# Media Release

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## ANZ Market Update - Nine Months to 30 June 2010

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

In a market update today ANZ reported an unaudited underlying profit after tax[1] 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% PCP driven by modest growth in business earnings and reduced provisions despite lower Global Markets income and USD/AUD exchange rate impacts.

**Key Performance Metrics**

- Profit before provisions (PBP) up 5% PCP to $6.5 billion.
- Income grew 9% PCP to $11.6 billion. ANZ has continued to invest for growth, particularly in Institutional and in Asia. Revenue/expense jaws were positive 2% YTD excluding acquisitions and lower Global Markets income but negative 5% YTD including both factors.
- Global Markets income, while lower (down 14% PCP to $1.4 billion) than the exceptional levels achieved in 2009, reflects an underlying CAGR of 25% pa since the start of 2008.
- Group margins (excluding Global Markets) have increased modestly but growth is slowing, with higher funding costs and intense competition especially for deposits, largely offsetting the flow-through of re-pricing in prior periods in New Zealand and Institutional including product mix impacts.
- Credit quality continues to improve. The provision charge of $1,440 million is 34% lower than PCP.
- Group lending growth was up over 3% PCP (4% FX adjusted) reflecting the transition of assets acquired from the Royal Bank of Scotland (RBS) and growth in Australian Retail (particularly Mortgages).
- Group deposit growth was up 8% PCP (9% FX adjusted) primarily driven by Australia Retail and Asia Pacific, Europe and America (APEA) including the impact of deposits transitioning from RBS.
- Third quarter income was up around 5% on quarter two, with PBP around 2% higher. Provisions are tracking almost 38% lower than the average run rate for the first half.

ANZ Chief Executive Officer Mike Smith said: "Our core businesses in Australia, Asia Pacific and New Zealand continued to perform well in the third quarter against the backdrop of Australia's solid economic performance, strong economic growth in Asia and the emerging recovery in New Zealand.

"While economies around the world are growing at different speeds, the improving economic cycle is continuing to see ANZ's provisions trend lower.

"We are also performing well for our customers and the community. This quarter ANZ was named Home Lender of the Year in Australia and our Institutional business named Bank of the Year in New Zealand[2]. We announced a new approach to community investment to help focus our contribution and to provide more opportunities for staff to be involved with the communities we serve.

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[1] All figures in this release are on an underlying basis. Profit has been adjusted to exclude non-cash and significant items (in line with the approach in recent periods) to arrive at underlying profit, the result for the ongoing operations of the Group.
[2] Home Lender- *Money* magazine consumer finance Awards. NZ - Institute of Finance Professionals New Zealand.

“These outcomes continue to deliver on the commitment we made to build a super regional bank. It’s an aspiration that builds on our domestic strength in Australia and New Zealand, and leverages the growth of Asia which is now the engine of growth for the world economy.

“The global outlook remains ‘unusually uncertain’. This uncertainty is associated with the combination of consumer, business and public sector de-leveraging; domestic and international re-regulation; and the implications of high unemployment and other protracted structural challenges in the US and in Europe.

“Together, they mean global economic growth is not going to rebound quickly. Although Australia and to a lesser extent New Zealand are benefiting from Asia's strong growth, it’s clear domestic credit growth will continue to be softer than we saw pre-crisis.

“During the past two and a half years we’ve made the calls early on these trends and we want to continue to be ahead of the game.

“We need to accept that banks around the world are facing permanently higher costs. These include continuing pressures on wholesale funding and rates for deposits have never been so high compared to short-term wholesale rates. There are also going to be significant costs to comply with new international regulation, although the impact of Basel III is likely to be somewhat less onerous than originally expected.

“In a highly competitive environment, it means successful banks are going to have to drive productivity and innovation even harder. We need to remove cumbersome structures and do things in new and different ways.

“This is not just about creating medium and long-term value for shareholders, but about being easier for our customers to deal with and providing them with a better experience.

“We have a clear strategy, a strong balance sheet and an experienced management team of international bankers. This positions us well to take advantage of the opportunities for growth that are continuing to open up for us in the region and to deliver for shareholders, customers and the community,” Mr Smith said.

**Business Update**

- Profit from the Australian business grew strongly PCP, 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 system 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%[3] and at origination LVR 63%, matching that of 2008.

  Commercial lending assets grew around 7% PCP 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 system growth in the third quarter and have grown at 2.1 times system PCP. The deposit market remains highly competitive as evidenced by ongoing pressure on deposit margins.

- APEA Division completed the final stages of the RBS transaction in Singapore, Taiwan and Indonesia transitioning US$2.0 billion in loans and US$5.2 billion in deposits during the third quarter.

[3] LVR applies to Australian mortgage portfolio only.

With the acquisition now complete, the integration of the businesses acquired from RBS in six countries in Asia is the key focus 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 PCP with Global Markets income in the region lower and cost growth reflecting continued investment in the franchise.

- New Zealand business 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, head winds from higher funding costs, both for wholesale and deposits, remain significant. Costs are being well controlled and provisions are moderating, especially in the Retail.

- The Institutional Division's profit is up PCP, reflecting a reduced provision charge offset by a lower contribution from Global Markets. Given the longer term opportunity for the Institutional Division across the region, ANZ has continued to invest in the franchise. This investment coupled with lower Global Markets revenue saw PBP down relative to PCP.

  In Global Markets, market conditions during much of 2010 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 produced no surprises. As expected at this point of the economic cycle, new impaired asset growth for the Group during the quarter came largely from the middle market and SME sectors.

The total provision coverage ratio of 2.26% and the collective provision coverage ratio of 1.46% have both increased.[4] 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% with a core Tier One ratio of 8.2%.

ANZ also released its June quarter APS 330 disclosures today. 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%.

ANZ has issued around $24 billion of term funding during the 2010 financial year 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.

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[4] 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.