

## News Release

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### Transcript: 2017 Full Year Result 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 2017 Full Year result which was released 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](http://www.bluenotes.anz.com)

**Andrew Cornell** Morning Shayne. Thanks again for joining us on bluenotes on the morning of the bank's full year result. A very solid result looking at all the numbers. Return on equity is up. Earnings per share up. Capital up. Costs are down. Where did you see the strengths in this result?

**Shayne Elliott** Well exactly what you just said. I mean I think this is tremendous progress for the Group and it's really showing that the strategy that we have and the execution focus is delivering and it's delivering results for customers, but importantly for shareholders.

So I think the strength here is, you know we have said for some time, we saw the operating environment going to be much more different than what it has in the last 20 or 30 years, and we needed to get ready to deal with that. And so we've been transforming our business. We've been reshaping the bank. We've been changing the way we work and been really focussed on execution and speed. And the results, as you mention, high return on equity, costs down for the year – first time since 1999 we've actually had absolute costs come down and of course the stronger capital level, lets' not forget that. That's really important, so we've strengthened the balance sheet at the same time. So I'm really pleased with the pace and the degree of the transformation.

**Andrew Cornell** Nevertheless, as you say, this is in part as a response to a very challenging environment. So where do you see maybe weaknesses or areas where you want to focus more in the results?

**Shayne Elliott** Sure. I think for the industry the first thing people are going to focus on at this part of the cycle is revenue growth, or the lack there of. The reality is, it is hard out there you know. It is a competitive market, we've got our traditional competitors, we've got new competitors, consumers are really voting with their feet – and good on them, and that's what they should be doing.

So revenue growth is a little bit harder to come by. That's why we have been transforming ANZ, getting ready for that. Really making sure that we put our resources – whether they are intellectual resources, our financial resources – to work where we can make a difference and we can win. And so, tough times. But that's exactly why we are in this transformation phase.

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**Andrew Cornell** And indeed, in the actual announcement you talk about 2016 as being the year of reshaping and this is now the period of execution. Does that mean the reshaping has finished and the concentration is all on execution now?

**Shayne Elliott** No. I mean, you know reshaping is going to be a bit of a constant because we live in a fast-changing world. The expectations of the community change fast, the expectations of our customers change fast and so we constantly have to be changing.

What we're trying to build at ANZ is really an agile, flexible approach that allows us to respond to those needs really quickly.

But, from a technical point of view if you think about the rebalancing of our capital mix, we're more than halfway through, that's certainly true. We've kind of broken the back of it. But it's not a skill we want to forget, we don't want that skill to atrophy away. We want to keep reinvesting and making sure we're constantly reshaping and responding to market conditions.

**Andrew Cornell** And one of the measures of the achievement is return on equity. Another is earnings per share, which is particularly strong. Is EPS a big focus now?

**Shayne Elliott** Yes. You may have noticed we've talked about it a little bit more in this result than perhaps in the past. And that's really a reflection of us being out and listening to our shareholders, particularly retail shareholders, it's something they really focus on as a measure of success. And so, yes we talk about it, and I understand it, it's a great indicator of real value creation for shareholders. So yes, we are focussed on making sure – because it reflects not only good earnings story, but also good capital management. Making sure, you know, we don't have too many shares out there on issue.

**Andrew Cornell** And indeed capital has been a very strong focus for the industry and indeed for regulators since the financial crisis. In Australia the Murray Inquiry said banks had to be unquestionably strong. Is ANZ now unquestionably strong from that perspective?

**Shayne Elliott** Yes. And one of the big things we've had as an industry this year was APRA giving kind of a an unqualified definition of what that is from a capital perspective saying it's ten and-a-half per cent on a common equity tier one basis. And we, the banks, the industry has to be there at the beginning of 2020. And the good news for ANZ and for our shareholders is actually, as you see in this result, we're already there. So we're there two years ahead of schedule, so we're very, very well capitalised. And why is that important? Because it gives us more options about the future than perhaps some of our peer group.

**Andrew Cornell** And as shareholders, and I'm a shareholder, we always want more. You talk about capital management, does that mean capital back to shareholders at some point?

**Shayne Elliott** Yes, essentially. I mean, what we're talking about here is we've got to run the bank prudently. We've got to have sufficient capital both, not just to meet the regulators' requirements, but what we think the right amount of capital has and we've got to get that right. But, because of our strategy, because of the rebalancing we are freeing up capital. So as we sell things we get the funds and so what we've said is there's no real incentive for us to sit on lazy capital, so when we do get those proceeds – and we haven't really received that money from any of those sales just yet – when we do, we would be in a position to consider returning that to shareholders. And that's usually through, you know maybe through a buy-back or something like that.

**Andrew Cornell** In your outlook you talked about being optimistic, but still cautious given what's happening geopolitically and around the world. And you raised the issue of household indebtedness as a particular area of concern, but you seem much more sanguine about the risk in the mortgage book than say APRA, the regulator is.

**Shayne Elliott** I don't know that we're more sanguine. I mean, it's a big exposure for any bank so we watch it like a hawk. I mean it's something we look at the data literally on a daily basis to try and understand you know, it's in our interest to make sure that our customers borrow responsibly and so we do look at that.

Household debt levels are high. They're higher than they have been in both Australia and New Zealand. And they're reasonably high on an international basis. There's some good reasons why that's ok, but we don't want to be complacent about it. So, I think we get paid to be cautious and to be prudent. That's the nature of banking.

**Andrew Cornell** The return on equity was another very strong story, but in your comments you mention that it may well have been three percentage points higher had it not been for recent waves of regulatory impost and taxes and things. So that's 300 basis points off your capital; is that a sort of one off or do you think those sorts of discounts are continuing to apply?

**Shayne Elliott** So what we said there was is we just look at the impact of the changing regulation and taxes over the last two years. And that's a period where APRA has required us to have more capital, to hold more liquidity. And of course, we had the imposition of the Australian Bank Tax. Those three combined, all else being equal, would mean the ROE of the industry would drop about three per cent. That's a big, that's a big number. Now the good news is that ANZ was ahead of the game, you know, we've always, part of our reshaping – getting our self kind of match-fit has been to help mitigate some of those pressures. I imagine that those things will continue to put pressure on our industry, but not to the same magnitude again. I think again we're way past the middle of that, but that's why we have to be match-fit. That's why we have to be lean. That's why we really have to be on top of our game.

**Andrew Cornell** And one thing that you did announce at the half year profit was a new agile way of working, particularly for the Australian bank. And that's part obviously of the cost – drive the efficiency, drive the agility, drive. How is that program progressing?

**Shayne Elliott** Well it's a really important program. And why? It goes back to where we talked about before, this need – essentially the need for speed – you know, we need to be out there responding to our customers' expectations, community expectations at pace. And so that puts it ... we have to think about the way we organise ourselves, the way we work to enable that. And that's what this agile way of working is about. We kicked it off early in the year, we've done a lot of planning. It's really quite exciting to be in that division at the moment, there's a lot of buzz, there's lots of excitement about what the future holds.

Early in 2018 we will be moving to this way of working so, we're still, we're at the end of the planning phase we're appointing people into jobs and, you know, it's going to be a really terrific differentiator for ANZ and I know our customers will notice and get the benefit. And, our people will as well.

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