

News Release

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Transcript: Third Quarter 2017 Trading Update – BlueNotes interview with ANZ CEO Shayne Elliott

The following is a transcript of a video interview with ANZ Chief Executive Officer Shayne Elliott discussing ANZ's third quarter 2017 trading update today.

The interview was conducted by Andrew Cornell Managing Editor of BlueNotes, ANZ's digital publication for news, opinion and insight and can be viewed at www.bluenotes.anz.com

- Andrew Cornell** Morning Shayne. Thanks very much for joining us again on BlueNotes on this the morning of the third quarter trading update. It looks a solid result – broadly continuing recent trends so how are you seeing the operating environment?
- Shayne Elliott** Well, the operating environment is pretty steady. Clearly the economy is not performing to its full potential but it's going pretty well and there are some actual signs of improvement and so our business is kind of ticking along pretty well. More importantly the reshaping of our business has proceeded again really strongly in the quarter.
- Andrew Cornell** Indeed when the reshaping of the business two things that do stand out a little bit are the ongoing reduction of risk weighted assets in the institutional business, it's a smaller sort of tighter bank, and then also the in-part regulatory driven shift away from investors towards owners occupiers in mortgage lending. Are they really significant trends?
- Shayne Elliott** Absolutely, in fact it's more than just the regulatory pressure and we've said for some time as a strategy we want to be the best bank for people that want to buy and own a home and so we've been growing our business in owner occupied home loans much faster than the market and actually really reweighting our portfolio towards that and we're really comfortable with that. The way we're doing that is just really is focus and great product and distribution through our branch network. Then on the other side we've also said we want to make sure our Institutional Bank really focuses where it can win which is about intermediating trade and capital flow. So we've been reshaping that business and the net result of that is it's smaller, but it's better. That actually again proceeded strongly in the quarter. Those two things are really helping reposition ANZ and primarily the reasons that we are driving good capital generation again in the quarter.
- Andrew Cornell** When we look the capital since the interim result we've now had from APRA some more detail about what unquestionably strong means. Are you happy with the shape of capital with the options open to you?
- Shayne Elliott** Absolutely, it's great to have clarity from APRA after many years of continuing to strengthen capital as an industry. I think for all intents and purposes the moves on capital are largely behind us as an industry now and so we've set the new level of what good looks like which is the 10.5% CET1. Clearly unquestionably strong is more than just capital but from a capital perspective, ten and a half.

At ANZ what we are showing already is that essentially we're there on a proforma basis. That just means when we get the proceeds from the things we've already announced we've sold we will be at 10.5. We're in a really strong position and clearly the ongoing restructuring of the business is designed to improve our capital generation even further.

Andrew Cornell Perhaps the other big change at the bank which I suspect is much more visible internally, where it's very visible, is the new ways working. You only announced that three months ago at the half year result. How is that project to change the way ANZ works going?

Shayne Elliott Well when you're here it's pretty profound actually I think for people in the bank. It's three months in and we've still got quite bit of work to do but I'm really excited about the opportunity here. In fact, over the next couple of days we've got a big demonstration downstairs of what it actually means for people, how to learn about this new way of working, the tribes and the different ways we're going to get things done. So it's proceeding really really well and there is a lot of excitement I think in the bank about the opportunity. That's not to say that when we get going with this early in the next calendar year it's going to be a bit messy, we are going to be changing things and people are have to learn new ways. It's going to take time for us to get into a new rhythm but we're prepared for that and I'm really pleased with the progress.

Andrew Cornell And I suppose the other, and this is not an ANZ issue particularly, but the other non-operating one is what we see with Commonwealth Bank and again the focus on trust in banks. You've said quite a bit about how banks need to concentrate on this and all banks are impacted when one particular bank or many banks are affected. But how is this turn around going to happen? How do you make people trust banks?

Shayne Elliott Well the first thing to note is this is going to take some time. This is not something we can fix overnight. It's going to take a number of years actually, that's how trust is re-earned. But the good news is actually the industry is totally united in this about doing the right thing. We've got our six-point plan through the ABA and all the banks are pushing really hard to get those things done as quickly possible. But we also recognise that in its self is not enough either, so that's a big transformation project. But as I said, my experience of working with our peers as an industry, people all want to put this behind us. They all want to do the right thing and we are talking about making real and substantive change. And the first parts of that are already happening and that is about the way that we compensate and incent our frontline – our people in our branches – moving that much more heavily toward good customer outcomes. So that's in train as we speak and many of the other changes are also happening.

Andrew Cornell To switch back then to the trading update, revenue is still tough to come by, margins are still under pressure, that tends to mean more focus on costs. Is that what you see?

Shayne Elliott Yes. Part of our reshaping was always a recognition it may well be that in the shorter term some of our revenue growth was going to be lower, in fact it might shrink a little bit, which it did very marginally in this quarter. But that's OK if: A, we manage our costs well and costs were down another 1% in this quarter in absolute terms which is again another terrific result on that. We're really standing out from our peer group in terms of our ability to manage costs. But more importantly when you combine that with a good outcome on credit costs because of the rebalancing, we are a lower risk bank, and the capital, our risk adjusted returns are going up.

So when you adjust for the shape of the bank and the risks we are taking, our returns are going up and that's ultimately what shareholders ask of us and so it was a great quarter in that respect.

Andrew Cornell And indeed you touch on credit costs there. The credit environment appears to be still quite benign. How do you see that environment?

Shayne Elliott Absolutely it's benign. As I said, while the economy has kind of been muddling through for a period of time, there are starting to be some signs that things are actually pretty good. There's some weakness I guess in terms of business confidence but when you actually look at the actual economic indicators they're pretty good and what that means is that corporates are doing OK. So there really hasn't been any major stress in any kind of industrial sectors. We've got the ones that are still the lag of the slowdown of the mining investment boom. That's still evident there but even that seems to be coming to an end. So things are look pretty good from a credit perspective.

Andrew Cornell Well thanks again very much for speaking to Bluenotes.

Shayne Elliott Thank you.

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