Start of Transcript

Jill Campbell: Good morning everyone. I'm Jill Campbell ANZ’s Head of Investor Relations. I appreciate it's a very busy morning for quite a few of you. Thank you for joining us for the presentation of our half year 2023 results, and we're presenting those from the ANZ offices in Melbourne on the lands of the Wurundjeri people.

On behalf of ANZ and the team speaking today, I pay my respects to Elders past and present and also extend my respects to any Aboriginal and Torres Strait Islander peoples joining us for today's presentation.

The results materials lodged earlier this morning with the ASX are also available on the ANZ website in the shareholder centre. A replay of this session, including the Q&A will be available on our website from around mid-afternoon.

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 on page 1 of the slide deck.

Our CEO, Shayne Elliot and CFO Farhan Faruqui will present for around 40 minutes, after which I'll go over the procedure for Q&A before moving to questions, but ahead of that, if you'd like to get into the queue, remember that you can only do that via the phone. With that, Shayne, I'll hand to you.

Shayne Elliott: Great. Thanks Jill. Good morning, everybody. Hey, today is the first time we are reporting as a non-operating holding Company and it's particularly pleasing to do so with such a strong result.

Before we get into that, I do want to acknowledge the devastating impact Cyclone Gabrielle has had recently on the community and our customers and colleagues in New Zealand.

As the largest bank in New Zealand we're acutely aware of the important role that we play, and Antonia and the team are working directly with government, communities and customers supporting the rebuild to get people back into their homes and businesses. Now full recovery will take time and we'll continue to adapt our support as needs change.

Turning to the results, this is a great half strategically and financially delivering record revenues and cash profit for shareholders with all four businesses performing strongly for customers.

Over many years, we've reshaped ANZ through disposal of assets and lower performing or riskier segments and growth in our chosen segments, helping people buy and own a home, start, run, and grow a business and move goods and capital around the region.

Now, while those disposals have come at the cost of lost revenue, this result shows that we've not just replaced, but actually grown revenue and cash profit in the process. By doing fewer things and doing them well. It's also strengthened our balance sheet, reduced overall risk and we closed the half with more capital than ever before.

Reducing risk has actually been an important part of our strategy and I'm pleased to see the continued reduction in the modelled internal expected loss rate, which has halved since I became Chief Executive. Even more significantly actual credit losses over that period, which is ultimately what shareholders pay for, have consistently reduced from the highest of the major banks by quite a margin to the lowest today.

Our simplification strategy is delivering and we're in great shape to meet future challenges and take opportunities. It's therefore pleasing to announce a fully franked dividend of $0.81 per share.

Now, the recent environment has been supportive, but we would not be able to deliver such an outcome without the transformation to a simpler, better bank. Over seven years, we've exited over 30 non-core businesses, repositioned Institutional to be a sustainable value-creating business built around processing rather than lending, navigated significant capital and regulatory changes, particularly more recently in New Zealand, and invested heavily in Australian retail and commercial to transform and re-platform our propositions for long-term differentiation.

Our focus on long-term cost management has provided the room to increase investment in our future. Today, each of our four core businesses has a strong sense of purpose, clear strategy, and has embarked on a funded roadmap to build contemporary, relevant customer propositions to win in the marketplace and each with positive momentum and each delivering shareholder value. Now, that's something we have not been able to say before.

I want to touch on a few financial highlights. Compared to a year ago, we grew revenue double digit in all four businesses, achieving record results in Commercial, Institutional and New Zealand. Revenue growth far exceeded cost growth across the board. As you can see on the slide, business line profit before provisions grew between 25% and 65%, and cash profit 23% overall.

Maile has made great progress, repositioning Australian retail to address the changing landscape. We now have the operational capacity to deliver great customer outcomes and target the growth that we want.

We're growing share in home loans with almost 30% of flow from business owners because we are really good at processing complex applications. This is a key segment for our strategy and an area where returns are more attractive.

ANZ Plus is delivering. As of yesterday, ANZ Plus has $6.1 billion on deposit and growth, continuing at pace, with over 260,000 customers, 30% of which are new to Bank in total, and 39% new to Bank in March.

Our ANZ Plus digital home loan is in beta testing with loans currently being booked for staff members. The joint experience in Plus is generating the highest NPS scores of any major Australian bank still getting better and second overall, when looking at all financial service providers.

The cost of acquisition and service is materially lower than our traditional platform with 90% of customers joining digitally without assistance. Importantly, ANZ Plus customers are increasingly engaged, with a 51% increase in average balances this half, a 50% increase in customers setting a direct debit and a 32% increase in those with direct salary deposits.

Customer engagement, operational performance, and cost of service materially better in Plus than the classic ANZ offering and better than our peers. That provides a platform for future growth.

Now, as part of our broader ecosystem strategy, our investment in Cash Rewards is producing exciting growth, approaching two million members with an increasing cohort of repeat users. Half on half those actively engaged with Cash Rewards increased 31% with a corresponding 34% increase in gross merchant value.

So our proposition of buy now, save now is a responsible offer, particularly in today's world with cost of living pressures and it's resonating strongly with customers and driving real value to our merchants.

Now it was great to recently welcome Clare Morgan as our new Group Executive for Australia Commercial. She inherits a great business generating the highest return on equity in our Group. Results were very strong with revenue up 30% versus a year ago after adjusting for a net gain on sale from divested businesses. Risk adjusted margins, expanding more than 270 basis points to 8.37%, but we can do more and we're investing at record levels to further transform our capabilities, automate processes, and enhance our customer proposition.

Despite that elevated investment, our Commercial business already operates at a cost to income level between 35% and 40%. Commercial lending remains well secured. While headline growth over the past 12 months was modest at 4%, it hides a lot of reallocations at a segment level.

Solid growth in attractive areas like trade, agriculture and manufacturing, and a reduction in areas where returns are less attractive and the relationships less strong. As we've shown in Institutional, this type of reallocation helps improve returns and reduce risk at the same time.

Now, Institutional itself had a stellar half delivering record revenue up 35% versus the same period last year with returns materially above the cost of capital in Australia, in New Zealand, and importantly in International, which delivered its strongest revenue, strongest profit, and strongest return on equity result.

We've spent seven years rebuilding Institutional, and Mark has made the hard calls, focused on risk management and investing where we have competitive advantage. The half year return on equity for Institutional overall was the highest in at least 15 years, and the result is not a one-off.

It builds on strong momentum from sustained reshaping and investment. The key to Institutional success is our focus on servicing other financial institutions, particularly in the fast growing, high return area of payments and currency processing where we have a competitive advantage and significant market leadership.

The growth in these processing platforms is impressive as we gain share and are able to reinvest the benefits of scale into further improving our propositions. As you know, the business is capital light with very low marginal cost of production.

Now, there are two drivers of growth in this area worth commenting on. First has been our increased focus and success servicing state governments here in Australia, where we've gone from zero share for the last 100 years to winning a material portion of the New South Wales mandate and more recently South Australia. These relationships will underpin processing volumes for many years to come.

Secondly, providing competitive and compelling processing platforms is all about technical and operational capability. Over the years we've seen more competitors exit due to a lack of scale and the reluctance to invest in the technology required to stay relevant.

Interestingly, we've won even more business because of some recent high profile international bank failures as customers seek highly regarded services from well-rated banks like ANZ.

These platform services are hard to provide. They require specialist expertise and on average produce very long-term loyal relationships. I want to stress how important this business has become for ANZ. It's large, fast growing, and the highest returning component within Institutional.

Now strong Institutional returns were further enhanced from recent APRA capital reforms, which will further enhance our ability to compete particularly internationally. So this result is further evidence that Institutional is a positive differentiator for ANZ.

In New Zealand, despite more acute economic challenges exacerbated by the cyclone, the strength of our franchise was evident in the half. Our business maintained its strong market leadership position and delivered reasonable financial results while helping customers navigate significant change and in many cases, stress.

Feedback from our frontline in New Zealand and from my own time on the ground there recently suggests business confidence remains subdued as high interest rates and escalating costs impact business profitability against a backdrop of weakening demand. As a result, we are starting to see the early signs of stress across business and retail, albeit off record lows.

Despite that, levels of past due loans for retail customers are at levels still substantially lower than Australia and lower than those we experienced prior to Covid. A short and shallow recession in New Zealand is looking probable, but we are well placed to assist customers and manage stress given the strength of our franchise, our balance sheet, and the provisions we've set aside for potential losses in New Zealand, which are higher than at any time in our history.

Now, before turning to the outlook more broadly, it would be remiss not to comment on recent market turbulence. They say that history never repeats, but it rhymes. While the recent turmoil is not a repeat of the GFC or other crises that we experience with some regularity, there are many aspects that rhyme, specifically the impact of a rapidly changing environment on those across the economy with high levels of debt, poor business models, and who lack agility.

Many commentators have suggested that the issues confronting Silicon Valley Bank and Credit Suisse are isolated. I'm not so sure. When considering global interest rates you can't go from zero to 100 in record time and expect limited casualties. So there may be more turmoil to come, as we've seen this week with First Republic Bank.

While it's easy to dismiss this is happening somewhere else in a hyper-connected world, what happens elsewhere impacts us faster than ever. We therefore expect to see ongoing stress globally in financials, commercial property, construction, and related supply chains.

Closer to home there's been recent press regarding emerging stress in the small business sector, and that's undoubtedly true across the economy. However, our own book has yet to see any material change from that reported as of September last year. Now, that may feel counterintuitive, but my team and I have spent the last few months visiting our customers across the network, both here and abroad, and the feedback has been remarkably consistent.

Despite obvious pressures and rapid change in the environment, overall, our customers feel robust, even if a little wary about the future. Now in particular, the Australian economy remains resilient, still characterised by excess demand, low unemployment, abundant opportunities, strong wages growth, and strong terms of trade.

Given the need for further investment in energy transition, housing, defence and infrastructure, it's difficult to see us going back to a low inflation, low interest rate environment for quite some time.

As I said, that will have consequences for the business sector more broadly. However, years of strict customer selection and repositioning of our Institutional and Commercial businesses means this is a modest cohort for ANZ. In addition, higher rates will be more challenging for households, particularly those with higher levels of debt, more exposed to cost of living challenges, or those who have less stable employment.

Now, in days gone by, we would have had limited capacity to predict emerging stress for our consumer and small business customers but the investments we've made in data and analytics, which was turbocharged during Covid means we are better equipped to predict stress and act quickly to help customers avoid the worst.

We're already seeing the benefit of that approach, which is helping contain the number of customers behind on repayment. While the challenges of higher interest rates and consumer price inflation is new, we have been living through asset price inflation for a while, most notably in housing. We can all see the damage that does to social equity.

There was hope that higher rates would lead to a moderation in house prices. While recent price declines have taken some of the Covid support induced froth out of the market, there are already signs that house prices are stabilising with many predicting prices rise from here. That will create challenges, not the least of which is the combined impact of stable and potentially higher house prices at the same time that interest rates are rising, putting further pressure on younger Australians and Kiwis, particularly those without parental support seeking to buy their first home.

That cannot continue without long-term consequence. There is pressure on government and business to restore that balance. ANZ is playing a role by increasing our lending and affordable housing on both sides of the Tasman and supporting new business models like Assemble here in Australia, or our Blueprint to Build program in New Zealand, which has helped more than 8000 Kiwis build new homes with discounted lending.

More broadly, we've already committed $10 billion to fund affordable housing by 2030 and pleased to have already booked $4.4 billion. This is absolutely the right thing to do, but it's also a significant business opportunity.

So look, while the outlook is challenging, the best protection for our communities is that employment remains strong and banks have the capacity to support customers who get into difficulty and lend to those seeking opportunity.

As those opportunities emerge wherever they may be, ANZ is well placed with the most diverse portfolio of any bank, big or small, local or international operating in our region and with a proven track record. Execution is key, but better to have options than be locked into one major asset class or customer segment.

So we will continue to manage our portfolio dynamically, focused on risk adjusted returns. In fact, proactive management of capital will be even more important given more challenging conditions and tougher competition, particularly here in Australian retail.

So in closing, this was an excellent result with all businesses performing well, reinforcing our strategy, commitment to simplification and disciplined execution. We achieved more strategically this half than in any prior including establishing the non-operating holding Company structure and I thank shareholders for their support on that important change.

Completing BS11, the single largest regulatory program in our history. Generating momentum with ANZ Plus, making further progress with our application to acquire Suncorp Bank. Selling our Australian data centres as part of our migration to lower cost, more secure Cloud technology and taking further steps towards building our partnerships for our ecosystem strategy, namely growing Cashrewards and our recent investment in View Media Group.

These achievements reflect growing execution capacity which is important as we face into a more challenging future. Now, with that context, for the remainder of the year and beyond, my team and I are focussed on five key areas. Positioning ANZ for long-term success and playing an active role in shaping a better Australia and New Zealand.

First and foremost, preparing for a successful approval and integration of Suncorp Bank to enhance our ability to compete and invest in a better retail and commercial proposition here in Australia, particularly in Queensland, which has abundant opportunity. Second, further investing in the differentiation of our Australian Retail business on the lower cost, more flexible ANZ Plus platform.

Third, continuing to grow Commercial Banking, sustainable finance and the payments and currency platforms in Institutional with selective growth in Australian and New Zealand home loans. Fourth, maintaining our risk discipline and continuing to recycle capital to improve risk adjusted returns and fifth, increasing our focus on productivity while protecting our culture and employee engagement.

Despite uncertainties, I am confident with the right structure and experienced executive to deal with the challenges but my confidence runs deeper. We look ahead with the full support of our incredible team at ANZ. Their unrivalled commitment to our culture, our customers and the community is our best asset. They're very clear on our purpose of shaping a world where people and communities thrive and we continue to take pride in our industry leading employee engagement. So with that, I'll hand over to Farhan.

Farhan Faruqui: Thank you, Shayne and good morning, everyone. As Shayne said, we have delivered a record result this half. We have executed well. My focus has been on ensuring we remained disciplined, prioritising our resources and capital allocation.

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

So while I've spoken of the benefits of diversification previously, they were even more evident this half. Whether it was the ability to flex funding sources, to dynamically shift capital to optimise returns, to manage risk concentrations or to take advantage of opportunities both in and outside our home markets, the benefits of diversification have helped us to produce strong results this half. But more importantly, set us up well to optimise further.

Now, I'll elaborate this further as we move through my comments today but I'll now begin the financial highlights for the half, focussing my commentary on cash continuing including large notable items. Noting that there is little impact of half-on-half changes in LNI. But that being said, there were some one-offs impacting our earnings and I'll comment on those as I talk through the numbers.

Cash NPAT of $3.8 billion increased 12% against the prior half and we delivered a record revenue outcome. Excluding one-off items, cash NPAT was higher at $3.9 billion. This is a clean result showing strong performance across all our businesses, building upon several years of simplification and de-risking.

Profit Before Provisions grew by 15% in the half and 33% on a prior year basis. While the half-on-half growth rate excluding large notable items was fairly similar, large notable items did have a $213 million adverse impact to PBP in the half. PBP growth was driven by continued strong revenue performance over the last two halves with 10% growth in this half and 18% revenue uplift on a prior year basis.

We delivered this growth while managing expenses tightly to a 3.7% uplift half-on-half despite inflationary headwinds and a continuing investment agenda aligned to our strategy of building a better bank. Earnings per share in the half increased 7% and ROE by 60 basis points to 11.4%. On a pro forma basis, adjusting for our FY22 capital raise, EPS increased circa 11% and ROE to about 12%.

Focusing now on revenue, growth in the half was well distributed across the three key drivers of margin, volume and Markets income. Outside of Markets, non-interest income declined largely due to seasonality and the impact of some one-off items including recognising a loss following a sale and leaseback of our data centres this half and the non-repeat of gains in the second half of FY22. Excluding these items, underlying trends were positive, reflecting increased consumer spending and more deal activity in our Institutional business.

As I reflect on our divisional performance, the following aspects stand out. The Australia Retail Division faced into possibly one of the most competitive environments across both home loans and household deposits but with capability and capacity restored in our home loan business, the Division delivered above system home loan growth while growing revenue by 4% and effectively managing the levers of pricing, margin and volumes.

The 23% growth in Institutional revenue also came with a substantial uplift in risk adjusted margins and returns. This was a broad-based outcome across geographies and products. The Division's ex-Markets income growth of 13% was a testament to the benefits of long-term investment in our payments and cash management platforms which have helped to deliver record ROE for the Division.

I am particularly pleased with the performance of the Institutional International business which contributed around 16 - sorry, 60% of Institutional revenue growth in the half. Importantly, non-lending and return accretive products accounted for three-quarters of this businesses contribution, driving an 87 basis points improvement in risk adjusted NIM. As a result, International achieved a higher ROE than the overall Division for the first time but with all regions of the Institutional Division delivering returns above the cost of capital.

Since becoming a standalone Division last year, the Commercial business has continued to grow revenue and margins. When taking into account revenue delivered to our Retail and Institutional businesses, our Commercial customers contributed around 25% of total Group revenue. We're investing in this business and I am excited about the prospects for growth.

The New Zealand business delivered a consistent outcome despite facing into an earlier tightening cycle and challenging macro conditions. The team demonstrated risk and cost discipline while growing revenues and continued to leverage the benefit of scale.

I'll now comment briefly on volumes. In the Australian Retail business, both loans and deposits grew 4% with increased lending volume coming primarily from home loans. Mortgage portfolio growth was supported by improved processing capacity and materially higher broker NPS. We also saw elevated back book repricing during the period.

Importantly, almost 90% of mortgages originated in the half had an LVR below 80%, reflecting the quality of origination. We will continue to balance volume and pricing decisions to manage margins and returns as we go forward.

Deposit growth in Australian Retail came from a broad suite of customer offerings, including ANZ Plus where $4.5 billion of deposits were added in the half with total deposits reaching $5.3 billion at the end of March and have continued to grow as Shayne flagged earlier to now circa $6 billion.

We grew lending volumes in Institutional. In our key strategic areas including financial institutions, technology and transport, delivering improved lending and risk adjusted margins. While lending volumes in Commercial were flagged, the portfolio mix has steadily improved through the re-shaping of the Commercial business book exiting or reducing higher risk or lower returning segments and re-pointing towards agri, trade, healthcare and manufacturing. In New Zealand, deposit and lending volumes were stable in the half despite a lower growth environment in which we looked to balance margins and volumes.

I'll now move on to talk more to deposit composition. Group customer deposits on a constant currency basis increased $28 billion in the half. There was a meaningful shift in the period from at-call to term deposits across both Retail and Commercial as we had expected. With the diversified nature of our businesses, we did benefit from a larger proportion of our liabilities in operational deposits in Institutional relative to our peers.

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

Now, moving to margins. We delivered a strong margin performance with underlying NIM up 15 basis points to 183 basis points. Guidance provided at the FY22 results was that we expected a modest improvement from the second half exit margin of 180 basis points and the underlying margin outcome of 183 basis points is in line with that commentary.

While conditions were supportive in the first quarter, margin pressure became more pronounced as the second quarter progressed. However, this wasn't uniform across the Group with better margin outcomes in Institutional and Commercial through the half. You can see on this slide the key movements in our NIM walk. I like to particularly highlight a 20 basis points contribution from deposits, in part reflecting the benefit of a more geographically diverse deposit base. This was partly offset by asset margin pressures primarily in Australian and New Zealand home loans.

The capital and replicated deposit portfolio contributed about seven basis points to the margin expansion. We expect this will continue as maturing tranches are re-invested at higher prevailing rates, albeit at a more moderate base as we get closer to the end of the tightening cycle globally and we expect an uplift of five basis points half-on-half.

The asset and funding mix impact of three basis points was largely driven by an increasing shift from at-call to term deposits and headline margin improve seven basis points to 175 basis points, reflecting higher liquids and greater markets activity. It's important to note, however, that the markets NIM compression this half was largely driven by growth opportunities in our customer franchise business, particularly in commodities.

These opportunities are highly return accretive with the NIM dilution offset in other operating income and so on that basis, we will remain supportive of these opportunities when they become available.

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

However, we believe our business structure provides us with options to offset some of these adverse trends. A smaller proportion of our loan book relative to peers is in the highly competitive home loan segment.

We have a leading position in Institutional Banking that is benefiting from our prior investment in lower capital intensity business like payments and cash management globally. Lower TFF replacement challenge. The lowest wholesale funding issuance and therefore more flexibility of funding mix relative to our peers and a greater diversity of customers and geographies to allocate capital and optimise returns.

Now, while NIM is a key focus, we are equally focused on managing our performance on a risk-adjusted margin basis. This metric better reflects decisions around risk, capital allocation and the impact on profitability.

The expansion in the Bank's risk-adjusted margins since FY16 highlights the benefits of the deliberate re-shaping of the Group's business mix. As the chart shows, growth in risk-adjusted margins versus NIM demonstrating the ongoing improvement in our risk and capital allocation. Now, I've always believed that setting a target to only achieve a particular NIM outcome could lead us to make the wrong capital allocation and risk decisions which, over the long-term, ultimately destroy value.

Now, moving to the Markets business. The $1.15 billion in revenue was a 52% increase half-on-half. This excellent outcome was driven by consistent growth in customer activity and higher franchise revenues rather than balance sheet trading uplifts, thus demonstrating the growing value of our markets franchise. This result represents a return to a more normalised performance after a challenging FY22.

Our continued investment in this business has allowed us to capitalise on the more favourable market conditions and to be well placed to support our customers risk management needs. Importantly, as this slide shows, the benefits of our diversification have been meaningful to the underlying growth in the franchise business with International contributing significantly to the overall Markets result.

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

Now, moving to expenses. We continue to tightly manage costs across all businesses with total expense uplift contained to 3.7% on a constant currency basis. This is tracking in line with the guidance that we provided at the FY22 results. Now, I have previously outlined that we will have expense uplift relating to the ongoing work preparing for the Suncorp integration, the one-off set of costs for the non-operating holding Company and stranded costs as a result of the formal separation of the wealth business last year.

Excluding these costs in the half, our underlying expense growth half-on-half was 1.8% on a constant currency basis. To deliver this outcome, we undertook a number of productivity actions like optimisation of our international footprint and simplifying our technology infrastructure. Benefits also arose from prior period property rationalisation and continued investment in automation and digital channels.

We also benefited from the reduction of our regulatory related investment with the completion of BS11 and continued to prioritise the investment slate in line with our strategic priorities. We again expensed our investment spend at a heightened level, approximately 85% in the half. Therefore our capitalised software balances continued to decline and remains substantially lower than domestic peers.

Looking ahead, our guidance for FY23 expense growth has not changed. Therefore we continue to expect total expenses, including large notable items, to increase by circa 5% year-on-year on a constant currency basis. As a result, we expect positive jaws for the full year ’23.

Now, the quality of our book, together with the operating environment, is reflected in lower new and increased individual provision charges which were fully offset by writebacks and recoveries resulting in an individual provision release for the half. A collective provision charge of $163 million takes our CP balance to just over $4 billion. The total credit impairment charge for the half was $133 million.

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

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

A few brief comments now about our improved portfolio quality. As Shayne mentioned, since 2016, we have substantially re-shaped our business by selling or exiting over 30 non-core businesses, including Asia Retail and Wealth, Dealer Finance and the Commercial portfolio in Asia. We have also pursued broader de-risking and in particular in Institutional, growing the investment grade component of Group EAD from approximately 75% to 85%.

We’ve also substantially grown those segments of our book that have historically represented lower historical IP outcomes. So for example, mortgages, sovereigns and banks have historically represented 5% of our IP but we have grown those from 60% to 65% of our EAD from 2016 to today.

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

Most importantly we have experienced, as Shayne outlined earlier, lower actual loss with our IP loss rate reducing from 34 basis points in 2016 to one basis points in 2022 and negative one basis points for the first half of '23. This means, as the chart shows, we have gone from being the Bank with the highest credit losses to being the lowest of our peers.

Now turning to capital, our capital position remains strong at 13.2% or 12.1% on a pro forma basis for Suncorp and modest excess capital in the NOHC. This includes the impact from APRA's capital reforms, the majority of which were effective from January. The net impact of the capital reforms was about 100 basis points with the largest driver being lower credit risk-rated assets for our Institutional business.

At the same time, APRA's expectation for Unquestionably Strong for major banks has changed and is now effectively 11.25% at reporting periods, an increase of 75 basis points from the prior benchmark. Our strong capital position places us well for the environment and to comfortably fund growth opportunities in our core businesses.

Our funding and liquidity position also remains strong. ANZ has a well-diversified funding base, both in terms of our geographic footprint for customer deposits and strong access to all the key global debt markets and investors. We have completed most of our full-year term funding requirement, having reissued $26 billion year to date. We have $285 billion of high-quality liquid assets and regulatory ratios with healthy buffers over the minimums. The vast majority of our HQLA is comprised of cash with central banks or hedged securities in mark to market or fair value portfolios. Consequently the value of these liquids is already fully reflected in our balance sheet.

As you also know, our reliance on the TFF is modest at only $12 billion this financial year. The final tranche of the Committed Liquidity Facility ended in quarter 1.

In closing, we've had a great result across all our businesses. We are well positioned for the current environment. The benefits of our diversified business allow us to take advantage of capital reallocation opportunities and to balance volume and margin trade-offs to optimise revenue and returns. We have been disciplined and consistent in managing risk.

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

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

Now I'm under no illusion that the environment ahead is uncertain. We need to be nimble and adaptive. Shayne took you through our Group priorities. But in order to support them, my focus will be to (1) manage capital allocation dynamically to optimise risk-adjusted margin and revenue outcomes, (2) continue to relentlessly pursue productivity benefits by executing on initiatives that produce sustainable cost out of the Bank, (3) privatise investment in our core strategic initiatives that deliver long-term value and (4) continue to maintain a strong balance sheet and capital position. Thank you. I hand back to you, Jill.

Jill Campbell: Thanks, Farhan. Thanks, Shayne. For those on the phone, I know you've done this many times, but if you can confine your questions to no more than two each - I'm going to hand you back to the operator, [Darcy]. He will read out the instructions anyway and then we'll go to the first question from Andrew Lyons. I'll hand to you, Darcy. Thank you.

Operator: Thank you. If you'd like to ask a question, please press star one on your telephone and wait for your name to be announced. If you'd like to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Andrew Lyons from Goldman Sachs. Please go ahead.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks and good morning - just.

First question just on slide 66 of your presentation today, it provides quarterly NIM performance by division. Now you haven't explicitly disclosed what it means for the Group NIM, but it would appear to imply that the second-quarter total NIM was down in the low single-digit basis points quarter over quarter. Can I just ask firstly is that a fair characterisation of how you're thinking about the NIM trajectory over the half? Then thinking about the trends into 2H and in light of the considerations that you have disclosed, would you say that that's probably a pretty fair trajectory as to how we should be thinking about things into the second half of '23?

Farhan Faruqui: Hi, Andrew. Thank you for that question. I think it's a bit trickier unfortunately this half to talk about trajectory and trends, unlike at the end of last half when we saw a shift from a long-term margin compression trend to a margin expansion trend. The trend [seemed] to be pretty clear and pretty obvious for all businesses. But today, because of the diversified nature of our businesses, that trend is somewhat less clear.

Obviously we have seen a more competitive environment as I mentioned in my remarks, in Australia retail, home loans in particular and in household deposits. We've started to see that shift from at-call to term deposits happening obviously and some back book repricing in the home loan space. At the same time we've seen Institutional front book lending margins, for example, expanding on a half basis and we've seen less pressure in some of our markets relative through others.

So there is a shifting dynamic in terms of NIM direction and it's very hard to sit here today and say, well, they're only going one way. I'll add to that the uncertainty of rate hikes. I mean as you saw even this week, there have been surprises on that front as well. So I don't think that we are suggesting that there is a downward trajectory continuing into the second half.

At the same time we are also suggesting that there is enough uncertainty to not be able to predict what the second half looks like. The diversity of our business overall we think is going to be more helpful in terms of managing whatever trend we get into in the next few months.

Andrew Lyons: (Goldman Sachs, Analyst) Thanks Farhan for that context. Then Shayne, just a second question. You noted in your introductory statements that changes in APRA's capital standards make the Institutional business more competitive internationally. Farhan, you highlighted that the International ROE within Institutional was greater than the rest of the business.

Shayne, in recent years you've dramatically reduced the number of customers that you serve offshore as the business has focused more on returns and rightfully, but do these changes in capital rules, I guess maybe at the start of a bit of a reversing in that trend and you could actually really see the number of customers served in that region start to grow?

Shayne Elliott: That's a great and very fair question, Andrew. I think broadly, not really. So let's just be really clear. What has happened is it's removed a disadvantage. Those capital forms have removed a disadvantage we had internationally. So that means we were uncompetitive in certain areas, particularly around lending or whatever internationally.

That removes that disadvantage. It's not - so we will be able to do a little bit better, but our strategy is really to stick with the customers we know and trust. So we don't really have a desire to expand the number or the customers that we have today. We want to do more with the customers we already have.

Then the other thing I would say is what's really critical to Institutional overall, but really important International is the single largest customer base that we have there is FIG or other financial institutions. So it's absolutely a benefit.

I wouldn't expect to see as a result of that. Year 2 we're going to get better outcomes as a result, but it won't necessarily change our strategic intent. We want to grow processing. We want to grow the FIG business. We don't really want to expand from our 7000 Institutional customers. We'll do more with them if that makes - hopefully that answers your question.

Andrew Lyons: (Goldman Sachs, Analyst) Yeah, that's great. Thanks Shayne.

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

Jonathan Mott: (Barrenjoey, Analyst) Yes, two questions on that if I could. The first one is directly following on from that. If you look at the opportunities that you're seeing here, you can see that risk adjusted margins are already going down quite aggressively in the retail business. If you look at the credit growth that you're likely to see the system level for housing, it's going to be very, very tough.

You also said that we're going to be in a higher interest rate environment for some time, which is going to be much better for Institutional especially versus Retail in that current environment. So I would have thought that you would be allocating more capital looking for more growth back into that Institutional space.

You did say just then that you don't want to extend your number of customers, but how large could this be? Is this going to really be the growth opportunity for ANZ for the next couple of years?

Shayne Elliott: Boy, the world changes. The number of times I've sat here defending the Institutional business. Look, it's a really fair question. I think if you stand back and think about it, and I know you know this and we do this with our Boards in Australia and New Zealand and the Executive, if you stack rank opportunity and we've got a diverse portfolio.

You think about Australian, Retail, Commercial, New Zealand, International markets, payments, all that sort of stuff and you think about the relative attractiveness of those businesses on a returns basis and growth opportunity, what's changed fundamentally is the stack rank for many years was set and if we're being blunt, Insto was at the bottom and Australian housing was at the top and some stuff in the middle.

Well that's kind of massively flipped. The big question is, is this a semi-permanent shift or is it transitory? Look, I think to be fair, the jury is out a little bit on that, but what we do know is that we have fundamentally improved the performance of our Institutional Bank because we've restructured it.

So it's not just a rising tide. Our Institutional Bank has gone up through the ranks and now it is absolutely competitive and is I think Farhan just mentioned, it's interesting today Jonathan, just front book lending and that's only one measure. Front book lending, it's better in Institutional than it would be in Australian home loans.

We've never been able to say that before. So we are going to be allocating more capital to Institutional. We have and you've seen that in this result, but it will be with the same customers. So I think that's the only nuance I'd say. Same customer. We've got lots of opportunity to grow with those same customers but you will see a gentle shift there.

You asked about the degree. I wouldn't expect it to be dramatic for a couple of reasons. We have to - once you're in, it's hard to get back out. So we have to be sure that this change in the relative ranking of those opportunities is stable and is going to remain that way.

We are really optimistic about that and I think for the first time, having our diversified portfolio and having that towards Institutional is a strength and that's some of the things that comes through in this result. So yes, we'll put more into it. We'll be cautious. Same customers; do more.

The second thing I would say, the other implication, and maybe this will come up in other questions, the other implication of what we just said is because that stack rank has changed, we are working and we've already started because we could see this coming - maybe not as quickly as it happened, that's why we're radically transforming our Retail business to improve its fundamental position.

That's why we are moving very quickly to the ANZ Plus platform, which is fundamentally dramatically lower cost. That's not the only lever, but it helps improve the fundamental returns in that business over the long term.

Farhan Faruqui: Can I just add just to a couple of points, Shayne, because I think you've covered it really well, but Jon, I think just important and you know this very well, but I'll say it for the sake of completion that we have built - and I think Mark has obviously done an incredible job in terms of building that discipline around capital allocation with an eye towards return. What we don't want to do is blow that up.

So that's going to continue to be a focus. Yes, there is going to be more capital available to Institutional, but without giving up on that discipline. More importantly than that, Jon, the fundamental business mix of Institutional has shifted. It is now far bigger non-lending, more return accretive products relative to a lending driven outcome.

So we are not going to grow our Institutional business on the back of just adding capital and continuing to lend. It is going to come through the benefits of that platform investment that I've mentioned and that Shayne referred to. Therefore we think there's going to be more return accretive growth in Institutional rather than purely by lending.

Jonathan Mott: (Barrenjoey, Analyst) Just a follow up question if I could, if you then look at slide 25 where you give us your RAM or risk adjusted margin, whatever you want to call it, for each of the divisions, everyone's crying poor about the tough returns and how hard it is in mortgages being written below the cost of capital, but you're still getting a 6.43% risk adjusted margin in Australian Retail and Commercial is now 8.37%.

So wouldn't that suggest that the margin pressure is going to be ongoing for a long period of time from here in some of those businesses?

Shayne Elliott: Yes. I mean I totally agree with you. Look, so a couple of things, you are right. I mean the reality is - and that's where NIM has its weakness and you guys all know this. The problem with NIM is we can improve our NIM by just taking more risk and we can pay for it on our credit line, but that's not creating real value.

So risk adjusted NIM is the right way to think about it. There's good and bad with that. So we are improving our risk adjusted NIM but what it says is capital will flow where there is still opportunity. So those risk adjusted margins are still attractive.

We're the first to agree with that and that's why you’ve got to stay in these businesses and you’ve got to run them well. This idea, just because margin - headline margins are under pressure, people will leave the industry or capital will flee or repricing, I tend to agree with you.

So our fundamental view, yes, it will continue to be a very, very hotly competed market and those that win will be those that have the ability and wherewithal to invest ahead to build better customer propositions and build really winning propositions out in the market.

That's what we're doing with Plus. That's what we've done with our payments processing businesses and Institutional, I think what's interesting about that chart though, you go to risk adjusted margins there is the real driver of those in simplistic terms comes back to your business mix.

The reason Commercial is the star performer in that one is because our Commercial business is essentially a deposit gathering business and for every dollar of deposits it gathers, it pretty much only lends out about $0.60. That's why that's going up.

Being the best at payments with our partner, with Worldline in terms of merchant acquiring, being the best at deposit gathering and helping people run the business. That will keep that going. Similarly in Retail and absolutely the case - and that's the proof point in Institutional.

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

John Storey: (UBS, Analyst) Yes, thanks so much and congrats on a good set of results Shayne and Farhan. Just a question on channels in terms of how you grow in your mortgage business. Obviously your flow rates are quite substantially back in the market. They are up 23% half on half, but it certainly looks like you're growing a lot more through the broker channel. 64% of the business coming through that. Just wanted to get a sense on how sticky these clients actually are and how price sensitive this part of the market is.

Shayne Elliott: Yes, I might get Maile - do you want to come up to the stage Maile? While Maile is coming, I'll comment. She can comment more recently, but it's a really good question John. I think at the - and again just let me put the strategic hat on - hey, customers in Australia prefer to deal with brokers. It's 75% of the market today and it's been a rapid change over a period of time.

So clearly brokers are providing a service that customers value and we have to be cognisant of that. We might sit here and prefer they didn't and prefer they walked into an ANZ branch or downloaded our app, but the reality is today they're not.

So our strategy is really we want to be the best proposition we can for brokers and we've been the first to admit that we haven't always done that well. So part of it was rebuilding trust and Maile can talk about that a little bit with the broker channel. Really important for us to go back and prove because we were one of the earliest banks to really support that channel and we want to - we've got to be the best there, but over the long term we've got to do that and we have to improve our direct proposition.

That's really what the Plus proposition is about. Clearly that's got a long way to go and that's why it's a long-term investment. You might be able to give a bit more flavour more about recent volumes than how we are playing the market.

Maile Carnegie: Sure. So our fundamental strategy in both the broker and our proprietary channels is to look to win through better service. We are not trying to be and are not the price leader. So if you look at really what's driving it and it's actually market data out that looks at what is the core driver of flows into the broker from the various providers and it actually shows that price is not the key reason why customers are going to ANZ in brokers.

They're going largely because of our significant improvement in service. So obviously we keep a close eye on churn and the life of loans for both proprietary and for broker. While there is a marginal difference, it's not significant enough to make material changes in our strategy.

As Shayne said, there's a really good reason why customers go to brokers. They provide a great service and so we obviously want to support that.

Shayne Elliott: Great. Thank you.

John Storey: (UBS, Analyst) Shayne, that's great. Thanks so much. Just on the second question, I thought your slide 27 is really insightful. Just breaking down the 20 basis points of margin - deposit tailwind that you got in the first half with regards to your margin. Just conceptually thinking about that in terms of the second half of the year, ANZ does have a smaller retail deposit franchise.

Clearly deposit competition really started to increase in the market from February/March as NAB called out yesterday. How should we think about that piece, the 20 basis points going forward in terms of possible delta into the second half of the year?

Shayne Elliott: Great question. I'll hand that to Farhan.

Farhan Faruqui: Yes, sure. So John, great question. As you've seen, we moderated our household growth in the course of the half. We grew 4% in total Australia retail deposits, just as we grew 4% on the home loan side from a volume perspective.

What we've had the ability to do is to manage our pricing in the retail space on our core offerings because of the fact that we have the very attractive ANZ Plus offer. We have the ability to source funding and deposits from the retail platforms, which don't reflect themselves in APRA numbers for household deposits. They show up in financial institutions, but they get retail treatment in terms of LCR and NSFR. So we've had that optionality as well.

Shayne Elliott: Maybe you might want to just describe that a little bit. What does it mean those platforms because it may not be well understood.

Farhan Faruqui: Yes, sorry. So these are platforms like retail brokers for example, through whom we sell our retail deposit products. So they come through in the financial institution reporting in APRA, not in the retail household deposits, but they fundamentally are sourced from households and therefore that has been another source for us.

Not all major banks participate on those retail platforms. Of course we've had to - we've also made sure that we moderate and manage funding the growth in home loans through a combination of those plus wholesale funding, which has been available to us. As I mentioned earlier, we've been very active in that market.

So to some extent we can continue to do some of that as we go into the second half. So I'm not sure that a broader trend on retail at call necessarily has to play out in our balance sheet. As you also know, we have fundamentally from a household perspective, the lowest structural funding gap relative to our peers as well, which gives us the ability to be a bit more flexible around how we fund our deposits.

That's what I was trying to say earlier, John, when I'd answered a previous question that there are many things at play here and there are many levers that we can look at in terms of how we manage margin both on deposit and assets. We've been doing that for the first half. We intend to continue doing that in the second half as the markets evolve.

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

Richard Wiles: (Morgan Stanley, Analyst) Good morning, Shayne. It's interesting you refer to this shift in the opportunity stack with Australian mortgages moving towards the bottom from the top several years ago because all four major banks have massive home loan portfolios.

I think this strategy of simplification means you're more exposed to retail and business banking in Australia and New Zealand than you were several years back. In your ASX release you said competition in retail banking is as intense as it's ever been both in Australia and New Zealand.

Would you say New Zealand is as bad as Australia and could you rank or comment on Australian and New Zealand mortgages and deposits separately? Which of those markets are the most competitive at the moment and which are the least competitive?

Shayne Elliott: Yes, fair question. So Richard, first of all, if I just stand back a little bit. In preparing today's statements and writing commentary obviously there's a risk of saying, well, hang on a minute, you've just told me that home loans in Australia in particular and New Zealand are far less attractive than it used to be. At the same time you're telling me you're growing share and you want a whole share. How does that make sense?

So I accept that. The difference is though we have - it is a long term play. We're here for the long term. Being in the business of helping somebody buy and own home is core to what we do. So we have to be in this business. We just have to do it differently.

So we're in this transition period of how do we maintain an offering that's relevant and reasonable in terms of shareholder returns for today while we transition to a different future and in shorthand a lower cost, more flexible, more engaging platform, which is what we - our ambition in Plus.

Plus isn't just about taking out cost. It's also to be a more engaging platform so we generate less churn, et cetera. We are in this difficult piece. We've got to stay in the game today. We're not prepared to give up just because it's hard. We've got to stay in while we disproportionately invest in building for a better future. So that's the bigger picture strategy and I can tell we spent a lot of time on that and again this week with our Board, just making sure we get that balance right.

I've had the benefit of not just being the CEO, but obviously sitting on the Boards and I sit on the Board in New Zealand, I would say - so I've got some greater insight there. I would say that actually Australia today is more competitive than New Zealand.

If you stand back and think about over a longer period of time, it was fair to say New Zealand typically has been more competitive than Australia. If you asked me over the last five years, I would say again, on average New Zealand is a more hotly competed market. Not entirely sure why that is.

It's obviously smaller, the same number of players. Difference is we're the larger bank over there, but typically that has changed. So they're both more competitive than they used to be but Australia has become far more competitive as we've gone through this rate increasing cycle in particular.

So hopefully that answers your question. The other thing is the difference, as you know - sorry, Richard, but obviously the source slightly different because of the propensity for variable rate in Australia and high degree of propensity for fixed rate in New Zealand. So slightly different levers there. Anyway, go ahead with your follow up.

Richard Wiles: (Morgan Stanley, Analyst) Well, I was going to ask mortgages versus deposits.

Shayne Elliott: Yes, good.

Richard Wiles: (Morgan Stanley, Analyst) You get a lot of questions on mortgages, but if anyone's paying attention, CBA moved their goal saver in February by 75 bps. TD rates went up massively in March. That's Australia. Is deposits more competitive than mortgages or getting that way?

Shayne Elliott: Again, good question. I think it's partly to do with the rate rising cycle and where we were and thinking about the Bank's funding positions and trying to think through how you deal into that higher rate environment.

Clearly early on the competition was very, very intense and maintains to be in home loans. If you were asking me at the margin and deposits, less so because remember after Covid, most of us were massively overfunded, if you will, in the sense that we had lots - customers had tucked away money, both retail and small business in the Banks and our savings deposits and transaction accounts were the highest they've ever been. That's continued to be the case. So actually we didn't need to compete very hard on deposits. We had lots of deposits, more than at any time before.

As we've moved through the cycle and come through into this quarter, that's starting to change. As rates are rising and system growth is being a little bit more robust than people may have predicted the industry is scrambling a little bit to get more competitive on deposits to help fund our balance sheet growth.

So right at the moment if you asked me to call it, I think it would be a close call, but you'd say deposits is where the action is today. They're both more competitive but it's probably at the margin starting to be more competitive in deposits. So that's in Australia.

New Zealand is slightly different. The funding mix is a little bit different to New Zealand. So I don't know that I would be as aggressive in the differentiation. I think they're both competitive in New Zealand but here you've seen more of an aggressive switch towards deposit pricing to your point. It's been pretty apparent and above the line for a couple of months. I would imagine that that will continue.

Things like the TFF here…

Farhan Faruqui: Exacerbates…

Shayne Elliott: …that exacerbates it. Now that - we weren't a big user of that, but in the system - when that gets removed that all has to get replaced really quickly. A lot of that - the first port of call will be to try harder on deposits.

Richard Wiles: (Morgan Stanley, Analyst) Thank you. Can I ask a question on ANZ Plus?

Shayne Elliott: Sure.

Richard Wiles: (Morgan Stanley, Analyst) Slide 76 you've got $176 billion of Australian retail deposits. You've told us today that $5 billion was in ANZ Plus at March. I think it's maybe $6 billion now. ANZ Plus has higher savings account rates. But the old ANZ brand actually has a lower rate on the Reward Saver or the Bonus Saver than the other major banks.

So in the short term, is that actually protecting your margin? Because the vast, vast majority of your savings accounts at the moment are with old ANZ, where your rates are a little lower. Is that helpful in the short term?

Shayne Elliott: A little bit. In the scheme of things it's not that big. I mean let's not forget - so again we're talking - ANZ Plus is $6 billion. You would expect us to have a hero product there. We want people to move to ANZ Plus. We want our customers and new to Bank customers - and let's not forget, what's really exciting is, in flow terms about 40% of applicants on any given day now are new to Bank. So we want it to be attractive.

I'll do my advertorial. There's no conditions. It's not one of those ones where you have to do so many transactions or keep a certain balance or anything like that. So it's really clean and simple. That's the proposition, so we want that.

You're right. That means that if that's our hero product perhaps we don't need to be quite as sharp on things like Progress Saver and others. But what we're doing is we're talking to our Progress Savers customers and saying, you should move. We want you to move. Okay that probably gives us a little bit of benefit. But I would say when you do the maths it's not terribly material. I mean even Progress Saver for us is not a huge driver of deposits. You're talking tens of billions, certainly not much more than that.

Richard Wiles: (Morgan Stanley, Analyst) But if that means you're getting a 45 basis point or 50 basis point benefit relative to your competitors on tens of billions of dollars of funding, it sounds like it's pretty helpful.

Shayne Elliott: Well - low tens though. We're talking about - call it $20 billion. We're not talking about $50 billion. These are - that is a small benefit in the scheme of things, sure. But on the other hand, you could turn around and say but hey Shayne you're paying out 4.5% on the $6 billion you've got in Plus. So that's high. So it's kind of swings and roundabouts there a little bit.

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

Shayne Elliott: Thanks.

Operator: Thank you. Your next question comes from Andrew Triggs from JP Morgan. Please go ahead.

Andrew Triggs: (JP Morgan, Analyst) Thank you. The first question please, perhaps for Farhan. Just zeroing in on that deposit pricing and wholesale funding piece within the NIM walk. Could I just clarify maybe some of your earlier comments Farhan? Are you suggesting that perhaps - your suggestion is that it's not likely to be a headwind into the second half?

Farhan Faruqui: Thanks Andrew. Just to clarify, what is not going to be a headwind? You mean margin?

Andrew Triggs: (JP Morgan, Analyst) Yes, a margin headwind from that deposit pricing and wholesale funding piece.

Farhan Faruqui: I don't think - as I said earlier, Andrew, there are multiple markets and types of products. They have different impacts. So yes overall there's no question that there is more pressure on deposit margins. But they're not all playing out in the same way as for example what you're seeing in Australian retail as Shayne just talked about. There are different outcomes in terms of what's happening in Institutional or in International or in our corporate mix and Commercial, et cetera.

So I think there is broader pressure and headwinds in terms of deposit margins. But I think it's really a question of who has more optionality in terms of moderating that impact. Certainly from a wholesale perspective, the wholesale impact is actually really a modest increase. We haven't really seen spreads and cost blowout tremendously.

So that's not going to be a huge difference half on half. But I think certainly on customer deposits, timing and scale of the impacts will be different. Certainly how the rate cycle plays out is also going to be impactful to that.

Andrew Triggs: (JP Morgan, Analyst) Okay. If we look at how that part of the margin walk has performed over the last two halves, it would probably be fair to say that you've had better deposit rate leverage than you first thought. You're not worried at all that some of that or much of that will reverse over the next few halves as deposit competition increases? I appreciate you might be a better position to manage that given the diversity of your funding sources?

Farhan Faruqui: Sure. I think some of that has - some of the deposit [bidders] have gone up from one year ago. There's no question that there are higher deposit bidders today. But I think it's really a question of two things, (1) how we're managing that mix as best as we can, but secondly also the fact that we do get probably a slightly higher benefit Andrew in terms of the fact that we have more operational deposits if you like, particularly in our Institutional business and our Commercial business.

That's always helpful to manage some of that headwind in terms of higher deposit bidders as well. These [are both rate and sensitive] deposits.

Shayne Elliott: I [already said in my] - it's not really to your question Andrew - but just some more generic - because it's really great that we're getting questions about deposits because that's not something we normally talk about at results. But you're right, it's on the money. I think the really interesting thing here is what we're saying is Australian banking is changing. The fundamentals of it are changing just like we've seen in Institutional.

The question really is what are we doing about it? What we're doing about it is what we did in Institutional. We've basically have restructured that business to be more ready and more successful. So we've flipped it from a lending first business to a processing first business. That requires a different proposition, different technology, et cetera. It's only the beginning. We're beginning to see that come through in this result here. It's really, really great to see.

We've got to do the same thing in Australian retail. We could see this coming a while - not at this speed. We didn't predict exactly where we are today. But we knew it was going to get harder. As one of the smaller banks we just said, we have to be different. So that was the whole impetus of the investment about Plus.

What is Plus about? Lower cost - radically lower cost - much lower cost, and (2) more engaging. It gives us the ability to engage customers to grab those deposits and hold onto them for longer and that's precisely what we're doing. What we need to do is have an equivalent strategy - I mean Commercial is one of our great gatherers of deposits today.

Part of our strategy with Worldline was to expand that to - again to invest in even better propositions. Boy we've got still a lot of opportunity in Commercial to expand our deposit gathering strength from what it is today and beyond.

So to me it's important to take the context of what we're doing about it for the long term. Anyway, next question I guess.

Andrew Triggs: (JP Morgan, Analyst) Thank Shayne. The second question was just around - you mentioned the thing with the highest ROE in Institutional for 15 years. Can I press on and ask what you think the ROE was on a fully allocated basis in the half?

Shayne Elliott: So it would be - you're talking in the mid-teens - at the lower end of the mid-teens. So you might remember - I know you will, but many of you on the call - we had said over time - and again putting aside capital changes and rules and all that sort of stuff - we kind of said, hey we wanted to be sustainably above the cost of capital.

In those days we were using 10% of our - as the cost of capital - out published numbers are a little bit lower than that today - but call it 10%. We wanted to be a couple of per cent higher than that through the cycle. But we're well above that in this half. So hopefully you can read up through that to see...

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

Shayne Elliott: I think that is - in putting in - that is a sustainable number. It won't be every single half. There will be things that move around. But this was not the benefit, oh we got lucky on something or there was some one-off somewhere or something. This is a sustainable - the really important thing - 15 years is kind of an important time for us because that's when I used to run Insto. So it only got better since I left. There's a lesson there.

But anyway I think the important thing is not - again the overall was really good and every geography was a strong contributor to that. That - there were no laggards being dragged up. So all of the geographies contributed in their own way.

Andrew Triggs: (JP Morgan, Analyst) Great, thank you.

Operator: Thank you. Your next question comes from Carlos Cacho from Jarden. Please go ahead.

Carlos Cacho: (Jarden, Analyst) Thanks for the chance to ask a few questions. Firstly I just wanted to see if you could give us any more details around that back book discounting you mentioned. The slide showed a 6 basis point drag from Aussie Home Lending. Is there any split on how much of that has been front book versus back book competition?

Farhan Faruqui: Yes sure, Carlos, thanks for that question. So it's about - of the 6 basis points, about 3.5 basis points is back book repricing and the balance is front book.

Carlos Cacho: (Jarden, Analyst) Thank you very much for that detail. Secondly I just wanted to dig into deposits a bit more. Again kind of on that business deposit side. Clearly business at-call deposits have been a major tailwind. I was just wondering if there's any building pressure. You know, we kind of all have become accustomed to the idea that transaction accounts offer zero rates.

But is there any pressure starting to build or discussions with the large clients about the potential to actually have an interest rate on some of those? I mean we've seen some of these pressures building in the US where I think more large-scale depositors are looking for better returns. Obviously there's an outside option in the US, the money market funds that we don't have here. But is there any concern that those at-call operational deposits might start having rates go up as we adapt to higher rates for longer?

Shayne Elliott: Great. I don't know if it's a concern. It's the reality. It's going to happen. So I think again we have to differentiate between when we talk business broadly, if it's institutional, big end of town, we already do that. So we already will pay for transactional balances. We do that on a contractual basis. The good thing though about that is - it's really sticky right? These are not companies deciding on the day what's ANZ's rate versus DBS or Citi or Westpac or whatever.

These are integrated cash management platforms. We are plugged into their ERP systems, running their payments, et cetera. As part of that, there's a contractual level in terms of what fees we charge, what rates we pay, et cetera. That's why I mentioned in there the longevity of that business.

I mean easily - history shows, and it's always a bit difficult because - you generate - if you continue to invest in that, you're talking about relationships of 10, 20 year plus. So those are very, very good. But that's already the case. You have to pay for those deposits.

In business in the smaller end of town it's slightly different. I think that will become a feature more over time. It's not today. There's a little bit of a mix. The difference there is again when you're banking a small business you are their only bank typically. So again they're very dependent on you to get paid, make their own payments, et cetera. So it's about the service model.

That's why merchant acquiring is so important for us, the Worldline agreement is so critical to that. Of course we have to be fair and reasonable. I imagine that there will be a move over time to have to pay more for that. When rates are zero obviously it doesn't pay a lot of attention.

But as rates rise and we - as you heard we imagine rates will be higher for longer - I think that will become a feature. But we're in a really good position to manage through that because we've got great relationships and part of our proposition is, as I said, to actually build loyalty. Price is important but it won't be the leading proposition of what we do.

Carlos Cacho: (Jarden, Analyst) Great, thank you.

Operator: Thank you. Your next question comes from Ed Henning from CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Thanks for taking my questions. A couple from me. Historically you've talked about managing for growth over cost. Can you just talk about productivity gains coming through your cost line given your investment, how we should think about the cost growth over the medium term, as the first one please?

Shayne Elliott: I'll get Farhan to talk to the detail. While he's just preparing - our industry, look it's great. We are here today reporting a record result. We're proud of that. That's a good thing. It's come after a lot of hard work. But the reality is when you look at it for every dollar of shareholders' funds the amount of profit we're producing hasn't materially changed. In fact it's gone up a little bit over the last two years. But it's still a lot lower than we used to in the past.

Similarly, for every dollar that we spend the amount of revenue we generate, it still hasn't materially changed. So in terms of productivity, we've got bigger. That's good. We're generating better returns and all those sorts of things. But there's still a lot of work to do to be fundamentally better. That comes down to productivity.

Look, we're the first to accept that what we do today is still far too manual. There's not enough straight through. There's not enough digitisation. I mean that's the big vision we have for things like Plus and some of the other investments we're doing across the Group. So we get it. We get the whole productivity need.

As a legacy Bank - that's what we are - we're not a start-up - as a legacy Bank it's hard. Because you're kind of built in and you've got all this sort of fixed infrastructure. We mentioned in there - again these are little things - but we mentioned in there, we sold our Australian data centres.

We've already moved 35% of our applications to the cloud. But the next step is - so we've sold our data centres. That's part of a longer term strategy again to migrate more technology to cloud providers, to reduce the cost, improve the service levels. It's all part of a longer term strategy around productivity which in our view is going to become even more important.

At the end of the day 70% of our cost is paying salaries and wages. So we are suffering from the same pressures that our customers are in terms of inflation, wages, et cetera. We want to pay our people fairly. But we don't have the ability to just pass those on. So we're one of those businesses that has to absorb that. The only way to do that is through productivity.

But do you want to talk a little bit more in detail?

Farhan Faruqui: I think it'll be hard to find more detail Ed. But let me try and add to that. I think Shayne has covered it. When we look at our - I'll just make two or three key points. Firstly our regulatory spend, because of the completion of BS11 has reduced, which means that we can now continue to make sure that we allocate more towards productivity investments in order to get that longer term productivity outcome.

Some of those are shorter term in terms of what you can get, things that we are doing around automation and some of the things that we've done around property and so on and so forth. But some of them are going to take time to play out.

Other than ANZ Plus, the other one that Shayne mentioned earlier, today was the fact that we want to try and harmonise our business services and make sure that we have less duplication. That requires us to then invest in terms of ensuring that we can create that benefit as we move on to less duplicative platforms if you like.

So there is a path to travel here. We've been - our investment focus has very much been to drive that outcome. That's going to continue as we go forward. Of course we want to continue to make sure that we drive more things like more self-service, et cetera, like ANZ Plus is delivering.

In Institutional there's a lot of work happening around harmonising the various platforms that we provide to our customers across our geographies to try and narrow that down to a single, if you like, spine of platform, et cetera to improve customer experience but also to drive cost down.

So there's a lot of these efforts that are currently ongoing. We are going to continue to make sure we, if anything, turbocharge them more as we look forward into the environment that we're facing into.

Ed Henning: (CLSA, Analyst) Just on that, if you think about the timing of it, it sounds like you've got a lot of investment to do in the current environment notwithstanding you've obviously rolled off BS11. So the productivity gains that we're going to see come through the cost base, is this more a medium term thing as opposed to a 2024 thing potentially, to see significant benefits come through?

Farhan Faruqui: Sorry maybe I should just clarify Ed. My point was that we are continuing to invest and we're looking to get benefits over the course. We are expecting to get substantial productivity benefits in 2024 as well on investments that we've been making over the last couple of years.

My point was that the BS11 just gives us a little bit more room in terms of continuing to make those investments as we go forward to create outcomes not only for 2024 but for then the years that come after. So it is a longer term plan. This is not about managing it through a short inflationary cycle. This is about just making ourselves a much more - better, efficient, lower cost to serve Bank overall.

Ed Henning: (CLSA, Analyst) Nice, thank you. Then just a second one on the Institutional business and markets. You talked again today about having a sustainable elevated ROE in Institutional. If you look at Slide 30 you talked about favourable market conditions. I'm just interested in how much of those favourable market conditions helps the Institutional ROE.

Can you just break down if you look at the chart on the right hand side of the four components, the outlook you're currently seeing in each market and the volumes. Do you anticipate markets to come back sharply in the near term before it goes back to a long term average?

Shayne Elliott: I can answer that. So markets - it's an interesting question - markets in and of itself - if it was just completely an isolated business - it's not. Because this markets business is serving those same customers that we talked about in our FIG business and our corporate finance business, et cetera. So it's not.

But if - if you just thought of it on its own, it's actually not an accretive business for Institutional. So i.e., the returns in markets generally are at the average or below. So it does not - again it depends on the mix. But as in generally over time. So that's the first point but it clearly has other value in terms of long-term customer relationship et cetera.

If you look at the relative merits of those businesses in that stack, more - pretty much more or less, the ones that - it's almost in stack rank of at the bottom is the most attractive from returns to the least attractive at the top. Now, and again, they're not four separate businesses because they - because the customer is doing all of those things and it's part of the sort of a universal Market's service proposition.

But if you could - and again, it's just - this is just hypothetical to be able to answer your question. If you could - and Mark and I talk about this a lot. If you could just say, hey, we're just running this for returns, you would just want to do the FX bit. The FX bit is the highest return, why? Because it looks a lot like currency - it looks a lot like payments processing. High volume, short term, low risk. You're clipping the ticket, it's got massive scale advantage. It's all digital.

You know, the old days of having people on telephones doing bid offers and all that is all gone. It's a technology play. Great ROE, yes? Because it's capital light and as you progress up the stack, it gets more complicated but that's not a reasonable option because you - then you can't really be a one trick pony in this business.

So in terms of the outlook, what we're saying is, hey, when that business generates what it did in this half, which - you know, like it's a good half. $1.15 billion, that's good. It's a little bit better than average over time but it's not a stellar half. It's not like they knocked the ball out of the park and again, no disrespect to business, [they did] a great job but we've had better halves in the past. This is just a solid business and really importantly, on the left, it's all been driven by customer franchise. I.e., it's volume. Customers doing more with us.

So when it produces at that level, it's a good business. When it produces as it has over the '22, it struggles a little bit in terms of return because you know, it's got a reasonable cost base to do. So it - hopefully that has answered your question. Now, going forward, was we've told you, we resource the business, capital, technology, spending, people, to produce about $2 billion a year. Yes? Preferably highly - obviously highly skewed towards that customer franchise.

There will be times, based on market conditions, we will do a little bit better. There will be times when it does a little bit worse but at that one - at that $2 billion a year, we know that that's a decent return. That it's more or less at the - depending on the mix, should be able to produce decent returns at the Institutional average but mix matters a lot. Hopefully - did that answer your question?

Ed Henning: (CLSA, Analyst) [At our] current market conditions.

Shayne Elliott: Yes.

Ed Henning: (CLSA, Analyst) It does and are current market conditions still buoyant?

Shayne Elliott: Yes, so I tell you…

Ed Henning: (CLSA, Analyst) Obviously they were very favourable in the first half.

Shayne Elliott: Yes.

Ed Henning: (CLSA, Analyst) I'm just trying to figure out, are they getting materially worse or more benign?

Shayne Elliott: No, they're not getting materially worse at this point. I mean it's always - it's hard to predict where the future is but the reality is that what you're seeing here is - again, what's the driver here? The driver is, are customers incented to do something? To - and so that is driven by underlying things like trade volumes, moving goods and capital around the region. If I'm moving goods, I have to convert the currency. I have to blah, blah, blah.

Capital investment, if I'm investing in plants and projects, I need to hedge in - I need to go and raise debt, hedge it, all that sort of stuff and obviously the commodities business. So just general activity in the economy. The reality is, where nominal GDP is strong and that's what you're seeing, that is supportive for this business. That means activity and - so that's one driver.

The second driver is really importantly, is to some degree, is uncertainty. If customers have perfect ability to predict where currencies are going and interest rates are going, et cetera, that reduces the demand for hedging. When period's uncertain, customers are more inclined to hedge. So what you want is lots of volume, lots of investment, lots of trade volumes, nominal GPD growth and a little bit of uncertainty about the future. That's kind of your - and I think that's precisely where we sit today.

So I wouldn't be - I'm not predict - I am not giving you a forward - I am not going to give you guidance to say it'll repeat the first half but there's nothing in the environment we see today that suggests anything is changing. If anything, you know, the global turmoil in banks and financials in the US, it sort of adds to that a little bit. That little bit of uncertainty. It just tends to drive a little bit more hedging behaviour.

Ed Henning: (CLSA, Analyst) No, that's very helpful. 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) Yes, thank you very much. If I could just ask one question on the Suncorp deal? You've noted in the news release you're making progress on the application. Was there any update or feedback from the ACCC submissions which were due on 18 April?

Shayne Elliott: Nothing formal. So what happened, we put in our application, they made their preliminary views. Since then, there's been - some of us have got - we have to do formal witness statements et cetera for - in-person. That's all happened. We are preparing our response now to their - so they put out their preliminary views, we get a chance to respond and that's what we're preparing at the moment.

So it's sort of literally going through the motions. I can't remember when that's due. It's literally due in the next week or so. We will put in a supplementary submission to answer some of the questions that they raised in their preliminary views but it's all sort of going as you would expect.

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

Operator: Thank you. Your last question comes from Victor German from Macquarie. Please, go ahead.

Victor German: (Macquarie, Analyst) Thank you. Question on costs. We - just to be able to assess the cost performance, would you be able to - and I apologise if I just missed it but would you be able to tell us what the investment spend was and how much of that was expensed?

Farhan Faruqui: Yes, hi, Victor. Thank you. Thanks for that question. Look, I think we've - so just wanted to first say that we have, as we indicated at the end of last half, are moving a bit more towards a total expense conversation rather than the mix between investment and run-the-Bank costs. I think the reason for that, Victor, is not to try and obfuscate the cost in investment but the fact is that as more of our longer-term investments start to convert into regular run-the-Bank type of environment such as part of ANZ Plus for example is on an operational basis rather than just a project basis, the mix between investment and run-the-Bank starts to become a bit more blurred.

So we didn't want to separate the two, we just want - and by the way, the same applies to Cloud and things like that as well. So it was designed to make sure that we keep as much as possible a total expense view because that's ultimately what is going to matter in terms of delivering returns to our shareholders.

Now, for the half, there is no question that we had a lower investment spend than we had in the previous half and that, as I mentioned earlier, was driven largely by the fact that we ran off the BS11 expense that we had in the previous half and that we continued to prioritise investment. There's also seasonality element in that, Victor, because you have - you know, projects start to ramp up in the first half and then they - you know, you get the full impact in the second half. So we saw some of that benefit as well in the first half as well.

So the answer is yes, it was down from last half and - but you know, we continued to expense it at 85%. We continue to make sure we keep it focussed on the projects that matter but there's part of that cost has now become run-the-Bank costs because those projects are now converting into operational cost base, if you like. Does that help you understand, Victor? Because…

Victor German: (Macquarie, Analyst) Yes, I guess - and we've had these sort of discussions in the past but you know, one of the things that sort of differentiated you to many of your peers was that your investment spend was fairly high and you actually expensed a very large portion of it. I'm just wondering whether part of the 5% cost guidance is partially reflecting the fact that you were perhaps investing a little bit less and maybe you're not amortising as much.

Shayne Elliott: Can I answer?

Farhan Faruqui: Sure.

Shayne Elliott: Can I - that's a great - it is a fair question. I think the outcome is that technically we will be investing a little bit less but it's not because we have less aspiration for the future, it's because a bunch of the stuff we had to do, even the stuff we didn't want to do, has fallen away. So you know, the obvious being BS11. So call it investment, whatever. Of course we had to invest in it and that's just an example.

So the number - some of those things are falling away which is really good because it gives us capacity to do that but it's not like we've sat here and said, let's reduce our ambition for transformation in the Bank and spend less. That's not the message you should take away from this. We need to continue to invest in that transformation so our aspiration hasn't changed but some of the more required investment on things - not all of it. There's still a significant amount of it, that's come down a little bit.

Farhan Faruqui: Yes and Victor, I'll point you to - as I'm sure you've seen already, slide 71, which gives a little bit more around the composition and to the point that Shayne and I were making that the real impact has actually come from the fact that regulatory spend has gone down from being 40% of last half to 30% this half. Equally, you've seen our productivity and growth components of the spend actually increasing in this half over last half.

So it's just been the benefit of some of that stuff coming off like BS11 but it certainly does not mean that the aspiration is lower. By the way, I think our investment spend is still - certainly relative to our peers, amongst the highest.

Victor German: (Macquarie, Analyst) Yes, [it's just obviously] percentages are not as concrete as dollars but understand. The second question, if I may? Just to sort of wrap up, there's been a lot of discussion on margins and I completely understand the business mix benefits that you're hoping to see.

Certainly if we look at slide 29, for example, when we look at your Group NIM, it feels like it's nowhere as elevated as it appears your peers would have and there appears to be a lot of room for improvement but then, at the same time, if I look at your risk adjusted margins, it actually has improved a lot.

I'm just wondering, to what extent perhaps this ability to extract additional margin benefits are maybe overstated as a result of you de-risking the book over this year's and your margins are not actually as low as it may appear from a headline perspective.

Farhan Faruqui: Well I mean - so look, I think - there's two - I guess there are two points here, Victor. One is what is sort of our thinking around managing net interest margin and the other question, I guess that you're asking, is that - is that risk adjusted margin expansion really more of a function of de-risking rather than it is of margin management. Is that - am I reading that correctly, Victor?

Victor German: (Macquarie, Analyst) Yes, I guess yes, to what extent do you think there is an opportunity to improve, for example, your returns in Institutional Bank given that perhaps they're not as bad as what we thought before…

Farhan Faruqui: Yes, sure.

Victor German: (Macquarie, Analyst) …given that you de-risked the Bank and actually, they're already at a reasonably attractive levels anyway.

Shayne Elliott: Yes, I'll give you an example. You're right. I mean I think - so de-risking is too simplistic a term. We've changed the Institutional Bank and I'll just give you an example today. So I think there is absolutely opportunity and it won't be plain sailing. We talked about the fact that as a result of some of the turmoil in the US and some of the regionals, we've won some cash management mandate. Let's just give you an example of that without giving any names or anything.

So we ran four mandates where global, financial institutions that we already bank, people we already know, have decided they didn't want to bank with those affected US regionals anymore and they've brought their business to ANZ. That business will be, we'd pick a number, in excess of $10 million a year in revenue for us for those mandates. The marginal cost of that is close to zero. The capital allocation to support that business is zero.

That kind of stuff is massively accretive to revenue. Doesn't change our risk profile. Not in any material - there's operational risk that comes with it and hugely accretive in terms of returns. So that's the sort of stuff. That's how we get our risk adjusted margins up and I think that's - that's really the secret sauce within Institutional today. What we've said is that's precisely - we also have that exact same situation in Commercial where its' the business mix that is driving the risk adjusted margin benefit.

I just - you know and I - so there is potential to do better but it's not something we can say half-on-half-on-half we'll continue to rise, right? Because there's a lot of - as you know better than anybody, Victor, there's lots of moving parts in this. All we've been trying to say here is, I understand the market's obsession about margin, we get it. It's an important indicator but we really do want to go to that next level to really look at that risk adjusted margin.

Farhan Faruqui: Yes and look, I mean Victor, I think there - as I mentioned earlier, there is no question that - and we have talked about this before as well, Victor, that ultimately rate rises, the margin benefits that come from it tend to get competed away. So we're not suggesting that there is a - that we are immune to that pressure. We are also not saying that there is likely that there is a reversion in the sector around where the margins are heading.

I think our perspective is that (a) because of the investments we've made and our ability to generate quality margins in terms of risk adjusted margins is higher today than it was 10 years ago, for example. Our ability to allocate capital across our various businesses, all of whom are performing well and are now in much better shape going into this environment is higher than certainly in some of our peers.

I think that our ability also to continue to derive margin benefits in terms of being much better in terms of day-to-day margin management and dynamic allocation is much better given the data improvements that we've had, et cetera.

So I think there is a lot of benefits. That doesn't mean that the overall environment is anything - is any different for us than it is for everyone else. We just have to be better in terms of managing through it.

Shayne Elliott: Good way to finish.

Victor German: (Macquarie, Analyst) Okay. Thank you. Thank you, gentlemen.

Jill Campbell: Thanks, Victor and thanks everyone, I - as I said, I appreciate it's a long day for all of you. So that's the end of Q&A. If there was anything we didn't get to, the IR team is here, obviously, so please feel free to ring and we'll deal with those questions as you call us. Other than that, thank you everyone and have a good afternoon.

Shayne Elliott: Thank you.

Farhan Faruqui: Thank you.

End of Transcript