News Release

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Transcript: 2017 Full Year Result bluenotes interview with ANZ CFO Michelle Jablko

The following is a transcript of a video interview with ANZ Chief Financial Officer Michelle Jablko discussing ANZ's 2017 Full Year result which was released today.

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 Good morning Michelle. Thanks very much for joining us on bluenotes once again, the morning of the bank's annual year result. A strong result on many fronts and particularly capital generation. So can you talk us through how you're balancing capital generation, extra capital from divestments and then the potential to pay back some capital maybe to shareholders?

Michelle Jablko I mean the core of our strategy really is about how we optimise our capital so we put it to its best use. And this year, we've done two things; it's about how we allocate the pie – and we wanted more of our capital allocated to Australia and New Zealand and less to institutional, and we've done that. And then it's about driving better returns in the businesses, and we've done that as well. At the same time we've generated capital and pleasingly we're two years ahead of where we need to be based on APRA's new requirements and so that gives us lots of flexibility going forward.

Andrew Cornell Provisions for bad and doubtful debts continue to come down, which is obviously good for earnings, but is there a concern that the banking world is perhaps under-pricing risk? Are these lower provisions sustainable?

Michelle Jablko I mean, again, core part of our strategy is making sure we use our capital where we think we can optimise the risk adjusted returns on that capital. So for example, selling out of Asia retail, which for us, given our scale in that market, we weren't driving the right risk adjusted returns so makes sense for us to do that.

It's the same with the way we're reshaping the institutional business to focus on areas and customers where we feel we bring real value to them. And so if you look at it, this year we've improved risk adjusted returns. Clearly there's been some mark, the market environment has been good as well, but we've also made some structural changes in our business.

Andrew Cornell And the cost story too, is another very strong element of this story. And Shayne Elliott said that the focus on costs, on absolute costs is going to continue. There's been a reshaping of the business so we've seen costs come out, so how much more can be done on that absolute cost front?

Michelle Jablko Yes, as we look at it there are financial and business reasons for what we're doing. You know, financially when we look at the environment we think a focus on costs is absolutely right. Included by the fact that we're reshaping our business and so we need to be serious about our cost base. But more importantly, when we look at the bank we think that being simpler and more focussed is really what's going to help us win in the long term with customers and by, just by having, you know focussing on a few areas and doing them well. And so the absolute cost focus will absolutely continue.

Andrew Cornell And once again in this result there is evidence of pressure on net interest margins and that's sort of an industry wide phenomenon and a longer term trend. What's the outlook for net interest margins?

Michelle Jablko Margins have been coming down for years now and that's one of the reasons actually why we are focussed on our using capital in the most efficient way and focussed on costs. If I look at margins this year there are probably some positives and negatives particularly in the last half. Outside of the markets business margins actually improved a bit in the second half. We had some positives going on compared to the first half around asset and liability pricing but on the flip side as we go into next year we will have a full year of the bank tax.

Andrew Cornell You refer to the reshaping part of that is the divestments of business and we are seeing that's sort of ongoing and there a couple more on the horizon down the track. Does that mean while it's obviously good for the management of the balance sheet and the way the business is focussed, does it leave you with an earnings gap going into the future?

Michelle Jablko If I step back and say why are we selling these businesses again we think we are better off focussing the bank on a few areas and doing them really well. So there are things like Asia Retail where we are just not the best owner of that business because we are subscale. If we kept that business we'd need to keep investing in the business and that would take money away from our core businesses. Now selling a business of course it's got revenue associated with it. It's also got costs and ptrovisions. At the same time we also no longet need capital allocated to the business so we have a benfit there. So we've got to weigh those two things up.

Andrew Cornell Thanks once again for your time with bluenotes

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