

## Bluenotes video interview with ANZ Chief Financial Officer Michelle Jablko and Andrew Cornell

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ANDREW CORNELL: Morning Michelle, thanks very much for joining us on bluenotes on the morning of the interim result. In recent years and with the simplification programme that has been so fundamental to the bank, the results had a few one-offs and different things, but I wonder for this, can you talk us through the ongoing bank, as it were, and where you saw the strengths and challenges.

MICHELLE JABLKO: Yeah sure Andrew. It was a really good half, a good start to the year from institutional. That business has been through enormous change over the last three years and it's good to see our hard work paying off, so we really saw that come through strongly. The New Zealand business had a pretty consistent result, pretty in-line with prior periods. Australia certainly had its challenges and that's something we're doing a lot of work on. I think, if I add it all up at a group level, because of our buyback, because we bought back three billion dollars worth of shares over the last little while, our EPS increase was five per cent, which was more than the growth in profit and our balance sheet is really, really strong.

ANDREW CORNELL: One factor that we're seeing in the results this year is remediation. Across the whole banking sector, we've had the Royal Commission. It can be difficult to sort of compare across the sector so I wonder, can you talk about where remediation costs are sitting within the ANZ result?

MICHELLE JABLKO: Yeah and it is really hard to compare. I actually think it's very hard. Because you've got to look at when you started. So I can't really talk about what others have done, I can just talk about us. We started early, so we've been going for quite a while. Our salaried planners, fee-for-no-service issues, we provided for that and have largely dealt with that in prior years. Last year, we took quite a large provision for the aligned dealer groups that we don't own anymore, we took a large provision there.

And then we're working through our reviews on the banking side. We've been going probably for 18 to 24 months there, reviewing all our products, trying to do the largest, riskiest products first. And I'd say we're probably about half way through the review there.

ANDREW CORNELL: If we look at capital, which you mentioned briefly. Capital generation has been a strength in recent results. But also we're seeing some new capital challenges, whether it's in New Zealand or elsewhere. So can you talk us through where you see the capital picture at the moment and what sort of options you have with capital?

MICHELLE JABLKO: Yeah sure, we're in a really, really strong position as a starting point. We're well above APRA's "unquestionably strong", and well ahead of time. Capital allocation has been a big strength of ours, we've shown over the last few years that we've been able to allocate capital to its best use to generate organic capital for shareholders. And actually that's been one of the big drivers, on top of asset disposals, as to why we've been able to do the buyback that we've done.

Looking forward, we've got some challenges, particularly in New Zealand, that we need to work through. It's a bit early to tell what the ultimate impact of that will be. And of course it depends on what our balance sheet looks like in the future as well. So we just need to work through all of that.

ANDREW CORNELL: What sort of things do you think about when you're looking at capital allocation, because indeed, almost inevitably, as capital builds up, there are calls for returns of capital. But across the business how to you think about it?

MICHELLE JABLKO: The way we think about it is, we're not really emotional with our businesses, so we say, look can we drive a better outcome for our shareholders, our customers by allocating capital into the business, or by giving it back to shareholders? So that's the first question we'd ask. Across our businesses we look at whether the return we're getting on our capital is right. So we look very much at risk-adjusted margins, or risk-adjusted returns and it's important to us that we're putting our capital to the best use. And I think that's been a big driver of the changes we've made in institutional over the past few years. And also some of our decisions to sell assets like Asia retail or our wealth business.

ANDREW CORNELL: Another factor which, it's actually been quite a long period now over multiple results, has been the credit cycle, which continues to be quite benign, albeit in this result there's a couple of patches here and there. So can you talk us through how you are seeing the credit cycle?

MICHELLE JABLKO: So the credit environment is very, very benign. And so losses are low, 13 basis points. We know that can't last forever. Having said that, we've changed our book a lot in terms of the way we've changed our portfolio. And that's having a real impact. So if I look at something called our long-run loss rate, that's down about a third compared to where it was three years ago. Which is a really, really big change in a short amount of time. There are some pockets of stress in home loans there've been some increases in customers falling behind in payments. It's small in context and we're coming from a very low base. But there are some pockets that we're watching.

ANDREW CORNELL: If we look to the year ahead, and both you and Shayne in the ASX releases have talked about what a tough environment it is and it's not going to change presumably. So where, as CFO, are you focusing over the next six months and 12 months?

MICHELLE JABLKO: So if I talk about our Australian business to start with, we think the right thing to do in that business at the moment is to be selective and targeted in terms of the business we do. We think though there are some areas where we could do better. And so we're putting quite a lot of focus into just getting that balance right. On top of that, clearly we spoke about the potential capital changes in New Zealand. Definitely a lot of my effort and my time is going into how we work through those.

And then continuing the disciplined approach to capital allocation and costs. Both of which we've had really good outcomes on consistently over the last two to three years. But we want to make sure we keep that disciplined approach across the business.

ANDREW CORNELL: Well thanks very much for your time this morning. Thanks Michelle.

MICHELLE JABLKO: Thanks a lot Andrew.