

## News Release

For release: 1 May 2019

### **ANZ NZ reports steady half-year result**

ANZ Bank New Zealand<sup>1</sup> today reported a statutory<sup>2</sup> net profit after taxation (NPAT) of NZ\$929 million for the six months to 31 March 2019 – a 4% decrease on the corresponding half in the 2018 financial year.

Cash NPAT was NZ\$1,114 million, up 18%, due to one-off transactions, which included the sale of life insurance company OnePath Life (NZ) Limited and a 25% share in Paymark Limited.

ANZ New Zealand Chief Executive Officer David Hisco said the company's steady half-year result reflected changes in the economy.

"The housing market has levelled off, particularly in Auckland which has been the growth engine of that sector over the past 10 years," Mr Hisco said.

"When you combine that with historically low interest rates, intense competition in home lending that has impacted bank net interest margins, and our fee reductions, underlying revenue growth has been muted.

"International uncertainty hasn't helped exporters, and tourism numbers, particularly from China, have been flat. While we are seeing welcome signs of a pick-up in investment, commercial and agri customers are still being cautious with their borrowings."

He said ANZ New Zealand had offset revenue pressures through its continued focus on digital innovation and customer service while maintaining strong credit quality and cost discipline.

"Since 2010 we have maintained our leading market share with no change to our cost base, while investing more in digital products and services to make our business more efficient.

"This means we've been in a position to pass cost savings on to customers and reduce fees on more than 40 products and services worth about NZ\$70 million in annual revenues while strengthening our competitive position."

While the collective provision charge normalised, Mr Hisco said the low levels of credit losses during the reporting period reflected improvements in credit quality and a benign credit environment.

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

<sup>2</sup> Statutory profit has been adjusted to exclude non-core items to arrive at cash profit continuing basis, the result for the ongoing business activities of ANZ New Zealand. Refer to Summary of key financial information for details of reconciling items between cash profit and statutory profit.

Despite the economic uncertainty he said that with low unemployment and interest rates and China likely to be the global growth engine for many years to come, New Zealand was in a good position to prosper.

“We need to be careful as a nation not to talk ourselves out of maximising our opportunities. The economy has strong foundations, we have many clever, innovative and hard-working businesses with a bright future, and all indications are that the 30 May Budget will be solid.

“As always, New Zealanders, particularly home owners, need to take advantage of the low interest rate environment to pay off as much debt as possible so they’re in a stronger position should circumstances change.”

<p><b>Key Points</b></p> <p>All comparisons are six months ended 31 March 2019 compared with six months ended 31 March 2018 unless otherwise noted</p>
<ul style="list-style-type: none"><li>• Statutory profit down 4% at NZ\$929 million.</li><li>• Cash profit up 18% at NZ\$1,114 million including impact of one-off items.</li><li>• Revenue up 8% including impact of one-off items.</li><li>• Expenses decreased 1% due to divestment impact of OnePath Life (NZ) Limited.</li><li>• Low levels of credit losses reflect improvements in credit quality and benign credit environment.</li><li>• Customer deposits up 7% and gross lending up 4%.</li></ul>

Mr Hisco said ANZ New Zealand remained the No 1 in brand consideration<sup>3</sup> for major banks locally, and customer satisfaction<sup>4</sup> was best of all the banks for branches and the contact centre.

Other highlights for the first half of the financial year include the launch of a Healthy Home Loan Package last month which has discounts off standard home loan rates for customers who choose to build or upgrade their homes to sustainable standards, supporting ANZ New Zealand’s NZ\$100 million pledge in interest-free loans for home insulation, announced in May last year.

Mr Hisco said this financial year was the first without frontline incentives at ANZ New Zealand. Staff had embraced the cultural change away from sales targets while still ensuring the bank continued to be a high-performing organisation that met customer needs.

**A table of key financial information follows**

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<sup>3</sup> McCulley Brand Tracker, McCulley Research, March 2019, six month roll  
<sup>4</sup> Retail Market Monitor, Camorra Research, March 2019, six month roll

**Summary of key financial information**  
**ANZ New Zealand**

Profit	Half year	Half year	Half year	Mar 19 v	Mar 19 v	Mar 19 v	Mar 19 v
	Mar 19	Sep 18	Mar 18	Sep 18	Mar 18	Sep 18	Mar 18
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	%	%
Net interest income	<b>1,626</b>	1,605	1,572	21	54	1%	3%
Other operating income	<b>654</b>	475	540	179	114	38%	21%
Operating income	<b>2,280</b>	2,080	2,112	200	168	10%	8%
Operating expenses	<b>735</b>	761	742	(26)	(7)	-3%	-1%
Profit before credit impairment and income tax	<b>1,545</b>	1,319	1,370	226	175	17%	13%
Credit impairment charge	<b>32</b>	(17)	70	49	(38)	large	-54%
Profit before income tax	<b>1,513</b>	1,336	1,300	177	213	13%	16%
Income tax expense	<b>399</b>	373	359	26	40	7%	11%
<b>Cash profit<sup>1</sup></b>	<b>1,114</b>	963	941	151	173	16%	18%
<b>Reconciliation of cash profit to statutory profit</b>							
Cash profit	<b>1,114</b>	963	941	151	173	16%	18%
<b>Reconciling items (net of tax):</b>							
Economic and revenue hedges <sup>2</sup>	<b>(104)</b>	54	13	(158)	(117)	large	large
Revaluation of insurance policies <sup>3</sup>	<b>(81)</b>	5	10	(86)	(91)	large	large
<b>Statutory profit<sup>1</sup></b>	<b>929</b>	1,022	964	(93)	(35)	-9%	-4%
<b>Comprising:</b>							
Retail	<b>510</b>	541	525	(31)	(15)	-6%	-3%
Commercial	<b>286</b>	302	279	(16)	7	-5%	3%
Central Functions	-	(6)	14	6	(14)	-100%	-100%
New Zealand Division	<b>796</b>	837	818	(41)	(22)	-5%	-3%
Institutional	<b>140</b>	138	120	2	20	1%	17%
Technology and Group Centre <sup>1</sup>	<b>178</b>	(12)	3	190	175	large	large
<b>Cash profit<sup>1</sup></b>	<b>1,114</b>	963	941	151	173	16%	18%
Reconciling items	<b>(185)</b>	59	23	(244)	(208)	large	large
<b>Statutory profit<sup>1</sup></b>	<b>929</b>	1,022	964	(93)	(35)	-9%	-4%

*1. Gains on sale of OnePath Life (NZ) Ltd and Paymark Ltd*

Statutory profit for the half year ended 31 March 2019 includes a \$59m gain on sale of OnePath Life (NZ) Ltd (OPL NZ), and a \$39m gain on sale of Paymark Ltd. Cash profit also includes an after tax gain of \$86 million on the reversal of the life-to-date cash profit adjustments on the revaluation of OPL NZ insurance policies sold. The cash profit impact of these items is included in Technology and Group Centre.

*2. Economic and revenue hedges*

Fair value gains and losses are recognised in the Income Statement on economic and revenue hedges used to manage interest rate and foreign exchange risk. The mark to market adjustments on these derivatives, not designated in an accounting hedge, are removed from cash profit as the fair value gains or losses will reverse over time to match the profit or loss on the hedged item. Included in economic hedges are funding related swaps and specialised leasing transactions.

*3. Revaluation of insurance policies*

To calculate certain policy liabilities, projected future cash flows on insurance contracts are discounted at a market discount rate to the present value of the obligation. Any change is reflected in the Income Statement each period. The volatility from changes in market discount rates is removed from cash profit each year as the impact reverts to zero over the life of the insurance contract. Accumulated gains of \$86m after tax have been returned to cash profit upon the sale of OPL NZ as noted in point 1 above.