

Media Release

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ANZ New Zealand builds strength, efficiency in competitive market

Australia and New Zealand Banking Group Limited (ANZ) 2016 half year results were released today, with ANZ New Zealand¹ delivering unaudited cash profit² of NZ\$751 million, down 11%, and unaudited statutory profit of NZ\$763 million, down 13% on the corresponding half in the 2015 financial year.

The March 2016 half includes a NZ\$87 million charge associated with an accounting change to the application of the Group's software capitalisation policy³. Adjusted pro forma cash profit⁴, excluding this charge, was down by 3%.

Net interest income rose by 5% compared with the March 2015 half, primarily reflecting continued lending growth, while interest margins have contracted due to strong lending competition and a customer preference for fixed rate mortgages. In other operating income, the first half last year reflected a strong performance in the Markets business compared with a difficult trading period this half.

ANZ New Zealand Chief Executive Officer David Hisco said: "We have maintained our momentum in a highly competitive market and are building a stronger, more efficient business while delivering on our vision to help Kiwis get ahead in their lives.

Key points (All comparisons are with six months ended 31 March 2015 unless otherwise noted²)

- Unaudited cash profit of NZ\$751 million, down 11%.
- Unaudited statutory profit of NZ\$763 million, down 13%.
- Operating expenses increased by 10% due to the software capitalisation change³. Excluding this change, expenses were down 1% due to disciplined cost management and productivity gains.
- Lending up 8% and customer deposits up 12%.
- Provision charge of \$50 million reflects portfolio growth along with a reduced level of write-backs.

"We are doing this by offering unrivalled connections across the region and the best combination of convenience, service and price. Our ongoing focus on simplification is improving efficiency for staff and making banking easier for our customers," Mr Hisco said.

"We have continued to grow lending and deposits and have increased market share across key products including home loans and household deposits. We remain the largest mortgage lender across all major cities."

He said ANZ New Zealand was evolving as customers changed the way they did their banking.

¹ ANZ New Zealand represents all of ANZ's operations in New Zealand, including ANZ Bank New Zealand Limited, its parent company ANZ Holdings (New Zealand) Limited and the New Zealand branch of ANZ.

² Statutory profit has been adjusted to exclude non-core items to arrive at cash profit, the result for the ongoing business activities of ANZ New Zealand. All comparisons in Key Points are on a cash profit basis unless otherwise stated. Refer to Summary of Key Financial Information for details of reconciling items between cash profit and statutory profit.

³ By lifting the software capitalisation threshold and directly expensing more project related costs, ANZ has introduced a greater level of discipline into the management of software costs. The change, effective from 1 October 2015, does not impact the Group's total spend on technology but better aligns the application of ANZ's policy with the rapidly changing technology landscape, increased pace of innovation in financial services and the Group's own evolving digital strategy. These changes bring forward the recognition of software expense resulting in lower amortisation charges in future years.

⁴ Pro forma refers to Cash Profit adjusted to remove the impact of 'Specified items' including the impact of software capitalisation policy changes, Asia Partnership impairment charge (AMMB) and gain of cessation of equity accounting (Bank of Tianjin), restructuring expenses, sale of Esanda Dealer Finance business, and FX adjustments to comparative periods to remove the impact of foreign currency translation. Further detail provided in the ANZ Half Year 2016 consolidated Financial Report page 14.

"We have continued to innovate, introducing new digital services including goMoney Wallet for Android users, self-service password resets and self-service funds transfers for KiwiSaver on Internet Banking.

"Combined with these new digital capabilities, our focus on having the best people in the right places is paying off with growth in the key Auckland and Christchurch markets and in migrant and small business banking."

He said ANZ New Zealand was the largest supplier of capital to the economy, from individuals and small firms to farmers and large Institutional clients.

"The more than NZ\$100 billion of ANZ lending that is deployed across New Zealand is playing an important role in the economic growth of the country – helping Kiwis buy homes and start and expand businesses, supporting the rural sector and helping exporters expand into the Asia-Pacific region."

A table of key financial information follows

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Summary of Key Financial Information – ANZ New Zealand

Profit	Half year	Half year	Half year	Movt Mar 16	Movt Mar 16	Movt Mar 16	Movt Mar 16
	Mar 2016	Sep 2015	Mar 2015	v Sep 15	v Mar 15	v Sep 15	v Mar 15
	\$M	\$M	\$M	\$M	\$M	%	%
Net interest income	1,493	1,458	1,422	35	71	2%	5%
Other operating income	402	496	509	(94)	(107)	-19%	-21%
Operating income	1,895	1,954	1,931	(59)	(36)	-3%	-2%
Operating expenses	815	739	739	76	76	10%	10%
Profit before credit impairment and income tax	1,080	1,215	1,192	(135)	(112)	-11%	-9%
Credit impairment charge	50	45	31	5	19	11%	61%
Profit before income tax	1,030	1,170	1,161	(140)	(131)	-12%	-11%
Income tax expense	279	324	320	(45)	(41)	-14%	-13%
Cash profit	751	846	841	(95)	(90)	-11%	-11%
Reconciliation of cash profit to statutory profit							
Cash profit	751	846	841	(95)	(90)	-11%	-11%
Reconciling items (net of tax):							
Economic hedging volatility ¹	(2)	49	3	(51)	(5)	large	large
Insurance policy asset valuations ²	14	(1)	33	15	(19)	large	-58%
Statutory profit	763	894	877	(131)	(114)	-15%	-13%
Consisting of:							
Retail	395	369	365	26	30	7%	8%
Commercial	221	237	242	(16)	(21)	-7%	-9%
Operations & Support	10	4	(1)	6	11	large	large
New Zealand Businesses	626	610	606	16	20	3%	3%
Wealth	68	69	67	(1)	1	-1%	1%
Institutional	98	166	168	(68)	(70)	-41%	-42%
Other	(41)	1	-	(42)	(41)	large	large
Cash profit	751	846	841	(95)	(90)	-11%	-11%
Reconciling items	12	48	36	(36)	(24)	-75%	-67%
Statutory profit	763	894	877	(131)	(114)	-15%	-13%
1. Economic hedging - fair value gains/(losses) ANZ New Zealand enters into economic hedges to manage its interest rate and foreign exchange risk. Statutory profit includes volatility from fair value gains or losses on economic hedges that are not designated in accounting hedge relationships under IFRS, as well as ineffectiveness from designated accounting cash flow and fair value hedges. Fair value gains/(losses) on all of these economic hedges are excluded from cash profit, as the profit or loss resulting from these transactions will reverse over time to match the profit or loss from the economically hedged item.							
2. Insurance policy assets Profit and loss volatility is created by the remeasurement of policyholder assets for changes in market discount rates, which over time reverses to zero.							