Media Release

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ANZ 2011 Full Year Result
Result driven by solid underlying business performance; accelerating execution of the super regional strategy

ANZ today announced statutory profit of $5.36 billion and underlying profit of $5.65 billion for the financial year ended 30 September 2011 up 19% and 12% respectively on the previous year (YOY).

The proposed final dividend of 76 cents per share fully franked brings the total dividend for the year to $1.40 per share, 11% higher than for 2010.

Group Balance Sheet & Profit Key Points[1]

- Underlying profit increased 12% with income up 7% despite a 31% decline in second half Institutional Global Markets income. Profit before provisions (PBP) excluding Global Markets increased 8%.
- The Group net interest margin excluding Global Markets grew 7 bps with asset re-pricing and funding mix changes largely offset by increases in the cost of funding in particular for deposits.
- ANZ has continued to invest for growth, pacing investment to market conditions. This approach was reflected in modest cost growth in the second half (up 2%).
- Loans and advances increased 8% and customer deposits grew 16%.
- ANZ has steadily improved the diversity of its funding base, reducing reliance on offshore wholesale funding by $12 billion during the past three years. Customer funding now sits at 61%.
- The Group is strongly capitalised with Tier 1 capital at 10.9%.
- Return on Equity increased to 16%.
- Gross impaired assets reduced 15% with new impaired loans down 30%. The provision charge reduced 33% however total provision coverage[2] remains strong at 1.96% of credit risk weighted assets (CRWA) and the collective provision ratio at 1.28% of CRWA.

ANZ Chief Executive Officer Mike Smith said: “This result is in line with the key trends that we outlined at our August trading update.

“Our key customer franchises in Australia, New Zealand and Asia Pacific have produced solid performances; we have continued to make progress with our super regional strategy; and we have delivered value for our customers.

“We have a strong financial and capital position. Our focus on the growth markets of Asia and their connectivity with our key domestic franchises means we are in the right place, with the right strategy at the right time.

“In the second half though, the global economic situation saw trading conditions for our Markets business deteriorate significantly. This more difficult operating environment - characterised by ongoing economic volatility, cautious consumer and business behaviour, and higher funding and capital costs for banks globally - is likely to be with us for some time.

“With the changed game in global banking, our strategy and our financial strength will give us even more choices - choices which are open to very few banks in the world right now.

“This is providing another window for us to take advantage of growth opportunities, to expand the support we provide to customers, to build scale and create value for our shareholders.

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[1] All figures are on an underlying basis, refers to the ongoing operations of the Group, unless otherwise stated. Reported profit is adjusted to exclude non-cash and significant items to arrive at underlying profit.
[2] Total provision coverage ratio is the individual provision plus the collective provision as a proportion of credit risk weighted assets. Collective provision ratio is the CP as a proportion of CRWA.

"We will continue to focus on the four consistent themes of our super regional strategy: investing in our super regional footprint and capability to deliver differentiated revenue growth over the medium term; building our customer franchises in Australia and Asia while maintaining our strong position in New Zealand; leveraging our capital position for organic and strategic growth; and continuing to transform our productivity performance.

"We can't take this for granted though. We will continue to step up the pace in executing our strategy but we will also respond to the environment with a stronger emphasis on generating on-going efficiencies given the more constrained domestic conditions.

"The bottom line is that we see 2012 as a year of opportunity and I am confident we can continue delivering on our promises to shareholders, customers and the community," Mr Smith said.

Divisional and Business Overview[3]

- Australia Division increased profit 2% for the year. Pre-provision profit grew 5% with strong cost management delivering positive revenue/expense jaws for both the year and the second half. A stronger second half for Commercial saw profit for the year up 5%. Retail continues to perform well up 6%, while tough financial market conditions coupled with increased insurance costs arising from extreme weather events saw Wealth PAT down 16%.
- Asia Pacific Europe & America (APEA) Division USD profit increased 20% despite more challenging market conditions in the second half for the Global Markets business. PBP grew 17% with Retail improving its contribution and completing a well-managed transition of the businesses acquired from RBS. The Partnerships contribution rose 4%.
- New Zealand Division NZD profit increased 55% driven by good performances by all business lines, strong cost management and much lower provisions. Retail profit increased 44% YOY while Commercial was up 61% YOY but declined slightly HOH impacted by lower credit demand.
- Institutional profit increased 9% with strong results delivered by Transaction Banking (+10%) and Global Loans (+67%). Global Markets profit declined 28%. While Global Markets customer sales income grew to record levels, up 13%, volatile market conditions coupled with ANZ's decision to minimise risk positions in a highly unpredictable market, saw both Trading and Balance Sheet incomes decline significantly HOH.

PERFORMANCE BY DIVISION[4]

AUSTRALIA (all figures pro forma)

Strategic Focus and Progress

The Australia Division is focused on delivering a service-based customer proposition through more efficient business processes and platforms, and improved products and customer-facing technology including offerings like the "GoMoney" iPhone application which now represents almost a third of all online transactions.

- We have tailored customer segment propositions which include offers aligned with the Group's super regional strategy, such as Asia Pacific arrivals to Australia.
- All priority segments have improved customer satisfaction ratings.
- We are delivering growth through a better customer experience in Commercial driven by more efficient customer coverage and better leverage of our Asian footprint.
- We are improving our Wealth proposition and enabling greater presence for the Wealth Management and Insurance offerings within bank branches and online (e.g. EasyProtect, 50+ Life).
- The Division's balance sheet strategy is focused on continual funding base improvement - loan to deposit ratio has reduced from 180% to 156% in three years.

[3] All comparisons are YOY and pro forma unless otherwise stated.
[4] All comparisons use pro forma profit.

Divisional Results

- Profit grew 2% YOY (+8% HOH) with PBP growth of 5% YOY (+2% HOH) reflecting good cost control, particularly in the second half despite tougher revenue conditions.
- Lending increased 6% YOY (+3% HOH) with customer deposits up 14% YOY (1.5 x system) and 6% HOH. Retail lending rose 7% YOY (Mortgages up 7%, 1.2 x system[5])) and deposits increased 13%. Commercial lending grew 5% with Business Bank up 10% and Small Business Banking up ('SME') up 12%. Regional Commercial lending was flat YOY reflecting strong seasonal cash flows and subsequent loan pay down. Deposits increased 18% YOY with good growth across Business Bank, SME and Regional Commercial.
- Retail performed well once again with profit up 6% YOY and HOH and income up 6% YOY (+2% HOH) with 2% positive revenue/expense jaws YOY (neutral HOH).
- A significantly improved performance from the Commercial business with profit up 5% YOY (+22% HOH) reflecting good income growth +6% YOY (+4% HOH), tighter expense control in the second half (-2% HOH) and a 44% HOH reduction in provisions.
- Profit after tax in Wealth was 16% lower YOY (-15% HOH) reflecting volatile market conditions, negative investor sentiment due to volatile equity markets and increased insurance costs caused by catastrophic weather events coupled with higher levels of investment in strategic projects. Strong new business growth in the insurance business was somewhat offset by adverse general insurance claims and life lapse rate experience.
- Credit quality continues to be carefully managed. The 90-day delinquencies in the mortgage book were lower at the end of the second half than for the first half with 30 day mortgage delinquency numbers improving significantly, down 50 bps HOH.

ASIA PACIFIC EUROPE & AMERICA (all figures pro forma and USD)

Strategic Focus and Progress

The APEA division is building a leading Asia Pacific regional bank with connectivity as a key competitive differentiator. The primarily organic strategy seeks to deliver an integrated, sustainable franchise supporting the Group aspiration for APEA derived revenue to drive 25-30% of Group NPAT by 2017.

- After several years of rapid expansion across geographies, segments and products, APEA is now deepening its reach in key franchise markets and within target customer segments as well as building a more balanced asset portfolio between our Institutional, Commercial and Retail and Wealth segments. In Asia, 'active' customers in the Institutional and Commercial business grew 25% YOY.
- Connectivity is a key competitive differentiator for ANZ. Over and above revenue booked in APEA, 4% of Australia and New Zealand revenue was APEA derived.
- The Division continued to pace investment in the franchise with $50 million of investment spend in 2011. The Mumbai branch was opened in June and the Chongqing branch in March deepening access to our core strategic markets and customers. New investment for IT and operations infrastructure focused on major programs such as Transactive Asia (cash management), the core banking system and Global Markets sale distribution platforms. The extension of the ANZ brand campaign into Asia for the first time has generated strong awareness in our target markets and segments.
- The successful integration of the businesses acquired from RBS has supported the strong performance of Retail and Wealth. The repositioning of the businesses toward the affluent and emerging affluent segments is also now complete. The business has expanded its product capability, customer numbers and revenues (+18% YOY) through focused management, including strong control on costs, through the year.
- The total investment value of ANZ's share of our Asian Partnerships continues to grow with ANZ continuing to add value through the infusion of ANZ talent and skills.
- The Division has taken a rigorous and conservative approach to balance sheet management and has a loan to deposit ratio of 60%. The quality of our deposit base continues to improve and we are managing our assets to maintain flexibility during periods of market uncertainty.

[5] Mortgages relative to system number based on APRA Banks data and RBA data.

Divisional Results

- Underlying momentum was strong despite the volatile macro environment with profit up 20% YOY (-9% HOH) with solid growth YOY in Retail. The Institutional business grew profit 18% YOY but was significantly impacted in the second half (-25%) by challenging Global Markets trading conditions.
- Expenses grew 26% YOY (+9% HOH) as ANZ continued to build out the business. Greater scale and focused investment will drive greater cost-efficiency over time. Employee numbers (including contractors) have reduced by circa 250 from November last year as various enablement projects reached completion including the successful integration of the RBS businesses.
- Lending grew 44% YOY (+18% HOH) and customer deposits increased 40% YOY (+16% HOH) with growth strong in both Retail and Institutional. While volumes were strong margins were impacted in the second half by pricing competition.
- Institutional revenues increased 29% YOY but were down 2% HOH. Despite more challenging market conditions Global Markets sales income increased 41% YOY and trading income grew 10% YOY. Institutional expenses increased 38% YOY (+20% HOH) reflecting investment in people, products and systems.
- Retail and Wealth revenue grew 18% YOY with the Wealth contribution to Retail growing from 14% to 22%. Expenditure up 15% YOY (+6% HOH) with savings from the RBS transition being reinvested to grow revenue. The cost to income ratio for this business will continue to improve having declined from 81% to 79% during 2011.
- Partnerships profit grew 4% YOY (+18% HOH) with the largest contributions from AMMB and SRCB.
- Provision charges decreased 35% YOY. The APEA business has, over the past year, improved the general quality of the loan portfolio in particular within the old RBS loan book.

NEW ZEALAND (all figures in NZD pro forma)

Strategic Focus and Progress

The New Zealand business is focused on delivering a lower cost structure through a simplification and efficiency program which is progressing well.

- The management structure has been changed, costs have reduced and process and product simplification is in train as is the move to one IT system.
- The new regional management approach simplifies decision-making across all businesses and increased frontline time with customers is being delivered through re-engineered processes.
- Customer satisfaction and staff engagement scores have improved reflecting the careful management of the comprehensive change program.
- Core system testing is progressing with migration to a single platform in late 2012 expected to assist productivity gains in 2013.
- The product portfolio continues to be simplified and to date products in the Retail business have been reduced from 140 to under 100.
- The management of the New Zealand business reflects the muted revenue environment – the productivity focus aims to deliver the lowest cost to income ratio in the market, our margin focus will deliver profitable growth albeit we expect continued low levels of credit demand and revenue, and our risk settings have been adjusted to prudently manage the changed economic outlook.

Divisional Results

- Profit increased 55% YOY (flat HOH). PBP growth of 13% YOY (+2% HOH) reflecting muted HOH income trends and strong cost control (expenses down 2% YOY, flat HOH).

- Lending decreased 2% YOY and HOH largely reflecting customer deleveraging in both Retail and Commercial. Deposits grew 4% YOY with Commercial deposits up 6%.
- Retail profit increased 44% YOY (+14% HOH) driven by income growth of 4% YOY and HOH, cost management (flat YOY, -2% HOH) and much lower provisions YOY.
- Commercial profit increased 61% for the year but was slightly down in the second half (-1% HOH). Income grew 6% however a tougher second half operating environment saw income flat HOH. Expenses were well controlled (-3% YOY and HOH). Provisions declined 62% YOY.
- Wealth profit grew 38% YOY (+23% HOH) with strong income results (+15% YOY +17% HOH) coupled with good expense control (down 2% YOY).
- The provision charge decreased 58% YOY.

INSTITUTIONAL (all figures pro forma and FX adjusted)

Strategic Focus and Progress

The Institutional business is focused on executing to a clearly articulated strategy to build the world's best bank for customers driven by trade and capital flows in the Asia Pacific region, particularly in resources, agribusiness and infrastructure.

- The Divisional strategy aims to drive more diversified earnings by product, customer and geography, and growth in our client base. At the same time we are improving the risk profile of the business.
- Institutional is managed as a global business providing the opportunity to focus its efforts on geographies, products and capabilities that can deliver growth at any given point in time.
- The super regional focus is driving a changing geographic distribution of profit with APEA revenues up 30% to represent 26% of Institutional revenue compared to 20% in 2010. Trade finance revenue increased 29% YOY with 58% growth in Asia. Customer driven revenues have steadily increased, particularly in our key competency areas of resources, agribusiness and infrastructure where revenues grew 19%.
- 1,300 new relationships were acquired during the year with client numbers up 8% (Asia Pacific client base up 15% YOY).
- Investment in the Transactive cash management platform is delivering growth with payments and cash management revenue up 13% YOY. The system is in place in Australia and New Zealand with Hong Kong and Singapore to be implemented in November 2011 and the remaining nine key Asian markets online by the end of 2012.
- Revenues continue to grow in our priority products including trade, cash, foreign exchange and commodities. Investment in improved FX capability has been reflected in increased sales with FX revenues up 22% to represent just over half of total Global Markets sales revenues**.**
- Productivity initiatives, which are ongoing, kept the cost run rate in the mid single digits through FY11 and a flatter run rate continued into FY12. Customer service is being improved through centralising, standardising and automating back office processes.

Divisional Results

- Profit increased YOY up 9% however a significant second half fall in Trading and Balance Sheet Income in the Global Markets business drove a 15% HOH decline in PAT.
- Customer deposits grew 20% YOY with lending up 16% YOY. APEA lending, which is weighted toward trade lending, grew 23% and now represents 34% of the loan portfolio.
- Operating expense growth while 17% YOY was 5% HOH with 2011 cost growth in large part reflecting the full year impact of investment in people and in systems in 2010. Cost growth slowed in the second half to reflect the changed revenue environment and there are a series of productivity initiatives in place to maintain a lower cost run rate into FY12.
- Transaction Banking performed well with profit up 10% YOY (+22% HOH) and Global Loans profit increased 67% YOY (+11% HOH).

- Global Markets profit declined 28% YOY. While customer sales revenues grew to record levels, up 13% YOY, total Global Markets revenues declined 11% YOY. Volatile market conditions in the second half coupled with ANZ's decision to minimise risk positions in a highly unpredictable market, saw both Trading and Balance Sheet incomes decline significantly. Notwithstanding this trend, the Global Markets business was profitable in each quarter.
- There is an improving trend in impaired assets with net impaired assets down 27% YOY. The individual provision charge has declined materially (down 72% YOY) and weighted average credit scores have continued to improve.

BALANCE SHEET, CAPITAL AND FUNDING

ANZ remains strongly capitalised with a Tier 1 ratio as at 30 September 2011 of 10.9% and a Common Equity Tier 1 ratio of 8.5% (equating to 9.5% on a Basel III fully harmonised basis).

The Group has continued to strengthen its funding profile with an increasing weighting to customer funding which now represent 61% of total funding. Since 2008, customer deposit growth has exceeded loan growth by circa $49 billion, significantly reducing ANZ's reliance on wholesale debt.

The term debt issuance for FY11, including pre-funding, was $18 billion; in addition to which ANZ raised $1.34 billion in hybrid capital. A similar target will apply in FY12. This will include issuance under Australia's recently implemented covered bond legislation which will further diversify ANZ's debt investor base. Despite challenging global funding market conditions our New Zealand business, ANZ National, successfully executed its first covered bond transaction in October.

Reliance on offshore short-term wholesale debt remains low and ANZ's liquidity position has been further strengthened. Notably, the liquidity portfolio and supplementary assets exceed total offshore wholesale debt (short and long-term) placing ANZ in a strong position in the current volatile global environment.

CREDIT QUALITY

Credit quality has improved throughout the year. Total gross impaired assets declined 15% largely reflecting a 23% decrease in impaired loans (-11% HOH). New impaired loans and NPCCDs[6] decreased 32% (-3% HOH) while new impaired assets declined 21% (-24% HOH).

The total provision charge declined HOH as the first half charge included an amount for natural disasters which was partially released in the second half, along with higher recoveries in the Institutional business. The collective provision balance has remained stable HOH.

ANZ has continued to take a prudent approach to provisioning throughout the global financial crisis and remains appropriately provided for at this point of the economic cycle. The Group's coverage ratios reflect this, with the total provision coverage ratio at 1.96%[7] and the collective provision ratio 1.28%.

For media enquiries contact:

Paul Edwards
Group GM, Corporate Communications
Tel: +61-3-8654 9999 or +61-434-070101
Email: Paul.Edwards@anz.com

Stephen Ries
Senior Manager, Media Relations
Tel: +61-3-8654 3659 or +61-409-655551
Email: Stephen.Ries@anz.com

For investor and analyst enquiries contact:

Jill Craig
Group GM, Investor Relations
Tel: +61-3-8654 7749 or +61-412-047448
Email: Jill.Craig@anz.com

Ben Heath
Senior Manager, Investor Relations
Tel: +61-3-8654 7793 or +61-435-655033
Email: Ben.Heath@anz.com

[6] NPCCDs – non performing commitments, contingencies and derivatives.
[7] Total provision coverage is the individual provision plus the collective provision as a percentage of credit risk weighted assets (CRWA). Collective Provision ratio is the collective provisions as a percentage of CRWA.