Media Release

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ANZ confirms 2005 earnings outlook

ANZ remains confident it will meet current market expectations in 2005, the bank said in a shareholder update today on the basis of 10 months performance and plans for the final two months.

ANZ Chief Executive Officer Mr John McFarlane said: “This has been a year characterised by strong performance in Australia, increased investment in future growth opportunities, a flat performance in New Zealand due to a focus on completing integration and defending market share, continued de-risking of the institutional loan portfolio with the sale of the London-based project finance business, and generally tougher market conditions.”

Personal has continued to deliver standout performance, with strong earnings growth and market share gains as a result of investments made since 2001. ANZ’s proprietary channels drove mortgage growth of 15% for the 12 months to July, which has seen the proportion of loans sourced through these channels rise to 63% in July. Credit cards continue to perform well with outstandings up 18%. Despite increased competition in retail deposits, ANZ is the only major bank to have gained deposit share with growth of 10% over the last 12 months.

Institutional has been solid. Lending is 7% up on 12 months ago, with the rate of growth in the second half moderating in line with expectations. Declining credit spreads continue to impact margins, offset by improved non-interest income in the second half. Trade and Transaction Services is performing strongly, reflecting significant intra-regional trade growth in Asia. Corporate and Structured Financing and Markets are performing well, following favourable conditions in Australia and the Pacific. Performance in New Zealand has been subdued, arising from erosion of margins, together with an expected decline in ANZ’s high collective institutional market share following integration and the roll-off of conduit scheme structured finance earnings.

Corporate has also shown solid performance. Lending and deposits are up 11% over the last 12 months and increased contribution from “Wall Street to Main Street” initiatives has been partly offset by moderating lending growth. Future investment spending has continued at a high level.

New Zealand is likely to be flat overall. The main focus has been on integration and the relocation and firewalling of systems to meet regulatory requirements, all of which are on track. Lending and deposit growth are up 8% and 9% respectively, but are offset by severe margin attrition as a result of mortgage price competition, that is unlikely to result in any sustainable shift in market share, but is causing a decline in overall industry profitability.

The NBNZ businesses acquired in 2003 are performing particularly well, and the National brand has the highest customer satisfaction rating. ANZ retail earnings declined, following increased branch and brand investment, together with a decision to reduce fee levels, in order to stabilise customer attrition. As a result of these actions, ANZ retail customer satisfaction is at a seven-year high. ANZ National Bank Limited will release its June Quarter General Disclosure Statement on 31 August 2005.

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Asia Pacific continues to see good levels of underlying growth although full year earnings will show a decline as a result of continued investment in the region and unusually high earnings for PT Panin Bank last year. The Pacific region is showing particularly strong performance, with lending volumes up 12% to end of July. The strategic expansion in Asia is taking shape. ANZ Royal Bank in Cambodia opened its first branches in Phnom Penh on 5 August, and the shareholder agreement with Sacombank in Vietnam was officially signed on 8 August. Discussions elsewhere in Asia are advancing well.

Esanda's track record of consistent earnings growth is expected to continue. ING Australia is performing well, with increased insurance income and capital investment earnings offsetting higher tax expense associated with the end of transitional tax relief (~$5m impact in second half 2005 and a further ~$15m in 2006).

Credit quality is very healthy and probably at its most favourable point in the cycle. Specific provisions will once again be well below our Economic Loss Provision (ELP) Charge, with the ELP rate at a similar level to the first half. In Australia, consumer arrears rates are relatively steady compared to March 2005, however they continue to trend down in New Zealand. Arrears in SME have increased modestly.

The full year decline in net interest margin is likely to be broadly in line with expectations, with the competition impact in the second half similar to that seen in the first half. Continued margin contraction in NZ has been the key driver.

Commenting on ANZ's future priorities Mr McFarlane said:

"We have increased returns, reduced risk, advanced our franchise strategically and created a more dynamic culture. We are now moving to the next stage of ANZ's transformation by using our earnings strength to invest in future revenue growth and to seek efficiency gains in our existing cost base to help fund investment.

"The last few years have seen a focus on absorbing external governance and regulatory changes, including Sarbanes-Oxley, Basel 2, IFRS, FSRA, RBNZ requirements. With these increasingly behind us, we are shifting our focus externally towards growth and momentum."

To this end, a new set of medium-term priorities was announced internally to guide our priorities over the coming years:

Growing - increasing revenue growth to 7-9% per annum
External - reorienting priorities and resources to higher growth markets and customers
Lean, Agile, Sharp:

- Achieve a low-40s cost-income ratio, without detracting from revenue growth.
- Decisive, with a radical improvement in agility and speed to market
- Increase momentum by leveraging ANZ's unique performance culture and values.

"Although the themes are new, the reorientation began some time ago. Over the past 18 months, we grew employee numbers by around 3,000, with the majority in our frontline, serving customers and bringing a human face to banking. While outcomes associated with these investments take time, the progress we have already made in the Personal Division, an area that was not our traditional strength, demonstrates what ANZ can achieve with focus," Mr McFarlane added.

ANZ will hold a conference call for investors at 11.00am today, during which John McFarlane and Peter Marriott, Chief Financial Officer, will discuss this shareholder update and answer questions.

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