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Jill Campbell: Good morning, everybody, I'm Jill Campbell, ANZ's Head of Investor Relations. Thanks for joining us for the presentation of our First Half Financial Year 2024 Results. We're presenting them from ANZ's offices in Melbourne, on the lands of the Wurundjeri people. On behalf of the ANZ team speaking today, I pay my respects to Elders past and present, and I extend those respects also to any Aboriginal and Torres Strait Islander peoples joining us for today's presentation.

Our results materials were lodged this morning with the ASX, they're also available on the ANZ website in the shareholder centre. A replay of the results presentation, including the Q&A, will be available on our website from around mid-afternoon. The results materials and the presentation being broadcast today may contain forward looking statements or opinions, and in that regard, I draw your attention to the disclaimer on page 2 of the slide deck.

Our CEO, Shayne Elliot and CFO, Farhan Faruqui, will present for around 35 minutes, and after that, I will go over the procedure for Q&A before moving to questions. Ahead of that, though, a quick reminder that if you do want to ask questions, you can only do that on the phone, and with that, Shayne, I will hand to you.

Shayne Elliott: Thank you. Welcome, everybody. There are five key messages from the half. First, this is a result about consolidation and delivery. We delivered what we promised and coming off a record 2023, these are strong results. Second, diversification served us well, with momentum across all divisions from targeted investment, efficient capital allocation, and strong risk management, we have options others don't and we use them well.

Third, we made progress where we said we would, preparing for Suncorp, growing ANZ Plus, leveraging Institutional processing platforms and delivering productivity. Fourth, we used productivity benefits to fund investment and growth, including ANZ Plus, Institutional's digital backbone, upgrading New Zealand's core banking platform, and growing our commercial business. We're not milking the franchise, but investing, intending to build and sustain the most contemporary digital capability in each business.

Finally, we continued supporting customers through challenging times with a fortress balance sheet, a diversified portfolio of businesses, and an experienced team, and that support is needed, as while most remain resilient, higher interest rates, taxes, rent and household expenses are hurting many. The number of customers in hardship rose this half and whilst still lower than it has been in the past, it's extremely distressing for each of them, and we expect that number to rise further as cost-of-living bites harder and unemployment likely increases. But I do want to assure those customers that we are here to support you.

For example, we developed a world first AI transaction scoring capability for Retail and small business customers which means we can identify customers at risk of distress around 40 days earlier than usual, so we get customers back on their feet more quickly. We also support customers by keeping them safe. Now providing a safe place for their money has been core to our business for 196 years, and always will be, and that’s why investing in security is our number one priority.

Being a simpler strong bank helps meaning we are ready and able to help those in need with the right tools at the right time to keep them safe. Safe from criminals, safe from hackers, safe from scammers, and sadly, people are more susceptible to scams in times of stress, so we will continue to invest here as well. You may have seen our latest advertisements with the return of our hugely popular Falcon, but also an antifraud system flagging suspicious transactions.

Now, the ads are fun, but they carry a serious message about extra layers of security through ANZ Plus, and the protection Falcon technology provides. In fact, we’re adding more scam safe controls to ANZ Plus including disabling screen sharing, limiting transfers to crypto exchanges and better identifying unusual activity from unexpected locations. These efforts are making an impact, and whilst still too high, it's good to see the amount that customers are losing to scams is falling.

Now, turning to the financials, this was a strong half. Off the back of a record result in 2023, cash profit was down just 1% on the previous half. We strengthened our balance sheet, increasing Common Equity Tier 1 ratio to 13.5% and we maintained our collective provision balance above $4 billion. Still 20% higher than pre-COVID.

Return on equity was 10.1% or 10.7% excluding the capital held to purchase Suncorp Bank. Revenue was flat half on half, but with the mix shifting toward Institutional offsetting a more subdued domestic retail market, showing the benefits of diversification. Expenses were very well managed, growing only 1% despite absorbing annual wage uplifts and price increases from technology vendors in particular.

Credit costs remain remarkably low. Now, while that’s true across the industry, we are confident that our transformed and de-risked customer base is delivering sustainably lower credit costs. Institutional grew revenue again and posted record return on equity domestically and internationally. Customer revenues and markets performed particularly well growing 30% half on half with most of the growth coming from our international network, again demonstrating the benefit of diversification.

The Institutional pivot from a lending business to one built around digital payment and currency platforms has transformed underlying performance and positions us beautifully for better long-term growth with sustainably higher returns. New Zealand delivered consistently yet again. Australia Retail produced strong growth in home loans without leading on price and commercial continued to deliver our highest return on equity while growing loans 7% and deposits 3% versus the prior year.

Finally, we further simplified the Group, selling 16.5% of AmBank. Now, this added to our already strong capital base, providing the opportunity to return $2 billion to shareholders via the buyback announced today. Reflecting the overall strength of our result and confidence in the future, the Board announced a high dividend of $0.83.

Now, as mentioned, we executed key priorities well, Suncorp, Plus, platforms and the productivity required to fund it all. So, let me talk to each in turn. The Australian Competition Tribunal authorised our proposed acquisition of Suncorp and legislation has been introduced in Queensland to allow it to proceed. Now, these are important milestones, and we commend the Queensland government for recognising the significant benefits the transaction brings.

That said, we still have conditions to meet including passing that legislation and approval from the Federal Treasurer. Now, we’re almost two years into the process, and while taking longer than anticipated, we’re using the time productively, and are more confident of the substantial benefits that will flow. It's a bit like training for a marathon, race date got postponed, but we kept training, and now we are fitter and faster.

For example, we’re piloting a generative AI tool to radically reduce the time to compare, contrast and harmonise thousands of terms, conditions, procedures, policies and contracts of Suncorp Bank and ANZ which will accelerate and de-risk integration. Now, going well, we expect to finalise the acquisition in August, and will then provide an update on the timing and scale of benefits.

The digital transformation of Australian Retail is gathering pace. Two years ago, I shared our ambition for ANZ Plus to become more attractive, engaging and secure for customers, and more efficient and resilient for shareholders, and it's clear we’ve made good progress.

On average, we attract around 35,000 customers every month, around half of which are new to ANZ. Despite that rapid growth, average deposits have held consistently at about $20,000.

As of yesterday, we had almost 700,000 customers on Plus, approaching $14 billion in deposits, which is 8% of our retail deposit base. Net promoter scores are consistently higher than peers, and customers are highly engaged with 47% using at least one of our financial wellbeing features. ANZ Plus home loans are in market in limited release and we recently completed final regulatory steps to allow us to increase volumes.

As we build scale more generally, our cost to acquire and cost to serve on Plus continue to fall, and are now 45% and 30% below ANZ Classic, with that gap increasing. Now, the economics are compelling, but the strategic value of Plus is our ability to pivot an innovative pace, and one of those pivots is preparing for Suncorp where we will build out propositions on Plus to match and exceed Suncorp services so we can safely move their customers to ANZ leveraging scale and maximising synergies.

Looking ahead, we're already exploring and piloting generative AI across ANZ Plus, to provide better tools to manage money, resolve inquiries, provide property valuations, and detect fraud.

Now, another key focus is leveraging our Institutional platforms. As you know, ANZ operates one of the largest payment platforms in the region, processing around 60% of Australia and New Zealand correspondent clearing payments, providing services to 90% of the world's globally systemic banks. We process $164 trillion in payments in, out and around the markets in which we operate every year, which is more than 60 times the GDP of Australia.

Now, built for Institutional, these platforms are now used by other divisions and customers to drive scale and growth by revenue. While Australia and New Zealand remain core, our international network is critical for growth, and already three of our largest payments customers are Asia based with international payments growing an impressive 8.5% over the year.

More broadly, we continue to grow payments market share with digital payments up 7% versus a year ago, and NPP Agency payments up 20%. Now payments innovation is essential to sustain success, and we recently extended leadership becoming the first major bank to go live with a natively built API enabled pay to service for billers in Australia.

This allows businesses to send a payment request to their customers via secure digital platforms which customers can then review and accept. It's safer, faster and cheaper, but to be successful requires the scale of a leading payments platform like ANZ.

Now, the other driver of sustainable success is the volume of payments processed via customer systems directly integrated into ours. Now once integrated, these channels are difficult to replicate, and these volumes grew strongly at 11% compared to a year ago, and 39% over two years.

Now, none of this investment and growth is possible without productivity, for example, in Australian home loans, we've leveraged automation to re-engineer processing and in this half improving productivity by 13%, further improving turnaround times, and partners and customers notice, with our broker NPS increasing to a record level, and market share rising. Another good example are the 3,000 engineers using generative AI co-pilot tools to rewrite bank software, delivering material gains and engineering productivity.

Finally, optimising our workforce across 29 markets is also key to efficiency. We've the largest offshore operations and technology capability of any Australian company with 10,000 colleagues across Bengaluru and Manila who augment our skills in cyber security, transaction processing, sanctions checking, engineering, judgmental credit, generative AI, and predictive analytics, and they will have an increasingly important role to play as we grow.

Overall, ANZ has a good track record on productivity. It's a core capability as opposed to spotty interventions in response to a crisis. We're the only major Australian bank to have held reported costs at or below those of 2016. Now, looking ahead as a well-managed de-risked and diversified Group, we are well positioned to manage through what remains a complicated environment.

The global economy has been resilient in the face of major shocks with wars in the Ukraine and Middle East. This year, 40% of the world votes in elections across countries that generate around 50% of global GDP. Despite tension, surprises to date have been few, and credible transitions of power evident. But ongoing conflicts, geopolitical tension and more active industry and trade policy interventions continue to impact us all.

China's economy is adjusting to structurally lower growth, but the region is adapting as capital is redirected elsewhere, and other Asian economies raise their presence in global supply chains. ANZ is a beneficiary of that shift.

Now, closer to home the Australian economy is resilient, consumption has slowed, but investment and government spending are robust, unemployment low and consumer confidence has improved. Now, while growth is unlikely to pick up this year, strong household and corporate balance sheets suggest a hard landing is unlikely. In Australia, liquid household assets exceed total household liabilities by the largest amount in at least 25 years.

Now, clearly these are aggregate numbers and the challenge for the community is around the disbursement of wealth and debt. Our customers, however, are generally better off than most and that’s why we don’t see the levels of stress one might expect given headline economic indicators.

Housing remains challenging, and even with public support it is the weakest stream of investment activity reducing labour mobility and raising social pressures. Competition for labour and materials and construction and infrastructure remains vigorous. We estimate the major project pipeline in Australia will exceed $100 billion by 2026 from around $40 billion pre-pandemic.

Now, around half of that growth is in electricity highlighting the commercial opportunities presented by climate transition. That’s a huge opportunity for us as Australia’s leading Institutional bank with our strength intermediating regional capital flow and number one market positions in project finance, trade, debt capital markets, corporate foreign exchange and sustainable finance.

Our diversified portfolio, unique global network, engaged workforce and fortress balance sheet combined with careful customer selection means we are well positioned to deliver despite uncertain times. So, looking ahead, our priorities are clear, we will continue to run the Group prudently using our strength to support customers and leverage opportunities from our network.

Pending authorisation, we will acquire Suncorp Bank. We will grow ANZ Plus while deepening customer engagement. We will grow our commercial business, leveraging our points of difference and extend our Institutional banking lead in sustainability, currency and payments. We will invest in productivity building capacity for the future.

Finally, we will continue to foster a diverse and supportive culture focused on living our purpose to shape the world where people and communities thrive. I'm confident we’re in an excellent position to deliver value for shareholders, customers and our people whatever may come, and with that, I will hand over to Farhan.

Farhan Faruqui: Thank you, Shayne, and good morning, everyone. As Shayne said, this half was characterised by continued strong execution and delivering what we promised.

From my standpoint, there are 3 key highlights. First, financially, off the back of a record year, we have delivered stable results this half. Revenues are flat, half on half, cost growth constrained to a 1% uplift, and low credit impairment charges reflect the quality of our portfolio. All four businesses have performed well and have exited the half with strong origination momentum. Our balance sheet is also stronger than ever.

Second, strategically we have made strong progress. Shayne touched on ANZ Plus and our continuing momentum in building and running a digital retail bank. We are also readying ourselves for the completion of the Suncorp Bank transaction which remains subject to approvals.

We remain confident that we will deliver on our promise of strong financial and customer benefits of the acquisition. We continued the simplification of the Bank completing the sale of a large part of our stake in AmBank freeing up $668m of capital. Finally, we delivered strong shareholder outcomes with total shareholder returns of 19% in the half.

Our return on equity remains strong at 10.1% or 10.7% when excluding capital for Suncorp. We have announced today a $2 billion on-market share buyback. This is one of the largest capital management exercises that we have ever announced.

In addition, the Board declared a dividend of $0.83 per share, partially franked at 65%. All of this reaffirms our commitment to deliver what we promise. Now, let me turn to the details of our financial outcome for the half. My references will be to half on half changes unless I specify otherwise.

Starting with operating income performance. Following a record FY23 performance, we delivered operating income flat to a strong second half with ANZs business mix allowing us to deal effectively into the competitive environment. However, operating income was slightly up, excluding the one-off impacts of M&A such as the AmBank divestment and business closures.

Our markets business performance was outstanding, with revenues 27% higher and 5% higher than the very strong first half of last year. Net interest income ex markets reduced by $91 million, with strong business volume growth partially offsetting margin reductions.

Other operating income was up 7% this half and 20% on a prior comparable period. Now, as you know, other operating income is impacted by several factors including markets business performance and seasonality. Therefore the comparison that best reflects underlying business momentum is on an ex-markets basis PCP.

On that metric, other operating income ex-markets was 11% higher. This growth was underpinned by the uplift in international transaction banking and corporate finance fees and from our cards businesses in Australia and New Zealand. Now I'll spend some time talking about net interest income and markets in particular.

Starting with volume. We grew lending and deposit volume across Australia Retail, commercial, and in New Zealand. Group average customer deposits grew 3% and average lending grew 2%.

Once again, I'll make three key points here. First, Australia home loan volume grew at 1.5 times system. This is the third consecutive half of above system growth. This growth was delivered through improved process and propositions rather than leading on price.

Retail deposit mix shifts slowed and total average deposit volumes increased by $9 billion. While margin pressures from last year flowed through to impact half on half outcomes, actions taken by the business resulted in a retail exit NIM up one basis point March '24 versus September '23.

Secondly, commercial business momentum has been particularly strong with loan growth of 7% year on year. The last 12 months represent the strongest period of absolute loan volume growth ever in the commercial business.

This has been driven by continued momentum in our larger segments particularly health and agri. We also saw a return to growth in the small business segment. We are scaling digital offerings, harmonising policies, and intensifying our focus on sales and service, making it easier for our customers to do business with us.

If we exclude the impact of management actions relating to the sale or rundown of some of our asset finance and investment lending portfolios, underlying loan growth was 8% year on year. Our pipeline remains very strong and we expect to continue growing above system.

Thirdly, in Institutional there was a shift from bank debt to bond markets. Despite this shift which impacted loan volumes, Institutional grew lending revenue while capturing the bond market shift in our markets business.

Total Institutional deposits contracted over the half. However, at call operational deposits grew and lower margin deposits were actively managed down. These outcomes across lending and deposits resulted in Institutional NIM ex-markets expanding three basis points.

A combination of diversification, active margin management, and volume momentum has stabilised both underlying NIM and net interest income over the last three quarters as evident on this slide. Our focus remains to allocate capital to the most return accretive opportunities across our businesses driving volume growth to optimise net interest income.

Group underlying NIM, as a result of our management actions, was limited to a two basis points decline. As I just mentioned, pressure on asset pricing reduced, with assets contributing four basis points to the NIM decline versus seven in second half '23.

Active management of our liability pricing and the asset and funding mix allowed us to hold NIM flat in both categories. There was a continuing NIM benefit from the capital and replicating portfolio, which in this half again provided a three basis points uplift.

While the impact of capital and replicating portfolio may vary in each half, we expect it to be a tailwind at least over the next two to three years, with the net benefit dependent on volume changes. We are very encouraged as we exit the first half with benefits of diversification, strong balance sheet, and stabilising NIM all supportive to net interest income.

The markets business delivered its strongest first half performance since 2017, with total markets income up 27% and customer franchise income up 30%. The customer franchise performed well in each product segment and was able to harness higher client demand in certain rates and commodities offerings.

Also important to note, that our differentiated international footprint accounted for two thirds of the growth in franchise income on a year on year basis. It's important to note that while the markets business has been historically characterised by revenue volatility, the growing strength of our customer franchise has delivered 40% growth over the last three years and has been consistent in its performance.

This consistency of markets franchise income is underpinned by the reasons our clients choose us, the suite of capabilities that we have built over several years of investment in combination with our unique footprint across the region. It's also because of the high quality of our customer base which represents some of the largest companies in the world.

I'll turn now to how markets activities flow through to Group revenue and how this impacts the Group net interest margin. While markets income increased 27% this half, this comprised a 36% increase in other operating income, partially offset by a reduction in net interest income that due to higher funding costs.

Consequently, the impact of markets activities on the Group NIM delta was an adverse seven basis points. This comprises five basis points from higher growth in markets assets relative to the Group, and two basis points due to the higher funding costs.

Now, I won't spend time on the accounting for markets income as we detailed this in the roundtable session we ran in March and those materials are on our website. But it is important to reiterate that the markets business is run to optimise return on equity and total revenue. In fact, the very things that drove total markets revenue and ROE uplifts in the half also adversely impacted headline Group NIM.

Now moving to costs. Our disciplined approach to cost management constrained expense growth to 1%. This is despite our largest cost component, our people costs, being impacted by inflation from 1 October.

While we continued to progress execution of our strategic priorities, we delivered our highest level of productivity benefits ever in this half. As a result of these actions, our FTE reduced by 350 across our higher cost locations in the half which reflects ongoing optimisation of our footprint, technology simplification, and continued investment into automation and digital channels.

As I've mentioned many times, productivity is an ongoing discipline for us, with more than $1.5 billion of benefits delivered since 2019. Our productivity efforts this half have focused on continuing to simplify our technology, with almost half of our targeted applications now hosted on cloud, consolidating and rationalising areas within our head office functions, and continuing to build out our Group capability centres.

Productivity is improving customers' experience, allowing them to engage with us via their channel of choice. For example, in Australia Retail, close to 1 million conversations were undertaken through our Message Us capability in the half, up 58%. With 40% of those conversations not requiring banker support.

Meanwhile in commercial, almost half of our small business lending applications were processed through streamlined processes that translated to a 10% reduction in time to money year on year.

Digital origination of transaction accounts increased 35% year on year. It is this continued focus on productivity that allows us to invest in our strategic initiatives and drives business growth and momentum.

Moving to individual provisions. The work we have undertaken over a number of years to reshape our lending book continues to drive strong credit quality outcomes. In line with the last two years, this half we saw another low IP loss rate outcome of one basis point, with a charge of $38 million.

We believe the outcomes of our portfolio improvement are long term in nature and have delivered a structural change in expected loss rates, resulting in our peer leading low provision charge and IP loss rates in recent years.

Like the rest of the sector, we are starting to see pockets of stress emerge, primarily in parts of our Australian mortgage and New Zealand portfolios, as our customers deal with the impact of high interest rates and significant cost of living pressures.

We continue to work with our customers to provide any support required. It is important to note, however, that these delinquency increases are off a historically low base and delinquency levels continue to remain below 2019 levels.

I'll comment briefly on the collective provision balance which stands at $4.05 billion. Since the first half of 2020, we've witnessed a number of pronounced economic trends. A pandemic, a massive influx of liquidity, the subsequent rapid rise in cash rates, a dramatic rise in and stubborn levels of inflation, and a steep rise in home loan interest rates.

Over the past year, these conditions have moderated. As a result, several economic indicators are beginning to move back into a more normal range. At the same time though, as I said earlier, there are signs emerging of stress in parts of our New Zealand and Australian housing portfolios.

Now, post the introduction of AASB 9, banks were required to take more of a forward-looking view of expected future credit losses. Including management's forward-looking views on the range of potential impacts.

As we see less of these extreme events and we return to what we could characterise as more normal economic conditions, that could provide us with the comfort to reduce the weightings of both the downside and severe economic model scenarios and consequently increase the weighting to the base case economic scenario.

The outcome of such changes would naturally result in a future release to our current collective provision levels. However, given the level of volatility and uncertainty that still exists from a cost of living, inflation, direction of interest rates, and the geopolitical perspective, we believe our provision levels are prudent and appropriate, for now.

We have further strengthened our balance sheet with high levels of capital and liquidity. Our CET1 ratio at the end of the half was 13.5% including the impact of the partial sale of our AmBank investment.

Our CET1 ratio proforma for both Suncorp and the $2 billion on-market buyback, remains very strong at 11.8%. On an internationally harmonised basis, we continue to be one of the highest capitalised banks in the world.

This capital strength provides capacity to support our customers, and to take advantage of growth opportunities when they are on strategy and return accretive. We also announced today $0.83 per share dividend partially franked at 65%.

The franking reflects the geographically diverse nature of our business, including the strong performance of our non-Australian businesses. We will continue to maximise the distribution of franking credits to our shareholders as they are more valuable to you than to us.

I should note that post-completion of Suncorp Bank, our franking generation will improve. Similarly, our liquidity position continues to strengthen. With an LCR ratio of 134% and a well-diversified funding base by geography and customer segment. We have also replaced our TFF maturities and have completed two thirds of our full year term funding needs in the first half.

Looking forward, my areas of focus support the Group key objectives as outlined by Shayne. First, our financial performance remained strong with all four businesses performing well and with management actions producing stable NIM outcomes over the last three quarters.

Looking forward, we see margin headwinds moderating as deposit mix begins to stabilise and asset margins become less of a headwind. We are optimistic that the current trends, our business momentum, and diversification will be supportive to net interest income. The competitive environment, however, remains unpredictable and we will continue to refine our settings to optimise our financial outcomes.

Second, diversification remains a positive differentiator for us particularly because of four largely uncorrelated businesses. Having a set of healthy businesses is crucial to leveraging diversification benefits.

In our case, all four divisions and each region are meaningful contributors to the Group performance, are each profitable with above cost of capital outcomes, and we continue to target growth across our portfolio.

Third, we are consistently executing our strategic initiatives and will accelerate where we feel appropriate. For example, in the second half, we will uplift investment in preparing Suncorp Bank for integration. As well as accelerating the work required to seamlessly transition our existing customers and Suncorp's customers to the superior ANZ Plus propositions.

Fourth, we have a longstanding focus on cost management. While fully offsetting very high levels of inflation remains challenging, you have seen us demonstrate a disciplined and growth oriented investment approach and a consistent focus on productivity for many years. You should assume this continues.

Finally, we remain committed to maintaining a strong balance sheet. This is vital for us because it allows our businesses to deliver our commitment to our customers, provides us with the capacity to access accretive opportunities.

So with that, thank you very much and I'll hand back to you, Jill.

Jill Campbell: Thanks, Farhan. A reminder, if you want to ask a question, you need to do that by the phone. I'll hand to the operator, [Ashley], who will just very quickly walk you through the procedure which you've heard a million times but we're going to tell you again, and then we'll hand to Matt Wilson for the first question. Thanks, Ashley.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two.

If you're on a speakerphone, please pick up the handset to ask your question. I'll now hand back to Ms Jill Campbell.

Jill Campbell: Thanks, and over to you, Matt.

Matt Wilson: (Jefferies, Analyst) Yes, good morning, team. Matt Wilson, Jefferies. Just a couple of things on capital. Firstly, you've still got your APRA overlay of $500 million. Is there any sort of clarity or colour you could provide as to when it can be released?

Then when we look at the risk intensity of the home loan book, it's sort of moved from 27% to 30% which is well above peers. Is that an opportunity for optimisation going forward?

Shayne Elliott: Farhan, you want to take it?

Farhan Faruqui: Yes, maybe I'll take the capital question first, Matt. Thank you for that. Look, I think at this point, our - sorry, I don’t remember the question - what was the first…

Shayne Elliott: The $500 million overlay.

Jill Campbell: Yes, the overlay.

Farhan Faruqui: Yes, the $500 million. So the operation risk overlay is something we are continuing to work on. We are investing obviously and ensuring that we are meeting the requirements from an APRA standpoint as well as improving our own operational risk outcomes.

That work is well progressed. We continue to engage with APRA on that. We will eventually provide more feedback to you once we have more development on that. But look, there's no timing at this point that is clear. But I can assure you that our work is progressing very strongly.

On the second question on the home loan risk-weights, look, they're affected by some model impacts. We are discussing those with APRA, as well as looking at product mix and other impacts of things like the Breakfree product expiring.

So we will continue to work with those model changes and continue to engage with APRA to see if we can get some reduction in our home loan risk-weights. But it's in progress at this point, Matt.

Matt Wilson: (Jefferies, Analyst) Okay, thank you. Just finally on ANZ Plus slide 10, you give us a breakdown of age group. Are you surprised that the products resonated more with particularly people over 50? But if you combine 35 plus, it's a larger percentage of the customer base.

Shayne Elliott: Yes, I think it's a great…

Matt Wilson: (Jefferies, Analyst) …product resonates.

Shayne Elliott: It's a great observation. I think the reality is we are surprised. I mean I don’t think we ever thought it was only for a younger sort of millennial cohort. It wasn't designed around that. It was designed around people with a saver mindset who wanted to improve their financial wellbeing, but I think the reason we put the data in there is precisely that. I think it's a far more diversified…

Matt Wilson: (Jefferies, Analyst) Yes.

Shayne Elliott: …proposition than people may have otherwise thought. What's been interesting to see is despite the growth in the chart there and we continue to grow, those numbers have remained remarkably stable. It wasn't like there was any - yes, it is continuing to attract a diverse demographic over time. Look, I don't know Matt and we should probably do some work on it with Maile and that. For example, I think while it's digital I think the high levels of security in that may well be attracting older people, oh I'm putting myself in that category, older people like me may be more attracted to some of that, but yes, I think it's a really strong outcome actually but we should do some more work onwhat the drivers are. Thanks Matt.

Matt Wilson: (Jefferies, Analyst) No worries. Thanks team.

Jill Campbell: Next one is Ed Henning from CLSA. Thanks Ed.

Ed Henning: (CLSA, Analyst) Thank you, Jill. Ed Henning from CLSA. A couple of questions from me. Firstly, one just on the costs outlook. Farhan, you talked about an uplift in the second half around the Suncorp investment. Can you just give us a little bit more of a feel on the outlook of costs as a first one, any headwinds or tailwinds coming into the second half from the first half as a first question please?

Farhan Faruqui: Yes, thanks Ed for that question. As I said, there are going to be uplifts and particularly around Suncorp integration work that obviously will get more momentum once we get the full approvals through. Look, at this point as you know there is also investment seasonality typically pretty much across all banks their first half is lower and then it picks up in the second half, so I'm just pointing that seasonality element out to you through that point.

We certainly see from a headwind perspective vendor inflation still continuing. Obviously from a salary and wages perspective most of that impact has already come through in the first half because it goes up October one so you won't see that being a dramatic shift in the second half. As I've said, we continue to work through productivity. We said we'd deliver $200 million of productivity in the first half. Those benefits will continue into the second half and we continue to have a large pipeline of actions from a productivity standpoint that will also show up to offset some of these uplifts in the second half.

So overall, our guidance Ed, is pretty much the same as what we had said at the end of last year which is that we continue to be confident that we will offset some parts of the inflationary challenges that we have in front of us.

Ed Henning: (CLSA, Analyst) Okay, that's helpful. Typically, obviously with employees or wage costs being the biggest part of your component, your costs with the salary increase going through, is that a bigger headwind traditionally than the second half uplift in investment spend or they both kind of neutralise each other out?

Farhan Faruqui: Well, I mean so you won't see a further uplift in the salary and wages because that's already gone through so that is a net zero uplift. I think the real offset in terms of the impact from higher investment or other vendor inflation type in headwinds is really more on the productivity rather than on the salary and wages being held equal. So yes, it's effectively a productivity outcome that we are seeking in terms of offsetting inflation.

I think it is important also that the salary component that we have shown in our slides does have a few elements to it. It's obviously salary and salary related, so when we talk about inflation that number which is on the slide on operating expenses which is slide 25, the $250 million which is - it includes salary and wages, it includes vendor costs and vendor inflation and it also includes other salary related items such as long leave provisions et cetera. So, we don't expect any of those salary items to repeat again in the second half in terms of additional uplift.

Shayne Elliott: I would just add a couple of things, Ed, on it. I would say so first of all relative to our peers, I mean we all suffer from the same environment, you could argue that given our international footprint and remember more than half of our people don't live in Australia, they live somewhere else and many of those places we operate in actually suffer from higher wage inflation. We all suffered from the same sort of drivers but ANZ when you look at the half on half clearly outperformed in terms of managing costs well. I think that again shows our ongoing commitment around productivity.

Then the second thing I would just comment on is the fact that that is also not coming - our management of productivity is not coming at the cost of underinvesting. I mean I think you're all aware that we capitalise very little of our investment. I think Farhan can correct me if I'm wrong on the latest data but it's around 15% of our investment slate is capitalised. The rest is - so we're not getting the benefit of putting stuff on the balance sheet and deferring it to later and yet we continue to invest at or above the level of our peer group because as we want to build a stronger bank for the future.

Farhan Faruqui: Yes, that's correct.

Ed Henning: (CLSA, Analyst) Thank you and just a second question on margin. Overall running into the second quarter the underlying margin fell by one basis point. In the blue notes piece, you talk about the Retail margin being up one basis point on the exit. You did well on the Institutional margin, that was up three basis points in the half. Can you just give us a little bit more of a feel of what you're seeing going forward on the margin? A couple of your peers have talked about the mortgage margin getting - the outlook getting better for that and the headwinds easing, but any more commentary on the margin outlook would be helpful.

Farhan Faruqui: Yes, Ed, I think you've sort of described it really well. On Retail we are starting to see some favourable trends in terms of the deposit mix stabilising, the asset margin headwinds slowing, which is why we were able to exit March one basis point up from September. Again, in Retail - sorry, in Institutional we have had strong discipline around margins for assets and deposit margins we have been managing very actively to ensure that we have an overall margin expansion in the Institutional business half on half.

So again, positive trends going into the second half. We have seen some more pressure particularly in terms of liabilities in Commercial, but again, those pressures have been easing as the mix shift has been slowing and the New Zealand housing portfolio has actually expanded margins half on half. There are lots of favourable factors supporting margins going into the second half. As I said, the ITOC rate will continue to be beneficial. We will have a smaller wholesale funding task for the second half relative to the first half where we have done almost two thirds of our wholesale funding for the year, particularly as the TFF matures.

I think what I would say overall is that margins are looking stable going into the second half. Now, of course competitive pressures as well as the rate outlook because there are still different views in terms of the direction of rate movements will determine where we end up. I think overall I would say that margins are looking positive going into the second half.

Jill Campbell: Thanks Ed. Next question.

Ed Henning: (CLSA, Analyst) That's great. Thank you.

Jill Campbell: Sorry, Ed. Thank you. The next question is from John Storey from UBS.

John Storey: (UBS, Analyst) Thanks very much. Good morning team. I just have two questions for you. Shayne, I think you called out how the business has transformed over the last few years and how risk adjusted margins have improved quite substantially. I just wanted to reconcile that with one of the tables that you've got in your one half results decks. Just looking at long run loss rates and just noticed that they have increased particularly in the Institutional business. They have gone from 19 to 21 basis points.

Shayne Elliott: Yes.

John Storey: (UBS, Analyst) Maybe you could just comment on the thinking behind that.

Shayne Elliott: Sure. I'll actually get Farhan to…

Farhan Faruqui: Yes, John, let me just give you a quick answer on that. The fundamental shift, as you said, has been in Institutional which are up two basis points half on half. Part of that is a mathematical outcome because we had lower facility utilisation in the half, so if you like the denominator is smaller which increases the loss rate without any fundamental shift in terms of risk appetite and the kinds of risk we are taking.

The other part of it is largely driven by the fact that there have been some small business mix changes which increases the weighted average gap, the credit ratings of the overall portfolio, so it's really nothing substantial. There has been no change in the view we take risk in Institutional. There has been no downgrading of risk appetite. It's just partly mathematical because of lower utilisation and partly because of the mix changes within the portfolio.

John Storey: (UBS, Analyst) Okay. Excellent, thank you Farhan. The second question is just, Shayne, just for you just around Suncorp Bank. I assume you have had a chance now to see I guess the impact of this mortgage competition on bank's results in this reporting period. Just wanted to get your sense on how you think about the competitive landscape and how you think about, strategically, how you think about Suncorp Bank just given the change in the competitive landscape and the economics? Just more broadly I guess around Retail banking.

Shayne Elliott: Yes.

John Storey: (UBS, Analyst) Has that fundamentally changed your views there?

Shayne Elliott: Thanks for the question. No, it hasn't fundamentally changed our views here. I mean I think we need to go back to basics here and remind ourselves why we were attracted to Suncorp Bank. What we are acquiring here isn't the home loan book per se, I mean we get that for free if you will. What we are really acquiring is 1.2 million customers. What we were after and what we were really attracted to is the deposit base and that deposit base has significant value.

Again, when we do the maths and if you were to revalue the bank today versus when we acquired it, there's no doubt there has been a change in where that value is derived from. One might argue that the home loan book is of lower value today than it was then, but the deposit book is of higher value and so the fundamentals are still strong. We wanted Suncorp because we want the customers, we want the deposit base and we want to be able to bring them over onto ANZ platforms which we will be able to service them at a far lower cost.

I mean I point you again to those ANZ Plus stats today about the cost of acquiring and cost to serve being 45% lower and 30% lower than ANZ Classic. Now, we don't have total insight into the cost to serve and cost to acquire at Suncorp, but one is going to imagine that again the gap will be very, very significant. So, by moving those customers across we can significantly generate scale at a much lower cost, but again, I just remind you the value comes from the deposit base in particular.

John Storey: (UBS, Analyst) Great, thanks so much Shayne.

Shayne Elliott: Thanks, John.

Jill Campbell: Thanks, John. The next question is from Andrew Lyons from Goldman Sachs.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and good morning. Thanks, Jill. Just a question on your NIM Farhan. Your disclosures today suggest that your ex-markets activity NIM was down two bps half over half and yet when we look at your divisional disclosures your Retail NIM was down 12 bps, your commercial NIM was down 7 bps and New Zealand down 4 bps. Now, I realise they're not entirely like for like but can you just perhaps help us to reconcile I guess the top-down view of the Group underlying performance on margin with the bottom-up divisional view? Is it just the ex-markets Insto. NIM was up three basis points or is there something else going on there?

Farhan Faruqui: No, look, I mean I think largely that was the main driver of keeping some stability on Insto. ex-markets. Obviously, the replicating portfolio overall was a benefit as well in terms of a tailwind for the half. We have also had some small benefit in the centre from, if you like, lower volumes. Look and there's been some benefit of course of some reduction in the ESA account and shift to semi-govs, et cetera.

A lot of those things have been helpful in terms of driving the overall margin reduction underlying to about two basis points. Yes, you're right, I mean look there's Retail half on half, as I said, was really a flow through of the impacts of second half and Commercial from a deposit standpoint has actually been - is now, as we exit the half, is actually holding reasonably stable. The margin trends became increasingly stable as we went through the quarter. In fact, I would say that the exit rate for March is fairly stable relative to where the second quarter was.

Andrew Lyons: (Goldman Sachs, Analyst) Yes, that's very helpful thanks Farhan. Then just a second question for you just on your provisioning balances. You have $1.4 billion of CP above your base case and mentioned there might be an opportunity to reduce weightings to the downside over time. Can you perhaps just provide some context as to how close to your base case CP might you be willing to move? Maybe another way to ask the question is what weighting could you see the 46% to the base case move to over the cycle?

Farhan Faruqui: Yes, look, I'm happy to start but I think maybe Kevin or Shayne, you might want to add. Look, I think it's impossible to know today what's going to happen over the next six months. My comment and remarks were basically around the fact that if the environment continues to become more normalised as we start to see some of those environmental factors moderating, then there is absolutely potential to reduce the severe and downside weightings and move towards base case which of course ends up releasing collective provisions.

Now, we are in that normalisation process. We have to see how the next six months play out. As I've said, there are a lot of things that remain open as you would agree, John, because we have had, you know, we don't know the direction of interest rates. There are different views in terms of what interest rate directions will take. Inflation continues to be - it's too early to call it if you like, so it's hard to say when and how much. All we are saying is that today's trend would suggest that there is potential for a collective provision release assuming no other environmental changes.

Shayne Elliott: Before we hand to Kevin, I think math - and you know this but just to state the obvious - mathematically over the long run you would expect the base case to be more than 50%. You would expect it to be a bell curve and you would expect it to be equally distributed between the upside and downside. So, we have ended up, along with the rest of the industry, in this quite unusual situation where the base cases at less than half and all of the weighting is to the downside.

That's an unusual extreme. I think it's - and obviously we think it is entirely appropriate given where we are as an economy, but you would expect that to normalise in the base case. It will certainly be above 50%, if not around that two thirds number with a tail on either side. Kevin, I know you've done some modelling.

Kevin Corbally: Yes. The only thing I would add to what you both said is that the accounting standards actually require us today to take a forward look into what we believe future economic environment might be like and the impact on our customer base. So, if today we believe that it was going to be different, we would have actually reflected that in the numbers. What we are seeing though is there has been a lot of stress over the last four years, a lot of volatility, to the extent that we're to return to what I'd classify as something akin to normal conditions, then we would probably look, as you said Shayne, to allocate more towards the base.

At the moment, just to clarify, we've got $1.9 billion above the base case. What you would expect if we have more normal conditions is that we would allocate more towards base, but at the moment we think our levels are prudent and appropriate for what we see in the environment today.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks for that.

Jill Campbell: Thanks Andrew and we will keep with the Andrews now. Andrew Triggs from JP Morgan. Thanks Andrew.

Andrew Triggs: (JP Morgan, Analyst) Thank you, Jill. Morning. Could I ask a question please on slide 30? The ROE, divisional ROE slide, which is helpful, shows the Retail bank at 11% moving up towards the Commercial bank at 25%. If you showed that to someone for the first time, they would assume the Group ROE would be much higher than it was, which was 10.7% when you strip out the Suncorp Group capital.

Can I just be clear, when you I guess judge your divisions including in the Retail Bank where mortgage growth has actually been quite strong, that you're holding those divisions to account for a fully allocated ROE which shareholders actually see when you weigh all the divisions?

Shayne Elliott: Yes, it's a really pertinent question. The answer is yes and no, so to the extent we do a little bit of both. Yes, so we - these are - so these ROEs are essentially on the controllables. If I look at - just pick anybody, Maile or Mark or Clare or Antonia, these are their controllable deliverables, yes, in terms of that's their balance sheet that they control to a large extent. Some of the costs are allocated et cetera. So yes, this is primarily theirs but then we as a team as clearly accountable for the whole and so we as a team very much are accountable and in terms of our score cards that we're accountable to our Board as individuals and as divisions, we have both.

Hopefully that makes sense. So, there's certainly, you're quite right, I mean the gap between the mathematical average of that and the Group is - it's material and that is not left outside anybody's accountability. I mean clearly Farhan and I spend a lot of time on that but my Group Executives are jointly accountable for that as well.

Farhan Faruqui: I think the only point I would add to that Shayne because it's an excellent summary. I think it's really a little bit of making sure that we hold the divisions accountable for the capital that they control and that they're required to hold from an APRA standpoint, because that's the best way to judge their underlying performance. That doesn't mean, as Shayne said, that at a Group level all of us are accountable for the full capital but it's about making sure that we are actually providing an appropriate apple to apple, if you like, view of how each division is performing from a return onequity perspective.

If you were to say allocate all of Suncorp's capital to each of the divisions or all of the capital associated with our Asian partnerships, we would have done our job in terms of ticking the box on allocation but I'm not quite sure that either Mark, Maile, Clare or Antonia can control those outcomes. So, to some extent it's about making sure we are judging the business on their underlying performance and then holding ourselves all accountable for the total Group outcome.

Shayne Elliott: One last, sorry, one last clarification Andrew. Every bit that is not in there, so whether it's the Asia partnerships or anything else that sits at Group, somebody in my team, it could be me, has primary accountability for that capital line. Yes, so every single dollar of capital, the whole $70 odd billion, somebody has primary accountability for and then as I say we then jointly manage the whole. Hopefully that makes sense.

Andrew Triggs: (JP Morgan, Analyst) Yes.

Shayne Elliott: Yes, thanks.

Andrew Triggs: (JP Morgan, Analyst) Yes. I guess…

Shayne Elliott: Yes.

Andrew Triggs: (JP Morgan, Analyst) …I mean drilling into the Australian Retail component, so that was 11%. At the full year 2023 it was 14%.

Shayne Elliott: Yes.

Andrew Triggs: (JP Morgan, Analyst) I don't have the second half number but…

Shayne Elliott: Yes.

Andrew Triggs: (JP Morgan, Analyst) …it obviously came down a lot and that was the, you know, you were growing home loan balances quite quickly in the period and that was being done with cashback both $2,000 in refi., $3,000 in first home buyer market. Can you just explain? I mean if you threw Suncorp capital in, I probably would ignore that, but if you were to put a normal loan loss charge on the Retail division the 11% ROE would be lower again.

Shayne Elliott: So, great question. That's a really…

Andrew Triggs: (JP Morgan, Analyst) So, just trying to…

Shayne Elliott: Yes, I can clarify that.

Andrew Triggs: (JP Morgan, Analyst) …reconcile the growth in that division.

Shayne Elliott: Yes, no, that's a very good question. So you're right, that these numbers reflect actual credit losses, but we - and again, I don't want to sound like it's overly complicated, but you know, so we do what we just said and we also look at that on an expected loss basis, okay? So, to your point, the businesses also have an understanding of what their expected loss is and that's when we do our pricing, so the pricing tools use expected loss, not actual.

Now historically, just out of - I mean the one that's been the most difference, the division that's had the most difference between actual and expected has actually been Institutional and you know the history there and obviously that's better, coming into better alignment, but we do measure on both, expected loss, ROE on expected loss basis and ROE on an actual loss, but pricing is made on an expected loss basis. So just to give you a number, so in Australian Retail today, the expected loss rate we use is five basis points, but the actual is less than one.

Andrew Triggs: (JP Morgan, Analyst) Thanks Shayne. Second question is just on ANZ Plus, so you've provided a bit of an update on the home loan origination piece, interested just with the - I think if my memory serves, the Suncorp customers will be migrated before ANZ Classic customers, also interested, I think home loans is a testing bed for the lending product and credit cards would be put on later. Can you give an update please on the sequencing and ultimately, I guess what I'm after really is how long will we have the dual run costs of the platforms before you get genuine migration of the ANZ Classic customers across?

Shayne Elliott: So clearly, again it's a good question. We actually, just out of interest, we took our Board through the latest update on this just yesterday actually, we spent quite a bit of time on this. So what we're doing is we're building a really contemporary digital resilient platform in ANZ Plus.

At the moment it essentially has a save and transact capability and an emerging home loan capability. Clearly the home loan capability we have there today is extremely basic and we have to build out its functionality to have joint borrowers, offset accounts, investment properties all that sort of stuff, first home buyer, whatever, yes? So we have a roadmap of building that out.

In modern tech world, that's not a waterfall thing where we have a hard coded waterfall approach to when we do that. It'll depend on the environment that we've got. The plan that you laid out is correct. The plan is that for Retail customers in Suncorp, whatever the brand we decide is, whether it's blue, yellow, whatever, Suncorp, ANZ, doesn't really matter, we will move those customers onto the Plus platform to get the benefits of scale.

We continue - we still don't own Suncorp, we still don't have perfect insight into their technology stack and some of the technical details that we need to know in order to make decisions about the right timing. At the moment the working assumption, given scale and given what we know, but it will - it is almost certainly going to change, is that we will migrate the save and transact customers at Suncorp first, at some point and then later we would follow on with their home loan customers and it's likely that we would migrate the bulk of their home loan customers before we migrate the ANZ Classic home loan customers.

What we're looking at is opportunities where it's not a binary choice, if that makes sense, where we can achieve a lot of the benefits of the better platform earlier than just doing binary like and what I mean by that, it's not going to be - we just all go all boots in on Suncorp and then later do all ANZ Classic, it won't be; there'll be a blending point.

The time at which we get to the - the benefits will accrue, we don't have to wait right to the end to start getting the productivity benefits, I mean we get those early on and really where the benefits come is if our front book, if you will, becomes a - the sooner we make our front book offering on ANZ Plus, the sooner we get those benefits and we're already seeing that, I mentioned the cost to serve, cost to acquire.

We need to get to the same point and that's not going to be in the next year or two where, you know, where the vast bulk of our home loan acquisition front book will be on Plus, that's still going to be, you know, three, four years away.

Andrew Triggs: (JP Morgan, Analyst) But Shayne, is it fair to say a very large savings will be when the Classic gets turned off?

Shayne Elliott: When Classic origination gets turned off, because actually maintaining a home loan sitting on our old, so doesn't really cost very much, yes, not really. It's the acquisition where the cost is and so the sooner we can acquire - and you know, it's the same with save and transact, the more we can get customers choosing, you know, onto the ANZ Plus platform, ah, for acquisition, we get exactly those benefits we've just talked about, the 45% and the 30% benefits and it'll be - I don't know what the number will be in home loans.

I mean the early testing on home loans are that the cost to onboard a customer in home loans is substantially lower than it is in Classic, but you know, we're at very, very early days. But you're right, once we move the front book primarily, that's where the benefit is, not so much the back book. The back book that - because servicing the back book is, it's important, we want to do it, because it will actually help, but it's not really where the main game of savings will be.

Farhan Faruqui: But I think it's also fair that as we scale ANZ Plus, then some of the run costs of Classic will start to reduce as well, so you - so there are benefits that are going to start flowing through, but ultimately when we actually switch off the systems and origination in Classic, then of course that's where the rest of the cost falls out. But it's not that we have to wait for that to get any benefits.

Andrew Triggs: (JP Morgan, Analyst) Thank you.

Jill Campbell: Thanks Andrew, we'll go to Victor German from Macquarie.

Victor German: (Macquarie Group, Analyst) Thank you, Jill. I was hoping to ask a few questions on your slide 22 and I apologise in advance for the shorter-term nature of my questions, but I think it's just important to understand the key margin drivers. So firstly, I know that your average interest earning assets in the Institutional bank and the corporate centre declined, which I'm getting must have been driven by a reduction in liquids or reduction in ESA balances as GLAs increased.

In the past you have provided margin impact from liquidity, which was generally negative to margins, but broadly neutral to revenue. It would be good to understand if that was the driver in this result and where it was captured in first half 2024. I'll ask my second question after.

Farhan Faruqui: So, just so I understand your question, Victor, you're basically asking what is the impact in the underlying movements on assets and funding that's driven by liquids, is that what you're saying?

Victor German: (Macquarie Group, Analyst) Yes, I mean maybe you can give me a better explanation, but I'm just looking at your average interest earning assets and they're kind of flat.

Farhan Faruqui: Yes.

Victor German: (Macquarie Group, Analyst) And the reason they're flat is because the corporate centre is down and Institutional business is down, so I'm assuming, unless you tell me otherwise, it's driven by liquids or a reduction in ESA balances. In the past there was a drag to margins which you generally highlighted, albeit neutral to revenue, I just want to understand how that plays out in this result.

Farhan Faruqui: Yes, so look I think from an asset and funding mix standpoint, there is a benefit that comes from the reduction in ESA and move into semi-govs et cetera. That benefit is roughly about one basis point, that is the shift from liquids in the Group centre. So that is a positive in the assets and funding mix. The negative is the obvious things like the mix shift between save and transact to TDs, that is a negative. So overall it balances out from an asset and mix standpoint.

I think the other thing to note though, Victor, is that overall from a Group standpoint, it's actually better to move the liquids into semi-govs out of ESA because you get a margin uplift. So it's overall revenue positive, the shift from ESA to semi-govs, but overall, as I said, the shift in deposits offset by a better outcome from a liquid standpoint.

Victor German: (Macquarie Group, Analyst) Okay, no that's super helpful, so about one basis point. And actually, interestingly, my second question was actually kind of - you partly answered it, but I think it would just be good to get a little bit more colour on what's sitting behind the deposit pricing piece and the asset and funding mix buckets in the waterfall, which are showing kind of net balance of zero, despite the fact that we know that TD pricing is higher and the impact of mix is still negative as we can see on your balance sheet.

I know that when you adjust for differences in the way that you disclose your replicating deposits to your peers, it appears that your headline trends, from kind of both of those, are materially better than peers and disclose about a five basis point decline in margins as a result of those issues. So it would be just good to understand why your trends are better and whether there is any potential timing differences or why is it such a small impact to margins from deposit pricing and deposit mix?

Farhan Faruqui: So the deposit mix is overall about two basis points adverse half on half. Asset mix benefits effective count to that from a divisional weightings point of view, so more commercial growth, lower trade in the mix, et cetera. So that's sort of the broader mix factor. From a deposit pricing standpoint, as I said, we've got benefits in terms of Institutional because we had better outcomes from Institutional deposits ex markets perspective. We had more pressure, if you like, in New Zealand in Commercial, so they offset each other as well.

So it's basically a lot of ins and outs, Victor, that effectively negate the pressures that we had from a TD perspective. So at call, for example, Institution is up, while TDs are down, so that helps negate some of those deposit pricing pressures.

Shayne Elliott: I mean the simplistic answer is it's a benefit of the diversified book that we have.

Farhan Faruqui: That is, yes.

Shayne Elliott: We have to use that diversification actively and use it well, so it's not an accident, but that is where that - so you're right, we have more moving parts here and it means if we use that smartly, which obviously we think we do, we're able to offset whether we see adversity or able to offset that by managing on the other side.

Farhan Faruqui: It's a bit of a grind, to be honest, Victor, to what Shayne is saying. I mean it's not one of those things where you just make broad settings decisions at the beginning of the half and then run through the whole half. We're actually doing this on a weekly basis, we're looking at where we need to reduce, where we need to increase, how we want to change price, et cetera. So, it is very much a targeted outcome, it's not one that just falls into our laps.

Victor German: (Macquarie Group, Analyst) It sounds from your earlier answers that those two buckets, the deposit pricing and the mix bucket, you think should be broadly similar in the second half as you've seen in this half?

Farhan Faruqui: Yes, I mean there's nothing to suggest at this point, just based on where the trends are when we exited March, that would suggest otherwise. So we think that is likely to be stable. But Victor, you know as well as I know that it's impossible to sit here and predict six months out. We just have the confidence, to the point that Shayne was making, that we have a balanced portfolio where we can continue to allocate and make sure we get the most optimal outcome, but current trends are certainly encouraging.

Thank you, that's very helpful.

Jill Campbell: Thanks Victor. We'll go to Richard Wiles from Morgan Stanley.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, I'd like to ask some questions on ANZ Plus also. Shayne, you've been going for about 18 months with the deposits, you've grown $14 billion, which is quite a big number, but it is only 8% of the deposit base. So, my fist question is how long do you think it will take to migrate all the ANZ deposit customers to ANZ Plus? Is this a three- or four-year program, is it a seven- or eight-year program?

Shayne Elliott: Yes.

Richard Wiles: (Morgan Stanley, Analyst) Then my second question relates to pricing. I think the rate is 4.9% for the savings account at the moment. That's a pretty high ongoing rate for a savings account. Westpac eSaver is 1.1%, CBA NetBank Saver is 2.35%, so how are you going to ensure in the medium term that ANZ doesn't become a high-cost deposit franchise once the customers migrate?

Shayne Elliott: Great questions, all right. So let's talk about, so in terms of migration, so we're really pleased with the FUM growth. Remember of that $14 billion, around half of it is new to Bank, so these are people who are not migrating, these are people who are choosing to come to ANZ. In terms of how long it will take, remember at this point people are opting in. We're not - we haven't migrated anybody, we put an offer out there and people are free to choose and pleasingly 35,000 people a month are choosing ANZ Plus and that number has remained remarkably consistent.

So, in terms of where you start, we hope to do a test migration later in this calendar year, we will actually take some digital native ANZ Classic save and transact customers, you know, people who don't have a credit card and a home loan and all that, so relatively simple and move people across. We'll do that as a test, just like we've tested everything else in Plus to make sure it's a great experience and that it works and customers like it and that we can do it.

Then we hope to scale up migrations and we do that in waves. We won't be - it's not one of those things you do over a weekend, et cetera, we will do it in waves depending on customer behaviour, the usage, the attractiveness of that customer, we'll move people over. It's not a five-year migration.

When you're talking about savings and transact accounts, it's a couple of years, it's not five and the reason we don't have - I don't have a perfect number for that, I mean we have a plan, Richard, which I'm not going to share, but we've got to find out. We've got to go and test and see how this works and what the customer reactions are to it.

You will see today already and hopefully you are an ANZ customer, if you are an ANZ customer, you will be already receiving some information from ANZ Classic that is preparing customers for that migration, so we're simplifying our portfolio, modifying some of the terms and conditions, et cetera, getting ready for the time, whenever that might be over the next couple of years, where we will move people across. So that's sort of the timetable for that.

Obviously customers who are more complex, like somebody like myself who has a savings account and a credit card and a home loan, they will be later, but we've actually got some really great ideas that we're piloting and working on that we can, certainly from an opt-in point of view, encourage those people to move some of that relationship, like I do today, where I bank my savings and everyday banking on Plus, but have my home loan sitting in Classic and a way to make that delightfully easy, is the term we use, but to make that relatively simple.

So that's the plan there. So next year will be really to start the heavy lifting on migration of Classic customers for save and transact and that's when you'll start to see those volumes, hopefully, start to rise in terms of value.

In terms of the point about rate, it's a fair question. Obviously with a new product, we want it to be out there, remember it's new and by any measure you look at it, it's the most successful launch of a new banking platform in Australia compared to neos or other bank sub-brands in terms of the rate of growth and we monitor that pretty closely. What we did more recently is we have not - we are not - I mean you have chosen a couple of competing products, we are not the highest rate in the market. We are high, but we're not the highest.

In fact at the last RBA rate increase, we did not pass on all of that to our customers and I would just point out that that rate, while appropriate for most customers, is only on the first $250,000, which again is a big number. The plan is we've got to get scale and really then put an indicator on, I mentioned in my talk, was the number of customers that are engaging with the financial wellbeing feature, which says - and the number who qualify as a main financial Institution customer is really high.

The people who are getting salary, putting their salaries into the account, enrolling in PayID and we put some numbers in there. Those are the indicators of the people who are engaged and using Plus who are not just leaving money there because they're attracted to 4.9%, yes? So over time, as we build out those services, as we build the confidence in that, we will obviously have to change our approach to pricing.

The other point at the moment is and again, I don't want to bang on too much about this, at the moment it's a really simple offering. There's a transaction account, a savings account, clearly we need to enrich that with term deposits, things equivalent of the bonus saver kind of things as well, which are appropriate for different parts of the market, customers are attracted to different pieces, so we'll broaden out that over the coming 12 to 18 months as well.

But that's the strategy, if you will, to make it the most engaging platform, the most useful, the one with the best tools, so that people say, hey we want to pay a decent rate, but that's not going to be the, that's not the hero feature of Plus. But I will say, being lower cost to run helps.

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

Farhan Faruqui: Thanks Richard.

Jill Campbell: Thanks Richard. Going to Jonanthan Mott from Barrenjoey. Thanks Motty.

Jonathan Mott: (Barrenjoey, Analyst) Yes, thanks. I've got a question about the Commercial business which has really not been discussed much at all and now makes 85% as much profit as the Retail bank. So having a look at this business, the last half the revenue was quite weak, costs were up a bit, which goes against some of the changes which your peers are seeing. Can you give us a bit more detail on the pressures that you're seeing coming through, a bit more margin pressure than the peers and revenue pressure and a bit more of an update on the Commercial business?

Shayne Elliott: Yes, great, I'm glad to talk about that. I'll give a broader strategic update and Farhan can talk a little bit about those drivers you mentioned, Jonathan. I think it's important to note that our business looks different than our peers. So our Commercial bank supports 650,000 small, medium-sized businesses across Australia. Of that, about 600,000 are what you would call small, sole trader, three, four, five employees, relatively simple businesses and about 50,000 mid-size, et cetera.

Unsurprisingly the small typically aren't borrowing, or if they are, it's very small, or if they are borrowing, they do so as a home loan, yes? Just remember the way we report our numbers, that home loan revenue sits in the Retail bank. Now that's unlike our peers. I'm not saying one's right or wrong, it's just different. So we are not - the home loan revenue, if you're a small business owner and you've got a home loan with ANZ and don't forget, that's about 25% to 30% of our flow in home loans, comes from small business owners, we count that in retail not in small business, unlike our peers.

As a result, that means that our business makes us heavily skewed towards deposits and we actually like that, we think that's a great business because again, it plays to our strengths in payments and deposits and we want to be a digital leader in terms of the way we service the smaller end of our SME customers.

That's why we're building up - that's why we've done the JV with Worldline, that's why we're looking to leverage the payments platforms we have in Institutional and it's also why we've invested in our GoBiz platform for those who do want to borrow on an unsecured basis, we have a solution there. We've also added corporate cards into GoBiz, so we're going to enrichen the GoBiz offering, so it's much more a digital-led strategy for our Commercial bank than many of our peers.

That isn't to say that on the other hand, the 50,000, the other - the bigger end, they do have borrowing needs, and that's in agri and health and other industries, and we saw really strong growth there, 7% borrowing growth in the year. We see bigger opportunities to do that well.

We brought a new management team; I appointed Clare just over a year ago. We've rebased the strategy there. We now have a roadmap around what is the right technical build we need to have and what's the right approach around the way we cover or relationship manage those customers. That strategy is already being implemented. We update the Board pretty regularly.

Clearly, it's the last cab off the rank for us. We have restructured and strengthened Institutional first, we've done a lot of work in New Zealand, and that's ongoing work, and we've done a lot of work obviously in Retail with Plus and Commercial has been very much the heavy focus for us in terms of building out what that strategy is and how we win the marketplace.

We are only really at the beginning of execution. That's why I pointed out the fact that going forward you would expect to see us pivot more of our investment spend into Commercial. Now, that investment spend is again probably going to be more like you've seen in Retail with technology rather than just feet on the street kind of investment, not to say there isn't a place for that.

So, that's where we are. It's still early days. It's a great business but again looks very different to our peer group, and we like that, by the way, because it means we're not taking head-on competition from the others. Do you want to talk about the financial drivers though?

Farhan Faruqui: Yes. I think I'll just add. I think you've covered a lot of it, actually, Shayne, but Jon, what I would - the two or three things I would say. Firstly, we have been investing, to the point that Shayne was making. It is the last cab off the rank but we have been investing in Commercial and Clare has been reshaping the workforce and the operating model as well to make sure that we get the best positioning to serve customers in their choice of channel.

As a result of that, some of the expenses in the Commercial business are actually inflated because of the restructuring cost as well as costs of the investment that we have been making. It is not a feet-on-the-street strategy; it is very much focusing on the right channel in terms of serving customers. So, there is cost inflation because of those two factors, and that will of course normalise as we go forward.

The other is that because of that investment we have been making, as I pointed out earlier, the lending growth has actually been very, very strong and that momentum is strong and that pipeline is very strong looking out into the next half.

The third point I would make is that the NIM impact is largely driven more by deposits rather than assets, and the reason why it's driven more by deposits is there are - just to remind you as well, Jon, that it is a balance sheet that is much more weighted to liability than to asset. When liability mix impacts, which impacted most divisions, impact margins, they impact commercial a little bit more on the deposit side because of the higher liability balance and proportion in the balance sheet.

So again, those pressures, as I mentioned earlier, have slowed towards the end of the half, so we start to see more stability in terms of commercial NIM, but we start to see volume growth continuing because of the strong pipeline and the momentum we've had in the last 12 months. So, actually, I think that a large part of that investment, restructuring, deposit shift factors have already played out in the last 12 months, so we're actually well positioned now in terms of the next 6 to 12.

Jonathan Mott: (Barrenjoey, Analyst) Okay, thank you. Can I ask a second question? This goes back to the discussion around the collective provision. If you sit back and have a think about it, the CP is about $4 billion but it's protecting a balance sheet which as $1.15 trillion of exposure as a default. I know we can all build Excel models and we're all pretty good at that, which is a kind of estimate of what it is and we know what it is like, that kind of modelling, but the forest and the trees, it doesn't seem like it's a massive amount of provisioning to protect a major bank.

Then you're saying that the base case is half of that. So, where's the upside in having some kind of review to release the collective provision? Wouldn't it just be a bit more prudent to leave it where it is rather than have an academic decision discussion about which model, the best way, and what the base case and downside is when it's not a huge amount of money in the scheme of things?

Shayne Elliott: That's a philosophical question. We don't - remember, there are accounting standards here that we have to apply. We don't just sit around and make this stuff up. I think the important is - I take your point, and partly it's a little bit frustrating when - from our position it's a little bit frustrating when we get arguments whether it should be 4 or 3.8 or 4.5. I'd take the same view, in the scheme of things it's there or thereabouts.

The important thing about our $1.15 trillion in exposure, remember 20% of that is sovereign and we have the highest weighting to extraordinarily low-risk names, unlike our peers which are heavily skewed towards housing. So, I take your point, but there is a process here and to be prudent, we followed prudent standards that are audited by our auditor et cetera that take us through it.

When I stand back and think about it though, the $4 billion is what it is. I stand back and think about what's our ability to absorb pain, and if things go wrong. You're right, we've got a big balance sheet. So, you work through the stressors, and understand your first port of call is your profitability.

Let's not forget, at this run rate we're generating about a profit of $7 odd billion a year which is your first call on being able to absorb problems. Because in an extremist you go to that first, then through there you have the ability to look into your provision balances, of which this is one, then ultimately capital which we sit across, which we've got extraordinarily high levels of capital as well relative to our past and to our peers. So, I look through as a stack of our ability to absorb stress and that's why we talk about having a fortress balance sheet.

Again, I've talked about the fact that customer selection is so important, and that includes the fact that we have a bigger weighting of our balance sheet to sovereigns, central banks, high-quality borrowers. Even within our Institutional bank, a much higher skew towards investment-grade names. So, I take your point but again, we follow a process. It is what it is. You have to think about it - and I know you do - we think about it in the whole of the entire stack we have in our balance sheet.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Jill Campbell: Thanks, Mottie. We'll go to Brian Johnson from MST. Thanks, BJ.

Shayne Elliott: Brian, are you there?

Brian Johnson: (MST, Analyst) Hi, can you hear me now?

Shayne Elliott: Yes, we can. Go ahead.

Brian Johnson: (MST, Analyst) Shayne, just before I ask two questions if I may, can I just make an observation? Just looking at your share price today, falling away, and then you say that the margin is up 1 basis point in March. Now, I can't see anywhere where that is disclosed in the slide. You speak about the investment but nowhere in the pack can I see that you - you don't disclose the investment anymore.

If I actually have a look in page 27 it says 9 basis point loan loss charge in the Australian Retail business. Today you've said 5 basis points. I just want to flag to you just some residual concerns about basically the disclosure. I think these are some issues that should be addressed.

Now, just on two questions if I may, and this goes back to Mottie's question as well. If I have a look at page 151 in the result, I can see that ANZ is the only major bank where the regulator actually takes a regulatory capital deduction because the balance sheet provisioning loss is lower than what the regulator stresses it to, which implies to me that if you do actually release any of the collective provision, it will probably come straight off your Core Equity Tier 1 ratio anyway.

If we then have a look at slide 88, we can actually see quite a substantial increase in the earnings by virtual of writing back the collective provision that was established during

COVID. If we have a look at the long-run loan loss on page 27 - and I get that it's just maths - I can see that that is actually increasing.

If I actually have a look at page 28 I can see that the impaired assets are definitely going up, but then if I have a look at page 33, I can see a collapse in the economic profit to the point where the economic profit in this half year is actually below the value of the franking credits. Could we just understand the merits of basically this idea that you're clearly flagging about writing the collective provision back…

Shayne Elliott: We're not flagging any such thing.

Brian Johnson: (MST, Analyst) …which doesn't actually release capital?

Shayne Elliott: We've not flagged any such thing. Thanks for the walk-through the pages. We're not flagging any such thing. What we said was if - if the outlook for the economy - given the fact that the weighting is so heavily skewed towards the downside, the natural question is how would you see that changing over time.

What we were pointing out is that if the basic economic indicators improve that you would see a higher weighting to the base case, perhaps even a small weighting to an upside mathematically that through just the accounting process would, all else being equal, lead to a release of collective provisions. That is true of any bank anywhere in the world. That is a statement of fact. That is all we were making the point of, Brian.

Brian Johnson: (MST, Analyst) Would it chew up capital prima facie, Shayne, though? Does it increase that regulatory expected loss deduction if it was to happen?

Shayne Elliott: Kevin wants to answer this one.

Kevin Corbally: Brian, it's Kevin. Just to clarify a couple of things, and there was a lot obviously in what you said, but essentially the way that regulatory loss is calculated is that APRA split out defaulted and non-defaulted loans and on defaulted loans, that is essentially the IP that we've got, together with the stage 3 expected credit loss balance.

However, for slotted exposures APRA say you have to have 50% loss given default. Doesn't matter what our security is, that's essentially the position we need to take. That's the key reason why we have a capital deduction. It's got nothing to do with the quality of the book, it's just the difference in interpretation between the regulator and ourselves. As Farhan alluded to earlier, in terms of the expected loss, the long-run expected loss, it's principally driven by a very small uptick in Institutional. Bear in mind, all of these are at record low numbers in terms of expected loss, but it's very small, which is predominantly driven by a denominator together with a couple of other factors. I think there are reasons behind all of them.

Brian Johnson: (MST, Analyst) Does that imply the opposite is that if the slotted exposures don't change, that even if you write back the collective provision, there's no impost on the Core Equity Tier 1?

Kevin Corbally: Well, pretty much.

Brian Johnson: (MST, Analyst) Okay, great. The second one is just on ANZ Plus. I think ANZ is to be congratulated on the customers that you've acquired. My understanding is that ANZ Plus at the moment is very much a mobile product, so I can get it on an iPhone, I can get it on my mobile phone, I can get it on a SIM-enabled iPad, but I can't actually do any online banking with it.

Can I confirm that is correct and if so, how does that reconcile with basically migrating customers onto it who may not be comfortable with it, and then the subset of that, how much would it cost to - how much does it actually cost to actually get it match ready to the point where it is ready for pure online banking non-mobile?

Shayne Elliott: We're already doing that. That's already in the numbers and there is going to be an online option, so web-based as opposed to mobile-based, absolutely you can actually go onto the website at the moment and obviously we need to build that out and promote that. You are quite right, there will be customers that prefer that, although the data would suggest that those numbers are extraordinarily low.The vast, vast bulk of our - and again, we've done the analysis on our customer cohort and what they already do today in terms of their usage, and web usage is falling, unsurprisingly as the richness of mobile improves and increases, particularly from a security point of view. But we will absolutely have a web platform; that's being built as we speak; it's within the numbers.

I can't remember precisely what that costs; it doesn't cost a whole lot because the core offering, the way the things all work, is exactly the same. That is the whole point of the ANZ Plus platform, that it's identical, it's not another stack of technology. Yes, it's got a different interface, which we'll build out, but that's not a material cost factor for us and it will be built.

Brian Johnson: (MST, Analyst) Thank you. Shayne, can I just reiterate that point on disclosing the investment. You guys have got a good story to say on this but as I say, I can't see that the investment spend is actually disclosed. Thank you.

Shayne Elliott: Thank you.

Jill Campbell: Thanks. We'll go to Matt Dunger from Bank of America Merrill Lynch.

Matt Dunger: (Bank of America, Analyst) Yes. Thank you very much, Jill. If I could just ask a follow-up question on the migration of Suncorp customers onto ANZ Plus. Shayne, you've talked about the value in the deposit base. Are you able to talk to us how you manage the pricing disparity between Suncorp Growth Saver account at 5.05% versus ANZ Plus at 4.9% when you're undertaking the migration?

Shayne Elliott: Yes, sure. That's a really legitimate question, Matt. Clearly, this is complicated and we're not moving - just for the sake of argument, let's assume hypothetically we assume ownership on 1 September. We're not migrating anybody for quite a period of time, actually. What we've said to our customers, and we've made a commitment, hey, same brand, same product, same branches, same people at Suncorp in Queensland for quite a period of time, a number of years.

What we will do is we will build out on the Plus - migration doesn't mean we're going to move Suncorp customers onto the current ANZ Plus portfolio of products. It will go onto the platform ANZ Plus but what we need to do is build out appropriate products, services, pricing, terms and conditions on the Plus platform so that we can move those Suncorp customers across.

Now, at the moment our product suites are very, very similar. We pretty much have a whole bunch of things that are more or less the same, and then we have some things that are different, like the one that you just mentioned. We will make changes to ensure that we can bring customers across onto products and services they like, but ultimately they may or may not be differently branded, we have to figure that out, and they may or may not be priced differently again. What we don't want to do though is just increase complexity.

Those are the sorts of things that the team are working through in quite a lot of detail, but that's still some period of time away before we're going to migrate. When we say migrate, that means like almost force or push a customer from the product you mentioned across onto ANZ. We've still got time; we'll work all those things out over time. I'm really confident about that because we've built a platform that allows us to differentiate, whether it's the brand differentiation, pricing, terms and conditions, whatever that might be.

We've got to have a really appropriate suite of products that not only keeps and retains and engages the Suncorp customers but also the ANZ Classic, and probably even more importantly, new-to-Bank customers more broadly across the market. Hopefully, that answered the question. The point is that we will build out a richness in terms of a product suite for people where we see opportunity.

Matt Dunger: (Bank of America, Analyst) Perfect. Thank you very much. If I could just ask a follow-up question on New Zealand and demand remaining weak there. Can you talk to how you're positioning the book, and noting the lower credit risk-weighted assets in the half and also the collective provision balance falling in business and agri?

Shayne Elliott: All I would do is say that - and I'm on the Board over there - New Zealand is a well-run business. We are the largest bank in New Zealand, we have a relationship with one in two Kiwis, we have 30% odd market share in home loans. We've got great economic insight into what's happening there. The New Zealand economy is under more stress than Australia, that's probably not unsurprising, it's more exposed if you will, but then our business is stronger in many ways in terms of years of investment, in terms of the technology et cetera that we have there.

The reality is when you stand back, the same fundamental drivers of stress, higher interest rates, starting to creep up in terms of unemployment although still very low, the issues about cost of living are exactly the same. The difference there is that the book is positioned differently - to your question. In New Zealand we have a very, very small Institutional lending business. Our housing book proportionately is larger but as you know, the housing book in New Zealand is structured very differently.

Don't forget we've been operating for years in New Zealand under essentially macroprudential guidelines that have limited our ability - all of the banks' ability to lend in terms of investor loans or high LVR lending, and one point there was even some regional geographic limitations. All of those things have actually meant that the banking system is still remarkably resilience and very, very safe. If you look at things like dynamic loan-to-value ratios, the interest cover, et cetera, things are still very strong.

However, just like here, stress is starting to increase. Broadly, the numbers are more or less the same as they are here but the shape of the business more commercial than - sorry, more housing on average than the Group, means that the impacts on the numbers are slightly different, but I don't think there's too much to read into it. We've taken the same approach about really strong risk management, really strong customer selection, et cetera, and I think again that's serving us well.

Matt Dunger: (Bank of America, Analyst) Thank you.

Jill Campbell: Thanks Matt. We'll go to Carlos Cacho from Jarden please.

Carlos Cacho: (Jarden, Analyst) Thanks, Jill. I just first wanted to ask about the sensitivity of your margin to changes in BBSW OIS basis. We've gotten details from some of the peers around that and they've obviously said it's been very low recently, so wondering if you could give us any insight into that sensitivity.

Farhan Faruqui: Yes. Carlos, our sensitivity is about $12 million per basis point move, so call it for every 10 points move in [bills OIS] we get effectively 1 basis point of NIM impact. It's about $120 million per 10 basis point move broadly speaking. Does that solve your - does that answer your question?

Carlos Cacho: (Jarden, Analyst) Yes. No, that's great. Thanks, Farhan. Then secondly, I noticed on slide 105 where you disclose the dynamic LVR of the portfolio for mortgages, your negative equity does look to be a little bit higher than some of the peers that have recently disclosed similar numbers. I was just wondering if there might be - and it's still low, obviously, versus history but I was wondering if there's a geographical mix behind there or if there might be a methodological difference or something?

Shayne Elliott: No. We don't - again, thanks for pointing it out. As you pointed out, it is extraordinarily low, and I haven't had the opportunity to compare with peers their disclosures over the last couple of days, but no, from our point of view, we don't think there's a methodology difference, that would be interesting to find out, but there's no geographic skew in there.

Carlos Cacho: (Jarden, Analyst) Okay, so it's just…

Shayne Elliott: We have - obviously, you know this. Obviously, we have a geographic skew at ANZ that will be different to other banks. But within our portfolio, we're not seeing any material differences. But there will be a weighting difference obviously. Given our heavier weighting to Victoria, for example, may have something to do with that. But not that we're aware of.

Carlos Cacho: (Jarden, Analyst) Thanks, Shayne.

Shayne Elliott: Thanks.

Jill Campbell: Thanks, Carlos. We'll go to Brendan Sproules from Citi.

Brendan Sproules: (Citi, Analyst) Good morning. Brendan Sproules from Citi. I just wanted to ask about your markets income on slide 23. You've had three very strong halves, probably above what you've described as the long-term average in this business.

Particularly you notice the balance sheet contribution has increased and within the customer franchise, the rates tile there has also increased.

I guess given the way the world has evolved and the rate cycle, what are your expectations for these contributions looking forward on 6, 12and 18 month basis?

Shayne Elliott: Do you want to answer - look, so I might answer just more generically. So it's a reasonable observation and clearly some of that, not all of it, some of that is correlated to the interest rate cycle. Yes? Which is probably not unsurprising.

I mean obviously the way that we think about - well, maybe not obviously. The way that we think about the business is actually focused on the other part of the business which is the customer franchise piece. I think it's fair observation to say that the business has performed strongly over the last three halves.

We've always said that we ran the business to be at about $2 billion. I think it's fair to say going forward, you might expect to see that slightly higher. We're just going through our planning processes for the future. But the business has built some really strong foundational strength there.

So this is not one off driven, you know, et cetera, there's some really strong foundations in there. In terms of our digital capability, in terms of the breadth of our business. I mean I know it wasn't your question but if you look at you know, we're getting emerging strength in our commodities capability, which is relatively narrow in what we do in terms of gold and other bits and pieces but a really nice point of diversification.

The rates business has been a steady performer. Not just over the last couple of halves but over time. That's been a deliberate investment in the business. I mean ANZ historically has always been strong at foreign exchange. That's kind of core to who and what we are.

We were behind on rates and we've built out that capability by investing in technology and that's starting to come through. Look, I don’t know what the future holds, particularly over the next six to 12 months. But you say over time, we've got markets in good shape, solid business, we've reduced the volatility, it's more diversified geographically, and by underlying, we're feeling pretty positive about the business given the strength of the customer franchise in there.

Farhan Faruqui: Yes, I think…

[Over speaking]

Shayne Elliott: Yes, go.

Farhan Faruqui: I might just - I just might add, Brendan, and you know this obviously with your own bank in terms of the international network. That it is an important - having the footprint that we have globally is a huge benefit. Because there is opportunities that are available to us in our international customer footprint.

When I talk about our international customers, they are pretty much sort of customers that you would see in your bank, Brendan, which are the large global multinational customers who operate across the regions, across multiple geographies.

That gives rise to a lot of opportunities around credit and capital markets, around rates, and around foreign currency, which is why you see that consistency. More and more customers are now - are coming and doing more business with us which is why you're seeing that 40% growth in customer franchise income that I mentioned over the last three years.

I think the other thing is that - other big advantage of having that footprint is that our local markets business is very strong. That's something that many of our peers in Australia don't have.

That allows us effectively an opportunity to also capture local opportunities. That's been one of the drivers as well of our customer franchise income growth. In fact, if you look at just our international business revenue, on a PCP basis, it's grown 36%. It's a huge driver of what we deliver and as I said, it's been about two thirds of the growth as well in this half.

So, it is becoming a true differentiator for us and the consistency that it's bringing, because of the quality of clients, because of the offerings that we have, because of the investments we've made, because of some of the local market licenses that we have, in some countries, that is creating a lot of stickiness to our markets business. So, it's not the same volatile business it used to be.

Brendan Sproules: (Citi, Analyst) Thank you. I've just got a second question on your productivity savings. You talk on slide 26 about the record half that you enjoyed this year. I just want to contrast between I guess the strategic initiatives that you show on 25, where you spent $96 million increase in the half on cloud and ANZ run costs.

But then in the productivity, you're actually able to save $62 million. How do we think about those two categories going forward? Are they going to largely offset, or do you think that going forward, that you'll always be spending more on technology than you'll finish up saving?

Farhan Faruqui: Well, to some extent, Brendan, the benefits that we're seeing in technology services that you point out on page 26, which are things which relate to simplification. So effectively, as you migrate apps to cloud, which is what shows up in the strategic initiatives in the previous slide, you effectively get benefit from a productivity standpoint because you're able to shutdown systems and applications on PREM.

So there are benefits. Not necessarily 100% correlated. But that's sort of the productivity benefits as we migrate more to the cloud.

Shayne Elliott: I think it's important though to point out, and I know Farhan - I totally understand why you would link the two. They're not necessarily correlated. Because migrating to cloud, for example, just using that example. Yes, we spend the money, we migrate to cloud, shutdown the old. There's clearly a benefit within technology.

But actually, the biggest benefit goes into the businesses. Which means that as a result of being in the cloud, they can deliver more quickly, more efficiently, et cetera. So, they're not totally correlated. Maybe we should think about a better way of disclosing that. But that's the reality of the matter.

I mean our task and one of the things we talk about at management is making sure that when you've got those situations, you spend in one area for the benefit elsewhere. We've got much, much better at ensuring that those benefits are getting delivered.

Brendan Sproules: (Citi, Analyst) Okay, thank you.

Jill Campbell: Thanks, Brendan. Last question is from Azib Khan.

Azib Khan: (E&P Financial, Analyst) Thank you, Jill. Thank you, Shayne and Farhan. Just coming back to market income, that obviously annualised $2.4 billion in the first half, Shayne, do you still expect this to be a $2 billion per annum revenue business in a normal year?

Shayne Elliott: Great question. I think two things I would comment on that is, don’t forget that there is a seasonality in that business and I think almost every year, the second half is a little bit weaker than the first half, and that’s due largely to do with the second half is European summer, which again, our business skews to northern hemisphere surprisingly, but so there's a little bit of that, so it's likely there will be slow down.

It's a very good question. I would expect it to be slightly higher than the $2 billion. As I mentioned previously, we’re just working through what that new number might be, and we will be in a position to share that later in the year, we go through our planning process with the Board, at the full year result we'd certainly, if there is a change, we will update the market, but you'd expect it given - I think the point here is that we've really built some strong foundations in markets. It's a good business now, well run. It's got really strong technology, it's got - it knows what it's good at, it's well diversified, so we've built confidence in our ability to grow that prudently and sensibly, and yes, so we should expect to see it grow from here.

Azib Khan: (E&P Financial, Analyst) Thanks for that Shayne, and just a second question about the Commercial business. You've mentioned, Shayne, in your opening comments that Commercial is obviously an area where you're going to look to grow in, as part of a response to the earlier question, you mentioned you've got 650,000 customers of which 600,000 are small, as you grow in that business, is it fair to assume it's that lager segment that will grow, particularly because there's probably more loan growth on offer than deposit growth?

Shayne Elliott: Great question. Great question. Not necessarily. So, my colleagues who run that will probably not like the answer to this, but yes, of course there's growth. There's growth everywhere in Commercial, actually. There's absolutely growth in the bigger end, absolutely, and what we've been doing is building our strengths for those segments that we think we can really build out strength whether it's in agri, or health, or other areas, so absolutely there will be growth there, but the real juice in that business, if we're being honest in terms of return does come from the deposits franchise and that comes from being operating account of businesses.

So, actually if you're thinking of it from a returns point of view and topline growth, we think a lot of it will come from expanding that deposit base in the smaller end. So, that's where - because remember, we've got for every dollar we lend, we've got $1.8 in deposits, and that's why you get that really high return outcome. So, there's growth right across the board there.

There'll be more customers, we've definitely got - over time, and not in the next six months, but over time we absolutely need to grow our operating deposit capability and that's no different than Plus, by giving customers the tools they need to do better with their money, and we are in the early stages of that, we obviously do pretty well today, but we're in the early stages of that, and yes, there'll be some growth in the bigger end of that sector as well, and that's why we're attracted to the business and particularly given our business does look different to peers. So, we're not taking it - it's not a head on competition with some of our larger bank peers.

Azib Khan: (E&P Financial, Analyst) Do you have a target customer composition in mind there, Shayne? Or do you think you can sustain more than 90% of the customers being small.

Shayne Elliott: Look, it's a matter - again, it's a good question. It's a matter of debate. I personally am very attracted to the smaller end, because I think those the things that ANZ, we can really give those people tools, right? What's attractive about them? They're sole banks, they don't multibank, right? They just want simple things done well. Yes, they want us to help them run their business better.

Give me the data and insight from my payments, from what you're seeing across the industry, and help me run my - do better with my money. It's very much aligned to our strategy around ANZ Plus, with the same idea of financial wellbeing. Give me the tools, give me the nudges, give me the insights and data.

ANZ, we haven't talked about today, and we don't have time, one of our great strengths is our data set. We have the most diversified data set around the economy. I talked about the $164 trillion in payments we process every year. Guess what? A big chunk of that is going into that SME land, and so being able to really extract value from that data, and offer it in compelling, easy ways, that's why we've done this JV with Worldline, that is really, really exciting.

We've still got a lot of work to do to be able to deliver that, so I actually think, I believe that even in the next three to five years, there is still going to be a very, very heavy skew to the small end but it will all grow.

Azib Khan: (E&P Financial, Analyst) Thank you.

Shayne Elliott: Thank you.

Jill Campbell: Thanks, Azib, and with that we're out, and so if there's anybody that didn't get a chance to ask a question, please feel free to ring the Investor Relations team this afternoon and all of this will be online later today as I mentioned. Thanks very much.

Shayne Elliott: Thank you.

End of Transcript