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Jill Campbell: Good morning, everyone, thanks for joining us. I am Jill Campbell, ANZ's Head of Investor Relations. You are joining us for the presentation of our Full Year 2023 Results being presented from ANZ's offices in Melbourne on the lands of the Wurundjeri people. On behalf of the ANZ team speaking today, I pay my respects to Elders, past and present, and I extend those respects to any Aboriginal and Torres Strait Islander people joining us for today's presentation.

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

Our CEO, Shayne Elliott, and CFO, Farhan Faruqui, will present for around 35 minutes, or so, after which, I will go over the procedure for Q&A, before moving to questions themselves. But ahead of that, a reminder that if you do want to ask a question, you need to do that via the phone, and with that, I will hand to Shayne.

Shayne Elliott: Hey, thanks, Jill. Today our focus is on financial results, and we will be discussing assets, liabilities and economic data, but behind those are people, families, and businesses, and I want to acknowledge those in the community struggling with inflation and higher interest rates, particularly those with less secure employment, lower incomes, and renters, many of whom are disproportionately younger.

Our savings tools in ANZ Plus, and our Saver Plus program, plus our support for Build to Rent and other entry level housing programs, are helping, but more needs to be done. Thankfully for those with existing loans, even first home buyers, the number of customers experiencing financial stress remains modest by historic standards, but for each one this will be highly distressing.

Now, it is highly likely we will be called on to provide more support in the coming year and we are ready and able to do so. On the global stage we remain deeply troubled by the ongoing conflict in Ukraine, and now the tragedy unfolding in the Middle East. These events are profoundly distressing for many in our community, including our own people, and we are doing what we can to support them.

Now, last year, we described our ’22 Result as one of the best, and 2023 is undoubtedly our best ever. On a cash basis, revenue increased 13% and profit 14% versus last year, both to all-time highs. Given the seasonality in our business mix and the impact of rate rises, the first half was stronger. However, on its own, the second half was an outstanding result, demonstrating the underlying strength of our franchise.

Importantly, we continued to invest building a better Bank to deliver long-term growth with sustainable returns. An 83% of that investment was expensed during the year exhibiting discipline and accountability. Our balance sheet is strong, provisions for potential credit losses remain high, and Common Equity Tier 1 sits at 13.3%.

Net tangible assets per share is the highest on record at $21.78 and return on equity increased 54 basis points to 10.9% for the year. Now, setting aside the capital retained to purchase Suncorp Bank, underlying return on equity was 11.7%. Each division contributed with good quality volume growth managing both risk adjusted margins and expense as well, demonstrating the benefits of a simpler better balance portfolio and an experienced team.

Now, it is pleasing to see that all divisions delivered a return on equity sustainably above cost of capital, and reflecting that strength the Board announced a dividend of 81 cents and an additional one-off dividend of 13 cents per share. The proposed total final dividend is therefore 94 cents and will be partially franked at 56%, and Farhan will walk through the details.

Now, we entered the new financial year well positioned for the environment. A strong balance sheet, targeted momentum, diversified growth options, benefitting from consistent and deliberate investment. In our home markets, customers are finding conditions more difficult, and last week’s rate hike by the RBA will be difficult for many.

Customers are being forced to make tough choices, but overwhelmingly, they remain financially robust. As of today, hardship levels remain low, but that is not to diminish the stress felt by those increasingly on the edge. As I said, it is likely that more will need our help, and we have the capacity to assist those in need without impacting our ability to support growth, business investment and job creation through prudent lending, that is the benefit of a stronger and simpler Bank.

Now, a year ago I shared priorities for 2023 and we did what we said we would do. We grew Commercial New Zealand and Institutional particularly around sustainability and payments, underpinning long-term competitive advantage for ANZ. We delivered on productivity despite higher inflation. At the same time, we continued to invest in our ANZ Plus business which delivered above expectations.

Shareholders overwhelmingly supported our Non-Operating Holding Company structure, which will provide greater flexibility to better service customers, and finally, we remain confident that we will receive approval for the acquisition of Suncorp Bank and are well prepared for integration to deliver benefits to customers and shareholders.

Now, in Australian retail, we increased home loan processing capacity which enabled consistent turnaround times despite higher volumes. Coupled with ongoing digitisation for deposit account opening, we generated high quality Retail balance sheet growth. The build of ANZ Plus continues at pace, now a fully-fledged business line within Australian Retail.

Since launching a little over 18 months ago, Plus has welcomed over 500,000 customers, and $10 billion in deposits. More than we had targeted, and a little less than half of those currently joining are new to ANZ, higher than last year, with average balances increasing. Importantly, Plus operates at a marginal acquisition cost 40% lower than our Classic business, with variable servicing costs 20% lower, and falling further as we grow.

Plus is the fastest growing, most contemporary major Bank offering for retail savers, and last week we quietly launched the Plus Home Loan, dramatically reducing the time and cost of assessment, approval, and settlement.

Last year, we created as stand-alone Commercial business and it has solidified its position as our highest returning division. We focused on the basics, existing non-core high risk propositions like margin lending and broker originated asset finance. The reduction in revenue was more than offset by growing our core business which improved risk adjusted margins and returns.

Commercial lending grew strongly, and deposits, which are nearly twice as large, also grew showing the underlying resilience of our SME customer base. It was pleasing to see strong momentum in our digital platform, GoBiz, where drawn lending consistently grew 10% to 20% month on month. Like Plus, GoBiz operates at a much lower cost, while delivering greater responsiveness and speed to decision for customers.

New Zealand is a story of quality and resilience after years of consistent investment. Starting with the merger of our brands and systems in 2012, which is still delivering benefits through to the completion of the BS11 regulatory program, further increasing resilience. ANZ New Zealand is well diversified and well managed, and despite the tougher economic and regulatory environment, continues to deliver better outcomes for customers while generating decent consistent returns to shareholders.

Economically, many consider New Zealand to be a leading indicator for Australia given it is further ahead in the tightening cycle, and we agree. As the largest Bank in New Zealand, and with the most balanced portfolio of businesses, we get better data and insight than most.

I get to interrogate that as a member of the New Zealand Board, and we agree that while delinquencies have slowly risen, overall customers continue to manage the cost of living and challenges of higher rates well, and this reinforces the benefits of strong employment conditions, high savings buffers built during COVID, and prudent bank lending in recent years. We are optimistic that the new government will focus on much needed reform and help rebuild consumer and business confidence.

Institutional had an outstanding year. After years of disciplined execution, strengthening the balance sheet, and improving productivity and rebalancing the business, institutional generated the highest ever returns for shareholders, while supporting customers through the cycle. Revenue grew 26% year on year, profit before provisions 45% and cash profit 53%. These are impressive results.

For the first time, each of its business lines, Transaction Banking, Markets and Corporate Finance generated revenues above $2 billion with Transaction Banking growing 47% to an all-time high of $2.3 billion. Institutional is a diverse well-balanced business delivering decent consistent returns. That transformation has largely been driven by our payments and currency processing businesses which are low capital, high return, with high barriers to entry.

While built for institutional, these platforms are increasingly servicing other ANZ customers, leveraging scale and bringing top end capability to a broader audience. For example, Transactive Global which is used by the world's leading multinationals and financial institutions, and rated number one by users, is now available to our medium sized businesses within the Commercial Bank. Over 60% of Transactive Global's users are Commercial Bank customers.

The scale of these platforms is impressive processing 13 billion data points a day. We process around 60% of Australia and New Zealand correspondent clearing payments and provide services to more than 90% of the world's globally systemic banks facilitating $164 trillion in payments in, out and around the markets in which we operate, and over the long run underlying transactional growth should outpace nominal GDP.

Now, on a PCP basis, payments initiated in customer systems were up 16%, real time payments 31%, and third-party deposit accounts opened by our customers for their customers, grew 25%. Collectively, these services drive revenue and positive deposit beta, helping Institutional deliver an ROE of 13%, double that reported in 2016. Even more pleasing, is the transformation of International which in seven years has come from a drag on the Group, with low single digit ROE, to an accretive 15% return.

Now, I have spoken today about the benefits of diversification, but hopefully you will notice consistent themes across our businesses, focusing on products and customers where we can add value, and askew towards processing related revenues, because they are low capital with high operating leverage, and they reward sector leading investment in technology and security.

With regards to security, we continue to invest keeping customers safer from criminals. Each month we block up to 3 million malicious emails, and 12 million attacks against our public facing web services. Recently, we ran a pilot using AI to identify and close suspected mule accounts linked to fraud, scams, money laundering, and other financial crimes. We introduced biometrics to identify payment anomalies and removed about 1,600 phishing or fraudulent websites impersonating ANZ and put in place measures to stop scammers impersonating ANZ in text messages.

We regularly deliver education campaigns through our Bank channels and I recently wrote to all customers in Australia to warn them of the dangers of scams and how to avoid them, but we recognise there is always more to do. ANZ Plus will soon roll out cutting edge features branded Scam Safe to provide even great security for customers.

Now, looking ahead, our job is to ensure we have the strength and agility to manage any environment. The outlook is certainly tougher. Geopolitical risks are rising with trade and capital flows changing faster than we have seen in some time. We are well positioned for these changes. Australians came into the cycle with virtually every mortgage having been assessed with a 300-basis point interest rate buffer and New Zealand was similar.

Now, most of that has been absorbed, but coupled with strong savings levels which at ANZ are still rising, higher income growth, particularly for those with home loans who are generally better off than average and house prices stabilising, household balance sheets remain in good shape, and the same can be said for most of our small business customers. However, housing affordability has increased as a policy focus with most Australian states announcing housing targets.

New housing requires significant material and labour, which are in short supply and competing with climate transition, so the cost of construction will likely rise as these targets, and higher immigration force more demand into the sector. Now, this should underpin house prices, which coupled with strong employment conditions, mean we are confident that we can cautiously grow home lending in a low-risk way, while maintaining decent returns.

Globally office property remains a sector at risk challenged by higher interest rates, working from home, and a preference for greener buildings. At ANZ we have the smallest commercial property exposure of our peers and are focused on highly rated diversified portfolios, managed by people we know well, with proven track records and financial flexibility. It remains a watch point for the sector, but we are alert and well positioned.

More broadly, the demand for resources globally is substantial across defence, infrastructure, housing and climate. In addition, there are shifts in global flows which are likely to have some permanence. The US economy has become an importer of foreign direct investment possibly due to the *Inflation Reduction Act* and efforts at reshoring. China has seen a slowdown in FDI, debt and demographics are changing China's growth dynamics. It is still an $18 trillion giant but growing more slowly and absorbing different resources.

These changes, plus global instabilities have forced a search for alternative manufacturing bases and areas to invest. India dominates given its enviable geopolitical position, and economic reforms, but others are also benefiting such as Singapore and Vietnam. Given these trends, our leading Institutional franchise built on long-term relationships, specialist skills and a unique regional network means we are at the heart of the resulting shift in trade and capital flows and are well placed to assist global customers who are leading transformation and grow with them.

Now, in more challenging times delivery excellence, and strategic consistency, and the ability to flex resources is critical, and today's Results are evidence of that, be it strategy, capital risk, productivity or our experienced team. We have held a steady hand over seven years, and structurally we find ourselves in the right place at the right time, off the back of years of investment and diligent execution.

Our priorities for the coming year build on that. We will continue to run the Group prudently, using our strength to support customers through challenging times and seek opportunity from our regional network. We will further improve productivity using tools like generative AI and process simplification to build further capacity for investment.

We will grow the number of customers using ANZ Plus particularly those new to ANZ and deepen their engagement whilst starting to migrate existing customers from ANZ Classic. We will invest more in Commercial, driving growth in chosen segments, and further enhance our sustainability, currency and payment platforms, and finally complete the acquisition of Suncorp Bank, delivering the benefits of superior technology and customer propositions to their 1.2 million customers.

Now, none of this is possible without the right people and culture. We have worked hard to develop teams with the right behaviours and skills needed to continue our transformation. We actively invest in employing engagement with our most recent score of 87% we are best in class for any industry anywhere in the world. Now, this may not sit on our balance sheet, but it is a real asset, and part of the reason we secured over 90% support for our recent enterprise bargaining agreement and won the award as best finance graduate program in Australia two years running.

Now standing back, the difference between Australian banks has never been more pronounced. ANZ led the way on simplification but has retained the most diversified and balanced set of divisions. Each of them has a strong sense of purpose, a clear strategy built on unique strengths and generates returns sustainably above cost of capital. Our Commercial Bank is deposit rich with significant growth opportunities.

While Institutional is more international and increasingly driven by payments and currency processing. Australian Retail is the smallest of our peers, but rapidly transforming to a digital first financial wellbeing proposition by growing our newest business ANZ Plus.

New Zealand led our simplification, allowing us to invest in better outcomes for the almost one in two kiwis that we serve, while generating reliable returns to shareholders.

On its own, New Zealand is arguably the most valuable banking franchise in Australasia. So today I'm confident our diversity is a strength. We're more fleet afoot and are putting the flexibility and diversification to good use.

Revenue growth will be harder to come by. So, while investing to deliver better customer outcomes, we'll increase focus on capital efficiency, risk management, and productivity.

I'm confident we have a fortress balance sheet, the right portfolio, and a proven team capable of managing through challenging times and making the tough calls.

And with that, I'll hand over to Farhan to talk through the result in more detail.

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

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

In the second half, we continued our strong expense management focus, delivering a flat half on half cost outcome on an ex LNI and constant currency basis. We continued our strong markets performance, with the second half delivering an on target outcome of about $1 billion, following from a strong first half.

On an ex markets basis, our second half revenues grew slightly and we exited the second half with improving momentum. In short, we delivered what we had promised.

Importantly, we delivered for our shareholders, with a total shareholder return of 16% over the last six months and 20% over the last 12 months. Our return on equity improved to 11.7% or over 100 basis points higher year on year when adjusted for the capital set aside for the Suncorp acquisition.

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

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

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

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

And while each business over the last five years has experienced different trends, the mix of our portfolio today provides impetus for growth. Before I speak briefly to each business, I will note that the capital allocated to the businesses on this slide does not include Group held capital, such as the capital set aside for the Suncorp Bank acquisition.

So starting with the Australia Retail which represents approximately a quarter of cash profits in Group capital. Our home loan balances grew $22 billion in FY23.

While the Australian mortgage market remains highly competitive, our focus over this period has been on significantly improving our processing capacity and consistency and enhancing our broker proposition. This gives us the ability to grow our mortgage book via non-price levers.

Australia Retail also grew other operating income by 5% year on year, in part, reflecting higher cards revenue. Shayne outlined the success thus far of the ANZ Plus business which has been a key contributor to new to Bank customer acquisition and deposit growth this year. Consequently, Australia Retail revenue grew 4% this year and profit before provisions expanded by 3%.

Our Australia Commercial business consumes less than 10% of Group capital while contributing around 20% of Group profit. Our Commercial customers account for a quarter of Group revenue, including their contribution to Retail and to Institutional.

It is a net funder to the Group, with approximately two times deposit to assets. The commercial division grew income 11% this year and had a 12% expansion in profit before provision.

We continue to invest in this business, positioning it for growth and with a view to becoming the Bank of choice for Australia's small and medium businesses.

The Institutional business has had an exception year with 26% growth in income. Adding $1.2 billion or 45% year on year increase in profit before provisions. This was also the first year where each major business line in Institutional delivered over $2 billion in revenue.

Institutional is a far less capital intensive business today, courtesy of seven years of investment to build out capability and capacity in capital light, high returning products and platforms.

As a result, it delivered over 40% of Group profit while utilising one third of Group capital and has doubled its ROE since 2016. The value of the Institutional division now lies in its ability to grow diversified and recurring avenue powered by our differentiated regional network.

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

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

Moving to shareholder outcomes. We have delivered strong results and have done this while balancing short and long term outcomes, investing for our future, and being disciplined on cost, risk, and capital management. This has contributed to our strongest ever EPS outcome this year at 270 cents per share, adjusting for capital set aside for the Suncorp Bank acquisition.

This would not have been possible had we not undertaken strategic and capital management actions over the last seven years which reduced our share count by 120 million shares prior to the Suncorp Bank related equity raise.

I'll talk to operating income performance now. A strong outcome, 13% increase in revenue year on year, with ANZ's business mix allowing us to deal effectively into a rapidly changing environment. This increase was driven by strong markets performance, higher volume across all four major businesses, and margin expansion. As I mentioned earlier, half on half revenue was slightly up on an ex markets basis, reflecting the diversified benefits of our portfolio.

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

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

Our Institutional and New Zealand business had more stable lending outcomes this year, reflecting softer credit demand. Importantly, we saw good balance sheet momentum in the latter part of the second half which positions us well going into FY24.

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

In the Retail and business portfolios, we continue to see a shift toward higher yielding lower margin term deposits and saving accounts, with the deposit mix now approaching pre-COVID levels.

Offset accounts, while up by $2 billion in the year, remain stable year on year at 15% of home loan balance. Payments in cash management deposits account for approximately 60% of Institutional deposits and average PCM deposit balances grew 5% year on year. And this reflects the quality of our Institutional customer franchise and contribution from our platform strategy.

As Shayne mentioned, our cash management and platform volumes have continued to increase, resulting in the doubling of revenue over two years.

While higher interest rates were supportive, it was largely the payoff from years of investment in technology that enabled this outcome. In my experience with institutional customers, they trust a Bank with their payments and cash management after a vigorous selection process and thereafter are loathed to move their provider.

We don’t take our customers' trust lightly and continue to execute well and invest in technology to enable stability and enhance functionality of the platforms.

Moving onto margins. Underlying Group NIM declined seven basis points in the second half, following a strong first half. Lending margins in Australia and New Zealand Retail contributed seven basis points decline half on half and reflects the competitive pressures across the sector.

As I mentioned, while competitive pressure was intense in the Australian mortgages space, we have continued to dynamically manage our settings for the business, factoring in capital requirements, funding costs, costs to serve, and credit quality.

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

This was offset by the continued mix shift to lower margin deposit products. The market's NIM compression was largely driven by business opportunities that lend themselves to accounting asymmetry.

Any NIM dilution in these businesses is more than offset in other operating income, producing return accretive outcomes. While the movements in asset and deposit margins are important, looking at margin outcomes visually and divisionally really highlights the benefits of diversification.

As you can see, the New Zealand geography and the rest of the world partially offset the margin impacts of Australia geography. While Australia Retail margins declined, there are two businesses that I would like to highlight in particular.

Our institutional business' second half margin ex markets was 2.36%. The highest margin outcome since 2016 and is reflective of our disciplined capital allocation choices.

This is evidenced by the fact that lending and deposit margins in institutional were both up half on half two basis points and five basis points respectively.

Our Australia Commercial business, where margins increased by an exceptional 60 basis points year on year and remained reasonably stable in the second half, following from a strong first half.

I'm also pleased with our ongoing improvement in risk adjusted margin trends. While the NIM decline does affect its trajectory, we have continued to demonstrate the risk discipline and have maintained a substantial risk adjusted return benefit.

As I have said before, this measure is very meaningful for us as it allows us to calibrate the return, we generate for the risk that we take.

While we are well positioned with our business mix, the environment ahead remains challenging and the factors affecting NIM remain similar to last half. Forecasting the exact timing and impact of these remains difficult but we are confident that the composition of our business continues to provide us with some resilience.

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

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

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

Moving to costs we have delivered to our guidance of 5% FY23 cost growth, excluding LNI, on a constant currency basis. Our second half '23 cost performance was strong, with cost growth flat, excluding LNI on a constant currency basis.

The growth in large and notable items in the second half was attributable to increased restructuring costs and the new government impost of compensation scheme of last resort.

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

Moving onto the key drivers of our cost movements. Like all businesses, we've had to navigate the heightened inflationary environment, affecting in particular our salary and third party vendor costs.

We have been considered in our approach to FTE management and made choices that balance our cost objectives and our workforce capability.

For example, in the context of rising third party vendor costs, we have made decisions to insource certain activities and ultimately reduced costs.

Our FTE increases in international locations have been partly in support of our growth in our international business, but also for building bench strength and intellectual property in critical skillsets for the future, such as digital and technology.

We have also continued to prioritise growth and productivity initiatives, which now represent 62% of our investment slate, the highest level in recent years.

Importantly, we pay for our investment now. With an investment OpEx rate of 83%, we retain the lowest capital software balance of all domestic peers.

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

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

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

Portfolio quality improvement has been driven by a combination of more disciplined customer selection and strategic focus in particular, in Institutional.

A reduction in the proportion of unsecured business and increasing collateral coverage in Commercial, along with rebalancing exposures away from riskier sectors and disposals, including Asia Retail, Asia Commercial, and Esanda.

Our portfolio mix is now weighted towards lower risk categories, such as sovereigns and financial institutions. The outcome of the portfolio improvement that I just outlined, deliver a lower actual loss, with our IP loss rate reducing from 34 basis points in 2016 to one basis point in the last two years.

This means, as the chart shows, we have gone from being the Bank with the highest credit losses to being the lowest of our peers. While the IP charge is up half on half, this is due to lower writebacks and recoveries rather than an increasing trend of new and increased individual provisions.

Moving onto collective provisions we took a prudent approach to provisioning, reflecting ongoing uncertainties in the macro environment. While there are some signs of increased customer stress in Australia with mortgages 90 days past due increasing four basis points to 64 basis points during the half, the ratio remains well below pre-COVID levels of 112 basis points.

In New Zealand, we've seen a slightly faster increase during the half. Although the 90 days past due number remains lower than the Australian portfolio.

Impaired assets for the year were steady at 21 basis points. And impairment levels remain near historic lows. We look closely at emerging trends, including any change in the quantum or composition of customers requesting hardship support.

In our Australian mortgage business, 0.2% of our customers are currently in hardship. Which while slightly up half on half, remains below pre-COVID levels of 0.3%.

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

Our collective provision balance of just over $4 billion is $2.2 billion over our base case modelled outcome and over $900 million above our downside scenario.

Moving onto capital, our Level 2 capital position remains strong at 13.3% CET1 ratio, which is 16 points higher for the half. The capital impact from the proposed Suncorp Bank acquisition is 128 basis points.

So on a proforma basis, which also includes a small amount of surplus capital in the NOHC, our CET1 ratio is 12.1%. In terms of key drivers for the half, outside of the normal cash and dividend impacts, we have experienced modest RWA usage for the second half due mainly to solid mortgage growth as I previously outlined.

With regard to future capital management opportunities, these are under constant consideration. However, the most important and material capital requirement in the near-term is the proposed Suncorp Bank acquisition. The Tribunal is scheduled to provide their outcome in February. It is not that far away. In addition to capital, our funding and liquidity position also remains strong and well above regulatory minimums.

As Shayne mentioned, the final dividend is 94 cents per share comprised of an 81 cents per share partially franked dividend and an additional one-off, unfranked dividend of 13 cents per share. The level of franking reflects the geographically diverse nature of our business as well as the timing of the proposed Suncorp Bank transaction.

Our business mix, including the strong performance of International and New Zealand, delivers a higher absolute dividend per share than would be the case if ANZ only operated in the Australian market. As you know, we pay Australian tax and generate Australian franking credits only on our Australian-sourced income. Therefore, this mix will continue to impact franking in the future.

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

In conclusion, we will continue to have a sharp focus on shareholder value while delivering strong customer experience through our highly engaged workforce. We have made the conscious choice of investing in our future but we are also clear that we need to deliver efficiencies today to afford us that investment.

So my focus as CFO will remain on productivity and deriving value from our investments. I will also ensure prudent capital and liquidity settings and managed growth in risk-adjusted return for our shareholders. I feel confident that we have the strategy, a high performing mix of businesses and an experienced team to sustainably deliver value to our shareholders in a safe and responsible way and aligned with our purpose of shaping a world where people and communities thrive. Thank you very much and I'll hand back to Jill now.

Jill Campbell: Thanks, Farhan and I know you've all done this a million times but anyway, if you can try and keep it to two questions each. The operator will walk you through the procedure and then she'll hand over to Andrew Lyons is our first question. [Rachel]?

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

Andrew Lyons: (Goldman Sachs, Analyst) Thanks, Shayne, Farhan and Jill. Good morning, everyone. Just a question on your NIM. Your 2023 year-over-year metrics look strong across the Group but I just wanted to focus in on the second half momentum.

Over the last six months you've grown your domestic mortgages at nearly 1.8 times system which has seen your Retail Banks' average loans grow at 3% half-over-half but this has clearly contributed to the 33 basis point decline in the Retail Banking NIM and therefore an 11% half-over-half decline in net interest income and I'd also note the quarterly NIM trend suggests a NIM exit at somewhat lower level into FY24.

So Shayne, can you please just talk to how the growth strategy in mortgages will be in the best interest of shareholders? Then I've got a second question.

Shayne Elliott: Yes, sure. Thanks, Andrew. I mean first of all, it's worth just repeating some of the stuff I've already said. The fact that ANZ operates a more diversified portfolio than our peers so we're not just an Australian Retail business but having said that, clearly each of our four divisions has to stand on its own two feet and they do in terms of their results and their responsibility to deliver good customer outcomes but also deliver long - you know, shareholder - decent shareholder returns in the long term.

So we believe we have our settings appropriate for the times where our customers out there are increasingly price sensitive given the challenges. But we need to be able to offer that while generating fair and decent returns related to our cost of capital.

Now, obviously that - there's a lot of moving parts in there in terms of NIM but also the cost base at which we operate and for over the long-term, that's why we are investing heavily moving - and you know, you saw that we've just launched, quietly, and it will be a slow start, our Digital Home Loan on the ANZ Plus platform which radically reduces the cost point.

But to answer your question, we will generate sustainable returns through customer relationships, not just in terms of single product offering to people and we do monitor the return on equity for the division over time. Did you want to add anything about the margins?

Farhan Faruqui: Well I mean, I think it's important and Andrew, you know this but we - because of the diversification, while we certainly saw pressure in the Australia Retail market continuing in the second half, we also saw off-setting outcomes in the Institutional business where we extended margins.

So I think it goes to Shayne's point that it is a very different portfolio to some of our peers and therefore our ability to manage the margin pressures in one part of our business with potential opportunities in other parts of our business is far more significant. I think the other point, I think it's also important when we look at half-on-half, Andrew, is that it's probably good to compare not just half-on-half but also on a full-year basis because the timing of certain actions that we took versus maybe some of our peers was different.

So we had more focus on deposit pricing in the second half than we had on the first half and therefore there was a bit more of a pronounced impact from a deposit standpoint in the second half. So I think it's just to kind of think about looking through the year rather than looking in the half because timing actions does impact the outcomes on a half-on-half basis.

Shayne Elliott: The only thing I'd add, just to round that out, I mean in terms of an incentive setting, in terms of the way that we run the business, we do focus our Executives, including myself but all the people who run the divisions, on a balance scorecard approach. So they're not incentivised around revenue or purely on market share or volume. They have a balance sheet of metrics and one of those clearly is around economic profit which is highly correlated to their ability to generate sustainable returns above cost of capital. Did you have a second question, Andrew?

Andrew Lyons: (Goldman Sachs, Analyst) Yes, I do. Thanks for that detail on that. You've paid a one-off DPS this half, just reflecting the low franking levels of the core dividend. Now, part of this is clearly the geographical mix but also the timing of transactions. Maybe one for Farhan. Can you perhaps just talk about how you think about the sustainable franking levels of the business? I guess assuming the scenario where the deal is approved and perhaps the scenario where the deal isn't approved. Any details on that'd be appreciated.

Shayne Elliott: Well I might start actually. I'll let - thanks, Andrew. I mean I think of the - at the risk of stating the obvious but I'll do it anyway. Look, the Board is very conscious of the fact that those franking - you know, that franking credits are more valuable in our customer's hands than in ours. So that'll always be a really important part of a decision around the level of franking.

Secondly, the Board is also very conscious of the fact that predictability and certainty is also very much valued by shareholders. Whether that's the amount of dividend or the level of franking. So that also goes into the mix. I think the important thing here is, as you referred to, our business is inherently more diversified. That's a good thing and it's actually, we see that as a real positive, particularly at this kind of - this point in the global economic cycle. We have more levers and more ability to maximise our earnings capacity globally but that does have consequences around franking.

So the Board is conscious of that mix in making the decisions but Farhan can talk through a little bit more about your question about how to - I understand the question about how do you predict from here.

Farhan Faruqui: Yes. So I think, Andrew, the - obviously the decision around Suncorp Bank in February will then be a function - we will then decide or the Board will then decide at that point as to any further capital management actions as required. So that does impact, obviously, the total share count which of course impacts our ability to frank as well as to generate more Australian-sourced earnings if we are successful with Suncorp Bank.

So all of those things are in the mix and it's uncertain at this point as to where that goes. The level of franking, though, away from the Suncorp Bank acquisition is actually driven, as I said, by the fact - by the mix of the businesses and of course that is hard to predict in terms of what that future mix is. It is possible that as Australian businesses, grow, particularly in our commercial business et cetera, we might see that mix turning back towards a more positive franking outcome but it's hard to predict that and we will of course have to manage that on an ongoing basis.

But I think the point I would make though is that the franking levels for the 81 cents per share that we gave, the Board did consider the level of consistency both of franking as well as of the dividend level as we made that decision.

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

Operator: The next question comes from Ed Henning with CLSA. Please, go ahead.

Ed Henning: (CLSA, Analyst) Hi. Thanks for taking my questions. Just the first one on margin and second one on cost. Just the first one on margin. Can you just go back to on slide - I think it's slide 27 and just talk about the mix change on the TDs and transaction accounts?

Obviously you're growing ANZ Plus, I'm just interested, is this starting to slow at all? I know you talked about different changes you've made in the second half. Just thinking about that impact going forward and then secondly, on the lending side, you've got obviously the back book repricing which you showed in the lending margin coming off on the housing side. I'm just interested how far you're through that if you - if obviously current rates hold and how long you think that'll continue to play out in the margins as the first question, please.

Shayne Elliott: Yes, I'll get Farhan to talk through that, thanks, Ed. Just a couple of comments at a high level. I mean it's worth, I think, reflecting on the fact that our Retail business obviously looks very different than our peers. In fact, the demographic is really interesting.

Our demographic skew is slightly older and quite a bit more affluent. That means that when you look at there's a higher propensity to be interested in savings products because it tends to be older people thinking about savings and therefore a little bit more rate sensitive. That's why you see a little bit more sensitivity around the differential between transactional accounts and savings. That's one.

The second point I would say, while ANZ Plus is in the - you know, we're really pleased with - we've generated far more deposits than we had hoped for at this time. Obviously it's still relatively small in the stack, as you can see on that page. What's interesting about that, as I said, about a little less than half of that is coming from new-to-Bank customers. So we're really pretty excited about - and that's precisely what it's designed to do.

It's designed to actually broaden the pipe, if you will, of transactional accounts and new customer acquisition but you can talk a little bit more about the trends we're seeing.

Farhan Faruqui: Yes.

Shayne Elliott: Because there has been some changes.

Farhan Faruqui: No, so I think just speaking to the deposits first and it is a function of the shift from, as Shayne said, from at-call to TDs. That has been, as you can see, pretty pronounced and we have seen over the - so if I look at second half last year versus first half - versus the end of this year, there's been about a 9% shift from at-call to TDs.

That of course means that that has an impact and a drag on margins but then having said that - and it's too early to call it, obviously, Ed, but we started to see a slowing in that shift towards the end of the second half but of course we'll have to see how the rate outlook potentially may impact that going forward. So I think that's the first thing.

The second is that on the lending side, as you mentioned yourself, the back book re-pricing was particularly elevated in the first half. That has started to slow and has actually slowed even further as we exited the second half. So we expect that - again, depending on the rate outlook and the environment and the competition, we expect that to be a lesser headwind going into next year.

But having - but you know, but there continues to be competition on the front book and of course we'll have to watch that and we'll have to see where the rate outlook and the macro environment shifts. So that's what makes it hard to actually give you a sense of where the margin trajectory is but some of the trends which were headwinds, such as the shift to TDs which is, as I said, getting closer to pre-COVID levels now as well as the back book re-pricing impact has slowed down, particularly with most of the back book now pretty much at contemporary pricing. Almost 70% of our home loans right now are on contemporary pricing.

So I think that's something we will continue to monitor as we go forward but a lot of unknowns in terms of rate changes as well as competitive intensity going forward.

Shayne Elliott: Another thing I would just add to it - and I know you want to ask a question on cost. If you go to the next slide on page 28, actually, is that bottom right chart there about client monies. That platform cash management accounts.

This really plays to a strength that ANZ has and it goes to what I talked about, the ability for us to democratise these really high-level platforms that we built in institutional. Essentially what this is, is where our customers - many of them are permanent financial institutions, brokers et cetera, offering accounts to their customers.

What's great about this, it's leveraging the scale and the technology we've built in institutional but we get Retail credit treatment for those in terms of those deposits. So while that's - you know, that is becoming a very significant driver of liquidity and Retail valued liquidity for ANZ over time, building on our strengths.

Ed Henning: (CLSA, Analyst) All right, thank you for that…

Shayne Elliott: Did you want to ask [a follow up]? Yes.

Ed Henning: (CLSA, Analyst) Yes, I do. Thank you for that. That was - I appreciate the detail. On slide 34, you obviously give us the walk-through on the expenses and you talk about hopefully a little bit less inflation pressure next year. Can you just touch on some of the other components?

The strategic investment. Are you going to be able to hold that flat or is there an increasing headwind there? Also, you had more restructuring in the period and you had some transaction costs. You know, how should we think about restructuring and transaction costs as well?

Shayne Elliott: Yes, so Farhan will go through that. Hey, we have done a good job on productivity and I'm not getting embarrassed to say that. You know and that's been the case for a number of years. We've been able to - let's remember that when we - I understand the tendency to relate everything back to a CPI base but remember we operate in 29 markets. Most of our people who we pay a wage to, don't live in Australia. They live somewhere else.

So our CPI is very much a global blended inflation number that we manage to. So while it's interesting to think about the Australian CPI and it clearly is relevant, it's not actually the only driver. So what you've seen over time is our ability to continue to keep our cost growth, including investments, lower than what we would see our basket of traditional inflation.

That means we've been able to deliver productivity over a period of time. Now, some of that moves around because of our need or desire to invest in various opportunities. So that is a little bit of a moving target.

Certainly from an investment perspective, who can say about the future but from where we sit today, we sort of feel we've met - we're sort of somewhere at that peak investment cycle. We've had a couple of the big ones like BS11 roll off. That's not to say there won't be new things but we're not seeing - we're not expecting a material shift in the total amount of cash that we have to invest.

Whether that's in regulatory requirements and compliance or whether that's building new propositions. Whether that's feeding and rolling out things like ANZ Plus or GoBiz or the Cloud transformation or the work we're doing in Institutional payments. That should be relatively stable if not come down a little bit over the next year. But Farhan, you've got more detail on those sort of…

Farhan Faruqui: Yes, look, I think Shayne has actually covered it. There's nothing at this point that we can see, Ed, which suggests that there is going to be anything but a stable to slightly down outcome in terms of our investment spend, if you like, going into next year.

There's nothing on the horizons but I - as I always say, you can never say never because something might show up in the middle of the year but at this point, knowing what we know, we are pretty confident that it will be stable to slightly down.

From an inflationary standpoint and some of the other boxes on that page 34, obviously wage levels are going up and that starts to come through now. From the month of October. So that's already baked into our numbers for '24.

Vendor inflation is continuing as I - as Shayne says, we pay for our people and we pay for other people's people. Those people are getting wage level increases as well and they're operating on a global basis so there are different CPI outcomes for them. So vendor inflation will continue to remain a pressure.

Strategic initiatives, as we said, largely stable year-on-year and the good news is, because we pay for our investment now and we have been extremely disciplined around making sure that we continue to OpEx as much of our investment spend, the D&A is actually a small tailwind for us in this year, in this half.

So that hopefully will continue to help us and - but clearly, given the level of inflationary pressures, we will have to out-perform on productivity and that's what we're setting ourselves to do which is why our restructuring costs were higher towards the end of the year. We'll expect them to stay similar levels next year in order to continue to make sure we're delivering outcomes, not just for '24 from a cost standpoint but also building an exit rate into '25.

Ed Henning: (CLSA, Analyst) Thank you for that.

Operator: Your next question comes from John Storey with UBS. Please, go ahead.

John Storey:(UBS, Analyst) Great. Morning, Shayne. Morning, Farhan. Thanks very much for the opportunity to ask a question. First question I had was just on asset quality. The charge that you took in the second half of the year seems to some extent inconsistent with some of the underlying trends that you've seen. Just with regard to the portfolio, NPLs are quite a lot and your ECL allowance, particularly for net loans and advances, has gone down. 3% half-on-half.

Maybe just if you could just give a little bit - unpack a little bit more detail around what is actually driving that and maybe Shayne, if you could just conceptually just provide your view on what you think the quality of the book actually looks like at this point in the cycle with a few more interest rate hikes on the horizon.

Shayne Elliott: Yes, so I'll do that first. Thanks for the question. I mean again, without stating the obvious, obviously we - the results of our charges, particularly on a collective basis, are the result of the models that we have and the underlying assumptions we make around our basic economic forecast, you know, in our downside scenario.

So I'm not suggesting that it's a black box entirely and we just computer says and therefore we adopt that number. It requires, obviously, a lot of testing and judgment but the reality is that when you think about the scenarios we're in today and the level of provisioning, it's extraordinarily strong. I mean we're sitting here with $4 billion worth of collective which is our base case.

Well let's talk about the downside. It's at almost $900 million higher than the downside and when you go through the downside, it's pretty grim. The downside needs to see unemployment essentially double over the next year, house prices to fall materially and quite significant slowdown in the economy. So I'm not suggesting that it's got zero probability, always really bad things can happen, but it's pretty unlikely. So, you sit there and go - anyway, we go through this pretty robustly, so I think it stacks up pretty well when you look at actually what the underlying assumptions are.

But then I stand back, and I'll get Kevin, our Chief Risk Officer, to talk a little bit more eloquently about that, but if I stand back to your question and the quality of our balance sheet, we have spent seven years de-risking our business and ensuring that we are banking the right people and the right industries at the right time. I accept it's hard for you to see, and then I accept that you rely on a lot of statistical analysis to show that, but when you look at the quality of our large exposures, the quality of even within our home loan business, and you look at the average credit score of the customers that we're writing home loans for today versus where we were in the past, and really importantly, versus our peers, you can see that we are writing very high-quality and higher quality business than we've had for some time.

I look at our small business cohort. Our small business cohort is again very different to what our peers - for every dollar we lend, $1.80 in deposits, for every dollar we lend, significantly well secured in general, either through premises and property or other assets. So, I actually - I don't take it for granted; we spend huge amounts of time ensuring that we de-risk and get our business focus right but the quality of the book is strong.

One more anecdote on that. When you look at things like non-investment grade names of any meaningful exposure, so anything more than $50 million, Mark Whelan, who looks after Institutional, Kevin, our Chief Risk Officer and I literally are familiar with every single one of those names. The benefits of simplifying our business and being able to see those names and those exposures on a spreadsheet and be able to not just rely on models I think has given us a really, really strong book and our ability to manage it is certainly a great benefit. Kevin, did you want to talk through the specific question?

Kevin Corbally: Shayne, I think that's a pretty comprehensive but John, a couple of things I'd add. First of all, there's a very rigorous process that we go through to determine our provision outcomes. If I look initially at the individual provision level, you're right to say that something like mortgages, our 90 days past due are up on the half, they're up 4 basis points, still substantially below where we were pre-COVID and also still well below a number of our peers who have report recently would be the first thing I'd say.

Secondly, we actually look at credit cards, personal loans, and small business, which historically have been a big contribution to individual provision outcome. Those delinquency levels are actually still falling. If you look at our mortgagee in possession numbers, we're down 80% on mortgagee in possession from where we were pre-COVID. The actual results, therefore, that's why they're as low as they are on the IP side, and in addition what I'd say to what Shayne said on the Institutional business, Institutional or corporate more broadly, we have 90% of that corporate book is either investment grade or it's fully secured. So, a very different profile from what we had before in the book.

Then the other point I'd make on that is that sovereigns, financial institutions, and mortgages, if you go back to GFC days, they made up 52% of our book. Today that's 72%, so quite a big shift in the nature of the book, and they are very low default levels.

The final thing I'd say is under Australian accounting standards we need to set aside from a collective provision perspective essentially enough - to hold 12 months of coverage from a collective provisioning viewpoint. On that 12 months of coverage, we're essentially saying if you look at our CP balance of $4.03 billion, that's $2.2 billion above our base case, it's over $900,000, as Shayne said, above a downside, a downside that says effectively in the next 12 months that unemployment will almost double from where it is today to 6.9%, that property prices will fall by 14%, and that Australia will be in a recession.

Given all of that, we think that the provisioning level that we've got is a prudent one but it's also an appropriate level when you reflect the quality of the book together with the broader macroeconomic environment.

Farhan Faruqui: Can I just maybe help round that off a little bit, John, because I think both Shayne and Kevin have covered it in detail. I think it's important just to step back and just to make sure we understand while there has been a small step-up in impairment half-on-half, overall for the full year we have remained pretty steady.

The fact that there has been a slight increase in the half on impairment has not been reflected in provisions which talks to the quality of collateral and security coverage we have on those names, and if you look at our IP for the year, if you ignored the write-back that we've had in the last half and the half before that, there is no new IP or no increased IP in the half as well. So, the quality of our portfolio is best reflected in the fact that our individual provisions remain fairly stable and even on an impaired basis remain as historic lows.

John Storey: (UBS, Analyst) That's great. I'm actually going to leave it there and give other people opportunity for questions. Thanks very much.

Shayne Elliott: Thanks, John.

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

Andrew Triggs: (JP Morgan, Analyst) Thank you, good morning. Shayne, could I just ask - you made the comment a few times about the diversity of your portfolio leading to better NIM outcomes. Just noting that we didn't really see that this half but the underlying NIM was down 7 basis points, that's roughly the same as what we saw from NAB and Westpac. In that context, I'm interested to know whether you're disappointed with that outcome and from where you would sit, what would you put that down to?

Shayne Elliott: It's a fair question, Andrew. Just to be clear, I don't know that I did say that our diversification would lead to better NIM outcomes, I meant get better outcomes overall. When I think about the returns more broadly and the strength of our business in terms of revenue growth and the opportunities. I understand the question. No, I don't think I'm disappointed. I'm not disappointed with where we are. I think it's very easy, and I understand the need to compare and contrast to others but our business is different.

When we think about the Australian retail business, which is I guess where most people are focused today when they're talking about NIM, then wanting to compare us versus our friends. Let's not forget our business is a lot smaller and different than them, and even simple things like the way that some of our peers report their retail and commercial business is different than ours.

For example, when we have all of our home loans sitting in retail whether they're for retail customers or small business customers, some of our peers have those home loans sitting in their commercial bank, so it's not necessarily a like-for-like comparison, but I'm not disappointed with where we are. We have a different starting point, we have a different strategy, we have a long-term view on how we're going to create that competitive advantage over the time.

Look, I'm the first to accept we start in a more difficult and more challenging position than many of our peers and that's why we're investing in our new platforms like ANZ Plus. That's where we are in terms of diversification. What's really positive here though is the fact that our International businesses, at a time when Australian retail is under enormous competitive pressure, not just our business, the entire sector, which is driving great outcomes for customers, more difficult to operate, we have more levers to pull.

That's what's great about this business at ANZ; we're able to see and allocate more capital into our Institutional Bank or into New Zealand, and really drive returns. Because that's what we need to do at ANZ. We want to maximise our earning capacity for shareholders, by doing the right thing, by being purpose-driven and by driving good customer outcomes, but it's nice to have four businesses of meaningful scale to be able to flex and resource as opposed to be committed to essentially just one like many of our peers.

Farhan Faruqui: Yes. I think just for that point of diversification, Andrew, the fact that we were able to grow Institutional margins ex markets half-on-half, the fact that we were able to preserve a very, very strong half in the Commercial NIM expansion from the first half into the second half, the fact that we have been able to manage our New Zealand business quite well in the context of the pressures and the macro environment in New Zealand allows us the ability to create some offsets to the pressure that we faced here.

I think it's also important to note that given - despite the fact that we've had the mortgage growth we've had, our structural funding gap in Australia still is the lowest amongst our peers. The pressure from a going forward perspective in terms of our funding relative to our peers is still lower, and we have flexibility around the Australian - the growth in Institutional Australian PCM deposits, our commercial business which is 2:1 deposit to loans here in Australia, and the fact that we have varying sources in Australia Retail, plus there's obviously the new source for growth in deposits but also the fact that we use third-party deposits gives us flexibility. So, we have a lot of levers that we can continue to use in order to manage margins as we go forward, and that's where the diversification I think is really powerful.

Andrew Triggs: (JP Morgan, Analyst) Thank you, Farhan. Could I just ask a direct question? Should we expect ANZ to grow above home loan system in the next half, and could you maybe defend offering $3,000 cashbacks for first homebuyers in the context of your comment that's it's a really difficult and competitive home loan environment at the moment?

Shayne Elliott: Yes, I can answer that. I don't know. I don't know that we - we don't target necessarily market share growth as the right thing to do. What we try to do is get the balance right between attracting the right kind of customers - as I mentioned, we're very conscious of - we look at the credit scores of the customers that we are onboarding in our home loan business versus everybody else, and we're pretty confident that we're attracting high-quality customers. Because we need to be lending responsibly, so that's the first thing.

Secondly, we need to be able to do so at a return that is fair and decent for our shareholders. Now, there's lots of moving parts that go into that calculation in terms of the cost of funds, et cetera, but really importantly, the operational cost of supporting that and that's why we've invested really heavily in our processing capacity to ensure that the marginal cost of new loans is as low as it possibly can be. That's why we're excited about things like ANZ Plus which will take that to a whole new level.

The cashback, look, I know there's been lots of focus and I know it's fun to write about, but the reality is the cashback on offer at ANZ at the moment is pretty tight in terms of eligibility. It's not a broad-brush offering. There is a part of the market, understandably, that really value that, particularly around first homebuyers, and we see it as a part of our marketing suite of options to be out there. Going to - your simple question was are we sitting here targeting growing above system just for the sake of it? No. Will there be times where we grow a little bit more than system? Absolutely.

Now, as you know, part of it depends on what the system is and we don't have full insight into that. The pricing that we have out in the market today, whether it's in our branches or whether it's through brokers, as of right now we don't have perfect insight to where all of our competition is. We don't know precisely what discounts they're offering; we don't know precisely what other specials they have on today. We put our best foot forward, which is based on generating a fair and decent return, and the system will be what it will be, and there'll be times we're above and there'll be times we're below.

Just to correct something you said, just to make sure we're on the - our cashback is not $3,000, it's $2,000, and as I said, the eligibility for that is quite tight, actually.

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

Shayne Elliott: Thanks.

Operator: The next question comes from Jonathan Mott with Barrenjoey. Please go ahead.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. I've got a question on the institutional business, it's now the biggest division, and we saw in the fourth quarter the margin - in the whole half and also the fourth quarter, the margin has continued to expand.

Shayne, in the past we've talked a lot ab this and the rate benefit in that business and you highlighted it wasn't the absolute level of rates, it was more the shape of the yield curve, and in recent times it looks like we're hopefully getting towards the top of the global interest rate cycle. The US 10-year - or the US yield curve is inverted, Australia is pretty flat, so do you think the impact from here of rates and the outlook for the Institutional margin is probably peaking at current levels?

Shayne Elliott: First of all, I stand by those comments. I think that's true. Obviously, there's lots of factors in there, what's driving this is also some mix issues, I'll come to that in a second. But broadly, you're right. I think it's a fair assumption to say who knows precisely when we're somewhere near the top of the rate cycle and I don't know when the turning point will be, and so yield curve shapes are more likely to flatten and therefore that will be a bit of a headwind on Institution on the Payments and Cash Management margin.

Having said that, on the other side of it is that what you're seeing in institutional is there's quite a significant shift towards more sort of operational balances through - the more -

when we talk about things like Transactive Global - when customers are signing up to use Transactive Global, that's really generating operating balances which are - have much lower yield on them, and therefore lower costs for us and so there's a mix issue here which should continue to be pretty supportive for Institutional.

Look, you can't - if you go to page 30 and you look at the great progress that Institutional have had - clearly, I'm not suggesting, and neither's Farhan or Mark, that you should extrapolate that line - no, but neither would you see that as sort of retracing back to where it used to be. We think there is a - there is an underlying strength now in that business given the scope of the transactional deposits, et cetera, that should see Institutional margins hold up pretty well.

The other thing I would say is actually, it's the lending margins that have also been really supportive in Institutional. That's probably surprising to many. We've spent a lot of today talking about lending margins and home loans in Australia which clearly are really competitive. Institutional lending is always competitive but in the sector that we focus on and our customer base - the world's very best companies - we've actually been able to see those lending margins maintained and actually increase in the fourth quarter. So, I'd say overall margins should be more stable than not, Jonathan. But your broader point, you are correct that the shape of the curve is one of the drivers.

Farhan Faruqui: I think, just to add to that. I totally agree, Shayne, that the lending margins have been exceptionally robust over the last 12 to 18 months, actually, reflecting the customer base. But I think the other thing from a deposit standpoint, Jonathan, which talks to the benefits that are coming through the Institution numbers and volume and processing are actually quite substantial.

Because if you think about the institutional deposit base, the actual deposit beta is very high in institutional because a lot of the deposits are actually contracted and are linked to the base rate so you don't actually get as much pickup from rates as you would get, say, in a retail business or in the commercial business because of the nature of the Institutional deposits.

So, when I say that rates are supportive, they surely are, but that's not where the big increase is coming from. The fact that we're growing volumes, we're preserving margins - sorry, we're preserving customers and growing our share with the customers is really what's driving that outcome. So, as long as we can continue to do that, which is our focus, while there will be some moderation, et cetera, with the rates changing, the bulk of the rates benefit actually - just passes through to the customers in Institutional.

Jonathan Mott: (Barrenjoey, Analyst) Thank you. Can I just ask another quick one? You said that the trials for ANZ Plus mortgages are just going through now. When do you expect that to be rolled out more generally, and when you do the rollout, is it effectively going to be all new mortgages are written on the new platform which is a lot cheaper to operate for a marginal mortgage going forward?

Shayne Elliott: Great question. The product is available today but only for eligible customers, so what does that mean? So let me stand back. Over time - yes, over time - and that won't be in the next year or two. ANZ Plus will become the predominant channel for home loans.

The reason it takes a few years is what we've started with them and the way we've built it into it is truly digital so there's a lot of stuff being written out there or people pretending to be digital but what you'll find is there's still significant human intervention somewhere along the way, mostly in the assessment or settlement process.

So, we've built it in a truly digital way. What that means for the customer - if you're eligible - and what does eligible mean today? As of today, it's pretty basic - single borrower, no offset, PAYG, sort of less than 80% LVR and an ANZ Plus customer - so you're already with ANZ Plus, so as you can imagine, that's pretty narrow today.

That person, what we've seen is - [we lie] - we're doing that now - we're offering that to customers - we can get you through from starting that application through to settlement - because it's refi only at this point - within 45 minutes - the entire process, right? So, we're there. What we've got to do is we've got to just expand the pipe slowly.

Our plan is to get over the next 12 months where the eligibility for that will be somewhere around 10% for the addressable market so we're going to have joint accounts soon, we'll offer something to do with offsets early in the new - in 2024 - et cetera, et cetera. So, we've got to build it out, Jonathan, in the way - as I say, at the moment, it's offered - it's only on Android. We'll add iOS in a couple of weeks' time, and it's offered through the Plus platform itself.

Then, understandably, we need to have a broker offering for that and that is being built as we speak. I'm not going to give you a timetable on that, but as you can imagine, that's a pretty important part of the offering as well. But one day - not next year and it won't be the year after - it'll be the predominant channel but certainly over the next couple of years we're going to expand that out as broadly as we can for obvious reasons.

We think it's better for many customers - not all. Not everybody wants to be able to do their home loan on their phone. We want to expand it out as quickly as we can for the obvious reasons - better for customers, far, far lower costs for us, and actually, we think better outcomes from a risk and responsible banking point of view as well.

Jonathan Mott: (Barrenjoey, Analyst) Thank you.

Operator: Your next question comes from Brendan Sproules with Citi, please go ahead.

Brendan Sproules: (Citi, Analyst) Hi. Good morning, team. I just have a couple of questions on the demand for debt. I was wondering if you could give some comments around the demand for debt in the institutional Bank. Obviously, Shayne, you mentioned that the margin from the lending side are actually reasonably strong. I'm just wondering why you're not seeing a faster growth there.

Also, secondly, in the commercial business, obviously you're putting some more investment there. You had some growth after a long period of flat lending in the second half. I was just wondering what the outlook and the pipeline is in the SME business.

Shayne Elliott: Sure. Well, we'll go straight to the experts on this. I'll get Mark Whelan to talk about institutional and then I've got Clare to give you a bit of colour on commercial. So, Mark, the demand for debt and institutional - what we're seeing?

Mark Whelan: Yeah. Look, thanks Brendan. It's slowed in the second half. I think you've seen that across most of the numbers that have come out both here and also globally. There's definitely been a slowdown in appetite for new lending. What we have seen is customers more paying down some of the debt, not - and rather than rolling it over. Having said that, I don't - it's not as significant shift. What we are seeing is customers just being a little bit more cautious and they are ready to invest, but I think that's likely to come once we've seen clarity around terminal rates globally and I think some of the geopolitical issues that we're seeing have meant that customers are just being cautious.

So I don't think it's a significant trend that we'll see longer term, but I do think that you'll see customers remain cautious. The upside is that we are starting to see a bit of M&A activity here. You are also seeing that little bit in the international markets and obviously, in climate and sustainable type projects, that's still growing. So it's a bit of a mixed bag, but I think you'll see still a little bit of pressure for the next six months or so. I do think it will pick up later next year would be our full expectation.

One of the things I'd point to here, if you look at the Asian market and particularly in the last 12 months, we've seen loan syndications down about 30%. So people are just taking a step back here, but as I said, I would expect that will start to turn around maybe in six months' time.

Shayne Elliott: While Clare's coming up to the podium, I'll just also add I think again, I don't want to overstate it Brendan, but it goes also to the quality of our customer base. I mean the reality is, at the top end of our customer base, a lot of them are just sitting on huge wads of cash still. So you know, they don't have the same need for funding as they have in the past and that will change as they start to be more assertive about investing and I want to go back to what I said in my commentary, this is where I think ANZ sits in a really, really strong position.

What we are seeing from our largest institutional customers, they're rethinking the world, they're rethinking supply chain, they're rethinking where they want to invest. That was already happening; the China Plus One and all that sort of stuff, but that's accelerating with more risks geopolitically and guess what? We're exactly where they want to be. Yes, we have operations in places like India and we took our Board there earlier this year, our India business is going extraordinarily well.

In a few weeks' time, Mark and I are off to Vietnam. We will be celebrating 30 years in Vietnam. Again, a little bit under the radar there, probably doesn't get the same profile of other places, but ANZ's got a terrific franchise in Vietnam and more multinationals are building, growing, investing in places like Vietnam and of course, Singapore as I mentioned which is one our largest regional operations, goes from strength to strength.

So we're seeing really good opportunity as those customers move capital and supply chain trade flows around the region, we're everywhere they need to be. But Clare, maybe a little bit of insight on the commercial changes that we're seeing.

Clare Morgan: Yeah, so what we're seeing with Australian small to medium businesses is certainly some softness in certain sectors and we're certainly seeing smaller businesses impacted by things like higher inflation, shortage of labour and lower consumer confidence. That's playing out in some of the sectors that you'd expect such as consumer discretionary and retail, some hospitality and the like.

That said, we are actually really positive on demand for lending across the economy because we obviously are very focused on a much more diversified set of customers and we are growing well in the industries where we think there is favourable outlook. So things like agriculture, things like manufacturing, exporters and importers in target industries. So that's probably the real focus for us is targeted growth in favourable industries that we think are going to have positive long-term outlook and so that's certainly where we are seeing the growth.

I think the other thing that's worth mentioning is that we are very focused on not just a lending conversation with Australian businesses. We really want to have a conversation with Australian businesses about whole of customer outcomes and that includes things such as cash flow, but can be as broad as and hopefully, if you've seen through the results, customer needs that might have relevance from an institutional product perspective or a retail product perspective. So we are really interested in having that whole of customer relationship going forward.

In the results, the lending numbers are probably a little bit understated as a result of some of the exits that we've made over the last year as well where we sold the investment lending to Bendigo Bank as an example. So some of that is taken out from the growth rates that you've seen there. So positively, we are seeing very strong work in the pipeline and very strong customer engagement and conversations with our bankers who are very active in the market.

Shayne Elliott: Thanks Clare. Did you have a second question?

Brendan Sproules: (Citi, Analyst) Yes, I do, please. Just on the mortgage market. I noticed in New Zealand that you've had - picked up growth in the second half. Could you maybe contrast the pricing dynamic in the New Zealand mortgage market versus what we see here in Australia?

Farhan Faruqui: So yeah, so thanks for that, Brendan. We saw a small increase. We had - if you recall, we had lost share in the market in the first half, so we recovered a little bit of that share in the second half, but I think there is a more moderation of competition in the New Zealand market. In fact, we saw front book NIM actually improving during the second half from a very low base to be fair, but we saw it improving in the second half. So New Zealand market dynamics are - just because of the fact that they've been ahead on the tightening cycle are probably returning more than normal now than our Australian retail business.

Brendan Sproules: (Citi, Analyst) Thank you.

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

Victor German: (Macquarie Group, Analyst) Thank you. I firstly just wanted to follow up on John's question. Maybe a slightly different angle. Given Institutional Bank has a smaller proportion of its deposits that are hedged, presumably, it means that the benefit of higher rates comes through quicker for that business. Given where rates are at the moment, it looks like replicating portfolio capital should continue to provide 7, 8 basis points tailwind to your margin in 2024.

As a result, particularly in the context of what you said earlier about diminished front-to-back book gap on mortgages, do you continue to expect institutional margins to outperform your other portfolios again in 2024?

Farhan Faruqui: So I think the first one - sorry, I didn't get the second one, but...

Shayne Elliott: Did we expect institutional margins to outperform the rest of the portfolio?

Farhan Faruqui: Right, so I think on the - thanks, Victor. So the institutional deposits actually don't have - we don't look at institutional deposits as part of the replicating volumes. But if you look at the replicating portfolio in general, what I would say is that we've had obviously continued benefit of the higher rates, but the shift to higher margin deposits has actually meant that the volume of replicating portfolio has actually come down. Which is why we haven't seen as much benefit of replicating portfolio tailwinds in the second half as you saw in the first half.

Having said that, if you look at our total replicating portfolio, the blended rate today because of the long-term hedges that we have, is in the mid twos. So to think about the next two years, you would imagine that as those tranches that we had invested let's say three or five years ago are going to start coming back into reinvestment mode, we expect that our portfolio, replicating portfolio blended with would move towards 4% over the next 12 to 24 months, and that benefit will start to come through in '24 and '25 numbers.

We expect that that should approach 4%, all things being held equal. I think the real variable here is the mix of deposits in terms of how much moves more towards TDs away from at-call. At this point, the only thing I can say to you is that it has slowed, but it's still uncertain in terms of how that travels in the course of the next 6 to 12 months.

Victor German: (Macquarie Group, Analyst) I appreciate that, but given those benefits are still coming through, and as you said they predominantly benefit your retail Bank and commercial Bank, that's the tailwind that those businesses have that institutional doesn't have?

Farhan Faruqui: Yes.

Victor German: (Macquarie Group, Analyst) I'm just putting that into context, what does that mean for 2024 margins across different divisions?

Farhan Faruqui: I think what I would say is that from an Institutional - and you asked a specific question around how we expect institutional deposit margins to behave next year, look as I mentioned earlier as well, Victor, the Institutional deposits, because of the fact that they have had high deposit betas, as long as the rates stay up at the current levels and we expect them to stay up at these levels for a longer period of time, we don't expect anything materially to change in terms of Institutional deposits. It's more driven by how much volume we have, and that's the key focus from a customer standpoint in terms of growing the Institutional deposit revenues.

The lending margins are looking, as I said, look pretty stable, in fact we've seen an expansion in lending margins this half. We don't expect that to reverse in the course of the next half. I think the point that you were making and that Shayne was making earlier then Mark was making earlier, is that because we hadn't seen the Institutional lending book grow in the second half, you didn't see the benefit of that coming through into the margins. But as that starts to turn around, we will start to see those benefits coming through as they continue to be at reasonably high margins.

So, it's a mixed story effectively in the sense that we expect lending margins outlook reasonably stable to up, and we expect that the Institutional deposit margins won't have any significant impact in the next 12 months, but it's a function of course of what happens to the rate outlook and the macro outlook. Is that helpful, Victor?

Victor German: (Macquarie Group, Analyst) Yes, thank you, I might call up with you later on that. My second question also on costs, and thank you very much for providing the additional colour on your cost considerations for next year, but I think in the presentation you suggested that you're expecting to see better or slight improvement on the cost performance of 5% that you've seen in 2023.

What's the base that we should be looking at? Because obviously this year you had $170 million of restructuring charges, about $250 million of transaction remediation costs. When we're thinking about your growth going into next - your costs going to next year, are we thinking about $10.1 billion being your base? Or should we be thinking of $9.7 million and growing from that number?

Farhan Faruqui: So, I think we expect that, as I said, the investment spend is going to be reasonably stable as we mentioned earlier, as well as the OpEx rate, Victor, so call it stable to slightly down perhaps in the investment side.

As I said, wages and vendor costs remain - wages obviously we know they've gone through now but vendor costs remain uncertain and we'll have to continue to manage that as we go forward. On restructuring, as I said, largely we think more flattish to where we've ended this year, so that's not going to be a big up or down outcome because we want to continue our focus on productivity and make sure that we manage our costs from that perspective.

Remediation again is a smaller number now so it probably doesn't make a huge difference year-on-year anyway, so overall I would say that there aren't the big items that are changing year-on-year, but the challenge of course continues to be managing inflation and finding productivity offsets to that, and that's where our focus is right now.

By the way, we didn't say that we expect the number to be lower than 5%, we just said that the inflationary pressures might be a bit lower next year versus this year. Our focus is going to be to make sure that we try and improve on that as much as we can.

Victor German: (Macquarie Group, Analyst) Thank you for clarifying, thank you.

Operator: The next question comes from Matthew Wilson with Jefferies, please go ahead.

Matthew Wilson: (Jefferies, Analyst) Good morning team and thank you, hopefully you can hear me okay?

Shayne Elliott: Yes.

Matthew Wilson: (Jefferies, Analyst) It appears we are early on in a credit cycle, and given what you've learnt through COVID with respect to offering hardship, I wonder if you could disclose what percentage of your home loan book has been restructured, but is currently performing?

Farhan Faruqui: So, we actually have very low levels of restructuring, if we can get [Maile] to come and talk to this, or Kevin, but we would say that the restructuring that was done over the last 12 months, 55% of those restructured loans are now fully performing and current.

Shayne Elliott: I don't have the numbers, I'm just thinking Kevin, I don't think we have it, we might have to get back to you on that one Matt, in terms that it's low, it's low.

Farhan Faruqui: It is very low.

Shayne Elliott: As I said, I mean I know it's not the same, I know it's not the same, but the number of people on our books today in hardship, and again I accept it's not the same as - it's 2,000 out of the million, so it's 0.2%.

Farhan Faruqui: It's 2,000 exactly, so the hardship numbers are very low, and as I said, 55% are current on repayments after coming out of hardship.

Matthew Wilson: (Jefferies, Analyst) That makes sense, and then just secondly with the special dividend, given there's no franking, what was the decision tree with respect to not having a buyback, albeit it would have been a small buyback, but it's better to reduce share counts than pay a dividend when you've got no franking…

Shayne Elliott: Look I understand that, and better is a value judgment and I understand the corporate finance theory. So two things, (1) it would have been small, but (2) I think really we were conscious about retail shareholders. While lots of retail shareholders theoretically benefit from a buyback, I think it's hard to - it doesn't really put any money in their pockets. So, we were very mindful of that and mindful of the fact that for some maybe it wasn't something they had expected. So, that was the view.

We absolutely, the Board had exactly that debate about weighing up different values of a buyback versus that, and came down on the side that cash in the hand is better here, all factors considered and given the size, it was relatively modest. You can read anything into that in - I certainly wouldn't want anybody to read anything into that as any indication of the Board having changes its view around capital management and the importance of that, it was a one-off.

Farhan Faruqui: Particularly when the fact that we have a potential further consideration event once Suncorp transaction is finalised.

Matthew Wilson: (Jefferies, Analyst) Okay, that makes sense, thanks for that.

Shayne Elliott: Thank you.

Operator: The next question comes from Matt Dunger with Bank of America, please go ahead.

Matt Dunger: (Bank of America, Analyst) Thank you, gentlemen. Just a question on the net interest margin and the funding, you did $3 billion of pre-funding which based on my estimates, appears to be about a 2 basis point net interest margin drag. Can you confirm that? Also, why did you feel the need to prefund so heavily, given relatively low level of maturities in FY24?

Farhan Faruqui: Well I'm not sure, Matt, how you got to the 2 basis points, are you saying 2 basis point NIM drag in this half? The $3 billion of funding?

Matt Dunger: (Bank of America, Analyst) Yes, that's what it appears to be based on the front book pricing of the debt issuance.

Farhan Faruqui: Okay, it's definitely not that much, but I'll check and come back to you. Look I think our view was, on the overall funding, our view was that it's an uncertain market ahead and we were getting strong access to liquidity and funding at this point, and we wanted to make sure that we were prudent, and we basically prefunded some of the 24 funding needs.

Now remember there's a bunch of geopolitical events that are out there and obviously given all of the uncertainties and the fact that we were going a bit later from a results point of view this half, we wanted to make sure that we would be able to take advantage of the good investor support that we had in September. So, I think it was just more prudent action rather than anything particularly different to what our approach has been in the past.

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

Shayne Elliott: Do you have a second question, Matt?

Matt Dunger: (Bank of America, Analyst) No, that's all from me, thank you.

Operator: Next question comes from Richard Wiles with Morgan Stanley, please go ahead.

Richard Wiles: (Morgan Stanley, Analyst) Good morning, my first question relates to your FY24 priorities, one of them is to further improve productivity. What's that actually mean? Are there any financial targets linked to that priority? Does it mean you'll lower the cost to income ratio? Does it mean you'll achieve a higher dollar value of cost savings? Could you give us a bit more clarity on that priority please, Shayne?

Shayne Elliott: Sure, it means that we accept, like always, that we have to deliver more with less. We understand the onus that in a more inflationary environment that the focus on that only goes up. Since I've been CEO, we have focused really hard on productivity, and productivity doesn't just mean cost out. Anybody can take costs out, it's not that difficult to take costs out, you're going to have to do it well, make sure you don't break the Bank or hurt customers in doing so.

So, what are we going to do? We've got to be as ruthless as we can around making sure all of the $10 billion odd that we spend is allocated to generate the very, very best returns it can. So, it means we'll be looking at things like how do we simplify our processes to make things faster and cheaper and better for customers? It'll mean we'll consider about where we allocate. We have 40,000 FTE, those people doing the absolute best that they can in the right places at the right time. So, we think about the shape of our workforce.

It means that we'll be looking at things like our property strategy. We've been consolidating property for a number of years, so you get the - is it about CTI? Not really, I think CTI is sort of interesting and obviously it's an outcome as opposed to a target. I mean we'd all love CTI to be lower, and New Zealand's a great example, operating at a CTI of 36%, we'd all like it if we could continue to improve that, and we do.

But I don't know that it's a very useful target in and of itself for an executive to drive towards, because it will tend to mean that people do silly things potentially to get there. So, it's about just a total focus on costs and getting value from every dollar that we spend. I'm sorry I can't give you a more target, it's not about an absolute cost reduction either. Those have a place in time where they're useful, we don't think that's the right thing to do.

What I can tell you, we spent time with the Board last week going through it, we have a big program of work around productivity, sits at my Executive table, one of our Executives is leading that in particular, along with Farhan, and we are doing it in a progressive way to make sure that, as I say, we get value from every dollar that we spend.

Farhan Faruqui: I think, Richard, just to add to what Shayne has said and he's covered the full breadth of the work that we're doing, but I think the important thing to think about this, Richard, is that this is not hey let's get these five things done to deliver an outcome for '24. We're looking at much bigger initiatives, enterprise-wide initiatives across the world to find optimisation opportunities, whether it's through technology, or whether it's through property, or whether it's through middle office, or whether it's through other workforce related activities. We want to make sure that we're building not for next year but we're building for the next three years and longer.

So, it's also creating that continuous momentum around ensuring that we will manage the productivity outcomes not just for this year but for the year after that and the year after that. I think that just makes it not a program of work, but it just makes it part of our ongoing focus from costs.

Shayne Elliott: Then without labouring the point, because it's a good question, you might ask well why's it on your priority list? Surely it's just BAU and that's what you guys do every day, and to some extent that's true. But the reality is we need to sit and think of all the things we're doing, what's the most important things we have to do over the next year? That's what we tried to capture in that slide, and I think productivity has to be one of those things. We are dealing with a more inflationary environment, we're already in the middle of that.

So, we have to be able to focus on this, so it has gone up our priority list for all of my team. The second thing is we're feeling much more capable of delivering on productivity because we have four businesses in good shape and we are getting the benefits increasingly of sharing more infrastructure. Whether that's technology infrastructure or the ways of doing things. So, we want to double down on that and take that to a whole different level.

Richard Wiles: (Morgan Stanley, Analyst) Okay thank you, and my second question relates to ANZ Plus. On slide 10, you highlighted the cost to serve for ANZ Plus is 20% less than your legacy ANZ retail business. Does that mean you're driving the cost to serve in retail banking down? Or does the duplication of the two platforms at the moment mean the retail Bank cost to serve is still going up?

Shayne Elliott: I'm not sure I understand the question. Let me - I think so what we're trying to do there is comparing contrasts, what we're colloquially calling ANZ Classic, our main business today, the business that everybody, you know, where you're familiar with, versus ANZ Plus. We said hey on a like-for-like basis, and again that one there cost to serve is talking about the variable costs associated with distribution et cetera. If you just look at that cost, so it doesn't allocate things like a branch network, because I don't know that that is a variable cost.

You look at the variable cost, it says hey same product, same onboarding, getting a customer, it is 20% cheaper today to serve a customer on the Plus platform, whether that's helping them when something goes wrong, et cetera, versus what it is on the classic platform. What we're suggesting is that that'll continue, that gap will continue to grow as we get more and more scale.

So, I don't know if that answered your question, but that's what I mean. The costs in Classic, if I will, so the main business, the costs to serve there are not going up, not at all. Maile and the team have a pretty strong productivity focus there to ensure that, because that's still where most of our customers have an ANZ experience, we want that to be a good experience, but we believe we continue to do that productively without necessarily increasing the variable or the marginal cost of service within the traditional business.

It's just the fact that if you're a customer and your channel is digital and you use ANZ Plus, there's many more self-service features in here than we have in Classic and many more than in our competitors. That means that people look after themselves, they like it better, and therefore the cost of servicing them from our perspective is far, far lower, and really importantly, generates a better NPS score in doing so, because customers have got more control.

Richard Wiles: (Morgan Stanley, Analyst) Shayne, maybe just to clarify, if you didn't have ANZ Plus, the costs wouldn't be lower at the moment in the retail Bank?

Shayne Elliott: I think that's broadly true, who's to say, Richard? It's a really good question, it's a fair question. I'd say broadly no, I mean there might be other things that are happening in the world that will move costs around in ANZ Classic. For example, the fact that people are using branches less and less, it's got nothing to do with ANZ Plus, that's just the reality, and even without Plus, the customers today are increasingly moving their transactions onto our ANZ app, our traditional ANZ app.

You can see the data in there for example, 68% of deposit accounts now in retail are opened digitally. So, that's already happening, so there is even within Classic, there is a productivity agenda that's happening because customers are behaving and choosing to behave differently. Plus just takes that to a whole new level. Or put it another way, just to finish it and round this out, I don't know what the maths is but the cost of operating Plus is even lower than the cost of operating - so the app on Plus, you know the digital engagement, is lower than the digital only engagement on ANZ Classic. Hopefully that made sense.

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

Shayne Elliott: Thanks.

Operator: Your next question comes from Azib Khan with E&P, please go ahead.

Azib Khan: (E&P, Analyst) Thanks very much. Shayne, you've expressed satisfaction with the diversification that you now have in the business. Can I take that to mean that you're not looking to change the current capital allocation in any meaningful way?

Shayne Elliott: That's a really interesting question. Depends on your timeframe, so not necessarily in the short-term, but over the long-term, who can say? I think the point is that we have options. What we've really tried to create here is optionality. Again maybe this is helpful, maybe it's not, to some degree we're like a fund manager and we've got $70 billion of our shareholders' capital and we've got these four stocks in our portfolio.

First thing is we're an active investor so we need to make sure that the four stocks are high quality, and we've got that and there's still more to do, but we've got four high quality stocks. How we choose to then allocate capital between them will depend on the circumstances that they find themselves in, the economic environment, where the opportunity is. Where we had the best opportunities for today.

What we've spent a lot of time talking about today in this result is hey, if you look back over the last 12 months, actually and prior, where a lot of that opportunity has been in our institutional international network, because of our competitive advantage and payments processing and currency. So, we've put more capital to work there. Now the good news from your perspective is it doesn't need a lot of capital in order to generate benefits there.

But anyway, the question is, we have optionality. If I sit here today over the next year, it's unlikely to change very much. Over the next three years it's probably unlikely to change very much unless something in the environment changes a lot. But we feel pretty good about the balance that we have, but as I said, it gives us optionality.

Then the last point about it is of course the [knock] structure we've put in place is the next stage of that optionality. Now at the moment almost nothing sits outside the Bank, so in the non-bank there's almost nothing there, but that's another option for us in the future. Our strategy has been to build flexibility and optionality into our business so that we have the ability to flex. Look, I tell you what we do feel good about today.

Today is the absolute right time to have that optionality. To have choices. To be able to invest in payment processing or international institutional or a New Zealand or our Commercial Bank and not be a one-trick pony stuck in one business servicing only one customer segment. So we feel good about the optionality. It’s our job to use that optionality wisely over time.

Azib Khan: (E&P, Analyst) Shayne, looking beyond the near-term and thinking about the strategic capital allocation, where would you say you're overweight or underweight today from [inaudible].

Shayne Elliott: That's a good - I think it's another way of asking your first question but fair enough. Look, if you could waive a magic wand today and you know, what - you'd love to be able to put even more and it's set - first of all, the capital demands of the business are low but you'd love to put more into our processing businesses.

I mean these businesses are amazing. I mean we tried to give you a flavour of that today and let's not forget, those businesses are dealing with the world's best financial institutions and corporates. It's our ability to service and provide cash management platforms, payment platforms, currency platforms and to them, it's just a - it's a terrific business. High barriers to entry. Yes, you have to spend a lot on technology, you have to be really, really good at what you're doing. So you'd love to - we want to continue to grow those and we've given you a lot of the data in here. I mean, these things are growing really, really fast, right? High return and we want to put more into that and we will.

Second area, you'd love to put more capital into and we are, is our Commercial Bank in Australia. I mean our Commercial Bank looks very different, as I mentioned, to our peers. It's a deposit-led strategy as opposed to a lending-led and our sector, if you look at within the segments within Commercial, it looks again very differently to our peers. We'd love to put more capital into that and we are doing those.

So those are the areas you want to put more into and the finally in retail, it's not so much about putting more capital in, it's about really re-allocating the capital that we have within that business and clearly that's really the design around ANZ Plus. To move away from a more commoditised product-led strategy to a more financial wellbeing strategy on this sort of more ecosystem platform.

By the way, that is what we're doing. There's always a question of timing of how quickly you can make those adjustments. We're getting better at it but there's - it's going to take a long time to re-shape ANZ and I'm sitting here today feeling pretty good about how we've re-shaped the business over the last seven years to be where it is today and we've still got a long way to go.

I think the only other thing I would add to that is I don't - capital allocation is really important but it's not like we - one of the challenges at the moment and it's a good challenge to have, by the way, is all four businesses are good. Yes, okay, Retail has more challenges than some of the others today but you know, but it wasn't that long ago that institutional was the one that had challenges or New Zealand.

So the point about the flexibility is we have now four really good businesses and we - and we're not capital constrained. We showed that when we did our capital raising for the Suncorp Bank acquisition, that our shareholders are supportive and if we want to be able to invest organic capital or go to the market for capital growth, we know that that's an option.

So we're not holding anybody back. My job is to make sure that all four were decent, high-quality businesses to invest in and that's what we're talking about today.

Azib Khan: (E&P, Analyst) Just a second question on asset quality. There's a notable increase in institutional new impaireds in the second half. Is that driven by single name exposures or is it more broad based?

Shayne Elliott: If you want, I'll get Kevin to come up just to make sure we get that technically correct. Kevin?

Kevin Corbally: It's a very small number of individual customers but what I would say is that we are very well secured in those names.

Shayne Elliott: Yes.

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

Shayne Elliott: Thank you. Next question.

Operator: Next question comes from Brian Johnson with MST Marquee. Please, go ahead.

Brian Johnson: (MST Marquee, Analyst) Thank you very much. Thanks for the opportunity to ask a question and Shayne, I think it should be widely acknowledged that even though the share price mightn't look real flash today, you certainly have outperformed your peers over the year to date. The first…

Shayne Elliott: Thank you.

Brian Johnson: (MST Marquee, Analyst) The first question I had is just when we have a look on page 33 of the 4E, we can see that the ECL provisioning to the base case is 45.9%, the downside is 41.2% and the severe downside is 12.9%. Just intuitively, that looks like an incredible level of precision relative to your peers. Can we get a feeling how you set those weightings and then as a subset of that, if I have a look on page 89, I can see that

ANZ is the only Bank where APRA are actually taking an expected loss deduction over and above the eligible provisions of [270 to]...

Shayne Elliott: Yes.

Brian Johnson: (MST Marquee, Analyst) So can we just get a feeling on the weighting and how we should be thinking about the fact that APRA is saying relative to…

Farhan Faruqui: So I…

Brian Johnson: (MST Marquee, Analyst) …your peers, you don't seem to be as provisioned as well.

Shayne Elliott: Yes. Very good.

Farhan Faruqui: So Brian, I'll take the first question and I'll ask Kevin to add to the second one and also great to hear from you again, Brian. I think just on the collective provisions, it is - it does sound very specific but what we've tried to do is actually think across our geographies and our businesses to try and understand how we should consider the severe case scenario because the severe case scenario is not just applicable to Australia, it's also applicable to our international geographies and to our New Zealand geography.

As we thought about the environment globally today, we felt in that the international weighting towards the severe scenario shouldn't really change from what we had in the last half given everything that's happening from a geopolitical perspective globally but we did reduce the weighting of New Zealand and Australia to just over 12.5% so that the mix then created the outcome which as the 12.9%. So it wasn't designed to create a specific outcome, it was just the mix shift between international, New Zealand and Australia that arrived at that outcome.

Shayne Elliott: Yes, so it's an outcome of our diversification again.

Farhan Faruqui: Yes. Yes.

Shayne Elliott: Kevin, do you want to talk about the second one?

Kevin Corbally: Yes, I will come back to you on that but what I would say is, APRA don't actually set the CP levels. That's accounting standards and us but I will come back to you on the reconciliation. Yes.

Brian Johnson: (MST Marquee, Analyst) Okay.

Shayne Elliott: Thank you.

Brian Johnson: (MST Marquee, Analyst) Okay, so looking forward to the answer on that one. Just the other one, Shayne. If I have a look on slide 34 in the slide deck, you say that you've re-allocated or re-prioritised some of the investment spend.

Shayne Elliott: Yes.

Brian Johnson: (MST Marquee, Analyst) Could we get a feel exactly what you've done there?

Farhan Faruqui: So you're looking at slide 34 or…

Brian Johnson: (MST Marquee, Analyst) Slide 34.

Farhan Faruqui: Oh, yes. Okay. No, so that reprioritisation is largely refers to, Brian, the fact that we've had a reduction in some of our regulatory programs that sort of came off in '23. So notably, things like BS11 which I know, Brian, you've followed for a long, long time.

As some of those have come to a conclusion or some of the fact - some of the incremental progress that we've had on things like capital reforms et cetera, it's part of that re-prioritisation. So they've actually - we've been able to take our investment spend slightly down but then reprioritise that to growth and productivity which is now sitting at 62%.

So it's just more balancing those things but I think the other thing that we've done far more and continue to do better every year, is that we're being also very thoughtful around what we prioritise in terms of investment spending and very much aligned to some of the '24 priorities that you've seen with Shayne, we want to make sure that everything that we are doing is creating value and is aligned to our most important strategic priorities. So it is a - the bulk of it is the shift away from reg and compliance as programs have come off, Brian.

Brian Johnson: (MST Marquee, Analyst) So it's more that you've got some flex to focus on…

Farhan Faruqui: Yes, correct.

Brian Johnson: (MST Marquee, Analyst) …productivity as opposed to spend on reg?

Farhan Faruqui: Exactly. Correct.

Brian Johnson: (MST Marquee, Analyst) Okay, thank you very much. Thank you.

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

Operator: There are no further questions at this time. I'll now hand back to Jill.

Jill Campbell: Thanks. Thanks, Rachel and thanks everyone. Obviously the Investor Relations Team and others are around all afternoon if there was anything you suddenly think about but thank you so much for joining us today.

End of Transcript