ANZ

News Release

For Release: 04 May 2022

ANZ 2022 Half Year Results – Chief Financial Officer Farhan Faruqui speaking notes

OVERVIEW

Thanks Shayne and good morning everyone. It's a pleasure to be here in person in Sydney.

Our results today reflect the disciplined execution of our strategy and the benefit of our diverse portfolio of businesses producing solid cash profit, EPS and RoE outcomes.

FINANCIAL PERFORMANCE

I will take you through our financial performance and the factors that underpinned our solid result.

1. In Australia Home Loans, after a challenging 12 months, we returned to balance sheet growth this half.

2. In Institutional, we saw targeted and profitable volume growth, with risk-adjusted lending margins increasing and Banking revenues growing strongly Hoh. Our Markets customer franchise performed strongly this half, but lower balance sheet trading income saw total Markets revenue fall.

3. In our market leading New Zealand business, we again delivered strong home loan growth and displayed disciplined portfolio management.

4. We have continued to invest at record levels in modernising our technology & data architecture… and re-engineering our business processes… to unlock productivity and increase our speed to market. A greater proportion of our investment spend this half was directed towards growth and productivity initiatives.

5. We have proven our ability to manage 'run the bank' costs well… which are flat again…despite heightened inflationary pressures.

6. We also saw a net credit provision release this half, reflecting an improved portfolio risk profile while balancing environmental uncertainties

We pre-released information on our large/notable items and further detail is included within the Investor Discussion Pack. As you know, large/notable items form part of cash profit. We separate them out to provide transparency and aid comparison, but to be clear we hold ourselves accountable for Cash Profit including LNI. Given that we pre-released the information on Large Notable Items which in aggregate amount to $43m for the half, from this point onward my reference will be to Cash Profit excluding large/notable items, and I am happy to talk more on large/notable items in Q&A.

GROUP NET INTEREST MARGIN (NIM)

I'll start with NIM where underlying margins for the half were down 6bps.

However and consistent with our update at the quarter, this was driven by a lower exit rate at the full year, with the "entry to exit" reduction in headline margin only 1bp for this half.

This was a result of strong margin management through disciplined lending origination, and actively managing the pricing of our deposits. For NIM, in the half:

- Price competition in home loans in Australia and New Zealand remained intense, contributing to asset margins falling
- Customer preference for fixed rate home loans drove a mix decline but this abated – with fixed rate flows falling to 26% in the month of March versus an average of 41% for the period.
- Customer deposit growth outpaced customer lending again, which saw liquid assets grow and have a modest impact on margins.
- We also saw a benefit from our capital and replicated deposit portfolio, with both volume growth and an increasing portfolio yield, which represents a turning point given reductions over recent years.

NIM CONSIDERATIONS

Looking ahead, there are a range of potential tailwinds and headwinds to margins.
We expect asset price competition, particularly in the home loan market, to remain intense and may intensify further in a rapidly rising rate environment.

Rising rates will provide a material benefit to our capital and replicating deposit portfolio – which I'll spend more time on shortly.

We also expect customer preference to change as rates rise. We are already seeing Australian customers shifting back towards higher margin variable rate home loans.

Our leading franchise in New Zealand who are ahead in the tightening cycle will provide us with important behavioural insights into the shift in customer preferences where we are already starting to see customers move from 'at-call' to term deposits, leading to deposit mix headwinds.

On balance, we see 2H22 margins as being slightly positive.

CAPITAL & REPLICATED DEPOSIT PORTFOLIO – SENSITIVITY TO CHANGES IN INTEREST RATES

Turning to our capital and replicated deposit portfolio, yield curves steepened sharply this half, and we have started to see official cash rates rise across many countries in response to inflation including as we saw here yesterday. While the timing and magnitude of any further official rate rises is unpredictable, we have provided an illustrative impact assessment on our capital and rate insensitive deposits portfolio if rate rises unfold as predicted by ANZ Economics.

The current portfolio stands at $142b, of which:

- Roughly 25% is sensitive to short term rates… where we will see the full benefit of any rate rises almost immediately

- The remaining ~75% is invested out mainly across 3-5 year terms… and we will see this benefit progressively over time… as maturing tranches are reinvested at higher prevailing rates

As you can see the impact is material…and will manifest earlier in our New Zealand and International businesses who are ahead in the tightening cycle.

All things being equal, rate rises could result in approximately $800m of revenue upside over the next 12 months. However, please note that this impact is related strictly to our

Capital and replicated deposits portfolio. There are many other variables outside of this portfolio, such as those mentioned in the previous slide.

I would now like to share with you our divisional performances. As we go along, I will highlight how our key priorities are supporting RoE and growth.

AUSTRALIA RETAIL & COMMERCIAL

6a. OVERALL 1H22 PERFORMANCE

Firstly our Commercial bank: lending volumes grew modestly and importantly risk adjusted margins increased 10 bps.

Moving to our Australian Retail business. While this was a challenging half in terms of revenue including the impact of the discontinuation of the Breakfree package. Risk adjusted margins while down in the half will benefit from rate rises as we look ahead.

6b. AUSTRALIA HOUSING

In particular, in our Australia Home Loans business we returned the balance sheet to growth. We proactively managed volume while focusing on improving processes and capacity.

We did this by increasing automation, improving processes and adding resources resulting in increasing available operational capacity by 30%. This in turn significantly improved turn around times across all channels.

We have exited 1H with momentum in Housing Loan Applications and our near-term focus is to build on this in the second half.

We did not and will not chase 'growth for growth's sake' – we want profitable growth and will remained disciplined on margins.

We are on target to grow in line with the Australian major banks by the end of our financial year, but will do so with an eye to our margin performance.

So, in summary… we are turning the corner in our Australian home loans business. With ANZ Plus, as Shayne said, we are fundamentally transforming the retail bank for the long term.

As ANZ Plus gains momentum, we will start reporting more granular performance metrics and make a clear linkage between these metrics and the Retail Banking P&L.

INSTITUTIONAL (EX-MARKETS)

Moving to Institutional, the 1H result demonstrates the benefits of being a simpler, more resilient and disciplined business. Revenue excluding Markets was up 5% in the half. I will talk to Markets performance shortly, but I would like to note that the Institutional Business ex Balance Sheet Trading, ie our Institutional customer franchise revenue grew strongly by 9% half on half. This is comparable to how many of our domestic peers report their institutional business results.

We demonstrated strong lending momentum, with volumes up 8%, directed towards our more profitable customers.

The volume growth was relatively broad based across various regions and segments… including strategic focus areas like FIG, Sustainability and Food & Agri supply chains.

Pleasingly, risk adjusted lending margin grew 5bps in the half, demonstrating continued discipline in customer selection and pricing.

The momentum in our franchise positions us well for the structural tailwinds which are emerging… with higher interest rates and upcoming capital reforms… both expected to benefit our Institutional business.

MARKETS 1H22 PERFORMANCE

Markets revenue, however, was down for the half – at $812m.

But pleasingly, the customer franchise performed well, with revenue up 23%. and customer flow in our core FX, Rates and Commodities business stronger than the prior two halves. Balance Sheet trading income was lower, partly due to adverse mark-to-market movements caused by wider credit spreads and interest rate volatility.

Looking forward, while financial markets are difficult to predict, we expect that higher interest rates, and FX volatility arising from the return of meaningful interest rate differentials, will continue to be constructive for customer flow in our core FX and Rates businesses.

DRIVING GROWTH FROM PCM & PLATFORMS

Within Institutional, our Payments and Cash Management Business – which includes domestic and international payments, and cash management – is core to our DNA. There is a lot to be excited about:

- **This is a capital light business** that has delivered growth at scale, with 1.5bn transactions processed close to 100% STP during FY21 at a 17% CAGR over the last two years

- **We have a market leading position with a growing gap to peers**. Our business has the highest market penetration and share of lead bank mandates, and ~60% market share of AUD and NZD volume in clearing.

- **Our continued investment in payment platforms,** like Banking as a Service and NPP; and **deliberate growth in more profitable segments** like Financial Institutions positions us well to drive future growth.

This is a business that today earns over $800m per annum and an ROE greater than 40%, processing and facilitating the payments and cash management needs of our largest corporate and financial institution clients. It is also a business that is favourably leveraged to both higher interest rates and higher transaction volumes.

8c. SUSTAINABILITY VALUE CREATION

Another area I'd like to talk about is Sustainability, which I'm deeply passionate about. At ANZ, we see this both as our responsibility and an opportunity.

We were the first Australian bank to join the Net-Zero Banking alliance and have committed to $50B of sustainability funding by 2025 – a target that we have continually beaten and revised upwards.

As Australia's leading institutional bank, we are well placed to defend and grow market share and are already winning a disproportionate share of the sustainability opportunity. For example, our sustainable financing volumes have grown at 156% p.a. since 2015, which is 2 times global average.
Practically, we are growing wallet in 3 ways:

1. Supporting existing corporate clients in the process of transitioning
2. Supporting emerging 'green' companies, and
3. Supporting Financial Institutions clients wishing to invest in sustainable assets

Wallet growth is only partly from lending – we are also supporting customers with a wide range of non-lending solutions such as advisory, Debt Capital Markets and sustainability linked derivatives.

We are confident of our ability to continue winning a disproportionate share given the depth and breadth of our franchise, deep international presence, strong ESG capabilities and differentiated solutions and as Shayne mentioned through our partnership with Pollination which has added to our capabilities and is already creating new opportunities with customers.

NEW ZEALAND DIVISION

In New Zealand, we saw another strong result from our market leading business with revenue up 2% and lending volume up 4% for the half.

We grew market share in home loans by 28 bps with volumes up 7%, despite intense competition in the market. Risk-adjusted margins improved by 4 bps, as we continued to closely manage returns in our Business segment to reflect the changing capital environment.

EXPENSES

And now I'll turn to expenses.

You have seen ANZ deliver disciplined cost management since 2016, and that discipline was evident again in the first half.

On a Constant Currency basis and excluding the acquisition of Cashrewards, BAU costs were flat despite heightened inflationary pressures and despite additional resources being deployed to process higher home loan volumes in Australia & in NZ.

This strong outcome was underpinned by close to $100m of productivity off the back of:

- Increased adoption of digital channels & customer self-service;
- Process automation and simplification in our back office functions; and
- Continued rationalisation of our property footprint

As Shayne said, our continued focus on productivity is non-negotiable, especially as we face into a period of higher inflation in the short to medium term.

INVESTMENT SPEND

11a OVERVIEW

Our run the bank cost management and productivity focus has allowed us to invest at near record levels this half in order to build a simpler, more resilient business… and to position the business for future growth.

The cash investment spend was flat half on half while investment expense increased 13% driven by a higher expense rate. Our capitalised software balance fell to $924 million….the lowest amongst our peers.

Proportionately more spend was on simplification and growth initiatives this half as we passed what we hope was the peak in regulatory and compliance spend.

As we look ahead to the second half, on a constant currency basis and excluding cash rewards, we would expect cash investment spend and our run the bank costs to remain broadly flat.

11b INVESTMENT – KEY INITIATIVES & OUTCOMES

Throughout the presentation today, Shayne & I have provided an overview of various investment initiatives that we are really excited about.

The value to shareholders… is essentially anchored on five key themes… that underpin the bank we are building that has:

- A simpler, more modular, and cloud-based technology architecture… that enables better speed to market… and greater operational resilience and efficiency
- A more modern digital experience for customers and employees, that drives better engagement & retention
- More timely, accurate and easy to use data… that provides better insights to customers… and enables better decision-making by management
- Streamlined business processes… that leverage automation & machine learning
- And a more operationally resilient bank, with embedded controls… that builds customer confidence and trust

We are building a simpler, better bank… that's positioned for growth… and has the agility to adapt and take advantage of the opportunities in a rapidly changing banking landscape. We will continue to have a focus on delivery and value realisation, and pursue this relentlessly.

PROVISIONS & CREDIT QUALITY

Turning to provisions, where individual provisions remained at historic lows this half… as customers emerge from COVID with healthy balance sheets, supported by low interest rates and unemployment.

The $371m release from the collective provision this half was a function of further improvements in the credit risk profile of the portfolio…while balancing uncertainty in the broader environment.

Our collective provision balance of $3.8bn is $381m higher than pre-COVID and includes $618m of management overlays for environmental uncertainties.

We believe that this remains prudent and appropriate at this time.

CAPITAL

Our capital position is strong, with a Level 2 CET1 ratio of 11.5% and it is this strong capital position that enabled us to profitably grow the balance sheet this half, mainly in Institutional and in New Zealand.

The underlying business earnings funded balance sheet growth and the non-credit RWAs which is Interest Rate Risk in the Banking Book. This is the investment of our capital and replicating deposits. Given rates have moved significantly higher, we hold RWA for the change in the value of these investments. Much of this is expected to unwind over the next 1-2 years.

We completed the buyback this half and maintained the dividend at 72 cents per share fully franked, which equates to a 64% dividend payout ratio within our targeted range.
Among the Big 4 banks, we have led the way on capital management for some time… and capital efficiency and prudent use of shareholder's capital remains a strong focus for the Board.

SUMMARY & OUTLOOK FOR 2022

And to conclude a few words on my key areas of focus:

- We have improved our home loan processing capacity… and rebuilt application momentum… and we aim to extend that momentum into the second half.

- We have launched ANZ PLUS… and you will continue to see further feature releases this year… as we move towards our beta release of a PLUS home loan offering this year. We will report on key value metrics of Plus, starting from 2H22

- We will continue to further build on the successes of the Institutional business and our strong New Zealand franchise. While we continue to grow these franchises, we will remain vigilant around the discipline required on risk and returns.

- We will intensify focus on the execution of the growth strategy of our Commercial Business

- We will continue to invest to grow the business – with a sharp focus on value realization

- Simplification and productivity remains central to our strategy… and my team and I will relentlessly pursue this objective in order to make us a better, more efficient and resilient bank for our customers and for our employees.

- We will maintain our capital management and allocation discipline

- And we will remain disciplined on customer pricing and on risk management in what will be a volatile environment ahead

Thank you and I hand back to Shayne.

For media enquiries contact:

Stephen Ries

+61 409 655 551

Nick Higginbottom

+61 403 936 262