

News Release

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2020 Full Year Results – Chief Financial Officer Michelle Jablko speaking notes

Shayne spoke about what we've done this year to support customers, to protect our balance sheet, and to prepare for the future. All of this shows up in our result, so let me take you through that now.

We started with a strong balance sheet, and strengthened it further through active capital management, running our core business well and bolstering credit reserves.

Our pro-forma CET1 capital is 11.4%, around \$4bn above unquestionably strong.

Yes, our Profit is down 42% and that's a large reduction. But it was mainly driven by two things – asset impairments that were neutral to capital, and higher provision balances that protect against losses that may come in the future.

Actual credit losses were low, and excluding large and notable items, pre-provision earnings were down 1%.

This is where we benefited from a diversified business, and strong and consistent cost management over a long period, which helped to offset the impact of lower interest rates.

EPS was also down 42% - in line with profit as we actively managed capital without an equity raising. A well-managed result, in difficult circumstances, and an outcome that's given us the confidence to pay a slightly higher final dividend of 35cps.

If I start with liquidity and funding on slide 15. Our key ratios are well in excess of regulatory minimums, which has enabled us to support customers and maintain balance sheet strength.

We've had very strong growth in retail and commercial deposits, up \$34bn for the year.

We drew down our initial \$12bn allocation of the RBA's Term Funding Facility. This offset \$13bn in term wholesale funding maturities. We can access further TFF funding, but we'll manage this depending on customer demand, and the risk adjusted returns on the use of these funds.

Moving to capital on slide 16, active capital management has again been a real strength of our result. We finished the year with a CET1 ratio of 11.3% or 11.4% on a pro-forma basis.

Our capital ratio is the same as this time last year, that's despite the impacts of COVID. We achieved this through strong organic capital generation, and actively managing our capital efficiency.

We supported strong demand from our Institutional customers when they needed us, pricing appropriately for risk.

As global liquidity dynamics changed into the second half, we proactively reduced credit risk weighted assets, particularly in International, while at the same time growing in less capital intensive areas like Australian and New Zealand home loans.

Strong organic capital growth was partly offset by growth in non-credit RWA of 19 bps, mostly due to greater market volatility.

And then we used 19bps of capital to build our credit reserves, and risk weight migration of 10bps in the second half was lower than expected, I'll come back and touch on both of these in detail later.

Finally, we completed the sale of UDC in New Zealand, and also paid the interim dividend in September.

So we're pleased with our strong capital outcome, which is based on continued pre-provision earnings, and good capital management.

Moving on to our cash profit performance on slide 17. I've already touched on the two main drivers of the reduction in cash profit this year.

There were also \$528m of large and notable items in the second half that we announced earlier this week. Large and notable items are included in both cash and statutory profit.

Looking through these, just so that you can better understand of the business trends, PBP was down 1% for the year, with both revenue and expenses broadly flat.

There are a number of important dynamics which drove this result. Let me take you through these starting with margin dynamics on Slide 18.

NIM in the second half was down 10bps half-on-half, broadly in line with what we spoke about at the Q3 trading update. Lower interest rates had the biggest impact in the half – down 6bps net of repricing.

Asset mix also had a large impact, with reduced credit card balances, more customers choosing fixed-rate mortgages, and the flow through impact of relatively stronger institutional growth from the first half.

This was partially offset by improved deposit mix with higher at-call deposits. As deposits grew faster than lending, we increased liquid asset holdings in the half, which contributed to a -2bp margin headwind. This was offset by lower wholesale funding costs and optimising deposit pricing.

Asset pricing was a small negative, with ongoing competitive pressures in our home lending business, partially offset by higher asset pricing in Institutional.

Turning to the outlook for margins, if you look at slide 19, there are a number of anticipated headwinds and tailwinds. Some of these have occurred, and we can estimate the likely impact.

For example, we expect the impact from existing low rates is around 3bps in the first half, as these continue to flow through to the replicating portfolios.

Other impacts are uncertain – either as to whether they'll occur and if so, their impact.

For example, possible further easing by central banks. I do note that we're increasingly sensitive to this as we have more rate insensitive deposits. However, the ultimate impact will depend on the form of any easing, as well as the customer and market responses.

Any further growth in liquidity may need to be deployed in low yielding liquid assets, which we'll manage on a risk adjusted returns basis, although it could have an impact on NIM.

Customer loan demand, and term wholesale debt maturities may help to offset the margin impacts over time. It's worth noting that we have \$27bn in term debt maturities in FY21

On balance, we think industry margins will continue to be under pressure, although the magnitude is hard to predict.

I won't spend too long on each of our business segments, but there are a few key points I want to make, starting on slide 20 with Australia Retail and Commercial.

Pleasingly, we had renewed momentum in our Home Loans business. This helped offset amortisation given almost 90% of home loans are P&I, in addition to some customers paying down their debt faster because of lower interest rates.

I've already spoken about lower credit card and personal loan volumes and Commercial volumes were also flat, as borrowers remain cautious.

So we grew where it made sense and will continue to look for opportunities to prudently support demand as the economic outlook becomes clearer for our customers.

Turning to Institutional, where revenue was up 13% this year. Our Loans and Specialised Finance business, which we now call Corporate Finance, had revenue down 1% for the year, but up 5% in the half, with higher average volumes and improved front book margins.

Our Transaction Banking business was down given the impact of lower interest rates and subdued global trade. Markets performed well, generating \$2.7bn in revenue.

This was largely a customer-driven outcome, with strong demand for hedging solutions given higher volatility, and assisted by wider bid-offer spreads.

Balance Sheet Trading was also up in the second half, with tightening bond spreads. I want to be clear: our risk appetite did not change.

And we do still resource Markets as a \$2bn business, but as you saw this year, we're well positioned to maximise market conditions.

Looking at slide 22, we continued our track record of strong cost management.

Adjusted for FX, costs were flat for the year. Importantly, our BAU costs were down \$281m or 3.7%. And this is net of inflation.

Within our BAU savings, we reduced personnel costs by \$172m, and we also reduced property and run the bank technology costs.

We benefited here from previous year initiatives, like property consolidation in our international network, and investments we'd made to simplify our processes.

COVID accelerated some productivity benefits, as customers' preferences towards digital channels increased significantly.

COVID also caused some challenges, however our people helped offset these, taking their annual leave despite lockdowns, and with less customers in branches, we redeployed staff to help with extra demand in our contact centres.

We were also able to drive savings in travel and marketing costs. While some of this might bounce back in 2021, we've also all learnt to work differently, and our simplification and productivity initiatives are continuing.

All of this has created capacity for us to invest more in the future, and actually more so than ever before. Regulatory and compliance initiatives made up around 40% of our investment spend, and a bit over half of the \$320m increase. A number of these initiatives, like BS11, should reach their peak spend in FY21.

We also increased spend on our digital and data assets and our broader simplification agenda. 76% of our investment spend was expensed in the year, and new software capitalisation was down 13% year on year.

As we look forward, we remain committed to absolute cost reductions over time. As we've always said, the path may not always be linear, and we'll continue to invest to help us get there. But our track record is good, and ongoing productivity an important part of our strategy.

Turning to slide 24, COVID has had a significant impact on credit provisions for all banks this year. We're yet to see the emergence of actual losses from COVID, with the second-half loss rate of 12bp pretty much the same as 2019 levels.

We bolstered our collective provision reserves to \$5 billion. This is double what we had before the adoption of AASB9 in 2018.

As you can see on slide 25, we had a collective provision charge of \$1.7bn over the year, around \$1bn in the first half and around \$700m in the second half.

The composition of the increase evolved through the year as we learnt more about the economic impacts, and it became clearer that the nature of this stress could have a relatively bigger impact on certain customer segments.

The first half was mostly about a worse economic outlook, and the second half was more about additional overlays in our commercial segments.

To give you a bit more colour, the \$1bn increase in the first half was based on a rather grim economic outlook, with a 13% trough fall in GDP and peak unemployment of 13%.

As the year went on, clearly the 2020 outcomes have clearly not been as severe. However we're now assuming that the economic recovery takes longer. These changes in the economic outlook had different impacts on provisions across our portfolio.

If I then move to the second half, the key driver of the \$700m increase, was because we added \$685 million in additional overlays.

Firstly, we assessed all retail and commercial customers on deferral packages into four categories, and we moved all of those customers in the higher-risk categories, along with any customers who asked for a deferral extension, into Stage 2 or lifetime expected loss.

We also applied an overlay across our commercial business to reflect potentially lower security values in FY21, and to reflect higher-risk industries, and the impact of the extended Victorian lockdown on some customers.

We believe we've taken a very considered approach, adding to our provision balances over the course of the year as health and economic conditions unfolded, and as we learned more about the ultimate impact on our customers.

Moving to the outlook, I'll begin with capital, where we start from a position of strength. Our views here have evolved through the year. We originally thought that credit risk migration would be higher, and would be more skewed to Institutional customers.

We've now reviewed approximately 93% of the Institutional portfolio and 90% of all wholesale customers this year, and the outcomes were better than originally expected, as many of our customers are in good shape. That's not to say there won't be further stress here, but less likely than we'd originally thought.

Retail and commercial customers also responded sensibly and, assisted by a range of support measures, built their savings buffers and reduced credit card spend. This resulted in

lower delinquencies, however as you'd expect, we're forecasting this to change in FY21 as support measures are wound back.

If we put all this together, our base expectation is that group wide risk migration in FY21 will be around 50 bps. This would take the total risk migration over 2020 and 21 to around 65 bps instead of the 110 bps we spoke about previously. The key driver of this is lower-risk migration in Institutional.

All of this has given our Board the confidence to pay a fully franked 35cps final dividend, a cautious outcome that recognises the health of our balance sheet and the needs of our shareholders.

So, we've managed the business well at a difficult time. Looking forward, we'll continue to support customers, and grow sensibility in our priority segments.

While we may see the emergence of actual credit losses from COVID, we've built good capital and provision buffers. Low interest rates may help here too, but will cause revenue pressures.

Against this background, we're managing all our resource settings very closely. We continue to drive productivity, to create value, and to make the right longer term decisions for the business.

We're actively managing capital to maintain balance sheet strength, and to achieve this in the most efficient way. And, we're managing our liquidity to optimise risk adjusted returns.

So there are a number of industry challenges ahead, but this year's result sets us up well.

With that I'll hand back to Shayne.

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