



# Media Release

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## ANZ confirms 2004 earnings outlook

ANZ today issued a shareholder update confirming it is on track to achieve earnings growth for full year 2004 in line with market expectations of around 9% cash earnings per share growth.\* This excludes expenditure on the integration of The National Bank of New Zealand, which is expected to be concentrated in 2005 rather than this year.

ANZ Chief Executive Officer Mr John McFarlane said: "ANZ is performing well despite interchange reform, rising interest rates and the strengthening Australian dollar. Our progress demonstrates the quality of our underlying businesses, a strong performance culture and the strength of the Australian and New Zealand economies.

"We are very pleased with our acquisition of The National Bank of New Zealand which is transformational and accretive for the Group. Customer attrition has been negligible and there have been no material financial or risk surprises.

"The acquisition creates the leading banking franchise in all segments in New Zealand, which is an attractive low risk market, and improves the sustainability of the Group's business mix. It enriches our capabilities in retail banking, rural banking and small to medium business, which have not been areas of traditional strength in the Group. Integration planning is well advanced. As we anticipated, the regulatory and technology aspects are complex. We continue to expect cost synergies from integration however our main focus continues to be customer retention, franchise development and growth. Our ANZ branded business in New Zealand continues to improve.

"Credit cards have performed above expectations despite the impact of Reserve Bank of Australia reforms. We are seeing progress in Personal Banking in Australia where recent Roy Morgan research showed ANZ ahead of the other major banks in customer satisfaction but still below some of the regional banks and our own expectations. The ING joint venture has continued to show improved performance. Strong demand in Mortgages however has been offset by the impact of rising interest rates on mortgage margins. Corporate and Small Business are performing well while in Institutional Financial Services overall performance has been flat, driven primarily by the continued reduction of non-core lending which has reduced higher risk revenue streams.

"We have moved to increase costs as we invest in the customer franchise while maintaining our cost-income ratio at or below 45%.

"In 1998 we began a journey to improve the quality of earnings by reducing risk, particularly by withdrawing from high-risk international markets, and reducing credit concentrations and market risk. As a result, the expected credit loss rate has been reduced and ANZ now has above average trading earnings, yet with the lowest traded value at risk of the major banks," Mr McFarlane said.

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\* Excludes goodwill, net gains arising from significant transactions relating to hybrid capital and adjusting for the bonus element of the rights issue.

## **Business Segment Update**

**Consumer Finance.** Our credit card business is performing well. Changes to our loyalty programs made in early November following the reforms introduced by the Reserve Bank were well managed and customer reaction has been more positive than we expected. As planned, the changes have moderated transaction use on loyalty cards and this, assisted by ANZ's partnership with Diners Club Australia, is significantly lowering overall loyalty expenses.

**Corporate and Small-Medium Business.** The Corporate and SME banking businesses are performing strongly. The middle market and SME sector in Australia remains relatively buoyant and ANZ's lending volumes at the end of January 2004 were up by more than 20% on January 2003. We are continuing to grow market share in the SME segment as we invest in growth initiatives such as an increased geographic footprint, broker channels and new services such as specialist franchisee banking.

**Institutional Financial Services.** The performance of this business has been relatively flat. In the half to date this has been driven primarily by the continued de-risking of the non-core lending portfolio, leading to a reduction in higher risk revenue streams, and the impact of the stronger Australian dollar. Transaction Services is expected to improve from a subdued second half in 2003. While Institutional Banking is starting to see improved lending opportunities, the benefits are more likely to be seen in the second half.

**Personal Banking Australia.** The business is performing well assisted by the rising interest rate environment, good deposit growth, strong mortgage sales and some increase in customer numbers. Deposit products are continuing to perform well with volumes at the end of January 2004 up 10% on January 2003.

**Mortgages.** As expected in a rising interest rate environment profit will be down as very strong volume growth has been more than offset by margin pressure. Volumes have remained strong with January 2004 FUM up 20% on January 2003. More recently there has been a modest slowing in approvals, although this is partly seasonal.

**New Zealand.** Our New Zealand businesses are performing in line with expectations - earnings are up materially following the acquisition of The National Bank of New Zealand. We have been encouraged by the initial staff and customer reaction to the acquisition. NBNZ has not experienced any adverse trend in customer attrition to date while ANZ New Zealand is performing strongly following a successful brand advertising campaign. Integration planning is well advanced. ANZ will provide an update to the market on its New Zealand businesses on 11 March 2004.

**Asset Finance.** As expected, the performance of Asset Finance is relatively flat. Car sales are beginning to slow although the business is continuing to benefit from its new business model and market leadership position.

**Wealth Management.** ING Australia, ANZ's wealth management joint venture, continues to improve its performance and the momentum in this business is encouraging. Retail FUM grew by 15.8% during the year to December 2003 compared with an industry average growth rate of 13.5% based on Assirt data.

**Credit Quality.** Credit quality continues to improve and we are anticipating expected loss rates and specific provision levels to be lower. Domestic credit quality continues to be sound, reflecting the strength of the Australian and New Zealand economies. Arrears levels in our consumer businesses remain at very low levels. Specific provisions from the offshore investment banking portfolio have been low in the half to date. As foreshadowed at our 2003 full-year results, the de-risking in the offshore portfolio and stabilisation of credit conditions may lead to a reduction in the additional economic loss provision charge which has been recognised for the past two years in response to the unexpected level of offshore defaults.

ANZ will report its Interim Results for the period ended 31 March 2004 in Sydney on 27 April 2004.

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