

Transcript

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ANZ ESG Forum – Q&A (Abridged)

Shayne Elliott: Operator, we'll open up for questions.

Operator: Your first question comes from Rob Koh with Morgan Stanley. Please go ahead.

Rob Koh: Good afternoon. Thank you very much for the presentation today. Maybe can I try two questions? Just one in relation to housing affordability: what are your data insights telling you about which particular areas of the community - maybe by geography or by other categories - are most impacted at the margin?

Shayne Elliott: Sure. Actually it's a good question. I'll put Kevin on notice if he wants to add to my answer, Our Chief Risk Officer.

Actually it's interesting, Rob, in that there don't appear to be any particular indicators. There's certainly no geographic overlay like we've seen in the past. You'd be aware that over the last 10 years or 15 years when we've had periods of stress, it's more acutely felt, perhaps, in Western Australia or other parts of the country. That's not the case at the moment, so there's no geographic overlay.

Surprisingly, despite much talk about the fixed rates - the so-called cliff - our evidence to date in our own book is that people who have actually moved from a fixed rate to a floating rate are actually performing, on average, better than others. There's some reasonable hypothesis of why that might be the case, in terms of their ability to prepare well in advance for that. So, that hasn't typically been an indicator.

It's really a relatively - and again, I don't mean to diminish it - small set of indicators. People who bought more recently are more likely at the top, those that had to really stretch themselves to get into the market, and then of course, the real indicator is those that have less secure employment.

At the end of the day, what we've found is those that do have a home loan - irrespective of when they got it - have largely been quite well equipped to manage, despite the number of rate rises. It's really as long as they have a job, they've been able to work themselves through.

That's reinforced even when we look at things like our hardship cases.

Kevin Corbally: Shayne, the only other thing I'd add is it's still the same factors that we saw before, in terms of loss of income, marital breakdown or health issues are the key drivers. There's been no change to that in terms of the reasons why some customers have found themselves in stressful situations. Otherwise, what you said I think covers all the key points. Thank you.

Rob Koh: Thank you, Mr Corbally, thanks, Mr Elliott. My next question: obviously in dealing with this and anticipating this, you've talked a lot about extra algorithms and extra data analytics.

Can you just give us an update on how you're thinking about potential risks with that, things like algorithmic bias and the like?

Shayne Elliott: That's a very good question. I think the point there was at some level, we're at war here with - this was relating to Kath's comments and in particular around scams. As we know, sadly there's a significant industry of scammers out there and they're continually evolving the way that they are tricking and defrauding customers.

What we try to do, in addition to just good old-fashioned good people oversight, whether it's our people and our branches or on the contact centre, to deploy technology as much as we can to look for unusual patterns. Those algorithms are really designed to look for things that are unusual in your account activity.

We weren't really referring to any algorithms that might - and I understand the nature of your question that it could be biased in the sense of approving credits, for example. That's a separate area and we obviously do use technology for credit approvals, et cetera.

Again, Kevin, sorry to shake you up, you might want to talk about that in terms of bias. But Rob, just while Kevin's getting ready on that question about credit approval, but Kath's comments were really more about how do we help customers.

You'll be aware of the Falcon program that we've had for many, many years, in fact decades, overseeing credit card transactions to identify potential fraud. It's really just an extension of that and it will be an ongoing piece of work. Do you want to talk about it from a credit perspective.

Kevin Corbally: Yes. Just if I can add to what you also said, Shayne. I think when we talk about algorithms, what we're specifically looking at is individuals who we can see from previous history what's happened at certain times of a month when payments are due, it's that type of stuff that we look at from that side. From a credit perspective, we're acutely conscious of the fact that we need to be aware of the impact of some of the biases that can be built in.

What I would say is that no decision in its own right is just made by machine; there's obviously the opportunity for customers to either appeal a decision or alternatively, decisions which are going to be negative automatically get flicked to a human being to also reassess as well. So, I wouldn't say there can be bias but there's the opportunity for human intervention would be the point I'd make on the credit side.

Operator: Your next question comes from Carlos Castillo with Melior. Please go ahead.

Carlos Castillo: Good afternoon, team. A few questions from me. I might just fire them all at you and then allow you to respond as you see fit.

The first one, nature. It's good to hear that you've extended those discussions with the largest emitting customers to consider the nature impacts they're having but I'm interested to understand more broadly across the business how you're incorporating nature-related risks into

lending decisions for those that are exposed to the adverse consequences of biodiversity loss, et cetera.

The second question, just around the requirement for non-financial KPIs to be incorporated into LTI as part of the APRA remuneration reforms and just whether you've come to a landing yet on what those non-financial KPIs might be.

Then thirdly, we've had the Voice legislation pass Parliament today for the referendum to go ahead. Just interested to understand what you're planning to do in the lead-up to the referendum in terms of your workforce and the broader community.

Shayne Elliott:

Yes. If you don't mind, we'll answer them in reverse order. I'll take number 2 and 3. In terms of the Voice, ANZ is a supporter of the Voice and we have - and how has that manifested itself? That has manifested itself in terms of financial support, so we have provided some financial support to the Yes campaign. We will be - internally with our staff, we see this as an obligation around education.

In fact, I think our first educational piece, literally I saw it over the weekend. We'll start a series of interactions with our staff to educate them about the constitution and its history, what are the proponents in terms of the Voice asking for, and why. That will be essentially the extent of it.

We will not be engaging directly with our customers on the Voice. It's really just restricted to an educational campaign and respecting people's freedom of choice and people will come to their own opinions, to make sure that they do so on an educated basis internally. There'll be a range of activities we do.

Our support for the campaign has been relatively below the line or relatively quiet and that's - given the discussions we had had with the Yes campaign we thought that was the most appropriate way for us to do that.

Then finally, as part of it we've also been educating ourselves in terms of the Voice and that means interacting with leaders from the Uluru Statement from the Heart interacting with people at our Board and executive so that we ourselves were better educated about it. That was the position on the Voice.

Look, that may change over time. We're really very much working hopefully hand in hand with the From the Heart campaign to make sure that our involvement is helpful and that's the approach we'll continue to take as it evolves.

In terms of the non-financial KPIs for APRA, we haven't determined that at this point. It's a great question, and it's a classic dilemma where many of our shareholders would prefer we didn't have non-financial KPIs at all but we accept that that's now part of the requirement with APRA. So, we're working that through with the Board. It's fair to say - your question was around LTI.

It's fair to say that in our balance scorecard, more broadly we've always had non-financial KPIs or certainly a range of metrics that we think are important in terms of driving fair and balanced outcomes for all stakeholders.

Those include areas like gender diversity or employee satisfaction or NPS scores or some of the other factors that we've always taken into account. What we're working - it's not really a huge stretch for us, it's really just - your question is it's really applied in terms of this new standard with respect to the LTI and so that is still up for the Board to decide later in this year, but we will.

Then Mark, did you want to talk about the nature piece?

Mark Whelan: Yes. I'll start with that and I think Kevin will probably add to that as well. I think it's fair to say, Carlos, that we're at what I'd call an exploratory stage on biodiversity. One of the things that we're learning with regards to this, while there is certainly a number of our customers looking at this issue, the amount of clear data around this and also the need for clarity I think with regards to the disclosures that will be required in this space are still pretty much under development.

We recently visited the UK and Europe again to just get some more information around how other banks and regulators are looking at this particular issue. I don't know if you want to add some stuff on that, Kevin, because you were on the tour.

Kevin Corbally: Yes. Just to what Mark was saying, I think it was evident from Europe and the UK that probably our customers are less progressed in terms of setting targets and disclosures and I think for a lot of banks they're still finding their feet.

What I'd also add in terms of our own credit assessment in line with our own social and environmental risk policy, we do expect our business customers to use international best practice to manage any potential biodiversity impacts, and our own land acquisition statement also acknowledges that we will not knowingly support any transaction or alternatively any customer who's involved or could impact on a culturally or environmentally sensitive area.

Think of areas such as World Heritage areas or Ramsar list wetlands and other nature conservation parks et cetera. They're already built into our own credit policy at this stage.

Operator: Thank you. Your next question comes from Guy Shearman with Aware Super. Please go ahead.

Guy Shearman: Good afternoon, all. Thank you for the brilliant presentation. Just the one question from me today. It's related to Traditional Landowners and obtaining free, prior and informed consents, noting that there are some examples of companies who have had delayed projects as ethics had not been obtained.

I'm wondering how are ANZ assessing lending to projects that have cultural heritage, Indigenous community impacts and whether free, prior, informed consent is a requirement.

Shayne Elliott: It's a great question. I'm looking at Kevin and Mark to give a more informed answer.

Kevin Corbally: I think the short answer to the question is that that is factored into the decision-making process so it is something that we do consider at that point in time, yes.

Operator: Thank you. Your next question comes from Richard Wiles with Morgan

Stanley. Please go ahead.

Richard Wiles: Hi, Shayne. Good afternoon. Just referring to slide 16 on your finance emission targets. You say there that they'll - you remain on track by the end of 2024 to set interim targets for nine priority sectors. It looks like you've got eight there at the moment so what's the ninth one please?

Mark: Yes. We've got power generation, large-scale commercial real estate, oil and gas as you're saying there, which is six, then thermal coal and then transport. The others obviously that we'll be looking at will be - which you're seeing offshore as well - will be eventually residential mortgages and agri.

Those two I would - I think the discrepancy between the eight and say 10 which I've just referenced there, Richard, is coal, to be frank, which we've already made significant inroads on as you're aware. With the two that I just mentioned though, there is significant data issues associated with that so we'll be hastening slowly with regards to the disclosures or our approach on that while we can gather up more information.

Richard Wiles: Okay. Thanks, Mark. Then I think I'm correct in saying your exposure to oil and gas, and power (generation) is a little bit higher than some of your major bank peers. You've got targets in place for each of those. I think for oil and gas it's a 26% reduction versus the FY20 baseline and for power (generation) I think it's a 50% reduction versus the FY20 baseline. How are you going on those two sectors under the targets?

Mark Whelan: Thanks, Richard. Our glide path on those are back into where we expected to be. You'll note last year we saw a blip, an increase, particularly in the energy side, the power generation side, simply because with the volatility that you saw in the market and very high energy prices, we saw some customers that we needed to support in the short term, and we did that on the basis that it was on the short term. Those facilities have now been repaid and we're now back on that glide path to the 2030 targets that we'd talked about

Shayne Elliott: I think it's worth pointing out that there was a financial exposure increase but that financial exposure did not lead to greater emissions from those customers. It was the price of production had gone up and so the mathematical outcome of that was a higher exposure but it wasn't that we were contributing to an increase in emissions.

Operator: Your next question comes from Jane Wu with Future Fund. Please go ahead.

Jane Wu: Thank you. Good afternoon. Thank you very much for the presentation. I'm going to take you to a topic that hasn't been covered so far: modern slavery. I wanted to just go to one of the things you mention in your report about working with law enforcement agencies, and particularly with the financial crime team's investigation into banking activities.

There's the case where you identified a possible case of modern slavery and then you then referred this through to the enforcement agency. Can you explain at what point does ANZ actually bring that to an agency's attention, and in the case where you did do this, did you get any feedback from the authority or agency?

Shayne Elliott: Yes, I can do that. It's a great question, Jane.

Sadly, we do have situations where through our normal monitoring of

transactions, something might flag as suspicious. So, as you know, we have a bunch of obligations with AUSTRAC when things are related to money laundering but we also have an obligation, anything that is just a suspicious matter, and that's a reasonably wide definition.

As soon as we are aware of something that is defined as suspicious, we report it, essentially immediately. It's then for those authorities to then handle it from there, and then that may require - for example, sometimes they would require us to close the account immediately.

Sometimes they might ask us to continue to operating the account while they conduct their investigation. We don't typically get - we were chatting about this before - we don't typically get specific feedback on a case-by-case basis.

As you can imagine, there's confidentiality issues, et cetera, and it's really for the authorities to deal with, but more broadly we get feedback about the fact that our effective monitoring of such situations is helpful and a very important part of the overall process. Kevin, did you want to add to that?

Kevin Corbally: The only thing, Shayne, that I'd add to what you said is that that information that we would have passed on to AUSTRAC, they would have then passed on to whatever the appropriate agency was.

In turn, AUSTRAC, through regular dialogue that it has with other financial institutions, it will share some of those insights with the other financial institutions so that they can in turn fine-tune the filters that they've got.

Similarly, if another institution picks something up that for whatever reason our filters hadn't, that gets shared with us as well. That's probably the only other thing, Shayne, that I'd mention.

Jane Wu: In terms of this aspect of monitoring, which obviously has been effective because you've actually been able to identify a suspicion which has then been referred on, what has the bank actually done in terms of that aspect of this business to learn and address and improve its process?

Shayne Elliott: Great question. Kevin?

Kevin Corbally: Yes. Look, for a number of years we've built that into our algorithms and our filters, so well before modern slavery legislation even came in. What we have done, however, over the last couple of years is to continue to fine-tune it, enhance it, and particularly as we learn and as law enforcement and AUSTRAC and other agencies learn and they pass that learning on to us as well.

We obviously did a review when modern slavery legislation came out but we've used the information we get from the other agencies to enhance what we do.

Operator: Thank you. There are no further questions at this time. I will now hand back to Mr Elliott for closing remarks.

Shayne Elliott: Okay. Thank you very much for your time today. Hopefully, you will understand this is an important area for us and since 2018 we've felt it was appropriate that we spent appropriate and sufficient time dealing with issues of ESG. While we do so on a separate day, in a separate way, I don't want it to be lost on people; we do see this as an integrated

part of the way that we run the bank. It's just core to who and what we are in terms of our purpose.

It doesn't mean we get everything right. It's a constant area of learning, and I think if I may, a couple of areas of important learning at the moment for us all are particular around nature and biodiversity, and that's a very steep learning path that we're all on as a bank and I think we are progressing pretty well on that and we'll have more to share undoubtedly next time we get together.

The other one is around scams. While it's very easy to look at scams just as a purely financial outcome, it's more than that. Really, the sophistication of the criminal activity on that means that we need to be, as an industry but also as ANZ, investing very, very heavily and really trying to innovate new ways to protect our customers, but as we know, the best thing for customers to do is always be extremely vigilant, and it's our responsibility to continue not only education but to protect them as best we can.

They are the two major areas, and then I mentioned the more existential risk around housing and affordability which again, given it's so core to who and what we are as a bank here in Australia and New Zealand, will continue to be an area of focus for us.

As I mentioned in my speech, we hope to contribute to the national dialogue about long-term solutions, and not for a minute suggesting that any of those solutions will be easy.

Thank you very much for your time today and we enjoyed your questions. Thank you.

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