



## Media Release

For release: 16 August 2013

### **ANZ Trading Update – 9 months to 30 June 2013 - continued revenue growth and steady progress with strategy -**

ANZ today announced an unaudited Statutory Profit of \$4.7 billion for the 9 months to 30 June 2013 up 7% compared to the same period 2012 (YTD). Cash Profit<sup>1</sup> for the same period was \$4.8 billion up 11%.

Commenting on ANZ's performance, Chief Executive Officer Mike Smith said: "During the year we have continued to make steady progress with our super regional strategy.

"We have produced consistent revenue growth with diversification benefits from our exposure to growth markets in Australia and in Asia. At the same time, we are continuing to actively manage efficiency in every area of the business with a focus on improving productivity and capital utilisation. This is allowing us to continue to invest in our growth strategy for the longer term while also improving shareholder returns in the near term.

"Overall, ANZ's performance remains in line with the expectations we had at the end of 2012, with full year revenue growth slower than last year and ongoing productivity improvements providing positive revenue-cost jaws<sup>2</sup>.

"Although the economic outlook in Australia has softened somewhat, there is cause for greater optimism in the medium term as the effect of lower interest rates, a more competitive currency and the removal of some pre-election uncertainty underpin consumer confidence and economic activity. In Asia, we believe concerns about growth in China have been overdone. Although there is a rebalancing taking place in China and there may be volatility associated with this, we need to remember that the world's second largest economy is still growing at around 7 to 7.5%," Mr Smith said.

#### **Overview – comparisons Financial Year to Date unless otherwise noted<sup>3</sup>**

- Cash profit increased 11%, income up 5%, expenses down 0.5% and the provision charge down 2%.
- The key change in the macro environment compared to the first half was a 5 cent decline in the average Australian to US dollar rate. The average for the quarter was \$0.99 compared to first half average of \$1.04. While this is positive for the business, it impacts a range of operating ratios and metrics in different ways. Given the continuing depreciation of the currency in recent weeks, a table is attached to this release to assist investors to better understand the impact on key ratios.
- Benefits from productivity programs implemented in 2012 continue to emerge with expenses slightly down. The Group is on track to deliver strongly positive jaws for the year. Expenses will likely show an increase half on half largely reflecting investment including the Banking on Australia infrastructure program.
- The Group Net Interest Margin (NIM) declined 2 basis points (bps) relative to the end of March; down 3 bps excluding Global Markets<sup>4</sup>. The impacts of the lower interest rate environment were partially offset by more benign funding conditions. Group NIM (excluding Global Markets) is likely to decline several more basis points by the end of the financial year due to the continuing impact of the lower interest rate environment and some remaining headwinds to International and Institutional Banking margins (both spread and mix).

<sup>1</sup> Statutory profit is adjusted for non-core items to calculate Cash Profit, a measure of profitability for the ongoing business activities of the Group.

<sup>2</sup> Jaws refer to the differential between income growth rates and cost growth rates.

<sup>3</sup> Comparisons are period to 1/10/12 to 30/06/2013 relative to the prior comparable period 1/10/11 to 30/06/2012 unless otherwise noted. Various reconciliation materials related to cash profit are available on the ANZ website in the shareholder centre within the Analysts Toolkit.

<sup>4</sup> Comparisons are relative to Group NIM at the end of March 2013 including Global Markets of 225bps and excluding Global Markets of 267 bps.

- Customer deposits increased 12%; with net lending assets up 8%<sup>5</sup>.
- The provision charge for the quarter was \$277 million (YTD charge \$876 million). The APS330 released today shows a continued decline in total impaired assets and in new impaired assets. Non Performing Loans<sup>6</sup> have reduced by 25 bps YTD to 134 bps of gross loans. Given the current credit quality trends the Group now expects the Full Year 2013 charge to be slightly lower than for 2012. The collective provision coverage ratio at 30 June was 100 bps; there were no changes to overlays during the quarter.<sup>7</sup>
- ANZ's APRA Basel III CET1 ratio at 30 June, following payment of the 2013 interim dividend of 73 cents per share and partial impact of the neutralisation of the first half Dividend Reinvestment Plan, was 7.97%, equating to 10.12% on an internationally harmonised basis. We have issued \$22 billion of term wholesale debt, completing the Full Year 2013 term wholesale funding task. The funding profile has also benefitted from the cash inflows associated with the significant fall in the Australian dollar.

## **BUSINESS COMMENTARY**

### **AUSTRALIA DIVISION**

ANZ continues to hold or gain market share across key business segments and there is good momentum in Commercial lending and deposits and also in Retail mortgages and deposits. Household lending has grown above system for 14 consecutive quarters. Divisional margins were steady. The Banking on Australia program is progressing well and helping to drive improved customer satisfaction. While increased investment on this program will see expenses up half on half, year on year expenses are expected to be lower. Credit quality across the business was sound and within expectations.

### **INTERNATIONAL & INSTITUTIONAL BANKING DIVISION**

There was good underlying volume growth in priority products linked to our super regional strategy and presence in Asia, including Trade and Foreign Exchange; client acquisition continues and client revenues were up 5% on the first half quarterly average. Expenses remain tightly managed.

While volume growth and productivity initiatives are helping to offset margin headwinds arising from the impact of the lower interest rate environment and to a lesser extent from price competition and mix, the Division's margin (excluding Global Markets) will likely compress around 20 bps across the second half. Around two thirds of this margin impact is driven by lower rates coupled with lower average margins in the lending book reflecting our strategy to reduce risk. Trade margins, while still slightly below the long term sectoral average, appear to have stabilised and volumes remain strong.

Global Markets income grew 13% to \$1.6 billion YTD (\$523 million 3Q13). Customer sales income in the quarter was up 10% on the quarterly average for 1H13 with Australian customer driven FX and Fixed Income performing well and the APEA business delivering a record customer sales result.

### **NEW ZEALAND DIVISION**

The Division has made a smooth transition to one ANZ brand with customer numbers holding steady and brand consideration up 5%. While the revenue environment remains quite subdued the simplification program is delivering ongoing scale and productivity benefits. Margins have stabilised and credit quality trends remain benign.

### **GLOBAL WEALTH DIVISION**

Funds under Management have grown 6% YTD with in-force premiums up 7%. Consistent with the current industry experience lapse rates are above trend but have not changed significantly since the end of the half. Expenses continue to be tightly managed and together with investments in digital, the Smart Choice Super product and deepening ANZ channels the business is making good progress.

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<sup>5</sup> Comparisons are period 1/10/12 to 30/06/2013 relative to the prior comparable period 1/10/11 to 30/06/2012 unless otherwise noted.

<sup>6</sup> 90+ Days Delinquent Exposures plus Gross Impaired Assets

<sup>7</sup> Collective Provision ratio is the collective provision as a percentage of credit risk weighted assets.

# Impacts of a lower AUD on ANZ 2013 operating results

Metric	Ratio Impact	6 month period impact of a 5 cent fall in AUD <sup>1</sup>
<b>ROE</b>	<p>Adverse mix impact due to increase in the relative contribution from geographies which are currently lower RoE.</p> <p>A lower AUD increases the value of foreign currency investments leading to an increase in the Foreign Currency Translation Reserve and therefore higher average equity. Capital exposures are generally not hedged whereas near term profits are substantially hedged. No impact to regulatory capital ratios.</p>	~-20bps
<b>NIM</b>	Increases the relative contribution from lower risk and lower margin Asian lending resulting in a slight adverse mix impact.	~-0.5bps
<b>Cost to Income Ratio</b>	The impact of FX rates on foreign currency income and expense largely offset each other. However, losses on the hedges of profit are booked against income adversely impacting CTI.	~+8bps
<b>CP/CRWA Ratio</b>	CP overlays tend to be held in AUD whereas a proportion of CRWA is denominated in foreign currencies. Further adverse impact from higher CRWA on foreign currency derivatives against which we do not hold CP (derivatives are marked-to-market and attract CVA).	~-0.5bps
<b>Funding</b>	Cash inflows arise from cross currency swaps used to hedge existing wholesale funding liabilities. Lower offshore funding required to meet ongoing AUD funding needs.	~\$2bn cash inflow
<b>Overall Positive Impact</b>	Accretive to NPAT.	~+1.5% of half-year NPAT excluding hedges <sup>2</sup>

1. Impact from a lower AUD relative to USD and NZD currencies.
2. The impact from a lower AUD is accretive to the extent that foreign currency earnings are not fully hedged. Refer to page 50 of ANZ's 2013 Half Year Results Presentation for level of hedges in place for FY13 earnings.

