

News Release

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ANZ 2022 Full Year Results – Chief Financial Officer Farhan Faruqui Speaking Notes

Thanks Shayne - and Good Morning everyone

Delivering on Priorities

As you've just heard from Shayne, we have delivered on our key priorities and produced a strong set of results for the year despite what has been a highly volatile and uncertain operating environment. Pleasingly, we have seen the momentum continue to build during the second half across all our businesses.

This financial outcome has been underpinned by several years of effort in simplifying our business, de-risking our portfolio and managing capital and funding prudently.

We have held ourselves to account for managing down our Run the Bank cost in order for us to invest in important growth initiatives and to satisfy our heightened regulatory obligations.

In addition to financial performance, we made solid progress towards our most important strategic goals.

The launch and a strong start to ANZ Plus, Agreement to acquire Suncorp, a successful \$3.5b capital raise to partially fund the Suncorp acquisition which was structured to provide fairness to all our shareholders, and finalising the multi-year BS11 regulatory program.

We exit FY22 well positioned to take advantage of the opportunities ahead of us while staying prudent on our risk settings.

2022 Financial Performance

We delivered a strong result for the year and for the Half. Cash Profit Before Provisions expanded 7% for the year and 16% for the Half.

This performance has allowed us to increase our Dividend per share to 74 cents per share, despite the increase in the share count as a result of the capital raise in the 4th quarter. I should also mention that since the capital raise, we have delivered a TSR of 20% demonstrating value for our shareholders.

Cash Profit Performance

The 2nd Half cash profit outcome has been delivered through a combination of volume and margin uplifts across all our businesses, disciplined cost management actions to offset the inflationary headwinds in the second half while continuing to invest in the future for better customer experience and outcomes. Profit Before Provision ex-LNI expanded 20% in the Half representing the highest half-on-half growth for over a decade.

We have also been prudent considering the uncertain environment by maintaining an adequate level of Collective Provisions balance despite continued improvement in credit quality.

You are already up to speed on our First Half and Third Quarter performance, and we pre-released our Large Notable Items template last week.

I would note that, for ANZ, LNI is incorporated above the line and it is purely called out to make it easier for you to assess the underlying performance.

Moving forward from here, my commentary will focus on half-on-half excluding LNI.

Revenue Growth

I'd like to start with Revenue – where we delivered our first double digit revenue growth for a Half since 2009 – with all four of our divisions performing strongly. Importantly, the revenue growth was driven 50% by volume or transaction related uplift and 50% by margin benefits.

Highlights for the Half were:

- Lending, deposit and transaction volume growth for the Group with a focus on Risk Adjusted Margins.
- We restored momentum in Australia Home Loans as per our guidance at the start of the year.
- In Institutional, we delivered one of the highest HOH revenue growth outcomes in recent years, up 10% driven by a strong corporate finance result as well as the outperformance of the Payments and Cash Management business buoyed by growth in transaction volumes and rising rates. Lending margins remained stable and Risk Adjusted Lending NIM expanded.
- In Commercial, as Shayne said in his comments, we have delivered renewed growth while managing margins tightly in a highly competitive environment.
- In New Zealand we grew market share in our leading home loans business and continued to effectively reshape our portfolio from a risk standpoint.

I will now talk in more detail to NIM, OOI and Markets outcomes for the Half.

NIM

Turning to NIM first which is a key feature of our result.

Margin trends were strong in the half with underlying margin up 13bps. Our exit rate of 180 bps for the September 22 month reflects strong momentum built in the second Half.

This outcome is a result of disciplined lending origination, balancing volume-margin trade-offs in a highly competitive market and actively managing the pricing of our deposits and funding costs in a rapidly changing interest rate environment.

Deposit Portfolio Contribution to NIM

Let me provide more detail in respect of our deposit and capital portfolios which were positively impacted by rising rates.

- At-call accounts and term deposits contributed 17 bps to the NIM expansion in the Half. This margin expansion was across our retail and business customers and geographically spread across Australia, New Zealand and our International franchise.
- It's important to note that almost 50% of this margin expansion occurred outside of Australia. This reflects the value of the diversification of our portfolio of businesses as well as our geographic footprint – a unique advantage relative to our domestic peers.
- Our capital and replicated deposit portfolio contributed 7 bps to margins and we expect this expansion will continue as maturing tranches are reinvested at higher prevailing rates, along with further expected cash rate tightening. The size of this

portfolio remained broadly flat half-on-half, but a possible reduction could occur going forward should switching to rate sensitive deposit products accelerate. There is more detail on capital and replicated deposit NIM impact on Page 70.

NIM Headwinds Tailwinds

As we look ahead, it's important to recognise that the size and frequency of change in rates in the 2nd half has been unprecedented in recent times. Consider that, in the last decade, the RBA, RBNZ and FED together carried out 60 cash rate moves - but almost a third of those occurred in the last 12 months and were relatively larger in magnitude.

From here we see a range of possible headwinds and tailwinds. Of these we expect that Deposit and lending competition, shifts in customer behaviour in terms of deposit mix as well as the impact of capital and replicated deposit earnings will be the most significant.

Given this mix of headwinds and tailwinds, extrapolating with accuracy is difficult. However, we expect the environment will continue to be supportive for margins in the first half, although any change from the exit margin is likely to be more modest.

Other Operating Income

Moving on to Other Operating Income.

This half delivered the strongest OOI ex-markets result of the past four halves driven by our core underlying franchises, particularly in Australia Retail and the Institutional business. The uplift in Australia Retail was largely seasonality driven.

It is important to note that given both halves were impacted by the phasing out of the Breakfree product, we expect further upside from new product offerings in FY23.

In Institutional, there was growth in corporate finance fee income in the half driven by higher corporate M&A activity and increased trade flows as the world opened post Covid and supply chains were restored.

Markets Income

And now to our markets business.

While total Markets revenues declined off the back of some pronounced external shocks, importantly our Markets customer franchise remained resilient and grew 8% year-on-year.

The ANZ Markets business is not a proprietary trading business - we are there to support our customers and at times of pronounced disruption, customers, particularly in rates and credit markets, tend to step back as the directional trends become uncertain.

If we exclude 4 months, where extreme events which are mentioned on the slide drove market dislocation, the average monthly markets revenue remained around \$160 million. Looking at the key drivers of markets outcome:

- You can see on the chart the standout performer was our Foreign Exchange business which benefitted from customer volume uplift from increased volatility.
- Conversely extreme periods of rate movement reduced customer activity in the rates business. And,
- In Credit and Capital Markets, wider credit spreads and general risk-off sentiment resulted in lower primary bond market issuance and impacted secondary markets.

BAU Expenses

I'd like to now move to expenses.

Over the past six years we've consistently demonstrated expense management discipline. On a constant currency basis and excluding the Cash Rewards acquisition, Run-the-Bank costs were flat for the year and for the half, in line with the guidance provided at the First Half Results and at the trading update.

This is a good outcome given the cost environment changed significantly over the last 12 months with rising inflationary pressures, particularly labour costs and vendor costs.

We have worked to mitigate these pressures through sustainable productivity initiatives which delivered another \$260m over the course of this year.

These included:

- Increased adoption of customer self-service from investment in digitising & automating processes;
- Further rationalisation of our corporate property footprint; and
- Consolidating our offshore service centres from three to two campuses

Investment Spend

Moving to Investment Spend, we have invested across our business over a number of years and we're seeing the clear benefits of that emerge.

Our efforts to build a simpler, better bank have positioned us to take advantage of opportunities in a rapidly changing banking landscape.

To support this, we increased investment spend to almost \$2.2bn this year with a larger proportion of that spend focused on growth and simplification.

We expect this proportion to increase further as we move past the peak in regulatory and compliance spend, with BS11 now substantially behind us.

ANZ Plus has been a priority investment for us and was required to replace our legacy technology and build additional capabilities. This investment has been approximately 15% of our Investment Slate over the past two years.

As Shayne said, we have made good progress to date on our save and transact proposition and we have accelerated investment on the digital home loan proposition. We will report progress on the financial metrics that reflect the value proposition of ANZ Plus as we build scale and roll out further products and features.

We also increased investment in our Sustainability business, real-time payments and the cash management platform in Institutional and in technology including GoBiz in Commercial.

Finally, we have continued with our simplification agenda. For example, we now have over 30% of our applications on cloud, relative to our goal of transitioning 70% of our applications over the coming years.

This migration is resulting in improved resilience, more efficient software spend and better capacity management.

87% of our investment spend was expensed this year, an increase on the prior year, which contributed to about \$150m of the year-on-year expense uplift.

This reflects ANZ's disciplined capitalisation policy which has a \$20m threshold. As a result, we have capitalised significantly less than our peers and our capitalised software balance again reduced as we continue to expense a greater proportion of spend.

We will continue to ensure executive accountability for what is being delivered today; and expect our Opex rate to continue to increase in FY23 as more of our investment spend is directed to areas that are not capitalised such as towards Software as a Service and towards building capabilities such as in ANZ Plus.

Continued Disciplined Management of Expenses

Overall, we delivered a flat Run the Bank cost for the year which has enabled us to continue investing in the initiatives which I've just covered.

Looking ahead, expense trends will be impacted by headwinds arising from wage and vendor cost inflation together with uplifts including the annualised impact of the CashRewards acquisition and stranded costs post the formal separation of the Wealth business. We will, nevertheless, maintain our relentless focus on productivity to help offset some of this impact. It is likely, however, that our total expenses excluding LNI of \$9.17 billion will increase by circa 5% in FY'23.

All else being equal, we expect revenue growth to be higher than cost growth in Full Year 2023.

Provision Charge and CP Balance

Moving to Risk.

The quality of our book together with the operating environment is reflected in lower new and increased individual provision charges which were fully offset by writebacks and recoveries resulting in an Individual Provision release for the Half.

While the total Collective provision balance increased by approximately \$100m half on half, the composition of the balance has evolved over the period to ensure it remains appropriate for a volatile environment.

Let me take you through that compositional change.

Adequacy of Provisions/ECL Balance

Our customers are in a strong position and our portfolio has continued to shift towards lower risk exposures. Also, as COVID -19 risks receded, the overlay set aside for Covid was no longer required. When you combine those releases together with movements in the portfolio through mix, volume and credit quality that means the real starting position is \$2.86bn.

We have then built the provision balance back up again by about another \$1bn to allow for the significant uncertainty attributable to the increased risks associated with rising inflation and interest rates and the increased geopolitical tensions.

Our collective provision balance of \$3.85 billion is \$2.1 billion above our base case modelled outcome. Even more importantly our balance is over \$600 million above the conservative downside scenario, which in the case of our portfolio, for example, is stressed for scenarios such as a fall in residential property prices from the peak at end of the third quarter of ~30%, an unemployment peak of 6% in FY24 and a contraction in GDP to negative 0.5% in 2023.

So, an outcome that is \$2.1bn above the base case and >\$600m above the downside scenario reflecting the fact that while all portfolios are in good shape, the economic outlook presents some real uncertainty for our customers.

Portfolio Quality

Before we move on from credit quality, I wanted to provide some overview points on the good work done to de-risk our book over the past five years.

Firstly, within Institutional and Commercial where you can see the CRWA intensity has improved steadily over the last seven years.

Our Internal Expected Loss has almost halved and sits at a historic low 19 basis points, the outworking of asset sales together with the reshaping of the Institutional book including a 50% increase in investment grade exposures.

The Australia Commercial Division is a high-quality book - 80% of the \$59 billion portfolio is fully secured and the Division has almost double the amount of deposits to loans.

Australia Portfolio Resilience

Turning to Retail - The mortgage portfolios in both Australia and New Zealand are robust and there is quite a bit of background information on both within the results pack.

You can see on this slide that the Australian portfolio is conservatively positioned with low dynamic LVRs, 70% of customers are ahead on repayments and offset balances continuing to increase. On the right of the chart, you can see our fixed rate loan roll offs, ANZ has passed the peak but this does remain elevated over the next 18 months.

It is important to note that repayment capacity for fixed rate loans is assessed using a 300 bps buffer over the prevailing customer variable rate.

In New Zealand, reflecting a focus by the regulator to reduce higher LVR lending, 92% of ANZ's loans have an LVR lower than 80% with the average dynamic LVR 37%. The book has historically been dominated by fixed rate loans which currently sit at circa 90% of the book.

Capital and Liquidity

Moving to Capital. We have a robust capital, liquidity and funding position. Strong organic capital generation from good profitability in the Quarter, more limited RWA growth, and a non-repeat of the IRRBB increases seen in prior quarters, in addition to the equity raising, helped drive our end of period CET1 ratio outcome of 12.3%.

CET1 on a proforma basis is 11.1%, accounting for the impact of the announced Suncorp Bank acquisition - which is expected to complete in the second half of calendar 2023.

The associated capital raising for the acquisition of \$3.5b was the largest equity raise in the world for an M&A transaction this Calendar year-to-date and was well supported despite the volatile market conditions. The PAITREO structure provided a fair and equitable outcome for all shareholders.

The capital reforms taking effect in January 2023 are expected to be broadly neutral for the system. For ANZ, the changes are expected to be positive for Institutional but largely neutral for the Group, and positive on a Level 1 basis.

Noting ANZ's manageable TFF refinancing requirement, we expect our term funding in the wholesale markets in FY23 to return to broadly pre Covid levels of approximately \$25-30 billion.

Closing Remarks

In summary, we've delivered on the 5 priorities we laid out for FY22.

As we look forward, we are resolute in our efforts to navigate the uncertain environment. And we are nimble enough to benefit from the tailwinds and build the resiliency against the inevitable external headwinds.

We are confident in and will continue our efforts to strengthen our balance sheet, focus on our strong customer franchise and manage our exposures and risk-settings conservatively. At the same time, we remain disciplined on cost and focused in continuing to direct our investments towards building and growing a better bank and a more resilient franchise.

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