



## Media Release

### ANZ 2014 Full Year Result

- good 2014 result across all markets, well positioned for the operating environment -

#### Performance Highlights<sup>1</sup>

- Statutory profit after tax of \$7.3 billion up 15%. Cash profit<sup>2</sup> of \$7.1 billion up 10%.
- Final Dividend of 95 cents per share fully franked is up 14% on the Interim Dividend and brings the Total Dividend for FY14 to 178 cents per share up 9%. Earnings per share increased 9% to 260.3 cents.
- Profit before provisions (PBP) up 7%.
- Adjusting for the contribution of foreign exchange<sup>3</sup> (FX) and the disposal of ANZ Trustees and the SSI shareholding<sup>4</sup>, revenue increased 4% and expenses 1.8%. The cost to income ratio (CTI) on the same basis improved a further 94 basis points (bps) to 44.3%.
- Customer deposits grew 9.5% with net loans and advances up 8%.
- Provision charge was \$989 million down 17%.
- Return on equity (RoE) up 10 bps to 15.4%.
- Common Equity Tier 1 (CET1) ratio on an Australian Prudential Regulation Authority (APRA) Basel 3 basis up 47 bps from the end of March to 8.79%. On an internationally comparable Basel 3 basis<sup>5</sup> CET1 was 12.7%.

ANZ Chief Executive Officer Mike Smith said: "This is another good performance that demonstrates consistent execution of our super regional strategy which is positioning ANZ well in a more constrained operating environment.

"We made progress in all our key markets by creating a better bank for all our customers whether big, small, retail or corporate. There were market share gains in key segments in Australia, the New Zealand business performed strongly following the brand simplification and Global Wealth performed well .

"The result also saw continued momentum from our international business in Asia Pacific Europe and America which now accounts for 24% of Group revenues. This provides ANZ with meaningful and differentiated growth options without the need to take on more risk. With the phase of high investment in Asia largely complete, we are seeing a greater share of Asia-led revenue growth translate to profit.

"Clearly though the macro drivers of growth in the sector are slowing and the environment is looking more challenging. We anticipated these challenges by setting targets for improving business productivity and shareholder returns, while actively reducing risk. This result highlights continued progress against those targets.

"Our enterprise approach to productivity and technology has seen ANZ consolidate its position as one of the most efficient banks in the world. We are progressively standardising processes and systems, streamlining teams, introducing more straight-through processing, as well as more convenient online and mobile banking self-service options.

"We have seen good growth and returns are also improving with more opportunities to continue improving capital efficiency by actively re-shaping our portfolio of businesses," Mr Smith said.

<sup>1</sup> All comparisons are Full Year to 30 September 2014 compared to Full Year 2013 and on a cash basis unless otherwise noted.

<sup>2</sup> Statutory profit has been adjusted to exclude non-core items to arrive at Cash Profit which measures the result for the ongoing activities of the Group.

<sup>3</sup> ANZ's overseas operations are subject to the impact of foreign currency translation impacts. To assist with period on period comparability, comparative data is adjusted to remove the impact of foreign exchange movements.

<sup>4</sup> The sale of ANZ Trustees was announced in April 2014 and completed in July 2014. The sale of ANZ's shareholding in Saigon Securities Inc (SSI) was announced in September 2014.

<sup>5</sup> Methodology per Australian Bankers' Association International comparability of capital ratios of Australia's major banks (August 2014).

## PERFORMANCE BY DIVISION<sup>1</sup>

### AUSTRALIA

Following a strong 2013 performance, the Australia Division (Retail and Business Banking) maintained momentum with PBP up 6% and cash profit rising 7%. Revenue grew 5% with expenses up 3%; excluding investment initiatives funded by the sale of ANZ Trustees expense growth was 2%. Divisional cost to income improved by a further 60 bps to 37.2%. Margins were well managed, improving by 5 bps in the second half and credit quality remained sound with the provision charge flat year on year (YoY).

The Retail business was particularly strong delivering a 12% increase in profit with lending up 7% and deposits up 5%. Net customer numbers grew by over 79,000<sup>6</sup> and customer satisfaction increased to place ANZ second among the four major banks<sup>7</sup>. ANZ was named Home Lender of the Year for the 13th out of the past 16 years. ANZ is on track to record its 19<sup>th</sup> consecutive quarter of above system growth in Home Lending.

In Business Banking we added approximately 27,000 net new customers during the year. Lending grew 3% and deposits 8% with momentum building in the second half. Lending to small businesses grew strongly, up 16%. The business is making the most of ANZ's super regional capabilities and delivering a meaningful competitive advantage with 1,377 cross border referrals during the year.

The Banking on Australia program is continuing to transform the way we do business by improving distribution capability, delivering new digital and mobile solutions, building capability and improving productivity by simplifying products and processes.

Branch sales capacity has improved with more than two thirds of our frontline sales staff now accredited to sell Home Loans and more than half accredited to sell basic Wealth and Small Business products.

### INTERNATIONAL AND INSTITUTIONAL BANKING (IIB)

IIB has grown and diversified its earnings by geography, product and customer, and is becoming more resilient against changeable market conditions. Despite a challenging second-half environment, particularly in the third quarter, IIB delivered an 11% increase in cash profit with PBP up 6%. Revenue trends improved in the fourth quarter which was up 9% on the third quarter. Costs were well managed up 3% adjusting for FX and additional investment initiatives funded by the ANZ Trustees sale proceeds.

Cash profit from Asia increased 25%<sup>8</sup> and revenue 10%. Revenue has grown strongly over the past 5 years with a compound annual growth rate of 23%. The Division's revenue mix has diversified with more significant contributions from Foreign Exchange, Trade and Cash Management and Debt Capital Markets. Together with our differentiated geographic footprint, this has driven an increase in products per customer as well as growth in Asia cross-border revenue, which increased 9%.

Lending volumes grew 15% with customer deposits up 12%. Despite low levels of market volatility during the third quarter Global Markets delivered a 16% increase in profit for the year with costs held flat in the second half. More than 75% of Global Markets revenue came from customer facing activities and 47% now comes from outside Australia and New Zealand.

ANZ's regional capability helped the business to regain the number one lead bank position in Institutional Banking in Australia and retain the number one lead bank position in New Zealand<sup>9</sup>. ANZ has also had the fastest recorded rise in the Greenwich Associates relationship strength survey covering Asia, narrowing the gap on the number three ranked competitor.

The quality of our Institutional lending book continues to improve with lending to investment grade clients now 78% of the loan book up from 60% in 2008. This improvement is reflected in the declining provision charge for IIB with the charge down 32% this year.

### NEW ZEALAND (all figures in NZD)

The New Zealand Division's 10% growth in cash profit reflects the successful execution of the simplification strategy during the past two years. The Division is now better able to capture scale advantages with increased brand recognition, lower costs and better customer service delivery through improved products, processes and distribution footprint. Revenue grew 2% while expenses reduced 3% to deliver 7% PBP growth. At 41.1% the Division's cost to income is now 730 bps lower than in 2010.

Lending grew 5% while customer deposits were up 10%. Credit quality remains strong in both the retail and business banking portfolios.

<sup>6</sup> Excludes Esanda contracts.

<sup>7</sup> Roy Morgan Research. Retail Main Financial Institution customer satisfaction - retail customers 14+. Very or Fairly Satisfied. 6 months to Sept-14.

<sup>8</sup> All Asia financial data including profit, revenue and compound growth rates are in USD.

<sup>9</sup> Peter Lee Associates Large Corporate and Institutional Relationship Banking surveys, Australia and New Zealand 2014.

The Retail business profit grew 16%. The business has continued to grow share in the mortgage market and remains the market leader for new home lending in all major cities. Market share in credit cards, deposits, life insurance and Kiwisaver also increased<sup>10</sup>.

Business Banking grew lending by 8% while at the same time continuing to improve the credit quality of the portfolio. ANZ has increased the number of specialists available to serve the Commercial, Agri and Small Business Banking sectors and was again awarded the CANSTAR<sup>11</sup> Best Agribusiness Bank.

## GLOBAL WEALTH

Cash profit for the Global Wealth Division increased 11%. Excluding the impact of the sale of ANZ Trustees which completed in July and a prior year one off tax credit, profit increased 10%.

More customers are choosing ANZ Wealth solutions, with a 13 per cent increase in the number of wealth solutions being sold through ANZ channels. This has been driven by innovations in physical and digital distribution and in advice, including ANZ Smart Choice Super, the new ANZ Grow Centres and the Grow by ANZ™ app. The Division has continued to improve its efficiency with the cost to income ratio down a further 375 bps.

Private Wealth profit grew 62%, excluding the impact of the sale of ANZ Trustees. The strong performance was driven by a new investment led model with deposits and investment FUM up 20% and 21% respectively. Insurance cash profit grew 16% excluding the impact of the exit of one Group Life Insurance plan with Retail and Direct Life inforce premiums up 10%. Australian Retail Life lapse rates are outperforming the industry average at 12.4%, an improvement of 130 bps. Funds Management income grew 3% with a 12% growth in the average Funds Under Management to \$61 billion up \$2.4 billion, driven by improved net flows and investment market gains.

## GLOBAL TECHNOLOGY AND OPERATIONS

Our Global Technology and Operations Division is helping ANZ build economies of scale, increase our speed to market and strengthen the operating risk control environment. The Group's regional delivery centres provide regional coverage across time zones helping to drive lower unit costs, improve quality and lower risk. We have been selectively building out common platforms to enable our regional delivery and deliver a faster, easier and more consistent customer experience.

For the third year operations volumes increased while operations costs fell. In Australia the average number of customer complaints has almost halved over the past three years, despite an 8% increase in customers.

## CAPITAL AND DIVIDEND

ANZ will distribute \$4.9 billion of dividends to shareholders for this year with 73% of this being paid to Australian based Retail and Institutional investors. The Final Dividend of 95 cents per share was up 14% on the Interim Dividend, taking the Total Dividend for 2014 to 178 cents per share up 9%.

Strong organic capital generation of \$3.0 billion or 84bps in the second half coupled with the Group's ongoing focus on capital efficiency, saw ANZ's capital ratio increase to 8.79% on an APRA Basel 3 CET1 basis. This represents a more than doubling of the Group's CET1 ratio since before the global financial crisis.

## CREDIT QUALITY

The total provision charge of \$989 million is a reduction of 17% YoY, driven by management actions to strengthen the lending book and benign credit conditions along with a lower level of new and top up provisions.

The total loss rate for the portfolio declined significantly across the year from 26bps to 19bps reflecting ongoing asset quality improvement. Gross impaired assets continued their downward trend reducing by a further 32%, and have now reduced at an average of \$918 million each year since 2010. New impaired assets reduced in all major lending Divisions, with total new impaired assets down 13% YoY.

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<sup>10</sup> In-force market share.

<sup>11</sup> CANSTAR NZ Ltd is an independent specialist research service and financial data provider.

## OUTLOOK

Mr Smith said: “We expect 2015 to present similar opportunities for ANZ, with a continuation of a stable and benign credit environment. In Australia and New Zealand the consumer sector remains relatively buoyant however we expect a gradual transition to business led growth as business confidence improves. Asia’s economies are set to maintain their position as the world’s best performing region.

“Another uncertainty is regulation and the outcome of the Financial System Inquiry in Australia. It is perhaps not widely understood that Australia’s financial system has been strengthened significantly since the GFC and our major banks are now stronger and safer than ever. While everyone benefits from a well-capitalised , well managed banking system – consumers, shareholders and taxpayers – there is a real cost to the economy of ever more restrictive regulation and policy settings. It is not in Australia’s interest for its financial system to be globally uncompetitive.

“While the banking sector faces a number of headwinds, we believe the environment, ANZ’s strategy, our business mix and the strength of its customer franchise positions us strongly and we are well placed to deliver against our 2016 cost to income and returns targets”, Mr Smith said.

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**Video interviews with ANZ’s Chief Executive Officer Mike Smith and Chief Financial Officer Shayne Elliott regarding today’s Full Year 2014 Financial Results announcement can be found at ANZ BlueNotes [www.bluenotes.anz.com](http://www.bluenotes.anz.com)**