

## News Release

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

ANDREW CORNELL: Afternoon Paul, it's AGM time and really the bookend to the season. It's been another tough year, obviously and an unpredictable year. And next year things are looking a bit more promising on the COVID front - it's still a bit uncertain. Yet you're cautiously optimistic. Can you sort of explain the optimism?

PAUL O'SULLIVAN: Thanks, Andrew. And thanks for the opportunity to do this. Yeah, I am cautiously optimistic, although there are lots of challenges around. First of all, governments have really stepped into this crisis. It's very different from, say, the 1920s or even the 1980s. We've seen governments and central banks respond with unprecedented levels of liquidity and they've stayed in. They've stayed behind that. So that gives us some confidence about the economy and we've avoided the worst fate that many predicted at the beginning of the crisis. The second thing that's remarkable is, particularly in Australia, New Zealand, a fair degree of social cohesion and very rapid adoption of vaccination rates. I know there have been a lot of noisy comments but when you look at the facts, we have close to 90 per cent vaccination rates in both economies. That's pretty remarkable. And that again gives optimism even with the variants and the requirements for boosters. And finally, you know, household savings and liquidity balances in accounts are at unprecedented levels - the highest they've been in 25 years. So as we head into next year, that money's got to go somewhere and that makes me fairly optimistic about the state of the economy.

ANDREW CORNELL: And when we look at this crisis and again, compared with those other crises, this is not a banking crisis. It didn't start as a financial crisis and the banking system went into it quite well. So ANZ delivered quite a good result in the circumstances this year. Are you just as optimistic about ANZ, the state of ANZ?

PAUL O'SULLIVAN: Yeah, we do... We do come through this stage of the crisis in pretty strong shape. And if you had predicted a year ago that we'd have been here, people might not have believed it. But if you look at the bank today, the balance sheet is strong. It's got an APRA CET1 of 12.3 per cent at the end of the financial year. And actually, if you look at that, ourselves and our peers are amongst the best capitalised banks in the world at this stage. If you have a look at the way we've done our capital management, ANZ has managed to achieve a pretty sensible return to paying out dividends and a share buyback - despite not having to issue extra shares and dilute our shareholders. Two of our major competitors here in Australia did dilute their shareholders over the last couple of years, so that's been a strong performance. Shayne and the team across all of our businesses have managed costs particularly well. Our "run the bank" costs are down from \$A7.8 billion to \$A7.4 billion. We've been able to put some of that saving back into investing for the future. And of course, we're hoping in the coming year to be able to bring some new products to market. Finally, Institutional and New Zealand have had very strong years. So I think we're in a strong position heading into the year ahead. There is some uncertainty around but, as I said earlier, I also think there's a lot of reasons to be optimistic about the economy.

ANDREW CORNELL: Well given that sort of macro situation and the state of the bank, where do you see the board putting the most attention this year, having the most focus?

PAUL O'SULLIVAN: Well Andrew there's probably a mixture of short-term and medium-term thinking which is appropriate in this case. I've been fairly open in my comments at the AGM that we did fall behind the market in the Australia Retail and Commercial space, particularly around home loans and mortgages this year. So a major focus for the board and management is restoring momentum in the Australian R&C division. And we have said that we would expect, based on the work we've been doing, that we will return our mortgage book to growth this half and be growing in line with system in the next half. The second will be to build on the momentum we've established in New Zealand and in the Institutional markets, and to keep up that pressure on costs. In the medium term, there are two big opportunities for the bank that we need to make sure we pursue. One is the launch of our new digital banking platform ANZx. We need to see that come through successfully in the year ahead with the first wave of products. And the second big opportunity for us as a bank is sustainable finance. Our Institutional bank leads the market here in Australia and it's important that we use that lead. And the work we've done in leading the industry on climate change to become leaders in the area of sustainable finance.

ANDREW CORNELL: When we then look at the year ahead from a sort of more macro perspective, there's obviously regulatory burdens, there's COVID, there's competition coming from all across the board. Where do you see these major challenges?

PAUL O'SULLIVAN: Well, I'm going to start by saying there are challenges, you know? But as Australians and New Zealanders, when cyclones come around or floods and take away our houses, we don't stand around worrying about it. We get on with rebuilding them. And if I look at the challenges, it's that confidence of overcoming them that I preface my comments with. But I think there are four key challenges for us all to think about in the year ahead. The first one, which is well-publicised, is inflation. The question is whether that's transitory or whether it's going to be a sustainable phenomenon that we have to work with. Second, and not unrelated to that is actually, I think, the issue of housing affordability and perhaps a more general debate on inequality in our societies is going to become a more prevalent theme and challenge in the period that lies ahead. Thirdly, we just look at our industry. I think it's going to be ongoing disruption of the value chain. There's a significant amount of capital going into the fintechs globally. We've got to see that starting to come out the other side with more disruption and more players entering into the market. And finally, I think a very relevant issue for ANZ is geopolitical tensions. They've been navigated fairly successfully so far but they'll continue to be around us - particularly the tension between the superpowers - but there are also some localised issues within our region.

ANDREW CORNELL: Those challenges are obviously very real challenges and inequality is a long-term one. But there's opportunities across the board for the banking system and for ANZ. One of the ones that gets a lot of... got a lot of attention at the AGM is sustainability and climate change. The bank has laid out a path towards building on the opportunities it sees, but it's fair to say that people want... some people want the bank to move more slowly on this front. So how do you... how does the board balance the challenge of the opportunity of sustainability against those who want us to slow down?

PAUL O'SULLIVAN: I think it's a great question, Andrew. This is one of those issues where perhaps when you're being shouted at by both sides of the debate, maybe you've got the balance just about right. But I think if we take a step back, ANZ has been a leader over many years in terms of climate change. We were the first to adopt the TCFD disclosure standards. We were the first and the only Australian bank for a period to be in the Dow Jones Sustainability Index Top 10. We've led this year in terms of our disclosure, the first Australian bank to put out emission intensity pathways that will reduce over time for two of our key carbon emitting sectors - in our case electricity power generation and also the commercial property sector. So we have a strong leadership position already in this space. We have, this year, signed up to the net zero banks in terms of the Paris Agreement. So that's another important commitment that we've made. So we have the credibility and the track record. Gerard Brown and his team do a lot of work in talking to the NGOs. So although there are those who would like us to go further, I think there is also respect amongst the NGOs that we walk the talk and we're credible. In terms of the opportunity commercially, the estimate is that there'll be \$125 trillion dollars spent on the transition to a

low carbon economy and that's a significant number with 50 per cent of that likely to be spent in the Asia Pacific region. So as bankers, we have a responsibility to help fund that transition. But as ANZ, we also have an opportunity to be a leader in Australia and New Zealand in terms of making sure we fund that. That goes back to then some of the calls from environmentalists for us to say that we won't lend to this sector of that, particularly fossil fuels. We've discussed that at length and we think it would be irresponsible to say that we would put a ban on lending to fossil fuel companies. The reality is that the world needs them to make the transition to a lower emissions future, so they need to be funded. And we're very clear - we will only fund oil and gas companies who have a public commitment to a lower emissions pathway over time. And that's got to have attached to it governance and transparency and specific time-based targets. And we think that's a responsible way to go. If we were to say we won't lend to fossil fuel companies, we will drive that sector to lenders who are less committed to emissions reduction and who are less scrupulous than ANZ. So I think we've found an appropriate and responsible strategy. I know it won't be popular with everybody but ANZ is all about being part of the solution and not merely putting our head in the sand.

ANDREW CORNELL: Thanks very much for your time today, Paul.

Thank you, Andrew. And, on behalf of the board, can I say thank you to everybody at ANZ and our customers and shareholders for their support through this very challenging pandemic period. But we're in strong shape and we're looking forward to the year ahead.

ANDREW CORNELL: Well, thanks again, Paul.

PAUL O'SULLIVAN: Thank you.

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