

Landmark Portfolio update

ANZ Board

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For meeting on 28 October 2016

FOR NOTING



Landmark Portfolio update

Executive Summary

- Over the past year, a customer focused Taskforce has applied a rigorous and consistent approach:
 - customers were assessed on a case by case basis (emphasis on face to face meetings), individual account strategies developed and where appropriate, customers supported to obtain independent legal/financial assistance

Privileged

- As a result of the Taskforce approach taken:
 - Reputation risk and threatened class action has been significantly mitigated. ANZ approach to customers were positively noted by Impaired Loans Parliamentary Inquiry.

Privileged

- Changes to culture, governance and policy have been implemented both in LS and Frontline to avoid future occurrence.
 - Frontline grass roots communications initiative (project ReGen) has been implemented to rebuild regional Australia brand. It is having an early, positive impact in local regional communities.
- Reputation risk remains around the 8 outstanding customers. Senator Culleton (One Nation, WA) attacked ANZ in his first Parliament speech and will remain a focus for dissatisfaction. The Government's reform agenda includes improved dispute resolution mechanisms for business, which will assist in dealing with public perceptions.

Financial Implications

- FY16 costs incurred of \$40m against the original Individual Provision and costs estimate of \$50m to \$60m.

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Key Outcomes from Review

Taskforce review process undertaken highlighted the following:

1. No systemic issues - customer concerns dealt with on a case-by-case basis
 - There has been no evidence of ANZ 'engineering' or manufacturing defaults, nor relying upon technical/non-monetary defaults as a basis for enforcement action or selling security properties at undervalue. This is consistent with ANZ's submissions to the Joint Parliamentary Inquiry into Impairment of customer loans (2016).
 - Only a small number of customers were identified as giving rise to any risk of ANZ/Landmark liability. These matters were addressed/rectified with customers directly on a case-by-case basis.
2. Communication by ANZ (at time of acquisition of Landmark) could have been better
 - There were instances of inadequate communications to customers immediately following the transfer of the banking relationship. Some Landmark customers experienced difficulties in operating their accounts during the transition and/or experienced unacceptable delays in ANZ's response to both information and funding requests. These issues exacerbated what were already difficult customer relationships with some of these customers never recovering from these early difficulties and ended in years of protracted litigation.
 - Post transition, there were some instances where ANZ should have managed issues differently with more empathy (and not just via lawyers), or responded more quickly. We have sought, and continue, to address/rectify these matters with customers directly on a case-by-case basis.
3. Culture, Governance and Policy

Both Lending Services and Frontline have made a number of changes to culture, governance and policy to ensure no repetition of these issues occur. This is demonstrated by the following:

Culture

- Introduction of the Lending Services Purpose to achieve the best outcome for our customers and ANZ including purpose & values led decision making aimed at achieving balanced outcomes while maintaining high standards. In addition we continue to develop a range of approaches rather than just utilising traditional recovery and problem solving methods.

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- Prompt escalation of client engagement/account strategy challenges and improved recognition of customer complaints. This includes greater sharing of account and portfolio with Business partners and select engagement with external parties (including politicians) to assist in building positive customer outcomes.
- Ensuring communications (where possible) are maintained at the banker/customer level, rather than 'outsourcing' to external legal and insolvency firms.
- Ongoing training and coaching of staff in conducting challenging conversations and resilience.

Governance and Policy

- The Taskforce initially established for Landmark now extends to all Lending Services Agri clients on an ongoing basis, customer assistance schemes (e.g. drought moratorium) are now embedded as any natural disaster occurs (e.g. flood, fires, drought) and escalation of enforcement action decisions internally (for consideration).
- The Lending Services well-managed team is continually setting standards and overseeing governance established to ensure regular progress of strategy milestones are met and reporting matters to Lending Services Risk Management Forum.
- There is a higher level of staff movement between divisions and sharing of knowledge which results in staff in Frontline and Lending Services developing an improved skillset.
- We encourage customers to obtain independent legal and financial advice as part of all resolutions. In some instances we have contributed funds for the customer to obtain such advice.
- A transfer of almost all Agri accounts from Commercial Collections (CC) to Lending Services has occurred in order to better manage risk. Lending Services is assisting CC in redefining their governance frameworks and cultural mindset to reach a balanced customer resolution.

4. Resolution approach

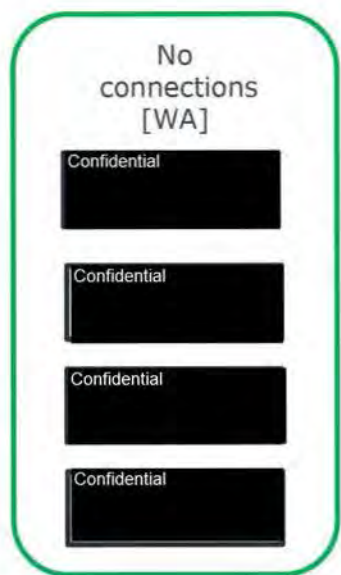
- The Taskforce meetings also identified some situations where was appropriate to offer settlements on commercial terms (e.g. debt forgiveness/resizing debt, reduction of interest rates to assist in affordability and/or to assist with increased principal reductions) to assist the customer to trade on in order to avoid an enforcement scenario.

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Continuing Initiatives

- Frontline strategic initiative (project ReGen) implemented to rebuild regional Australia brand is having an early, positive impact in local regional communities. Aligned to ANZ Purpose, this grass-roots initiative trains and empowers frontline leaders as thought leaders to engage and contribute to issues that have a meaningful impact on the prosperity of regional communities.
- Political Interest:
 - We have actively engaged with politicians (e.g. Bob Katter) to ensure a balanced position and information flow was maintained when seeking to resolve a number of customer matters. There is however more work to be done and there is likely to continue to be some politicians who will continue to take an anti-bank stance regardless of the initiatives and improvements made by ANZ for handling customer issues.
 - Senator Culleton has been a long time, vocal protagonist, it is likely that he will seek to use his Senate role as a point of leverage in dealing with the outcomes of the remaining unresolved matters.
 - The Inquiry into Small Business Lending Practices as recently announced under the direction of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), is anticipated to report to the Minister in late November 2016. It is expected that some customer matters referred to in the Parliamentary Impairment of Loans Inquiry will be reviewed by the ASBFEO (such as Senator Culleton). ANZ has already had a preliminary meeting with Kate Carnell, the ASBFEO.
- Media Interest:
 - Aside from Senator Culleton, media interest in past Landmark cases has decreased significantly as individual customer issues have been resolved.
 - Since being elected to the Senate, there has been a sharp increase in negative coverage of Senator Culleton's past business affairs as well as his issues with other creditors.
 - There was minimal media coverage of Senator Culleton's maiden speech despite its focus on ANZ, possibly reflecting media no longer taking him and his claims seriously. Most coverage was limited to business gossip columns.
 - The media team is continuing to take a proactive approach to managing relationships with rural and regional media.

Appendix 1: Tree Diagram – Key Customer Relationships



- Key:**
- ★ Closed/settled or ^BAU
 - + Progressing, subject to documentation/completion
 - ◆ Subject to further review/negotiations
 - ✗ Closed from ANZ perspective, customer may take further action. No evidence of any wrong-doing by ANZ
 - ◻ Could demonstrate sympathetic case to media/public
- * ANZ customer may also represent reputation risk

