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Media Release

ANZ posts record first half profit

(5 May 2011 – Australia) Australia and New Zealand Banking Group (ANZ) has announced a record first half profit of A$2.66 billion, up 38 percent from the same time last year.

First half underlying profit was up 23 percent, to A$2.8 billion which met market expectations. ANZ chief executive Mike Smith said the result was "solid" and in line with what the bank had expected.

The bank said it experience lending growth of 3 percent in the first half, which was largely driven by increased volume in Mortgages, Small Business and the Business Bank.

Commercial deposits grew 10 percent for the bank.

Recently released data from business banking research firm East & Partners shows that the ratio of business deposits the bank receives to business lending issued rose from 0.88 to 1.19.

This indicates that the bank is lending to businesses around 20 percent less than it receives in commercial deposits.

"ANZ's deposit gathering performance in the business markets has been strong over the past three years, which is playing through to its funding costs – a trend broadly in line with the sector a whole. Although expensive as a result of a continuing highly competitive rates environment, this is reducing reliance on more expensive offshore funding markets," Paul Dowling, Principal Analyst at East & Partners.

In a conference after the announcement Mr Smith said the bank was well positioned for the future but warned the Australian economy was undergoing major change and "structural shifts" which will have major ramifications.

"The bigger picture is that we are starting to see the effects of a major structural change that's underway as the Australian economy continues the shift toward being much more based around hard and soft commodities."

"I don't think the magnitude of this shift is fully understood − nor its implications for industries like manufacturing, tourism and retail where business models are clearly going to have to adapt to a lower margin, lower growth environment."

East & Partners Pty Ltd

Level 39, 2 Park St Sydney NSW 2000 Australia
p: +61 2 9004 7848 **f:** +61 2 9004 7070
www.east.com.au
ABN: 76 072 374 406

He outlined inflationary pressures, especially the recent food price spikes and mentioned that while resources were charging ahead, consumers and householders were "doing it tougher".

"We are still seeing high levels of receiverships and consumer confidence is low, but unemployment is still falling and that's because jobs are being picked up by growth driven by the resources sector," he said.

He said the result for ANZ's Asia-Pacific, Europe and Americas division was a "standout in US dollar terms", but the result was dragged down two percent by the appreciating Australian dollar.

Shares in ANZ were down 1.4 percent to A$23.95 by late morning in a weaker stock market overall. The benchmark S&P/ASX 200 Index was 1 percent lower.

The ANZ board declared an A64c interim dividend, fully franked, up 23 percent on the same time last year.

The underlying earnings per share rose 20 percent in the half and return on equity grew by 30 basis points to 16.7 percent.

Mr Smith said credit growth was likely to slow and that lending growth probably wouldn't recover to the pre-GFC levels.

"ANZ's interim results reconfirm the key challenges facing the Bank's operating outlook – funding costs and margin management, subdued lending demand and regulatory intervention impacting its capital management", added Mr Dowling

For more information please contact:

Kimberley Burgess
Client Communications
East & Partners
t: 02 9004 7848
m: 0405 250 796
e: kimberley.b@east.com.au