



Media Release

Corporate Affairs
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ANZ cash EPS* up 8.8% Strong revenue growth in the second half

Australia and New Zealand Banking Group Limited (ANZ) today announced a record operating profit after tax of \$3,018 million for the year ended 30 September 2005, up 7.2% on the previous year.

Excluding non-core items*, operating profit after tax was \$3,056 million up 11.9% and cash earnings per share were 175.2 cents up 8.8%.

The full-year dividend was increased by 8.9% to 110 cents, in line with ANZ's policy to increase dividends at the rate of cash earnings per share growth.

Second half operating profit after tax was particularly strong at \$1,564 million, up 4.8% on the first half, with revenues up 4.9% including other operating income up 7.6%.

ANZ Chief Executive Officer Mr John McFarlane said: "This is a good result, ahead of our original target of 7% to 8% cash EPS growth for the year. I was particularly pleased with the quality of the result in the second half especially, the strength in revenues.

"Lending and deposit growth were up 12% and 10% respectively on the year, offset by a margin decline of 14 basis points.

"Risks were substantially lower than last year, and we were able to produce a good profit notwithstanding a high level of spending for the future.

"In line with earlier commitments, we have continued to invest in the sustainability of the business, which has seen an additional 2,221 staff employed in the year, largely in the front line. As a consequence, expense growth* for the year was 11%, or 8% when adjusted for the additional two-month contribution from NBNZ. We expect this level of investment to deliver improved returns over the coming year, and particularly into 2007, which should then see the cost-income ratio move downwards once again.

"Credit quality remains at its best level in over a decade, with a 19% reduction in Net Specific Provisions and a 23% reduction in Non-Accrual Loans. With 14 years of uninterrupted growth in Australia, while the environment remains benign, it would not be surprising for credit standards in the market to reflect a false sense of security, so it is important we remain vigilant," he said.

Business Performance

Commenting on each of the business divisions, Mr McFarlane said: "Geographically, the highlight was Australia, with earnings* up 14% in the year. New Zealand was up 11% on the same basis, benefiting from a full 12 months of The National Bank of New Zealand this year, versus 10 months the previous year.

* Excluding non-core items - significant items and NBNZ incremental integration costs

"Most divisions produced double-digit earnings growth. Personal Banking Australia was particularly strong, up 15% on the year, with Corporate Australia at 10%, and Esanda 11%. Institutional had a respectable year in the face of strong competition up 8%, building momentum after several years focusing on risk reduction.

"Our Personal division in Australia benefited from strong performances by the individual businesses. Credit card balances grew 21% in the year, mortgages 14%, and deposits 10%. We were the only major bank to increase share in retail deposits. The momentum in Personal is quite remarkable given ANZ's heritage as a corporate bank. We continue to build upon our commitment to convenience and simplicity, with 15 new branches opening during the year.

"Institutional is in a stage of reinvigorating its business following a number of years of relatively flat earnings and asset growth, as a consequence of a comprehensive de-risking program. Lending and deposits growth of 15% and 10% respectively, supported by solid non-interest income growth in the second half, give me confidence that we are on track to regain our number one position in this segment.

"In New Zealand, the NBNZ franchise showed solid progress, however the extremely competitive environment coupled with increased spending to stabilise the ANZ retail business, subdued the result. Integration is on track and will virtually be complete by the end of 2005 allowing our focus to be on leveraging the benefits of market leadership externally. The run off of historical conduit transactions in 2006 will subdue the New Zealand geographic performance in the year ahead.

"Corporate Australia performed well, with good growth coming from the innovative Wall Street to Main Street strategy, however the exceptional asset growth in Business Banking has begun to slow.

"Underlying performance in Asia Pacific remains strong. The 2005 growth rate is distorted by the benefit of one-off earnings in PT Panin bank in 2004. We have continued to expand in the region, with new partnerships in Vietnam and Cambodia, and our negotiations in China are now at an advanced stage.

"Esanda continued to deliver consistent earnings growth in an increasingly competitive environment. Australia performed particularly well but was offset by the impact of restructuring UDC franchise agreements during the year," Mr McFarlane said.

Growth and Transformation

Commenting on the new Growth and Transformation agenda and related internal targets announced earlier in the year, Mr McFarlane said: "ANZ has now had seven years of consistent performance. This has partly been as a result of our ability to set stretch targets and to deliver against them.

"We have now set ourselves the task of becoming Australasia's leading bank.

"New internal financial targets have been established for the next several years of 7% to 9% annual revenue growth and a reduction, over time, in the cost-income ratio to 40%.

"Over the past few years, we have strengthened our strategic position and have increased share. We now have the second largest personal customer base across Australia and New Zealand, and are unique in our positioning and experience in Asia.

"We have the highest personal customer satisfaction of the major banks. Staff engagement is the highest of the major companies in Australia. Our community programs are also beginning to differentiate us. At the same time, we delivered a strong Total Shareholder Return of 33% over the past year together with a conservative risk profile and continued world-class efficiency levels.

“Notwithstanding the higher investment spending in the past year, going forward, we will continue to invest in faster growth segments. In the near term, we expect Australia will continue to drive our growth, with good momentum in our major divisions. In the medium term, we expect New Zealand will deliver improved returns, and over the longer term Asia will become increasingly meaningful.

“At the same time, we will become leaner, sharper, more agile, and more externally focused. We are well advanced in a program to achieve this, including realizing the benefits of New Zealand integration, reducing back office costs through process redesign and leveraging our capability in Bangalore, increased automation, and simplifying our technology architecture to improve speed to market. Important also is leveraging our unique performance culture and values. These and other steps give us confidence that we will achieve our stated targets,” Mr McFarlane said.

Outlook

“The economic environment in Australia, New Zealand and internationally, remains supportive of reasonable earnings growth in the medium term, despite the softening associated with more stable housing and high oil prices.

“System credit growth in 2006 is likely to remain around 9% to 10%, and while it would be prudent to remain cautious about margins, we do not expect last year's unusual margin decline to be repeated in 2006.

“The coming year will also see the full impact from the run-off of certain structured finance transactions and the end of transitional tax relief benefits in the ING Australia joint venture.

“The year ahead will see the full year cost impact from our investment program however, we expect the revenue benefits will start to emerge more fully, delivering good momentum into the following year.

“Despite these factors, all in all, the environment in 2006 should be broadly similar to that in 2005, enabling us to produce continued good results in the year ahead,” Mr McFarlane said.

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