TRANSCRIPTION

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[START OF TRANSCRIPT]

Jill Campbell: Hi, everyone. Thanks so much for particularly the group that have come down from Sydney today. We really appreciate that. We know that getting in and out of airports and so forth isn't the most fun thing in the world. Today, we are presenting on the institutional platforms business. We'll have four speakers. Once they're finished, we will go to Q&A, and I'll also explain to you then about how we'll split up the groups too. We're going to take some of you over to the command centre in 839. There's also a demonstration space in the next room where there are a number of booths. I'll explain that again later on, and with that, I'm going to hand across to Mark.

Mark Whelan: Okay. Thank you very much. Look, welcome everybody, and thanks for joining us today. The main purpose is, as you all know, is to help you understand our institutional payments business and cash management, and also focusing particularly on our platform services. So there is a fair amount of content, but you'll note at the beginning of the packs that we've given you, we've got a jargon description. So that may help you along the way 'cause it is rather complicated. So, we're going to try and keep our discussions today at a very high level so you walk away with an understanding of what we're doing and why it's so important to the division, and there'll be opportunities to go into more detail on this in the future. We believe that we may have to have follow-up sessions simply because of the relevance to the business, but also there is some complexity in what we'll talk about today. As I mentioned glossary of terms in the slide deck, but we'll also try and keep it as jargon-free as possible as we go through.

Now, we will explain what it is we do, what we've been investing in and why, and how we've built what we believe is a sustainable competitive advantage as a result. The payments and cash management business is a very high returning business and is fundamental to our customer proposition. PCM has been a key plank of the division's transformation and repositioning over the past seven years. However, before we dive into the PCM business, I wanted just to provide a very brief recap on how we've reshaped the division since 2016 and the importance of PCM in that reshaping. Now, ANZ institution is a very different business today to what it was seven years ago, and I cannot emphasise that strongly enough, and unfortunately, it is still not widely understood. So, what is different? In 2016, our divisional return on equity was 7%. Our customer base was too large with many customers delivering sub hurdle returns. Our product mix was heavily weighted to lending at low returns and didn't maximise the full suite of our high-returning products.

Our international network was consuming far too much capital and expenses and delivering a return well below the cost of capital and well below that 7% I just mentioned. Our technology stack was complex and not integrated across our geographic network, and there was a history of regular credit losses as I was reminded by many of the analysts in the room. So today, institutionals ROE has improved to 14%. We are focused on 6,300 customers of very high credit quality, which gives us the dual benefit of reducing capital consumed, but also the risk of credit losses. Our return on risk weighted assets is now more than double that of 2016 at 1.59%. Our product mix is balanced with revenue generated evenly across lending, transaction banking and markets. Importantly, the return on standalone lending is at or above the current cost of capital. Our international network has reduced capital and expenses significantly, and that continues and now has a return on equity in the mid-teens. We've invested in global technology platforms consistently over the past seven years and have significantly simplified the tech stack.

Credit losses have reduced in line with our focus on risk management and the quality of the customer base, and our internal expected losses have halved as a result over the period. The business today is very different and is well positioned to maintain strong returns going forward. So now, I just want to talk briefly about how this was achieved, and I want to take you through the core elements of our institutional strategy. We've had a consistent and deliberate strategy to refine our business and earn us healthy returns throughout the cycle. It's been consistent and it's been deliberate for the last seven years. We've concentrated our efforts on high quality customers who value our product services and also our network, and we've developed long-term and deep relationships with the best customers globally. We're focused on priority sectors with the highest return and growth prospects, and that's namely financial institutions, you'll hear about that today, technology resources and energy and infrastructure, food, beverage and agriculture and sustainability. We're using our geographic network and particularly our access to Asian markets to give us unique competitive advantage.

The first step to do this, however, was making our international network fit for purpose and getting it performing well. We revised and determined a clearly-defined role, capital allocation and return expectations for each individual country. The next element was simplifying our technology and deploying integrated systems across our global network. This has proven critical to providing a superior customer experience and is allowing us to embed automation and provide clean data for more effective insights to our customers. Now we're using all five of the elements of the strategy, which you can see here to provide better propositions to our customers. Today, we're going into detail on our payments and platform capabilities as one live example of our proposition strategy, but I would emphasise it's probably been the most critical to our redefining of the business. Before I pass to Lisa who'll take you through that in more detail, let me talk briefly about our investment in technology and why it's been so important to the division.

We've even simplified the network and technology supporting our business, creating single product platforms that are globally integrated, single product platforms globally integrated. This means one global transaction banking system, one customer onboarding system, one global loan system, one global trade system, one cash management platform, one markets platform, and importantly, one customer service platform. Over the past seven years, we've spent $1.2 billion on this technology and capability built in institutional, which is now also being leveraged across the group, and we will look to take that into commercial, for example. The vast majority of this investment has also been expenses. It's not on the credit card, it's already been expensed. We've been deliberate and thoughtful in this technology spend, and we have excellent capability internally to develop platforms and solutions. For the most part, we've developed these tools and systems in-house and only partnered with external vendors when it helps us achieve scale. It's a really important point, and you'll hear Nigel talk a bit about that later on.

This strategy has created a significant advantage to ongoing capability build and is what we call our digital backbone. So, you'll hear about that a bit today. It's a term we use internally, but it's about this integrated edition of systems across all our geographies. We believe our digital backbone is a differentiator and a game changer for us as a division. Basically, it allows us to create a consistent customer experience across all of our markets and all of our geographies. It's one set of tools and products, one view of the customer bringing the best of the bank every time we interact with the customers regardless of jurisdiction. It is powerful and it's going to be even more powerful. It gives each of our customers a unique identifier and means that our network of countries becomes a truly digital and networked network. Previously, a collection of countries with different systems not integrated. Today, a network that is truly integrated providing a customer experience, which is the same wherever you transact with us globally.

This digital backbone is in place in 10 markets today and will be rolled out to all of our locations by the end of 2025. It provides real-time data, which is used for enhanced risk management, regulatory reporting, customer revenue generation, and significant automation opportunities going forward, whether that's in payments and cash management markets, debt capital markets or loans, and it positions us very well for future growth opportunities. Now utilising the technology, we will continue to refine our product mix to obtain optimum returns. This is important. That means more growth in payments and cash management, which we'll hear about today, a very high returning business, more growth in markets, and then growth in trade and loans, but specifically in that order, highest returning products that are very relevant to customers that are integrated through our systems. This is key to maintaining customer relevance but also high returns for shareholders. So, in summary, we're confident that the division will now provide sustainable returns. Why? The quality of our customer base first and foremost. We have deep relationships with customers that span decades and who we bank across multiple jurisdictions.

This is particularly true for our sticky PCM business. Second, we're working with customers who value us. They actually value our network and platforms and our deep banking experience, and we've earned their trust, particularly important when you're talking about payments and cash management and network is unmatched by domestic banks, you know that. But also, our international counterparts don't have a strong base in Australia or New Zealand, so it positions us both well against both sets of competitors. We have specifically targeted customers who want multiple jurisdictional relationships, but importantly are prepared to pay for it. Three, we've invested in technology and systems over the long term. As I've said earlier, we've invested more than $1.2 billion in our technology, particularly our payment systems, and we're going to continue to invest. Consequently, we've got a strong base that we use to create value for our customers and shareholders.

Then finally, our network. Our network of 29 markets, particularly focused on Asia and the Pacific region and connected through this digital backbone is now a unique and powerful differentiator. The international network is now delivering significant returns well above the cost of capital and is an asset that we can leverage further. So, in closing, we've built a model that is lower risk, higher returning and uses our robust technology, our systems, and our industry knowledge. We have a clear and simple consistent strategy that is well understood by the team across the network and within every geography that we operate in. So today I've asked Lisa Vasic, the managing director of our transaction banking business, Leigh Mahoney, who's head of our institutional digital platforms, and also Nigel Dobson, who leads and delivers the payments technology and processes within the group to share with you detail about our PCM business and why it's creating significant value for shareholders and why it's so important to our customer base. So, on that note, I'll pass to you, Lisa, to take us through the next piece.

Lisa Vasic: Okay. Thanks, Mark. It's great to be with you today. As Mark mentioned, I'm Lisa Vasic, the managing director for transaction banking globally. Let me start by outlining what our transaction banking business does. We partner with 4 1/2 thousand customers around the world delivering two businesses, payments and cash management, which includes our platforms business and our trade and supply chain finance business. Our discussions today are centre on the payments and cash management business, which I'll refer to as PCM, acronym number one. PCM is fundamental to our customers securely moving money and managing their liquidity to support their business. For ANZ, PCM is an anchor for developing deep banking relationships and provides circa 80% of transaction banking's profit courtesy of a materially high ROE.

Our customers depend on us to receive and make payments domestically and cross-border, to manage liquidity via cash pooling and sweeps to optimise cashflow and working capital, provide visibility, control and security over their cash, and importantly, to give advice and solutions on how to digitise their cash flow, use their data, build customer propositions and support treasury-related processes. We have a unique role to help our customers grow their businesses profitably and manage risk through integrating banking into their business systems, providing digital solutions to streamline processes, offering insights based on the data we manage, and most importantly, helping them improve experiences for their end customers. We play a pivotal role in helping customers move from traditional payment methods such as checks and cash to newer capabilities such as real-time payments. This is about the digital transformation, but there are four criteria that are really critical for our customers in choosing who they use as their payments and cash management provider. They are, number one, superior product including integration capability, channel proposition service, and banker capability.

Number two, data insights and thought leadership. Number three, and probably one of the most important, ongoing and long-term investment and commitment by ANZ specific to PCM capability, and four, our governance, risk management and contractual undertakings. We measure all of these metrics. As Mark mentioned, we have invested heavily and delivered in capability and capacity and have a great base from which to move forward. We have a dedicated industry and innovation team in addition to our product management that is focused on ensuring we stay current and effectively leverage emerging customer technology and industry developments. Our PCM products anchor our long-term customer relationships that we can then broaden to include the full in-store product suite. Being the leading provider of PCM solutions in Australia and New Zealand brings significant advantages to our institutional business. We are the number one in marketeer in both markets as rated by customers in the annual Peter Lee Large Corporate Survey, and we've led the market for more than seven years in net customer acquisitions.

In addition to our domestic position, our international network is unique and highly valued by our customers across the Asia-Pacific region, Europe and North America. Customers use our regional expertise and network to deliver banking services including PCM in countries such as Singapore, Hong Kong, and China, as well as countries where there are fewer highly-rated banking partners such as Lao, Vietnam, Indonesia, and the Philippines. As a result, we provide PCM capabilities to companies such as Amazon, BHP, Toyota Motors, American Express, Temasek, Lend-Lease and Izzy Industries to name but a few. The PCM business delivers significant income that is the characteristics of annuity income and operational deposits for our institutional business. Operational deposits are funds that are used to meet customer's day-to-day liquidity needs and require the underlying payments and collections to be categorised as such under ACRA and BAU regulations. These deposits are sizable, sticky and less sensitive to interest rate movements and form the core of our customer's liquidity management. As of the 31st of March this year, PCM held 103 billion in operational deposits on behalf of our customers, providing a considerable source of high quality liquidity for the group.

This represents 60% of institutionals overall deposit base. There are three elements that make our PCM business unique. Number one, our regional network, which supports customers moving trading capital across Asia- Pacific. Our network compares favourably to regional and global competitors who have broad network reach but lack the depth of relationships in our home markets. Number two, we're operating at a scale and velocity unmatched by our domestic peers. Number three, our long-term relationships with our customers, and there are two reasons why our PCM relationships tend to be long term. Firstly, we are part of our customer's day-to-day operations and business activities. Secondly, integrating our customer's enterprise resource planning with banking systems is complex. However, we are working very hard to make transitioning to ANZ seamless for our customers, and Leigh Mahoney will share some more detail shortly. So, when we talk about platforms, what do we mean? Platform services forms a part of our PCM business. These are the services we provide to our customers, primarily banks and financial institutions, giving them access to our technology, our processes, our systems and expertise to in turn deliver services to their end customers.

We have an enterprise-wide capability in payments, which provides the ANZ group with scale delivery and cost advantages, and Nigel Dobson will speak on this a little later. Our payments capability delivers revenue from both interest margins and fees. It is resilient throughout the cycle and creates economies of scale. It generates new revenue streams and increases operational deposits via intermediaries such as brokers, wealth managers, superannuation funds, and our core customer base, including government. Our platform service comprises correspondent banking, executing and clearing transactions in Australia and New Zealand on behalf of international banks. Client monies, enabling our customers to set up virtual accounts, also known as accounts on behalf of for their underlying customers, supporting both the stockbroking professional service firms, administrators, leasing companies, lawyers and property service companies. Agency services, offering other financial institutions access to our technology and expertise and compliance measures so they don't have to have a physical presence here in Australia or directly connect to local payment clearing systems. We can do that on their behalf.

Real-time payments, or MPP Agency, which allows our customers, including financial institutions, government agencies, and large corporates to use ANZ's new payment infrastructure to provide real-time payment services to their customers. ANZ has a long history as an intermediary or platform bank. Today we are the number one clearing bank in Australia and New Zealand with 60% market share, and we are the number one bank offering agency products. We're expert at settling transactions and delivering funds. In fact, we provide clearing services to more than 500 financial institutions. It is the strength of our PCM offering that drives opportunities and scale in our platform's business and gives us a credibility to deliver these services. Our customers want an experienced, innovative, and trusted partner that already manages regulatory risk exceptionally well. This is not something that can be easily emulated. Our expertise, digital know-how and deep relationships with our customers has created an opportunity for lasting competitive advantage, a lowered risk profile, and a diversified income stream with high return on equity.

To the end of the March half, our PCM business earns circa 860 million in revenue with a return on equity through the cycle in excess of 80%, delivering around a quarter of institutionals profit and circa 10% of ANZ group profit in the period. The PCM business is a small consumer of ANZ's capital, given the only credit exposures to overdrafts and corporate cards. Only 3% of institutionals risk weighted assets are associated with PCM. Our customers are highly rated. The nature of what we manage for these customers, they're operating cash flows are low risk making the overall PCM business low financial risk. Around 80% of our PCM revenue comes from net interest income and 20% from fees. In the platform space, it's around 60% from net interest income and 40% from fees. The income stream is sticky and sustainable, even times of interest rate variability, and with a large portion of the operational balances at fixed net interest margins and at a lower rate pricing compared to wholesale and term deposit funding. Our average relationship exceeds 10 years internum and has a low churn. Turning our attention to the financial contribution that platform services deliver.

In the first half of 23 platform services deliver about a quarter of PCM revenue and approximately 12% of deposits. Over time, we expect new income from the client monies proposition to fuel future growth. The number of accounts on the client monies platform has increased from 52,000 accounts in first half 19 to 411,000 accounts in first half '23, and growing. The customers that use client monies platforms are wealth and stockbroking firms who hold large pools of highly valued operational deposits. I appreciate that I've covered a lot of ground quite quickly. So, there are two points I'll make in closing. Number one, our leadership position in PCM in Australia and New Zealand and our unique regional network and technology provides us with a competitive advantage. Number two, our position is sustainable given the four following points. Trust, what we help customers manage is absolutely critical to their ongoing business operations. Strong financial commitment, particularly to build the expertise and ongoing investment in the payment, technology and innovation to support our customers. Three, the benefits of scale. This model works because we manage millions of payments daily and have capacity to grow. And finally, our globally relevant network. ANZ is the only domestic bank truly networked around the region, and it'll be very expensive and time-consuming to replicate. I'd now like to introduce Leigh Mahoney, head of institutional digital platforms. Leigh has been driving our customer digital platforms for the past 10 years and we've asked him to speak to you today about our platform services in more detail. Over to you, Leigh.

Leigh Mahoney: Thanks, Lisa. It's good to see that I'm not the only one here with a tie on today. So, for those of you that wore a tie, thank you very much. So, I'm Leigh Mahoney and I look after the digital experience for ANZ's institutional customers, which includes the integration of our platform services into our customers' businesses. Now, as Lisa mentioned, we have an integrated service proposition that relies upon four core platform services within the PCM business correspondent banking agency services, real-time payments and client monies that we onsell to our customers so that they can provide banking functionality to their clients. So, I'm going to cover four things today. Why integration is crucial to a PCM business, why ANZ is leading the market, why we have a niche market, and why our position is difficult to replicate.

So why integration is crucial to a PCM business. Providing critical banking services at scale is heavily dependent on integrating our solutions into our customer's technology environment and their business operations. I'm sure you've all used a mobile phone app or a web portal to do your banking. When we are processing transactions on behalf of other major financial institutions, that service obviously needs to scale up and reliably and efficiently process millions of instructions and transactions each day and be measured to the millisecond. To do this, we harness APIs, data security, and cloud technology to build automated payments and data integration between customers and ANZ. Customers initiate a payment or transaction in their system either manually or automatically, and the instructions are seamlessly delivered into ANZ systems and executed. So, integration is the key to offering wholesale banking services to clients. Aside from the practical implications of managing millions of transactions each day, integration offers opportunities for customers to create efficiency through automation and straight through processing.

ANZ has more customers using integration technology and platform offerings than our competitors, with 59% of customer surveyed in the Peter Lee large corporate customer research using ANZ's integration tools, and I attribute our success in this space to three things. Firstly, exceptional credentials and expertise in managing security and flexibility. Secondly, being able to mitigate transition risk by using proprietary translation technology. Now for customers, this means that ANZ can accept almost any file format and translate it into our systems. And thirdly, helping our customers solve business process problems through our custom workflow technology. A recent example where we helped a global insurance company to deliver Australia's first real-time insurance claims process. All three factors are a function of the depth and expertise here at ANZ and are a product of the decisions that we've made over the past 12 years to build solutions in-house and partner with customers to tailor our offering to their needs, using the same building blocks each time.

So why is ANZ leading the market here? Well, our experience shows that without a suite of highly flexible ready-made integration tools, customers really struggled to incorporate external banking systems with their enterprise resource planning or treasury platforms. Customers need a knowledgeable experienced business partner to deliver integration for them. The cost of doing it for themselves is high, both in dollars and in risk. Our solution, we call Fileactive, is the number one banking integration tool in the market and it was developed in-house here at ANZ. In the Peter Lee research, customers rated Fileactive number one across all measures including functionality, message and file delivery, data management, and integration. We have more customers using integrated solutions than any other bank in the region, and demand is growing. More than 210 million transactions were initiated and over 1 billion processed using Fileactive last year.

Fileactive reduces operating risk for customers, supports scaling capacity, and helps us partner with our customers to manage their day-to-day operational risk. We're also focused on helping our customers improve their systems and processes to take advantage of opportunities created by richer payment data enabled by the latest ISO standards, new payment services like PayTo in Australia, which is the modern real-time replacement for traditional direct debit receivables and real-time payments. So, while we have a niche market, our real-time payments agency service is a great example of a market niche that has been created by offering platform services coupled with integration tools. Seven years ago, ANZ invested in building the infrastructure systems and processes needed to connect ANZ to Australia's real-time payments network. And we built this infrastructure in-house choosing to build it once and reuse it many times across our retail, commercial and institutional businesses.

So, we built real-time payments for our own customers and then we created an agency proposition on selling our infrastructure process and systems to our financial institution customers and in turn enabling them to offer real-time payments to their customers. So, this means that as our customer's business grows, so does ours. We've also taken this approach for our same day domestic processing capability. Last year we processed 315 million payments through agency arrangements resulting in institutional processing, more payments for other banks' customers than for our own direct customers, creating new revenue from existing infrastructure. And importantly, as the industry changes from legacy payment systems to newer real-time platforms, we are well positioned to capitalise. We won 10 out of 11 real-time payment agency mandates as well as the Global Finance Innovation award for real-time payments.

Our bank customers real-time payment volumes have grown 43% compared to system growth of 22% and we expect this to continue. In addition to payment services, our client money solution that Lisa referred to earlier, combines our real-time payments and account management capabilities to create a self-serve cash management platform. Customers can create accounts on behalf of their clients, accept funds, and in the case of stockbrokers, as an example, allow their clients to begin trading instantly. At the half year, we at around 411,000 client monies accounts, which is nine times more accounts than we hold for our own direct customers, a sign of the success of this particular platform. Customers using these platforms can focus their product and technology investment on their customer value proposition and use our technology to power their business. Today we have a niche market based on long-term investment in technology processes, systems, and our deep banking expertise and experience.

So why do we think this is difficult to replicate? Well, we earned the opportunity to deliver platform services to large institutional customers because we have a leading payments and cash management business. And our platform offering relies on six factors, robust, resilient and efficient technology, deep banking expertise and customer relationships, quality processes, supporting global payment systems, infrastructure and regulatory compliance, a culture of closely managing operating risk. We've invested heavily in automation and monitoring tools to ensure effective service delivery, and you'll see more of this at our payments control centre. Keenly monitoring and leading industry trends, responding to changing customer demands, and effective customer onboarding and integration processes. All of these factors require specialist skills and expertise, significant investment, and time, meaning it won't be cheap, quick or easy to compete with ANZ. Delivering platform services is only made possible by the capacity built into the underlying platforms though, and I'll hand over to Nigel now to talk a bit more about this and how we continue to evolve to assist our clients in the new digital economy. Over to Nigel.

Nigel Dobson: Thank you, Leigh. And good morning to everybody. I'm Nigel Dobson and I look after the bank's end-to-end global payments capability as part of ANZ's banking services portfolio. Payments are the lifeblood of any bank. And Lisa and Leigh have covered the all important transaction capture elements of the payment lifecycle and the business benefits of executing well. Where my banking services team comes in is to support the business by linking transaction capture seamlessly with transaction fulfilment, and it's at its form. It's this perspective that I'll be talking to you about today. Five years ago we brought together a team of engineers, payment specialists, operations, and banking experts to create a single team responsible for payments processing, including technology build, run, change, and operations. This organisational change enabled us to create a set of enterprise payments platforms that not only support Lisa and Leigh's business, they also support the payment services requirements of the wider enterprise.

The development of our payments platforms has followed two guiding principles, one, build for reuse and scale, and two, self engineer and operate. These two principles have allowed us to create a highly efficient and flexible payments ecosystem for the bank, allowing ANZ to move away from a legacy environment, which was slow to change and very difficult to maintain. This approach has also allowed us to create capacity to innovate in areas where our customers are looking to leverage our expertise and more on this at the moment. As I've mentioned, our strategic payments platforms are enterprise assets supporting retail, commercial and institutional businesses in 29 markets covering over 121 payment types and accessing 28 different distribution channels. These platforms service more than 8 million customers, 24/7, 365 days a year. Each year, we secure and facilitate the movement of over 7 billion payments for our customers, which total $164 trillion in value.

Now our ability to create scale within ANZ and thereby offer services to other financial institutions has delivered strong ongoing return on investment in our payment systems and we're benefiting from both increased operational efficiency and resilience. We made the strategic decision to build a number of our critical payments platforms in-house, in particular our payments services and payments data platforms, as well as the integration tools that Leigh mentioned earlier. This decision recognised that as a domestic bank increasingly transacting around the region, we needed to be the best at holding, storing and moving money for our clients. We aim to be highly responsive and flexible and to be in control of the end-to-end value chain. Being heavily dependent on vendors wasn't going to deliver that for us, wasn't going to deliver what we needed. And our experience had taught us that when we were reliant on technology software vendors, changes were slow and we're often one of many customers waiting in line.

And we had very little control over the development roadmap and even less ability to onsell our payment services intellectual property to other FIs. Now we have much greater control over the design and development process, making it easier to prioritise and implement changes as the environment and customer demands evolve, as well as maintaining strong alignment to any changes in the bank strategy. Taking the build in-house or self engineering approach has allowed us to assemble an expert team of engineers and developers and we now retain the IP that goes into delivering our payments technology. Our payments engineering practise was rated in the top decile of engineering functions globally by Deloitte in 2021. And our banking and payments expertise informs the continuous improvement of our services as we innovate and work with our customers to meet their evolving needs. We've established a strong innovation credentials over time, and as Lisa mentioned, this is key criteria for customer retention and acquisition.

Our reputation for innovation leads customers to call us first when they want to know what might be driving greater efficiency or better outcomes in their business. In payments, the number one opportunity our customers are asking us about at the moment is digital assets and currencies. Customers are thinking about how digital currencies might change the way we hold store and move their money in the future. Digital assets and currencies are likely to be the next generation of our payment services, and we've built the flexibility through our engineering teams to engage in practical test and learn experiments with our customers. So in March last year, for example, we executed the first ever Australian dollar bank issued stable coin transaction using our A$DC, digital currency for the Victor Morgan Group resulting in a $30 million real value payment. And just to link that back to PCM, this would be a new form factor of Australian dollars that would be a new payment type for Lisa's business in the future.

Beyond PCM, we've been working with the environmentals team in Insto and in April this year we worked with the Grower Carbon ventures to successfully tokenize Australian carbon credit units and trade then using our Australian dollar digital currency with a settlement occurring in near real time. Now, we undertook this transaction as part of the RBA's Central Bank digital currency pilot where ANZ fully participated as a leading bank in four out of the 14 selected use cases. In a recent survey conducted by BNY Mellon, it was shown that 97% of institutional investors think that tokenization is set to revolutionise asset management in the future. And we see digital assets, tokenization, and decentralised networks as an emerging form of financial market infrastructure. Something we know pretty well. With digital tokens simply replacing the form factor of money and assets in the future. So, we think the main benefits are the potential for greater transaction efficiency and the mitigation of settlement related counterparty risk.

The process known as atomic settlement where two assets exchanged simultaneously and in real time can eliminate delivery versus payment risk, which today is managed by centralised clearing houses and largely exists because asset transactions occur on different market infrastructure to the payment leg of the transaction. And this is often why we have T+2 sediment life cycles. Our immediate customer opportunities are revolving around our nature-based assets, which is complimentary to our sustainability strategy. And this includes tokenized carbon, biodiversity, and reef credits. And these are the emerging asset classes where we believe the existing market infrastructure is very immature and in need of modernization, but we're also active in collaborating more globally. For example, ANZ recently, in fact, just last week, announced that we participated in a series of experiments, cooperative experiments led by Swift and 11 other global banks and market infrastructure providers, in an effort to prove that the existing Swift infrastructure network can be used to access decentralised networks, which will host the digital asset markets of the future.

And finally, our approach to innovation as a well-regulated institution has been firstly to build on our excellent engineering capability and secondly, to closely collaborate with our risk and market management experts to ensure we remain consistently within our regulatory perimeter. We've also maintained an open dialogue with our regulators and we share learnings periodically as we progress. So, in summary, our approach to exploring digital assets and other innovations is consistent with our approach to modernising our payments systems and leading in that innovation space for our clients. We develop expertise in-house, work closely with regulators to learn and educate and partner with customers to develop a range of commercially interesting digital asset solutions to solve the problems our customers will have in the future. Thank you very much. And Mark, back to you.

Mark Whelan: So, there'll be questions about atomic settlement later for all of you just to find out.

Lisa Vasic: You can take those.

Mark Whelan: Yeah, I'll take those. Yeah, exactly. I think that last piece was really just to take you through. We've got a very stable, substantial business today, but it is changing. Digital assets will be at the forefront of that and Nigel's working hard to keep us relevant in that space. So, look, thank you, Nigel, for the presentation. Also, I know I'm very conscious that we've covered a lot of information with you today and it can be complex and as I said, we will have further sessions on this, but also we'll be shortly taking some questions we can dive deeper into areas that you'd like more explanation on. But before we move to the Q&A, let me just summarise three key points that I think we wanted to emphasise today.

First, we now have a much smaller but much better and world-class customer base. This is important because quality institutional businesses are built on the quality of the customer base. And we've concentrated really hard on that in the last seven years. And with that customer base, we're providing a full suite of products today, not a heavy emphasis that as we did seven years ago on lending, but a much stronger emphasis on our payments and cash management business, our markets, and then lending. So, it's been reversed order if you like. We're doing that across multiple geographies, but I have to emphasise that the cornerstone with those relationships is the growing and highly profitable payments and cash management business that we've talked about today. That's the key. That is one of the big differentiators for us. Second thing I'd say is that we've reshaped the international network to be high returning and is now an asset to the division. It wasn't in the past. We had a collection of countries which we called a network they weren't networked, they didn't have technology, they weren't aligned to key strategy and they weren't focused on return. That has changed and this is now an asset, the international network is now an asset to the division rather than what we saw in the past, which was a financial drag. And I know you'll have many questions in this. We believe it is sustainable at the sorts of levels that we're seeing today. And finally, our investment in technology and process simplification is driving a true network. And what I mean by that, and it's being done through our digital backbone, which we've shown you today, but with significant growth opportunities and product benefits that'll come from that backbone being deployed right across all of our geographies, connecting our business and connecting it significantly with long-term relationships with quality customers. That's a powerful proposition. So, we've covered a lot. I know we want to get to questions, so I'll pass to you now, Jill, to take us through the questions and we're happy to answer anything that you may have. I'll sit on this side.

Jill Campbell: Lisa, put the microphone back up and as Mark put it, we fully appreciate this is the first time a lot of you have heard this and your brain's probably about to explode, so we'll get feedback from you after the session and that'll help inform how we need to follow this up, what we could do better, what we could do differently, et cetera. Andrew.

Andrew Lyons: Thanks. Andrew Lyons from Goldman Sachs. Mark, maybe a question for you, just looking at transaction banking more holistically, your revenue return on risk weighted assets over the past decade have basically doubled over a period in which we've basically done a full round trip on rates, so you can't put it back to rates. There's two questions, I guess. Part of this improvement appears to have been the mix of the business, which has shifted far more towards PCM away from trade. But can you maybe just talk about how PCM returns have actually developed over that period, particularly as you've built out this platform services business. What do the returns of that part of the business look like? And then I guess the second question, just in relation to the extent that you've had a lot of success in the PCM business, will that require you ultimately to offer more trade to your customers going forward and maybe see that mix shift a little bit back towards trade?

Mark Whelan: Yep. You can jump in on this too, Lisa. The heart of the PCM business is that it's really integrated into the customer activity. It's effectively we're managing their working capital for them, if you want to put it in really simple terms. Whatever their payments that they're making, the cash that they're collecting from their customers, the way that they're driving new growth in their business effectively flows through to us, which allows us to ingest the payments and then make the payments, but store the value. I think, what's the term you used?

Nigel Dobson: Captured fulfilment.

Mark Whelan: Captured fulfilment and store and fulfil. And so, there's a number of benefits that come to flow through to us on that. First of all, the first really important one is you're integrated with the customer, which means as they grow, we grow. We see more volumes and multiplier effect for our business, which is why we've shown those graphs of the number of transactions, et cetera that you see. So really important to the customer and they rely heavily on us. And as they're more successful, we're more successful, which is why we focus really heavily on high quality customers that really have those high volumes. And so, when you look at what happens through interest rate... So, where we make the money is obviously in fees, it's in the operational balances, in other deposits they give us through moving the cash into TDs and other and back. So, there's lots of flow that occurs. And so, as rates rise, obviously we'll make more money on that, but as rates will shift, we've really enhanced our margin management around that significantly over the period.

And then the final thing I'd make here is that we focus pretty heavily on customers that have this need, both domestic and internationally and multi-jurisdictional. And this is where the network becomes really important. We don't just do this for customers in Australia or New Zealand. We're doing it in multiple geographies and increasingly across several of those geographies and integrated, which again creates us in a sustainable position and allows us to get not only benefits from US dollar rate movements, but also Australian rate movements, key rerate movements in some local markets as well. So, there's a real multiplier effect on it, Andrew. And so, the upside for us, I think going forward is still significant. Even though we've got large market positions. I think in the domestic markets, we think there's significant growth offshore and this multiplier effect, don't underestimate it.

As customers grow and do more with GDP, we're not only doing that directly with our own internal systems, directly with our customers, but we're doing it with other customers' customers. That's what the agency business is, that's what client money is, client monies is all about. And we'll need to talk to those particular things with you more so you understand it more deeply. But we're basically banking our customers' customers, even though they're not directly with us, our main customer is, but their customers, which could be 416,000 accounts, I think is the number, means you get this multiplier effect.

So this has been a deliberate strategy. It hasn't happened by chance. We knew that if you looked at where our returns were in 2016, high emphasis, 45% of our revenue from lending, low return. Yet we had this asset that we wanted to build on and we put all of the major part of our investment into this part of the business because one, it integrates your customers, makes them sticky. Anyone can lend money. People can't replicate this capability very quickly, but you get multiplier effects in volume, which actually helps us with margins as rates move up and down. And also the multi jurisdictional piece of it means you get multiplier effects. So hopefully that helps. I can't remember the second part of the question.

Lisa Vasic: I can maybe answer the second part, if that's okay, Mark.

Mark Whelan: Yup.

Lisa Vasic: So, I think there's a couple of things to think about. First of all, our franchise has grown. So, if I look back to where we were probably 2015, 2016 in terms of where PCM, the number of customers we now have that have ANZ as their primary transaction banker has increased significantly, particularly across our home markets and throughout the region. So, the size of our customer base has grown. Secondly, as Mark said, it's our agency or our platform's business has continued to grow. We have through our risk governance, through our technology frameworks, been able to capitalise on changes in the market and acquire significant market share, particularly over the last four years, which is seen both in our correspondent banking business and our agency business have double digit growth. And we continue to see a lot of that growth continue as they start to evolve more of their business models.

So, I think that's a really important piece. So, the mix within TB, in transaction banking, has changed. We, on the trade side as well, we have also changed the composition of our trade book from traditional trade loans and focused more on the supply chain finance. Why is that important? It comes back to actually the PCM part, which is a lot of our customers data is so critical to the way that they manage their businesses and what we call that kind of real-time economy and also counterparty risk. So, it's really about growing our PCM business as a share of the whole transaction banking business. And then it's also repositioning our trade business to parts of it that we know is where our customers are going, such as supply chain finance, which also do generate higher returns as well.

Jill Campbell: Phillip.

Phillip: Hey, thanks for the opportunity. I know you've mentioned a few customer names today, but can you just specifically run us through a list of a few customer wins that's taken place over the last maybe couple of years as a result of the increased capability? Thank you.

Mark Whelan: Lisa, you can kind of...

Lisa Vasic: Yeah, absolutely. I've got to be careful because we've got to get permission from all of our customers, but maybe I can talk a bit by sector. So, in the client money space, there's been specific stockbrokers that we have worked with. We're now providing the core cash management account that sits on their platform. So, if you go across the market, you can probably see who have been some of the winners in that space and underlying that is an ANZ account that supports their customers with their broking activity. So that's probably one of the big areas that we've seen a lot of growth with.

The core customer base, COVID was actually really challenging in terms of most customers did not want to move their transaction banking during a period of what I'll call continuous BCP. However, we did have some key customers, Lendlease who we actually recently had present to our board was probably one of the biggest mandates here locally that we've had transition across to ANZ. And again, one of probably the largest customers on the ASX 200 and also very complex in terms of their transaction banking requirements.

We've also had more recent wins. And again, these are really looking at multinationals, you're looking at fig customers as well, particularly some of the insurers. And again in the correspondent banking business, a number of the banks. So, our key areas of focus remain in the financial institutions, also non-bank financial institutions where we're seeing above system growth. But we are continuing to see growth in our core corporate and institutional franchise.

And I suggest after this session, there's a booth in there called the NPP or the real-time payments paid to, really simply what we see, this is probably being ANZ's opportunity to really leverage and continue to grow our market. As we see this, the next buying decision, particularly for customers here locally, what is it really simply it helps our customers at the top end of the market be able to collect payments using the real-time payments network. It is not regulatory driven, it is voluntary investment that ANZ has decided to make to support our customers as they transition from traditional payment methods into real-time payment methods. And we see that really as being probably the next area where we're going to see some positive competition in the market.

Mark Whelan: We have one, some big government mandates, which are public as well, being obviously New South Wales' biggest bank, transaction banking business in the country and also more recently South Australian government. So, it's across different sectors and we are a bit cautious about mentioning the name simply because we have to first get permission that we're going to say that, obviously.

Jill Campbell: I might go to this side of the room just briefly. So, Ed.

Ed Henning: Thank you. Can you touch a little bit more on competition both domestically and internationally? Your domestic peers have obviously spent a lot of money on retail banking and SME banking. Are they coming back? Where are they at at the moment on the institutional side? And also you talked about the really high returns, especially on the payment side. Are you worried about a rogue player coming in and pricing really cheaply and can you just run through that please?

Mark Whelan: Yeah, can I start and then Lisa again, you, and Leigh maybe can also. The first thing I'd say about what we've built, and this is why I emphasise the digital backbone a bit because put simply all that is is that we're deploying one system that handles a certain product... If I've got loans or trade or markets, which we've traditionally built internally and use some vendors, but one system that goes to every part of the business that we operate in, so every country, if you think about it that way. Effectively that's the vertebrae, if you like. And then within the spine is that we've linked that through a single customer identifier, which allows us then to connect all of that from a data perspective, which means we can service the customer better, they get similar service regardless of where they deal with us, but we also get clean data for regulators and others.

So, it makes us more efficient, risk management particularly, and in an area of operational risk and cyber, this is really important. So that's quite important. We've done that for the network and we'll finish that soon as I've suggested. But there's a lot of that quality system and integration that we can take deeper into the group. So for example, with what we're doing, you're hearing the other banks are investing in their business banking space. We're talking with Claire now internally around what we can take down into her world to utilise what we've already built, whether it's in PCM, whether it's in trade, loans, financial markets, particularly how we can integrate and take that down rather than build new stuff there. And I think that's a real value, for us, proposition going forward, not just for obviously volume going through our channels, but also obviously allowing us a better proposition if you like to market for that segment.

But did you want to add...

Lisa Vasic: Absolutely, and maybe come back to the question on competition. So, I think each of the banks have obviously focused their attention on different parts of the market. ANZ's always had a very strong institutional franchise. We started off as a trade bank. So, for us it's very much in our DNA, and I know Shayne talks about that, having a strong trade bank means generally you have a strong corresponding bank recognising the cross-border element. And then for us it's logically that you have a strong payments and cash management bank. So we have been very specific with Mark's sponsorship about directing capital and investment into those three lines of business, recognising they form part of our customer's working capital. It's where you have the highest engagement with your customers to understand the needs within their business and also you can actually then strengthen and broaden out the full capability across the institutional space.

So, for us, this is about a full service proposition of which the working capital elements, PCM, correspondent banking, and trade really formed that anchor point of having those conversations. And particularly in a really data rich world, our customers are expecting us to provide insights to help them manage and provide prompts in their business today. So in terms of competition, we will always see competition. I take competition's actually a good thing. It keeps the bar constantly being moved and from a perspective is we don't see a lot in terms of our domestic peers, but they will always try and support their customers that are important to their franchise. So, I think that is going to be a continuum and I think that's a very healthy environment to be on.

In terms of new players coming to the market, we've seen fintechs come into the market for a long time, and I would like to be quite clear is we are a banker to fintechs as much as we see them as competition in certain spaces. And again, what they are bringing in is innovation into the marketplace, which we know from an industry and also from regulatory perspective, I think makes for a healthy ecosystem for our market. So, for us, we see those actually complimentary to what we're doing as a PCM business.

In terms of the price play... which I think where your question was going, Phil... You're always, and we've always seen, whether it's direct banking peers coming with a specific price play or we're going to see with monoline price coming with a price play. What we do know is a lot of our customers don't want to have multi-vendor relationships. It adds complexity into their business, whether that's through technology integration, whether it's through contractual obligations, whether it's through vendor management, what they would prefer to do is provide full service capability from a single provider on the assumption that that full service provider continues to innovate and keep the product set contemporary to support their business.

Leigh, I don't know if you want to add...

Leigh Mahoney: Yeah, just a couple of things.

Sorry, on the... Thanks, Mark.

The transaction banking platform, that's a market leading platform now for us in Australia and New Zealand and increasingly the globe. It's a lot easier for us to take that platform down and leverage a single asset into our commercial customer base as opposed to taking a retail platform and bringing it up, especially because of the complexity that we have with our customers and increasingly with regards to the product set that they use. So we're looking to leverage that down into our commercial segment. On the competition side, we speak to a lot of fintechs who are trying to or maybe attempt to directly join these networks and after they realise some of the complexity and the time and the cost that it takes to get direct access to these networks, the conversation quickly changes into how can we be part of the capability that you've built. And so I think that that's a real strong play for us and it's one of those things that I think that we'll continue to grow as we move forward.

Ed Henning: Sorry, can I just...

Leigh Mahoney: Gosh, so many.

Ed Henning: You talked obviously domestic players aren't doing a lot, fintechs you're trying to integrate with, but what about the offshore players? Are you worried about someone that might come in and play there and...

Nigel Dobson: Can I answer that question because I think the proof... I'd be thinking about that, because I wondered if a bit of that was part of your question.

Mark Whelan: That's where I wanted to go.

Nigel Dobson: Okay, all right.

Mark Whelan: You go. No, no.

Nigel Dobson: I'll jump in there. But I think the proof point that we already service the domestic payment needs of the major international banks really shows you that they've made decisions for their network countries and network customers that going over the high quality domestic player like ANZ for their domestic payments servicing is the right strategic choice. So, I think we've got the evidence because we bank them, we facilitate their payments, we connect with integration services as Leigh mentioned, and that's their strategy and they're very happy with it and they're very long-term relationships.

Mark Whelan: Yeah. The other thing just on that, too, is that with the international competitor... I know we're going to get to them all, don't worry. Even if we have to jump right into some coffee time... With the international customers, we're very careful of selecting. That's why I've concentrated, remember we've got 6,300, we'll build on that now, but we were 27,000. We were spreading, we were trying to do everything to everybody and we were leading with lending. So we were competing with Citibank and others in countries that we were just never going to, we were getting hammered. And so, we had the wrong proposition and to the point that Lisa made around, we are a trade bank, but we were not leading with the payments cash management and trade integration to get the, and that's where the value was. We're actually just trying to compete on lending. So, we've flipped that and what that's meant is we've chosen customers specifically that want an Australian, New Zealand piece, and or both and also are keen to be banking with us in Asia particularly because we're not really offering transaction banking in the US, right?

In Asia particularly, we are operating in a number of countries where and compete very well with the likes of Citibank, Standard Chartered. So our product capability is very good, but we're selecting customers who want both Australia and New Zealand league as well as the multi jurisdictions in Asia with what we can develop. And I think that's flipped the profile. So, we do compete with them, sometimes we lose, but a lot of the time we win and we've got a number of major companies... We haven't got permission to talk about those names that operate with us in multiple... Like 12, 15 jurisdictions either in trade, in supply chain, but also in PCM. So, it's not an easy market, but I think our proposition is pretty good and it's targeted. That's the big difference.

Jill Campbell: Brendan.

Brendan Sproules: Good morning, Brendan Sproules from Citi. I've just got a couple of questions, just on the mix of your current business at the moment. I think it's on slide 17, you show the deposit balances, which obviously actually fell a little bit during the last half and you show there that the operational deposits around two thirds. To what extent in this business are you going to get migration out of operational deposits into higher rate term deposits? We're familiar with this concept in retail and then I have a second question.

Mark Whelan: You can jump into on this one too, Lisa. But look, we get that all the time... As rates move up or as customers' operations and what they're doing themselves might be slowing or whatever, and then they've got excess cash, they'll maybe move it into TDs. You see that movement all the time. We do manage the margins in TDs as much as what we try and do with the operational accounts. So, you'll see that shift move up and down based on individual customer requirements, but also what's happening in the general economy. And you are seeing a little bit more active management of that as rates have gone higher as you would expect from customers, but it does move around. Did you want to add more to that?

Lisa Vasic: And I think the critical thing here is the classification of the deposit. So, we generally support and provide a premium to our customers, because they are operational deposits, because we have the payments, both the receivables and the collections to get that right categorization. So, customers will generally move things into term deposits when they've either got counterparty risks or they've got particular treasury policies that they need to do that. But we often find a lot of customers do not want to have to actively manage that portfolio because that's there to support the day-to-day working capital of the business. So, you generally find it's not as rate sensitive as what we'll call wholesale funds, which generally does go into the market to seek higher return. That's why you'll see it remains relatively stable and it's more about our customer acquisition. So, while we're bringing on more customers who are bringing more operational deposits both on the direct PCM business and also the platform's business is really where you're going to see the movement in that operational balance because once it moves into a term deposit, the classification changes and it becomes a wholesale deposit.

Brendan Sproules: And just my second question, which is on slide 20, you show us the split of PCM revenue into primary propositions and platform services. Now you've had a big pickup in the activity and platform services. How big is that or how's that mix going to change as we look out sort of over into the medium term?

Lisa Vasic: So maybe let me start where it's probably come from and then we can think about where it's come to. So, where it's come from is, if I probably go back three years, that was probably half of where it is today in terms of comprising about 21% by proposition, that was probably just over 10 plus percent. So, we anticipate this will continue to grow higher than system growth, recognising that intermediaries and different parties are taking a larger part of the market share in certain propositions. So, our growth will be pegged off the back of their growth.

Brendan Sproules: Thank you.

Jill Campbell: Motty.

Jon Mott: I have two questions if I could. The first one, there's some good buzzwords, full service proposition, digital backbone, all that stuff. When you pitch for a new business, use Lendlease or any of the others that you've been talking about winning, do you actually go through its competitive... State government's extremely competitive... Do you look at it at a product level even though you're providing what's the return at each individual product or they look at it at a customer wide. So yes, we're losing on this product but we're making on another product. How do you price to win that transaction? And then secondly, just another one, especially when you're doing financial institution transactions for another bank or a stockbroking firm or whatever it is, how do you manage KYC and AML? Because even though it might be your customer, it looks really bad if it goes through your platform and you're executing a lot of money laundering for a third party.

Mark Whelan: That last piece is really important.

Lisa Vasic: Absolutely.

Mark Whelan: So, you guys go for this.

Lisa Vasic: So maybe I'll start with the last question first, and this is where the strength of our correspondent banking business has served us very well in terms of really understanding what we call enhanced customer due diligence. And then being also operating in 29 markets and facing off against multiple regulators gives us a really good line of sight around not only where the market is today in terms of expectations around KYC, but where it is going. So, we work very closely with both of our internal teams in terms of our financial crime risk, our compliance teams, but also with the regulators. We're recognising this is a growing area that we take very seriously around what we call the operating risk associated with this space. So, we are disproportionately investing our capability in terms of compliance, in terms of our financial crime teams and particularly in terms of the enhanced due diligence, the transaction monitoring that Leigh referred to a little bit earlier, and that is a contrarian area that we'll continue to focus on.

In terms of the RFP element, PCM is highly competitive. Banks know the value when you go through and you are doing a syndicated lending facility. Our customers know that the PCM is the cream on the cake and that they want to give it to what they deem as their primary banking provider recognising the returns. Our customers are quite aware of the value of the business and they will look to leverage that. But what they're fundamentally looking for is capability and commitment to ongoing investment. I referred back to the average tenant being over 10 years. Customers don't like to move their PCM, it is not easily transportable. It takes a lot of technology integration effort. It takes a lot of business process engagement. So that's why if you are able to make sure that you can retain the customer and the franchise through that continual investment and capability and grow because you've got a clear part of differentiation, that's where you can actually generally build out the franchise and create that differentiated proposition.

John Mott: So, does that mean sometimes you've seen in retail banking for years you provide a great discount in the first year, then the longer you keep them, you make more money out of the customer and you're prepared to price very aggressively to win the transaction, win the customer knowing that it's the longevity where you make your returns. Is that how you think about it?

Lisa Vasic: Sometimes again, each customer proposition will be different. So, it'll be different. Some customers are much more fee sensitive, some are interest rate sensitive, some are very much capability in what I call transition risk, which is why Leigh's area, particularly in terms of the integration and translation capabilities are so critical. A lot of our customers operate on legacy infrastructure. The hardest thing for them is not about the demand side for new capability, it's actually how do they allow their systems to allow them to access new capabilities such as real-time payments. So, the services we can provide around helping them with that digital transformation is really critical for keeping contemporary capability in their hands and for their business. So, no two customers are the same. Price always is critical. After you go through that list of requirements in terms of a commitment to the business in terms of ongoing innovation, data thought leadership, product capability, transition and implementation services, it always, there'll be a discussion around price.

Mark Whelan: The capability piece, the price always comes into it, Jonathan, but the capability piece is really important. We're talking about the cash management and transactional, how they run their, it's their vein, their blood in their veins. So, we have to be able to demonstrate we've got the capability today to do that well and whether we can do it across jurisdictional... That's why... Jurisdictions, that's why the customer selection piece is really important for us and the ongoing investment, whether it's in cyber or whether it's in just product capability, very, very important for us to do that and having ongoing investment. But then the innovation piece also has to be at the front. So, we've won a lot of transaction banking mandates of recent years based on our data insights because we put effort into that so we could tell customers what they were seeing in each individual stores, for example, around different sales and some of the reasons why the demographics of the people going into the stores.

So, there's a lot of value added benefit that we try and bring into that whole bidding process, which wouldn't be visible to you, but the data and insights is critical. As we get digital backbone... I know it's a term that, I like it, a lot of people don't, but anyway, I like it. You can visualise it. The benefit of that is the data's going to be clean, first time ever, because we don't have multiple systems that aren't integrated. We're going to have single use systems that are integrated, cleaner data, much better insights is a key capability piece for customers going forward. And then you've got the other innovation, which is the stuff while we sort of sprinkled some... What we're doing in digital assets and digital currencies, because that's going to be the next level of innovation. Our systems have to be in a position where we're positioned for that when it comes. I'm not going to make a lot of money on it today, but it's going to be important to customers in due course. And that's why what we're doing in Nigel's team here is important.

Leigh Mahoney: I just had a couple of points if I may. The transition is hard, right? Customer transition is hard. The reason we are market leading is because we've invested a lot of money to make it easy so that if somebody's banking somewhere else, they can come across to us with a minimum of fuss and change to their own existing systems. I think that's one of the secret sauce elements around our success in that the AMLKYC, I mean the client monies platform, one of the hardest integration parts of building that platform is the integration upstream for payments out screening and then accounts in screening. So, it's tightly integrated up and down the stack. One of the challenges of building one of those systems and the data insights that Mark mentioned, you'll see some of that out in the booths later on.

Mark Whelan: We agonise that, that KYC is a really important question. I'm glad you asked it because we're hoping we'll get it. It is really important. I worry less, I shouldn't say this, but I worry less about credit today than I've ever worried, only because I think the quality that the customer base keeps us relatively safe. You can't rely on it completely. And where our risk management processes and focus and culture is a lot different than what it was in 2016. I worry more about this because that's the area that you need to have right. So we're uncomfortable about that all the time and that's a good thing because this is really important business for us. It's important to our customers as well, but very important to the regulators. So, we agonise over this.

Jill Campbell: Could you pass it to Triggs? Thanks.

Andrew Triggs: Thanks, Jill. Andrew Triggs from JP Morgan. I just wondered if you had any data or if you give it a sense of what the AsiaPac systems growing at in terms of the fee pool for payments and platforms and has ANZ growth been demonstrably strong without bearing out some of the advantages that you talked to today? And then just second point maybe around that KYCML piece. A lot's been made of Westpac pulling out of the correspondent banking business. Just interested to hear your thoughts on just how substantive the benefit that has been off that is sort of over, been a bit overemphasised.

Lisa Vasic: Can you just on the question, which angle are you looking at in terms of the exodus, overemphasised in terms of?

Andrew Triggs: In terms of the revenue benefit to ANZ from major domestic player exiting the fold?

Lisa Vasic: Yeah.

Mark Whelan: You can maybe mention how many customers we picked up. I think probably, yeah.

Lisa Vasic: So, I think correspondent banking requires significant investment and we've seen that pre the exit of one of our peer banks in that, and if you look at some of the FI metrics statistics and FI metrics is the global survey for correspondent banking. What we saw predating that was that there was a decline in a number of the other banks in terms of their market share. We were continuing to grow our market share and again, that's about that investment and innovation capability that is required for our financial institutions. So that really was provided, kind of an accelerant to a trend that we were already seeing across the business. And we were very clear around our customer selection when that event did occur around which customers were within our risk appetite, recognising back to the questions that we had earlier around the operational risk. And we'd already had conversations about our pipeline opportunities with those. So, we will continue to look to see where we can grow our correspondent banking. At 60% market penetration it's,

Lisa Vasic: You're kind of at that top point. But there is continued cross-sell, which is why the agency is so important because it's not just about the foreign, what we call the first leg into the country, but it's actually the domestic clearing that hangs off the back of it. So, we see those two very much hand in hand, and our agency proposition has served us very well in continuing to get the mandates on the correspondent banking side. So, it was an accelerant probably to the existing growth that was already there, but I wouldn't say in and of itself, it was the reason for that growth.

Mark Whelan: We also said no to a number of customers based on that customer selection piece that I talked about. And we want to be very careful about who we bank, not just lend money to, but who we bank in this space. So, there's a number that we said that came up, we chose which ones we wanted, went after them and got majority of them, but we said no to a number as well. It's a discipline that we have to have in the business. In this business particularly.

Lisa Vasic: And then just the first part of the question, which is really on the international franchisees, we've seen quite a lot of growth in our client monies, or what we call our virtual accounts, particularly around with a lot of the leasing companies throughout the Asia Pacific region. Similarly, into the insurance. Again, our strength is really around the non-bank financial FIs, and then also with some of the larger corporates. So, it isn't the same market penetration obviously as what we have in our home markets, but we're seeing the benefits particularly with Nigel's connectivity around the real-time payment systems in various jurisdictions about how we can stitch those together on behalf of our customers. And importantly, providing liquidity solutions, which we know is really important across the region where there is challenges around leveraging liquidity based on local regulations and customer proposition. So, we're very selective where we play in Asia based on our capability and obviously the customer selection process.

Andrew Triggs: I guess the question was, can you give us a sense of what the total market's growing at? Is it a low single digit, mid-single digit feed pool growth type market within the Asia-Pac region-

Lisa Vasic: For ANZ or for the general market?

Andrew Triggs: For the general system?

Lisa Vasic: For the general system, Asia still continues to grow quite strongly. Part of that has been obviously the real shift to real-time payments. If you look at the key markets of India, Singapore, Hong Kong, you've seen really accelerated growth in China into that same bucket as well is we are seeing that transformation now of payments being microtized in terms of it might've been one payment for X dollars. You're now seeing customers making multiple payments recognising that same because they can with a real-time payments. Also thinking about liquidity. So, we've got a general trend that's seeing the volume of payments increase and this is why scale and resiliency is so important for many of our customers and why they do look to AA rated bank with payments credentials because of the importance to be able to support that payment growth.

Mark Whelan: Whereas lending over there has dropped 30% in the last 12 months.

Jill Campbell: By us or generally?

Mark Whelan: No, generally. So that whole market's dropped in. And that's why you're seeing a bit of growth in the lending markets here and tenor growth, because a lot of the Asian banks are looking for where they can go to get assets. This business continues to grow and that's another reason why we like it.

Jill Campbell: So, we're going to go to Richard then John, and then we'll go back over here. Sorry Azib I'm not deliberately ignoring you.

Richard Wiles: Good morning. Richard Wiles, Morgan Stanley. Mark, in your results presentations, you disclose that the long run loss rate in the institutional business is now expected to be 19 basis points. Commercial is expected to be 53. So, you are suggesting that institutional is less than half as risky as commercial-

Mark Whelan: I'm not suggesting that, but it was-

Richard Wiles: The group's suggesting it. So, it leads me to a few questions around your credit risk profile. Firstly is you think institutional's lower risk than commercial across the cycle. Which do you think is more volatile? You think institutional will be less volatile than commercial if we have a downturn? Secondly, how do you think your 19 basis points for institutional loss rates compares with your domestic peers? Do you think your institutional bank is a lower risk institutional bank than theirs? Thirdly-

Mark Whelan: Yeah, I'll never remember all these. Can you-

Richard Wiles: I'll repeat them all for you, if you want me to-

Jill Campbell: I'm writing them down.

Mark Whelan: You're writing them down.

Richard Wiles: Thirdly, is Australian New Zealand loss rates similar to Asia or do you think one's higher than the other? And then finally, if 19 basis points is the average loss rate for institutional, and 50 pluses for commercial, and your commercial business is way smaller than CBA and NAB, do you guys think that your credit risk profile... Do you think you're a lower risk credit risk bank than the other three major banks in Australia?

Mark Whelan: I think the mix is... well, and it goes through cycles as you know, Richard. And I think you're seeing some pressure coming through in that sort of middle market space now finally, particularly in the construction area and smaller age care facilities and areas like that. So there's a bit of truth in that. So let me just start with us and commercial. We do have a lower expected loss and that's been a deliberate strategy because we wanted to bank... we had 27,000 customers in institutional in 2017. We didn't know 20,000 of them. We didn't. We were just lending money. And so, we've reduced it down to customers that we know, but really importantly, high quality investment grade customers who we think are of good character. There's some that we felt we didn't want a bank even in certain industries where they were highly rated, but we just didn't like the nature of the business.

So, we said no to them. And so, we've been really quite focused on the people that we feel want our services, but also we can trust in doing business. And I think that's been a big part of the reduction that you've seen in the expected loss rates.

Richard Wiles: And just lending.

Mark Whelan: And the second thing was lending, right? We're doing a lot of lending, so we've reduced that now risk weighted assets are going back up again, but only on the basis because we're starting to grow the business again and we're still doing high volumes of DCM and loan syndications and getting part of that. So, the strategy for us was to deal with less people but of higher quality, lend them less, get a better mix of business, which was more capital light. And therefore, we've seen that reduction. Won't mean that we won't have losses because, there'll be something that occurs, but I think the frequency of those losses will be lower and I think the size of them should be lower.

That would be what we're aspiring to, if I can put it that way. But our ROE still... we're at 14%, and we want to maintain that in those teens if you like. I want to continue to see it grow, but if you look at the ROE of the commercial business, it's much higher than that. So even if you've got higher expected losses in that business, I'd take it every day of the week and I'd certainly take it in small business because they're very profitable businesses. Much higher return on equity than necessarily getting institutional. So, our game is to be consistent and get the returns going to a quality level for a long sustainable period. You're going to get some volatility I think in losses potentially in commercial and small business because banks talk about that differently. But to my mind, there's still areas that you want to invest in because they're very high return on equity. You can take higher losses. I love the small business banking. I think we should be going hard-

Jill Campbell: And most of what we do in small business is liabilities. They've got two and a half times the liabilities to assets.

Mark Whelan: Correct. And lending. So, I think those franchises are still highly valuable, whether it's with us or with other banks is my personal view. What was the other...

Jill Campbell: Ultimately do you think you're less risky than peers?

Mark Whelan: On our Insto business less risky?

Jill Campbell: Yeah.

Mark Whelan: I wouldn't say... the peers tend to be more focused on in Australia and New Zealand and less in Asia. And they're actually doing some stuff. I'm seeing some growth in some of the peers investing in assets in the US and Canada. We do a little bit of that. We're quite selective about how much weight we put into those assets. We don't know the customers. While we don't tend to lend. I would say our customer base is exceptionally good. If we were able to share with you all the names that we are dealing with, this is a cream of customers globally that we're dealing with. Deliberate strategy and deliberate propositions to maintain relevance to them. I actually think it stacks up exceptionally well even when you compare it to just the top domestic companies, if I can put it that way. So I think we're in good shape.

Richard Wiles: So, there's this long held perception that you're a lower return and higher risk bank.

Jill Campbell: Not anymore.

Richard Wiles: The comment you just made on business banking versus Insto would suggest that because you're underweight in that space and overweight in Insto, you're still lower return, but are you actually lower risk?

Mark Whelan: I don't think we're anywhere near the risk that we were previously. And I think from an institutional perspective, our risk is at par with the others if not better with some of the quality of the names that we have, and with the growth opportunities we have with the mix of business. I think the share price gets weighed down because we are higher institutional. That's been the premise for a long time. I think that was very relevant in 2016. Because we were underperforming. If there was a credit loss, we're usually at the front of the queue. That was the reality of it. We've worked hard to be at the back of the queue first and that gets to the quality of the customer.

No, I've seen it a lot of time. It's really true, but it also is to the mix of the business that you're providing and what you're providing in the way of capital and lending, et cetera. And we've reduced that significantly. And we monitor that really closely. So, I think the value of the institutional business is probably undervalued, but you guys will be determinant of that eventually. But I do think the main point, it's a much different business than what it was in 2016. A much different business.

Jill Campbell: I do need to keep this moving along, so I bet John, I'm conscious you had your hand up for a while and then I'll just double check that there's nothing left over this side.

John Storey: Thanks, Jill. Mark, I wanted to just ask you about the international business. Slide 41 right at the back of your pack. Appreciate obviously you've done a great job in terms of how you've grown PCM, and I think that's reflected in the deposit franchise.

Mark Whelan: Yep.

John Storey 1: You've obviously had a big kick in the returns from international, going from 30 basis points to 170 during a period of time where US dollar interest rates have obviously moved up quite sharply. I'm just kind of cognizant and conscious of the fact that we are going into a different rate cycle now. Maybe just get your input on how rate sensitive the international business is, and what's the impact of rates go down on the international profitability?

Mark Whelan: Yeah, look, if rates go down, there'll be some impact on a revenue sense. I wouldn't necessarily say that translates in what we call returns... International was very focused on revenue in 2016, which meant we were lending money predominantly to anybody. And we had a very high cost base in the international market because every geography was running to its own drum. Well double-counting revenue, but single counting expenses. So, they thought they could drive expenses up. That was the reality of what we were dealing with. What we've done is we have deployed a different type of proposition to the customers there, selected customers, reduced the amount of lending. We certainly done more PCMs and the mix of the business is stronger. As rates go down, you'll probably see some revenue degradation there, but you're also, we are winning mandates every day.

We're trying to make that up with volume. And also, as this velocity of trade and PCM occurs, you get some benefit from that. And the mix of the business is significantly different. I think it's 55% of our revenue generation now in international is from our financial institutions area. Much higher quality, much higher frequency of volume turnover. And you'll see some rate movements move will hurt us, but the sustainability of the returns will be still there. Whether they stay at... we didn't talk about what the ROE was externally. I'll get into trouble so I won't be able to say that. But it was quite high. I think it'll come down a bit, but it won't go back to anywhere near what we saw it. And there's a couple of reasons for that. The mix of the business in the product sense and the customer segment sense.

But we've taken an enormous amount of capital out of international, be it because of the lending and the risk weighted asset reductions that we've had. But also, we've repatriated

800 million of capital out of Thailand. Returned it. We didn't need it. And we've done that clinically and surgically across a number of geographies. And we've also taken I think 600 million of costs out of the division in the last five or six years. Big chunk of that was international, because we've downsized and we've focused each country to have a particular role. They're all trying to be full service institutional businesses to a very small customer base. And that's where the cost burgeoned. So, it's much more surgical, it's more clinical, higher quality customer base, better product mix, lower capital usage, and a heavy focus on risk management and expense management. That's been it. And that's been disciplined all the way through.

And Simon Ireland, who's actually... and that's maybe another session we should have with you guys, can take you through what's happened in this period of time. It's a very different international business. And it's network now because we have single the digital backbone being deployed, which means you have single technology that's being put out into each country that's integrated, which means better propositions. So, it's a combination of all those factors. Rates will move up and down. Volatility in markets affects us in that part of the business a lot because the VIX is down at 13%. When SBV hit, it was up around 28%. That floats around. We've got big financial markets, local presence, but again, these things will swing and come around. But do I think that the returns are going to be sustainable through the cycle going forward? Yes, I do.

Jill Campbell: John, what we'll have a look for, obviously not just for you, but for the group when we do the results, let's have a look at whether we can perhaps give you a little bit more granularity around volume rates, et cetera. I also will need to check whether we'll have some market stuff in there, I'm assuming.

Mark Whelan: Yes. Yes.

Jill Campbell: So, we'll bring that back to the group.

Mark Whelan: But the international network was not an asset. It was a drag. And we called it a network. It wasn't a bloody... don't laugh, John. I know you've been telling us for years, but all of you have. And I agreed, right? But I don't think that's the case today. It's not the case today. And going forward, I think it's an asset that we'll leverage much more.

Jill Campbell: But I understand the question of sensitivity rates. That makes sense. I'm so sorry, because I've kept ignoring you. You're owed an opportunity. Go for it. But we do need to... we'll probably take one more after this and then we really do need to wrap up so I can show you some other things.

Azib Khan: Thanks very much. So, Mark, you've now got a division that's still delivering an ROE in the mid-teens. I understood from your opening-

Mark Whelan: I said I wouldn't by the way, you remember that?

Jill Campbell: Oh, stop [crosstalk]

Mark Whelan: I just wanted to bring that... I've got to get one back eventually.

Jill Campbell: This is when he goes and writes a paper that-

Mark Whelan: Oh, yeah. Keep it there. And I get that too.

Azib Khan: I understood from your opening comments that you're saying you'll try to optimise the product mix to try to increase the ROE. How high do you think the ROE can go? As you optimise the product mix? Can we expect the revenue mix to be more skewed to transaction banking? And can you please shed some light on the extent of revenue synergies between the PCM sub-business and the markets sub-business?

Jill Campbell: That's a tricky one.

Mark Whelan: Yeah, that's a tricky one. I think they're connected but not something... a lot of what we do in markets gets delivered through-

Jill Campbell: That might be something we need to come back to in the-

Mark Whelan: We can... maybe on that last one. Maybe the best way to answer this would be if you look back in 2015, 2016, we're making about 45% of our... I'll get the numbers a little wrong. So we can follow... about 45% coming through from the loan product. And it would've been about 22% from payments cash management, I would've thought?

Jill Campbell: Yep.

Mark Whelan: Yep. I want that reversed. And we're on that journey. We're about a third, a third or a third now between payments or transaction banking. A third into markets and a third into corporate finance. And by the way, when I say that to... remember in corporate finance, we've lifted the return on standalone lending. We've got very heavy disciplines in there on pricing sense now. So that has to lift its game, but we still want less of it ultimately in the mix.

So going forward, I'd rather some... I know you'll probably get a little uncomfortable with this, Lisa, I'd like to see 40-

Jill Campbell: I didn't plan [crosstalk]

Mark Whelan: 40% plus coming from TCM would be my ideal. And then markets say, I don't know, 30% and trade and loans making up the balance. So that would be 25%. If you can get to that mix, I think you've got one more sustainable business, and you've got a return on equity that is going to be sustainable in that mid-teens, or above, depending on what's happening with rates to the question that was asked before. Because that will affect it a bit.

John Storey: Keeping markets 2 billion.

Mark Whelan: No, we always manage... because you don't like us doing markets business, John, but it's a fundamental customer proposition, so you have to run it well. I get that. We resource it to a two billion, but I'd like to still see that move up by the stairwell. But I'd like to see this business up by the escalator if you like. If I can use those analogies. Because with markets you don't want to grow too quickly. You can open yourself up to all sorts of risk that you don't want. And our markets business is heavily oriented to the customer. And so, where we're investing in markets will be to financial institutions, customers, particularly, securities licences, capital-wide. And we've got very strong and deep relationships because of these relationships we're building through PCM, to be frank. So, I'd like to see more of that business markets. Two billion [inaudible], but I wanted the two billion to go to 2.1.

But I don't want that being done overnight because that's when you're open up too much risk. Whereas this business, we've got a different type of risk, which is more the risk that you asked us about earlier, but the volume and scale business you can get out of that is really strong and it's much higher return on equity, whereas markets are still lower than PCM.

Jill Campbell: So last one, and then for anybody, apologies-

Mark Whelan: I'll be hanging around if-

Jill Campbell: I've missed you, we will make sure to come back to you to make sure the question gets answered.

Speaker 1: Thank you. You clearly built a very strong network spine for the business across 10 countries for 1.2 billion. You've still got to roll it out to the remaining 17 over the next two years. What's the cost to do that? Or given the technology has been built with these single systems that it can be rolled out to new jurisdictions, is that mostly just integrating if there's any guidance about how much more it's going to cost to finish it?

Mark Whelan: One of the things we did in the division is we sort of kept our investment spend because it made you focus. And as we dismantling a lot of the rubbish in the business, we targeted the investment spend to where we wanted to grow PCM and markets predominantly. Also, we needed a loan system that was global. That's why we put some money into that, because we needed to manage that risk better. And we've deployed to 10 countries now, the backbone. We say 29 countries up there. We're not going to deploy it to Samoa. I mean that's not going to happen. But we have now built the muscle up on how you deploy. And we've done the big countries.

So, we will continue to do that so that we finalise the full network and get the benefit of that, but it won't be as costly as what we've had with the big countries getting out of the way. That's where the big dollars were spent. And look, the team is saying it's two years. I want it done in 18 months only because I want to get to the next piece that comes off this, which is the automation agenda I think coming out of that is going to be the next wave of productivity for the division.

Jill Campbell: Okay. Sorry, I do need to finish this up. So, on your name tag, you'll see that you've either got a number one or number two. That's not any inference about your quality. No one's come second. For those that have got a number one on their name tag, you're going to come with Leigh and Tony and myself. We're going to take you over to the command centre and fill it. I did check it is the command centre. We're going to do that now and then we'll bring you back in the next room. So, for the others, in the next room, we have a number of booths set up. Lisa alluded to one before, and we have team members at each of those where they'll be able to talk to you about things like the payment platforms, the NPP, I should say, et cetera. So, if I can just ask anybody with number one, if you can quickly come over to here and then we will take you over to 839, and bring you back promptly.

[END OF TRANSCRIPT]