# TRANSCRIPTION

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**[START OF TRANSCRIPT]**

Operator: Thank you for standing by, and welcome to the ANZ Update on Capital Position. I would now like to hand the conference over to Jill Campbell. Please go ahead.

Jill Campbell: Thanks, Darcy, and welcome, everyone. Earlier this morning, we put out an ASX release, an update on our capital position. We recognise that there were a number of technical aspects to that announcement, and so we wanted to offer you the opportunity to hear from us in a little bit more detail. We will walk you through some the detail, and then there'll be an opportunity to ask questions. I have with me David O'Brien, who's our General Manager of Risk Metrics, and also our Group Treasurer, Adrian Went. I'll hand over now to Adrian.

Adrian Went: Thanks. Thanks, Jill, and hi, everybody. Thanks for joining the call.

Adrian Went: Hi, everybody, it's Adrian Went here , I'll just start the session. As Jill said, we are conscious that some of this material is quite complex and so we're going to step through this gradually and give you an opportunity to ask some questions at the end if you do have any. Probably the easiest thing to do is to start talking through the numbers. Starting on slide three is probably the easiest way to do this.

I know many of you are probably very familiar with how the capital floor works. This was something that was introduced by APRA as part of capital reforms back at the start of 2023, so about 18 months ago. Essentially what we've been doing, as have the other banks, is calculating our risk-weighted assets under an advanced basis, as we've done for a long period of time, and also under a standardised basis. We're not a standardised bank, but we calculate our risk-weighted assets under a standardised basis, which is known as APS 112, a Prudential Standard. And then we are required to multiply those standardised risk weights by 72.5%. And the higher of those two numbers, the higher of the standardised at 72.5% and the Advanced risk weights, becomes our binding constraint, if you like, from a capital perspective.

What you will have seen prior Pillar 3 disclosures in particular, is that ANZ has been bound by that standardised floor in the past. And at the end of March, the impact of that was $3 billion of risk weights. You can see that on the left-hand side of the table on page three, that the standardised risk weights at 72.5% is $433 billion. Our advanced risk weights is $430 billion, therefore we have a capital floor add-on of $3 billion. I don't believe our peers are bound by that as this is largely a function of ANZ's business mix, particularly our Institutional portfolio.

What we announced today is that there's a few drivers that have impacted the overall capital position, including the way that that floor works. There's been a couple of model changes, and so these relate to our mortgage model in the case of the PD model or probability of default model that relates to Australia and New Zealand. In the case of the LGD model, that relates to Australia only. This is part of the normal process, we will go through model reviews and get those accredited by our regulator. In the case of the PD model, that was confirmed in the June quarter. And we've just noted here that by the end of September there'll also be changes going through the Australian LGD model as well. Okay.

The key thing to point out here is that because we were bound by the standardised floor, when you get a change in a modelled outcome relating to the advanced calculation or the IRB calculation, if there is no change to the standardised calculation, then it doesn't have a net impact on our capital position. Because you're bound by the floor, a change in the advanced risk weight therefore does not have a net impact. You probably have also noticed that ANZ's capital intensity of its mortgage portfolio has been a little bit higher than our peers. You'll have seen that in the Pillar 3 disclosures. The two changes that I mentioned will bring ANZ's risk weighted assets for mortgages back closer to the peer group. That's the first key thing to highlight is just around those changes to the mortgage models. David, anything you want to add on the model side?

No

Okay. Then, because those two changes prima facie do not impact on capital because of that floor impact that I mentioned, it's then important to talk about the other two drivers that have had an impact on our floor. The first one is the Suncorp acquisition. Suncorp at the moment is a standardised bank. The way the calculation works is we add the standardised risk weights for Suncorp into the ANZ consolidated risk weighted asset calculations. But because of the application of that 72.5% floor, the $33 billion of standardised risk weights that Suncorp currently has only has a net impact of $24 billion because you have to apply that factor to the standardised risk weights. In effect, that releases or provides additional floor capacity of $9 billion worth of risk weighted assets. That's the first impact.

The second impact relates to APS 112. And many of you will have seen APRA’s release regarding changes to 112 that came out a few weeks ago. One of those changes, it relates to the risk weighted asset calculations under standardised for our investment grade, but unrated corporates. And that's quite a large portfolio for ANZ, given the nature of our Institutional business in particular.

Under that new 112 standard, the capital intensity of those particular counterparties where they are investment grade does reduce. But that's only a reduction for the standardised calculation. Doesn't change the advanced calculation. And the impact of that post applying the 72.5% scaler or percentage is an improvement in the floor capacity of $12 billion worth of risk weights. The net impact of all that is you've got these two model changes going through relating to mortgages in Australia and New Zealand that reduces the advanced risk weights, but because we were bound by the floor, that didn't have an impact. Now we've got these other two impacts being the Suncorp acquisition as well as APRA's changes to 112, which released some capital floor. And then that has the net impact benefits on our capital position that you can see on the waterfall chart that we've shown.

Essentially, if I go back to page two, the 30 basis points towards the right-hand side is the benefits from that 112 change. And then within the 105 basis points of Suncorp impact is also the benefits from a floor perspective that Suncorp brings. Those net benefits are split between the 105 basis points in the waterfall and the 30 basis points in the waterfall. Okay. Net-net, you can see here it is an improvement in our overall capital position. And David, anything to add? All right. Sorry, that's all pretty quick and I know that's all lots of different moving parts there. But Jill, if there's anything else, otherwise we can go to questions.

Jill Campbell: No, I don't think so. I think time best use if we go straight to Q&A. Darcy, I'll get you to hand over to that please.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Brian Johnson from MST. Please go ahead.

Brian Johnson: Thank you very... Can you hear me?

Adrian Went: Yeah, sorry, you just broke up a little bit.

Brian Johnson: Fantastic. Sorry. Thank you very much. Thank you very much for the disclosures. Just a few ones, if I may.

Adrian Went: Sure.

Brian Johnson: Adrian, AmBank - the sale. I had thought that was coming through in the June quarter. When we have a look at it, you've got nine basis points from risk-weighted initiatives, net of the capital floor. But when I actually have a look at in the June quarter at zero in the risk-weighted assets, does the nine basis points include or is that mainly just the AmBank capital release?

Adrian Went: Let me just check which one that's going into, Brian. It could be either going into the first column or the nine. I'll double check and come back to you.

Brian Johnson: Okay. The second one, if you could, that'd be great.

Adrian Went: Sure.

Brian Johnson: The second one is just on Suncorp. This assumes that there are no fair value adjustments?

Adrian Went: Yeah. This is subject to the final completion accounts. This is the best estimate we have at this point in time. As you know, it can take several months to finalise the completion accounts, but these are the best estimates we have at this point in time.

Brian Johnson: And are they based on their figures as at June or as at March?

Adrian Went: No, I think it's June.

Jill Campbell: It'd be June.

Adrian Went: Yeah. It'd be June.

Brian Johnson: Okay. Just the next one, mate. Just on the buyback, because we're talking about capital today, could you just run us through the parameters on the buyback, the kind of constraints? I mean, you've been doing anything up to high teens. That looks to me as though that would've an impact on the share price. Can you just run us through how you guys think about the impact of the buyback on the share price, and what are the constraints that you operate within?

Adrian Went: Yeah. Nothing's really changed there. If you look at the way we approach buybacks in the past, we appoint a broker to undertake that on our behalf, and we provide them some guidance each day as to what our activities are. Some days we're active, some days we're not. It's typically around that 13, 14, 15, 16% level. We're comfortable with that. That's very consistent with what other entities typically do during buybacks, whether that's banks or corporates, obviously it varies by entity. But yeah, we're pretty comfortable that that's an appropriate amount.

Brian Johnson: And Adrian, is there a constraint on a net book value multiple at which you'd step back and you wouldn't do it? You wouldn't buy it if it was 10 times book.

Adrian Went: No, that would be unlikely

Brian Johnson: That'd be a nice problem to have, by the way. But anyway.

Adrian Went: No, no, the board made decisions that there was an amount of surplus capital of $2 billion. And we believe it's appropriate to try and get that back to shareholders as quickly as possible.

Brian Johnson: Okay. Sorry. Sorry, Adrian. If I just go back on the question though. As your share price goes up, then the accretion of a buyback obviously goes down. We've still got basically share prices have done very well, but we've still got TLAC shortages. One way you can solve that is by running higher core equity tier ones. I'd just be interested on how should we think about now when you've got surplus capital, you can buy it back, you can dividend it back. Used to be able to do the structured buyback. Is there some way that we can think the point at which it becomes non-accretive from a shareholder value perspective for ANZ?

Adrian Went: Yeah, I'm not sure about the TLAC bit, Brian, to be honest. TLAC is an important part of our capital base, but that's still cheaper than common equity. We approach this in a very similar way as we've discussed with the market in the past. If there's opportunities to grow above our cost of capital then that's a good use of surplus capital. If those opportunities aren't there and we have a capital that's available over and above that, then we think it's appropriate to return that to shareholders.

Brian Johnson: And just the final one. On the unlisted investment grade assets, do you think that comes through in the September quarter or does it come through later again?

Adrian Went: No, it's in the September quarter.

Brian Johnson: Fantastic. Thank you. Great disclosure. Really appreciate it.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. We'll now pause a moment to allow for any final questions to register.

Thank you. Your next question comes from Jeff Cai from Jarden. Please go ahead.

Jeff Cai: Good afternoon. Just a question on the mortgage risk rates. Look, I understand the capital intensity of your mortgages are higher than peers. Do you see the model reviews more as ANZ catching up to the industry? Or can others actually replicate from what you've done on the PDs and LGDs and get more modelling benefits going forward?

Adrian Went: Yeah, it's more the former, but David, anything you want to add?

David O'Brien: Yeah, no, it's really more about us correctly or more correctly modelling the risk profile of our book. It's not like there's some kind of secret source that others might want to take advantage of. This is really just about us measuring the risk of our mortgage book appropriately and discussing that with APRA.

Jeff Cai: Great. Thank you.

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

Andrew Triggs: Thank you. Adrian, just a question on that 17 basis points of organic capital generation in the June quarter. I think that excludes the impact of dividend, which I think was paid in the September quarter. That seems quite low for the normal level of profitability of ANZ and the fact that it looks like underlying RWAs were flat in the quarter. Are there capital reductions or other stuff that I'm missing there in that calc?

Adrian Went: Yes, there's a combination of things in there, Andrew. You've got your underlying risk-weight asset growth, obviously the profitability which we're not disclosing here separately today. And then other things like changes in deductions, changes in FX, various other capital adjustments are in that line as well.

Andrew Triggs: Okay, thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone.

There are no further questions at this time. I'll now hand back for any closing remarks.

Jill Campbell: Thanks, Darcy. And thanks to everyone who joined in today. By all means, the Investor Relations team along with Adrian and David and others are around this afternoon. If I appreciate some of these concepts might be new to some of you or you might need to just walk through them again. Please feel free to ring us. And other than that, Darcy, thank you. We'll finish the call.

**[END OF TRANSCRIPT]**