News Release

ANZ reports 2016 Full Year Result

ANZ today announced a Statutory Profit after tax for the Financial Year ended 30 September 2016 of $5.7 billion down 24% and a Cash Profit[1] of $5.9 billion down 18%.

The FY16 result reflects a good performance in ANZ's core domestic franchises and significant reshaping of the business driven by ANZ's strategic focus to create a simpler, better capitalised and more balanced bank that produces better outcomes for customers and shareholders.

The result reflects an emphasis on delivering strong capital and cost management outcomes together with $1,077 million of charges (after tax) for Specified Items primarily related to reshaping the Group to position it for improved performance in future years.

Adjusted Pro-Forma Cash Profit[2] was $7.0 billion down 3%, while Profit before Provisions increased 6% as the benefits of simplification and rebalancing initiatives began to emerge. Return on equity was stable in the second half of the financial year at 12.2% (adjusted Pro-forma Cash Profit basis).

The Final Dividend of 80 cents per share is consistent with guidance provided at the Interim Profit announcement. The Total Dividend for FY16 is 160 cents per share fully franked down 12%.

Selected Group Financial Information	Half Year		Full Year	
Earnings ($m)	**2H16**	**1H16**	**FY16**	**FY15**
Statutory Profit basis				
Profit before credit impairment and tax	5,321	4,786	10,107	11,712
Statutory Profit	2,971	2,738	5,709	7,493
Cash Profit basis[1]				
Profit before credit impairment and tax	5,318	4,837	10,155	11,159
Cash Profit	3,107	2,782	5,889	7,216
Earnings Per Share (cents)	106.7	95.9	202.6	260.3
Return on Equity (%)	10.9	9.7	10.3	14.0
Net Interest Margin (%)	2.00	2.01	2.00	2.04
Total Credit Impairment Charge as a % of avg GLAs (%)	0.36%	0.32%	0.34%	0.22%
Adjusted Pro-forma Cash Profit basis[2]				
Profit before credit impairment and tax	5,815	5,737	11,552	10,927
Adjusted Pro-forma Cash Profit	3,467	3,499	6,966	7,145
Operating expenses to income (CTI, %)	44.6%	45.0%	44.8%	46.0%
Earnings Per Share (cents)	119.1	120.6	239.7	257.8
Return on Equity (%)	12.2%	12.2%	12.2%	13.8%

Selected Group Financial Information			
Credit Quality	**Sep-16**	**Mar-16**	**Sep-15**
Collective Provision as a % of Credit RWA (%)	0.82%	0.86%	0.85%
Gross impaired assets as a % of GLAs (%)	0.55%	0.51%	0.47%
Balance sheet ($b)	**Sep-16**	**Mar-16**	**Sep-15**
Gross Loans and Advances (GLAs)	580.0	565.9	574.3
Total Risk Weighted Assets (RWAs)	408.6	388.3	401.9
Customer Deposits	449.6	446.8	444.6
Leverage Ratio (%)	5.3%	5.1%	5.1%
Common Equity Tier 1 Ratio (%)	9.6%	9.8%	9.6%
Common Equity Tier 1 Ratio Internationally Comparable Basel 3 (%)	14.5%	14.0%	13.2%
Other	**Sep-16**	**Mar-16**	**Sep-15**
Full time equivalent staff (FTE)	46,554	48,896	50,152

ANZ Chief Executive Officer Shayne Elliott said: "This year we delivered another good performance in Australia and New Zealand with our consumer and small business franchises producing strong results based on a disciplined approach to market share and tight cost management.

"We also took steps to create a better experience for our customers and to compete efficiently in the digital age. This included the successful launch of Apple Pay and Android Pay in Australia and Apple Pay in New Zealand. These are market-leading initiatives that have delivered good growth in new to bank customers.

"In Institutional Banking there has also been significant progress in improving returns and building a simpler business focussed on regional trade and capital flows. This included a meaningful reduction in low yielding assets and improved productivity.

"We are also making changes to ensure we are fairer and more balanced in the way we deal with customers and to demonstrate our commitment to community responsibility. The current discussion about the banking sector in Australia however shows that we still have more to do to shift our culture and evolve the way we do business," he said.

Strategic Priorities	FY16 Progress Highlights
Create a simpler, better capitalised, better balanced and more agile bank. Reduce operating costs and risks by removing product and management complexity, exiting low return and non-core businesses and reducing our reliance on low-returning aspects of Institutional banking in particular.	• Portfolio rebalancing underway, retail and commercial RWAs increased (6%)[3], Institutional RWAs reduced (down 15%). • The improved composition of CRWA, up $2 billion (1%), was driven by $8 billion of lending growth in retail and commercial in Australia and New Zealand, and a $26 billion increase in Australian Mortgages from regulatory changes, largely offset by a $21 billion decrease in Institutional lending and a $5 billion decrease from the sale of the Esanda dealer finance portfolio. • CET1 ratio 9.6% at 30 September; organic capital generation 106 bps in the half. • Further simplified and refocused the business, reducing duplication, delivered reduction in FTE (down 7% for the year). • Sold the Esanda dealer finance portfolio, announced the sale of the Retail & Wealth businesses in five Asian countries. • Pursuing a range of strategic and capital market options in relation to the Wealth businesses in Australia. • Reset the 2016 dividend to provide the basis to return to a sustainable, fully franked payout ratio of 60-65% of Cash Profit[4] over time.
Focus our efforts on attractive areas where we can carve out a winning position. Make buying and owning a home or starting, running and growing a small business in Australia and New Zealand easy. Be the best bank in the world for customers driven by the movement of goods and capital in our region.	• Focus on growing RWA in higher returning segments improved Institutional (excluding Markets) margins by 13 bps. • Grew the high return Institutional cash management business, increasing revenue by 6%; deposit balances by $1 billion up 1%. • Australia and New Zealand Retail and Commercial customer numbers increased by 262,000. • Australia home loan lending up 7%, moved to #3 market share, maintained #1 market share position in New Zealand. • Small business lending in Australia up 9%, New Zealand up 11%.
Drive a purpose and values led transformation of the Bank. Create a stronger sense of core purpose, ethics and fairness, investing in leaders who can help sense and navigate a rapidly changing environment.	• Revised ANZ's Corporate Sustainability Framework with focus on fair and responsible banking. • Supported ABA conduct and remuneration reviews. • Redesigned ANZ's performance management process to strengthen alignment to strategy and values. • Reviewed approach to remuneration including new guidelines on equity clawback. • Invested in MIT Digital Leadership Program and Leadership Pathway programs. • Strengthened the Whistleblower Protection Policy.

Build a superior everyday experience for our people and Customers to compete in the digital age. Build more convenient, engaging banking solutions to simplify the lives of customers and our people.	• Established new Digital Banking Division to support growth in priority areas. • First major bank to launch Apple Pay and Android Pay in Australia and Apple Pay in New Zealand. • Implemented multi-channel digital platform for Australian retail banking, more than 1 million customers using goMoney apps on the new platform. • Launched Digital Customer Identity Verification.

Wealth and Asia Retail & Wealth

At the 2016 Interim Result, ANZ advised that it was conducting strategic reviews of the Group's Retail and Wealth business in Asia, and its Wealth businesses in Australia and New Zealand. The reviews considered each business within the context of the overall Group strategy including capital efficiency.

ANZ announced on 31 October 2016 that it had entered into an agreement with DBS to sell the Retail and Wealth businesses in Singapore, Hong Kong, China, Taiwan and Indonesia. ANZ intends to clarify plans for the remaining businesses in Retail and Wealth in Asia during FY17.

The strategic review of ANZ's Wealth businesses in Australia and New Zealand concluded that while the distribution of high quality Wealth products and services should remain a core component of the Group's overall customer proposition, ANZ does not need to be a manufacturer of Life and Investments products.

The initial focus will be on the Australian Wealth business where ANZ is exploring a range of possible strategic and capital market options that will maintain strong outcomes for customers. This includes the possible sale of the life insurance, advice and superannuation and investments businesses in Australia. ANZ will pursue a disciplined approach to this process and will update the market as appropriate.

The Wealth business in New Zealand will be considered separately during 2017.

Capital and Dividend

The APRA CET1 capital ratio at 30 September was 9.6% (14.5% on an Internationally Comparable basis). Organic capital generation of 106 basis points in the second half was 33 basis points higher than the second half average of the past 4 years, primarily driven by Credit RWA reduction (excluding foreign exchange impacts) of $12 billion in the Institutional business.

The Final Dividend of 80 cents per share is the same as for the first half and is in line with guidance. The total dividend for FY16 of 160 cents per share represents a Dividend Payout Ratio of 81.9% on a Statutory Profit basis and 79.4% on a Cash Profit basis.

ANZ is gradually consolidating to its historical payout range of 60-65% of annual Cash Profit which ANZ believes provides a more sustainable base reflecting the greater demands for capital arising from increased regulatory requirements. On an Adjusted Pro-forma Cash Profit basis the Dividend Payout Ratio was 67.1%.

Specified Items

In FY16 ANZ recognised the impact of a number of items collectively referred to as Specified Items which form part of the Group's Cash Profit. The items are primarily related to initiatives undertaken to reposition the Group for stronger profit before provisions growth in the future. Adjusted Pro-Forma Cash Profit information has also been provided to allow the market to better analyse the ongoing operations of the Group.

ANZ recorded $1,077 million (after tax) of specified items charges in Cash Profit during the Financial Year, of which almost half ($522 million) related to a change in the application of the software capitalisation policy. This change in policy effected a 24% reduction in the Capitalised Software balance year on year.

One third of the Specified Items charges occurred in the second half, including an additional restructuring charge of $100 million (post tax) and a derivative credit valuation adjustment (CVA) of $168 million (after tax).

The restructuring charge supports the evolution of the Group's strategy and will underpin further productivity through reshaping of the workforce to reduce complexity and duplication, and to align with the changing emphasis in Institutional. ANZ has refined the methodology for the calculation of CVA, a component of valuing derivative instruments in the Markets business. The updated methodology makes greater use of market credit information and more sophisticated exposure modelling and is in line with leading market practice.

A more detailed information pack on specified items is on www.anz.com within the FY16 results materials.

Credit Quality

The total provision charge of $1.96 billion ($1.94 billion individual provision charge and a $17 million collective provision charge) equates to a loss rate of 34 basis point of which 3 bps is attributable to the recently announced settlement of the Oswal case. Gross impaired assets increased to $3.17 billion with new impaired assets up 3% compared to the prior half.

While in aggregate the credit environment is broadly stable, pockets of weakness continue to work their way through the economy, largely reflecting stress moving through the resources and resources related sectors. The stress appears to have now largely passed through the Institutional market and is progressively moving through the Commercial and Retail sectors. ANZ therefore expects provision charges to remain broadly the same in the 2017 Financial Year as a percentage of gross lending assets.

Outlook

Commenting on the outlook Mr Elliott said: "We are pleased with the initial progress that has been made this year in reshaping our strategy and setting ANZ on a path towards a sustainable improvement in customer outcomes and shareholder returns.

"We have a clear strategy and a consistent focus on the simplification of our business and actively rebalancing our portfolio. Importantly we have the organisation aligned and we have established momentum in relation to the work that still needs to be done. This sets us up well to increase the pace of execution in 2017 and to deliver a better bank for customers and for shareholders," he said.

Video interviews with Shayne Elliott and Chief Financial Officer Michelle Jablko discussing the 2016 Full Year result announcement are available at www.bluenotes.anz.com.

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Footnotes:

1. Cash Profit excludes non-core items included in Statutory Profit and is provided to assist readers in understanding the results of the ongoing business activities of the Group. The net after tax adjustment was an addition to Statutory Profit of $130 million comprised of several items. All comparisons are to the full year end September 2015 unless otherwise noted.
2. Adjusted Pro-forma Cash Profit refers to Cash Profit adjusted to remove the impacts of Specified Items including the impact of software capitalisation policy changes, Asia Partnership impairment charge (AMMB) and gain of cessation of equity accounting (Bank of Tianjin), restructuring expenses, sale of Esanda Dealer Finance business, and derivative credit valuation adjustment. Further detail provided in the ANZ Full Year 2016 consolidated Financial Report.
3. Excludes the impact of increased capital requirements for Australian residential mortgages from July 2016 and the divestment of Esanda Dealer Finance.
4. Previously 65 to 70 per cent of Cash Profit.