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Jill Campbell: Good morning, everyone. I'm Jill Campbell, ANZ's Head of Investor Relations. Thank you for joining us for the presentation of our first half financial year 2025 results, being presented from our offices in Melbourne which stand 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 also extend those respects to any Aboriginal and Torres Strait Islander people joining us for today's presentation.

Our result materials were lodged this morning with the ASX and also are available on the ANZ website in the shareholder centre. A replay of this presentation including Q&A will be available on our website shortly after this session concludes. The results, presentation 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 in the front of the results slide pack.

Our CEO, Shayne Elliott, and CFO, Farhan Faruqui, will present for around half an hour. After that, we'll go to Q&A and I'll talk about the procedure for that when we get to it. But ahead of that point, a reminder that if you do want to ask questions, you can only do that on the phone. With that, over to you, Shayne.

Shayne Elliott: Great, thank you, Jill, and good morning to everybody. As you know, today will be my 18th and last result presentation as Chief Executive and it's pleasing to be able to finish with such a strong result with the foundations in place for a stronger future. Three significant changes have occurred since we last reported.

First, we announced a new Chief Executive and Nuno Matos will join ANZ this Monday, bringing over 30 years of international banking experience. Second, ANZ entered into an enforceable undertaking with APRA for matters relating to non-financial risk management. Now, over the past nine years, we've de-risked the bank both strategically and financially with credit risk now peer leading, and we're committed to making non-financial risk an equal area of strength.

The third change is that we are experiencing a more disruptive era of geopolitics. Sweeping US trade policy changes and global supply chain disruptions are driving volatility and unpredictability, and for now, we're operating in a less globalised world. Trade flows are interrupted, customers forced to adjust strategies, and capital is more cautious.

Now, while we focus on risk settings in the short-term, global economic and market activity is likely to realign rather than decline, and we'll continue to follow our customers and facilitate that realignment as they move their capital, rethink their manufacturing base, or change their supply chains.

Closer to home, this realignment is impacting confidence, but I remain positive. Clearly, many families and businesses will face tougher times, but our data tells us that Australian and New Zealand households on average are remarkably robust with some of the strongest balance sheets in the world and not only driven by strong house prices. That resilience has been called on several times in recent years and it may be called on again.

Governments on both sides of the Tasman retained fiscal and policy flexibility and there is still room for interest rates to decline. Unemployment remains low by historical standards and likely to remain so. Now, I'm not suggesting that things are easy, but there are many reasons to be confident. Our repositioning of ANZ over the past nine and a half years has better prepared us for times like these. With our uniquely diversified business and strong balance sheet, we're well positioned to manage risk, support customers under stress, and grow as opportunities arise.

Now, turning to highlights from the half. 2023 and 2024 were our two strongest financial results ever, and today we're announcing our highest ever half year revenues. We again saw the benefits of our targeted and diverse portfolio, including record organic asset growth in our banking businesses, the best ever revenues from our debt capital markets business, a solid performance within global markets overall in line with prior guidance and history, the New Zealand retail and small business division delivering another consistent performance in a really competitive market and despite several interest rate reductions, an outstanding profit growth at Suncorp Bank in stark contrast to its regional peers, and the strongest ever result from our North American and European geographies.

Costs were well managed again despite maintaining a strong investment pipeline and productivity is now a core strength of ANZ. Credit costs remain benign and peer leading, reflecting years of de-risking and cautious customer selection. Earnings per share are the highest since the first half of 2023 when margins hit their cyclical peak and supporting a dividend in the half of $0.83 per share franked at 70%. Now, overall, these results reflect continued momentum across all divisions and the benefits of a consistent strategy combined with sensible targeted investment.

Focusing on the long-term, this was an important half with respect to our dual platform strategy. We've invested around $2.8 billion in platforms over the last five years and the investments in our two key platforms, ANZ Plus and Transactive Global, are delivering now. In the first half, ANZ Plus hit new highs. We gave the market an in-depth update on Plus just a few weeks ago and since then, we've welcomed our one millionth customer and crossed through $21 billion in deposits. Retail customers using Plus have an average savings and transactional deposit balance across ANZ platforms of over $31,000, versus an average balance of less than $16,000 for those that only use ANZ Classic.

Now, with the introduction of tiered savings products on Plus, we now generate a margin on Plus deposits well above 100 basis points. More than half of ANZ Plus customers consider ANZ their main bank and almost 40% are actively engaging with financial wellbeing features, like setting savings goals or using cash rewards or round ups, meaning they're more actively using ANZ, staying longer with us, and sharing more data with us. They also report that they're having an exceptional experience with our App and Play Store ratings sitting at 4.8 and 4.7, and we're doing all of this at a 45% lower cost to acquire and a 35% lower cost to serve.

We're also picking up the pace. Over three years, we've increased our tech release cadence almost five-fold, from an average of eight to now 40 releases per day. That means every 30 to 45 minutes, we're improving security, services, and customer experience. Now, in parallel, we continue to scale our core platform for large corporate customers, Transactive Global, or TG for short.

Now, TG is like Plus but for wholesale customers. It's web based and able to connect directly into our customers' tech stack, spanning three key products: loans, market, and transaction banking. It is the only true Trans-Tasman platform of its peers and we have a clear lead in Australian direct integrations with a 16-point advantage over our nearest competitor. Total direct integrations were up 11.3% this half versus the same period last year. Overall, TG customers grew almost 10% PCP, driving a 5% increase in payment volumes while holding the cost per transaction flat.

Now, as you know, we are the largest bank provider of payment platforms to other financial institutions in our home markets, banks, brokers, and funds. These platforms perform very strongly, with NPP agency volumes up 20% versus a year ago and client monies accounts up 17%. Industry leading innovations like PayTo, ANZ's Digital Key, and our API developer portal will underpin future growth. The combination of long-term underlying volume growth and a return on regulatory capital for cash management alone of over 80% means that TG has been and will continue to be key to institutional's transformation.

In addition to scaling dual platforms, our other priority has of course been Suncorp Bank, which reported an outstanding performance relative to regional peers. Suncorp Bank today is better than the bank we agreed to buy just three years ago. The team is engaged, the business is growing, and integration plans are well advanced. A bank owned bank has advantages and Farhan will speak more to the specifics around synergies shortly.

So, looking ahead, ANZ's priorities are clear. First, resolve non-financial risk issues and ensure those changes are embedded. Second, grow our dual platforms, underpinning long-term competitive advantage. Third, run Suncorp Bank well, deliver the synergies, and prepare for migration. Finally, managing a smooth CEO transition. The team is incredibly focused on delivering all four. So I'll now hand over to Farhan to talk through the financials in detail.

Farhan Faruqui: Thank you, Shayne, and good morning, everyone. We have continued to execute well, as evidenced by strong revenue and cash profit growth at 5% and 12% respectively. This reflects our focus on cost discipline, risk management, return accretive growth, and ensuring a robust capital and balance sheet position. Importantly, you can see the ongoing benefits to our shareholders are for well-performing, diversified portfolio in this result.

In this half, we have delivered our highest cash earnings per share since the first half of financial year '23, up 13%, and return on equity up by almost 100 basis points to 10.2%. Continuous improvements in capital efficiency with risk intensity declining 1% and consistent growth in NTA per share over the last decade up a further $0.54 in the half.

At our FY24 results, we framed our discussion around our two main businesses: banking and markets. I'll use that framework again today as it aligns with how we think about the Group. In the half, both the banking and markets businesses grew across all key metrics: revenue, profit before provisions, cash profit, and return on equity. Our banking business delivered a 5% increase in revenue and maintained a return on equity of 14%, despite lower seasonal fee income in the Australia retail division.

Our markets business achieved a third consecutive first half income greater than $1 billion and we saw increased levels of customer activity post the US elections. In addition, we operate a group centre which manages shared services and centrally held capital. We have continued to deliver further efficiencies here, generating an improvement in PBP and NPAT in the half.

Our businesses collectively generated $11 billion in income, marking the highest income for the Group in a single half year period. This result highlights both the strength of our franchise and the step change in our earnings and balance sheet from the first full half of Suncorp Bank's earnings contribution.

Now, before I move to our banking business performance, I'll quickly draw your attention to some Suncorp Bank purchase price allocation adjustments which are covered on page 8 of our first half consolidated financial report.

In line with accounting standards, we are required to recognise a number of acquisition related adjustments with the corresponding reduction to goodwill. These adjustments are then unwound through the P&L over time. Accounting adjustments of this type are customary in bank M&A transactions and they were not material to the Group result in the half.

Turning to our banking performance in more detail. Macro factors, such as cash rate reductions and higher funding costs, together with seasonal impacts drove around $200 million in headwinds in the half.

Against that backdrop, we grew revenue 5% through a combination of balance sheet growth across all divisions, revenue growth across Australia, New Zealand, and international, capital held for Suncorp Bank being deployed into the business for a full half, and continued improvement in risk adjusted margins.

In addition to revenue growth, our strong cost and capital management allowed us to deliver a stable banking ROE at 14%. I'd particularly like to highlight some consistent divisional ROE outcomes.

Institutional and commercial ROE at 13% and 25% respectively. Within our institutional division, our international business delivered a 16% ROE. Pleasingly, despite multiple cash rate reductions, the New Zealand division continued to deliver stable returns.

Moving to NIM. Headline NIM reduced by two basis points in the half, with the operational drivers similar to that of the banking business. The net impact of markets and liquids was more than offset by the inclusion of Suncorp Bank.

Banking NIM in total reduced by six basis points. However, half of the reduction was primarily the full impact of six months of Suncorp Bank and higher remediation costs. Suncorp Bank's margins are lower than our banking NIM given the mix of their businesses.

The remaining three basis points were driven by operational impacts, largely from deposits and funding. As with our peers, we saw a combination of lower deposit margins, including from cash rate reductions, along with higher wholesale funding costs due to increased domestic short term spreads and the roll off of the last of the TFF in second half 2024.

The asset and funding mix impact was primarily driven by the institutional division where asset growth was stronger than deposit growth in the first quarter. This moderated in the second quarter.

Our capital and replicating portfolio delivered a benefit of two basis points. Our hedging strategy has been at the longer end of our three to five year range and this provides further protection as rates fall. All else being equal, the portfolio is expected to remain a tailwind over the next two years.

Lending and deposit volumes were both up 3% in the half with all divisions contributing. We had record levels of organic lending growth and this demonstrates that we have supported our customers as well as created value for our shareholders.

In Australia, our retail and commercial businesses self-funded lending growth with customer deposits up $10.6 billion. Our total Australian home loan portfolio is now almost $392 billion, with a market share of 16%.

In the half, the Australian retail division grew at system, with Suncorp Bank at 0.6 times system. However, as we exited the first half, Suncorp Bank had returned to above system growth.

While elevated in the first quarter, institutional lending volumes moderated in the second quarter. On an FX adjusted basis, core lending which excludes markets, grew 4%. While the economic environment has been volatile, our institutional customers have reacted patiently and largely adopted a wait and see approach with no material change in their borrowing or deposit behaviours.

In our retail and commercial businesses, we have seen conservative behaviour in the form of good deposit flows. Throughout financial year '24, deposit mix impacts began to slow and that trend has continued this half with growth coming largely from at-call savings products.

We saw continued growth in core operational deposits in institutional. While there was a small margin decline, net interest income was broadly flat and has benefited from the volume uplift. The PCM business has maintained a return on equity of greater than 80%, with deposit volumes up 4% and payment volumes up a further 5%.

Turning to Suncorp Bank. The business is operating well and since announcing the acquisition in mid-'22, it has grown scale, with customer numbers up by 5% to 1.3 million and customer deposits and lending over 16% higher and continuing to grow.

In its first full half under our ownership, Suncorp Bank delivered a record cash profit of $286 million. Excluding the purchase price adjustment in this period, NPAT was $251 million, in line with its previous record profit.

We have achieved $20 million in cost synergies since completion. Through property savings, optimising vendor spend, removing duplication in investment, and operating model changes. We will continue to provide further updates on synergies at subsequent results presentations.

Markets income was $1.07 billion for the half, with customer franchise income in line with our usual first half experience. Three particular highlights stood out in the half. As Shayne said, firstly, debt capital markets delivered record fee income from supporting our corporate and financial institution customer issuances.

Second, FX and repo volumes continued to increase, powered by our international franchise. Finally, second quarter income this half was approximately 15% higher than historical second quarter averages which reflects improving momentum in the half.

Higher volatility and some financial markets disruption leads clients to implement, expand, or refine their hedging strategies. Our markets offering, including leading FX and rates propositions across our global network has consistently enabled us to monetise flows in these conditions.

As you know, we introduced Suncorp Bank into our cost base from August last year. While incurring the full impact of Suncorp Bank expenses this half, we contained total cost growth to 4%.

Excluding Suncorp Bank, Group expenses reduced 1% for the half. To put this into context, we are integrating a large transaction, continuing to deliver on our dual platform strategy, and progressing our regulatory agenda all within this cost envelope.

To achieve this, we have delivered $133 million in productivity in the half. Largely from a combination of technology savings from simplification, cloud migration, and decommissioning assets, optimisation of our international footprint and property costs, and reshaping our workforce which limited personnel cost growth, ex Suncorp Bank, to 1.5%.

Finally, continuing to carefully manage vendor costs. So once again, we were able to partially offset inflation through an ongoing sharp focus on productivity. We have now successfully delivered $1.9 billion in cumulative productivity savings since 2019.

In addition to productivity, we also benefited from a seasonally lower investment spend in the first half. Historically, we have a higher investment spend in the second half and this will be the case again this financial year.

We will continue to manage cost and productivity to deliver on our full year '25 guidance. Hence, we expect to be around 4% up year on year based on ANZ and the Suncorp Bank proforma cost base as shown on this slide.

Turning to provisions. Our lending portfolios have remained resilient, with an individual provision charge of $159 million of which only $60 million was from our wholesale portfolio.

We continue to deliver peer leading loss outcomes with an annualised loss rate of four basis points. This loss experience is consistent with the low embedded risk in ANZ's portfolio, which is also lower than our peers.

In our Australian home loans portfolio, customers remained resilient with 83% ahead on repayments and offset balances up 15% to $50 billion. While increasing slightly half on half, the 90 days past due cohort remains well under 1% of the loan book. Compositionally, Victoria was the largest contributor to 90 days past due over the last 12 months. Growth in home loans hardship volumes moderated this half.

We actively monitor our wholesale portfolio, in particular, those exposures that are not investment grade rated and are relatively less secured. This is a well-diversified group of customers with lower concentration to material exposures.

Since 2016, this type of exposure has reduced by more than two thirds, resulting in actual losses in our institutional business over the last seven years being one twelfth of those in the seven years prior. This reflects the ongoing benefits of our multiyear derisking strategy. We've included more detail on tail risk in the risk section of the discussion pack.

Our collective provision balance remains steady at $4.3 billion which is $2.3 billion higher than our base case economic scenario and almost $600 million more than our downside scenario.

To give a more complete picture of our loss coverage, we provided additional detail on this slide. ANZ has a combined $5 billion of total loss coverage. This is the aggregate of our CP and IP provision balances and $304 million in the half of capital deduction for regulatory expected loss.

While provision scenario weights remained unchanged for the half, we did take $52 million of overlay for increased uncertainty and economic volatility as we approached the end of March.

It's important to consider collective provisions in the context of the composition of the loan book. You can see on the right hand side of this slide, a split of performing and non-performing loans. Our non-performing loans as a proportion of the loan book are well below peers and provision coverage levels for our performing exposures remain in line with peers.

Our capital position remains strong at 11.8%, up around 30 basis points in the second quarter. ANZ operates a non-operating holding company, or NOHC. Inclusive of the capital held in the NOHC, which also includes the capital for the remaining share buyback, the CET1 ratio is equivalent to 12%.

The Board has held the dividend at $0.83 per share, franked at 70%. Now, global conditions have been more unsettled in recent weeks and so we believe it is appropriate to adopt slightly more conservative capital settings.

This includes retaining the flexibility to adjust the pace of share buyback if needed. It also provides us with capacity to support customers and to take advantage of attractive risk adjusted opportunities should they become available.

Now, while the environment has been more unsettled, the fundamentals of our business remain strong. The benefits of the diversity of our portfolio of businesses, as well as our geographic footprint, allow us more flexibility to optimise risk and returns.

These benefits include firstly, active de-risking over the years, which through strong customer selection and prudent risk settings, has resulted in the portfolio that we have today.

This allows us to manage risk but also benefit from opportunities that arise in our portfolio of leading global corporates as the macro environment evolves.

Secondly, the diversity of our businesses and our geographic footprint provide us with access to customer deposits and funding options across our network. This enables us to optimise funding costs and benefit from a flight to quality on the strength of our credit ratings. It also provides the unique opportunity to follow our clients as they dynamically shift supply chains.

Thirdly, the strength of our markets business, which through leading product and local markets capabilities, is a go to for our clients globally as they consider their risk mitigation strategies.

Now we look forward to welcoming Nuno as our new CEO and to supporting him as he sets his priorities for execution. There are several value creating opportunities that lie ahead of us, including the full integration of Suncorp Bank and we are excited about executing on these under Nuno's leadership.

Finally, I would like to thank Shayne for his leadership over the nine and a half years as CEO of ANZ, a period marked by significant transformation and innovation. I have had the privilege of working alongside Shayne in my role as CFO since October 2021. Shayne, that's eight of your 18 results presentations as CEO and I am grateful for your enduring support and wise counsel. I know you would appreciate this, but much like the All Blacks' philosophy of, leave the jersey in a better place, I and the entire team at ANZ would agree that you are leaving ANZ in a better place. I wish you the very best. Thank you, and I'll hand back to you for closing remarks.

Shayne Elliott: Thank you, Farhan, thank you for those nice words.

This year ANZ turned 197 and I've had the privilege to be its custodian for nine and a half years, almost 5% of that history. At one level, the task was simple, to leave it in better shape than I found it. Ultimately that will be for others to judge and while there will always be more to do, I am confident that ANZ today is a simpler bank, stronger and better.

Now, some on this call have participated in all 18 of my results announcements and yes, that means you, Richard, Jonathan and Brian, but for many it may be hard to recall what ANZ was like in 2016, before the Royal Commission, before the bank levy and even before Apple Pay.

2016 was the year of the Brexit referendum and the year that Trump became president for the first time. John Key was prime minister in New Zealand and Malcolm Turnbull here in Australia. The big global business story, was the collapse of Theranos. Now, for ANZ, this was still the era of the super-regional strategy, but times were changing fast and it was clear that we needed to adapt. Frankly, we were just doing too many things in too many places with too many people to truly do anything as well as we needed to.

Since then, we focused our strategy, strengthened the balance sheet, tightened customer selection. We drove significant productivity, improved capital efficiency and we made a material shift in our culture. Now, I don't regret any of those decisions, only wishing that we had gone faster.

Since launching that new strategy at the first half result in 2016, we've increased our market cap by around $20 billion and returned around $48 billion to shareholders, while retaining sufficient capital to build a better Bank, investing ahead of our peers.

We didn't just milk the franchise, but we laid the foundations for long term success while delivering decent returns in the short term. We helped over one million people on lower incomes build financial skills, knowledge and confidence, with our financial literacy program, MoneyMinded and we contributed to helping more than 62,000 people build life-long savings habits while saving more than $31 million to go towards financial education in our award-winning program, Saver Plus.

From a start up in Van Diemen's Land 197 years ago, we have grown and thrived in a volatile changing world. Like those before me, future custodians will need to navigate an uncertain environment, a more volatile geopolitical landscape, greater competition, fast evolving regulation, high community standards and shifting customer expectations. They will succeed by retaining a sense of purpose and agility, a growth mindset and a dynamic approach to capital and resource allocation.

As I hand over to a new Chief Executive, I am confident that we have the right people in the right places, providing the right services to the right customers to do just that. So, the direction is clear, our foundations are strong, but it's now time to double down on execution and pace while keeping a firm eye on the long term.

I thank you all for your support, guidance and even the critiques over the years. While not always appreciated at the time, that robust challenge has driven a better outcome. I am eternally grateful to my colleagues around the world, the notes, emails, calls and overall support has been invaluable to me.

I may have the most visible role in the Bank, but it is the people of ANZ who bring passion and commitment to our customers and the community every day, shaping a world where people and communities thrive, so thank you all.

For Nuno, I wish the very best for the future as you lead ANZ into our third century.

Back to you Jill.

Jill Campbell: Thanks, and just a quick reminder, if you want to ask a question, you do need to do that via the phone. If you can do your best to keep it to two questions per person, if there are any we don't get to, myself and the Investor Relations Team are, of course, here for the rest of the day.

I'm going to hand back to our operator now to just quickly walk you through the mechanics. Thanks Dolcia

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 are on a speaker phone, please pick up the handset to ask your question.

Your first question comes from Ed Henning from CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Hi. Thank you for taking my questions and congratulations Shayne and all the best. A couple from me. Firstly, on capital, you've reached a capital floor. Is there any scope to adjust the capital floor through optimisation to help your capital position, and you're issuing shares under the DRP, unlike peers.

Can you just talk about your credit growth ambitions and your ability to hold the dividend at current levels is the first question please.

Shayne Elliott: Sure. I'll actually hand that to Farhan.

Farhan Faruqui: Sure. Thanks very much, Ed. Just on the floor, the increase mainly occurred in the first quarter and that increase did include FX impact and while this partially unwound, as we had expected, this was offset by some other increases, including rising from the IRRBB portfolio.

The floor is driven by really our high-grade Institutional customers, some of which are applied to higher standardised RWA, so we're always trying to find this balance between risk and returns and the floor makes this a bit more complex, but we will manage this and incorporate this into decisions, but not at the expense of our credit risk appetite and settings and also, it does provide us some additional protection against RWA migration.

I think there are – it's a complex issue, Ed, and we are trying to make sure that we deal with it appropriately, because frankly the floor encourages banks, if you're bound by it, to take more risk and we're trying to make sure we balance that position and will continue to look at settings and our targeted growth where we think there is limited impact to standardised floor.

Ed Henning: (CLSA, Analyst) Can you just touch on the issuing of DRP shares and the ability to hold the dividend at current levels?

Farhan Faruqui: Yes, we did. I mean, at this point, as I mentioned in my remarks, we want to make sure we have conservative capital settings, which is why we did not neutralise the DRP, but our positioning and our strategy from the Board and with Shayne and the executive leadership is to make sure we focus on consistency of dividends, so at this point, our expectation is to continue to hold dividends at these levels.

Ed Henning: (CLSA, Analyst) Perfect, thank you. Just a second one, just on your margin. If you adjust for the swing in markets, your net interest income looks to be down about five basis points. Can you just touch on the impact of remediation in the actual impact of US rate cuts and just give us a little bit more on some of the moving parts on the outlook of the actual NIM, not the banking NIM please?

Farhan Faruqui: You mean on the headline NIM?

Ed Henning: (CLSA, Analyst) Yes please.

Farhan Faruqui: If you go to the slide on results on NIM – sorry, I'm just trying to find the right page number here. Bear with me.

Jill Campbell: Slide 20, Farhan.

Ed Henning: (CLSA, Analyst) 20.

Farhan Faruqui: Sorry, yes, sorry, thank you. Slide 20. The impact on headline NIM was similar in its nature to banking NIM in the sense that we had deposit pricing pressures and some pressure from wholesale funding. Part of that was driven by the size of our wholesale funding and part of it was driven by the rate movements, particularly in the short term [spreads] here in Australia.

The asset pricing actually across our divisions was variable, but overall, it netted out to effectively no impact on asset pricing half on half. The asset and funding mixes I mentioned was more driven by the institutional faster growth in loans versus deposits and the capital and replicating portfolio produced two basis points.

Now, on the markets and group centre, we had a one basis point supportive outcome in markets and three basis points, effectively an unwind if you had last year, last half, of the liquids benefit, so net net it was two basis points down from markets and group centre and then there was some small element of remediation impact, but almost all of that was offset by the Suncorp inclusion in our headline numbers.

Ed Henning: (CLSA, Analyst) Okay, thank you for that. Can you provide any comments on any changes or some of the moving parts on the outlook that you see in margin at the moment please?

Farhan Faruqui: Look, as I said, I mean it's very hard in a world which is as uncertain and as unsettled as it is right now, so it's hard to give you a sense of what the direction of NIM is going to be, both given the competitive environment and the macro environment, but I can say that from a capital and replicating portfolio perspective this, as I mentioned, is going to remain a tailwind going forward into the next two years because of the fact that we've been hedging for a longer tenure than some of our peers and we will also look to offset rate reductions with volume in some of our businesses to ensure that we get accretive outcomes.

It's going to be – there's going to be a lot of uncertainty ahead. The good news is, ITOC and replicating continues to be a tailwind and we'll continue to manage our funding costs and impacts.

There is one other element to this, which is on wholesale funding. The short-term spreads had blown out, the Bills/OIS spreads had blown out in the early part of this half, but that has now reversed, so again, we'll have to see how that plays out over the next six months, but that could potentially be a tailwind.

Operator: Thank you. Your next question comes from Matthew Wilson from Jarden. Please go ahead.

Matthew Wilson: (Jarden, Analyst) Yes, good morning team and all the best Shayne.

Shayne Elliott: Thank you.

Matthew Wilson: (Jarden, Analyst) Two questions if I may. Firstly, Slide 77, gross impaireds have gone from $1.69 billion to $2.25 billion, so up sort of 33%. When you look at it, it looks like it's restructured loans, it then looks as though it's coming from AustraliaRetail, but when you get to the last bucket, it looks as though it's coming from loans in the $10 million to $100 million size exposure. Maybe it's just the graph, but those sort of loans in Australia Retail look unusual.

Could you add some colour to that please?

Farhan Faruqui: I think actually your hypothesis was correct right off the bat, which was that a large part of this has come from Australia Retail restructuring. There is an element of single name wholesale impairments which have come in, but those are relatively diversified, they're not representative of any industry in particular and again, some of them as well secured, so we just have to work through those, but largely, the impact is from mortgage restructuring.

Matthew Wilson: (Jarden, Analyst) Okay. Then secondly, if we look at revenue ex Suncorp, it's down 1% half on half in an environment where you have much better markets outcomes and you had 2% net interest income growth and [fees] look to be really soft despite good volumes. You point out that there are timing differences and cards and loans and what have you, but we saw it at other banks this period as well.

Are there other things driving softness in non-interest income across the sector? Is there competition discounting to try and get volume growth? How should we think about that trend?

Farhan Faruqui: Let me step back for a second and just give you a broader view, which is that when we say, ex Suncorp revenue, I think it's important that we acknowledge the fact that we've actually held the capital for Suncorp over the last almost three years now, so in reality all we're doing in this half, by capturing the full half of Suncorp earnings impact, is actually delivering better returns on that very capital.

When we say ex Sun, it's a bit of an unfair comparison because we have always held the capital and it has impacted adversely our return on equity, so what we are trying to do right now is just to make sure we recognise and level set this new level of revenue and earnings that we have as a result of Sun being part of our numbers.

Yes, there are some seasonality impacts in our fee income. There are some accounting changes et cetera that we've done which is impacting fee income, but again, and remediation is slightly higher this half, and there are other one offs in the prior half, so there are lot of ins and outs in that which impact that, but broadly just on the philosophical point, ex Suncorp is actually a slightly uncharitable view to take on our revenue, given the fact that we held that capital before as well.

Matthew Wilson: (Jarden, Analyst) Yes, okay, but those earnings would have come in that interest income. Maybe if I can push my luck, Shayne, given you mentioned it in your opening remarks, if you're thinking about the institutional bank how are, and will, changes in global capital flows impact the revenue in transaction banking and trade et cetera?

Shayne Elliott: Yes. Happy for you to push your luck. Hey, the whole point about our insto business is transforming it from, 10 years plus ago actually, you go back to when I started, and it's a [known known] and from a lending led business to one that's really much more focused around facilitating the movement of trade and capital flow, which is there's going to be a lot more deposit heavy and that's why Transactive Global is so important.

Depending on your timeframe, I sit there and go, hey, when our customers, who are the world's best companies, well actually the world's – these are Fortune 500 and equivalent global companies and remember most of them are not Australian – I don't mean that in any judgemental way, but these are US, European, Asian, massive organisations, when they change things, that's good for us.

When they move money, capital, manufacturing base, supply chain et cetera, that's good for us, because all of that activity needs financing means that there's a parallel movement in money and the movement of money around the world is what drives our business.

I think over the long term that these changes, while they might feel uncomfortable, are really, really good for us and, what's good about it is that because we've restructured our risk appetite, it doesn't really bring a whole lot of risk with it. Our risk settings sit the same, but we're going to get more activity, so I think it's positive.

In the short term and, again, short term just being, what are we seeing as of the moment, actually we're not really seeing a huge shift in behaviour from those customers, so we're not seeing – our trade business is relatively modest in the scheme of institutional, so if you're just talking about pure trade finesse, it's actually very, very modest and it's certainly modest within the greater ANZ. There has been some movement in that, as you would expect. There is less stuff being financed from China to the US, but that's a really, really tiny part of our business, so that's why I was more optimistic about the fact that when there's change, it will be good for us.

Farhan Faruqui: Just to close out the previous point, because you mentioned most of those come in through NII, when I said accounting adjustments, what I meant were these were fee recognition which we have changed accounting for, so therefore it reduces OOI and will over time come through NII, so that's the reason why I was saying it does impact OOI and there are some elements of remediation which also show up in OOI, so they impact that. It's a small amount but they come through all lines. They come through operating expenses, through non-lending losses and other operating expenses through NII and through OOI.

Matthew Wilson: (Jarden, Analyst) Thanks team, and as I said Shayne, all the best with the next project. Cheers.

Shayne Elliott: Thank you. Thank you. Thanks, Matt.

Operator: Thank you. Your next question comes from Richard Wiles from Morgan Stanley. Please go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning. I also had some questions on the institutional business. Shayne, you just talked a little bit about how the geopolitical changes may impact the institutional business, can you talk about how you think international world performed versus Australia? Do you think international has much better growth prospects than the Australian arm of the institutional division?

Shayne Elliott: I do, and again, thanks Richard for the question. In the end, it depends on your time scale, but I do and you would argue that that's already the case today and, you know, without going too high level, if you just then think about pure institutional banking, actually in Australia, if you're thinking about banking Australian institutional, so the big names, the big domestics, we punch to our weight. We have share like our peers and we do a really good job, but we're at weight in that business and it's a good business.

Where we excel is in two things. If you're a multinational operating in Australia, of which there are many, we punch way above our weight, right? Because we've got the international network that means we're supporting that multinational in their home country as well and around that region, so we have a huge share when multinationals and, what's interesting about that multinational business sitting here in Australia is, the balance typically actually isn't with our domestic peers, it's with the other international banks that operate here.

If you're a Japanese firm operating in Australia, then your banks are likely to be ANZ and one of the Japanese for example. So, you've got that and then to that, it depends how you think about it, Richard. I think that is part of our international business, because those multinationals operating here in Australia are buying, not Australian banking, they're buying a regional network, so that's a really important part and we already punch above our weight and that's going to continue to grow really nicely I think here in Australia.

But then, to your point, the true multinational piece of our business, we bank the world's best companies and they are naturally growing, so I do think there's much greater growth opportunity over the medium to long term in our international franchise. It was part of the reason I mentioned today, just in passing, that we did have a record result from a geographic point of view, looking at our North American and European business, because guess what, that's where a lot of those companies are headquartered.

The other point about the international – and let's not forget, you were there at my first result, Richard, back in those days, the international – the ROE on our international institutional business then was very low single digit, right? Today it's higher than the average and in fact it's 16% at the moment. Now I don't know if it's going to stay at 16 or higher, but it's going to be in that mid-teen level, so it's not just a growing business, it's actually now a very high returning business for it, because if its business mix.

Richard Wiles: (Morgan Stanley, Analyst) Okay and my second question also relates to institutional. The margin ex-markets in the division, I think fell about 12 basis points, 236 to 224. Can you maybe talk to the drivers of that and give us an update on how you think lower cash rates are going to influence the margin in the division over the next little while? I know there are a whole lot of other factors, including competition, but if you could talk about the impact of lower cash rates, your updated view on that.

Shayne Elliott: Yes, I'll get Farhan to talk to this one.

Farhan Faruqui: Yes, hi Richard. So the impact in institutional NIM was driven – so if I give you just a bit of a breakdown. Five basis points was basically driven by cash rate but offset by volumes. Four basis points was driven by mix, which is again the comment I made in my remarks which is asset growth outpacing deposit growth. About three basis points was lending competition and to some extent it's understandable because when we're competing in this space, whether in Australia or outside, our competitors and us need to start with lending and then the deposit flows and others follow.

That's just a competition issue to start with, but we continue to look at and as we've seen and as you've seen, Richard, that we're very focused on overall customer returns and making sure that we are lending on an accretive basis. That's sort of the breakup. Now if cash rates come down, obviously it will have some impact, but again, so far we've offset that by volumes and also, as I have said before, our cost per dollar of FUM in our PCM business has actually been flat to down over the last few years, so that's another offset in terms of getting to better ROE outcomes. That's broadly speaking our view on cash rates. Yes, it does have an impact, but we have other offsets to that.

Shayne Elliott: I'll just draw you, page 52 in the slide pack, Richard, has got some stuff in there about the sensitivities, for the PCM, for the Insto business.

Richard Wiles: (Morgan Stanley, Analyst) Okay and Shayne, I'll just echo what some of my peers have said. Congratulations, you've made some very bold decisions at ANZ, so well done and all the best.

Shayne Elliott: Very bold, minister, thank you. I appreciate it, Richard, thank you.

Operator: Thank you. Your next question comes from John Storey from UBS. Please go ahead.

John Storey: (UBS, Analyst) Thanks very much and congratulations Shayne…

Shayne Elliott: Thank you.

John Storey: (UBS, Analyst) … Congratulations Shayne and and all the best for the next chapter. I've got two questions, probably more directed at Farhan. The first one is just on costs and the second one is on impairments. Just on the first one with regards to costs, the guidance that you've given, 4% growth and it kind of puts you at about $12 odd billion for the full year, which I think consensus is largely [got], but noting that you've got or you've had a step down in terms of your investment spend in the first half, I'd just be interested to get a little bit more colour on the nature of the expenses that are going to come through, the $500 odd million delta effectively on the first-half annualised cost-term benefits in the second half…

Shayne Elliott: Can I…

John Storey: (UBS, Analyst) …and then – yeah.

Shayne Elliott: Sorry John and I will get Farhan to answer the detail. I just wanted to make something clear and maybe we haven't done a good job. When we talk about seasonality in the investment slate, or the tech spend around new projects, et cetera, that's like a baked in, I just want to explain where that comes from. In the first half, what we typically do, we literally have a shut-down period over Christmas. So basically what we do is we say, look there's not a lot of point at that time, people are focused elsewhere on holidays, so we actually have a bit of a shutdown, almost for month.

So basically what we do is our spend rate during the year doesn't really shift month on month, but the first half, for all intents and purposes, we've got five months of spend because of shutdown and the second half you have six, so mathematically you end up with a seasonality. It's not that we sit around and decide to pull back investment or stop things and particularly in the first half or have a re-look in the second, it's just literally a mathematical outcome on the impact of that shutdown, so that's the timing change. But that's to do with the slate itself. But Farhan, do you want to give the…

Farhan Faruqui: Yes, so John, as you correctly picked up, it is that timing that Shayne described, which means that our investment spend is going to rise in the second half, as it does historically. A lot of that is continuing with our dual platform strategy and of course some of the work we're doing now which is escalating on migration and integration work from a Suncorp standpoint. So those are costs that are naturally going to come through.

Now there is an element here, John, of potentially some higher remediation that might come through next half as a result of the EU, et cetera, but we'll continue – that's a watching point and we'll see how that goes. But our view is, at this time, that we don't need to shift our guidance and that we will hit our guidance number.

John Storey: (UBS, Analyst) Okay and just on my second question with regards to impairments, quite similar to what Matty Wilson was asking, but you've got the paradox at the moment where your NPL and your [NPEs] are going up quite significantly, up 11%. Then clearly the charge that you're carrying is actually quite low. If you go and have a look at your Stage 3 charge that came through, the $300 million, relative to the delta in your impaireds, which was $1.2 billion, that charge as a percentage of that was 23% and if you go and have a look at your prior period it's closer to 32%.

I just want to get an understanding of what you guys have seen, what your inputs [are going in] and if it's in regards to expected losses. Because I mean if you had to take it back to that 30% level, there's probably about $100 million delta just on that charge alone. So Farhan, if you've got any insight into that, that would be great.

Shayne Elliott: I'll ask, so Chief Risk Officer, Kevin, is here. He's just coming up to the microphone. I know he was struggling to hear your question, but basically Kevin the question was around the change in IEL expected loss rate and related to the increase in impaireds and they don't 100% look correlated.

Kevin Corbally: Okay, I think Farhan alluded to this earlier, one of the important things to remember with the impaireds number is that two thirds of it has come from restructures, loans and essentially restructured home loans, so there's no expectation of IP loss on those because of the security coverage, so that might be a key factor in terms of why you're seeing that difference between the two.

In terms of the IEL itself, there has been a slight deterioration and that's just a reflection of some broad credit deterioration across all of the wholesale book predominantly. It's not in any particular segment – sorry, it's in a couple of small segments, I should say and it's not necessarily a large number of customers. It's a small number of customers. They're the two key drivers, I think.

John Storey: (UBS, Analyst) Okay, thanks very much.

Shayne Elliott: Thanks John.

Operator: Thank you. Your next question comes from Jonathan Mott from Barrenjoey. Please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. Question relates to capital and we've now seen you going through the capital floor on the common equity tier 1 ratio, but if I can just turn you to page 47 of the 4D and looking at the leverage ratio, now remembering the leverage ratio was introduced to stop, as another constraint, against just using the CET1 and optimisation and model adjustments that we've seen around the world.

But what you've seen here is that the tier 1 capital is unchanged over the last half, but you've seen the exposures rise by another 6% which has seen the APRA leverage ratio go down from 4.7% to just 4.4%. Are we now getting to a stage where the leverage ratio becomes a binding constraint on your capital position?

Shayne Elliott: Farhan?

Farhan Faruqui: So our view of this point, Jon, is we think there's still headroom and we're not expecting it to become a constraint.

Jonathan Mott: (Barrenjoey, Analyst) So what is the limit that you're expected to see this leverage ratio, because this is what's driving the ROE higher, is actually the leverage, so where is the bottom…

Farhan Faruqui: So the minimum is 3.5…

Jonathan Mott: (Barrenjoey, Analyst) …[unclear] ratio gets it.

Farhan Faruqui: Yes, so the minimum is 3.5.

Jonathan Mott: (Barrenjoey, Analyst) That's the regulatory, but where would you be comfortable?

Farhan Faruqui: Well we like to be above that. We like to be well above that.

Jonathan Mott: (Barrenjoey, Analyst) I hope so.

Farhan Faruqui: But my point is that we still have some headroom and we don't expect it to be a constraint.

Shayne Elliott: I mean I think the point is that we're well above that rate, we're well above it. I mean in percentage terms, we're well above. I don't know that we – we haven't sat here and have a precise number and say, hey it has to be at 4.2 or 3.9 or whatever, we've got room. But your point is valid in that it is designed to be a constraint. It's not a constraint at this point, but it's something that factors into your risk appetite and your growth ambitions for the organisation.

Farhan Faruqui: Correct.

Jonathan Mott: (Barrenjoey, Analyst) With institutional, because I know a lot of that you were talking about before, that the institutional side is rates go down, volumes go up, it going to lead to ongoing pressure to your total exposures. Is that where you'd see this show up, the leverage ratio continues to fall from that perspective?

Farhan Faruqui: So sorry, when we were saying volumes will go up to offset the rate impact, I was referring more to the liquidity side more than the asset side, so it's basically the fact that our…

Jonathan Mott: (Barrenjoey, Analyst) So turnover of volume, rather than – because obviously liquidity goes into exposure as well, so what were you referring?

Farhan Faruqui: Yes, I mean look, first of all, the overall lending volumes have been particularly high this, as I mentioned, in the first quarter, so we don't expect those to continue. Our expectation and for PCM, we had a 4% - sorry, for loans and deposits, we had a 4% FX-adjusted growth rate in loans and a 4% FX-adjusted growth in PCM.

The FX element will unwind over a period of time. We've seen that unwind in the markets exposure already, as we said Jon, at the first quarter, but it hasn't fully unwound on the lending side. There are some FX benefits that will come through and then we'll manage the volume and margin trade off as we look at the rate environment.

Jonathan Mott: (Barrenjoey, Analyst) Okay, thank you. Just a second question on the NIM, I know there's been a lot of discussion on this already, but NAB came out yesterday and said that every 25 basis point rate cut it costs them one basis point to the NIM over a period, so in the next period. Have you got any kind of sensitivity to that for the Australian exposure?

Farhan Faruqui: Yes, so 25 basis points for Australian rate cut is roughly one basis point of headline NIM for us as well. Yes, so about the same and if you think about Bills/OIS it's about eight basis point of reduction in – sorry, eight basis point of expansion in Bills/OIS is one point of NIM impact.

Jonathan Mott: (Barrenjoey, Analyst) Great, thank you very much and congratulations again, Shayne, well done.

Shayne Elliott: Thank you. Thanks Jon.

Operator: Thank you. Your next question comes from Brian Johnson from MST. Please go ahead.

Brian Johnson: (MST Financial, Analyst) Thank you and congratulations, Shayne. I think anyone who survives a reasonable tenor as a bank CEO has a predilection for pain. Two questions if I may. The first one is if we have a look on slide 23, we can see the Suncorp NPAT benefit was $35 million from these fair value adjustments. If you have a look at page 8 of the result, I can see $50 million of that has been reversed apparently through the NIM. The questions I have on that, how much did that impact the NIM, what is the outlook going forward? That's the first one if I could.

Farhan Faruqui: Sure, hi Brian. So the impact on NIM was actually, at the Group level, was actually pretty small, it was roughly about $35 million after tax impact in NIM, so it was really quite small, it was sort of immaterial. Our expectation though is that, as we go forward, we had $50 million, let's call it pre-tax, that number is going to decline in the second half and after that will pretty much disappear and become immaterial. So at this point, the impact is probably just under one basis point of NIM.

Brian Johnson: (MST Financial, Analyst) So basically that will create a $100 million headwind on the NIM, other things being equal?

Farhan Faruqui: Yes, we start every half with headwinds, Brian and then try and offset them, yes. But you're right, it does create that.

Brian Johnson: (MST Financial, Analyst) Just in the walk where you were discussing the NIM deltas, $50 million pre-tax is not a small number. Where would that have flown through in that walk?

Farhan Faruqui: In the NIM walk?

Brian Johnson: (MST Financial, Analyst) Yes.

Farhan Faruqui: It's in the Suncorp Bank, in the three bps of Suncorp Bank.

Brian Johnson: (MST Financial, Analyst) Okay. The second one is a somewhat more obscure one. If we have a look historically at the economic profit, it has been falling, so the accounting earnings have benefitted from the very low loan loss charge. We can see even in this result the long-run rate has basically increased from 18 to 19 basis points. The disclosure of the economic profit has disappeared. Is this telling us the economic profit is not what we should be looking for any more? Was it negative during the period? Could we get some clues on what…

Shayne Elliott: No, it wasn't. Fair question.

Shayne Elliott: Hey, fair question. I'm a fan of economic profit; it's something we use internally. It's not perfect. It is a factor we use internally when we think about our businesses and the way that we manage the Bank. There are multiple ways of doing that, but making sure that our businesses consider cost to capital, it's pretty fundamental to the way we run the Bank.

It's really – there was no hiding meaning in taking it out. We were largely out of line with our peers in reporting it and it was just something to try and simplify our disclosures, but there was no strategy around it. Frankly, Brian, BJ, I think you're about the only person who ever asked a question about it, so it sort of became irrelevant and there was just an attempt to simplify. But no, we do use it internally and we do hold people to account in the various divisions, et cetera.

At the end of the day, you can work it out yourself. I mean look, our cost to capital at the moment we use is just south of 10% at the moment and the treasury team update that, literally look at it every month and we make a decision whether the change in that cost of capital is sufficiently meaningful or sustainable that we should reflect it in our drivers with our businesses or not. But at the moment, it's just a little bit below that and obviously you can see the ROE here, so by definition the economic profit is positive for the Group.

Brian Johnson: (MST Financial, Analyst) Thank you.

Shayne Elliott: The Board discuss the – the Board do, just to give you comfort, that number on the cost of capital goes to the Board every quarter for reaffirmation, if you will.

Farhan Faruqui: Yes.

Brian Johnson: (MST Financial, Analyst) The only thing I would observe, Shayne, it's an important dynamic, the disclosures in the profit release are bigger than they actually are in the Annual Report and often the number that appears in the Annual Report is different to the one that appears in the profit disclosure. I'd really encourage, just because others don't disclose it doesn't mean you guys shouldn't. I thought it was a point of positive differentiation before, but anyway, it is what it is.

Farhan Faruqui: No it's well…

Brian Johnson: (MST Financial, Analyst) I mean I personally think you should bring it back.

Farhan Faruqui: Well noted, Brian.

Brian Johnson: (MST Financial, Analyst) Thank you.

Shayne Elliott: Thanks, Brian.

Operator: Thank you. Your next question comes from Tom Strong from Citi. Please go ahead.

Tom Strong: (Citi, Analyst) Good morning and thanks for taking my questions and I'll add my congratulations, Shayne.

Shayne Elliott: Thank you.

Tom Strong: (Citi, Analyst) First question just around the institutional business, if I go back to the first quarter, you saw $28 billion of lending growth in that business that's unwound through the second quarter, can you just talk to I guess behaviourally what drove that and if there's any impact revenue into the second half from that experience in the first quarter?

Farhan Faruqui: Yes, I mean I'm happy to say something and then Mark, please feel free to add. But look, I think so first of all, I'll just make sure, Tom, we reiterate our view on the institutional lending strategy. We don't actually have a lending strategy. We lend to our customers when they need it. We support them with lending and our focus of course is to make sure that we look at the whole of relationship value that we get from our customers.

As it happened in the case of the first quarter of this year, we had accretive opportunities that became available, there was some market short-term lending opportunities which were also accretive, not accretive to NIM but accretive to returns and we basically took advantage of those opportunities. But Mark, you might want to add.

Mark Whelan: Yes, there's not a lot to add there. I mean the first quarter showed good growth for us and it did flatten out a little bit in the second quarter, but it's volatile. It's never a straight line. It depends on the opportunities that we see and the quality of those particular opportunities, some we might move away from because we don't like the returns or the structures, so we're quite disciplined about it. So it really is when the opportunities arrive. So I look at it, it's never going to be a straight line, there'll be some ups and downs with regards to it and look, we'll see that in the second half as well, is my view.

Shayne Elliott: The only thing I would add, it's existing customers, so it's not indicative of some new customer acquisition strategy, it's the people that we bank every day.

Mark Whelan: The other thing, it's ROE accretive. I mean what we've been doing with our business on our lending is while we look at the overall relationship, determining what we will go into and at what price and at what level of hold, the loan book now is above cost to capital. It was never like that in the past and so we're trying to keep those disciplines in any of the new business that we're putting on with the existing customers, as Shayne said.

Tom Strong: (Citi, Analyst) Okay, that's very clear, thank you. Just a second question if I can on the asset pricing pile in the NIM waterfall. We had the home lending margin New Zealand offset the other divisions, can you perhaps just talk about the sustainability of that improvement in the New Zealand home lending margin? Is that timing related around swaps or is that sustainable?

Farhan Faruqui: So the New Zealand asset NIM benefit was actually you know, it was expected to be pretty low as we go forward into the second half, so there's probably a small benefit I think going forward, but what New Zealand as a business has done really well is continue to manage their asset and deposit margins and volumes to ensure that they continue to create stable returns in the business.

So that - we expect that overall situation to continue. Then overall NIM already is at a strong place and their focus is to make sure they maintain that as much as they can through offsets between deposits and loans and pricing.

Shayne Elliott: Just remember - you know this, Tom and everybody on the - remember, the New Zealand business mix is very different within retail, so they are largely a fixed-rate home loan book. So as rates reduce, deposit book reprice is pretty fast and the home loan doesn't and so you tend - you just get a different time delay or timing impact, particularly in a rate falling cycle that will tend to be more supportive of NIM in New

Zealand than it would be here in Australia and that's precisely the environment we're in at the moment. So you'd expect it to be more positive than not going forward.

Tom Strong: (Citi, Analyst) Okay, that's very clear. Thanks very much.

Shayne Elliott: Thanks, Tom. Thank you.

Operator: Thank you. Your next question comes from Matt Dunger from Bank of America. Please, go ahead.

Matt Dunger: (Bank of America, Analyst) Thank you very much. Slide 18, you've segmented the banking NIM at 14% versus the 10% markets ROE and the cost drag from the group. Just wondering, given you've called out the opportunity to optimise the markets ROE within the pack, what's the size of the opportunity? What returns should that markets business be delivering?

Shayne Elliott: Great question. So look, first of all, the difficulty with markets business, you're right, so we run markets very much around - it should be run on an ROE, but it's not a NIM business, right, and so it should be on return and obviously, we really think really highly about the CTI in that business as well. I mean, we think about cost everywhere, but in particular, that's one of the bigger drivers of the ROE in that business. But the reality is, markets by definition is a global business and it is extremely competitive and you don't really - you're not a price maker in those things and so the way that you improve your ROE is about the business mix because things like short-term foreign-exchange are very, very - really good solid ROE and other businesses that - some of the businesses that require capital behind them, obviously less so.

So business mix is one and under Mark's leadership being really pushing hard into those things that align with our strategy, if you think about intermediating trading capital flow in Asia-Pacific, what does that look like? FX and we love the FX business because of that, because of the diversity, low capital and [high] ROE and the other thing you have to manage is your cost base.

Look, generally, having a markets business at around that sort of 10-ish number is good, but it needs to be - it can improve from here. It's not going to be 15, but it can improve into those low-teens based on getting that business mix right. So that's the real opportunity in markets over time. But as I said, that's not going to happen overnight.

Farhan Faruqui: I think just to add to that, Shayne, because you're absolutely right, but a big focus has been and I think you may have seen that, Matt, over the last few years, that it's been a lot more about consistency and insuring that we're not creating a huge amount of volatility in our markets income, if you look at over the last three years or so, our markets ROE has actually averaged around 11% or slightly just above 11%, so it is consistency.

Now, of course, half on half and annually, there might be some ups and downs, but overall, there is a much bigger focus on consistency, on customer flow driven and reduced volatility in that business.

Shayne Elliott: I mean, for those banking historians on the phone here, the ones that can remember back, I mean, it's changed. We talk a lot about the regulatory and capital changes within our - things like the home lending businesses, but actually, the changes in markets have been equally profound in terms of the capital intensity in that business that has changed dramatically.

You know, the same business 10 years ago was much higher ROE and that's because there's been a load of - not just here in Australia, but globally, a lot of regulatory change and that's changed the dynamics, particularly around the capital intensity of that business.

Matt Dunger: (Bank of America, Analyst) Brilliant, thank you very much and just a follow-up on capital, just wanted to understand the impacts predominantly in the first quarter on risk weighted asset growth and the reductions and the capital floor, to what extent and around the timing they can unwind and any reservations on continuing the buyback?

Farhan Faruqui: So look, I think we will of course continue to - we will continue to see some further unwind coming through and you know, the base of it and the exact timing of it, is hard to predict and as you saw, the floor increase was largely driven by what happened in that first quarter and not so much by what happened in the second quarter. So we will continue to look for unwind opportunities from a floor perspective, as well as from the portfolio.

Your second question…

Shayne Elliott: Buyback.

Farhan Faruqui: …was around buyback. Look, our intention is to continue the buyback. All we have said at this point is that the environment is very uncertain and we want to make sure that our capital strategy as a whole is adapting to the conditions as they play out over the next few weeks and months and it's very much more about having more capital is better right now than having less, so we just want to make sure we have flex. We're not stopping or pausing the buyback, all we're saying is we will continue to manage the timing and the volume of buyback, depending on how those conditions moderate.

Shayne Elliott: I mean it's a bit like that old line, right, when the facts change, we change our mind; what do you do? We're just saying right now, the facts haven't changed, but they might and so you need to be flexible, right? We've only got what, 800 left on the buyback?

Farhan Faruqui: Yes.

Shayne Elliott: To do, you know, it's a solid number. It's not huge in the scheme of things and we're just saying hey, we should be prudent and cautious and so we'll continue, but if things really do change, and they may not, we just want to - we are just signalling we should be prudent and flexible about the way we go about the buyback.

Farhan Faruqui: Yes, and I think - sorry, Matt, just to belabour this point, but if you look at our peers, they've all operated at a very different pace in terms of that buyback, so we're not necessarily out of line. All we're saying is we just want to make sure we are cautious around that as we go forward.

Matt Dunger: (Bank of America, Analyst) Fantastic, thank you so much and congratulations again.

Shayne Elliott: Thank you.

Operator: Thank you. Your final question comes from Carlos Cacho from Macquarie. Please, go ahead.

Carlos Cacho: (Macquarie, Analyst) Thanks for the chance to ask a question, and congratulations as well, Shayne.

Shayne Elliott: Thank you.

Carlos Cacho: (Macquarie, Analyst) First of all, I was keen to ask about, at Suncorp, it's good to see you're starting to achieve some of those cost synergies, but I'd be interested in your thinking of those longer term. You've now owned the business for eight months. Can you give us any idea about how you're thinking about the integration cost synergies relative to your expectations going in in 2022. You've noted that it is a very different - it's a different and better business now than it was when you agreed to purchase it.

Shayne Elliott: Yes. I think it's too premature for us to give any update on the synergies case that we went to market with when we raised capital. You're right. We now have owned it for eight months. This is a really good business, and we are really grateful to have it as part of the ANZ stable. It's a well-run bank, and you see that in the underlying. It's better than what we bought. So, you would expect our ambitions for it to equally be higher, about the value it can create under ANZ's ownership.

But in terms of the specifics, we've given you a little bit of a flavour. I think I'm right here in saying, when we did go to the market and talk about synergies, we said, don't expect anything for the first three years, and we gave some numbers of what those things would be. What we're saying here is today, actually, we are getting cost synergies earlier than that.

In the scheme of things, they're not huge, but $20 million in that short period of time, and those are sustainable synergies, and we had a long - I won't bore you with the detail, but we had a long discussion with the Board about the definition of a synergy, and it has to be a sustainable outcome of the - a real benefit that we can point to that only arose because of our ownership of the business. That's a pretty good start when you think about the scale of the Suncorp Bank.

We will, I imagine - it's not for me to commit the organisation now, but I would imagine at the full year result, the business will be more forthcoming about what those synergy cases look like.

Carlos Cacho: (Macquarie, Analyst) Thank you. Secondly, just around the deposit margins. You call out] 2bps in the half

, you mention that NZ was a drag, but that was partly offset by improvement in Australian retail deposits. Can you give us a bit more detail around the movements there between the different products and geographies? What's driving that 2-basis point drag?

Farhan Faruqui: Yes, sure. Let me - I - it's a complex commentary, so I'll try and keep it as simple as possible. I think at the high level what I would tell you is that it's been a case of us trying to manage each business carefully in terms of the impact on NIM. So, if you look at Australia retail, largely driven - both asset and deposit pricing largely offset each other in terms of NIM impact. The real NIM impact came from the widening - sorry, the wholesale funding cost, which impacted retail.

Commercial benefitted to some extent from that same wholesale funding, the Bills/OIS expanding. Of course, because they have a higher deposit base in their balance sheet, i.e. their balance sheet is more skewed to deposits, they benefitted more also from replicating. The New Zealand division again offset assets and deposits but benefitted from replicating, so their NIM is - on a banking basis, is higher. In store, as we've talked through, impact on lending and cash rates, which they've largely offset, and some of that will unwind as we go forward.

That's been the general splay. It's a broad story of asset impact being offset by deposit margins but funding costs expanding and some asset and funding mix differences, changes which are obviously dragging the NIM. It's been very active management across every single division, and I think they've done a great job in the environment that we've been operating in, which has been, particularly in places like New Zealand and in the US, et cetera, characterised by a number of rate cuts.

Shayne Elliott: I think we do have one more question, actually.

Operator: Thank you. We do have a question from Andrew Triggs from J.P. Morgan. Please go ahead.

Andrew Triggs: (J.P. Morgan, Analyst) Thank you so much, and best wishes Shayne for the future.

Shayne Elliott: Thank you.

Andrew Triggs: (J.P. Morgan, Analyst) Really always been impressed with your attention to detail still across so many aspects of the firm. I'll ask a quick one, given time. On slide 50, the risk adjusted NIM drivers of institutional, if I just look at Australia & PNG specifically, it's come down quite a bit this period to 334 basis points. It's already below the second half of '23, despite really only having a small impact from one RBA cash rate cut, and those deposits are not hedged in institutional bank. So, what's happening there, and is it really just partly because Westpac's become so aggressive in Australian institutional?

Shayne Elliott: Let's blame Westpac. Do you want to take that one? Despite my attention to detail, do you want to take that one?

Farhan Faruqui: I'm just making sure I fully understand your question, Andrew.

Andrew Triggs: (J.P. Morgan, Analyst) Just trying to understand the Australia & PNG one in particular, the NIM reduction on that - the risk adjusted NIM on page 50. What drove the reduction?

Farhan Faruqui: I think to some extent, this is just the growth in GLA…

Shayne Elliott: That's right.

Farhan Faruqui: …which is driving that, Andrew, just for this particular half. Just broadly, the [outsized] growth in RWA for institutional in actually driving that. I think that's pretty much the broad answer. I don't have the exact details of what the exact mix differences are, but a lot of that growth did occur in Australia & PNG, from our first quarter institutional growth.

Andrew Triggs: (J.P. Morgan, Analyst) You're not worried that - we've still probably got maybe another 100 basis points of cash rate cuts. Looking at the history, is there any reason why we - you wouldn't go back to a risk adjusted NIM more akin to the 2022, early 2023 period?

Farhan Faruqui: It's a very good question, Andrew, and I think it is a combination of many things. It's about the fact that our focus has been more on higher quality credits, but then they covered lower margin. They have a correspondingly [unfortunate impact on standardised floor]. So, it's trying to balance a number of moving parts.

It's a little bit like playing five-dimensional chess and trying to make sure we get the best outcome from a return perspective and from a risk return perspective in particular. There are going to be different - as the environment evolves, Andrew, we'll have to keep adjusting our strategy and our targeted growth to ensure that we continue to manage risk adjusted margins as best as we can.

Andrew Triggs: (J.P. Morgan, Analyst) Okay. Thank you.

Shayne Elliott: Finished with the questions? All right. I'm not going to make a speech but thank you very much for your - getting to know you over all these years. I will say, it has been a pleasure. I often say to people, since my time as CFO, one of the things that I learnt the most and really benefitted from was my time with the analyst community in particular. I've always found all of you to be really thoughtful, bright and challenging, and I have learnt an enormous amount in all of those years of interactions with all of you, and I am very grateful for that.

So, thank you very much, and as I move onto the next thing, I'm really confident that ANZ is in great shape, and I really do wish Nuno all the very best, and I know that he'll get to know each and every one of you soon. So, thanks for your support, and thank you for your time.

End of Transcript