Media Release

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ANZ 2012 Half Year Result
- super regional strategy delivers solid performance, higher dividend -

ANZ today announced a statutory profit after tax of $2.92 billion for the half year ended 31 March 2012. Adjusting for non-core items[1] underlying profit of $2.97 billion increased 5% compared to the previous half (HOH) and 6% against the prior comparable period (PCP).

The proposed interim dividend of 66 cents per share fully franked is 3% higher than 2011. ANZ has historically applied a lower payout ratio to the interim dividend.

Group Balance Sheet & Financial Highlights (all comparators Underlying and HOH)

- Profit before provisions (PBP) increased 4% driven by good results in Asia, Pacific, Europe and America (APEA) and in Institutional and New Zealand offset by subdued results in Australia impacted by continued margin pressure.
- Jaws were positive with income up 4% and costs up 3%.
- The Group net interest margin excluding Global Markets, declined 5 basis points (bps). Including Global Markets Group margins declined 6 bps. Margin improvement in New Zealand and stabilisation in APEA was offset by the impact of funding costs and deposit pricing pressure on the Australia division (down 13 bps) and Institutional (down 6 bps).
- Lending grew 4% and deposits 5% on an FX adjusted basis.
- The Group has steadily improved the diversity of its funding base and has the smallest absolute structural funding requirement of its domestic peers. Customer funding comprises 60% of total funding. Around 80% of the FY12 wholesale term funding task is now complete.
- ANZ is strongly capitalised with Tier 1 capital at 11.3% and Common Equity Tier 1 of 8.9%.
- Return on Equity increased from 15.7% to 15.9%.
- Growth in individual provisions was largely offset by the release of corresponding collective provisions. Gross impaired assets declined 4%.

ANZ Chief Executive Officer Mike Smith said: "In an increasingly challenging environment, ANZ has produced a solid financial result in the first half that continues progress in executing our super regional strategy.

"In line with the key trends outlined at our February trading update, there were good results from outside Australia - in APEA and in New Zealand, and in the performance of Institutional with its international focus. Global Markets recovered strongly reflecting an improved trading environment, further growth in customer sales revenue and the benefits of the super regional strategy.

"In Australia, we made market share gains and customer satisfaction remained strong. Our financial performance however was subdued, significantly impacted by declining margins and the structural shift that's occurred since the financial crisis with persistently lower demand for credit. These challenges are now an ongoing part of the Australian banking landscape and we are making progress with the decisions needed to reshape our largest business for the future.

"We continued to create opportunities across the Group based on greater diversification of revenue by customer, geography and by product. Having identified and systematically invested in capabilities, products and our presence in the region, a number of our APEA and Institutional businesses produced strong double-digit revenue growth in the half.

"These results and the other milestones we are delivering, reflect a clear and differentiated strategy. It is a strategy that is creating a strong foundation for current and future growth by responding to the more constrained environment for banking in Australia and in New Zealand, and to the significant opportunities that are available to us beyond a domestic-only focus.

[1] 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 and full details of the adjustments are set out on pages 80 to 87 of the 2012 Half year Consolidated Financial Report and Dividend Announcement.

"Our progress over the past four years is now allowing us to pick up the pace of execution through a focus on higher growth businesses and geographies.

"We are also accelerating changes in Australia, New Zealand and the Pacific to create simpler, more customer-focused businesses. This is being supported through stronger disciplines around the use of our operations and technology centres. This will increasingly provide us with a competitive advantage in cost and in customer service. We are also continuing to make targeted investments in new products, services and channels that respond to the changing needs of our customers.

"The bank is being managed in a way that reflects the very significant economic and political uncertainties that exist in the global economy. We have continued to minimise our reliance on short-term wholesale funding and our structural funding gap is lower than our domestic peers. This has allowed us to benefit from a more flexible and opportunistic approach to funding over the past year.

"The environment has changed permanently following the financial crisis - for banks and for all other parts of the economy including for our customers. In the near term we are managing in what could be described as a 'work out' phase in the global economy with the situation most acute in Europe and, to be realistic, this will continue to cause volatility in global markets for many years.

"We do recognise that adapting to this environment creates major challenges. Our recent decisions on interest rates for customers in Australia and on employment within the Group reflect the need to reshape our business. Clearly though, we need to work harder to find new ways of responding to customer and community concerns about banking and to the changes that have been brought upon the banking sector by this environment.

"We remain optimistic about Australia and New Zealand, and about the growth businesses we have created in Asia. While there is a great deal more that needs to be done at ANZ, we continued to make good progress in the first half," Mr Smith said.

Divisional and Business Overview[2]

- Australia Division grew market share in all key segments. Deposit growth (up 6%) continued to be strong and lending grew 4% driven mainly by mortgages. Margin pressure from higher deposit pricing in Retail and Commercial, plus higher long-term funding costs together with persistent low demand for credit impacted profit which declined 7%. PBP decreased 5% with income down 2% and costs up 3%. Benefits from the productivity program will drive lower cost growth in the second half. Wealth profit was down 9% reflecting market conditions and negative investor sentiment due to volatile equity markets.
- APEA Division lending grew 12%, with growth in all businesses. Deposits increased 17% and the maturity profile of deposits continued to lengthen. The loan to deposit ratio sits at 58%. Profit increased 21% driven primarily by a 76% increase in Institutional business profit. Global Markets trading revenues recovered strongly and there was further growth in customer revenues (up 17%). Jaws were +5% for the period. Retail profit increased 34%. Commercial is developing well off a low base with revenue up 35%. Partnerships' profit was impacted by a reduction in the carrying value of one of the Partnership investments.
- Institutional lending volumes grew 7% (FX adjusted) with deposits up 5% (FX adjusted). Profit increased 23% with APEA delivering 63% of the growth. Income increased by 16% with customer revenues in the priority sectors of resources, agriculture and infrastructure up 3% (CAGR over past five halves 9%); Financial Institutions revenues grew 18% (equivalent CAGR 10%) and more than 870 new clients were acquired during the period. The Transaction Banking business grew profit 29% with Trade revenues up 22% globally and 45% in Asia. Global Markets income recovered (up 45%). Customer sales revenues increased 16%, with FX representing 51% of total markets sales revenues. Global Loans profit declined 8%.
- New Zealand Division's solid performance across all business lines, strong cost management, lower provisions and a reduction in the corporate tax rate drove a profit increase of 11%. The business simplification program is progressing, delivering zero cost growth both HOH and PCP. Business momentum was maintained despite subdued economic conditions which saw lending flat but deposits up 4%. Retail profit increased 18%, Commercial rose 6% and Wealth increased 28%. Credit quality continued to improve as did margin, increasing to 2.65%.

[2] All comparisons are HOH unless otherwise stated. APEA and Institutional numbers are FX adjusted. APEA is in USD with New Zealand in NZD.

PERFORMANCE BY DIVISION[3]

AUSTRALIA

Overview

- Productivity initiatives, including further automation and simplification of the business and reduced staff numbers in administration and back office roles, is expected to drive a flat cost outcome in the second half of this financial year.
- ANZ has maintained its lead position relative to major peers in Main Financial Institution Customer Satisfaction (MFI).
- Share of household deposits has grown consistently over the past three years and grew at 12.7% in the year to end March, driving an increase in market share.
- Annual growth in housing lending was slightly better than system at 8.2%.
- Credit quality in the mortgage book continues to improve with 4.4% of the portfolio on a dynamic loan to value ratio above 90% today, compared to 6.6% in September 2008 despite softening in property values across the market. Mortgage delinquencies have continued to decline.
- Commercial grew market share (up 110 bps since June 2011, up 70 bps in the half)[4] through growth in the share and size of customers, and stronger share of wallet. Customer numbers increased by just over 12,000 year-to-date across all segments – primarily in Small Business Banking (SBB) and also in Regional Commercial and Business Banking.

Divisional Results

- Lending increased 4% with customer deposits up 6%. Retail lending growth came mainly from Mortgages, up 5%, with deposits also increasing 5%. Commercial lending grew at system, up 3%, despite high levels of customer pay-down across the book. Business Bank lending was up 4%, Regional Commercial up 1% and SBB up 6%. Commercial deposits increased 3% with good growth in SBB and Regional Commercial.
- Income was heavily impacted by a 13 basis point reduction in margins which was driven by the competitive pricing of deposits in Retail and Commercial and higher wholesale funding costs. Together with cost growth of 3%, which reflected seasonal factors including October wage increases as part of ANZ's Enterprise Bargaining Agreement and the funding of restructuring costs, this saw PBP down 5%. Profit decreased 7%.
- Retail and Commercial improved share of wallet and market share during the period. Margin pressure was the key driver of income declining 4% in Retail; expenses were up 2%. Commercial business income increased 1%, while costs grew 4%.
- Wealth profit was 9% lower reflecting subdued market conditions and negative investor sentiment due to volatile equity markets. Funds under Management grew 4%. Good growth in insurance income was somewhat offset by adverse claims and life lapse rate experience.
- Credit quality remains strong. The provision charge increased slightly with lower individual provisions offset by a lower collective provision release. The second half 2011 included higher releases of surplus flood provisions.

ASIA PACIFIC, EUROPE & AMERICA (all figures USD)

Overview

- Connectivity is increasingly a key competitive differentiator for ANZ. Over and above the 16% of Group revenue booked in APEA, 4% of Group income reported in Australia and New Zealand comes from APEA managed clients.
- In Asia, 'active' customers in the Institutional business grew 9% HOH.
- Retail is being shaped to target affluent and emerging-affluent customers. This has led to ongoing adjustments of the portfolio away from non-core segments and driven a product concentration in deposits and mortgages. Within the Wealth business, insurance and investment products are our core offerings.

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3 All comparisons are 1st Half FY12 to 2nd Half FY11 (HOH) unless otherwise indicated
4 DBM Business Financial Services Monitor, Commercial Banking market share

- In March, ANZ became the first Australian bank to receive a Retail Renminbi (RMB) license, becoming the first Australian bank to be fully licensed to offer a range of RMB-related products and services to local citizens in China.
- The loan to deposit ratio is 58%. The quality of the deposit base continues to improve and assets are being managed to maintain flexibility during periods of market uncertainty.
- ANZ was ranked a Top 5 corporate bank in Asia in the 2012 Greenwich Associates Survey; four years ago ANZ ranked outside the top 20. ANZ was also awarded the International Financing Review Asia Awards for 2011 for Loan House of the Year and Loan of the Year.

Divisional Results

- Customer deposits grew 17% with lending up 12%. There was strong growth in both Retail up 16% and Institutional deposits up 17%.
- Profit grew 21% driven by Institutional profit growth of 76% which included strong contributions from Global Markets and Transaction Banking.
- PBP increased 19%. Jaws were strongly positive with income up 11% and expenses increasing 6%. We are capturing productivity improvements generated through headcount management coupled with disciplined investment spend. A focus on well-managed costs is allowing us to continue investment in long-term business infrastructure.
- Institutional revenues increased 29% with Global Markets income up 45% reflecting a recovery in Global Markets trading income (up 120%) while customer sales income increased 17%. In Transaction banking, Trade Finance revenues increased 37% and Cash Management income rose 14%.
- Retail profit increased 34%. Revenue increased 4%, supported by the strategic sale of a credit card portfolio, with expenses also up 4% driven largely by investments in customer systems. Momentum built during the second quarter as market conditions improved.
- Commercial is growing well off a small base with revenue up 35%; 84% of income came from cash, trade and markets products.
- Partnerships profit fell 29% largely due to an impairment charge relating to the carrying value of ANZ's investment in Saigon Securities Incorporated in Vietnam.
- Margins were reasonably stable (up 3 bps including Global Markets, down 3 bps excluding Markets) with higher deposit and funding costs largely offset by asset repricing in the Institutional business.
- Provision charges decreased 30%. Recoveries continued to be made in Retail within the previously RBS-owned portfolios while all businesses have continued to improve the general quality of the loan portfolios.

INSTITUTIONAL (all figures FX adjusted)

Overview

- ANZ's super regional focus is driving greater connectivity across the business and greater diversity of profit contribution by customer, product and geography. APEA revenues (up 28%) now represent 29% of total revenue (20% in 2010), with Australia 62% and New Zealand 9%.
- Client numbers grew in all regions with more than 870 new clients added during the half, up ~4% (Asia Pacific client base up ~6%, New Zealand up 2% and Australia up 1%).

Divisional Results

- Customer deposits grew 5%, including an 18% increase in APEA, which now represents 46% of the customer deposits. Lending increased 7%. APEA lending, which is weighted toward shorter dated trade lending, now comprises 34% of the loan portfolio.
- Profit increased 23% underpinned by earnings growth in Global Markets and Transaction Banking, in priority products like Foreign Exchange (FX), Capital Markets, Cash and Trade and customer segments including Resources, Agribusiness and Financial Institutions.
- Income increased 16% with customer revenues up 7%, while expenses increased 3% reflecting the benefits of productivity initiatives in 2011. Customer service is being improved through centralising, standardising and automating back office processes.

- Transaction Banking profit increased 29% with Trade revenues up 22% and Cash Management up 9%. Global loans profit declined 8% reflecting increased pricing competition impacting margins during the latter stages of the first half.
- The volatile market conditions of late FY11, which saw both Trading and Balance Sheet incomes decline significantly, eased during the half assisting a recovery in Global Markets profit. Customer sales revenues continued to grow at record levels, up 16% with FX revenues up 14%, FX sales now comprise 51% of Global Markets sales revenues. Customer sales income grew strongly in Australia and New Zealand up 15% and 19% respectively to represent around two thirds of Markets income in both geographies.
- Margins decreased 6 bps including Global Markets (10 bps excluding Global Markets) largely impacted by margin pressure in the Global Loans business with asset pricing tightening particularly later in the period.
- Weighted average credit ratings across the loan portfolio have continued to improve. The provision charge increased reflecting higher individual provision charges partly offset by collective provision releases. The individual provision charge also reflects the settlement of Primebroker Securities litigation during the half.

NEW ZEALAND (all figures in NZD)

Overview

- The business simplification program is progressing, delivering some early cost improvements (zero cost growth both HOH and PCP). The cost to income ratio for the business has declined by around 1.5% over the past year.
- Core system testing is progressing with migration to a single platform which is expected to assist productivity gains in 2013.
- The product portfolio continues to be simplified and to date products in the Retail business have been reduced from 140 to around 100.
- Customer satisfaction and staff engagement remain at high levels, reflecting the careful management of the change program.

Divisional Results

- Profit increased 11% assisted by a 14% reduction in the provision charge and a reduction in the corporate tax rate effective from 1 October 2011. PBP growth of 5% reflected strong cost control (expenses flat) and income growth of 3% largely coming from margin improvement.
- The subdued economic environment saw lending flat with customers in both Retail and Commercial continuing to deleverage. Deposit growth was good, up 4%, with Commercial deposits increasing 7%.
- Retail profit increased 18% driven by income growth of 3%, no expense growth and lower provisions (-30%).
- Commercial profit increased 6% with subdued income growth (up 1%), flat expenses and provisions down 8%. Deleveraging by customers continued across the commercial sector in particular among customers in the agricultural sector.
- Wealth profit grew 28% with good expense control (down 9%) and income growth of 5%, driven by improved claims experience and lapse rate improvements, partly offset by lower earnings from the property business which was divested in the second half of 2011.
- Margins improved 12 bps during the half driven by product mix benefits coupled with disciplined deposit pricing. It is expected though, that funding cost pressures and deposit price competition will begin to place pressure on margins in the second half.
- The provision charge decreased 14% reflecting continued improvement in credit quality.

BALANCE SHEET, CAPITAL AND FUNDING

ANZ's approach to balance sheet management and efficiency, combined with the size of its domestic lending book has resulted in a structural funding task that is at the lower end of domestic peer banks. A smaller annual wholesale funding task relative to domestic peers allows us to take a more flexible approach to raising funding.

The FY12 wholesale funding task is now ~80% completed with $15.3 billion of term debt issued, at an average tenor of just over five years, spread across a diverse range of instruments (senior, covered bonds and subordinated debt), currencies ($A, $US, €, Yen, CHF & NOK) and tenors (three to ten years). Domestic term debt issuance continued to increase and represents 44% of FY12 issuance, up from 27% in FY09.

ANZ's super regional strategy is transitioning to a balance sheet that will, over time, increasingly resemble regional rather than domestic peers. This is driving an improving loan to deposit ratio for the Group.

The liquidity position of the Group remains strong which is reflected in the continued low reliance on offshore short-term wholesale debt and the strengthening of the liquid asset position which now stands at $98.5 billion. This figure significantly exceeds the Group's total offshore wholesale borrowings.

The Group has continued to strengthen its capital base and is well placed to transition to Basel III standards. As at 31 March 2012, the Common Equity Tier 1 ratio was 8.9% and the Tier 1 ratio was 11.3%. Under Basel III, ANZ's Common Equity Tier 1 ratio would be 9.8% on a fully harmonised basis and 7.8% under APRA Basel III.

CREDIT QUALITY

Credit quality has continued to stabilise. The total underlying provision charge was $565 million, up 3% HOH (down 14% PCP). Provisions remain in line with expectations, including movement between the individual and collective provision charges largely related to issues arising in prior periods (including legacy issues and natural disaster provisions).

Despite an increase in new impaired assets, gross impaired assets reduced by 4% reflecting the continued progress in working through legacy exposures. Growth in new impaired assets was primarily due to the inclusion of two Institutional customers.

ANZ has continued to take a prudent approach to provisioning and remains appropriately provided for at this point of the economic cycle. The Group's coverage ratios reflect this, with the total provision coverage ratio at 1.88%[5] and the collective provision ratio 1.20%[5].

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[5] 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 provisions as a percentage of CRWA.