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# Media Release

## ANZ 2013 Half Year Result
### – revenue growth and productivity drive higher returns and increased dividend –

ANZ today announced a statutory profit after tax of $2.9 billion up 7% compared to the previous half (HOH). Cash profit[1] of $3.2 billion increased 8% HOH and 10% against the prior comparable period (PCP).

The interim dividend of 73 cents per share fully franked is 11% higher than interim 2012.

**Performance Highlights[2]**

- Profit before provisions (PBP) increased 7% (+10% PCP) reflecting growth in International and Institutional Banking, particularly in Asia, a strong performance from the Australia Division, emerging benefits from the New Zealand simplification program, a solid contribution from Global Wealth and further Group-wide improvement in productivity.
- Return on equity (RoE) increased by 80 bps to 15.5% (steady PCP) driven by earnings growth and initial benefits from our focus on capital efficiency. Earnings per share increased 7% to 117.0 cents.
- Dividend uplift came from stronger earnings with a move to progressively rebalance to a more even distribution of dividend half on half.
- Revenue, excluding the gain on the sale of Visa shares in 2H12, increased 3% (+4% PCP). Earnings diversification continues with 20% of revenue derived from outside of Australia and New Zealand. Global Markets revenue increased 23% to $1.1 billion (+11% PCP) with customer sales up 7%.
- ANZ invested over $400 million in growth and transformation initiatives across the bank during the half. Productivity improvements saw expenses, excluding one-offs in 2H12, decline slightly. The cost to income ratio (CTI) decreased to 44.4%.
- The Group net interest margin excluding Global Markets was steady at 267 bps.[3] The benefits of reduced reliance on wholesale funding and asset repricing were offset by deposit competition and the impact of lower earnings on capital and rate insensitive deposits in a declining interest rate environment.
- Customer deposits grew 5% (+12% PCP) with net loans and advances up 3% (+7% PCP).[4]
- The provision charge was $599 million, down 13%. Gross impaired assets declined 10%. The collective provision coverage ratio is 1.01% on a Basel 3 basis (1.06% Basel 2).
- ANZ remains strongly capitalised under the new Basel 3 capital rules and is at the upper end of global peers comparisons. Capital generation of $2.2 billion increased the Common Equity Tier 1 (CET1) ratio on an Australian Prudential Regulation Authority (APRA) Basel 3 basis to 8.2%, equivalent to an internationally harmonised Basel 3 basis CET1 of 10.3%.

ANZ Chief Executive Officer Mike Smith said: “This result is a good performance and demonstrates ANZ is delivering consistent, well diversified revenue growth supported by strong productivity and capital management outcomes.

“Since 2008 we have worked hard to connect ANZ shareholders and customers to the significant opportunities being created by Asia’s fast-growing economies while building on our traditional strengths in Australia, New Zealand and the Pacific.

“This half saw us strengthen our franchises in Asia Pacific, Australia and New Zealand, hold Group margins steady, produce a lower cost-to-income ratio and achieve a higher return on equity while further strengthening our capital position. Shareholders are benefiting from these outcomes.

“A highlight of our performance was our ability to invest over $400 million in growth initiatives during the period while also producing strong productivity outcomes across the business with expenses down 8% and the cost to income ratio down to 44.4%.

“This outcome is a step change for ANZ. It reflects a continuing commitment to growth while also delivering sustainable productivity outcomes that provides us with ever greater earnings leverage over time.

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1 Statutory profit has been adjusted to exclude non-core items to arrive at cash profit, the result for the ongoing business activities of the Group.
2 All comparisons are on a cash basis and are 1H13 compared to 2H12 unless otherwise noted.
3 Group NIM exit margin (ex Markets) 267 bps for quarter ended March 2013, up from 266 bps Group NIM exit margin (ex Markets) at September 2012.
4 FX adjusted.

“The Asia Pacific Europe and America network contributed 20% of Group revenue with particularly strong performances from Global Markets, Trade, Transaction Banking and Asia Commercial. In Australia, we made further market share gains in priority Retail and Commercial segments, margins were well managed and we saw improving trends in customer satisfaction. In New Zealand we have maintained our market leading position while completing the first phase of the simplification program which has driven productivity benefits during the half. Wealth is being repositioned with a focus on increased cross-sell, product innovation and productivity.

“Provisions were slightly better than expectations and while the credit outlook remains stable we believe ongoing stress in certain parts of the economy warrants a cautious outlook.

“These strong operational results and the pipeline of initiatives that we are now delivering to improve capital efficiency saw ANZ’s return on equity rise 80 basis points during the half to 15.5%.

“We understand that our shareholders value sustainability and predictability in dividend streams. ANZ is focused on maintaining a full year dividend payout in the range of 65% to 70% of cash earnings and aligning our dividend with earnings growth. In the current environment, while we are well placed in our capital position we are committed to driving further capital efficiencies. This will allow us to move the payout ratio steadily towards the higher end of our target range with a more balanced split between the first and second halves.

“This result is further evidence that ANZ is consistently delivering on its promises to its shareholders and to its customers. ANZ is well positioned going into the second half with good momentum on growth opportunities, on costs and on capital management and I am confident about the year as a whole,” Mr Smith said.

## PERFORMANCE BY DIVISION[5]

### AUSTRALIA

The Australian franchise (Retail and Corporate & Commercial Banking) delivered a strong result, strengthening our domestic position. Profit was up 7% HOH (+11% PCP) and PBP up 6% (+15% PCP). Revenue grew 2% with costs well controlled, decreasing 3%, or flat excluding capitalised software impairments (-2% PCP).

The Retail business delivered above system growth in mortgages and deposits, continuing the trend of the past three years, and this growth has been largely self funded. Traditional Banking market share has increased 140 bps to 14.3% and market share in the Affluent Segment increased 180 bps to 15.2% during the past two years, the strongest growth of the major banks.

A strong customer focus has driven a steady increase in Corporate and Commercial Banking customer numbers (up 9% in the past 12 months) and customer satisfaction, including improved ratings for "easy to do business with" and "servicing customers' business needs across Australia, New Zealand and Asia". The business is harnessing ANZ’s regional platform with trade finance revenues attributable to Corporate and Commercial Banking clients up 9% (+15% PCP) and overall cross sell up 2% (+11% PCP).

To ensure continued growth and delivery of further productivity benefits, we are investing in our Banking on Australia program. We are taking an integrated approach to digital opportunities including constructing a new digital platform. We have delivered ANZ goMoney iPhone and Android apps, which are ranked as the most popular of their type in the market, with over one million registered users. In Corporate and Commercial Banking we launched the award winning ANZ FastPay app, Australia’s first mobile banking app for on-the-go card acceptance. We are improving our sales capability delivering over 150,000 hours of training in the past 12 months. In Retail our improved training and systems saw our proprietary channels contribute the majority of mortgage sales in the half and 55% of total mortgage FUM growth in March. Growth was achieved while maintaining strong mortgage broker volumes and adhering to strict underwriting standards.

Margins improved slightly, up 3 bps, despite deposit pricing and mix pressures. Credit quality remains sound with the provision charge in line with volume growth after allowing for write backs in the second half 2012.

### INTERNATIONAL AND INSTITUTIONAL BANKING (IIB)

IIB continues to strengthen returns while growing and diversifying its earnings by geography, product and customer, reducing its historical reliance on Institutional lending and interest rate trading in Australia. In the half 46% of revenue and 59% of deposits came from outside Australia and New Zealand. Profit grew 26% HOH (+3% PCP) with PBP up 17% (+1% PCP). Profit, excluding the impact of the capitalised software impairment in 2H12, increased 10% HOH with PBP up 6%.

In line with our strategy, flow and value added products such as Trade, Foreign Exchange, Debt Capital Markets and Cash Management are experiencing higher growth, with Transaction Banking profit up 26% and Global Markets profit up 30%. Lending volumes, primarily trade related and in priority segments like Resources (+12%) and Financial Institutions (+7%) are growing strongly. Within Global Markets, while income from Trading and Balance Sheet grew strongly, more than half of the revenue came from customer sales.

[5] All comparisons are on a cash basis and are 1H13 compared to 2H12 unless otherwise noted.

Commercial Asia grew revenue strongly (+32%) and ROE improved further, in part due to an improving product mix through strong cross sell of Transaction Banking and Global Markets products which comprise almost 90% of income.

The quality of the ANZ Retail Asia Pacific franchise continues to build. The business managed margin headwinds well, and delivered a strong cost outcome with expenses down 7% (-8% PCP). Building liquidity is a key focus; Customer deposits grew 5%.

The IIB balance sheet continues to grow and strengthen, with deposits up 6% and lending driven predominantly by trade finance in APEA (+ 21%).

Good underlying volume growth, disciplined cost management and ongoing productivity improvements helped offset margin headwinds. Institutional margins improved in the second quarter but were down 14 bp for the half (excluding Markets), 6 bps of which related to the impact of lower interest rates on earnings on capital and rate insensitive deposits in a low interest rate environment.

A strong overall cost reduction outcome included a 14% decline in operations costs in the half (13% PCP), providing capacity for investment in our strategic growth areas. These include new platforms for Cash Management and Markets and in the Asia core banking engine. We also invested further in our regional presence, opening a representative office in Myanmar and our 7th branch in China (Hangzhou).

The quality of our Institutional lending book continues to improve with lending to investment grade clients now 79% of the loan book up from 60% five years ago. Net impaired assets have declined 9% during the half.

**NEW ZEALAND** (all figures in NZD)

The business moved onto one brand and one technology platform in October 2012. Market share grew in both deposits and mortgages, and customer satisfaction levels have been stable and consideration levels[6] increased. Simplification is driving greater business efficiency and the cost to income ratio declined further. Profit grew 22% (+ 19% PCP) with PBP up 11% (+ 7% PCP).

Lending grew modestly, up 1%, and was fully self-funded by customer deposits which grew 4%. We are driving greater quality in our income base and improving cross sell with a circa 30% increase in the proportion of new Retail customers with three products or more over the past year.

Retail lending volumes held up well despite the low growth environment, however a combination of competitive macro conditions and a short term tactical sales campaign led to some margin pressure in the first quarter but margins stabilised in the second quarter. The Commercial segment delivered above system growth in Small Business Banking.

Credit quality has continued to strengthen and the provision charge declined 60% (64% PCP) largely driven by a reduced individual provisions in the Commercial & Agri business. Delinquency rates have declined and gross impaired assets were down both HOH and PCP.

**GLOBAL WEALTH**

Our key focus is to deepen relationships with existing customers, and Wealth solutions held by ANZ customers grew 9% PCP. ANZ Smart Choice Super launched in late 2012 is seeing new account openings at the rate of more than 800 per week. Specifically designed for the digital channel, this innovative solution allows customers to view and manage their superannuation online, via mobile or tablet.

Profit increased 20% (+15% PCP) with income up 3% primarily through an increase in Funds under Management and in-force insurance premiums. Improved investment markets benefitted Funds under Management. Productivity initiatives and a non-recurring software impairment from the prior period, drove a 7% decrease in operating costs resulting in a 690 bps reduction in the Division’s cost to income ratio (-280 bps PCP).

The number of ANZ financial planners grew 9% in Australia and New Zealand across the half. In addition, ANZ Financial Planning’s productivity in Australia increased with a 21% increase in risk sales per adviser and a 6% increase in investment inflows per adviser (PCP).

**BALANCE SHEET, CAPITAL, LIQUIDITY AND FUNDING**

ANZ is strongly capitalised; $2.2 billion of capital generation during the half increased our CET1 ratio on an APRA Basel 3 basis to 8.2%, equivalent to an internationally harmonised Basel 3 basis of 10.3% at the end of March, despite an increase in risk weighted assets and the removal of the discount on the Dividend Reinvestment Plan.

Consistent with previous periods, deposit growth exceeded loan growth, with deposits comprising 61% of the Group's total funding base.

ANZ has completed $12.4 billion of term wholesale funding, leaving the Group well placed to meet the annual funding task of $20-25 billion. Issuance has again been well diversified across senior, subordinated and covered formats and in a range of currencies.

[6] Source Ipsos Branch Tracker – consumers saying the brand is their first choice or is seriously considered.

Liquidity portfolio assets, up $7 billion to $122 billion over the half, continue to provide a strong buffer against market volatility and exceed the Group's total offshore wholesale debt portfolio.

ANZ has further reduced the remaining notional exposure on the Group Credit Intermediation Trades by US$3.3 billion to US$4.7 billion reducing risk weighted assets by circa $1 billion.

## DIVIDEND

In the past ANZ has targeted a Dividend payout ratio (DPOR) equivalent to 67% of cash earnings. The Board believes that a full year DPOR of between 65% and 70% is sustainable in the medium term, with a bias towards the upper end of the range in the near term.

The interim dividend of 73 cents per share reflects strong earnings in the first half, together with a move to progressively rebalance to a more even distribution of dividend half on half.

## CREDIT QUALITY

Credit quality performed better than expectations. The first half provision charge of $599 million is down 13% HOH and while slightly higher than the same period in 2012, it contains lower levels of writebacks. Releases of Collective Provision management overlays were also lower.

The Collective Provision ratio of 1.01% on an APRA Basel 3 basis (1.06% on a Basel 2 basis) provides conservative coverage given the ongoing improvement in credit quality, particularly in Institutional where lending to investment grade clients now comprises 79% of the book compared to 60% five years ago.

Gross impaired assets reduced by 10%, and have now reduced at an average of $375 million each half since 2H10. New impaired assets reduced in all Divisions, with total new impaired assets down 15%.

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