

## News Release

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### **Transcript of bluenotes video interview with ANZ Chief Risk Officer Kevin Corbally and Group Executive for Australia Retail and Commercial Mark Hand**

ANDREW CORNELL: Morning Mark, morning Kevin. Thanks very much for joining us on bluenotes on the morning of the full-year result. We're in Melbourne so you're sitting 1.5 metres apart, you've had your masks on. And so maybe it's good to start with the Chief Risk Officer. Kevin, in these extraordinary circumstances how are you thinking about the risk settings of the bank?

KEVIN CORBALLY: Morning Andrew. Look each crisis that we enter into is different right? So if I think back to some of the ones I've worked through - whether that's GFC, Asian crisis, whether it's this one, whether it's the early 90s too. The way that the crisis unfolds, who it impacts and how we respond to that and how we're positioned is different for each of those. If I look at this one, we're in a very different position, we're a much stronger, simpler bank than we were a number of years ago so better positioned. In addition, one of the things we did straight away was we tried to identify those customers, those industries that we think could be more susceptible to this type of crisis. And initially what we ended up doing is we undertook a series of industry deep dives, stress tests, we reviewed over 20 industries. We also then looked at the risk rating of our customers. So we ended up, as of today, we've reviewed over 93 per cent of the customers within our Institutional business, over 80 per cent of those within our Commercial business.

ANDREW CORNELL: When we look at the result then in terms of the provisions for actual bad debts - individual provisions, they're reasonably stable - it's the collective provision that's been raised quite a lot for what might happen in the future. To date there hasn't actually been COVID-related losses but they will come. So how are you forecasting that?

KEVIN CORBALLY: Yes Andrew, look you're right. While shareholders will have seen a \$A2 billion increase in our credit impairment charge, we haven't actually lost money as yet directly as a result of COVID. So, as you point out, there are two provisions - one is the individual provision, which are for those losses for customers who you've incurred a loss on or you have impaired them. With the exception of one large number that we alluded to at the half-year, that's broadly the same as last year. It's the collective provision charge that has increased. And what happened was that there was a new accounting standard that came in to effect for us - came into effect for all banks - but for us it was from 1 October 2018. What that requires us to do is to look at what we think to expected future credit loss might be. And we use economic models to help us derive that outcome and in addition we also apply a management overlay to them. What shareholders will have seen is that it was that collective provision that increased by \$A1.7 billion this year. And essentially the way I think about it is that's us setting aside money for a rainy day right? So we haven't incurred a loss today, we may at some stage in the future, it's also possible we may not. But we set it aside. And for us it meant that we have \$A5 billion in reserve for that rainy day as such. What we did in the second half is we took some extra provisions. At the first-half we looked at it and said "grim economic outlook, 13 per cent unemployment, 13 per cent GDP contraction at a peak". We then said "you know what, it's probably not going to be as broad based as that." We then looked and applied some additional management overlays to complement the economic models. And I think as a result of that we've come up with a very prudent and considered approach to our provision levels for this year.

ANDREW CORNELL: Thanks Kevin. And so Mark you run the Australian bank so in the context of what Kevin has been talking about, how are you seeing it from the customer perspective? What are the key insights there and obviously customers are still anxious?

MARK HAND: Yes absolutely, customers are anxious and one thing we've got to remember is Australia's been exceptionally lucky economically. We have had many, many years of economic growth and so it's been a long time since our customers and indeed our staff in the bank have seen anything that looks like a recession. So I think it's important at times like this to remind our customers that they need to ask questions, they need to go back to their trusted advisors – whether that be their banker or their accountant or their lawyer or people that they know that have run businesses similar to them, perhaps been through tougher times. And have conversations with them and make sure they understand what the future could look like. We've got to remember a couple of things that are in our advantage at the moment – interest rates are at all-time lows so, in terms of running a business and keeping debt going, if you like, to make sure that you sustain your business at the moment – debt is as cheap as it's ever going to be. It's hard to imagine that it would be cheaper than it is at the moment. So I want to remind our customers that it is a good time to take a breath, have conversations with people that have been through this scenario. Talk to your banker and really think about how you want to manage for the next six or so months. Because we're seeing some really positive signs out of states like WA and Queensland in particular who have had that period of stability, they've had a lower impact of recent months in terms of COVID as compared to Victoria. And we're seeing some really positive signs in terms of how customers are recovering.

ANDREW CORNELL: And Kevin's spoken of the actual bad debts but a lot of... there's been a lot of deferrals of loans and the statements to the Stock Exchange have provided a lot of detail on that. But, can you give us a sort of understanding of how deferrals on loans are playing out? And also this idea of "ghosting" where you've tried to contact people on deferrals and can't get to them.

MARK HAND: Yes, well firstly on the ghosting, we haven't had a big issue with ghosting. So, certainly customers that you call don't answer the phone the first time you call – they've got a lot of other things on in their lives than to talk to their banks, particularly when we're calling in advance of the expiry of their facility. But what we are finding is you email customers, you write to them, you call them, some proactively call us. But, for us it's only about three per cent of customers that we're trying to get in contact with that we still haven't had that conversation and we're confident those conversations will take place because this is a really important issue for customers to make sure that they've got their financials sorted out. So, I don't think ghosting has been an issue for us and won't be going forward. In terms of the deferrals, the conversations we've had with customers have been about their situation as it stands today and the outlook for their situation. And so remember, we only gave original deferrals to customers who were in good shape. Customers who were running profitable businesses, customers that were paying their mortgages and credits cards and the like. So it is the circumstances that has created this hardship for them. And so there is every reason to believe that when these circumstance move on, they will recover in some shape or form. So our conversations with these customers have been very much about, impact aside, what does the outlook look like? If you're a mortgage owner, what are your employment prospects beyond this period? If you're a business owner, is Christmas trading and the fact that we open borders for instance in Australia, is that going to make a difference to your business? So it's very much a conversation about, put this current circumstance aside, what do we think it will look like for you on the other side? And by and large it's a fairly positive story.

ANDREW CORNELL: Well thanks both for giving us those insights into the numbers that have gone out today. Thanks very much for your time.

KEVIN CORBALLY: Thank you Andrew.

MARK HAND: Thanks.

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