



Media Release

Corporate Communications

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ANZ full year outlook on track

Following a good first 10 months of the financial year, and a particularly strong first half, ANZ expects a double-digit full year cash EPS¹ result broadly in line with market expectations, the bank said in a shareholder update today.

Revenue growth is exceeding expectations and likely to be towards the upper end of our 7%-9% target range². This has allowed us to accelerate a number of our investment initiatives, which will drive cost growth to the top end of our 5%-7% target range².

Volumes have continued at reasonably buoyant levels and have been tracking at low double-digit growth rates. Margin decline is less than in prior periods, aided by gains on the New Zealand Dollar (NZD) revenue hedge and more Markets income being booked as interest income. The impact on margins from competition has been more modest in the second half. Credit provisions are tracking below last year's levels, and are probably reaching the limits of the buoyant conditions.

ANZ's business portfolio is performing well. The Personal Division performance continues to be outstanding, following several years of substantial expansion and investment. Institutional is performing credibly. New Zealand is tracking ahead of the sector average and we are experiencing good growth in Asia-Pacific.

Earnings in 2006 will not be impacted by the 10% decline in the NZD as a result of hedges previously taken out. However under IFRS, the accounting treatment of these hedges will change from 2007, with future year's earnings translated at market rates. This will impact New Zealand earnings in 2007 should rates remain at current levels or deteriorate. The current NZD/AUD rate of \$1.19, if sustained, would reduce 2007 group earnings per share by around 2%. This issue has been well flagged, and is widely understood in the market. Realised and unrealised gains on revenue hedges as at 1 October 2006 will be taken directly to retained earnings.

While we remain vigilant to potential risks, we are yet to see any material credit issues emerging. As expected, there is some evidence that higher petrol prices are beginning to have an impact, particularly in Business/Corporate Banking and Esanda. Credit losses on the consumer portfolio have risen in line with expectations following a planned shift in the nature of the unsecured portfolio, however this has been more than compensated by the associated revenue benefit. Actual consumer arrears remain at very low levels in both Australia and New Zealand.

ANZ Chief Executive Officer Mr John McFarlane said: "When we announced, against the trend, that we would selectively invest in our business to accelerate revenue growth and create a real difference that others would find hard to replicate, it was seen by some as stretching.

¹ Adjusted for AIFRS 2005 adjustments and non-core items (including significant items, ANZ National Bank incremental integration costs and AIFRS mark to market of certain hedge gains/losses

² Adjusting for the translation impact of a lower NZD

"What is now becoming clear is that we are seeing the benefits of this decision, and the rate of transformation is accelerating. We believe this has led the way in Australian banking, including opening our call centres 24 hours, 7 days a week; expanding our ATM network in partnership with Woolworths, extending branch opening hours and being first to market with new products. We are now replicating elements of this approach in New Zealand.

"In Institutional we are also seeing the benefits of our Wall Street to Main Street strategy, and the rollout of innovative financial solutions, which over time, will make us less reliant on lending revenues. We continue to make material progress with our partnership agenda in Asia.

"I can honestly say that we are fast becoming a very different bank. Our performance underpins the next stage of our transformation that I am personally very excited to lead," Mr McFarlane said.

Divisional Performance

Personal is performing strongly across each business, with good volume growth and stable margins. Mortgages grew balances by 12% over the past 12 months, with strong retail growth partly offset by a declining wholesale book. Consumer Finance continues to be one of our best performing businesses, helped in part by growth in outstandings during the past 12 months of 19%.

Banking Products is growing well, with retail deposits up 11%. We are experiencing good investment flows through our Financial Planners, with retail FUM up 16% during the past 12 months. Rural, Small Business Banking and the Pacific are all performing well and should deliver strong full-year results. Esanda is on track to deliver an improved second half.

As we work to create *More Convenient Banking*, we have accelerated our investment spend in the second half. Initiatives have included the very successful launch of the ANZ Everyday Visa Debit card, expanded advertising, the launch of extended trading hours in shopping centre branches across the country, and by the end of this year we will have opened around 25 new branches and 330 new ATMs.

Institutional has seen pleasing annual performance from Markets, Corporate and Structured Finance, and Business Banking, partly offset by subdued performance from our Debt Products Group, where the impact on margins from excess global liquidity continues to dampen earnings growth.

While the environment at the top end of Institutional remains challenging, we are nevertheless making good progress in transforming this segment. The recent Peter Lee Associates survey confirmed we have regained our Number One Lead Institutional Bank position in Australia. However, at the same time, we are experiencing a lower rate of growth in risk weighted assets, consistent with our strategy of reducing balance sheet intensity.

As with the first half financial results, ANZ will disclose Institutional's financial performance on a 'continuing operations' basis to better reflect the ongoing performance of the business.

New Zealand Businesses continues to demonstrate healthy growth. While economic growth is forecast to slow, the banking segment is experiencing relatively buoyant conditions and sound credit quality. In the ANZ National General Disclosure Statement released today for the 9 months to June 2006, ANZ National reported underlying profit growth of 10% against the same period last year. ANZ will discuss New Zealand comprehensively in a shareholder briefing on 7 September.

The two-brand strategy continues to work well. Combined mortgage growth in the two brands is running at the highest levels since 1999 relative to system growth, and has grown at 13% during the past 12 months. The launch of high rate deposit accounts has helped drive strong deposit growth, up 10% during the past 12 months. While the retail bank sector remains highly competitive, margin decline is likely to slow in the second half of 2006. We recently launched the \$5 "all you can eat" transaction account in New Zealand, having identified an opportunity to replicate the success we have seen in Australia.

Corporate and Commercial Banking continues to experience strong growth with assets growing 19%. Businesses in these segments are the engine room of the New Zealand economy and continue to deliver robust performance with low credit losses. Rural has maintained its market leading position with asset growth tracking broadly in line with the market at 16%. UDC's performance remains disappointing, and the action program to lift its performance will take some time to work through.

ANZ will hold a conference call for investors at 10.00am this morning, during which ANZ's Chief Executive Officer, John McFarlane and Chief Financial Officer, Peter Marriott will discuss this update and answer questions.

ANZ will report its Annual Results for the period ended 30 September 2006 on 26 October 2006.

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