# News Release

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

ANDREW CORNELL: Morning. Farhan, Thanks very much for joining bluenotes on the morning of the half year result. Now both you and Shayne Elliott have drawn attention to the benefits of diversification at ANZ. Where do we see those benefits in this result?

FARHAN FARUQUI: No, thank you, Andrew, for that question and good morning to you. We have built through simplification and through the reshaping of the bank, four core businesses, which is our Australia Retail business, the Australia Commercial business, our New Zealand business and of course the Institutional business which is more global. All of these four businesses today are growing, generating returns above cost of capital and accretive overall to the bank in terms of profitability and returns. So it's a good set of businesses which provide diversification, and diversification really plays out, Andrew, when you look at the fact that these businesses operate in different markets, so while Australia Retail and Commercial is Australia based, we have the New Zealand business and we have the Institutional business. They all go through different experiences in terms of the competitive environment, in terms of the rate cycle that we're experiencing today, and that creates diversity in terms of our ability to allocate capital in the most appropriate direction and finding the most return accretive opportunities with the lowest risk profile. So Australia Retail, as is well known, particularly in the home loan space, has been very competitive. Australian household deposits have been very competitive and that has impacted the return profile of the Australia Retail business. Whereas, in the Institutional business we've had the benefit of higher and earlier tightening cycles in global markets, particularly in the US dollar, certainly in New Zealand, and that has helped the Institutional business because of the work we have done over the years in building strong, robust platforms for cash payments as well as for currency, which has allowed us to capture that business opportunity and be able to benefit from the diversification benefit we get geographically. Our Commercial business, for example, has a greater skew towards deposits, and that has benefited from the rising rate cycle as well. Quite differently to say, the Australia Retail or the New Zealand business. So, the diversity of these businesses has allowed us to capture these opportunities to allocate capital more prudently and to be able to get better quality outcomes from a return and revenue perspective over the course of the half. Now we also have benefited from diversification in terms of our funding. So if you look at our Australia Commercial business or our Institutional business, they’re self-funded. Our household structure funding gap is the smallest relative to our peers. So our task in terms of funding is much smaller. Our balance from the RBA TFF facility (Reserve Bank of Australia Term Funding Facility) is smaller relative to peers, so our ability to fund more flexibly also helps in terms of diversification of our businesses. And then finally, in terms of capital, we've just gone through the APRA (Australian Prudential Regulation Authority) capital reforms. They've become live from January of 23, and that has allowed us to capture the benefit of the outsized Institutional business that we have relative to our overall business mix and relative to our peers, which has allowed us a benefit in terms of CET1 (Common Equity Tier 1) of 100 basis points, and 80 per cent of that benefit has come because of the size of our Institutional business.

ANDREW CORNELL: And you touched on the 20 markets or so that the bank operates in part of Institutional, that international component of Institutional, is that another source of diversification?

FARHAN FARUQUI: Yeah, I'm glad you asked that question, Andrew, because our international business actually this half – in fact building on a strong half last year – has actually continued to demonstrate its great performance, again off the back of the platform investments that we've made over the course of the last few years. 60 per cent of overall Institutional growth has actually been driven by our international franchise. By international I mean Asia, Europe and North America. 75 per cent of that growth in our international business has actually come in non-lending, more return accretive and lower capital intensity businesses. So they've actually produced an ROE (Return on Equity) this half which is higher than the Institutional average. This is the first time the international business has done that and is therefore one of the best performers in our group. So that international diversity absolutely has played into the broader, stronger results that we've had this half.

ANDREW CORNELL: And that's obviously a benefit to the bank. We can see that in these results, and hence for shareholders in the bank, do customers benefit from this diversification?

FARHAN FARUQUI: Well, we certainly want to continue to optimise that benefit because if you think about it, our Commercial customers, many of whom are small, medium sized enterprises, are suppliers or distributors for our Institutional customers. Many of those same Commercial customers use our Retail products. They use our deposits, our credit cards, the home loans. So there's a lot of synergy across our businesses. So while they're diverse, in many ways, the customers are interconnected and it's about finding the best opportunities to make sure that we are servicing our customers across these platforms, across these businesses in the most efficient fashion, and giving them every advantage of being a customer of our bank and benefiting from the broader ecosystem that we have in terms of our business diversity.

ANDREW CORNELL: And you've mentioned and Shayne Elliott has mentioned over recent years a consistent performance on costs, on productivity within the bank, but we are now in this rising interest rate environment, it's coupled with higher, stubbornly higher inflation – does that affect the way that you're managing the bank?

FARHAN FARUQUI: I think the inflationary environment has been extraordinary. We've had ten consecutive months of rate rises by RBA. We've had over 500 basis points of rate increases, both for RBNZ (Reserve Bank of New Zealand) as well as for the US Fed through the tightening cycle. So there's no question that it has been extraordinary and has affected obviously our customers' ability to manage both the higher inflation and the higher interest rate environment. Our focus, frankly, in this environment is primarily first to manage risk. And that has been a result of the years of reshaping that we've done. But continued focus on ensuring that our risk profile is very strong, and some of our risk results and provisioning results this half will demonstrate that. In addition to that, how do we allocate capital in terms of finding the most accretive opportunities, as well as managing risk and ensuring we deliver the right outcomes for our customers is an important priority in this rising rate environment. And insofar as productivity is concerned, Andrew, we've had seven years in fact when Shayne started as CEO in the first half of 2016, from then to now, we have sold or exited over 30 non-core businesses. That has allowed us to simplify the organisation and that has allowed us to reduce the number of people that we have so our FTE (Full Time Equivalent) is down 9000 from the time when Shayne started, but we've done that also by ensuring that we automate, we invest in digitisation, simplify our technology infrastructure. And that work has continued this half, and we've delivered very strong productivity results to somewhat offset the inflationary headwinds that we had to face into in the half and that work is going to continue. So we are not under any misconception that productivity is a kind of done once and forgotten effort, it's something that we have to continue to focus on.

ANDREW CORNELL: ANZ is now one of the most highly capitalised banks in the world and indeed by some measures it is the most highly capitalised bank in the world. Now obviously the economic environment is a bit uncertain, there's room for caution here, but are there opportunities to use that capital? How are you thinking about capital management?

FARHAN FARUQUI: Yes, Andrew, you're right. We are now one of the most highly capitalised banks in the world. We are ending the half at 13 per cent in CET1 ratio. Now that is an APRA standard equivalent, but if you compare that to internationally comparable standards, that's about 19 per cent, which definitely puts us in the top bracket in terms of highly capitalised banks. Now, part of that admittedly, is for the Suncorp acquisition once it is approved and completed, but proforma for that, we are circa 12 per cent in terms of CET1. So that's our CET1 ratio as we are today. In terms of the unquestionably strong minimum that APRA has set for banks in Australia, it used to be 10.5 per cent, but now with APRA capital reforms, that number has gone up to 11.25 per cent at our reporting cycles. So in effect, the buffer that we have over and above the unquestionably strong to our proforma number is 75 basis points, which we think is an appropriate buffer today in terms of the environment that we're heading into. Now, having said that, we constantly review our capital position. We constantly review our surplus capital with the board and with management, obviously, and we continue to look for the first and best use of our capital in terms of creating value for our shareholders. And that process, of course, will continue as we go forward, and we'll continue to review the best use for that capital as we work through the next environmental cycle.

ANDREW CORNELL: Just finally, it looks like, and some of your commentary has suggested that we may be nearing the end of that environment that delivers higher margins. Have we reached the peak of margin growth? What's your view on margins?

FARHAN FARUQUI: Well, I think you and I have spoken about this before Andrew, that we've said, look, a rising rate environment is supportive for margins for banks. But we know that eventually they get competed away and we're starting to see that in the markets in which we operate. They are getting competed away at different scale and quantum depending on which country, which geography, which business, etc. But the fact is that that pressure has started. And I think it's probably most profound in the Australian home loans and Australian household deposits. So yes, I think we are sort of if not there, we're getting close to the point where we are potentially reverting to the long-term trend in the sector of margin compression. So to that point, you're absolutely right that we are there, Andrew. But I think the one point which is important to understand is that when we look at our business, we measure NIM (Net Interest Margin) obviously it's an important component of our business. But the aspect of NIM that we are most focused on is risk adjusted NIM. And that risk adjusted NIM really signifies not just how we are allocating capital efficiently, but also how we're managing overall risk and how we are reshaping our book. And that risk adjusted NIM has continued to expand very generously over the course of the last few years. And that's something that's going to continue to be our focus, and while there will be some margin compression challenges, we think that within the construct of managing risk, allocating capital well, and the fact that we have the diversification of the businesses that we have, I think we have more optionality in terms of how we manage through that cycle as we get into it.

ANDREW CORNELL: Thanks very much for your time this morning, Farhan.

FARHAN FARUQUI: Thank you very much, Andrew.

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