

News Release

For release: 29 October 2020

ANZ NZ full-year result shows COVID-19 challenge and strength of business

ANZ New Zealand¹ (ANZ NZ) today reported a statutory² net profit after tax (NPAT) of NZ\$1,336 million for the 12 months to 30 September 2020 – a 27% decrease on the 2019 financial year.

Cash NPAT was NZ\$1,371 million, 29% down on the previous year.

ANZ NZ Chief Executive Antonia Watson said the results reflected a significant uplift in the charge for expected credit losses due to changes in the economic environment, the sale of UDC Finance Limited (UDC) in September 2020, together with benefits in the previous financial year from the sales of OnePath Life (NZ) Limited and ANZ NZ's share in Paymark Limited.

"COVID-19 brought unprecedented challenges to our country and consequently for many businesses, including ANZ NZ, and this is reflected in our full-year result. Despite the difficult year, ANZ NZ has continued to perform well, demonstrating it can weather challenging economic conditions and play an important role in supporting customers through the crisis," said Ms Watson.

"As New Zealand's largest bank, we've been in a unique position to assist thousands of Zealand businesses through a period of severely curtailed business activity.

"I'm proud that, despite such challenging conditions, we've been able to continue to lend and provide certainty to customers with an approach that is fair, transparent and consistent so access to credit isn't a factor that holds them back.

"New Zealand has made much better progress in fighting the virus than most countries. While that's encouraging there will be many challenges as the country emerges from the high level of response and starts to rebuild."

SUPPORT FOR GOVERNMENT COVID-19 RESPONSES

During COVID-19, ANZ NZ worked closely with the Government and regulators to implement Government-led support 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 crisis.

So far, ANZ NZ has provided financial help to around 43,000 personal, home and business loan customers through repayment deferrals, moving to interest-only, or loan adjustments covering lending of around \$27 billion.

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.

“The New Zealand economy has a lot going for it. As well as our management of COVID-19, our commodity prices are holding up as countries shore up their food supply chains,” Ms Watson said.

“Business confidence and other indicators of economic activity have bounced back quickly. Businesses have some certainty about the future that simply doesn’t exist in other countries.

“Helped by historically low interest rates, we also saw many customers take the opportunity to improve their financial situation by increasing savings and paying down their personal or home loan debt.”

HELPING THE VULNERABLE

Ms Watson said that although she was optimistic many businesses would survive, the next few months would be difficult.

“While the efforts of people in New Zealand to contain the spread of COVID-19 have reduced its impact, we must remember that there has been a considerable cost to many in the community.

“For the most vulnerable, the virus and emergency lockdowns made their lives even more precarious through restricted access to food, shelter or services, or put them in harm’s way in their own homes. COVID-19 has shown how much the community and volunteer sector do to support those in need.”

To help these organisations, ANZ NZ donated a total of \$2 million to Women’s Refuge, Age Concern New Zealand and the Salvation Army’s foodbank network, as well as the Red Cross and a series of local charities in the Pacific supporting vulnerable people. A \$1 million sports grant system was also established to support more than 400 grassroots cricket and netball clubs and initiatives.

The donations were in addition to ANZ NZ’s \$13 million contribution of local sponsorships and donations to sports, arts, cultural and community organisations and events.

<p>Key Points</p> <p>All comparisons are year ended 30 September 2020 compared with year ended 30 September 2019 and on a cash basis unless otherwise noted</p>
<ul style="list-style-type: none">• Statutory profit down 27% at NZ\$1,336 million.• Cash profit down 29% at NZ\$1,371 million including impact of one-off items.• Revenue down 6% including impact of one-off items.• Charge for expected credit losses increased 305% to \$401 million due to changes in the economic environment.• Expenses increased 10% due to higher regulatory compliance spend and goodwill impairment relating to the intended windup of the Bonus Bonds Scheme.• Customer deposits up 11% and underlying gross lending increased by 3% (flat at a headline level after the sale of UDC).• KiwiSaver funds under management grew 11% to \$16.4 billion.• No ordinary dividends paid to the ANZ NZ parent entity in Australia.

DIFFICULT ECONOMIC CIRCUMSTANCES

Ms Watson said the full-year result was pleasing given the difficult economic circumstances.

“While the record low interest rate environment and fee reductions have impacted underlying revenue, customer deposits were up 11% and underlying gross lending increased by 3% (flat at a headline level after the sale of UDC). Despite an uplift in credit provision charges, our focus on responsible lending means credit quality remains strong.

“Official Cash Rate cuts saw interest rates drop to the lowest levels on record. This has provided a good opportunity for first home buyers to get on the property ladder, but low interest rates have also made property more attractive as an investment.”

Remediation and increased regulatory requirements contributed to a 10% increase in operating expenses on a cash NPAT basis. This includes a significant investment in a number of technology systems to ensure that we are able to meet Reserve Bank of New Zealand requirements to have a stand-alone bank.

ANZ NZ continued to simplify its product offering and focus on suitability for customers.

“Our focus on digitisation and efficiencies means this year we have cut fees on a range of products and services, passing on around \$50 million in savings to customers,” Ms Watson said.

Other highlights for the financial year include:

- ANZ NZ remains the largest KiwiSaver provider with \$16.4 billion under management, an increase of \$1.6 billion, or 11%, over the previous year.
- Despite COVID-19 ANZ NZ staff helped plant more than 25,000 trees in six regions across New Zealand as part of Sustainable Coastlines’ ANZ Love Your Water Tour 2020, plus volunteered over 6,000 hours of service in the community.
- The ANZ Staff Foundation allocated almost \$650,000 to 60 charities.

A table of key financial information follows

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Summary of key financial information
ANZ New Zealand

Profit	Half year	Half year	Sep 20 v	Sep 20 v	Full year	Full year	Sep 20 v	Sep 20 v
	Sep 20	Mar 20	Mar 20	Mar 20	Sep 20	Sep 19	Sep 19	Sep 19
	NZ\$m	NZ\$m	NZ\$m	%	NZ\$m	NZ\$m	NZ\$m	%
Net interest income	1,581	1,648	(67)	-4%	3,229	3,232	(3)	0%
Other operating income	476	344	132	38%	820	1,094	(274)	-25%
Operating income	2,057	1,992	65	3%	4,049	4,326	(277)	-6%
Operating expenses	908	828	80	10%	1,736	1,585	151	10%
Profit before credit impairment and income tax	1,149	1,164	(15)	-1%	2,313	2,741	(428)	-16%
Credit impairment charge	169	232	(63)	-27%	401	99	302	large
Profit before income tax	980	932	48	5%	1,912	2,642	(730)	-28%
Income tax expense	286	255	31	12%	541	709	(168)	-24%
Cash profit¹	694	677	17	3%	1,371	1,933	(562)	-29%
Reconciliation of cash profit to statutory profit								
Cash profit	694	677	17	3%	1,371	1,933	(562)	-29%
Reconciling items (net of tax):								
Economic and revenue hedges ²	(147)	112	(259)	large	(35)	(27)	(8)	30%
Revaluation of insurance policies ³	-	-	-	large	-	(81)	81	-100%
Statutory profit	547	789	(242)	-31%	1,336	1,825	(489)	-27%
Comprising:								
Retail	299	374	(75)	-20%	673	934	(261)	-28%
Commercial	185	217	(32)	-15%	402	542	(140)	-26%
Central Functions	1	3	(2)	-67%	4	3	1	33%
New Zealand Division	485	594	(109)	-18%	1,079	1,479	(400)	-27%
Institutional	268	84	184	large	352	267	85	32%
Technology and Group Centre ¹	(59)	(1)	(58)	large	(60)	187	(247)	large
Cash profit¹	694	677	17	3%	1,371	1,933	(562)	-29%
Reconciling items	(147)	112	(259)		(35)	(108)	73	
Statutory profit¹	547	789	(242)	-31%	1,336	1,825	(489)	-27%

1. Loss on sale of UDC Finance Ltd and gains on sale of OnePath Life (NZ) Ltd and Paymark Ltd

Statutory profit for the year ended 30 September 2020 includes a \$32m loss on sale of UDC Finance Ltd (UDC). Cash profit also includes an after tax loss of \$23m on the unwind of economic hedges of UDC loans and advances. Statutory profit for the year ended 30 September 2019 includes a \$66m 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. The cash profit impact of these items is included in Technology and Group Centre.

2. Economic and revenue hedges

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.

3. Revaluation of insurance policies

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 year ended 30 September 2019, accumulated gains of \$86m after tax were returned to cash profit upon the sale of OPL NZ as noted in point 1 above.