

# *2002 Interim Results*

Australia and New Zealand Banking Group Limited  
26 April 2002

# Agenda

John McFarlane  
– Highlights

Peter Marriott  
– Financial Performance

Peter Hawkins  
– Our Growth Agenda

John McFarlane  
– A Breakout Culture

## Good result in more difficult environment

NPAT \$1,050m up 17.3%

EPS 66.3c up 18.8%

ROE 21.6% was 19.6%

CTI 46.5% was 49.1%

DPS 39c up 18.2%

Seventh consecutive half of good growth

On track against all financial targets

Comparisons with  
March 2001

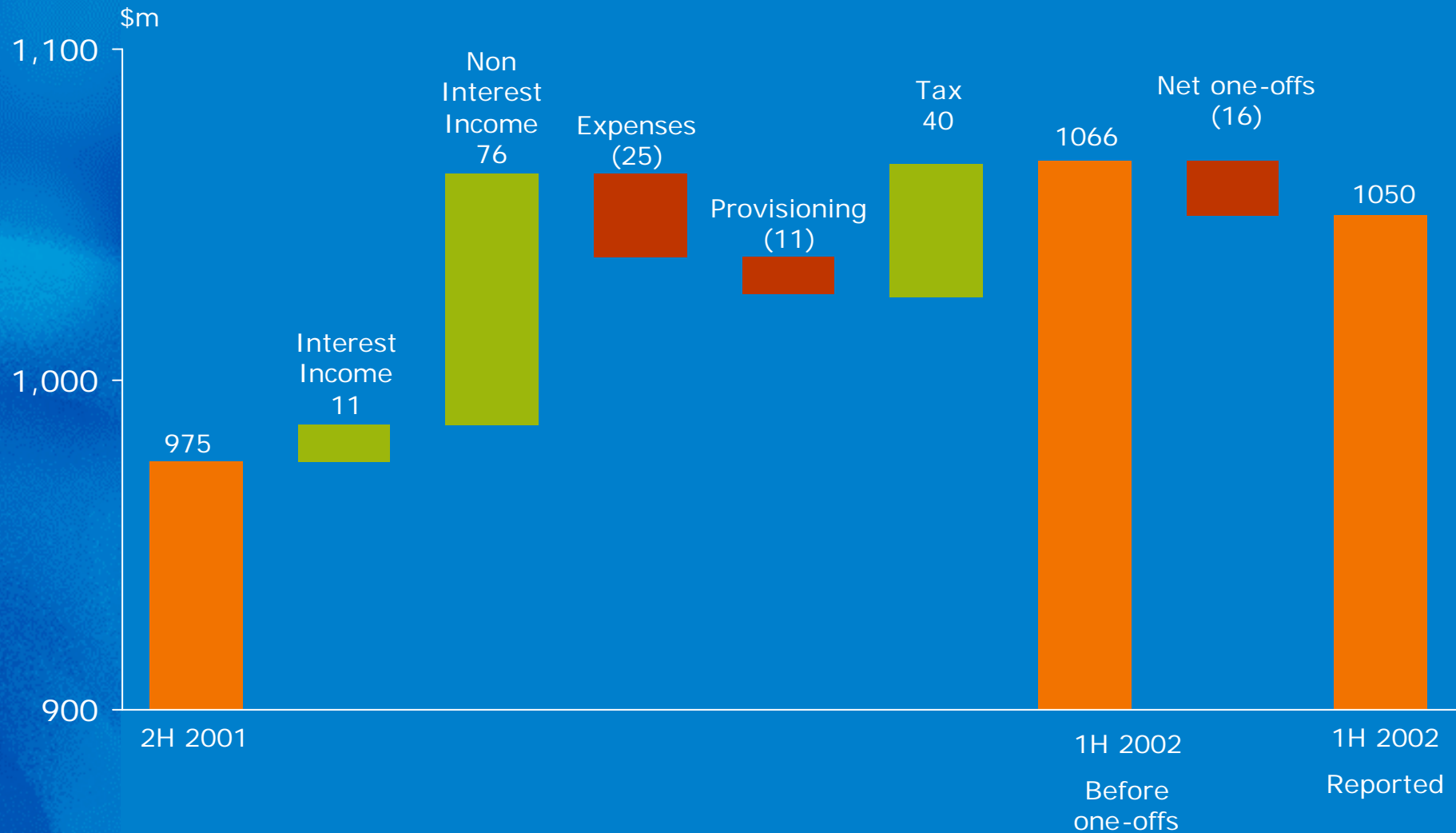


# *2002 Interim Results*

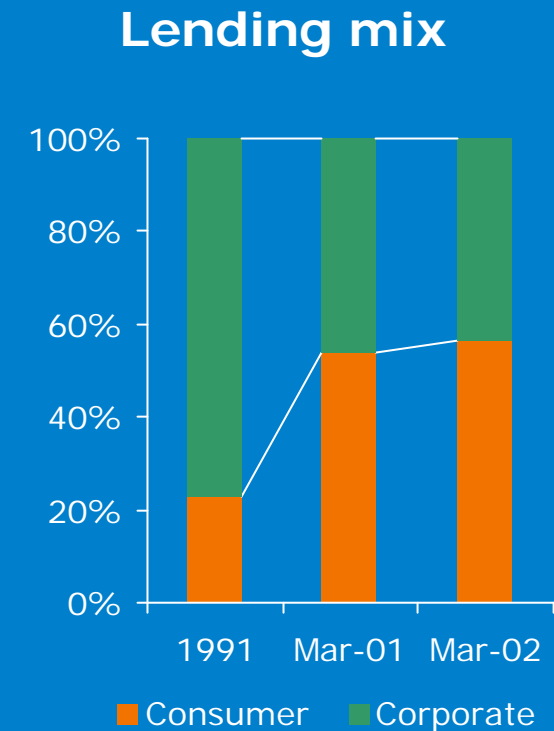
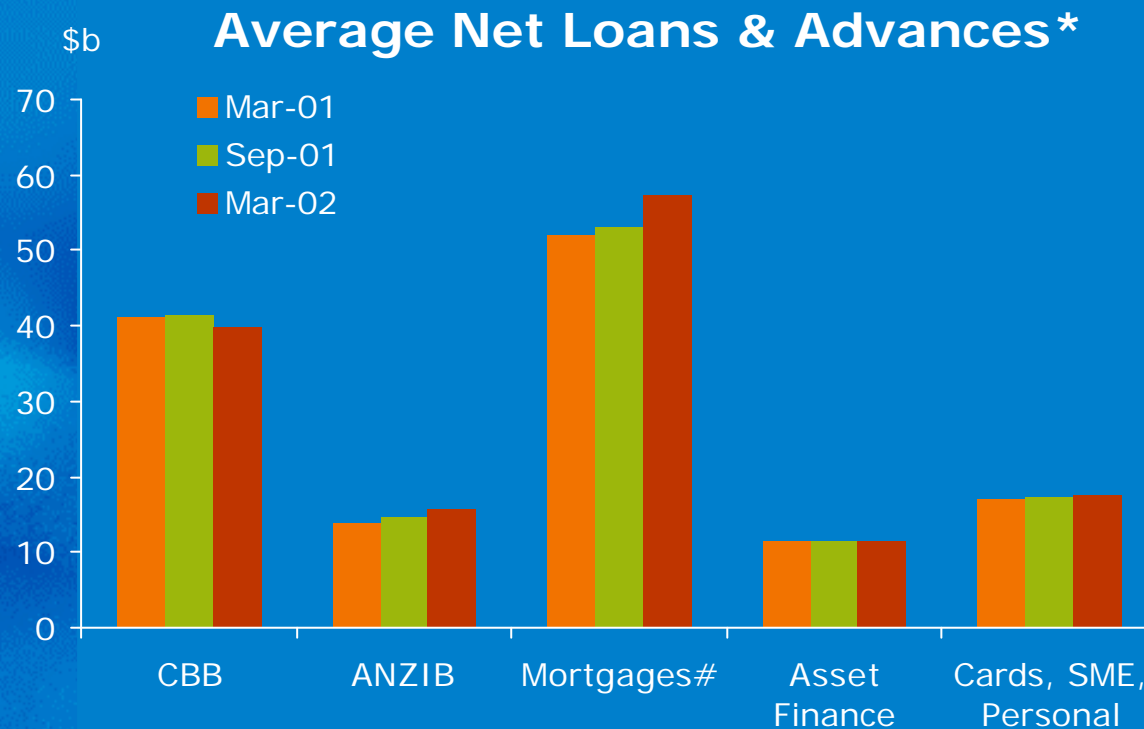
Australia and New Zealand Banking Group Limited  
26 April 2002

**Peter Marriott**  
Chief Financial Officer

# A good result, driven by non-interest income



# Mortgages continues to drive lending growth

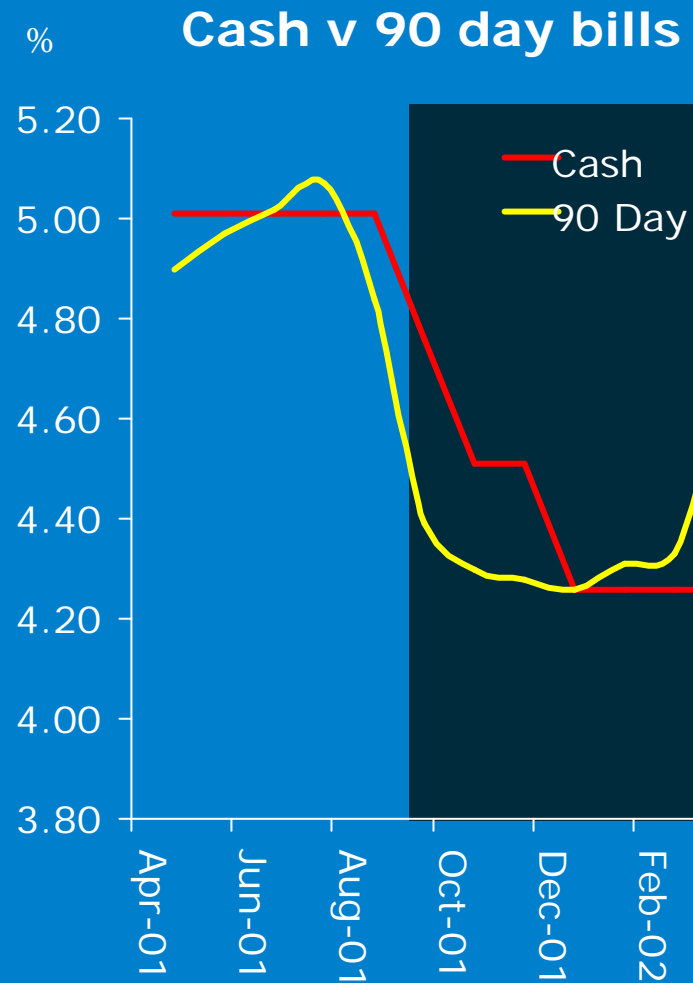


- No securitisation during half, reflecting healthy deposit growth
- Corporate will be given some additional capacity to grow balance sheet within domestic markets

\* Business Unit NLAs > \$10b, includes acceptances

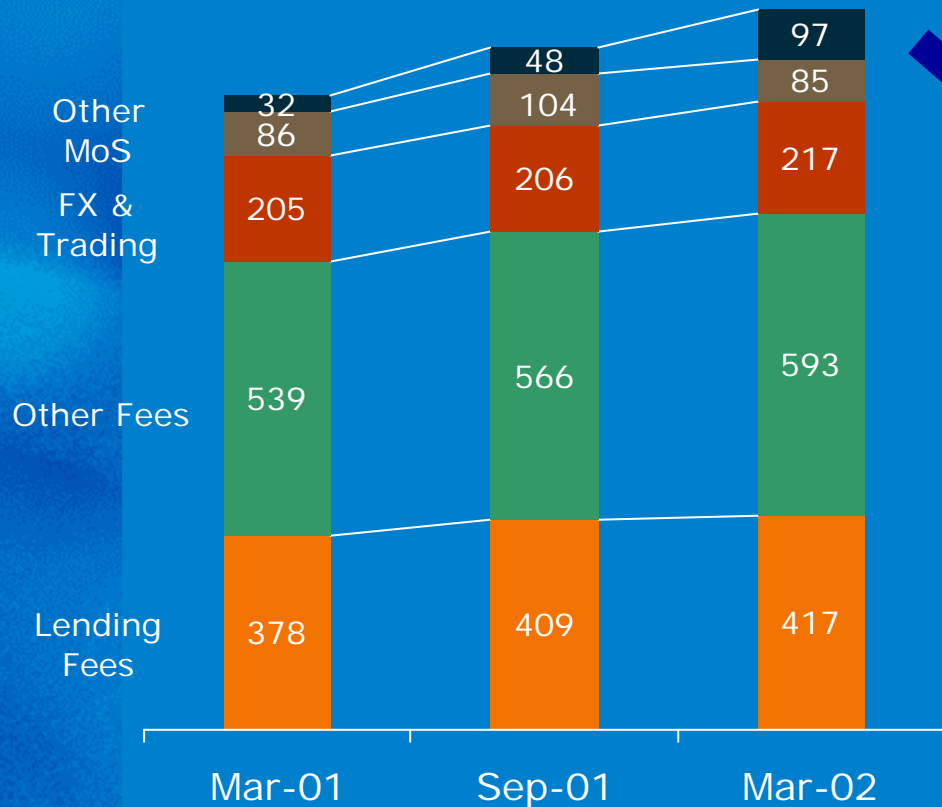
# net of securitisation

# Interest margins stable



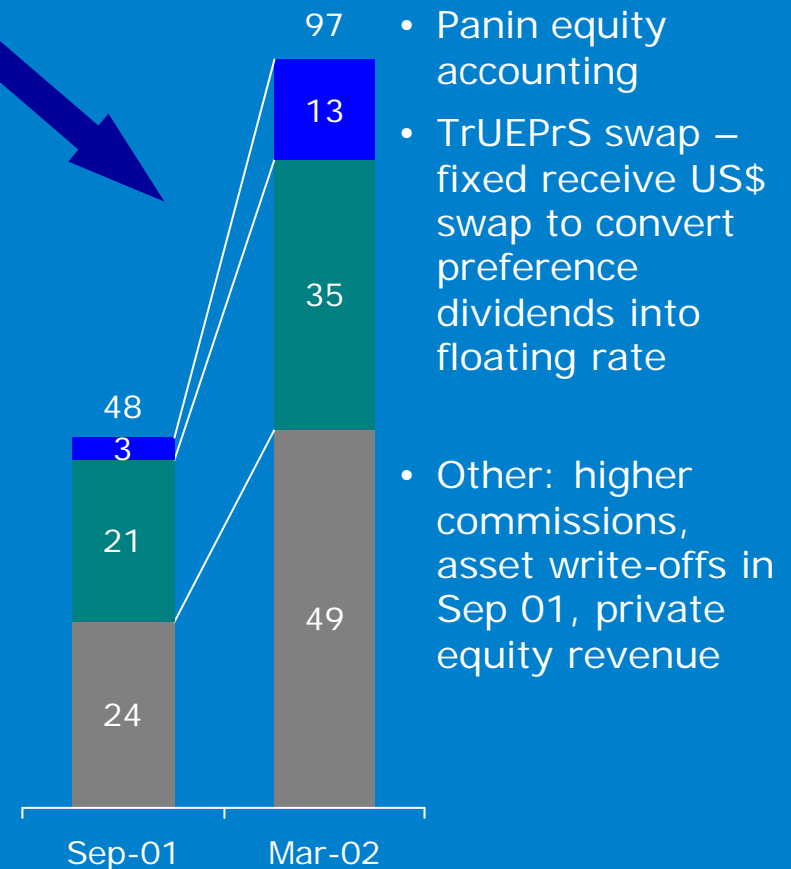
# Income drivers – non interest income up 14 % on prior March half

## Non-interest income



- Lending fee growth reflects ongoing focus on fee growth in corporate businesses
- Other fee income driven partly by volume related increase in card merchant fees

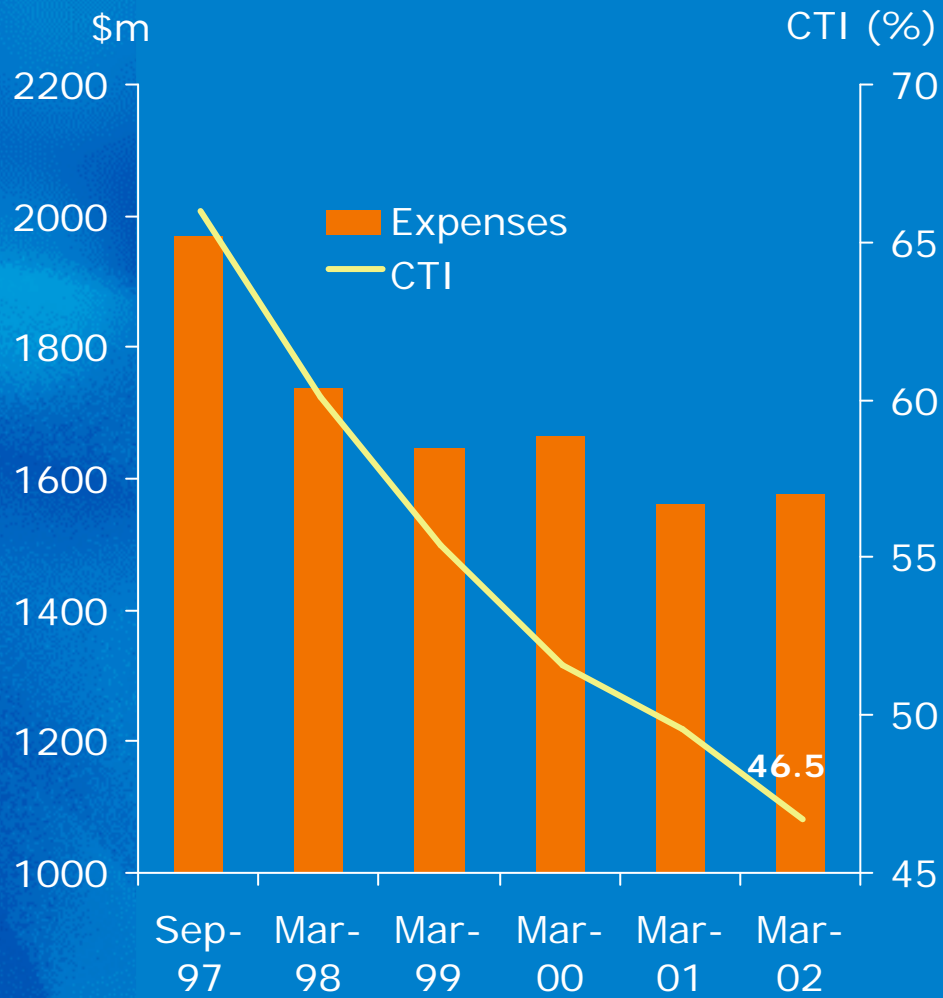
## "Other" income



- Panin equity accounting
- TrUePrS swap – fixed receive US\$ swap to convert preference dividends into floating rate
- Other: higher commissions, asset write-offs in Sep 01, private equity revenue

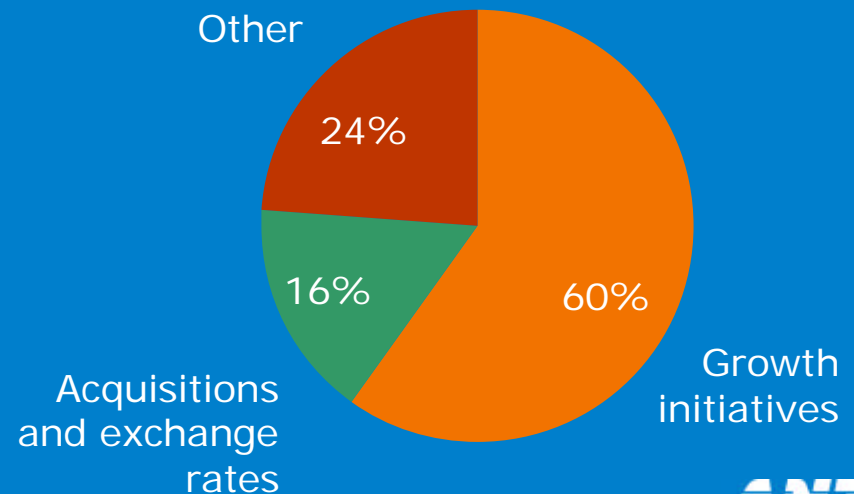


# Cost income ratio on track to meet target of mid 40's

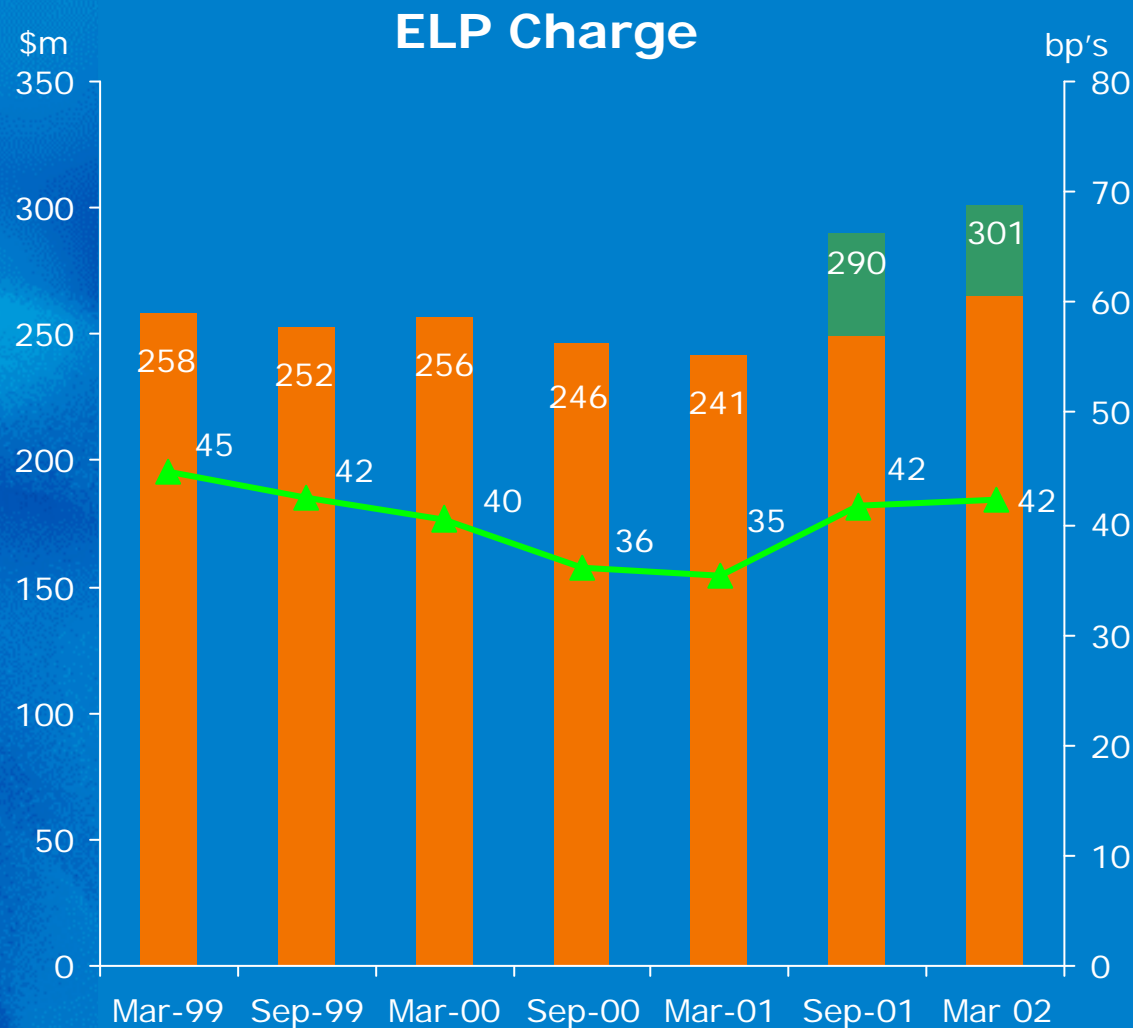


- Reduction in Cost Income ratio driven by revenue growth **and** cost control
- Approximately \$68m of restructuring provision spent in half
- On track for mid 40's target

## Composition of expense increase

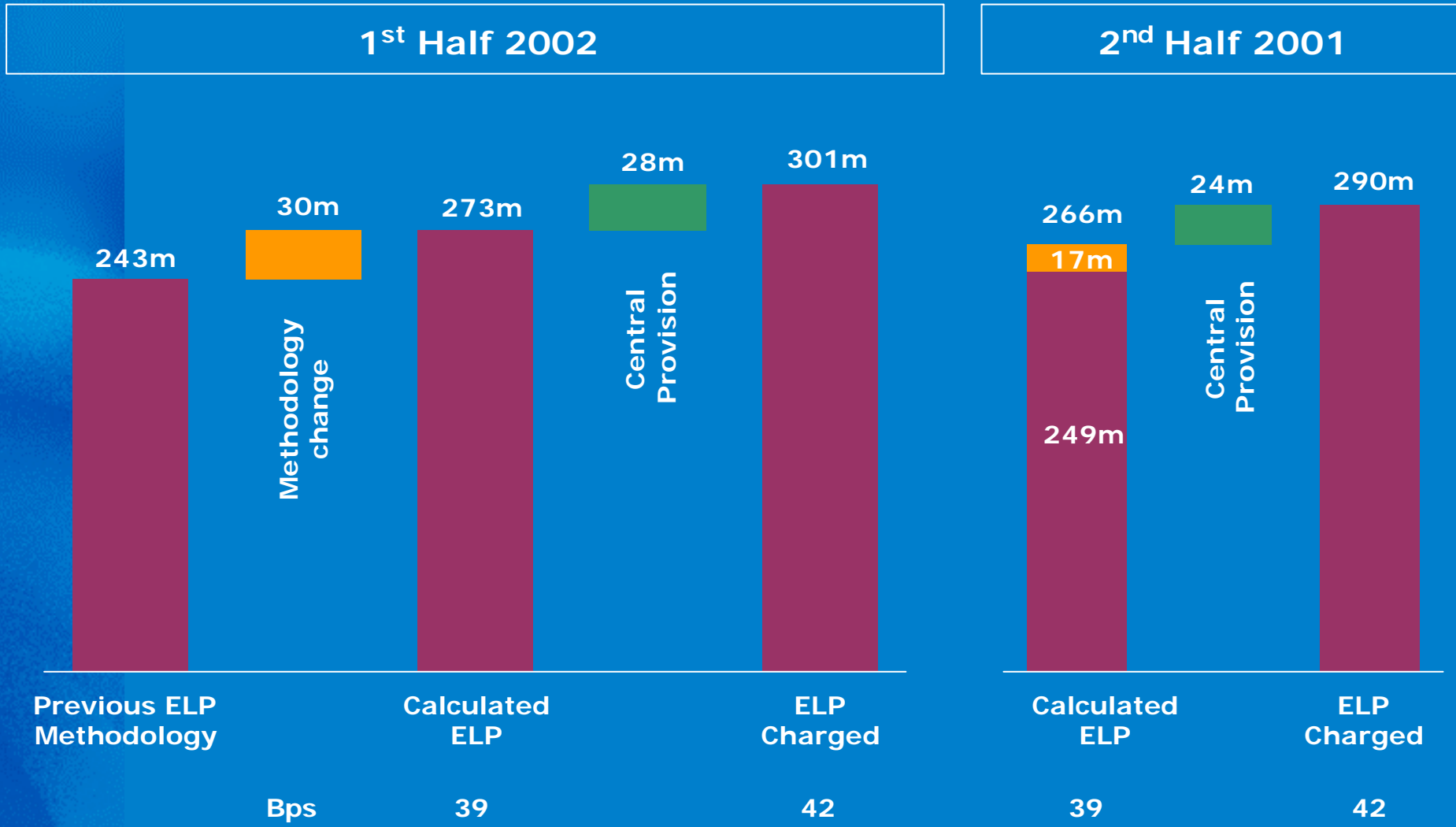


# Provisioning charge reflects prudent management

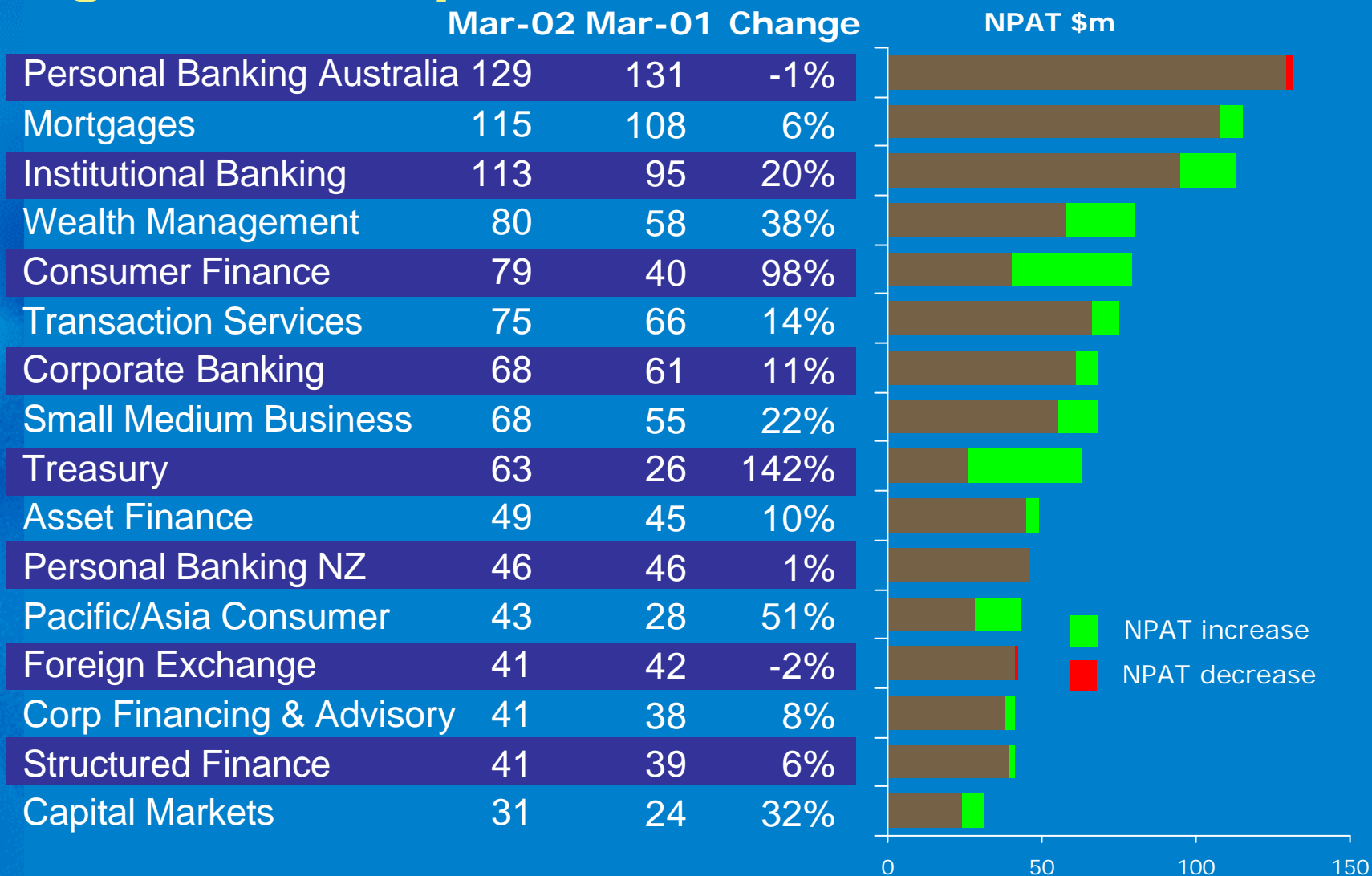


- ELP charge adjusts in line with changing risk profile
- Prudent to allow for potentially higher expected defaults in our provisioning
- The ELP charge has been affected by the implementation of a new methodology which has enhanced our measurement of credit risk and recognises recent experience

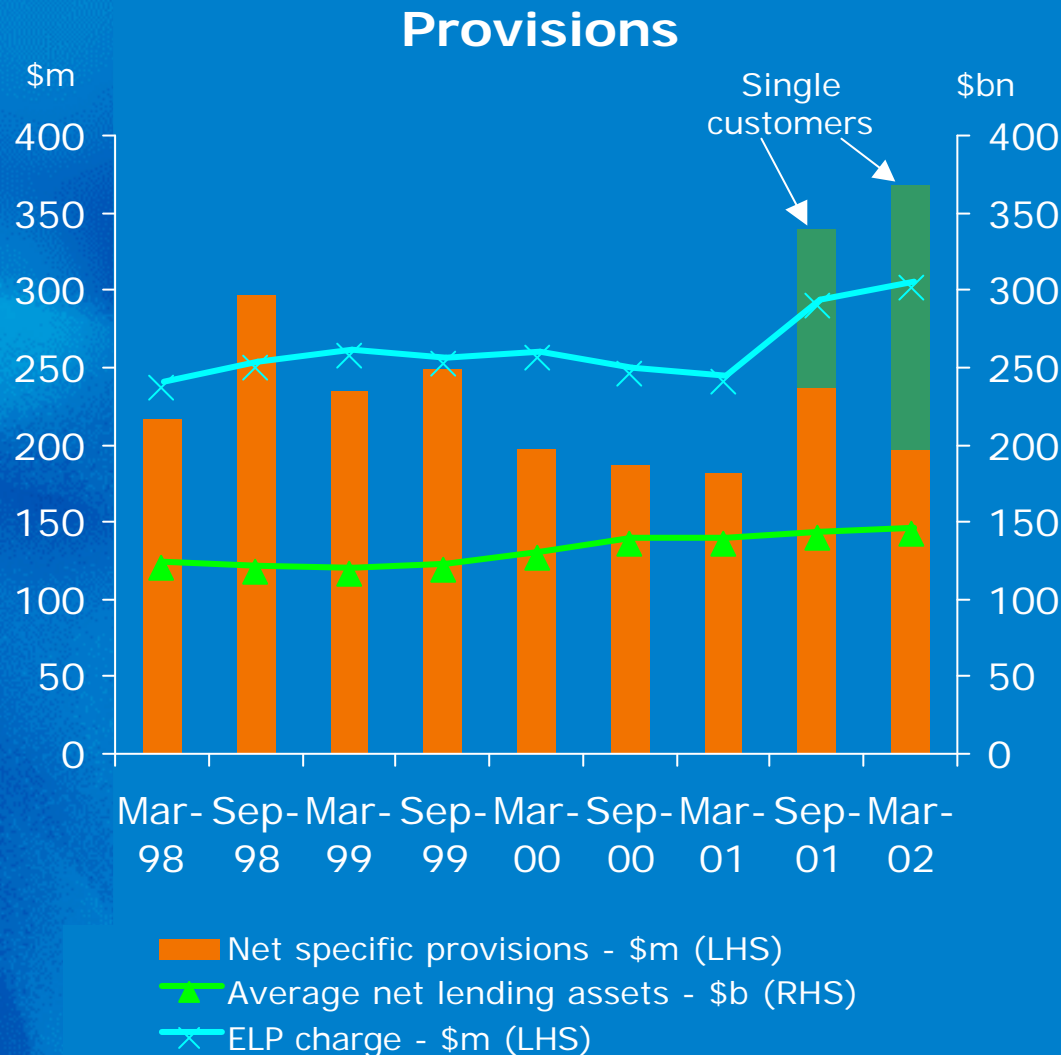
# Underlying ELP charge has been stable



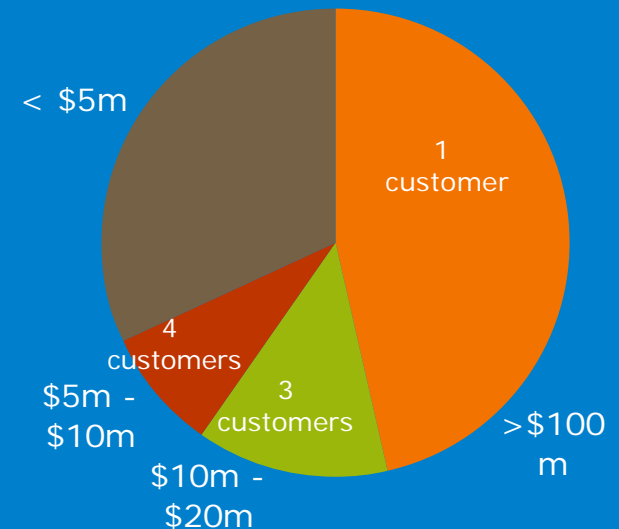
# Most businesses recorded good profit growth on prior March half



# Specific provisions impacted by a single corporate collapse



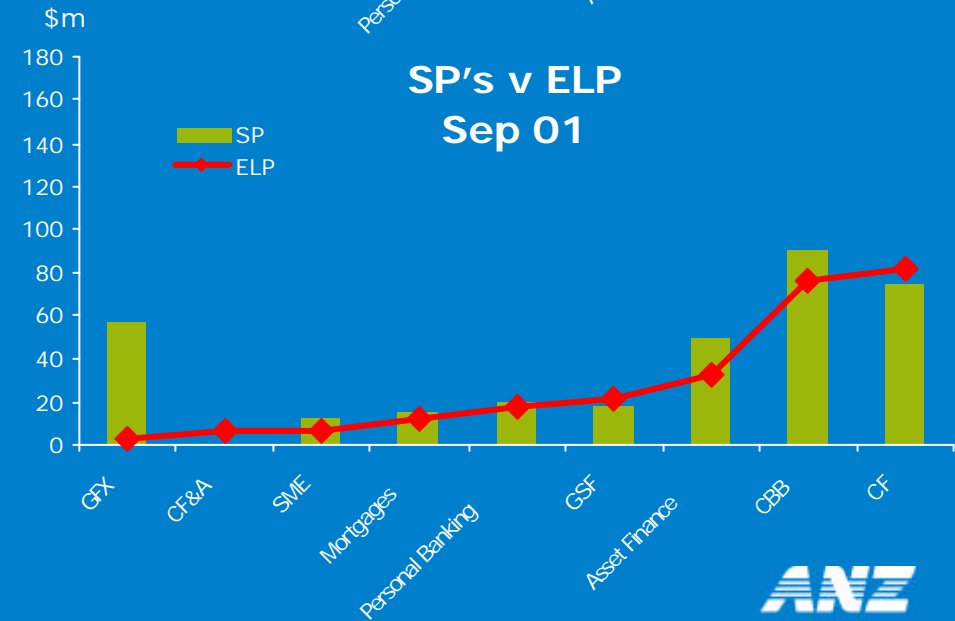
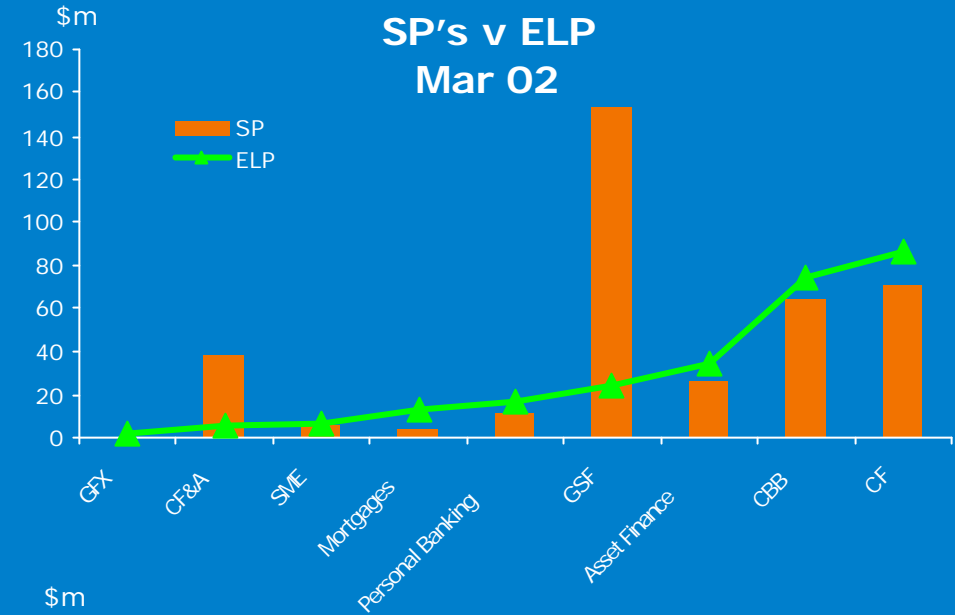
### Mar-02 Specific Provisions by size



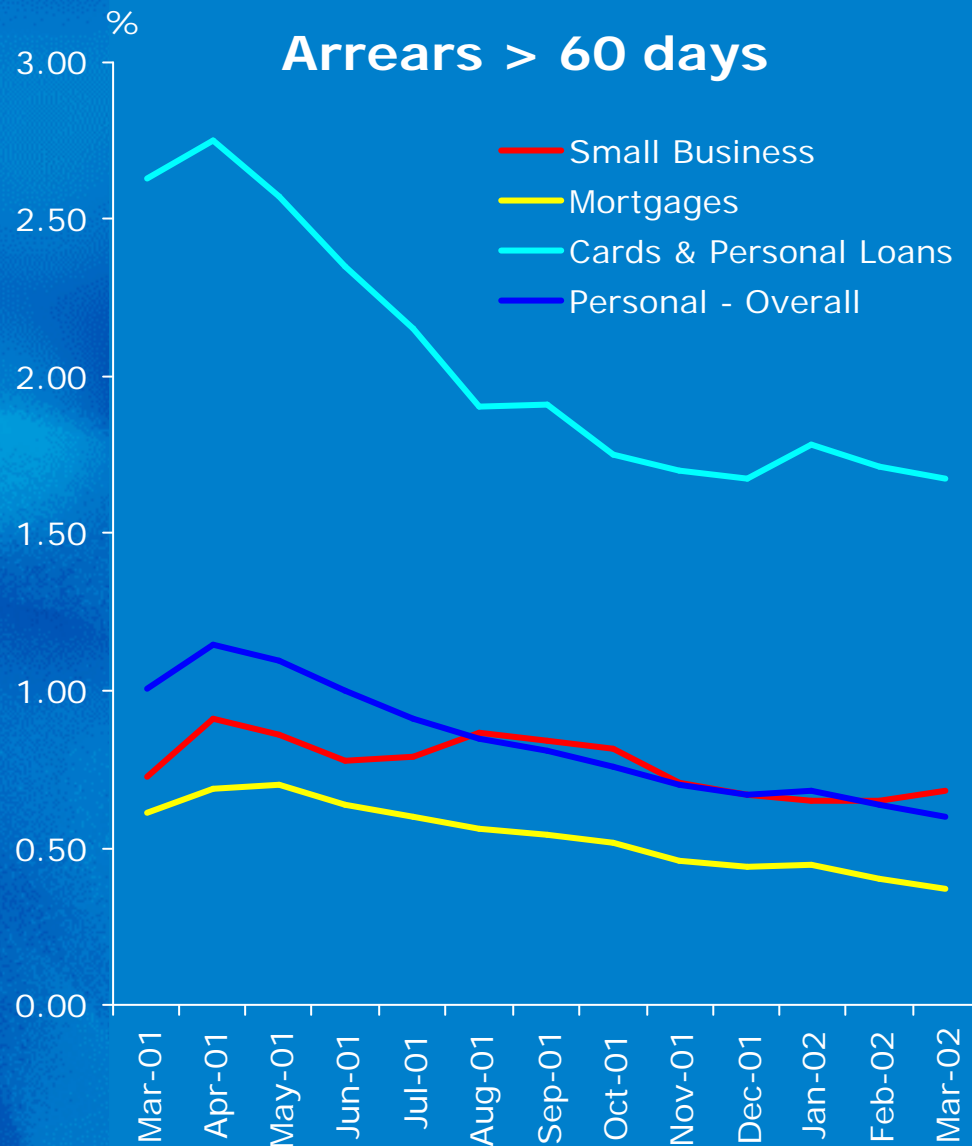
- Only 4 customers with specific provisions greater than \$10m
- Excluding Enron, specific provisions declined 42%

# Specific provisions in most businesses lower than expected losses

Specific Provisions  
Mar 02 v Sep 01



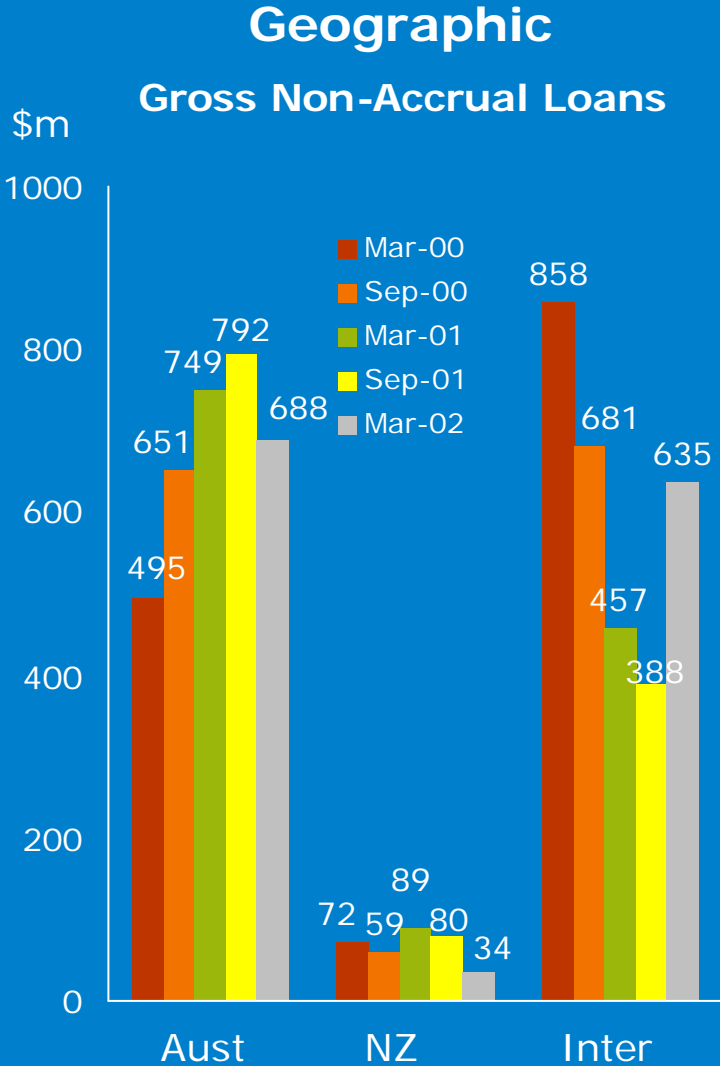
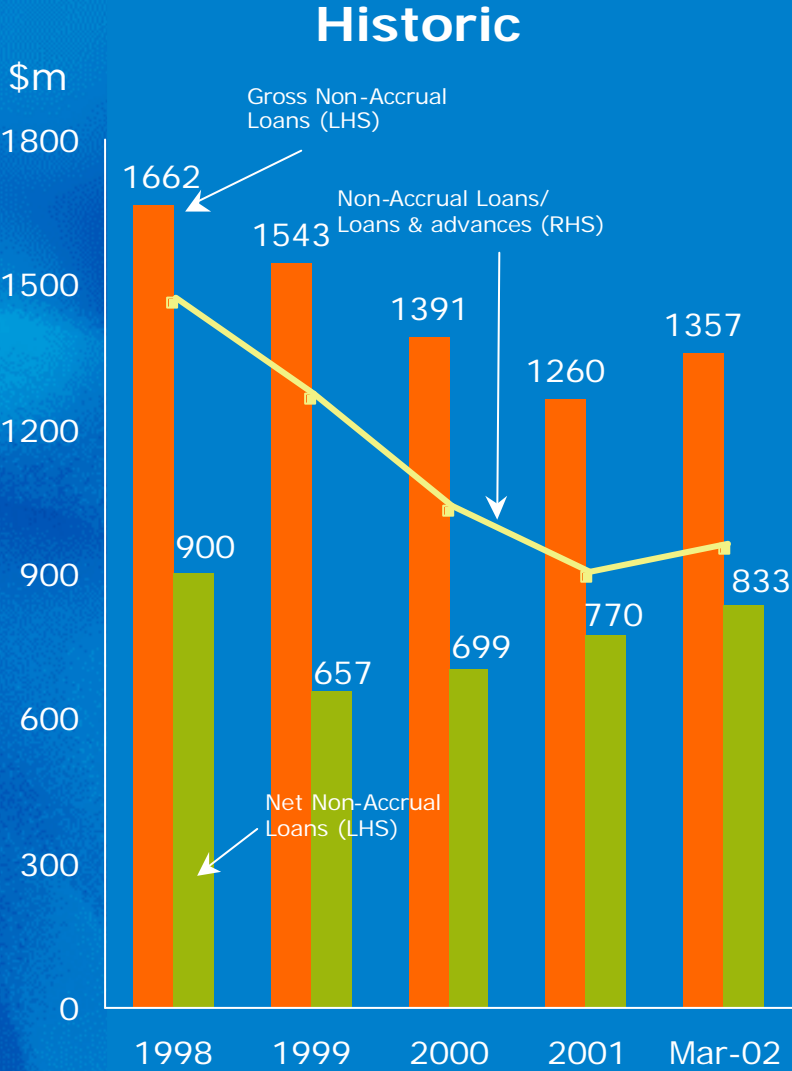
# Consumer portfolio continues to improve



## Delinquency levels have improved, driven by:

- Improved collections processes and procedures
- Continued focus on early identification and management of poor performing loans
- Interest rates remain low
- Stable employment and economic conditions

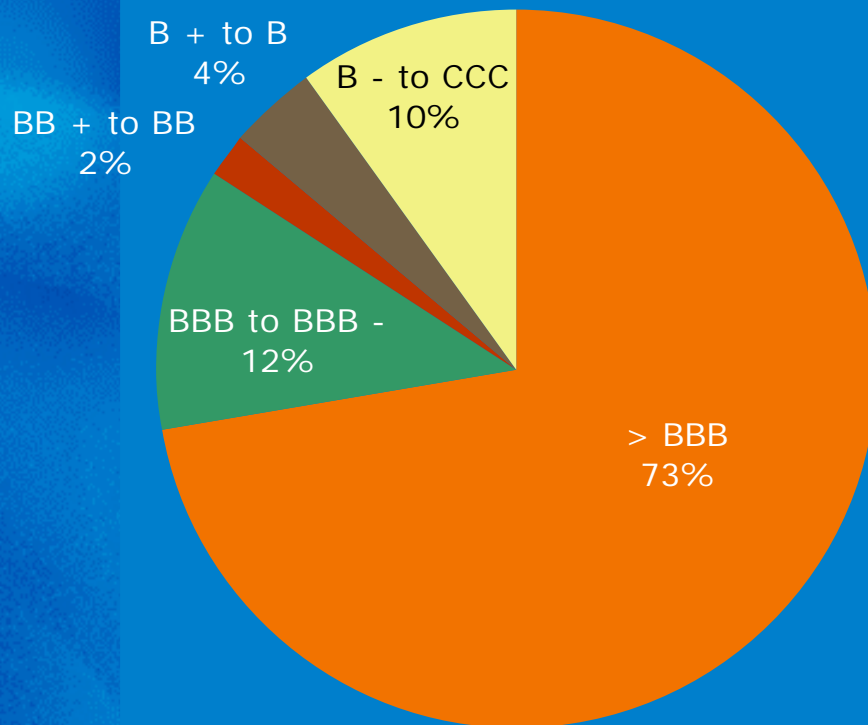
# Non-accrual loans have increased due to international exposures





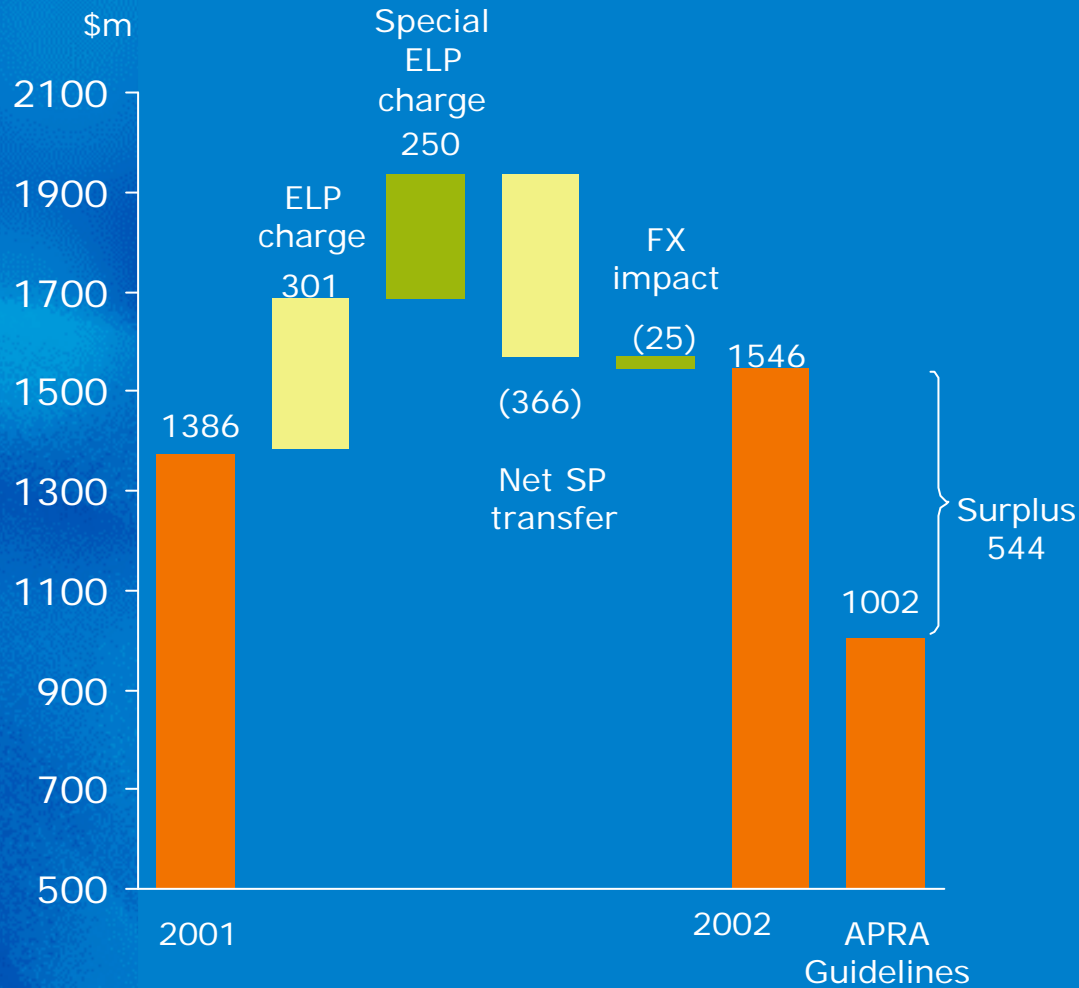
# Fallen angels - 85% of new non-accruals were investment grade 12 months ago

March 2001 ratings for First Half 2002 new corporate non accrual loans

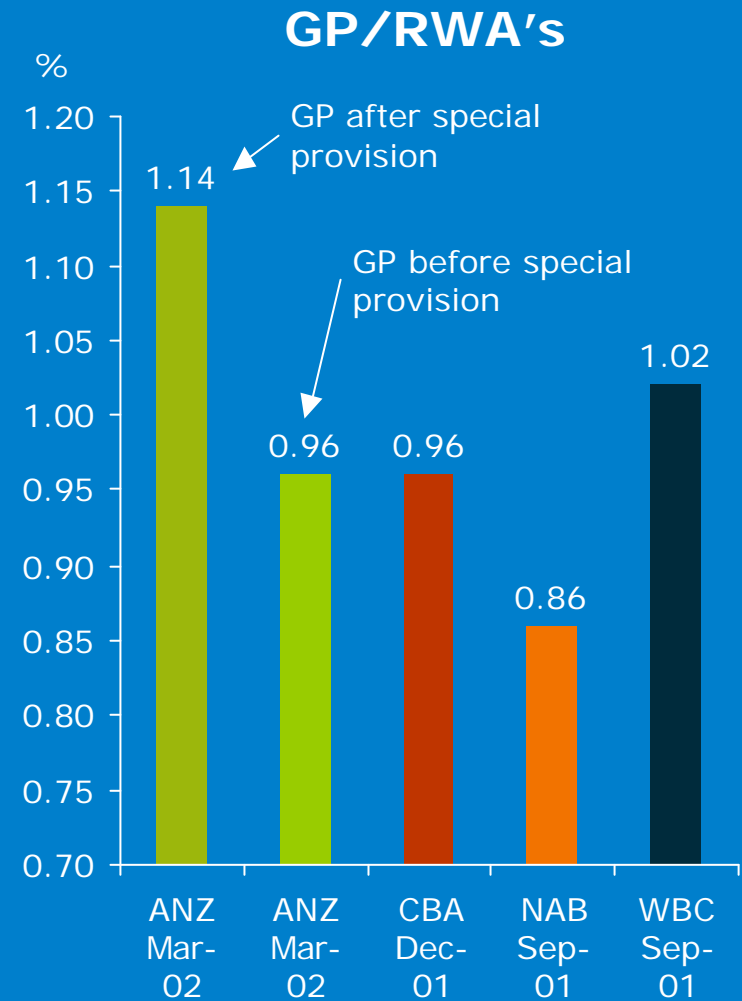


- Speed of collapse difficult to model
- We will continue to diversify the portfolio
- Single customer concentration limits reduced further
- Increased returns required on undrawn lines and off balance sheet commitments in EVA models

# Overall - provisioning levels strong



ELP - Economic Loss Provision  
 SP - Specific Provision



# Revised capital management targets

...following consideration of the impact of the ING JV, the increasing focus by ratings agencies on adjusted common equity (ACE) and APRA's proposed conglomerate changes:

## Previous

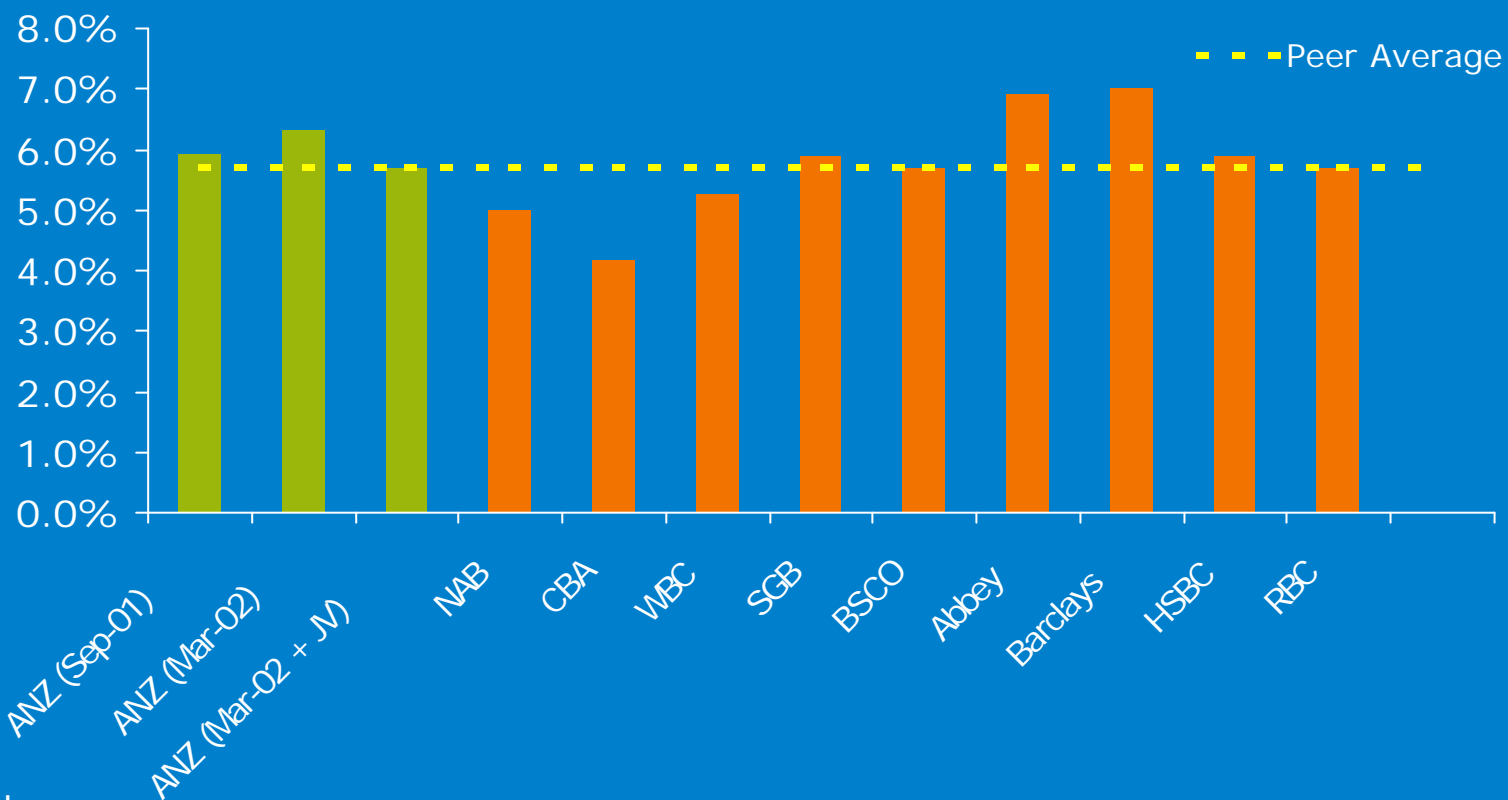
- Target ratios: Inner Tier 1-6%, Tier 1-7%
- Book capital at least equal to economic capital
- Sufficient capital for AA category rating
- Comparable with competitors
- Reduced cost where possible



## Revised

- ACE/RWA 5.25-5.75%
  - March 02 6.3%
  - March 02 ING JV proforma 5.7%
- Book capital at least equal to economic capital
- Sufficient capital for AA rating

# ANZ's adjusted common equity to RWA in line with peer average



## Notes

- Excludes mortgage servicing rights.
- Calculation excludes the fact that the Australian banks' GP/RWAs is approx. 40bp higher than the average of the UK and Canadian banks.

# Results Highlights

- ANZ has come through the cyclical downturn with consistent earnings performance and in a strong financial condition
- Specialised business performance up 20%:
  - Wealth Management, Consumer Finance, Small to Medium Business, Corporate and Treasury strong
  - Personal Banking, Mortgages constrained
- Strong non-interest income growth – 14% pcp, 6% hoh
- Specific provision \$65m higher than expected loss due to Enron, offset by addition of \$250m to general provision
- Continued improvement in ROE and Cost-Income ratio
- Key developments:
  - Establishment of Joint Venture with ING
  - NHB dispute resolved with \$248m recovery

# *Our Growth Agenda*

Australia and New Zealand Banking Group Limited  
26 April 2002

**Peter Hawkins**  
Group Strategic Development

# We have a clear growth agenda

## Three drivers of sustainable growth

- Organic out-performance
  - Taking specialisation deeper into the portfolio
  - Restoring Customer Faith
  - Next phase of productivity improvements
- Portfolio reshaping
- Transformational moves

# What we said 18 months ago

## ANZ in the medium term

### ANZ in 1 - 2 years

- Specialisation - material reallocation of resources
- Substantial e-transformation reducing costs and focused service
- Performance optimised
  - EPS, ROE, investment
  - capital management
- Transformational cultural change



### ANZ in 3 - 7 years

- Substantial portfolio shifts
- Narrower, more focused portfolio with leading positions
- Increased investment in high growth business
- Modern performance culture
- Building sustainable intangible value



# Our growth agenda – three drivers for sustainable growth

## Organic out-performance

- Extend specialisation
- Grow customer numbers
- Increase share of wallet
- Drive productivity

## Portfolio reshaping

- Invest in high growth areas
- Build specialist capabilities
- Exit weak positions
- Risk reduction

## Transformational moves

- Step changes in positioning
- Creating new growth options
- Proactively shaping industry

## Our targets

- Revenue growth materially higher than expense growth
- Take business units to sustainable leadership positions
- Build a range of strategic options

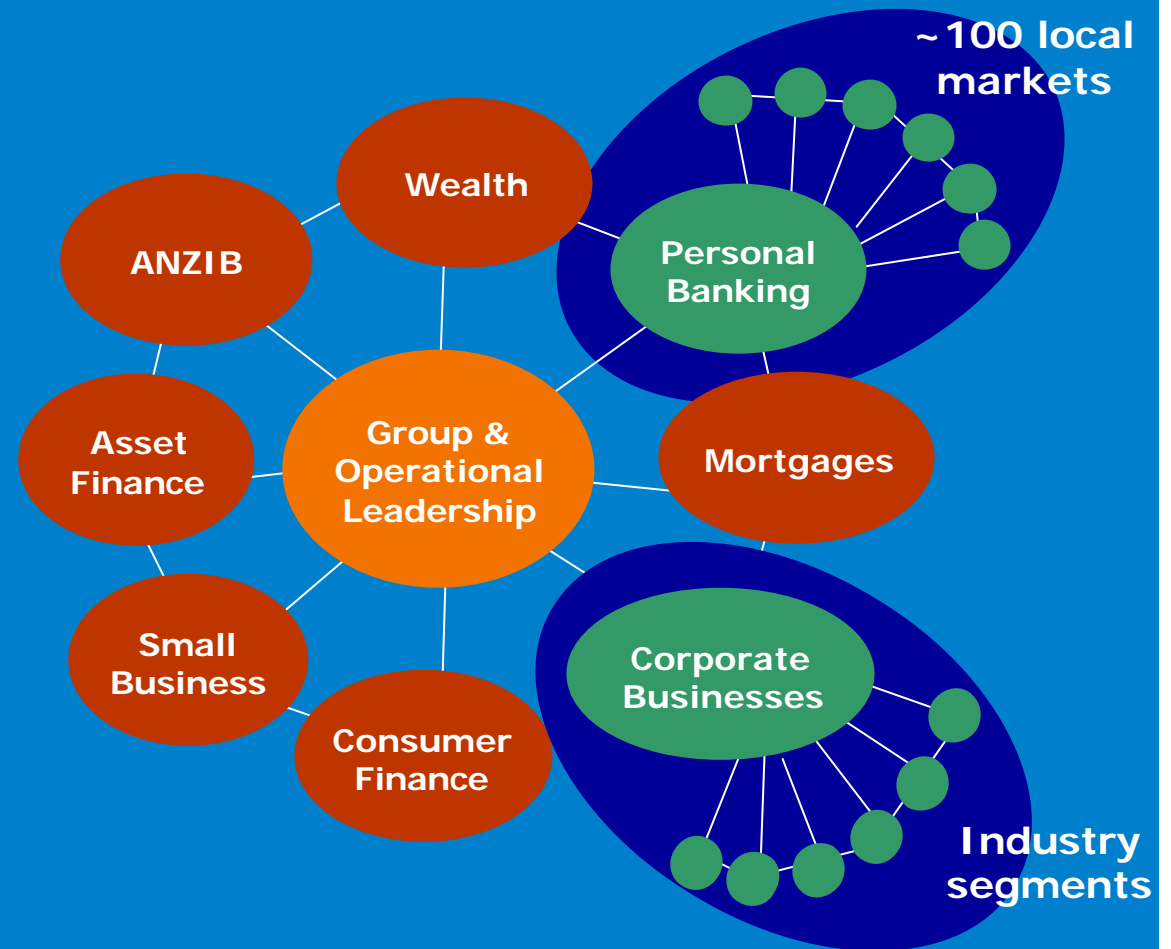
# Taking specialisation deeper into the portfolio

Further specialisation will unleash substantial energy

- 200 businesses, 200+ terrific jobs
- Strategic corporate centre
- Flatter organisation, less bureaucracy



4 people between the CEO and the front line



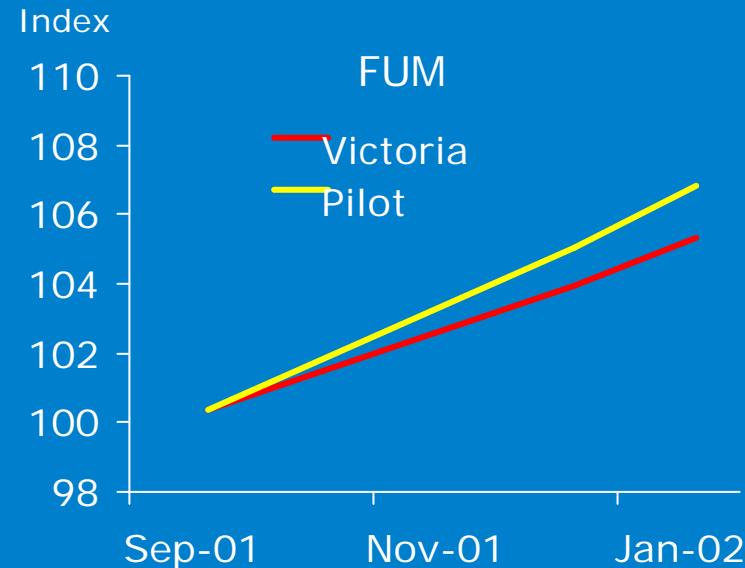
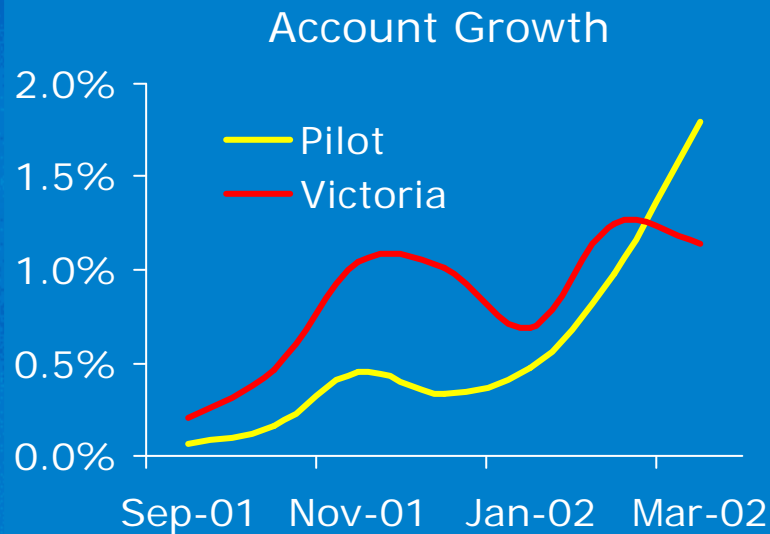
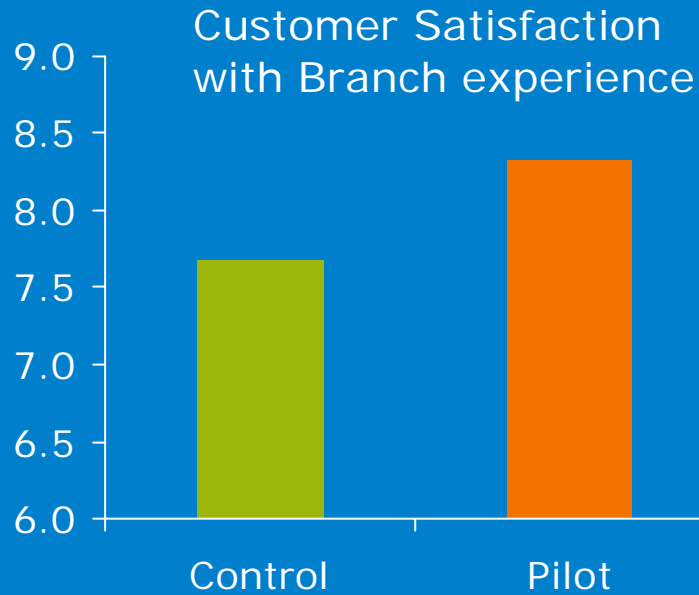
# Transforming the personal customer experience

## Taking Specialisation to the Frontline

- Approximately 100 local market-based businesses
- Local Market Managers - Local CEOs
- Create autonomy to set local strategies
- An ownership culture among staff – 'Think like a customer, act like an owner'

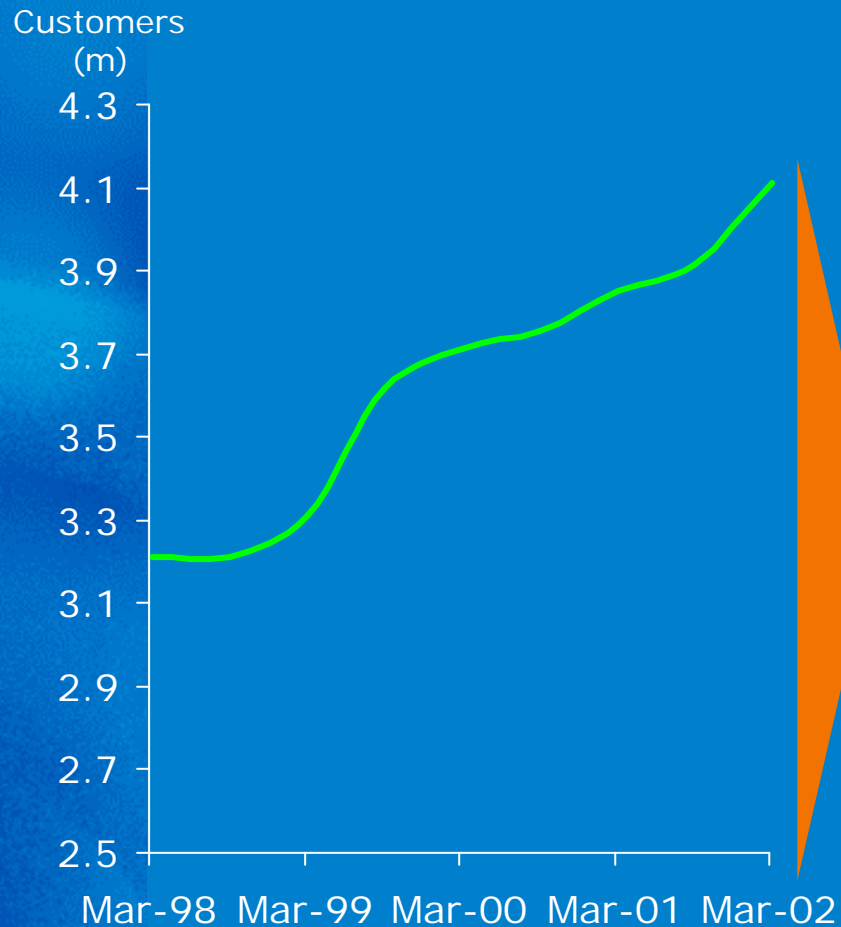


# Encouraging results from the pilot



# Acquiring more customers...

## Initial product success has driven customer growth



- **Cards account for more than 50% of new customers**

## Broadening sources of customer acquisition

- **Restoring Customer Faith delivering a distinctive experience for customers**
  - Reduce churn
  - Attract customers
- **Leveraging ING JV in Wealth**
- **Whilst enhancing leadership in Cards and regaining momentum in Mortgages**

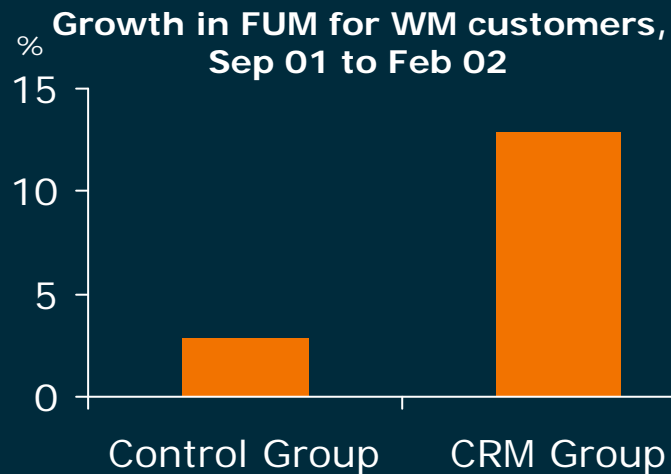
**Target**  
**1 million**  
**new**  
**customers**

# ...and winning more business from each customer

## Personal Businesses

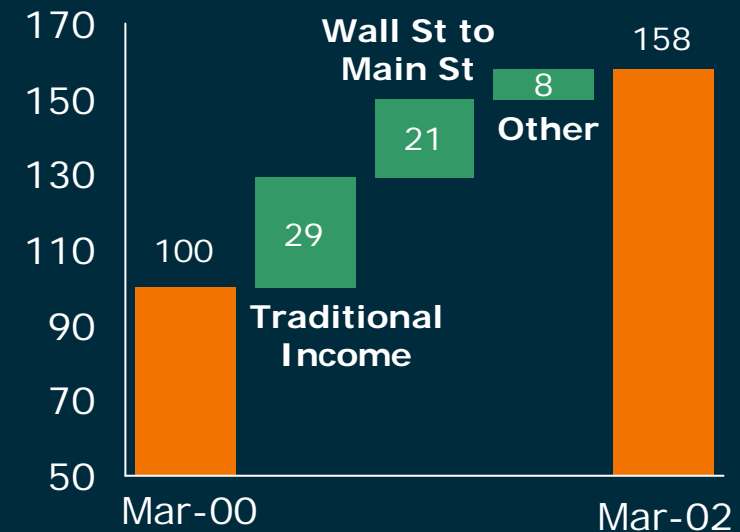
### Leveraging CRM

#### Example



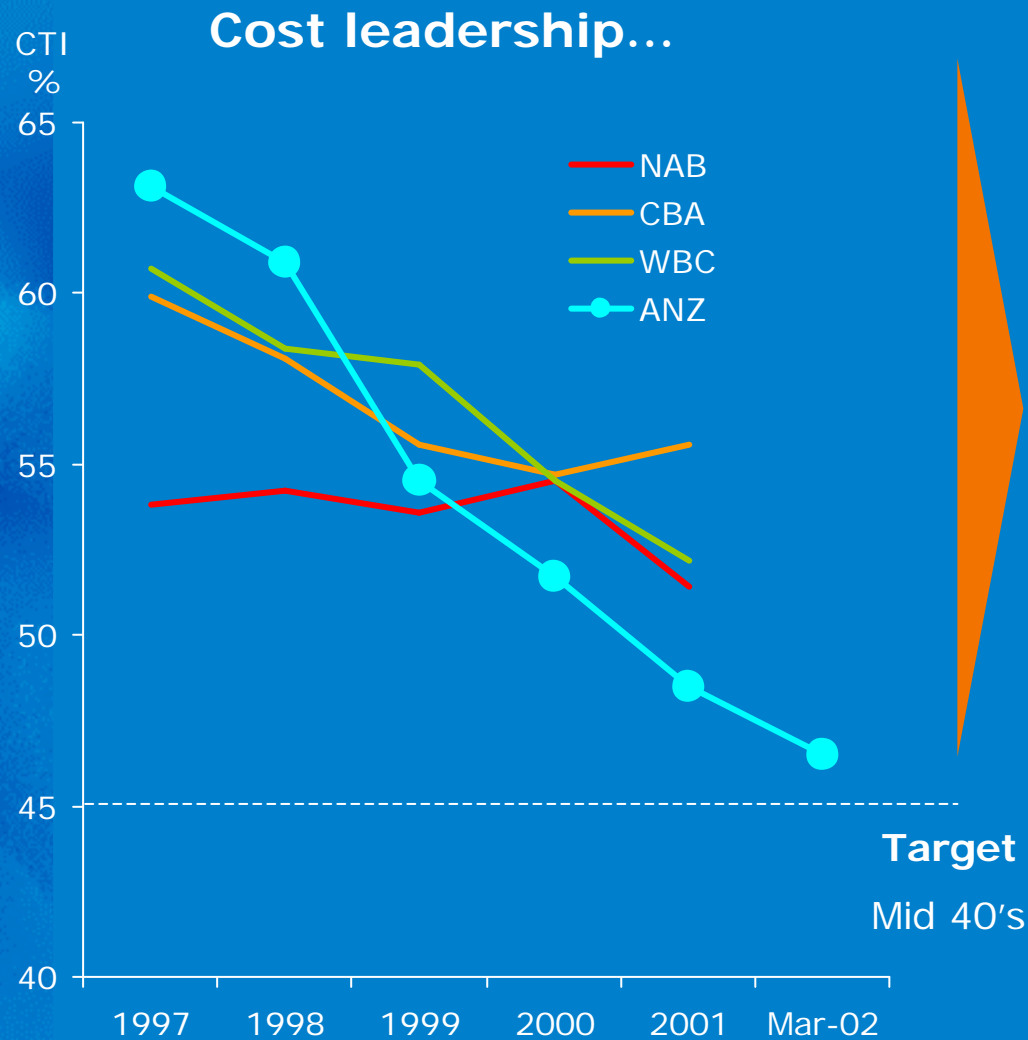
## Corporate Businesses

### Wall Street to Main St\*



- Extend our NIACC expertise into our personal businesses and small business
- Leverage our JV with ING to grow sales of wealth products
- Increasing sales force numbers and effectiveness

# Continuous productivity improvement provides capacity to reinvest in growth



## ...with more to come

- Further expansion of straight through processing
- Re-engineering processes from a customer perspective
- Outsourcing or partnering with best practice providers

# Our growth agenda – three drivers for sustainable growth

**Organic  
out-performance**

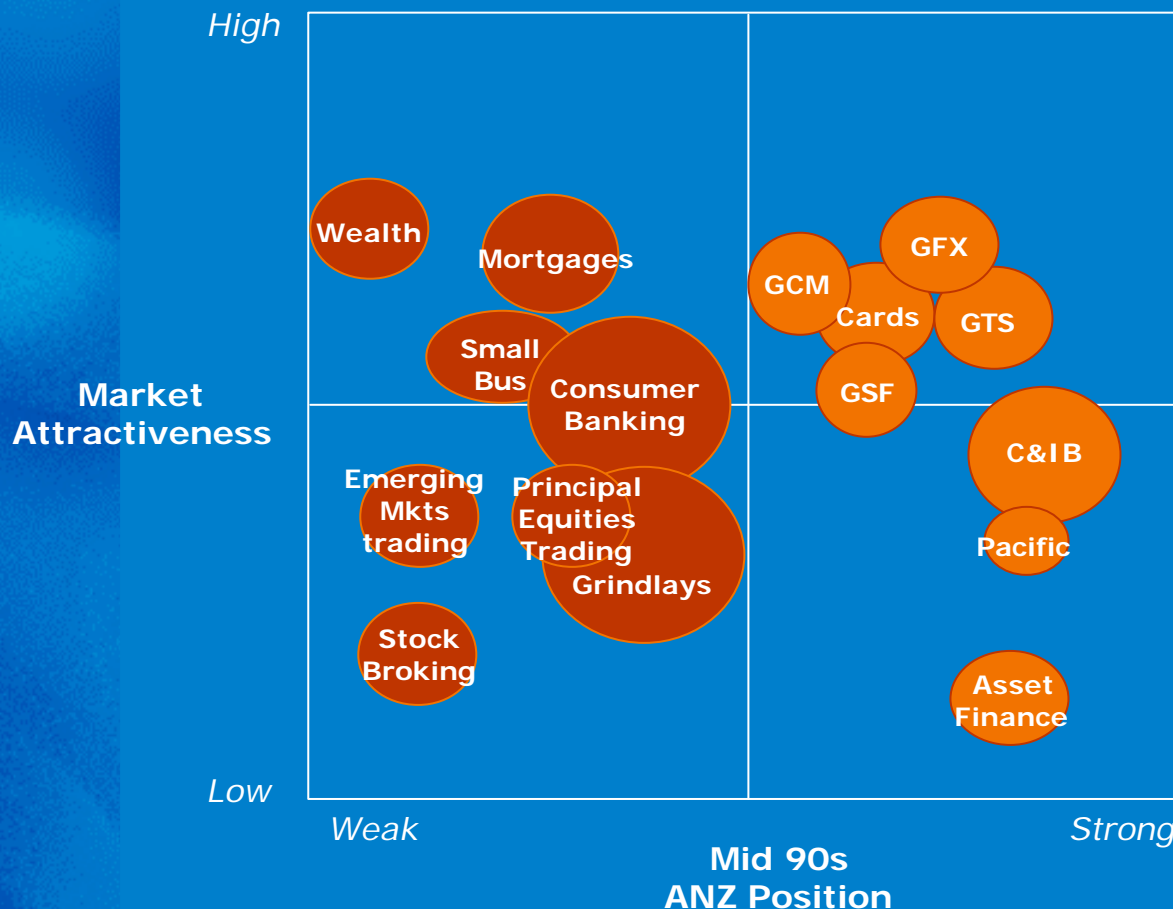
**Portfolio  
reshaping**

- Invest in high growth areas
- Build specialist capabilities
- Exit weak positions
- Risk reduction

**Transformational  
moves**

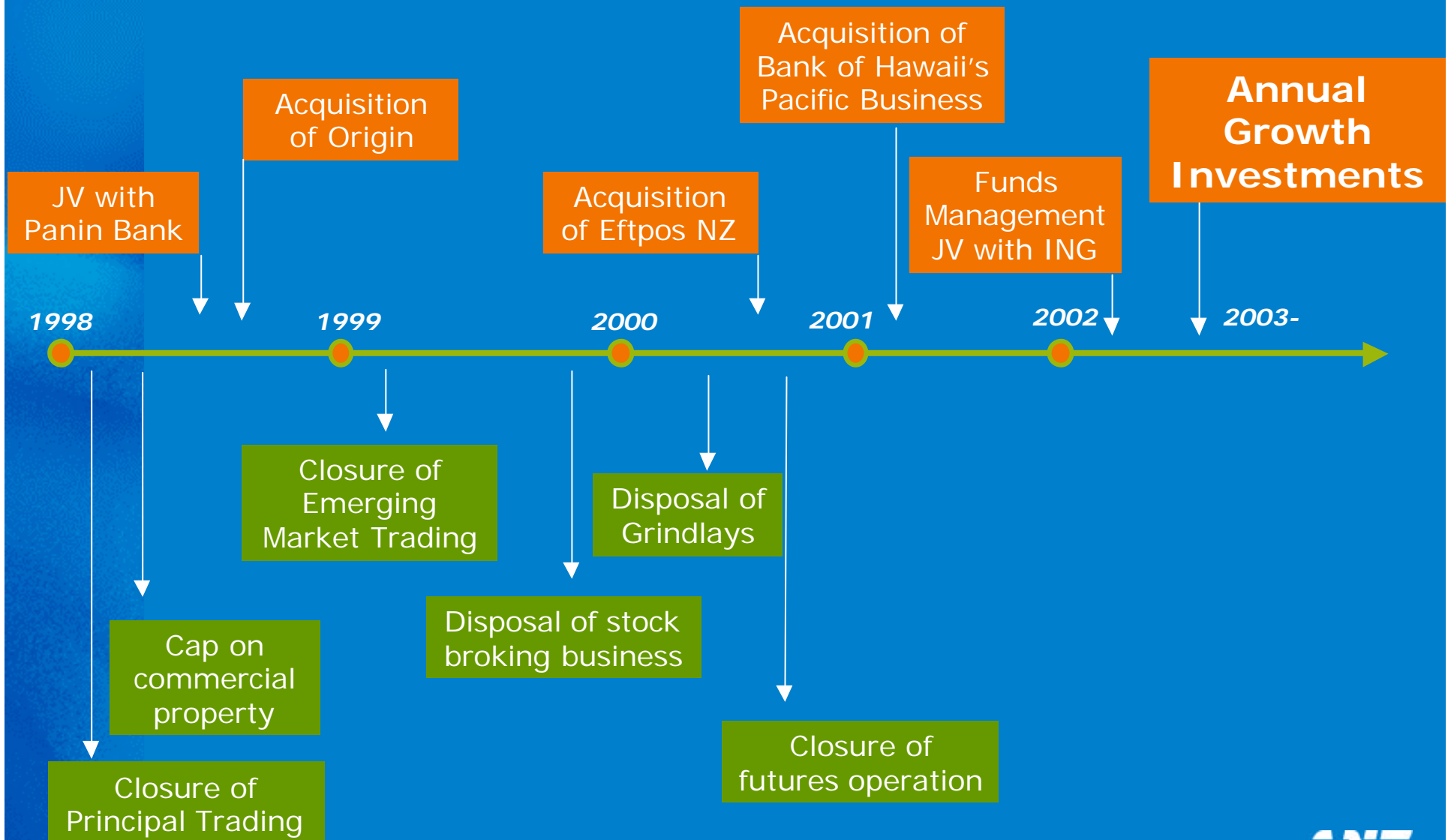


# Historically, we had a number of weak positions

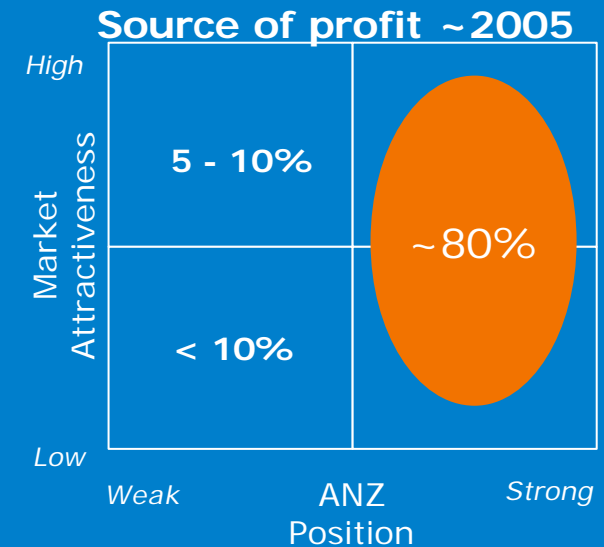
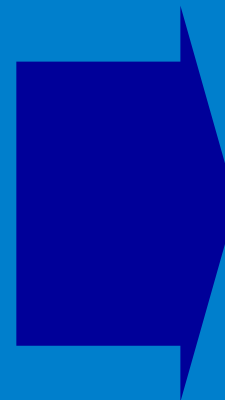
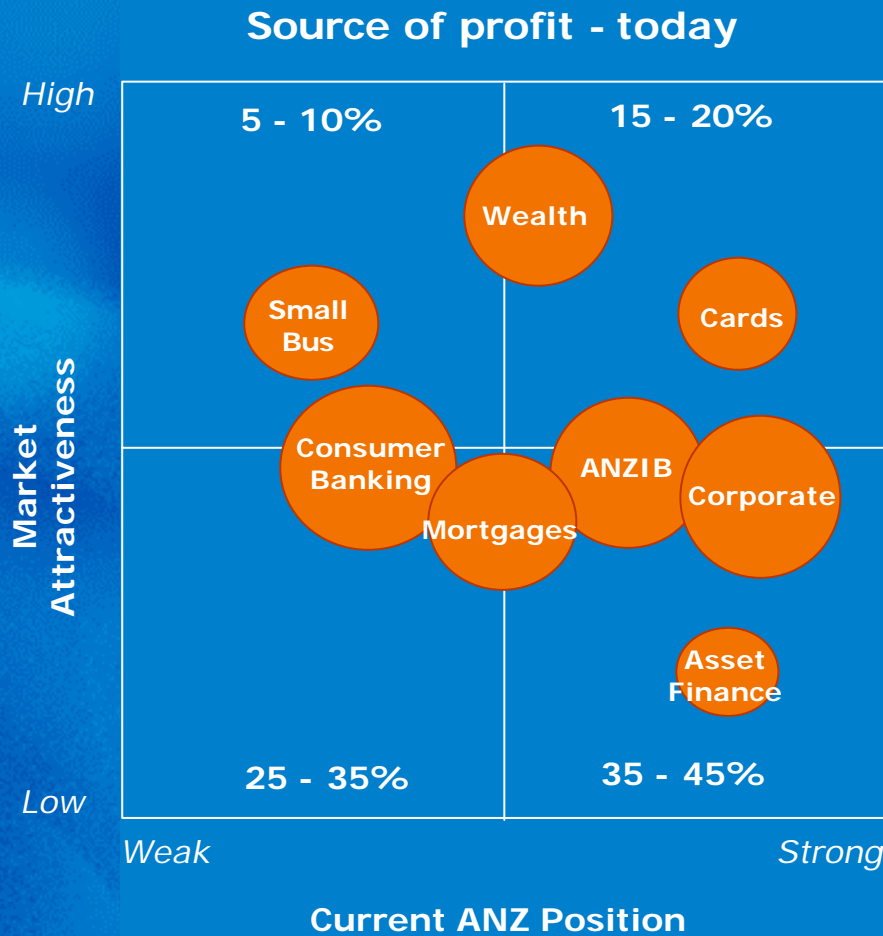


- Earnings from volatile country markets
- Exposure to non-core business with limited capability
- Poor understanding of risk positions
- Poor capabilities in some core domestic markets
- Strong corporate business, resulting in portfolio being skewed toward corporate assets

# We are actively reshaping the business mix and investing for growth...



# ...to build an improved, more sustainable portfolio



# Our growth agenda - driving sustainable growth on three fronts

Organic  
out-performance

Portfolio  
reshaping

Transformational  
moves

## Our targets

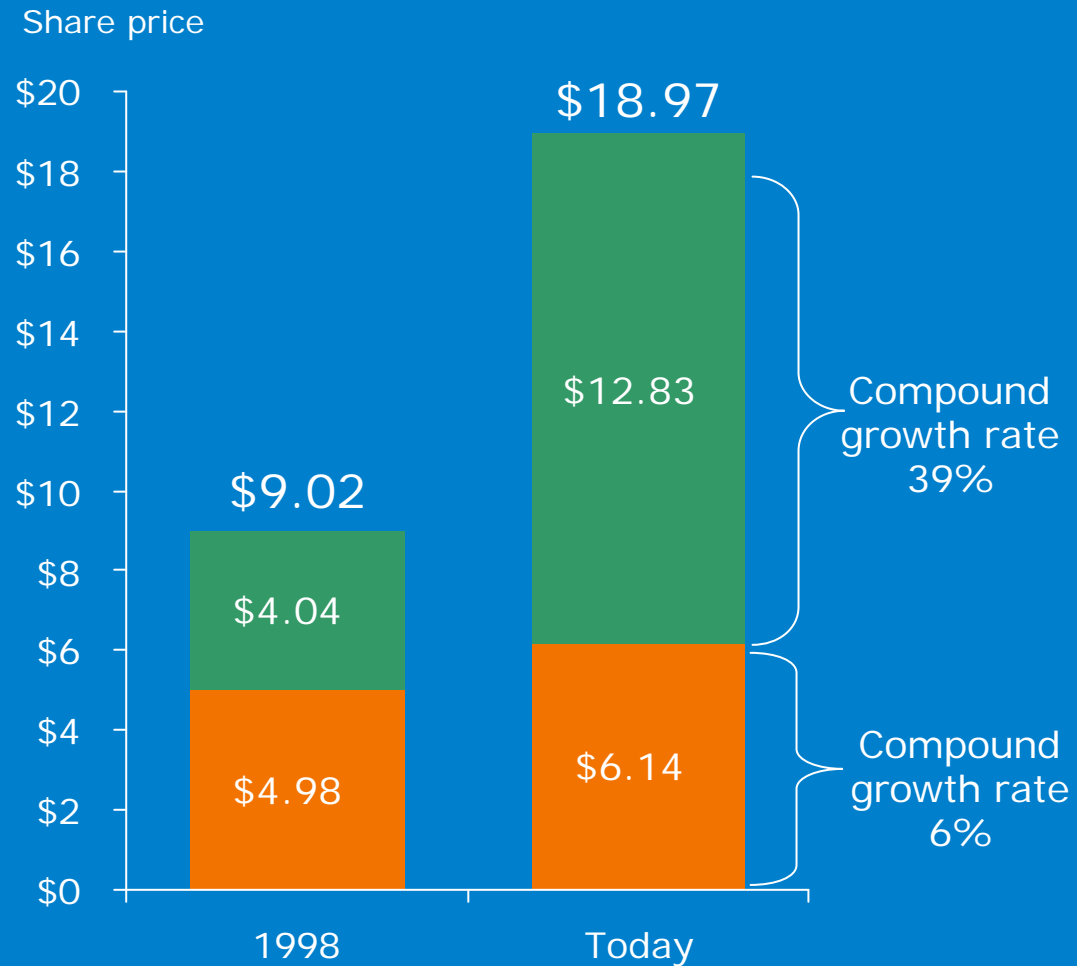
- Revenue growth materially higher than expense growth
- Take business units to sustainable leadership positions
- Build a range of strategic options

# *A Breakout Culture*

Australia and New Zealand Banking Group Limited  
26 April 2002

**John McFarlane**  
Chief Executive Officer

# Building tangible and intangible value at ANZ



■ Intangible net assets per share    ■ Tangible net assets per share

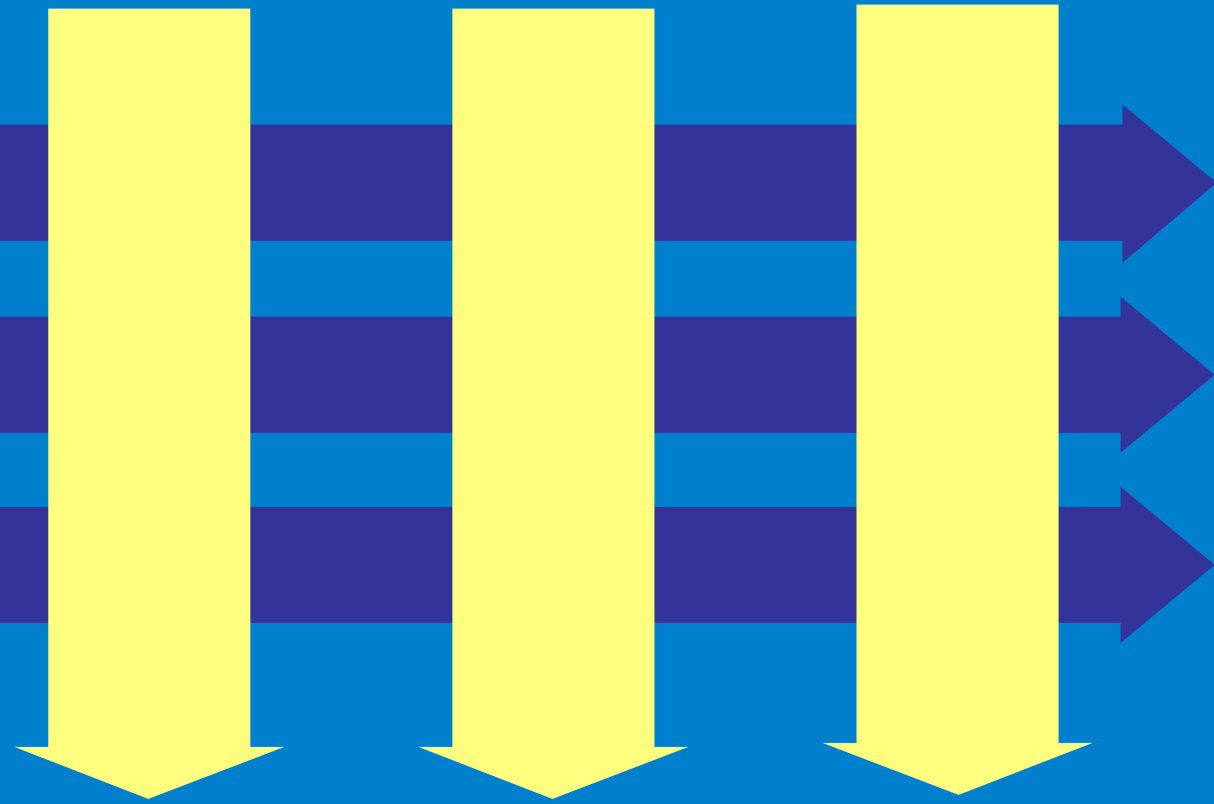
# Three critical enablers distinguish ANZ

Specialisation Execution Culture

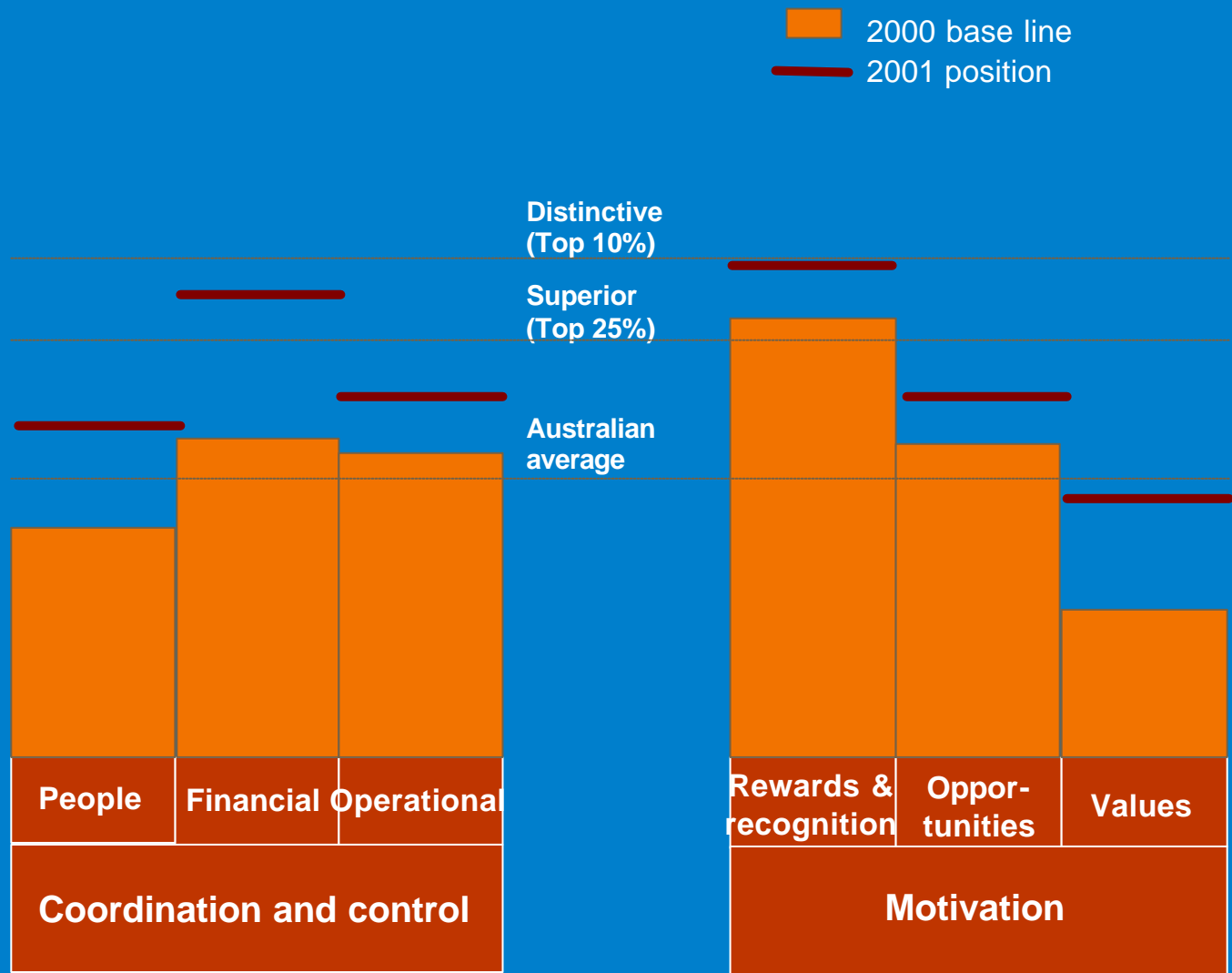
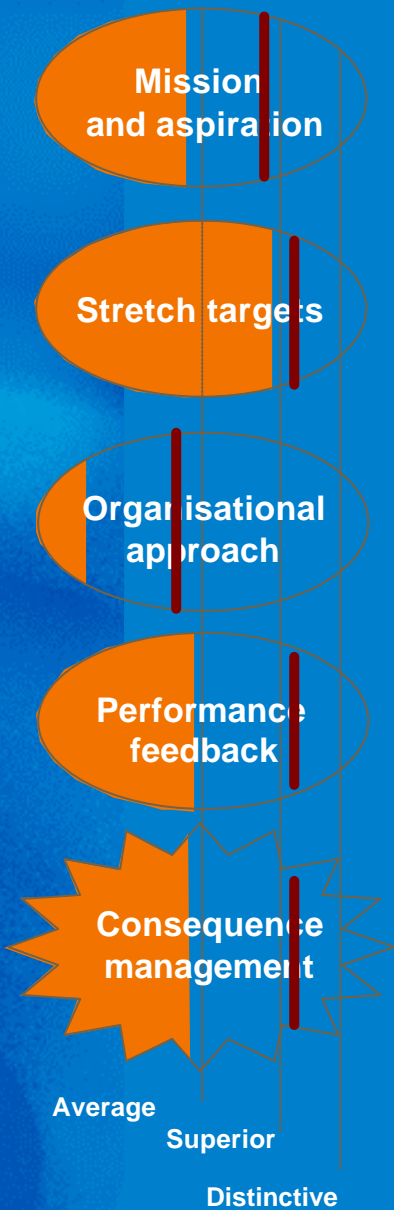
Organic out-performance

Portfolio reshaping

Transformational moves



# Improvement on all fronts in 1 year



\* Benchmark comprises 33 of Australia's Top 50 companies





# Our culture is changing dramatically - improvement in ANZ Values

Accountability  
Achievement  
Customer focus  
Continuous improvement

**In**

**Out**

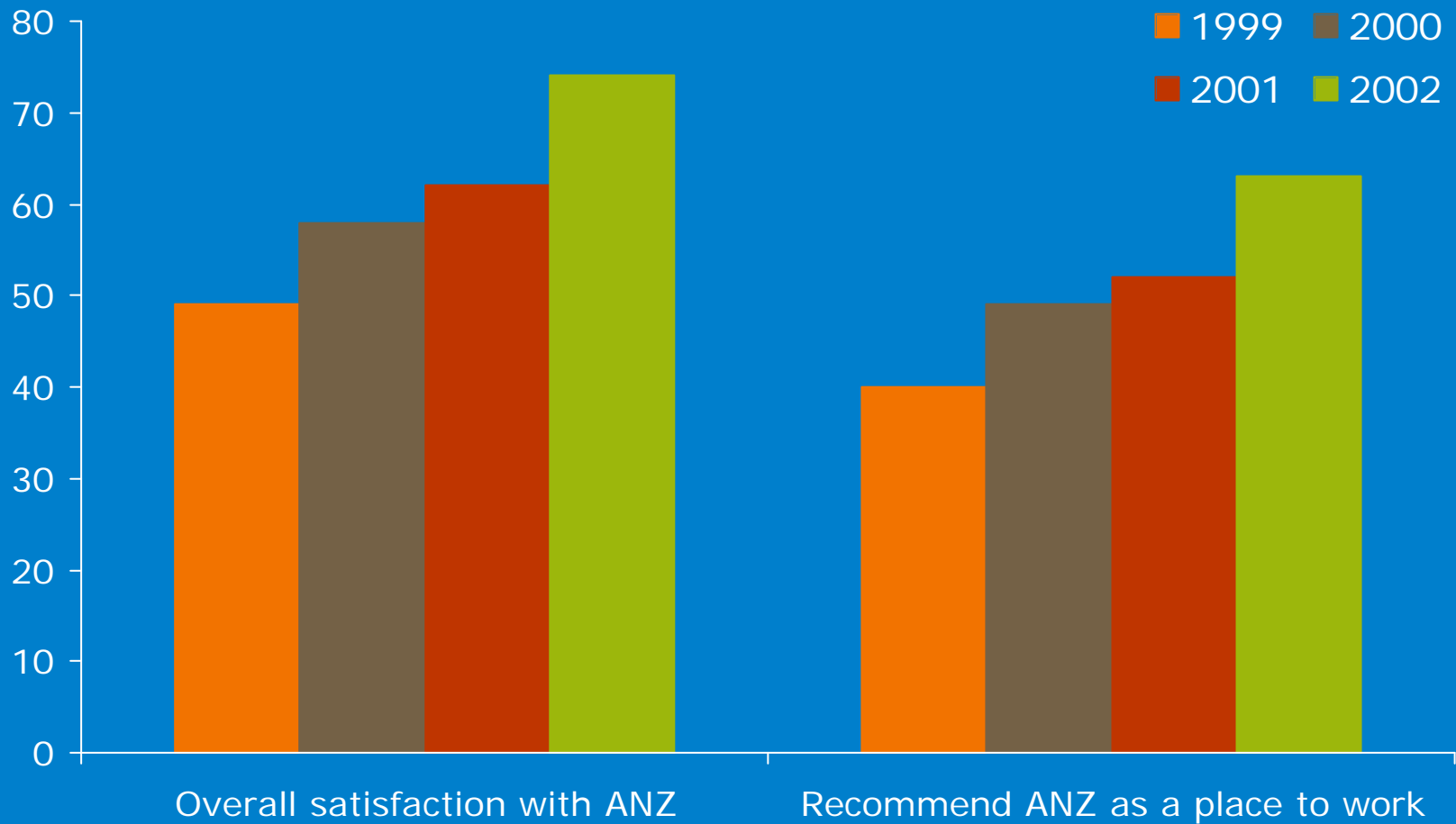
Bureaucracy  
Hierarchy  
Control  
Short-term focus

## **Maintained**

Cost reduction  
Shareholder value  
Results driven  
Profit  
Low risk  
Goals orientation

# Our people are engaged

## Staff satisfaction survey



# All stakeholders key to value creation

## Community

- Maintaining rural branches
- Seniors and welfare banking
- ANZ Community Fund

## Shareholders

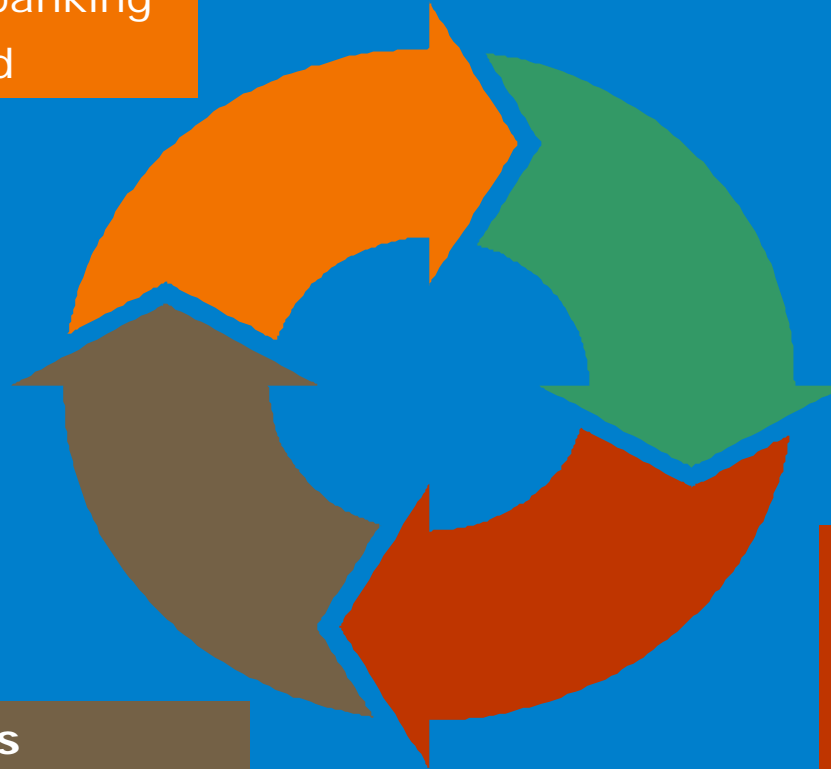
- EPS double-digit
- Cost-Income mid 40's
- ROE above 20%
- Intangible value
- Distinctive disclosure

## Our People

- Performance ethic
- Breakout transformation
- Freedom with accountability
- Stretch incentives

## Customers

- Restoring customer faith
- Simplified accounts and fees
- Ten charter promises



# Results overview

- Strong result in challenging environment
- Clear growth agenda
  - Organic out-performance
  - Portfolio reshaping
  - Transformational moves
- Distinctive strategy
  - Specialisation
  - Superior execution
  - Breakout culture
- Positive second half outlook

## Targets affirmed

- EPS growth > 10%
- ROE > 20%
- CTI – mid 40's
- Maintain AA category



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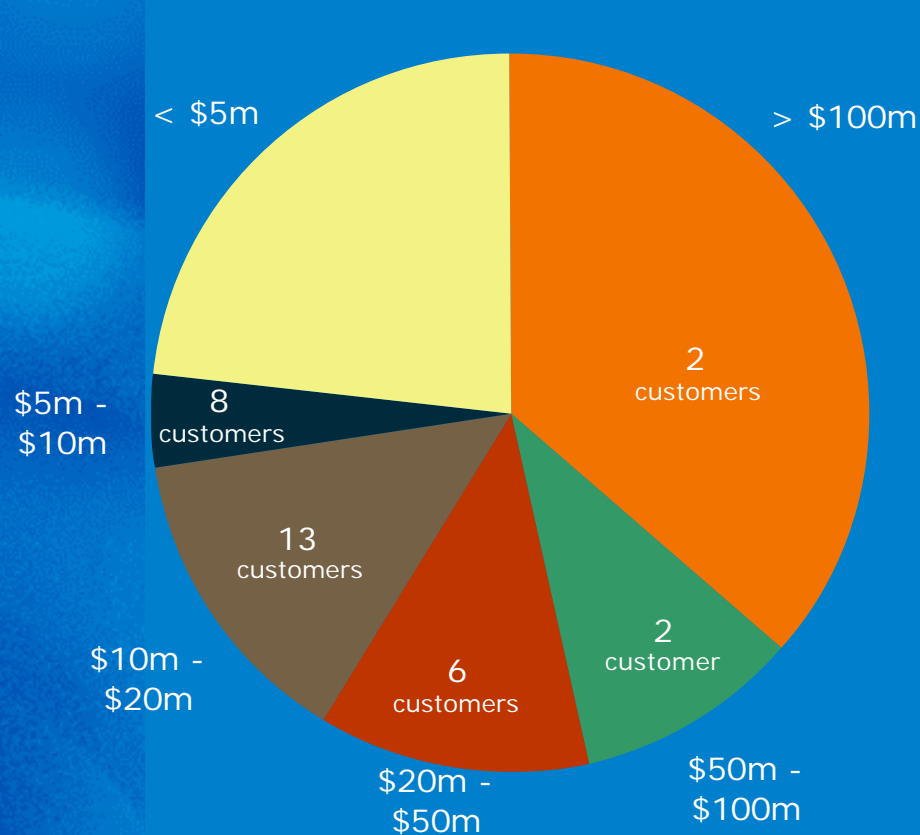


## Outlook for second half

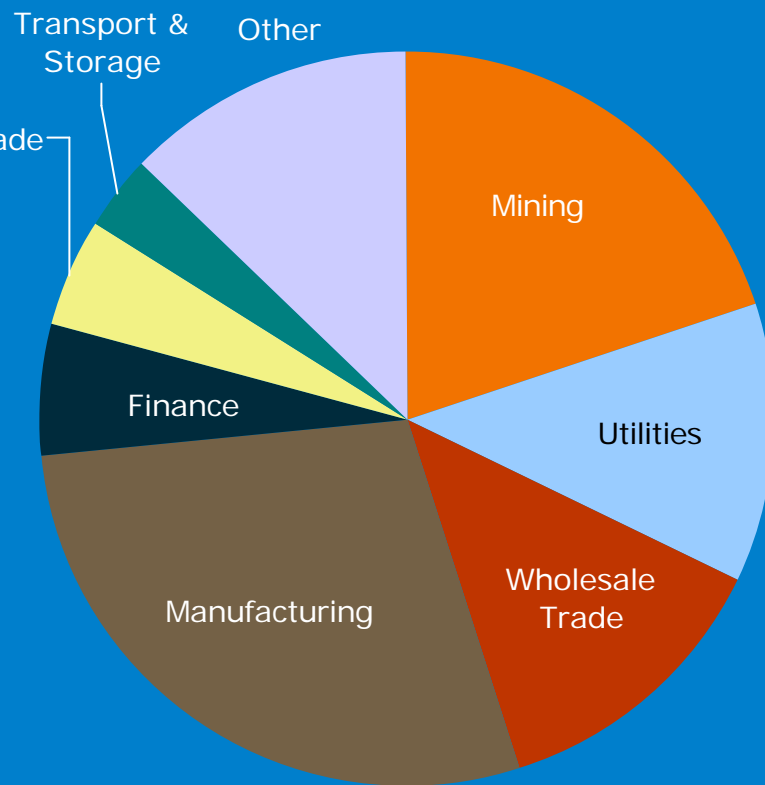
- Australian economy to perform relatively well with overseas markets coming off their recent weakness
- Loan demand is expected to remain reasonably subdued
- Rising interest rates likely to pressure net interest margins in Mortgages, partially offset with gains in Personal Banking
- Specific provisions expected to remain moderately high as we work through the economic cycle
- Cost growth rate lower than revenue growth rate with resultant improvement in cost-income ratio
- Second half outlook expected to be favourable notwithstanding very strong similar period last year

# Three main problem loans - no industry wide factors apparent

## Non-accrual loans by size



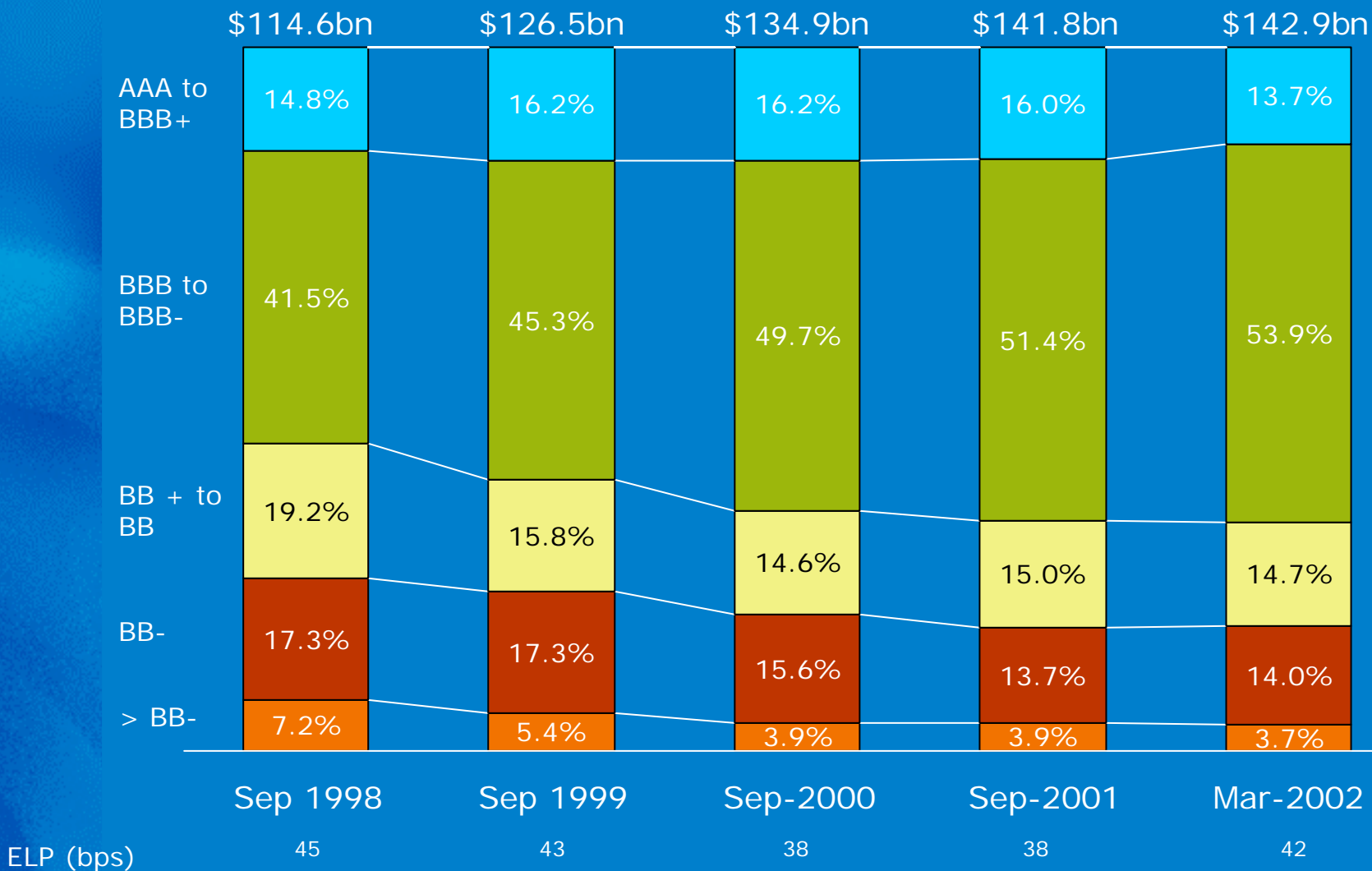
## Non-accrual loans by industry





# Group risk grade profile remains strong

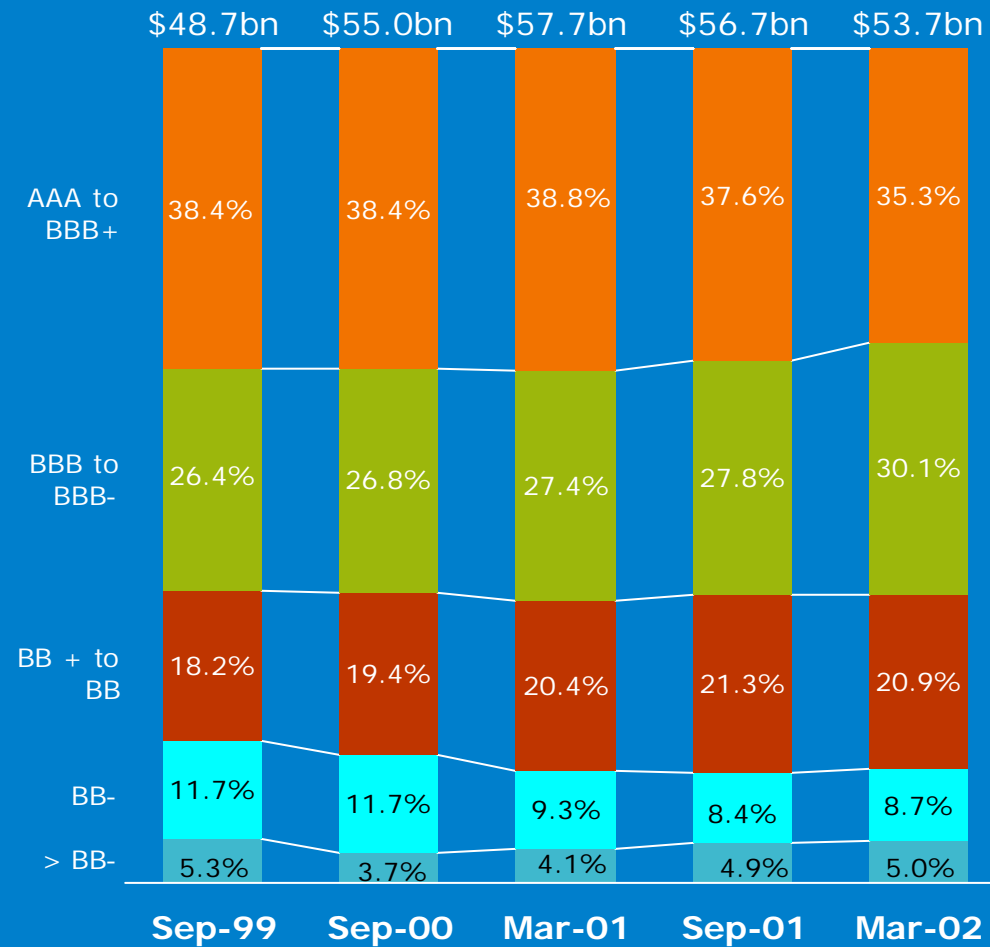
## Gross Lending Assets



>BB- = B+ B, B-, CCC & non-accrual

# Risk profile of Corporate is within expectations and remains sound

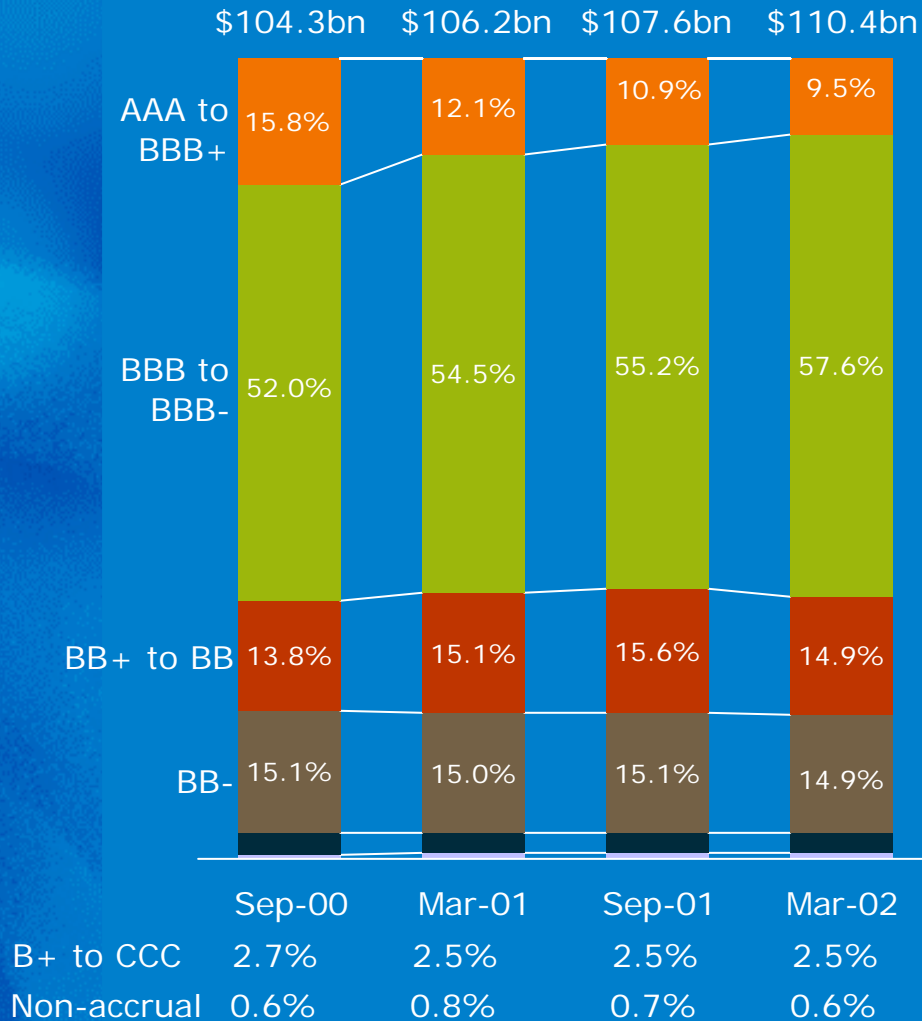
## Corporate risk grade profile



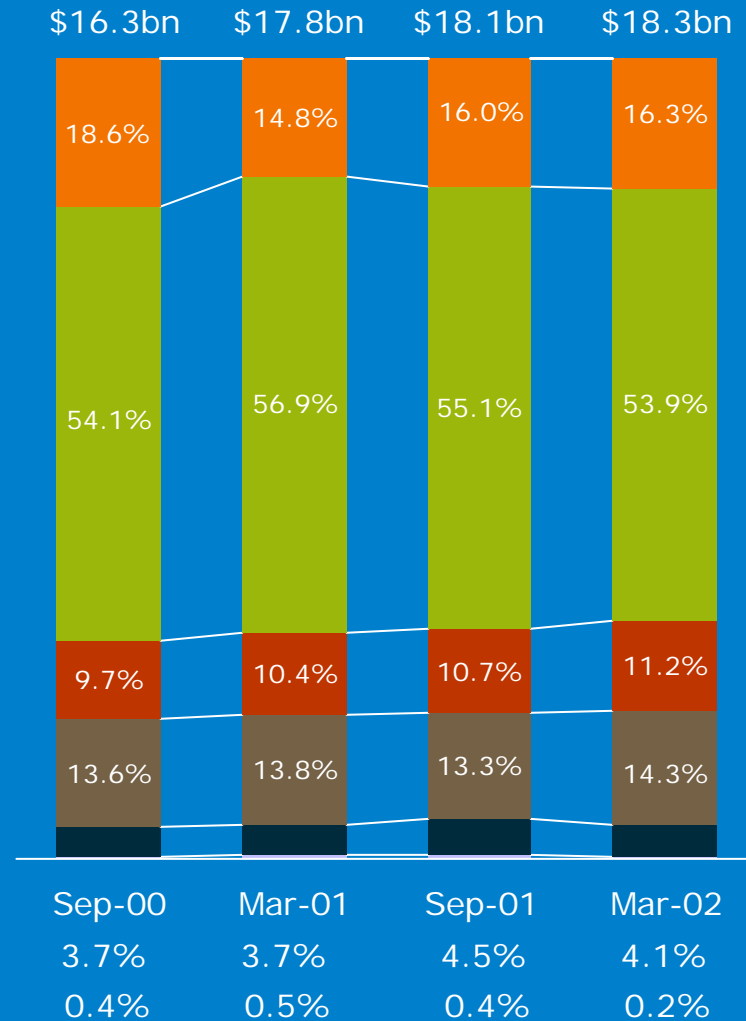
>BB- = B+ B, B-, CCC & non-accrual

# The Australian and New Zealand risk profiles remain stable

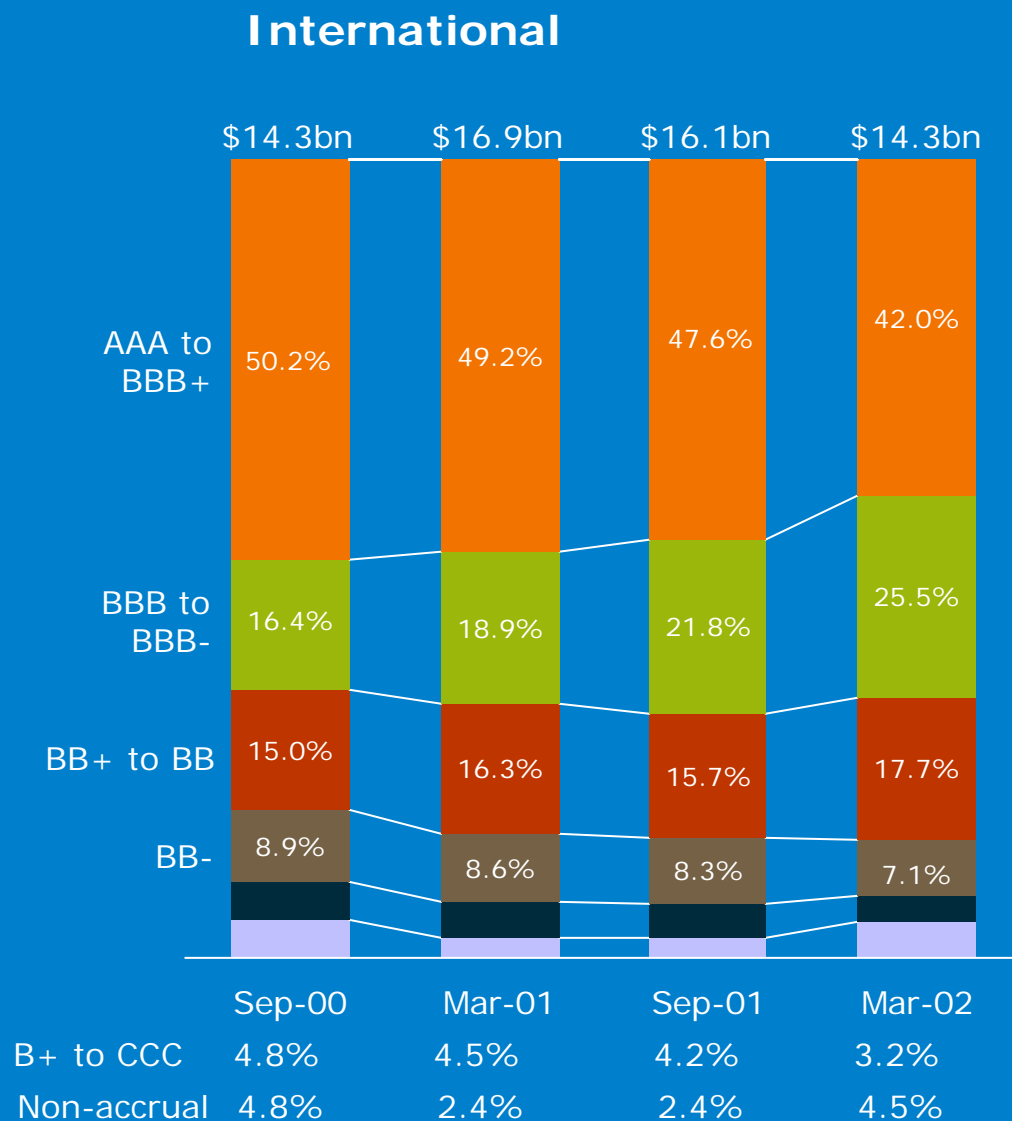
## Australia



## New Zealand



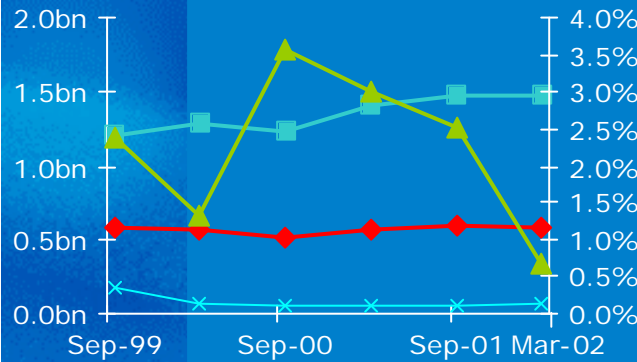
# The International profile has been affected by a small number of large downgrades



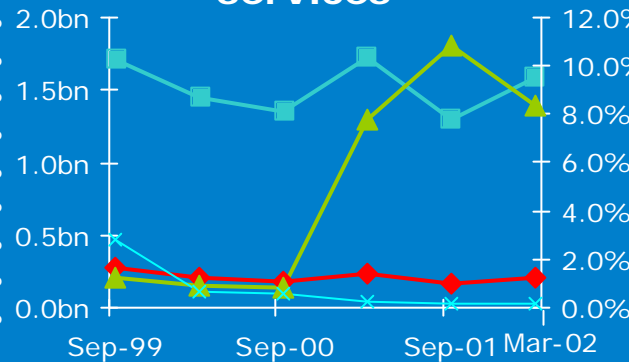
# Industry exposures – Australia & NZ

- Lending Assets (AUDm)
- ◆ % of Portfolio (RHS scale)
- ▲ % in CCR 7D-8G (RHS scale)
- × % in CCR 9-10 (RHS scale)

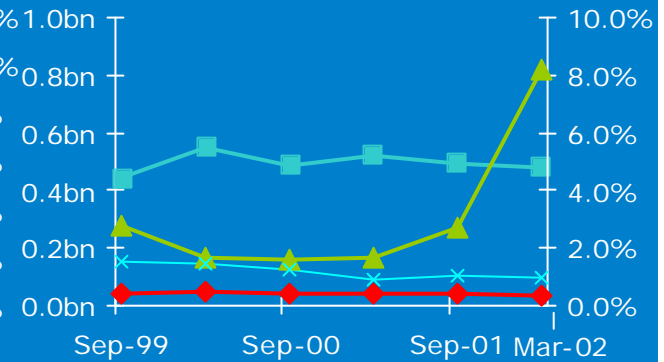
### Health & Community Services



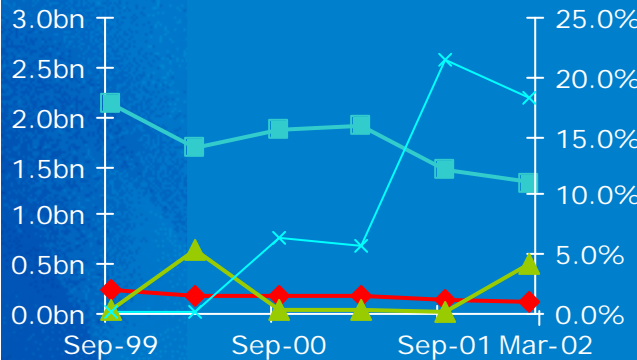
### Cultural & Recreational services



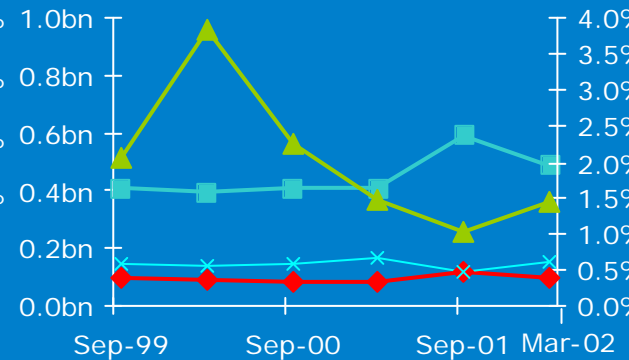
### Forestry & Fishing



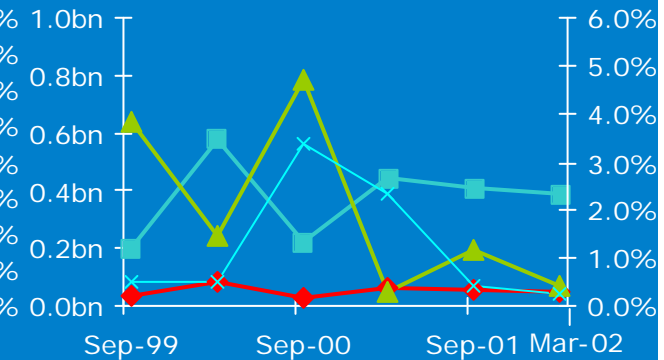
### Mining



### Personal & Other Services

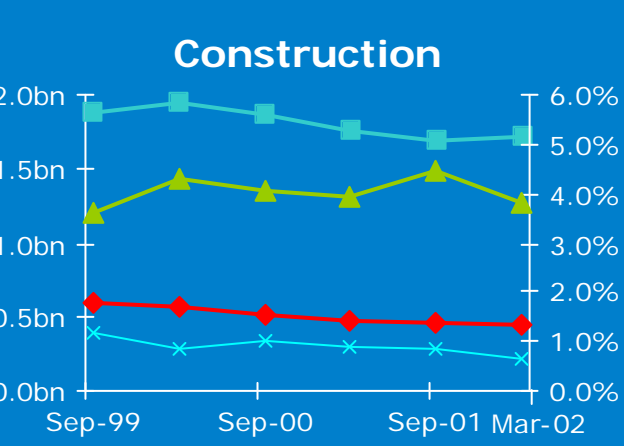
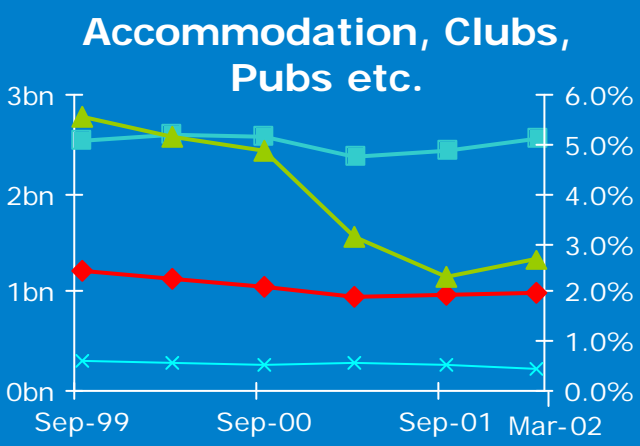
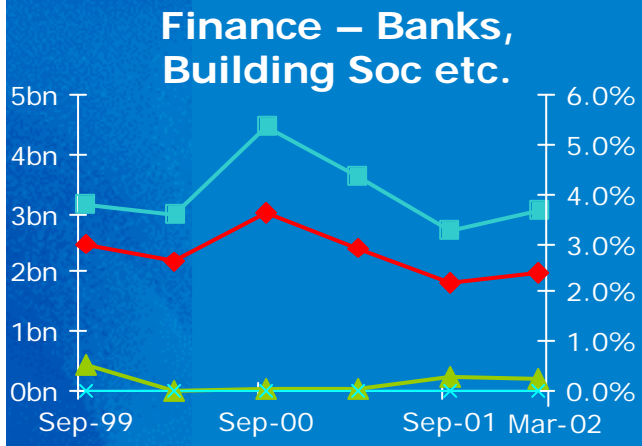
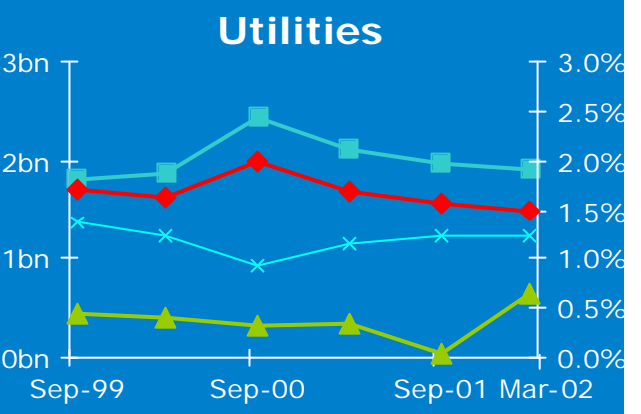
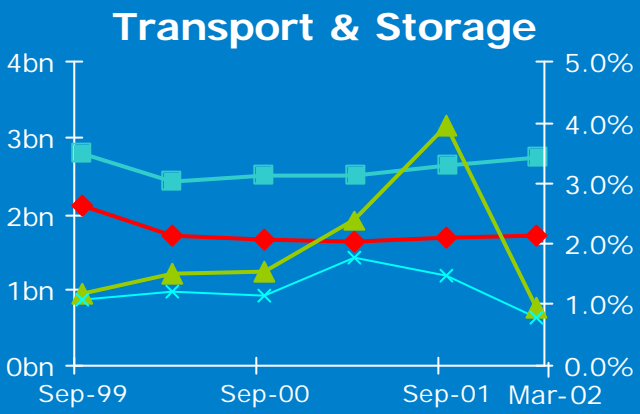
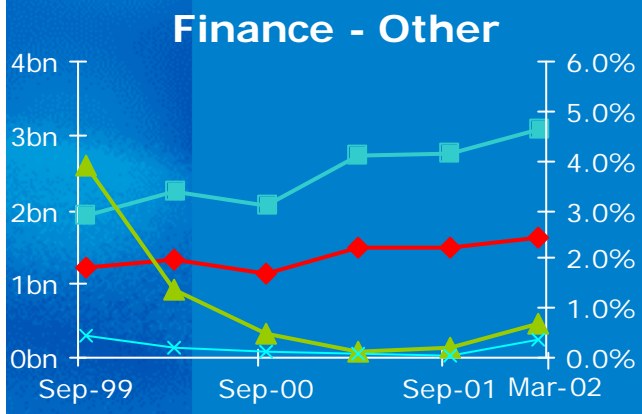


### Communication Services



# Industry exposures – Australia and NZ

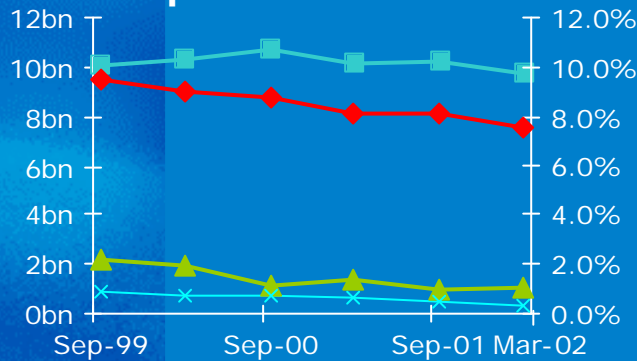
- Lending Assets (AUDm)
- ◆ % of Portfolio (RHS scale)
- ▲ % in CCR 7D-8G (RHS scale)
- × % in CCR 9-10 (RHS scale)



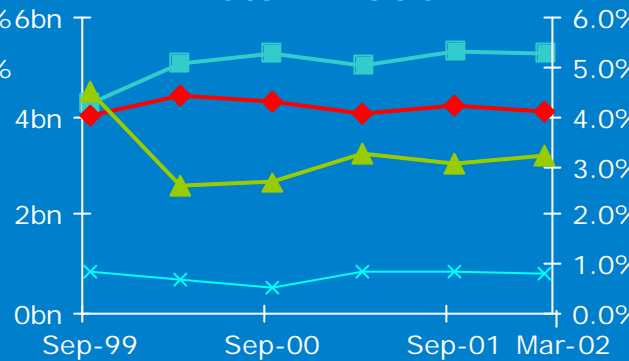
# Industry exposures – Australia & NZ

- Lending Assets (AUDm)
- ◆ % of Portfolio (RHS scale)
- ▲ % in CCR 7D-8G (RHS scale)
- × % in CCR 9-10 (RHS scale)

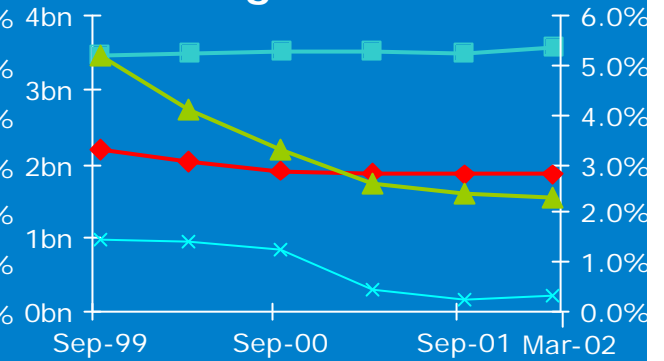
### Real Estate Operators & Dev.



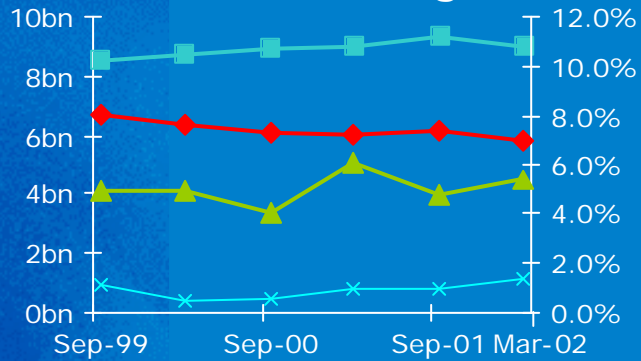
### Retail Trade



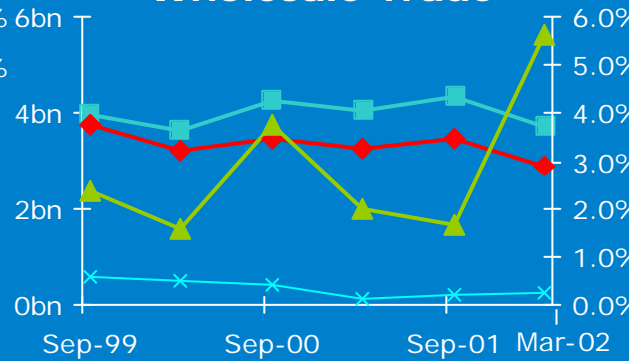
### Agriculture



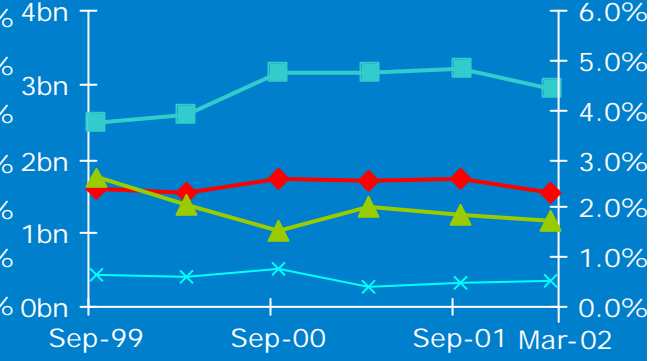
### Manufacturing



### Wholesale Trade



### Business Services



# Specialisation, Execution and Breakout

## Execution

A reputation for superior execution

- Stretch performance targets
- Revenue over cost growth
- Low risk, no surprises

## Specialisation

Building strong strategic positions

- Annual growth investment
- Positioning in growth segments
- Specialised business leadership

and

## Breakout

Bold with the courage to be different

- The bank with a human face
- Performance ethic
- Cultural transformation