

News Release

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ANZ reports 2016 Half Year Result¹

ANZ today announced a statutory profit after tax for the half year ended 31 March 2016 of \$2.7 billion down 22% and a cash profit² of \$2.8 billion down 24%, following a \$717 million net charge primarily related to initiatives to reposition the Group for stronger profit before provisions growth in the future.

Excluding these Specified Items (see page 3), allowing for better comparison with previous periods, adjusted pro-forma cash profit³ was \$3.5 billion down 4% and profit before provisions was up 5%.

The Interim Dividend of 80 cents per share fully franked is down 7% reflecting a move to gradually consolidate ANZ's dividend payout ratio within its historic range of 60-65% of annual cash profit⁴ which provides a conservative, sustainable and fully franked dividend base for the future. The Final Dividend for FY16 is expected to be at least the same as the Interim Dividend in cents per share.

The result reflects a strong performance in ANZ's Australian and New Zealand consumer and small business franchises and challenging market conditions in Institutional Banking including higher provisions in the resources sector and in related industries.

Significant progress was also made in streamlining and simplifying ANZ to ensure the bank is future ready. This included a particularly strong expense management outcome, improved capital efficiency and initiatives to accelerate momentum and deliver future benefits including a restructuring charge and a change to the application of accounting policy to accelerate software amortisation.

Selected Group Financial Information			
Earnings (\$m)	1H15	2H15	1H16
Statutory basis			
Profit before credit impairment and tax	5,637	6,075	4,786
Statutory Profit	3,506	3,987	2,738
Cash basis			
Profit before credit impairment and tax	5,592	5,567	4,837
Cash Profit	3,676	3,540	2,782
Earnings Per Share (cents)	134	127	96
Return on Equity (%)	14.7	13.3	9.7
Adjusted Pro-forma³			
Profit before credit impairment and tax	5,468	5,459	5,737
Adjusted Pro-forma Profit	3,638	3,507	3,499
Operating expenses to income (CTI, %)	45.5	46.4	45.0
Net Interest Margin (%)	2.02	2.02	2.01
Earnings Per Share (cents)	132	126	121
Return on Equity (%)	14.5	13.2	12.2
Balance sheet (\$b)			
Gross Loans and Advances (GLAs)	562	574	566
Total Risk Weighted Assets	387	402	388
Customer Deposits	436	445	447
Leverage Ratio (%)	NA ⁵	5.1	5.1
Common Equity Tier 1 Ratio (%)	8.7	9.6	9.8
Common Equity Tier 1 Ratio Internationally Comparable Basel 3 (%)	12.1	13.2	14.0
Asset Quality			
Total Credit Impairment Charge as a % of avg GLAs (%)	0.19	0.24	0.32
Collective Provision as a % of Credit RWAs (%)	0.86	0.85	0.86
Gross impaired assets as a % of GLAs (%)	0.48	0.47	0.51
Other			
Full time equivalent staff (FTE)	51,243	50,152	48,896

ANZ Chief Executive Officer Shayne Elliott said: "This result reflects a challenging period for banking and we have taken the opportunity to move decisively and adapt to the changing environment by building a simpler, better capitalised and more balanced bank.

"We have strong underlying drivers in our Australia and New Zealand consumer and small business franchise and we have seen good early progress in transforming Institutional Banking. This has been supported by prudent capital management and tight control of costs with total expenses, excluding the impact of Specified Items, being lower for the first time in seven halves.

"Banking is however continuing to experience rapid shifts in technology, customer expectations and regulation against a backdrop of low economic growth, volatile financial markets and rising credit costs. Our priority is to take bold action to ensure ANZ is fit and ready for this future.

"This means for the immediate future we are in a period of consolidation, simplification and transition. We have a clear plan and we have made significant progress this half through a focus on four strategic priorities," Mr Elliott said.

Strategic Priorities	1H16 Progress Highlights
1. Create a simpler, better capitalised, better balanced and more agile bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing our reliance on low-return aspects of Institutional banking in particular. Further strengthen the balance sheet by rebalancing our portfolio.	- Reduced 1H16 dividend providing foundation for a conservative, sustainable, fully franked pay-out ratio of 60-65% of cash profit⁴ - Lower absolute operations costs (-2% pcp) and lower FTE (-5% pcp). - Reduced Risk Weighted Assets by 3% (\$14 billion) - primarily low return Institutional Asia lending. - Sold Esanda dealer finance portfolio and Oasis. - Taken \$138 million restructuring charge to underpin further simplification and productivity. - Repositioned minority investments in Asia as Group assets, valuation adjustments made. - Supported Bank of Tianjin listing and subsequent dilution in holding to ~12%. - Merged Asia Wealth with Asia Retail and commenced a strategic review.
2. Focus our efforts on attractive areas where we can carve out a winning position. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in our region.	- New organisation structure and Executive Committee aligned with focus areas. - Merged Wealth distribution activities with core Retail to align priority segments. - Simplified and re-focused Institutional. - Established new Digital Banking Division to support growth in priority areas. - Moved to #3 market share in Australian Home Loans.
3. Drive a purpose and values led transformation of the Bank. Creating a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.	- Signed up to ABA conduct review. - Launched review of recruitment and remuneration. - Invested in MIT Digital Leadership Program. - Uncompromising approach to enforcing ANZ's Code of Conduct.
4. Build a superior everyday experience for our people and customers in order to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and our own people.	- Maile Carnegie appointed from Google to lead Digital. - First Australian bank to launch Apple Pay, augmenting existing Android Pay plans. - New software capitalisation treatment recognises the nature and speed of digital change and supports innovation. - Implementation of multi-channel digital platform for Australian Retail banking to support improved customer experience.

Capital and Dividend. The actions being taken to simplify the business, rebalance our portfolio, divest non-core assets and increase capital efficiency in the Institutional loan book assisted the Group to generate 76 basis points of capital during the half. Further benefits are expected in future periods.

The Interim Dividend is 7% lower than the prior comparable period 1H15, reflecting actions undertaken to reshape ANZ and a normalisation of the credit cycle. The dividend payout ratio during the half of 84% primarily reflects the impact of specified items. On an adjusted pro-forma basis the ratio is 67%.

Consistent with ANZ's normal practice, it is expected the Final Dividend for FY16 will be at least the same as the Interim Dividend in cents per share terms.

ANZ recognises the stability of the Group's payout ratio and ability to fully frank dividends are critical considerations for shareholders. Following a period of dividend payout ratio expansion in the Australian banking sector, ANZ will gradually consolidate to its historic range of 60-65% of annual cash profit. This setting better reflects the changed banking environment in which we operate and the greater demands for capital.

Specified Items. During the half the Group sold the Esanda Dealer Finance portfolio and also recognised the impact of a number of items collectively referred to as 'Specified Items' which form part of the Group's cash profit.

These specified items are (on an after tax basis): an accounting change to the application of the Group's software capitalisation policy (\$441 million), impairment of the Group's investment in AmBank (\$260 million), a net gain in relation to Bank of Tianjin (\$29 million) and Group restructuring expenses (\$101 million), as well as the Esanda dealer finance sale (\$56 million). An information pack on these changes is on anz.com within the 1H16 results materials.

ANZ, by lifting the software capitalisation threshold and directly expensing more project related costs, has introduced a greater level of discipline into the management of technology investment. The change, effective from 1 October 2015, of itself 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.

A restructuring charge of \$138 million (pre-tax) was recognised in the half which will underpin further productivity in the second half and future years, through reducing complexity and aligning the Group to the changing emphasis on Institutional and International businesses.

Credit Quality. The total provision charge of \$918 million (\$892 million individual provision charge \$26 million collective provision charge) is consistent with ANZ's ASX disclosure of 24 March and equates to a 32 basis point loss rate. The loss rate is trending towards the long term average from historically low levels. Gross impaired assets were \$2.9 billion up 6%, with new impaired assets flat compared to the prior half.

While the overall credit environment remains broadly stable, ANZ has continued to see pockets of weakness associated with low commodity prices in the resources sector and in related industries. Increased provision charges in the first half include charges related to a small number of Australian and multi-national resources related exposures.

Video interviews with Shayne Elliott and Acting Chief Financial Officer Graham Hodges regarding today's 2016 Half Year result announcement are available at www.bluenotes.anz.com.

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Footnotes:

1. All comparisons are First Half Financial Year 2016 compared to First Half Financial Year 2015.
2. Cash profit excludes non-core items included in statutory profit and is provided to assist readers in understanding the results of the ongoing business activities of the Group. The net after tax adjustment was an addition to statutory profit of \$44 million comprised of several items.
3. 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 (AmBank) and gain of cessation of equity accounting (Bank of Tianjin), restructuring expenses, sale of Esanda Dealer Finance portfolio. Further detail provided in the ANZ Half Year 2016 consolidated Financial Report p14.
4. Previously 65 to 70 per cent of cash profit.
5. APRA introduced amendments in May 2015 to enable calculation of the leverage ratio.