House of Representatives Standing Committee on Economics Review of the Four Major Banks

Australia and New Zealand Banking Group

ANZZ09QW: LARGE COMMERCIAL VALUATION INDEPENDENCE

Question: Whether the valuations on large commercial investments or like large commercial investments financed by the bank are:

(a) Independently completed?

For property assets, we assess the underlying security before entering into any new facility, on renewal of the facility or periodically as set out in our policies.

Valuations for large commercial investment and development properties (Large Commercial Investments) are completed on an independent basis in accordance with ANZ's Professional Services Brief (Valuations).

The valuation process is governed by ANZ's policy and managed by ANZ's Property Risk – Technical Services team (PR-TS), who have commercial property valuation experience and are responsible for managing ANZ's Panel Valuers (**Valuer**), reviewing valuations and providing specialist technical input into the credit review and risk grading process.

ANZ's Panel Valuer list is reviewed annually. Valuers must be API (Australian Property Institute) or RICS (Royal Institute of Chartered Surveyors) members, demonstrate that requisite experience and specialisation, abide by the Australian Property Institute's or RICS's accreditation standards and codes of ethics, and have current Professional Indemnity insurance.

Exceptions can be given for large professional property companies (eg REITS and Property Trusts) that have established processes and governance for instructing valuations for financial reporting purposes. These companies and the valuers they instruct are required to meet ANZ valuation requirements. The valuers they instruct are typically also ANZ Panel Valuers and the valuations will be addressed to ANZ for mortgage security purposes. These valuation reports are also reviewed by ANZ's PR–TS team.

We note that under the 2019 Banking Code of Practice[1], ANZ valuation processes are required to be fair and transparent. We are obligated to clearly explain the purpose of the valuation to the customer, provide a copy of the valuation where we have charged the customer for the valuation and the related valuer instruction (except where enforcement proceedings have commenced), and only appoint appropriately qualified and experienced valuers who are members of professional organisations which abide by a code of practice.

(b) Whether they are completed and/or reviewed annually?

In accordance with ANZ's Policy, revaluations are completed every 24 – 36 months, depending on lending ratios. Development land is required to be revalued every 12 months given changing value of residual / balance of land and the inherent volatility in value.

[1] The 2019 Banking Code of Practice covers a "small business" that has an annual turnover of less than $10m, fewer than 100 full-time equivalent employees, and less than $3 million total debt. ANZ estimates that this covers 98% of our business customers.

Every year ANZ will undertake an annual review of all large commercial customer accounts including a review of the risk grade with qualitative inputs provided by PR-TS.

(c) In reference to (b), if they are reviewed by whom?

Large commercial investment property valuations above certain value thresholds are reviewed by PR-TS, who will provide qualitative inputs into risk grading and ultimately confirm whether or not the assets have an acceptable risk profile for lending purposes. This will include a review of the assessed value and reasonableness of assumptions, including environmental, legal (title, easements and encumbrances) and structural risk issues. Valuations have to be reviewed and accepted for lending purposes within 3 months of the date of valuation (date of inspection).

For valuations below the stated thresholds, the business unit must review valuations using the valuation review checklists provided within ANZ's Policy Guidelines.

(d) In reference to (b), if not annually, how often, the trigger, and the average timeframe between review?

Refer to above. Apart from standard periodic review, there are three additional triggers that cause a need for revaluation:

- when a customer seeks additional lending / increased limits (e.g. for capital expenditure / expansion purposes
- where there is an internal concern in respect to asset value decline (e.g. a known major lease expiry / tenancy default). ANZ retains the right to revalue in its Facility Agreements
- when the customer risk grade has been downgraded in which case a revaluation may be required to be completed within six months, depending on materiality.

The average timeframe for revaluation across the portfolio is estimated to be around 2 to 3 years.