

News Release

For release: Thursday, 30 April 2020

ANZ NZ 2020 half-year result shows early impacts of Covid-19

ANZ New Zealand¹ today reported statutory² net profit after tax (NPAT) of NZ\$789 million for the six months to 31 March 2020 – a 15% decrease on the corresponding half in the 2019 financial year.

Cash NPAT was NZ\$677 million, down 39%, reflecting a significant uplift in credit provision charges due to changes in the economic environment, together with benefits in the prior comparable period³ (PCP) from the sales of OnePath Life (NZ) Limited and ANZ New Zealand's share in Paymark Limited.

These sales partly contributed to ANZ New Zealand's 13% decline in revenue PCP. Expenses increased 13%, largely driven by increased regulatory compliance spend. Both customer deposits and gross lending were up, 5% and 3% respectively.

As at 31 March 2020, the ANZ Bank New Zealand Limited group remains well capitalised with a total capital ratio of 13.9%, up from 13.6% as at 30 September 2019.

ANZ New Zealand Chief Executive Officer Antonia Watson said banks are a reflection of the financial well-being of customers and the economies in which they operate.

"New Zealand's response to Covid-19 has resulted in extraordinary changes to the economy, the fortunes of businesses and the lives of customers," Ms Watson said.

"While the Covid-19 crisis only began in earnest in New Zealand at the end of March the collective provision has increased substantially to recognise the possible impacts on economic activity as we go through FY20 and beyond. The extent to which this impact continues in the second half will depend on how and when New Zealand fully emerges from lockdown.

"New Zealand has made much better progress in fighting the virus than nearly all countries, and that potentially paves the way to a quicker economic recovery. While that's encouraging there will be many challenges as the country emerges from the high level of response and starts to rebuild.

"Banks have an important role in helping New Zealanders through the recovery, and ANZ New Zealand is ready to take on that task."

ANZ New Zealand has been working closely with the Government and regulators to help business and retail customers manage their finances during a time of severely curtailed economic and business activity.

¹ 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.

² 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.

³ Prior comparable period is six months ended 31 March 2020 compared with six months ended 31 March 2019 unless otherwise noted.

Key Points

All comparisons are against the prior comparable period and on a cash basis unless otherwise noted

- Statutory profit down 15% at NZ\$789 million.
- Cash profit down 39% at NZ\$677 million, partly impacted by the PCP sales of OnePath Life (NZ) Limited and ANZ New Zealand's 25% share in Paymark Limited.
- Revenue down 13%, impacted by items in the PCP.
- Expenses increased 13% due to higher regulatory compliance spend.
- Credit impairment charge up \$200 million from \$32 million to \$232 million reflecting Covid-19 developments.
- Total capital ratio up to 13.9%, from 13.6% as at 30 September 2019.
- Customer deposits up 5% and gross lending up 3%.
- KiwiSaver funds under management grew 4% to \$14.0 billion.
- No ordinary dividend paid.

The company has implemented key Government-led initiatives, such as home loan deferrals and the Business Finance Guarantee Scheme, as well as a major programme of reduced fees, charges and interest rates to help customers through the Covid-19 crisis. So far, ANZ New Zealand has provided financial help to around 30,000 personal, home and business loan customers through repayment deferrals or adjustments covering lending of around \$12 billion.

"We have helped thousands of businesses to hunker down by using financial strategies such as deferring loan repayments or increasing overdraft facilities in preparation for potentially further impacts in the near future," Ms Watson said.

"We're also a participant in the Business Finance Guarantee Scheme, a risk sharing arrangement for small to medium enterprise lending with the Government. It is early days for this scheme as businesses make use of the liquidity provided by the Covid-19 Wage Subsidy Scheme, payment deferrals and temporary facilities before committing to further term lending.

"We're optimistic many businesses will survive, but we know the next few months will be difficult and we're preparing for a higher-than-usual number of loan defaults."

Consistent with other New Zealand banks, ANZ Bank New Zealand Limited will not pay dividends on ordinary shares or redeem non-Common Equity Tier 1 capital instruments until the Reserve Bank of New Zealand (RBNZ) considers New Zealand's economic outlook sufficiently recovered following Covid-19.

"We support the RBNZ's current efforts to strengthen the financial system and position it for shocks such as the one the country is currently experiencing," Ms Watson said.

"Strong regulatory oversight and lessons from previous crises have prepared us, with more capital, greater liquidity and the ability to be flexible to the needs of our customers."

Digital banking continues to rise as customers used ANZ New Zealand's mobile banking app ANZ goMoney for more than 58 million transactions in the six months to March 2020. "While digital remains the most popular way to bank, in recent weeks our Contact Centre has been the lifeline for customer service and received almost 25% more calls in March than in February."

Recent global market volatility has impacted KiwiSaver account balances and Ms Watson said ANZ Investments had contacted 350,000 of ANZ KiwiSaver schemes' members reminding them investments are for the long-term, and short-term ups and downs are part of the investment cycle.

To help support customers through Covid-19's economic impacts, in recent weeks ANZ New Zealand has:

- Provided financial help to around 30,000 personal, home and business loan customers through repayment deferrals or adjustments covering lending of around \$12 billion.
- Deferred 19,600 home loan repayments and moved 20,900 home loans to interest only.
- Granted 1,345 temporary overdraft facilities to businesses needing more working capital, worth around \$25 million.
- Become a participant bank in the Business Finance Guarantee Scheme.
- Contacted 177,000 customers over the age of 70 to offer banking support, and set up dedicated phone teams to help solve immediate needs and guide them through self-service/digital options.
- Reduced customer fees, charges and interest rates across a range of products including home loan, credit card, personal loan and overdraft rates.
- Reduced commercial business and agri loans and overdraft base rates.
- Waived the fee for contactless debit transactions for around 14,000 small business customers until the end of June, with collective savings of around \$500,000.
- Contacted more than 350,000 of ANZ's KiwiSaver schemes' members about significant volatility in global markets and reminding them about the long-term nature of investments.
- Donated \$2 million in total to Women's Refuge, Age Concern New Zealand, and the Salvation Army's 70 foodbanks, as well as the Red Cross and a series of local charities in the Pacific to support vulnerable people through the Covid-19 crisis.
- Started proactively contacting customers who may be having financial difficulties to see how we can help.
- Opened 61 branches across New Zealand on Wednesday mornings to help vulnerable customers make 31,000 transactions while the country was in lockdown.

A table of key financial information follows

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Approved for distribution by ANZ's Continuous Disclosure Committee

Summary of key financial information
ANZ New Zealand

Profit	Half year	Half year	Half year	Mar 20 v	Mar 20 v	Mar 20 v	Mar 20 v
	Mar 20	Sep 19	Mar 19	Sep 19	Mar 19	Sep 19	Mar 19
	NZ\$m	NZ\$m	NZ\$m	NZ\$m	NZ\$m	%	%
Net interest income	1,648	1,606	1,626	42	22	3%	1%
Other operating income	344	440	654	(96)	(310)	-22%	-47%
Operating income	1,992	2,046	2,280	(54)	(288)	-3%	-13%
Operating expenses	828	850	735	(22)	93	-3%	13%
Profit before credit impairment and income tax	1,164	1,196	1,545	(32)	(381)	-3%	-25%
Credit impairment charge	232	67	32	165	200	large	large
Profit before income tax	932	1,129	1,513	(197)	(581)	-17%	-38%
Income tax expense	255	310	399	(55)	(144)	-18%	-36%
Cash profit¹	677	819	1,114	(142)	(437)	-17%	-39%
Reconciliation of cash profit to statutory profit							
Cash profit	677	819	1,114	(142)	(437)	-17%	-39%
Reconciling items (net of tax):							
Economic and revenue hedges ²	112	77	(104)	35	216	45%	large
Revaluation of insurance policies ³	-	-	(81)	-	81	n/a	-100%
Statutory profit¹	789	896	929	(107)	(140)	-12%	-15%
Comprising:							
Retail	374	424	510	(50)	(136)	-12%	-27%
Commercial	217	256	286	(39)	(69)	-15%	-24%
Central Functions	3	3	-	-	3	0%	n/a
New Zealand Division	594	683	796	(89)	(202)	-13%	-25%
Institutional	84	127	140	(43)	(56)	-34%	-40%
Technology and Group Centre ¹	(1)	9	178	(10)	(179)	-111%	-101%
Cash profit¹	677	819	1,114	(142)	(437)	-17%	-39%
Reconciling items	112	77	(185)	35	297	45%	large
Statutory profit¹	789	896	929	(107)	(140)	-12%	-15%
<i>1. Gains on sale of OnePath Life (NZ) Ltd and Paymark Ltd</i>							
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. A further \$7m gain on sale of OPL NZ was recognised in the half year ended 30 September 2019 arising from lower than expected separation costs. The cash profit impact of these items is included in Technology and Group Centre.							
<i>2. Economic and revenue hedges</i>							
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.							
<i>3. Revaluation of insurance policies</i>							
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. In the half year ended 31 March 2019, accumulated gains of \$86m after tax were returned to cash profit upon the sale of OPL NZ as noted in point 1 above.							