Media Release

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Corporate Communications
100 Queen Street
Melbourne Vic 3000
www.anz.com

ANZ Trading Update

In a shareholder update covering 10 months of trading[1], ANZ today reported a solid underlying business performance despite ongoing challenges associated with the global economic environment.

Key Points

- Unaudited Underlying Profit after tax is tracking slightly above comparable period in 2008, although lower on an Earnings per Share basis due to additional shares issued during the year[2], while cash profit is tracking broadly in line with 2008[3].
- Strong revenue trends have continued driven largely by the performance of the Institutional Division particularly Global Markets and Asia.
- Lending growth in the Retail and Commercial segments has been offset by a reduction in Institutional.
- Positive revenue/expense jaws are being maintained, notwithstanding continued investment in the super regional strategy and Institutional remediation.
- Provision growth has moderated for all divisions and geographies other than New Zealand. The total provision charge is tracking slightly better than expectations; however the FY09 charge remains difficult to predict and we reiterate the guidance provided in May.
- Given reductions in global credit spreads, the Credit Risk on Derivatives post-tax charge related to credit intermediation trades of $664 million in the first half of 2009 has substantially reversed and for the 10 months is around $125 million. This charge continues to be volatile. The impact of the improved credit intermediation trades position is substantially neutralised in the statutory earnings by a reversal of previously reported mark to market gains on economic hedging.
- Impaired loans/facilities and derivatives were up 7%, for the June quarter, which is a slower rate of increase than that experienced in each of the previous two quarters.
- Group Net Interest Margin (NIM) trends remain positive primarily reflecting improved asset margins and repricing for risk. New Zealand margins will decline year on year.
- Proforma Tier 1 capital ratio of 10.2%[4] at June. FY09 funding completed ahead of schedule.

ANZ Chief Executive Officer Mike Smith said: "In Australia and in Asia, the economies are showing early positive signs of recovery and although the cycle is still playing out, there are reasons for cautious optimism. In New Zealand, economic conditions remain difficult with the economic recovery likely to be much slower.

[1] Figures and comparisons given refer to 10 months ended July unless otherwise stated. [2] Weighted average shares on issue during 2009 est 2,222m [3] Definition of underlying profit and cash profit as per first half results release material. [4] Proforma Tier 1 ratio = Reported 30 June 2009 Tier 1 ratio as per APS 330 disclosure adjusted for SPP and RBS Asia acquisition.

“So far, the economic cycle is unfolding much as we anticipated. We have consistently tried to recognise the trends early in the economic and the global financial situation and so we have been able to position ANZ for this environment. Given that, there are no real surprises in this trading update and the solid business performance we are delivering is very much as we expected.

“ANZ’s underlying business is continuing to perform well. The Australian Retail and Commercial businesses are delivering solid results, Asia Pacific will deliver an outstanding performance for the year, and Institutional is making good progress with its turnaround. The New Zealand business is coping reasonably with the difficult economic conditions.

”Importantly, we’re also delivering on our super regional strategy. This includes using our financial strength to take advantage of any opportunities that may arise as a result of the global economic conditions. We recently announced an agreement to acquire selected assets from RBS in Asia,” Mr Smith said.

Group Performance Overview

Strong income trends have continued driven largely by the performance of the Institutional Division, particularly Global Markets, where revenue for FY09 is likely to be around double that of the first half (1H09 $1,065 million). Global Markets revenue was expected to normalise during the second half however market dislocation and volatility particularly in interest rates has continued.

Group NIM trends remain positive primarily reflecting improved pricing for risk particularly in Commercial and Institutional. New Zealand margins however will decline year on year.

Net loans and advances for the Group are up 3% on the prior comparable period (PCP), with a 9% growth in Retail and 3% in Commercial offset by a 7% reduction in Institutional. The reduction in Institutional lending has been driven by reduced demand commensurate with the economic conditions, some repositioning of the loan book and a repayments focus by clients accessing the equity markets.

Costs in the Australia and New Zealand businesses are being well controlled with growth in line with the first half. Institutional will deliver positive jaws driven by significant revenue growth coupled with good cost management notwithstanding continued investment in talent and improved infrastructure. Asia Pacific revenue growth is being reinvested in the region. ANZ has also increased spending on transforming operations and enablement platforms during the second half.

Regional Performance

The Australian business underlying performance has improved half on half, driven by a stronger Retail performance and some improvement in the Commercial business. Margins have improved in both Retail and Commercial largely through repricing for risk. Lending volume growth has been largely driven by mortgages (up ˜11% PCP). Institutional business revenue is up strongly driven by Global Markets, deposit growth and repricing.

The Asia Pacific Europe & Americas Division continues to perform extremely well with profit expected to be up more than 60% year on year. Around 70% of the expected FY09 profit was delivered during 1H09. The acquisition of selected RBS Asia assets will provide a broader base from which the business can grow, including in Retail and Wealth Management.

The banking environment in New Zealand remains difficult. The second half result will be impacted by large increases in provisions coupled with interest margin contraction. Net interest margins have contracted due to intense deposit competition, higher wholesale funding costs, and adverse pre-payments driven by interest rate falls.

Credit Environment

The total credit impairment charge[1] is trending slightly better than expectations but remains difficult to forecast and we reiterate the previous guidance provided in May that provisions are expected to be around 20% higher than the first half (1H09 $1.435 billion). The total provision coverage ratio remains strong at 1.73%[2] at end July (1.58% 31 March 2009).

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[1] Total of collective plus individual provisions, guidance referred to underlying provision number
[2] Ratio = collective and individual provision balances as a percentage of Credit Risk Weighted Assets

The increase in second half provisions for the Group has been driven entirely by the New Zealand business, with the FY09 provision charge there expected to approach three times that of FY08 (FY08 NZ$302 million). Over 40% of the total YTD New Zealand provisions are Commercial and Institutional related, of which one single name trade finance exposure accounts for 8%, with Retail 44% and Rural 8%. The total 2009 after tax income charge for ANZ's share of the ING NZ settlement is now expected to be NZ$147 million.

ANZ has taken a proactive approach to credit stress identification throughout the global financial crisis, having put in place procedures to identify and handle issues early along with, increasing provisions and raising additional Tier 1 capital to strengthen the balance sheet. The Group is carefully and pro-actively managing the watch list and there have been some early signs to support a reduction in the size of the list. With the exception of New Zealand, we are seeing less migration to our high risk (not impaired) credit gradings, however, the environment remains challenging.

The increase in impaired loans/facilities and derivatives, as shown in the ANZ APS330 disclosure for the June quarter 2009, was 7% compared to 18% in the March quarter and 31% in the December quarter.

Consumer 60 day delinquency trends in mortgage and credit cards in Australia, while already well controlled, have improved slightly during the period. Australian card delinquencies are being well contained.

Credit Risk on Derivatives

Given reductions in global credit spreads, the Credit Risk on Derivatives post-tax charge related to Credit Intermediation trades of $664 million in the first half of 2009 has substantially reversed and for the 10 months is around $125 million. The impact of this improved credit intermediation trades position is substantially neutralised in headline earnings by a reversal of previously reported mark to market gains on structural hedging derivatives.

Capital and Funding

At 10.2% the Group's proforma Tier 1 capital ratio as at the end of June 2009 sits substantially above ANZ's internal target range. In addition to raising $4.7 billion of capital since the end of May, Tier 1 levels have been assisted by a $18.5 billion decrease in Risk Weighted Assets during the June quarter due to foreign exchange rate impacts, some shift in portfolio composition and reduced institutional lending.

ANZ completed its FY09 term funding requirement well ahead of schedule, having issued $23 billion of term debt with an average term of 3.6 years. The prime liquidity portfolio is currently around $60 billion and sufficient to cover over a year of offshore wholesale debt maturities.

While new term debt issuance costs have moderated in recent months, they remain well above pre-crisis levels. Consequently, as pre-crisis term wholesale debt matures and is replaced with new issuance, the net funding cost of the portfolio continues to rise.

Conference Call

A conference call for analysts and investors will be held at 9.30am today with CEO, Mike Smith and CFO, Peter Marriott. This call can be accessed live at http://www.anz.com/aus/shares/presentations/default.asp; an archived copy of the call will also be available on the website.

For media inquiries contact:

Paul Edwards
Group GM Corporate Communications
Tel: 03-9273 6955
Email: paul.edwards@anz.com

For investor inquiries contact:

Jill Craig
Group GM Investor Relations
Tel: 03-9273 4185 or 0434-736 879
Email: jill.craig@anz.com