

News Release

For release: 3 November 2016

ANZ NZ delivers another solid full-year result

Australia and New Zealand Banking Group Limited (ANZ) 2016 results were released today, with ANZ New Zealand¹ delivering a cash profit of NZ\$1.53 billion, down 9%, and a statutory profit of NZ\$1.54 billion, down 13% on the 2015 financial year.

The 2016 financial year includes charges of NZ\$178 million associated with specified items² announced at the ANZ Group 2016 full year results. Excluding these charges, cash profit was NZ\$1.66 billion, down 2%.

Net interest income increased 5% compared with the previous year, primarily reflecting continued lending growth, while interest margins have contracted due to strong lending competition and a customer preference for fixed rate mortgages. The decline in other operating income reflected lower trading income and losses on hedging derivatives.

ANZ New Zealand Chief Executive Officer David Hisco said: "We had a solid year and while our net profit after tax wasn't as strong as the 2015 financial year, the New Zealand business is performing well and reflects the performance of the economy.

"We have continued to grow lending and deposits, and we remain the largest mortgage lender across all major cities. Our KiwiSaver funds under management are at a record high and we remain the biggest provider."

Key Points

All comparisons are with the previous year unless otherwise noted

- Cash profit of NZ\$1.53 billion, down 9%. Down 2% pro-forma adjusted².
- Statutory profit of NZ\$1.54 billion, down 13%.
- Total Operating Income of NZ\$3.82 billion, down 2% driven by a decreased Markets contribution and the impact of derivative credit valuation adjustments².
- Expenses up 7% due to the software capitalisation change and restructuring costs². Excluding the impact of these items, expenses decreased 2% reflecting ongoing disciplined cost management and productivity gains.
- Provision charge of NZ\$149 million reflecting ongoing normalisation of provision levels in the portfolios, combined with lower levels of write backs and recoveries than have been experienced in previous years.
- Lending up 5% and customer deposits up 8%.

Mr Hisco said that in recent years ANZ has focused on improving the quality of its agri portfolio rather than outright growth. As a result, it has performed well during the downturn in global dairy prices as many farming customers adjusted their cost structures to remain profitable at more modest dairy payout ranges.

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 The ANZ 2016 full year results outlined the impact of certain charges referred to as "Specified Items". Specified items relevant to ANZ NZ were an accounting change to the application of the Group's software capitalisation policy effective from 1 October 2015, changes to the methodology for credit valuation adjustments (CVA) in determining the fair value of derivatives to align with evolving market practice and restructuring costs.

Longer term ANZ New Zealand was also optimistic about the prospects of dairy and believed many of its farming customers are positioning themselves to take advantage of further industry consolidation as well as a back to basic, high performing, low cost production model.

He said one of the challenges for the New Zealand economy at present was a slower rate of growth in deposits than for lending. The banking sector makes up the difference via offshore funding which is relatively more expensive.

"Many New Zealanders see housing, particularly in the current low interest rate environment and in cities like Auckland where there is high demand for accommodation, as the most profitable way to get a return on their money.

"That's why ANZ New Zealand supports the Reserve Bank's tightened restrictions on investor residential lending."

Mr Hisco said banking was evolving quicker than in many other countries as New Zealanders took to digital technologies.

"We've recently reinforced our digital banking leadership in New Zealand with the introduction of Apple Pay and we expect it to have just as big an impact here as it did in Australia earlier in the year where we've picked up new customers.

"Our iPhone and Android mobile phone app GoMoney has this past year also become the most popular way Kiwis do their banking, surpassing branch, phone and internet usage. GoMoney is also one of New Zealand's most popular apps."

In FY16 ANZ in New Zealand paid about:

- \$620m in corporate taxes
- \$810m in staff wages and salaries
- \$585m to local contractors and suppliers
- \$14m in sponsorships & charitable donations
- \$70m in dividends to about 18,000 New Zealand shareholders and managed funds

A table of key financial information follows

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Summary of Key Financial Information – ANZ New Zealand

Profit	Half year	Half year	Sep 16 v	Sep 16 v	Full year	Full year	Sep 16 v	Sep 16 v
	Sep 16	Mar 16	Mar 16	Mar 16	Sep 16	Sep 15	Sep 15	Sep 15
	\$m	\$m	\$m	%	\$m	\$m	\$m	%
Net interest income	1,536	1,493	43	3%	3,029	2,880	149	5%
Other operating income	393	402	(9)	-2%	795	1,005	(210)	-21%
Operating income	1,929	1,895	34	2%	3,824	3,885	(61)	-2%
Operating expenses	765	815	(50)	-6%	1,580	1,478	102	7%
Profit before credit impairment and income tax	1,164	1,080	84	8%	2,244	2,407	(163)	-7%
Provision for credit impairment	99	50	49	98%	149	76	73	96%
Profit before income tax	1,065	1,030	35	3%	2,095	2,331	(236)	-10%
Income tax expense	287	279	8	3%	566	644	(78)	-12%
Cash profit	778	751	27	4%	1,529	1,687	(158)	-9%
Reconciliation of cash profit to statutory profit								
Cash profit	778	751	27	4%	1,529	1,687	(158)	-9%
Reconciling items (net of tax):								
Economic hedging volatility ¹	(27)	(2)	(25)		(29)	52	(81)	
Insurance policy asset valuations ²	28	14	14		42	32	10	
Statutory profit	779	763	16	2%	1,542	1,771	(229)	-13%
Comprising:								
Retail	477	464	13	3%	941	872	69	8%
Commercial	192	221	(29)	-13%	413	478	(65)	-14%
Operations & Support	(4)	10	(14)	large	6	3	3	large
New Zealand Businesses	665	695	(30)	-4%	1,360	1,353	7	1%
Institutional	105	98	7	7%	203	333	(130)	-39%
Other	8	(42)	50	large	(34)	1	(35)	large
Cash profit	778	751	27	4%	1,529	1,687	(158)	-9%
Reconciling items	1	12	(11)		13	84	(71)	
Statutory profit	779	763	16	2%	1,542	1,771	(229)	-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.