ANZ Half Year 2021 Result

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Chief Executive Officer Shayne Elliott Speaking Notes

Thanks Jill and thank you all for joining us.

We hoped we would be seeing you in person but felt it was appropriate to maintain the virtual option for the moment. Hopefully we get to see you all at the full-year.

Given the success Australia and New Zealand has had in managing the health and economic impact of COVID-19, it can be easy to forget the pandemic is not yet behind us.

Perth’s short lockdown last month reinforced we still have a way to go…while third and fourth waves in different countries remind us how quickly things change and how bad things can get.

India, a country in which we have a deep history, is having a particularly distressing time.

We have many staff, family and friends in India and we are actively supporting them as they endure a truly tragic situation.

We announced last week a donation of $1 million to World Vision’s India COVID-19 appeal as well as setting aside a further $1 million to match customer and staff donations.

I am sad to advise we’ve had colleagues tragically pass away in India recently after contracting COVID in their local community.

As CEO it hits home when you hear this news and we are doing everything we can to provide support to their families as well as other team members.

It reminds us all of the human impact of this pandemic. But I have been inspired by the resilience and determination of our team in India and the support they have received from their colleagues around the world.

Despite the difficulties, our team there keep turning up each day…doing their best for ANZ and our customers. The major difference being they are doing it from their living rooms, rather than our offices.

In Australia and New Zealand, the situation is clearly more positive.

While lockdowns continue to be a factor, the economy is tracking well and businesses are feeling more confident.

Airlines have reported a surge in demand and it was terrific to see the opening of the Trans-Tasman bubble. Melbourne even hosted the world’s largest sporting event since the pandemic began with 78,000 people at the MCG.

If you reflect back to our full-year results in October…a time when Victoria was just emerging from a four-month lockdown…it was looking unlikely there would be anybody in a stadium by April.

Likewise, from ANZ's perspective, the possibility of releasing half a billion in credit provisions so soon would have been equally optimistic.

But a faster economic recovery, along with the work over the past five years to build a better, stronger bank…our disciplined approach to capital management…and the work we have done to improve our culture has us well placed heading into the remainder of 2021.

In fact, we have never been stronger. Our balance sheet is in great shape and we still have almost $4.3 billion in reserve if conditions deteriorate.

This means we have the capacity to support customers who are still doing it tough while looking for opportunities to grow our business in our targeted segments, and delivering fair and decent dividends to shareholders.

As you know, the loan deferrals offered by the banks, in cooperation with regulators and the Government, played an important role in the overall economic recovery.

Put simply, they achieved what they were designed to do: to buy people time. And our customers used that time wisely.

And to illustrate this point…of the 121,000 deferrals we provided to home owners in Australia and New Zealand, only 2% have been transferred to our specialist team that help people in financial distress.

Aggregated data of course does not tell the true story of a business or household facing tough times.

And we do know there are still too many people doing it tough…such as in the regions heavily reliant on tourism or businesses catering to international students.

One of the benefits of our simplification strategy, and the lessons of the Royal Commission, is that we have the financial strength, commitment and specialist teams in place to continue to support those businesses…while facilitating the economic recovery that is underway.

Financials

You will see from the media release and chart pack we posted a statutory profit of $2.94 billion. Before tax and provisions, cash profit was down by 10% compared with the previous half.

This was a very good outcome in a difficult economic environment.

The impact of COVID on so much of our result can make it difficult to see the underlying strength of our business. So let me focus on where I see that strength.

Core banking revenue was up 3%, while we improved our position with targeted customer segments. Trading revenue did normalise after an exceptional 2020 result.

Our disciplined approach to expenses continued with costs down around 2%.

Margins across the group were up for the first time in a decade while Return on Equity is heading in the right direction.

With an ROE of 9.7% we are clearly not declaring victory. However, I would point out the additional capital we hold today above the 10.5% 'unquestionably strong' CET1 benchmark equates to around 140 basis points of ROE drag.

Capital generation was again a feature of this result with a 110 basis point improvement in the half.

Our already strong balance sheet and effective management through an incredibly volatile period meant we were able to lift the dividend to 70 cents, fully franked…a level more in line with our targeted long-term payout ratio of 60-65%.

We don't however think about the dividend in isolation.

With such a strong capital position, the Board does have the flexibility to actively consider returning surplus capital to shareholders in the future once the outlook is a little clearer.

However, we will always balance maintaining an appropriately strong balance sheet with the importance of capital efficiency.

Performance

Moving to some of the performance highlights of the half.

We continued to demonstrate strategic discipline and execution excellence.

As I've talked about before, we are focussed on a few key things:

- Helping people save for, buy and own a home
- Start, run and grow a small business
- And helping companies who move goods and capital around the region.

Pleasingly, the businesses central to our strategy all performed well.

Home Owners

Home ownership is core to what we do and I've been satisfied with the turn-around of our business in Australia while we continue to lead the market in New Zealand.

In Australia, we grew in our targeted segment of owner occupiers and maintained our high quality lending standards without growing costs.

As we sit here today, we have regained our place as the third largest lender…adding more than 92,000 new home loan accounts this half in Australia.

It was a similar story in New Zealand where we grew faster than the market and remain firmly in the number one position.

Challenges remain in Australia with home loan turn-around times, particularly in the broker space, given the on-going growth in applications.

While we'd almost doubled our assessment capacity, the new business we attracted regularly exceeded capacity.

That means our assessment service levels in recent times have not been where we need them to be.

We know we need to improve and we're investing in all stages of our processes.

Increasing the use of automation will be a key factor.

The benefits of automation are best highlighted by how we assess applications through our branch network, where two thirds of decisions are automated and customers are receiving a first decision on average within two days.

Looking ahead, we expect growth to moderate in the second half as customers pay down their debt faster.

This is good for the economy and good for our customers. It's equally critical in helping customers 'own' their home faster.

As we look further ahead, we would expect slowing population growth will begin to have an impact on demand in Australia and New Zealand.

Business Owners

Moving to another core part of the strategy: helping people start, run and grow a small business.

This is a great area for us. We love small business. They are highly diversified and have good connection with our retail franchise.

Our SME business in Australia is a little different to our peers. We have about 500,000 customers of which only a third have borrowing needs.

Getting paid as quickly as possible is really important for small business which is why we announced a partnership in December with Worldline…to provide world-class payments technology through a new joint venture.

It's interesting to see the significant shift in customer payment behaviour away from cash and towards digital. This accelerated during COVID and while early days it appears to be a permanent shift.

That means we have even greater need to provide our customers with access to the very best technology. We knew we couldn't do it on our own so we partnered with the best in the world.

For those that need it we are also making it easier for small businesses to borrow with the formal launch later this month of ANZ GoBiz.

GoBiz has been in pilot for a few months and allows customers, if they choose, to plug their accounting software straight into our systems so we can understand their financials almost instantly and approve working capital loans faster.

We have also digitised processes in the back-end.

It works with all the major accounting software packages - Xero, MYOB and QuickBooks - covering about 70% of all small businesses in Australia.

GoBiz will be available to customers more broadly just as we are starting to see a pick-up in demand for lending.

Effectively, we are reducing the time it takes to get the money in the hands of small businesses from 30 to 4 days.

In these volatile times, providing small business with rapid finance allows them to respond quickly and effectively to any new opportunities.

Trade & Capital Flows

Now to look at Institutional where we help companies move goods and capital through the region.

Overall Institutional customer revenue was solid but trading revenues reduced after an exceptional 2020.

I am particularly pleased that the hard work we have done to de-risk and focus Institutional over the past five years is paying dividends.

Margins were up which offset lower lending volumes and our disciplined customer selection during that time protected the bank well.

It has also positioned us well for future growth as our target customers, here and globally have adapted fast which is seeing more of our Institutional customers strengthen their market positions and their balance sheets.

Importantly, we are also processing much higher volumes in Institutional, particularly for other financial institutions while reducing expenses.

Providing our processing power to other FIs globally is now a core strength and driver of growth for ANZ.

Take the New Payments Platform in Australia for example.

Since it launched, there have been 11 mandates to run NPP for other banks and we've won ten.

We continue to expect to see significant growth in this platform for years to come as more Australians seek the benefits of real time payments.

And providing platforms for other banks to use is a natural evolution of our Institutional business. It provides a good annuity stream and it's something you will hear us talk about more in the future.

Costs

Finally, in addition to prudent stewardship of shareholders' funds, our approach to cost management has been a critical element of our strategy to date and will continue to be so.

We have a track record of simplifying the bank, clarifying who we service, reducing what we do and making processes simpler.

That has increased our resilience, improved customer outcomes and has already delivered $1.3bn in cost savings since 2015 - a 15% absolute reduction.

This is over and above the $900 million of benefits driven by divestments.

While we made a strong start, there is more to be achieved and we have strong momentum.

And I should point out, it's as much about the shape or the composition of the cost base, rather than just the quantum.

The reality is the shape will change with regards to being more variable, more correlated to revenue and a greater weight on technology investment.

And in technology and data, we see new opportunities particularly in the area of process streamlining, increasing self-service and automation.

While we don't have micro plans to solve every problem and find every dollar, we have been operating a robust, agile and disciplined program – that we call "Accelerated Strategy" – since late 2018.

That accelerated strategy program currently oversees around 150 initiatives that we are continually refreshing, with clear Executive Committee accountabilities and short-term delivery cycles.

This includes weekly updates with me and regular updates to the Board.

The cadence of delivery has improved and we are building a stronger execution culture across the bank as a result.

That gives us confidence that we can further reduce the cost of running the bank, while delivering better and more contemporary services for customers, further increasing resilience and, importantly, providing sufficient space for us to continue to invest for long term and sustainable growth.

In 2018, in response to a question, I suggested that successful execution of our strategy could result in a future cost base of around $8bn.

It was never a target in and of itself, but an aspiration for what a simpler better bank would cost to run well.

We continue to believe that - based on our track record to date and the opportunities we see.

Setting targets is easy. Delivering them is hard.

In fact, targets can be dangerous. We could easily achieve $8 billion by underinvesting and focusing on the short term.

We are not doing that.

In fact, our level of investment has never been higher. And in order to build a sustainable business, we need to retain the capacity to invest where we see growth and opportunity.

In FY20, looking through the Large and Notable items, we spent $8.6bn.

At a very high level that is split into $7.6 billion on day-to-day "run the bank" costs and $1 billion being the operating expense impact of our "change the bank" investments.

While we cannot predict the future environment, based on the work already done, the opportunities in planning and development and our confidence in the accelerated strategy framework, we imagine our future cost base will be closer to $7bn to run the bank, while still supporting an investment spend at the same level as today, bringing the reported cost base to around $8bn by the time we exit FY23.

Getting from here to there won't be easy but it wasn't easy getting from $9.3 billion from a standing start to $8.6 billion either.

Yet we delivered that despite absorbing a $400 million uplift in annual investment spend.

Specific initiatives already underway will likely deliver about two-thirds of the challenge and our accelerated strategy program is focused on further closing the gap.

We apply the same agile principles to this challenge as we do in running much of the bank: break the work in to short cycles and bite size pieces, empower the teams, test and learn, reset and back those teams that deliver results.

You can do the maths yourself and, assuming a little bit of inflation, closing that gap means we need to deliver the $600 million in the initiatives underway and find a further $300 million over the next 2-3 years.

Some may prefer we set a hard and fast target and set out a spreadsheet on how we get there but life and business is more complicated than that.

This will not be a straight line. In some cases we may actually spend a little faster to realise the benefits quicker.

This half for instance, BAU costs were again down but an increase in investment spend in the second half may result in expenses being up around 1% to 2% at the full year.

There are some additional slides in the pack which I'm sure you will have questions about a little later.

I want to be clear: our ambition is to build a better bank.

We believe that will result in a faster, lower risk, better bank for customers that costs less to run.

But we are not blindly targeting a cost number just for the sake of it.

However, my team and I are very conscious of the value of executive accountability and credibility and we will continue to prudently manage shareholders' capital and expense dollars, and update shareholders regarding outcomes.

So in summary, ANZ is in a strong position both financially and operationally.

We have improved our culture and our people are more engaged than ever before.

We have relationships with great customers who by and large have come through the pandemic in good shape.

There is more to do but I'm excited about what the future holds. We have the financial strength and team in place to take advantage of future opportunities.

I will now hand to Shane to cover the financial result in more detail before making some closing remarks.

Conclusion

Thanks Shane.

I was asked at a parliamentary hearing the other day to describe the economy in one word. The word I chose was recovering.

This is because while economic activity has recovered quicker and stronger than many believed possible, there are still many households and businesses doing it tough.

The pandemic is not over and we are concerned about the well-being of our colleagues, particularly in India, the Philippines and PNG.

So while we have delivered a good result today...there will be fresh obstacles ahead.

We will deal with these the same way <u>this</u> team has confronted the challenges of the past.

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

It has been a difficult period but I am proud of how we responded and what we have achieved.

However, we would not have been able to do this without the 38,000 people who have been working hard for their customers.

I'd also like to acknowledge our customers. Whether it's one of the coffee shops here in Docklands, a large multi-national firm or one of our home loan customers. We only exist because of them.

They’ve all been through quite the journey in recent months and it’s hard not to be impressed with how they’ve responded to unimaginable challenges.

With that we will open it up for questions.

ENDS

For media enquiries contact:

Stephen Ries, +61 409 655 551