ANZ Half Year 2020 Result

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Chief Executive Officer Shayne Elliott Speaking Notes

Good morning.

This is a challenging time for everyone, and I would like to acknowledge those who have been directly affected by COVID19 and the millions who now face financial uncertainty.

I want to assure customers, employees and shareholders that while the social and economic impacts of this crisis are likely to be the most profound in our lifetime and with high degrees of uncertainty, our strategy to simplify and strengthen ANZ means we are in the best possible shape to provide support through this crisis and enable a strong recovery.

The three lines of defence in the economy- balance sheets of customers, banks and the government, including central banks, have served the community well to date, and will continue to do so.

We are fortunate to operate primarily in markets where capacity for support is relatively strong at all three levels.

Today I will focus on how we are responding, building resilience and preparing for the future.

We entered the crisis in good shape with a significantly great capacity to withstand losses than when we entered the GFC for example.

Tier 1 capital is $56bn is three times larger than entering the GFC and supports lending assets only two times larger.

The business was performing well pre-crisis, and our conservative approach over the past 4 years meant the cost for credit provisions in the half up to February was at historical lows.

But the crisis has already impacted results, after taking a prudent approach to bolster credit reserves by a further $1.4bn and recognising the impact on two associate investments.

As a result, statutory profit is down 44%, while Cash profit excluding large and notable items is down 26%.

Base case assumptions will change, particularly as Governments adjust public health policies, and those changes will likely drive further adjustment to reserves, up or down, particularly over the balance of this financial year.

Fulfilling our responsibilities, while ensuring ANZ emerges ready and able to thrive post COVID, will require sacrifice from all stakeholders.

Given the significant uncertainty regarding the impact of COVID19 on the economy, the Board has decided that making a decision on the 2020 interim dividend at this time would not be prudent or appropriate and has deferred that decision until later in the year.

I know that many will be disappointed by this decision but we did not make it lightly. After much debate and analysis of alternatives, we firmly believe this is the right thing to do to protect and enhance the long term interests of shareholders.

The Board and I acknowledge that this will have a short-term financial impact on some investors and I appreciate their understanding.

I would stress that we are not cancelling the dividend - the board has determined that this is not the right time to be making such a significant decision, and believe we will be better informed to enable a decision later in the year.

Given uncertainties, we have agreed to provide a trading update in August which will be an opportunity to update shareholders as to the dividend decision.

While we did not predict the crisis, our strategy to simplify and strengthen the bank has materially lowered exposure to potential credit and operational risks.

It's worth remembering how we have de-risked the bank over 4 years, including:

1. exiting Asia retail and commercial;
2. selling Esanda motor dealer finance;
3. prioritising owner occupied home loans over investor;
4. not providing a retail home-loan offering to self-managed super funds;
5. maintaining the lowest exposure to commercial property of the major banks; and
6. exiting life insurance, superannuation and financial planning.

Our strategy remains intact, but given the crisis, we have pivoted to a four-pronged framework; protecting what matters; adapting to the changing environment; increasing engagement; and preparing for the future.

Our first priority is to protect the bank, our people, customers and shareholders.

We've rolled out support packages, introduced health measures, moved to working from home and maintained strong balance sheet and liquidity settings.

We were the only major bank to pass on rate cuts to home loan customers with the last RBA decision, and now have the lowest fixed and variable rate home loans of the Majors.

We are conducting deep-dive global industry reviews focussed on high-risk sectors like retailing, oil and gas and automotive, and continue to run stress tests to inform resource allocation.

We have amended business writing strategies, changed risk-adjusted return hurdles, and increased the pace of decisions, particularly with respect to credit and liquidity.

We are protecting customers as best we can, but sadly some will not return to their previous strength.

Our support packages are designed to flatten the curve of financial failure, provide time to prepare customers for the return to work and identify those that have structural issues requiring intensive care.

We are mindful of our role in providing support as quickly as possible to those that need it, but also acknowledge that in a small number of cases, payment deferrals or extra financing may not be in our customer's best interest and providing good customer outcomes remains our number one responsibility.

Our next priority is to adapt to the new operating environment.

We are fortunate to have an experienced and stable senior executive team who are able to navigate the changing environment effectively and quickly.

We are open for business and experiencing record volumes in areas like home-loan refinancing applications and financial markets activity, with dramatic falls in ATM and branch transactions.

That requires quick and safe adaptation of policies, resources and processes.

For example, excluding branch staff, 95% of our people have been working from home since mid-March.

The principles of "agile" – test and learn, collaboration, shifting resources quickly and a relentless focus on customer outcomes, have enabled us to quickly adapt to the new environment with productivity benefits and minimal disruption.

In a time of uncertainty, communication has never been more important, so a third priority is to increase engagement with stakeholders.

Our people and customers are seeking clarity and we have worked hard to keep messages simple, provide appropriate guidance and be as accessible as possible.

We learned from the GFC, that investment and consumption take time to recover.

Even with the economy opening in the coming months, it could take 3 to 5 years for employment to fully recover.

As a result, a lot will change for the long term – consumer behaviour, attitudes to risk, usage of technology, management of supply chains and ways of working.

Interest rates are likely to be even lower, for even longer.

There will be no low-debt countries. Governments will be larger, manufacturing more localised and health systems reformed.

Education and tourism will require substantial innovation.

New industries and companies will emerge. Some geographies, businesses and segments will become more attractive, some less, and that is why we are not only managing the present, but already preparing for the future.

Existing plans have already been through an "accelerate", "stay", "slow" or "stop" filter and driven a significant reprioritisation of resources.

It also means we need to reassess skills.

For example, data and process re-engineering will become more important and so I have asked Emma Gray, our current Chief Data Officer, to join our Executive Committee as our Group Executive, Data and Automation.

Turning to the outlook, there is no doubt the months ahead will be extremely difficult.

The crisis is evolving at such a pace, it is difficult to predict how deep the economic impact will be, or how long the recovery will take.

As a result, this will be the most profound challenge many will have faced in their lifetime, including some of our own people.

But while we are dealing with the immediate impact, experience tells us there is opportunity for those that protect their base and retain the capacity to invest for the long-term.

Strategic clarity, prudent risk settings and execution discipline have been the hallmark of the previous 4 years, and that will continue.

Specifically our priorities are:

- A prudent approach to risk and capital,
- Focus on liquidity,
- Staying close to customers,
- Dynamic pricing of risk,
- Operational agility,
- Continued focus on productivity, and
- Investing for the long term.

With regards to capital, we start in a position of strength with our CET1 ratio at 10.8%, even after bolstering reserves to record levels.

We acknowledge APRAs sensible guidance that allows banks to utilise capital buffers through this crisis.

Given uncertainty, we <u>should</u> be prepared to use buffers, but it is imprudent to <u>plan</u> using them all.

Based on what we know, we believe it's prudent to set operating levers that tolerate short-term use of buffers that could see CET1 dip below 10% for short periods of time.

That retains a significant buffer, with the flexibility to operate safely, while allowing us to support customers, our long-term strategy, and the broader economy, without unnecessarily diluting shareholders.

I need to be clear – this does not mean it is our <u>plan</u> to operate below 10.5%, rather it is an acceptance that given high levels of uncertainty, and the multiple variables, we should allow for the possibility that even managing prudently may result in periods where our CET1 dips below that threshold and perhaps below 10%.

Our focus on absolute cost reduction will also continue to be important.

The crisis is driving material change in customer behaviour, much of which will be permanent.

This strengthens the case for reimagining and digitising of our services.

Business as usual costs continue fell again this half and are likely to do so again in the second half.

That creates capacity to invest and reinforces our belief that building a better and safer bank will deliver our $8bn cost ambition, though events may change our delivery timetable a little.

In the short-term we are tightly managing costs, while providing as much job security as we can for our people.

Some costs are pro-cyclical and will naturally decline, like travel.

In addition we are pro-actively managing staff leave and discretionary spend.

Improvements in day to day productivity are still being delivered.

We are freezing salaries for at least 12 months, though there will be exceptions at junior levels.

The Board will assess variable remuneration at the end of the year.

It is too early to assess the full impact of the crisis, but at this stage we expect variable remuneration will be materially reduced and focused on rewarding front-line and junior staff.

In closing, we know many customers and members of the community face an uncertain future, and many are frightened.

We have already assisted many and stand ready and able to do more.

It is times like these that test an organisations culture and values.

Our people have demonstrated resilience, agility, customer focus and accountability and I have never been prouder to lead a team that so genuinely cares about their customers, colleagues and communities.

The response of our people provides shareholders great confidence about how we will manage through the crisis and emerge as a stronger and better bank.

I thank them all for their ongoing support and engagement.

With that I will pass to Michelle.

CLOSE

The challenge we face as a community is immense, with devastating consequences for many.

While we are confident there will be a recovery, it will be some years before there is any sense of economic normalcy.

Decisive action means we are well placed to protect the bank, our people and customers, and well placed to continue investing for the long-term.

Understandably there is a lot of focus on the level of preparedness in terms of credit provisions and capital, and it is reasonable to make comparisons with the past, however each economic crisis is different in terms of transmission and impact.

Without diminishing the very serious impacts of COVID19, we have reached our decisions on provisioning and capital management based on experience, but also with respect to the current condition of our balance sheet and assessment of mitigating factors, like regulatory and government intervention.

For example, while there are similarities with the 1990 recession or GFC, in the nineties ANZ had significant exposure to commercial real estate, versus 7% of our lending today, and there was no equivalent in the nineties or the GFC with respect to this government's swift and decisive support.

But we are not complacent or naïve.

We will continue to be prudent, we will continue to focus on the long-term and we will continue to be flexible in our approach, balancing the needs of all stakeholders.

The key messages today are:

- our long-term strategy remains intact;
- we are well positioned to manage the crisis – financially, operationally and culturally;
- we remain committed to our $8bn cost ambition; and
- we agree with APRA that short-term use of CET1 buffers are prudent and appropriate given what we know today.

Again, I acknowledge that many will be disappointed that we have deferred a decision on paying the 2020 interim dividend, but we firmly believe it is in the long term interests of shareholders.

No matter how prudent our approach, the environment will continue to evolve.

It is therefore appropriate that we provide a trading update to shareholders in August, which will be an ideal time to update shareholders with respect to dividend policy.

Thank you.

ENDS

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