

News Release

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Transcript of interview between ANZ CEO Shayne Elliott and CFO Farhan Faruqui for *bluenotes*

Farhan Faruqui

Shayne, thank you so much for joining us today. I have a few questions for you, which I thought would be really helpful to hear from you. Particularly Shayne since you've had both the CFO role and currently in a CEO seat.

Now I'm going to start with one that I know you and I have talked about and you've often said to me, which is that an effective CFO is one who not only understands and explains the numbers but can also drive the numbers. So as a former CFO yourself, I'd love to hear how you think the CFO role has evolved and changed over the years?

Shayne Elliott

Great. Well, a little bit about my experience in being a CFO - and I would describe myself as an accidental CFO. And maybe you're becoming an accidental CFO yourself Farhan! It wasn't part of my career plan and I always had a line and business role. And when the opportunity came up, I struggled with it a little bit, to be perfectly honest - what would I bring to the role? And I had to really think about what was a CFO for and what was really the role? And so obviously, you draw on your own experience and I've been in different organisations and I thought about the CFOs that I knew and admired and what they had achieved. But I also took the opportunity to stand back and say, "how does a CFO really add value to a company, to the various stakeholders that we have?" And I think it's fair to say - and people in the audience obviously know this well - the expectations of a CFO, whether it's from the board, whether that's from the shareholders, whether that's from the CEO, whether it's from customers etc and investors has really shifted over time.

And it's probably a little bit glib to say, but I summarise it as you quoted - there was a sense, I think, in the past that the CFO is really important, certainly in a bank, to explain the numbers. Tell me how it works, tell me how it added up, tell me how the balance sheet works, the structure, all the risks etc. And that's a very valuable role and it needs to be done, particularly in banking because it's so complicated and so much leverage in there. But it's really moved quite dramatically in my lifetime, I've seen in my professional lifetime, to this person who really drives the numbers, really this right-hand person to the CEO. The person that is actually influencing outcomes, the person that is allocating resources actively - not just reporting them but actually part and parcel of that capital allocation, expenditure allocation and thinking through the impact of those decisions, holding businesses to account.

So, I think it's really moved much more into the strategic realm than it has from the traditional finance, very important, control function that we've become used to over so many years. And I certainly in my

experience, I learnt a lot in my three years as CFO. And I think on reflection, it was the broader perspective from so many stakeholders that you are accountable to. And when you're running a business, you think you're accountable to a whole bunch of stakeholders and that's hard enough. But I think the CFO role is really unique in an organisation in terms of the breadth of influence you have across an organisation, you have a lot of levers of control. I mean, in a business, you think you control a lot but as a CFO - if done well - I think you really influence and drive very positive outcomes.

And then I think that issue about explaining is still important. So I don't want to de-emphasise that, although one of the areas that I learnt was really important - and again, I can only speak as a bank - is explaining it to our own people, not just the marketplace. I think that's taken for granted but being able to explain concepts of value creation, how do you create shareholder value, whether it's through various lenses like economic profit or whatever else. Explaining the impact of decisions that we make and how that rolls through into value and being able to do so in simple, understandable ways that will actually influence the way our people behave and make decisions over periods of time.

Farhan Faruqui

No, I think that's fantastic. And I think it is interesting, Shayne, as to how that evolution has occurred really over the last five to 10 years, I think more than two decades ago. But as this evolves and it's going to continue to evolve Shayne because of various factors in the environment that are going to continue to lead the way that CFOs think going forward, what qualities and capabilities do you think will be absolutely critical to succeed as a CFO, not just today but even into the future?

Shayne Elliott

Well, again, this will sound really simple but it's not! So, a great CFO, I think, really needs to understand the business model and how it works. And again, as a bank and many of our customers run different industries, there's massive levels of complexity. And understanding how it all fits together, understanding the model, understanding how those parts interact with each other, understanding that if I do X, what happens to Y? That broad understanding is critically important because it's really about assessing the impact of decisions I make around resource allocation or prioritisation and really having that depth of view. That takes quite a level of intellect and understanding. And a lot of it, again in an industry like ours, comes from just experience in there. So I think that's critically important in terms of a capability for a CFO. And without embarrassing you Farhan, that's why you'll make a great CFO. Because your experience that you bring around understanding banking, understanding the impact of decisions that somebody at head office makes - what does that actually translate to in the line? How do those things influence customers and the various stakeholders? To me, that's really important.

Secondly probably obvious, but partnering - the ability to partner. Organisations today are large, they're complicated, particularly global organisations like all of ours. And so it's very obvious that the only way to actually influence outcomes is through others. And that really requires collaboration and somebody who has empathy. Somebody who can sit and say, "as CFO, I look at things in a certain lens, I understand things from a certain perspective but I have empathy for a business leader, a control function, somebody working in operations. And I'm able to translate my needs as the CFO into their language so that they can understand what is required". And that

requires, I think, real empathy for that. So that's the second part.

An extension of that, I think, which I think has been a massive shift in my lifetime, both as CFO and also CEO, is today's extension of what we used to think of as the triple bottom line. Yes it's the CFO - the F piece being finance - but increasingly, what shapes finance and what many of our stakeholders are interested in isn't just the cold, hard numbers but the broader sense of performance of an organisation. So the obvious areas of things like ESG, for example, and understanding. So I think again, having empathy and understanding for more than just the numbers and how that really manifests itself in terms of our results and our impact on the community. I think again, that's really a big area for CFOs today, contemporary CFOs and in the future.

And then finally, and it's probably a selfish view given our industry, a CFO to be great needs to really have a handle on what's going on in our competitive environment in terms of strategy, in terms of disruption. It's my view that our industry is facing massive disruption and opportunity that comes with that - so it's not all negative. But a CFO cannot be a handbrake on the business, they need to be an enabler of the business and somebody who's actually leaning in and helping the company allocate resources, ensure that we're investing in the right places, ensure that we really kind of get the transformations that are required and be a positive influence on change and transformation. So that's to me the broad array. And again, it all goes back to where we started - that idea of driving outcomes, changing the business with the CEO and other members of the team as opposed to reporting. And again, I don't want to suggest for a minute that that's all CFOs of the past did but I think there's been this massive shift in terms of complexity and the forward leaning requirements of a CFO today.

Farhan Faruqui

Yeah, now that's actually great Shayne because it leads to my next question for you, which is that obviously that empathy, that understanding of the business and driving the operational efficiency is really important. And a lot of that does deal with internal stakeholders in terms of partnering and delivering the outcomes that we need to deliver. But you pointed out earlier that obviously reporting and talking to the market is an important part of the job as well. Particularly, we have some very important stakeholders, which are our shareholders.

So we are currently preparing to deliver our full year results to the market Shayne later this month. And one of the greatest challenges is communicating our strategy and narrative effectively. And that means with clarity and with a clear view of what our vision is into the future. So that is understood how we are creating value for our shareholders. How important in your mind is getting that just right and any examples that you could give that brings that to life? And equally, while you're answering that question, it'd be great to get your perspective for our customers who are attending today, what's your expectation as a CEO from the CFO and building that narrative?

Shayne Elliott

I think one of my biggest learnings actually over the last six or seven years has been the importance of that narrative. And I don't mean it in a shallow way or we're trying to somehow manipulate market perception of us and tell a good story, put glitter on things. I'm not talking about that. But I think it really goes to the heart of what do you stand for as an organisation? Why, as a shareholder do I put my capital... why am I giving my capital to ANZ? What do I get beyond

just X dividend or X return? And so it's really, what do you stand for? What's your narrative? What's your story and what do I need to believe to really back ANZ? And I think crafting that is critically important. And now, of course, in an industry like ours, it's heavily commoditised. I imagine most of our guests here today probably exist in industries that are equally commoditised, there's a lot of that in the world. And so you're always looking not just to be different. A lot of investors used to say to me when I was CFO, "oh a lot of your strategy is the same as other banks". So I'm saying, "well you don't pay us to be different". Being different is easy. You pay us to win, you want us to win and succeed. And our job is to really talk about that narrative of how we're going to win and what's our definition of that. So, I think the narrative is critically important.

I think the challenge for a CFO and a CEO in crafting that narrative, particularly in a large, complex, somewhat diversified business like ours, is why we'd all love a simple, pithy little one liner strategies or simplistic three-point plans etc. The reality is there's complexity in what we do. And so it's not quite as simple. The narrative needs to resonate for the whole company and you need to be able to hold it all together. So, I'm not going to bore people with ours but I think we've got clarity about what ANZ does promise our shareholders and how it manifests itself. And then we need to make sure that we can build the narrative, explain why we think it works, explain why we think it gives us an edge, our competitive advantage. And then actually the CFO's help with me is then to hold ourselves to account. Well, if that is your narrative, ANZ, how would I know you're being successful in achieving it? Accepting that these things are not quarter-to-quarter results, these are long-term ambitions. Show me, tell me how I would know? What are the things I would look at in terms of proof points?

And so I think... and again, going back to your earlier question Farhan, I think there's been a much greater level of sophistication and expectations around that. So, again, probably being unfair, in the past tell me your cost-to-income ratio your jaws or NIM or those sorts of things. They were interesting and we need to talk about that but the level, the metrics we need, the measures, the way we can communicate our success that we are aligned to our narrative takes a lot more sophistication, I think today than it has done in the past. And I think that's an evolving area. So anyway, going back to the last bit, my job as CEO is to be clear about our strategy. What's our purpose as a company? What's the strategy we're going to embark on in order to deliver to that purpose? How would we know we're successful? And obviously run the business to do it? And the CFO is to partner with me to how do we allocate the resources that we have at our disposal to engineer the right outcomes? And how do we hold our businesses and our sales to account? And then how do we communicate to the market, "Hey, we did what we said we would do. We told you what we were about. We had a narrative, a promise, and we've been able to deliver it to you and we've been able to prove it in a reasonably sophisticated way".

Farhan Faruqui

And a consistent way, right?

Shayne Elliott

I don't want to be dismissive but there's a temptation - and I've been there as CFO - there's a temptation to talk about all the good stuff. And like in any company, there's always good stuff happening, right? I mean, we've got our results coming up. There's always good things happening in any company. Yeah. And there's a temptation to say, "well just give me all the good stuff and we'll wrap it all together, put

a bow on it and we'll talk to the market about all the nice stuff".

But I think ultimately that's destructive. And I think quite understandably, shareholders and the market look through that. Increasingly what we're really about is that narrative-based communication - this is what we're about, we told you what we believe in, we told you in terms of how we believe we can create value, we've created a framework for knowing whether that's working. And we have to hold ourselves to account good, bad or indifferent. And that level of consistency, I think is really, really important.

Farhan Faruqui

Yeah, absolutely. But that actually... so you've sparked an important question because I know you're very passionate about this Shayne - you and I have had many conversations about this. I'm 100 per cent sure that pretty much everyone who's sitting in the audience today from our customers have faced into this. It's about finding that right balance of delivering strong numbers in the short-term to create shareholder return, while also shaping your business for the long-term. And sometimes shaping the business for the long-term takes a little bit more courage than just delivering short-term outcomes.

As a CEO, and certainly for the CFOs in the audience and the finance leaders in the audience, it'd be interesting for them to hear how you think about that and how you find that balance both with our shareholders, but equally with our board, Shayne?

Shayne Elliott

Well, I have to be careful what I say! But I think that is the single biggest challenge at the moment for me. And I can't speak for others but for CEOs, particularly in the banking industry, when you think about the rapid level of disruption and disintegration of our business models that we're witnessing or we can see on the horizon. So how do you get that balance right? Yes, we have to... one of my old bosses used to say the long-term is just a series of short terms. Yes, you have to deliver the short-term. Yes, we've got the quarter. Yes, we've got we've to do that because that's what feeds the bees. That's what allows us to invest for the long-term. But the job of the CEO is to make sure the organisation is sufficiently focused on the bigger picture and the long-term but not to delude yourself. In the sense that it's all about the long-term and the short-term doesn't matter. So that's all a bit of nonsense, probably and not very helpful. But that is exactly the sort of thing that we spend a lot of time talking about at ExCo with our team and also debating extensively with the board and, to be honest, with the marketplace about how we get that balance right.

Now, the good news is that if you get your business model running well in the short-term, it actually creates the space and the confidence and the credibility where the market, the management, the board, the shareholders etc allow you to reinvest some of that credibility in investing in the long-term. And I think that really has been essentially at the heart of our strategy which we've been doing over the last five years. It's building credibility as a management team, building strength in our operations - our performance, our balance sheet, our business. And then we had a little bit that says, "hey, the benefits of that business, we should share". A little bit back to shareholders in terms of dividends and we've been conducting share buybacks and capital management things. A little bit to strengthen the bank and build resilience. And a little bit to invest ahead of the curve for what we think is the right things to do to

position ourselves for the long term.

And of course, that long-term investment is on a spectrum. Horizon one is things we know we can do - digitisation, automation, artificial intelligence that sort of stuff. All the way up to horizon three, which is more of the... not necessarily big financial bets but more of the blue sky, where we put money into innovation, partnering with fintechs, investing in true more R&D. One of the challenges we have and we've talked about this a lot, Farhan, is that at some level, we're a large company. We have market cap of about \$80 billion. Inevitably, anything you do in that way always looks small and always looks like a hobby and it looks a little bit meaningless. And so again, the scale challenge is something we need to consider. So if you draw it on a classic two-by-two, you've got this, "hey, I've got this need about the short-term versus the long-term impact". And then on the other hand, I've got this issue about materiality and how do I do things that are material that will actually reshape ANZ? There's not much point us doing things that remain invisible or don't fundamentally change the customer experience. If you're a customer of ANZ and that that's one of the challenges. And again, we look to the CFO to help us dimension the kinds of investments we need to make to truly reshape ANZ and not just be hobbies or things at the fringe.

But going to your question, it is undoubtedly one of the biggest challenges I think boards, CEOs, CFOs - in our industry anyway - are faced with that at the moment and getting that right. The temptation is to be a really, really well run, but the business is not really going anywhere because we are all under huge regulatory pressure, our shareholders love getting more and more dividends or whatever it might be. But on the other hand, we have to transform the business for the long-term.

Farhan Faruqui

And that goes to the narration conversation as well, Shayne that we've got to carry the shareholders along with us in the journey that we travel around balancing the short and long term. So it's a role that the CEO and the CFO have to play together in terms of delivering that message to the market consistently.

Shayne Elliott

Well it goes to what you stand for. And again, there's nothing wrong with these propositions. I mean, it's perfectly reasonable for a company or a bank to say, "hey, what we stand for is we just going to be well-run and we generate earnings and we distribute a lot of those to shareholders. And that's what we're about". There's nothing wrong with that. The reverse is - as we see today in the tech industry or the fintech industry - much more about, "hey we're growth-oriented company and yeah we don't make money today - in fact, we lose lots of it - but we've got a growth promise and we can see a path".

Now, that's not an option for somebody of our scale but we need to find where's the right middle point between those that says we're investing enough to make a difference, to really transform the business, but not too much, that we actually disenfranchise a lot of what we are about as a large, successful company that does generate returns today for our shareholders who rely on those dividends. And the fact that that actually supports a whole bunch of shareholders of ANZ today. So it is about balance.

Farhan Faruqui

I'm going to shift gears a little bit and talk about the fact that, as you know well and you've touched on both of them actually. There are a number of intersecting megatrends shaping the world today, many of

which we have covered in this conference over the last over the last two days. One of those is technology. You've spoken about that and that's disrupting our industry – it's disrupting every industry. And of course, the other is sustainability, which is obviously paramount in terms of the focus of boards and management today. What role do you think the finance function has in shaping strategy against a backdrop of these megatrends?

Shayne Elliott

So I'll take you back a little bit. When I first started as CFO, as I said, I was an accidental CFO. It wasn't in my plan and I was a little bit surprised to be offered the job. And so I had to dig deep and think about what is finance for. And how do we know we're having an impact? And again, massively simplistic but I remember saying to my team, "if we're being honest with ourselves, nobody buys stock in ANZ because we've got a great finance team". They buy stock in the company because you have a story line, you have a narrative, a strategy that wins. So, the role of finance is really to enable those outcomes and so I go back to those basics. The role of finance is ultimately about resource allocation to say, "hey, we've been part of - with the management - articulating what our narrative and our strategy is. And now finance have really their hands on a lot of the control levers about capital allocation, liquidity, operating expenses, investment slates etc. They're not the only ones with their hands on those levers but they have a pretty strong hand. And so the role of finance is to say, "how do we ensure we allocate resources to achieve those outcomes?"

So sustainability - might seem odd to say, well, what's finance got to do with sustainability? Actually its got a lot to do with sustainability because for us at ANZ, it's about what how we behave ourselves, how we run our businesses - carbon neutral, etc. Well, that's about resource allocation, making sure we're investing in our own data centres and electricity and energy, the way our property footprint is, etc. So that's a big chunk. But probably more importantly, it's really through how our customers behave and are choosing the right customers and are we putting capital, resources, investment to work around those. And really importantly, from a finance point of view to say, "hey, we want a double outcome here". We need and deserve the right outcome for the planet, for the community, for the environment, and do so in a way that generates a decent return for shareholders. So Finance's role is really to square that circle and work with the businesses to make sure we get the balance right between those outcomes.

And I think that's why finance is such an important partner in execution of literally everything that we do, irrespective of what it might be. Whether it be sustainability or technology disruption or diversity or any of the things that we deem important to our competitive advantage.

Farhan Faruqui

Absolutely, and I think that brings me to an important question. Because while we face into all of these challenges and trends that we're experiencing today, we are also facing into a number of crises. And we've had no shortage of crises over the last few years. And you've experienced a number of crises and during your career - the Global Financial Crises, we went through the Royal Commission in Australia a few years ago, of course, the pandemic, amongst many others that you've gone through.

How have these experiences changed you and your perspective of

leadership? And what do you expect from a CFO during a crisis?

Shayne Elliott

So you can look at it and say a crisis is an unusual event but I actually think it's not. I think it's the normal state of affairs. And actually as a bank, we are 25 times levered, right? Banks are extremely levered organisations. So we are actually built... and certainly the banks that survive and the banks that have been around like us for a long period of time are built for crises. Now the nature of crises changes, the way they hit you, the speed of them, the extent, all that stuff shifts. But the fundamentals – and I don't want to be dismissive of them – but the fundamentals are the same.

So really, what you learn is it's like the Boy Scout thing about being prepared. And being prepared says, do you have resilience in your company? Now as a finance person we'll instantly think about balance sheet. That's pretty important when you're 25 times levered. Do I have enough capital? Do I have enough liquidity? All of those sorts of resilience. Two – do I have operational resilience? What we've seen, funnily enough, in things like COVID crises and similarly in the GFC, some of our volumes actually spike massively higher than we're used to – not necessarily lower. So do you have operational resilience and flexibility in your systems and places of control? And then importantly, I think the big one is cultural resilience. Do you have a culture that is collaborative, resilient, people know how to work together, get things done, think about the group first not about themselves, those sorts of cultural attributes?

Farhan Faruqui

So, Shayne, thanks very much. That has really been an instructive session, certainly for me. Particularly for me since I'm going to be coming to work for you so great to get your thoughts.

Shayne Elliott

Thanks. It's great opportunity and I appreciate the opportunity to talk to so many of our customers.