

# ANZ Full Year 2021 Result

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## **2021 Full Year Results – Chief Financial Officer Farhan Faruqui speaking notes**

Thank you Shayne, and hello everyone.

I am new to the CFO role but not to ANZ and many of you I already know well and I am looking forward to seeing all of you once I'm in Melbourne.

My three decades in banking span a wide variety of roles and geographies and it is that commercial lens I'm bringing to this role.

In partnership with our business heads, my focus is squarely on the pace and quality of the delivery of the next phase of our strategy execution - with a view to ensuring that our capital and resource allocation is delivering value for our stakeholders.

There's no question banking is changing dramatically and while there are challenges ahead, we see opportunities in the change as well. And I'm confident we have the team, the culture, the corporate foundations and the diversity of businesses to capitalise on those opportunities.

Yes, Sustainable and profitable growth requires disciplined execution. At ANZ we have successfully demonstrated that skillset including in the Institutional business where I was fortunate enough to be part of a successful transformation.

Our Financial Year '21 results highlight the benefit of our diverse portfolio of businesses and geographies.

New Zealand capitalised on its scale and a rebalanced business to produce strong results.

Institutional continued to dominate in Australia and New Zealand and efficiently navigated COVID-related challenges in the International business to grow in non-markets banking. Our markets business delivered a solid revenue outcome despite a less conducive macro environment.

Australia retail and commercial delivered income growth year on year and half on half - notwithstanding challenges in home lending which Shayne referred to and I'll discuss more later.

Our cash profit, EPS and RoE outcomes for the full year again reflect our diversification and continued focus on building a more efficient, more resilient business.

Looking forward I feel we are well positioned given:

- Capital, liquidity and funding are robust.
- The credit quality of our portfolio is strong.
- And importantly we're delivering for our shareholders, with stronger dividends year on year, a share buyback and a TSR performance of 70% for the year.

And so to my Agenda.

Today I'll focus on our strong corporate foundations then turn to our financial performance and finally to our investment agenda before concluding with my focus areas as we move into Financial Year 2022.

## **Corporate Strength**

On the topic of Corporate strength, I'll begin with Capital.

Our CET1 ratio at 12.3% sits approximately \$6 billion above APRA's unquestionably strong benchmark.

It reflects strong organic capital generation along with ongoing capital allocation discipline.

We have supported our customers profitably and increased our dividend year on year, with the final dividend of 72 cps within the target range of 60-65% of Cash Profit Excluding Large Notable items.

And as you know, we did not need to dilute shareholders with equity raisings during the pandemic.

We are almost halfway through our \$1.5 billion share buyback and will continue to consider the best of use any surplus capital. By the end of the current buyback we will have reduced our share count by 5% over a five year period.

In terms of liquidity and funding, our key ratios are all well in excess of regulatory minimums as well as management targets.

## **Credit quality**

Turning now to our portfolio credit quality which reflects 5 years of management action to reshape the portfolio.

Coupled with ongoing customer selection discipline, this provides greater predictability and stability in our earnings profile.

Generally, customers have managed well through the pandemic. Our gross impaired assets are at historic lows and the long run internal loss rate sits at 22 basis points.

## **Financial Performance**

Moving on to our financial performance.

Cash profit was up 65% for the year, a solid result against a challenging backdrop.

This outcome required well executed management action to offset margin headwinds, heightened competitive intensity, a challenged environment for our Markets business, and housing lending growth challenges for our Australian business.

Lower credit provisions provided a tailwind and disciplined run the bank cost management ensured we created investment capacity.

We released information regarding 2 second half large/notable items last week. I'd note these had a limited impact in the half.

As is customary from this point forward my references will be to Cash Profit excluding Large Notable Items.

The key factors which drove the result were:

Core banking income increased 1%, benefitting from disciplined margin management.

Markets income at \$1.94 billion, while strong, was lower following outperformance last year.

Costs were up 1.9% FX adjusted for the year – in line with the guidance we provided at the half. Our 'run the bank' costs decreased 3% off the back of over \$300 million of productivity savings this year.

This enabled a record level of investment the details of which I'll speak to a little later.

And finally, a significant decrease in credit provisions reflecting an improved economic outlook.

## **NIM**

Our Margin outcome was a highlight.

The headline margin improved 2 basis points in the half while underlying margins were down 2 basis points – disciplined margin management largely offset the impact of industry headwinds.

## **Margin Drivers**

There are a number of structural trends impacting sector margins in both Australia and in New Zealand.

Ongoing customer preference for fixed rate home loans in the low interest rate environment drove a significant mix shift in our mortgage flows with fixed rate volumes up \$22 billion and Standard Variable loans down \$16 billion.

House price growth saw increased sector home lending activity, higher refinancing levels and intense price competition. For example, about 30% of our home loan portfolios reset this half.

System liquidity continues to expand, with average customer deposits increasing \$17 billion in the half, outpacing growth in customer lending.

This, coupled with our transition off the RBA's committed liquidity facility, increased liquid assets which was negative for margins but positive for returns.

Collectively, these structural headwinds compressed Group NIM by 8 basis points.

Partially offsetting this was a net \$40 billion shift interim versus at call deposits as customers favoured flexibility in a low rate environment. In addition to a shift in deposit mix, more expensive term wholesale debt matured and our teams actively managed the pricing of our deposits.

Overall, macro factors along with management actions resulted in a 6 basis point benefit to margin this half.

Turning to the outlook, consistent with long run sector trends, there is downside risk to margins in Financial Year 2022.

The negative impact of higher liquids, along with asset price competition and customer preference for fixed rate home loans, is expected to persist.

However, you should expect that as in Financial Year 2021 we will undertake management actions to mitigate market conditions wherever possible.

We will continue to optimise funding costs, albeit the opportunity for further repricing is becoming limited.

However, rate rises and further steepening in yield curves will provide a tailwind but that will depend on global macro-economic settings and the inflation outlook in the markets in which we operate.

Let me now turn to our divisional performance.

### **Australia Retail and Commercial**

Firstly, to our Australian Retail and Commercial Division which recorded a solid result year on year, with higher revenues, flat expenses and lower provisions.

However, our balance sheet performance in the second half was more challenging, with Home Loan volumes declining \$3 billion half on half.

Against this backdrop, margins have performed well, with NIM higher half on half and risk adjusted NIM improving 15 basis points, the highest it has been since 1H18. This in turn allowed for revenue to be higher half on half.

The Commercial bank grew revenue half on half despite commercial lending continuing to be impacted by weaker demand as a result of economic uncertainty. Unsecured lending volumes were adversely affected by ongoing lockdowns and travel restrictions.

### **Australian Home Loans**

Turning to the topic of momentum in the Australia Housing portfolio that I mentioned earlier.

On a spot basis the home loan book grew \$3 billion for the year with growth in the first half, followed by a decline in the second half.

Available Operational processing capacity in Financial Year '21, while 30% higher than that of 3 years ago, was not sufficient to match system growth.

Simply put, the strength of the Australian property market well exceeded our expectations, with sector activity both from new lending and refinancing elevated.

Now, growth for growth's sake is of course not our focus. Improving the performance of our Australian Home Loan portfolio in a sustainable and profitable way is our highest priority.

Our efforts have been focused on creating additional, sustainable processing capacity and improving assessment turnaround times. While there has been a circa 40% improvement in processing times across the entire portfolio in the last 6 months we are clearly not back to where we want to be. But good progress is being made on this front.

We have a firm handle on the issues to be addressed, and over a number of months, we have been working on operational and process enhancements including:

- Increased operations resources to support assessment activity
- Streamlining our origination processes and, progressing work on digitisation and automation to create capacity.

As a result, as Shayne mentioned, our balance sheet momentum has shifted and we expect to continue to see improvements as we move through Financial Year 22.

### **Institutional**

And so to Institutional which today is a simpler, more resilient and well-diversified business which again delivered returns well above our cost of capital.

Revenue excluding Markets was up 2% in the second half as economic conditions continued to improve.

Pleasingly risk-adjusted margin increased 6basis points, reflecting appropriate pricing for risk and strong capital discipline in the business.

Corporate Finance revenue increased 3%, driven by a strong margin outcome and better momentum in customer activity, particularly in our FIG business.

Cash management revenue was flat, despite ongoing impacts from the low rate environment. We have had strong market share growth and are well positioned to benefit from improving market conditions.

Markets revenues, at \$1.94 billion, normalised closer to our long run average after the exceptional volatility seen in 2020, with returns well above the Group cost of capital.

Importantly, this half, marked the 11th consecutive half of absolute cost reduction.

We see structural tailwinds for this business over time, arising from future rate rises, the significant potential in sustainability financing and the growing momentum of the platform businesses that Shayne talked about earlier.

Upcoming Capital Reforms, while expected to be neutral at a system level, may favour Institutional businesses like ours. That further improves the attractiveness of our portfolio.

### **New Zealand Personal and Business**

The New Zealand result is a testament to efficiently leveraging the benefits of scale.

In Financial Year '21 the division delivered one of its strongest performances for many years with revenue up 8% YoY and 5% up HoH resulting in cash profit increasing 41% despite a high level of regulatory investment required for BS11.

We are on track to deliver BS11 well ahead of the required RBNZ deadline and are through the majority of spend on this project.

Home loan volumes grew 11% year on year. Risk-adjusted margins further improved in the second half and were up 15 basis points as we continued our focus on improving returns in Business to reflect the changing capital environment.

### **Provision Charge & Balance**

Now, turning to provisions. Credit conditions remained benign in the second half.

Individual provisions were at historic lows... and delinquency rates trended downwards.

The modest \$145m release from the collective provision was largely driven by volume reductions, and an improved portfolio risk profile.

But, while increasing vaccination rates is a positive for the economic outlook... we will maintain a cautious approach to provisioning given the uncertainty of the implications arising from extended lockdowns in a number of major cities.

We believe our collective provision balance and coverage ratio of 122 basis points remains appropriate at this time.

## **Expenses**

Now let's consider expenses.

We do have a strong track-record of disciplined expense management since 2016 and that has continued this year.

Adjusted for FX, our run the bank costs decreased 3%, with productivity initiatives offsetting inflationary impacts, and that allowed us to continue to invest in the business at record levels.

## **Productivity**

Our accelerated strategy initiatives contributed \$308 million of run the bank benefits this year.

Savings came from across the entire business including:

- Greater use of digital technologies and customer self-service - for example, digital sales as a percentage of total sales rose to 41% in New Zealand and to 49% in Australia up from 26% and 30% respectively only two years ago.
- Creating efficiencies via process automation and simplification in our contact centres and our back office.
- The rationalisation of our property footprint and lower operating costs.
- And finally, network and vendor contract optimisation.

We expect to continue to see run the bank costs reduce over time with productivity benefits offsetting inflationary uplifts and higher technology costs as we digitise the business.

The trend however may not be linear each half.

## **Investment Spend**

Our investment spend:

We are investing more than ever before to build a simpler, more resilient business and in a variety of platforms for future growth.

Our investment spend has increased by \$600m over the past two years and was up 23% to \$1.8bn this year.

We continued our discipline on capitalisation with the investment expense rate increasing to 79%... and our capitalised software balance fell to below \$1 billion.

## **Investment Spend**

Almost half of our investment spend this year was on growth and simplification initiatives – including key strategic initiatives like ANZx, GoBiz and Sustainability Finance along with our transition to Cloud based technology.

In Financial Year '21 we reached the peak of our spend on the current regulatory projects which when complete will deliver a greater level of operational resilience and a stronger base for future growth.

We remain committed to investing to grow and to simplifying the business with investment spend in Financial Year '22 expected to be slightly higher than this year with a higher investment expense rate.

Year on Year total expenses are expected to increase slightly, from the Financial Year '21 base of \$8.67 billion, that will be an outcome of lower Run the Bank expenses and higher investment spend.

### **Focus Areas & conclusion**

So to conclude a few words on my key areas of focus

1. We MUST rebuild our home loan momentum. Mark Hand and his team along with the entire Executive Committee is sharply focused on this.
2. Our simplification agenda remains central to our cost targets. We must fund essential growth and we can only do that effectively by managing productivity and efficiency. My team and I will relentlessly pursue that objective. We have done this the last five years. I am confident we can continue to do it consistently.
3. We have to maintain our resource management and allocation discipline, a key agenda for me. Our investment governance framework is aligned with our strategic priorities to ensure investment is well managed and rewards strong execution which produces the promised cost and revenue benefits.
4. The growth initiatives, some of which were outlined by Shayne are important priorities and will also operate under the governance framework I just mentioned. And finally, all of this will require strong execution and a critical focus on returns. We have a proven track record and an embedded culture that is clear about return expectations. We will continue to build on that culture.

Thank you very much for your attention and I look forward to meeting all of you in person, soon.

In the meantime, I am contending with the very important task of picking a footie team! Jill is pressuring me to pick Richmond!

With that I'll hand back to Shayne.

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