News Release

For release: 1 May 2018

Transcript: bluenotes interview with ANZ Chief Financial Officer Michelle Jablko on ANZ's 2018 Half Year Results.

The following is a transcript of a video interview with ANZ Chief Financial Officer Michelle Jablko discussing ANZ's 2018 half year results.

The interview was conducted by Andrew Cornell, Managing Editor of bluenotes, ANZ's digital publication for news, opinion and insight and can be viewed at www.bluenotes.anz.com

Andrew Cornell: Morning Michelle. Thanks very much for speaking again with bluenotes on this, the morning of the bank's interim result. It's a story of an ongoing transformation of the bank, the simplification process, the rebalancing process. From your position as Chief Financial Officer, when you look at these results today are there things you can point to in the result to show that that process is playing out or playing out well?

Michelle Jablko: I'll point to three things. The first is our capital. We've increased our capital to 11 per cent, which is a really, really strong outcome. This is partly driven by divestments, but also driven by the work we've done within the business to generate more capital and use it more effectively. So that's the first thing.

The second thing is that as a result of that, our risk adjusted returns continue to increase and that is a really important measure as we look at our business. That's saying, are we being paid enough for the capital we're putting to use. And then finally, is when I look at costs, what we're trying to do is be simpler and more focused and you can see that our costs are down and they're down for the fourth half in a row. But at the same time as that we're investing more proportionately in our ongoing businesses. That shows we can take the benefits of simplification and really put our dollars to work where they most count.

Andrew Cornell: And is it fair to say that that simplification has had a benefit on the credit quality line as well? Because credit provisions are very good in this result – one of the strengths of this result. And people say 'well that's because the external environment is benign' but is some of this what you've been doing with the bank?

Michelle Jablko: Yes, it is a combination of both. So our provision charge was lower this half, our loss rate was 14 basis points on an annualised basis and clearly the credit environment has been relatively benign which has helped us. But we've also done some really serious work over the last couple of years.

We've done things like selling Esanda, the dealer finance business in Esanda; we've sold Asia retail both of which had quite high loss rates. We've exited, or largely exited, emerging corporate in Asia. We've tightened our risk appetite in a number of areas, like unsecured loans in small business and personal loans, and also in commercial property. And the other big thing we've done is we've been prioritising Owner Occupied Principal and Interest mortgages above Interest Only and Investor.

So, it's really a combination of those things as well as the environment that I think has helped us to the result today.

Andrew Cornell: And is that something that's sustainable, that level of provisions?

Michelle Jablko: As I look at it I think we will benefit from having a lower risk portfolio into the future.

Andrew Cornell: Given that the external environment is, it's a good external environment, but it's certainly not like bull run years, costs are always going to be then a focus; how is the cost story unrolling?

Michelle Jablko: I think what you can see with us is that we've shown really good discipline and execution in how we manage costs, but it really is a focus on sustainable simplification and sustainable cost reductions. We want to do things that are right for the business and by that I mean making sure we don't have duplication where we don't need to, that we simplify our processes. We have a lot of manual processes that are just way too complicated and we can really simplify those. And what we're doing, while cost is really an outcome of all of those and is a big area of focus, the things we're doing are really being done to have good customer outcomes and good outcomes for our people as well. Because it really is about being simpler, rather than just short-term cost focus.

Andrew Cornell: Looking back again at capital, you talk about the capital efficiency that the bank's working towards, the other side of that is obviously regulators and what's happening with prudential standards and things. Can you talk us through the moving parts of the capital picture and how it may play into dividends or capital returns?

Michelle Jablko: So the way we look at it, and we've worked really hard to get to a strong capital position early – so we're at 11 per cent core equity capital today – and that's come from, like I said at the start, how we've managed our business in terms of where we put our capital as well as selling assets that are no longer core to ANZ. That gives us enormous flexibility going forward. And as we look at it there are a number of things we ask. So as divestment proceeds come in, for example, and we're sitting on well above the regulatory minimum, first question we ask is, well what's the level of capital we think we need to hold for the current time? What could we better do in our business? Because if we can use capital more effectively in our business for strong returns then we'll do that.

But, likely as you saw when the SRCB capital was paid to us, we looked at it, we set our levels we were comfortable with. We didn't have an alternative use in the business and so we commenced a buyback and gave it back to shareholders and we continue to assess on that same basis.

Andrew Cornell: Again, when we look at the sort of external factors that are playing for all banks, funding costs particularly at the short end have started to – rose anyway in the first quarter. We're also seeing probably coming out of the Royal Commission more scrutiny of responsible lending, of credit growth. So how does this play out in the overall terms of credit growth and margins do you think?

Michelle Jablko: There's probably two questions there, so I'll start maybe with credit growth and credit growth has been slowing for the system. And we look at it and say, it probably will continue to slow a bit. That's for the industry and system as a whole, different players and different participants in the industry will be able to do a bit better or a bit worse than that based on what their starting point is and things they're doing in their business.

If I then go to margins, you're right, short term funding costs have really picked up in recent weeks. It didn't have a big impact in the first half. In terms of the future impact on that, there are a few moving parts, not just the level of the costs themselves, but also what the mix of our balance sheet is and how certain assets and liabilities behave over time. All things being equal if I look at it today and say 'if rates stayed where they were today and our balance sheet mix stayed, it would have an impact in the second half.

Andrew Cornell: Thanks very much for talking through the numbers with us today. Thanks Michelle.

Michelle Jablko: Thank you. Thanks Andrew.