News Release

For Release: 5 May 2023

ANZ 2023 Half Year Results – Chief Financial Officer Farhan Faruqui Speaking Notes

Thanks Shayne and good morning, everyone.

As Shayne said, we have delivered a record result this Half.

We have executed well.

My focus has been on ensuring we remained disciplined, prioritising our resources and capital allocation.

When I look at this result, I see the clear benefits of a diversified portfolio of well performing and return accretive businesses with each of the four businesses growing revenues over the past two halves with returns above the Group's cost of capital and improving.

And so, while I have spoken of the benefits of diversification previously – they were even more evident this Half.

Whether it was the ability to flex funding sources, to dynamically shift capital to optimise returns, to manage risk concentrations or to take advantage of opportunities both in and outside our home markets - the benefits of diversification have helped us to produce strong results this Half and set us up well to optimise further. I will elaborate on this further as we move through my comments today.

I'll now begin with financial highlights for the half, focussing my commentary on Cash Continuing including Large Notable Items noting that there is little impact of half on half changes in LNI. That being said, there were some one-offs impacting our earnings I'll comment on these as I talk through the numbers

Financial Performance Cash Continuing Basis

Cash NPAT of $3.8b increased 12% against the prior half and we delivered a record revenue outcome. Excluding one-off items Cash NPAT was higher at $3.9 billion.

This is a clean result showing strong performance across all our businesses building upon several years of simplification and de-risking.

Profit Before Provisions grew by 15% in the Half and 33% on a prior year basis. While the HOH growth rate excluding large notable items was fairly similar, large and notable items did have a $213 million adverse impact to PBP in the half.

PBP growth was driven by continued strong revenue performance over the last two halves with 10% growth in this Half and 18% revenue uplift on a prior year basis. We delivered this growth while managing expenses tightly, to a 3.7% uplift half on half, despite inflationary headwinds and a continuing investment agenda aligned to our strategy of building a better bank.

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Earnings Per Share in the Half increased 7% and RoE by 60 basis points to 11.4%. On a proforma basis, adjusting for our FY22 capital raise, EPS increased circa 11% and RoE to about 12%.

Revenue

Focusing now on revenue. Growth in the half was well distributed across the 3 key drivers of margin, volume, and Markets income.

Outside of Markets, non-interest income declined largely due to seasonality and the impact of some one-off items including recognising a loss following a sale and leaseback for our Data Centres this half, and the non-repeat of gains in the second half of FY22. Excluding these items underlying trends were positive reflecting increased consumer spending and more deal activity in Institutional.

As I reflect on our divisional performance the following aspects stand out:

1. The Australia retail division faced into possibly one of the most competitive environments across both Home Loans and Household deposits. With capability and capacity restored in our Home Loan business, the Division delivered above system Home Loan growth while growing revenue by 4% and effectively managing the levers of pricing, margin and volumes.
2. The 23% growth in Institutional revenue also came with a substantial uplift in Risk adjusted margins and returns. This was a broad based outcome across geographies and products. The Division's ex markets income growth of 13% was a testament to the benefits of long-term investment in our payments and cash management platforms which have helped to deliver record RoE for the Division.
3. I'm particularly pleased with the performance of the International business which contributed around 60% of Institutional revenue growth in the half. Importantly, non-lending and return accretive products accounted for three quarters of this business's contribution driving an 87bps improvement in Risk Adjusted NIM. As a result, International achieved a higher RoE than the overall Division for the first time, with all regions of the Institutional Division delivering returns above the cost of capital.
4. Since becoming a standalone Division last year, the Commercial business has continued to grow revenue and margins. When taking into account revenue delivered to our Retail and Institutional businesses, our Commercial customers contributed around 25% of Group revenue. We are investing in this business and I'm excited about the prospects for growth.
5. The New Zealand business delivered a consistent outcome despite facing into an earlier tightening cycle and challenging macro condition. The team demonstrated risk and cost discipline while growing revenues and continued to leverage the benefit of scale.

Volumes & Balance Sheet

I'll now comment briefly on Volumes.

In the Australian Retail Business, both loans and deposits grew 4% with increased lending volume coming primarily from Home Loans. Mortgage portfolio growth was supported by improved processing capacity and materially higher broker NPS. We also saw elevated back book repricing during the period. Importantly, almost 90% of mortgages originated in the half had an LVR below 80% reflecting the quality of origination.

We will continue to balance volume and pricing decisions to manage margins and returns as we go forward.

Deposit growth in Australian Retail came from a broad suite of customer offerings including ANZ+ where $4.5 billion of deposits were added in the Half with total deposits reaching $5.3

billion at the end of March and have continued to grow, as Shayne flagged earlier, to now circa $6 billion.

We grew lending volumes in Institutional in our key strategic areas including FIG, Technology and Transport, delivering improved lending and risk adjusted margins.

While lending volumes in Commercial were flat, the portfolio mix has steadily improved through the reshaping of the Commercial business book, exiting or reducing higher risk or lower returning segments and repointing towards Agri, Trade, Healthcare and Manufacturing.

In New Zealand, deposit and lending volumes were stable in the half despite a lower growth environment in which we looked to balance margins and volumes.

I will now move on to talk more to deposit composition.

Deposit Composition
Group Customer deposits on a constant currency basis increased $28 billion in the Half. There was a meaningful shift in the period from at-call to Term Deposits across both retail and commercial, as we had expected.

With the diversified nature of our businesses, we benefit from a larger proportion of our liabilities in operational deposits in Institutional relative to peers.

Around 60% of our deposit margin expansion in the Half came from our Commercial and Institutional customers. This is another example of how diversification both by geography and customer segment is providing us with flexibility on deposit funding and pricing.

Margins and Outlook

Moving to Margins:
We delivered a strong margin performance with underlying NIM up 15 bps to 183 bps. Guidance provided at the FY22 results was that we expected a 'modest' improvement from the second half exit margin of 180 bps and the underlying margin outcome of 183 bps is in line with that commentary.

While conditions were supportive in the first quarter, margin pressure became more pronounced as the second quarter progressed. However, this wasn't uniform across the group with better margin outcomes in Institutional and Commercial through the half.

You can see on this slide the key movements in our NIM walk.

I would like to particularly highlight a 20bps contribution from deposits, in part reflecting the benefit of a more geographically diverse deposit base. This was partly offset by Asset margin pressures primarily in Australian and New Zealand Home Loans.

The capital and replicated deposit portfolio contributed about 7 bps to the margin expansion. We expect this will continue as maturing tranches are reinvested at higher prevailing rates albeit at a more moderate pace as we get closer to the end of the tightening cycle globally. We expect an uplift of 5 bps HOH.

The Asset and funding mix impact of 3 bps was largely driven by an increasing shift from at-call to Term Deposits.

Headline margin improved 7 bps to 175 bps reflecting higher liquids and greater Markets activity. It is important to note, however, that the Markets NIM compression this Half was largely driven by growth opportunities in our customer franchise business, particularly in Commodities. These opportunities are highly return accretive with the NIM dilution offset in

OOI and so on that basis I remain supportive of these opportunities when they become available.

Looking forward, the range of factors affecting NIM aren't very different to those that I highlighted at the end of FY22. However, it's fair to say the tailwinds are subsiding, and the headwinds remain persistent.
Forecasting the timing and impact of these variables is increasingly difficult but it seems likely that the sector is reverting to the longer-term trend of margin compression.

However, we believe our business structure provides us with options to offset some of these adverse trends:

- A smaller proportion of our loan book, relative to peers, is in the highly competitive Home Loans segment
- We have a leading position in Institutional banking that is benefitting from our prior investment in lower capital intensity businesses like Payments and Cash Management globally.
- Lower TFF replacement challenge, the lowest wholesale funding issuance and therefore more flexibility of funding mix - relative to our peers
- And a greater diversity of customers and geographies to allocate capital and optimise returns

Risk Adjusted Margin

While NIM is a key focus we are equally focussed on managing our performance on a Risk Adjusted Margin basis. This metric better reflects decisions around risk, capital allocation and the impact on profitability.

The expansion in the Bank's Risk Adjusted Margin since FY16 highlights the benefits of the deliberate reshaping of Group's business mix. As the chart shows, growth in risk adjusted margins versus NIM demonstrating the ongoing improvement in our risk and capital allocation.

I've always believed that setting a target to only achieve a particular NIM outcome could lead us to make the wrong capital allocation and risk decisions, which over the longer term ultimately destroy value.

Markets Income

Moving to the Markets business, the $1.15 billion in revenue was a 52% increase half on half. This outcome was driven by consistent growth in customer activity and higher franchise revenues rather than balance sheet trading uplifts thus demonstrating the growing value of the franchise.

This result represents a return to more normalised performance after a challenging FY22. Our continued investment in this business has allowed us to capitalise on the more favourable market conditions and to be well placed to support our customer's risk management needs.

Markets by Geography

Importantly, as this slide shows, the benefits of our diversification have been meaningful to the underlying growth in the franchise business with International contributing significantly to the overall Markets result.

The Markets franchise in International - which is predominantly in financial centres like London, New York, Hong Kong and Singapore – contributed around 60% of total markets income making it not only the largest geographic contributor but also the fastest growing with the highest RoE.

Expenses

Moving to expenses, we continued to tightly manage costs across all businesses with total expense uplift contained to 3.7% on a constant currency basis. This is tracking in line with guidance provided at the FY22 results.

I have previously outlined that we will have expense uplift relating to the ongoing work preparing for the Suncorp integration, the one off set-up costs for the Non-operating Holding Company and stranded costs as a result of the formal separation of the Wealth business. Excluding these costs in the half, our underlying expense growth HoH was 1.8% on a constant currency basis.

To deliver this outcome we undertook a number of productivity actions like optimisation of our international footprint and simplifying our technology infrastructure. Benefits also arose from prior period property rationalisation and continued investment in automation and digital channels.

We also benefitted from the reduction of our regulatory related investment with the completion of BS11 and prioritised the investment slate in line with our strategic priorities.

We again expensed our investment spend at a heightened level – approximately 85% in the Half. Therefore, our capitalised software balance continued to decline and remains substantially lower than domestic peers.

Looking ahead, our guidance for FY23 expense growth has not changed. Therefore, we continue to expect total expenses excluding large notable items to increase by circa 5% year on year on a constant currency basis.

And as a result, we expect positive JAWS for the full year 2023.

Provision Charge

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.

A Collective Provision charge of $163m takes our CP balance to just over $4 billion. The total Credit Impairment Charge for the half was $133m.

Provision Balance

There is a rigorous process to determine an appropriate provision level for our business. While the portfolio continued to reweight towards lower risk exposures, and our customers are well positioned, we took a prudent approach to provisioning, to reflect heightened uncertainties in the macro environment through the use of overlays.

The balance at just over $4 billion is $2.2 billion above our base case scenario, circa $800 million higher than our downside scenario and is higher than any other time pre-covid. Consequently, we believe our current level of coverage remains appropriate based on the quality of our portfolio.

Portfolio Quality

A few comments now about our improved portfolio quality.

As Shayne mentioned, since 2016 we have substantially reshaped our business by selling or exiting over 30 non-core business, including Asia Retail and Wealth, Dealer Finance and the Commercial portfolio in Asia. We have also pursued broader de-risking, in particular in

Institutional, growing the Investment-grade component of Group EAD from approximately 75% to 85%.

Additionally, we have substantially grown those segments of our book that have historically represented lower historical IP outcomes so for example Mortgages, Sovereigns and Banks have historically represented 5% of our IP but we have grown those from 60% to 65% of our EAD from 2016 to today.

Diving a little deeper into the Institutional portfolio, our largest Corporate customers are predominantly well-diversified global businesses. Compared with the GFC, our top 30 Corporate customers are on average five times larger in market capitalisation in current dollar terms with an average S&P equivalent rating of A+ to A and an average tenor less than 12 months. We have no commercial property exposures in our top 30 corporates today, whereas in 2008 we had three in our top 10.

Most importantly, we have experienced lower actual loss with our IP loss rate reducing from 34bps in 2016 to 1 bps in 2022 and negative 1 bps for 1H23. This means, as the chart shows, we have gone from being the bank with the highest credit losses to being the lowest of our peers.

Capital

Now turning to capital. Our capital position remains strong at 13.2% or 12.1% on a pro-forma basis for Suncorp and modest excess capital in the NOHC.

This includes the impact from APRA's capital reforms, the majority of which were effective from January. The net impact of the capital reforms was 100 basis points, with the largest driver being lower credit RWA for our Institutional business.

At the same time APRA's expectation for Unquestionably Strong for major banks has changed and is now effectively 11.25% at reporting periods, an increase of 75 basis points from the prior benchmark.

This strong capital position places us well for the environment and to comfortably fund growth opportunities in our core businesses.

Liquidity and Funding

Our funding and liquidity position also remains strong

ANZ has a well-diversified funding base both in terms of our geographic footprint for customer deposits, and strong access to all the key global debt markets and investors.

We have completed most of our full year term funding requirement, having issued $26bn year to date. We have $285bn of high-quality liquid assets, and regulatory ratios with healthy buffers over the minimums.

The vast majority of our HQLA is comprised of cash with central banks or hedged securities in Mark to Market or Fair Value portfolios. Consequently, the value of these liquids is already fully reflected in our balance sheet.

As you know, our reliance on the TFF is modest at only $12bn this financial year, and the final tranche of the Committed Liquidity Facility ended in Q1.

In closing, we have had a great result across all our businesses and are well positioned for the current environment.

The benefits of our diversified business allow us to take advantage of capital reallocation opportunities and to balance volume and margin trade-offs to optimise revenue and returns.

We have been disciplined and consistent in managing risk. As I mentioned earlier and as shown again in these charts, our actual loss experience over the last 7 years as well as the sustained expansion of risk adjusted margin tell a compelling story. Crucially, while we have de-risked since 2016, we have now replaced the revenues from the sale of non-core businesses and built a higher quality revenue base.

We have also demonstrated consistent expense management. Since our revised strategy was launched in 2016, we have invested in productivity and built a strong culture of cost management. In this period, we have reduced approx. 10,000 FTE, rationalised our property footprint by about 400,000 sqm, absorbed inflation of over $1 billion, and we continue to invest in digitisation and automation. We have completed BS11 - our largest regulatory program of work ever - and continue to invest in building the retail bank of the future through ANZ Plus.

I am under no illusion that the environment ahead is uncertain, and we need to be nimble and adaptive.

Shayne has taken you through our Group priorities. In order to support them my focus will be to:

1. Manage capital allocation dynamically to optimise risk adjusted margin and revenue outcomes.
2. Continue to relentlessly pursue productivity benefits by executing on initiatives that produce sustainable cost out of the bank
3. Prioritise investment in our core strategic initiatives that deliver long term value
4. And continue to maintain a strong balance sheet and capital position

Thank you and I now hand you back to Shayne.

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