ANZ Full Year 2021 Result

For Release: 28 October 2021

2021 Full Year Results – Chief Executive Officer Shayne Elliott speaking notes

Thanks Jill and thank you all for attending.

As Jill mentioned I'm joined here today by Farhan, who started as our Chief Financial Officer earlier this month.

He is of course no stranger, having joined ANZ in 2014 and being a member of my Executive team for more than five years.

Along with Mark Whelan, Farhan has played an important role in the turn-around of our Institutional business and I will be looking to him to have the same impact in the next phase of our Group transformation.

A few comments about the environment before I turn to the result.

In terms of tone, this has been one of the more difficult results speeches to write.

On one hand we share the optimism as lockdowns end, but on the other hand, accept there are still many uncertainties.

In the short term, we are benefiting from the economic rebound and government support for our customers, but in the longer term we still face significant disruption as an industry.

The challenges of the transition to a digital and low carbon future are reshaping our own industry, our customers, and present both a risk and opportunity.

But in summary, I believe ANZ is better positioned than ever.

We are well capitalised and provisioned to handle any risks, and well prepared to take advantage of opportunity.

Let me walk through it in a bit more detail.

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First, regarding the impact of COVID, there are good reasons to be optimistic.

Vaccination rates in Australia and New Zealand are approaching global highs and history suggests the economy will bounce back quickly from lockdown.

Combined with the normal summer trading spike, we are likely to see a substantial economic bounce in the coming months.

But while the initial damage of COVID is receding, a range of challenges remain – COVID is mutating, governments are grappling to get the balance right between safety and freedom, inflation increasing, the transition to a low carbon future is gathering pace, and the impact of technology disruption, labour shortages, and supply chain bottlenecks are impacting businesses every day.

As we know, when confronted with rapid change, many customers will adapt and thrive, but some will struggle.

We stand ready to support customers in need but thankfully, we are also increasingly being asked help customers position for opportunity and we are well positioned to do so with ample capital and liquidity.

Our own portfolio is also well positioned.

We are well-diversified, with a markets business positively correlated to volatility and higher interest rates, and a strong position in sustainable finance.

Costs are well managed providing the capacity for us to accelerate investment at a time of opportunity, and we have strong relationships with many of the global firms leading digital and low carbon transitions.

Financials

Moving to the result, this was a good outcome with all parts of our diversified portfolio contributing.

Statutory profit increased 72%. ROE came in just shy of 10% despite elevated capital levels, earnings-per-share up 65% and net tangible assets up 5% per share.

Given our strength and readiness for the future, the Board declared a final dividend of 72 cents per share, taking the Total Dividend for the year to 142 cents.

Farhan will take you through divisional performance but let me share a few observations.

In Australia, Retail & Commercial delivered a good margin performance and grew pre-provision and after-tax profit.

Home Loan revenue grew more than 10%, however the total Home Loan book fell a little in the second half with customers paying down loans faster; and our own issues processing increasing numbers of applications.

There is no excuse for the processing issues, and you will want to know what we have done about it.

Over several months, we have materially increased assessment capacity by hiring more assessors and simplifying processes.

There is a time lag between applications and asset growth, but we are already seeing improvement.

Australian Home Loan assets fell $1.1 billion in July, but momentum has improved every consecutive month, and for October, assets are only marginally down.

Our expectation is that the improving trend will continue.

All else being equal, we forecast Home Loan assets to grow during the first half and at some point in the second half, we should be growing in line with our major bank peers.

We continue to act, and this week we announced that my ExCo colleague Emma Gray will temporarily lead the Australian operations team. Her experience in automation is ideal and she will work with Mark Hand on further improvements.

While restoring momentum remains a top priority, we are also focused on the rebuild of our proposition, including Home Loans, which will reposition us for long term growth, and I will share some of that later.

Staying in Australia, a quick update on our SME Lending platform GoBiz.

Launched recently, this allows customers, including those not yet with ANZ, to receive real-time, conditional approvals, for unsecured loans by providing direct access to their accounting package.

While still in soft launch, it’s generating an average of 2900 applications each month and timed perfectly for the emerging rebound in the small business segment.

Turning to New Zealand, we have had one our strongest performances ever.

Revenue was up 8% and Cash profit up 41%.

In our New Zealand Funds business, Total Funds Under Management, including Kiwisaver, grew 11% to NZ$39bn.

The investment to comply with the Reserve Bank’s BS11 regulation will finish this year well ahead of schedule, and the bank is already positioned to absorb the capital changes which take effect through to 2028.

This leads me to Institutional.

We have built a high performing business delivering well above the Group cost of capital, and are well positioned to capitalise on the ‘structural tailwinds’ arising for the sector.

For example, right across our network, Institutional’s customers are rapidly increasing activity – M&A, digitization, restructuring supply chains. Trade and capital flows are growing, interest rates are rising, yield curves steepening, and some major competitors are reducing presence in the market.

We also expect APRA’s proposed capital reforms, which take hold in 2023, to be a net positive for Institutional.

We also have access to Institutional growth opportunities that aren’t available to others.

For example platforms, where we provide core banking services to other banks. This is a significant strength and we are the market leader by some margin.

Underlying volume growth is strong, and we are gaining market share.

At the revenue line, this has been offset a little by falling interest rates, but positive operating leverage, low capital intensity and ongoing growth will see this emerge strongly and contribute to better returns.

One of the best examples is the New Payments Platform, or NPP, where we have dominated mandates to service other banks. Its fee driven; the platform is in place and scalable, so the marginal cost of transactions is almost zero.

Growth has been exceptional with transactions more than doubling this year and we are only at the early stages of adoption.

Sustainability

We are also well positioned for the rapid transformation of how the world produces, distributes, and consumes energy, which will drive trillions of dollars in global investment.

Thinking about the capabilities required to participate in this flow, many of them are in our toolkit.

We're the largest Institutional bank at home, and Australia's most international bank.

We are a leader in banking resource extraction, arranging finance for large-scale infrastructure, connecting buyers and sellers across Asia, distributing debt, and hedging market risk.

Based on Bloomberg's data, we estimate we participated in around 5% of global Sustainable Finance flow in 2021, which increased our sustainable finance revenues more than 60%.

It's just the beginning and opportunities include the electrification of transport, commercialisation of hydrogen and financing energy efficient buildings.

No other Australian commercial bank has the skill set, customer relationships or track record to participate as seriously in this global super cycle.

ANZx

As mentioned, I want to share our progress in building a better retail and commercial bank in Australia.

Longer term, forces shaping the industry are leading to structurally lower returns, lower growth and driving an unbundling of traditional banking.

To remain relevant and succeed, we are building a more agile, open, and more focused business, centered around financial wellbeing to deliver higher lifetime value per customer.

It’s an exciting opportunity to reposition ANZ for the long term, but our technology was a major inhibitor – it’s complexity and age make it hard to change, error prone, and less resilient than required.

Patching it up made no sense and moving to a greenfield stack wasn’t practical given our scale and breadth.

We looked at a range of alternatives but based on our starting point, and the experience of European banks in particular, the best path for ANZ was to progressively rebuild our technology, starting with Sales and Service.

So under Maile’s leadership, and the ANZx banner, we have built a team of over 800 people - more than half are engineers and many joining from leading technology companies – like Apple, Amazon and Square – and we’re using this talent to completely rebuild our capability, and integrate a raft of contemporary technology.

The work is challenging and mostly unseen, but this year we made significant progress building a platform for low cost, scalable and resilient growth.

The first task was to introduce a range of new platforms, and we have already integrated 11, including Salesforce for CRM, Forgerock for identity and access management, Zafin to manage products and Twilio for contact centers. We have also built 9 major assets from scratch.

It's a bit like building a skyscraper – all the hard work is beneath the ground but once it emerges, if well engineered, it grows quickly.

With the foundations complete, we are now building a range of new customer propositions based around our nine principles of financial wellbeing.

We are currently testing our first proposition with staff and will be ready to launch with new customers early in 2022 under a new ANZ Plus brand.

This will be become the cornerstone of how our retail and small business customers bank with us in the future.

ANZ-Plus will allow us to deliver non-bank services and deepen engagement with customers. Much of this will be delivered by the strategic partnerships we are building through our ventures and incubator business 1835i.

Through 1835i, we only invest where we see a path to acquire more customers, deepen relationships or co-develop new propositions we couldn't develop on our own.

For example, last week we announced that we entered a Deed to takeover Cashrewards, Australia's leader in the "buy-now-save-now" sector.

It's a great fit with our customer proposition of financial wellbeing and brings over 1 million customers into the ANZ family, while driving additional value to our retail and hospitality customers.

In addition, we have invested in eight FinTech's, like Lendi and Airwallex, and launched three start-ups, each intended to drive customer acquisition and deepen engagement.

To date we have been relatively quiet about ANZx, but you will be hearing a lot more about this, particularly as we launch ANZ-Plus, and prepare to test digitised home lending.

This is an important investment in our future, but we've largely funded it within our existing expense envelope and capitalised only 5% of the investment.

We would not have had that capacity, without the ongoing success simplifying the bank.

We knew that a simpler, more focused bank, would be lower risk and lower cost.

Our work indicated we could run the bank well and continue to invest appropriately for $8bn.

We retain that view.

At the half, we clarified the expected shape of the $8bn – specifically differentiating between the cost of running the bank – which we target at $7bn - and around $1bn for investment.

This year we reduced the cost of running the bank a further 3% on a constant currency basis to $7.4bn, so well on the way to exit 2023 at our $7bn ambition.

With respect to ~$1bn in opex for annual investment, with some assumptions on capitalisation, that should allow a cash investment of around $1.4bn per year.

To give that context, that's about the same as today if we exclude the remediation work which is coming to an end, and the one-off BS11 investment in NZ.

We will not underinvest in the business just to meet a target, but with the current outlook, the peak in regulatory and remediation spend, we are confident in our $8bn aspiration.

In summary, 2021 was challenging, we didn't get everything right, but we stood by our people, supported customers as best we could, managed our balance sheet prudently and increased investment to drive long-term value, while delivering strong returns to shareholders.

With that I will now pass to Farhan to run through the result in more detail.

Concluding Remarks

Thanks Farhan.

As I said, it wasn't an easy year, but it was a good result overall.

We could have been quicker to address challenges processing Australian home loans, but I'm confident we have that under control.

Looking ahead, the immediate impact of COVID is receding, but there will continue to be challenges including long-term industry disruption.

Given the repositioning of ANZ, our strong balance sheet, investments made and benefits of simplification, we are well capitalised and well provisioned should things deteriorate, and well positioned as growth emerges.

Put simply, headwinds will persist, but structural tailwinds are emerging.

I am very clear on what's important:

1. Restore momentum in Australian Home Loans,
2. Launch ANZ-Plus successfully and position for a digital home loan proposition,
3. Seed profitable, high return growth in Institutional with a focus on Platforms and Sustainability,
4. In New Zealand, complete BS11 and continue to recycle capital to improve returns, and
5. Across the Group, continue our work on simplification, capitalising on the investment made in automation, cloud migration and digitisation to enable low cost, high resilience customer growth.

Whatever eventuates, we will continue to be prudent and methodical.

We will be guided by our purpose and balance the needs of all stakeholders. And we will do what's right.

This will be another big year of change and transformation, but I am confident we have the team to deliver.

I would like to acknowledge our 40,000 who have been unwavering in their support of customers, colleagues, and the community, in a challenging, and at times emotional environment.

They continue to be true to our purpose and embody the best of our culture and I thank them for their ongoing commitment.

Finally, it would be remiss of me not to mention 70 years ago this month, the modern ANZ was born with the merger of the Bank of Australasia and Union Bank of Australia.

It also launched a new motto "Tenacious of Purpose" which resonates as strongly today as it did in 1951.

Our purpose, to shape a world where people and communities thrive, has guided us through recent challenges and we will continue to pursue it with the tenacity it deserves.

With that we will open for questions.

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