News Release

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ANZ 2024 Half Year Results – ANZ Chief Financial Officer Farhan Faruqui speaking notes

Thanks Shayne and good morning everyone.

As Shayne said, this half was characterised by continued strong execution and delivering what we promised.

From my standpoint, there are 3 key highlights:

1- First, financially - off the back of a record year, we have delivered stable results this half. Revenues are flat half on half, cost growth constrained to a 1% uplift, and low credit impairment charges reflect the quality of our portfolio. All four businesses have performed well and have exited the half with strong origination momentum. Our balance sheet is also stronger than ever.

2- Second, strategically - we have made strong progress. Shayne touched on ANZ Plus and our continuing momentum in building and running a digital retail bank. We are also readying ourselves for the completion of the Suncorp Bank transaction, which remains subject to remaining approvals. We remain confident that we will deliver on our promise of strong financial and customer benefits of the acquisition. We continued the simplification of the bank completing the sale of a large part of our stake in AmBank freeing up $668m of capital.

3- And, finally we delivered strong shareholder outcomes with Total Shareholder Returns of 19% in the half. Our Return on Equity remains strong at 10.1% or 10.7% when excluding capital for Suncorp. We have announced today a $2b on-market share buyback. This is one of the largest capital management exercises that we have ever announced. In addition, the Board declared a dividend of 83 cents per share partially franked at 65%.

All of this reaffirms our commitment to deliver what we promise.

Now, let me turn to the details of our financial outcome for the Half. My references will be to half on half changes unless I specify otherwise.

Starting with Operating Income performance.

Following a record FY23 performance, we delivered Operating Income flat to a strong second half with ANZ's business mix allowing us to deal effectively into the competitive environment. However, operating income was slightly up, excluding the one-off impacts of M&A such as the AmBank divestment and business closures.

Our Markets business performance was outstanding, with revenues 27% higher and 5% higher than the very strong first half of last year.

Net interest income ex Markets reduced by $91m, with strong business volume growth partially offsetting margin reductions.

Other Operating Income was up 7% this half and 20% pcp. OOI is impacted by several factors including Markets business performance and seasonality. Therefore the comparison that best reflects underlying business momentum is on an ex-markets basis pcp.

On that metric, Other operating income ex Markets was 11% higher. This growth was underpinned by the uplift in international transaction banking and corporate finance fees and from our cards businesses in Australia and New Zealand.

Now I'll spend some time talking about net interest income and Markets in particular.

Starting with volume.

We grew lending and deposit volume across Australia retail, commercial and New Zealand. Group average customer deposits grew 3% and average lending grew 2% once again. I'll make three key points here:

1- First, Australia Home Loan volume grew at 1.5x system, the 3rd consecutive half of above system growth. This growth was delivered through improved process and propositions rather than price. Retail deposit mix shifts slowed and total average deposit volumes increased by $9b. While margin pressures from last year flowed through to impact HOH outcomes, actions taken by the business resulted in a Retail exit NIM up 1 bps, March'24 vs September'23.

2- Secondly, Commercial business momentum has been particularly strong with loan growth of 7% year on year. The last 12 months represent the strongest period of absolute loan volume growth ever in the commercial business. This has been driven by continued momentum in our larger segments particularly property and Agri. We also saw a return to growth in the Small Business segment. We are scaling digital offerings, harmonising policies and intensifying our focus on sales and service, making it easier for our customers to do business with us. If we exclude the impact of management actions relating to the sale or rundown of some of our Asset Finance and Investment lending portfolios, underlying growth was 8% year on year. Our pipeline remains very strong and we expect to continue growing above system.

3- Thirdly, in Institutional there was a shift from bank debt to bond markets. Despite this shift which impacted loan volumes, Institutional grew lending revenue while capturing the bond market shift in our Markets business. Total Institutional deposits contracted over the half. However, at call operational deposits grew and lower margin deposits were actively managed down. These outcomes across lending and deposits resulted in Institutional NIM ex Markets expanding 3 bps.

A combination of diversification, active margin management and volume momentum has stabilised both underlying net interest margin and net interest income over the last 3 quarters as evident on this slide.

Our focus remains to allocate capital to the most return accretive opportunities across our businesses driving volume growth to optimise Net Interest Income.

Group underlying NIM, as a result of our management actions, was limited to a 2 bps decline.

As I just mentioned pressure on asset pricing reduced with assets contributing 4 bps to the NIM decline vs 7 bps in 2H23. Active management of our liability pricing and the asset and funding mix allowed us to hold NIM flat.

There was a continuing NIM benefit from the capital and replicating portfolio which in this half again provided a 3 bps uplift. While the impact of capital and replicating portfolio may vary in each half, we expect it to be a tailwind at least over the next 2-3 years with the net benefit dependent on volume changes.

We are very encouraged as we exit the first half with benefits of diversification, strong balance sheet and stabilising NIM all supportive to NII.

The Markets business delivered its strongest first half performance since 2017, with total Markets income up 27%, and customer franchise income up 30%.

The customer franchise performed well in each product segment and was able to harness higher client demand in certain Rates and Commodities offerings. Also, important to note that our differentiated international footprint accounted for two thirds of the growth in franchise income on a year-on-year basis.

It's important to note that while the markets business has been historically characterised by revenue volatility, the growing strength of our customer franchise has delivered 40% growth over the last 3 years and has been consistent in its performance. The consistency of Markets franchise income is underpinned by the reasons our clients choose us – the suite of capabilities that we have built over several years of investment in combination with our unique footprint across the region. It’s also because the high quality of our customer base which represent some of the largest companies in the world.

I’ll turn now to how Markets activities flow through to Group revenue and how this impacts the Group net interest margin.

While Markets income increased 27% this half, this comprised a 36% increase in OOI, partially offset by a reduction in NII, due to higher funding costs.

Consequently, the impact of Markets activities on the Group NIM delta was an adverse 7 basis points. This comprises 5 bps points from higher growth in Markets assets relative to the group, and 2 basis points due to higher funding costs.

I won’t spend time on the accounting for Markets income as we detailed this in the roundtable session we ran in March – and the materials are available on our website.

But it’s important to reiterate that the Markets business is run to optimise return on equity and total revenue and, in fact, the very things that drove total markets revenue and ROE uplifts in the half also adversely impacted headline Group NIM.

Now moving to costs.

Our disciplined approach to cost management constrained expense growth to 1%. This is despite our largest cost component, our people costs, being impacted by inflation from October 1.

While we continued to progress execution of our strategic priorities we delivered our highest level of productivity benefits ever in this half.

As a result of these actions, our FTE reduced by 350 across our higher cost locations in the half which reflects ongoing optimisation of our footprint, technology simplification, and continued investment into automation and digital channels.

As I've mentioned many times, productivity is an ongoing discipline for us, with more than $1.5bn of benefits delivered since 2019.

Our productivity efforts this half have focused on:

- Continuing to simplify our technology, with almost half of our targeted applications now hosted on Cloud.
- Consolidating and rationalising areas within our Head Office functions; and
- Continuing to build out our Group Capability Centers.

Productivity is improving customers' experience, allowing them to engage with us via their channel of choice. For example,

- In Australia Retail close to 1m conversations were undertaken through our Message Us capability in the half, up 58%, with 40% of those conversations not requiring banker support.
- Meanwhile in Commercial, almost half of our small business lending applications were processed through streamlined processes that translated to a 10% reduction in Time to Money year-on-year. Digital origination of transaction accounts increased 35% year-on-year.

It is this continued focus on productivity that allows us to invest in our strategic initiatives and drives business growth and momentum.

Moving to Individual Provisions.

The work we have undertaken over a number of years to reshape our lending book continues to drive strong credit quality outcomes. In line with the last 2 years, this half we saw another low IP loss rate outcome of 1 basis point, with a charge of $38m.

We believe the outcomes of our portfolio improvement are long term in nature and have delivered a structural change in expected loss rates, resulting in our peer leading low provision charge and IP loss rates in recent years.

Like the rest of the sector, we are starting to see pockets of stress emerge, primarily in parts of our Australia Mortgage and New Zealand portfolio as our customers deal with the impact of high interest rates and significant cost of living pressures. We continue to work with our customers to provide any support required.

It is important to note, however, these delinquency increases are off a historically low base, and delinquency levels continue to remain below 2019 levels.

I'll comment briefly on the Collective Provision Balance which stands at $4.05 billion.

Since the first half of 2020, we've witnessed a number of pronounced economic trends. A pandemic, a massive influx of liquidity, the subsequent rapid rise in cash rates, a dramatic rise in, and stubborn levels of inflation, and a steep rise in home loan interest rates.

Over the past year, these conditions have moderated. As a result, several economic indicators are beginning to move back into a more normal range. At the same time though, as I said earlier, there are signs emerging of stress in parts of our New Zealand and Australian Housing portfolios.

Post the introduction of AASB 9, banks were required to take more of a forward-looking view of expected future credit losses including management's forward-looking views on the range of potential impacts.

As we see less of these extreme events and we return to what we could characterise as more normal economic conditions, that could provide us with the comfort to reduce the weightings of both the downside and severe economic model scenarios and consequently increase the weighting to the base case economic scenario.

The outcome of such changes would naturally result in a future release to our current collective provision levels.

However, given the level of volatility and uncertainty that still exists from a cost of living, inflation, direction of interest rates and geopolitical perspective, we believe our provision levels are prudent and appropriate, for now.

We have further strengthened our balance sheet with high levels of capital and liquidity. Our CET1 ratio at the end of the half was 13.5%, including the impact of the partial sale of our AmBank investment. Our CET1 ratio pro forma for both Suncorp and the $2b on-market buy-back remains very strong at 11.8%. On an internationally harmonised basis, we continue to be one of the highest capitalised banks in the world.

This capital strength provides capacity to support our customers, and to take advantage of growth opportunities when they are on strategy and return accretive.

We also announced today 83 cps dividend partially franked at 65%. The franking reflects the geographically diverse nature of our business including the strong performance of our non-Australian businesses.

We will continue to maximise the distribution of franking credits to our shareholders as they are more valuable to you than to us. I should note that post-completion of Suncorp Bank our franking generation will improve.

Similarly, our liquidity position continues to strengthen with an LCR ratio of 134% and a well-diversified funding base by geography and by customer segment

We have also replaced our TFF maturities and have completed 2/3rds of our full year term funding needs in the first half.

Looking forward, my areas of focus support the Group key objectives as outlined by Shayne.

First, our financial performance remained strong with all 4 businesses performing well, and with management actions producing stable NIM outcomes over the last 3 quarters.

Looking forward, we see margin headwinds moderating as deposit mix begins to stabilise and asset margins become less of a headwind. We are optimistic that the current trends, our business momentum and diversification will be supportive to Net Interest Income. The competitive environment, however, remains unpredictable and we will continue to refine our settings to optimise our financial outcomes.

Second, diversification remains a positive differentiator for us particularly because of 4 largely uncorrelated businesses. Having a set of healthy businesses is crucial to leveraging diversification benefits. In our case, all four divisions and each region are meaningful contributors to the Group performance, are each profitable with above cost of capital outcomes and we continue to target growth across our portfolio.

Third, we are consistently executing our strategic initiatives and will accelerate where we feel appropriate. For example, in the second half, we will uplift investment in preparing Suncorp Bank for integration as well as accelerating the work required to seamlessly transition our existing customers and Suncorp customers to the superior ANZ Plus propositions.

Fourth, we have a longstanding focus on cost management. While fully offsetting very high levels of inflation remains challenging, you have seen us demonstrate a disciplined and growth-oriented investment approach and a consistent focus on productivity for many years. You should assume this continues.

Finally, we remain committed to maintaining a strong balance sheet. This is vital for us because it allows our businesses to deliver our commitment to our customers and provides us with the capacity to access accretive opportunities.

Thanks and I'll hand back to you Jill.

For media enquiries contact:

Lachlan McNaughton
Head of Media Relations
Tel: +61 457 494 414

Amanda Schultz
Media & Public Relations Manager
Tel: +61 401 532 325