Media Release

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ANZ 2011 Half Year Result
Good underlying momentum in core businesses continues

ANZ today announced underlying profit of $2.8 billion and statutory profit of $2.7 billion for the half year ended 31 March 2011 both up 3% on the preceding half (HOH). Underlying profit was 23% higher than for the prior corresponding period (PCP) while statutory profit was 38% higher PCP.

The proposed interim dividend of 64 cents per share fully franked is up 12 cents or 23% PCP.

Group Key Points[1]

- Underlying profit growth was driven by a 3% increase in profit before provisions (PBP) and a 9% decrease in the provision charge. PBP increased 7% PCP with provisions down 40%. The stronger Australian Dollar reduced profit growth by around 2%.
- Underlying earnings per share was up 2% HOH and up 20% PCP. The weighted average number of shares increased 1% HOH and 2% PCP.
- Return on equity up 30 basis points (bps) HOH to 16.7%.
- The revenue and cost growth differential or “jaws” was neutral HOH.
- Customer deposits grew 4% (6% FX adjusted) driven by Commercial and Retail in Australia and Institutional in Asia Pacific Europe & America (APEA). Lending grew 2% (4% FX adjusted) largely driven by Retail in Australia and Institutional in Australia and APEA.
- Group net interest margins excluding Global Markets rose 3 bps[2] to 2.81% reflecting some recovery of higher funding and deposit costs in Australia and New Zealand offset by a mix change in Institutional with higher volume growth from Asia.
- Total provision coverage[3] remains strong at 2.1% of Credit Risk Weighted Assets (CRWA) with the collective provision ratio at 1.36% of CRWA. In New Zealand, collective provision was re-allocated to cover the impacts of the earthquakes. A provision was established in relation to various natural disasters in Australia, in particular flooding in Queensland, including an additional $79 million charge.

Business Key Points[1]

- Australia region profit increased 2% reflecting income growth in the Australia Division offset by lower Institutional Global Markets income. Increased provision charges related to various natural disasters offset continuing improvements in Institutional asset quality.
- APEA region pro forma[4] US Dollar profit was up 12%, PBP up 22% driven by an improved Retail contribution and a strong performance from Institutional.
- New Zealand region NZ Dollar profit was up 19% driven by Institutional Global Markets income, good cost management and lower provisions. Some existing collective provision was re-allocated to cover earthquake impacts.
- Institutional profit was up 12% pro forma with income up 4%, expenses up 8% and provisions down 50%. Other income up 24% driven largely by Global Markets in APEA.

ANZ Chief Executive Officer Mike Smith said: “This result is in line with our first quarter trading update demonstrating good underlying momentum in our core businesses and continued progress with our strategic goals.

“In key businesses our position is continuing to improve with market share gains and strong customer satisfaction.

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[1] All comparisons in the Group Key Points and Business Key Points are underlying and HOH unless otherwise stated
[2] Including Global Markets, Group net interest margins declined 3 bps to 2.47%
[3] Total provision coverage ratio is individual provisions plus collective provisions as a proportion of CRWA. Collective provision ratio is CP as a proportion of CRWA
[4] Pro forma analysis adjusts for the financial impact of recent acquisitions and exchange rates

"Our APEA Division continues to perform strongly. We saw good results in Institutional particularly in New Zealand and in Asia; a continued improvement in the New Zealand business; and a solid but uneven outcome in Australia with Retail performing well but Commercial and Wealth impacted by natural disasters. These results have also benefited from improved credit quality trends in Institutional and New Zealand although provisions have increased in Australia.

"The operating environment is continuing to present challenges. Parts of the Australian economy have hit a flat spot with consumers and businesses becoming more conservative after the financial crisis. In other areas we are starting to see the effects of a structural change underway as the Australian economy continues the shift toward being based much more on hard and soft commodities. One of those changes is the stronger Australian Dollar which has impacted our international earnings. We are also managing the impact of the floods in Australia and the earthquake in New Zealand on economic activity and credit quality.

"Nevertheless our Super Regional strategy is giving us a greater exposure to Asia's growth and it's aligning us closely to the new and emerging growth segments of the Australian and New Zealand economies as evidenced by the lift we are seeing in non-interest income and cross-border flows. We are investing aggressively in these opportunities, particularly in APEA and in Institutional.

"While this is a long-term game we recognise the need to continue to deliver in the near-term. Having put a number of building blocks in place, including through acquisition and the investments made in building capability, we believe there is further upside in the business. This includes our performance in Wealth, Commercial and Institutional in Australia and Retail and Wealth in Asia. There is also the opportunity across the bank to continue developing stronger customer propositions, driving productivity gains from our hubs and integrating the Super Regional strategy into all our businesses.

"This gives us confidence that we are well positioned going into the second half," Mr Smith said.

PERFORMANCE BY REGION[5]

Australia

Regional profit grew 2%, the result of continued revenue growth in Retail offset by higher expense growth in Institutional and Commercial. Provisions include a natural disaster overlay. Overall Regional revenue growth was 2% while expenses grew 4%.

Australia Division (Retail, Wealth, Commercial) PBP increased 4%, net profit was impacted by a 69% increase in the provision charge largely due to the impacts from severe weather events.

Lending growth of 3% was largely driven by increased volume in Mortgages, Small Business and the Business Bank. Mortgages grew at 4% (1.2 times system) while household customer deposits grew 7% (1.6 times system) and Commercial deposits grew 10%.

ANZ is continuing to develop links to the fast growing Asia Pacific region to become the bank of choice for migrants from New Zealand, the Pacific and Asia. Examples of some of the initiatives supporting this drive include simplified account opening procedures for New Zealand customers and customers of Shanghai Rural Commercial Bank, and the rollout of multi-lingual ATMs.

The Retail business performed well delivering PBP growth of 7%. Increased provision charges impacted profit which was up 2%. The business grew market share in key categories and has market leading customer satisfaction levels.

The Commercial business was particularly impacted by increased flood related provisioning. A good outcome in the Business Bank (revenue and PBP up 4% HOH), and in SME (revenue up 5%, PBP up 4%), was offset by more difficult conditions for the Regional Commercial (revenue down 1%, costs flat, PBP down 2%) and Esanda businesses (revenue down 2%, costs down 8%, PBP flat).

[5] All comparisons use underlying profit and are HOH unless otherwise noted

Wealth is making good progress on the OnePath integration program. The cost to income ratio improved 60 bps and management has been strengthened with new appointments to a number of leadership roles.

The insurance business performed well despite impacts in General Insurance from the recent flooding, with annual in-force premiums up 5% and lapse rates improving 140 bps. Wealth Management growth rates are expected to improve as the integration benefits take hold. The focus is on distribution efficiency and developing products which more easily integrate into the bank channel and work well in a simpler superannuation environment.

Institutional Australia profit increased 10% assisted by a 57% decrease in provisions. Income declined 4% impacted by the increasing geographic diversification of Global Markets revenues and strong deposit competition while costs were up 6% as investment in key strategic initiatives, such as the cash management platform, payments infrastructure and customer data management capabilities continued.

Across the Australian Region we are seeing divergent credit trends with an improving corporate credit environment being offset by pockets of stress in the Retail and Rural portfolios. The agriculture sector remains under pressure from adverse long term weather conditions, as well as recent flooding, and there are some signs of stress in Retail, particularly in Queensland where unemployment rates peaked higher and later than the national average and remain elevated.

Asia Pacific, Europe & America (all figures in USD)

Momentum in the underlying business continues to build. While Institutional and Partnerships delivered the majority of profit, the Retail business has begun to see benefits emerging from the RBS acquisition.

Pro forma profit in the region grew 12% with income up 18% and jaws positive 3%. Other income grew 29% reflecting a strong contribution from the Institutional Global Markets business with increased FX volumes, Commodities Trading and Fixed Income sales reflecting the continued investment in our Markets capabilities together with favourable markets conditions and increased client activity.

The APEA business has continued to invest for growth with much of the recent focus on expanding and supporting distribution including continued investment in systems, core banking capabilities, operations support and risk management. Staff numbers increased 5% mainly in client facing roles in Asia.

Customer deposits grew 22%, with lending up 19% driven mainly by continued growth in Transaction Banking through increased customer penetration and sales activity. Retail deposits increased 53% PCP to almost $13 billion driven by the RBS acquisition and continued client acquisition.

Progress is being made on organic expansion with ANZ's local incorporation in China in October, the opening of a new branch in Chongqing in February and ANZ's first branch in India to be opened mid-May. ANZ deepened its relationship with its Chinese partner, Shanghai Rural Commercial Bank, with a further RMB1.65 billion (AUD250 million) investment as part of a RMB8.1 billion (AUD1.2 billion) capital-raising to support its continued growth.

ANZ is also investing in the Retail and Wealth business and this has started to build momentum with an increased focus on affluent customer acquisition in consumer finance. Non-core segments from the former RBS businesses have been exited, including the sale of restructured cards portfolios in Taiwan.

In the Pacific we are implementing a strategy to modernise each of our businesses to deliver a more focussed and efficient customer offering, including the introduction of an affluent banking proposition for Retail. We are also broadening customer offerings in Corporate and Institutional banking, for example with the arrangement of a Fiji Sovereign Bond.

New Zealand (all figures in NZD)

Regional profit grew 19% with pro forma income up 4% assisted by a 17% increase in other income reflecting the contribution from Global Markets, and a 35% reduction in the provision charge.

For the New Zealand Businesses, a 1% increase in income and a 41% decline in the provision charge saw profit rise 20%. Costs were well managed down 4%.

The emerging economic recovery has been disrupted by the Christchurch earthquakes and the broader consumer and business deleveraging trend. It is expected the Rugby World Cup will deliver a boost to the economy in the second half of the year.

Initiatives to simplify the business, drive efficiencies and improve customer experience have been taken including the move to a single banking technology platform. An NZ$98 million post tax charge related to that project is reflected in the half-year accounts.

The business is also leveraging the Group's Super Regional strategy to deliver opportunities for customers including becoming the first major New Zealand bank to complete an RMB denominated trade settlement for a New Zealand company.

Margin recovery in the New Zealand businesses has continued up 5bps with lending margin improvements partially offset by higher costs for wholesale funding and deposits. Fixed rate loans now comprise 46% of the mortgage book versus 68% for the same period last year.

Credit quality has continued to improve. While loss rates have shown a steady reduction PCP, the February earthquake in Christchurch is likely to have an impact on individual provisions over the short to medium term. While it is still too early to quantify fully the impact of the earthquake, ANZ considers it holds sufficient collective provisions in New Zealand to cover foreseeable losses.

INSTITUTIONAL (all figures pro forma and FX adjusted)

Institutional profit rose 12%, driven by a 4% increase in revenue and a 50% reduction in the credit impairment charge. Other revenue grew 24% reflecting a strong contribution from Global Markets and reduced reliance on interest income.

The Division continues to invest in diversification of Global Markets revenues and in the Super Regional strategy with expenses up 8%. This includes building out the Cash Management platform and Global Markets capabilities. In February ANZ became the first Australian bank to offer a Tran-Tasman Cash Management solution. Employee numbers were up 3% with the largest increase in Asia (up 7%).

Institutional is diversifying its client base, revenue streams and geographic footprint while investing in underlying support systems, delivering more revenue from more customers in more products across more markets than ever before. More than 670 new relationships were added during the half, a 10% increase, while customer franchise revenues improved 6% and cross border revenues grew further 10%.

Global Markets income grew 12%. The proportion of revenue coming from Foreign Exchange and Commodities grew to 36% during the half up from 32% and 29% in the previous two halves.

ANZ is raising more debt capital for Australian borrowers in the Asian region than any other bank rising to first position on the Dealogic Asia Pacific (Ex-Japan) International Loan bookrunner ranking table for the quarter to March[6].

In Transaction Banking trade revenues were up 8% driven by strong growth in Asia where new customers were up over 250% and funded volumes grew 26%. Competitive pressure impacted deposit revenues in Australia while deposit growth was strong in Asia with volumes up $2.9 billion.

Margins (ex Global Markets) declined 9 bps. Excluding an interest write back in the prior half, underlying margins were 4 bps lower mainly due to mix impacts from lower margin but higher volume lending growth in Asia. However competitive pressures are building across all regions.

Deposits grew 4% FX Adjusted (21% PCP); lending volumes have improved up 8% FX adjusted (13% PCP).

CREDIT QUALITY

The total underlying provision charge reduced 9% HOH and 40% PCP to $660 million.

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[6] Dealogic Asia Pacific (ex-Japan) International* loan bookrunner ranking table (*defined as AUD, USD, HKD, Singapore Dollar, Euro, NZD, Sterling and JPY)

Total gross impaired assets declined 5% reflecting a 14% decrease in impaired loans and NPCCDs[7] and the sale of $720 million of Centro debt. While new impaired loans and NPCCDs decreased 21% the inclusion of Oswal in restructured items saw new impaired assets increase 5%. ANZ continues to expect a full recovery in relation to the Oswal exposure.

The collective provision charge was $66 million. Increased collective provision in Australia was primarily related to natural disasters, in particular the Queensland flooding. In New Zealand the collective provision charge reduced; ANZ expects to be able to absorb the impact from the Christchurch earthquakes within the existing collective provision balance. Based on current information and assumptions the Group provision charge for the year is expected to be around $1.3 billion.

The coverage ratios remain strong with the total provision ratio at over 2.1% of CRWA and the collective provision ratio steady at 1.36% of CRWA.

CAPITAL AND FUNDING

ANZ is well capitalised with a Tier 1 ratio as at 31 March 2011 of 10.5% and a Core Tier 1 ratio of 8.5%.

The Core Tier 1 ratio equates to a Pro forma Core Tier 1 ratio under Basel III (assuming full harmonisation) of circa 9.5%. While this is well above the 7% effective Core Tier 1 minimum under Basel III, we await Australian Prudential Regulation Authority's interpretation of these revised standards.

The ongoing improvement in funding profile has continued during the half with deposit growth. Reliance on short-term wholesale debt has continued to reduce and now represents 11% of the funding base while customer deposits are at 60% of funding. This outcome is likely to see our annual term debt issuance at the lower end of the $20 billion to $25 billion range. We are well progressed against this target with $14 billion of term debt issued to end March.

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 $154 million charge in non-core items during the half. The key items were a $75 million charge to move to a single core banking system in New Zealand and $72 million in integration and amortisation costs associated largely with the OnePath and RBS acquisitions.

For media enquiries contact:

Paul Edwards
Group GM, Corporate Communications
Tel: +61-3-8654 9999 or +61-434-070101
Email: Paul.Edwards@anz.com

Stephen Ries
Senior Manager, Media Relations
Tel: +61-3-8654 3659 or +61-409-655551
Email: Stephen.Ries@anz.com

For investor and analyst enquiries contact:

Jill Craig
Group GM, Investor Relations
Tel: +61-3-8654 7749 or +61-412-047448
Email: Jill.Craig@anz.com

Ben Heath
Manager, Investor Relations
Tel: +61-3-8654 7793 or +61-435-655033
Email: Ben.Heath@anz.com

[7] NPCCDs – non performing commitments, contingents and derivatives