

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 bluenotes on the day of the interim result. The key numbers there, whether we're talking EPS, cash earnings, ROE, dividend; they're all flat or even slightly improved. And yet the overall tone is a very difficult environment, can you talk us through the major factors there?

SHAYNE ELLIOTT: Sure. Actually every year one of the more difficult conversations we have about the result is, how do we describe it in a few words. This year we kind of stuck on the word 'balanced', because it is a balanced result actually. Because the environment has actually been quite tricky, not everywhere that we operate, but in much of it and particularly here in Australia. And in that tricky environment, we actually think we've done pretty well. When you look at earnings per share, up. The profit from continuing operations, up a little bit. Stronger capital. ROE is up. So there is good there, but of course we also have to talk about the environment as of now, not just over the last six months but as we're leading in to the future. And that's what's made this result a little bit more difficult than most to talk about and describe.

ANDREW CORNELL: Because there are a couple, if we look at the positive factors here, there's a couple of things. You talked about the improved consistency of the institutional bank, there's a sharper focus in the bank, you've unwound some of the tighter lending requirements. So there are some actions that you've taken and some better than expected results in there. Are they enough to tide through this difficult period ahead?

SHAYNE ELLIOTT: Well, we think so. I think they're really the dividends of a lot of the hard decisions we've made over the last three years. Whether those decisions were about tightening up and refocusing our balance sheet – we sold a lot of businesses that weren't core to us, we reduced a whole bunch of assets that we no longer wanted – or whether it's the focus we've done on costs, we've got our costs really into good shape.

Those decisive actions have really given us a dividend in two ways. One, from a financial perspective, we're just better able to resource those businesses that really matter and will drive long-term value. And we really got the results and you saw it in this half; New Zealand, again a solid performance, and institutional is probably the star performer of the half. And so those are great offsets to some of the areas where we've had a bit of weakness, like in Australia.

ANDREW CORNELL: And you talk about Australia, in particular, as being a tough environment and obviously there's an election coming, but ongoing it will be a tough environment. That's where you've made the most significant management changes, with Mark Hand and Maile Carnegie coming in. Are you expecting from them more policy changes, or is it a genuine wholesale restructure of how the bank operates?

SHAYNE ELLIOTT: It's probably not really a restructure, we're going to continue to do the things that we've always done. We're really focused on being the best bank for people who want to buy and own a home, or start and run a small business.

But what we recognise is if you stand back and think about the environment, we've got a lot of work to put things right. Remediation. We've screwed up in the past and we've got to get that money back into our customers' hands, and it's a significant amount of work. For us its 2.6 million accounts we've got to rectify.

Now I'm not proud of that number, but we're going to get on with it. So that in and of itself is a huge amount of work.

Secondly, there is a momentum issue in our business today. More Australians are finding it a little bit tough. We're in the middle of an election cycle and we're hearing a lot about cost of living, wage growth etcetera. Well those things manifest themselves in our own business and we can see it, so we've got to get momentum right, helping people get into their homes and helping them start and run their businesses. That is a big task.

And then of course we're right in the middle – or maybe we're only at the beginning – of this huge transformation happening in our industry. Now, mostly we talk about technology and data and all of those things but the reality is customer expectations are rising, regulatory scrutiny is increasing, there's just going to be a whole new range of competitors – some of them are setting up as we speak – and we've got to get ready for that. So you've got these three enormous tasks and what we said is we don't know that the old way of running the place was appropriate. And it's still our biggest opportunity Australia, it's still our biggest business. We want to put all our efforts into that and I think having a team with Mark's experience and Maile's experience – which are different – coming into that problem, those shared problems is absolutely the right way to go.

ANDREW CORNELL: So when we look at the result today and you talk about how it was a balanced result and there was good, consistent performances. What elements, in particular of what we've seen in today's result are those things that give you the confidence that you're talking about?

SHAYNE ELLIOTT: So, we've had our fifth half of costs down. So we're actually bringing the cost of running the bank down every half and we're down another one percent. So that means we've absorbed inflation, we've absorbed the fact that we're continuing to invest in the business, we've got more compliance costs and we've brought costs down. That's a great point.

We've continued to strengthen our capital. Our capital levels, we are the best capitalised major bank in Australia. So we've got stronger balance sheet than we've had before. Our institutional business, that we really leaned into hard three years ago in terms of transforming it, produced a great result. Strong revenue growth, costs out again, returns up. So this is about really delivering results from the decisions of the past and that's what I feel really good about. And that gives us confidence that if we put that same focus, attention and weight into dealing with the problems we're confronted with today, this is a team that deserve credit for that and that will, and can, deliver.

ANDREW CORNELL: Bearing in mind that it is a challenging environment, are there any particular elements – the credit cycle or anything – that you're looking at cautiously?

SHAYNE ELLIOTT: Sure. The credit cycle's an interesting one and the economy in Australia – and, again it's mostly about Australia in terms of the result at the moment – is in really good shape. Unemployment's low. Interest rates are low. Inflation is low. Things are not bad from that perspective, but there are a few little challenges out there.

Wage growth is stubbornly low. Now there's lots of theories about that and I'm not the right person to talk about it, but that has an impact on our business. So we are a little bit worried about families out there doing it a little bit tough. And we see it in our own data.

Now at some level the data is small. We saw 500 or 600 families in this half get themselves into difficulty in terms of not being able to keep up with their mortgage payments. Now, for those 600 that's pretty horrendous, but that's out of about a million customers we have with a home loan so we've got to put those things into perspective. But that's a lot higher than we've seen in the past, so the question for us is; is this a trend? Is it just a bit of a blip?

Now, I think there's reasons to be optimistic. The economy is in good shape. We do have a good regulatory system. We do have good governance overall and I'm confident that we'll work our way through this. But that's the area we are focussed on most, in that home owner area.

I would say secondary would be, there's a little bit of stress in some areas of small business. Not across the board, not every industry, not every state, but there's some emerging signs of weakness there. But in perspective, these things are relatively small.

ANDREW CORNELL: Well, thanks very much for speaking with us today Shayne.

SHAYNE ELLIOTT: Thank you.