

Farming Segment Support Strategy

ANZ Board

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For meeting on 6 August 2015

FOR NOTING



Executive Summary

ANZ's acquisition of Landmark (LMK) and sustained unfavourable conditions for rural businesses

- At the time of acquisition (March 2010), there was approx. \$400m of limits of LMK customers that were classified under ANZ policies as Lending Services (LS) customers.
- The agricultural sector faces special challenges such as adverse weather cycles and market fluctuations, which have resulted in difficult farm operating conditions for a sustained period of time. Farming businesses in financial difficulty also affect surrounding small businesses and regional communities. Additional support/initiatives for Agri customers are warranted.

Increased focus on Agri customers including media and political attention

Affected farmers, the special challenges facing the rural sector and loan foreclosures has recently attracted a heightened level of focus including political and media attention.

- **Parliamentary Inquiries** – the Senate Inquiry into "Rural Debt" delivered its report in March 2015, and in June 2015, an Inquiry into matters relating to the impairment of loans was announced (due to report in March 2016). The Terms of Reference include an investigation into the alleged practice of banks "constructing" or "engineering" defaults in order to foreclose. ANZ's response is currently being prepared.
- **60 Minutes** – two stories have been aired in the last 6 months where claims have been made in relation to ANZ's treatment of (three) LMK customers particularly surrounding their transition from LMK to ANZ.
- **Possible class action** – rumours of a potential class action by former LMK customers have been around for a number of years.

Additional initiatives to support Agri customers, which may also assist in mitigating future litigation and reputation risk

- Whilst there are a number of existing initiatives in place, additional measures are required to assist distressed farmers, which may also assist in mitigating future litigation and reputation risk.
- These initiatives involve being prepared to offer further concessions to farmers and a shift in mindset & approach for problem resolution for Agri customers in LS. We estimate the direct cost of these initiatives in additional provisions & or interest reversals is A\$50 million (in FY16).
- Recognising some customers have actively formed support / social media forums, as well as having support of certain media & parliamentarians it will take some time to halt the negative momentum of these groups.
- Approach may also lead to further complaints/media from dissatisfied Agri customers who do not receive the same concessions or perceive their concessions to be less favourable than others.
- Even when strategy is agreed and documented customers within these discrete communities will continue to voice dissatisfaction as we have experience of some customers not honouring agreements.

Action Requested

For noting.

Existing Lending Services practices in place to support Agri customers

ANZ acquired Landmark (LMK) in March 2010

- ANZ acquired 6.7k Agri customers and a \$2.3bn lending portfolio (of which approx. \$400m limits for customers in LS).
- Since acquisition a number of weather cycles adversely impacted many agri customers, having a more significant impact on the LMK portfolio given the already higher risk nature of this portfolio.
- There are currently 153 ex LMK customers being managed in LS (including Collections), limits are \$241m & Individual Provisions of \$53m.

Resulting financial hardship stories have attracted political and media attention

- Most recently two "60 Minutes" stories have aired (featuring three former LMK customers) where claims have been made in relation to ANZ's treatment, particularly surrounding their transition from LMK to ANZ. The background to the most recent story on 60 Minutes (aired on 12/7/15 and featuring Mr Charles Phillott) is contained at Appendix 1.
- MP Bob Katter & his son MP Rob Katter are key influencers driving awareness in the media around farm repossessions.
- In addition to the media attention,
 - There is a possible Class Action currently mooted and led by a small number of LMK customers, and
 - The Assistant Treasurer has announced a Joint Parliamentary Inquiry into the Financial Services Industry treatment of impaired loans for March 2016 (investigating whether banks deliberately create/construct defaults in order to foreclose). While the Terms of Reference of the Inquiry do not specifically mention Agri, it is expected that this will be an area of focus.

Existing initiatives in place supporting Agri customers incorporating our lessons learnt out of the NZ experience and enable LS to respond more proactively to emerging issues

- **12 month moratorium** - on farm repossessions in drought declared regions of QLD and northern NSW (announced December 2014). Moratorium will likely be extended by a further 12 months given ongoing drought conditions.
- **Agri debt reconstruction** - provides farming customers who have unsustainable debt levels (mainly due to uncontrollable external events, eg drought) ability to restructure their loans to serviceable levels – structure based on experience in similar circumstances in NZ Agri portfolio. Structure essentially allows customer to regain equity into their operation over a 3-5 year period. Objective is to retain these customers and put arrangements in place with a view to retaining the customer.
- **Reduced interest rates** - priced for recovery, interest saved used to repay principal & restore equity faster.
- **Increased farm visitations** - focus on improved rapport, building trust, improve communications resulting in better outcomes.
- **Dedicated Agri team in LS** – commenced 1 August 2014 as a result of the restructure in LS, closer collaboration & training with RBB.

To further support Agri customers and reduce any future litigation and reputational risk, additional initiatives are being put in place

1) Task Force established to manage high risk LMK customers

- This Task Force will deal specifically with 16 customers (limits \$35m, current IP \$13m) which have been identified as being high risk. All of these files will be reviewed internally by 29 July 2015.
- This is to ensure that each matter is managed urgently whilst managing the reputational risk and will seek to reach closure on all pending customer disputes /claims, with strategies in place for all 16 customers by 31 December 2015.

Privileged

- All customers to be met at customers' farm and Bezencon to lead customer outcome discussions.
 - **Review the remaining 137 LMK customers in Lending Services, limits circa \$206m, IP \$40m**
 - All remaining customer account strategies to be reviewed and agreed by end October 2015 by Bezencon / Linden.
- 1) Direct LS executive customer sponsorship for each of these customers.

Privileged

- **Concurrently, integrated grass roots communication strategy to be established to improve the regional community conversation and to strengthen support for ANZ**
- Approach that aligns to the timing of actions being taken above and also considers other potential reputational issues (eg. exposure in drought impacted & mining regions, regional branch closures, etc).
- Support for ANZ to be won from the ground up - broad community support - activities and effort will be focused at a local level, involving local leaders, local customers and community influencers, local media, local politicians and local ANZ staff. See details at Appendix 2.

Financial Implications

- A credit compromise would impact FY16 IP of an additional ~\$50-60m and may impact our APRA Capital Risk Grading models. This may impact existing and future risk grading and lending capacity.
- This would have the perverse (for farmers) impact of reducing capacity to our Australian Agri customers.
- Position will firm as portfolio strategy reviews completed in course of next 3 months.
- FY17 assessment dependent on FY16 outcome/experience.

Appendix 1: Phillott matter – subject to Legal Professional Privilege (1/2)

Privileged



Appendix 1: Phillott matter – subject to Legal Professional Privilege (2/2)

Privileged



Appendix 2: Integrated grass roots communication strategy to improve the regional Australia community conversation

Objective:

- Strengthen support for ANZ and our reputation and stakeholder relationships in regional locations (and farming communities) through a sustained and integrated program.

Approach:

- Integrated approach that aligns to timing of actions being taken on RBB Agri accounts in Lending Services and also considers other potential reputational issues (eg. exposure in drought impacted & mining regions, regional branch closures, etc).
- This is a grass roots campaign: support for ANZ to be won from the ground up - broad community support - activities and effort will be focused at a local level, involving local leaders, local customers and community influencers, local media, local politicians and local ANZ staff.
- Local engagement is key because trust can be strengthened and sustained through such program and it aligns to our everyday business interests. Alternatives- like national advertising - are unlikely to be effective
- Coordinated activities involve stakeholder engagement, media relations, social media, leadership and event management.
- The content of the program will be based on areas people expect to hear from ANZ about: market outlook, trends and opportunities, better financial management, hardship and financial literacy, and any local issues.
- Targeted approach underpinned by a regional heat map, focusing on areas/regions where media and advocacy outcomes are more achievable & where potential reputational issues may surface (eg integrated plan with Lending Services agri action plan and regional branch closures). Criteria to include key regional media hubs (e.g. Shepparton - Win News); electorates where political good will can be generated (receptive MPs/other industry or community influencers); markets where ANZ has strong local leadership and business presence, and ongoing commitment to those regional communities.
- Empowering local ANZ leadership is critical. This will involve upskilling local ANZ leaders. Measures / KRAs will be in place to demonstrate how important this activity is to ANZ.
- A specialist rural/regional PR firm will be engaged to develop and manage the program that can be applied across Australia (ie producing local media release templates, briefings for stakeholders, event support).
- Integrated approach is needed involving collaboration across Lending Services, Regional Retail and Regional Small Business (and feedback to NZ).

Delivery

Sponsor: Christine Linden, GM Regional Business Banking.

Advisory Council: Communications, Marketing, Government Relations, Media Relations, Corporate Responsibility,

Execution: PR Agency (Possible suppliers: <http://www.seftonpr.com.au/> <http://www.haystac.com.au/>)

Appendix 3: LS Agribusiness portfolio metrics – July 2015

Agricultural Customers in LS/CCS @ 1 July 2015		
	Total	Landmark component
Number	571	153
Limits (AUDm)	1160	241
Provisions (AUDm)	103	53