Media Release

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ANZ 2010 Full Year Result

- profit lifts across the bank -

- strong growth in dividend, leading customer satisfaction -

ANZ today announced an underlying profit[1] for the full year ended 30 September 2010 of $5.0 billion up 33% on the previous year. Statutory profit for the full year was $4.5 billion up 53%.

The proposed final dividend of 74 cents per share is 32% higher than 2009, bringing the total dividend to 126 cents per share.

Key Points

- Strong performance across the bank with all regions and the Institutional Division lifting profit:
  - Tier 1 Capital 10.1% with Core Tier 1 Capital 8.0%.
  - Customer deposits grew 11% (14% FX-adjusted) on strong growth in Australia and Asia Pacific Europe & Americas (APEA).
  - #1 in retail customer satisfaction in Australia, increased market share in key segments.
  - Institutional in Australia and New Zealand ranked #1 on key customer satisfaction categories.
- Underlying profit up 33% driven by a 6% growth in profit before provisions (PBP) and a 40% reduction in the credit impairment charge.
- Underlying EPS increased 18%. The weighted average number of shares increased 14%.[2]
- Underlying income increased 10% with expenses up 15% reflecting acquisitions and continued investment in growth. Adjusting for the impact of acquisitions and FX (pro forma)[3] income grew 7% (10% excluding Global Markets) and expenses 8%.
- Lending grew 4% (7% FX adjusted) largely driven by the retail business in Australia and the Retail and Institutional businesses in APEA.
- Group margins were up 16 basis points (bps)[4] reflecting improved pricing for risk primarily in the Institutional business and some recovery of margins in New Zealand, partly offset by higher funding costs. Margins declined half on half (HOH) in the Australian retail business.
- Second half profit of $2.7 billion was 19% higher HOH. Income and PBP momentum continued in the second half up 9% and 4% respectively HOH. On a pro forma basis PBP was up 2%.
- Total provision coverage[5] remains high at 2.15% of Credit Risk Weighted Assets (CRWA) with the collective provision ratio at 1.35% of CRWA.

Regional and Institutional Division Performance

- Australia profit up 42%, PBP up 14%; strong growth in the contributions from Wealth and Commercial with solid contributions from Retail and Institutional.
- APEA USD profit up 21%, PBP up 2% largely from contributions from Partnerships and Institutional.
- New Zealand NZD profit up 40% driven primarily by a 48% decrease in provisions.
- Institutional profit up 23% provisions down 48%. Income up 10% excluding Global Markets (down 2% including). Global Markets revenue 17% lower following an unusually strong 2009.

ANZ Chief Executive Officer Mike Smith said: "ANZ now has momentum in every area of our business and our 47,000 staff are delivering good outcomes for shareholders while also performing for our customers and the community.

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[1] Underlying profit reflects the net impact on statutory profit of $524 million from one-off items such as acquisition costs and subsequent fair value adjustments and hedging timing differences. All numbers are on an underlying basis and all comparisons are year on year unless otherwise stated.
[2] Weighted average number of ordinary shares on an underlying basis 2,523 million at 30 September 2010.
[3] Pro forma analysis enables readers to understand the estimated current period growth rates of the ongoing business performance of the Group, including adjustments for the financial impact of recent acquisitions and exchange rates.
[4] Up 28 bps excluding Global Markets.
[5] Total provision coverage ratio is individual provisions plus collective provisions as a proportion of credit risk weighted assets (CRWA). Collective provision ratio is collective provisions as a proportion of CRWA

"Three years after announcing our super regional ambitions, we are increasingly distinguished by our geographic diversification which focuses on the world's best performing economies and the increasing linkages that our personal and corporate customers have with the region.

"We've also established the experience and capability throughout the bank to take advantage of growth opportunities and to deliver on our super regional strategy.

"In Australia, we are ranked number one for retail customer satisfaction and have gained market share in key segments. In Institutional, we were rated number one for 'lead domestic bank relationships' in Australia and in New Zealand we were named Bank of the Year by the Institute of Finance Professionals. We were also named the leading sustainable bank globally by the Dow Jones Sustainability Index for the fourth consecutive year.

"Our balance sheet management remains a strength. We have a strong capital position and increasing diversity in our sources of funding. Significantly, continued deposit growth has seen the Group's loan to customer deposit ratio fall to 140% compared to 166% in 2007. We've also continued to deliver well-managed margin outcomes in a highly competitive environment.

"Having weathered the global financial crisis, it's pleasing to start putting some serious runs on the board. ANZ is a more predictable organisation for shareholders and a better place for our customers to do business," Mr Smith said.

PERFORMANCE BY REGION

Australia[6]

Profit growth across all the Australian businesses contributed to a 42% increase in region profit. Both income and expenses were impacted by acquisitions, in particular by the acquisition of ING's 51% share of the wealth management joint venture. On a pro forma basis profit grew 37% with income up 9% and expenses up 7%. ANZ increased investment spend during the year focussed on building future business capability.

While profit growth was assisted by a reduction in the provision charge across all businesses as the economy regained momentum, pre-provision profit growth was strong up 14% (11% pro forma). Mortgage arrears[7] have been stable across the second half of the year with credit card arrears falling in line with seasonal trends.

The Retail business grew profit 8% despite a fall in the net interest margin in the second half due to higher wholesale funding costs and intense deposit pricing competition. Lending growth of 12% was driven primarily by mortgages which grew at 1.4 times system; household customer deposits grew 11% (1.2 times system).

Removing or reducing 27 fees delivered annualised benefits to customers of around $180 million. The "Easy to do Business With" positioning continues to appeal to customers as evidenced by increased customer satisfaction scores and market share growth in key segments.

ANZ was awarded the 2010 CANSTAR CANNEX Best Value Australia Small Business Bank. The Group improved support services to the SME sector, increasing the number of small business specialists across the country. SME deposits and lending both increased by 5% through the year.

Commercial profit grew 34%, with growth driven by repricing for risk and a large decrease in the provision charge. Asset growth at 3% excluding Landmark (8% including) was encouraging against a backdrop of negative system growth.

The acquisition of the Landmark Financial Services loan and deposit book from AWB in December 2009 brought with it around $300 million in deposits and around $2.4 billion in lending taking the ANZ Regional Commercial business into the number two market share position in agri-business.

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[6] All comparisons in the performance by region section of the FY10 financial results release use underlying profit unless otherwise noted.
[7] Statement refers to mortgage and credit card 90 day plus delinquency trends.

Profit from the Funds Management and Insurance business[8] grew strongly doubling to $314 million. Core operating profit increased 19% with Wealth Management income up 11%. Funds under Management rose 2% over the course of the year with the business maintaining its FUM market share of 8.4% in challenging market conditions. In force premiums grew 14% while insurance profit was flat in part reflecting an unusual gain in the prior year. The Life business is the number three[9] ranked life insurance company in Australia.

A 58% increase in Institutional Australia profit was assisted by a 40% decrease in provisions. PBP grew 4% impacted by continued investment in the business and lower Global Markets business revenue, down on the above trend performance of second half 2009. Expenses rose 10% with income up 6%. The Institutional business grew deposits $9 billion during the second half.

Asia Pacific, Europe & America (APEA) (all figures in USD)

Earnings from Institutional and Partnerships were the main drivers of APEA profit which grew 21% to $620 million. PBP grew 2% with provisions down 31%. A much higher AUD/USD exchange rate saw profit flat in Australian dollar terms.

The acquisition of the RBS assets significantly impacted income and expense growth. On a pro forma basis income rose 12% with expenses up 23% (underlying up 26% and 58% respectively). While the last tranche of the RBS acquisition was completed in June the integration program is ongoing. As the RBS businesses acquired were on a high cost to income ratio the impact on costs of the acquisition in the first year was greater than the income impact. Costs are being addressed as part of the integration.

Momentum in the underlying business has continued to build. The Institutional profit contribution grew 10% pro forma largely through lower provisions in line with an improving economic outlook and some de-risking of the portfolio. Global Markets revenue reduced to more normal levels following the unusually strong performance in 2009. However, while the average income from the Global Markets business was 10% lower than the previous year, it was up 50% on 2008 as the business has grown. Positive trends emerged from elsewhere in the Institutional business including trade finance, cash management and deposits.

Customer deposits were up 72%, with lending up 45%. Retail deposits doubled to almost $10 billion reflecting the inclusion of the RBS businesses. Deposit growth from the acquired businesses has been stronger than expected with the ANZ brand being favourably regarded by customers.

During 2010 ANZ has announced a number of key strategic milestones including the establishment of a locally incorporated subsidiary in China, the opening of a new main branch and head office in Shanghai, obtaining a qualifying full bank licence in Singapore, the opening of a new operations hub in the Philippines, and foreign bank licence approval in India.

New Zealand (all figures in NZD)

A 48% decline in the provision charge saw profit rise 40% off a low base in 2009. While the New Zealand economy has stabilised, growth is not consistent across all sectors and ongoing customer de-leveraging impacted income. Costs continue to be well managed. Deposit growth was flat with lending down 1%.

There was some margin recovery across the year, up 13bps in the second half (up 9 bps YOY), with lending margin improvements limited by increased costs for both wholesale funding and deposits. Second half momentum from repricing should continue into the 2011 financial year. There has been a shift in the structure of the mortgage book as more customers moved to variable rate mortgages. Fixed rate loans now comprise 63% of the book versus 88% in 2008.

Improvement in credit quality has been most evident in the Retail and Institutional sectors, with some uncertainty remaining around the Rural and Commercial sectors. Some economic cycle and concentration risk adjustments have been carried forward to reflect this.

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[8] Formerly ING Australia.
[9] Source – Plan for Life.

ANZ holds the number one market share position for all banking products and also for the Kiwisaver superannuation product. ANZ was awarded “Best Value Mortgages (fixed rate)” by Cannex and the Private Bank awarded best in class by Euromoney during 2010. The removal or reduction of 29 fees across our two retail banks saved customers an estimated $45 million from December 2009.

INSTITUTIONAL (all figures pro forma and FX adjusted)

Profit in Institutional grew 29%, with a 46% reduction in the credit impairment charge and a good revenue outcome, up 2%, against an exceptional 2009.

While revenue growth was lower largely due to a more normalised contribution from Global Markets, customer revenues grew 9% reflecting the growth in client numbers and the strength of client relationships which together with the greater geographic diversity of the revenue, provides a strong foundation for future growth. The Peter Lee survey in Australia ranked ANZ first or equal first, in 14 of 26 categories[10] up from 8 last year. In New Zealand ANZ ranked outright first in 17 categories. The strength of our super regional strategy is evident through inter-region client flows being up 10% and flows into Asia from elsewhere in the network up 20%.

Global Markets income declined 12%, however looking through the unusually strong 2009 performance, the compound annual growth rate for revenue over the past two financial years has been around 22%. Trading revenues fell while sales revenues were steady with higher volumes offset by a contraction in spreads and the impact of exchange rates on USD referenced spreads. Capital Markets’ revenue was up 19% and ANZ is now raising more debt capital for Australian borrowers in the Asian region than any other bank.

Deposits grew strongly up 24% (28% FX adjusted); lending asset declines have moderated however clients continue to be somewhat cautious. The business has made considerable progress strategically, with the increased focus on sustainable income streams from cash management and trade now showing through and the Institutional business is self funding.

CREDIT ENVIRONMENT

The total provision charge reduced 40% to $1.8 billion.

Gross impaired assets were flat HOH, the result of a continued slowdown in the level of new impaired assets. New impaired loans in the second half of the financial year were around 17% lower than the first half. Excluding the RBS assets acquired, impaired assets declined 6% HOH. The RBS assets are well provided for and have been performing within expectations.

In line with the slowdown in the rate of new impaired loans the individual provision charge in the second half was 28% lower. There have been no new large corporate exposures during the second half and the loan book is continuing to behave as expected at this time in the cycle. Delinquency levels appear to have stabilised and in most cases have fallen in the retail book.

The coverage ratios remain strong with the total provision ratio at over 2.15% of CRWA and the collective provision ratio steady at 1.35% of CRWA.

CAPITAL AND FUNDING

The group is strongly capitalised with Tier 1 capital as at 30 September 2010 at 10.1% and Core Tier 1 of 8.0%.

The Basel Committee on Banking Supervision is in the process of releasing its minimum capital standards and we await the Australian Prudential Regulation Authority’s interpretation of those standards and timetable for the new regulations. ANZ is well placed to meet any new requirements.

[10] Peter Lee Associates survey of corporate and Institutional clients 2010 ranked first, or equal first on 14 of 26 qualitative relationship categories. Ranked No. 1 in ‘overall penetration’ (domestic plus offshore). In New Zealand, ANZ ranked first on overall satisfaction, relationship strength and penetration and ranked first across a further 17 measures.

The Group continues to follow a consistent annual funding strategy raising $24 billion[11] of term funding in FY 2010. The 2011 funding task is expected to be similar to 2010 and around 10% of this task has been pre funded. ANZ retained strong access to funding markets and issued benchmark transactions in all major currencies during the year.

The Group's funding profile has improved over the period as stable term funding issuance coupled with growth in deposits, including from APEA, has meant that short term wholesale funding now comprises 12% of the funding base. Offshore wholesale short term debt for the Australian and New Zealand geographies accounts for only 2% of total funding.

NON-CORE ITEMS

ANZ provides underlying profit figures which adjust statutory profit for non-core items. The Group believes that separating out non-core items helps with the analysis of the underlying business trends.

There was a net $524 million in non-core items during the year. The key adjustment of $480 million related to acquisition costs and valuation adjustments. This includes an adjustment of $181 million taken in the first half, required under newly revised accounting rules, to the carrying value of ANZ's existing 49% holding in the ING joint venture.

There was $231 million after tax of acquisition transaction and integration costs related to the ING, Landmark and RBS transactions.

OUTLOOK

Commenting on the outlook, Mr Smith said: "We continued to see momentum in our underlying business in the second half of the year which positions us well for a good start to 2011.

"The backdrop however is continuing uncertainty in the global environment, particularly in the US and European economies which are struggling to achieve 'escape velocity' and to address the major structural challenges they are facing. At the same time, higher funding costs are here to stay and there are regulatory uncertainties associated with new capital and liquidity requirements.

"With global economic growth likely to continue to be soft over the medium term, in all, this remains a challenging environment to navigate.

"In 2011, we expect Asia ex Japan to grow at around 8% compared to less than 2.5% in the US and Europe. Australia is expected to continue to perform well and in New Zealand the recovery is gathering momentum which also gives us upside and positions us well for 2011," Mr Smith said.

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[11] Excludes $2.4 billion hybrid issuance