

Start of Transcript

Shayne Elliott: Good morning and thank you for joining us at our seventh annual ESG Investor Briefing. Now to begin, I would like to acknowledge that I am joining you from Naarm on the lands of the Wurundjeri people of the Kulin Nation and I pay my respects to their Elders past and present and recognise their thousands of years of environmental, social and governance practices. I also acknowledge the Traditional Owners of the lands on which you, our attendees, are joining from and the First Nations people here with us today. Now, as we have done for seven years now, we are here today to discuss our progress in the area of ESG. We take ESG as seriously as our financial results, so we want to provide you with the same opportunity to hear from us directly and to ask questions.

Today we will go into some detail on important societal issues affecting business and individuals in the current economic environment, hardship and scams, as well as our approach to First Nations banking. Now to do so I'll be joined by our new Head of First Nations Strategy Australia, Shelley Cable, and our Customer Fairness Advisor, Evelyn Halls.

But first, just an overview of our approach. ESG is integral to our purpose, which is to shape a world where people and communities thrive, and we deliver that purpose by executing our strategy which is focused on improving the financial wellbeing and the sustainability of our customers.

Specifically we help people save for, buy and own a liveable, affordable home or to start or buy and sustainably grow their business, and we help companies sustainably move goods and capital around the region. ESG is an important and integrated part of the strategy and creates long term value for our shareholders while helping us better serve customers.

Now, to keep pace with the rapidly evolving external environment and community expectations we engage regularly with stakeholders to consider whether we're focused on the right areas. Following the process this year our three core areas continue to be financial wellbeing, housing and environmental sustainability. Other areas of focus include protection from scams and fraud as well as responsible customer engagement, which we are speaking about in more detail today.

Our governance model overseeing progress in these areas includes our Board, Ethics and ESG committee chaired by Jane Halton and the Ethics and Responsible Banking Committee, or ERBC, which I chair.

Since its introduction in 2017 the ERBC has made significant contributions towards achieving fair, ethical and balanced stakeholder outcomes. This includes establishing our ethical decision-making framework and deciding who we bank and how we bank them.

At the same time the Board's EESG committee has provided direction on a diverse range of topics, including some of the toughest we face as a company, such as family violence, human rights and the economy's transition to net zero. We don't always get it right but we have robust processes in place and forums for raising important issues.

Looking ahead we are considering how we can further strengthen these committees to ensure that ANZ continues to take meaningful action towards our purpose and I'll speak more on this later.

Looking externally, we are a large company which touches many parts of the economy in our home markets of Australia and New Zealand, so it's important we don't operate in a bubble. We work hard to stay alert to and connected with what is happening in the broader economy and the impact it's having on our customers and the community.

In both Australia and New Zealand, economic growth has slowed, consumption is soft, interest rates are the highest they've been in over a decade and inflation is stubbornly above target. For many people times are incredibly tough. Foodbank alone is delivering roughly 65,000 meals every day in Melbourne, while heartbreakingly, some Australians are skipping meals to keep up with everyday costs and we are seeing similar in New Zealand.

In line with the broader economic environment, the number of ANZ home loan customers in hardship has risen over the last year to around three in every 1,000 people. The number for small business customers is similar at around two in every 1,000. Now, while these numbers are still low in historical terms, we expect they will continue to rise given the external environment and we are working hard to help people who are struggling.

Now, we noted the recent ASIC report which found more than one in three Australians disengaged from the financial hardship application process at least once. To tackle this we are taking measures to improve both the experiences and the outcomes for those seeking hardship support through an action plan which Evelyn will speak to in more detail.

We are also trying to connect with customers in difficulty sooner, including by using data analytics and modelling to proactively identify those facing hardship triggers, such as reduced income or negative cashflow.

When we do contact these customers, we let them know that ANZ is here to help and provide information about our financial assistance. This helps us determine quickly whether support is required, such as pausing or reducing payments or restructuring their loan. Now, for many it's not necessary, but when it is we can help customers get back their feet faster.

Now, it's important to also note that many of our home loan customers remain resilient with 79% actually ahead on their home loan repayments, while offset balances are growing year on year. For now, employment remains strong and savings built up during COVID continue to be high in Australia providing many households with some level of security.

Now, that said, we are aware we also we have customers who are in difficulty and may not have a credit card or a home loan. These retail customers may not be as visible in our statistics but they're still our customers and we need to do what we can to help them.

This includes supporting financial wellbeing through our long running flagship financial wellbeing and education programs Money Minded and Saver Plus. It may also be by making sure they have the most appropriate product for their circumstances.

ANZ Plus allow us to offer simple and intuitive wellbeing tools, like setting a savings goal or using round-ups to set aside money for a rainy day. With more than 740,000 customers already on board ANZ Plus it's really pleasing to see that 47% of them actively are engaged in one or more of our financial wellbeing tools. Now, it's important to support and protect all of our customers and we will continue to stay vigilant.

We also support our customers through our efforts to keep them safe; safe from criminals, safe from hackers and safe from scammers. Providing a safe place for people's money has been core to our business for 196 years and that's why investing in security is such a top priority. Criminals used to rob bank branches, but increasingly they scam customers.

In recent years the extent and pace of change in the scams landscape has evolved significantly as the perpetrators become increasingly sophisticated. Now, at the same time we have increased investment and prevention and detection tools across the bank, leveraging new technologies such as AI, machine learning and biometrics.

You may have also seen our latest advertisements with the return of our hugely popular Falcon, an anti-fraud system flagging suspicious transactions. Now, the ads are fun but they also carry a serious message about extra layers of protection that the Falcon technology provides.

We are heartened by the latest National Anti-Scam Centre quarterly numbers showing overall reported scam losses in the March quarter were down by around 10% from the previous quarter. Now, at ANZ we are also seeing evidence that our initiatives are helping reduce fraud and scam losses to customers. Again, Evelyn will talk to the numbers in more detail. While they're heading in the right direction we know we can't be complacent and we need to take more action.

Now, I would like to touch briefly on our three ESG areas, starting with housing. Challenges in the housing market are disproportionately impacting low-income earners, renters and first home buyers. We know that it has been equally difficult for the property sector to deliver new housing supply to market as we have seen firsthand the steep increases in the cost of construction.

We remain focused on helping improve the availability of suitable and affordable housing options for all Australians and New Zealanders. As part of this we are supporting an increase in the supply of social and affordable housing by investing in emerging housing markets, such as specialist disability accommodation, land lease housing and build to rent.

ANZ has a target to fund and facilitate \$10 billion of investment by 2030 to deliver more affordable, accessible and sustainable homes to buy and rent. Now, at the end of March this year we have delivered more than \$5.7 billion toward that commitment since 2018.

A recent example was our financing of the Ground Lease Model 2 Project, a public/private partnership between the Victorian state government and the Building Communities Consortium. This project is expected to deliver 1,370 new social, affordable, specialist disability and market rental residential dwellings across four project sites in Victoria.

The new housing stock will replace aging properties with modern, accessible and more energy efficient rentals. The project is a great example of how we work with our customers and other stakeholders to deliver better housing outcomes.

Now, turning to financial wellbeing. We're working to encourage our customers to build and maintain financial resilience. Our aim is to have at least 2.5 million customers in Australia and New Zealand with a financial buffer by the end of 2026.

Now, this is from a baseline of 2.4 million customers, which may not sound like a large increase to our target. However, in the current external environment even maintaining the baseline level will be challenging.

Pleasingly, just last month the Federal government extended funding for Saver Plus and this will allow more Australians to participate in the award-winning program, which is now the longest running matched saving and financial education program in the world.

In total, our long running partnership with governments and community organisations, like the Brotherhood of St Laurence, have helped 60,000 lower income Australians save more than \$29 million, while also receiving \$24 million in savings matched by ANZ.

We are now also piloting Save Plus in the Pacific and from July this year we will be partnering with the Australian Federal Government to expand the reach of Money Business, our tailored adult financial education for Indigenous Australians. We are in the process of building a digital banking and capability module recognising the linkages between financial wellbeing and digital capability.

Now, finally, we are also making really good progress in environmental sustainability. As you may know, we have achieved more than \$66 billion against our previous sustainable solutions target since 2015. So we set a new target in April '23 to fund and facilitate at least \$100 billion in social and environmental outcomes by 2030, through customer activities and direct investments.

By the end of March, we funded and facilitated over \$20 billion across 131 transactions since the new target commenced. For example, ANZ led a US\$940 million green export credit agency backed facility for Hyundai Mobis America to finance the supply of parts for domestic electric vehicle production in the United States. We've also been engaging with our customers on their transition plans for almost a decade. To explore ways in which our customers can improve their plans which may be facilitated by our financing solutions.

This financial year, we're applying an enhanced assessment framework to our largest emitting customers. Including a sharper focus on whether our customers are implementing their transition plans.

Now, this work is being led by our Group Executive, Institutional, Mark Whelan, and Chief Risk Officer, Kevin Corbally. They recently met with customers, peer institutions, and regulators in Europe to benchmark, learn, and discuss these issues in a market which is well advanced in this area.

Mark and Kevin are both here today if you have any questions on these topics. Now, I'd like to introduce Shelley Cable, our new Head of First Nations Strategy, Australia.

Shelley's role is one of the first of its kind reporting to a Group CEO in corporate Australia, reflecting the significance of her appointment. A proud Nyoongar woman, Shelley will develop and implement an Australian First Nations strategy for the bank while acting as a trusted advisor on First Nations issues and opportunities.

She brings extensive experience across First Nations employment and financial literacy, most recently as the director of Generation One, an initiative of the Minderoo Foundation. So over to you, Shelley.

Shelley Cable: Thank you, Shayne, and kaya, good morning, everyone. Ngan kwerl Shelley. Ngan moort, ngan boodja Noongar. My name is Shelley Cable and I belong to the Nyoongar people of south western Australia, and I'm very proud to have joined ANZ in January as the inaugural Head of First Nations Strategy for Australia.

While this role is new, it shouldn't be unexpected as it builds on ANZ's history and track record of reconciliation. From being one of the first major Australian companies to develop a reconciliation action plan, or RAP, in 2007 to appointing my peer, Karleen Everitt, Te Kaitohu Rautaki Māori, Head of Te Ao Māori Strategy in 2021, to our support for the Yes campaign in last year's referendum - my appointment is a logical progression of ANZ's maturity and commitment to First Nations.

In this new role, my priority is to develop an Australian First Nations strategy for the bank that is aligned to our purpose, strategy, and business.

While the strategy is in its early stages of development, I'm happy to share some initial thinking. Our objective for this strategy is to weave together meaningful actions, projects, and commitments that leverage our core business strengths and help us to be more deliberate about our relationships with First Nations in Australia.

We are conducting an extensive consultation process to inform this strategy and are seeking input from many people across our bank, communities, and country.

Importantly, I want to stress that ANZ is not only pursuing this strategy because it's the right thing to do. As our investors, you should know that this is also good for our business.

You can look across the Tasman to ANZ New Zealand's Tākiri-ā-Rangi strategy as an example, where our focus is on economic equality by advancing Māori business and financial wellbeing.

In Australia, the First Nations economy represents an exciting opportunity for our bank. This sector contributed around \$16 billion to Australia's GDP in 2022 and the sector is growing rapidly, well above our national growth rate.

Without a strategy on how to bank this sector, we miss the opportunity in front of us. Therefore, we're developing a business strategy that centres on the common ground. The win/win opportunities where what's good for First Nations people is also good for our business, and there are plenty of these opportunities.

The strategy will also be strengths-based and recognise the fact that First Nations peoples in Australia have run economies and traded for longer than anyone else on the planet today. There is much for our bank to learn.

At this early stage, and subject to further consultation, it's likely that the strategy will focus on three key areas: financial wellbeing, banking the First Nations economy, and improving the cultural capability of our bank.

The strategy will also build on the work already underway in our current Stretch Reconciliation Action Plan which is approaching its conclusion this year.

We continue to make good progress against the 17 actions, comprising 100 commitments in the RAP. Some of our achievements in 2023 included launching a First Nations commercial banking proposition, which includes the appointment of First Nations bankers who work directly with First Nations commercial customers, and spending almost \$12 million with First Nations businesses, bringing total spending since this RAP commenced to more than \$24 million. These are just some of the examples of the progress that ANZ is making.

If we get this strategy right, the commercial opportunity for ANZ is significant. For First Nations in Australia, this is an exciting opportunity to advance our economic self-determination by being included in the financial system, cementing a rightful place in the Australian economy, and determining our own futures from a position of economic strength.

I look forward to sharing our Australian First Nations strategy with you in 2025. Now, I'll hand over to Evelyn Halls, our Customer Fairness Advisor at ANZ.

Evelyn Halls: Thanks, Shelley. Today I'd like to update you on the progress being made in two key areas for ANZ and our customers, scams and hardships. But first, I'd like to say a few words about my role at ANZ.

My role reports directly to Shayne as Group CEO and involves providing advice to guide ANZ's decision making on the fairness of our products and services for retail and small business customers.

An industry challenge, if not a global challenge I'll speak to first, is scams. I'm sure you've all seen news stories about people who have been affected and sometimes devastated by increasingly sophisticated fraud and scams in our communities.

As Shayne has already highlighted, we are encouraged to see that the numbers of reported scam losses in Australia has fallen over recent months.

For ANZ, customer scam losses through ANZ Classic for the first half of FY24 are down a third compared with the second half of FY23. Meanwhile, our controls prevented over \$100 million of customer funds going to cybercriminals in the 12 months to March 2024.

The downwards trend in losses is partly due to the increased friction we have put in place to slow down the payment process. But is also thanks to our enhanced Falcon technology detecting more suspicious transactions.

In fact, currently most customer complaints about fraud and scams relate to transactions being blocked due to suspected fraud. We continue to invest in innovative detection and prevention measures to stay ahead of the criminals who are creating new scams and frauds on a weekly, if not daily, basis.

This includes piloting a dedicated team of specialists in our customer protection team who handle calls about fraud and scams. We recently introduced Crypto Protect, a tool which turns off the ability for ANZ Plus customers to make payments to cryptocurrency exchanges used in around half of all scams unless customers choose to override it.

We have also built in additional friction and delays to specific payment destinations which we have identified as having a high scam or fraud risk. These destinations are updated on an ongoing basis to reflect the latest data.

Building on our existing scam warnings, this year we will also introduce personalised messages to inform ANZ classic customers when a transaction or activity is considered high risk, as well as our new scam scoring model using AI to boost our scam detection capability.

Education is also critical. We're mobilising our MoneyMinded financial literacy program by working with our community partners to deliver new scam awareness workshops to our network of coaches in the community sector.

We've established a partnership with the Brotherhood of St Laurence to deliver scam awareness modules directly to the most vulnerable people in the community.

On ANZ Plus, we've added key scam safe measures that customers can activate for added security including protection against screen sharing and the ability to detect a range of potentially risky apps.

Prevention is critical, but what happens if a customer loses money to a scam? Once we become aware of a scam, we make every effort to recover lost funds, including by contacting the bank where the funds had been sent.

The ability to recover funds depends largely on how quickly the scam is reported to us given the speed with which funds are transferred onwards by scammers.

Where a customer's funds can't be recovered, we review each case to seek to understand exactly how the scam occurred and to determine whether the funds should be reimbursed.

We consider factors such as whether ANZ was or should have been aware that the customer may be the victim of a scam and whether we had the opportunity to intervene, as well as warnings given to the customer and their response to those warnings. We also take into account customer vulnerability.

Generally, we will reimburse where we consider ANZ could and should have acted to prevent the loss and failed to do so, as well as where required by law or the e-payments code.

We will continue to work closely with other banks across industry sectors and with government and regulators to proactively identify and address scam trends so that together, we can stay ahead of scammers and protect Australians from emerging threats.

This includes through the government's new cutting-edge intel loop, an exchange between banks, telcos, digital platforms, and the Australian Financial Crimes Exchange which enables near real-time data sharing about the latest tactics and tools used by scammers.

Now I'd like to turn to the issue of hardship, which Shayne touched on briefly. As he mentioned, the number of customers in hardship has been slowly rising over the past year or so. Whilst still lower than it has been in the past, it is an extremely concerning and distressing time for each of these customers.

The drivers have been consistent over the past two years -primarily reduced income, increased commitments, medical reasons, unemployment, and separation.

As Shayne also mentioned, we are delivering an action plan to improve the experience and the outcomes for our customers seeking hardship support. We want to ensure that our hardship processes are simple, accessible, and easy to use, and provide sustainable outcomes suitable to each customer's individual circumstances.

Our action plan is focused on five key areas. First, improving policies, procedures, and training for our staff. Second, ensuring executive level end to end oversight. Third, improving our customer communications so they are clearer and more personalised. Fourth, evolving our customer experience through reporting and surveys. And finally, fifth, providing specialist support to vulnerable customers in financial difficulty.

We have a dedicated team of people in Customer Connect whose role is to work with customers to tailor the support to best suit their needs and individual situation.

When a customer applies for hardship, this team will speak with them to understand their situation and discuss the options available. That may be by providing short term options, such as a loan repayment pause, partial payment reduction, or interest only payments or longer-term solutions such as reviewing and restructuring loan terms and repayment.

Looking ahead, we do anticipate that hardship numbers will rise further given the external environment. But I do want to assure customers who are struggling, that we are here to support them. Now, I would like to hand back to Shayne before we go to questions.

Shayne Elliott: Thanks Evelyn. Now, today we've spoken mostly about what we've done in the first year and I'd like to speak briefly about the next 12 months. Our core focus areas will continue to be housing, financial wellbeing, and environmental sustainability, but we also need to stay ahead of emerging risks.

One of the ways we do this is through an ESG issues radar which points to many of the topics discussed here today. Looking ahead, we're alert to the following five themes.

First, supporting our customers as cost-of-living pressures increase. Given the economic environment, we expect financial stress will rise over the next 12 months and we're committed to executing our hardship action plan to help those who are struggling.

Second, managing the ethical choices we make as we further roll out generative AI. You've heard us mention today how AI can be a force for good, helping protect customers by detecting and preventing fraud.

But it also raises ethical questions around how it's used and the potential unintended consequences for our people and our customers. We're continuing to look at the implications and how we can respond to those issues in a thoughtful and ethical way.

Third, supporting the transition to net zero. This is a significant opportunity for ANZ. We want to be the leading Australia and New Zealand based bank in supporting customers to transition to net zero by 2050.

So it's important that we're at the leading edge of providing innovative solutions, but we also need to be on alert to greenwashing risk. We'll continue to manage this primarily through our robust risk management policies and processes.

Fourth, diversity and inclusion will be enormously important. In a fast-changing world, with rapid technological advancements and massive opportunities around innovation, a people-oriented business like ours needs to work hard to attract and retain the best people.

In terms of gender balance, we've made good progress and increased our women in leadership to 37.3% in 2023. Now, this exceeds our target of 36.9% but we know we have much more to do. Inclusion goes beyond gender to include diversity of cultures and sexual identification and our job is to be as open and inclusive as possible.

Fifth and finally, as the world continues to evolve and adapt at pace, we need to make sure our governance is fit for purpose. Over the next 12 months, we'll enhance the objectives for the ERBC and look at the measures we're using to track progress. We look forward to updating you on our progress next year.

So, in closing, we understand there's more to do, but we are making progress.

We recognise the importance of ESG and delivering long term benefits to our shareholders. Managing ESG well delivers stronger governance outcomes, a lower risk bank, and more sustainable earnings as we adapt to the rapidly changing environment.

I'm confident we have the right team and plans in place, underpinned by our strong financial performance to continue to deliver for our customers, our people, and our shareholders.

I'll now hand over to the operator who will open the floor to your questions. Thank you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Your first question comes from Jonathan Mott with Barrenjoey. Please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. I've got a question for Shayne and it goes back to the topic of housing and something you've talked about a lot over the last year in particular. Which is that mortgages have become a product only for the rich. I think you described them as a luxury good.

To look at it, you've seen that the average household income for mortgage borrowers has risen by close to 30% over the last two years and is going up towards the mid 60 percentile to get into the housing market.

Now, if I step back and look at some of the comments you said, you started with the purpose of ANZ shaping a world where people and communities thrive. Yet we're in a situation where it's very, very difficult for young people to break into the housing market.

Then when I look at the newspaper article, it says new policies have just come out where people earning more than \$400,000 income in 145 expensive postcodes, now have waived their mortgage insurance up to 95% LVR.

So I'm trying to piece this together. That what can you do to actually try and get especially younger people who aren't necessarily high-income earners into the housing market?

I know everyone falls on responsible lending. So it's worth also noting what John Lonsdale came out yesterday and actually said, and I'll quote from his speech at the ABA, where he said most of the framework is principle based and there's significant room for banks to run the businesses the way they want.

That means by their ability to set their own business strategy, pricing, and risk appetite. So what can you do really on housing to make the community thrive and help young people get into the housing market?

Shayne Elliott: Yes, thanks for the question, Jonathan. It's a very important question and one that we spend a lot of time thinking about. I mean I think obviously there's two sides - well, there's more than that. But there's obviously two ways we can do that.

We do need to make sure that our lending and risk appetite is appropriate not just for people with lots of money or lots of assets or high incomes, but we need to make sure that that's appropriate and fair, within the rules.

Again, not blaming just the regulators themselves but within the regulatory framework we have. Which, principles or not, is still restrictive. Yes?

We still have to abide by those principles. So I think they're still restrictive. But where we really think we can lean in more is actually on the supply side.

You know, just last Friday actually, we had a - something we do very often, we sit down with a lot of our developer, in the residential and other spaces, customers and talk to them about how we can better support them in terms of getting more product to market.

You know? Now, I'm not suggesting that we can solve that all on our own. But we can be very, very supportive in making sure we're supporting the right developers with the right business models et cetera.

You'd be aware of things like, you know, one of our customers is Assemble which is a really interesting, innovative business model which is bringing affordable housing and that sort of essential worker belt, and it's got a model of how they're able to do that, partnering both with the super industry and the bank.

So we think there's real opportunity in some of these newer models with the land lease models et cetera. So we're focused, again, what ANZ does well, where we have our strengths, clearly is skewed on the institutional side, it's something that we have strength in relative to our peers and so we think we can do a lot more on that side.

Having said all that, the challenge in that market is scale and the question is what we're focused on, with Kevin and Mark and the team in Institutional, is there's some really good models out there, but at the moment they're delivering hundreds of homes and units and we need to find a way to do thousands and tens of thousands, and that's really where we think we can get the best leverage in terms of increasing the supply of affordable and liveable homes.

I won't bore you with the details, because you know them, but again, we got a lot of feedback from our property customers on where there is opportunity to reduce the costs of construction. Some of it is to do with their regulation, some of it is to do with other bits and pieces, et cetera. But we have a voice in that as well as part of the overall ecosystem on housing to make sure that we lobby for the right sorts of changes that can reduce the cost of construction.

Jonathan Mott: (Barrenjoey, Analyst) So is there anything that you can do on the pricing and risk appetite to help younger people get into the housing market? I understand the supply side and that's a challenge that a lot of people have been talking about. As a bank you can affect the demand side of credit a lot more easily than you can impact the supply

side, you've obviously making some changes in policy and pricing at the very top end, what can you do at the midlevel for young people?

Shayne Elliott: Well that's also an interesting question. I'm not sure I agree with you that that necessarily we can do more on that side. When you look at ANZ and our business mix, we over index proudly around Institutional, that we do have a significant force there in terms of our balance sheet capability and what we can do on the supply side. But I take your point.

Look the reality is and you know this better than anybody and if we were sitting here in a different forum talking about financials, the returns on home loans aren't what they used to be. So when the average return now on home lending is above but barely above cost of capital, your options are limited. That's part of the reason that the industry, not just us, that is part of the reason the industry is skewing towards the wealthy, because sadly we also need to generate returns above cost of capital in a sustainable way and that's why there is that kind of skew to that area.

So look, that doesn't mean we do nothing. It means that we constantly have to be looking for policy settings, products, et cetera, that can make those sorts of things affordable and encourage first home buyers, but also, as you know, it needs to be economically sustainable from our point of view. Which brings me to ANZ Plus and again, I'll do my little spruik here, but part of the whole - the beauty of our ANZ Plus platform is to build and we have now, a dramatically lower-cost platform to operate on. Now we've still got a way to go.

The way that we can reduce the cost of production from our side, the cost of producing a home loan, there's two big inputs. There's lots, obviously and again, the people on the call know them, I won't bore you. But [there] is operational cost, it's not the biggest, but it's the cost of the money, the cost of funds that go into making up a home loan and the operational cost. Plus is designed to radically reduce both, particularly operational costs. So now we have in trial a truly digital home loan - not everybody wants one of those, I get that, but for those who do, that is a radically lower cost proposition, which means then the people who will benefit from that lower cost, sure, shareholders, but also will mean we will have the ability to have more attractive pricing out there for young people as well.

But look, I'm not going to profess that we have all the answers, we don't. It's a very, very complex issue, I know and all I can say is we get it, it's our responsibility to lean in and be part of the broader discussion, whether it's with government and governments of various

flavours, state and federal, and also obviously with the industry who produce and obviously with our regulators as well.

Jonathan Mott: (Barrenjoey, Analyst) Thank you for the detailed answer.

Shayne Elliott: Thanks.

Operator: Your next question comes from Andrew Triggs with J.P. Morgan. Please go ahead.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you. Morning Shayne, just a follow up actually on Jon's question. Look I would agree with respect to the residential property development side of things. There was a 2016 thematic review that APRA undertook on the sector and it acknowledged or had concerns around controls and weakening underwriting standards in the residential property development market. But what that drove was, at least I think was one of the big drivers, was a 15 percentage point loss in banks' share of - sorry, major banks' share of bank-originated commercial property exposures.

Shayne Elliott: Yes.

Andrew Triggs: (J.P. Morgan, Analyst) I would have thought the two are pretty closely linked. We've seen things like the amount of pre-commitments required in order for a bank to extend credit to a property development greater than 100%, typically a reduction in LVRs in that space too. That's all good from a credit quality perspective, but it would appear to be accentuating the issues on supply. Just interested in your comments...

Shayne Elliott: I agree.

Andrew Triggs: (J.P. Morgan, Analyst) ...if you think there's any potential for loosening from APRA on that side of things?

Shayne Elliott: That's a question for APRA. I agree with you. I mean you can't have it both ways as a community. We - I'm not pointing fingers at anybody, but as a society we have voted either consciously or not for safety.

Andrew Triggs: (J.P. Morgan, Analyst) Exactly.

Shayne Elliott: We want the banks to be safe, we want people to be safe, we want nobody to lose their home, nobody to end up in difficulty, nobody to lose their business. Those are all laudable objectives, but they come at a cost and the cost is exactly what we're talking about now, which means that middle Australia gets locked out. As we know, the average Australian can't afford the average Australian home. Yes, okay, we can sit there and say

it's because the prices are high, but it's also because they do have less access to credit than they would have had in the past.

So yes, this is, again, I'm not suggesting anybody sat around and designed this outcome for it, but this is the outcome we have. We have a very safe system and the cost is that some people are locked out. I don't see that getting better anytime soon, unless there's some form of intervention. Our job, as a reasonable, not the largest, but a reasonable player in the space is to be actively engaged and try to be constructive. That's what we want to do.

We're very happy to have construct - and we do, by the way and I listened to John's speech yesterday and so at APRA, but it's not fair to - I'm not suggesting it's all APRA's fault either, by the way, there's a system here that has many, many players in it. I think it's time, under some sort of auspices, to get more people around the table and really talk through these issues and understand what can be done, because clearly it's becoming more and more unacceptable for the broader community.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you and just on a different topic, the ASIC report on hardship in May this year, just interested to what extent was there a benchmarking element that you could see how ANZ compared to peers and also just a general question, do you see a risk of any lookback remediation for past hardship treatment of customers?

Shayne Elliott: It's a great question. I'm going to - Kevin's here. He can talk about it. Just on hardship, just while he's getting up to the microphone, the hardship parameters are really, really important. Again, I think we need to be - they're not right for everybody. Our first responsibility, because even - hardship programs aren't for free from a customer perspective. There are implications of going onto hardship and so we do need to be thoughtful. It doesn't mean just because somebody wants hardship the right thing to do is literally go into those programs. It is for many, but our first responsibility is to say is this the appropriate action to take.

But in terms of your question on the report, Kevin, do you want to cover that?

Kevin Corbally: Yes, Shayne, thank you. Look Andrew, the key thing probably to note is that we weren't actually one of the participants in that review that ASIC undertook. ASIC has separately looked at our hardship processes and I would say that some of the findings that were in that report were also findings that would have applied to us. So as a result,

because we weren't a participant in it, we're not actually aware of what, if any, benchmarking exercises were undertaken.

Andrew Triggs: (J.P. Morgan, Analyst) Okay, thank you. Any chance of lookback treatment or remediation?

Shayne Elliott: I don't think - that's a good question, I'm not aware that that's being even discussed or sought about. I think our hardship program is set up pretty well in terms of obviously we do our own lookback reviews. I haven't heard that being raised as any sort of...

Kevin Corbally: I mean ASIC did indicate in the report that they would consider whether there was a need for any impact on any of the individual banks that participated in it. That's the only thing I saw on it.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you.

Kevin Corbally: Thank you.

Operator: Your next question comes from Mayleah House with Ethical Partners Funds Management. Please go ahead.

Mayleah House: (Ethical Partners Funds Management, Head of Stewardship) Thank you Shayne and thank you team, firstly just wanted to acknowledge the great work that ANZ has done and is doing on the First Nations strategy. Really pleasing to see that today. My question goes to the comments made around transition plans and enhanced framework. I'm interested if you could provide a little bit more colour around what specifically that enhanced framework looks like and how you're assessing the credibility of transition plans and what steps you'll take if customers don't meet those expectations. Thank you.

Shayne Elliott: Great question. I'm looking over to Mark. Do you want to come and talk about that? It's a great question. So just to answer the last part of the question, there's lots of things we can do when we undertake those reviews. I would say that 99% of them are constructive conversations we have with our customers. We're not at loggerheads with people, we're constructively both trying to solve the same problem, obviously from different perspectives. So when we're not comfortable, we engage in a dialogue and we explain why. That will change our relationship and it will change our risk appetite.

In extreme - and this hasn't happened for a while, but it did, in an extreme, we would contemplate no longer banking that customer. If we really got to a point where we said, hey, this is a customer who just doesn't get it and they don't have credible funded plans,

we need to reassess the nature of our relationship. Now as I said, that's pretty rare, because we bank largely responsible, well-run, well-governed organisations, not to mean that they're perfect and doesn't mean they don't have their own challenges, but generally it's a constructive conversation. But we are trying to strengthen it.

Mark, maybe you want to talk to how we plan to do that.

Mark Whelan: Yes, that covers a fair amount of it. I mean the way we engage in these conversations with customers is around three particular areas, which is around the governance that they have in place from Board down, disclosures that they have in the market and publicly disclosed disclosures, and also targets with regards to what they've set themselves internally. Now we've been having those conversations with these customers for many years now and what we're doing in when we say we're lifting that assessment, we're just asking for more detail.

We're certainly lifting the bar on each of those three particular areas about where they're looking to make disclosures and the governance practices they've put in place. We've said that we want to - and we classify these customers with regards to those areas in an A, B, C, D category. A being very advanced, D being not so, and those that sit in between. We then have conversations, as Shayne said, around these different areas in that classification and what we've said to many of our customers now is that we want to see progress, more progress in these areas, by 2025 and if we're not seeing the progress, particularly from our Cs and Ds moving in the right direction, then we need to have further discussions with them or start making decisions around the approach we're taking in supporting them in their transition. So that's pretty much what we do.

Mayleah House: (Ethical Partners Funds Management, Head of Stewardship) Can I just clarify, you mentioned targets here, do you have any expectations or assessments of how those targets are aligned to a 1.5 degree pathway? What's your position on offsets and customers using offsets to meet those targets as opposed to prioritising absolute emissions reductions in the first instance?

Mark Whelan: Yes, we look for TCFD-aligned disclosures in the first instance and with regards to offsets, we see that as a legitimate tool to be used and you'll see that, as the government has pointed out, in the safeguard mechanisms as well. So we see that as a legitimate tool but it should only be one tool in ensuring that they meet their targets. We want to see real progress in their underlying move to decarbonising their own businesses, but also we understand that some industries that we're talking to here are very difficult to

decarbonise and that therefore offsets will be part of that solution, but not the only part of that solution.

Mayleah House: (Ethical Partners Funds Management, Head of Stewardship) Great, thank you.

Shayne Elliott: Thank you.

Operator: Your next question comes from Matthew Wilson with Jefferies. Please go ahead.

Matthew Wilson: (Jefferies, Analyst) Yes, good afternoon or good morning team, thanks for the opportunity to ask a question. Just on deposits, whilst home loans are very important, do you think they get a disproportionate level of attention from an ESG perspective?

Certain banks are now making more money in an absolute sense from paying below market or paying zero on a retail deposit, so from an ESG perspective, do you think banks can enable retail depositors to earn a rate closer to the market rate to earn bonus interest given most of the time the conditions associated with earning that bonus interest are tricky? Or will it take the government to move on deposits to get a fairer outcome from an ESG perspective on the deposit market?

Shayne Elliott: It's a really good question. Overall I think as an industry - and I include all of you on the line on this one - we do spend too much time talking about home loans in general. The reality is, we have at a really simplistic level, we have one privileged position in the community and that is the ability to take deposits. Anybody can do a home loan pretty much, it's not very hard and it's not terribly restricted, but not everybody can take a deposit. So we do have a privileged position there and to your point, we need to make sure we cherish that position and invest in it.

So, part of, again without over spruiking it, part of the proposition around Plus has always been to how do we (a) move onto a lower-cost platform, but one that allows us to have innovative and appropriate, well managed products in the deposit space, because we ultimately, our business philosophy has to be, we need to be in the business of gathering high-quality deposits and then using those to lend where it's appropriate. So that is fundamental to our strategy.

In terms of pricing, hand on my heart, I'm not sure which banks you're talking about, we don't have a big deposit base sitting at zero or whatever. Most of our customers - we've got a range of products as you know and most of our customers are pretty good in terms of - and we do have products that pay fair and reasonable rates. We need to do a better job. At the moment Plus is our platform that we're really pushing on and as you - and

again, I'm not, I know this is not a paid-for advert - but we're paying 4.9% essentially on a current account, no conditions, no fees, et cetera, up to \$250,000. So we do have really good, simple, appropriate products and we're nudging and encouraging people to take advantage of those things.

Matthew Wilson: (Jefferies, Analyst) Excellent, thanks Shayne.

Shayne Elliott: Thank you.

Operator: Your next question comes from Brendan Sproules, with Citi. Please go ahead.

Brendan Sproules: (Citi, Analyst) Good morning team, Brendan from Citi. Look I just wanted to ask around particularly slide 40 where you've shown the targets around the decarbonisation of certain sectors. I mean for a lot of these customers' transition plans, it's the decarbonation of the grid that's going to be the key component. There's been a big discussion in Canberra in recent weeks and months, so how does ANZ think about these plans if the grid isn't reshaped in the way that it's currently seen now? Are you going to look at these targets annually, given some of the uncertainty around the decarbonation of the grid?

Shayne Elliott: So we do look at the targets and it's a really good - again, it's an excellent question. This is a complex ecosystem obviously and what we're trying to do here is be responsible and have pathways around certain high-intensity sectors that you would expect around oil and gas and aluminium, cement, et cetera. But also I take your point, that at the end of the day, that's all really interesting, we should do the right thing. The ultimate thing here, the grid plays a really important role. So yes, we do.

Look all I can say, big topic at both the Board ESG committee and at the management ERBC committee and what we try to do here is: this is not a set-and-forget policy, nowhere near it. I mean we have - we're constantly, literally every couple of months getting people in, experts, regulators and people from different markets, operators, different environmental groups to learn and understand what's possible, where the real challenges are and where we could be doing a better job.

I mentioned in my chat that Kevin and Mark were recently - we do this every year, Europe, pick a place, but Europe seems to be more thoughtful and perhaps more advanced depending on the way you think about things on these issues. So we spend quite a bit of time there trying to learn too, not just on climate but even broader on things like biodiversity and others, to sort of get a sense of where this is all headed and what are other banks doing and where are things we can learn. So all I can say is that it's constantly

under review and I take the point about the greater needs are the things that we continue to learn and adapt in terms of our - the baselines we set, the targets and how we think we can have the biggest impact.

I do think ANZ has a slightly unique challenge and opportunity because we have a big indexing to an institutional bank, as opposed to some of our peers who are obviously much more focused on retail. So we have a different perspective and that comes with some different challenges as well.

Brendan Sproules: (Citi, Analyst) I just had a second question, if I may, just coming back to the mortgage discussion and the availability of credit, how do you take into effect the insufficient supply of housing? I mean from a regulator's perspective, I imagine that expanding the availability of credit now might actually just bid up the existing stock further. How do you think about that debate?

Shayne Elliott: We do think about that a lot. I mean again, overly simplistic, too much of the recent conversation in the broader community and again, irrespective of who is saying it, has been around demand, how do we get more demand into the system, whether it's different programs to help people to buy, et cetera and insufficient conversation and action has been taken on supply side. How do we get - it's sad to sit here and think about the significant increases in demand, looking at pricing and at the same time, housing approvals are falling. So it is a complex, obviously, issue and that's why, as I said, we do need to do much more as an industry and certainly at ANZ we take that really seriously around what we need to do on the supply side.

I don't know that - from a regulatory point of view I don't know that that's terribly restrictive on what we need to do there, I think it's just good old-fashioned economics, that the maths doesn't work from a developer's point of view today when they tot it all up and turn to the costs of construction, the time it takes for development approvals, which is cost, et cetera.

Yes, okay, access to credit is part of it and we can probably do a better job there and you and some of your other questions there have pointed out maybe the industry is being a little bit restrictive on commercial property, I'd argue for good reason given the history, but nonetheless maybe we can do a better job on that, but I think it's much more complex.

Yes, we are actively - we have a head of housing strategy, not so much about - it's nothing to do with doing home loans but actually trying to be a thought-leader in this whole

program. We think there's lots to be done in these new business models, whether it's build-to-rent or the model that I talked about with Assemble and others as well. We think that's where we can be of the best assistance.

Brendan Sproules: (Citi, Analyst) Thank you.

Shayne Elliott: Thanks.

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

Shayne Elliott: Okay. I think we're done. I think we're good. I'm looking at my team here, I think we're good. Thank you very much. I will just say thank you very much for the questions. Thanks to Evelyn and Shelley for their comments. As I said in my opening remarks, at ANZ we do take this seriously. We don't always get it right. It is a very, very fast-moving space.

What's important to us is that we have the governance settings right and as I mentioned there, and it may have been missed a little bit, we are doing quite a big review of both our Board Committee and the Management Committee. They've been in place for five, six, seven years, they've been really effective. We can point to a bunch of things we think we've improved as a result, but we also feel like it's time for another reboot.

Given that the challenges ahead are different, lots of questions today about housing, we get that and that's really core to who and what we are. Lots of questions also about the broader idea of financial wellbeing, particularly in a time of cost-of-living challenges and of course the environment.

So, there's lots to do but we need to uplift our governance approach, which we're really working on as we speak, and we'll be able to talk more about that at next year's forum.

Thanks, everybody for your time and thank you for your questions.

End of Transcript