



Media Release

ANZ 2015 Half Year Result

- good financial performance, investment priorities address more constrained environment -

Performance Highlights¹

- Statutory profit after tax of \$3.5 billion up 3%. Cash profit² of \$3.7 billion up 5%.
- Interim Dividend 86 cents per share fully franked, earnings per share 133.6 cents both up 4%.
- Profit before provisions (PBP) up 4%.
- Customer deposits grew 12% with net loans and advances up 10%.
- Provision charge \$510 million down 3%.
- Return on equity (RoE) 14.7%.
- Common Equity Tier 1 (CET1) ratio 8.7% on an Australian Prudential Regulation Authority (APRA) Basel 3 basis (CET1 ratio of 12.4% on an internationally comparable Basel 3 basis³).

OVERVIEW

ANZ Chief Executive Officer Mike Smith said: "This is a good, well balanced financial performance with solid progress made in reshaping our business in response to the more challenging macro-environment.

"Our domestic markets in Australia and New Zealand have again delivered strong growth and returns. We are investing heavily in areas of future profitability, particularly for our Australian business. This includes a focus on key segments such as Home Lending and Commercial Banking in geographies and segments where we are underweight such as New South Wales. New Zealand has again performed well following the business simplification program and brand merger, entrenching our position as New Zealand's leading bank. Global Wealth achieved positive results and is delivering industry-leading innovation for our customers.

"International and Institutional Banking (IIB) performed well given the twin effects of expansionary monetary policy on Institutional lending margins and lower commodity prices on trade volumes. These more difficult macro conditions will be part of our operating environment for the foreseeable future. We are responding by increasing the pace of execution of our Super Regional strategy within IIB so we continue to improve returns from the franchise while benefiting from growth opportunities in Asia.

"Given our business mix, which includes a substantial Commercial and Institutional business portfolio, and the more constrained environment, ongoing investment is being made to position ANZ for the future. We are managing expenses carefully, however we have been prepared to accept a slightly higher run rate on costs in the short term where investment can deliver sustainable growth and returns. We have directed those investments toward customer technology platforms, growing our geographic foot print in both Australia and Asia, and more customer-facing bankers. These costs are being partly offset by further gains from enterprise simplification and efficiency in global operations and technology.

OUTLOOK

"For the foreseeable future, we will be operating in a lower growth environment in which there will continue to be occasional volatility and shocks. Nevertheless, the outlook for credit quality remains relatively benign supported by low interest rates, the stimulus of a low oil price and an appreciating US Dollar. While China's economic growth is slowing, this process is being well managed.

"This environment presents some challenges, however we are confident about the benefits of our Super Regional strategy over the longer term and the opportunity to continue to improve financial performance in the near term," Mr Smith said.

DIVIDEND AND CAPITAL

A 4% increase in the Interim Dividend to 86 cents per share will see ANZ shareholders receive \$2.4 billion, of which around 73% will be delivered to Australian based Retail and Institutional investors. ANZ expects to maintain a payout ratio for the Financial Year 2015 towards the upper end of the 65 to 70% of Cash Profit range.

¹ All comparisons are against the prior comparable period, that is first half FY15 compared to first half FY14, not adjusted for FX and on a cash basis unless otherwise noted.

² Statutory profit has been adjusted to exclude non-core items to arrive at Cash profit which measures the result for the ongoing activities of the Group.

³ Methodology per Australian Bankers' Association International comparability of capital ratios of Australia's major banks (August 2014).

ANZ's Capital Ratio at the end of the first half was 8.7%, up 40 basis points (bps) on the same half in 2014⁴. The Group's capital management strategy seeks to manage shareholder returns while funding growth and progressively adjusting to any changes to regulatory capital requirements. The program considers both capital efficiency and capital generation and has a variety of tools at its disposal to ensure ANZ remains well positioned.

This half the Dividend Reinvestment Plan will operate with a 1.5% discount which is expected to result in a participation ratio of around 20% on a full year basis. This level of participation is consistent with the average since 2012 and our capital planning.

PERFORMANCE BY DIVISION⁵

AUSTRALIA

The Australia Division delivered another strong performance with profit growing 8%, driven by a 6% uplift in both income and PBP. There continues to be a compelling case for additional investment in Australia both in terms of growth opportunities and returns. Reflecting this, investment spend was increased in the half, focused on initiatives to enhance the digital platform, enlarge ANZ's presence in New South Wales and build out our specialist propositions in key sectors for our Corporate and Commercial business (C&CB) including Health and Emerging Corporates.

Customer numbers, business volumes and market share all grew driven by investment in products, sales and service capacity and capability. Additional staff and training, new and improved digital tools including online applications, expanded customer coverage and improved service levels delivered increased Retail loan volumes, up 8% and C&CB loan volumes, up 4%. Deposits increased 3% and 6% respectively. Home lending has now grown above system for five consecutive years while maintaining prudent customer assessment criteria.

The C&CB Business delivered ongoing growth despite subdued business sector confidence. ANZ's historic strength in the Small Business Banking (SBB) segment continued with lending up 15% having grown at double digit rates for the past 3 years. Deposits in SBB have also grown strongly and at \$31 billion, are more than double the level of loans.

INTERNATIONAL AND INSTITUTIONAL BANKING (IIB)

IIB increased profit by 7% with strong contributions from Global Markets customer sales and the Cash Management business along with ongoing benign credit outcomes. PBP increased by 1%. Geographically, Asia Pacific Europe and America (APEA) was the standout, with profit up 18%.

ANZ's customer franchise continues to strengthen, especially in Asia where customer revenues have increased 13%, largely through increased focus on lower capital intensity, higher return products like Foreign Exchange, Cash Management and Debt Capital Markets. ANZ is also growing strongly in the region's key trade and investment flow corridors including those between Australia and Hong Kong, China and Hong Kong and Australia and Singapore.

In the Trade business while volumes were broadly maintained, deteriorating commodity prices reduced the value of shipments, lowering income slightly. Lending growth across the network partially offset ongoing loan margin compression which is being felt most acutely in Australia. The quality of the loan book remains high, at 79% investment grade. Deposits increased 17%, including a 27% increase in deposits in APEA. The percentage uplift in both deposits and lending in part reflects the depreciation of the Australian Dollar during the period⁶.

A record Global Markets revenue result was in large part delivered via a record customer sales outcome, most notably in Asia. Increased activity particularly in rates, commodities and FX, assisted sales in the second quarter of the year.

NEW ZEALAND (all figures in NZD)

The New Zealand business has increased momentum, with income growth of 6% coupled with disciplined cost management delivering an 8% PBP uplift. More buoyant consumer and business confidence has driven economic activity and in turn lending volumes which ANZ's market leading network has successfully leveraged. Profit growth of 1% reflected a lower level of provision write-backs than in the prior comparable period.

The ANZ brand in New Zealand is stronger than ever and together with improved digital options and service delivery, this is growing customer numbers across our business. Home lending has increased 6%⁷ with market share increasing in key regions like Auckland and Christchurch.

Streamlined products and processes along with digital tools to better enable our team in the field are delivering great outcomes for our Commercial and Agri business with lending up 6%.

⁴ Capital ratio refers to ANZ's Common Equity Tier 1 (CET1) ratio on an APRA Basel 3 basis.

⁵ All comparisons are against the prior comparable period, that is first half FY15 compared to first half FY14, not adjusted for FX and on a cash basis unless otherwise noted.

⁶ IIB lending (NLA) grew 15% and Customer Deposits grew 17% PCP. On an FX adjusted basis lending (NLA) grew 4% and deposits grew 6%.

⁷ Refers to Home Lending for New Zealand Geography which includes Home Lending originated through Retail, Commercial and Global Wealth.

GLOBAL WEALTH

Profit for Global Wealth increased 11% driven by strong underlying performance from the Insurance business which benefited from growth in in-force premiums, stable claims and improved lapse experience. Private Wealth and Funds Management experienced strong investment market performance and improved volumes with Funds Under Management up 11% at the end of the half.

Global Wealth continues to focus on improving the customer experience and increasing penetration of the existing bank customer base, with wealth solutions increasingly integrated with the banking offer and more options for the self-directed customers. The business now serves over 2.4 million customers across the region, managing more than \$68 billion in investment and retirement savings.

GLOBAL TECHNOLOGY, SERVICES AND OPERATIONS (GTSO)

ANZ's ongoing investment in common platforms and modernisation of our IT infrastructure is enabling the Group to process record volumes while maintaining high service quality and operational efficiency.

The Group's in-house regional delivery network is a source of ongoing competitive advantage for ANZ. It will continue to contribute to overall Group efficiency and customer satisfaction by enabling key business activity transformation and delivery of productivity improvements while driving a more consistent, higher quality experience for our customers.

Operations costs across the Group declined a further 3% while absorbing around a 7% increase in operations volumes.

CREDIT QUALITY

The total provision charge decreased 3% to \$510 million reflecting ANZ's long-term focus on asset quality and prudent credit standards along with relatively benign credit conditions, strong write-back and recovery outcomes and lower levels of new and top-up provisions.

The Group total loss rate saw a modest decline over the year, from 21bps to 19bps and ANZ's expectation is that the loss rate will stabilise in 2H15.

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Video interviews with ANZ's Chief Executive Officer Mike Smith and Chief Financial Officer Shayne Elliott regarding today's Half Year 2015 Financial Results announcement can be found at ANZ BlueNotes www.bluenotes.anz.com