



CHAIRMAN'S REPORT¹

A message from David Gonski AC

I am pleased to enclose with this Shareholder Update the advice of your 2016 Interim Dividend payment of 80 cents per share fully franked, 7% lower than the first half of 2015.

Our statutory profit for the six months ending 31 March 2016 was \$2.7 billion, down 22%. This reflects in large part an important decision to take a \$717 million net charge primarily related to initiatives to reposition the Group for stronger profit before provisions growth in the future. These included an accounting change to the application of the bank's software capitalisation policy and the impairment of our investment in Malaysia's AmBank.

Excluding the charge for these specified items, which allows for better comparison with previous periods, cash profit² was \$3.5 billion, down 4%.

This reflects a strong performance in ANZ's Australian and New Zealand consumer and small business franchises but also challenging market conditions in Institutional Banking including as previously foreshadowed higher provisions for bad and doubtful debts in the resources sector and in related industries.

Your board also understands the stability of ANZ's dividend payout ratio and our ability to fully frank dividends are critical considerations for shareholders. Following a period of dividend payout ratio expansion in the Australian banking sector, we will gradually consolidate the dividend payout ratio within a historic range of 60-65% of annual cash profit³. We believe this provides a conservative, sustainable and fully franked dividend base for the future. The payout ratio in the first half based on our adjusted cash profit was 67% and the Final Dividend for the 2016 Financial year is expected to be at least the same as the Interim Dividend in cents per share.

Turning to our financial performance in more detail, I am pleased with the progress we have made under our new Chief Executive Officer Shayne Elliott to reposition the bank for the future. This involves taking advantage of long term trends such as growth in Asia, the increasing importance of small business to economic growth and rising customer and community expectations. At the same time we are moving quickly to adapt to a more subdued and challenging operating environment.

Our consumer and commercial banking businesses in Australia and New Zealand made strong progress in the first half with more customers choosing to bank with ANZ across all our key segments.

In Australia, we are continuing our expansion in New South Wales as well as making investments in new digital solutions to making banking simpler and more convenient for our customers.

For example, we are the only bank in Australia to offer Apple Pay providing customers the convenience of making secure credit card payments using their iPhone. More recently we have launched our new flagship branch in Martin Place in Sydney.

In New Zealand we continue to be the leading home lender in all major cities, while also still realising significant benefits from our simplification strategy.

In Institutional banking, we faced some difficult trading conditions which impacted banks around the world. Although ANZ has a strong customer franchise, we have taken steps to simplify the business, to reduce expenses and to improve returns for shareholders. We expect improved financial outcomes from Institutional in future periods.

Turning to the credit environment, while this remains broadly stable we continued to see pockets of weakness in the half associated with low commodity prices in the resources sector and in related industries. Increased provision charges in the first half include charges related to a small number of Australian and multi-national resources related exposures and this saw loss rates trend upwards from historic lows experienced in recent years and towards the long term average.

Finally, there is a great deal of attention on bank conduct at present. We understand and accept the need for ANZ to do more to address community expectations and be a company consistently driven by ethics, fairness and purpose. While this is not a new priority, we recognise the focus on ensuring we have the right culture is more important and more urgent than it has ever been.

It is clear that banking is undergoing a period of considerable change against a backdrop of slower global growth. While there is much to do, we made good progress in the half and we are committed to building a simpler, stronger and better balanced bank for all our stakeholders.

DAVID GONSKI AC
CHAIRMAN

2016 HALF YEAR HIGHLIGHTS

▼ 24%

\$2,782 million

CASH PROFIT⁴

1H15

\$3,676 million

▼ 7%

80 cents

DIVIDEND PER SHARE

1H15

86 cents

▼ 24%

95.9 cents

CASH EARNINGS PER ORDINARY SHARE

1H15

133.6 cents

1. All comparisons are First Half Financial Year 2016 compared to First Half Financial Year 2015.

2. Refers to Cash Profit adjusted to remove the impact of 'Specified items' including the impact of software capitalisation policy changes, Asia Partnership impairment charge (AmBank) and gain of cessation of equity accounting (Bank of Tianjin), restructuring expenses, sale of Esanda Dealer Finance portfolio. Further detail provided in the ANZ Half Year 2016 consolidated Financial Report p14.

3. Previously 65 to 70 per cent of cash profit.

4. 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 \$44 million comprised of several items.