

News Release

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Transcript of bluenotes video interview with ANZ Chairman Paul O'Sullivan

ANDREW CORNELL: Morning Paul, thanks very much for joining us on bluenotes on the morning of the AGM for the bank. We'll ask you a couple of questions about the AGM seeing we're doing it on that day, but then we'll give people a chance to get to know you a bit more. We'll have a bit of a longer discussion. But it's your first AGM, you've been on the board now for about a year, but it's your first AGM as chair. How do you feel the bank is positioned coming out of this incredible year and more looking into 2021? How comfortable are you with how the bank is set up?

PAUL O'SULLIVAN: Well, Andrew, thanks for the opportunity to do this and look, people will know I'm a businessman. I've been in business a long time. I'm very much driven by the numbers and by the metrics and making sure that the strategy is delivering. So when I look at the bank and where it's positioned and how it's travelled through the year, I look at it with the eyes that question, how did we get to where we have? What have been the things that have delivered for us? And when you look at how the bank has travelled through 2020, what you see very clearly is two things. First of all, the work that was done over the last four years on the capital structure of the bank has positioned us in a very good place. We came into the crisis with a CET1 of about 11. We're actually coming out of it now, coming out of the year rather, with 11.3. That didn't happen overnight. That happened by a lot of work, by a lot of people over the last four years to be very selective about who we bank, to make decisions about disposing of assets, to think about what business we would invest in. But that did mean that we were able to avoid needing to dilute shareholders by going to the market, unlike two of our major competitors. And I think it's a testament to the work the bank did that ANZ did not need to do that and was still able to travel well through the crisis. The other thing I look at is the cost base. There's been a lot of work done on that over the last few years. If you look at our business as usual costs, they reduced by about \$A280 million in the year. OK, we increased investment in IT and other things. But again, that reflects a lot of hard work. But it positioned us very well to travel through the crisis.

ANDREW CORNELL: And looking at, again, from that shareholder perspective that you refer to. For many investors - health crisis aside - 2020 was a year when interest rates were incredibly low, the dividend was lower, capital growth was lower. For those shareholders, and a lot of them do rely on dividend income, how can you perhaps give them some insight into what dividend policy may look like going forward?

PAUL O'SULLIVAN: Andrew, I think we're very conscious in the board about the importance for our shareholders of a reliable and regular dividend and knowing it's sustainable. So it's not an easy decision to make to reduce the dividend in any given year. But I also like to draw the analogy that a boardroom, if you're a shareholder, you would want your boardroom to be kind of like the cockpit of an A380. Where people and not just responding to immediate events, but to use the aviation phrase, they're flying 20 minutes ahead of the plane. And as a board, we're required to act in the long-term interests of the business, which ultimately will look after shareholders, customers, staff and key parts of the community. So as a board, when we look at the decisions on dividend, what we're mindful of is the economic uncertainty we face and the questions we ask are; have we got enough provisions set aside for potential losses that we might incur? And is the bank well provided for in terms of capital, so that we can continue to meet our obligations on lending and on

servicing our customers. So with the uncertainty around us we felt it appropriate to reduce the dividend this year. And that was consistent with APRA's guidance. As we look forward, we will revisit this early in the new year. And I think the board will be heavily influenced by two things. First of all, what we're seeing as the pace of economic recovery, how the economies coming back and how is the outlook. And then second of all, we'll also be driven, obviously, by the regulatory guidance. What do regulators in Australia and New Zealand feel is appropriate because they're always mindful, of course, of capital structure and of the sustainability of the banking sector.

ANDREW CORNELL: And looking more broadly then at that, there is always a bit of a creative tension between the interests of shareholders, of customers and indeed of staff. So as a chairman, as a board, how do you see that balance at the moment?

PAUL O'SULLIVAN: I would argue, Andrew, there's not a tension. What there is, is a difference between short term and long term. In the short term, it may be that there are certain things people would like you to do. But if as a board you're acting in the long-term interests of the business, your decisions are very clear. And they ultimately should be actually good for everyone. A great example would be the rise of digital banking and the whole rise of fintech. We put over \$A300 million last year into investing in technology at ANZ. Now, we could have paid that out in dividend or we could have used that to bolster our profitability. But it's actually the right thing to do in preparing ANZ for the future. So whilst it may in the short term have some consequences, I do believe it's absolutely the right thing for everyone in the long term.

ANDREW CORNELL: Another issue that we know is going to be very prominent today in the AGM and has indeed been for a long time is the shift in the world towards greater recognition of the need for a transition to a lower-carbon economy. And indeed, ANZ has made some formal announcements about that, how they'll work with major customers to reduce carbon emissions. But it's a fraught topic. I'm sure at the AGM there'll be questions on all sides. So how as a board do you frame... how are you thinking about that?

PAUL O'SULLIVAN: Well, I've actually seen some of the questions that are coming in for this morning already because some shareholders have lodged in advance. And you're quite correct Andrew, we've got people on both sides of the divide. Some shareholders think we're moving too slowly and we should be more aggressive in our climate policy. Other shareholders, and there is a significant number of them, feel we shouldn't be getting involved at all and they think we're moving too quickly. The reality is, and I think I'm very similar to Shayne and the executive team and to the rest of the board. I'm a businessman. If I wanted to go into politics, I would have taken a different career path. This is not about the politics of climate, it's a business decision. If you look globally right now, it's just so clear that the global economy is moving to a low-carbon future. That's a huge opportunity for ANZ because people will need to invest heavily to make that transition. And as a banker, we would want to take advantage of that. Likewise, it's a big risk because as a bank, you must make sure you're not left with an overrepresentation of customers who do not have a transition plan to a low-carbon future and in time will be vulnerable to carbon pricing and to other risks. So for us, it's a commercial decision. We're having a conversation with our customers. Those who have got the highest emissions and working with them to develop these transition plans and asking how can we help you invest to get to a lower-carbon future? And then there's obviously a lot more detail on that in our climate policy. Very interestingly, as we have those conversations, we've had over 83 of them now, our customers are actually, in many cases ahead of us. They, even if they're in the resources sector, are already thinking about what does the future hold and what is appropriate for them in a lower-carbon world?

ANDREW CORNELL: And it is your first AGM as chairman, you've been on the board a bit over a year. You speak of being a businessman for a long time, a businessman first and foremost, you had a long career at Optus, but can you give us a sort of potted history of where you got to today in your business career?

PAUL O'SULLIVAN: Well, you can tell from the accent that I didn't grow up in Collingwood. I am a migrant, I've been here a long time. I arrived here in my early 20s and I came here with Shell. I joined Shell, the oil company, straight out of university. This will surprise many people who are listening to this broadcast, there was a time when oil companies were actually admired and seen as positive. And when I left university, unemployment was very high and a job at an oil company was prized. We just came out of the oil crises where the world was short of oil and oil companies were pioneering computer technology and engineering design to be able to retrieve oil from more difficult places like the North Sea. So I worked with them for over a decade, terrific training and with them I came to Australia. Once I'd been to Australia, I realised that anyone born here has won the lottery of life. And so I worked very hard to come back as a migrant, which I did. And indeed, as you said, I joined the telco industry. There are some similarities, I think, between the three big industries I'm involved in: oil, telco and now banking. They've all been absolutely central to providing the way of life that we've been able to enjoy today and to growing the economy and making the world wealthier. Clearly, we didn't realise in the case of oil what the long-term consequences were of carbon in those days. But nonetheless, the rise of the modern economy was very much on the back of the three industries that I've been lucky enough to work in.

ANDREW CORNELL: Because it is said increasingly now that banking is no longer a sort of ledger industry, it's a technology industry. You do come from a technology background with Optus in particular background. Is it a fair and reasonable comparison to say banking is now a tech business?

PAUL O'SULLIVAN: It's an interesting point, but I'll go right back. I'm a country boy from rural Ireland and my family were publicans or what you'd say here in Australia were hotel owners. And in a sense, we banked the local community because our customers were farmers and we had a general store and everything, and we ran a credit line for most of our customers until they had actually been to market once or twice a year at harvest time or whatever, or would sell cattle and could pay us back. And I say that because I think at its heart, to me, banking is still about customer relationships and risk. It's about making decisions on where to allocate capital, to take advantage of opportunities but taking into account the risk. Technology is an enabler for that Andrew. Certainly things like 5G, which increases the response time of wireless to being as fast, if not faster, than the human brain's response time opens up a whole new world in terms of the speed of institutional decisions and playing the markets, to how you might make a credit decision with a retail customer. But at its heart, it's about managing the customer relationship. But yes, I'm hoping someone with a technology background like me can be adding value to the board and to management through my experience.

ANDREW CORNELL: I take your point that fundamentally the business is the same. It's about understanding customers and risk. You had a brief period with Colonial before you went to Optus, with another Shell alumni, and that period was one of incredibly fast revolution in the Australian financial services sector. Now you've come back again. Are there lessons to be learnt from that? Are we in a fundamentally more technologically focused period now?

PAUL O'SULLIVAN: Yeah it was pre-GFC actually, Andrew, so a very different world in one sense. There's been a few changes in Australia, I think, since. Obviously the housing markets have become much, much more inflated and people have a lot at stake and those assets. But you've also seen a greater appetite for Australians and New Zealanders to make

investments outside of their own home. And we see in Australia the rise of self-managed super funds as a great example. The world's culture also is more embracing of start-up businesses and people getting out and having a go. That's one big change from when I was around last time. The other one is technology, the rise of digital capability, the use of machine learning to ingest huge amount of data and then improve decision making. And the application of that to A.I. or artificial intelligence, is giving rise to new competitors, people like the neo-banks or people in new payments platforms who can develop algorithms that are able to make effective credit decisions. So we need to be nimbler and faster in how we respond. And I know that Shayne and Maile and Mark - both Marks - have been working quite hard on how we take advantage of the strengths we have as a very large bank with a huge balance sheet and large customer base, but how do we learn to be agile and nimble and compete with the rise of the new competitors. And that's a big focus for me.

ANDREW CORNELL: And the other element, you speak of being a migrant, but you're also an internationalist. You know, the companies, Shell would be one of the paradigms of a multinational corporation. ANZ has long had a network through the region. Optus obviously is a Singapore-based telco. How do you see Australia and New Zealand's relationship with Asia then evolving, because there's obviously different tensions at the moment but enormous opportunity. How do you think about that?

PAUL O'SULLIVAN: Well, one of the great things about the Shell training was that they taught us from day one, that you are a guest in whatever culture you're in. And you need to respect and understand that culture for what it is. And I think that's relevant to where we sit in the world today. One of the things that we should be mindful of is the rise now of a wealthier Asia - in particular the middle classes. As you know, I'm still involved with the telecommunications industry in Indonesia and in that market, for example, there are 250 million people, but a middle class of probably somewhere close to the population of Australia - 20 or 30 million. That's the Asia that will increasingly be on our doorstep moving forward. And you can already see the rising levels of health and education and everything in those markets. So you will find that companies are increasingly willing to use the lower-cost labour in those markets. For us, as Australians and New Zealanders, we need to think about where do we have a comparative advantage? Where do we add significant value to something because we are high wage, high cost, high standard of living economies. We do have huge advantages, I think, in areas like the food and the quality of our food, obviously resources and mining and clearly the whole area of growth in aquaculture. Those are all fantastic opportunities for us and there are many more. But I do think we need to think about we'll be dealing with a very different Asia, one of opportunity, but one that needs a very considered strategy moving forward.

ANDREW CORNELL: As Chairman, do you see that the board should take a step back and look at how ANZ is engaged in that region? Or are you happy with the settings as they are?

PAUL O'SULLIVAN: Well, we have the advantage of being the most international of Australia's four major banks and indeed of New Zealand's major banks. I think that's a real strength for us. It's a stand out. I mean, I know from being on the other side as a customer of the bank at Optus just how valuable it is to have a bank that is able to navigate the capital and trade flows across Asia. And that's a real plus. I think we need to build on that. I think it's an advantage for us. We just need to be very deliberate and considered about which parts of it are the areas where we know we have an advantage.

ANDREW CORNELL: And we've obviously had this extraordinary year of coronavirus, both with Optus and ANZ you've been involved in the response to that at board level. But do you have a sense of how 2021 may play out and what lessons you've learnt, whether here or at Optus from 2020 that might be particularly important as we hopefully recover from this period?

PAUL O'SULLIVAN: There's a few important takeouts, and I don't think these will be a big surprise to anybody listening. But what we have, I think, learnt through the year is, first of all, how quickly we can all adapt and change and embrace technology. Here at ANZ, we very quickly had 95 per cent of our staff working from home. And indeed, unlike some of our competitors, we didn't have a major hiccup in our ability to process. In fact we've had a very strong period in market share in home loans through the period, and a similar great performance in New Zealand and in our other markets. I think that adoption of new technology will change and I think people are now far more willing to adopt it. I think the second issue which we need to think about is bankers and as business people, is the community. I think the community now is looking at things like climate science and other things and saying, well, we've just seen a black swan event, a pandemic. It was predicted for many years by scientists. Maybe we need to think about the fact that the unexpected could happen in other areas. So I think that is something we're going to have to be mindful of. The last thing that I would say that comes out of this is the importance of the customer. Now, you've seen how quickly things have changed, but I think at the heart of every business's response was being able to respond effectively to their customers and adapting new channels of communication and of delivery. And I think the primacy of the customer to me is just reinforced by the events of the year.

ANDREW CORNELL: And you speak of that, of the importance of the community. And we did see that play out. Whether it was, the risk posed by casualised workforces and things, community is incredibly important and it's in fact enshrined in ANZ's purpose. Do you need make more of that, or emphasise that more in your thinking is a board, that community element?

PAUL O'SULLIVAN: It's very interesting and again, I'm a hard headed business person. But when we look at what we call ESG, which is all about the environment and governance and sustainability, one of the more insightful pieces I've seen, Andrew, is the point that what the community have seen over the last 20 to 30 years is that many businesses and many industries have been able to advance and make profit. But often at a cost to the community that those businesses never have to bear. You know, there are easy examples of that. It's pollution to do with energy. It can be plastics to do with packaging. And to some extent, the Royal Commission was a bit of a play out of that, a sense that profit has been made at the expense of the community. I think that's a growing trend. And I think we're going to see that as business people. We need to be even more aware and more sensitive to what this means. It still requires you doing the right thing by your customer, nothing has changed on that. But I think taking into account things which traditionally we might have seen as being beyond our bailiwick, will be important. And particularly, some good examples of that, I think would be to think about indigenous rights, which I think are becoming increasingly important to the community here in Australia.

ANDREW CORNELL: Now, you've made the transition out of executive life to having several board positions in the not-for-profit sector, as well as the corporate sector. But it's often said that chairman of the big four Australian bank is essentially a full time gig. So have you made enough space for this new role as chairman? And is there an issue with a Sydney-based chairman and a Melbourne-based bank?

PAUL O'SULLIVAN: Can I tell you that for a businessman like me, this is like being a pig in muck. It really is. It's just fantastic to come and work with a bank because you're right at the heart of the Australian, New Zealand and Asian economies. You really get a finger on the pulse of everything that's happening and you are relevant to every sector of the community and of industry. So it's absolutely fantastic. Yes, it's very busy. But, you know, that's exactly what someone like me would want. I am very judicious about the fact that it's important to have adequate time to fulfil the obligations of the role. So I only have one other listed company role, and that's with Coca-Cola Amatil. Which as it happens, is under a

takeover offer right now. I do have a Federal Government role - I chair the Federal Government company that's building the new international airport for Sydney, that will be

the main airport for Sydney in another 40 years' time. But I see a synergy between that role, which allows me to work with government and my other two roles. In terms of Optus, we're not listed in Australia - that's a subsidiary. And really my role there is very much a representative role, not a day-to-day involvement in the activities of the company. So, yes, I think it's very manageable. Can a Sydneysider work with a highly respected Melbourne-based institution? Well, let's see - I think it can! I think a bigger question could be can an Irish man who's been in Australia this length of time be understood and do it well? But my track record in business in Australia is I think I've got a reputation for delivering. Hopefully that will be the case at ANZ.

ANDREW CORNELL: Well we've got a Kiwi CEO as well. So it's a very multinational executive and board level.

PAUL O'SULLIVAN: Diversity is everything these days isn't it?

ANDREW CORNELL: Well thanks very much for taking time this morning. It's obviously a very busy time of the year for the bank, but I'm sure our shareholders are very interested to learn more about you. So thanks for that time Paul.

PAUL O'SULLIVAN: Thanks, Andrew. And look thank you to the shareholders who've been strong supporters and gone with us through a very challenging year. And for staff watching this, you guys have done an amazing job - we've come through the crisis so far in terrific shape. Thank you for all your good work.

ANDREW CORNELL: Thanks again.

PAUL O'SULLIVAN: Thank you.

For media enquiries contact:

Stephen Ries, +61 409 655 551