



Media Release

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First Quarter 2016 Trading Update **mixed trading conditions; focus on business strategies, cost management**

ANZ today announced an unaudited cash profit of \$1.85 billion for the three months to 31 December 2015. Earnings momentum continued in the quarter with cash profit up 5% compared to the average of the third and fourth quarters of the 2015 Financial Year (FY15).

ANZ Chief Executive Officer Shayne Elliott said: "The Australian and New Zealand economies are performing well with low interest and exchange rates supporting the transition to more balanced growth following the commodities boom. We have seen very good performances in our Retail and Small Business segments however Corporate borrowing demand remains subdued. The domestic credit environments were stable although there are pockets of weakness associated with low commodity prices.

"In Asia economic growth is slowing although we saw little direct impact in the first quarter. Our exposure in Asia is predominately short tenor, investment grade lending nevertheless the slowdown in the region and increased market volatility are seeing credit conditions become more difficult in the second quarter. Our business in China remains steady with the impact primarily in manufacturing and trade-exposed sectors in South-East Asia.

"As a result we anticipate the total Group credit charge will be a little above \$800 million this half compared to current market consensus of \$735 million¹. Gross Impaired Assets for the half will be broadly similar to the second half of 2015² despite falling in the first quarter.

"With the environment presenting a number of challenges, the new management team has taken action to reduce costs, to tightly manage the credit environment and capital, and to simplify and reposition the business. Our performance in the first quarter was supported by strong expense and margin management, and further progress will be apparent in the Group's financial performance during the balance of the year," Mr Elliott said.

First Quarter FY16 Performance Highlights

Comparisons are first quarter FY2016 (three months ended 31 December 2015) with the average of the third and fourth quarters of FY15 unless otherwise stated. Results are unaudited.

- Cash profit³ of \$1.85 billion was up 5% (and up 4% compared to the prior corresponding period); statutory net profit was \$1.6 billion.
- Income grew at a faster rate than expenses, with expenses well contained; technology investment and wage inflation were largely offset by a 2.5% reduction in staff numbers.
- The Group Net Interest Margin (NIM) was stable excluding the impact of our Markets business; there was a 2 basis points decrease including Markets⁴.
- Retail and Commercial. Retail in Australia and New Zealand continued to perform well led by further market share gains in home lending in key markets. Small Business in both markets grew strongly while Corporate Banking income was impacted by higher funding costs and competition. Wealth benefited from stable Life Insurance lapse rates which were offset by investment market volatility.
- Institutional. Markets income increased 6% to \$553 million. Customer sales comprised 56% of Markets' total income in line with the average for both the second half and FY2015. Cash Management performed well and the Group further reduced lower returning assets in Trade and Lending. Institutional NIM improved⁵ reflecting actions around asset mix and deposit pricing.

¹ Derived from the average of the seven major banking analysts who have published half year earnings estimates.

² Gross Impaired Assets \$2.7 billion as at 30 September 2015.

³ Statutory profit adjusted to exclude non-core items with cash profit reflecting the Group's ongoing activities.

⁴ Refers to the Group NIM of 204 basis points in the 30 September 2015 half.

⁵ Refers to movement from 30 September 2015 half, excluding Global Markets.

- The quarterly APS330 report was released today. The total provision charge for the first quarter 2016 was \$362 million (individual provisions \$319 million; collective provisions \$43 million).
- APRA Common Equity Tier 1 (CET1) ratio was 9.4%⁶ at 31 December 2015. Excluding the impact of the 2015 final dividend payment⁷, the CET1 ratio increased 45 basis points compared to 30 September 2015 primarily driven by organic capital generation and assisted by the Esanda portfolio sale.

An interview with Mr Elliott discussing the trading update is available at bluenotes.anz.com.

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⁶ 13.1% on a Basel III internationally comparable basis.

⁷ Net of Dividend Reinvestment Plan and Bonus Option Plan participation.