

Bluenotes video interview with ANZ Chief Executive Officer Shayne Elliott and Andrew Cornell

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ANDREW CORNELL: Morning Shayne. Thanks very much for joining us at bluenotes for the morning of the annual result.

SHAYNE ELLIOTT: Great to be here.

ANDREW CORNELL: It's been a difficult year and not to down play the very real import of the Royal Commission but, looking at the result in front of us can you talk us through the sort of key operational drivers? It looks like capital flexibility is one, benign credit is another?

SHAYNE ELLIOTT: Sure. So the environment has actually been pretty sound. We know the economy is in good shape, let's not forget that – and that's true in both Australia and New Zealand – our main parts of operation. Our business actually performed pretty well and we call that out in the result, but we're also looking ahead and saying 'but the environment that we're operating in today, particularly in our Australia retail business, it's pretty tough and there's a lot of challenges out there in terms of softening house prices, people are a little less confident than they've been in the past, we've been tightening up our credit standards etcetera. So that's really about the outlook is a little bit more subdued than it has been. And the question, quite rightly, of people like us is 'what are you doing about it?' And we don't think that that's a temporary shift, we think it's quite permanent and therefore we've been simplifying our business, readjusting our operating methods so that we're fit and lean and ready to adapt for that future world.

ANDREW CORNELL: And if we then zero-in to some of the numbers around the result. You would say credit quality is really good and the question is can it go on? The capital side obviously is very strong and you have flexibility there. Revenue though looks pretty hard you know, are they the sort of key factors?

SHAYNE ELLIOTT: Yes I think they are. So let's talk about credit quality. So the most important – there are two things happening there for us, one is just the environment. As I said before, the economy in Australia and New Zealand is really sound, and in most parts of Asia as well. So there's good underlying, you know unemployment is low, corporate balance sheets are in good shape. So the industry is experiencing the lowest credit losses, or the lowest levels of risk, we've seen in a generation. So that's true. So we're benefitting from that. But more importantly, for us anyway, we're also seeing the benefits of decisions we've made in the past to de-risk our bank and focus on customers that we really want to have. And so what we've seen is sometimes through selling businesses, but also through readjusting our target market particularly in the institutional bank, we've de-risked the bank and that means we're seeing lower losses. So that's absolutely true.

You're right about revenue growth though. That is going to be much harder to come by. We've been saying that for three years. Actually we're seeing it's not too... I don't want people to think that it's terrible out there in terms of the opportunities. But it's much harder than we've been used to. So we think the right way to win and prosper is to be really, really focused on productivity and cost. And really be selective about where you want to grow revenue.

ANDREW CORNELL: You have actually been talking about this simplification process for probably three years

now and there's been divestments, there's been a lot of work internally. Is that delivering results for shareholders then? How do you measure that?

SHAYNE ELLIOTT: In the last 30 years the best strategy of running a bank in Australia and New Zealand was just to get big and do a lot more business. But in that future world of lower growth we think it's much more about being selective, being targeted, being able to adapt quickly to changing customer needs, changing community standards, and just the changing environment that we work in. So, being simpler, doing a few things and doing them really, really well that's key to ANZ.

And you ask do we see the results? Yes. Today we're a simpler bank and we're a safer bank in terms of our capital levels and we think we're a better quality bank in terms of the outcomes that we're delivering for our shareholders.

ANDREW CORNELL: New Zealand is a bit of a case study of simplification, it's been going on in New Zealand a lot longer than in Australia. And then, New Zealand has been able to respond and it was a good part of this result. With the simplification in Australia, we've had the Royal Commission, we've had the mortgage market and things, does it play a role there too?

SHAYNE ELLIOTT: Absolutely. Actually we've learnt a lot about New Zealand you know. The New Zealand simplification, by the way, certainly predates me as Chief Executive here, but I was around at the bank. That really came about because we had these two – we actually had two banks in New Zealand if you remember. We had ANZ and we had National Bank and we needed to merge them. But what we learnt through that was the power of focus. The power of really being really deliberate and about what are we going to do well and who are we going to do it with? And that's a great example. So eight years in on the New Zealand story; today we run the bank for less cost than we used to in 2010, we make more revenue, have more customers, have more brand engagement, higher employee engagement, and better returns for shareholders. I mean, it's a total win-win and we want to sort of replicate our learnings there. We've done it in our institutional bank more recently in the last three years and we've already started on that same path in Australia. But there will be slightly different ways of executing, but the principles are the same.

ANDREW CORNELL: And indeed the cost story is, I imagine, something you would point to in this result as 'this is not just a one-year story'. The cost story's been good for a few years.

SHAYNE ELLIOTT: It's actually been really good. In fact we've been getting our costs in absolute terms down every single half. Now this half, our total costs are up a little bit because we've had those charges, the \$700 million worth of charges we saw in terms of customer remediation and compensation, which is really unfortunate. But it's the right thing to do.

But if we just kind of put those aside as a bit of a one-off, again our underlying costs were down. You know, when I started in the role, we used to run the bank, it used to cost us around nine and-a-half billion dollars a year to run the bank. And now it's about eight and-a-half billion dollars. So we've seen a significant improvement in our own productivity.

ANDREW CORNELL: And when we look at the banking sector, now just in Australia but in all the regions where we operate – New Zealand and Asia – it is, as you say, it's not a sort of glowingly optimistic picture. But where do you see the competitive advantage? You talk about it's not all doom and gloom, is that because there's a competitive advantage that you see for yourself?

SHAYNE ELLIOTT: Absolutely. I mean, you know. So we've redefined what we want to do. We want to be the best bank for people who want to buy and own a home, or start, run and grow a small business in Australia and New Zealand. And then secondly, we want to be the best institutional bank for customers who are in the business of moving goods and money around the region.

So that's kind of reimagining what we do, as opposed to just saying we provide credit cards, or we do trade finance, yeah? Now, we're at the early stage of that, but we think we've got some really terrific assets. We have an almost unique international footprint. You know, we have something that most banks would love to have. But we've got that. We've got eight million loyal, decent, good customers who despite some of the issues we've had around things that are coming up in the Royal Commission. And despite some trust issues that are very real, still actually believe in the bank and are loyal customers of us.

And we have a track record of innovation. It needs to improve. And we need to improve our speed of innovation and delivery. But we've got those three really important assets. So I think we talk about our network, we talk about our customer base and a history and a track record of innovation. We think that places us in a position to win and prosper in a future, more difficult world.

ANDREW CORNELL: Well, thanks again very much for speaking with bluenotes this morning. Good luck with the presentation this afternoon.

SHAYNE ELLIOTT: Thank you. I'll go and put a tie on and I'll be ready.

ANDREW CORNELL: Thanks Shayne.