates in our Australian commercial offices (> 20,000m²) by 12% by 2020 (against a 2017 baseline); and

✗ Recycling rates have decreased by 7% (compared to the 2017 baseline). Plans to design and implement new waste receptacles and to improve staff engagement with respect to recycling are currently under investigation.

- reducing water consumption in our Australian commercial offices (> 10,000m²) by 15% by 2020 (against a 2015 baseline).

✗ Water consumption is off track with a reduction of approximately 2% since July 2015. A review is underway to identify high usage areas and determine initiatives to mitigate.

10. Environmental reporting year is 1 July–30 June in line with Australian regulatory reporting year.



FAIR AND RESPONSIBLE BANKING

AUSTRALIAN BANKING INDUSTRY REFORMS — UPDATE ON PROGRESS

We continue to implement important changes to support efforts to ensure the trustworthiness of our products and services.

The new Banking Code of Practice will apply from early 2019 and has been rewritten in 'plain english' with new sections dedicated to small businesses and inclusive banking. The Code articulates the banking industry's values and links these with standards of conduct for how we deal with individual and small business customers. It is unique amongst industry codes because its provisions are contractually enforceable.

We have made changes to our small business lending contract, to make it shorter, simpler and fairer for small business customers. The new contract has been externally certified as 'plain english' and has been reduced from 100 to 52 pages.

We continue to make changes to how we remunerate our staff and have recently moved business banking leaders from a business unit specific incentive plan onto the bank's main incentive plan. The banking industry also continues to work with brokers and related parties to make changes under an agreed action plan, with volume-based incentives being removed from broker and introducer commissions.

As part of our process for hiring staff we now check with other banks whether their past employees have left because of poor conduct. This aims to ensure that individuals with a history of poor conduct do not move around the banking industry.

We have also established a Responsible Banking team in our Australian Retail and Commercial business, focussed on delivering products and services that meet our customers' needs and ensuring customers are appropriately treated when things go wrong (discussed below).

We remain committed to reporting publicly on our progress through our bi-annual sustainability reporting.

ANZ'S RESPONSIBLE BANKING TEAM

We have created a Responsible Banking team in our Australian Retail and Commercial business, with approximately 150 people under a senior ANZ Executive. The team will be responsible for three things:

1. large scale customer remediations, so that if we get things wrong we compensate customers, we fix the underlying issues and we share the learnings and incorporate those into the design and delivery of our products, systems and processes. There will also be an increased focus on building tools and capabilities to improve the cadence and consistency with which we compensate customers;
2. product suitability, to continue to ensure we provide our customers with suitable products and they are using those products as intended; and
3. working with teams across our Retail and Commercial business to ensure we continue to lend to our customers responsibly.

ANZ is moving to agile ways of working and the Responsible Banking team will comprise a number of multi-disciplinary 'squads' including members with a mix of skills across product, frontline banking, remediation, data and technology. This will deliver faster outcomes and better value for our customers.



SOCIAL AND ECONOMIC PARTICIPATION

BEHAVIOUR A KEY FACTOR IN DETERMINING FINANCIAL WELLBEING

Since 2002 we have been collaborating with a range of stakeholders to understand financial literacy, behaviours and attitudes in Australia. This year we conducted the sixth in our series of surveys – with a wider focus on financial wellbeing. Financial wellbeing is a term that recognises that finances are inextricably linked with our individual and social wellbeing.

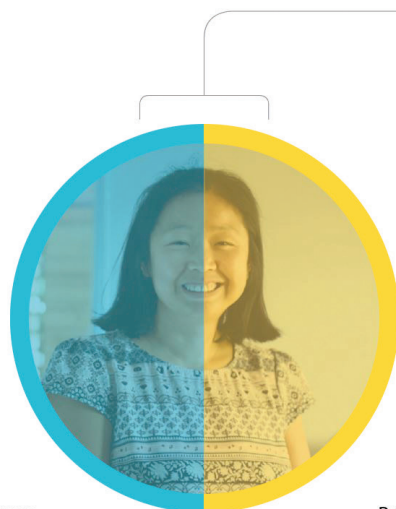
The study identified that behaviour has a major impact on financial wellbeing. Behaviour accounted for 45% of overall financial wellbeing in Australia and 43% in New Zealand. Financial behaviours tested included spending restraint, not borrowing for daily expenses, active saving, planning how to use your income, monitoring finances and making informed product choices. The two behaviours to emerge as most important with respect to people’s financial wellbeing were active saving and not borrowing for everyday expenses.

Between them, these two behaviours accounted for 35% of the explained variation in people’s financial wellbeing scores. Participants who scored highly on ‘active saving’ and ‘not borrowing for everyday expenses’ recorded financial wellbeing scores significantly higher than participants who scored lower on these behaviours. Not everyone is in a position to save or to avoid borrowing for everyday expenses. However for many people, being in a position to start saving can lead to an improvement in their financial wellbeing.

These findings are consistent with those from recent similar research internationally suggesting that encouraging positive financial behaviour (particularly active saving and where possible, not borrowing to cover everyday expenses) will improve overall financial wellbeing. This is a shift from the previous focus on improving financial literacy and knowledge.

In addition to providing insights for a range of stakeholders, the research will inform ANZ’s initiatives to improve financial wellbeing for our customers, employees and communities. We have a team dedicated to redesigning our products and services to respond to the challenges raised through the research and, in particular, will be examining ways in which to build people’s savings behaviours. This includes helping customers to name, visualise and track goals and to create a plan for large goals like buying a home. Importantly, we will provide a proactive communications program for customers to help them actively save and stay on track with their goals via notifications and nudges.

This graphic shows how two respondents in the survey (with essentially the same income and socio-economic context) achieved very different financial wellbeing outcomes, based on their financial behaviours. The person who scored highly on ‘active saving’ and ‘not borrowing for everyday expenses’ recorded a financial wellbeing score of 82, significantly higher than the person who scored lower on these behaviours (financial wellbeing score of 33).



- Female
- Resident of Sydney/Melbourne
- Aged 30-39 years
- Married/de facto couple with two or three children at home
- Household income \$50,000-\$99,999 p.a.
- Purchasing their home

Persona 1 Behaviour scores
 Not borrowing for day-to-day expenses = 56
 Active saving = 38
Overall financial wellbeing score = 33

Persona 2 Behaviour scores
 Not borrowing for day-to-day expenses = 98
 Active saving = 96
Overall financial wellbeing score = 82

Further information and the full survey report can be downloaded from bluenotes.anz.com/financialwellbeing



SOCIAL AND ECONOMIC PARTICIPATION

IMPROVING THE AVAILABILITY OF SUITABLE AND AFFORDABLE HOUSING OPTIONS

Home ownership has long been at the core of identity for both Australians and New Zealanders. Having a home provides both safety and security. It allows individuals and families to establish themselves and grow within their community.

In establishing our role to support the creation of suitable and affordable housing options, we have engaged with a range of internal and external stakeholders to understand where we can have the most impact. Initiatives we are examining include supporting more new entrants into the home market, helping increase the availability of homes to rent and collaborating with government and the not-for-profit sector to assist the homeless or those at risk of homelessness.

We are undertaking a review of both the opportunities and challenges associated with this issue and will set priorities in the remainder of this year. We will report externally on our progress.

HELPING WOMEN FACING DOMESTIC VIOLENCE ESTABLISH FINANCIAL INDEPENDENCE

When a woman leaves an abusive relationship she often has nowhere to go. This is particularly true of women with few resources. When families are forced to leave home to escape violence, they frequently struggle to gain access to affordable housing. This leaves many women and their children forced to choose between abuse at home or living on the street.

With at least one in 100 people experiencing homelessness, and one in three women experiencing physical and/or sexual violence from a partner in New Zealand, there are clear linkages between the number of women and children experiencing both domestic violence and being at risk of homelessness.

According to Women's Refuge New Zealand Chief Executive Dr Ang Jury, often women who flee their homes with no possibility of returning cannot open a bank account because they leave without the necessary identification.

"You can't get into a house without having a bank account," she explained. "You can't get onto a benefit without having a bank account. No one hands over cash anymore."

In a New Zealand first, women who are referred by Women's Refuge can now set up an ANZ account, even if they have no identification or do not have a permanent address.

"We need this documentation by law but by being more flexible about when we require the documents, we're helping women set themselves up faster and keep them safe," said Antonia Watson, ANZ's Managing Director, Retail and Business Banking.

The new approach was successfully trialled with ANZ staff in Wellington and has now been rolled out across all branches in New Zealand.

"Anything we can do to help someone in a dangerous relationship push towards independence and feel confident about how they'll move forward is important," Watson said.



SUSTAINABLE GROWTH

CASE STUDY

SUPPORTING CUSTOMERS TO IMPROVE ENVIRONMENTAL SUSTAINABILITY

John and Susan from Judge Valley Dairies in the Waipā Zone of the greater Waikato River Catchment, New Zealand, are conscious of the environmental impact of their 245 hectare farm.

Through careful consideration of land use, strategic management of livestock and the introduction of new technologies, they are managing their farm to ensure the long term sustainability of their business.

One of the first things John and Susan did when they set out to improve the environmental sustainability of their practices, was to develop an environmental plan, including a detailed land use capability assessment. They identified areas on their land that were suitable for a variety of uses and classes of stock. Over time, they have added 11 wetlands, two sediment dams, planted five hectares of pine trees and 15 hectares of Mānuka plantings to their farm. Land previously considered unprofitable now adds real value to their business.

Banking customers like Judge Valley Dairies aligns with our commitment to support customers to improve the environmental sustainability of their operations — an issue particularly relevant for agri-businesses.

According to Mark Hiddleston, ANZ's Managing Director of Commercial Agriculture in New Zealand, "Judge Valley Dairies is a great example of a business making the transition to more sustainable farming, while remaining profitable and preserving, if not growing, the value of their land."





SUSTAINABLE GROWTH

IMPROVING OUR CLIMATE RISK DISCLOSURES

The focus by investors and other stakeholders on carbon disclosures continues, with many companies, governments and regulators committing to adopt the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). While voluntary, the TCFD has become the key framework to guide disclosure on the financial risks and opportunities associated with climate change, including how risks are identified and managed.

Consistent with our commitment to improve our disclosures, we were the first bank to report using the TCFD in our 2017 Annual Review. We also released a standalone ‘Climate-related financial disclosure’ document which contains information on our carbon strategy, governance, management, metrics and targets, in line with the TCFD requirements.

We are encouraged that a number of our customers have also issued reports in line with the TCFD framework, helping to frame our ongoing engagement with them on how they are managing the transition to a low carbon economy.

We are also one of 16 banks participating in a United Nations Environmental Programme for Financial Institutions (UNEP FI) working group focussed on applying the TCFD recommendations for financial institutions. We have worked with UNEP FI, other banks and specialist consultants to develop and pilot new tools and approaches to inform our risk management, and to identify opportunities to support our customers.

Our working group has considered both ‘transition risks’ and ‘physical risks’ associated with climate change. Transition risks are the technology, policy and regulatory changes that may affect our customers’ businesses as governments act on their pledges to reduce carbon emissions under the Paris Agreement. We have developed tools that enable us to look at a particular sector, e.g. metals and mining, and to conduct portfolio-wide analysis to look at the potential impacts on customers’ risk profiles and how that might change over time.

We will use the outputs to have more informed discussions with our customers, as we seek to identify and support those customers with business strategies aimed at managing the transition risks for their companies. UNEP FI has released a report (unepfi.org/tcf-for-banks) that describes the methodology.

In particular, the work seeks to overcome some challenges facing banks in modelling transition risks, for example:

- translating climate change scenarios into economic outputs that can be used to ‘stress test’ banking portfolios; and
- assessing the potential impact of these risks on the probability of default over a longer period than the usual 2-3 years.

The physical risks of climate change are those associated with changing weather patterns, rainfall variability, extreme weather events such as cyclones or floods, and the impacts on our customers, e.g. residential housing or large infrastructure projects. We expect to progress a methodology for assessing physical risk by July, and initially will seek to apply that in parts of our agriculture portfolio.

Banks’ most material climate change risks and opportunities arise from lending to business and retail customers. Our TCFD work will strengthen our engagement with our customers, assisting them to be — or to become — climate resilient.

WHAT’S NEXT?

In our 2017 Corporate Sustainability Review we expanded our climate risk disclosures to describe how we used scenario analysis to test the resilience of our thermal coal customers to transition risk. We also included 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 update these metrics later this year in our annual Corporate Sustainability Review, along with a more detailed description of the outcomes of our collaboration with other banks in the UNEP FI working group.

From a governance perspective, the CEO and Board are engaged in this process and continue to oversee the bank’s approach to climate change.

FEEDBACK

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

For 2018 Half Year Results visit anz.com/results