



ANZ Market Update - Nine Months to 30 June 2010

- business momentum continues, provisions trend lower in 3rd quarter -

The financial information set forth herein has been derived solely from the accounting records of ANZ, and has not been audited or reviewed or approved by any accounting or governmental or regulatory authority.

All figures in this release are on an underlying basis. Underlying results are prepared on a different basis than Australian equivalents to International Financial Reporting Standards (AIFRS). Underlying results reflect an adjustment from AIFRS numbers to exclude non-recurring and significant items, which represents management's assessment of ANZ's ongoing business activities.

On August 20, 2010, ANZ reported an unaudited underlying profit after tax for the nine months to 30 June 2010 of approximately \$3.6 billion, 26% above the prior corresponding period (PCP) in 2009.

Momentum evident during the first half of FY2010 was maintained in the third quarter with profit after tax of approximately \$1.3 billion, up 37% versus the PCP in 2009, driven by modest growth in business earnings and reduced provisions despite lower Global Markets income and USD/AUD exchange rate impacts.

Business Update

- Profit from the Australian business grew strongly compared with PCP in 2009, assisted by the favourable impact of the acquisition of ING Group's 51% interest in ING Australia and lower provisions.

Mortgage lending was around 1.7 times system¹ in the third quarter with both customer demand and operational improvements driving higher growth. Credit standards remain robust with the dynamic loan to value ratio (LVR) for Mortgages at 46%² and at origination LVR 63%, matching that of 2008.

Commercial lending assets grew around 7% compared with PCP in 2009 including the addition of Landmark (2% growth third quarter on second quarter). During the third quarter, lending growth of between 1% and 2% was experienced across all categories including Business Bank, Esanda, Regional and SME.

Household deposits matched system³ growth in the third quarter, and have grown at 2.1 times system⁴ compared with the PCP in 2009. The deposit market remains highly competitive as evidenced by ongoing pressure on deposit margins.

- The Asia, Pacific, Europe & America (APEA) Division completed the final stages of the acquisition of certain RBS businesses in Singapore, Taiwan and Indonesia, assuming US\$2.0 billion in loans and US\$5.2 billion in deposits during the third quarter.

With the acquisition now complete, the integration of the businesses acquired from RBS in six countries in Asia is the key focus for ANZ for the remainder of calendar 2010. Staff and customer retention has been high, and customer acceptance of the ANZ brand has been reflected in deposit growth in the retail business.

In US Dollar terms, profit was flat versus the PCP in 2009 with Global Markets income in the region lower and cost growth reflecting continued investment in the franchise.

¹ Source: APRA Monthly Banking Statistics.

² LVR applies to Australian mortgage portfolio only.

³ Source: APRA Monthly Banking Statistics.

⁴ Source: APRA Monthly Banking Statistics.

- The New Zealand Division's profitability is recovering well from the lows of the second half of 2009 and first half of 2010. While the lagged benefit of repricing the fixed rate book has seen a small improvement in margins, funding costs, both for wholesale and deposits, remain high. However, ANZ believes costs are being controlled and provisions are moderating, especially in the Retail Division.
- The Institutional Division's profit is up versus the PCP in 2009, reflecting a reduced provision charge offset by a lower contribution from Global Markets. Given the longer term opportunity for the Institutional Division, ANZ has continued to invest in the franchise. This investment coupled with lower Global Markets revenue saw profit before provisions down relative to PCP in 2009.

In Global Markets, market conditions during much of FY2010 have been less conducive to customer hedging of both foreign exchange and interest rates, and increased competition has reduced spreads. The challenging conditions for Global Markets continued into the beginning of the fourth quarter.

Asset Quality

The outlook for credit provisions is generally improving. The rate of growth in impaired assets slowed significantly, notwithstanding the recent inclusion of loans acquired from RBS in Asia. The RBS asset integration has not to date given rise to any unexpected issues. As expected at this point of the economic cycle, new impaired asset growth for ANZ during the quarter came largely from middle market sectors.

The total provision coverage ratio of 2.26% and the collective provision coverage ratio of 1.46% have both increased.⁵ The ratios now include the businesses acquired from RBS.

Balance Sheet and APS 330

The Tier One ratio at 30 June 2010 was 10.3%.

ANZ also released its June quarter APS 330 disclosures on August 20, 2010. Risk Weighted Assets increased 5.3% to \$262.3 billion during the quarter largely driven by the impact of acquisitions (RBS and Landmark) and exchange rates. Credit Risk Weighted Assets increased 6.2% to \$234.0 billion.

ANZ has issued around \$24 billion of term funding to date during the FY2010 which completes the \$20 - \$25 billion term funding task announced at the start of the period. Wholesale funding markets remain readily accessible to ANZ as evidenced by benchmark issues in AUD, EUR, USD, JPY, CHF and CAD transacted during the year. However, marginal term wholesale funding costs are running significantly higher than the portfolio average.

⁵ Total Provision Coverage Ratio – collective provision balance plus individual provision balance as a proportion of Credit Risk Weighted Assets. Both the total provision coverage ratio and collective provision coverage ratio are at 30 June 2010.