



## Media Release

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### **ANZ Market Update - Three Months to 31 December 2011**

#### **- solid performance; continued focus delivery of super regional strategy -**

In a market update today ANZ announced an unaudited statutory profit after tax for the three months to 31 December 2011 of \$1.7 billion. Adjusting for non-core items<sup>1</sup>, unaudited underlying profit for the first quarter of \$1.48 billion increased 4.6% QOQ (6.3% FX adjusted) and 4.1% PCP (5% FX adjusted).

ANZ Chief Executive Officer Mike Smith said: "Our performance in the first quarter has been solid with good results in Asia Pacific, Europe and America (APEA), in Institutional and in New Zealand offset by continued margin pressure in Australia. The Global Markets business is recovering after a very difficult trading environment in the fourth quarter of 2011.

"Although our business in Australia is tracking reasonably at present, we have to continue adapting our business model to changes in the domestic and international environment, particularly in Retail and Wealth.

"The environment for banking internationally has become significantly more challenging following the first phase of the global financial crisis. Bank funding costs are continuing to rise as the deepening economic and financial crisis in Europe causes dislocation and volatility in global markets although prospects are brighter in the United States.

"There will not be a return to the level of credit growth that banks experienced pre-crisis for the foreseeable future, particularly in our major domestic markets in Australia and in New Zealand, as consumers reduce their gearing and businesses pace investments. New regulation is also increasing costs for banks globally including the new Basel III rules.

"At the same time, while the resources sector is underpinning the macro-economy in Australia, other sectors in the economy are under continued pressure as a result of the strong dollar, and pull-back in discretionary spending by consumers and business.

"We recognised the need to adapt to this more challenging environment early and as a result ANZ is in a strong financial position with a strategy to take advantage of the continuing strong growth in Asia. To meet the emerging challenges in the Australian and New Zealand economies while continuing to support our customers, we are creating a more efficient and more innovative business while still investing in growth segments.

"There is no question that adapting to this environment creates real challenges. Our recent decisions on interest rates for customers in Australia and on how many people we employ at ANZ reflects a need to transform our business in new and often painful ways.

"It's important to reflect that our customers, our staff and the broader community benefit from safe, well-run commercial banks - banks that also generate profits that underpin investor and superannuation returns and that can be re-invested to expand lending.

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<sup>1</sup> Reported profit is adjusted to exclude certain non-core items to arrive at underlying profit. Underlying profit has been derived on a consistent basis to prior periods (refer to pages 80 to 82 of the 2011 Results Announcement) and the principal adjustment in the quarter was to reverse mark to market gains on hedging transactions.

"In Asia, we have a unique growth business based on the region's continuing economic expansion and the opportunities created by the retreat of capital constrained European banks. Here too, we are managing growth in more challenging times by creating a more efficient business which in turn has the capacity to fund the growth and expansion of our international customer franchise.

"The changes we announced this week to our management team and organisational structure are designed to accelerate progress with our super regional strategy and its emphasis on the connections between Australia, New Zealand and the faster growing economies of Asia.

"Our performance in the first quarter shows that we are well positioned in a challenging environment with a unique business strategy and the financial strength to take advantage of organic and strategic growth opportunities during 2012," Mr Smith said.

### **First Quarter Highlights** (comparisons are underlying and QOQ unless otherwise specified)

- ANZ is growing and diversifying its customer and revenue base in line with its Super Regional Strategy.
- The Group continues to execute well against its long term Balance Sheet Management plan which focuses on increased levels of self-funding, a consistent diversified wholesale funding program and disciplined use of the balance sheet by the businesses.
- Group customer deposits and lending both grew just over 2% during the quarter on an FX adjusted basis.
- Group profit before provisions (PBP) increased 6% (8% FX adjusted) to \$2.3 billion. Group revenue increased circa 5% to \$4.3 billion, benefiting from a recovery in Global Markets trading income offset by higher deposit and wholesale funding costs in Australia. Excluding Global Markets, Group PBP improved slightly, with income up 2% and jaws negative 1% (FX adjusted). Including Global Markets however jaws were positive 2.5%.
- Expense growth of around 3% was driven largely by the Australian Division. There is an element of seasonality and timing differences coupled with costs related to productivity programs to deliver improved cost outcomes from the second half of the financial year, which distort this outcome. The Group continues to target neutral jaws for the Full Year.
- Group margins (excluding Global Markets) decreased around 1 basis point from the previous half; including Global Markets margins were down 3 basis points (bps). While margins improved in New Zealand and were broadly stable in APEA and in Institutional, they declined a further 9 bps in Australia from the second half 2011 due to higher funding and deposit costs.
- The provision charge was \$239 million for the quarter. Provision coverage remains high with the total provision coverage ratio at 1.86%<sup>2</sup> and the collective provision coverage ratio at 1.23%. The December quarter APS330 was also released today, in which ANZ advised total impaired assets have declined \$65 million reflecting further stabilisation in new impaired loans. The Group expects provisions for the financial year to be similar or slightly lower than in 2011.

### **Business Update** (comparisons are divisions not geography and are QOQ unless otherwise specified)

- In Australia strong deposit growth continued up 3.6% QOQ (1.3 times system) while lending grew 2.1%. Asset growth was driven largely by mortgages up 2.4% (1.5 times system) and Commercial which grew 1.4%. Credit quality in the retail book, including mortgages, is strong while Business credit quality has been broadly stable over the quarter.

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<sup>2</sup> Total provision coverage is the individual provision plus the collective provision as a percentage of credit risk weighted assets (CRWA). Collective Provision ratio is the collective provision as a percentage of CRWA.

Margins declined a further 9 bps from the second half 2011, impacted by increased deposit and funding costs. Work is underway on a productivity program including continued automation, de-layering of management and initiatives to improve customer experience including the roll-out of the new generation branch layout.

In Wealth, volumes in E\*TRADE and FUM growth in the wealth management space were impacted by volatile market conditions; claims experience in the Insurance business was also adverse for the quarter.

- APEA has continued to improve the quality and diversity of its earnings streams. During the period, the maturity profile of deposits lengthened and deposit growth was higher than loan growth. Jaws were positive for the quarter and are expected to remain so at the half and full year. Income benefitted from a recovery in Global Markets income as well as growth in Trade income. Expenses benefitted from completion of the RBS integration program and managing to flat headcount since the end of FY2011. ANZ was recently voted a top 5 corporate bank in Asia in the Greenwich Associates Survey 2012 (4 years ago ANZ was outside the top 20). The Survey found ANZ has become a leading cross-border provider of financial services into Australia and New Zealand and is becoming more prominent within Asia.
- In New Zealand while economic growth is subdued our business momentum remains positive. The business simplification program is underway delivering some early cost improvements while customer satisfaction remains high. Lending volumes decreased 0.7% (in NZD) while deposits increased 2.4% (in NZD). Credit quality has continued to improve as has the business margin. Work to move to a single IT platform has made good progress with testing and integration work expected to be completed later this calendar year. Completion of the program is expected to incur around \$90m in IT and related costs which, consistent with the treatment in 2011, will be excluded from Underlying Profit.
- In Institutional growth in client revenues (up 10%), together with a continuing focus on productivity and a recovery in Global Markets trading and balance sheet revenues delivered a strong performance for the quarter. Customer numbers increased across all geographies including a 14% increase in Asia Pacific with our priority products and geographies performing well. Trade Finance revenues grew 18% and Cash Management 7%. Trans-Tasman cash management volumes have continued to increase (up 14%) and ANZ has now connected Singapore and Hong Kong to the ANZ Transactive platform.

Global Markets income increased 63% (FX adjusted) to just over \$400 million with customer sales income up by 25%, driven by good FX sales, to now represent around three quarters of total markets income. APEA markets revenue represented 45% of total Markets revenue.

Asia Pacific (ex Japan) syndicated loan volumes increased 27% to US\$342 billion and ANZ headed the 2011 loans league tables<sup>3</sup>. ANZ was also number one project finance mandated lead arranger for Asia Pacific (ex India).

## **Funding Capital and Liquidity**

ANZ's term wholesale funding program for 2012 is in line with 2011 at around \$20 billion and the Group is running ahead of schedule having raised circa \$9 billion year to date.

Funding has been sourced from a diverse range of domestic and offshore sources as well as in senior unsecured and covered bond instruments. After executing Australia's first covered bond transaction in November in the US, further transactions have been completed in EUR, NOK and CHF which have attracted a number of first time investors. Recent issuance has been completed at an average tenor of circa 6 years, helping to further increase the duration of the term funding portfolio.

The capital position at the end of the first quarter remained strong with a Tier One ratio of 11.0% and a Core Tier One ratio of 8.6%.

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<sup>3</sup> Thomson Reuters data December 2011.

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