News Release

For Release: 4 May 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 for what essentially is your first half-yearly report. You had just started the job for our full-year report last year. So, given that relatively new position in the role, what was your overview of this interim result?

FARHAN FARUQUI: That's a great question, Andrew. As I look at the environment in which we had to operate in the half, I actually think it was a very solid result. And I'll give you some highlights. I will start with net interest margins. In an environment which was perhaps the most competed across all our businesses in the first half of 2022, I think our performance was actually quite exemplary. We managed margins tightly. There were lots of headwinds that we had to deal into and we were able to offset those headwinds, to a large extent, with some of the actions that we undertook in terms of repricing deposits and in the manner in which we priced assets. So, we feel quite pleased with the way that we have managed margins in the half. I think on expenses, in an inflationary environment that has almost been unprecedented for a long, long period of time, we actually delivered flat run-the-bank costs, which basically is a nod to the great work we are doing across productivity and running our business increasingly more efficiently. And we've been doing that, Andrew as you know, not just for this half but we've been doing that for the last five or six years. And we've been doing that very successfully. It has become sort of a core DNA of ANZ in terms of managing costs. So, I'm quite pleased with that. I think from an investment standpoint, our investment spend continued to remain elevated, but we're increasingly investing towards growth and productivity initiatives, which actually will yield benefits for us to become a more resilient and a more profitable and a growing bank in the future. So, I'm quite pleased from that aspect as well. I think from a divisional standpoint, really pleased with the performance of our New Zealand division. It has gone from strength to strength and continues to grow and gain market share while maintaining both pricing capital and risk disciplines, which I think is really quite incredible. The Institutional business – particularly the Institutional banking business, the ex-Markets business – has actually had a really good half. And we've seen growth across all product areas. And really, growth targeted at what are our strategic sectors, which are financial institutions, which are food and supply chains … food and agri supply chains, as well as the incremental focus that we've had and the successes that we've had – not just in this half but over the last couple of years – on sustainability. So, I think all of those are trending very positively and we are exiting the second half with great momentum … exiting the first half with great momentum into the second half. So, I think that it's been a pleasing result in the context of the environment that we were heading into. I think the area of work that still remains to be done – and we've made progress – is that we entered the half with our Australian home loan balance sheet shrinking. We committed to the market that we will turn that around in the half and we will get that back to growth again, which we have done. And we feel that we are tracking well towards getting back to system growth at some point in the second half of the year. So I think that there's been a bit of a mix of progress in some areas and great performances in others, and we just need to continue to build on that in the second half.

ANDREW CORNELL: And if we look at what's happening today, we're in a climate globally of rising interest rates as inflation is starting to kick up. And, generally speaking, higher interest rates are positive for the banking system. We don't know how it's going to play out this time because as you say, it hasn't happened for a generation. But how do you frame your outlook with a tide of rising interest rates and perhaps rising inflation around the world?

FARHAN FARUQUI: Right. So, I think it's a really good question Andrew because rising rates and inflation have both pros and cons. So, you're right, generally, banks are positively inclined towards a rising rate environment. But the reality is that much of that inflation comes first in our costs, then into our revenues, and then eventually, if you're not managing our portfolio well, it flows into our risk provisions. So, we have to be careful as we think about the rising rate environment because it comes with both positives and negatives. Also, even on revenue, while it is supportive from a revenue standpoint, we also have to understand that lots of things will change, as you said, given that it hasn't happened for a generation, particularly in Australia. Customer behaviors will shift. And we have to anticipate those customer behaviors and we have to make sure that we position our balance sheet and our customers business accordingly. So, there is uncertainty that lies ahead. Yes, it's broadly positive, but we have to be also careful that over time we tend to over anticipate the benefits of interest rate rises because they do get competed away. And while you might grow revenue, you might not necessarily be growing profitable revenue. So, it is going to be an interesting exercise in the next one or two years to manage the business in line with our objective of profitable growth in light of the changing environment.

ANDREW CORNELL: And along with cost management, another area where ANZ has delivered consistent results is capital generation and then particularly discipline around how that capital is used. Now, Shayne Elliott today didn't announce any capital management initiatives, but can you talk us through the moving parts in how you think about capital? What are the factors at play here?

FARHAN FARUQUI: Thanks for that, Andrew. And I think capital management actually has been a strength of ANZ’s for the last six or seven years. In fact, we were the first bank among the Big Four in Australia to lead on capital management and we've returned about a $A5.5 billion dollars through capital management actions over the last few years. So, I think that has been a trademark for us in terms of doing… in terms of ensuring that we are managing our capital prudently from a shareholder point of view and allocating capital within our businesses prudently as well to achieve profitable growth. Now, we sit at a time where the environment is changing dramatically. While we have a very strong capital position, and we are well above the unquestionably strong benchmark that is required by our regulators, we do think this is a time to reflect on the opportunities that are available to us in this shifting environment before we make capital return decisions. So, at this point, we are in that process of evaluating the first and best use of capital from our shareholders’ perspective before making any decisions. But I do want to say, Andrew, that we as a management team and certainly in our interactions with the Board engage very actively on a very frequent basis in terms of discussing the best use of capital. So, it's not something that doesn't get attention. It's something that we just have to evolve as we face into this environment. And, of course, we will keep the market informed on decisions that we make.

ANDREW CORNELL: Thanks very much Farhan. We obviously will all look around at the uncertain global environment that's developing before us. But thanks very much for your time today.

FARHAN FARUQUI: Thank you.

Australia and New Zealand Banking Group Limited
9/833 Collins Street Docklands Victoria 3008 Australia
ABN 11 005 357 522

For media enquiries contact:

Stephen Ries
Head of Corporate Communications
Tel: +61 409 655 551

Nick Higginbottom,
Senior Manager Media Relations
Tel: +61 403 936 262

Approved for distribution by ANZ's Continuous Disclosure Committee