News Release

For Release: 04 May 2022

ANZ 2022 Half Year Results – Chief Executive Officer Shayne Elliott speaking notes

Thanks Jill and thank you all for joining us today.

I would also like to acknowledge the Gadigal People as the traditional owners of the land on which we are meeting today.

And I have to say it's good to be back here in Sydney.

This is the first 'in-person' results we have hosted in some time and it's an understatement to say a lot has happened since the last time.

I'm proud of how ANZ supported our people and customers through challenging times, and how we have used this time to strengthen the bank for opportunities ahead.

I would like to acknowledge, however, that COVID had a much bigger impact on some people than others, including some of our colleagues at ANZ. Our thoughts remain with all those who lost loved ones.

On behalf of everybody at ANZ, I'd also like to express our concern for all those affected by the floods here in NSW and Queensland, as well as the truly terrible events in Ukraine.

For Ukraine, we have been waiving fees on customer payments to various charities supporting humanitarian efforts, while closer to home we continue to offer financial assistance to our customers impacted by the floods.

Not for a minute dismissing these very real tragedies, it is pleasing to see a real sense of optimism returning in our home markets.

Airports are busy. Hotels and restaurants are fully booked and after two years of working from home, our offices and cities are coming back to life.

Financial Performance

Regarding our first half performance, I will cover the highlights and Farhan will go through the detail.

Strategically we made good progress and are better positioned for the future.

Financially, a few headwinds impacted an otherwise decent half.

Cash profit was up 4% versus the first half last year but down 3% half-on-half.

Margins were closely managed and ROE at 10% was a reasonable return for shareholders, while the Board has proposed a dividend of 72 cents per share fully franked.

We remain strongly capitalised with a Common Equity Tier 1 ratio of 11.5%.

Over the past 5 years, we led the sector in simplification and capital return and have just completed our latest buy back of $1.5 billion. That brings total capital returned to shareholders over that time to $5.5bn from buying back 160 million shares and neutralising the dividend reinvestment plan.

We were first to embark on simplification and prudently return capital to shareholders. We remained prudent through COVID and did not panic to raise unnecessary capital. Managing shareholder capital has been a strength of ANZ and the Board remains intensely focused on capital efficiency and allocation.

As per our usual practice we are taking the time to consider first and best use of any surplus capital and will keep our owners updated as we progress.

Productivity also remains critical.

You will all remember that four years ago, in response to a question on costs, I suggested that as we simplified the bank, it could be possible to reduce our costs by about 10%, closer to $8bn. I made it clear we didn't have a detailed plan to get there, but we understood the importance of productivity to meet the competitive and regulatory challenges we faced.

At the time, it was a bold aspiration - our run-the-bank costs, were $8.2bn and investments cost a further $600million. Costs were increasing across the industry every year.

A lot has happened since then including the significant costs of remediation post Royal Commission and the impact of the ongoing reshaping of ANZ, but however you look at it, we have done an excellent job simplifying the bank and cost management has become a core ANZ capability.

In the six months to 31 March, as we report them now, run-the-bank costs remained tightly managed coming in flat again at $7.4bn on an annualised basis.

That is a material reduction since we set our aspiration.

However, as inflationary pressures increase, absolute cost reductions will be more difficult, and with the shape of our business changing, a set cost target is less appropriate.

However, we will not give up, nor shy away from the ongoing need to be a simpler and more productive bank. We still have opportunity to simplify processes, automate where we can and drive benefits from adopting new technology.

We have a strong track record and culture of cost management and that will remain.

On the investment side, we have needed to, and wanted to invest more than we had originally considered 4 years ago - to respond to ongoing regulatory change, prepare for the fast-changing environment and most importantly, position for new growth opportunities.
It is important that we are held to account to deliver value from investment and the good news is that more is now directed at growth opportunities and less about fixing the issues of the past.

I am excited about the investments we are making to build out the new retail platform ANZ Plus, our sustainable finance capabilities, a new Retail FX proposition due later this year and our expanding online SME Platform GoBiz.

Investing to further build resilience and enable lower cost processes is also critical. For example, we are investing to migrate applications to the cloud and roll out Salesforce as a single customer service tool across the entire enterprise. We will soon have one third of applications based in the cloud and well on track to get to 50% in 18 months. Salesforce is a critical tool, simplifying our employee experience and making us to deal with. To date we have deployed it to 15 thousand colleagues.

In addition, we continue to invest in partnerships to drive better customer acquisition and engagement. In the half, we increased investment in AirWallex, Valiant and Slyp and completed the acquisition of CashRewards. With Lendi, we launched our JV digital home loan proposition OneTwo Finance and will soon launch new customer propositions with Aider and Cashrewards.

To support our sustainable finance business, we announced Project Wheatbelt, partnering with Qantas and one of Japans leading businesses Inpex to develop a biofuels and regeneration project covering millions of hectares in Western Australia.

We also invested in Pollination, a leading climate change investment and advisory firm, where we have already developed a pipeline of opportunity.

Looking at risk performance, our customers continued to strengthen their balance sheets, increasing cash balances and improving resilience, driving a provision release of almost $300m. This is a good sign the economy is recovering but, more importantly, it is a direct outcome of the decisions we have made to strengthen ANZ and remove unattractive, low return risk from our book.

Divestments over the past six years and our disciplined approach to customer selection, particularly in Institutional, has reduced risk and improved risk adjusted returns. This is reflected in our internal expected loss rate which is now 20bps versus 35bp 6 years ago and is a deliberate part of our strategy to improve the quality of earnings.

In a time of such uncertainty, I am pleased with our prudent approach to risk management, even when it has come at a cost to short term revenue growth. This will benefit shareholders over the long term and sets us up well for the times ahead.

Turning to our customer franchises, New Zealand grew across all business lines while keeping a keen eye on risk.

Institutional customer revenues grew very strongly with a focus on sustainability, high quality and well diversified balance sheet growth, and solid growth in processing volumes for other Financial Institutions. Risk adjusted lending margins for Institutional increased.

It is often overlooked that our largest Institutional customer segment is Financial Institutions which generates annualised revenues of $1.65bn, growing at double digit rates, generating an ROE above 20%.

A small but important subset of that is our business processing payments for other banks. It is growing rapidly, positioned to benefit from rising rates and already generates more than $150m revenue per year at an ROE exceeding 40%.

In Australia, Home Loan processing improved, and volume grew modestly in the half.

While early days, processing times are back in market, and we lifted our capacity by 30%.

In our Commercial business, where we serve 600 thousand small and emerging businesses, our focus on risk adjusted returns drove a decision to stop acquiring asset finance loans through third party channels. Therefore, the back book is in run off and reduced $300mn in the half, with a further $1.2bn to go. That means a modest reduction in revenue but an increase in returns.

Looking through that, our core Commercial Loan book is growing well with momentum increasing, and risk adjusted margins improving.
With the impact of the pandemic now moderating, and our balance sheet prepared to withstand any delayed economic impact, it’s time to reflect on our long-term strategy.

Since 2016, we have been simplifying and strengthening the bank, building more contemporary infrastructure to enable sustainable long-term growth, particularly around the propositions of financial wellbeing and sustainability.

Our objective is to build a group with 4 strong and growing franchises – a disciplined

Institutional Bank focused on intermediating trade and capital flows in our region, the leading New Zealand bank with a #1 position in everything it does, a repositioned and growing Australian Retail bank driven to improve customers financial wellbeing, and a differentiated Australian Commercial bank helping customers, start, run and grow a small business.

By running them well together, we will deliver the benefits of diversification and generate decent, sustainable returns.

To get there, we identified five high-level streams of work.

We have been executing well, but along the way we had to deal with the Royal Commission, significant NZ regulatory changes and COVID in particular.

While progress has been significant, we had hoped to achieve more, particularly in Australia

Retail and Commercial, but we are catching up fast.

We have sold or exited 29 businesses releasing billions in capital that has been returned to shareholders or deployed to other parts of the bank to fund growth. The only material non-core businesses are our three remaining Asian Bank investments.

Institutional is now a well-run, highly disciplined business delivering returns comfortably above the cost of capital. It will benefit from the sustainable finance super-cycle with material opportunities to further grow transaction processing for other financial institutions globally.

New Zealand is continuing to outperform across all business lines. It is prepared for the RBNZ capital changes and will largely finish its major compliance program BS11 later this year, well ahead of schedule.

In Australia, customer remediation, which has been such a feature for all banks since the Royal Commission has now moved to the final stages of execution. The exit of non-core activities is also coming to an end.

With ANZ Plus in market, it was time to bring together our digital and Australian retail division under Maile while separating Commercial as a standalone division.

ANZ Plus is a new retail bank, built without the constraints of legacy technology - a new platform, set of processes and portfolio of partnerships that will improve the financial wellbeing of customers and drive market share growth and higher lifetime value per customer.

Using the big tech playbook, we focused on building a strong foundation and launching a minimum viable product. Since the soft-launch in late March, we've already built significant new features, including:

• the ability to make payments through BPAY and PAYID;
• immediate access to a digital card in an Apple Pay wallet; and
• an Android offering.

These will be available in the coming weeks with more following quickly.

We will roll out ANZ Plus more broadly with a marketing campaign starting in a few months. As mentioned, we separated our Commercial business in Australia to give it the focus and investment it deserves.

While it's early days, I've spent considerable time working with the team to refine the strategy and identify opportunities. I hope to share more of that strategy at the full year result.

Partnering with the world's best service providers to help small businesses grow will be a key part of our future and we recently achieved a major milestone.

The ANZ Worldline Joint Venture went live last month with world-class payments products for merchants in-market by the end of the year. I have had the opportunity to preview and test the new capabilities directly and they really are industry leading.

In summary, New Zealand and Institutional have clear strategies, solid momentum, built on contemporary systems. In Australia, our core business is back to growth and with ANZ Plus, we have a cutting-edge new platform to build on. Finally, Commercial is in the final stages of developing its own differentiated strategy.

As a result of progress, we are now able to move top the next evolution in building agility so today we announced our intention to implement a Non-Operating Holding Company. This is a low-cost option for our future and will unlock value for shareholders over time.

We have been actively engaged with regulators and yesterday received Board approval to submit a formal application to APRA, the Federal Treasurer, and international regulators such as the RBNZ.

When approved, this will enable a new holding company to be created with wholly owned entities sitting directly beneath.

The 'Banking Group' would comprise the current ANZ Banking Group.

There would also be a 'Non-Banking Group' which would allow us to bring the world's best non-banking technology and services to our customers.

Take our investment and partnership arm 1835i for example.

Under the new structure most of these partnerships would sit in the 'non-banking' group.

This allows us to acquire, develop and grow new products and technologies that improve the financial wellbeing of our customers without operating within the constraints of a traditional bank.

This is entirely consistent with our strategy to create a nimble, responsive organisation and is a very common structure with leading banks such as JP Morgan in the US, DBS in Singapore and Macquarie here in Australia operating under such a structure for many years.

There will be no change to how ANZ's existing banking operations are regulated. What APRA, the RBNZ and others want to regulate today…they will regulate tomorrow.
Once approved by regulators, shareholders will vote on the proposal towards the end of the year.

I can assure you that we will be consulting widely on this change with our investors, our employees, and other stakeholders.

I will now hand to Farhan to talk through the financial results in more detail.

Final Close

Looking ahead, the operating environment will be very different, and as a company tied to macro-outcomes, we will need to change our business settings and investment priorities.

With higher inflation, we are already feeling an impact on wages and staff turnover, which makes cost management more difficult. All else being equal, a higher interest rate environment globally will likely see industry margins expand.

To the extent higher inflation signals excess demand, it is likely to bring an end to the investment drought in Australia that began a decade ago.

As a result, we are already seeing stronger corporate demand from business customers, particularly at the bigger end.

To some degree there are global supply chain forces behind inflation which mean our trade expertise and funding are in even higher demand and you can see that emerging in this half's result.

The impact on provisions is more difficult to predict, however we are clearly at cyclical lows and some customers will find the inflation and interest rate shifts challenging after decades of downtrends in both. This is when the tough decisions we have made on customer selection and long-term risk management will pay dividends.

These adjustments may be bumpy over 2023 and 2024 and navigating it will require the institutional agility we have been focused on building.

I'm very confident in what the future holds for ANZ and we will continue to focus on the long term – investing for tomorrow and not just running today.

Our balanced portfolio of businesses, leadership in intermediating trade and capital flows, particularly aligned to sustainability, and strength of our balance sheet, mean ANZ is better positioned than most for the opportunities ahead.

I want to thank the entire team at ANZ for their ongoing commitment to customers and the community.

Our culture is strong, and we have industry leading employee engagement, and we have an embedded sense of purpose – to shape a world where people and communities thrive.

For media enquiries contact:

Stephen Ries +61 409 655 551

Nick Higginbottom +61 403 936 262