News Release

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

ANDREW CORNELL: Morning Michelle and thanks for joining us on bluenotes. This is a result where the interest is really more about the future than the March half. But can you talk through how the bank was tracking before the crisis hit?

MICHELLE JABLKO: Sure. It feels like a long time ago now, I have to say. Clearly two big things impacted our result this half. We had the increase in provision charges of $1.7 billion dollars and we had an impairment in our associate investments of $815 million. If I take away those and a few other small accounting changes and the like, really what happened was profit before provisions performed reasonably well. It was up one per cent. In terms of revenue, we stabilised the balance sheet in our Australian Retail and Commercial business. We had really strong deposit growth in our businesses and our markets business also had a really good half. And on the cost side, I know I gave some guidance to the market at the full-year. We actually did better than that because we adapted to the current environment. So absent those very large impacts, which clearly are really important as we sit here today, the business was performing reasonably well.

ANDREW CORNELL: How are you incorporating what's an evolving credit quality landscape into how you're thinking?

MICHELLE JABLKO: I know you're going to talk to Kevin about our provision charges and how we got there, so I won't touch on that. But I will say when I think about credit, it's really important to think about it through the lens of capital. And really it's got three components. We've got actual losses, so how much we've actually lost on loans that are not performing. There was an increase in that from the previous periods. That increase was about $228 million dollars. So we've had some additional losses not performing. But the vast majority of the provision charge we took was putting money aside for potential future losses. And that was a bit over a billion dollars, so a billion and forty-eight. And what that is, is that's quite forward-looking and Kevin will go into the detail of how it works. But that's really just putting money aside for the future. And then on top of that, the other thing that impacts capital is over time as conditions worsen we hold more capital for customers. So we call that downgrade, so we downgrade the risk-weight we apply to customers and we hold more capital against them. We haven't seen much of that in this half. But that probably will start to emerge if economic conditions continue to worsen.

ANDREW CORNELL: Can you run through ANZ's capital position and any implications for dividend?

MICHELLE JABLKO: So we're in a really strong capital position, we have been for a long time. We've been above `unquestionably strong' for quite a while now. We finished the first half at 10.8 per cent core equity tier-one capital. That's still above `unquestionably strong', bit over a billion dollars above. What's driven that capital over the course of that last half is we had increasing earnings. We also had the credit charges I spoke about and we had some growth in our business as we supported customers, predominantly in the institutional business. So all of those things together is what took us to the capital number.
As we go forward, it's really those three components we'll be looking at. You asked the question about the dividend and we've been prudent in our decision on the dividend. And the reason is not our capital position today, we are in a strong capital position. The issue

right now is, we formed a view on the economic environment. But no one knows what the shape of the economic environment is really going to be. And we think until there's better clarity the right thing to do is be prudent and that's why we've taken the decision we have.

ANDREW CORNELL: In the financial crisis bank funding and liquidity were real issues, but is that the case with this crisis?

MICHELLE JABLKO: In any crisis like this, liquidity is absolutely the first thing you look at, so it's a very good question Andrew. Going into this crisis we were in a really … like I said on capital, but in terms of liquidity we were also in a really strong position. We were well above what the regulator required of us and also well above our own management targets, what we thought was acceptable. Actually, in a way we were overfunded going in and that was giving us a bit of a cost in terms of margins. As things have transpired, the actions of central banks around the world, including the RBA here and the RBNZ in New Zealand and others, have meant there's more liquidity available in the system. And then, if I combine that with the behaviour of our customers who have actually … many of them are choosing to save more right now and so our deposits have increased significantly as well. So, from a liquidity perspective we feel very strong and actually we don't need to access term wholesale markets for quite a while if we don't want to.

ANDREW CORNELL: The support measures ANZ has offered across retail, commercial and institutional, they're in the long term interests of shareholders and the economy, but they come at a cost, so how are you managing that?

MICHELLE JABLKO: The way we think about them is, doing the right thing by our customers by those measures is actually doing the right thing by us as well. Because the reason we put them in place is to actually give customers some time to work through the immediate impacts of this crisis. And, over time, that should bode well for our customers and doing that, that's ultimately better for our sustainability as well.

ANDREW CORNELL: How should shareholders be thinking about those core metrics, the typical metrics, capital, return on equity, cost to income in this kind of environment?

MICHELLE JABLKO: I think capital is what's really important right now and certainly that's where our focus is. Some of those other metrics will fluctuate in the near term. So, for example, if we add more to our provisions in one period because we want to put more money aside for the future that will have a short term impact on profitability. Ultimately what's going to matter and what influences capital at the end of the day, is what your actual losses are and the shape … the credit quality of your customers at the end of the crisis and that's what's going to determine your capital level. So we might have short term fluctuations, but it's really with an eye to the future and where our capital is going that's really going to drive a lot of our decisions. And as I said, we're taking a really prudent approach to that, just trying to make sure we've got the right balance between making sure we support customers, but also we maintain a strong balance sheet for our shareholders.

ANDREW CORNELL: Well, thanks very much for your time today Michelle.

MICHELLE JABLKO: Thanks Andrew.

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