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Ms Toni Matulick
Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra
ACT 2600

Dear Ms Matulick,

**Re: Parliamentary Joint Committee on Corporations and Financial Services
inquiry into the impairment of customer loans – questions on notice**

I refer to the questions on notice received by the Committee on 1 December 2015.

Please find attached ANZ's responses to those questions. If you have any questions or require clarification, please do not hesitate to contact me on

Yours sincerely

Rob Lomdahl
Group Head of Government and Regulatory Affairs



Questions on notice for ANZ – received 1 December

- 1. ANZ bought Landmark from the Australian Wheat Board (AWB). Can you confirm if there is any legislative requirement for AWB or any of its subsidiaries, like Landmark, to maintain a Basel strategy that differed from ANZ's Basel Strategy at any time after the purchase.**

The Basel framework only applies to banks (Authorised Deposit-taking Institutions in Australia) and was therefore not applicable to AWB or Landmark.

- 2. On what date did Landmark start to operate under the Australian deposit taking license of ANZ? Eg: Was it a different date to the purchase date?**

The Landmark lending book came under the auspices of ANZ on the date of acquisition, 1 March 2010.

- 3. Did ANZ have any ownership or involvement with Landmark before the acquisition?**

ANZ did not have a relationship with Landmark prior to the acquisition although ANZ was a financier to the Australian Wheat Board.

- 4. Were Landmark borrowers requested or required to go through any processes or documentation in order to transfer the loans to the ANZ?**

ANZ wrote to all Landmark customers outlining that their accounts would be managed by ANZ and that for continuity in managing customer relationships, many of Landmark's financial services staff accepted roles with ANZ. The letter included a notice of changes to lending facilities.

Following ANZ's acquisition of Landmark in March 2010, there were two phases to transitioning Landmark customers to ANZ:

- Throughout 2010 – customers were transitioned to ANZ systems including opening ANZ accounts; transferring balances from Landmark to ANZ; closing Landmark accounts.
- Feb 2011-May 2012 – customers were re-documented to ANZ letters of offer and security documents.

- 5. For those Landmark loans that were impaired or defaulted, please provide an aggregate list of the reasons that those loans were impaired or defaulted and the total number of loans associated with each reason. For example, how many loans were impaired or defaulted for reasons including, but not limited to, failure to meet repayments, revaluations or other breaches of loan covenants.**

Please provide separate figures for commercial and retail loans.

Please provide separate figures for Landmark loan book as at the acquisition date and loans that were impaired or defaulted between the acquisition date and 30 June 2015.

We have not conducted a review of every former Landmark customer file that would have been considered impaired or defaulted at the time of the acquisition or that have become impaired or defaulted since that date (March 2010). This category would include files that are:

- Currently managed by our Lending Services team;
- Previously managed by Lending Services but since closed;
- Previously managed by Lending Services but since refinanced; and
- Previously managed by Lending Services but since returned to health.

We would expect this to include over 500 customer files. In order to determine the information requested each file would need to be identified, retrieved, manually reviewed and the result checked. This would require a significant period of time and would be a resource intensive and costly process. If the committee wished to look into specific cases, ANZ would be pleased to provide information on the basis for impairment or default.

Given the Committee is likely to be most concerned with matters where ANZ has taken enforcement action, in our view the manual data exercise that was previously conducted for this inquiry would provide a typical snapshot of loans managed by Lending Services. As set out in our submission, a total of 116 customers were identified at that time as being in some form of ANZ enforced insolvency administration; 29 were Agribusiness customers, some of which would be former Landmark customers.

Of the 116 customers identified, 113 were in monetary default at the time of ANZ enforcement and the monetary default was relied upon to take possession of property held as security by ANZ.

Of the remaining three customers where there was no monetary default, one was a large sophisticated Institutional customer and two were Business Banking customers, where there were specific and compelling reasons for ANZ to take action following the occurrence of other significant defaults (for example, the appointment of a receiver by another financier). No instances of ANZ relying on the breach of a LVR covenant as the primary default were identified.

6. Did the agreements for the acquisition of Landmark include any price adjustment mechanisms?

a. If so, please provide information on:

- i. what the mechanisms were;**
- ii. how they were utilised,**
- iii. how they were adjudicated by independent parties;**
- iv. whether loan impairment provisions were involved and what the provisions were; and**
- v. what changes occurred to the price as a result.**

Other than the clawback mechanism which ANZ has previously detailed in evidence to the Committee, the Landmark transaction agreements did not include any price adjustment mechanisms where the price could be subsequently adjusted based on the performance of the business under ANZ's ownership. For completeness, we note that:

- The warranties regime (detailed in our response to previous questions on notice) provided that any warranty payments would be taken to be a reduction of the purchase price. As previously advised, no warranty payments were made.
- There was a 'completion accounts' process, typical for an M&A transaction, to determine the final purchase price. A 'completion accounts' process is generally used to set the final price, because at the time of completion, the parties usually do not have final financial accounts and the price is often set by reference to financial accounts. So typically, the buyer will pay an estimated price at sale

completion and the parties will then work to finalise accounts. The final price may be different to the estimated price depending on whether the value of the book had changed while still owned by the seller in the final stage of the sale process. Once final, the difference between the estimated amount and the final amount is paid by the buyer or repaid by the seller.

7. When valuations and revaluations are sought, does the bank use registered certified property valuers?

ANZ's process for using external valuers is discussed at length on pages 10-12 of our submission.

Yes ANZ engages external valuers to conduct the vast majority of commercial valuations (exceptions outlined in question 9 response) and always uses external valuers if a property is subject to enforcement.

8. Where the committee has received and published submissions relating to ANZ/Landmark matters could you advise the committee if the valuers used by the bank in those cases were registered certified valuers?

Submissions specifically relating to ANZ/Landmark include:

- **Submission 17** – Joseph Courte and Gail Courte
 - Yes, ANZ engaged external registered valuers.
- **Submission 34** – Greg Bloomfield, unnamed examples
 - Yes, ANZ engaged external registered valuers in the examples that we have been able to identify as ANZ.
- **Submission 81** – Tim and Jean Cashmore
 - Yes, ANZ engaged external registered valuers.
- **Submission 40** – Name withheld
 - This matter occurred prior to ANZ's acquisition of Landmark so we have been unable to confirm whether an external valuation was obtained by Landmark.
- **Submission 123** – Rod Culleton
 - Yes, ANZ engaged external registered valuers.

9. Could you explain to the committee the different methods that are used to value properties and whether the ANZ gives any direction to valuers on which method to use.

ANZ's process for valuing commercial (agri and non-agri) properties is discussed at length on pages 10-12 of our submission.

When we appoint a valuer we do not suggest an expected value. We simply give them the details of the property and ask them to determine the current market value. A valuer may take into account the nature of the sale, for example, if it's a forced sale or a customer instigated sale. The bank's instructions are invariably outlined in the valuation report and a copy is provided to commercial customers.

ANZ engages external valuers to conduct the vast majority of commercial valuations and always uses external valuers if a property is subject to enforcement.

ANZ uses a panel of approved commercial property valuers' to provide independent and impartial expert advice to determine the value of the property. A valuer's place on the panel is subject to regular quality assurance checking.



ANZ can use Manager Internal Appraisals (MIAs) for agribusiness valuations up to \$20 million and regional commercial property valuations up to \$1.5 million (limited strictly to retail, office and warehousing businesses). MIAs are:

- Conducted by a Frontline Manager who is trained and accredited; and
- Then approved by certified practicing valuers in ANZ's Credit Risk function (ANZ employees, but not Frontline staff) .

The cost of seeking an external valuation is high in many rural areas, with limited benefit to the customer or the bank's assessment of risk. These internal appraisals are signed off centrally by certified practicing valuers. The internal appraisal process is also subject to a quality assurance review by external valuers annually. The audit has found no material or adverse issues associated with MIAs and concluded that the process does not present risks. In ANZ's view the present process results in timely, sound and low cost outcomes for customers.

10.If a customer disagrees with a valuation, what avenues are available to them to challenge the valuation?

Yes, a customer can dispute a valuation. If they do not agree with the valuation, ANZ will give the valuer the opportunity to respond to the customer's concerns.

But it is important to note, that in most instances the valuer would have inspected the commercial property with the customer present so customers are often in a position to have highlighted all the positive attributes of the property to the valuer at that time.

11.What are the incentive structures that apply:

a. for staff who set up loans; and

Our response to question 1 of the questions on notice received on 18 November in relation to frontline staff incentives addresses this question.

b. for staff who are in credit management departments who are involved with loans in financial distress, default or impairment.

The remuneration structure for ANZ Lending Services staff dealing with impaired and related lending has fixed and variable components. The variable component is based on a "balanced scorecard":

- Financial – including operating costs to budget (eg travel & wages); a "no surprises approach" to provisioning; and awareness of Risk Weighted Asset impacts
- Customer – including client retention; engagement with rest of bank; and reputation risk minimisation
- Process & Risk – ensuring the robustness of credit rating and provisioning to ensure standards are met (as measured by KPMG, ANZ financial governance rules, ANZ Internal Audit and APRA); and maintaining high quality standards
- People – retaining talented staff, lifting staff engagement, and succession management

ANZ considers that in an impaired asset environment, recovery incentives or similar financial targets are not appropriate.



ANZ supports APRA's principles based approach to remuneration governance. ANZ's remuneration strategy, the Group's Remuneration Policy and reward frameworks all reflect the importance of sound risk management.

12. What incentive structures applied since 30 June 2008, including any special arrangements that may have occurred at particular times, such as during the GFC or following acquisitions of other banks?

The scope of this question is very broad and covers a long period of time. ANZ does not keep historical records of staff incentive structures and is not in a position to respond to a question of this scope. ANZ would be happy to respond to a specific inquiry.

13. Please provide information on the extent to which receivers are seconded into banks to work with distressed, defaulted or impaired loans.

From time to time our Lending Services team second staff from accounting and insolvency firms in order to assist with work flow. These staff are typically with ANZ from between 6 and 12 months.

Overall the numbers are small. The table below shows the number of full time equivalent secondees to our Lending Services team each year from FY10 to FY16.

Financial Year	Number of Secondees
FY10	3
FY11	3
FY12	1
FY13	2
FY14	3
FY15	5
FY16	4

a. Please also set out the arrangements for ensuring that there are no conflicts of interest in the appointment of investigating accountants and receivers.

ANZ has a global policy on identifying and managing conflicts of interest. The policy includes the requirement that "ANZ Employees, Contractors and Responsible Persons will, when representing ANZ, declare and disclose their interests to all appropriate persons, where they see an actual or potential conflict of interest or a perception of a conflict of their personal interests with the interests of ANZ, ANZ customers, ANZ suppliers or any other persons with whom they are engaged in their ANZ business activities". ANZ staff members are required to complete regular mandatory training related to the ANZ code of conduct, including the requirement to identify and manage conflicts of interest. Compliance with the policy is overseen by the ANZ Risk function.

Our advisors have a responsibility to declare any conflicts of interest and are subject to related professional standards. The Australian Restructuring Insolvency & Turnaround Association Code of Professional Conduct sets out obligations on its members to identify and manage conflicts of interests. Section 6.8.1.C of the Code specifically sets out obligations in relation to a situation where an Investigating Accountant is appointed to undertake further work.

ANZ monitors the use of advisors to ensure work potential conflicts of interests are identified and managed. Where a conflict is apparent, we raise this with the advisor prior to appointment. In instances where conflicts cannot be addressed, an alternative appointment would be made.



- b. Please provide information on the number of occasions in which the above arrangements have been breached and what consequences were applied to those responsible.**

We are not aware of any instances where a breach has occurred.

- 14. In situation where the ANZ appoints an investigating accountant what guidelines or rules does ANZ have regarding receivers that may subsequently be appointed? For example, to avoid conflicts of interest, are there any requirements that the investigating accountant cannot be appointed as a receiver?**

ANZ does not have a policy that the investigating accountant cannot be appointed as a receiver. As noted above ANZ monitors the use of advisors and requires managers to ensure that there are no conflicts of interest. Provided that there is no conflict of interest, the appointment of an Investigating Accountant as Receiver and Manager may result in the most efficient and effective outcome in the particular situation.