Media Release

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ANZ Market Update
Four Months to 31 January 2010

In a market update today, ANZ reported an unaudited underlying profit after tax[1] for the four months to 31 January 2010 of approximately $1.6 billion around 16% above the prior corresponding period (PCP).

Growth in underlying profit after tax benefited from higher earnings in core business and lower provisions despite softer Global Markets income and adverse foreign exchange impact from a stronger Australian Dollar.

Key Points

- Income growth was around 8%. Cost growth has also been around 7% based on further investment in the business, particularly in Institutional and Asia.
- Group margins are up 14 bps (ex Markets) on the second half 2009 reflecting recovery of higher funding costs and more sustainable pricing for risk.
- Global Markets income is down 2% PCP. Although 2009 was an exceptional year, the Global Markets business is continuing to demonstrate strong underlying income growth against 2008 reflecting the strength of the regionally focussed model.
- Credit quality stabilised in the latter stages of 2009 and has since been showing signs of improvement. ANZ continues to monitor stress levels particularly in the middle market, along with some uncertainties around provisions on a small number of larger existing impaired loans.
- The provision charge for the full year is currently expected to be modestly higher than that implied by the first 4 months total of $0.67 billion. Financial year to date (YTD) provisions are down 35% on the Financial Year 2009 average run rate. While the trend in provisions and arrears is positive, ANZ believes that caution is required.
- Group lending growth was slightly up (flat FX adjusted), with growth in mortgages and credit cards offset by lower demand in corporate and Institutional and the continued repositioning of the institutional book.
- Customer deposits are up around 2.5% (3.5% FX adjusted) from the end of financial year 2009, driven by increases in Australia retail and strong performance in Asia Pacific institutional deposits, offset by a decline in New Zealand.

ANZ Chief Executive Officer Mike Smith said: “The outlook for the economies of Australia, New Zealand and Asia is significantly more positive than at the same point in 2009. The improved conditions are reflected in a more positive outlook for provisions.

“The economic cycle is unfolding much as we anticipated although the resilience of the economy in Australia now means that we are unlikely to see the stress that might originally have been expected in the consumer portfolio.

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[1] 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. Refer page 3

“There are however good reasons for caution about the outlook at this early stage of the year. We are already seeing a sovereign debt crisis in Europe and there is likely to be further volatility as the global financial crisis continues to work its way through the system.

“At the same time we’ve taken significant steps over the last two years to create and execute a clear strategy to build a super regional bank supported by stronger management and tighter controls.

“The Australian Retail and Commercial businesses are delivering good results; Asia Pacific Europe and Americas (APEA) is continuing to grow while a key focus in 2010 is integrating the business we acquired in Asia from RBS and after a rebuilding period Institutional is now delivering. The New Zealand economy is stabilising holding out the prospect of improved business performance over the next year or two,” Mr Smith said.

Business Performance

- The Australian business is performing well with good income growth coupled with an improving provision trend. Lending volumes in the mortgages and cards businesses have grown, while demand in commercial has been subdued. Deposit growth has been slower than for the same period 2009 reflecting much slower system growth coupled with increased competition.

- Institutional’s contribution to the Group continues to improve, boosted by a significantly better provision outcome versus last year (down almost 40% YTD) coupled with a further improvement in margin driven by the changing composition of the loan book through a combination of reduced demand reflecting the economic cycle, some repositioning of the book and a repayments focus by clients who accessed equity markets.

- APEA is continuing to grow however; a key focus in 2010 is consolidation of the RBS acquisition. As flagged at the Full Year 2009 results, the APEA profit in 2010 when expressed in Australian Dollars (AUD) will be impacted by a higher average AUD/USD exchange rate.

- The New Zealand economy is stabilising with positive signs emerging although conditions remain challenging. Provision trends for the New Zealand business are moderating.

Asset Quality

Although at an early stage, the outlook for credit provisions is positive with a significant improvement in the ratio of credit rating upgrades to downgrades across the book compared to the same time last year. A small number of existing large exposures are continuing to be monitored where additional provisioning may be required.

Consumer asset quality continues to hold up well, with 90 day mortgage delinquencies in the Australian business very slightly up on recent trends and on the end of Financial Year 2009; 90 day credit card delinquencies are in line with the performance seen at the end of Financial Year 2009. In New Zealand both the mortgage and credit card delinquencies are improving.
The total provision coverage ratio[2] has remained steady at 2.04%[3] while the Collective Provision coverage ratio has increased slightly to 1.36%.

[2] Total Provision Coverage Ratio – collective provision balance plus individual provision balance as a proportion of Credit Risk Weighted Assets.

[3] Both the total provision coverage ratio and collective provision coverage ratio are as at 31 January 2010

Balance sheet and APS 330

ANZ has already raised just over 60% ($15.2 billion) of its expected term funding requirement for 2010 at a weighted average tenor of 5 years. Funding costs remain high on a historical basis with the most significant increase coming from deposits.

The proforma Tier One ratio at 31 January 2010 was 10.4% with a core Tier One ratio of around 8.3%.

ANZ also today released its December quarter APS 330 disclosures. Risk Weighted Assets increased 0.8% ($1.9 billion) to $253.9 billion during the quarter largely driven by increases in Interest Rate Risk in the Banking Book over the period reflecting a reduction in embedded gains and an increase in global term yields. Credit Risk Weighted Assets were steady.

Other

Integration of the ING acquisition is on track with improved conditions for ING reflecting in the Australia and New Zealand region performance. ANZ will equity account earnings from ING for the period from 1 October to 30 November, consolidating the business from 1 December 2009.

The RBS acquisition integration is progressing on plan with Vietnam and the Philippines completed and remaining expected completion dates being - Hong Kong (March), Taiwan (April), Singapore (May) and Indonesia (June).

The Landmark acquisition announced in December 2009 is expected to complete at the beginning of March.

ANZ utilised the recent period of credit market recovery to exit some of its Credit Intermediation Trade credit default swap exposures. The notional exposure has subsequently reduced by around 25%. In addition to Economic hedging fair value gains/losses, ANZ will also report several significant items in the first half 2010 related to acquisitions including:

- a charge of around $200 million reflecting the fair value adjustment of ANZ’s 49% holding in the ING Joint Venture in Australia and New Zealand post acquisition;
- around $50 million related to INGA and INGNZ acquisition and integration costs; and
- around $70 million related to the RBS and Landmark acquisitions.

Outlook

“Globally, the new ‘normal’ is going to be characterised by lower economic growth compared to the decade prior to the financial crisis. In Australia, growth is expected to be around 2.7% in 2010 while in New Zealand we expect growth of 1.8% after the economy contracted in 2009.

Despite recent steps to temper growth in China, Asia is expected to remain the world’s best performing region with growth of 7.7% (excluding Japan) which confirms our confidence in the super regional strategy,” Mr Smith said.

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