

## Interview Transcript

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## **ANZ Chief Financial Officer Shayne Elliott comments on APRA capital announcements**

BlueNotes: Thanks very much Shayne for joining BlueNotes. It's been a busy couple of weeks in banking with two announcements from APRA on capital. We've seen one last week on higher capital levels following the FSI and following moves internationally to raise capital, and yesterday on credit risk weights for mortgages. Can you give us a bit of a reaction to those announcements?

Shayne Elliott: Sure. I think the first thing to note is that those announcements were expected, so and as you rightly pointed out, they are a reaction to the Financial Services Inquiry that we had some time ago, and APRA had put these on the agenda. And there were two really interesting things. What they have really done is given us certainty, because the FSI made a bunch of recommendations and APRA has now come out saying give them certainty around the banks. Hey we'd done a lot of work around, when the Inquiry said unquestionably strong, what do we think that actually means? So they have given some numbers around that, and given a sense of how far away the Australian banks are today. And then yesterday, they talked about how do we get the risk weighting right on mortgages – and particularly responding to an FSI recommendation to narrow the gap between what is called the advanced banks in Australia – the big five – and some of the smaller banks in the way we do risk weightings.

BlueNotes: If there was a surprise in yesterday's announcements, it was probably that the credit risk weights were probably at the lower end of expectations, and probably the timing was a little tighter than we had anticipated. Does that present particular challenges for us?

Shayne Elliott: No. I think you're right about the risk weighting being at the lower end of the recommendation, the FSI recommended somewhere between 25 and 30, and APRA's come out at 25 – so that's at that lower end. While there was never a recommendation around the actual timing, I guess market expectation was probably towards the end of next year and APRA said the middle of next year. So that's a little bit tighter. Look at the end of the day that does not really change a whole lot – it's good to have certainty. What it means is when we look at our options for meeting that it probably makes some of those options look a little more practical than others – but it's certainly manageable.

BlueNotes: There's been some commentary from analysts over the past few months that ANZ's CET1 ratio is at the lower end of the spectrum of the four major banks in Australia. Is that a particular challenge for ANZ?

Shayne Elliott: No. All of the banks are slightly different in terms of our business mix we do slightly different things – we have a bigger business offshore for example, some of our peers have more mortgages etc. so we are all a little bit different. So, I don't think it's quite fair to just look to know that they should all be mathematically the same. We're all pretty much in a band, we're probably a little at the lighter end of that, but it's really immaterial in the big scheme of things.

BlueNotes: In the announcements that ANZ's put out over the past ten days, we have talked about the capital task being manageable and that we've got options. Can you be a bit more specific for us and tell us exactly what those options are?

Shayne Elliott: Right, so the first thing is it's really about how we manage the bank day to day, we generate capital as we generate profits and earnings – we can potentially retain those and generate capital that way. We can do better there in terms of productivity.

We also utilise some of that capital by investing and growing our businesses – doing more lending. So we can manage our growth and our investments to make sure that we organically generate capital. And then we have a whole bunch of other options, which are things you will have seen in the market place, probably most recently one of our peer group – NAB, who as part of a broader restructuring they did, did a rights issue - so that's an option for the banks. We can do things like dividend reinvestment plans, that's a way to bring some of those dividends back in the form of capital. We can put discounts on those; we can do underwrite those. And then of course, all of those options we have like our peer group, and then in particular for ANZ we had indicated there were a few assets that we have, some international, some local, that we were looking to dispose of for strategic reasons that has the ancillary benefit of releasing some capital as well. So there is a lot of options in there for us to play around with.

**BlueNotes:** So in terms of divesting these non-core assets, the Esanda dealer business is in a sale process currently, and there has also been a discussion about the future of a number of ANZ's partnerships. Can you give us an update on that process, perhaps specifically with Esanda, but also in terms of our partnerships?

**Shayne Elliott:** Sure. So Esanda, the dealer finance business that we have there, it's really a great business, it's really a decision that we made that it no longer kind of strategically fits within ANZ. It's a business that has attracted a lot of interest, both domestically and internationally. And we have now gone through to the second round where we've narrowed down the bidders in there, and we having pretty intense discussions with them in that round. So that's proceeding really well because it's a great business and very attractive to a lot of people. You know that will progress over the coming months, and certainly the sale of that business, which I would say is highly likely, will contribute towards that capital plan that we have and meeting the deadline of the 1<sup>st</sup> July for next year.

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In terms of the partnerships, as we've said we've got around half a dozen minority stakes in banks in Asia, those are attractive properties to a range of different investors. But they are complicated situations, we are generally in a partner with other investors in those places so that will take time and work through.

BlueNotes:

Ok Shayne, thanks very much for joining BlueNotes.