

## News Release

For Release: 27 October 2022

### **Transcript of bluenotes video interview with ANZ Chief Financial Officer Farhan Faruqui**

ANDREW CORNELL: Morning, Farhan. Thanks very much for joining us on bluenotes the morning of the bank's annual results. It's a very strong result. From your position as Chief Financial Officer, where did you see the highlights and perhaps where did you need to see the bank going from here?

FARHAN FARUQUI: Well, good morning, Andrew, and thank you for having me again. I actually do agree with you, it's a really strong financial result for us in the half. But I think the highlights in my mind, Andrew, are the fact that we have delivered a strong result across all of our four key businesses: Australia Retail, Australia Commercial, New Zealand and our Institutional franchise. It has been characterized by revenue growth across all four divisions, three out of the four at double digit revenue growth. It's been characterized by a healthy expansion of margin as well as risk adjusted margin. We've managed costs quite well, particularly given the inflationary headwinds that we had to face into throughout the course of this year. We've continued to use that strong 'run the bank' cost management to continue to invest and spend in the strategic areas where we want to grow. So that's actually been a great outcome this year as well. And we have delivered a portfolio risk outcome which continues to reflect the high quality of our portfolio, which has been a function of de-risking over several years. I think while this is a good half outcome and a good year on year outcome, it has been underpinned by years of simplification of the group, by years of de-risking our portfolio, and by years of strong customer and margin and balance sheet and capital management, that gets reflected in the half as well. But I think outside of our financial outcomes, Andrew, we've also delivered strong strategic progress. We launched ANZ Plus and we've seen a strong start since the launch to our ANZ Plus save and transact proposition. We announced the agreement to buy Suncorp and that was a material transaction for us, and of course we raised capital as to partially fund that acquisition of about three and a half billion dollars, which was the largest equity raise for an M&A transaction this year globally, and was very successfully completed and was done through a PAITREO structure which reflected very fair outcomes for our retail shareholders. So I think it was a year of getting things done and was a half in particular where we made very strong progress.

ANDREW CORNELL: It's a very positive outcome obviously for this and, you know, I don't want to jump ahead, but the year ahead is looking uncertain. So when you look at that overall performance that you've delivered for the full year result, where does the focus need to be to maintain that, sustain that in the year ahead?

FARHAN FARUQUI: That's a really good question, Andrew, and it is an uncertain environment that we're moving into in financial year 23. But the good news is, as I mentioned earlier, that we are coming into 23 strong, all four businesses performing really well, our credit portfolio and quality very strong and strong management of revenue margin and cost outcomes. So we just have to continue to do that with an eye on risk settings and making sure that we protect us, our balance sheet in this uncertain environment. But in addition to that, Andrew, the two big areas of focus for us in 23 would be to ensure that we continue to build on our early successes in ANZ Plus in the save and transact proposition, but also to launch our home loan proposition in ANZ Plus. And in addition to that, we

obviously have a task ahead of us in terms of completing Suncorp and bringing the two banks together. And that's going to be a big focus for us in 23.

ANDREW CORNELL: You touched on margin there and we've seen margins improving, which is not something that we've seen a lot of in recent years. Can you talk us through that margin outcome? I mean, you've been a banker for you know, well, I won't say how many decades, but you've seen through a few economic cycles. Is this cycle the same?

FARHAN FARUQUI: That's a that's a great question, Andrew. But maybe I'll start with answering your second question first. In my 30 plus years of banking, I don't think any two cycles have actually been alike. Again, because you come into cycles at different starting points. And I think the starting point in this particular cycle is unique. It's unique because it's coming post-COVID and in that period of time, because of government support and because of prudent financial settings by our customers, I think our customers are coming into the cycle much better positioned to deal into the crisis relative to other cycles. Banks are much stronger. Banks balance sheets and capital positions are much stronger coming into the cycle, which I think is yet another positive. We're coming off a 0% interest rate and heading into rapidly rising interest rate environment. It hasn't happened very often in the past. In fact, we've seen of the 60 rate hikes that have been done by RBNZ, the Fed and the RBA over the last decade, a third of those have happened in the last 12 months and have been of higher magnitude relative to the previous ones. So it's a very unique environment and we're operating in a very almost record low unemployment environment as well. So I think that it's a very different cycle and that's what makes it very hard to extrapolate the NIM outcomes and cycle impact as we go forward into the next 12 months. But I think our focus has been in the course of this year and particularly in the half, is to continue to manage as optimally as we can, our margin outcomes, our pricing outcomes across deposits, loans as optimally as we could. And I think that's been the result that we've demonstrated in the course of the half. But we've also benefited, Andrew, because of the diversification of our business. Unlike some of our domestic peers, we have a bigger presence in New Zealand and we have a bigger presence in the international business. And because the tightening cycles were quicker outside of Australia, that has benefited our margin outcomes in the half as well, and we expect that that will likely continue as we go into 23. So it's hard to extrapolate, it's hard to predict what the NIM outcomes are going to be going forward. But I think we've managed it really well so far and we have to continue to monitor the markets to react and be proactive in terms of delivering strong outcomes again going forward.

ANDREW CORNELL: You also touched on provisioning for bad and doubtful debts down the track, what might happen. Now, provisioning actually, relatively speaking, is quite flat compared with a year ago, compared with the half. And yet the outlook looks a lot worse. Now, there's obviously moving parts in there. Can you talk us through how provisioning has worked and what's come off and what's gone on?

FARHAN FARUQUI: It's a good question, Andrew, and I think it's important to understand that rather than looking at the headline number, it's important to understand what's happening underneath the numbers. And in fact, I would actually take you back even to pre-COVID and tell you that while the provision levels are higher today relative to pre-COVID, our portfolio quality, our portfolio mix and the credit quality of our customers is actually far stronger. So we've actually released a lot of collective provisions over the course of the last five or six years, because of that improving quality, which doesn't get reflected in half and half results, because that's been the journey that we've been on for the last few years. The other thing is that when we ended the half in March 22, we ended with a lot of COVID overlays still in our collective provision numbers. So when we look at our numbers now, we released much of those COVID overlays, but we've added on the overlays required to face into the environment that we're going into, which addresses things like inflationary pressures, interest rate pressures, as well as a very uncertain geopolitical environment. So it's the makeup of provisions has dramatically shifted over the course of the last few years and even in the half. So we feel pretty strongly about the fact that we are provisioned well. But I think also when you think about resilience in a broader context, Andrew, it's not just about collective provisions, it's not our only insurance policy towards, towards resilience.

Again, as I said, much stronger portfolio credit quality, strongly capitalized position, strong balance sheet, better risk settings, and a collective provision balance which we think reflects the outlook. And I think in totality, I think the group is really well-positioned going into this period of uncertainty.

ANDREW CORNELL: You talk about being well capitalized. Now obviously, during the year there's been a capital raising to fund the Suncorp acquisition. If you look through that acquisition, if indeed it goes ahead, what is the capital position looking like? Are you comfortable with the balance sheet?

FARHAN FARUQUI: Yeah, Andrew, I think we've ended, as I said, the first half, sorry the second half, strongly. Even when pro forma for the Suncorp acquisition, we are above the APRA unquestionably strong settings. So we feel, I feel comfortable from that standpoint. But also, Andrew, we have demonstrated this half and certainly hope in the next half and the next year, we continue to have strong organic capital generation which will continue to buffer our capital position. So yes, Andrew, I feel quite comfortable with our balance sheet settings right now.

ANDREW CORNELL: And just finally, on the cost front, cost management is something the ANZ prided itself on for a number of years. Now, a key factor is the investment spend. So where do you see investment spending going in the year ahead?

FARHAN FARUQUI: Yeah, I think, you know, as I mentioned, we've been very focused on making sure that our investment spend is directed towards our strategic priorities. For the last 12 months, one of those strategic priorities was to largely complete our BS11 program, and we are close to finalizing that now as we come out of 22, which is good news. We've pledged to commit about 15-odd per cent of our investment spend to ANZ Plus, which as I said, has already started to deliver strong outcomes and we will continue to invest in that going forward into the financial year 23. We've been very focused on cloud migration and we've already migrated at the end of this year about 31% of our total tech estate onto the cloud. The focus, the goal, is not to get to 100%, we'll probably be targeting closer to 70-75% of our tech estate to be in the cloud. And of course, as Shayne has mentioned, we continue to be very focused on reinvigorating our commercial business and that's going to be an area where we're going to be spending in technology to support better outcomes and better client experience for our commercial bank customers as well. Aside from that, sustainability is a very important theme for us overall as a bank, and that's an area that we're going to continue to invest in building capability as we go into 23.

ANDREW CORNELL: Well, thanks very much for your time again Farhan, commiserations for Sunday night in the cricket against India.

FARHAN FARUQUI: Thank you for that, Andrew. Not as good a result as we've delivered in the half, but nonetheless, a very entertaining game. Thank you.

ANDREW CORNELL: Thank you.

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