TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the ANZ Institutional Business Round Table. All participants are in a listen-only mode. There will be a presentation, followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Ms Jill Campbell. Please go ahead.

Jill Campbell: Thanks, Kayleigh. Good morning everyone and welcome to ANZs Institutional Market Business Presentation. I'm Jill Campbell, ANZs head of IR. We're presenting today on the lands of the Wurundjeri people and on behalf of the team I pay my respects to Elders past and present.

The session is being recorded. It will be available for replay via the ANZ website later today. The presentation pack being used was sent around to you all earlier today. It's also available on the ANZ website in both the shareholder centre and the analyst toolkit and in the presentation section.

We've got three speakers this morning. Group Exec, Institutional, Mark Whelan. Our MD, Markets, Anshul Sidher and the Institutional Division CFO, Romesh Curtis.

They'll speak for around 25 minutes after which we will go to Q&A. We're going to aim to finish around noon but we're conscious that we don't want to cut questions off.

So, in the, hopefully unlikely, event that you didn't get your question in, please contact the IR team this afternoon and we'll sort that out. With that, I'll hand it across to you Mark.

Mark Whelan: Terrific. Thanks, Jill. Welcome everyone and thanks for joining us today. The main purpose of today is to talk to you about our markets business building on the session we had in September last year on our Payments and Platforms business.

We'll explain what it is we do. What we've been investing in and what makes our market business different to its peers. Now we're going to keep it relatively high-level today but there will be opportunities to go into more detail in the Q&A and also in future sessions.

Markets is a critical element of our customer proposition for institutional customers and it's very high returning. Our Markets Team is a whole of bank resource with global distribution capability, supporting retail, commercial and institutional customers.

As mentioned in the Payments and Platform session last year, our institutional business is well-placed to grow profitably and support our customers globally.

The institutional business has transformed since 2016 and today is a very different business. As an example, today's revenues are evenly spread across our three core products with transaction banking, corporate finance, and markets each contributing one-third of revenues each.

Last year, each product line achieved more than $2 billion in revenue and in comparison, in 2016, 45% of our revenue came from capital-heavy loans in corporate finance.

So you can see that we've really transformed the spread of business. As well as diversifying revenue streams, we are focused on the quality of our people and risk management. Today our employee engagement scores are at world best benchmarks. Our risk management processes and being accountable for all elements of risk is part of our culture.

As a result, credit losses have reduced in line with our focus on risk management and most importantly the quality of our customer base.

We are focused on 6,300 high-quality customers who value our product, services and the network. We are focused on priority sectors with the highest return in growth prospects. Financial services and funds is an example. We've developed long-term and deep relationships with the best customers globally. Return on risk weighted assets is now more than double than that of what it was in 2016 at 1.59%.

We’ve invested in global technology platforms carefully and consistently over the past seven years, simplifying our tech stack and ensuring we’re well positioned for what comes next.

The institutional business today is very different and is well positioned to maintain strong returns going forward.

The business mix, quality customer base and culture are all drivers of this business. We are using our high returning geographic network and particularly our access to Asian markets to give us a unique competitive advantage and customer proposition and this is particular true for our Markets business.

Now, as I've mentioned, we have invested in technology and systems over the long term. As we discussed at the September Payments and Platforms Briefing, we have simplified the network and technology supporting our business. We have invested in connecting single product platforms for the globally integrated right across our network. We call this the digital backbone of our business and it allows our teams to work easily together regardless of where they are located.

Our FX team in Jakarta uses the same tools and customer information as our Markets teams in Singapore or in New York. We have one credit management system for our large customers, one global trade system, one global loan system and one customer onboarding system. In Markets we use a system we developed called Sky for markets pricing, valuation, profit and loss and risk management. It's used by our Markets team, Group Treasury, Finance and Risk teams globally and much like our payment's infrastructure, it was developed in house.

As a result, we have retired 134 technology assets and systems supporting the Markets business over the past eight years. We have invested consistently in our technology systems and will continue to invest in our strategic platforms. Consequently, we have got a strong base that we use to create value for customers and shareholders and also, importantly, to manage our risk. As a result, we believe our network is unparalleled. Our network of 29 markets, particularly focused on the Asia Pacific region and connected through the digital backbone provides us with a unique and powerful differentiation for our domestic and international competitors.

When you add together the components of this business, the leading Payments and Cash Management business, which we took you through last year, a geographically diverse and specialised Markets team, deep relationships with customers resulting in them naming ANZ as the most reliable source of funding and long term and careful investment in technology, it's clear that our strategy is adding value for customers and shareholders. We are a more diverse business than ever before, but more importantly, a high returning business with sustainable opportunities.

Now, the Markets business delivered $2.1 billion in revenue last year. So, I'd like to introduce Anshul Sidher to you. Anshul was appointed Managing Director of Markets in August of last year. In just a few moments Anshul will take you through the drivers of that revenue and the strategic relevance of our Markets offering. He will be followed by Romesh Curtis, Chief Financial Officer for ANZ Institutional. Romesh will then explain how Markets operations impact the Group net interest margin, which is a technical issue that some of you have asked for more detail on.

With that, I will hand over to you Anshul.

Anshul Sidher: Thanks Mark and good morning, everyone. My name is Anshul Sidher and I have taken on the MD Markets role in August of last year. Just a brief background. I have been with ANZ since 2012 starting off as the Global Head of Rates and setting up the local Markets business in Asia. Over the last decade, my responsibilities at ANZ have spanned across leading our Trading functions, which included the balance sheet, our Capital Market business and our sales franchise in Asia.

Prior to joining ANZ, I was in similar roles at Barclays Capital, Dresdner Kleinwort and Citibank in Singapore, London and Frankfurt. Today, I will briefly talk to you about our Markets business, the revenue drivers and our strategic direction.

ANZ has the largest Markets business amongst the domestic major banks. What is unique is that 60% of Markets income comes from outside of Australia and New Zealand. We delivered around 10% of ANZ Group revenues, but the nuance is the business has the ability to produce strong results in both low interest environments like 2020 as well as high interest environments like 2023. Now, growing our returns and doing that consistently is a real priority for Markets as well as Institutional Bank.

Now, there are really two components to the ANZ Markets business. First, is our customer driven activity across sales, trading and capital market functions providing financing, hedging and investment solutions, what we call franchise in our results. The other component is really the work we do to manage ANZ's balance sheet under delegation from ANZ Group Treasury. In a sense, Markets is really the portfolio manager for the Bank where we optimise our liquidity portfolio and also manage the asset liability mismatch on our balance sheet across all our divisions.

For today's briefing I will give a bit more detail around our franchise activity which accounts for somewhere between 65% to 70% of Markets revenue for the cycle. I will talk you through four key business lines and the propositions they offer to our customers.

Starting off first with our Foreign Exchange business which had close to around $700 million of revenue to the cycle, is the largest and highest returning business.

Now, in a highly decentralised market like foreign exchange, competitive advantages come from really having access to deep pools of liquidity. Our unique geographic footprint and connectivity across our retail, commercial and international client base forms the foundation of our price competitiveness in Aussie and Kiwi foreign exchange.

We have built much of our foreign exchange infrastructure inhouse and unlike competitors we don't rely on white label to derive pricing. We have invested over $75 million in our Foreign Exchange infrastructure in just the last five years to build our proprietary technology. Now, that gives us a degree of protection from margin compression in what are really competitive G10 foreign exchange markets.

We are the number one bank in foreign exchange by market penetration and market share as has been reported in the Peter Lee Corporate Surveys in Australia. Now, another unique part of our Foreign Exchange business at ANZ is really the local market Foreign Exchange business in Asia serving family and multinational clients in the network.

Much of the local market foreign exchange suite services trade, expense and dividend hedging for large cap corporate customers, while also offering offshore risk management solutions for investors client base which ranges from banks to insurance companies. Now, today, trading in local markets spans from CNH in North Asia to INR or Indian Rupee or Indonesian Rupiah in India and Indonesia and has grown to be almost 80% the size of our G10 Foreign Exchange Trading business.

Moving onto Rates which delivers around $400 million annually in revenue and is centred on serving our corporate clients in Australia and New Zealand. Our key proposition in Rates come through our network where we comment Australian and Kiwi corporates, governments and our own Treasury to differentiated pools of global liquidity.

To give you an example, we link Aussie and Kiwi borrowers with central banks who manage these currencies as Aussie and Kiwi as part of their reserve management mandates and also insurance customers in Asia. These activities in the primary loan and bond market creates flows in currency swaps and ANZ is recognised as a market leader in currency swaps by the Peter Lee survey.

Much like Foreign Exchange, we also have a unique local market rates business in Asia supporting our clients in the network while also offering the diverse set of markets for risk expression in interest rate trading. What that helps us is really produce better quality trading returns at a much more diversified and lower bar.

Now, closely tied to Rates is our Fixed Income business in credit. ANZ is the go-to house for investment grade credit in the Eastern Hemisphere. We are ranked number one in primary market lead tables in Australia and New Zealand and number one in the investment grade secondary trading across Australia, New Zealand and Asia.

This unique positioning in covering bonds across Australia, New Zealand and Asia, makes us the bank of choice for asset managers who deal in investment grade credit in the Asian time zone. Right from super funds in Australia to large fixed income fund managers and bank balance sheets in Asia, ANZ is the port of call for offering and recycling high grade bonds through our deep secondary market connectivity. Our strategy of linking primary origination backed by strong secondary trading support also makes us a valuable partner for primary market issues who value the liquidity service we bring to the debt as a market maker.

Another pillar of our franchise beyond Capital Markets and secondary trading is our securitisation business in Australia servicing primary market placement or residential mortgage-backed securities and asset backed securities. Across our debt capital markets secondary and securitisation businesses, the credit business generates circa $200 million in revenue through the cycle.

Finally, commodities. Our Commodity business is centred around two key propositions, precious metals and energy trading, which includes carbon trading. We will talk a bit more about precious a bit later when we cover net interest margin, so I will focus on our energy and carbon trading capabilities here.

Now, unlike some of the Australian commodity majors, ANZ Business focuses on commodity supply chains between Australia and Asia providing risk hedging solutions to commodity producers and consumers while recycling risk in the region. Our typical transactions involve connecting producer and end consumer hedging flows across upstream producers in Australia, midstream distributors in Singapore and South East Asia and the downstream consumers in North Asia which makes the proposition unique.

We are also growing our offering in carbon capabilities to support carbon abatement and sequestering projects with a focus on ACCU trading in Australia. This remains an important part of our environment to market offering where we closely partner with our loan originating teams in corporate finance.

In summary, the way I think about the Markets business is that the most flexible way for the Group to deploy balance sheet, whether it be between cash and derivatives, or between asset inventory or bond liabilities packaged as investment products. With that background, I will briefly cover the strategic imperatives which we have outlined in the material we have presented on page 12 in the pack.

Across our asset classes Foreign Exchange and Rates contributes more than 75% of our customer led revenue through the cycle. We have a unique opportunity because of our network and customer flows to distribute Australian and New Zealand flow globally and to do that digitally. We are focused on continuing to build out our Foreign Exchange and Rates capabilities as we create what I call scale in the core of the Markets business.

Then we have a credit and liquids business, which tends to do well in risk-off environments, especially given ANZ's high-grade credit focus. Now, we intend to maintain what I would call capability to do well in risk-off environments with a focus on more fee-based revenue lines in both credit and capital markets.

Finally, what we call closed cyclical businesses, or business which do well in inflationary environment like commodities or even capabilities like repo, security financing, and part of our options business offer the diversification we need to deliver results consistently. We'll be looking to add selective pockets of diversified capability to enable us to ride economic cycles better.

Now, before I wrap up, that leads me to NIM. I have with me Romesh Curtis, our Group – our divisional CFO who will give you a more in-depth view of market's net interest margin. Just a brief word on that before I hand over. Our gold bullion lending business has some very specific implications for our NIM. I would like to make a few simple points.

Our bullion lending business is really focused on servicing our financial institution clients and is a very important part of our service offering. The NIM aspect of the bullion lending is very nuanced because gold, unlike currency, is a zero-interest asset. What that means is that the forward curve for gold is upward-sloping, or to keep it simple, the higher the level of interest rate, the steeper the forward price of gold. When we make these loans in bullion, or gold, we incur a funding cost that sits in the NII as an interest expense.

However, the way we recoup this cost is through the forward contracts in our derivative books, which feeds into other operating income. What really happens is that between the funding cost and the derivative returns, we are able to produce significantly higher returns, well above our cost of capital.

With that, I will pass on to Romesh to take you through Markets NIM in more detail.

Romesh Curtis: Thanks, Ansul and good morning, everyone. For now, I'll turn to the technical issue of how Markets activities flow through to Group revenue and how this impacts the Group net interest margin. This impact, and the classification of revenue between net interest income, or NII, and other operating income, OOI, is technical. I'll first start with three high-level points.

First, as Anshul said, the Markets business is run to optimise ROE and revenue. The business takes on activity that is accretive to risk-adjusted returns and revenue. Second, the business doesn't try to optimise the NIM or NII. That's because the NII and OOI breakdown in Markets is often in the outcome of accounting classification with NIM and NII representing an incomplete view of this performance. Third, because of this we tend to separate Markets activity when we present the Group NIM.

Nevertheless, we do get a lot of questions on how this NII/OOI classification works, and I'll take you through this detail with reference to the slide pack published.

Before we get into the classification of NII and OOI, I'd like to start with the impact of liquidity and Markets activities on the headline Group NIM and what this really tells us. It's important again to highlight that this impact, whether it's positive or negative, is an outcome of certain factors and very rarely a driver or indicator of returns or revenue performance. The impact of Markets on headline Group NIM is a function of two things: a mix impact and a rate impact.

So, for example, referencing the charts on slide 22, liquidity and Markets activity has had an adverse impact of 3 basis points on the Group NIM delta in the second half of '23, and all of this was a rate impact. in the first half of '23, the impact was an adverse 8 basis points of which 4 basis points was a mix impact and 4 basis points a rate impact.

Taking the mix impact first. This is fundamentally driven by whether Markets interest-earning assets grow at a faster or slower rate than the rest of the

Bank’s interest-earning assets. Because Markets interest-earning assets are lower-yield, if they increase as a proportion of the Group’s interest-earning assets, this will mathematically have an adverse mix impact on the Group NIM, and vice versa. You will be able to see this impact from the charts on the right hand side of slide 22. The first half of FY22 and the first half of FY23 were periods when Markets interest-earning assets increased substantially as a proportion of Group interest-earning assets and hence there was an adverse mix impact on the Group NIM.

Of course, it’s important to underscore that higher interest-earning assets, which are driven by either higher Markets activity or a larger liquidity portfolio, brings higher revenue, which can be either NII or OOI, and because these assets are capital light, a generally higher ROE. As we’ve previously said on this topic, our assessment of these activities is not based on the mathematic mix impact they have on the Group NIM, it’s based on the impact they have on ROE and revenue overall. That’s the mix impact.

Then you have the rate impact. The rate impact is driven by the increase or decrease in the ratio of Markets NII to Markets interest-earning assets. There can be a few drivers of this but one common driver of this rate impact is our Markets franchise activity when interest rates are higher. Referencing slide 23, this is really due to the accounting asymmetry between NII and OOI where the funding cost of positions is recognised as an interest expense in NII, but most of the revenue arising from this activity in the franchise is recognised in OOI, as Anshul outlined.

This asymmetry is most pronounced in the commodities portfolio and when short-term interest rates are higher. This accounting asymmetry is not unique to ANZ and some international banks with larger Markets franchise or fixed businesses have also referenced this reporting outcome in the last 18 months.

Looking at the charts on slide 23, you’ll be able to see a few things about NII and OOI. Firstly, you can see the correlation between NII and interest rates in the chart on the bottom left. NII, and specifically NII relating to commodities, in the teal blue, is more negative when short-term interest rates are higher, representing the higher funding cost through NII.

Secondly, you can see that when commodities NII is more negative, commodities OOI is more positive in the chart above, showing the revenue offset from the accounting asymmetry through OOI. This asymmetry has a rate impact on the Group headline NIM but as you can see, this rate impact isn't indicative of the overall returns or revenue performance.

For example, in the bottom right chart you can see that this ratio of Markets NII to interest-earning assets was 33 basis points in 1H22 when total Markets income was $812 million and revenue on RWA was 3.2%. This declined to just 1 basis point in 2H23 when Markets income was higher, at $958 million, and revenue on RWA was higher at 3.4%. This ratio of Markets NII to interest-earning assets drives the rate impact on Group NIM, but you can clearly see it's an incomplete measure of revenue and returns.

At ANZ, this asymmetry is most pronounced in our franchise business via our commodities activity. A large component of this is precious metals, specifically gold. As Anshul mentioned, the gold inventories and gold lending in this book have a funding cost that is booked as interest expense in NII but earning income through OOI driven by accounting requirements. When short-term interest rates increase, as they have done over the last 18 to 24 months, this impact in our reporting becomes more pronounced. It's also important to note there is no outright commodity price risk taken by this activity.

To summarise, there are good reasons why we separate the impact of Markets when we show Group NIM. These are outcomes rather than performance indicators. The impact of Markets activities can mathematically be shown as a mix impact and a rate impact but these impacts represent an incomplete review of risk-adjusted returns and revenue because an adverse mix impact on Group NIM from higher Markets interest-earning assets is generally offset by higher ROE, and an adverse rate impact on Group NIM that arises from the asymmetry between NII and OOI is generally offset by higher OOI. So, it follows that our Markets business is set up to optimise ROE and revenue, not NIM or NII outcomes. I hope that helps and I'll pass back to you, Jill.

Jill Campbell: Thanks, Romesh, and Kayley, I'll hand over to you to start the Q&A please.

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 speakerphone please pick up the handset to ask your questions.

Your first question comes from Jonathan Mott with Barrenjoey.

Question: (Jonathan Mott, Barrenjoey) Hi. Just a question for Mark. Thanks for the presentation, it's been very informative. If I take a step back and just think about the Markets business as a whole, we've been thinking about this business as a $2 billion roughly revenue stream now for probably four years, or maybe even longer than that but I think this is our first guidance that's provided.

Could you talk about the growth in the franchise, how much you're focused on it, and that this is a growth engine? Should we be thinking that that $2 billion is going to grow or is this just an ongoing lower capital-intensive higher ROE that builds a $2 billion revenue stream over the next couple of years?

Mark Whelan: Thanks, Jonathan. The answer to the question is yes, subject to. I do want to see it grow, we want to continue to grow it – I won't use the word conservatively but in a way where – I think I've said to you before I want to go up by the stairwell, not by the elevator because you can go up by the elevator and come down by the elevator if you don't grow Markets carefully.

Therefore, when Anshul and I talk about the future of the business, the idea would be we'd consistently grow revenue subject to us still meeting those return requirements and therefore, we want to stay well above cost of capital, we want to be growing the business in a way that supports the customer franchise, and we are actually growing our customer franchise again now that we have it in I think good shape compared to what it was in 2016.

We continue to look for diversification benefits, which Anshul touched on, in Markets to ensure that through the cycles that you see in the economy, we have enough levers within the Markets business to grow the revenue but also, more importantly, continue to maintain the ROE.

The benefit of the business to the customers is very well established, particularly in the financial institutions space but for us to continue to grow the revenue, it has to meet those hurdles of high ROE, above cost of capital, and be driven around the customer franchise, if you like, rather than the trading books. A lot of people associate Markets as a proprietary trading business.

We're not building ours that way. Long answer but ultimately, yes, I do want to grow it but subject to the return requirements being met.

Question: (Jonathan Mott, Barrenjoey) Can I just have a follow-up on that second part, because sometimes there are great trading opportunities. For example, you had a very strong first quarter in that December quarter that's just been completed and you saw the US 10-year rally over 100 basis points during that period. When you see a good opportunity like that, are you ever prepared to increase your trade VaR to some extent to make a bit of revenue or are you going to sit back and just let the client activity drive this?

Mark Whelan: We tend to focus on the client activity first and foremost, but Anshul, you might want to talk about how we handle that. It's a good question.

Anshul Sidher: Sure. Thanks, Jonathan. Exactly as Mark said, I think there's a high degree of correlation to the right kind of volatility in the market and the directionality there, and to customer activity we see. So, what we try and do is take managed risk, helping clients or customers take advantage of those opportunities, could be on the asset or the liability side, and VaR out and manage risk direction accordingly.

In terms of risk appetite, absolutely there's appetite to take advantage of opportunities. We just put a customer lens and that underlining of customer at the centre of that activity while we drive that risk.

Question: (Jonathan Mott, Barrenjoey) Do you want the traded number increase when you see the balance sheet side tick up when there's trading opportunities like this?

Anshul Sidher: Yes, absolutely. Just to underline, we have the opportunity and the flexibility to weigh in on these opportunities and resize the amount of risk we've got on, both through the balance sheet side, and I would say it is a franchise. Because as I said, there is a high degree of correlation between the external opportunities and client activity as well so we tend to get a good degree of positive correlation in that outcome within the business as well.

Question: (Jonathan Mott, Barrenjoey) Thank you.

Operator: Your next question comes from Matt Dunger with B of A.

Question: (Matt Dunger, Bank of America) Yes. Thank you very much for taking my question. Anshul, you talk about building out the Markets capabilities and just looking at the relative ROEs that you reported in FY23 on transaction banking around 36% versus the Markets division at 11%, what does it take to improve the ROE within the Markets division? How are you going to earn a better return on this investment that you're making into this business?

Anshul Sidher: Thanks, Matt. That's a very good question. I'll start off by saying, as Mark has pointed out, in the division there is a diversification of capabilities. Markets by definition is both an asset and liability side business. The role which Markets plays, and as I said in my earlier briefing as well, is ability for the division to be able to flex to both the asset and the liability side of the balance sheet, obviously built around the customer proposition.

Now, that being said, I think that the heart of the strategy is really to deliver growth and revenue but by growing on the margins the higher-returning businesses. For very deliberate reasons, foreign exchange is our largest business because that is the highest-returning business we have, and we will look to continue to scale that in the go-forward.

In the other business lines, and I'll put a customer lens on why we have those capabilities, customers deal with ANZ because we bring a suite of capabilities to them. To give you an example, a corporate customer [unclear] ANZ and [unclear] would want both foreign exchange and rate-hedging solutions.

Our financial institutions client are already the same clients really, are looking for both rate and credit capabilities. Another example would be almost all of our commodities customers are multiproduct customers. So, what customers really look for from the Markets business within the Institutional business is the suite of capabilities which are relevant to them, and which is the lens we put on when we are looking at the returns on the portfolio.

Now, in the go-forward, the emphasis is to while we continue scaling our core high-returning business like foreign exchange, is to grow the fee-based line within the RWA heavy businesses like fixed income and continue to add into what are very differentiated commodity propositions, which is not really capital consumptive on the margin to grow ROE.

Mark Whelan: That's good. I might add there, Matt. The strategy that we've taken for the division, which is why I did that spiel at the beginning, has been to get the right mix of our business and slant that obviously to the higher-returning parts of the business. As you call out, PCM is a really, really strong ROE business. For us to have sustainability, we have to be building that mix also off the customer base that we've got and therefore if you take that same principal into the Markets business – we're trying to do that in a divisional sense.

If you take that into the Markets business, we certainly would want to grow the foreign exchange side of it, which is the highest-returning side of it. Spot FX is a great – if I could choose one product that we do in Markets and only one product, it would be spot FX. Unfortunately, we can't just position the business that way. It has to be a mix of FX, rates, fixed-income, credit, commodities.

Getting that blend right does sometimes take some time and it also will shift based on the customer preferences. We're doing a lot of work around trying to grow the higher accretive businesses while at the same time get better returns in the ones that are a little bit more capital heavy. That is a bit of a journey but I think we've done a good job in the last few years. I'd hope that gets better going forward as well.

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

Operator: Your next question comes from Andrew Lyons with Goldman Sachs.

Question: (Andrew Lyons, Goldman Sachs) Thanks and good morning. Just a further question on the back of Jon's initial question earlier. Mark, you mentioned the opportunity for greater levels of diversification of revenue in the Markets business, which Anshul also mentioned, would be franchise focused. Can you perhaps talk in a bit more detail about where they will come from, and just, I guess, how you will manage the risk of introducing the business to new revenue lines?

Mark Whelan: Yes, I might start, and then Anshul you can take that. If I look at it from, the choice of customer is really important in that, Andrew. So, while we have been focusing on the higher accretive businesses in the division, in particular as you know around PCM. That's the first step.

The second step is actually to focus on the customers that can deliver that sort of product mix to, and so you will note in the last five or six years, particularly, we've gone really hard at areas like the financial institution space, particularly with funds and global funds, domestic funds, but also banks, because they tend to be using those higher ROE products.

It is the same across the division in PCM, but it's also actually relevant to the markets business specifically. On top of that, we've also looked for customers that operate in multiple geographies, and will deal with us in multiple geographies. Our most profitable customers tend to be those that deal with us in other – Australia and New Zealand that's our door opener, if you like, but then in one, two, three, four and in some instances, we've got customers dealing with us in 13, 14 countries in the international network. They become very profitable because there is a multiplier effect for us both in the type of business that we see with that mix but also in local markets.

Anshul touched on our local markets' capability, which is actually quite accretive for us, and is a differentiator for us. So, it's getting – it's the choice of customer that matches the network, but also then the mix of business that we're after. So, did you want to add to that specifically around markets, Anshul?

Anshul Sidher: Sure, Mark. So, thanks, Andrew. Maybe just to add to what Mark said, and making very specific. I think what we tried to do is really acquire scale in what is a differentiated proposition and it's hard to online that as I briefly mentioned in the initial update. We have, what I call, really strong differentiated access to liquidity propositions in foreign exchange, particularly, both in Australia and New Zealand, as well as in Asia, to our local markets business.

A really strong cross border proposition in our fixed income business, and what I would call a very differentiated proposition again in the commodities business. Now, you marry that to a core set of customers who deal with ANZ consistently and, as Mark said, tend to deal with us at multiple touch points in multiple countries, would be the focus of the business.

To make it specific in terms of clarity, we only have a local market business which is almost an annuity business for us now. Very stable to the cycle of a completely differentiated proposition. We intend to do more of that, but one focus is going to be a lot more digital delivery in foreign exchange, for example, and internal reach into commercial and retail in Australia and New Zealand.

The second piece would be adding on the more fee-based income lines in fixed income where the cross-border proposition is unique, and that includes, besides people, also the securitisation business in Australia.

The third piece is really the commodities proposition. I think we have a big role to play in the carbon space and the energy space, with the focus on Australia and Asia. To supplement all of that, Australia does more solutions with the capability of adding on to our mix in Australia in foreign exchange particularly, and in the rate space in Asia. So, I hope that gives you a bit of flavour of what…

Mark Whelan: The only other point I suppose to add there as part of the gross proposition is also to ensure that we do want to selectively grow our customer base, but I would underline selective. It has to meet the criteria that we've outlined before that has a link to Australia and New Zealand, but also that multiple geographic piece and in the higher returning sectors. That tends to be where we're focusing, and we have started to pivot to that new customer selection which will help the sustainability and the growth and revenue and return and more importantly in markets.

So, we're trying to build that business to remove that annual variability that you've been seeing which upsets everybody. But you can't take all of that out, because sometimes some years are more volatile than others and point to 2020, but ultimately that's the idea that, outside major events, that's what we're trying to get to.

Question: (Andrew Lyons, Goldman Sachs) Thank you for that detail, and Mark, just while I've got the microphone, I might as well try for one more. Your AGM commentary highlighted conditions in markets that started pretty well in 1Q, any comments on the extent to which that's continued into this second quarter?

Mark Whelan: Yes, look, I think generally the business has been in pretty good shape. I mean, we started as I would've expected, it's continued relatively well across all the business lines I'm pretty happy. I mean, I'm never completely happy bottom line, but it has gone as we would've expected.

You know this business tends to have – and we actually focus on having a strong first half because this markets business tends to be, if you get away well, you continue to have a reasonable year. I hope that continues. You saw that last year, and I would imagine that we will finish the half okay, and then the second half we're going to try and take out some of the volatility you saw last year. Again, that will depend a little bit on market conditions.

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

Moderator: Your next question comes from Brian Johnson with MST Financial.

Question: (Brian Johnson, MST Financial) Good morning, everyone. Just a few questions, if I may? Can I just come back to a subtle thing, the difference between the AGM commentary and what we saw at the first quarter. So, at the AGM on 21 December, the narrative was that – can you hear me, Mark?

Mark Whelan: Yes, loud and clear, yes.

Question: (Brian Johnson, MST Financial) Okay, so the narrative was at the AGM on 21 December that the revenues were in line with the second half 2023 which was $5.1 billion, and that the markets revenues were in line with the first half 2023, which was $5.75 billion. Nine days later, for the quarter, we basically saw the revenue guidance is now basically, in line with where it was at the first half 2023.

That implies an uplift of revenue of something like $80 million. I'd just like to understand, was the commentary at the AGM incorrect? Or where did the $80 million of revenue – did it come through in your business, Mark? Or did it come through in the non-markets business, the nine days?

Jill Campbell: So, it wasn't that the AGM or the 1Q either of them were incorrect, BJ, it was the AGM as you've said, was half on half comment. We hadn't closed off the half, obviously, and you would still – remember, even though we were into December, you're still seeing numbers coming through. In the first quarter, we've given you a PCP comparison because we thought that was more relevant given the trends that we'd seen in the markets business.

So, effectively, the markets trends, as Mark has just explained, had continued to be pretty good, and that's why we thought, a comparison to the first half, or PCP, given the nature of that business does tend to be to have a stronger first half than second half, we thought a PCP comparison was going to be more useful to you.

Mark Whelan: Yes, I think that's right.

Question: (Brian Johnson, MST Financial) Sorry, Jill, it is useful, but as I say, it's materially different over a period of nine days. I'm just trying to get my head around, was it in the markets business or in the non-markets business that we saw the revenue uplift between the AGM commentary and what we saw at the first quarter?

Jill Campbell: Well, we've given you – in the first quarter disclosures, we've given you a split, effectively, of a comment about revenue more broadly and markets specifically, so that would give you that answer, BJ.

Question: (Brian Johnson, MST Financial) That would imply that it wasn't in the markets' business then?

Jill Campbell: That would be the maths.

Question: (Brian Johnson, MST Financial) Right, and is that correct? Mark, is that correct? Because it's kind of different to what you said today.

Mark Whelan: Well, no, what I said today, was that we've started well…

Jill Campbell: Yes.

Mark Whelan: …and that came through in the quarter announcements that we made, the first quarter announcements that we made. I think there's an issue between the Group numbers and markets numbers here.

Jill Campbell: We split the markets numbers…

Mark Whelan: If I look at where we were – the start that we had last year, this is why we went PCP, to the start we had this year, I'm not going to give you the exact numbers, obviously, but the trends were pretty solid, to be frank.

Jill Campbell: So, that’s why we – if you read the first bullet point on slide 2 of the quarterlies that’s why we say, Group revenue was in line with the first half quarterly average with non-markets revenue broadly in line, and then we give you a comment after that that says, the markets businesses had a good start to this year with revenues a little better than the first half. So, the maths of that is pretty obvious, I would’ve thought.

Question: (Brian Johnson, MST Financial) Okay, that ends up in the markets business then. Okay, Mark, the second one is that listening to you today, you’ve built your proprietary pricing system, and I think you really should take a big pat on the back, it's fantastic that you’ve actually got single systems. I was just wondering, how we reconcile this kind of increase counterparty risk that you sometimes see unintendedly in the markets business?

So, for example, it wasn’t that long ago that we had a one-off credit loss basically flow through a Singapore trading counterparty in the oil business, we’d seen one in copper years ago, does this show up in the markets business or basically in the corporate finance business?

Mark Whelan: Yes.

Question: (Brian Johnson, MST Financial) How do you run it?

Mark Whelan: Yes, it's actually – that was actually in the transaction banking business.

Question: (Brian Johnson, MST Financial) Yes.

Mark Whelan: So, transaction banking is payments cash management, which you know we’re growing and the other element of that is the trade finance book. That was a fraud that occurred in the trade finance book, so it wasn’t associated with markets.

Question: (Brian Johnson, MST Financial) Yes, right, and how do you – but, Mark, when you take a position and you’ve got – in the markets business, you’ve got this counterparty risk, do you somehow hedge that away? Or how should we be thinking about that?

Mark Whelan: Yes, yes, Anshul can give you some insight to that. Anshul, do you want to?

Anshul Sidher: Yes, hi, Brian. Just to give you a quick flavour, we don't have any lending losses in markets, and any customer losses in the context of markets would really be on default on derivatives, okay, and to add such so that you have the exact background, they have been very tiny and very few cases. Probably, less than a handful where we had to close out. How we managed it, I think, there's a regulatory framework in place where we have, by definition of the regulator, the need to have an XP or what we call a CVA risk. We manage all the counterparties as coming through derivatives through CVA provisions and then associated CVA hedging along with that. Now, that gets reported under that CVA disclosure in the results technically.

So, if you look at that trend, I think it's been a pretty consistent story to what I just said, that market does not really have any lending or really counterparty credit disclosures of any scale or height.

Mark Whelan: Part of that book is also covered through – not all of it, but part of it is covered through CSAs right, and so if you wanted to go in deeper on that, BJ, we can actually do that, and it gets quite complicated when you get down to the credit counterparty risk, if you like, that we have in the book and how that is managed and hedged. We do some of that, depending on whether we can get matches to parts of that portfolio in the external market to hedge it. But it is quite a detailed area, but they do watch that quite closely.

But as Anshul said, there's very little derivative losses that you see or defaults that occur in the book, and sometimes we associate it if there is a major corporate that's gone down and we've had FX deals or derivative deals with them that we have to net out and we're in a loss position on those, and in a lot of instances, we are actually in a gain position on it, but it depends on the circumstances.

Question: (Brian Johnson, MST Financial) Fantastic, and Mark, just a final one, if I may? I understand how you are managing it for a total return between the non-interest revenue and net interest income, I suppose the sad thing is the market tends to focus just on the volatility there's been in the net interest income, and the other thing but could I just have a go at to work out whether I've got this correct? Rates rise, we basically see a funding drag through the net interest income, which is offset by again, in the non-interest revenues?

Mark Whelan: Yes.

Question: (Brian Johnson, MST Financial) But the other hunk of the markets business is that when we have a look at where you manage, for example, the replicating portfolio tractor, we can see bond rates fall, the gain goes – basically, the market to market gain, whatever you want to call it, that goes through the net interest income line or the non-interest revenue line.

Mark Whelan: We're just working out who's best to answer this one for you, won't be me.

Romesh Curtis: Yes, so that goes through NII.

Question: (Brian Johnson, MST Financial) So, that goes through the NII? So, just to clarify this because it's the issue, rates go up, at the short end, bad for NIM, bonds go up, bad for NIM, is that right? With the replicating portfolio or…

Romesh Curtis: Well, one's short-term rates and one's term structure rates, right?

Question: (Brian Johnson, MST Financial) Yes.

Anshul Sidher: I'll take a shot at it. So, basically to the bullion business, it's where you've got two lines, where you've got cost of financing that sitting in your NIM while the income from it which more than covers that NIM and some, comes through NII.

Jill Campbell: OOI.

Anshul Sidher: Yes, OOI, sorry.

Jill Campbell: Yes.

Anshul Sidher: The bond business is – the cost of carrying that in NIM is a completely different issue. There is no kind of volatility you are seeing where you've got two opposite lines increasing or decreasing the value you are seeing that in the bullion business.

Question: (Brian Johnson, MST Financial) Perhaps I'm just a little bit slow, as we both know. But if I have a look at slide 12, we can see maintain capability and lower interest rate environment, which I think is telling me as long bond rates go down, we get positive gains come through and it probably comes through the NIM.

But then if I have a look at the other slide on where the replicating portfolio is managed, it’s managed in this business where we know higher bond rates are good for it. I’m just really struggling to work out the dynamics.

Romesh Curtis: Yes, I think the other piece that’s missing here is that when we manage the liquidity portfolio, we’re effectively hedging interest rate risk, right? The delta hedging the interest rate risk, so there is no P&L impact from a parallel change in interest rates that will come through the liquidity portfolio.

Question: (Brian Johnson, MST Financial) But the capital requirement moves around quite a bit because the embedded gain or loss, correct?

Romesh Curtis: Yes, and we manage interest rate risk in the banking book for that as well.

Question: (Brian Johnson, MST Financial) Okay, so the ROE moves around? Okay, thank you very much, gents, really appreciate it.

Romesh Curtis: Thank you.

Mark Whelan: Thanks, Brian.

Operator: Your next question comes from Richard Wiles of Morgan Stanley.

Question: (Richard Wiles, Morgan Stanley) Good morning. I’d just like to ask a question about the impact of rate movements on the entire institutional revenue book. I’m not interested in whether it goes through other income or whether it goes through net interest income, but how does the lower rate environment impact institutional revenue?

What’s the sensitivity and is the revenue head wind from rates larger in the institutional bank than it is in the retail and business banking divisions of ANZ?

Romesh Curtis: Yes, so there’s a number of parts to that. Look, clearly you’ve seen in the institutional business a benefit that has come through from rising rates, particularly in the PCM business. I won’t give you a sensitivity on that, obviously we haven’t given that before so I won’t give that today, but you’ve got to kind of break that PCM portfolio into a number of components.

You've got a large portion of that book is a term deposit book for changes in interest rates, prima facie don't impact margins there. You've then got a proportion of that book that is linked to short-term interest rates, so essentially customers that contractually linked to short-term interest rates, so the delta or the beta impact is not as big.

Then you've got a portfolio where the rates are not linked to cash rates and therefore you do have some impact there. There is a proportion of that book that is impacted by interest rates, but the other thing to note is that there are also management actions undertaken all the time in that portfolio, including growing the size of the book to mitigate against interest rate impact, customer pricing to mitigate against interest rate impact.

Obviously, a lot of customers in the PCM book, what they really value is not necessarily just the interest rate they're getting on those deposits, but also the payments functionality that those platforms are delivering. There's a rate sensitivity, absolutely, but in addition to that, there's also a number of management actions that are taken to manage interest rate sensitivity in that book.

Mark Whelan: Yes. Just adding to that, Richard, the component parts of that deposit base mean that you can't just look at this as a linear outcome, one way or the other, because we will take management actions, some are more sensitive than others and we look to – I think, and I just talking to Jill about this, I think we should look to provide a little bit more detail to everybody on that and the breakdown of those deposits at first half '24.

Jill Campbell: Yes. No, we appreciate the curiosity, Wilesy, and we'll look to give you a bit more help on that at the half.

Mark Whelan: I think it's that we should do that in any case because I want to continue to grow that business so it's best that everyone understands those component parts of the deposit book; it's not just going to be a linear, one way or the other.

Jill Campbell: Exactly.

Mark Whelan: But we can actually manage it, which is what we're sort of building muscle on as well.

Question: (Richard Wiles, Morgan Stanley) Could I just try to phrase the question a little differently? The institutional margins went up more, or the institutional revenue benefitted more, from rising rates earlier in this rate cycle. Was that because New Zealand rates and US rates, in particular, went up earlier than Aussie rates? Or is it because institutional was more leveraged to rates than the rest of the…

Mark Whelan: Be a bit of both but Romesh, did you want to take it?

Romesh Curtis: Yes, Richard you're right. It is more the – it's a bit of both, but more the former. In particular, within our deposit portfolio, there is a little bit more rate sensitivity to dollars, US Dollars, than to Aussie or Kiwi.

Question: (Richard Wiles, Morgan Stanley) And so, when rates go down, do you think the performance for the institutional revenue versus the rest of the division will be influenced more by the timing and magnitude of rate moves in Australia versus the US? Or is institutional more leveraged than movements in rates generally?

Romesh Curtis: No, I wouldn't describe it as leverage. I think, as you said, there's a little bit more sensitivity to US dollars, or the US dollar rate and obviously again, it all depends on volumes as well.

Mark Whelan: And mix of the deposit.

Romesh Curtis: And mix of the deposits as to how that margin moves overall.

Question: (Richard Wiles, Morgan Stanley) Okay. Thank you.

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

Question: (Victor German, Macquarie) Thank you. My question was along similar line to Richard and I'll – it's slightly different though.

Mark, I think in your opening comments, you talked about the changes in the institutional bank that we've obviously observed over the last couple of years, five years or so, that you've made and ultimately, it's a stronger business, which we can see. One of those benefits obviously came from improved risk profile and lower impairment charges. But looking at your pre provision line and looking at return on risk weighted assets at a pre provision level, the real step up in returns as Richard was alluding to earlier came through in 2023 when rates went up. So if I look at sort of five years prior to that, the average return on risk weighted assets is about 1.5% and it was sort of moving up and down depending on how strong market income was, but it hasn't moved up meaningfully and then we see the step up in 2023.

As we're looking out into the medium term, what are your observations in terms of return profile for the business going forward? Do you think that it's more around opportunities managing risk graded assets while maintaining or growing pre provision earnings at a slower rate, or do you expect pre provisions possibly to continue to grow or is it ongoing benefits through the impairments line that you think will deliver better long-term returns?

Mark Whelan: Yes, Victor there's a bit there too. Most people feel and we get this question a little bit, that just because rates went up that's why we had such an improved performance. There's no doubt that helped, but we've been positioning for this for quite some time and while the rates went up there were a few other things that occurred.

We obviously had some risk weighted asset benefit through the Basel IV changes which affected and helped our return on equity. That's not going back regardless of what goes on. That is now set in – well, unless the regulators want to change it one more time – but we don't see that benefit going away. We're significantly more capital efficient, not only by the mix of business that we have in place, but the quality of the customer base, which is much higher rated than 2016, but also by the Basel IV benefits that we got in a capital sense, so that will stay with us going forward.

The second thing I'd say is that we've improved the mix of the business, as we've discussed, with more into PCM, more into Markets at a higher return business which also had some capital impacts previously which we got a little bit back on, and then less into that heavy loan book.

On top of that though, I'd have to say that even without – if we just looked at the loans that we're writing today and the discipline that we have on the pricing of those, these would be where we were in 2016, we require and this is a very good argument around actual real cross sell, that those loans get written at or above cost of capital. That wasn't the case in the past.

Now, a lot of that has occurred during that last five-year period, so it's a combination that I would argue very and that is the case a combination of factors Victor that got us the performance that we've had, which is why I have a higher degree of confidence that we can maintain sustainable returns above cost of capital compared to where we were back in 2016.

To your point around the provisions, the issue there for us is that – I've said this before, which obviously affects the returns as well, I've said this before, when there was a bad loan, we usually used to have the biggest cheque and were at the front of the line, right? We're very conscious of that and what we're trying to do – and I won't say we won't take losses going forward, but by dealing with the right level customers with the right mix of business you mitigate a lot of that.

Then you apply the fact that we're pricing for risk better than we've ever done and we're getting that mix of business and you combine all that. Certainly rates going up helped, but it was only one factor of a number of them.

Romesh Curtis: I think the other thing is that the sheer level of technology investment you've made in that business over the past few years and what that allows you to do, including the harmonisation of the credit decisioning, it's a quantum leap Victor on where that business was a decade ago.

Mark Whelan: In addition to that too, I think what we've tried to do is simplification of the tech stack is really important because it allows us now to have further opportunities to automate and have much better data, and everyone talks about data and you think well, how are you actually going to make any money out of it, the first thing is to actually get it as clean data and actually make it in a position where your customers are getting a better experience through the systems and we have visibility of their activity. That's what we're concentrating on next.

I get your point. I do tend to get – I don't get grumpy, but I do get grumpy a little bit about the fact that people just think it's a linear association with rates up and down. We're trying to get away from that.

It’s certainly part of it and we have to manage that, but it’s not all due to the fact that interest rates went up.

Question: (Victor German, Macquarie) No and apologies if it came across that way. I think the point around the risk weighted assets is also a good one and I mean based on my numbers you’ve got about 25, 30 basis points benefit from that, but that was industry benefits and I would be interested in your thoughts whether you see a risk of that being competed away given that everyone effectively had that step up and therefore they could potentially compete more aggressively for lending. It doesn’t sound like that’s the case that you’re seeing currently, that people are kind of pricing for risk weighted assets.

Mark Whelan: Yes. You broke up a little bit there, but I think under the Basel IV benefits were only from Australia, right and so, yes, you’re right, everybody got the benefit of that, but ultimately I think the additional benefit is that if you look at the risk rated assets, that’s improved significantly in our book more than others in my view because of the reweighting of the business to those higher rated customers particularly in the FI space.

Why are we being successful there? Anshul’s business is geared very much into servicing those customers, not only in FX but in credit, in local markets, in local market rates business, which is very appealing to a lot of the global funds wanting to get exposure into Asia and in addition to that, the payments and cash management services like clearing and others that we had, so it's a combination of all of those things that put us in a better position.

But certainly on the risk weighted asset side, we’re targeting customers that sort of fit that profile I just described to you which means we get the risk weighted asset benefit, but we think we get the highest return in product benefit as well.

Question: (Victor German, Macquarie) Thank you.

Operator: Your next question comes from Andrew Triggs of JP Morgan.

Question: (Andrew Triggs, JP Morgan) Thank you and good morning. Just a couple of quick follow ups.

First one, just zoning in on rate leverage again, I think you said at the platforms briefing last year that there was about $103 billion of operational deposits. Is that ultimately the number that really is the rate insensitive component of deposits within the institutional bank Mark?

Romesh Curtis: No. Andrew, it's Romesh here. No, not all of that is rate insensitive, so that's potentially the total book of the at call deposits, you might call them, but a large proportion of that the customer rates are contractually linked to cash rates, so not all of that but certainly a large part of that is not rate insensitive.

Mark Whelan: Yes, so we are able to impart or negotiate some of the rates if you like which means on the way up and also on the way down.

Question: (Andrew Triggs, JP Morgan) Mark could you give a sense of a split in that because you've given that number before.

Romesh Curtis: I don't think we've given it explicitly before like that so let's consider what we can provide.

Mark Whelan: Look I think we understand. We're getting the message you'd like a bit more detail on that for obviously analysis, but we'll talk to Jill and see what we can do to come up with something that gives you – it's pretty sensitive for us to do that now, I think we'd do that once we got the second half results. I get their point on it Andrew.

Jill Campbell: Yes, we get it Triggsy to give you a bit more analysis on that at the half when we can give you more context. We can't give you that today.

Question: (Andrew Triggs, JP Morgan) Yes, sure. Thanks Jill. Just quickly a follow up again on ROE for the market's business which was in the FY23 presentation. That 11% was broadly similar corporate finance whereas generally the pitch has been that corporate finance lending is pretty low and tight margins, low ROE and that cross sell juices up that return.

I can't understand then why – I would have presumed that the market's franchises are earning a better ROE than the lending business. I know cross sell involves transaction banking and payments as well as markets, but why isn't there a bigger difference between the two ROEs of those divisions?

Mark Whelan: I think we're in a bit of a journey here with markets. While we've been reshaping the division, we've also been reshaping markets around that customer mix that I talked about, but also that specifically too Andrew the product mix and getting that right takes a little bit of time.

If you break down what we've done within the division, what do I want? I want – I'd actually like 45% of my business coming from PCM right, not transaction banking PCM because it is and will always be the highest returning equity business and then I would go in order of markets, corporate financial loans let's call it and trade. Trade actually is a lower returning sort of ROE business and it moves around quite a bit.

It's important, because it actually does feed other things into markets, for example, the FX deal could come off the back of it, and we – it's sort of a product obviously that matches the geographic footprint that we have.

By the way, we're working on that, because we're looking at trade in a different light so we want to do more of the supply chain trade and do that through shared risk portals because we get greater risk sharing there and it's actually more valuable for us.

On the loan book, I've talked about where we've got – we're pricing the loans pretty much as cost of capital or above, and using that as a ticket to the dance to a degree, but I want that ticket to the dance to be as small as possible, so again, we'll continue to provide it, but we'll do it in a select perspective.

With regard to the markets, I still think we're on a journey here. I mean Anshul is setting across the desk looking uncomfortable because he knows that what I want here is, I want that ROE higher and because I'm not going to get all of the transaction business without actually – the transactional banking business, without providing other product services and so you have to look at getting the mix right and then within the mix of those products, the right mix within the products, which is why Anshul has focused very heavily on the FX side and the higher returning business of local markets can actually be very profitable for us.

But that again just takes a bit of time, so that's why I talk about markets being up by the stairwell. You know, we want to build it slowly, conservatively and on the basis of revenue growth, but more importantly, ROE growth. It has to have both and I think it’s improved over the last few years, but it’s still got a way to go from my perspective.

Is that helpful Andrew?

Question: (Andrew Triggs, JP Morgan) Thanks Mark, yes.

Jill Campbell: Last one thanks Kayley.

Operator: Your last question is from Ed Henning with CLSA.

Question: (Ed Henning, CLSA) Thank you for taking my question. Look, just really quickly. On Slide 14 and just kind of following up on the previous couple of questions, you know you talk about the markets business growing, you know, going up the stairwell and growing that $2 billion, but are you grabbing market share here or is it just the market growing and can you just touch around the competition. Do you think you can still go up that stairwell if competition continues to increase in this space?

Anshul Sidher: A very good question and I think at the heart of what this presentation was about as well. I think we are looking to focus not just on growing revenue but growing the returns and revenue and doing it methodically, which is why we have focused on where we have a differentiated proposition and looking to scale that, specifically in areas where we have higher margins and higher returns and also customers who are going to be with us sustainably through the cycle.

I think if you look at the capability mixes we had in there, there are parts in which we are leveraging our strengths which are not necessarily linked to just the growth in the market, but our capability mix allowing us to take a larger share in the market. That ranges from, as I mentioned, the differentiated pools of liquidity assets we have in foreign exchange, both in Australia and New Zealand as well as in Asia and scaling that with higher returning business. Looking at the commodity propositions in a very differentiated way, leveraging our network which is not necessarily something other banks can do and then thirdly, growing the higher margin of businesses within the fixed income business.

If you put that together, it's not necessarily dependent on just market growth, but I think just getting the scale we think we can in the Margin business.

Mark Whelan: Yes. I think Anshul touched there earlier too on the fact that we've invested in and built our own capability and pricing which means we're not reliant on other suppliers with this who tend to be taking a bit of a share of that profit pool if you like through the way that they have to execute, our competitors may have to execute, so there's an element of that.

I would, and it's pretty competitive as you'd expect in Australia, right, so we do see some growth options Ed I think in Australia and we'll continue to try and out compete to get a growing pool, so there are a number of factors – technology, quality of people, price capabilities, et cetera, et cetera, but we've got an opportunity there.

But internationally, I think with the Asian presence that we have in the local markets business, domestic competitors don't have that, but also the internationals have some of it and they're very good competitors, but we think we can – because we're focused on this key to the customers we think we can probably outgrow a little bit there. We'll see how – and that has been the case but we'll see if we can do more.

The final thing too is that we have not been good domestically at selling into our commercial banking, right, in markets. In fact, I get frustrated by this because when I rang commercial I tried to change it and I failed miserably, but the – and this in on our schedule now, particularly around some of the tech spend that we've had, we want to take that deeper into our commercial customer base, so we're working with Clare Morgan and her team about how we do that and create a better proposition, so I think we can go deeper into our own market. Then, if we get the right proposition, perhaps we can also help grow her market share there which we would have a benefit on, but we've been pretty lousy in that space Ed and that's one of the things that I want fixed.

Question: (Ed Henning, CLSA) Okay. Thank you.

Operator: That does conclude our question and answer session. I'll now hand back to Jill Campbell for closing remarks.

Jill Campbell: Thanks Kayley and thanks everyone and we were conscious that there would be a lot of question and there were. Thanks for those. We’ve run a little bit over. I am conscious though that some of you might have had additional questions, so if you ring either Cameron, myself or Pavita this afternoon and we can – if you need help and we can connect you with Romesh and Stuart and their team.

Thank you so much for joining us.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]