News Release

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Transcript: 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 2016 trading update 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

Andrew Cornell Good morning Shayne, thanks very much for joining BlueNotes again on the morning of the 9-month trading update for the bank. The bottom line in the trading update seems to be: revenue flat; cost control good; bad debts manageable. Is that a fair assessment?

Shayne Elliott I think that's a pretty good assessment. You know, the world we're living in at the moment is one of subdued growth, we see that right across most of the world but that's also starting to be much more true here in Australia. And I don't think that's a short-term thing. And so we want to be prepared for that slow-growth environment and that says that much more of our focus is on righting our own ship and getting our costs under control and that theme certainly came through in the 9-month result.

Andrew Cornell Indeed there's a focus on reduction in risk-weighted assets which you've talked about previously. The positive note is, revenue has decreased less than the reduction in risk-weighted assets – does that say that you're actually succeeding in the focus on returns there?

Shayne Elliott Absolutely. What we're doing is really seeing quite a big shift of balance within our balance sheet but we're still growing and we're still lending more to customers and segments where we feel positive and where we can do a better job, and where we can win. But at the same time we need to reduce our exposure to some other sectors and net-net that actually means we're down in terms of risk-weighted assets. That's the right thing to do from a capital efficiency point of view and to drive our returns a little bit harder. The good news is, to your point, what we're seeing is that as we're doing that shift and shrinking the balance sheet just a little bit our revenue is only coming off at a much slower rate. And that tells you that we're putting on the right new assets and taking off the right low-yield assets.

Andrew Cornell So it's not a case of shrinking to greatness or particularly shrinking from Asia?

Shayne Elliott Absolutely not. It's about finding out those areas where we can do really well, where our customers will reward us, where we can help them - and doing more of that but also getting out of some of the fringe businesses that we have. And in terms of Asia, it's absolutely not about getting out of Asia. It's really just about finding, as I said, those segments and areas that are doing well. There's going to be a little bit of RWA or balance sheet shrinkage in Asia at the moment. A lot of that is to do with the fact that commodity prices are down and therefore the value of what we are financing has come down naturally.

Andrew Cornell You also talk about the restructuring program and indeed that it's going to be ongoing. Is it possible to say how far through the restructuring we are at the bank in terms of FTEs for example, and business restructuring?

Shayne Elliott Oh look, I think we've got a fair way to go because I think we're getting ourselves ready for the long term. This isn't just a short-term, tactical approach to some dark clouds on the horizon. We basically think we're in for a lower growth environment for many years to come, which is not necessarily a bad thing by the way. In Australia we've had it really good for a long period of time but it's just getting a little bit harder. We think that the banks that are going to win in the future are those that can really excel when it comes to productivity. And the good thing about that is a lot of it is to do with adopting new technology, about digitising our own processes and that just naturally drives a better productive output and that's what we're seeing.

Andrew Cornell And on the credit-quality front, the previous half-year bank profit season talked about the bottom of the credit cycle and bad debts are probably going to rise from here – what's your experience with bad debts?

Shayne Elliott We talked about that and we've said actually when we were at the half our loss rate, which we talk about in basis points, is more or less at our long-run average. So it's come from really low rates and it's come back towards the average. And that's actually been the case as we've come back through for the 9 months as well – so it hasn't got any better but hasn't got any worse and we think that probably feels about right and we'd expect the same to continue for a period of time.

Andrew Cornell Last week there was considerable negative publicity around the banking sector's decision to pass on only part of the Reserve Bank's rate cut to mortgage holders and shelter savings by raising the rates on some of the deposits out there. But the public focus is very much on the mortgage side – how do you balance that tension between savers, borrowers and shareholders?

Shayne Elliott Well look, unfortunately that's a rather complex formula that we need to solve. Yes, you're right – we have depositors on one side and we have borrowers on the other; and it's interesting to note, we have 5 times as many depositors as we do borrowers. We need to get that balance right because without those really valuable deposits, we don't have any money to lend out. I mean, we are essentially an intermediary and so we need to get that balance right and we need to be really competitive with depositors to make sure they keep money in the bank and don't take it out into other investments. The RBA cash rate is an important ingredient when we look at that formula and think about what the right number is on both sides – deposits and borrowers – but it's certainly not the only ingredient. It's important, we absolutely took it into account and that's why we came to a balanced outcome of passing half of that rate cut onto our mortgage borrowers in particular and small business but also being able to afford to keep a little bit so we can afford to increase the rates that we pay for depositors.

Andrew Cornell Well thanks very much again, Shayne, for speaking with BlueNotes.

Shayne Elliott Thank you.

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