

The background is a solid blue color with a grid of small white dots. A faint line graph is visible in the center, showing an upward trend. There are also some horizontal lines and a rounded rectangular shape on the left side.

# 2002 Annual Results

Australia and New Zealand Banking Group Limited

24 October 2002



# Agenda

## John McFarlane

- Highlights

## Peter Marriott

- Result review
- Credit quality
- Capital

## John McFarlane

- Commentary
- Outlook



**John McFarlane**

Chief Executive Officer

24 October 2002

# Delivering on our commitments

- Performing well - record profit of \$2,168m\*
- Exceeded all targets\*
  - EPS Growth 17%
  - ROE 21.6%
  - Cost Income ratio 46.0%
- Strong capital position, well provisioned
- Record staff satisfaction – up 16% to 78%
- Exciting Restoring Customer Faith pilot
- Specialised business strategy operating well
- Stretch target for 2003 of 10% EPS growth

\* Before significant transactions

The background features a large, faint watermark of the ANZ logo, which consists of a stylized 'A' and 'N' formed by a grid of dots. The background is a solid blue color with a pattern of small white dots.

**Peter Marriott**

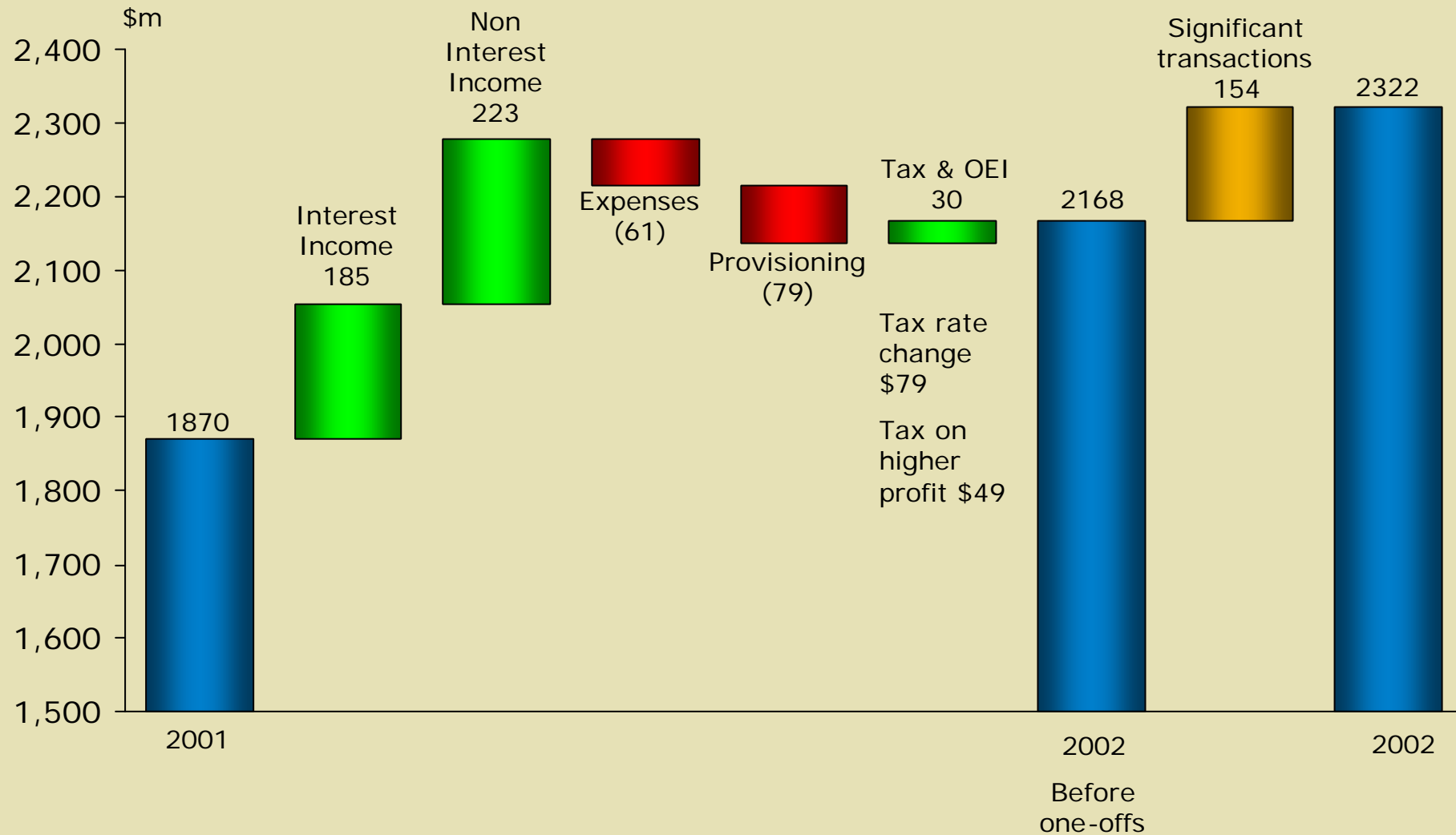
Chief Financial Officer

24 October 2002

# Outline

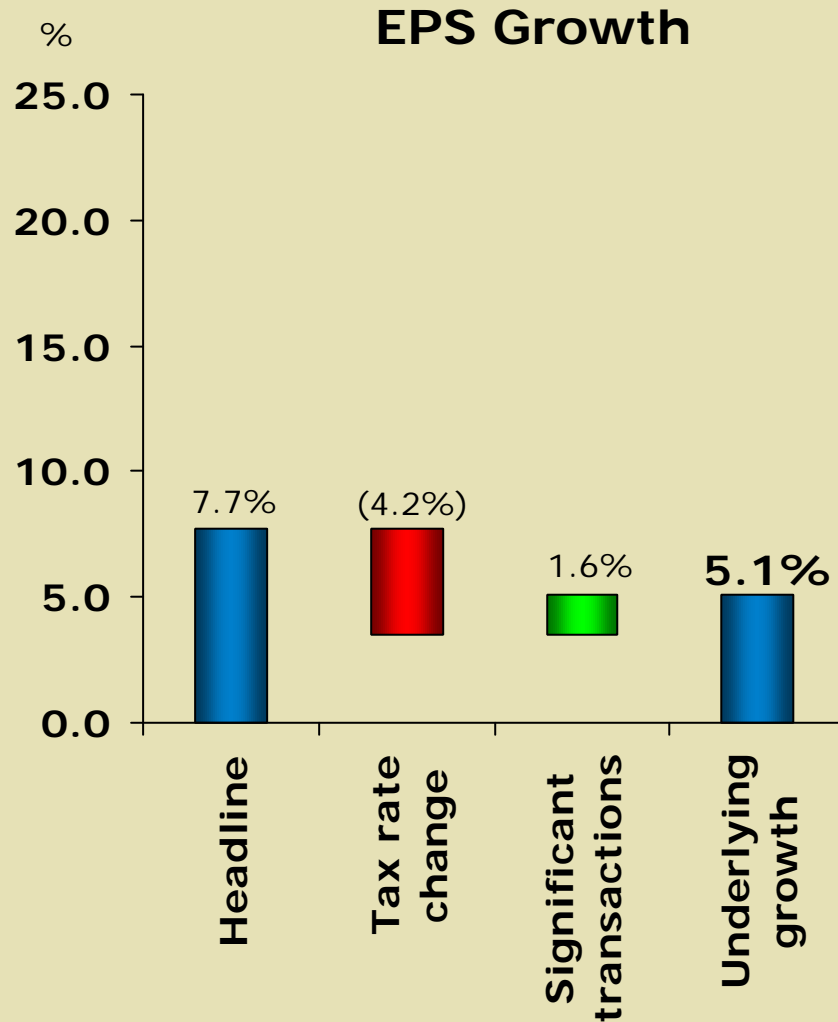
- Result review
  - 2002 Overview
  - Revenue
  - Expenses
    - > Cost income ratio
    - > Software amortisation
  - Doubtful debt provisions
  - Business Unit summary
- Credit Quality
- Capital

# A good result, driven primarily by revenue growth

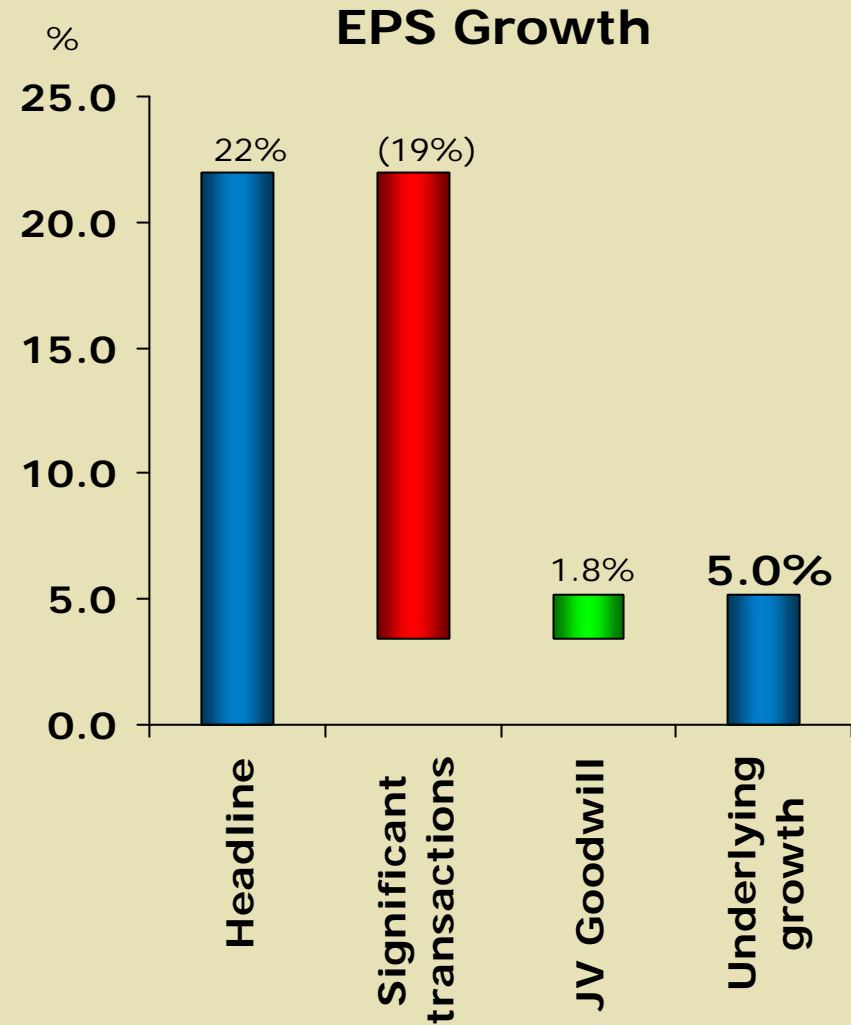


# Steady underlying earnings momentum

Mar 02 v Sep 01

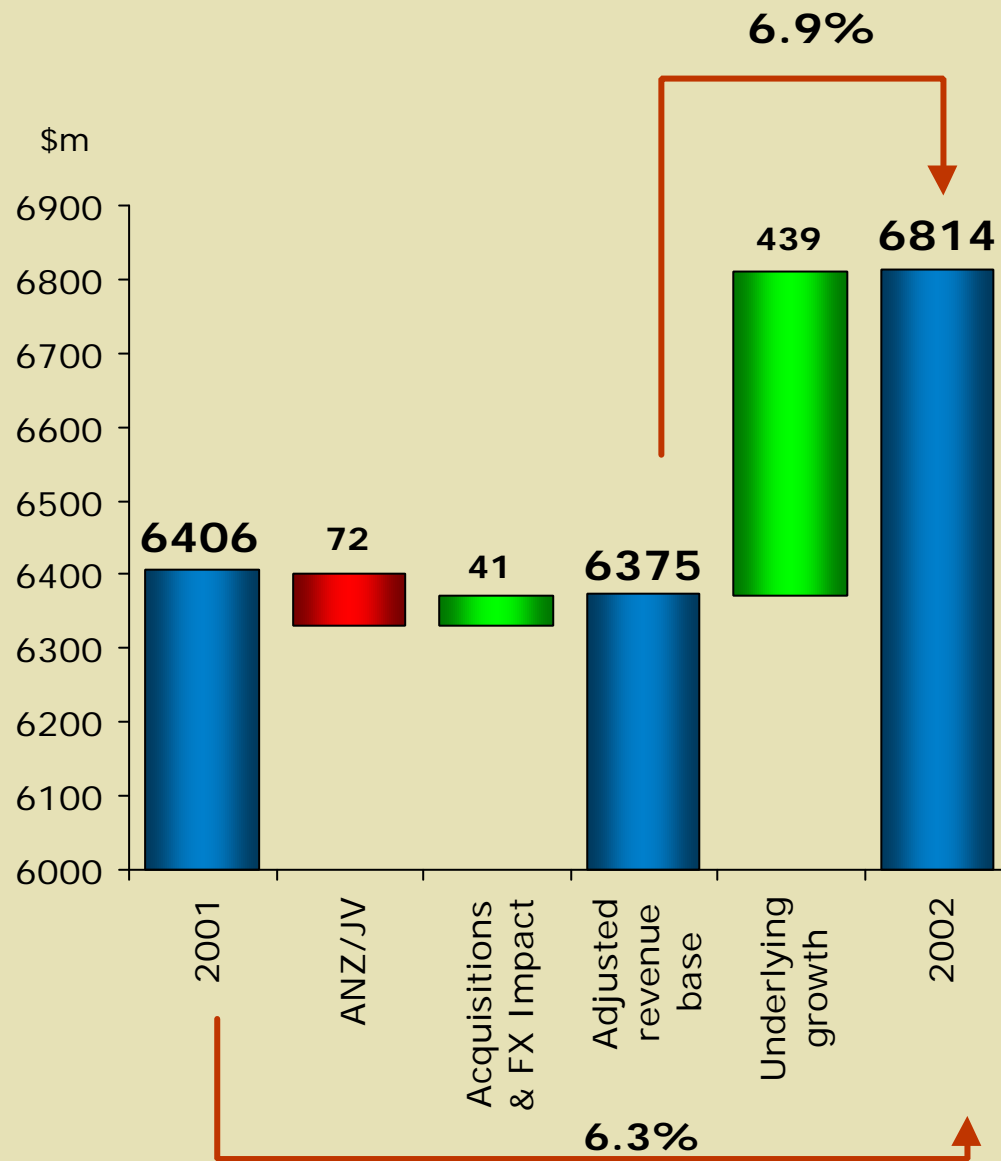


Sep 02 v Mar 02





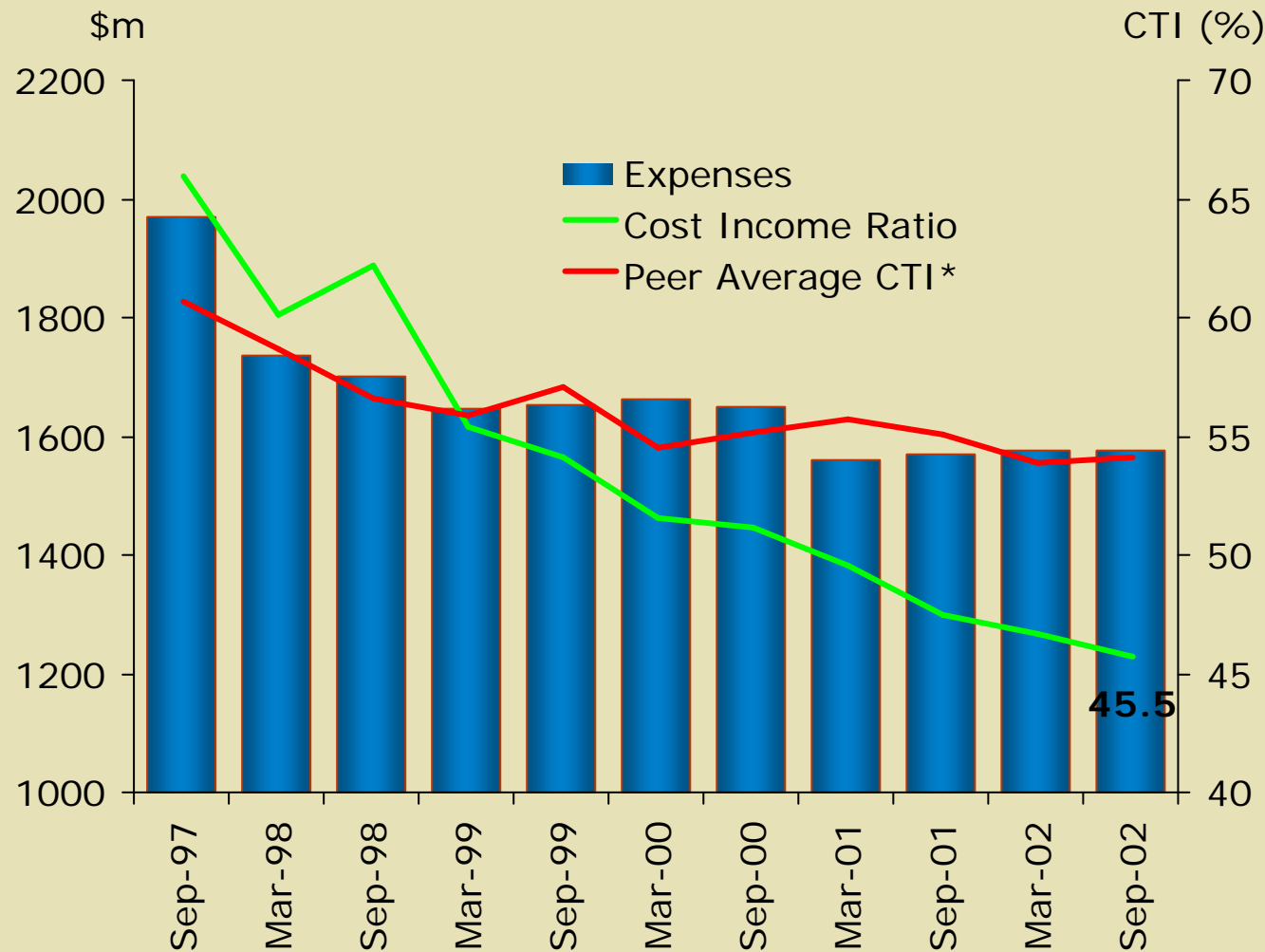
# Healthy underlying income growth



## Income Drivers

- Mortgage outstandings up \$8.9b, partly offset by \$2.7b decline in Corporate lending assets
- Deposits up \$8b, with an equal increase in both Personal and Corporate
- Margins were flat over the year at 2.77%, although second half slightly higher than first half
- Lending fees up 11%, principally driven by corporate businesses
- Non lending fees up 8%, with strong transaction volumes in consumer finance a major contributor

# Cost income ratio on track to meet target of 45

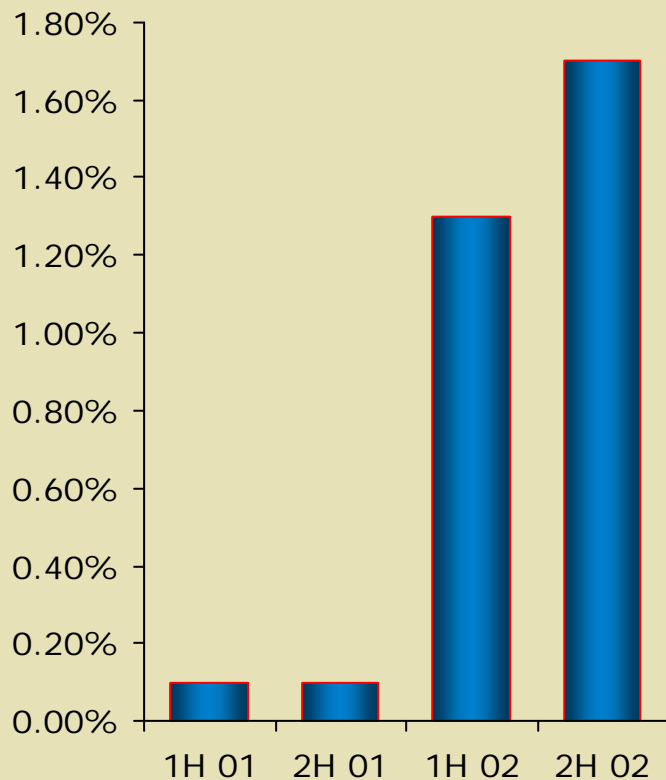


- Peer average impacted by funds management acquisitions
- \$31m expense reduction from sold businesses
- Effective half on half cost growth of 1.8%
- We will invest more in growth areas, particularly personal businesses
- 2000 \$361m restructuring provision fully utilised, ongoing \$60m+ charge likely

\* Source: CSFB

# We will continue to carefully manage cost growth relative to revenue growth

## Underlying cost growth trending upward



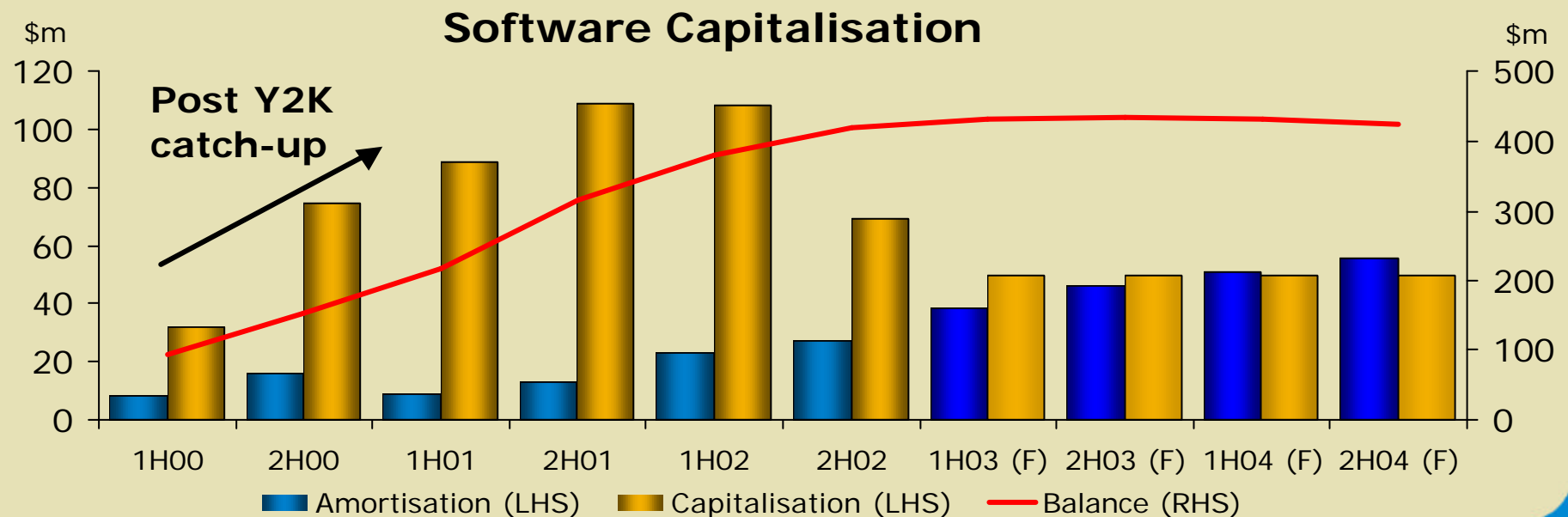
+

- Higher amortisation and depreciation
- Increasing growth investment

- Balancing earnings outcomes with investment in growth
- “Surplus” earnings targeted for investment
- Cost-income ratio to trend downward

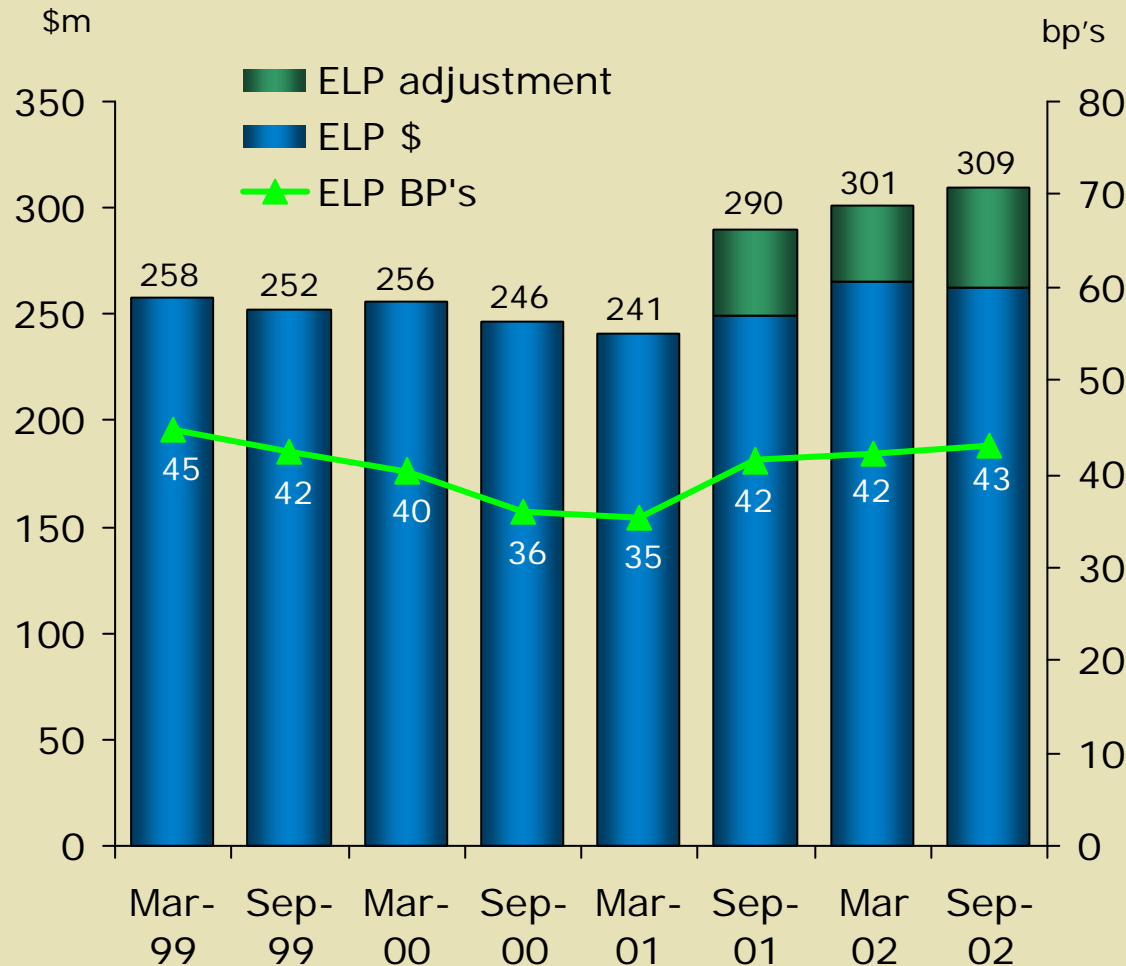
# Software capitalisation – generational change in core infrastructure

- Sales and Service Platform (SSP)
  - Replaces telling system from early '80s
- Common Administration System (CAS)
  - Replaces GL, HR, payroll, fixed asset register, accounts payable, procurement
- Vision Plus
  - Replaces existing card system in operation since the mid 80's



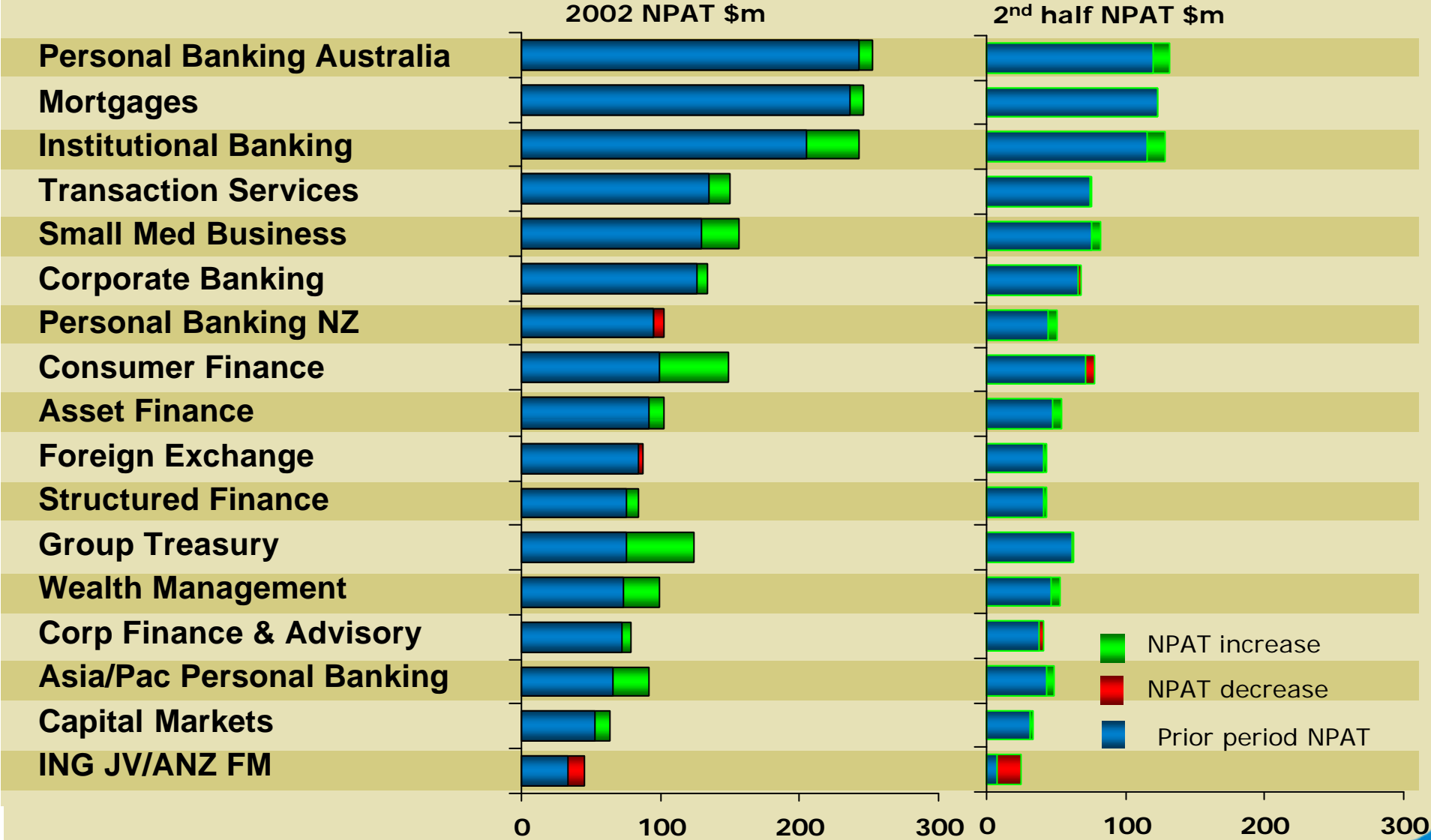
# Provisioning charge reflects conservative management

## ELP Charge



- ELP portfolio level adjustment continued
  - reflecting ongoing global economic uncertainty
  - calculated as one notch downgrade across GSF portfolio
- Domestic ELP rate declining
- ELP adjustment likely to continue until international defaults stabilise

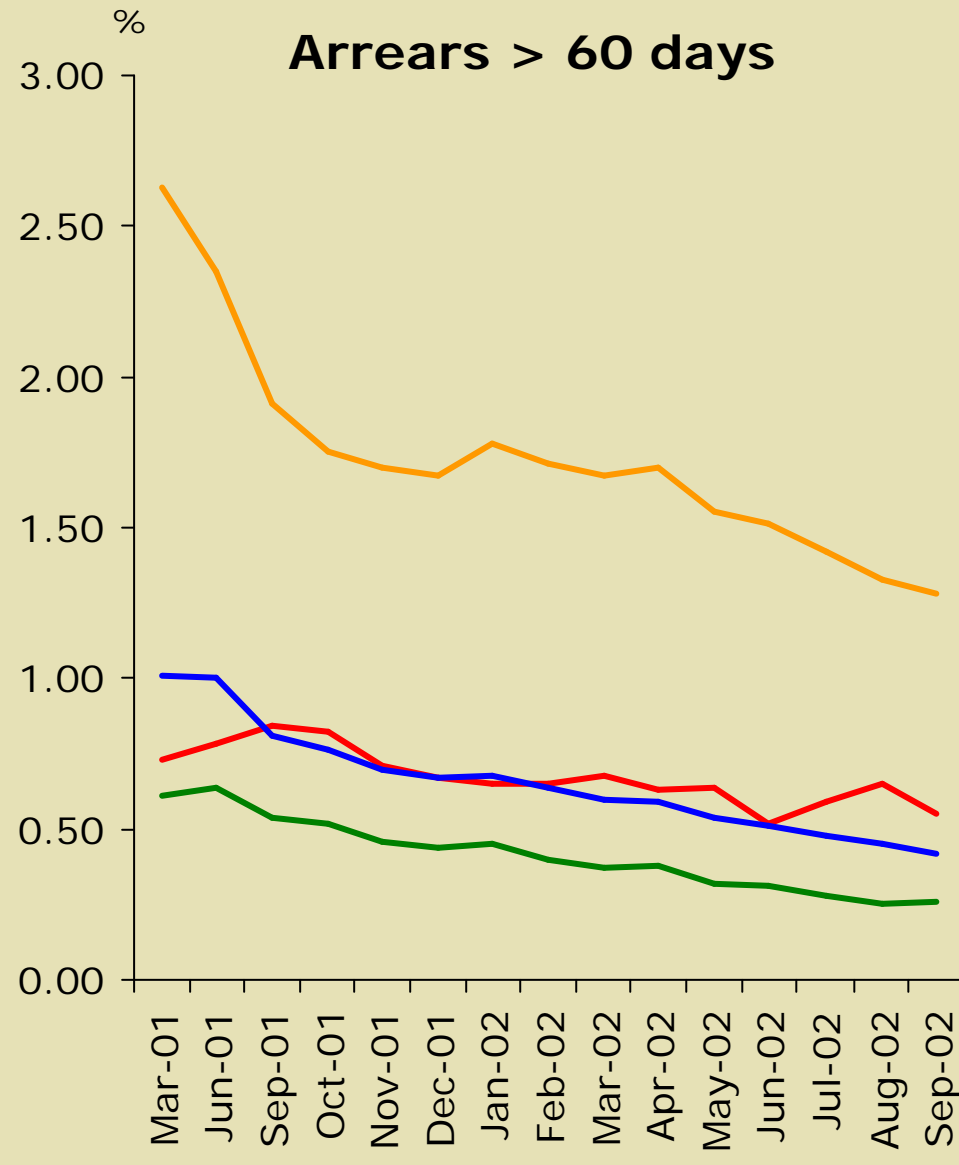
# A diversified portfolio performing well



# Outline

- Result review
- Credit Quality
  - Consumer
    - > Overview
    - > Mortgages
  - Corporate
    - > C&IB, GTS, Asia corporate
    - > ANZIB
    - > Global Telecommunications portfolio
    - > Global Energy portfolio
    - > Top 10 exposures
  - Specific provisions
  - Non-accrual loans
  - Provisioning coverage
- Capital

# Consumer portfolio continues to improve



- Consumer sector in good shape, with continuing low levels of unemployment
- Mortgage arrears at record lows – unlikely to be sustainable
- Ongoing focus on collections management
- Scorecards remain “tight”

— Small Business

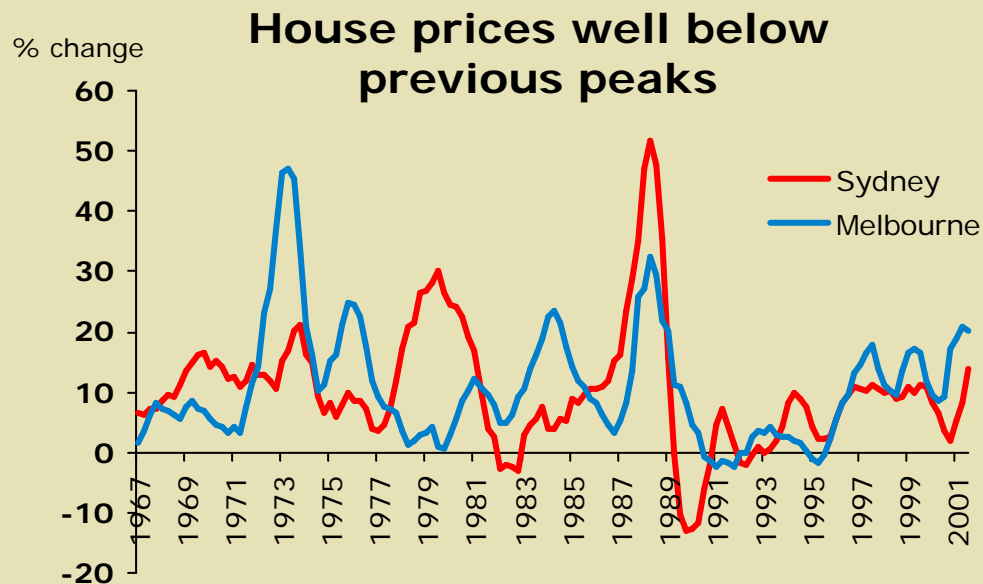
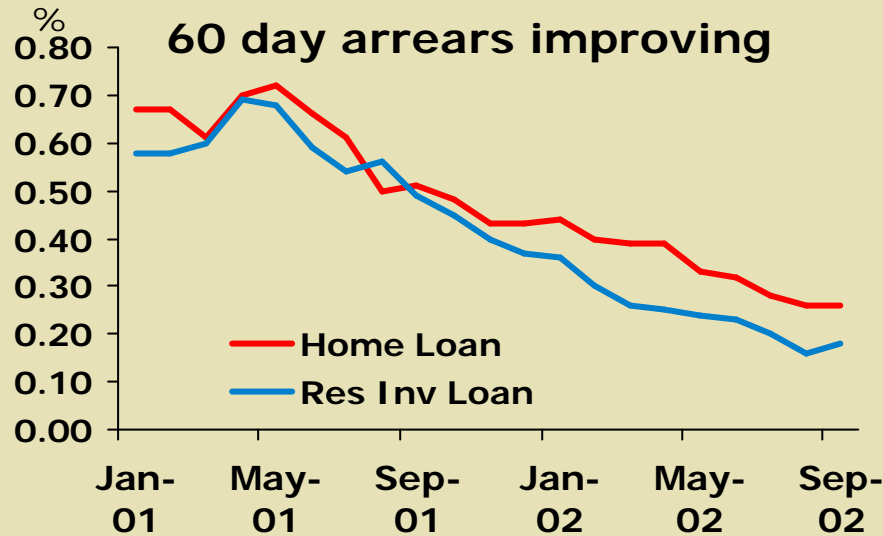
— Mortgages

— Cards & Personal Loans

— Personal & SME Businesses - Overall (excl Asset Finance, Pacific, Asia)



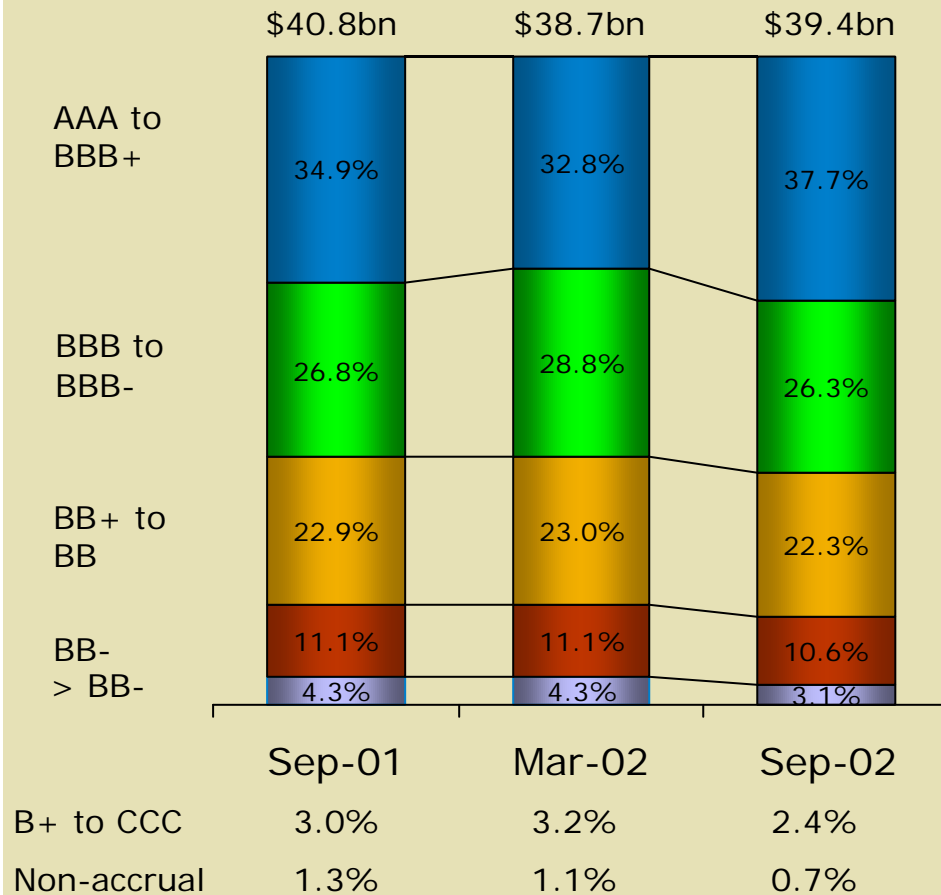
# Mortgage outlook – slight deterioration



- ANZ has not allowed FHOG to be the source of minimum equity requirement
- Behavioural scores remain stable
- Scorecards tightened in 2001, resulting in higher quality borrowers
- Unemployment, a key driver of default, continues to trend downwards
- Scenario analysis at 95% confidence suggests loss not exceeding 4-6 bp over next 12 months, compared with ELP of 5 bp
- Based on uncommitted monthly income at time of application, 100% of customers could meet a 1% rise in interest rates, and 97.2% could meet a 2% increase without rearranging affairs

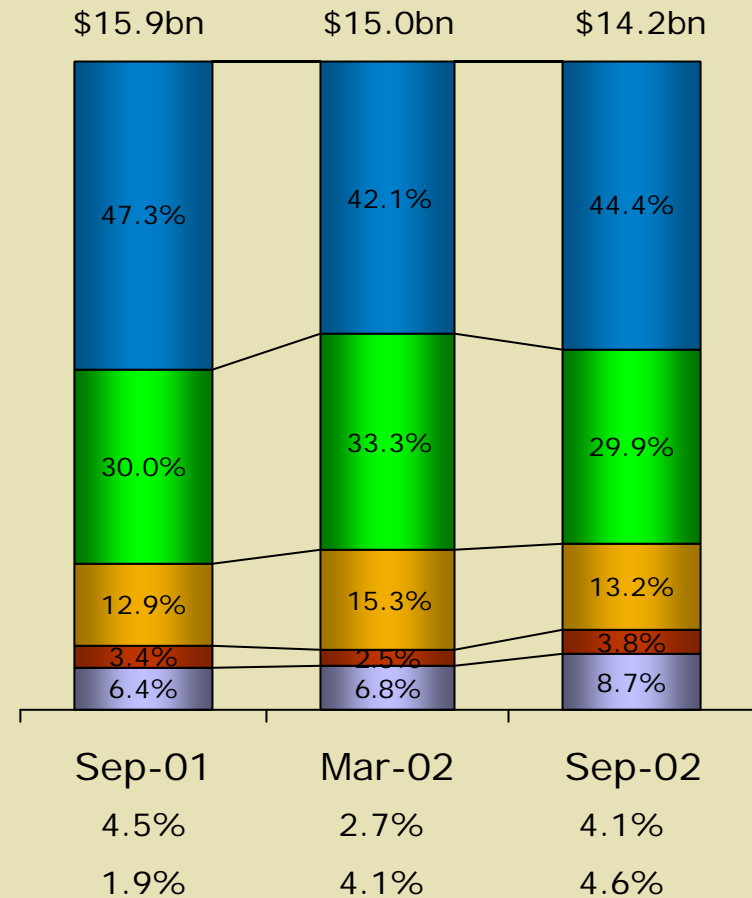
# Domestic corporates in good shape, some concerns in ANZIB offshore

## C&IB, Asia & GTS Risk Grade Profile\*



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

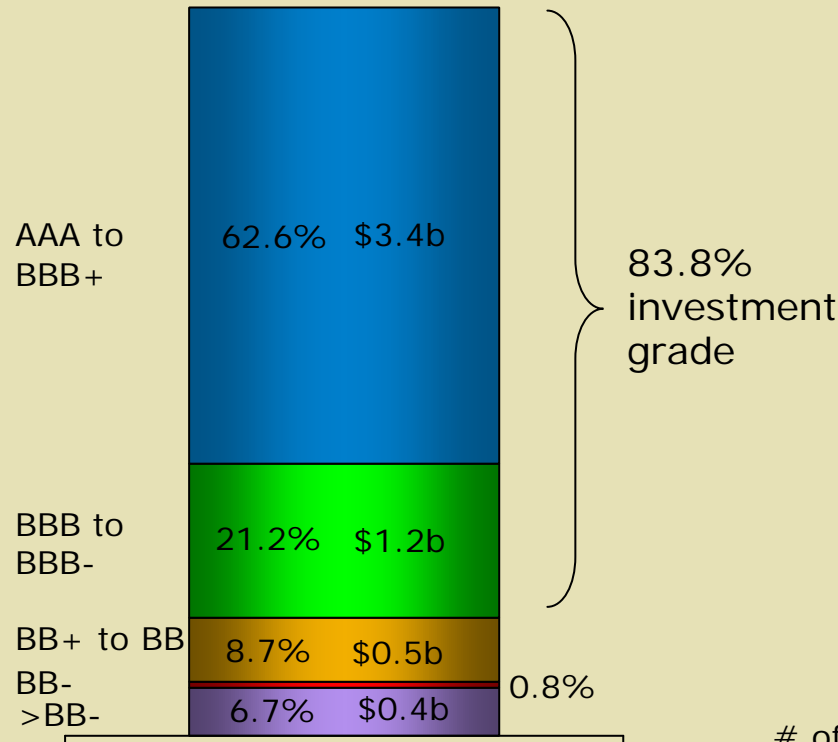
## ANZIB Risk Grade Profile\*



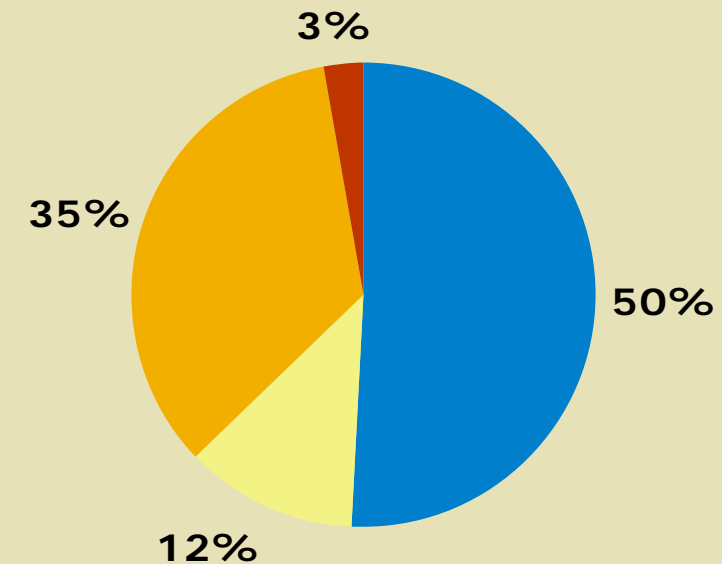
\* Risk grade profile by outstandings

# Global telecommunications portfolio in reasonable shape

Telco Risk Grade Profile\*



Exposure by geography



- Aust/NZ (97.6% Investment Grade)
- Americas (69.3% Investment Grade)
- UK/Europe (71.1% Investment Grade)
- Asia (34.5% Investment Grade)

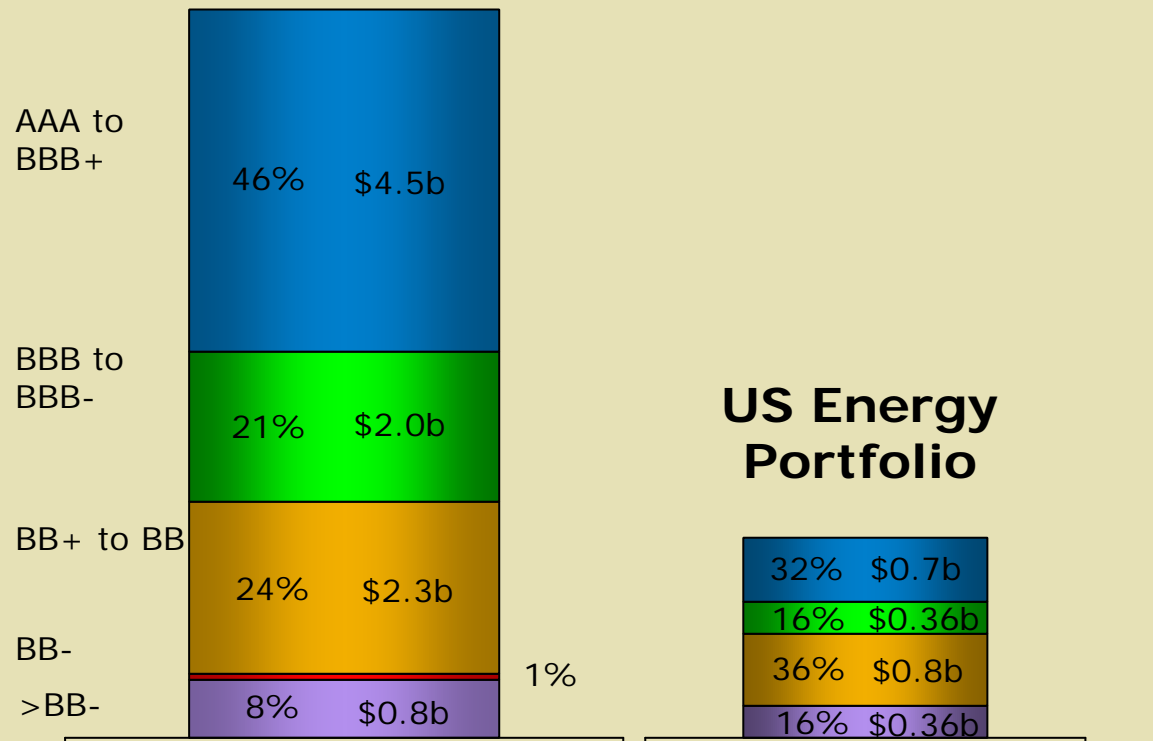
Sep-02		# of customers
Total Limits (AUD)	\$5.5b	49
B+ to CCC	1.9% \$0.1b	4
Non Accrual	4.8% \$0.3b	3

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

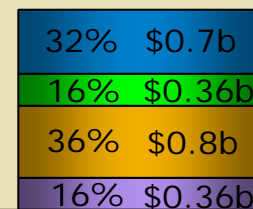
\*Risk grade profile by limits

# Global energy portfolio – some issues, but containable

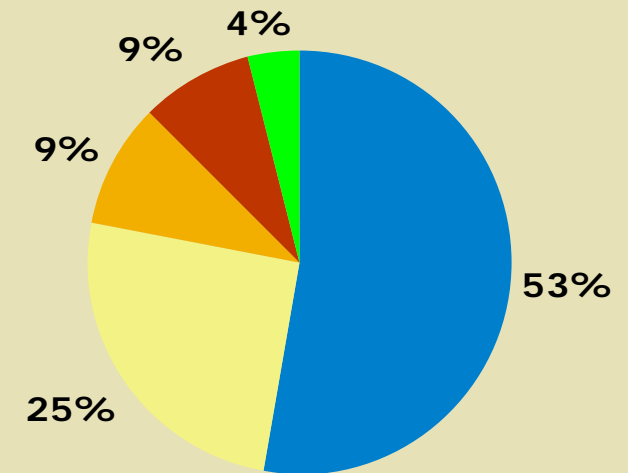
## Global Energy Portfolio\*



## US Energy Portfolio



## Exposure by geography

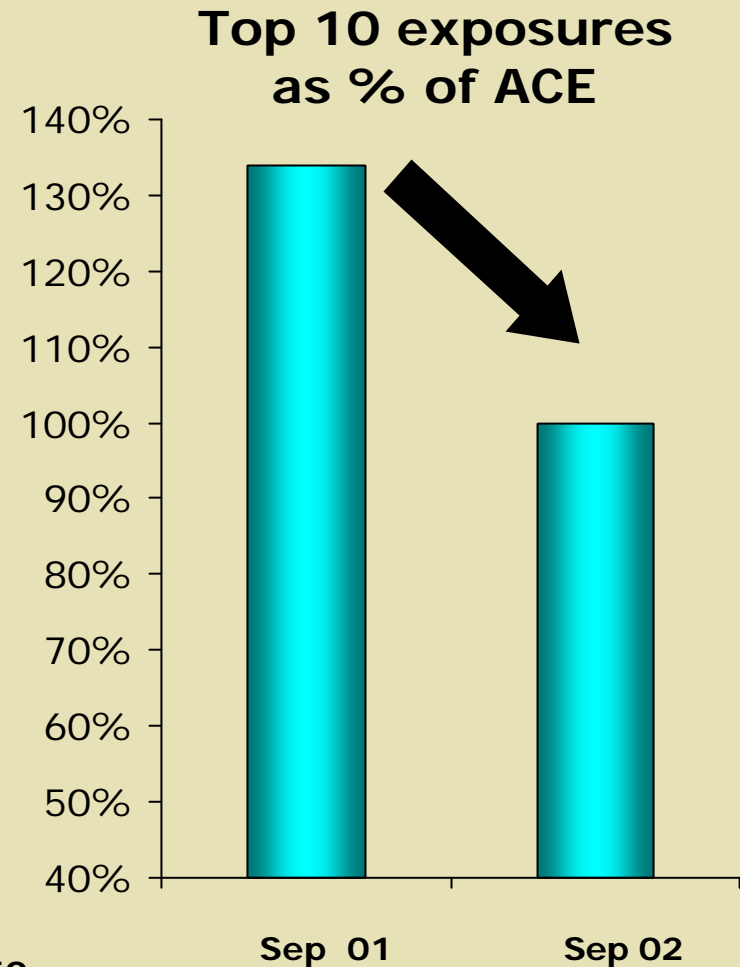
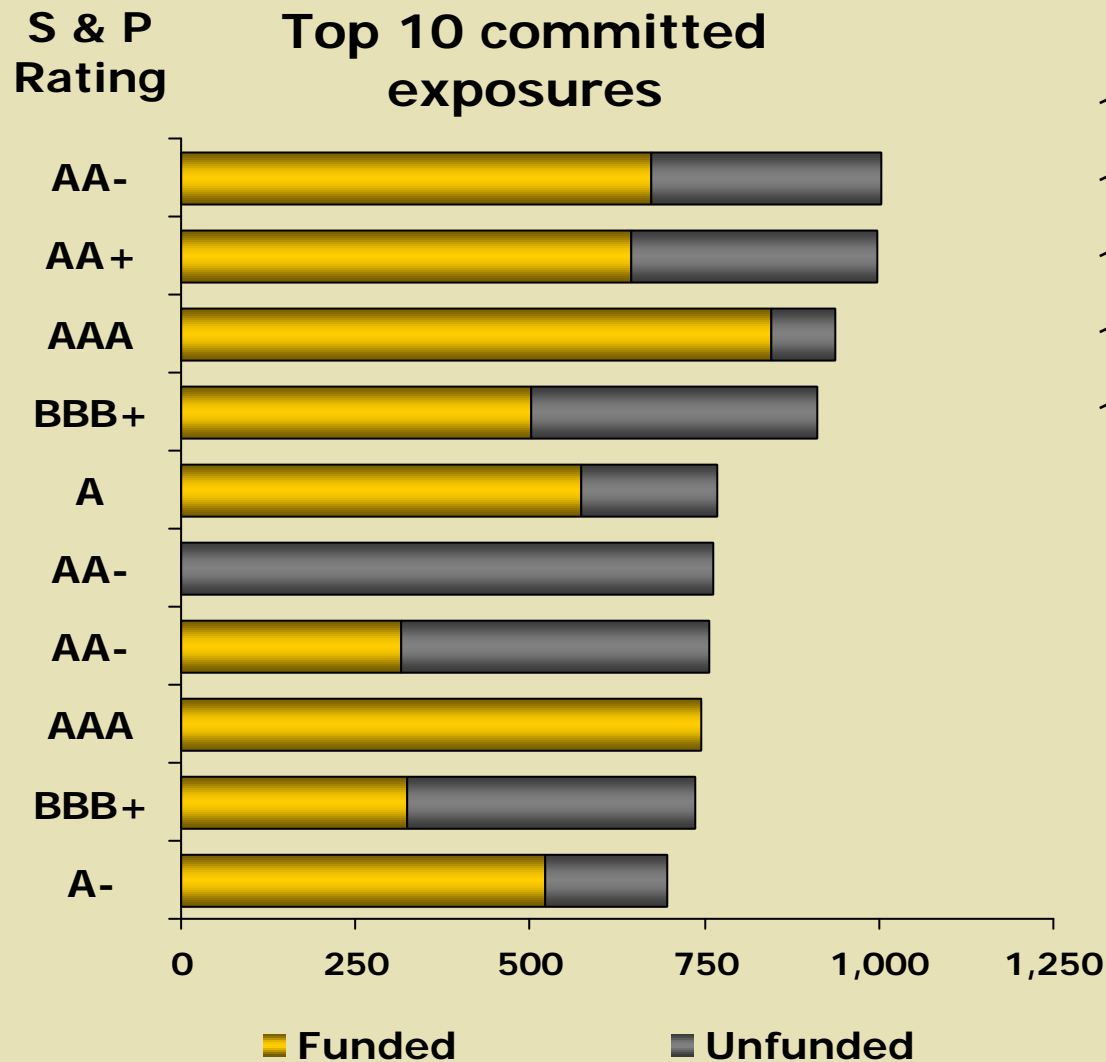


- Aust/NZ (77.5% Inv Grade)
- Americas (43.5% Inv Grade)
- UK/Europe (64.6% Inv Grade)
- Asia (61.0% Inv Grade)
- Middle East (98.0% Inv Grade)

(AUDm)	Sep-02	# of customers	Sep-02	# of customers
Total Limits	\$9.6bn	78	\$2.2bn	26
B+ to CCC	4.8% \$0.46b	12	12.2% \$0.27b	5
Non Accrual	3.2% \$0.3b	5	4.0% \$0.09b	2

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

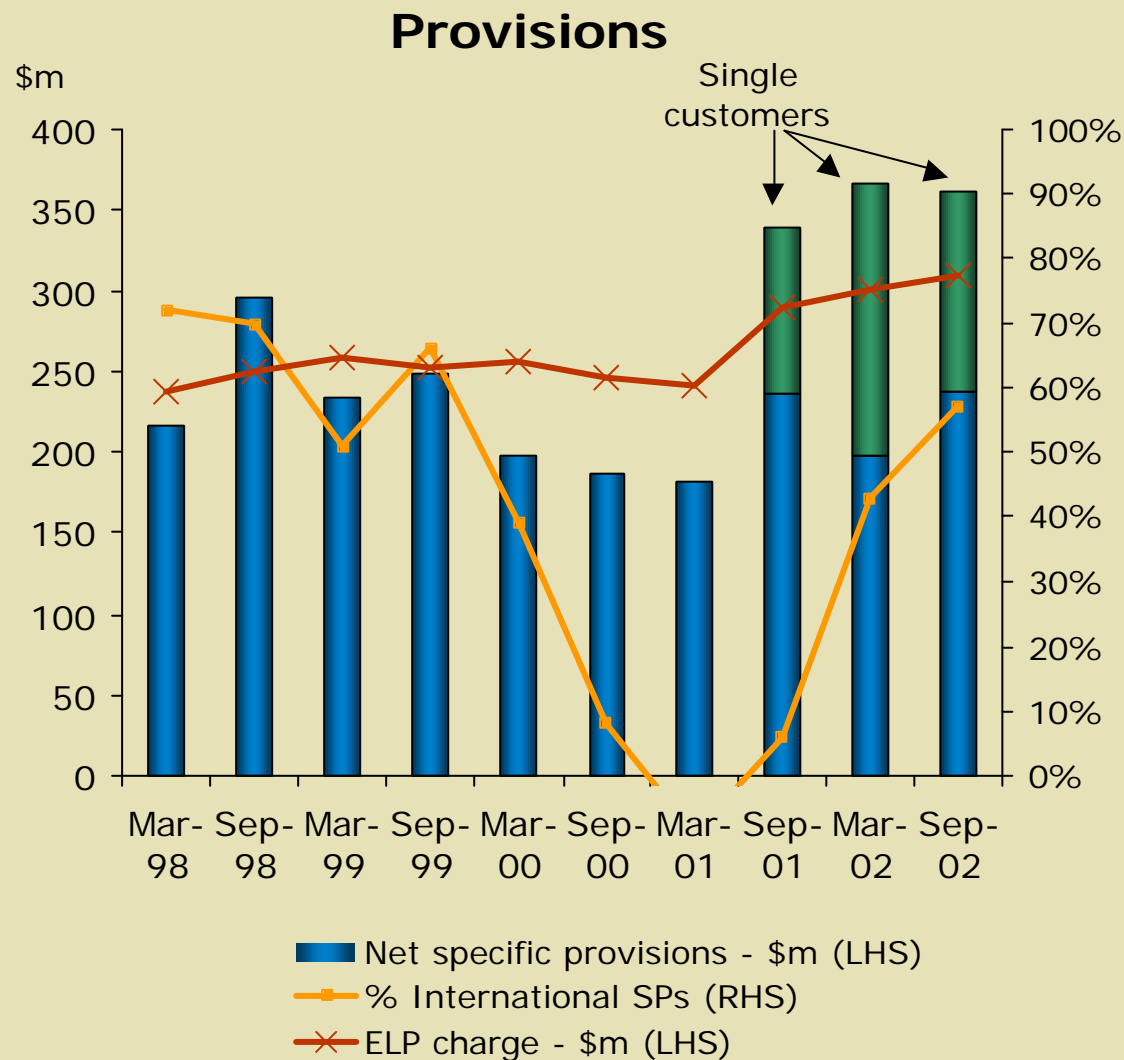
# Top 10 exposures significantly reduced



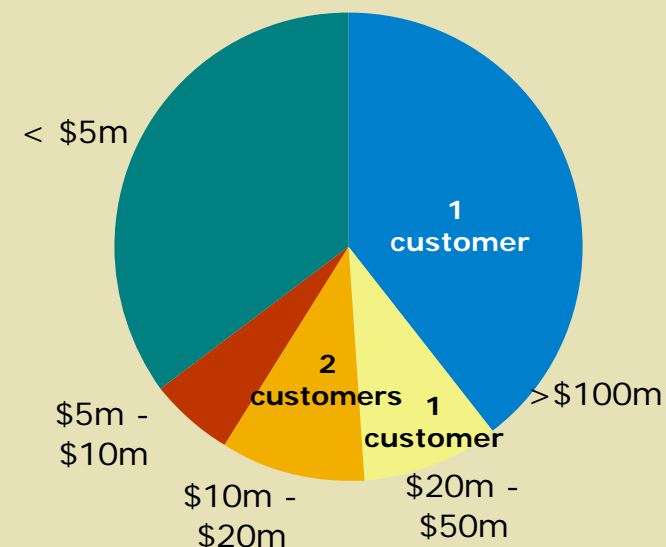
excludes non-recourse and uncommitted facilities

*Limits represent total 7 month limits excluding uncommitted and non-recourse, net of credit derivatives*

# Specific provisions again impacted by large corporate collapse



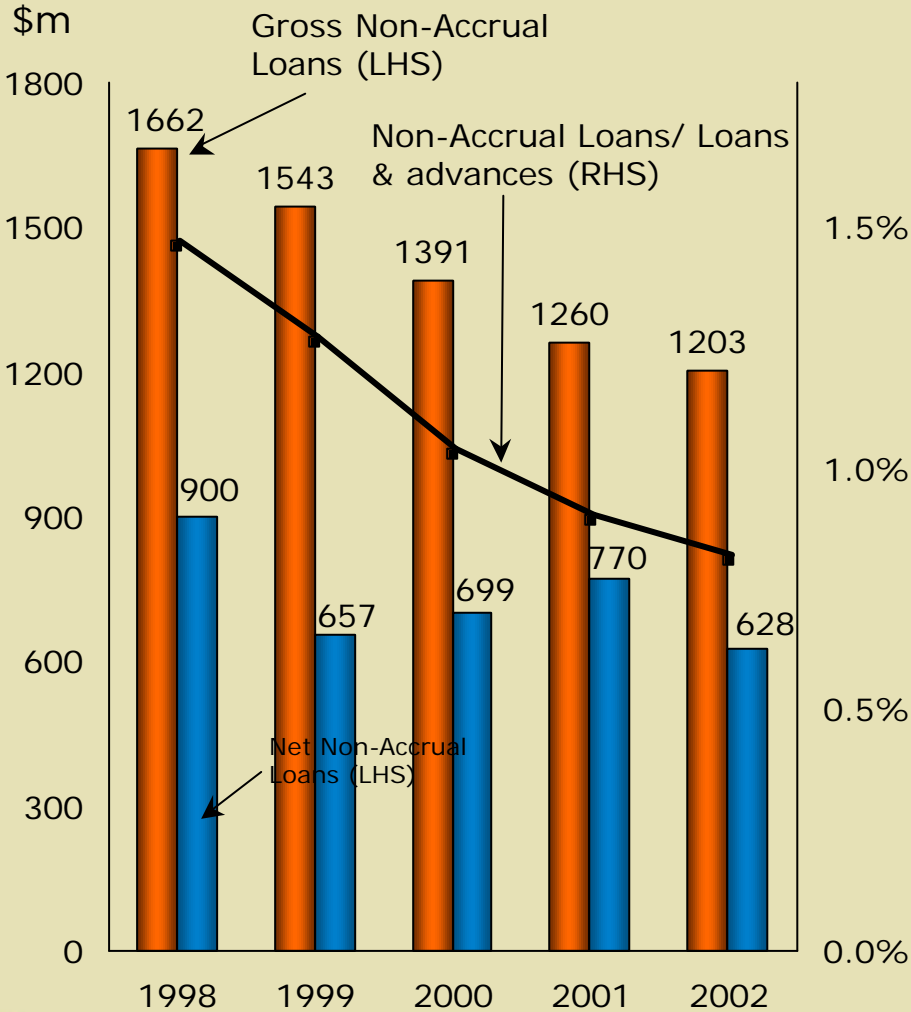
## 2<sup>nd</sup> half Specific Provisions by size



- Only 4 customers with specific provisions greater than \$10m

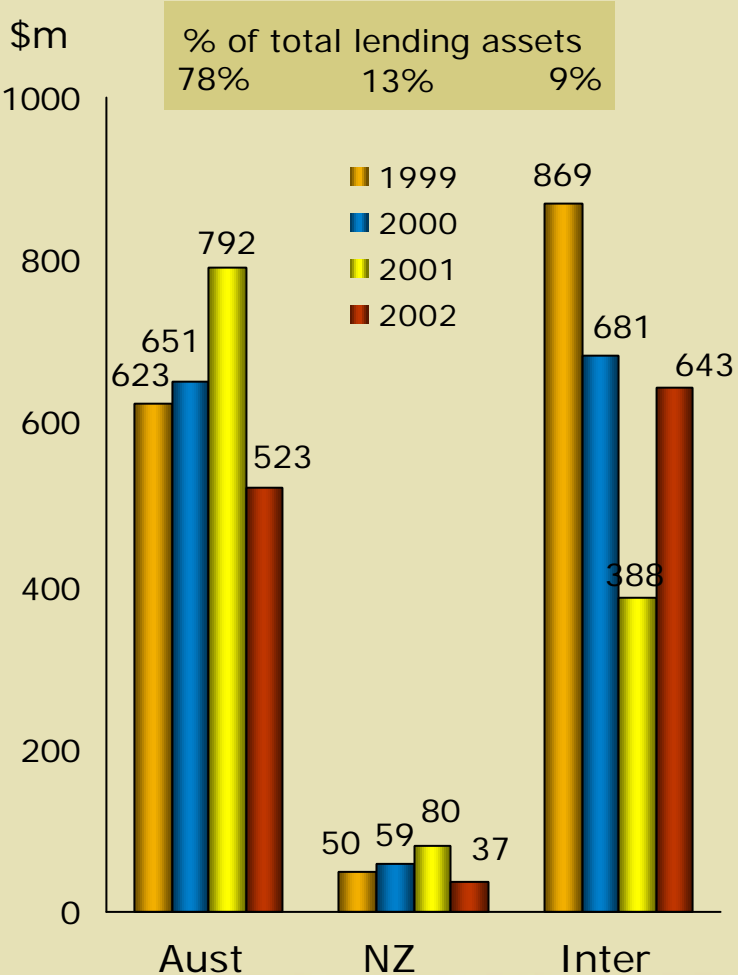
# Non-accrual loans have decreased due to domestic reductions

## Historic



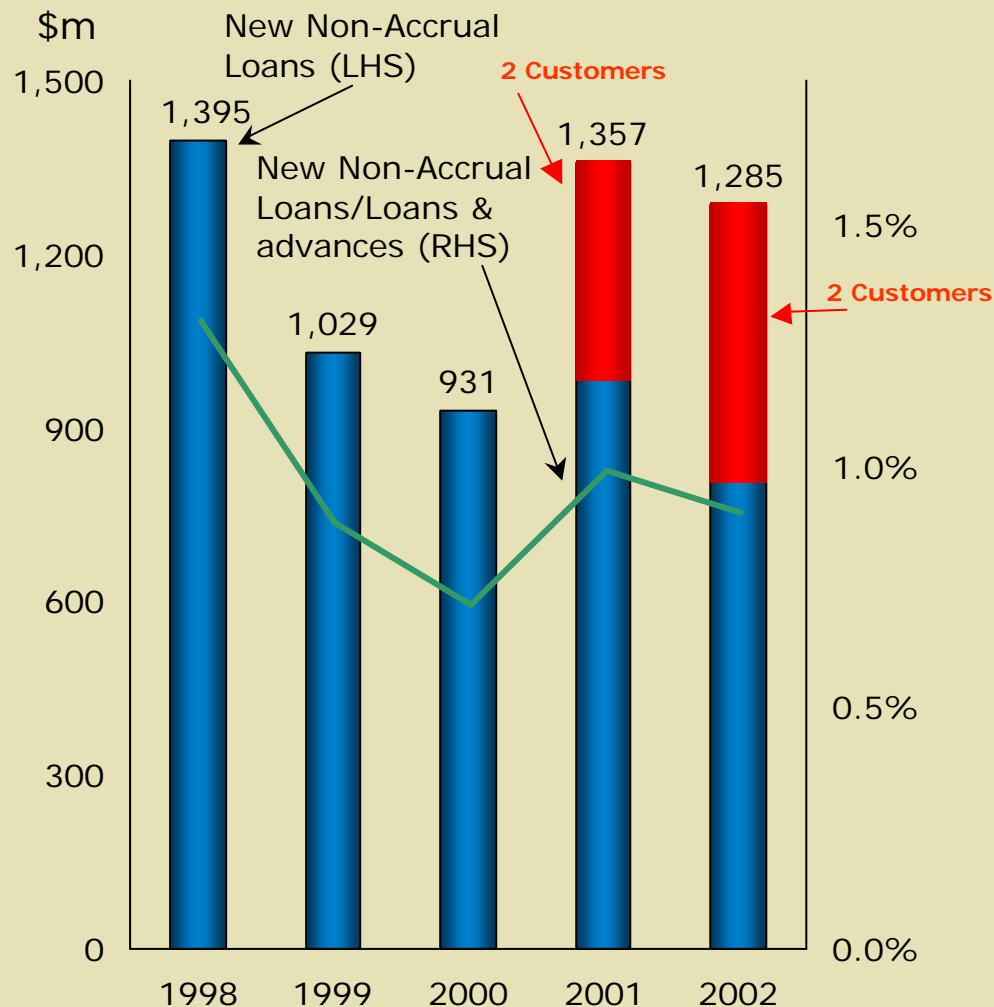
## Geographic

### Gross Non-Accrual Loans



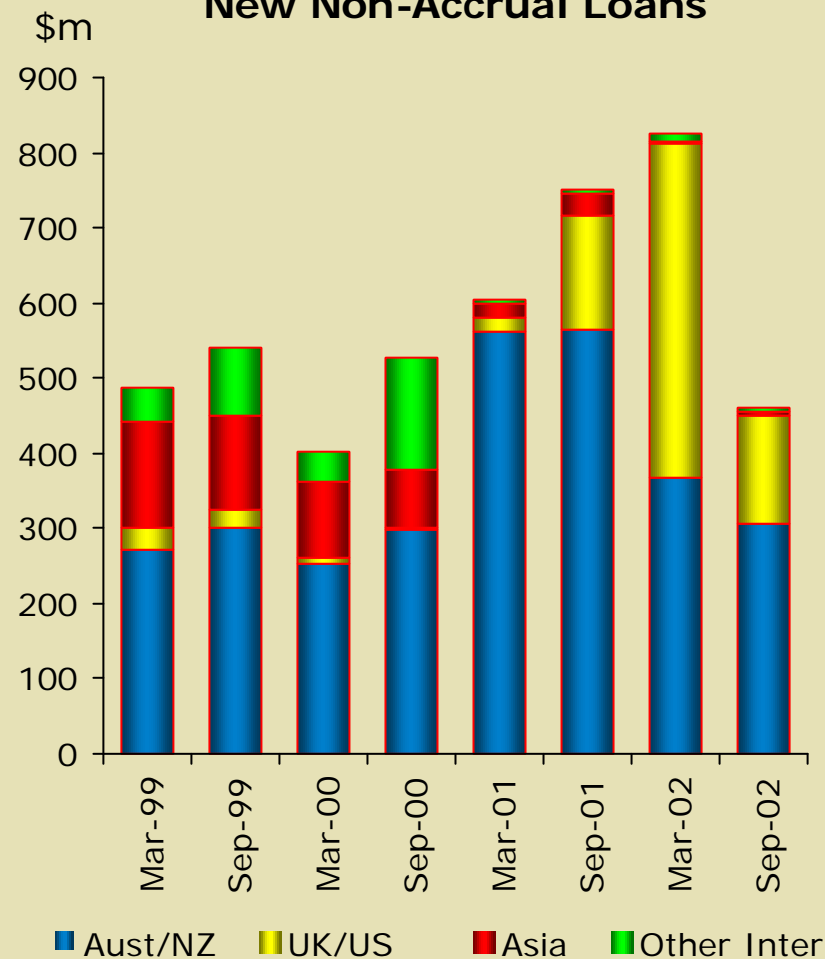
# New non-accruals dominated by 2 large customers over each of the past 2 years

## Historic



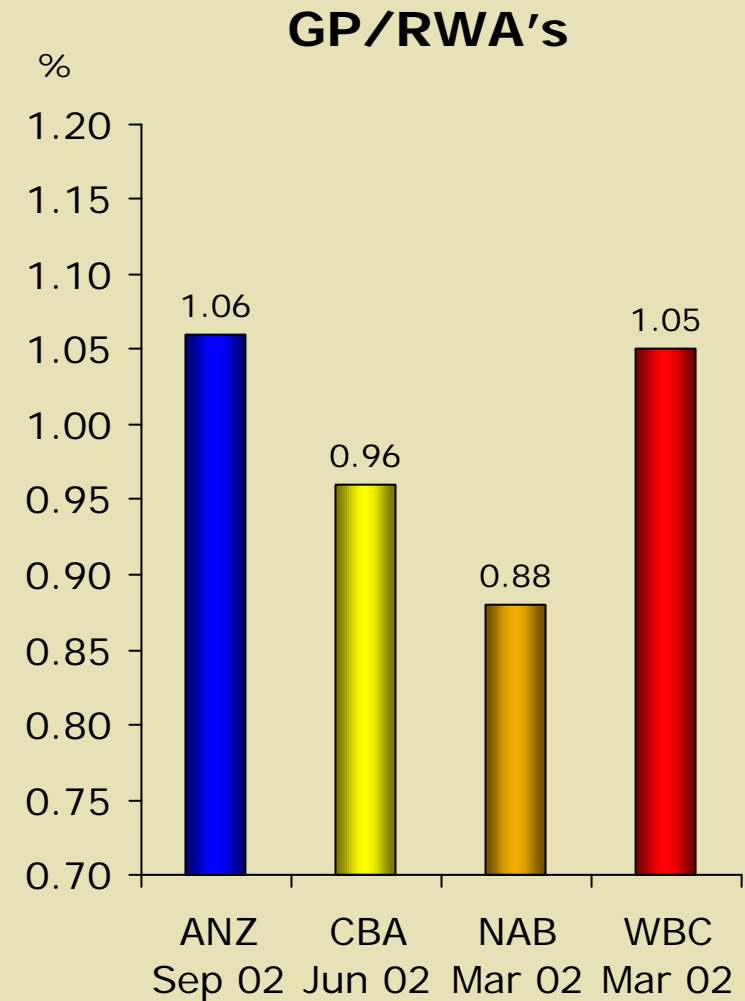
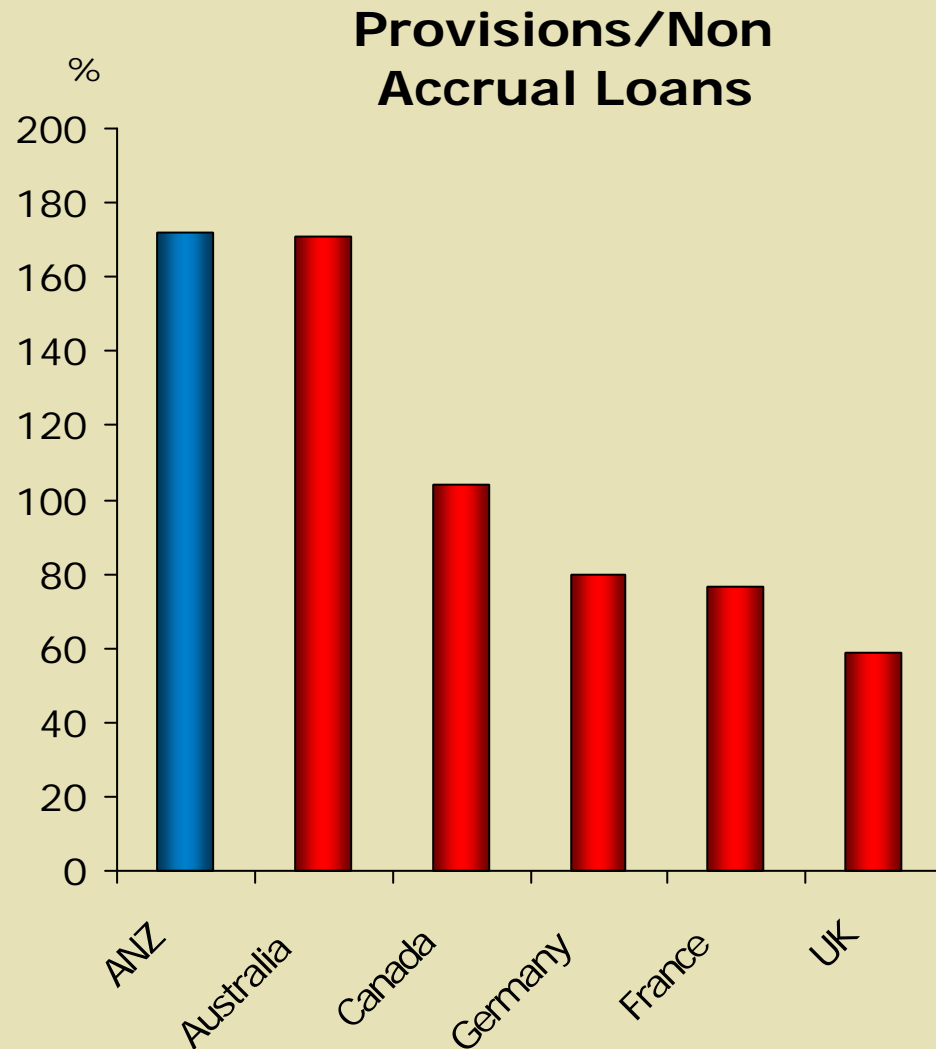
## Geographic

### New Non-Accrual Loans



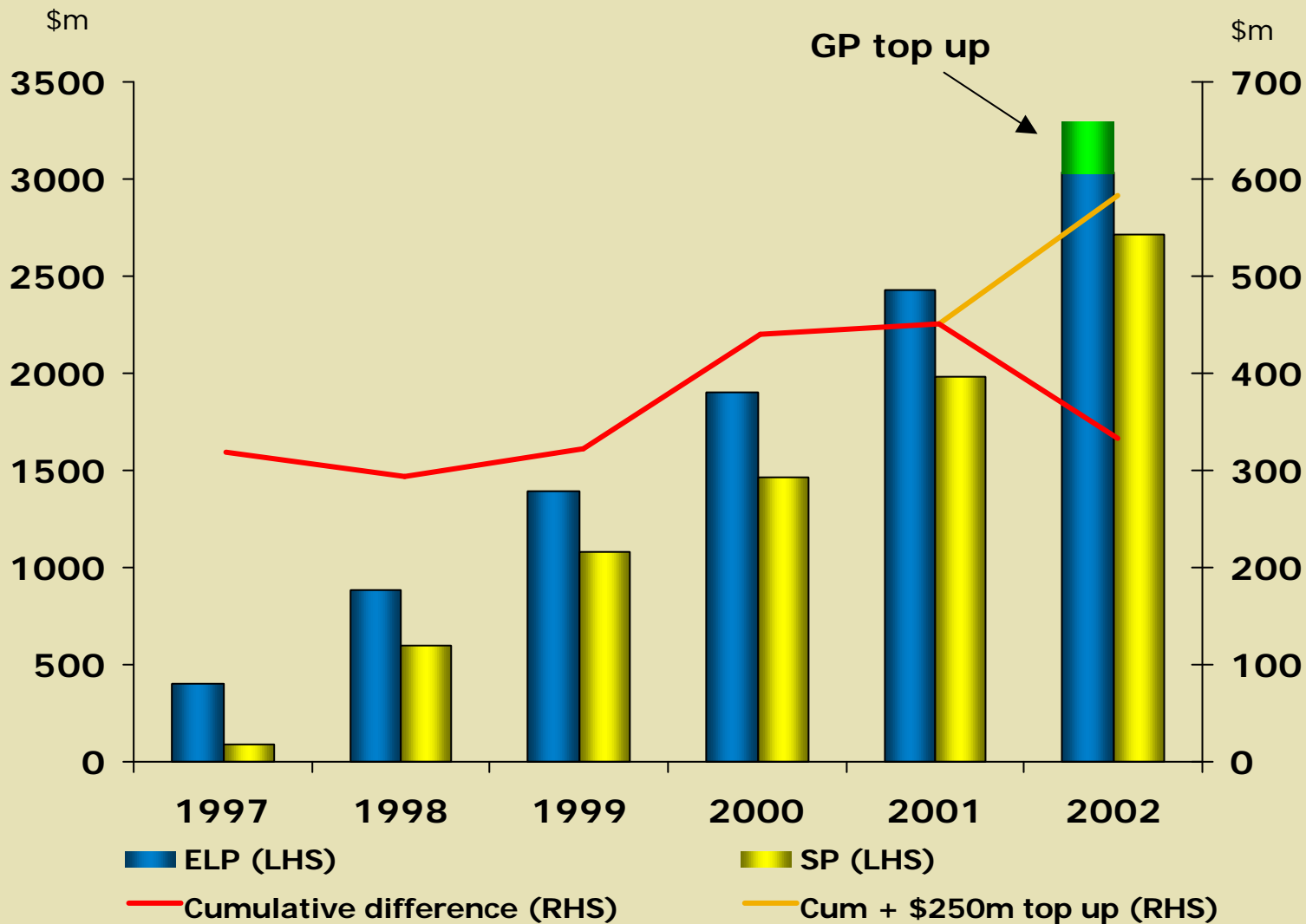


# Overall - provisioning levels strong



Source: CSFB

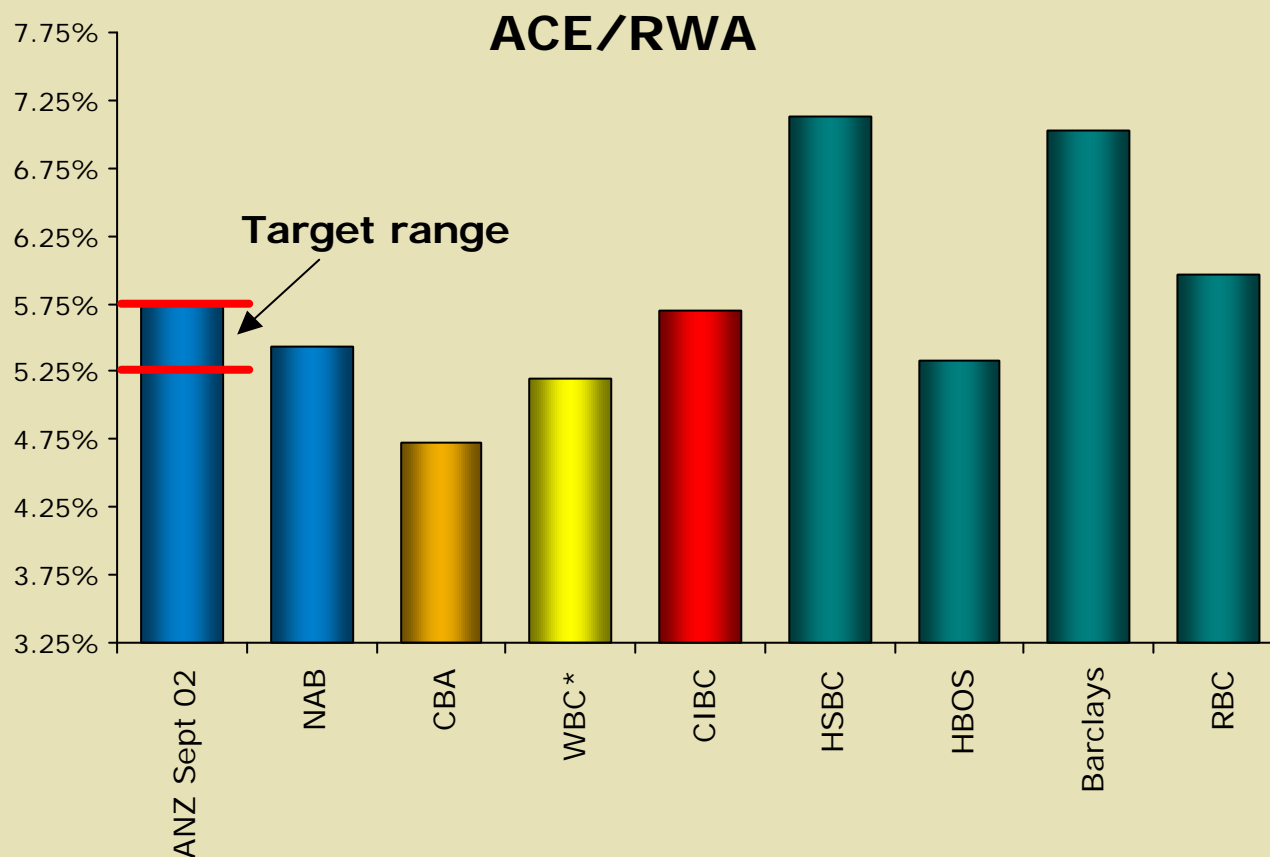
# Cumulative ELP well above specific provisions



# Outline

- Result review
- Credit Quality
- Capital
  - Global comparison

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



- ACE ratio at top end of target range
- Increasing possibility of buybacks over the next 12 months

## 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.
- \* WBC adjusted for acquisitions and buyback

# Summary

- **Solid result in more challenging times, driven by healthy income growth**
- **Consistent earnings momentum**
- **Investing for growth in our businesses**
- **Credit quality strong in Australia, but some offshore issues we are dealing with**
- **Remain well provisioned**
- **Capital position is strong**
- **Leadership in disclosure and transparency**

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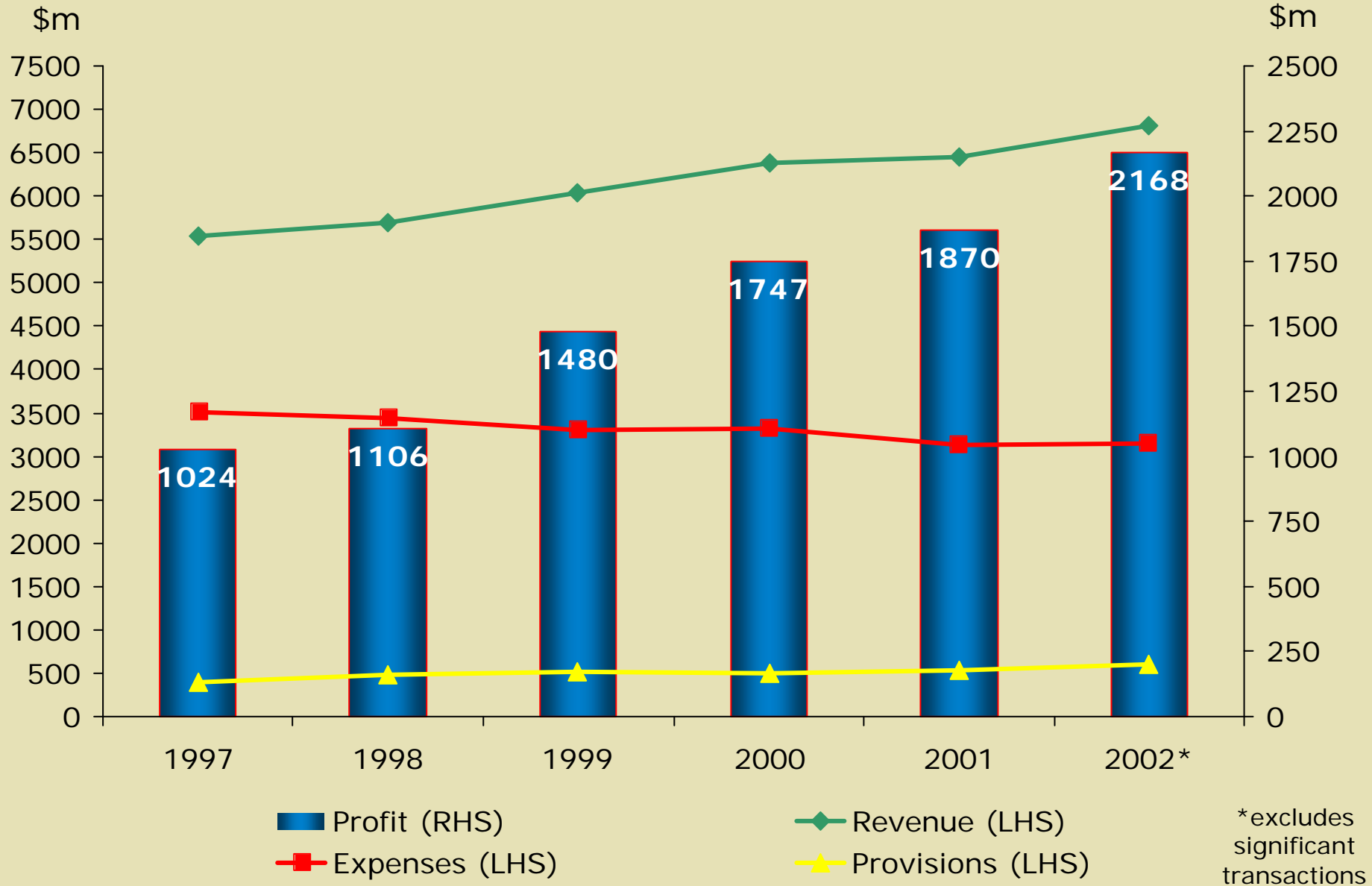
# John McFarlane

Chief Executive Officer

24 October 2002



# Building a credible track record



# In 2002 we made progress with all stakeholders

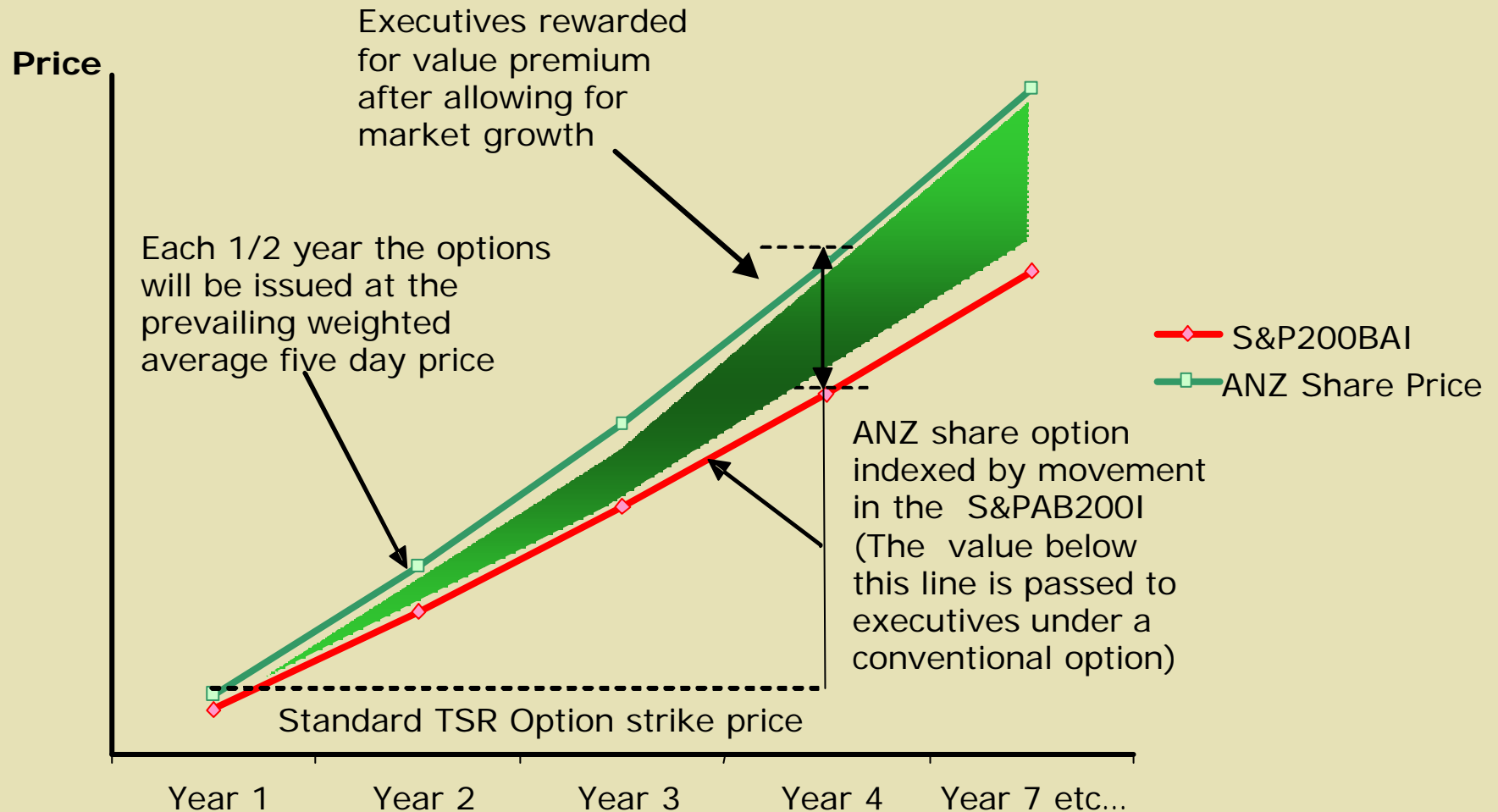
- **Shareholders** – Delivered on commitments with EPS at the upper end of expectations
- **Staff** – Satisfaction now 78%, up 16% following Breakout
- **Customers** – 10 customer charter promises, strong restoring customer faith pilot results
- **Community** – New community fund, matched savings a/c



# Delivering on our commitments to shareholders

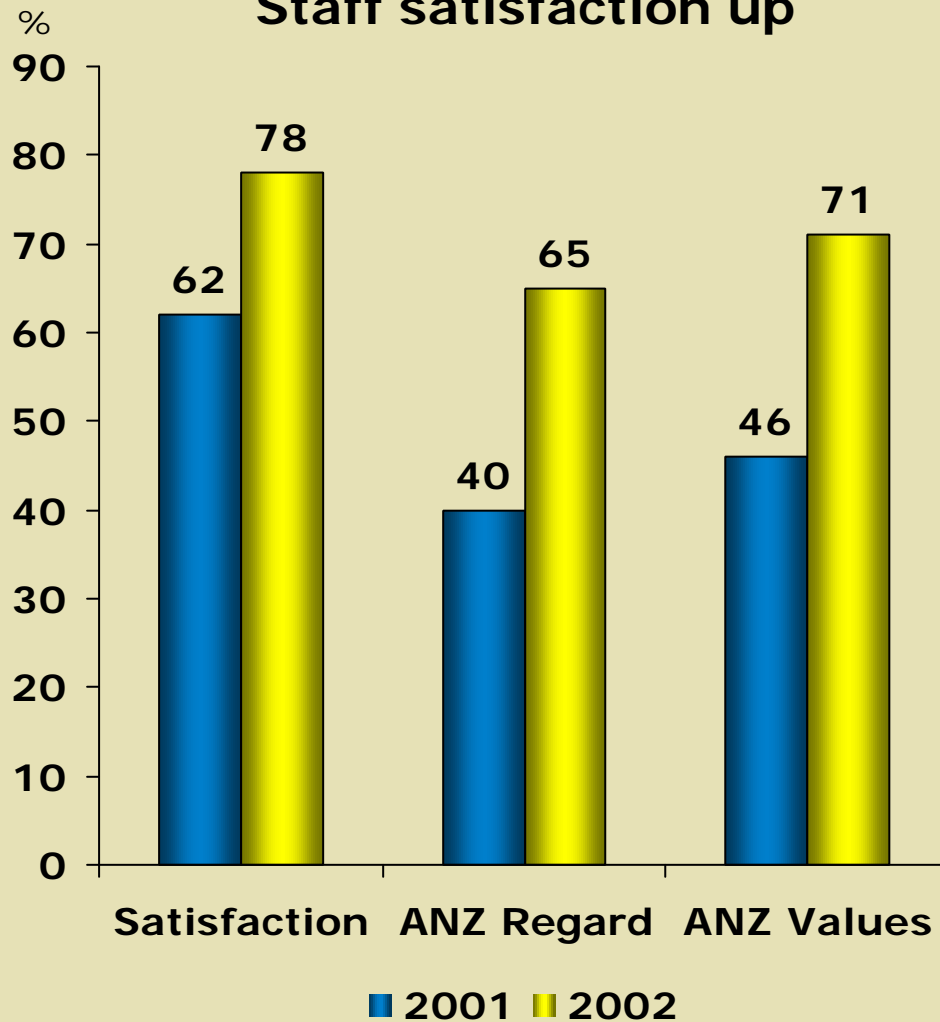
- **Specialised business units performing well**
  - 14 of 16 recorded higher profits year on year
- **Specific provision unusually high, but cumulative specifics well covered by cumulative ELP from inception in 1997**
- **Major new governance and transparency initiatives**
  - Substantially enhanced disclosure on capitalised expenses, asset quality, options expense, compensation
  - Upgraded audit policy introduced
  - Recognition for disclosure and transparency
  - Remuneration practices substantially reformed

# Executive options will only reward out-performance against market

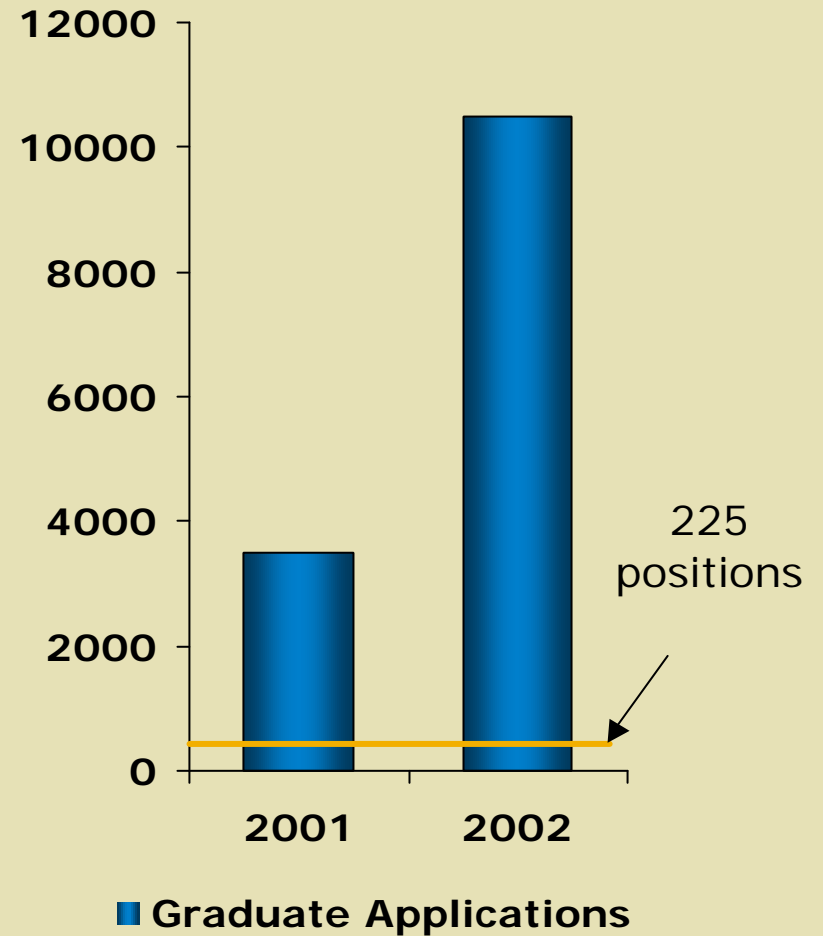


# Delivering for staff, and increasingly a preferred employer

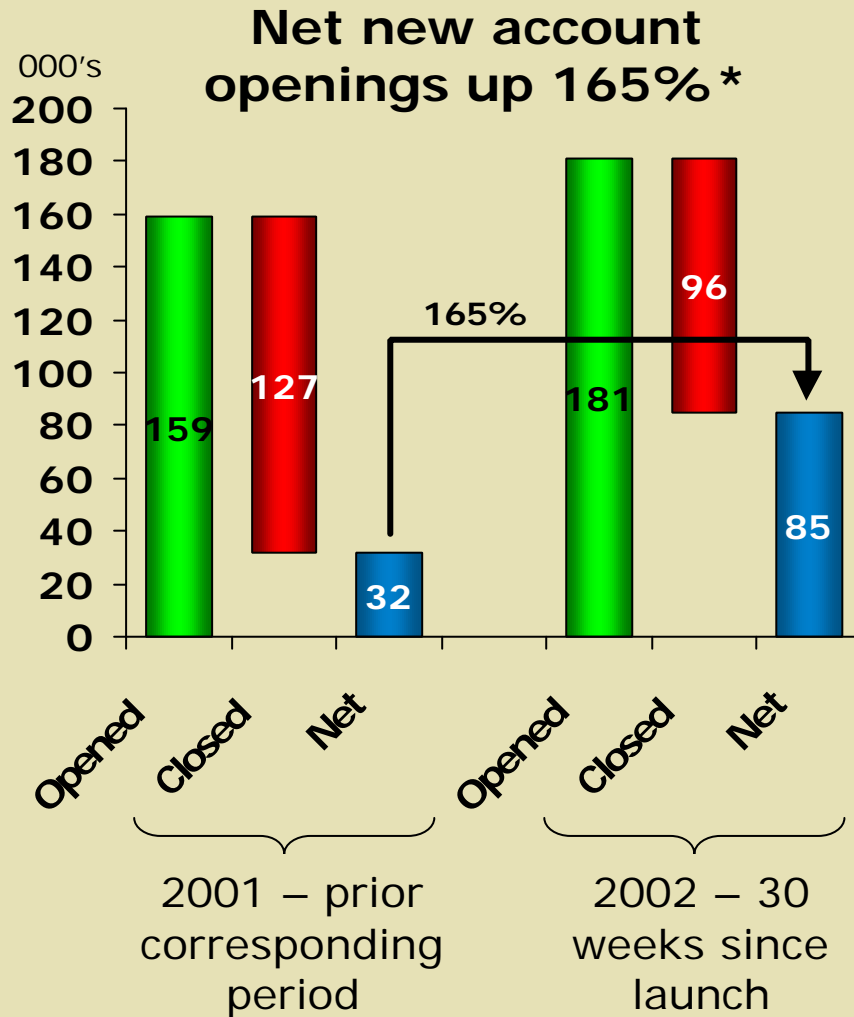
## Staff satisfaction up



## Strong employment brand



# New customer initiatives getting real traction



**Key indicators show Restoring Customer Faith program is beginning to deliver**

Indicators	2H 2002	
	Vic	Other States
Revenue growth	5.1%	4.0%
Staff advocacy	65%	62%
Customer satisfaction	6.8	6.6
FUM growth	8.0%	6.2%

# Current performance issues addressed

## Issue

## Response

**Offshore credit losses**



- Reductions in credit limits
- Re-focus strategically

**NZ consumer satisfaction**



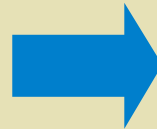
- Greater local autonomy and resourcing
- Roll out Restoring Customer Faith

**Consumer Finance 2<sup>nd</sup> half**



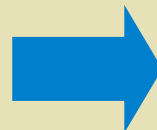
- Management reorganisation
- Restructure programs

**Technology project benefits**



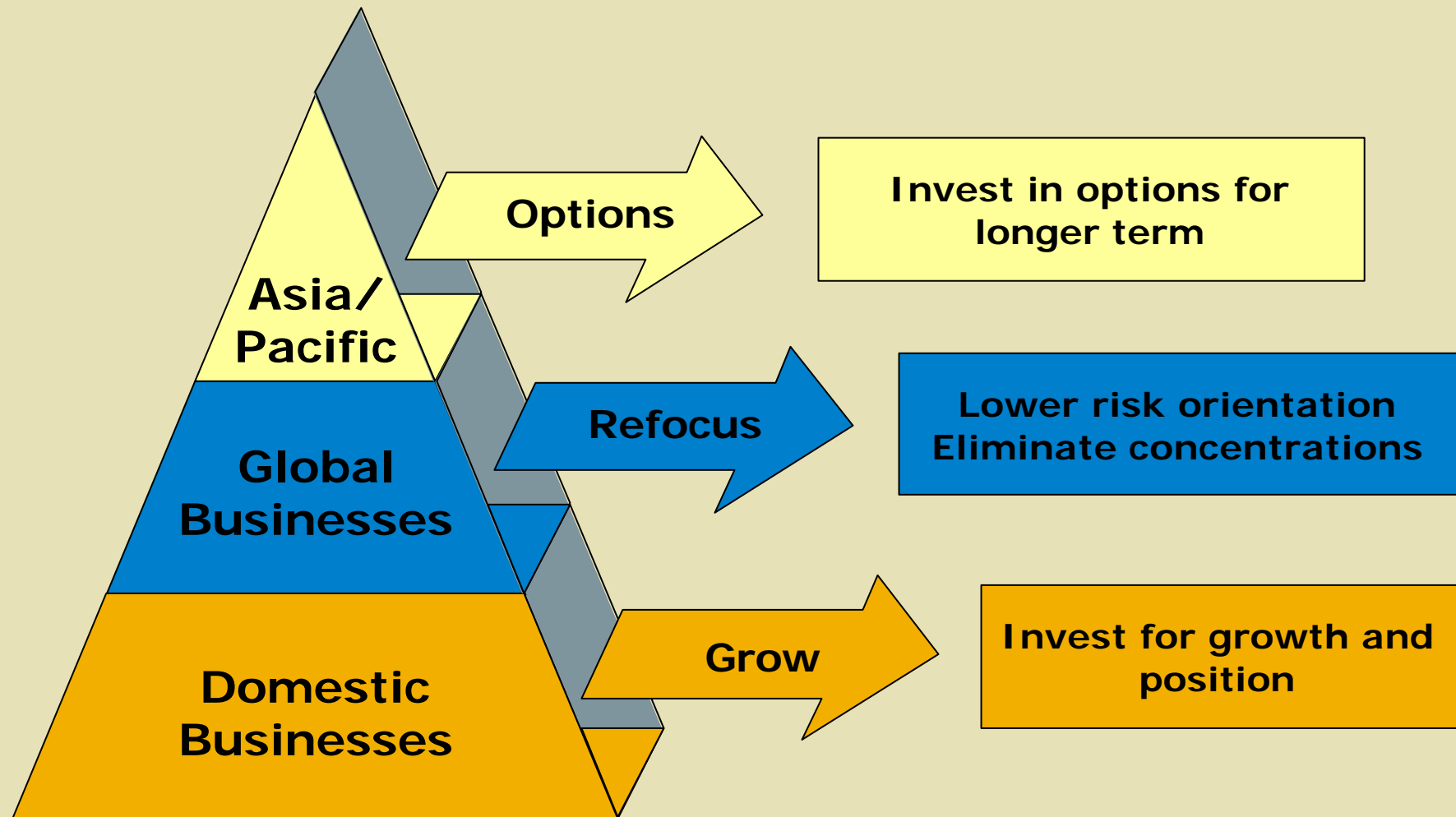
- Wind down of major projects
- Appointed MD major programs

**JV performance below plan**



- Accelerate integration
- Capital return hedged

# Clear strategic investment priorities

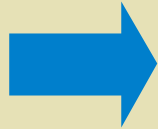


# Opportunities for growth

## Opportunity

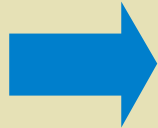
## Approach

**Personal Banking**



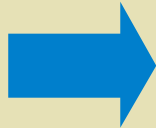
- Full rollout Restoring Customer Faith
- Expand network in growth locations

**Corporate & SME**



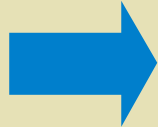
- Investment spending budgeted
- Leverage business integration synergies

**New Zealand**



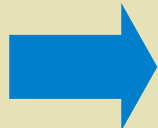
- Autonomous customer organisation
- Rollout Restoring Customer Faith

**Wealth Management**



- Maintain high investment spending
- Lower profit volatility from JV

**Institutional & ANZIB**



- Leverage leading relationship position
- Leverage business integration synergies

# Key priorities for 2003

- **Rollout Restoring Customer Faith, reconnect with community**
- **Complete JV integration. Leverage distribution opportunity**
- **Reposition cards and mortgages for tougher environments**
- **Narrow focus of offshore activities to reduce risk**
- **Capture share of cyclical upswing in corporate lending and SME**
- **Implement three major strategic cost programs, fewer projects**
- **Accelerate shift in performance culture and identify and develop the next generation of leaders**



## 2003 targets stretching but unchanged

	2001	2002*	2003 Target
EPS growth	10%	17%	10%
ROE	20.2%	21.6%	20%
Cost-income ratio	48.0%	46.0%	45%
ACE Ratio	5.9%	5.7%	5.25% - 5.75%
Credit rating	AA-	AA-	AA-

\*excluding significant transactions

# Summary – delivering on our commitments

- Exceeded targets in a difficult year
- Specialisation strategy working
- Becoming employer of choice
- Increasingly delivering for customers and the community
- Risks being addressed
- Moving from “perform” to “perform and grow”



**2003 target 10%  
EPS growth**



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**[www.anz.com](http://www.anz.com)**

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# 2002 Annual Results

## Supplementary Information Pack

Australia and New Zealand Banking Group Limited  
24 October 2002



# **Additional information on strategy**

# Our growth philosophy unchanged – but primary focus on organic out-performance

## 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

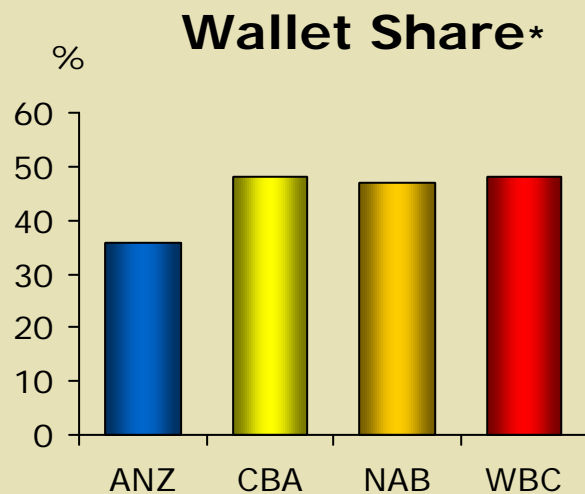
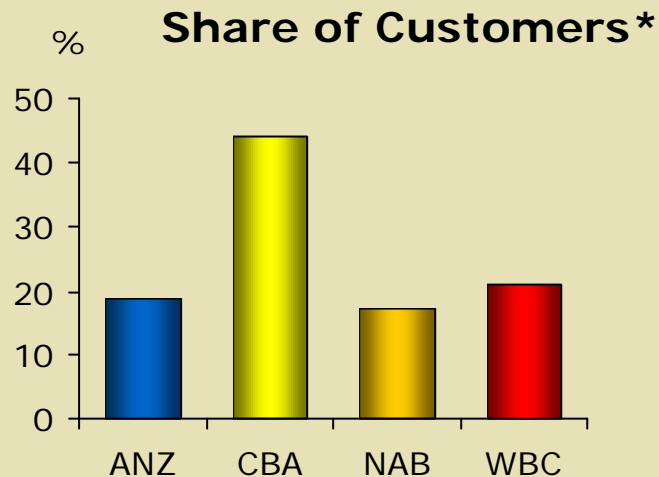
## Transformational moves

- 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

# Consumer portfolio – significant opportunity for ANZ in domestic markets



## Priorities

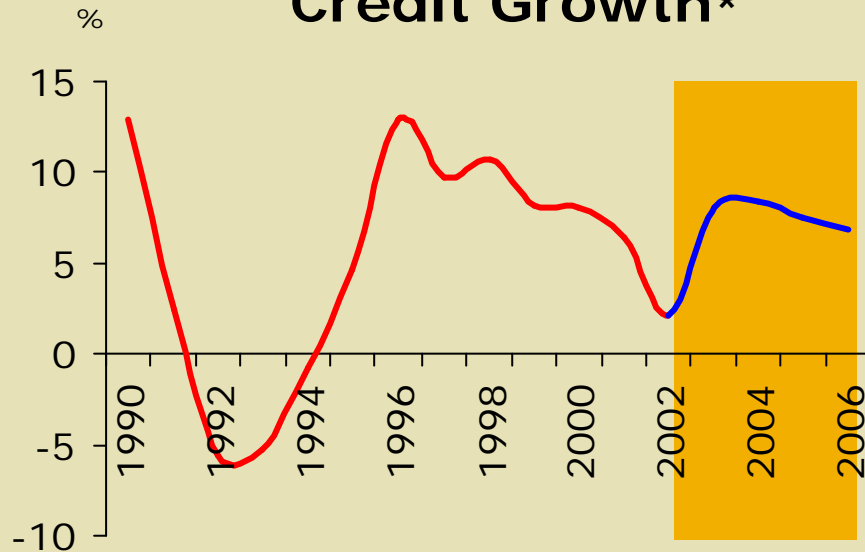
- Deliver on promise of Restoring Customer Faith
- Improve community perceptions
- Deliver on JV
- Continue product innovation
- Utilise CRM capabilities
- Target market share growth of 1% pa in key markets

\* source: Roy Morgan Research



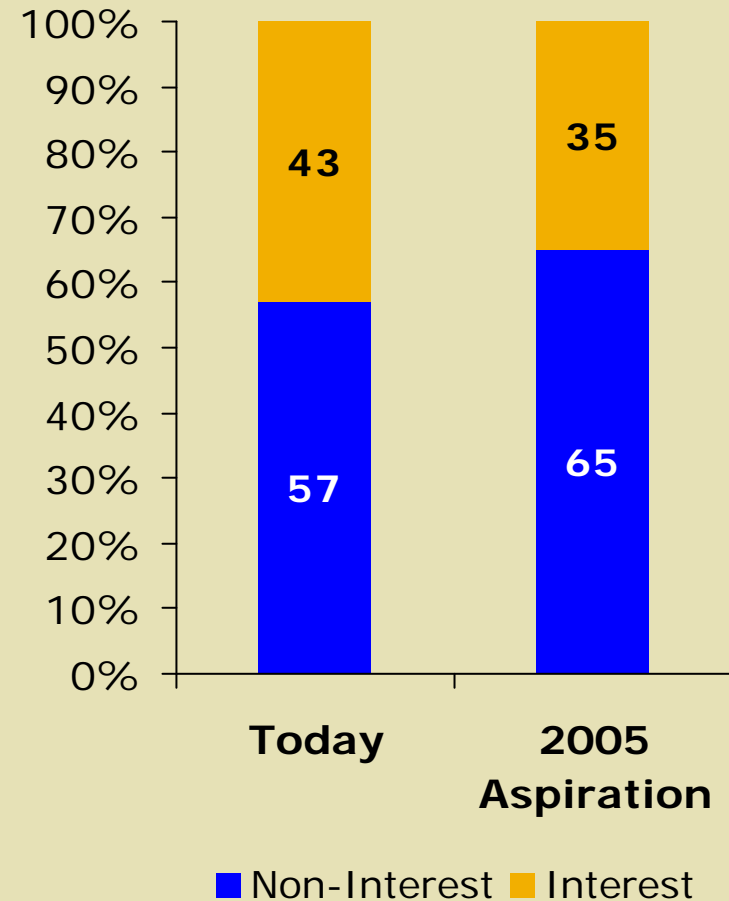
# Corporate portfolio – positioned for upturn, targeting fee income

## System Business Credit Growth\*



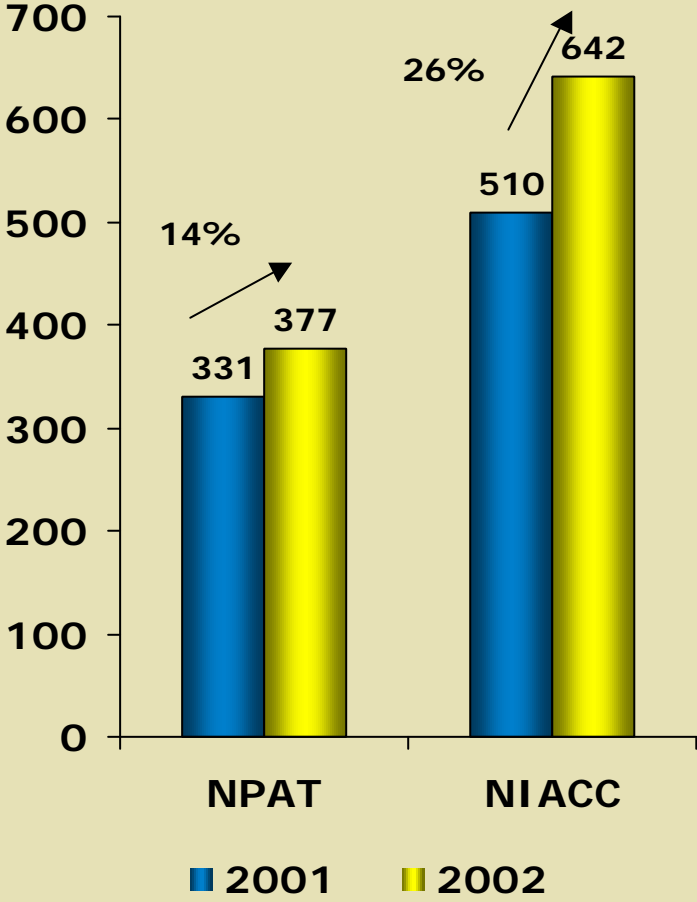
- Capture expected stronger lending growth from SMB and middle market corporates
- Focus on fee income in institutional business

## Corporate Portfolio Revenue Mix

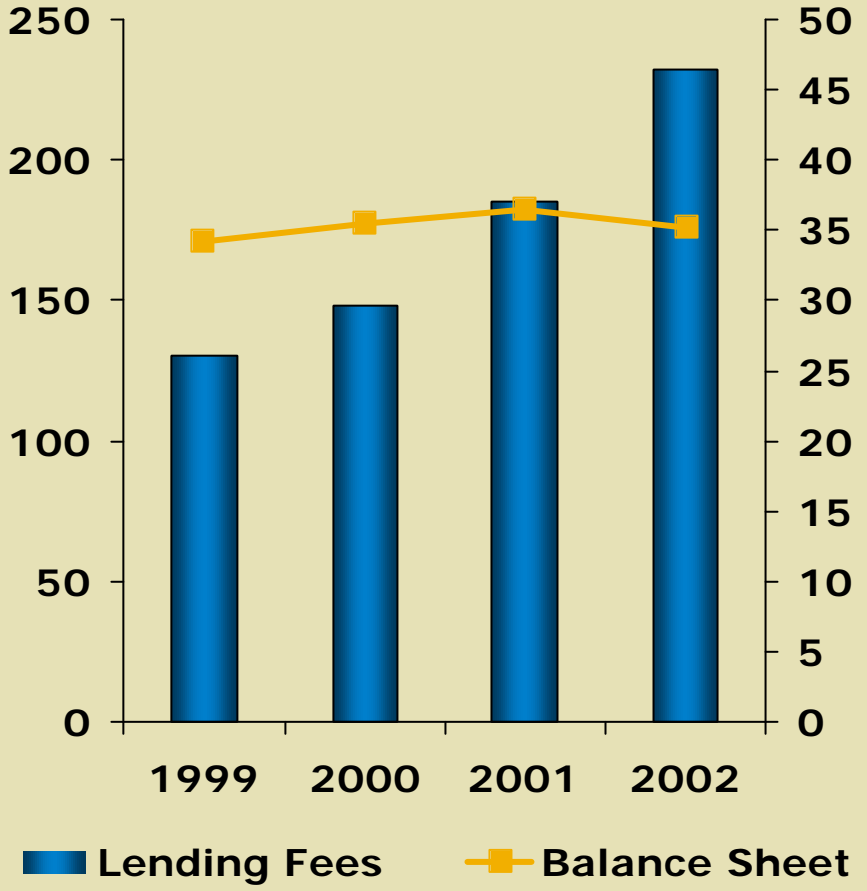


# C&I B successfully managing the transition to lower balance sheet intensity

NIACC growth greater than profit growth

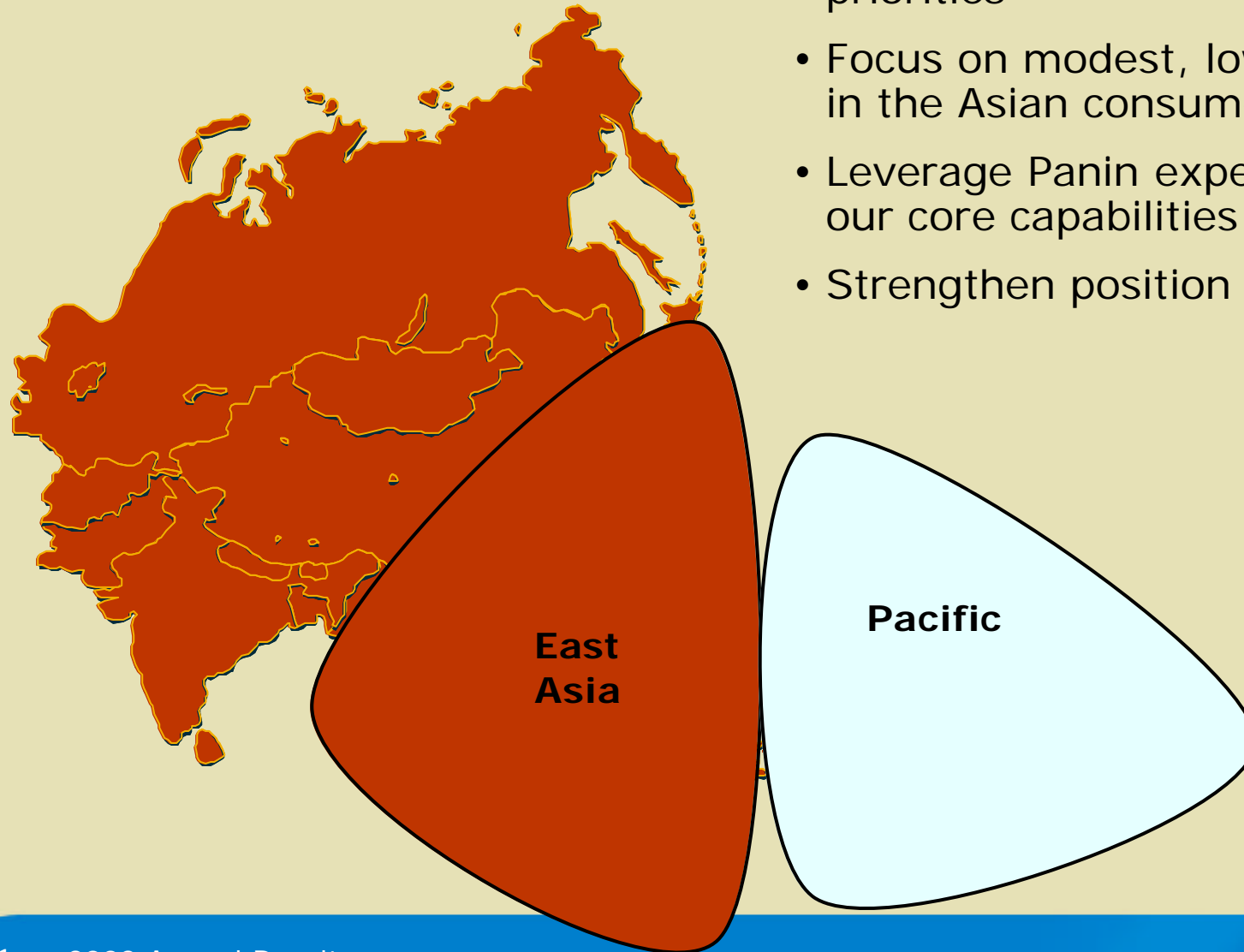


Higher lending fees, flat balance sheet

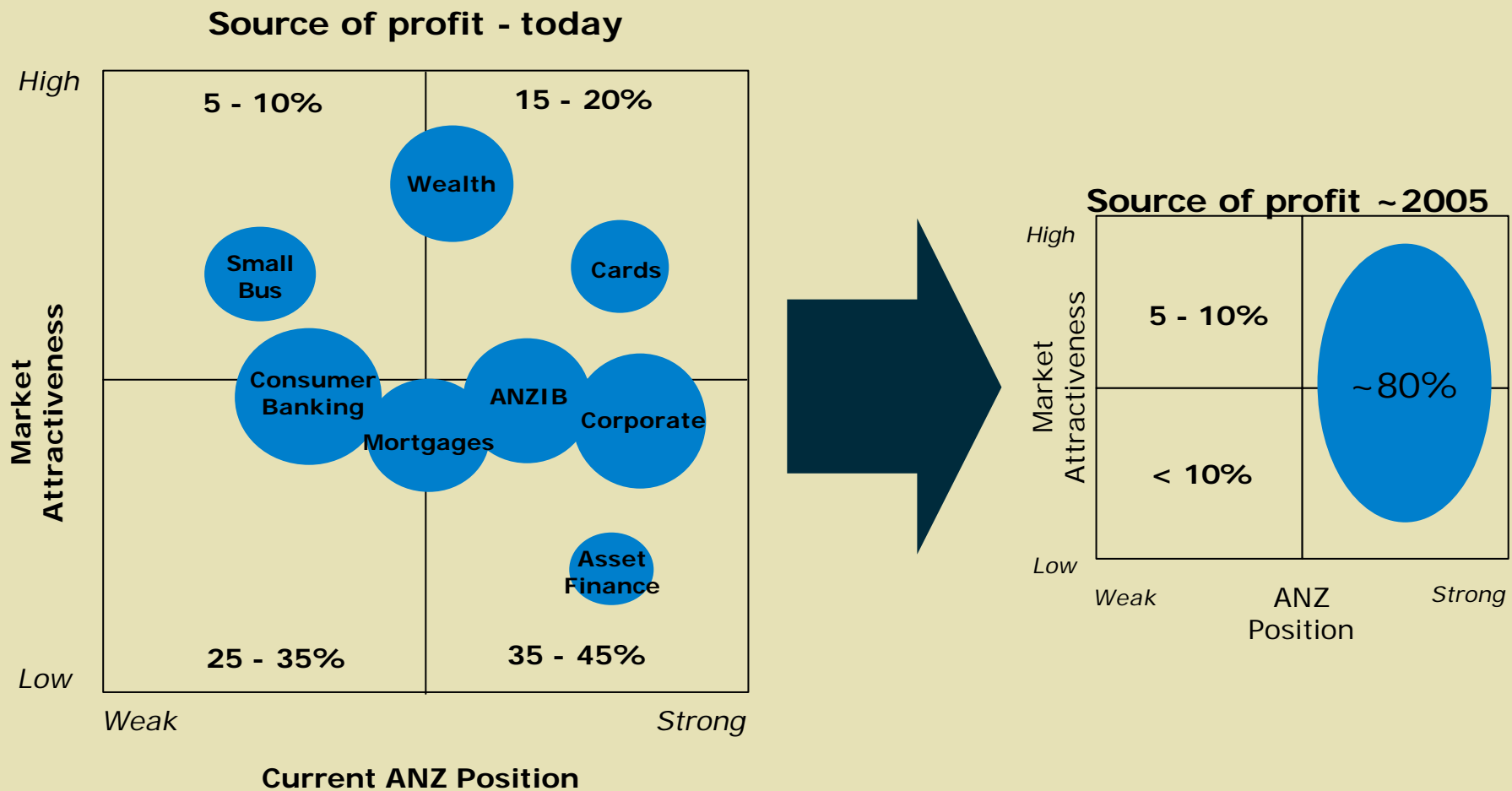


# Asia/Pacific – create low risk growth options

- East Asia and the Pacific are our priorities
- Focus on modest, low risk options in the Asian consumer sector
- Leverage Panin experience and our core capabilities
- Strengthen position in the Pacific

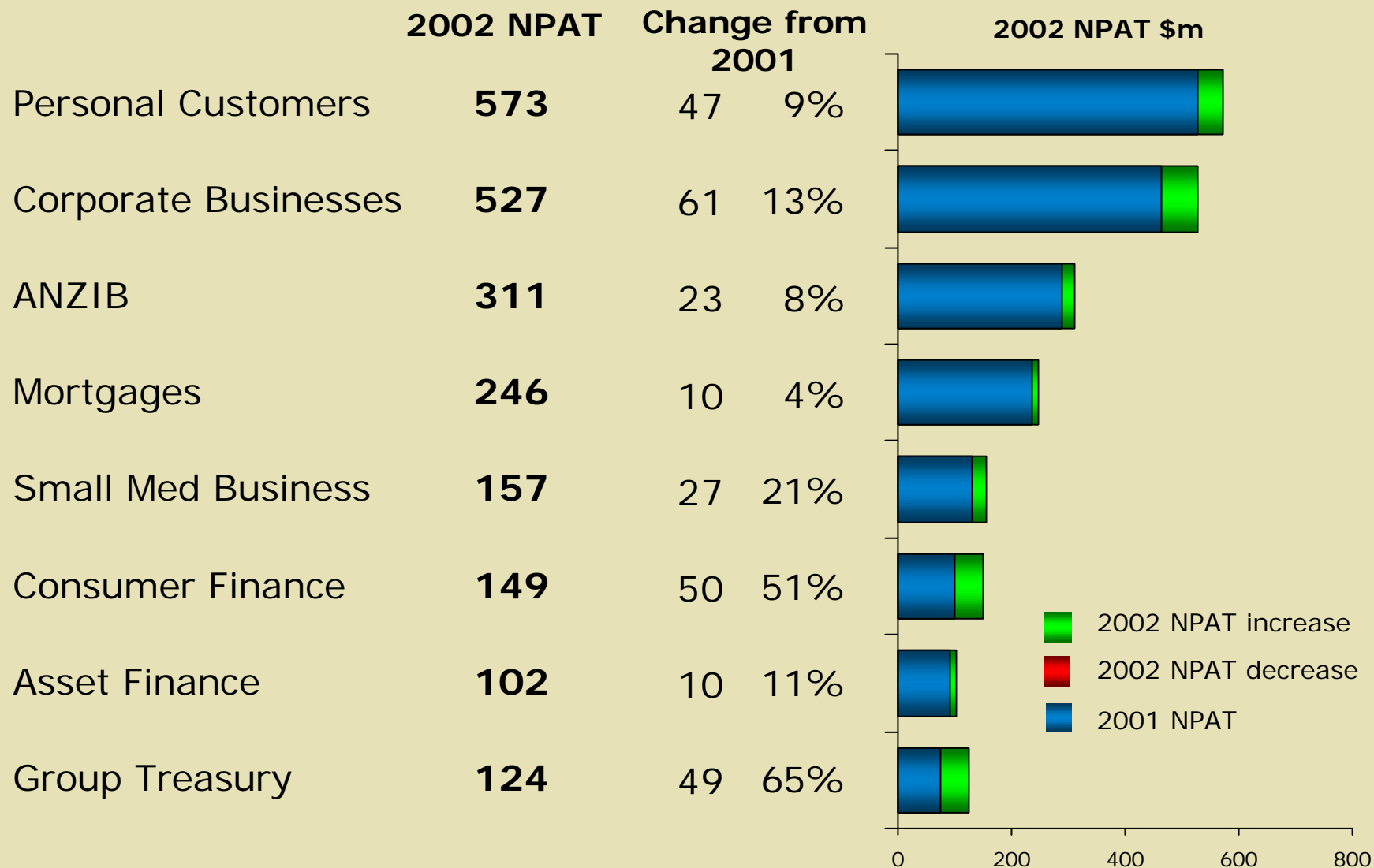


# We will continue to shift the portfolio towards more attractive segments

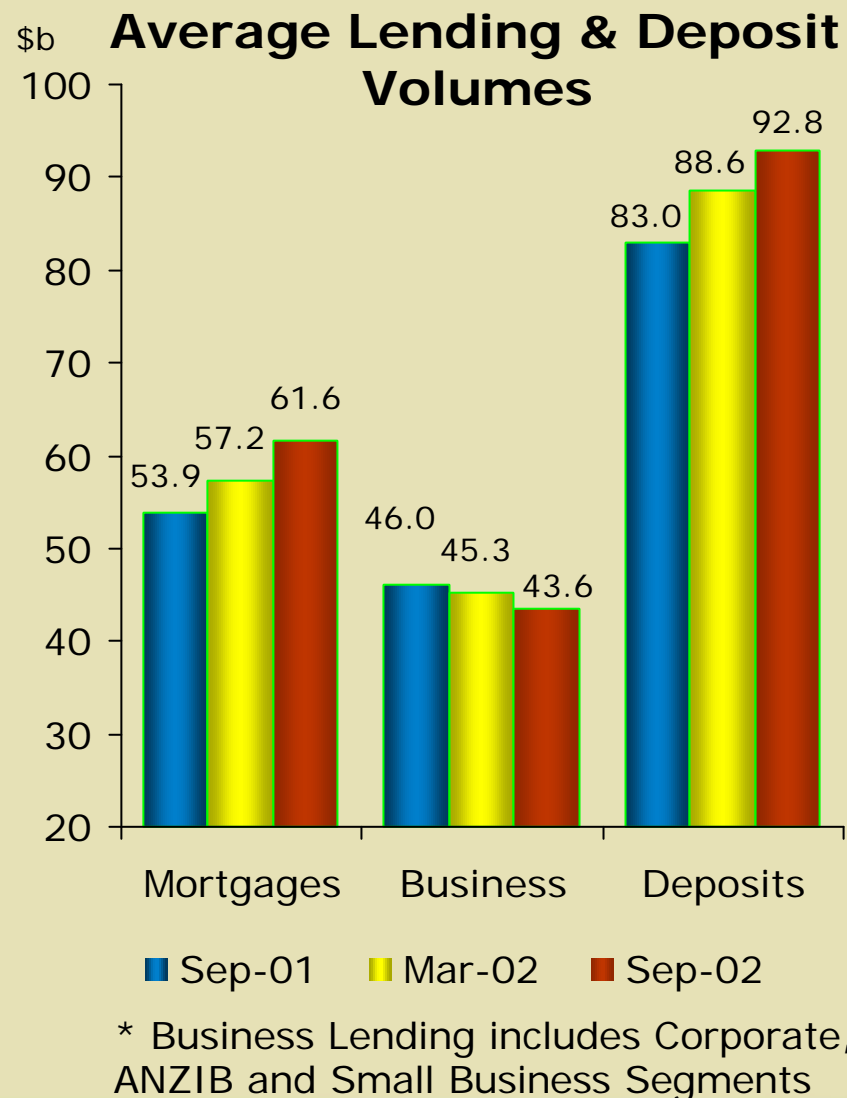
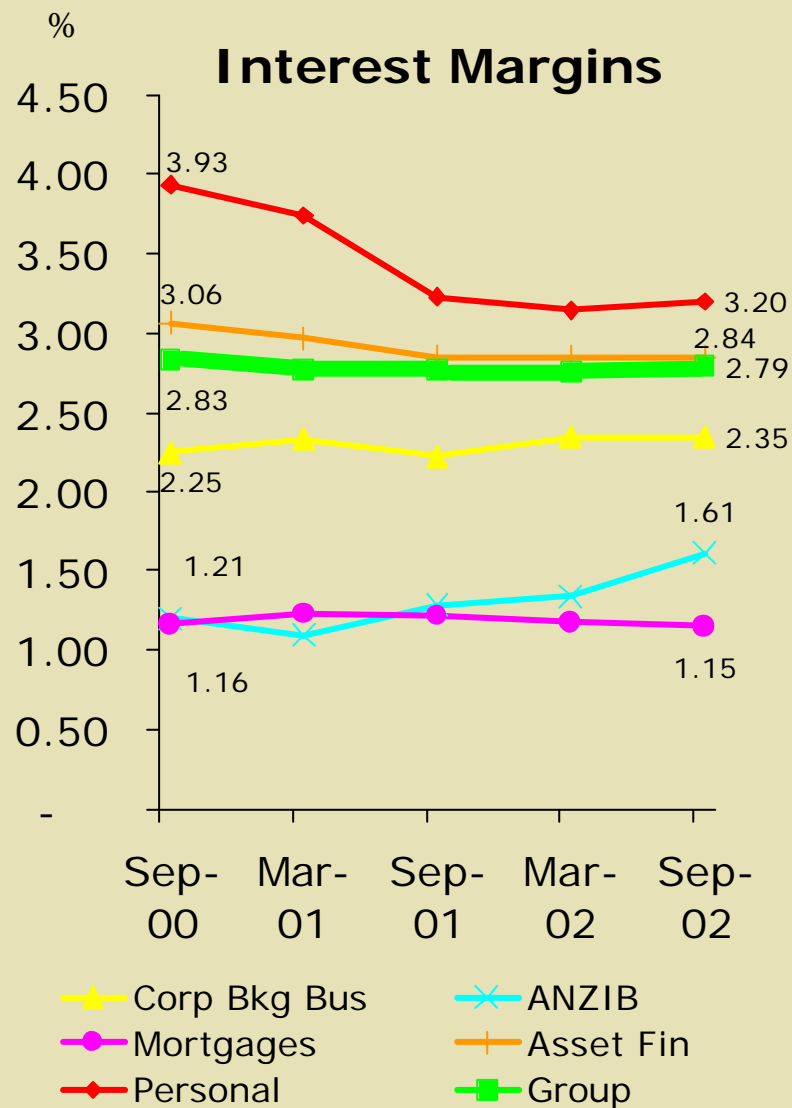


# Additional information on results

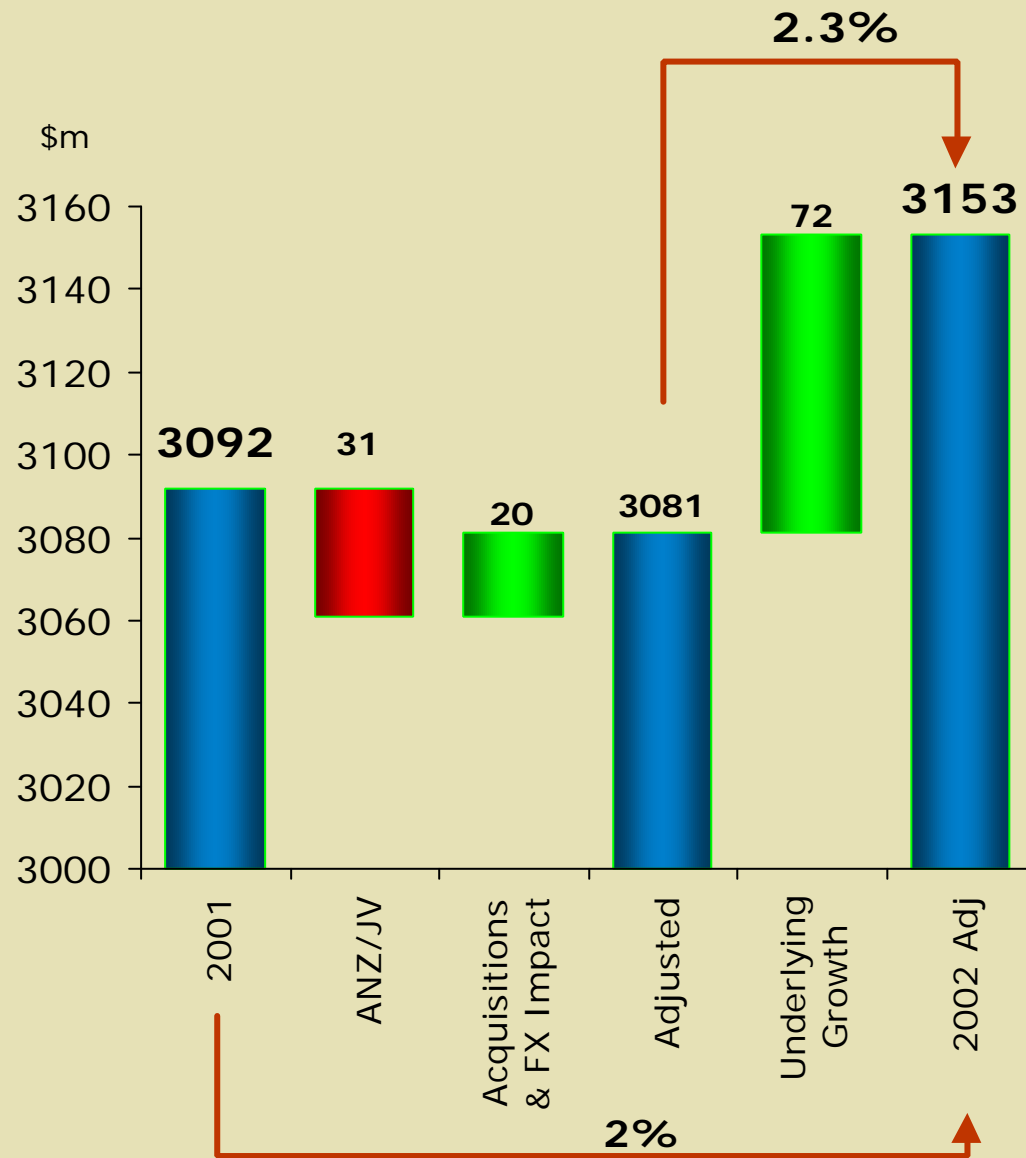
# A diversified portfolio performing well



# Interest margins stable, lending and deposit volumes up



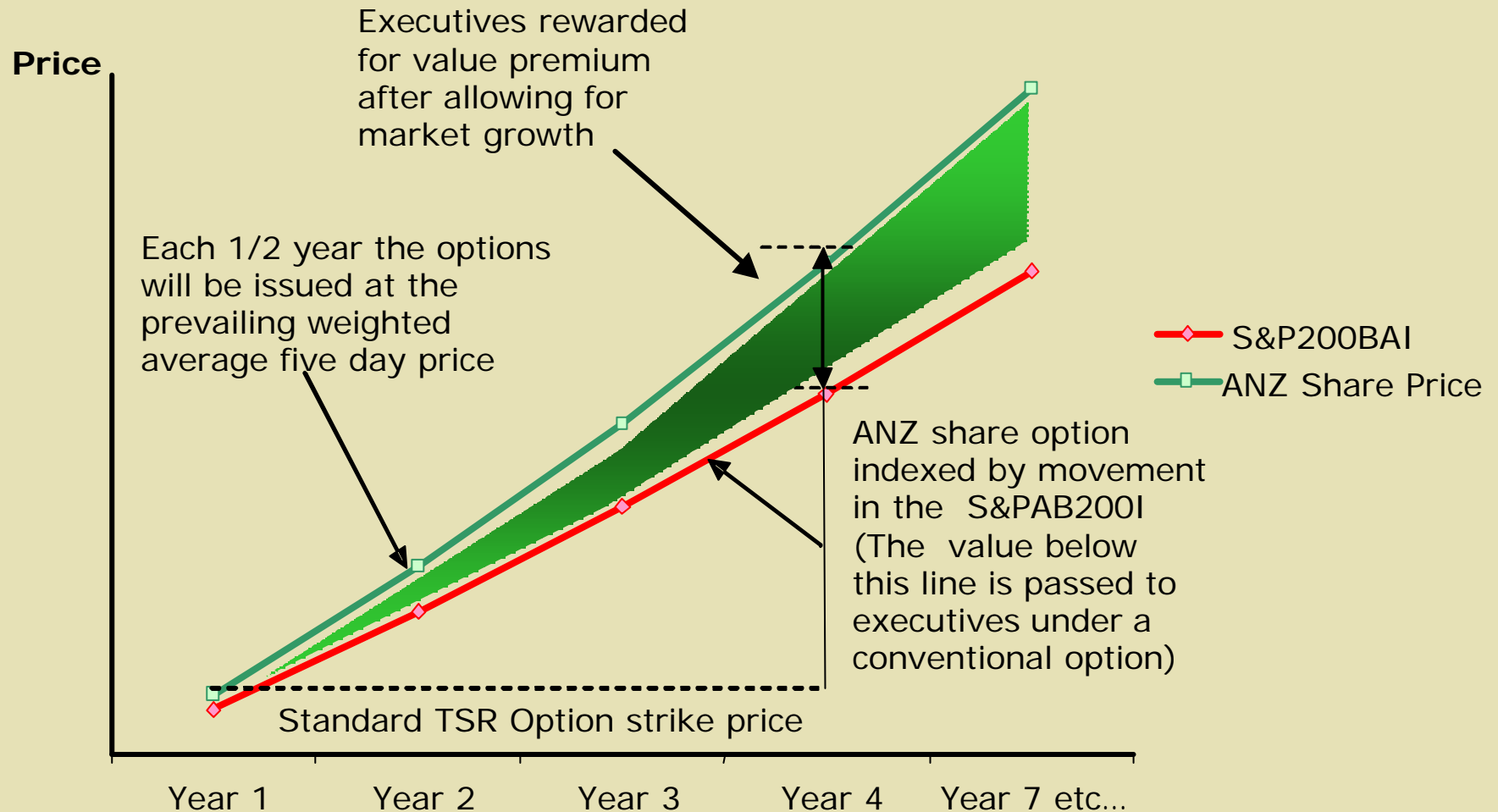
# Underlying expense growth of 2.3%



- Computer expenses increased by 16%, reflecting:
  - depreciation and amortisation charges up 30%
  - software purchases up 28%



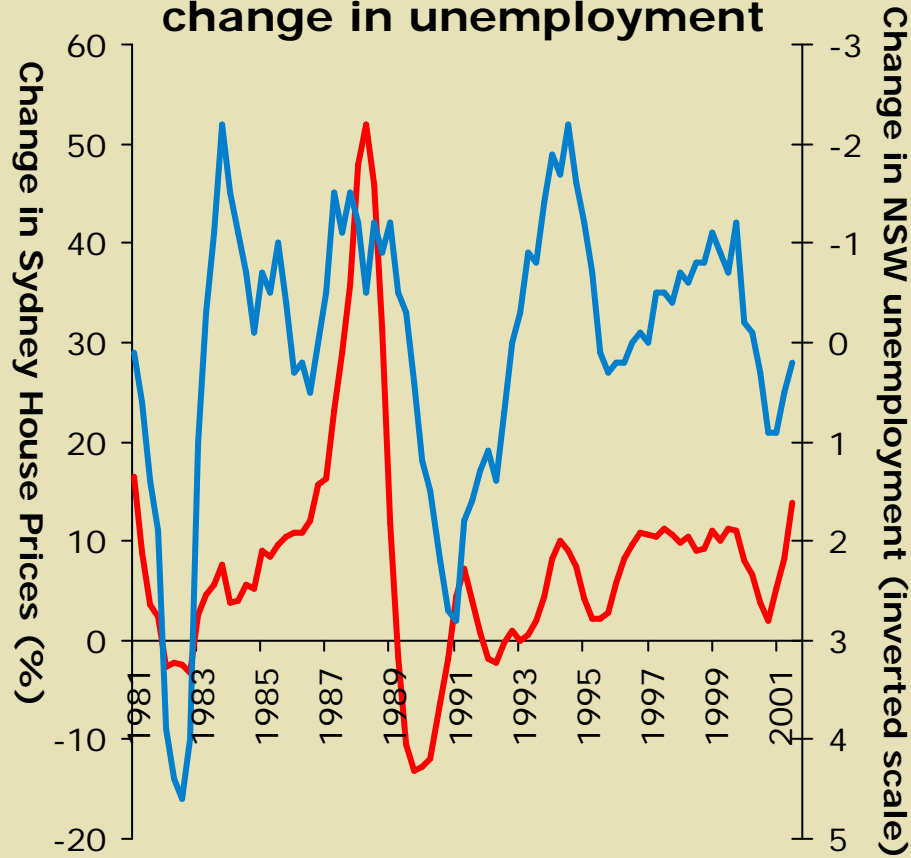
# Executive options will only reward out-performance against market



# Additional credit quality information

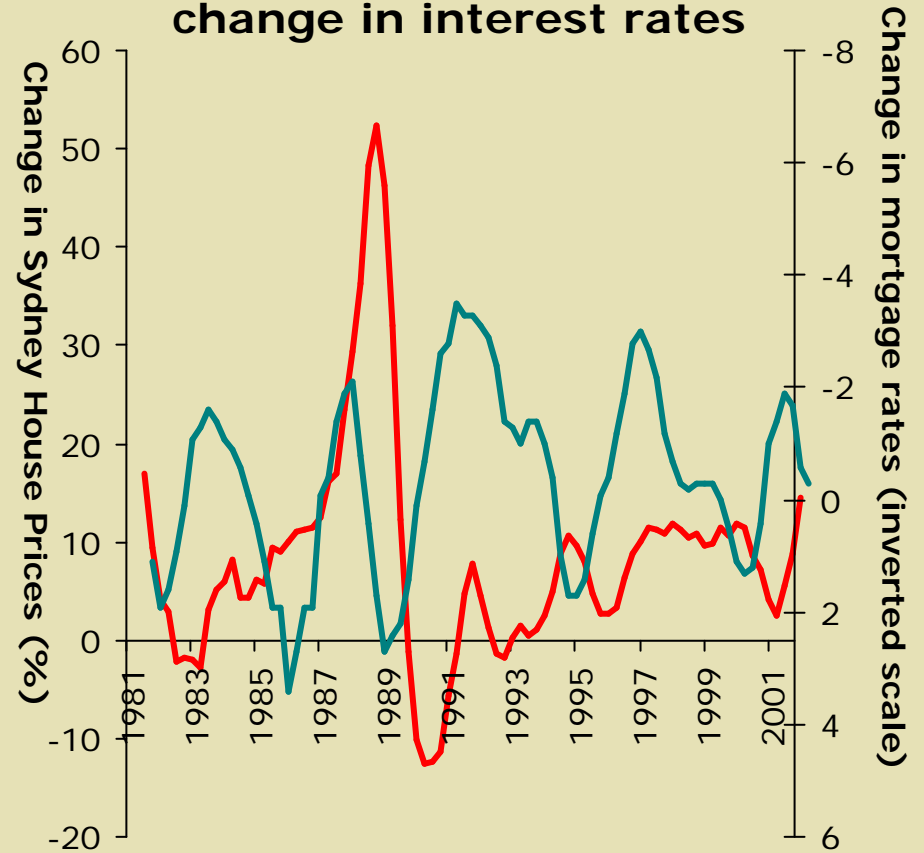
# House prices – unemployment a key driver

Sydney house prices v change in unemployment



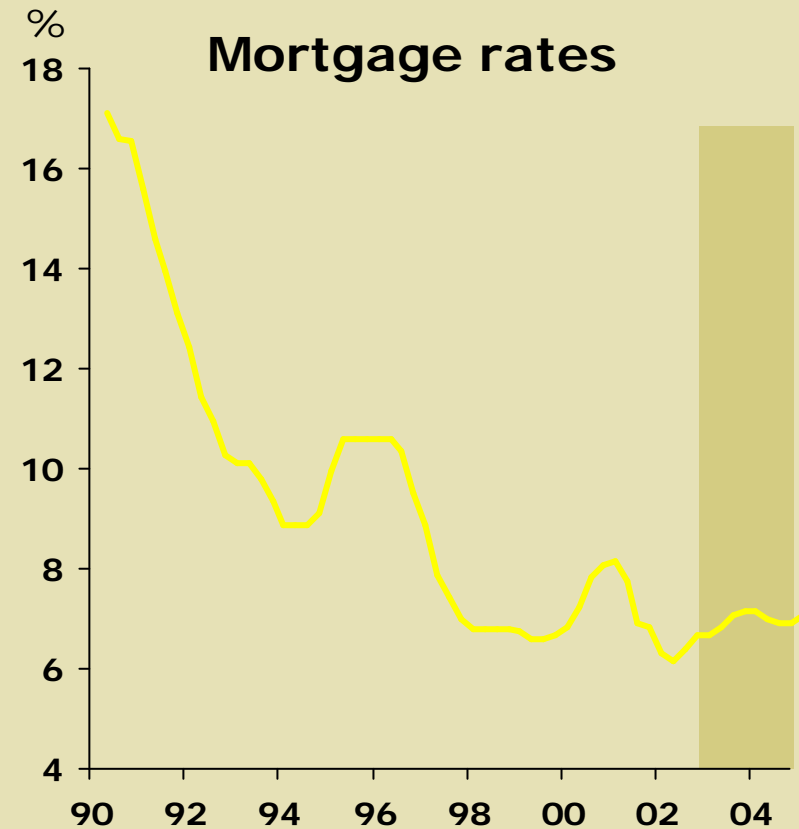
— Sydney House Prices  
— Change in Unemployment

Sydney house prices v change in interest rates



— Sydney House Prices  
— Change in Mortgage Rate

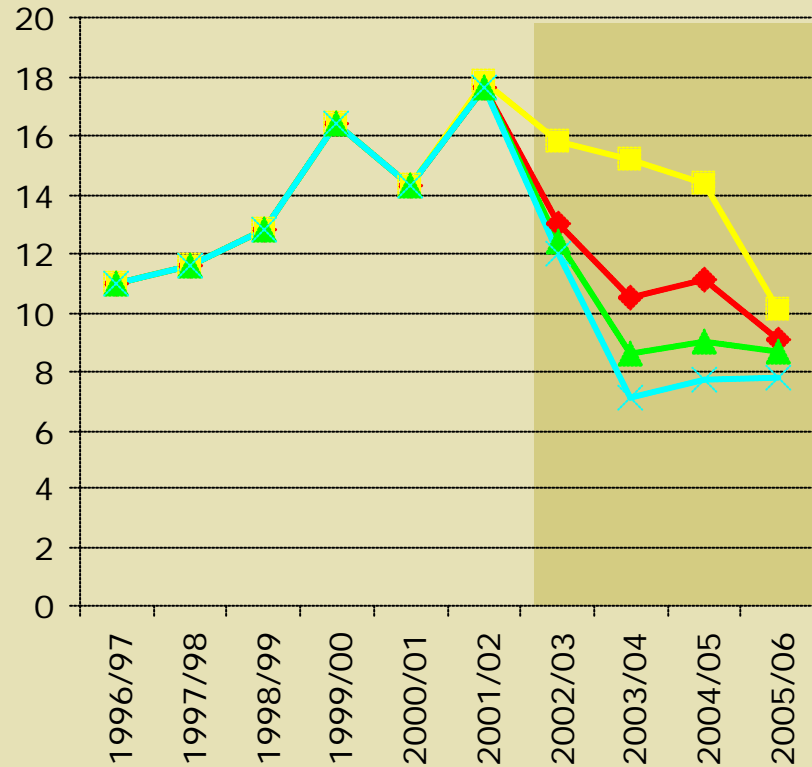
# Key drivers of house prices expected to remain benign



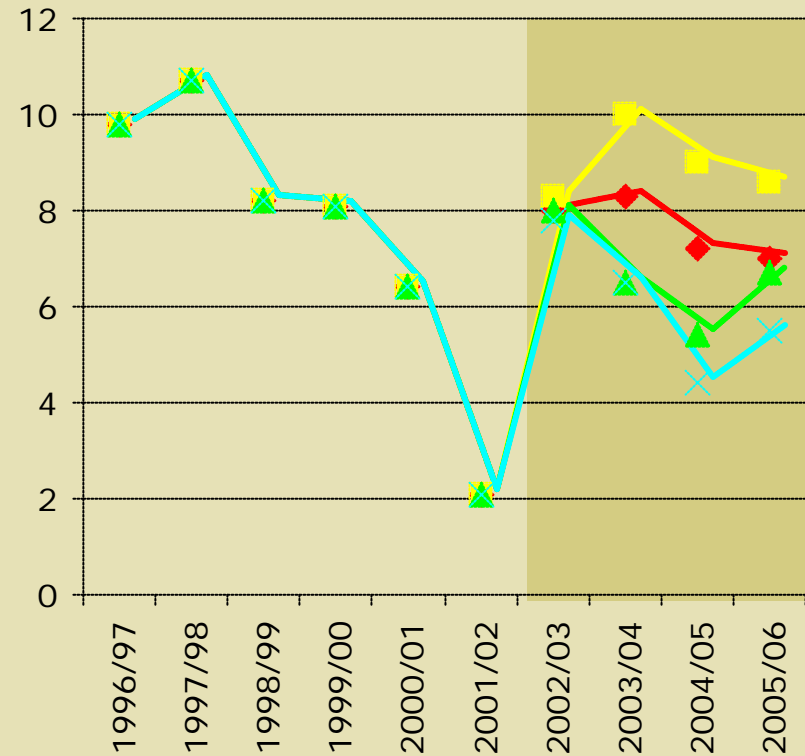
Source: economics@anz

# Scenario analysis from ANZ economics

## Housing credit growth



## Business credit growth



◆ Main Case    
 ■ Stronger Case    
 ▲ Weaker Case - Domestically Driven    
 ✕ Weaker Case - Globally Driven

# Assumptions underlying scenario analysis

## **Main case**

- Global economy: moderate rebound in global economy
- Moderate tightening in policy - 50 bps over the next 12 months
- Moderating house price gains (3-5%)
- Housing investment falls, consumption slows, but business investment picks up

## **Weaker case - domestically driven**

- Global economy: as per main case
- 3x50bp interest rate rises up to Mar quarter 2003
- Negative 3% house prices
- Flow through to weaker employment, business investment and housing construction and turnover which in turn feed through to Credit and deposit volumes

## **Stronger case**

- Global economy: as per main case
- Monetary policy as per main case
- Ongoing house price gains (8-12% growth)
- Consumption & business investment continue to grow firmly
- Credit growth strong

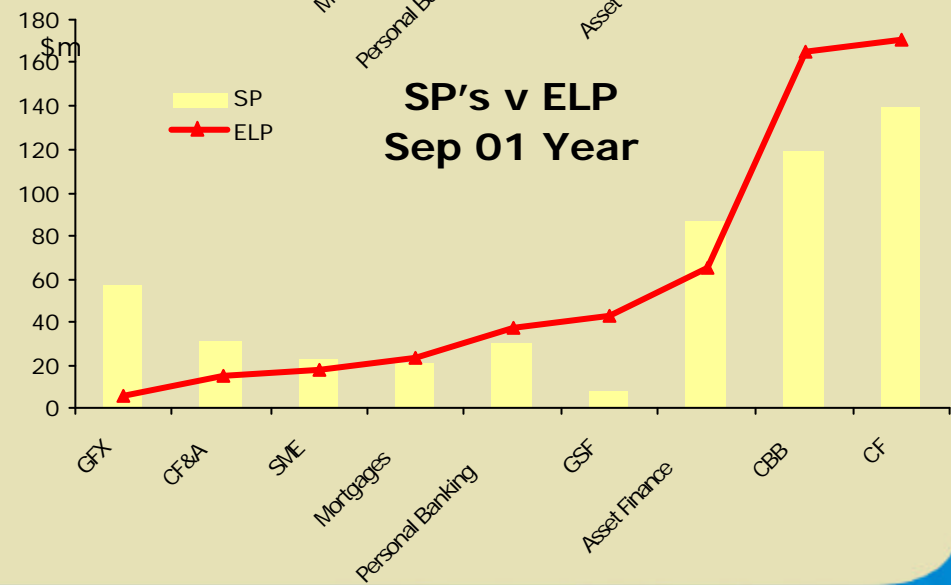
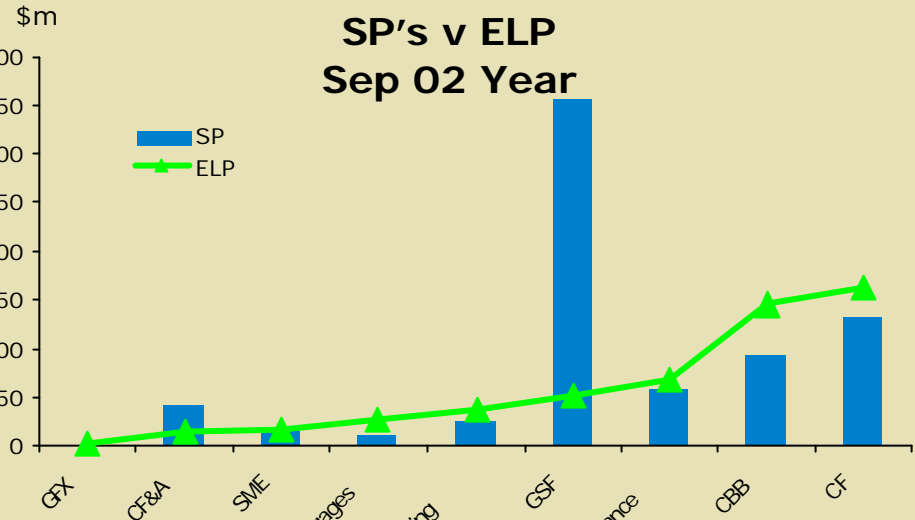
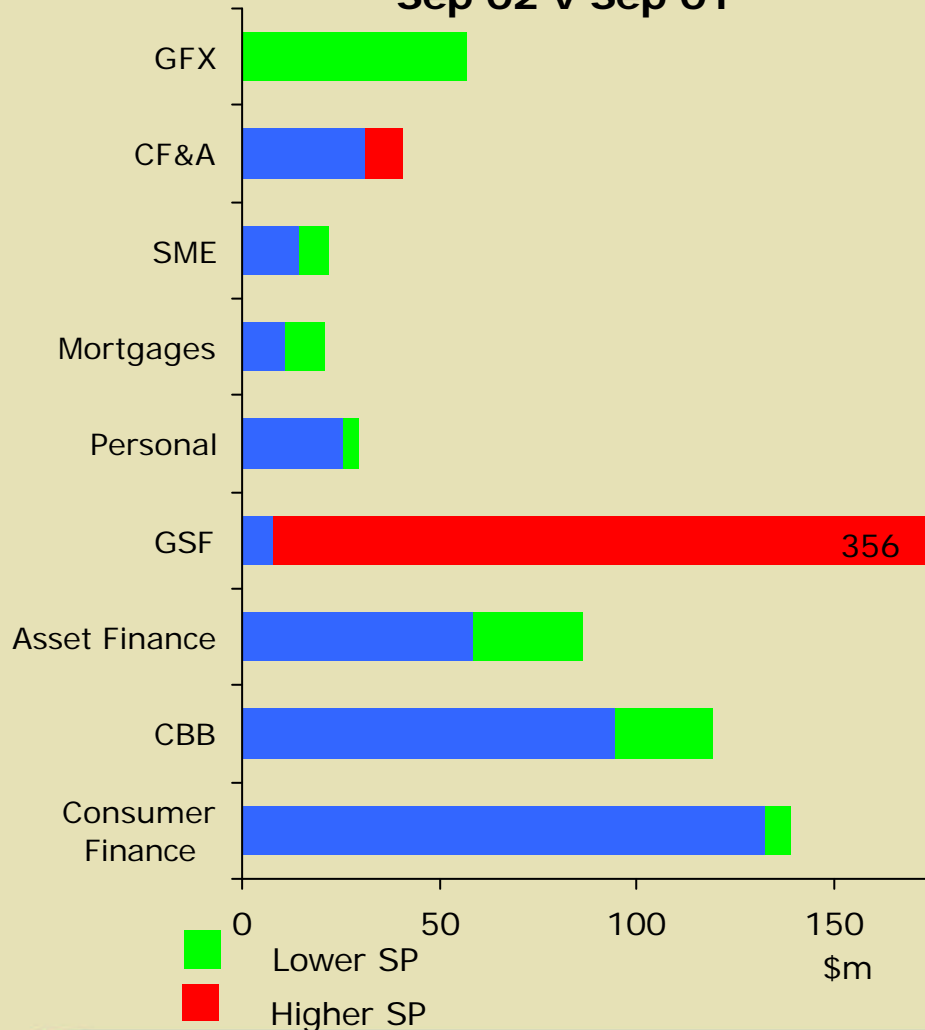
## **Weaker case – globally driven**

- Global economy sharply weaker - double dip US recession
- Interest rates cut to 4.00%
- Negative 6% house prices (peak to trough)
- Negative employment growth, mild recession, much weaker business investment which in turn feed through to Credit and deposit volumes

**Source: economics@anz**

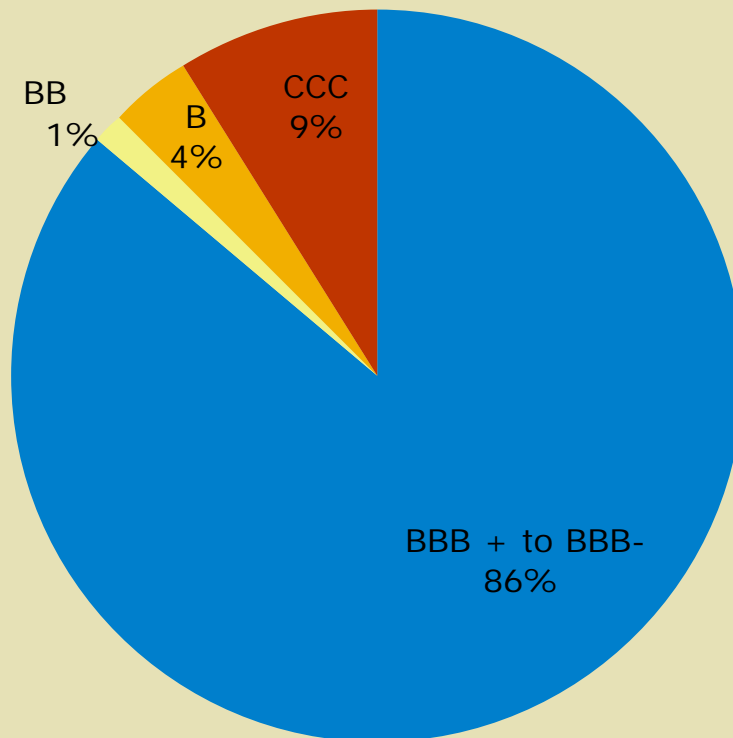
# Specific provisions in most businesses lower than expected losses

Specific Provisions  
Sep 02 v Sep 01



# Fallen Angels phenomenon continues

## March 2001 ratings for Full Year 2002 new non accrual loans

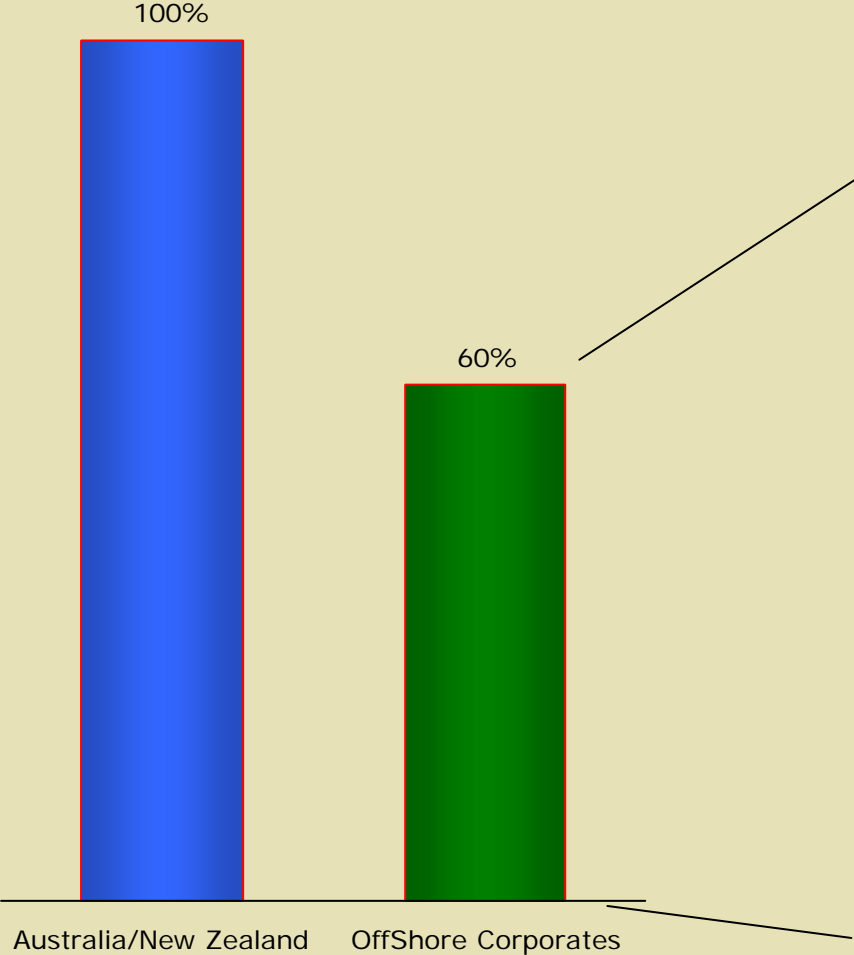


- Speed of collapse difficult to model
- We continue to diversify the portfolio
- SCCL's further reduced and refined

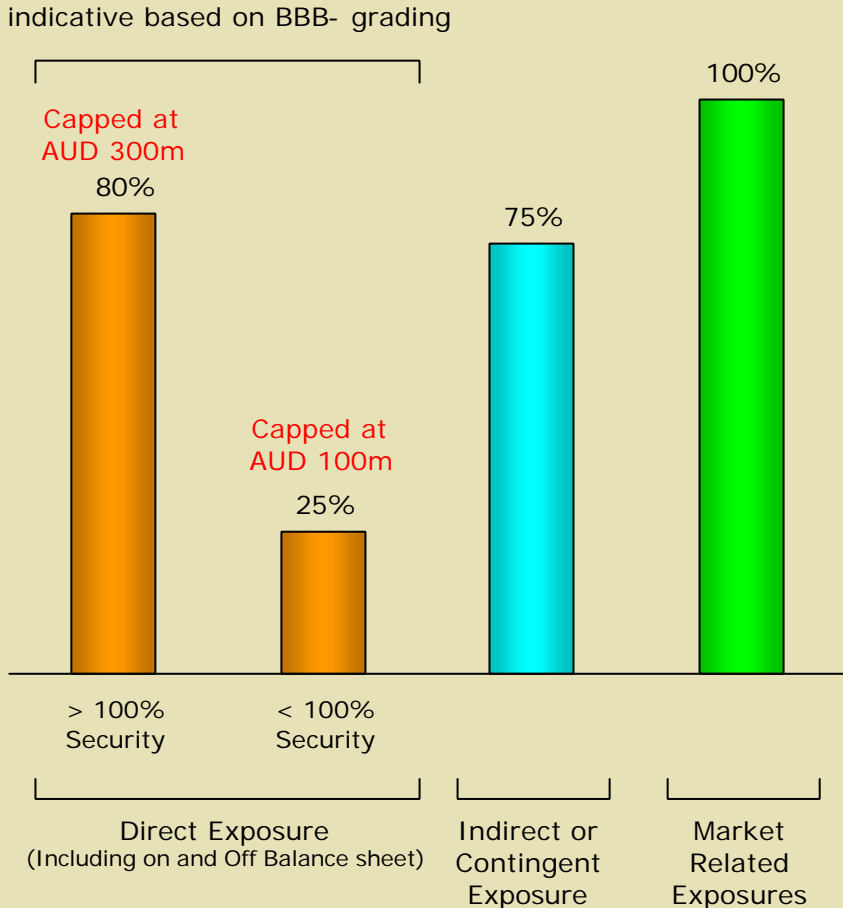


# Offshore SCCLs now in place

## Comparative SCCL Customer Limits

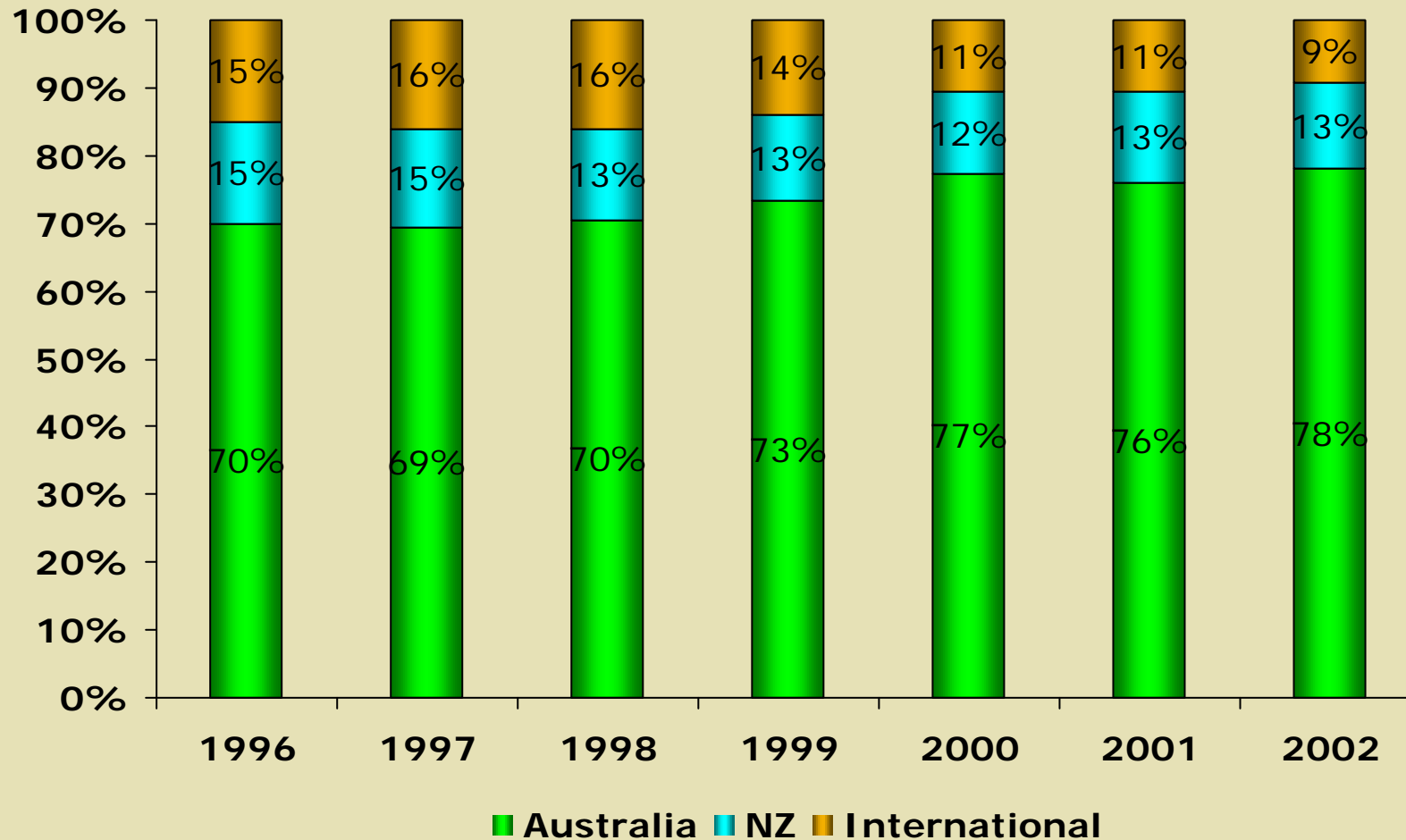


## Lending type SCCL % for offshore Corporates (excl. GSF)

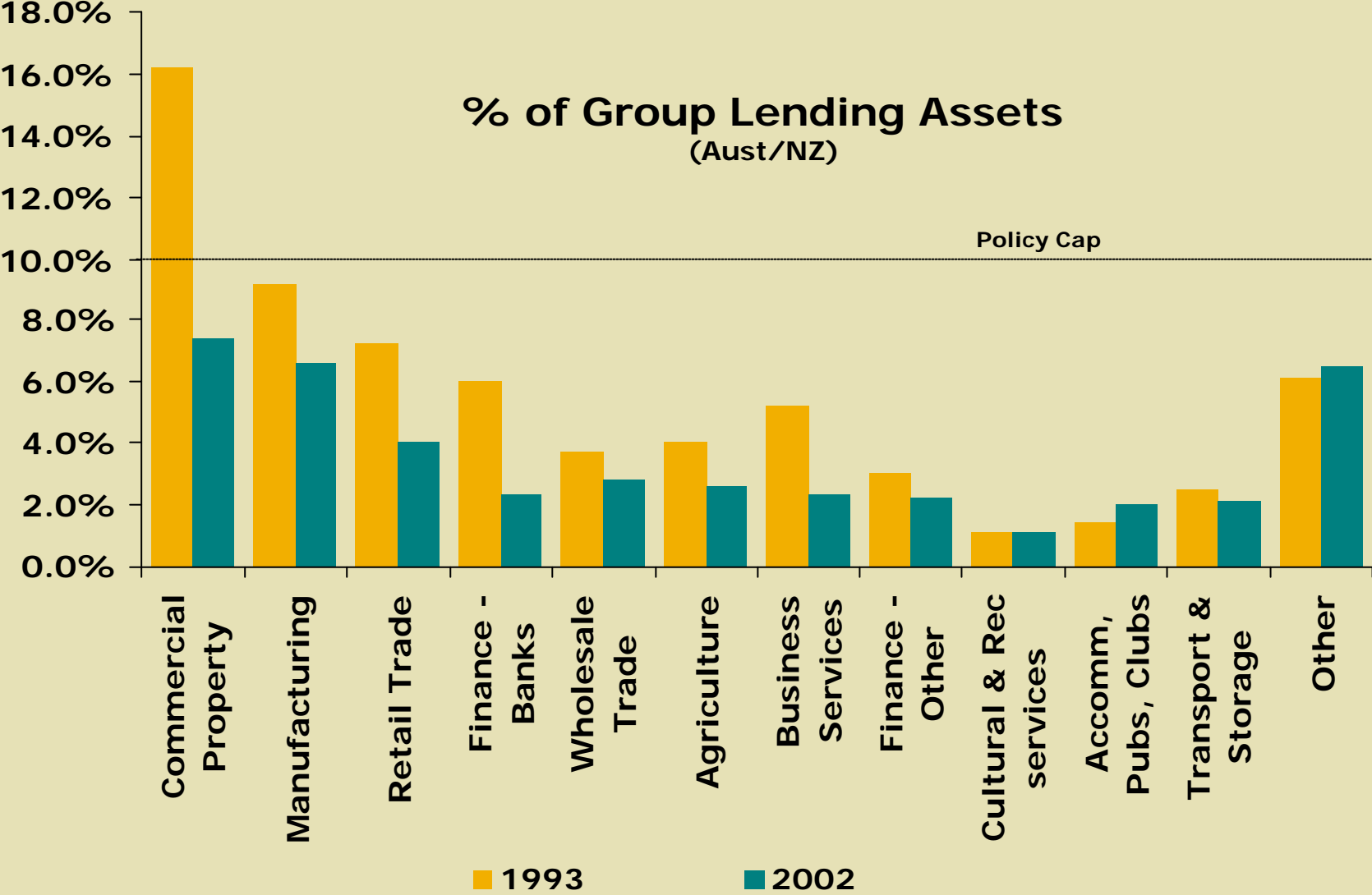


GSF Direct Exposures capped at AUD 450m for > 100% Security and AUD 200m for < 100% Security

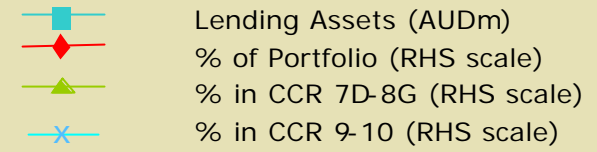
# Offshore lending assets decreasing as a proportion of total lending assets



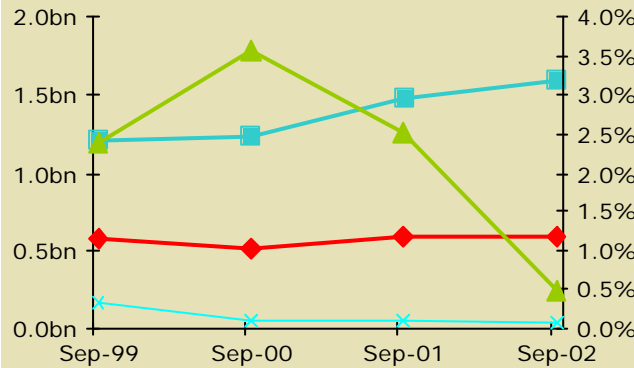
# Increased industry diversification



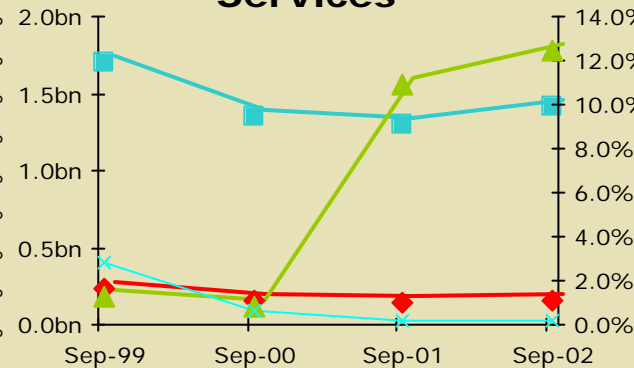
# Industry exposures – Australia & NZ



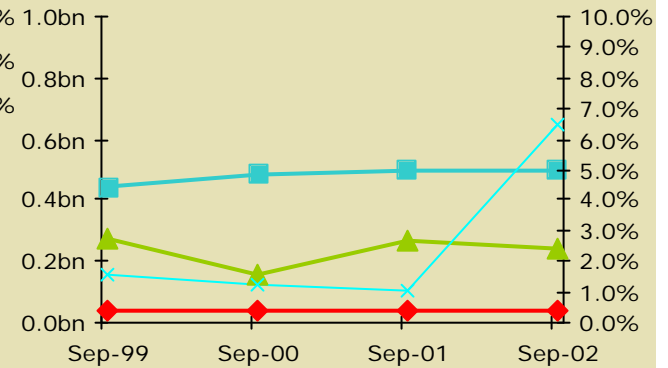
### Health & Community Services



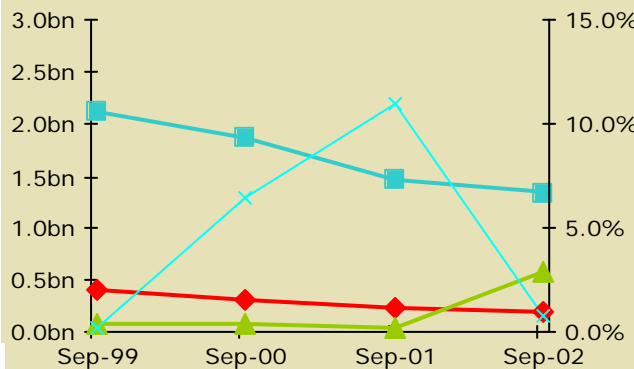
### Cultural & Recreational Services



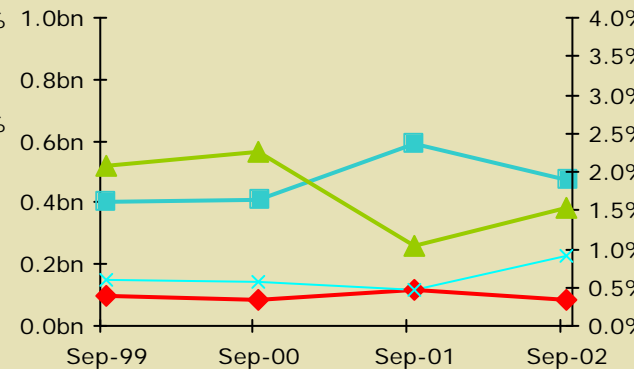
### Forestry & Fishing



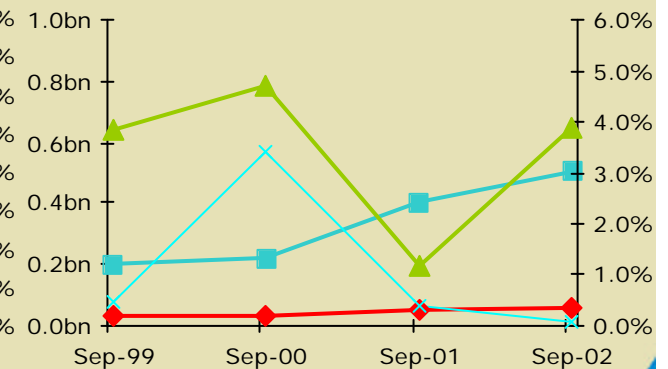
### Mining



### Personal & Other Services

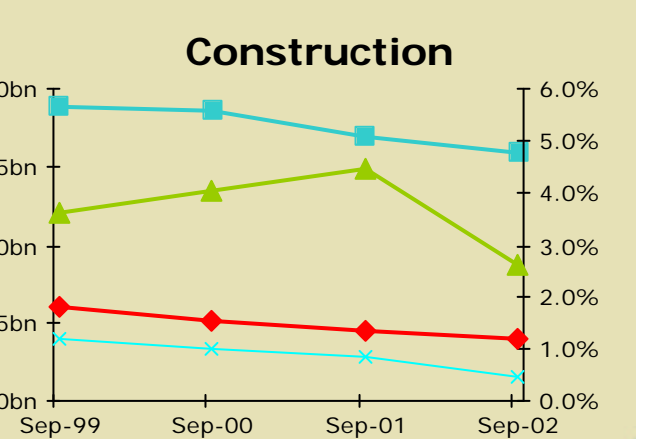
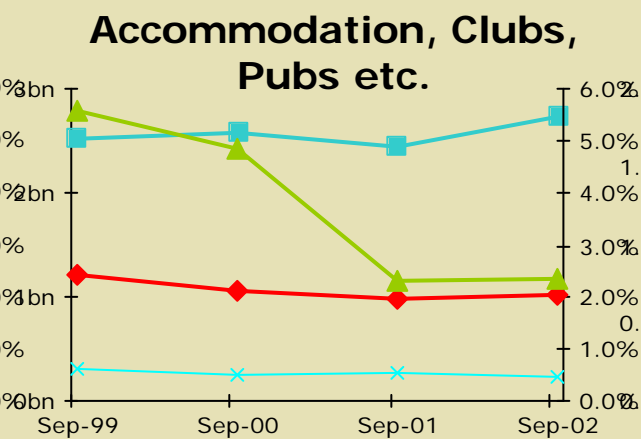
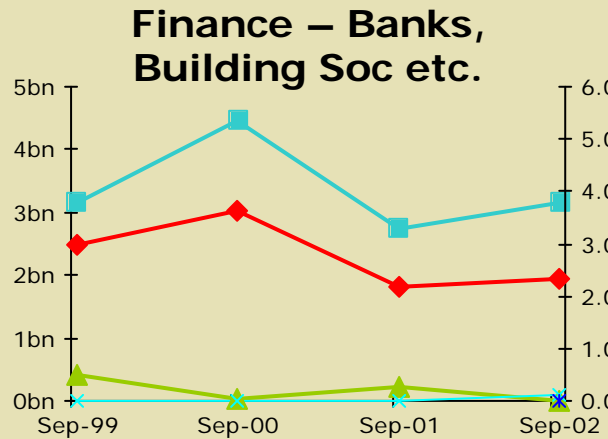
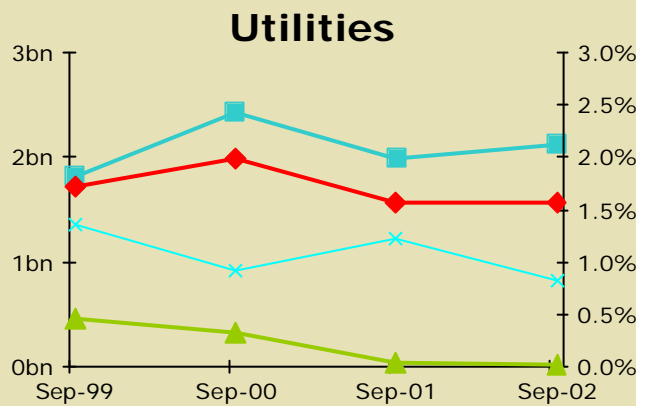
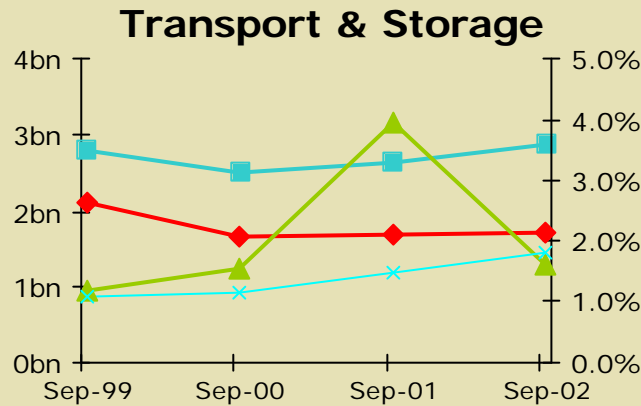
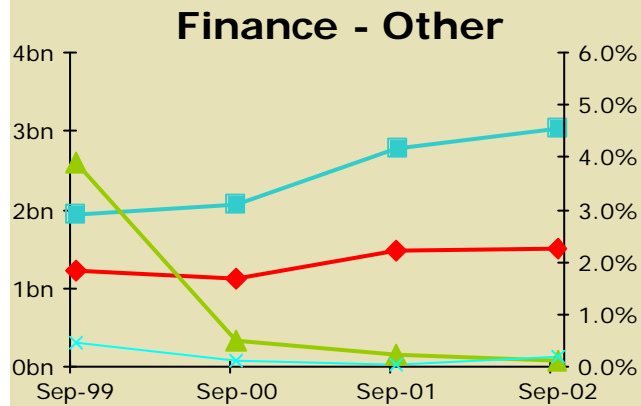


### Communication Services



# Industry exposures – Australia & NZ

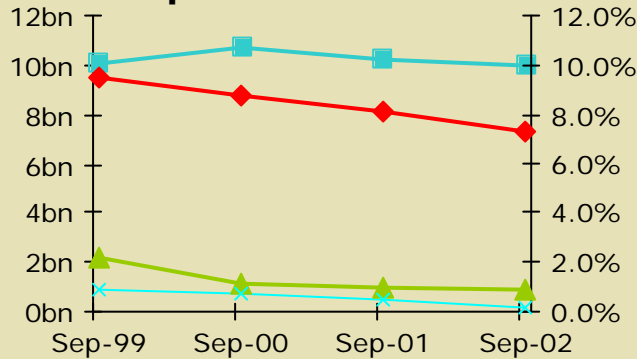
- Lending Assets (AUDm)
- ◆ % of Portfolio (RHS scale)
- ▲ % in CCR 7D-8G (RHS scale)
- × % in CCR 9-10 (RHS scale)



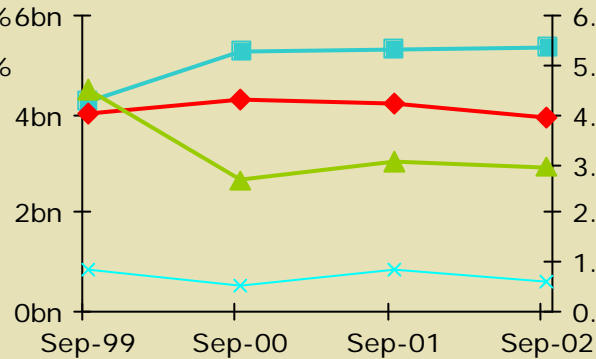
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- Lending Assets (AUDm)
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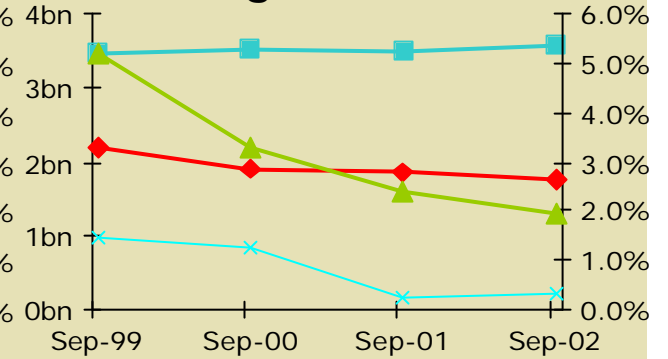
### Real Estate Operators & Dev.



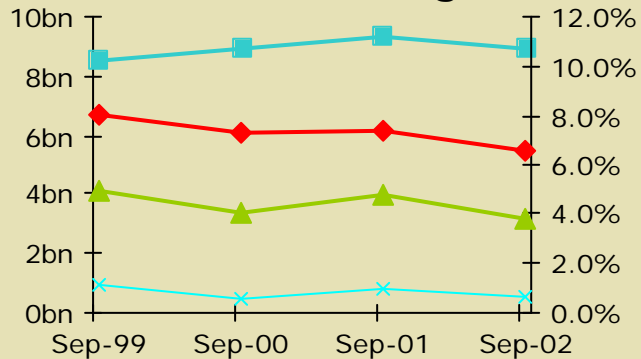
### Retail Trade



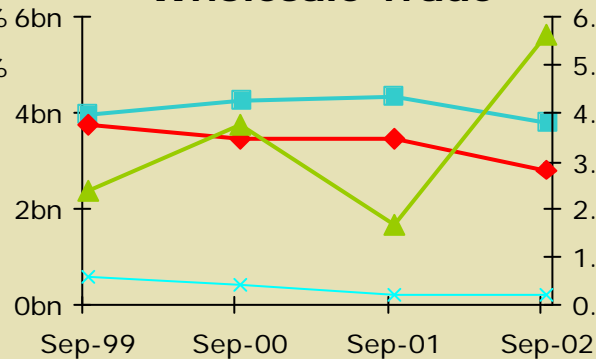
### Agriculture



### Manufacturing



### Wholesale Trade



### Business Services

