TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the ANZ Investor Briefing. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad.

I would now like to hand the conference over to Ms. Jill Campbell, GGM Investor Relations. Please go ahead.

Jill Campbell: Thanks, Ashleigh, and good morning, everyone. Thank you for joining us. Welcome also to media representatives joining on a listening basis. This morning's call will run for 30 minutes, completing at 9.30 AM. On the call this morning are ANZ Chairman, Paul O'Sullivan; CEO, Shayne Elliott; Chief Risk Officer, Kevin Corbally; and our General Counsel, Ken Adam. Following the Chairman's remarks, we'll go to Q&A.

With that, I'll hand to you, Paul. Thank you.

Paul O'Sullivan: Thanks, Jill, and welcome, everyone. Thank you especially for joining us at such short notice, and particularly when there's a lot happening today globally. This morning, we're providing you with an update on two pieces of disclosure.

First of all, the release of a report by Oliver Wyman concerning culture and risk governance in our global markets business. Secondly, a Court Enforceable Undertaking that ANZ has agreed with APRA, which includes an additional capital overlay applied by APRA.

Before I get into the details, I do want to highlight four key things. First and most importantly, the Board and management are immensely disappointed that we have not met APRA's expectations about how the bank manages non-financial risk and our non-financial risk culture. It's clear we have work to do, and I want to stress that we are committed to doing what it takes to regain APRA's faith.

Secondly, a priority today to give you some understanding about the impact of today's developments. While we will need to re-prioritise work within the bank, we aim to address APRA's concerns by using existing resources and building on work that we've been doing for some time.

Thirdly, we are very committed to being open and transparent about our work so that you can track our progress. And fourthly, I want to stress that we are working closely with all our regulators to ensure we understand and address their concerns and agree a path forward. This is especially important as we have a leadership transition at ANZ, and my goal is to provide certainty and clarity for our management and for our incoming CEO.

Let me turn, first of all, to the Oliver Wyman report. ANZ appointed Oliver Wyman in October 2024, and their role was to review conduct, workplace behavior, and non-financial risk governance within ANZ's global markets business.

APRA approved that appointment and the scope of the review. This is a very important piece of work, and to demonstrate what I just said, which is our commitment to providing transparency and building confidence with regulators and the market on our approach, we are today releasing the full report.

The report found no evidence of widespread or systemic misconduct within our global markets business. And it also found that the behavioural issues which led to the review were isolated incidents. However, and disappointingly, it did find that, first of all, there were shortcomings in markets leadership with regard to the importance and ownership of non-financial risk management.

Secondly that markets have a strong track record of rapid response to operational risk events. However, this does not always translate into effective monitoring and remediation of underlying issues. And thirdly, that markets have a focus on execution that drives action, but it centres on implementing activities rather than driving towards outcomes to embed to change and reduce risk.

We intend to use this report internally, and it will be critical reading for leaders across the bank and drive and result in changes across the enterprise. It is clear to us there is more work to be done to ensure conduct and behaviour issues do not go unaddressed in the future. And the report makes 19 recommendations and 53 sub-recommendations. We are accepting these in full.

In addressing these recommendations, it is important to note that we are not starting from ground zero. The report, for example, calls out that for markets, and I'm quoting from sections of the report, that we have made significant progress in evolving risk infrastructure, that we have a comprehensive suite of risk policies and frameworks effectively designed to guide risk management and operations that are appropriate for an organisation of ANZ size, business mix, and complexity.

But I don't want those comments to in any way be seen to not accepting the findings of the review, and indeed, we take those findings very seriously. There have already been actions taken around staffing, including the departure of a small number of individuals and some key appointments to strengthen the Sydney dealing room, and these were made last year.

The Board has also applied what it considers appropriate consequences in last year's remuneration report, while leaders in the market business have also had accountability outcomes applied by management. Having said all of that, we acknowledge there is more to do.

Let me move now to the enforceable undertaking. ANZ is also announcing today that it has entered a court enforceable undertaking with APRA for matters relating to non-financial risk practises and non-financial risk culture across the group. This includes the application of a further $250 million capital overlay, which is effectively an additional five basis points, bringing the total capital overlay related to non-financial risk to a total of $1 billion.

It follows a series of conversations we have had with APRA over the recent period as we address our non-financial risk practises. As you will see in the EU, which is publicly available, APRA has set out a number of concerns that they observe. These include gaps in operational and compliance risk management practises, including a lack of a comprehensive understanding of processes, risks, and controls across business lines, and a tendency to view and address issues in an isolated manner rather than taking a more holistic and systems glance.

My goal as Chair right now, and I know I speak on behalf of my colleagues on the Board, is to work with APRA to deliver what's required to resolve their concerns. I want to make sure we give management and our investors' clarity and certainty on how ANZ will achieve a strong and enduring trust with our regulators.

As you're aware, we've already embarked on an enterprise-wide body of work to uplift our non-financial risk management. Indeed, over the last five years, our non-financial risk losses have trended down, with the average of the last five years' losses amounting to approximately $65 million, which is a greater than 60% reduction on the average of the previous 5-and-10 years.

While it's disappointing that we have not yet done enough on non-financial risk, the EU does provide us with a clear construct and roadmap for addressing APRA concerns. Many elements of the work are underway and with our reprioritisation of work because of the EU, we believe we should be able to accommodate that cost within the existing expense outlook. Further, we are confident that we will deliver on this work over the next two to three years.

A number of actions are being immediately taken in response to both the Oliver Wyman report and the EU, including, but not limited to, the appointment of senior executives to strengthen non-financial risk management practises across the Group.

And these include, first of all, the creation of a new executive role of Group Head NFR program delivery reporting to the CEO. This role will be responsible for leading ANZ's response to the EU in order to strengthen non-financial risk management practises and risk culture in a consistent and sustainable way across the bank.

Today, we're announcing that the current Head of Singapore and the Head of Southeast Asia, Middle East and India, Mark Evans, is being appointed to that role and will take it on shortly. Mr. Evans is a former ANZ Chief Compliance Officer and Head of Strategic Planning and Execution for the Institutional Bank.

And I'll add that as Chairman, I am committing personally to working closely with the CEO and Mr. Evans to ensure the timely and effective delivery of our EU commitments.

The second key appointment is the appointment of Dan Wong to the role of Group General Manager Operational Risk reporting to the Chief Risk Officer, Kevin Corbally. Dan joins us from IAG, where he was responsible for enterprise risk. And he'll be accountable for ensuring that operational risk is integrated into strategic decision-making across the bank, allowing for a more holistic approach to non-financial risk management.

And thirdly, the Board will require a Group Executive Institutional to oversee the implementation of the 19 recommendations and the 53 sub-recommendations of the Oliver Wyman review. Mark will be supported by a dedicated working group and secretariat and will be required to report to the Board regularly on progress and delivery.

Let me close by saying that the Oliver Wyman report and the enforceable undertaking do give the Board and the Bank a very clear roadmap about what's required to meet APRA's expectations for how we manage non-financial risk.

And shareholders should be assured that I, as Chairman, along with the Board and Management, will work tirelessly and leave no stone unturned to make sure we complete this work and to have the EU and the capital overlay removed as quickly as possible with the trust and confidence of our regulator.

And with that, Jill, I'm going to pass back to you for the Q&A.

Jill Campbell: Sorry, Ashleigh, I'll hand across to you to put the first call through, which is from Matt Wilson at Jarden.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

Your first question will come from Matthew Wilson with Jarden. Please go ahead.

Matthew Wilson: Yes, thank you and good morning, Matthew Wilson, Jarden. I presume you can hear me okay?

Management: Yes, thanks.

Matthew Wilson: Yes, two questions if I may. Obviously now the outstanding matter remains with ASIC. Do you still think that will be resolved by mid-year and do you think this report supports your defence?

I've read much worse reviews in my time in this industry. The cases seem isolated and not systemic. And then secondly, just to confirm the $1 billion, is it actually $1.4 billion given APRA multiplies the 1 billion by 12.5 billion and then applies your core equity to your one? So, if my math's correct, you've got 31 basis points of excess capital to be used at a later date?

Paul O'Sullivan: So, thanks, Matthew. It's Paul here. I'll answer the question in ASIC and then I'll Shayne or Kevin to come back on the overlay. Just on the ASIC matter, ASIC's Chair has made comments that their goal is to get the matter clarified by mid-year. We are working very cooperatively, and we are seeking to be cooperative in our dealings with APRA.

In fact, as I've said in my remarks, I think a key role for me right now as Chair is to get clarity and clear air with the regulators as to what their expectations are of us and where we have gaps and to have cleared the decks effectively for our incoming CEO. And Shayne's been terrific in supporting me in doing that.

So, we are talking closely with both APRA and ASIC to make sure we understand them and that we're meeting their needs. I'm not going to go beyond that in terms of commenting on the case. I don't think that would be appropriate. I'm not going to add anything to what we've said previously in terms of our remarks on the markets matter. Shayne, did you want to talk?

Shayne Elliott: On the capital. Yes, thanks, Paul. Look, Matt, my understanding, and we'll continue to say this, so no that what you said is not quite right. Remember, we've got the 72.5% floor impact. So, it's the 250x12.5x72.5, and that's how it works through.

Matthew Wilson: Okay, that makes sense. Thanks, Shayne.

Shayne Elliott: Thanks, Matthew.

Operator: Your next question comes from Andrew Triggs with JPMorgan. Please go ahead.

Andrew Triggs: Thanks, and good morning. Paul, just in reference to your comments that additional resources won't be needed to address these issues and the comment in the release that there'd be no material impact on ANZ's cost outlook, I mean, why is that still the case? Why not go harder?

I mean, my observation is that other banks that have been in similar situations have put in significant additional resources in place to address these matters once and for all, and is this attitude of sort of redirecting existing resources really not part of the problem that we're facing today?

Paul O'Sullivan: Yes, look, thanks, Andrew, and I would stress that my comments are not meant to imply that we weren't putting everything we need to work here. So, Shayne will comment on this.

Shayne Elliott: Yes, thanks, Andrew. Yes, this is true. Absolutely, we're going to go harder. Absolutely, we have to increase resourcing on the non-financial risk uplift, and yes, that will mean an increase in expenditure for that program. I think the important point is that we already are spending a significant amount on this uplift program. We're not starting from ground zero, as Paul said.

You know, the number is well over $100 million a year. That's already within our run rate. That number will go up. What we're saying, however, is there's an amount of work at ANZ that is also coming to an end, and so that is creating capacity within our investment slate and resourcing that we will be able to redirect towards this, and so that's what we're saying.

It won't have a material impact on the group overall, but NFR will go up. The other thing I would point out is that much of the heavy lifting in terms of dollar spend, the technology, essentially the systems we're putting in, that's already in the run rate.

I accept that you won't have had time to go through the detail in the reports, but when you look at it, much of this, not all of it, much of this is about cultural change, and that takes time and embedding, but it's not all about dollars and cents. So, we're going to go as hard as we can. We're absolutely uplifting resources, but we have the capacity within the group to redirect resources to do this without having any material, and we said any material impact on the group cost outlook.

Andrew Triggs: Okay, thank you. And just in terms of, I guess, the Board's response to the issues identified by APRA, I mean, Paul, are you satisfied that the composition of the Board has sufficient knowledge and expertise in banking to be on top of these issues?

Paul O'Sullivan: I'm glad you asked me that, Andrew, because it gives me a chance to nail a myth that gets propagated. We've got nine Non-Executive Directors, effectively because we have a Group Board, but we also have a bank-only Board, and that's a result of our new group structure we created just over a couple of years ago. That meets in a concurrent Board meeting.

So, we don't have separate Board meetings. We have a concurrent Board meeting. So effectively, there's nine Non-Executive Directors in the room for Board discussions, and of those, four are core bankers with deep banking experience.

A fifth is a former CIO of a bank and insurance company, and a sixth has worked in financial services. And with Alison Gerry coming on Board, that will make a seventh Director with financial services experience. I think somebody, I won't name them, wrote a report based on just looking at the composition of one of those Boards, and that's how I think there's been an incorrect perception that we're a bit light on in terms of banking experience.

Andrew Triggs: Thank you.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll now pause a short moment for questions to be registered. Your next question comes from Brian Johnson with MST. Please go ahead.

Brian Johnson: Good morning. As the author of that report, Paul, that's informative. Paul, just be intrigued about two things. The Australian Financial Review, has consistently been publishing reports about letters that were sent apparently to ANZ Management?

Can we just check, the letters were addressed to ANZ Management, but did the Board actually see them? And then the subset of that question as well is, if the Boards meet concurrently, why don't we just have a bigger main board at ANZ? So, it's very transparent. There's no risk of being seen to actually have a subordinate kind of Board position?

Paul O'Sullivan: Yes, it's a really good question, Brian. I'll come to the moment. Kevin's chomping at the bit to answer your first question.

Kevin Corbally: Brian, the short answer to your first question is that whilst the letters might be addressed to management, the letters generally at the bottom require that management table the letters at the next Board meeting. So, the Board then does have visibility on the letters.

Paul O'Sullivan: Not only that, Brian, but actually we have APRA come and talk to the Board. And in fact, just in the last few weeks, we had roughly a 1:30 meeting where the Chair of APRA and some of the Senior APRA Executives came and had a very extensive dialogue with the Board. And that included the fact that we'd seen those letters and some of the topics in them.

On the Board structure, you've asked a great question. We have worked with APRA, actually, as we evolve the group structure, because in many ways we're pioneering what is going to be the path in Financial Services, with CPS 511 and with the various capital requirements as banks increasingly find they have to invest in technology-related businesses, such as Vue Media, which is a Real Estate portal we've invested in, or Cash Rewards.

Then having a non-bank whole co-structure allows you to invest in those businesses with greater flexibility. The role of the bank-only directors is to look at everything that goes through the board strictly from a bank prudential point of view.

And so, we ask them in the board meeting, particularly if there's a non-bank issue coming up, such as our investment in Cash Rewards, to ask questions and interrogate things from the best interests of the bank, as in the bank itself, the ADI, as opposed to looking at the wider group.

And also at the end of each Board Meeting, if a formality, we actually go to both the bank only Directors and say, is there anything you've heard in the discussions that you have reflected on over the last two days, that you would want to challenge or look at differently if you were thinking about the prudential status of the bank.

So, they've got a very different role in the Boardroom than the other directors, but they are there for the whole meeting, and we think that's important, because things we are doing in the non-banks can have an impact on what goes on in the bank.

Hopefully that's clear. And Brian, if it's helpful, I'm happy to have a longer chat with you about it.

Brian Johnson: Paul, I would love, I've always thought Bank Chairmen are a little bit like pixies. I know you exist, but I never see you. Paul, I would welcome that opportunity. Paul, just the other one…

Paul O'Sullivan: By the way, Brian, I'm very happy you didn't say Leprechaun.

Brian Johnson: Okay. Well, I actually used that note the other day. But the other point I want to make is there's any Oliver Wyman summary, there's this what I think is quite an ominous comment that there seems to be a probability that there could be similar failings in the retail bank.

I'd just like to clarify, is all of this commentary that we've seen today that you can re-divert expenses, is that premised on what you know? But if there's a problem found in the retail bank, which they say there's a high probability that you could see the same thing, could that actually see a change in the statements?

Shayne Elliott: I can answer that, Brian. It's a fair question. And again, maybe it comes through more when we've actually had the conversations with Oliver Wyman. What they're talking about there is, hey, when we've seen inconsistent application policies or process design in the markets review, on a basic sort of a desktop review of looking through the bank, they didn't go in depth. They said, hey, there's a reasonable probability that that inconsistency, for example, might exist elsewhere. Yes, and there's some other things.

So, that's sort of what they're talking about. And so, what we've agreed is the review we're doing, the NFR uplift program is enterprise wide. So, we're not just so, and even the work that Mark will lead on the Oliver Wyman recommendations, to the extent it's relevant, they will be applied right across the group.

Yes. So, we will assume that those weaknesses are somewhere else and we will uplift across the Board and that's taken into account when the resourcing I've mentioned is an enterprise-wide program of uplift.

Paul O'Sullivan: And the other thing I'll mention, Brian, is as we've looked at this program and as we've been in discussion, we have looked at the programs that have been run in peer banks in order to give APRA the confidence that it needs as to how we're managing NFR.

And that's been part of how we've estimated the resourcing and the timelines that we need to do. And those timelines include both getting structures in place, but also my understanding is that APRA will want to see a track record of these things having been embedded and sustained over time.

Brian Johnson: Thank you.

Operator: Your next question comes from Ed Henning with CLSA. Please go ahead.

Ed Henning: Hi, thanks for taking my questions. Just a little bit more to understand on the cost, you talked about the run rate on the systems or the systems you're doing is in the run rate. Can you just talk a little bit more about where you're spending the money? Is it just on people that are needed for the projects?

And then just beyond that, you also mentioned that you're going to redirect spend from programs that have rolled off. Where was that spend going to go before you got this report and needed to upskill on for the remediation stuff?

Shayne Elliott: Can I answer that, Paul? Yes, fair question, Ed. So, the investment goes into two buckets. Yes, it is people. And we have hundreds of people working on the program because it's an enterprise-wide uplift. And some of it is around systems. And so, for example, we need to build better technology to lodge issues, managing to end processes, produce the dashboards and the sort of material. And we've already got those, actually. They're in place.

They're not completed. And actually, what we've been doing is spending time, including with the Board actually, with the people in our organisation who use those tools to understand how they're being applied. So that investment is largely done. We need to continue to roll out some new modules. And yes, there are some people.

The reason we're confident about the redirection is we were already going to do an uplift program in NFR. Whether there's an EU or not, we have to uplift our approach on NFR. What Paul quite rightly is saying, the EU gives us a focus. Nobody wants an EU, but it can be actually a useful tool here. This is going to absolutely focus the organisation on getting this work done.

Now, where does the extra resourcing come from? Look, it's not one program in particular. So, I'm not sitting here saying, hi, it's coming out of New Zealand or it's coming out of markets or out of retail, but across the Board, when we do our slate review, we have seen a decline over the last few years in the amount of money we're spending in our traditional slate. And we were forecasting a little bit of that.

And so, we're just redirecting some of that space. But we've got a backlog of work, not just in NFR. So it wasn't that that was going to go back to shareholders. It's actually a question like, hi, were we going to have a better expense outcome and now we're not. No, we have a backlog. And so, the question is, what do we do next on the backlog?

And yes, non-financial risk has gone to the top of that list and it'll get the resourcing. The things that will get pushed back are not terribly material things that you might notice. They're important. And it's not one program that's going to be sacrificed in order to do this. There'll be little bits of re-prioritisation across the group.

Because again, the amount of money we're talking about here in terms of that list is probably in the tens of millions of dollars. And in the scheme of a slate of call it 1.5 billion, that's why we're confident we're able to redirect resources.

Ed Henning: No, that's great. Thank you. And then just to clarify, you guys anticipate that the program of work will take two to three years to kind of come to completion?

Paul O’Sullivan: I think that’s a – I think that what we're saying is, having looked at the other peer banks, it was two to three years before they were able to complete the programs and demonstrate that the effects of those programs have been embedded in the business and was being sustained. Because to Shane's earlier point, some of this is about process, some of this is about behaviour.

So, the regulators want to see not only that you can tick the box that you've made a change, but actually that that change is effective and being implemented in the business. So that's why we've set that time period. And we obviously will have clear milestones. We have committed to be very open and transparent about it.

And we have seen with the other banks that as they made progress, Apple was stacking that policy and did make adjustments on a periodic basis. But I'm not saying they'll do that for us. I'm simply saying that is what we have observed.

Ed Henning: Okay. And so just to clarify that is like it might take maybe one to two years to implement and then maybe another year to hopefully run the program. We'll continue to run the program and then hopefully have the regulators approval is kind of how to think about it?

Kevin Corbally: Based on the work that we've done today, our view would be that we're in a slightly different starting position, because as Shayne and Paul have also noted, we've done quite a bit of work already. So, our assessment is that it'll be two to three years. Clearly, though, we still need to undertake, as required under the EU, a full root cause analysis across the entire group.

And we'll obviously see what that throws up to as well. But our best estimate is it's probably in that time period, based on what we believe ourselves and what we've seen with some other institutions, given where we're at today.

Shayne Elliott: And then just for total clarity, this is not a project that we do for two years and down tools and then move on. This will be embedded and there will be ongoing investment. There will always be more to do in non-financial risk, because there'll be new systems, better tools, our business model will change, etcetera.

So, there will be ongoing investment. There's just going to be a bit of a spike in that over that sort of next two-year period.

Paul O'Sullivan: And I'll just close those comments by stressing, you're asking us our views based on what we've seen at other banks. We are not speaking for APRA. This is ultimately their decision and we respect the fact that it's their decision. And clearly, they will have a strong view as to what is the right time frame and the right results.

Ed Henning: Okay, that's great. Thank you very much for clarity.

Operator: There are no further questions at this time. I'll now hand back to Jill Campbell for closing remarks.

Jill Campbell: Thanks, Ashleigh. And thanks to everyone that listened in this morning. The investor relations team will, of course, be here for the remainder of the day if there are any questions we didn't get to or you'd like to clarify anything.

And with that, Chairman, with your permission, I'll close the call.

Paul O'Sullivan: Thanks, Jill. And I just want to thank everyone for joining and reiterate our focus on making this a priority for the Board of Management. We hope the roadmap that comes out of the EU today will create certainty for management and for investors about what we will be doing to ensure we meet APRA's needs.

And overall, the focus of myself and the Board right now is getting certainty with our regulators so that there's a clear path ahead for the bank and for its priorities. Thank you very much for joining us.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

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