Media Release

For Release: 29 April 2009

ANZ 2009 Interim Results

- Solid underlying performance momentum in challenging environment -
- Result impacted by provisions and derivatives charges -

Key points*

- Solid underlying business performance in a challenging environment.
  - Underlying profit* $1,908 million up 20% on the preceding half (up 4% on the prior comparable period ('pcp')) with stronger revenue growth offsetting higher provisions.
  - One-off items and losses on non-continuing businesses including credit intermediation trades reduced headline earnings resulting in 4% growth in statutory profit to $1,417 million compared to the preceding half (down 28% pcp).
  - One-off items included charges related to the One ANZ restructuring program and ING NZ frozen funds settlement and non-core income arising from the use of derivatives in economic hedges.
- Strong growth in deposits and underlying income.
  - Total customer deposits up 11% or $22 billion on the preceding half (up 16% pcp).
  - Underlying income up 11% on the preceding half (up 18% pcp) with a robust contribution from Global Markets.
  - Income growth was assisted by higher levels of recovery of funding cost increases for deposits and wholesale funding, particularly in Institutional.
- Underlying profit after tax for the Australian region grew 1% on the preceding half (excluding Institutional and Group Centre down 6%) with strong net interest income and deposit growth and a strong Markets result impacted by an increased credit impairment charge. Good revenue growth trends in both the Retail and the Commercial businesses.
- Strong progress being made with the Asia Pacific strategy with underlying profit after tax from the region double the preceding half, up 115% (14% excluding Institutional).
- Underlying profit after tax from the New Zealand region was up 24% on the preceding half (1% excluding the Institutional contribution). Good revenue performances from the Markets and Rural businesses, impacted by increased credit impairment charge.
- Institutional Division underlying profit was three times that of the preceding half at $668 million. Profit growth received a significant boost from the Markets business with revenue up 66%. Profits were however, significantly down on a statutory basis driven by non-continuing businesses and credit risk charges on derivatives.
- Underlying expense growth of 7% compared to the preceding half (up 11% pcp) driven by growth investments in Asia Pacific, Europe & America and Institutional with Australian costs up 3% and New Zealand down 2%.
- As anticipated, the total credit impairment charge of $1,435 million was modestly above the second half 2008 ($1,364 million), although well up pcp ($726 million).
  - Some Collective Provision for Economic Scenario and Concentration Risk has been utilised, however the Collective Provision remains well positioned at over 1% of credit risk weighted assets.
  - Gross impaired loan levels are at 1.03% of net advances. The total Provision charge is 0.80% of average net advances.

* Adjusted to reflect result for the ongoing business activities of the Group. Refer pages 13 to 14 of the ANZ Consolidated Financial Report, Dividend Announcement and Appendix 4D for the half year 31 March 2009.

Australia and New Zealand Banking Group Limited (ANZ) today announced an underlying profit for the first half of 2009 of $1,908 million up 20% on the preceding half (up 4% pcp).

Including net impacts from one-offs and non-continuing businesses, statutory profit grew 4% to $1,417 million compared to the preceding half (down 28% pcp).

As previously foreshadowed, the Interim Dividend of 46 cents per share fully franked is down 26% on the 2008 Interim Dividend.

ANZ Chief Executive Officer Mike Smith said: "In a deteriorating global banking environment this is a creditable result, particularly given the effect of the economic slowdown on provisions in Australia and New Zealand and the other remediation and change issues we are managing.

"In this environment, we have to step back and look through provisions and restructuring. What's clear is we have a diversified set of businesses that have continued to perform well, with strong revenue trends. On an underlying basis Australia delivered acceptable results, while Asia Pacific, Europe & America produced an outstanding performance doubling their profit. Our core Institutional businesses also performed well.

"At the same time, we have to take a realistic view of the impact of both the economic slowdown and financial system issues on the Bank. The action we took last year to significantly increase provision coverage was the right one and we have to deal pragmatically with the effect of continued volatility in global markets on the credit risk charge required for the credit intermediation trades.

"The expected slowdown in Australia and New Zealand is now playing out with the outlook for provisions in the second half likely to be somewhat more difficult than the first half and we expect that situation to continue through to early 2010.

"Given the environment, we are continuing to focus on four key drivers for the bank: maintaining a strong capital and liquidity position; anticipating the impacts of the economic environment by ensuring we have adequate provisions; systematically completing the remediation in parts of the business; and driving our strategic growth agenda to become a super regional bank in the Asia Pacific region.

"When I announced our strategic direction in December 2007 we set out a number of steps which together would deliver growth and out-performance and create a leading super regional bank. Despite the very difficult economic conditions we are making good progress in delivering against those aspirations while facing up to what have turned out to be significant legacy issues.

"Against the objectives we set for the first two years, we are on track with our scorecard.

"We are turning around Institutional, driving increased profit in Asia, and maintaining our high quality domestic franchises in Australia and New Zealand. Across the Group, we have introduced a more cohesive 'One ANZ' business model and established a strategic approach to cost management with revenue increasing faster than costs at an underlying level, while still selectively investing in growth.

"Globally, banks are operating in an extraordinarily difficult environment. However, these results demonstrate ANZ is making good progress with its strategy and is in a strong position to manage through the cycle, to continue to support our customers and has the capacity to take advantage of the opportunities now emerging," Mr Smith said.

DIVISIONAL PERFORMANCE*

Australia

Underlying profit for the Australian region grew 1% on the preceding half (down 9% pcp).

Looking at ANZ's largest business on a divisional basis, underlying profit before provisions grew 5% on the preceding half (up 12% pcp) reflecting strong income and deposit growth, expanded margins and good cost management. Underlying profit for this division reduced 6% on the preceding half (down 4% pcp) impacted by increased credit costs.

* ANZ manages its businesses on both a geographic (regional) and divisional basis. Australia and New Zealand divisions exclude Institutional and Corporate Centre functions. Institutional is managed on a global basis. Asia Pacific includes the Institutional business.

Australia, cont'd

Mortgages, Cards and Unsecured Lending, Rural and Agribusiness and Business Banking all saw solid increases in income. ING Australia's contribution was significantly affected by the weaker equities market.

In the Retail business profit grew 5% on the preceding half on a pre-provisions basis (up 14% pcp), while also growing both market share and customer satisfaction scores. The Commercial businesses continued to demonstrate resilience with underlying profitability up 15% on the preceding half on a pre-provisions basis although credit impairment has seen flat statutory earnings across the last three halves.

While broadly the retail portfolio remains in good shape, benefiting from strong underwriting standards, there has been an upward trend in delinquencies as expected in the current environment. Growth in the Australia Division's credit impairment charge to $445 million up 50% on the preceding period, has been driven both by volume growth and increased delinquencies in the Retail and Commercial businesses. We are working closely with our customers to support and assist them in dealing with changes in circumstances.

Asia Pacific, Europe & America

Underlying profit for the Asia Pacific, Europe & America region doubled compared to both the preceding half (up 115%) and pcp (up 115%).

On a divisional basis our investment in the Asia Pacific, Europe & America business delivered a 75% pre-provisions profit increase half on half (97% pcp), with income growth of 59% well ahead of cost growth at 41%. ANZ has repositioned its balance sheet in the region consistent with its super regional strategy, with deposits growing in line with lending and a deposit-to-loan ratio of 130%.

Strong organic growth based both on our ANZ-branded business and partnerships is a highlight of the result. We are benefiting from the investments made in the regional platform in particular in the Markets and Relationship Banking businesses. There are now 5,247 staff in the Asia Pacific, Europe & America Division up from 4,090 a year ago, with much of this increase being in front line staff.

We have grown our branch networks in Vietnam and Indonesia, increased our presence in China and expanded our regional hubs in Hong Kong and Singapore to provide the support services to drive our growth strategy.

Total credit impairment charges of $121 million reflected both increased volumes and changed global credit conditions. The total credit impairment charge was in line with the preceding half.

New Zealand Businesses (in NZD)

New Zealand regional profit performance, up 25% on a pre-provisions basis over the preceding half (up 16% pcp), was assisted by outperformance from the Institutional business which increased profit 67% over the preceding half (82% pcp).

On a divisional basis New Zealand delivered a mixed performance in tough economic conditions with underlying pre-provisions profit up 1% on the preceding half (down 6% pcp). The $116 million (post tax) charge for the ING NZ settlement adversely impacted the headline result.

The effect of the economic slowdown has been felt most significantly in the Retail business where profit fell 6% on the preceding half (down 17% pcp) on a pre-provision basis. Commercial achieved a reasonable result with profit up 5% on the preceding half (up 9% pcp) on a pre-provisions basis with the main contribution coming from the Rural business where ANZ has a very significant market share.

Provisioning and margin compression impacted both the retail and commercial portfolios with higher wholesale funding costs and deposit competition, as well as mortgage break costs seeing a decrease of 9 basis points in margins (24 basis points pcp). Costs are being well managed.

Credit provisions rose to $247 million compared to $209 million for the preceding half. Provisions for the full year 2009 are expected to be more than double those of 2008. Individual provision increases have been spread across the unsecured Retail portfolio and the Mortgage portfolio, although the number of mortgagee sales remains low. The Commercial sector has seen increased provisioning on a relatively small number of names.

Institutional

Underlying profit in Institutional grew substantially with income in Transaction Banking and Specialised Lending and Global Markets up strongly. Growth in Global Markets during the first four months of the year was exceptionally strong driven by market volatility however this has slowed to more normal levels since February.

The Institutional headline result was heavily impacted by both increased individual provision charges and a further increase in the credit risk charge required for the credit intermediation trades. The post tax impact of the credit risk charge on derivatives was $664 million compared to $213 million in the preceding period ($158 million pcp).

Volatility in global credit markets, downgrades to corporate ratings and declines in value of the Australian Dollar all impacted the charge during the half. This is a mark-to-market calculation and given the level of subordination in these trades, actual cash losses are expected to be substantially less. It is expected the charge will remain volatile.

Provisions for credit impairment decreased 18% to $626 million compared to the preceding period although up substantially on the prior corresponding period (up 72% from $365 million). Individual provisions occurred primarily in Australia including a large exposure to a securities firm along and a handful of exposures spread across the property, financial institutions and service industry sectors. Institutional recognised additional risks inherent in its portfolio which could not then be specifically identified in 2008, as these have now given rise to specific provisions we have released amounts from the collective provision of $265 million.

Net interest margins (excluding derivatives) grew 13 basis points in the half in response to widening credit spreads and repricing for risk. Revenue grew strongly up 34% (49% pcp) with cost growth of 16% (24% pcp), largely driven by investment in the key strategic growth areas of Asia, Global Markets and in frontline relationship staff. An 11% increase in staff numbers over the past 12 months has accounted for much of the division’s cost growth.

The remediation program in this Division is continuing. There are encouraging early signs emerging across many facets of the business including improved cross sell levels. Our refocus on our global client segment propositions has been rewarded in the form of revenue growth in areas of core client demand such as transaction banking, markets sales and deposits.

As foreshadowed at the February trading update, a $114 million after tax charge has been taken in relation to some businesses which are being exited as part of the restructure, including Private Equity and Alternative Assets.

CREDIT ENVIRONMENT

The underlying credit provision charge for the half of $1,435 million or 0.80% of average net advances rose only slightly compared to that for the preceding half.

ANZ advised in its February trading update that it expected increased credit provision levels in 2009 with the pattern of provisions expected to be more evenly distributed than last year. There was however, an uptick in provision levels in March, driven largely by stress being experienced by middle market customers. Accordingly ANZ now expects that full year provision levels will be somewhat higher than originally anticipated at the time guidance was provided in February.

ANZ has released $306 million from its Collective Provision allowance made last year for economic scenario and concentration risk however the Collective Provision continues to be strongly positioned at over 1% of credit risk weighted assets.

As expected, gross impaired loans are significantly higher than in 2008 at $3,691 million or 1.03% of net advances. This trend is being experienced broadly across the business but predominantly in Institutional. The increase in gross impaired loans reflects tighter liquidity, higher leverage and earnings pressure in the current environment being reflected in changes to credit gradings.

CAPITAL AND FUNDING

ANZ's capital planning has reflected a view that the global economic slowdown would be significant and protracted in many parts of the world. From the end of 2007, the Group moved to boost provisioning, liquidity and Tier 1 capital to levels appropriate for the new economic and market circumstances.

The Group's Tier 1 capital ratio was 8.2% at the end of March 2009 compared to 6.9% a year ago. This is substantially above the regulatory minimum and in excess of ANZ's internal target range of 7.5% to 8.0% and compares favourably against both local and international peers.

ANZ has continued its prudent approach to capital planning, reducing the half year dividend by 26%. As discussed in the February 2009 trading update, if the final dividend were to be reduced by a similar percentage, this would generate additional capital of around $0.5 billion for the year.

Deposit growth during the half has been strong, now comprising 54% of total funding. This has reduced ANZ's reliance on short term wholesale funding. Year to date the Group has raised 87% of its 2009 term funding requirement. The prime liquidity portfolio has increased to $60 billion which represents cover for over 12 months of total offshore funding maturities.

OUTLOOK

Mr Smith added: "It is now very clear that the global slowdown will be significant and protracted in many parts of the world. In Australia and New Zealand this is playing out as we expected and we anticipate the situation to continue in the second half of this year and early 2010.

"Banks are also managing the added complexity of the volatility in financial markets which is continuing to impact the availability and cost of funding.

"The Australian and New Zealand banking system is strong which provides both countries with a financial foundation that is not the position for many OECD nations. In Australia, the actions taken by the Commonwealth Government and the Reserve Bank through fiscal and monetary stimulus are helping to mitigate the impact of the slowdown. Our starting position and this action give us reason for some optimism that Australia's economic slow-down will not be as deep or as long as many other OECD economies.

"At the same time it is now very obvious that Asia will remain an engine for global growth albeit at lower levels than the very high rates of the previous decades.

"ANZ remains well positioned. Our traditional core business in Australia continues to generate good results while our Asia Pacific growth strategy is now delivering materially to our bottom line.

"We remain focused on servicing our customers, engaging closely with the communities we serve and providing sustainable long term growth for our shareholders," Mr Smith said.

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Reconciliation of underlying business performance

	Half Year Mar 2009					Half Year Sep 2008					Growth Rate				
	Revenue	Expenses	PBP	Credit	NPAT	Revenue	Expenses	PBP	Credit	NPAT	Revenue	Expenses	PBP	Credit	NPAT
Underlying business performance	**7,040**	**2,944**	**4,096**	**1,435**	**1,908**	**6,315**	**2,751**	**3,564**	**1,364**	**1,589**	**11%**	**7%**	**15%**	**5%**	**20%**
One ANZ restructuring costs	-	113	(113)	-	(79)	-	-	-	-	-					
ANZ share of ING New Zealand investor settlement	(138)	-	(138)	-	(97)	-	-	-	-	-					
Credit risk on impaired derivatives	(92)	-	(92)	(92)	-	(111)	-	(111)	(111)	-					
Structured transaction	-	-	-	-	-	(117)	-	(117)	-	-					
Non-continuing businesses (including Credit intermediation trades)	(926)	9	(935)	30	(778)	(295)	26	(321)	14	(234)					
Gains on Visa shares	-		-	-	-	-	-	-	-	-					
Organisational transformation costs	-	24	(24)	-	(17)	-	218	(218)	-	(152)					
New Zealand tax rate change	-	-	-	-	-	-	-	-	-	(7)					
Economic hedging - fair value gains/losses	656	-	656	-	461	252	-	252	-	176					
Revenue and investment hedges - mark-to-market	27	-	27	-	19	(23)	-	(23)	-	(16)					
Profit attributable to shareholders of the Company	**6,567**	**3,090**	**3,477**	**1,373**	**1,417**	**6,021**	**2,995**	**3,026**	**1,267**	**1,356**	**9%**	**3%**	**15%**	**8%**	**4%**

	Half Year Mar 2008					Growth Rate				
	Revenue	Expenses	PBP	Credit	NPAT	Revenue	Expenses	PBP	Credit	NPAT
Underlying business performance	**5,980**	**2,655**	**3,325**	**726**	**1,837**	**18%**	**11%**	**23%**	**98%**	**4%**
One ANZ restructuring costs	-	-	-	-	-					
ANZ share of ING New Zealand investor settlement	-	-	-	-	-					
Credit risk on impaired derivatives	(45)	-	(45)	(45)	-					
Structured transaction	(10)	-	(10)	-	-					
Non-continuing businesses (including Credit intermediation trades)	(222)	12	(234)	-	(163)					
Gains on Visa shares	353	-	353	-	248					
Impairment of intangible - Origin Australia	-	34	(34)	-	(24)					
New Zealand tax rate change	-	-	-	-	8					
Economic hedging - fair value gains/losses	96	-	96	-	67					
Revenue and investment hedges - mark-to-market	(14)	-	(14)	-	(10)					
Profit attributable to shareholders of the Company	**6,138**	**2,701**	**3,437**	**681**	**1,963**	**7%**	**14%**	**1%**	**102%**	**-28%**