Media Release

Corporate Communications
100 Queen Street
Melbourne Vic 3000
www.anz.com

For Release: 27 April 2006

ANZ interim profit $1,811 million

Australia and New Zealand Banking Group Limited (ANZ) today announced a record profit after tax of $1,811 million for the half-year ended 31 March 2006, up 16%. The headline result included a number of one-off gains including the National Housing Bank (NHB) insurance settlement and, adjusting for these, cash* earnings per share were up 10%.

The Interim Dividend was increased by 10% to 56 cents.

ANZ Chief Executive Officer Mr John McFarlane said: "This is a good result based on a strong underlying business performance.

"Revenue growth at 8% is the highest it has been in recent years and solidly within our target range of 7-9%. The cost to income ratio is down 1%, with expenses contained within our target range. Credit quality remains at its best level in more than a decade and at a cyclical low. While we remain vigilant to potential risks, we are yet to see any material credit issues emerging."

"In recent years we set out to make ANZ a very different bank. Against the trend we invested to create a real difference that others would find hard to replicate.

"We began a journey to create a distinctive culture and we have achieved high levels of staff engagement. We added around 4,000 people to serve our customers while others were cutting staff. We opened and refurbished, and restaffed our branches while others were closing. We invested in Asia at a time the market considered it unfashionable.

"This has been the right agenda but it has been tougher than we anticipated. Only now is the difference starting to be tangible, and beginning to change the face of banking in Australia and New Zealand.

"This result is good progress but still leaves a great deal to be done. We need to work hard in the years ahead to build the momentum in our Personal, Institutional and New Zealand divisions, to improve our cost-income ratio and advance our strategic agenda. Continuing to make ANZ a very different bank remains the core of our agenda," Mr McFarlane said.

Divisional Performance

Personal continues to deliver very strong growth, with earnings up 16%. We continued our investment in future growth with the addition of 545 staff, 22 new branches, and 362 ATMs since the March 2005 half. All individual personal businesses recorded double-digit earnings growth, with Mortgages up 21% and Investment & Insurance Products up 18%. Personal also saw continued improvements in staff engagement and in customer satisfaction, where we now have a distinct lead over our peers.

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* Adjusted for AIFRS 2005 adjustments and non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses).

Institutional grew 8% over the same period last year, adjusting for discontinued businesses exited to reduce risk. Institutional has invested in its businesses throughout the year, through the retention and recruitment of high quality staff, and has restructured its business model to recognise the changing requirements of our customer base. This has helped secure very high revenue growth of 12%. The performances of Trade and Transaction Services, Markets, Corporate and Structured Finance, and New Zealand were particularly strong.

New Zealand Businesses (which excludes Institutional) were up 14% on the same period last year in NZ dollar terms. On a full geographic basis New Zealand was up 16%. This was assisted by lower credit provision charges and, adjusting for this, profit before provisions was up 3% and up 5% on the previous half. The business is showing promising momentum, with robust credit growth and improved credit quality. Interest margin decline moderated and we are starting to see cost synergies flow from integration.

Corporate was up 16%, with improved credit quality offsetting the impact of increased competitive intensity. Lending and deposit growth were both up 11%. Expenses grew 8% from a 5% growth in staff numbers and the impact of annual salary increases, as we continued to invest in expanding our customer proposition. We expect expense growth to moderate in the second half, and income growth to improve as we generate returns from our earlier investment.

Asia Pacific was up 18%. Very strong growth in the Pacific and the network business in Asia were partly offset by lower equity accounted earnings in Panin Bank. Costs associated with developing our partnership business contributed to overall costs increasing 23%. Our Asian cards business had a 47% growth in earnings over the previous half. We advanced our strategic agenda in Asia, with the planned acquisition of a 19.9% stake in Tianjin City Commercial Bank. Discussions on other expansion options continued.

Esanda is receiving increased management attention and was the only division to have a disappointing half. Earnings were down 20% on the same period last year due to lower margins, the impact of higher petrol prices, higher credit losses from declining security values, and mark-to-market write-downs of residual asset values. UDC continues to be weak, although new management is focused on turning this around. Performance in the second half is expected to improve.

Looking forward

Commenting on the outlook for ANZ, Mr McFarlane said: “With a strong first half behind us and good momentum going into the second half, we are increasingly confident about the year as a whole. 2006 is expected to be a good year for ANZ.

“We are now seeing returns from the investment we made in recent years and this is likely to result in revenue growth above the mid-point of our medium term 7-9% target range in 2006. Expense growth is under control and likely to be towards the bottom end of our 5-7% target range for the year. While the credit environment remains benign, we envisage a modest increase in credit costs in the second half from a very low base.

“Over the past nine years, shareholders have seen good financial returns, and we are continuing to invest to underpin our future. Our agenda is to make ANZ a very different bank. This is now showing through in our relationships with our customers, our people, the community and our shareholders,” Mr McFarlane said.

For media enquiries, contact:

Paul Edwards
Head of Corporate Communications
Tel: 03-9273 6955 or 0409-655 550
Email: paul.edwards@anz.com

For analyst enquiries, contact:

Stephen Higgins
Head of Investor Relations
Tel: 03-9273 4185 or 0417-379 170
Email: higgins@anz.com