News Release

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

Thank you Shayne.

As Shayne said this was a record year and is a testament to our multi-year effort to simplify and invest in our core businesses to deliver strong shareholder outcomes.

For the year, we delivered revenue growth of 13%. In a high inflation world, we limited expense growth to 5% on a constant currency basis, while continuing to invest. Profit before Provisions expanded by 20% and we grew cash profit by 14%. Our provisioning remained appropriate, portfolio trends were stable, and we ended the year with a strong capital and liquidity position.

In the 2nd Half, we continued our strong expense management focus delivering a flat hoh cost outcome on an Ex LNI and constant currency basis.

We continued our strong Markets performance, with the second Half delivering an on-target outcome of about $1b following from a strong First Half. On an Ex-Markets basis, our 2nd Half revenues grew slightly, and we exited the 2nd Half with improving momentum.

In short, we delivered what we had promised.

Importantly, we delivered for our shareholders with a Total Shareholder Return of 16% over the last 6 months and 20% over the last 12 months. Our Return on Equity improved to 11.7% or over 100 bps higher yoy, when adjusted for the capital set aside for the Suncorp acquisition.

As a result, the Board approved a final dividend of 94c per share comprised of 81c per share on a 65% franked basis and an additional one-off dividend of 13c per share on an unfranked basis. I will discuss this in more detail later in my remarks.

We've often referred to the benefits of a diversified and well performing portfolio of businesses. That has never been more evident as this particular year and especially in this Half.

This diversification allows us to capture opportunities when operating conditions in parts of our portfolio are favourable. Likewise, it reduces earnings volatility when any of the markets or sectors in which we operate experience more challenging conditions.

Importantly though, having a set of healthy businesses is crucial to leveraging diversification benefits. In our case, all four divisions and each region are meaningful contributors to the Group performance, are each profitable with above cost of capital

outcomes and have good prospects for growth. And while each business over the last 5 years has experienced different trends, the mix of our portfolio today provides impetus for growth.

Before I speak briefly to each business, I will note that the capital allocated to the businesses on this slide does not include Group-held capital such as the capital set aside for the Suncorp Bank acquisition:

Starting with Australia Retail, which represents approximately 25% of cash profits and Group capital.

Our home loan balances grew $22b in FY23. While the Australian mortgage market remains highly competitive, our focus over this period has been on:

- Significantly improving our processing capacity and consistency
- And enhancing our broker proposition

This gives us the ability to grow our mortgage book via non-price levers. Australia retail also grew other operating income by 5% yoy in part reflecting higher cards revenue.

Shayne outlined the success thus far of the ANZ Plus business, which has been a key contributor to new-to-bank customer acquisition and deposit growth this year.

Consequently, Australia Retail revenue grew 4% this year and profit before provisions expanded by 3%.

Our Australia Commercial business consumes less than 10% of Group capital, while contributing around 20% of Group profit.

Our Commercial customers account for a quarter of Group revenue including their contribution to Retail and to Institutional.

It is a net funder to the group with approximately 2x deposits to assets.

The Commercial Division grew income 11% this year and had a 12% expansion in pbp. We continue to invest in this business, positioning it for growth and with a view to becoming the bank of choice for Australia's small and medium businesses.

The Institutional business has had an exceptional year with 26% growth in income, adding $1.2b, or 45% yoy increase in Profit before Provisions. This was the first year where each major business line in Institutional delivered over $2 billion in revenue.

Institutional is a far less capital-intensive business today courtesy of 7 years of investment to build out capability and capacity in capital light, high returning products and platforms. As a result, it delivered over 40% of Group Profit while utilising one-third of Group capital and has doubled its RoE since 2016.

The value of the Institutional division now lies in its ability to grow diversified and recurring revenue powered by our differentiated regional network.

Last but certainly not the least is our New Zealand Division, which represents 14% of our Group capital and 21% of Group profits. It continues to deliver strong returns and growth year after year, and in FY23 it had 7% income growth and expanded pbp by 10%.

As Shayne mentioned, this business has continued to improve its efficiency and leverage its scale to deliver a cost to income ratio of 36% in FY23.

Moving to Shareholder outcomes, we have delivered strong results, and have done this while balancing short- and long-term outcomes, investing for our future, and being disciplined on cost, risk, and capital management.

This has contributed to our strongest ever EPS outcome this year, at 270 cents per share adjusting for capital set aside for the Suncorp Bank acquisition. This would not have been possible had we not undertaken strategic and capital management actions over the last 7 years which reduced our share count by 120m shares, prior to the Suncorp Bank related equity raise.

I'll talk to Operating Income performance now.

A strong outcome with a 13% increase in revenue yoy, with ANZ's business mix allowing us to deal effectively into a rapidly changing environment. This increase was driven by strong Markets performance, higher volume across all four major businesses, and margin expansion.

As I mentioned earlier, HoH revenue was slightly up on an ex-Markets basis, reflecting the diversified benefits of our portfolio.

Other operating income ex Markets was up 30% in the half. While that outcome did contain some one-off items, we saw an underlying 7% uplift.

On volume, I have already spoken to the strong growth in Australia home lending, but I would also like to highlight that Australia Commercial experienced growth of 5% for the year. And the second half for this business represented the strongest half of lending growth in seven years.

Our Institutional and New Zealand business had more stable lending outcomes this year, reflecting softer credit demand.

Importantly, we saw good balance sheet momentum in the latter part of the second half which positions us well going into FY24.

Overall customer deposits grew $27b over the year, with increases across all divisions while continuing to target deposit cost optimisation opportunities.

In the retail and business portfolios, we continued to see a shift towards higher yielding, lower margin term deposit and savings accounts, with the deposit mix now approaching pre-Covid levels.

Offset accounts, while up by $2b in the year, remained stable yoy at 15% of home loan balances.

Payments and Cash Management deposits account for approximately 60% of Institutional deposits and average PCM deposit balances grew 5% yoy.

This reflects the quality of our Institutional customer franchise and contribution from our Platforms strategy.

As Shayne mentioned, our cash management and platform volumes have continued to increase, resulting in the doubling of revenue over two years. While higher interest rates were supportive, it was largely the pay-off from years of investment in technology that enabled this outcome.

In my experience with institutional customers, they trust a bank with their payments and cash management after a rigorous selection process and thereafter are loathe to move their provider. We don't take our customers trust lightly and continue to execute well and invest in technology to enable stability and enhance functionality of the platforms.

Moving onto Margins, underlying group NIM declined 7 bps in the second half following a strong first half.

Lending margins, in Australia and NZ Retail contributed 7bps decline hoh, and reflects the competitive pressures across the sector. As I mentioned, while competitive pressure was intense in the Australian mortgages space, we continue to dynamically manage our settings for the business - factoring in capital requirements, funding costs, cost to serve, and credit quality.

The geographic shape and nature of our deposit relationships coupled with the strategies we've deployed, ensured deposit pricing remained a net tailwind in the second half.

This was offset by the continued mix shift to lower margin deposit products.

Markets NIM compression was largely driven by business opportunities that lend themselves to accounting asymmetry. Any NIM dilution in these businesses is more than offset in Other Operating Income producing return accretive outcomes.

While the movements in asset and deposit margins are important, looking at margin outcomes Regionally and Divisionally really highlight the benefits of diversification.

As you can see, the New Zealand geography and the rest of the world partially offset the margin impacts of Australia geography.

While Australia Retail margins declined, there are two businesses that I would like to highlight in particular:

1. Our Institutional business' second half margin ex Markets was 2.36%, the highest margin outcome since 2016 and is reflective of our disciplined capital allocation choices. This is evidenced by the fact that lending and deposits margins in Institutional were both up hoh, 2bps and 5bps respectively.
2. Our Australia Commercial business where margins increased by an exceptional 60 bps yoy and remained reasonably stable in the 2nd Half following from a strong 1st half.

I'm also pleased with our ongoing improvement in risk adjusted margin trends. While the NIM decline does affect its trajectory, we have continued to demonstrate risk discipline and have maintained a substantial risk adjusted return benefit. As I have said before, this measure is very meaningful for us as it allows us to calibrate the return we generate for the risk that we take.

While we are well positioned with our business mix, the environment ahead remains challenging and the factors affecting NIM remain similar to last half.

Forecasting the exact timing and impact of these remains difficult but we are confident that the composition of our business continues to provide us with some resilience.

As with our PCM business, we have focused on strategic capability build in our Markets Franchise business to grow recurring income and to increase income diversification.

This is a differentiated Markets business from our domestic competitors across product offering, client mix and geographic footprint.

Our investment in building capability and deepening client relationships has helped grow Markets income to $2.1bn in FY23, while customer franchise income has increased on average 16% over the last two years.

Moving to costs, we have delivered to our guidance of 5% FY23 cost growth excluding LNI on a constant currency basis.

Our 2H23 cost performance was strong, with cost growth flat excluding LNI on a constant currency basis. The growth in large and notable items in the second half was attributable to increased restructuring costs and the new government impost of Compensation Scheme of Last Resort.

The restructuring costs are largely related to our productivity agenda for FY24. Productivity is an ongoing discipline for us, not a one-off program of work. And our continued focus allows us to invest in our business's growth and momentum.

Moving on to the key drivers of our cost movements.

Like all businesses, we have had to navigate the heightened inflationary environment, affecting in particular our salary and third-party vendor costs.

We have been considered in our approach to FTE management, and made choices that balance our cost objectives and our workforce capability. For example, in the context of rising third party vendor costs, we have made decisions to in-source certain activities and ultimately reduced costs. Our FTE increases in international locations have been partly in support of our growth in our international business and for building bench strength and intellectual property in critical skillsets for the future, such as digital and technology.

We have also continued to prioritise growth and productivity initiatives which now represent 62% of our investment slate, the highest level in recent years. Importantly, we "pay" for our investment now - with an investment opex rate of 83%, we retain the lowest capitalised software balance of all domestic peers.

Turning to productivity, we have continued to realise benefits from automation and digital channels, simplifying our technology infrastructure, middle office efficiencies, and property rationalisation.

Looking ahead, we expect headwinds arising from inflation to remain, but perhaps slightly lower than in FY23. We are well positioned with our productivity agenda to face into these while continuing to invest in the business.

Turning to risk, we've spoken previously about the work undertaken over a number of years to improve the quality of ANZ's lending book - the outcomes have both balance sheet and P&L benefits including improving the return on risk weighted assets.

Portfolio quality improvement has been driven by a combination of

- more disciplined customer selection and strategic focus, in particular, in Institutional
- a reduction in the proportion of unsecured business and increasing collateral coverage in Commercial along with rebalancing exposures away from riskier sectors, and
- disposals, including Asia Retail, Asia Commercial, and Esanda.

Our portfolio mix is now weighted towards lower risk categories such as sovereigns and Financial Institutions.

The outcome of the portfolio improvement I just outlined deliver a lower actual loss with our IP loss rate reducing from 34bps in 2016 to 1 basis point in the last 2 years. 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.

While the IP charge is up half-on-half, this is due to lower writebacks and recoveries rather than an increasing trend of new and increased individual provisions.

Moving onto Collective Provisions, we took a prudent approach to provisioning, reflecting ongoing uncertainties in the macro environment.

While there are some signs of increased customer stress in Australia with Mortgages 90DPD increasing 4 bps to 64bps during the half, the ratio remains well below pre-COVID levels of 112bps. In New Zealand we've seen a slightly faster increase during the half, although the 90 DPD number remains lower than the Australian portfolio.

Impaired assets for the year were steady at 21 bps and impairment levels remain near historic lows.

We look closely at emerging trends including any change in the quantum or composition of customers requesting hardship support. In our Australian mortgage business 0.2% of our customers are currently in hardship which while slightly up HOH remains below pre-Covid levels of 0.3%.

Our scenario weights continued to recognize risks to the outlook, although we did make a small reduction to the weighting to our most severe scenario.

Our Collective Provision balance of just over $4b is $2.2bn over our base case modelled outcome and over $900m above our downside scenario.

Moving on to Capital, our Level 2 Capital position remains strong at 13.3% CET1 ratio, which is 16 points higher for the half.

The capital impact from the proposed Suncorp Bank acquisition is 128 basis points, so on a pro-forma basis which also includes a small amount of surplus capital in the NOHC, our CET1 ratio is 12.1%.

In terms of key drivers for the half, outside of the normal cash and dividend impacts, we have experienced modest RWA usage for the second half due mainly to solid mortgage growth as I previously outlined.

With regards future capital management opportunities, these are under constant

consideration. However, the most important and material capital requirement in the near term, is the proposed Suncorp Bank acquisition. The tribunal is scheduled to provide their outcome in February - it is not that far away.

In addition to Capital, our Funding and Liquidity position also remains strong and well above regulatory minimums.

As Shayne mentioned, the Final Dividend is 94cps, comprised of an 81cps partially franked dividend and an additional one-off unfranked dividend of 13cps.

The level of franking reflects the geographically diverse nature of our business, as well as the timing of the proposed Suncorp Bank transaction.

Our business mix including the strong performance of International and New Zealand, delivers a higher absolute dividend per share than would be the case if ANZ only operated in the Australian market.

As you know, we pay Australian tax and generate Australian franking credits only on our Australian sourced income, therefore this mix will continue to impact franking in the future.

The Board understands that lower franking may not have been anticipated by some shareholders and in recognition of this and given our strong performance, the Board agreed that the one-off unfranked dividend was appropriate.

In conclusion, we will continue to have a sharp focus on shareholder value while delivering strong customer experience through our highly engaged workforce.

We have made the conscious choice of investing in our future, but we are also clear that we need to deliver efficiencies today to afford us that investment.

So, my focus as CFO will remain on productivity and deriving value from our investments. I will also ensure prudent capital and liquidity settings and manage growth in risk adjusted return for our shareholders.

I feel confident that we have the strategy, a high performing mix of businesses and an experienced team to sustainably deliver value to our shareholders in a safe and responsible way, and aligned with our purpose of shaping a world where people and communities thrive.

Thank you very much, and I’ll hand back to Jill now.

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