News Release

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Transcript of bluenotes video interview with ANZ Chief Financial Officer Michelle Jablko

ANDREW CORNELL: Morning Michelle and thanks very much for joining us on bluenotes for the full-year result. Can we start off by talking us through the capital and why that's important for the components of the bank's balance sheet and the robustness of the bank?

MICHELLE JABLKO: Sure and Andrew it would be nice, hopefully we get to see you in person sometime soon. I think capital is really important at a time like this. Essentially what it does is it gives us capacity to absorb potential future losses that might come. And the way I think about it is you've got to look at the starting point. So as we sit here today our capital position is really strong. We talk about ratios, it's 11.4 per cent … pro forma. And what that means is essentially we've got nearly $A4 billion more than what the regulator says is the minimum. And then on top of that, we've got about $A5 billion in collective provision charges, so that's money we've put away for losses that might come in the future. That gives us quite a lot of capacity because the world is still uncertain and we don't know exactly what's going to come. On top of that, we continue to add to that capacity. So as we go into next year, we'll continue to generate profits and those profits add to those capital levels. So all of that means is, while things are still uncertain, we feel like we're in a really strong position to be able to deal with them going forward.

ANDREW CORNELL: Well it looks like it won't be too long before we can see one another in person Michelle so hopefully that continues. But it is, as you say, a different world so how are you balancing that prudence that you're talking about with the need to allocate capital and use that capital efficiently?

MICHELLE JABLKO: That's a really good question. The way we've approached it is to really think about them together, not as an either/or. So if I go back to the start of the year, no one knew what this crisis would look like. At that point in time, many of our customers didn't know if there would be a liquidity crisis because that actually can be a big issue when there are economic stresses. And so we had quite a lot of our customers want our support in terms of access to liquidity which we were able to work through with them. And because we didn't know how the stress would evolve, we thought the right thing to do at that time was take a really prudent approach to the dividend. And we deferred the decision on the interim dividend. That was prudent but it was also the most efficient thing to do in terms of the value outcome for our shareholders as well. As the year has gone on, actually the liquidity dynamic has changed so those customers didn't need that support and we were able to manage our capital to effectively build our capital reserves just through working that through. And so with that, that enabled us when we got to August to actually declare an interim dividend and it has again given us confidence to declare a final dividend today. So we sort of worked through it to keep our balance sheet safe but as we made our decisions on dividends and how we used our capital, we were really conscious of doing that as efficiently as we could for our shareholders.

ANDREW CORNELL: And the other element here that is a sort of ongoing force is pressure on interest margins, particularly from the sort of lower global interest rates. How are you managing those margin pressures?

MICHELLE JABLKO: Yes, and you touch on lower rates. I mean, lower rates is potentially a benefit to losses, because we've just been speaking about losses that might come. But yes, you're right they do impact on revenue and that is a pressure the whole industry is working through right now. And it was quite a big factor in the result actually with our margins down quite a bit in the half. There were some other drivers of margin, so we had… some of the choices our customers were making this year in terms of which customers wanted to grow and which customers were probably a bit more cautious. The growth was probably more in those lower margin type parts of the business. On top of that we grew our deposits really strongly – and that's a good thing – but in a way, because our customers … the demand from our customers didn't grow as fast as that, that also causes a headwind to margins. So how did we deal with that? The way we deal with it is, as always, we manage our capital allocation to think about our risk-adjusted returns. But, we also try to manage the cost of our funding and the composition of our funding to at least sort of minimise some of those impacts. But, the way we think about this is much broader than just margins actually. And if you look at our result, our revenue performance was pretty much flat year-on-year and so while margins caused us some pressure, we did grow in some parts of the business. And we had strong performance for example in our Institutional, our Markets business, which is a little bit of a natural hedge to some of the pressures and stresses we feel elsewhere. So we look at it quite holistically. And then the other thing I think we've been really good at managing, and I'm sure we'll get into a bit later, is costs because managing your productivity is also really important to offset some of those pressures.

ANDREW CORNELL: Well if we look at costs then, how are you balancing cost management with that higher investment spend that's going on?

MICHELLE JABLKO: Yes, I think we do a really good job of that. Every year for the last four years I think we've managed our costs in an absolute sense really, really well. And within that, we've been increasing our investment. So this year, for example, we reduced our, what I'd call 'business-as-usual-run-the-bank' costs by pretty much the same amount as we increased our investment spend by. And that's after inflation and everything so really, really good outcome. Some of what we've been working on in previous years we've started to get the benefits come through this year – some of our simplification of our processes, some of the rationalisation we've been doing on property. So we've been working through some of it for a time. But COVID also accelerated some changes in our customer preferences which actually led to us being able to interact with our customers more through digital channels which also helped us on costs.

ANDREW CORNELL: And just finally then, ANZ is now looking for a better than expected – well perhaps a less worse – outcome from COVID but the recovery will be slower. Is that changing priorities?

MICHELLE JABLKO: When we were sitting here, I was talking to you six months ago, we were looking at a pretty sharp, severe economic impact. So we had 13 per cent trough fall in GDP, 13 per cent peak unemployment. As we sit here today, that clearly didn't happen in 2020 but we are forecasting a slightly longer recovery. And so for example, we're forecasting unemployment to stay a bit higher for longer. What does that mean? As we look at different parts of our business, starting maybe with the Institutional business which is our bigger customers, they are more impacted by the short, sharp impact and retail and sort of smaller customers probably are more impacted by a longer period of unemployment. At the same time, we've been doing a lot of work on both groups of customers. So at the bigger end of town, you pretty much review every customer one by one and actually as we've gone through that we feel pretty good about where they're sitting. Probably better than we did six months ago. Where we feel more of the stress is going to be is probably around some of our smaller business customers and particularly some of those in some geographies or some segments.

ANDREW CORNELL: Well thanks again very much for your time and hopefully it won't be too long before we see one another. Thanks Michelle.

MICHELLE JABLKO: Thanks Andrew.

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