Media Release

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ANZ Market Update
Three Months to 31 December 2010

- continued business momentum, further improvements in provisions -

In a market update today ANZ reported an unaudited underlying profit after tax[1] for the three months to 31 December 2010 of approximately $1.4 billion, 27% above the prior corresponding period (PCP).

Key Performance Metrics

- Profit before provisions (PBP) grew 7% PCP to $2.3 billion - up 1% on the last quarter of FY2010 (QOQ). Adjusting for foreign exchange (FX) and acquisitions, PBP grew 6% PCP and 2.6% QOQ.
- Continued strength in the Australian Dollar meant that income, at $4.2 billion, increased over 2% FX adjusted QOQ with growth in all divisions except New Zealand. FX impacts produced a 2% negative impact on underlying profit after tax both PCP and QOQ.
- ANZ has continued to invest for growth, particularly in Institutional and in Asia. Revenue/expense jaws were neutral QOQ on an FX adjusted basis.
- Group margins (excluding Global Markets) showed a small increase across the quarter but the rate of growth has slowed. Higher average funding costs and intense competition, especially for deposits, largely offset the flow-through of re-pricing in New Zealand and product mix impacts.
- The provision charge of $294 million is 48% lower PCP and 22% lower QOQ.
- Group lending grew 2% QOQ (2% FX adjusted) driven by growth in Australia, in both Retail and Institutional, and in Asia Pacific, Europe & America (APEA) across all business lines.
- Group deposit volumes rose 3% QOQ (4% FX adjusted) primarily driven by Australia and APEA.

ANZ Chief Executive Officer Mike Smith said: “We are continuing to achieve good underlying momentum in our core businesses in Australia, Asia Pacific and New Zealand supported by further reductions in provisions. Customers in Asia and in Australia are increasingly choosing to do business with ANZ.

“Recent natural disasters have had a devastating impact on a number of Australian communities. We are working hard to provide as much assistance as possible and we are committed to playing our part in helping accelerate the recovery in the affected areas.

“Looking ahead, we’re optimistic about Australia’s prospects. The economy continues to perform well although sector trends are mixed and the immediate impact of the recent floods, bushfires and cyclones will see growth soften in the short term.

“In New Zealand, the economy has stabilised although the return to growth is slow and in South Canterbury the community is still recovering from last year’s earthquake.

“Asia remains the engine of global growth. As a result, connectivity in the region is continuing to deepen through growth in trade and investment flows between Asia and our key domestic markets in Australia and New Zealand, and through growth in intra-Asia flows.

[1] All figures are on an underlying basis unless otherwise stated. Profit has been adjusted to exclude non-cash and significant items to arrive at underlying profit, the result for the ongoing operations of the Group.

"Our super regional strategy is continuing to provide opportunities for us and we have been investing heavily to build our presence and capability in Asia and in our key domestic markets. We know that we have to continue to deliver against this investment and it was pleasing to see the benefits emerging through increased client penetration and increased deal flow in Asia, in Australia and in New Zealand.

"Our organic growth and the integration of the Asian businesses we acquired from the Royal Bank of Scotland mean we are now uniquely placed to benefit from Asia's growth which is increasingly differentiating ANZ.

"At the same time we have strong customer propositions in our key domestic markets in Australia and in New Zealand where we are also performing well financially. In Australia, we are continuing to work hard to retain our market-leading customer satisfaction in Retail and in New Zealand customer satisfaction in both brands is strong and trending up.

"While our region in Asia Pacific is performing extremely well in a global context, we also need to be realistic about the continuing uncertainties in the world economy. The vulnerabilities that built up in the world economy prior to the financial crisis are taking time to work through as evidenced by the sovereign crisis in Europe, and even in Australia and New Zealand businesses and consumers are more cautious with deleveraging continuing to play out through lower credit growth.

"There are other challenges in Asia – and for us here in Australia. These include concerns over commodity and asset price inflation, emerging protectionism and currency imbalances which are all contributing to volatility in markets.

"Nevertheless, these issues are being managed pragmatically in China and by other governments in Asia and we are optimistic about the outlook in 2011 and 2012.

"Our super regional strategy, strong balance sheet and management depth means we are well placed to take advantage of the opportunities for growth in the region and to manage the uncertainties.

"In a challenging environment for banks defined by re-regulation, higher funding costs and volatility in markets, we are also going to have to be much more efficient in the way we use capital and renew our emphasis on driving organisational productivity and innovation.

"Our performance in the December quarter shows however, that we are positioned well and can deliver on our promises to shareholders, customers and the community during 2011," Mr Smith said.

Business Update[2]

- In Australia, Retail deposits grew above system (up 3% versus system growth of 2.3%). This continues a run of strong performance in Retail deposits over the past two years. ANZ is leading on trial intention for day-to-day savings accounts and has the highest customer satisfaction rating of the major banks.

  Lending growth was dominated by Retail (up 2.5%) and Institutional (up 3.5%) with Commercial lending flat. Mortgage lending grew at around 1.5 times system during the period. Margins are tracking broadly in line with the average for 2010.

- In APEA, the Retail and Wealth businesses are beginning to build momentum post the integration of the RBS businesses during 2010 and the Institutional business build-out is also progressing well. The balance sheet has continued to expand with lending up over 11% to US$27 billion and customer deposits up 6.5% to US$49 billion.

- In New Zealand, with the economy slowly recovering, lending was flat while deposits grew 4.2%[3]. Pricing benefits from the roll-off of fixed rate loans and switching to variable rate loans continues to flow through, however the margin benefit from that repricing has been largely offset by strong deposit competition. Variable loans comprised 49% of the mortgage portfolio at the end of December 2010 compared to 26% at the end of 2009.

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[2] All comparisons are QOQ unless otherwise noted.
[3] In NZD.

ANZ New Zealand has begun to put in place plans to improve operational efficiency across the business and better leverage the Group's super regional strategy. The changes, including a move to one IT platform and a new regional management structure, aim to significantly improve service levels and business outcomes over the medium term. Customer satisfaction in both the ANZ and The National Bank brands are trending upwards.

It is expected that a one-off charge of approximately $120 million will be incurred in the first half 2011 to fund the integration of IT systems and related costs which will be excluded from Underlying Profit.

- In Institutional, lending increased around 6% (FX adjusted) with over half of the growth from Asia and the remainder largely in Australia. Deposits increased 3% (FX adjusted). Underlying margins were marginally lower excluding Global Markets.

  Global Markets revenue grew around 7% QOQ. The business is driving greater diversification across revenue streams; consequently, there was an uplift in the proportion of revenues from both the FX and Commodities businesses during the quarter. The Capital Markets business experienced increased deal flow particularly from Asia.

Asset Quality

Total gross impaired assets declined by $209 million QOQ reflecting a decrease in new impaired loans and NPCCDs[4] and the sale of $720 million of Centro debt. The inclusion of Oswal in restructured items led to an increase in new impaired assets; however ANZ continues to expect a full recovery in relation to this exposure.

Provision coverage remains high with the total provision coverage ratio at 2.11% and the collective provision coverage ratio at 1.35%.[5]

An economic overlay of $35 million was added at the end of the first quarter covering the flooding in December. The Group is still assessing the impact of the more recent severe weather events; however the total provision charge for FY11 is expected to still be broadly in line with the average of consensus estimates.

Balance Sheet and APS 330

The Tier One ratio at 31 December 2010 was 10.3%.

ANZ also released its December quarter APS 330 disclosures today. Risk Weighted Assets (RWA) decreased 0.8% to $262 billion largely driven by a decrease in Market Risk RWA. Credit RWA were steady at $233 billion with portfolio growth in Institutional and Australian mortgages offset by exchange rate impacts, improvements in credit quality and asset reduction in AIRB corporate.

ANZ remains well positioned from a funding perspective, loan growth has been fully funded from deposit growth and approximately half of the $25 billion FY2011 term funding requirement has already been completed. This positioning afforded ANZ the flexibility to buy back some government guaranteed debt maturing in 2011.

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[4] NPCCDs – non performing commitments, contingencies and derivatives.
[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 31 December 2010.