News Release

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2020 Full Year Results – Chief Executive Officer Shayne Elliott speaking notes

Thanks Jill and thank you all for joining us this morning.

It's good to be broadcasting from a re-opened Melbourne and we are fortunate that COVID appears largely under control in our home state, joining the rest of Australia and New Zealand.

But despite the good news locally, our thoughts are with those who have been, and continue to be impacted, whether here at home, or elsewhere.

Even under the most optimistic health scenarios, the devastating economic and social impacts will be with us for some time and that's why our purpose - to shape a world where people and communities thrive - has never been more important.

It is guiding the way we support customers in need.

It is guiding the way we engage with our people and it is guiding the way we work with others to soften the impacts on the broader community.

In such times, it's natural to be consumed by managing the immediate impacts – and protecting our business is of prime importance - but the hard work of the last 5 years means we have the capacity to protect what's important and accelerate investment in the future - because customers have new needs, and there is no return to normal.

Looking back at one of the most unusual years in our history, we posted an after-tax cash-profit from continuing operations of $3.66 billion, down 42% on last year.

With operating profit before provisions broadly flat, the largest driver of the profit reduction was setting aside a further $1.7bn for possible future losses.

It's worth noting that we have not lost one dollar in terms of credit losses resulting from COVID directly, but we are well prepared if they occur.

While not dismissing the impacts of COVID, it says a lot about our strategy that in such a year we were able to support thousands of customers through the most stressful times of their lives, restore momentum in home loans, deliver an outstanding Institutional result, invest a record amount in our future, keep our operating costs flat again, bolster capital and credit reserves and generate sufficient profits to pay a prudent, albeit reduced dividend, without diluting shareholders.

In fact, our net tangible assets per share, which a good indicator of shareholder value, increased to $20.04.

I should point out that we also paid $2.3bn in company tax and over $400million in additional tax under the bank levy.

In the circumstances, our diversified business delivered a decent revenue performance.

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In particular, Institutional performed well, with rates and currency a highlight.

In my experience, when well-managed, rates and currency businesses provide a natural hedge in times of stress.

Customer activity increases, volatility creates opportunity and the drivers putting pressure on net interest margin, benefits your balance sheet trading positions.

While difficult to predict, good opportunities are likely to remain for our Institutional business, at least into early 2021.

Underlying cost performance was strong with a further fall in the cost of running the bank.

There were of course COVID-related headwinds and tailwinds. We hired more people to help customers under stress, while on the other hand travel and property costs fell.

Operational metrics improved, helped by big shifts in customer behaviour – with less cash, less branch and more digital activity.

This year showed again the importance of a strong culture underpinned by market leading employee engagement.

Early on, we had a mature conversation with our people on the balance needed between supporting customers, delivering for shareholders, remuneration and securing jobs. That led to our people doing the right thing, continuing to take leave through difficult times, avoiding a $100m cost spike in the second half.

Better productivity allowed us to invest at record levels. We invested $1.77bn, very little of which was capitalised, in further process improvement and new capabilities. Some of this is compliance related, some of it maintenance, but even then we seek to drive financial benefit.

While acknowledging the impact of the pandemic, I'm pleased with how the business has performed, how we've responded to the environment, and prepared for the future.

There is obviously a lot of interest on how customers are faring in difficult times.

At the first half, some investors were concerned that we increased our lending to institutional customers. But as we said, that was a considered response to support good customers and their need for liquidity in a time of stress.

As predicted, we generated a fair risk-based return, we strengthened those relationships and the debt was quickly repaid.

For Home Loan and Small Business customers, there is a lot of information in the slide packs on deferrals. As a result of overwhelming government support, and our ability to manage at a granular level, so far the outcome is better than many feared.

In a time of ultra-low interest rates, time is cheaper than at any-time in our history and so buying time through deferral can be a rational response for customers. From the banks perspective it provided space to tailor the best solution for all parties.

Using Australia as an example, we have a million home loans, with 95,000 of them granted an initial 6-month deferral and we are in the middle of those deferrals expiring.

We work with each customer on their options and when we need to speak to them, we have been successful making contact 97% of the time.

As at 15th October, 55,000 have already completed their deferral or they've advised us of their intentions. 79% are returning to full repayments with 20% requesting more time, half of whom are in Victoria.

The remaining 1% have either moved to interest only or directly into hardship.

It's worth noting that during the COVID period since March, we've seen on average 359 accounts provided hardship per month, including those who were not eligible for a deferral in the first place. To put this into perspective, in the six months prior, we saw on average 975 customers provided hardship per month.

The deferral program has suppressed demand for hardship in 2H20 which means we have good capacity to manage any increase.

Turning to business, it is clear that small businesses rather than the larger institutional part of the economy, is bearing the brunt of the economic impact. They are particularly vulnerable given their lack of diversification and limited access to capital.

While our exposure to this part of the market is much smaller as a proportion of total lending than others, we've moved quickly to help where we can.

Here too, the data for our small business deferrals has been very positive to date. More than half of small business loan extensions had finished by mid-October with 86% electing to return to full repayment, 4% opting for a restructuring and 9% seeking a further deferral.

Of those extending their deferrals, 60% are based here in Victoria and 70% are fully secured.

Look, if these trends continue with no rebound in Victoria, less than $1bn of small business loans will remain on deferral and we are well resourced to work with these customers individually.

Our New Zealand home loan and business experience is broadly similar, if not a little better.

It's worth remembering that customers who opted for deferrals were good customers who, up until COVID, were making payments on-time. In fact many were ahead of schedule.

Through no fault of their own, they were stood down from their job or their business made illegal.

Since then, retail and commercial customers, whether on deferral or not, have collectively behaved as you would expect from a CFO facing uncertainty:

- They hoarded cash. Our deposits grew $21bn in the last half.

- They bolstered their rainy day funds. Offset Balances grew by another $5bn.

- They cut the cost of running their homes and businesses and paid down their most expensive debt. Credit card lending is down 18%.

- And when they could, they returned to paying both principle and interest.

To me this says a lot about the rational and realistic approach customers are taking.

As you know, our industry faces shocks with some regularity. When I consider my own experience over 30 years, two areas stand out this time with regard to our ability to respond.

The first is data. Our macro data on how industries, segments and postcodes are tracking has allowed us to manage risks in ways that were unimaginable five years ago.

Micro level, real-time data, has allowed us to individually support customers in ways that make sense for them, not some one-sized fits all approach.

In many ways it is our equivalent of contact tracing.

Rather than impose lockdowns on huge parts of our book, we are able to track hotspots in our portfolio and manage them while allowing the rest of our business to operate.

This is possible because of the foundations we laid in simplifying and cleaning up data assets, investing in analytics and working with partners like Google, IBM and Experian.

In addition to improving risk management, we are also using data to learn more about customers and build practical skills to deliver long term revenue growth opportunities.

The second difference is the technology and agile work practices that allowed us to pivot resources quickly and safely.

For example, we moved from 11 large buildings globally, each housing over 1,000 people, to a network of 40,000 home offices.

We became a distributed network overnight and we're more responsive and flexible than ever before.

While it's the most immediate area of focus, I don't want anyone to think that all we are doing is managing COVID. We are not. We are getting on with the job of maintaining a well-managed business and preparing for opportunities.

In 2016, I laid out a strategy based on a belief that the industry was heading for lower growth, increased scrutiny and a wave of disruption.

That's why we simplified what we do, we strengthened our balance sheet, focused on productivity, and undertook a purpose led transformation. And we also built a diverse and experienced management team.

Clearly we never predicted a pandemic, but these actions have prepared us well.

In particular, I want to call out the benefits of a simpler portfolio. We are not distracted by Asia retail and commercial, dealer finance or wealth and have focused on businesses that have long term value. The benefits of a stronger, higher-rated Institutional book has also played out well, with less negative risk migration.

During difficult times, it's easy to stop investing and sweat your assets. We are not doing that.

- We are supporting our best customers and will emerge with stronger relationships than we started.

- We will continue reshaping our portfolio to produce a more balanced, lower risk business that generates decent, more predictable returns.

- We will continue make the bank simpler and easier to manage. We see further opportunities in our distribution network and automation which will deliver our $8bn underlying cost base aspiration, while still investing for the long-term.

- We will deliver new capabilities to strengthen our customer proposition leading to stronger share in targeted areas and higher life-time customer value. In particular, we are really excited about the opportunities in sustainable finance, open banking, better utilisation of data and expanding our banking-as-a-service offerings.

- And we stand ready to take advantage of opportunities that will arise.

As Yogi Bera once said, "it's tough to make predictions, especially about the future".

So we are not predicting the future. But we are prepared for inevitable change, volatility and uncertainty.

Our culture, strong balance sheet, operational flexibility, engaged workforce and experienced team will see ANZ emerge as a better, more relevant, post-COVID, bank.

With that, I will pass to Michelle.

Thanks Michelle and thank you everybody for your time today.

Before we wrap up I wanted to acknowledge the terrific work of our 39,000 people who've done a great job in what can only be described as challenging conditions. I know there efforts are appreciated by both the owners of our company and our customers

I also wanted to acknowledge the significant contribution our now former Chairman David Gonski has made to ANZ over many years.

As you know, David re-joined the Board in 2014 as Chairman and has been an invaluable source of guidance and advice for me and my team and it's been a privilege to work with him.

We had a small event last night with the Board and while we didn't envisage sending him off over a videoconference, it was a great opportunity to reflect on his time here and thank him for his efforts.

For any Chairman, I imagine one of their goals is to leave the place in better shape than they found it and I know David has certainly achieved that.

You may have also seen some media coverage today suggesting that as part of our updated carbon policy, we will be shifting support away from our farmers.

I want to assure you that this is absolutely not the case.

ANZ's climate change statement is focused on the top 100 carbon emitters, and will have no impact on the bank's farmgate lending practices.

We remain firmly committed to supporting Australia's farmers and producers, now and into the future.

This is about helping our major agribusiness customers run more energy and capital efficient operations, it's not about family farms.

The measures announced today focus on supporting large Institutional customers across all sectors in their transition to a low carbon business.

I'm proud of the new policy and we've been having very constructive conversations with our customers. This essentially this brings us into line with global best practice.

Our measures also include the allocation of $1 billion of funding towards supporting customers' and communities' disaster recovery and resilience, which stands to benefit rural Australia and communities.

You can find more details in the investor slide pack published today.

With that, thank you again and hopefully next time we see you in person.

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