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Jill Campbell: Good morning everyone, I'm Jill Campbell, ANZ's Head of Investor Relations. Thank you for joining us for the presentation of our 2021 Full Year Results. I'm welcoming you from ANZ's Head Office on the banks of the Birrarung in Docklands, which is on Wurundjeri country. I pay my respects to Elders past, present and emerging, and I also extend my respects to any Aboriginal and Torres Strait Islander people who are joining us for today's presentation.

Our results presentation and the other materials was lodged with the ASX earlier this morning. All of those lodgements are available also on the ANZ website in the Shareholder Centre. A replay of this session, including the Q&A, will be available on our website as well from about mid-afternoon.

The presentation materials and the presentation being broadcast today may contain forward-looking statements or opinions. In that regard I draw your attention to the disclaimer on page 1 of the slide deck. I'll talk more about Q&A procedure when we get to that point. But just a reminder that if you do want to ask a question you need to do that via the telephone.

Our Chief Executive Officer, Shayne Elliott, is presenting from Melbourne, and our Chief Financial Officer, Farhan Faruqui, is presenting from Hong Kong, which I think is really taking COVID-19 social distancing a little bit too far, but there you have it. They will present for around 35 minutes or so, and then I'll go to Q&A and I'll remind you of the procedure at that point. With that, Shayne.

Shayne Elliott: Hey, thanks Jill, and thank you all for attending this morning. As Jill mentioned, I am joined here today by Farhan, who started as our new Chief Financial Officer just earlier this month. He is of course no stranger, having joined ANZ in 2014, and being a member of my Executive Team for more than five years. Now along with Mark Whelan, Farhan has played an important in the turnaround of our institutional business. I will be looking to him to have the same impact in the new phase of our Group transformation.

Now a few comments about the environment before I turn to the result. Now frankly in terms of tone, this has been one of the more difficult results speeches to write. On one hand we share the optimism as lockdowns end. But on the other hand we accept that there is still many uncertainties. In the short-term we are benefiting from the economic rebound and government support for customers. But in the longer-term we still face significant disruption as an industry.

The challenges of the transition to a digital and low carbon future are reshaping our own industry, our customers, and they present both a risk and an opportunity. But in summary, I believe ANZ is better positioned than ever. We are well-capitalised and provisioned to handle any risks, and we are well-prepared to take advantage of opportunity.

But let me walk through that in a bit more detail. First, regarding the impact of COVID-19, there are good reasons to be optimistic. Vaccination rates in Australia and New Zealand are approaching global highs. History suggests that the economy will bounce back quickly from lockdown. Combined with the normal summer trading spike, we are likely to see a substantial economic bounce in the coming months.

But while the initial damage of COVID-19 is receding, a range of challenges remain. COVID-19 is still mutating, governments are grappling to get the balance right between safety and freedom. Inflation is increasing. The transition to a low carbon future is gathering pace. The impact of technology disruption, labour shortages and supply chain bottlenecks impact our businesses and our customers every day.

Now as we know, when confronted with rapid change many customers will adapt and thrive. But some will struggle. We stand ready to support customers in need. But thankfully we are also increasingly being asked to help customers position for opportunity, and we are well-positioned to do so with ample capital and liquidity.

Our own portfolio is also well-positioned. We are well-diversified, with the Markets business positively correlated to volatility and higher interest rates, and a strong position in sustainable finance. Our costs are well-managed, providing the capacity for us to accelerate investment at a time of opportunity. We have strong relationships with many of the global firms leading digital and low carbon transitions.

Now let's move to the result. This is a good outcome, with all parts of our diversified portfolio contributing. Statutory profit increased 72%, return on equity came in just shy of 10% despite elevated capital levels, earnings per share up 65%, and net tangible assets up 5% per share. Now given our strength and readiness for the future, the Board declared a final dividend of 72 cents per share, taking the total to $1.42 for the year.

Now Farhan will take you through divisional performance, but let me just share a few observations. In Australia Retail and Commercial delivered a good margin performance and grew pre-provisioned and after-tax profit. Home loan revenue grew more than 10%, however the total home loan book fell a little in the second half, with customers paying down loans faster, and our own issues processing increasing numbers of applications.

Now there's no excuse for the processing issues, and you'll want to know what we've done about it. Over several months we have materially increased assessment capacity by hiring more assessors and simplifying our processes. Now there's a time lag between applications and asset growth, but we are already seeing improvement.

Australian home loan assets fell $1.1 billion in July, but momentum has improved each consecutive month. For October assets are only marginally down. Our expectation is that the improving trend will continue, and all else being equal, we forecast home loan assets to grow during the first half. At some point in the second half we should be growing in line with our major bank peers.

But we continue to act, and this week we announced that my ex-co-colleague, Emma Gray, will temporarily lead the Australian Operations team. Her experience in automation is ideal. She will work with Mark Hand on further improvement.

Now while restoring momentum remains a top priority, we are also focused on the rebuild of our proposition, including home loans, which will reposition us for long-term growth. I am going to share some of that later.

But staying in Australia, a quick update on the SME lending platform GoBiz. Launched recently this allows customers, including those not yet with ANZ, to receive real-time conditional approvals for unsecured loans by providing direct access to their accounting package. Now it's still in soft launch, but it's generating an average of 2900 applications every month. It's timed perfectly for the emerging rebound in the small business segment.

Turning to New Zealand. We have had one of our strongest performances ever. Revenue is up 8% and cash profit up 41%. In our New Zealand Funds business, the total funds under management, including KiwiSaver, grew 11% to NZ$39 billion. Now the investment to comply with the Reserve Bank of New Zealand's BS11 regulation will finish this year well ahead of schedule. The Bank is already positioned to absorb the capital changes which take effect through to 2028.

Now this leads me to institutional. We have built a high performing business delivering well above the Group cost of capital, and are well-positioned to capitalise on the structural tail winds arising for the sector. For example, right across our network institutional's customers are rapidly increasing activity, M&A, digitisation, restructuring supply chains.

Trade and capital flows are growing, interest rates are rising, and yield curves steepening. Some of our major competitors are reducing their presence in the market.

We also expect APRA's proposed capital reforms, which take hold in 2023, to be a net positive for institutional. We just have access to institutional growth opportunities that aren't available to others. For example, Platforms, where we provide core banking services to other banks. This is a significant strength of ours, and we are the market leader by some margin.

Underlying volume growth was strong, and we are gaining market share. Now at the revenue line this has been offset a little by falling interest rates. But positive operating leverage, low capital intensity and ongoing growth will see this emerge strongly and contribute to better returns.

One of the best examples is the new Payments platform, or NPP. Where we have dominated mandates to service other banks. It's fee driven, the platform is already in place, and scalable, so the marginal cost of transactions is almost zero. Now growth has been exceptional, with transactions more than doubling this year, and we are only at the early stages of adoption.

Now we are also well-positioned for the rapid transformation of how the world produces, distributes and consumes energy, which will drive trillions of dollars in global investment. Now thinking about the capabilities required to participate in this flow, many of them are in our toolkit.

We are the largest institutional bank at home, and Australia's most international bank. We are a leader in banking resource extraction, arranging finance for large-scale infrastructure, connecting buyers and sellers across Asia, distributing debt, and hedging market risk. Based on Bloomberg's data, we estimate we participated in around 5% of global sustainable finance flow in 2021. Which increased our sustainable finance revenues more than 60%.

Now it's just the beginning. Opportunities include the electrification of transport, the commercialisation of hydrogen, and financing energy efficient buildings. No other Australian commercial bank has the skillset, customer relationships or the track record to participate as seriously in this global super cycle.

Now as mentioned, I wanted to share our progress in building a better Retail and Commercial bank here in Australia. Longer-term forces shaping the industry are leading to structurally lower returns, lower growth, and driving an unbundling of traditional banking.

Now to remain relevant and to succeed, we are building a more agile, open and more focused business centred around financial wellbeing to deliver higher lifetime value per customer.

It's an exciting opportunity to reposition ANZ for the long-term. But our technology was a major inhibitor. Its complexity and its age make it hard to change, prone to error, and less resilient than required. Now patching it up made no sense. Moving to a greenfield stack wasn’t practical given our scale and breadth.

So we looked at a range of alternatives, but based on our starting point and the experience of European banks in particular, the best path for ANZ was to progressively rebuild our technology starting with Sales and Service. So under Maile's leadership and the ANZx banner, we have built a team of over 800 people. More than half are engineers, and many joining from leading technology companies like Apple, Amazon and Square.

We are using this talent to completely rebuilt our capability and integrate a raft of contemporary technology.

Now, the work is challenging and it's mostly unseen, but this year we made significant progress building a platform for low-cost scalable resilient growth. The first task was to introduce a range of new platforms and we have already integrated 11, including Salesforce for CRM, ForgeRock for identity and access management, Zafin to manage products and Twilio for contact centres.

We have also built nine major assets from scratch, but it's a bit like building a skyscraper, all the hard work is beneath the ground, but once it emerges, if it is well engineered, it does grow quickly. With the foundations complete we are now building a range of new customer propositions based around our nine principles of financial wellbeing. We are currently testing our first proposition with staff and will be ready to launch with new customers early in 2022 under a new brand ANZ Plus.

This will become the cornerstone of how our retail and small business customers bank with us in the future. It will allow us to deliver non-bank services and deepen engagement with our customers. Much of this will be delivered by the strategic partnerships we are building through our ventures and incubator business, 1835i. Through 1835i we only invest where we see a path to acquire more customers, deepen relationships or co-develop new propositions that we couldn't develop on our own.

For example, last week we announced that we entered into a deed to take over Cash Rewards, Australia's leader in the buy now save now sector. It's a great fit with our customer proposition of financial wellbeing and it brings over a million customers into the ANZ family while driving additional value to our retail and hospitality customers. In addition, we have invested in eight fintechs like Lendi and Airwallex and launched three start-ups, each intended to drive customer acquisition and deepen engagement.

Now, to date we have been pretty quiet about ANZx but you will be hearing a lot more about this, particularly as we launch ANZ Plus and prepare to test digitised home lending. This is an important investment in our future but we have largely funded it within our existing expense envelope and capitalised only 5% of the investment. We wouldn't have had that capacity without the ongoing success of simplifying the Bank.

We always knew that a simpler more focused bank would be lower risk and lower cost and our work indicated that we can run the Bank well and continue to invest appropriately for around $8 billion and we retain that view. At the half I clarified the expected shape of the $8 billion, specifically differentiating between the cost of running the Bank, which we target at $7 billion and around $1 billion for ongoing investment. This year, we reduced the cost of running the bank a further 3% on a constant currency basis to $7.4 billion, so we are well on the way to exit 2023 at our $7 billion ambition.

With respect to the $1 billion in operating expense for that annual investment, with some assumptions on capitalisation levels, that should allow a cash investment per annum of around $1.4 billion. To give that context, it's about the same as today if we exclude the remediation work which is coming to an end and the one off BS11 investment in New Zealand which is also coming to an end. We will not underinvest in the business to meet the target, but with the current outlook, the peak and regulatory and remediation spend, we are confident in our $8 billion aspiration.

In summary, look, 2021 was challenging and we didn't get everything right, but we stood by our people, we supported customers as best we could, we managed our balance sheet prudently and we increased investment to drive long term value while delivering strong returns to shareholders. With that, I will now pass to Farhan to run through the result in a bit more detail.

Farhan Faruqui: 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 am in Melbourne. My three decades in banking span a wide variety of roles and geographics and it is that commercial lens I am bringing to this role. In partnership with our business heads, my focus is squarely on the base and quality of the delivery of the next phase of our strategy execution, with the view to ensuring that our capital and resource allocation is delivering value for our stakeholders.

There is no question banking is changing dramatically and while there are challenges ahead, we see opportunities in the change as well and I am 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 2021 results highlight the benefit of our diverse portfolio of businesses and geographies. New Zealand capitalised on its scale and a rebalanced business to produce very 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-market banking.

Our market 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 the challenges in home lending which Shayne referred to and I will 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 are delivering for our shareholders with stronger dividends year on year, a share buyback and a TSR performance of 70% for the year.

To my agenda. Today I will 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. On the topic of corporate strength, I will 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 cents per share within the target range of 60% to 65% of cash profit, excluding large notable items.

As you know, we did not need to dilute shareholders with equity raisings during the pandemic. We are almost half way through our $1.5 billion share buyback and we will continue to consider the best use of 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.

Turning now to our portfolio credit quality which reflects five 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 into internal loss rate sits at 22 basis points.

Now, moving onto our financial performance. Cash profit was up 65% for the year. It's 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 that we created investment capacity.

We released information regarding two second half large notable items last week. I would note these had a limited impact in the half and as is customary, from this point forward my references will be to cash profit excluding large notable items. In my opinion the key factors which drove the result were (1) core banking income increased 1% benefiting from disciplined margin management, (2) markets income at $1.94 billion while strong was lower following our performance last year and (3) costs were up 1.9% FX adjusted for the year in line with the guidance we provided at the half.

However, 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 will speak to a little later. Finally, a significant decrease in credit provisions reflecting an improved economic outlook.

Our margin outcome was a highlight. The headline margin improved two basis points in the half, while underlying margins were down two basis points. Disciplined margin management largely offset the impact of industry headwinds. Now, 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 lower 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, out pacing 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 eight basis points. Partially offsetting this was a net $40 billion shift in term 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 six basis point benefit to margin this half.

Now, turning to the outlook and 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 it will depend on global macroeconomic settings and the inflation outlook in the markets in which we operate.

Now let me turn to our divisional performance. 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 first half 2018. This, in turn, allowed for revenue to be higher half on half. The commercial bank grew revenue during the 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.

Now turning to the topic of momentum in the Australian 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 2021, while 30% higher than that of three years ago, was simply not sufficient to match system growth. In fact, 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 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 six 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 that we need to address and over a number of months we have been working on operational and process enhancements, including increasing 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 2022.

Moving 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 six basis 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've 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 and with returns well above the Group cost of capital. Importantly, this half marked the 11th consecutive half of absolute cost reduction in our institutional business.

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 to earlier. Also, 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.

Now to the New Zealand result, which is a testament to efficiently leveraging the benefits of scale. In financial year 2021, the division delivered one of its strongest performances for many years, with revenues up 8% year on year and 5% up half on half, resulting in cash profit increasing 41% despite a high level of regulatory investment required for BS11. We're on track to deliver BS11, well ahead of the required RBNZ deadline and we're 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 our business division to reflect the changing capital environment.

Now turning to provisions, credit conditions remained benign in the second half. Individual divisions were at historic lows and delinquency rates trended downwards. The modest $145 million 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 our major cities. We believe our collective provision balance and coverage ratio of 122 basis points remains appropriate at this time.

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

Savings came from across the entire business, including, one, 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. Secondly, creating efficiencies via process automation and simplification in our contact centres and our back office.

Thirdly, 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 in each half.

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 $600 million over the past two years and was up 23% to $1.8 billion this year. We continued our discipline on capitalisation with the investment expense rate increasing to 79% and our capitalised software balance falling to below $1 billion.

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 2021, 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 2022 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 2021 base of $8.67 billion and that will be an outcome of lower run-the-bank expenses and higher investment spend.

So to conclude, a few words on my key areas of focus. One, we must rebuild our home loan momentum. Mark Hand and his team, along with the entire executive committee, is sharply focused on this. Two, 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 and my team and I will relentlessly pursue that objective. We have done this the last five years and I’m confident we can continue to do it consistently.

Three, we have to maintain our resource management and allocation discipline, which is a key agenda for me. Our investment governance framework is aligned with our strategic priorities to ensure that investment is well managed and rewards strong execution which produces the promised cost and revenue benefits.

Four, 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.

I thank you very much for your attention and I certainly look forward to meeting all of you in person soon. In the meantime, I am contending with the very important task of picking a footy team. Unsurprisingly, Jill is pressuring me to pick Richmond. With that, I'll hand back to Shayne.

Shayne Elliott: Okay, thanks Farhan. As I said, it wasn't an easy year, but it was a good result overall. We could have been quicker to address challenges processing Australian home loans, but I'm confident we have that under control.

Looking ahead, the immediate impact of COVID is receding but there will continue to be challenges, including long-term industry disruption. Given the repositioning of ANZ, our strong balance sheet, the investments made and benefits of simplification, we are well capitalised and well provisioned should things deteriorate and we are well positioned as growth emerges. Put simply, the headwinds will persist, but structural tailwinds are emerging for us.

Now Farhan shared his priorities and I'm very clear on what's important at a Group level. First, restoring momentum in Australian home loans. Second, launching ANZ Plus successfully. Third, seed profitable, high-return growth in institutional with a focus on the platforms and sustainability areas. Fourth, in New Zealand, finish BS11 and continue to recycle capital to improve returns. Lastly, across the Group, continue our work on simplification, capitalising on the investments made in automation, cloud migration and digitisation to enable low-cost, high-resilient customer growth.

But whatever eventuates, we'll continue to be prudent and methodical. We will be guided by our purpose and balance the need of all stakeholders and we'll do what's right. This is going to be another big year of change and transformation and I'm confident that we have the team to deliver. I'd like to acknowledge our 40,000 people who have been unwavering in their support of customers, colleagues and their community in a challenging and at times emotional environment. They continue to be true to our purpose and they embody the best of our culture and I thank them for their ongoing commitment.

Now finally, it would be remiss of me not to mention that 70 years ago this month the modern ANZ was born, with the merger of the Bank of Australasia and the Union Bank of Australia. It also launched a new motto, tenacious of purpose, which resonates as strongly today as it did in 1951. Our purpose, to shape a world where people and communities thrive has guided us through recent challenges and we will continue to pursue it with the tenacity it deserves.

With that, we'll open for questions.

Jill Campbell: Thanks, Shayne. I know that you've all done this a million times but just in case, we want to get through as many questions as we can, so if you could keep it to no more than two questions each and try to resist the urge to have 27 sub-questions, that would be great. If you can work the words Go Tiges or Dustin Martin into any of the questions we might let you go longer.

With that, operator, if you can open up the lines I believe the first question is from Andrew Triggs from JPMorgan. Thanks.

Andrew Triggs: (JP Morgan, Analyst) Thanks, Jill. Can you hear me?

Jill Campbell: Yes.

Andrew Triggs: (JP Morgan, Analyst) Excellent. Thanks, Shayne. Just a few related questions on cost, please. In terms of the explicit reiteration of the $8 billion cost aspiration, can you, Shayne, just clarify that excludes restructuring costs? That's been a - it's listed as a notable item but it's been an ongoing trend of relatively high restructuring costs, and it was $127 million this year.

A couple of other questions, just sticking on costs. FTEs are up 5% in the second half and all divisions saw growth, so I'm just interested in any explanations on this given the productivity savings that we saw outlined on slide 23.

Just a final one, if I could push my luck. Sticking with slide 23, that cost inflation bar looks relatively low at about - at $53 million or about 0.6% of the starting cost base. I'm just interested, I would have thought it would be a lot higher than that given a lot your people sitting in offshore markets.

Shayne Elliott: Sure. No, they're very reasonable questions, and I'll get Farhan to go through the detail. Just a highlight from me, though. Restructuring, the $8 billion I think it's fair to say there's normal restructuring that will be part of the $8 billion and what we're going through at the moment in terms of transition is some higher levels of restructuring required in terms of that productivity outcome, but Farhan can comment a little bit on that.

On the FTE, before I hand to Farhan, because he'll have a bit more of the detail, I think it's important, Andrew, to stand back and think about over the year - and I know your question was on the half, but over the year the FTE is up about 2000. About half of that is explained by some transitory things.

For example, we are moving a significant amount of work from our base, our operational centre in Chengdu. We're migrating that to Bangalore, but as we do that we end up with a bit of a double-count. We've got about 400 roles moving as we speak, so we hire 400 people in Bangalore ready to take the work but we still have 400 people in China, and so that's a big part of that.

Then for example, we're closing a product in New Zealand, a product called Bonus Bonds, which we can go into what it is, it's an old product we inherited from when we bought PostBank. There's about 150 people sitting just contracting in to manage through that transition. There's some unusual things in the FTE, which we're confident are transitory. Farhan, you'll have some more comments to make on those questions.

Farhan Faruqui: Yes. Thank you, Shayne. I think there are two drivers of the exit rate. One of course is there is a small increase in our BAU FTE, but as Shayne said, a large part of it is transitory, things like Bonus Bonds, the Chengdu service centre exit, which will slowly reduce over the course of next year. Investment in ANZx, in cloud, in things like GoBiz, was obviously part of the reason why the FTE was higher. Inflation we expect next year will be slightly higher than financial year '21. We've also, as we've said, delivered $308 million of productivity saves, and there are many more initiatives in flight which will continue to reduce our BAU or run-the-bank costs.

Overall, our view is that Bank BAU will trend lower over the year; investment will be up, as I said earlier; but we will fall in financial year '23 as we complete major programs like BS11 and some remediation. That impact was about $300 million alone in financial year '21 but will start to come off in '23. That's our view on FTE. We'll see some transitory rise, which we have seen, we see that reducing as some of the regulatory projects complete, we'll see the impact of that coming off, and we'll continue to invest in the key initiatives that Shayne talked to earlier.

Andrew Triggs: (JPMorgan, Analyst) Thanks, Farhan. What should we assume is a normal restructuring cost line ex this period of extreme productivity focus?

Shayne Elliott: That's a good question.

Farhan Faruqui: Well, I think...

Shayne Elliott: No, go on Farhan.

Farhan Faruqui: Go ahead, Shayne.

Shayne Elliott: No, you go ahead.

Farhan Faruqui: No, I think it is a good question. We have factored in some numbers in anticipation of that restructuring. I can't share the details with you just yet but I would be happy to discuss those with you later.

Female: Andrew Lyons. Operator, we can move to the next question, thank you, which is I think Andrew Lyons.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks, and good morning. I just wanted to ask a question, Shayne, just about the expense part of it. You've spoken to an exit rate in FY23 of $8 billion and yet costs are going to grow again incrementally in FY22. Just in light of that, I'm wondering if maybe you can help us with a bit more detail around exactly what an FY23 exit rate on costs of $8 billion actually means the reported number will look like? I think particularly given you're going to grow costs in '22, I think the market would really appreciate any guidance as to what that exit rate of $8 billion actually means for the reported number in FY23.

Then just a second question on markets income. You've just delivered about $2 billion of market revenue which is about in line with what you've previously spoken to as being normal. Against this, all your major bank peers are talking to this line item as being under significant pressure, so much so that we've actually seen one of your peers write down assets within the institutional business, somewhat related to this. Can you perhaps talk to maybe why you are seeing some divergence against the major bank peers on this line? Thanks.

Shayne Elliott: I'll start with that. I guess the glib answer is we're better at it than our peers, but the reality is, as you know, Andrew, our business is just more diversified than our peers. I think it's really important to note the diversity of our markets business in two factors. One is the geographic diversification. More than half of our business sits outside Australia and that's really the big difference when you compare us to certainly our domestic peers. We have a great franchise across Asia, et cetera, and so that geographic diversity really comes through at a time like this.

I think the other point that we've done within that business also the diversification. When you think about - and there's some detail in there about just how we generate value in that business in terms of our customer base. So, we have a much bigger institutional business to begin with than our peer group, and remember again, institutional for us, where we really dominate and do extraordinarily well, is with the multinationals segment. That multinational segment - and yes, many of them operate here in Australia, and that's the core to our relationship, but it means we're servicing them in multiple markets around the world.

So, we just have a broader customer diversification in terms of flow and opportunity and we have that geographic diversification. I think that's why our business, we feel pretty good about that result. I take your point, I think it is better than what we're certainly hearing from many of our peers. That's why we're confident in that.

In terms of the expense target, we don't give guidance for FY23. I understand the nature of your question and I understand sitting here today it looks like a big move from $8.6 billion, $8.7 billion-ish down to $8 billion and it's clearly not going to be a straight line, but as I mentioned, I think we've given pretty decent guidance around that exit. What it essentially means is we exit the fourth quarter of '23 at about $2 billion in total, and I've talked to the $7.1 billion plus $1 billion and how we get there. What's difficult about answering your question, to be perfectly frank, is there's a lot of moving parts in there.

We've got really strong momentum on BAU but the real difficulty is really on the project side. I think I'm more confident in the - it won't be a straight line but I'm more confident in the BAU trajectory and timing; it's a little bit harder on the project side to know exactly, for example, when something, or the equivalent of a BS11 or the cloud migration or some of the remediation work, in which quarter that will actually finish, whether it's the first quarter of '23, fourth quarter of '22, fourth quarter of '23. That's why I'm a bit reluctant to go into that. Farhan, I don't know if you wanted to add anything on those questions.

Farhan Faruqui: No, I think you've covered it, Shayne. As Shayne said, I think on the BAU expenses I think we have a much greater degree of confidence in terms of the run into FY23 exit. As Shayne said, we have a very clear strategy around our productivity initiatives, which will offset inflation and will deliver to the $7 billion target that we are hoping to achieve by then.

On the investment, I think the only thing I would say at this point is that, as Shayne said, and as I mentioned earlier, there's $300 million simply from BS11 and remediation, which will be elevated this year but will slowly reduce in FY23. Therefore, if you think about our slate, which is about $1.8b now, it drops to $1.5b just on the basis of those two projects, and then of course we'll have to decide on the pacing and the timing exactly of when they come on and come off. I think we have a plan, but the timing remains a little bit uncertain, as Shayne said.

Andrew Lyons: (Goldman Sachs, Analyst) Just on the BAU, $7.4 billion down to $7 billion, would you expect that should be more linear - and go Cats to get that question in.

Shayne Elliott: It will be more linear. It won't be perfectly linear but you would expect so. There will be a little bit of a tail-end impact there; you would expect the savings to accelerate at the end. I'll give you an example and reason why. If we think about some of the - that BAU is not easy and it comes out of investments we're making. If I think of something like the cloud migration - and again, I know you guys know this, but you have to invest a lot, you build capability to migrate to the cloud, you've still got to run your datacentres and run your new services in the cloud.

It's again a bit like the example I gave with Chengdu and Bengaluru, there's a little bit of a double-up and then it's only towards the end of the program and the migration that you can start to release the cost of your own datacentres. That release would come through in the BAU costs. So, it will be straighter and more linear but not perfectly so. There'll still be a bit of a tail-end impact.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks so much.

Shayne Elliott: Thanks. I would say - sorry, just one thing on that. I think it's worth - if you go back and look at the productivity that we've got, and Farhan mentioned the $308 million, what's really interesting about that - and I know when we first started and had the ambition around the $8 billion there was a lot of scepticism and I understand that. We talked about when we first started delivering into that there was a sense, hey, you're doing the easier stuff first and it's going to get harder, and there's an element of truth to that, but we're also getting better, and I think that's important.

That $308 million actually is higher than it has been historically, so actually we are generating more productivity saves as we go through the program. It's not slowing, it's actually accelerating, because if you look back over the three-year prior, the three-year average prior to that I think was about $260 million per annum. So, we're getting better, surprisingly, in terms of our execution on productivity benefits.

Operator: Thank you. Next question is from Ed Henning with CLSA.

Ed Henning: (CLSA, Analyst) Thanks for taking my questions. You've talked about improved mortgage outlook, a firm handle on the issues. Speaking to a number of brokers, you're still around six weeks to pick up a self-employed deal, three to four weeks for PAYG which is still well out of market and has recently got worse. Firstly, can you just run through in a little bit more detail why it's taking so long to fix the issues and why that won't happen again?

Secondly, given your improving outlook for credit growth expectations, do you need to pull the price lever? With that, do you see increasing front-book pressure and also fixed-rate migration coming through in your '22 NIM?

Shayne Elliott: Yes, fair questions. I'll get Mark Hand here, who runs Australia business, to make some comments on that in terms of the turnaround times [unclear]. So why it takes time, because at the - so let's understand what the issue is. We do not have an issue today of people wanting to choose ANZ for a home loan solution. We in fact, in a funny way, that’s part of the problem, we've got lots. Actually the application volumes we are experiencing today are extremely elevated relative to history.

So we don’t have a problem at the front end. Where we have had the problem is in processing. If you go to - and Mark will talk about it more articulately than me - but in terms of our Branch network we don’t have a problem at all, in terms of turnaround times. People going into Branch get a turnaround really quickly and very competitively.

It has been in the broker space. For without going into all the sort of detail, some years ago we made a risk-based decision that we would manually assess all broker applications. That was a reasonable thing at the time. So basically we have a very, extremely manual process sitting in behind broker applications.

So the reason it takes time to ramp-up, it is difficult to hire and train people, and get them to be really productive in terms of home loan assessment. That was particularly true during COVID-19 where we were more restricted in terms of being able to get people into a building to train them, et cetera, and get them on the tools quickly. But Mark can talk more sort of with up-to-date data in terms of turnaround times. Mark?

Mark Hand: Yes, so firstly, I'm the first to admit that I didn’t pick the boom that we saw coming in home loans this year. So in terms of our preparedness for that, we weren't ready. But what we have done is constantly improve the business. So our ability to write home loans today is more than double what it was 18 months ago.

We are in the process of doubling that again. But that takes time. To automate processes you need to change systems, you need to retrain staff, and you do need to put new staff on. So we have redeployed a lot of staff from other parts of the Bank to help with this problem. But the technology solutions, the automation solutions, that we need to put in place just simply take time.

Now the turnaround times, we do have a little bit of a bias. So we have a mobile network which accounts for about 15% to 20% of our volumes. They are treated similarly to the way we treat our brokers. So we do a full check of those deals the same as we do for broker deals. So we have a bigger piece of our pie that goes through I guess the slower process. Compared to the Branch deals where 60% of customers will walk out the door with a decision within about one hour of entering the Branch.

So we do have a lot of work to improve that process. We have got a lot of work underway. But we also have a bias towards, because we have the best offer in market for self-employed. So we bat very strongly in that part of the market, and those deals do take longer. So you won't get an approval in 24 hours for a self-employed customer from any bank. It does take longer, there is much more intensive checks to be done. The fact that a lot of those come through a broker add to those.

So our bias plays towards a little bit of a longer turnaround time. But if you look at our turnaround time for a straightforward deal, that is comparable to the deals that a Macquarie, for instance, might be writing, and we're still slower. But the difference is in a few days, not in weeks.

Shayne Elliott: In terms of your question, Ed on, you asked a question about margin, you're right, there's been a big mix shift across the market, and certainly for us in terms of customers choosing fixed rate over variable. Of course that does have an impact on margin. That’s already sitting in our book today, and it's already, if you will, within the exit rate.

I don’t know, Farhan, if you wanted to comment a little bit more just broadly about the margin trends?

Farhan Faruqui: Yes, look, I think have - and I tried to cover that in the speech earlier, that obviously we have a combination of head winds and tail winds coming into FY22. I think the head winds are likely to persist around competition, the continued shift from variable to fixed, and sort of other back book related margin pressures, et cetera, in the mix.

But we do have tail winds. We have the ability to reprice. We still think we have some ability to reprice deposits. We are waiting to see how rates perform in the course of the next few months. Hopefully that’s going to give us some tail wind as well. The deposit mix is something that continues to change and provides, and our teams are working hard out to make sure that we get some tail winds as a result of those.

Of course the wholesale funding costs are relatively lower in the debt markets. Of course as those roll off we will be able to refinance cheaper through the deposit liquidity that we have. So to some extent we have several tail winds. Net net we think there are obviously net head winds. But again, depending on what happens with rates, and depending on how we are able to take appropriate management actions to offset some of those head winds. But I think it's fair to assume that in general there is a head wind pressure going into next - going into this year.

Ed Henning: (CLSA, Analyst) Just if you think about your credit growth expectations, do you need to pull the price…

Shayne Elliott: Oh yes, good - yes.

Ed Henning: (CLSA, Analyst) … to accelerate those head winds?

Shayne Elliott: Look, I don't know what the market is going to look like, I don't know what's going to happen with rates or in terms of competition. But I think again when you stand back and at it from a simple level, as I said, the issue today, we have today is not that people do not want to choose ANZ. That we don't have a compelling competitive position in the marketplace.

It's really just our ability to sort of churn through the volume. So our view is just, where we are putting our resources is really to build the capacity. Mark talked about the doubling we have already seen, and the expected doubling we are going to get. That's our focus. We know actually from history that what's really important in terms of growing volume is just being competitive in terms of turnaround times.

That is our strategy, to be in the mix, to be highly competitive through this in terms of the broker channel. As Mark said, on the Branch channel, we are already very effective there.

Ed Henning: (CLSA, Analyst) Sorry, just one other follow-up.

Shayne Elliott: Yes.

Ed Henning: (CLSA, Analyst) Just on the broker, you fully reassess the loans. Do peers do that? So if you do see another spike in volume you will get the same issue again for ANZ?

Shayne Elliott: I can't speak for peers, that's for them. We, today we manually assess - what's part of the changes we are making is to reduce our reliance on total 100% manual assessment through the broker channel. So there is part of the work, and what Emma will lead and is already underway, is how can we automate, streamline some parts of that process. So that's already underway and we are confident we can do that.

But I think the point here, and Mark I think spoke clearly about this, we are aiming, we have already doubled our capacity. If you look in the data, it's not that we're processing less home loans than we used to. We're actually processing more, it's just not enough. We are building that capacity to double again.

Now who can say what the volume outlook will look over the next year. But that should be more than sufficient for us to meet the objectives we talked about. Getting asset growth back into the home loan book in the first half, and being back towards the average of our major peers at some point in the second half.

Ed Henning: (CLSA, Analyst) Right, thank you very much.

Shayne Elliott: Thank you.

Operator: Your next question comes from Matthew Wilson with E&P. Please go ahead.

Matthew Wilson: (E&P, Analyst) Yes, good morning team, I presume you can hear me okay?

Shayne Elliott: Yes, good to hear from you Matt.

Matthew Wilson: (E&P, Analyst) Thanks Shayne. You mentioned in the opening remarks, and I think it's a good point, your institutional franchise [isn't] well-appreciated. You can tell that by the questions today, everyone's focusing on home loans. We'd think we'd be talking to a building society.

But there is $150 trillion that needs to be invested in net zero emissions over the next 30 years. Perhaps this is a question for Mark Whelan, but can he sort of provide more colour how your franchise is front and centre well-placed to deal with the opportunities that will…

Shayne Elliott: Yes.

Matthew Wilson: (E&P, Analyst) …arise across the capital stack, across the assets that need to be created, financed and managed long-term?

Shayne Elliott: Yes, and I'm glad you raise it, because I totally agree with you. That was part of the - and so I'll get Mark to come up in a sec. While he's getting ready, this is massive opportunity. There is no doubt, we're talking enormous amounts of money. As I sort of tried to cover, and Mark will give you a bit more detail about the work we're doing here. You stand back and think about that transition and what would you need to do to be part of it? A lot of those things, if not all of them, we're really good at.

For example, just good old-fashioned resource extraction and banking that. Yes, okay, the underlying shift, and it won't be coal, it will be lithium or something else. But the fact is - or hydrogen and all those. It's still got to be around, we're good at that. We're number 1 at that, and we've been good at that for a long time.

We're really good at banking large scale industrial projects in terms of the conversion of things. We're really good at moving and financing the movement of goods. Whether that today might be gas or iron ore, and in the future might be hydrogen or something else. We're good at knowing how to do those things, and we have the customer base that actually will drive a lot of that.

I mean the reality is that transition is going to be driven by large multinational organisations, many of which, if not most of whom, are core clients of ours today. Not fringe clients, like core. We had this discussion yesterday with our Board. Going through, if you go through and think through who is going to drive that transition, I am talking about the names. These are people we know and have banked for a long time and are very closely working with. So I think there's a lot.

But we are excited about the opportunity. It's really early days. But Mark can talk a little bit more about the various ways we can participate in it. Because it's not just going to be lending, far from it.

Matthew Wilson: (E&P, Analyst) Correct, yes.

Shayne Elliott: Mark?

Mark Whelan: Yes, thanks Shayne, and thanks, Matt, for the question. We have spent the last probably six months doing a real deep dive into what we're seeing in the sustainability area globally. Some strategic work with around 75 of our people working with McKinsey. We've got a pretty good picture on where we see the opportunities.

But it effectively starts with what Shayne talked about. I mean the quality of our customer base, both domestically and internationally, they're the customers that are going to drive this transition to net zero by 2050. Many of them are already well progressed on their own plans. So our intention is to follow them, and to work with them on their own transition.

So that customer base, plus our geographic footprint, really puts us in a strong position to be at the forefront of this, based on what our customers are telling us and what they want to do, and where we think this will move.

The second point I'd make is, don’t forget our Financial Institutions business. A lot of where you're seeing drive and pressure and move to net zero is coming through from our fund managers and our investors who take both our equity and our debt. But also they do that with many of these companies that are obviously looking to transition.

We have an exceptionally strong FI business, a very deep business across multiple parts of our product offering. We're working with a number of them now around what we can do to improve our product capability. So when you roll all that together, there's areas we'll need to develop. We do a little bit in advisory today. We're thinking about what we need to do there.

We're looking at the product range we offer. Green bonds, green loans, it's going to be much broader than that. Supply chains are going to shift on the back of this. We have got very good trade businesses with these multinationals. We are actually reshaping them today to focus on where these opportunities will be. There's obviously with the fund managers and the FI business that we have, we're talking to many of them around how we participate in other parts of the business. Whether it be in equity, and how we structure that up.

So it's multi-faceted. I think we're pretty well prepared. We've got a very strong starting position and a very strong reputation in the marketplace. Very well co-ordinated across the Bank as well, which is quite important in this area. Because it's going to touch many industries.

Matthew Wilson: (E&P, Analyst) Thanks guys, that’s helpful.

Farhan Faruqui: Just to add quickly, Shayne if I could, and Mark too, what Mark said, Matt, that we have the relationships in our international business alongside our relationships in Australia that we will leverage together to deliver the outcomes on sustainability, as Mark said.

But I think it's worth pointing out that we have market leading businesses in this region in terms of debt capital markets, syndicated loans, project financing, export credit. Many of those are going to be critical in terms of the financial engineering that will be required as many of these projects are taken on.

So we have the network, we have the relationships, and we have the product capability to actually bring this to realisation. Which I think sets us apart a little bit from some of our competitors.

Shayne Elliott: Again, without over speaking, because you can probably tell, we are excited about this opportunity. The reality is, because of that customer base and because of that capability, this is going to happen naturally anyway. We are going to, our business is going to shift because our customers are going to take us there. What we're talking about is doing more than that. Not just being, moving because our customers are shifting. But actually how do we position to have even a greater participation in this and that's going to require investment.

Now, the good news from a shareholder's point of view, that investment we're talking about is largely a people and capability. It’s not about - we don't need new big systems or technology or big dollar investments. It's really about the intellectual investment around people and under Mark's leadership we've already hired in some really thoughtful people from the whole sustainability spectrum to augment that team, because we need to be at the forefront of the thinking as much as just in terms of delivery. So it is an exciting area.

Matthew Wilson: (E&P, Analyst) Thanks, guys. Farhan, you are well advised with respect to a recommendation for a football team. Thank you.

Farhan Faruqui: Thanks, Matt.

Operator: Your next question comes from Jonathan Mott with Barrenjoey, please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Yes. Thank you. Probably staying a bit more in that institutional side, you talk a lot about the benefits from the steepening yield curve and potentially rate raises. So could you just elaborate on that, just the leverage that you get across the Institutional space in the markets if we have the volatility that's been going on in recent times. Shouldn't we expect a pretty good environment for markets for the next little while? Also, for the rate rises, do we actually need to see effectively the RBA rate rise kick in before you really start to get the leverage through widening spreads as well?

Shayne Elliott: Okay.

Jonathan Mott: (Barrenjoey, Analyst) So could you talk about that leverage to rates?

Shayne Elliott: Yes, yes. Good. I'll get Mark Whelan to talk a little bit about - because you're specifically talking about markets in particular there. But I think if we just stand back a little bit and, again, I don't want to sound preachy, because you guys will know this, but as we know, higher rates and steeper curves are generally a good thing for banks overall.

The old borrow shortly and long argument, and that is undoubtedly true. What we're suggesting here is not only does ANZ benefit from that like others, because of the shape of our business and, in particular, our strength in institutional, we think - we see that as a more of a tailwind for us, yes? So - and Mark can talk that through. The other point there I think is in terms of volatility in general, as rates rise, it tends to come with a little bit more market volatility.

What's interesting at the moment is there's this quite significant debate happening, not just here in Australia, but around the world, about inflation. Is it transitory? Is it permanent or not? We saw even yesterday with the data some reasonable moves in the shape of the curve.

That sort of environment, as my view, is there's going to be a lot more of that debate. It's not going to get settled any time soon and there'll be market flip-flopping around on that decision and so that's an ideal - and that means our customers are increasing their activity, more hedging, more positioning, etcetera, and that's generally a good thing for us. But, Mark, you're in a better position to just talk through about the impact and the opportunity we see in our markets business.

Mark Whelan: Yes, I think that's a good backdrop to it, Shayne, because we do - the business is built around the customer flows and so Jonathan, I think the issue for us is more following what we're seeing with customers. I think in the last few months we've seen - or the last six to 12 months we saw customer activity actually drop a bit, because they did a lot of pre-hedging, as you know, last year, when volatility was up, spreads were wide, yield curves were uncertain, et cetera. Then when all the liquidity came into the market, what happened is that it really suppressed volatility and you'd already had a lot of pre-hedging from customers put in place. So it was a tougher year this year. However, when you look forward - and I don't think it's an issue of if things will get better for that environment for markets - it's more the question of when.

So we do think that rates will rise. Now, because we've got more - a global business in our markets business, we've already seen New Zealand rates rise, so we'll benefit from that. You already - you talk in the US about when the US rates will rise and also it's an issue of when does Australian rates rise? But we're exposed to all three of those and we can leverage them at different times.

Yield curves are already starting to move. Spreads are already starting to move out. It's an issue of how quickly that will happen and whether it's a continual factor and when it feeds into volatility, which then attracts back in the customers to take more action around their positions going forward. So, as I said, I think it's more an issue of when it will hit than if.

At the moment, it's still - volatility is still pretty low, but we're starting to see more activity and M&A customers starting to borrow more money. That's usually a good precursor to starting to see some of these market conditions hit, which are really good for our financial markets business.

Shayne Elliott: Yes. Just to go into your question, Jonathan, about the RBA, look, clearly with rates so low here in Australia, essentially at zero, any increase, yes, would be of benefit, but the greater benefit to a business shaped like ours is the steepness of the curve as opposed to just the position of the cash rate. So in a funny way, the longer the RBA keeps rates low, the more likely it is that we get a steeper curve as those sort of expectations of rates rise start to get built in.

So I know there's a lot to unpack in that, but basically what we're saying is our business is well positioned for higher rates but, more importantly, steeper curves, both from a market positioning business, just lending - borrowing short, lending long, but actually also in terms of driving customer activity.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Farhan Faruqui: I'll just add, Shayne, to your point that it is absolutely right and, Jonathan, to your question, away from the market's impact that Mark spoke about - and Shayne touched on the fact obviously cash rates going up is obviously helpful, but we want to see the rate structure rise. That would impact not just the market's business, but it would also impact favourably the ITOC and replicated portfolio as well.

Jonathan Mott: (Barrenjoey, Analyst) Thanks.

Operator: The next question comes from Brian Johnson with Jefferies, please go ahead.

Brian Johnson: (Jefferies, Analyst) Thank you for an opportunity to ask a question. I just wondering who this Jon Mott character is. Shayne, congratulations on a great result, but just something I wanted to understand is on slide 10, you actually say consumer lending is becoming more capital intensive and less profitable, which I would agree with. But when we go back to what you said in 2016, when you took on the gig, you basically said that you'd written down on an environment that basically ANZ is too much in Asia, too much institutional, more in-housing.

When we actually have a look at the housing market share, over and above what we've seen just of late, the market share is down in housing from 2016 to basically now. I just really want to understand is are you saying that institutional is better than SME lending, is better than housing? I just want to…

Shayne Elliott: Yes.

Brian Johnson: (Jefferies, Analyst) Are you happy with basically the current mix? Because it's the great unknown. I'd just like to find out…

Shayne Elliott: Yes, it's a great question.

Brian Johnson: (Jefferies, Analyst) … that one first.

Shayne Elliott: It is a very reasonable question. Thank you, Brian. So I think when we - so, again, just standing back a little bit. There is no doubt that consumer lending - the returns are under pressure for all sorts of reasons. We've talked about partly due to its pricing, partly to do with capital intensity and also partly to do with just an opening up of that market and an unbundling of it and new competition, right? But it's still very attractive, so the point there again, it's getting lower, but it's still, when you think about our stack of alternatives, it's still - and, again, we're using broad terms here - it's still one of the most attractive.

So if we just stand back today and think about the relative attractiveness of ROE - and I'm, again, being pretty blunt or think about the economic profit generation of the various businesses, just as a spot - on a spot basis, parts of SME are the highest. Not all of it. So part - the parts of SME are the highest. Consumer, including home loans is there. Institutional is still a lot lower than those two. Now, then you've got to think about, but what's the change happening, both from an industry perspective in terms of - and as a result of our own management. What we're suggesting is that retail is getting harder and so returns are falling structurally. Institutional is actually getting better.

So the gap is closing and so now we've got an institutional business that is comfortably above our Group cost of capital and we're not done yet. Like, we - partly because of the tailwinds we've talked about, partly because of the work we're doing to restructure that business, we think that continues to get better. The APRA, the proposed capital changes from APRA - and they're not done yet, but as they're proposed at the moment that come in in '23, they're a pretty reasonable boost to institutional. It might be neutral overall, but, again, it'll help start to close the gap.

So that's our view. By the way, just to finish that, SME not really changing too much. A little bit of pressure there from some of the capital changes. So that's the way we think about it. Now, we are a diversified business and we want to be great in all three of those. We think our mix at the moment is about right in terms of about two-thirds, one-third is sort of our mix. It's about right. I don't want anybody to walk away thinking that we deliberately - and know you didn't mean that, but we didn't deliberately reduce share in our retail business in Australia. Far from it.

We do want to increase share. We want to increase the right share at the right price and that is why we're investing really, really heavily through ANZx, but also just in general in terms of really trying to craft a position where we've got a compelling proposition that is sustainable for the long term.

Brian Johnson: (Jefferies, Analyst) So, Shayne, just on that, sorry…

Shayne Elliott: Yes.

Brian Johnson: (Jefferies, Analyst) …this is part of the first question.

Shayne Elliott: Yes.

Brian Johnson: (Jefferies, Analyst) If we go back to APRA's last announcement on this, they said that when the amended Basel 3 comes through, basically, it's just a change in the way you measure something, but housing capital intensity goes up. But they specifically reference SME falling. Are you saying that's not the way it looks at this moment?

Shayne Elliott: No, that's - you're right. I'm - again, I think it's taxonomy here about SME. So when we think about our SME base, SME for us is a pretty broad church of things. So at the very - so it depends - when we - I'm talking about sort of more of the - some of the larger parts and more capital intensive parts of SME.

Again, the impacts as we - as articulated by APRA are broadly neutral at a bank or industry level, but they do level the playing field a little bit between [INSTO], so [INSTO] will get a benefit and other businesses will have a small reduction in terms of attractiveness for ROE. So it's a relative - but it's relatively neutral, but, again, within our portfolio, institutional will look relatively more attractive than it does today.

Brian Johnson: (Jefferies, Analyst) Great.

Shayne Elliott: Yes.

Farhan Faruqui: I think [unclear] maybe…

Brian Johnson: (Jefferies, Analyst) Shayne, the second one, if I may…

Shayne Elliott: Yes, go ahead.

Brian Johnson: (Jefferies, Analyst): …is just on the housing pricing going back to Ed's question. If we go back to basically March 2020 when the RBA cut, ANZ, you cut your front book/back book housing variable rate far more than your peers and we had an uplift in your market share. So you basically hurt the back book, but you got a growth in share. If we go back to November when the RBA cut from [25 to 10], the other banks cut more aggressively their fixed rates. You guys didn't and basically you basically appeared to have lost fixed share.

But if we look at it now, your fixed rates look to be pretty punchy relative to your peers, but we've still got this higher back book variable rate. Does that feel to you like basically ANZ gets more front book/back book pressure or less going forward than your peers…

Shayne Elliott: It's a big - there's a lot…

Brian Johnson: (Jefferies, Analyst) …as you go back to market share growth? I apologise. There's a lot to unpack there.

Shayne Elliott: Yes, I was just about to say there's a lot to think through in that one. I don't want to give a glib answer. I'd have to think that one through. I'm not debating anything you've said there, Brian. I think all - your assertion there is probably not unrealistic, but I'd have to really honestly sit down and work that through. I can't say. I mean, I think the point here is…

Brian Johnson: (Jefferies, Analyst) Sorry. Can I…

Shayne Elliott: Yes.

Brian Johnson: (Jefferies, Analyst) …just…

Shayne Elliott: No, go on.

Brian Johnson: (Jefferies, Analyst) Shayne, your fixed rates are low relative to your peers.

Shayne Elliott: No, I understand the question.

Brian Johnson: (Jefferies, Analyst) So that creates more…

Shayne Elliott: Yes.

Brian Johnson: (Jefferies, Analyst) …front book/back book pressure, but your benchmark variable rate is well below your peers, which creates less. How should we add the two together?

Shayne Elliott: As I said, I need to work that through, because we also need to understand the relative weight of the business today and the relative flow and clearly the issue is - so all else being equal, you're correct. That will create more of a headwind for us. But all else isn't equal and the point being that we - pricing shifts and also importantly, as we've said, we're not achieving the kind of volumes that we want today. And why we talked about an aggregate about the fact that we want to get our book back to growth in the first half and back towards peers at some point in the second half, clearly the mix of that will be very, very important in terms of where that growth comes from.

So, again, you're right, but I don't know that you can necessarily just extrapolate that too far given we've got some of our - you know, the processing challenges we have and making sure we get back into the volume that we need.

I think what's important here is what we are saying is we don't believe - I don't want people walking away here and saying hey, our plan is we get our [process] in and we’re going to use price as a lever. We have to be competitive, we understand that, but that's not the issue today.

That is not our issue about people wanting to choose ANZ. We have got a pretty, you know, as I said we are in the mix when it comes to pricing. We will be a little bit better here, a little bit worse there, but we're in the mix. It's really about the processing capacity that we need to fix.

Brian Johnson: (Jefferies, Analyst) Thanks Shayne and well done on the result.

Shayne Elliott: Thank you Brian.

Operator: The next question comes from Azib Khan with Morgans Financial. Please go ahead.

Azib Khan: (Morgans Financial, Analyst) Thank you very much Shayne and team. You have covered pretty well the sensitivity and the leverage of the markets business to the shape of the yield curve in rising rates. I would like to understand the same sensitivity to another part of the institutional business being the payments and cash management business.

Shayne Elliott: Yes.

Azib Khan: (Morgans Financial, Analyst) If we go back to 2018 and 2019 the PCM business was delivering revenue of somewhere between $1.2 billion and $1.3 billion per annum, but it has since trended down such that it's now delivering about $900 million per annum.

Firstly, to what extend has that down trend been driven by lower rates globally and secondly, I now note that that revenue, the PCM revenue, has stayed in large from the first half to the second half. Do you believe that that down trend has now come to a halt in this cycle? Mark mentioned earlier that we're already starting to see yield curves move in many of the geographies that you operate in.

Shayne Elliott: Yes.

Azib Khan: (Morgans Financial, Analyst) Is that starting to bode well for the outlook at PCM revenue.

Shayne Elliott: Yes, look, it's a great question and don't forget you're talking to an old cash management person so it's going back a bit. We love this business. You're right, so actually the decline in revenue is more than explained by lower rates, yes, because actually what we have seen at that time is actually an increase in the volume and the increase in the volume comes twofold. We have been increasing shares, we've been acquiring new customers and mandates and our customers are increasing volumes.

I think so we have this odd sort of, well it's not odd, we have had this situation where despite the fact we have been winning more business and getting more transactions and putting more through the pipe if you will, the way that market works in terms of generating value and revenue for us was heavily skewed towards NIM, i.e. the amount we made on balances and less reliant on fees, yes. So when a lowering rate environment, yes, it did and so in some ways we have had to pedal really, really fast to actually reduce the reduction in total revenue.

What we are signalling and talking about here, well signalling is not the right word, but what we are talking about in the result is look, for what we see now and remember this business is not just in Australia and New Zealand, it's an array of currencies across an array of markets and pretty well diversified, but broadly yes, we think that business has bottomed in terms of the drag of interest rates.

Actually, as we start to see rising rates and we have started to see them in New Zealand and other parts of the world and there's more talk of that happening, that will absolutely be a net positive for that business, yes. We have got higher operating leverage in that business today because it's got bigger balances and bigger transaction volumes than it used to.

The other thing that I referred to in there is, it's small but important, increasingly the services we provide through that business are more fee driven and so the business model is shifting a little bit. The best example is NPP. On the NPP services the way we generate revenue there is a fee per transaction, yes, and so it's not a NIM business at all. As the business mixes and we become more of the processing shop, processing payments for people, again, we see a tailwind coming through in that business.

So yes, we see that as an upside. Rates will benefit, steeper yield curves will benefit, but also the changing nature of the business and the underlying growth that we are seeing there which is really pretty powerful.

Azib Khan: (Morgans Financial, Analyst) Shayne, putting all of that together, so the outlook for the PCM business is looking quite rosy. The markets business, we understand the sensitivity there to rising rates in the shape of the yield curve and on balance that's looking pretty good for the next couple of years.

Your outlook for corporate finance and trade is looking good in light of what you're looking to do with the transition to the low carbon economy. Putting all that together, are you expecting cash earnings for the institutional division to outperform other divisions over the next two to three years?

Shayne Elliott: I think it's about - so all of the factors you talked about - you should do my job, come and [sell it]. You did a good job of explaining the positives there. We do see those things as structurally tailwinds. The question we have here is really about timing. To your point, over the coming years, yes, absolutely we see those things as positives.

Now, what we have got to do is keep our heads around - and I have, Farhan has, Mark, we've been in institutional banking and that for a long time, we know what to do here I think in terms of really strongly managing risk, it's all about getting the risk settings right and it's also making sure we keep on top of our costs base.

We are in a great position, we have more structural tailwinds than we have had for a long time that I can certainly remember in terms of institutional banking and we will keep a very, very disciplined approach around execution, but over the medium to longer term, yes, there are some real positives there that are exciting. You still have to win the business with customers and get your stuff together to take advantage of it but we're feeling a lot more positive about that that is certainly the case.

Azib Khan: (Morgans Financial, Analyst) Thank you.

Farhan Faruqui: If I can just add a quick point on that Shayne…

Shayne Elliott: Yes.

Farhan Faruqui: …because I think you have covered it really, really well. Also, I think it's fair to say you're an institutional business person yourself, but I think while the tailwinds are absolutely accurate, I think we have got to make sure that we continue to keep our eye in terms of margin and the competitive intensity that the institutional business, alongside other businesses, is going to be facing into.

The good news is that Mark has driven incredible discipline in the institutional business in terms of capital and a return orientation, but we shouldn't be - we are not going to be looking at institutional for growth for growth's sake, it is going to come on at profitable level.

Shayne Elliott: Yes, well said.

Operator: Your next question comes from Victor German with Macquarie. Please go ahead.

Victor German: (Macquarie, Analyst) Thank you and thank you for the opportunity. Shayne, I would be interested just to go back to mortgages and expenses actually. I was a little bit surprised with comments from Farhan and Mark that you underestimated growth in the market and it would make sense if it grew by 4% or 5% and the market grew at 8%, but surely when you're not growing, you're going backwards, it's not just underestimating the growth in the market. So basically, in a little bit more colour in terms of what is going on and why do you think your mortgage processing is less scalable than your peers? That's question one.

Then the second question on expenses. I guess, Farhan, if you could perhaps maybe provide us a little bit more colour. Now, you have mentioned that next year you expect expenses to be up. If we look at your second half expense rate you are effectively averaging $8.9 billion based on second half and I appreciate there is high investment spend in there, but I would just be interested in how we should reach that $8.9 billion number to $8.6 billion base and where you expect those potential reduction in spending to come from, particularly in the context presumably you will need to continue to invest to fix some of the mortgage issues that we spoke about earlier.

Lastly, I will take Jill on her offer of bringing in her favourite club. If we look at the favourite player, there is some speculation that he might not be coming back and retiring, so how committed are you to actually delivering on that $8 billion target in 2023? It's not that far away. Are you actually thinking about delivering that or are you really putting together structure in place for someone else to take that and deliver on that number? Thank you.

Shayne Elliott: Okay. No, look, I'm committed. Let's just remember on the - we will do them in reverse order, Victor, a little bit. Hey, let's not forget where the $8 billion came from, right, so I'm not walking away from it. I made comments about the fact that we needed a simpler bank. That we were way too complicated, we were doing way too many things and some of them we weren't doing very well and we wanted to de-risk the business and we wanted to make it a better bank for customers.

Yes, we wanted our processing - and home loans is a great example, it's too manual, it's too slow and it's too clunky. We wanted to build scalable better compelling propositions and we wanted our business to be really centred around things that we did well. That was the objective.

Now, when we sat back and did the work and said, well what will that look like and what would the organisation - what would the shape of it be, what were the things we would be doing, where would we be doing them and how would we be doing them, we back solved that and said actually that comes out about $8 billion.

So, the $8 billion was an outcome as much as it was - it wasn't just a target, it wasn't just a number we made up. I know it has become a target and I know that target is on my head, I understand that, but it's important to understand why we have that number. So yes, I am committed, but I am committed to the simpler better bank proposition and I still believe and I went through, that $8 billion is about right.

We are not going to do anything stupid to get there and I know I have said this probably every half recently, actually we can get there now. It's not that difficult. You have seen the numbers. Our run the bank costs are at $7.4 billion. Right, all I have to do to get there now is finish BS11, shut down ANZx, I am basically there. Now, there's a bit of noise in there but that's all I have to do, but that would be the wrong thing to do. Right, we want to invest for the future.

So yes, I am committed to it. No, I am not setting it up for, well that's up to the Board I guess, but no I'm not setting it up to hand that task onto somebody else. I think that simpler better bank that we want at the end of 2023 is absolutely within our grasp and it's not going to be easy on a few areas but we are committed to doing it.

In terms of the home loan piece, why did we call it? That's a good question and it's a fair question. Again, it's really important and there's some charts there to look at the moving parts, it's not just about system growth. The other thing that we did not see - because what actually drives the work isn't just system growth, it's the churn, right, and what we saw is massive levels of churn in terms of refinancing. The level of refinancing activity in the market has gone to an extraordinary level.

Now, we did not foresee that coming. Even to hold still in volume we would have had to have significantly higher levels of processing capacity. I think that's a little bit broader than just saying oh system growth was eight and we thought it was going to be five. It's a little bit more than that because what drives it is actually the turnover.

Why are we less scalable? We're less scalable because we are more manual. Most of the banks today, despite what people say, they're largely manual but we are even more manual than our peer group. In a time when frankly hiring and training people has been more difficult, that makes it harder for us to scale.

That's why, two things, we're dealing with it in the short term, we've put the resources, we've repositioned literally hundreds of people in our network. We had people in our branches who were underutilised who we could put onto this. We have hired people, literally hundreds of people to come in. They are being trained. Every week more and more people are getting into actually being and assessor and being able to chip into that.

We are investing in some of the technology solutions that Mark alluded to in terms of simplifying this, that and the other, for example, the way we ingest applications from people. We have put Emma in and Emma is an expert and got a lot of skills around data and automation.

So, we are doing the short to medium term things and I don't want to underestimate those. Those are having an impact, absolutely having an impact today. Our capacity today is higher than it was last week and the week before. It's literally going up and we measure it literally to the deal number and the dollar we know what our capacity is in getting ready for that.

Then on the other hand, we are also investing for the long term because I don't think that that is the solution. The solution cannot be that the answer to this is just keep throwing people at this and tinkering around at the edges. That's why we talked today about the fundamental rebuild of ANZx.

I know it's hard to sit and listen and I throw a bunch of names at you and a bunch of numbers, what the hell does it all mean? What it means is essentially a whole new stack or a whole bunch of new technology and processes that initially are around helping people join the Bank and start and have a savings and transaction account with us and that we will then be able to plug in all the other sort of ancillary services, including home loans at some point.

So we've got the short medium-term strategy, yes, which we've talked to death on and we've got the longer-term strategy, which we think means will put us – we'll have a proposition that is far more compelling, which will make us far more competitive, we won't be talking about just moving our capacity a little bit, but really have a scalable, compelling, low-cost resilient platform to really grow in the market and that's why we're doing the hard yards on X. So that's sort of those questions.

Somewhere in there, there was a question for Farhan, which I've forgotten. It was about costs, I think, Farhan.

Victor German: (Macquarie, Analyst) Yes, thank you Shayne. Out of that investment, both manual and automated stuff, I mean how much of that has already been captured in your second half cost base versus what's carrying it through into the next half.

Shayne Elliott: Yes, good question. So in terms of the short and medium, the stuff we're doing to fix the now, a big chunk of that cost is in our second half. Now not all of it, so the exit rate of those expenses will be higher than the average, if you will, because some of those people only got hired in the last two or three months, so there's a little bit of that and we haven't finished. So there's a little bit of a headwind from a cost perspective in the Australia division on home loan processing.

But let's not get carried away here. We're not talking hundreds of millions of dollars, we're talking relatively modest amounts in terms of the scheme of things, so we've got that. In terms of the longer-term investments and X and the rebrand with Plus and the new opportunities there, by and large they were in our run rate on the investment slate.

Now there's going to be an uplift in the investment in X, so the work that Maile's doing that I talked about, that will be higher cost in FY22 than it is in FY21, but there are some other things coming off the slate and that was what Farhan referred to. There's a mix shift in there. It is going to be slightly up, the total investment, but a lot of it, there is a mixed shift in there, so ANZx up a little bit, some other things down to offset some of that.

Farhan Faruqui: I think, Victor, maybe the best way to think about it is that, as Shayne said, we have tome BAU uplifts and we have some investment uplifts towards the back half of the year. As we've indicated, investment spent for the full hear next year is likely to be slightly higher. Now that's going to take different shapes and forms as investments go in and other projects roll off and particularly some of the regulatory projects start to reduce, so we'll probably see a non-linear sort of event in 2022, uplift in first half with a reduction in second half.

Also, I should say that the OpEx rate is also up due to the mix of projects. So the way we are expensing those projects is also going to be a little bit higher next year than this year. So investment spend will go up overall, but will probably be slightly higher in first half and then start to trend down in the second half in terms of the pattern it will follow.

BAU cost is, as Shayne said, is exiting because we have hired people in home loan processing, we have some transitory uplifts due to things like Chengdu and our Bonus Bonds business, et cetera. We also recognise of course that we'll have inflation headwinds in 2022, but the productivity saves that we have in plan for next year will largely offset that and we will see BAU expenses trend down in 2022. So that's sort of the mix, Victor, if that helps to give you a sense of the travel, if you like, in to 2022.

Victor German: (Macquarie, Analyst) So annualising second half of cost base is overly conservative, it sounds like, if I add up everything you say, annualised cost base of $8.9 billion, it sounds like it's too high.

Shayne Elliott: So the question Farhan, I'm not sure you could hear. The question was, so he's annualised the second half and said $8.9 billion, so he says that sounds like a little high for FY22. He's trying to figure out the FY22 number. Now I think that's up to you, Victor.

Farhan Faruqui: Totally your call, Victor, how you want to add those numbers up. But I think what we are indicating is that we expect total expense slightly higher than this year, higher on investment, lower on BAU and I've told you what the travel looks like between first half and second half next year.

Victor German: (Macquarie, Analyst) Thank you.

Shayne Elliott: Thanks Victor.

Operator: The next question comes from Richard Wiles with Morgan Stanley. Please go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning everyone, I have a couple of questions. The first one relates to funding and the second one relates to some of these structural tailwinds you're talking about. On the funding, slide 84 shows that you've got $21 billion of term debt maturities next year, but you're also going to have run down the CLF and I think this seems to have taken the banks a little bit by surprise, the timing of that CLF rundown.

So my question on the funding is, how much term debt do you think you'll need to issue next year and what are your expectations for the cost of funding? Do you think we've seen the best and the cost of funding is going to go up?

Shayne Elliott: Yes, that's a fair question and Farhan, I'll get you to make some comments on that. I think the first thing just to note is in terms of the CLF, Richard, as you probably know, we have by far the smallest CLF and that was because we made some decisions early on and we looked at cost benefit and the structure of our funding which is different to our peers, partly because of our strong FIG business and institutional, et cetera, we didn't have the same need for it. So we have less of a replacement challenge, if you will, on CLF.

But Farhan, do you just want to answer Richard's question?

Farhan Faruqui: Yes, so look I think from a – so CLF, Shayne has already covered, it's a small number, we think it's very manageable, in fact I think it's the smallest CLF of our major bank peers. Now whether we need to issue next year or not in terms of term debt, I think Richard, is going to be a function of a lot of things, right? It's going to be a function of what the system deposit growth looks like, how depositors change their behaviour in a post-lockdown period in terms of deposit mix and the level of liquidity that we have sitting with us. That will then drive our decision whether we need to issue.

There is a possibility that we may issue a term debt next year, but we're not at the point where we are clear whether that is a requirement because we have to wait and see how the deposit and liquidity situation plays out over the next few months. I think CLF, as Shayne said, is not really a challenge. We acted faster on that relative to some of our competitors, we're down to about $10 billion or thereabouts of CLF and that will go to pretty much zero by the end of next calendar year. That, by the way, is a positive for returns as we save the fee on the CLF.

Shayne Elliott: I think just a broader, I was thinking about it, preparing for this, Richard and looking at some of the – I mean it's an extraordinary shift when you look at the loan to deposit ratios essentially in the banks for something like ANZ. To see the massive shift of that in a relatively short period of time with these extraordinary levels of amounts of liquidity and a lot of it obviously sitting on our balance sheet, so that has structurally changed and gives us more options in terms of ways we think about issuance.

I think what the team, under our Treasurer, Adrian's, leadership has given them more options and really focusing on getting the best cost and also maximising return, while maintaining diversity and all those other things that we need in terms of funding. So it's given us way more options than we've ever had before.

Now you wanted answered questions about structured…

Farhan Faruqui: I just wanted to add to that point around…

Richard Wiles: (Morgan Stanley, Analyst) Yes, I wanted to ask about some of those structures you were referring to. You've mentioned sustainable finance several times in your initial comments. Shayne, you talked about platforms and I think you mentioned the New Payments Platform and it seems like you're dominating in that space. I just want to get an idea of how material these structural tailwinds and initiatives are for the Group's revenue.

You've got about $17 billion of revenue. How much are you generating from sustainable finance at the moment and what fees are you generating from the NPP? Are they meaningful to the Group?

Shayne Elliott: Yes, good, totally fair question. So remember I'm talking about the longer term here, so I'm not talking about next year, although they will be there, but you're right to point out they're probably not going to be material in the base of a $17 billion, $18 billion kind of revenue base, so I understand that. So sustainable finance is certainly not in the hundreds of millions of dollars, not yet, but we think that it can be. I think that's an important thing and it will grow pretty materially.

NPP I use an example, it is relatively modest in terms of the total fee today, but the reality, the point is, the growth rate's high and so I just used that as an example. But if I think of something like clearing, so Australian dollar clearing and New Zealand dollar clearing, we have more than 50% market share of those businesses. So that is basically clearing Aussie and Kiwi payments for international banks, so it's a great business, we're good at it. Those things have actually again got structural tailwinds in terms of we benefit from higher rates as that comes through and we're actually also continuing to see strong volumes in those areas.

So the cash management business, it goes to, I think it was -I can't remember who it was, the question before there, Richard, if you think about payments over all of which NPP I accept is a small part, the tailwinds there are more and more volume, so there is underlying volume growth and we use some of the data in the pack. Two, more of that volume benefiting to us is being driven by fees than margin, so the changing shape, which is positive from a return profile perspective and opportunity there. And the parts that are related to NIM, a steeper yield curve, higher rates, also benefit. So there's sort of a multiplication effect in there.

The cash management business is a billion-dollar business of the $17 billion. That has more tailwinds. We've had, oh gosh I can't remember, at least five years of tailwinds in that business with rates falling and now it seems to be bottoming out and we're going to start to see some benefit in there. So if you think of that base, the billion, has some real positives and that's an important mix issue for the institutional bank overall, because that really drives a lot of the return benefit into institutional going forward.

Richard Wiles: (Morgan Stanley, Analyst) Thank you, Shayne.

Shayne Elliott: Thanks for the questions, Richard.

Operator: Your last question comes from Brendan Sproules with Citi. Please go ahead.

Shayne Elliott: Hey Brendan.

Brendan Sproules: (Citi, Analyst) Good morning team. Hi, how are you going, Shayne?

Shayne Elliott: Good.

Brendan Sproules: (Citi, Analyst) I've got a couple of questions, one of the SME and then one on the institutional lending book. So just quickly on SME, I noticed you talked earlier about the attractive returns that you're getting in SME and also that the capital intensity is probably coming down. I've just noticed on page 61 of your 4E today that the commercial and private bank was actually the biggest drag on the performance of the Australian region, bigger drag than retail and we saw similar results last year.

What's the outlook for this business? A couple of your larger competitors are spending a lot of money in hiring bankers and trying to win business here. But when you went through your five priorities, you're focusing on other parts of the business. How are you seeing this business, I guess, going forward and maybe how this can turn around?

Shayne Elliott: Yes, good question Brendan and now my team are going to say I told you so, because they said to me you should put the SME in and make it a sixth priority. But I like the number five more than I like six. But anyway, you're right. So let me answer your question.

First of all, there's a mix issue in that commercial and – actually our private bank is doing extraordinarily well and the commercial bank is a very broad array of businesses in there. So our small business banking is doing extremely well, that is that high return, highly diversified growing business and we love it and it's great and that's going to be an important part of that ANZx proposition, because small businesses want to be able to deal with banks equally in a digital fashion, et cetera. So that business is really good.

But way at the other end of the spectrum there's a whole bunch of other things in there including some businesses that are much more heavy in the asset finance area, financing bulldozers and whatever.

That stuff actually in a funny way looks a lot more like institutional. It's really hard. It's hard to get the returns right; it's asset and capital heavy, very competitive, broker-driven, all sorts of things. We had made some decisions to exit parts of that business. Two reasons: we don't think we can generate competitive returns, so it was a drag, the returns were well below Group cost of capital; and secondly, the nature of that business was not relation-driven. These were transactional, they were broker-driven - we finance you a truck or something. You didn't really care about ANZ, you didn't give us any other business, and it was just a balance sheet thing.

So, we've exited some parts of that. It's not immaterial in the balance sheet and that business is essentially rolling off. That's what's driving the outcome here; you're seeing the roll-off in that business has masked other benefits there. If I stand back and think about the commercial bank, you're right, others have gone out and said they're going to go and hire and have people knocking on doors. When we stand back, and we've talked to our team, we can do that too. When we don't have a constraint and we've asked the team if we need more people there, we actually don't see that as being what our customers and what we do well actually want.

We're actually much more interested in building a digital capability, and that's why we've put our money into and our thinking behind GoBiz, which again I don't want to overstate, it's a small but important part of our proposition which allows you to go in, you give us access to MYOB or Xero or Intuit or whatever it might be in terms of your accounting platform and literally in real time we can approve - and it's completely automated - we can approve unsecured lending up to $250,000 today, and we can do that now. That was what

I mentioned. That's going really well. It's a soft launch; we're getting almost 3000 applications a month and we approve what we can during that channel automated and the ones that pop out do go to a specialist team to see if they need a bit more work.

We think the future is more digital and that's where we want to put our effort. So, it is a priority; it just didn't make my five cut, and I think I've explained what's going on in those numbers. We will expect to see the roll-off starting to - it will pretty much be finished I would imagine over '22, and so that won't be a drag on the business. In fact, it will be a positive for returns.

Brendan Sproules: (Citi, Analyst) Thanks for that. Secondly, on the institutional business, obviously you've had the lending grow again in this half. I think it's up 5% ex-currency, but noticeably the risk-weighted asset growth is obviously a lot weaker and you've had a slide showing us how the average risk weight has been coming down.

My question is, what effect is this going to have on the net interest margin ex markets, which has obviously gone up two halves in a row? Are we now going to see that start to reverse, and are you going to really get a lot of revenue benefits I guess from these loans given just where spreads are being priced at the moment?

Shayne Elliott: Yes. That's a good question. I'll get Farhan to comment on that but I'll just make some broader comments first. Institutional is a - we're in a much better position in terms of our institutional bank in terms of discipline. That business is completely focused on risk-adjusted returns. We know it's not that difficult to grow revenue in an institutional bank; it's difficult though to grow quality revenue above our cost of capital. So, they have a ruthless focus on returns, but the way they assess customers, the way they assess transactions, et cetera, is pretty ruthless in terms of making sure we get paid appropriately for the risk that we are taking. So, I can assure you of that.

Farhan, there are some mix issues happening in terms of the reasons why they've got asset growth but RWA actually improving that is worth just talking through for Brendan's sake.

Farhan Faruqui: Yes. I think there are two aspects to that. One is that there have been risk re-ratings as a result of the improving economic outlook so that has helped in terms of reducing RWA intensity in the business. I think a fairly large part of the growth that has occurred in the institutional business on the loan side or on the lending side has actually come in the financial institutions business that Mark had spoken about earlier.

The financial institutions business, as you know, is much lower risk-weight intensity as well. We've seen loan growth basically outpacing what has been happening on the risk-weighted asset side, partly because of the risk re-rating and partly because it's low-risk intensity growth on the loan book.

Shayne Elliott: Yes. The only other thing I would add to that, Brendan, which is really positive again for institutional, if you look at the equivalent front-book pricing, if you will, like we might think about in home loans, it's held up a lot better than any of us thought it might.

Understandably, with all this liquidity in the world where there's a very real prospect of front-book institutional pricing being under pressure, and while it's not at its peak levels it certainly has held up a lot better and certainly for our business and our mix of customers, which again is much more diverse than our peer group, we're actually pretty pleased about where we sit today in terms of margins.

Brendan: Perfect. Thanks, Shayne. That's really encouraging.

Shayne Elliott: Thank you.

Jill Campbell: Okay. That's it.

Shayne Elliott: I think we're done. Hey, thanks everybody for the questions. I didn't have any prepared remark but just really quickly, it's great to have Farhan on board and obviously you'll get to speak to him, hopefully meet him when he moves to Melbourne early in the new year. So, he's got his place in quarantine all set up. This has been a really interesting time for us, but we are - and hopefully you get from the tone, we're feeling for the medium term really positive about the position of ANZ. For the first time in a long time, institutional is really positioned for tailwinds and to be a net contributor and we are feeling really positive.

While we've got challenges in Australian home loans, we're feeling positive we've got the momentum back into that business and that again we will resolve that - we're resolving that as we speak. So, we've got I think the prospects of having institutional with the tailwinds, Australia being restored back into momentum, and some really exciting things with ANZ Plus coming soon, which will fundamentally transform our long-term business and the New Zealand business doing extremely well. That's a great position to be in as we enter into '22. Thanks, everybody, for your time.

Jill Campbell: Thanks, everyone, and if you didn't get to ask your question the IR team are obviously around to help you with that, so give Cameron, myself, or Harsh a call and we'll take that question from you. Thanks, everyone.

End of Transcript