Media Release

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ANZ 2010 Interim Result
Profit up as ANZ benefits from renewed regional growth

ANZ today announced an underlying profit[1] for the half year ended 31 March 2010 of $2.3 billion up 23% on the preceding half (HOH) and 20% higher than the prior corresponding period (PCP).

Statutory profit for the half year ended 31 March 2010 was $1.93 billion up 26% HOH and 36% PCP.

The interim dividend of 52 cents per share fully franked is 6 cents per share or 13% higher PCP.

Key Points[2]

- Underlying profit growth was driven by an 8% growth in profit before provisions excluding Global Markets (up 3% including Global Markets) and a 32% reduction in the credit impairment charge.
- Underlying EPS increased 15%.
- Group margins (ex Global Markets) were up 15 basis points (bps) from recovery of higher funding costs and more sustainable pricing for risk, with Institutional the major contributor.
- Customer deposits grew 2% while Group lending levels were broadly flat with growth in mortgages offset by lower demand in Corporate and Institutional and a repositioning of the Institutional book.
- The total provision coverage ratio remains high at 2.1% of Credit Risk Weighted Assets (CRWA) with the collective provision ratio at 1.38%[3] of CRWA.
- The reported Tier One capital level at the end of March was 10.7%[4].
- Australia region profit was up 15% with good contributions from the Institutional, Wealth and Commercial businesses and a sound performance in Retail.
- Asia Pacific Europe & Americas (APEA) region USD profit increased 19% or 8% AUD with Institutional and Partnerships the main contributors.
- New Zealand region profit of NZ$372 million was a NZ$238 million increase on the prior half with a 45% reduction in the provision charge.
- Institutional division profit was up 19%, with provisions down 38% and income off 4% as Global Markets revenues trend back from the above normal 2009 levels. Income grew 8% excluding Global Markets.

ANZ Chief Executive Officer Mike Smith said: "Across the Group revenue and profit increased. Australia performed well and we're establishing greater clarity and discipline around growth. New Zealand's performance has improved as the economy recovers and we are seeing the benefits of a tightly managed business. While Asia Pacific moved to a period of consolidation, it still recorded double digit profit growth. Institutional's result shows we are now making tangible progress in turning around the business based on a clear strategy aligned to our super regional objective.

[1] Underlying profit reflects the net impact on statutory profit of $373 million from one-off items such as acquisition costs and subsequent fair value adjustments and hedging timing differences.
[2] Numbers are provided on an underlying basis and all comparisons are half on half unless otherwise stated
[3] Total provision coverage ratio is individual plus collective provisions as a proportion of credit risk weighted assets (CRWA). Collective provision ratio is collective provisions as a proportion of CRWA
[4] Proforma 10.4% including balance of RBS transaction.

"The backdrop to our improving business performance is a considerably better outlook for provisions which reflects the strength of the economic recovery particularly in Australia and Asia.

"With the multi-speed economic recovery that's now occurring around the world, our super regional strategy positions us perfectly to take advantage of the growth story in Asia and the flow on it has to the Australian and to the New Zealand economies.

"What's encouraging in this result is that we're also beginning to see the benefits of the difficult decisions we've taken over the last two and a half years. While there is still a lot to do, we clearly have a much stronger foundation. It's allowed us to weather the financial crisis and come out of it a stronger bank than we went into it. That's enabled us to continue to deliver to our shareholders and to our customers.

"However, the scale of the global financial crisis and the depth of the economic downturn in the US and Europe means we have to be realistic about the outlook. Recovery from events of this magnitude will not happen smoothly.

"We are now half way through our five year plan to create a super regional bank. In this environment while there'll be further bumps along the way - I believe ANZ is well positioned and there's the opportunity for us to aim higher.

"We have a strong base in Australia, New Zealand and the Pacific and increasingly in Asia. We have tighter discipline in the business and a strong management team of experienced international bankers. It's giving us real clarity around growth opportunities and greater discipline in sustaining our business performance," Mr Smith said.

PERFORMANCE BY GEOGRAPHIC REGION

Australia

Profit for the Australia region grew 15% HOH with positive contributions from Institutional, Commercial and Wealth, with the Retail business flat impacted by headwinds from intense competition in deposit pricing, particularly for term deposits, and from lower fees. The reduction or removal of 27 fees is delivering benefits to customers of around $170 million on an annualised basis.

Household customer deposits rose 4% with the Retail business achieving around 1.7 times system growth over the half. Lending grew 5% dominated by growth in the mortgage book. Mortgage lending returned to slightly above system growth rates during the early months of calendar 2010.

ANZ's customer satisfaction score remains the highest of the major banks, indicating that our customer proposition of being easy to do business with has appealed to the market with strong growth in trial intention and new account openings.

While Commercial lending demand remained at low levels, ANZ performed well relative to the market in the face of high levels of degearing over the past year. The Commercial business grew profit 16% largely the outcome of a decrease in provisions and repricing.

The Wealth result was up strongly against a weak second half 2009, largely through the contribution of the INGA business, which became 100% ANZ owned from December, and improvement in the equity market.

The acquisition of the Landmark financial services business from AWB in December 2009, brought with it around $300 million in deposits and a loan book of around $2.4 billion taking the ANZ Regional Commercial business into the number two market share position.

A 14% increase in Institutional Australia profit was assisted by a 33% decrease in provisions. Revenues declined 7% with the Global Markets business tracking down on the above trend performance of second half 2009. Expenses declined 4%.

There has been an uptick in mortgage and business banking arrears over the half however both remain manageable. Consistent with this stage in the cycle some stress is evident in the small business book.

Asia Pacific, Europe & America (APEA) (all figures reflect USD)

Following profit growth averaging 59% in the past two years, 2010 will be a lower growth year for the APEA business as it completes the integration of the businesses acquired from the Royal Bank of Scotland (RBS). Strong contributions from Partnerships and Institutional drove a 19% HOH increase in profit; however a higher AUD/USD exchange rate saw profit up 8% when expressed in Australian dollars.

While the Institutional profit contribution was up 20% half on half, it declined 14% PCP following an unusually strong performance in Global Markets in first half 2009 during which volatility and widening credit spreads produced particularly high revenues. In line with our customer focused strategy an increasing level of business flow is now being generated from sales creating a more sustainable performance.

Strong momentum in customer deposit growth continued up 39% with lending more subdued, up 6%, as corporates focused on paying down debt. The provision charge reduced by 24%, an outcome of the improved economic environment.

There has been significant progress in the region during the half with the integration of the RBS acquisitions on track for full completion in June and recent regulatory approvals for a bank license in India and preparatory approval for local incorporation in China.

New Zealand (all figures reflect NZD)

The New Zealand economy is stabilising and business conditions are slowly beginning to improve, albeit growth remains subdued. The provision charge reduced substantially, down $268 million, driving a significant profit increase off a low base in the preceding half. Excluding the contribution from the now consolidated INGNZ, income and balance sheet growth were flat. Tight cost control was a feature with costs down 5% (excluding INGNZ).

Margins have improved, up 6bps, as higher funding costs continue to be recovered through the rollover of the fixed rate lending book. This was offset by the impact of the removal or reduction of 29 fees across our two retail banks, saving customers an estimated $55 million on an annualised basis.

Deposit and asset growth trends were broadly steady, with the outlook for asset growth during the year remaining weak, as continued de-leveraging by customers and businesses offsets new lending.

Credit quality has begun to show signs of improvement in Retail, however some uncertainty remains around the Rural and Commercial sectors and more time is required for the full credit impacts of the downturn to work through. Cycle and concentration risk adjustments have been carried forward to reflect this expectation.

INSTITUTIONAL (all figures FX adjusted)

Institutional profit after tax grew 22% with a 37% lower provision charge. Total income declined 2%, while income excluding Global Markets grew 10% reflecting good deposit growth, particularly in Asia, revenue growth of 11% in Trade and Supply Chain driven by strong customer acquisition, and the benefit of repricing the loan book for credit risk. Expenses were flat on the prior half.

Global Markets revenue declined 15% during the half, a function of reduced market volatility leading to lower customer hedging activity and reduced trading opportunities. Revenues were evenly split between sales and trading. Capital Markets' revenue was up 12% and ANZ is now raising more debt capital for Australian borrowers in the Asian region than any other bank. Looking through the volatility driven spike in revenues in 2009, the compound annual growth rate for Global Markets' revenue over the past two years has been circa 30%.

Average net lending assets were down 8%; however, asset declines have moderated following the large decreases in 2009. While the market will retain a cautious tone in the short term, we expect to see asset growth in the second half. The business is making good progress with its turn around, with an increasing focus on sustainable income streams such as cash management and trade.

CREDIT ENVIRONMENT

While the credit environment has improved over the past year the impact of the financial crisis and the difficulties associated with the global economic downturn are still evident in the corporate, rural and small business markets in Australia and New Zealand. ANZ believes it is prudent to take a cautious approach to its credit provision outlook.

While total impaired assets grew during the half the amount of new impaired assets fell 13%. The make up of the new impaired assets is more broadly spread, largely driven by the lower end of Institutional and the middle market and better secured. ANZ expects the absolute level of impaired loans to continue to increase, albeit at a slower rate, into 2011, however the growth in new impaireds should continue to fall.

The provision charge is declining consistent with the movement in new impaired loans with both the individual and collective provision charges decreasing.

Loss rates have improved across all categories. While there has been a reduction in the number of large single name defaults as the economic environment improves, stress has continued to work its way through the system and ANZ has therefore retained a substantial portion of collective provision balance for economic overlay and concentration risk.

The coverage ratios remain strong with the total provision ratio at over 2.1% of CRWA and the collective provision ratio steady at 1.38% of CRWA.

CAPITAL AND FUNDING

Tier One capital at the end of March was 10.7%[5] with a Core Tier One ratio of 8.5%. Prime liquidity levels at $63 billion remain strong with the Group having raised around 70% of its 2010 wholesale funding requirements.

Deposit growth has moderated after the significant growth in the past 18 months however deposit costs have continued to increase particularly in Australia. The proportion of funding originating from customer funds is 56%.

NON-CORE ITEMS

ANZ provides underlying profit figures which adjust statutory profit for non-core items. The Group believes that separating out non-core items helps with the analysis of the underlying business trends.

There was a net $373 million in non-core items in the first half. The key adjustment of $322 million related to acquisition costs and valuation adjustments. This includes an adjustment, required under newly revised accounting rules, to the carrying value of ANZ's existing 49% holding in the ING joint venture of $181 million, based on the fair value of the 51% acquired.

There was $95 million after tax of acquisition transaction and integration costs related to the ING, Landmark and RBS transactions and a small amount for the amortisation of acquisition related intangibles.

The credit valuation adjustment (CVA) related to the Group's Credit Intermediation Trades reduced by a further $51 million during the half and has now cumulatively reduced by $646 million over the last 12 months. A period of credit market recovery at the beginning of this calendar year was used to exit some of the exposures such that the notional exposure has reduced by around 25%.

[5] 10.7% reported. Proforma 10.4% including balance of RBS transaction.

OUTLOOK

"Clearly with the magnitude of issues in the US and Europe, we are going to see lower economic growth around the world compared to the decade prior to the financial crisis. In Australia, growth is now expected to be over 3% in 2010 while in New Zealand we expect growth of almost 2% after the economy contracted in 2009.

"Asia will remain the world's best performing region with annual economic growth of almost 8% (excluding Japan) which highlights the significance of our super regional strategy", Mr Smith said.

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ANZ Profit and Loss Statement by Division

	Half year Mar 10 $M	Half year Sep 09 $M	Half year Mar 09 $M	Movt Mar 10 v. Sep 09 %	Movt Mar 10 v. Mar 09 %
Profit after tax by business unit					
Australia	1,269	1,090	954	16%	33%
Asia Pacific, Europe & America	305	297	419	3%	-27%
Institutional	818	687	732	19%	12%
New Zealand Businesses	171	50	265	large	-35%
Group Centre	(78)	(92)	(168)	-15%	-54%
less: Institutional Asia Pacific, Europe & America	(187)	(168)	(294)	11%	-36%
Underlying profit	2,298	1,864	1,908	23%	20%
Adjustments between statutory profit and underlying profit	(373)	(338)	(491)	10%	-24%
Profit attributable to shareholders of the Company	1,925	1,526	1,417	26%	36%
Underlying profit excluding acquisitions					
Australia	1,212	1,090	954	11%	27%
Asia Pacific, Europe & America	306	297	419	3%	-27%
Institutional	818	687	732	19%	12%
New Zealand Businesses	163	50	265	large	-38%
Group Centre	(57)	(92)	(168)	-38%	-66%
less: Institutional Asia Pacific, Europe & America	(187)	(168)	(294)	11%	-36%
Underlying profit	2,255	1,864	1,908	21%	18%
Underlying profit excluding exchange rate movements					
Australia	1,269	1,090	954	16%	33%
Asia Pacific, Europe & America	305	258	311	18%	-2%
Institutional	818	671	660	22%	24%
New Zealand Businesses	171	53	253	large	-32%
Group Centre	(78)	(103)	(161)	-24%	-52%
less: Institutional Asia Pacific, Europe & America	(187)	(153)	(231)	22%	-19%
Underlying profit	2,298	1,816	1,786	27%	29%