



Media Release

For Release: 29 October 2009

ANZ 2009 Annual Result

Australia and New Zealand Banking Group Limited (ANZ) today announced an underlying profit for the year ended 30 September 2009 of \$3,772 million up 10% on the prior year.

Underlying profit reflects the net impact on statutory profit of \$829 million from one-off items, hedging timing differences and non-continuing businesses. Statutory profit decreased 11% to \$2,943 million. The final dividend of 56 cents per share fully franked is 25% lower than 2008, in line with guidance.

Overview¹

Group - Strong underlying business performance

- Revenue up 17%. Costs up 12% including costs associated with expansion in the Asia Pacific Region, remediation and growth in Institutional and Group transformation.
- Underlying EPS decreased 4%. A 16% increase in the weighted average number of shares coupled with reduced statutory profit led to a reduction in statutory EPS of 23%.
- Net Interest Margin² up 16 bps with higher funding costs partially offsetting improvements in asset margins.
- Customer deposit growth up 14%, net loans and advances flat (FX adjusted) with growth in the Retail book offset by a decrease in the Institutional book.

Business Units - Good performance from Australia, strong growth in Asia Pacific, challenging conditions impact New Zealand, Institutional income up significantly

- Australia region profit up 13% - strong contributions from Retail (up 13%) and Institutional (up just over 100%).
- The Asia Pacific Europe & Americas (APEA) region profit up 81% - strong contributions from Asia Partnerships and Institutional.
- New Zealand region profit decreased 34% - good contribution from Institutional, challenging economic conditions impacted margins in Retail and Commercial and drove higher provisions.
- Institutional division profit up 82% - income up 37% driven largely by Global Markets business.

Credit - Strong provision coverage, growth in impaired loans slowing.

- Total credit impairment charge up 46% to \$3,056 million. Increases across all regions but highest percentage growth in New Zealand.
- Collective provision coverage ratio³ 1.31%. Total provisions coverage ratio 1.97%.
- Gross impaired loans \$4,392 million; rate of growth slowed in the second half.
- Significant reduction in the credit charge related to the credit intermediation trades in the second half.

¹ Numbers are provided on an underlying basis and all comparisons are year on year unless otherwise stated

² Excluding net interest income impact of cash flow on derivatives

³ Collective provisions as a proportion of credit risk weighted assets (CRWA). Total provision coverage ratio is individual plus collective provisions as a proportion of CRWA

ANZ Chief Executive Officer Mike Smith said: "While 2009 has been the most difficult year in many decades for financial services around the world, ANZ has remained financially robust, with a clear growth strategy led by an experienced team of bankers. This has allowed us to deliver a strong result and a better outcome for shareholders and for customers.

"This result highlights the momentum we now have which is assisting us to deliver on the priorities we set for ANZ in December 2007. We've made good progress with the turnaround of Institutional, revenue is growing faster than costs, we are delivering excellent results in Asia and our largest franchise - Australia - is performing well.

"We've continued to focus on the key drivers for the Bank – maintaining our strong capital and liquidity position, ensuring we have adequate provision coverage, completing remediation in parts of the business and making investments that position ANZ for future growth.

"Importantly, we've been able to work from a position of strength to take advantage of strategic growth opportunities in our core geographies in Australia, New Zealand and Asia. In Wealth, we are moving to full ownership of ING Australia and ING New Zealand and in Asia, we've agreed to acquire RBS businesses in six countries.

"In a year that started off only weeks after the collapse of Lehman Brothers, the high-water mark of the global financial crisis, we have continued to support our customers, delivered a good result for shareholders and made meaningful progress in delivering on our strategy to build a super regional bank," Mr Smith said.

PERFORMANCE BY GEOGRAPHIC REGION

Australia

The Australia region performed well producing a 13% increase in profit after tax (PAT) to \$2,560 million.

The standout performers were the Retail and Institutional businesses, with PAT growth of 13% and just over 100% respectively. Given the difficult year experienced by middle market and small business owners, Commercial produced a creditable result, with PAT up 2%. Weaker equity markets heavily impacted the Wealth business with PAT down 85%.

The Retail business grew revenue three times faster than costs. In the Institutional business very strong revenue growth (up 28%) was reinvested in their rebuild and refocus program which is gaining significant traction. Deposit growth has been a feature this year with customer deposits up 16% to \$153 billion. Growth in net loans and advances in the Retail business of 10%, largely in the mortgage business, was offset by a 20% decrease in Institutional loans and advances, reflecting a repositioning of the book, lower demand in line with the cycle and a repayment focus by clients.

Credit provision charges trended in line with expectations, up 23% with Retail up 43%, Commercial up 83% and Institutional stabilising (up 4%). While provisions grew in Retail, off a low base, the business' focus on responsible lending can be seen in leading 60 day delinquency trends in both the mortgages and credit card portfolios which are well contained.

ANZ's Australian Retail business had the largest increase in net customer numbers of any bank during the year and remains the highest rated of the major banks for customer satisfaction.

Asia Pacific, Europe & America (APEA)

Asia Pacific, Europe & America (APEA) region PAT increased 81% to \$699 million, representing 18.5% of group earnings. Strong contributions from Partnerships and Institutional drove most of this growth. PAT from Partnerships grew 78% to \$331 million, which includes some favourable reassessment of credit provisioning requirements and earnings adjustments.

An increase in total credit provisions to \$276 million was mainly due to changes to risk grades to reflect the changed economic conditions.

The Group has continued to invest significantly in the region, including deepening the Institutional business and advancing the Retail and Wealth platforms, as well as continuing to build out branch networks in Indonesia, Vietnam and China complemented by the agreement to acquire certain RBS assets announced in August. There are now 8,555 staff in the APEA region, excluding RBS, up from 6,769 a year ago. This includes a significant investment in front line staff.

New Zealand (all figures in this section are in NZD)

New Zealand's economic downturn has been more pronounced and protracted than that in Australia. The same challenging economic conditions that enabled a very strong result in the Global Markets trading and sales businesses also drove margin reduction resulting from deposit competition and slower system growth across the Retail, Commercial and Rural businesses. Profit before Provisions (PBP) increased 8%, while an almost three-fold increase in credit provisions drove a 32% decrease in PAT.

An increase in credit provision charges to \$889 million was the result of general deterioration across the book with the largest increase in the Commercial business albeit from very low levels in 2008.

Margins across the Retail, Commercial and Rural businesses experienced a significant contraction of 26 bps impacted by intensified deposit competition, higher wholesale funding costs and higher costs from increased early mortgage payouts.

Customer deposits and lending growth were largely flat for the year, in line with the domestic economic conditions. Customer deposits increased in both the Retail and Institutional businesses while Commercial deposits declined with overall tightening of business cash flows.

Costs are being well managed, up 4% for the year, with strong transformation savings coupled with investment in the business.

While up 30% year on year, Institutional profit decreased half on half (down 48%) primarily reflecting a return to more normal trading volumes in the Global Markets business.

INSTITUTIONAL

Institutional division profit, across the geographic regions, was a highlight for the Group, up 82%. Revenue rose 37% to finish the year just under \$5 billion, almost half of which came from the Global Markets business. The Institutional team leveraged their strong revenue growth to make investments in improved systems and processes and to grow frontline staff numbers.

Interest rate and general market volatility coupled with increased customer penetration drove a significant increase in both customer related and trading revenue within the Global Markets business, resulting in revenue growth of 77% to \$2.2 billion. Transaction Banking revenue grew 12% and Specialised Lending (including Relationship Lending) by 23%.

Customer deposits grew 19%, while reduced demand associated with the economic climate, some repositioning of the loan book and a repayments focus by clients accessing the equity markets drove an 18% decrease in Net Lending Assets.

Australian exposures in the property, securities lending and agribusiness sectors and a limited number of single name exposures were largely responsible for the 10% increase in the credit provision charge for the year. Total provisions dropped 4% half on half and the rate of growth in non-performing loans slowed significantly in the second half.

NON-CORE ITEMS

ANZ adjusts statutory profit for non-core items to calculate underlying profit. Separating out non-core items assists with analysis of the underlying trends in the business, as the items are related either to non-continuing businesses, economic hedging or significant items that sit outside the ongoing business activities of the Group. A reconciliation table is included on the last page of this announcement.

There was a net \$829 million in non-core items in 2009. The key items related to one-off provisions (New Zealand tax on conduit transactions, ANZ's share of the ING NZ investor settlement), organisational transformation costs (One ANZ), losses from non-continuing businesses (Credit Intermediation Trades and the Private Equity and Alternative Assets businesses) and amounts related to the accounting treatment of currency and interest rate hedge valuations which reverse as the instruments move towards maturity (Economic Hedging).

The credit risk adjustment charge on the Group's Structured Credit Intermediation Trades reduced \$595 million after-tax in the second half as credit spreads tightened significantly, to be \$69 million after-tax for the year.

CREDIT ENVIRONMENT

While the credit cycle is playing out largely as expected and there are signs of stabilisation, particularly in Australia, ANZ believes it is prudent to maintain strong provision coverage levels. The collective provision as a proportion of Credit Risk Weighted Assets (CRWA) now sits at 1.31% while the total provision as a proportion of CRWAs is now 1.97%.

The total credit provision charge for the year was \$3.06 billion, up 46% for the year but only 13% in the second half. While the individual provision charge increased across all regions the collective provision was much lower than the prior year. The largest proportionate increase in provisions occurred in New Zealand.

The rate of growth in Gross Impaired Loans declined half on half with a total at 30 September of \$4.4 billion.

CAPITAL AND FUNDING

ANZ took early and measured steps to manage its capital and funding programs throughout the global financial crisis. This included initiatives to strengthen the balance sheet, boost liquidity and the quantity and composition of capital, to stay ahead of changes in the cycle and to allow the Group to capitalise on opportunities that have and will arise.

ANZ's capital base has been progressively strengthened since late 2007 but most recently through the raising of \$5.7 billion of ordinary equity⁴. The Group's Tier 1 capital ratio was 10.6% at the end of September 2009 compared to 7.7% a year ago. Adjusting for the announced acquisitions of certain RBS assets in Asia and the ING Group's share of the ING Australia and ING New Zealand joint ventures, the pro-forma Tier 1 ratio reduces to 9.5%.

Global liquidity conditions have improved over the year. Deposit growth has been strong with the proportion of total funding from customers increasing from 50% to 55%. ANZ executed its full year term wholesale funding requirements well ahead of schedule raising a total of \$25.8 billion. A combination of stronger deposit growth and consistent term debt issuance has reduced the reliance on short term wholesale funding from 22% to 17%.

⁴ Institutional placement \$2.5 billion, Share Purchase Plan \$2.2 billion and final 2008 DRP underwrite

OUTLOOK

Mr Smith said: "The economic slow-down is continuing to play out much as we expected. In this phase, we have seen bad debts emerge from highly leveraged entities and more recently from the Commercial sector and higher risk personal customers. We expect this will continue into 2010. However given the resilience of the Australian economy, the stabilisation we are beginning to see in the New Zealand economy and the strength of the Asian economies, particularly China, we believe credit quality has now stabilised.

"It's prudent however to be cautious. The global economy is still facing many difficulties and the Australian economy remains fragile.

"For ANZ, we are also facing a number of headwinds in 2010. This includes the strength of the Australian Dollar and a less favourable Markets environment.

"I'm confident however we can maintain the performance momentum we now have in the Group and that we will continue to have opportunities to grow and to advance our super regional strategy in 2010 to deliver value for our shareholders."

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Underlying business performance	
Tax on New Zealand Conduits	
One ANZ restructuring costs	
ANZ share of ING New Zealand investor settlement	
Structured transaction	
Credit risk on impaired derivatives	
Non-continuing businesses (including Credit intermediation trades)	
Gains on Visa shares	
Organisational transformation costs	
Impairment of intangible - Origin Australia	
New Zealand tax rate change	
Economic hedging - fair value gains/losses	
Revenue and net investment hedges	
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