

Media Release

For Release: 23 April 2008

ANZ 2008 Interim Profit \$1,963 million

Profit		
Profit after tax \$1,963 million	down	7%
Cash* profit before provisions \$3,335 million	up	11%
Cash* profit after tax \$1,674 million	down	14%

Earnings per share and dividend		
EPS 102.4 cents	down	10%
Cash* EPS 87.1 cents	down	16%
Interim Dividend 62 cents	unchanged	

Other key measures*		
Revenue \$6,002 million	up	12%
Cost to income ratio 44.4%	up	10 bps
Provisions \$980 million	up	\$740m
Gross non-performing loans \$1,048 million	up	\$408m

Business highlights*		
<ul style="list-style-type: none"> Record revenue growth of 12% (13% FX adjusted) despite difficult environment. Provision charge significantly higher. Credit losses are isolated and the broader business and consumer book remain strong. <ul style="list-style-type: none"> Individual Provision charge of \$604 million (up \$416 million), driven by \$226 million US monoline insurer provision which is expected to significantly reverse over time, \$51 million in lower recoveries, and a mining company provision of \$53 million Collective Provision charge of \$376 million (up \$324 million), with \$131 million due to lending growth, \$125 million for an "economic cycle adjustment" and \$103 million relating to the downgrading of a large property company exposure. Very strong growth in Asia Pacific where we have an above average presence and which is less affected by the market turmoil. Profit up 47%. Personal impacted most by higher funding costs, particularly in Mortgages business. Revenue growth of 11%, with profit up 11%. New Zealand Businesses solid. Some early signs of New Zealand economy slowing. Renewed momentum in Institutional and across all businesses in that division. Ahead of target on term funding plans; continue to maintain a liquidity portfolio around 80% above normal requirements (excluding internal mortgage securitisation). 		

* Adjusted for non-core items (i.e. significant items and non-core income arising from the use of derivatives in economic hedges and fair value through profit and loss)

All figures compared to March 2007 unless otherwise indicated

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ANZ 2008 Interim Profit \$1,963 million

Australia and New Zealand Banking Group Limited (ANZ) today announced a profit after tax of \$1,963 million for the half year ended 31 March 2008, down 7%.

Adjusting for non-core items*, including the gain on Visa shares and, in the prior period, Fleetpartners sale, profit before provisions growth was a solid 11%.

This was offset by a significant increase in credit impairment charges to \$980 million, with the Individual Provisions charge up \$416 million and the Collective Provision charge up \$324 million. As a result, cash* profit of \$1,674 million was down 14% and cash* EPS was down 16%.

The interim dividend of 62 cents per share is unchanged on the March 2007 half.

Growth in profit before provisions reflected high revenue growth, which was up 12% despite the impact of materially higher funding costs. Adjusted for FX impacts, revenue growth was a record 13%, and was driven by very strong lending growth (18%) and customer deposit growth (17%). Net interest margin declined 25 basis points, and was impacted by mix impacts, principally from higher growth in lower risk Institutional lending and liquidity assets (-9 basis points), higher funding costs and basis risk with short term wholesale rates being well above the cash rate (-3 basis points) and higher funding costs for derivative cash flows which have an offset in trading income (-6 basis points). Competitive impacts were in line with previous periods at -6 basis points.

The significant investment in the September 2007 half, including 31 new branches in Australia, contributed to expense growth of 12% over the March 2007 half. Excluding the impact of ETrade and Stadium Australia, expense growth was 10%. This expense growth reflected the run rate impact of higher investment last year in Australia (up 14%) particularly in the Personal division, along with substantial investment in Asia Pacific in this half (up 34%), which helped deliver revenue growth of 44% from Asia Pacific. Expense growth slowed to an annualised 8% growth half on half.

Credit impairment costs were up significantly in the half, due to a higher Individual Provision charge of \$604 million (up \$416 million), which was driven by a \$226 million provision relating to a US monoline insurer, a \$53 million mining company provision, and \$51 million in lower recoveries in Institutional. The Collective Provision was also strengthened with a charge of \$376 million. ANZ's Collective Provision balance of \$2,404 million is the highest of any bank in Australia. Despite the sharp increase in credit costs, overall credit quality remains sound.

ANZ Chief Executive Officer Mr Mike Smith said: "Strong revenue growth was a feature of ANZ's performance in the first half, helping deliver good growth in profit before provisions despite significantly higher funding costs. We are getting good traction on our strategy, particularly in Asia Pacific where revenue growth was exceptional.

"Following a prolonged period of economic growth and benign credit conditions, global markets have experienced substantial volatility over recent months, commencing with the sub-prime crisis in the United States and associated contagion into the wider global markets. The market is currently characterised by wider credit spreads, tightened liquidity conditions and a general weakening in the economic environment. As a consequence, many financial institutions have reported higher credit impairment costs and reduced profitability.

"While ANZ has been less affected than most of our global peers, we have seen a sharp increase in credit costs. We have been warning for some time that they must increase from unsustainably low levels. However some issues are specific to ANZ, and we are looking closely at our portfolio to ensure our exposures are carefully managed.

"We have also chosen to underwrite our Dividend Reinvestment Plan (DRP). The decision to underwrite our final dividend last year ensured we went into this period with a strong capital position and it makes sense to again underwrite our DRP. Together with our high collective provision balance, and increased liquidity position, we have significantly enhanced our balance sheet, which ensures we are operating from a position of strength," Mr Smith said.

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All figures compared to March 2007 half year unless otherwise indicated

Outlook

Commenting on the 2008 outlook for ANZ, Mr Smith said: "The global environment is challenging, and in areas like retail sales, we are seeing early signs of a downturn in our domestic markets. However, with the steps we have taken to strengthen our balance sheet, we are particularly well placed to weather global volatility.

"Over the course of the first half, we have seen revenue momentum improve each month, and this gives us confidence for the year as a whole. At the same time, we reduced the rate of growth in expenses in the first half. We have provided for all known exposures, although in the current environment it is more likely that higher levels of new problem loans will emerge than has been experienced in recent years." Mr Smith said.

Divisional Performance

Personal delivered a good result, with profit growth of 11% and revenue growth of 11%. Mortgages, which represented 25% of Personal's profit, was the most impacted by higher funding costs with profit falling 3%, and this had a significant impact on Personal's profit growth for the half. However the market turmoil is resulting in rationalisation in a number of segments and is likely to strengthen our franchise. Investment and Insurance Products performed well with profit growth of 26%, although investment flows have softened in recent months due to the market turmoil. Banking Products delivered exceptional performance for a traditional deposits business, with profit up 32%. Small Business Banking Products (up 23%) and Rural Commercial & Agribusiness Products (up 13%) both performed well.

Expense growth of 13% reflects both the substantial investment in the branch network last year, the investment in ETrade, and lower advertising costs in the prior period. Staff numbers were up 8%. Credit costs continue to be very well managed in Personal, and were down 2% due to collections initiatives and tighter underwriting standards.

Institutional net profit fell 47% due to a sharp increase in credit costs on a small number of accounts, and a higher collective provision charge. However, profit before provisions was up 18% on March 2007, and up 16% half on half, which is its best performance for some time. Revenue growth was also the strongest in recent years at 16%, or 18% FX adjusted. While costs were up 12%, they were up just 2% half on half reflecting an improved cost performance.

Each of the major businesses had double-digit revenue growth, driven primarily by strong lending growth. Business Banking has improved significantly, with revenue up 12%. Working Capital also performed well, with revenue up 16%. While Markets profit before provisions was up 28%, the impact of three large single name losses resulted in a net loss of \$6 million.

Asia Pacific result was a standout, with net profit up 47%, or 58% FX adjusted. Investment in the region continued, with expense growth of 34%, and this was rewarded with revenue growth 44%, leading to growth in profit before provisions of 52%. Institutional Asia Pacific was up 38%, while the Partnerships business was up 205%, supported by the full half impact from AMMB Holdings Berhad and Shanghai Rural Commercial Bank.

New Zealand Businesses (in NZ dollars) profit was up 6%, with solid profit before provisions growth of 12% partly offset by higher provisions, which started to normalise in the second half of last year. Expense growth was well contained at 2%. ANZ Retail and Rural Banking, delivered very good performance with double-digit earnings growth. UDC has turned around, with revenue growth of 17%, however a higher collective provision impacted net profit growth. The National Bank and Corporate and Commercial Banking were impacted by higher credit charges.

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HIGHLIGHTS (continued)

Key Business Drivers ¹		Group		New Zealand Businesses (NZD) Asia Pacific ⁵			
		Half year ended Mar 08		Personal	Institutional ⁵		
			Change ²	Change ²	Change ²	Change ²	Change ²
Total assets	\$m	438,355	25%	13%	40%	14%	89%
Deposits & other borrowings	\$m	263,866	26%	13%	33%	21%	42%
Risk weighted assets ³	\$m	267,486	n/a	n/a	n/a	n/a	n/a
Average interest earning assets	\$m	379,440	17%	12%	25%	14%	52%
Net interest margin	bps	1.99	(25bps)	(9bps)	(33bps)	(14bps)	10bps
Net interest income	\$m	3,780	5%	8%	2%	8%	38%
Other operating income	\$m	2,222	26%	17%	35%	4%	50%
Total operating income	\$m	6,002	12%	11%	16%	7%	44%
FTE	No.	35,482	7%	8%	7%	1%	32%
Operating expenses	\$m	2,667	12%	13%	12%	2%	34%
Profit before provisions ⁴	\$m	3,335	11%	9%	18%	12%	52%
Individual provision charge	\$m	604	416	10	379	21	-
Collective provision charge	\$m	376	324	(13)	326	19	16
Total provision for credit impairment	\$m	980	740	(3)	705	40	16
Cash profit	\$m	1,674	(14%)	11%	(47%)	6%	47%
Cash EPS	cents	87.1	(16%)				
EVA	\$m	1,214	8%	4%	7%	7%	(62%)
Other Measures¹				Actual	Actual	Actual	Actual
Individual provision charge as a % of average net advances	%	0.38	24bps	0.22	0.80	0.11	0.36
Return on average assets	%	0.78	(33bps)	0.93	0.46	0.98	1.62
Cost to income ratio	%	44.4	10bps	48.9	35.9	46.0	43.4
Cost to average assets	%	1.25	(12bps)	1.50	0.80	1.39	1.85

^{1.} All numbers adjusted for non-core items

^{2.} Compared to half year ended 31 March 2007

^{3.} 2008 risk weighted assets are calculated using Basel II methodology

^{4.} Profit before credit impairment and income tax

^{5.} Institutional Asia Pacific is included in both Institutional and Asia Pacific