UBS Conference

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Financial management issues to consider when looking at ANZ

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A quick recap on the first half result

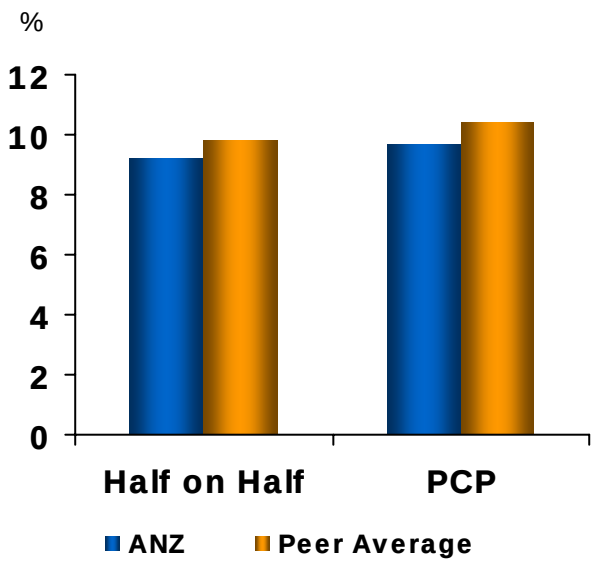
First Half NPAT - **$1,811m**

Cash EPS growth - **10%** (fully comparable IFRS basis)

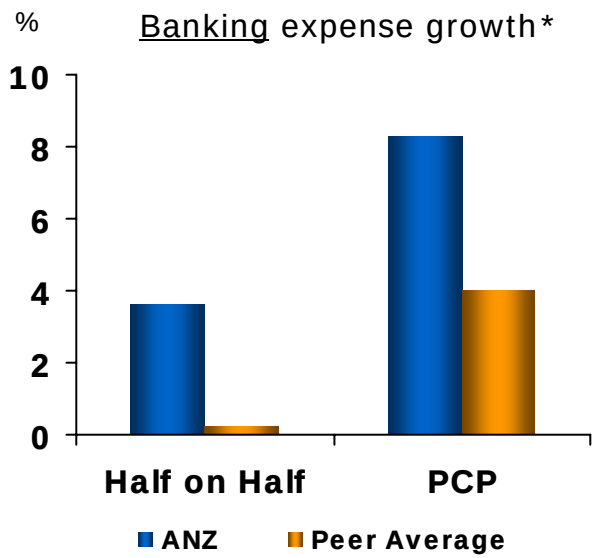
Dividend growth - **10%**

Benefits of our investment program starting to flow through

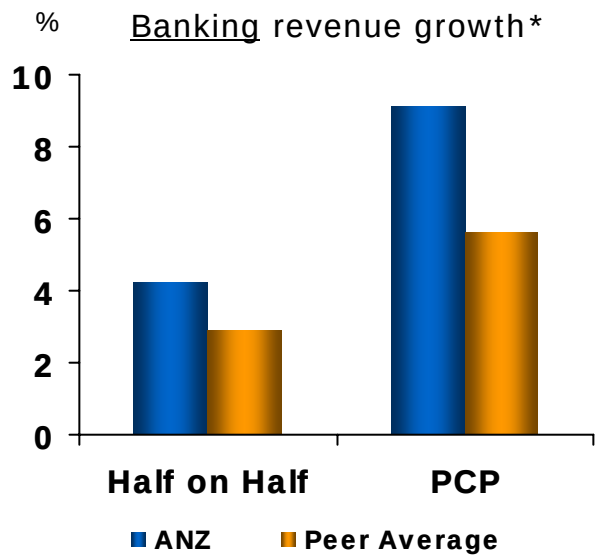
Cash EPS – in line with peer average



But we continue to invest heavily for future growth



And we are already seeing the benefits



* Excludes wealth management, significant items, and group centre where disclosed

Issues that came out of the result

- What should actually constitute “Cash” EPS?
- How does the Collective Provision work, including timing of oil shock collective provision run off?
- What will happen with NZ revenue hedge, and likely impact of a softer Kiwi dollar?
- How successful was the NZ integration?
- Lack of understanding around nature of “Markets” revenues
- Dividend policy and capital management
- Asian strategy

ANZs definition of “Cash” EPS

Reported NPAT

—

Hybrid Distributions

+/-

Hedge Ineffectiveness

+/-

Significant items

Cash Earnings

÷

Weighted Ave Ord Shares (Basic)

Cash Earnings per Share

Distributions for ‘equity’ instruments post IFRS

Includes deduction for share based payments & pension expense as required by IFRS

Averages out to nil overtime, and “actual” gains/losses are accrued through the P&L anyway (see page 17)

Not representative of ‘underlying’ performance. Typically M&A related

Options not diluted to avoid double counting as expense included in share based payments

Our hybrid Tier 1 instruments not diluted as conversion is at ANZ's control as there is a cash alternative and unlikely to occur except in an extreme’ scenario (see page 18)

- GRCL* movements not applicable as ANZ not required by APRA to create a GRCL
- Treasury Shares^ adjustment required only where controlled entity beneficially holds shares in the company, which is not applicable to ANZ

*General Reserve for Credit Losses

^ANZEST, a controlled entity does hold shares but is not beneficially entitled to those shares

Collective Provision charge driven by Cards and Esanda

1H06 Collective Provision charge^

Business Unit (A$m)	Asset Growth impact	Risk impact	Oil Scenario impact	Total
Group	**55.5**	**12.0**	**(32.2)**	**35.3**
Institutional	20.7	(8.5)	(17.3)	(5.1)
Personal (excl Cards & Esanda)	6.8	1.3	(3.9)	4.2
New Zealand	12.5	(12.8)	(6.3)	(6.6)
Cards (Aust.)	14.7	17.9	(3.0)	29.6
Esanda	2.9	17.7	(3.2)	17.4
Other*	(2.1)	(3.6)	1.5	(4.2)

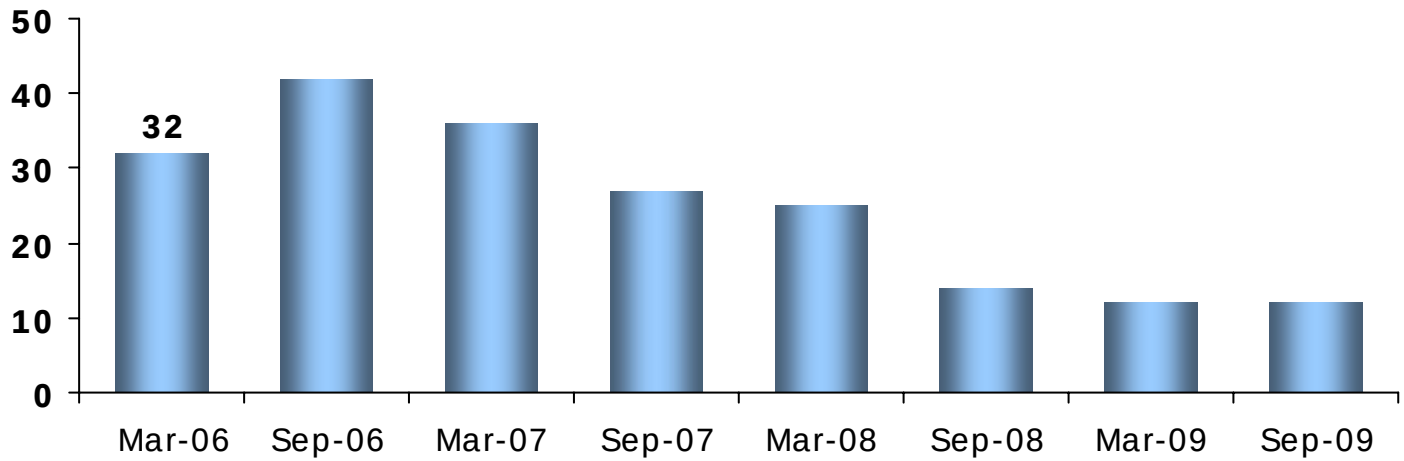
^based on new organisation structure
*includes International Partnerships, Private Banking and Discontinued Businesses

- Cards driven by strong FUM growth and deliberate risk shift to higher revolve rate products
- Esanda impacted by oil price affect on residual values, driving higher 'loss given default' levels
- Business lending balance determined as follows
  - CP balance is largely driven by asset growth and movement in risk profile
  - Individual customers assigned independent risk grades and security coverage indicators
  - CP methodology based on tenor, risk profile, emergence period and exposure size

Oil provision run off to be completed by Sept-09

Illustrative – Assumes "status quo" conditions

Oil Provision – Modelled Run-Off Profile* (A$m)



Divisional Run-Off Profile (% of charge released)

	FY06	FY07	FY08	FY09
Personal	42%	27%	20%	11%
Institutional	32%	34%	21%	13%
New Zealand	46%	29%	16%	9%

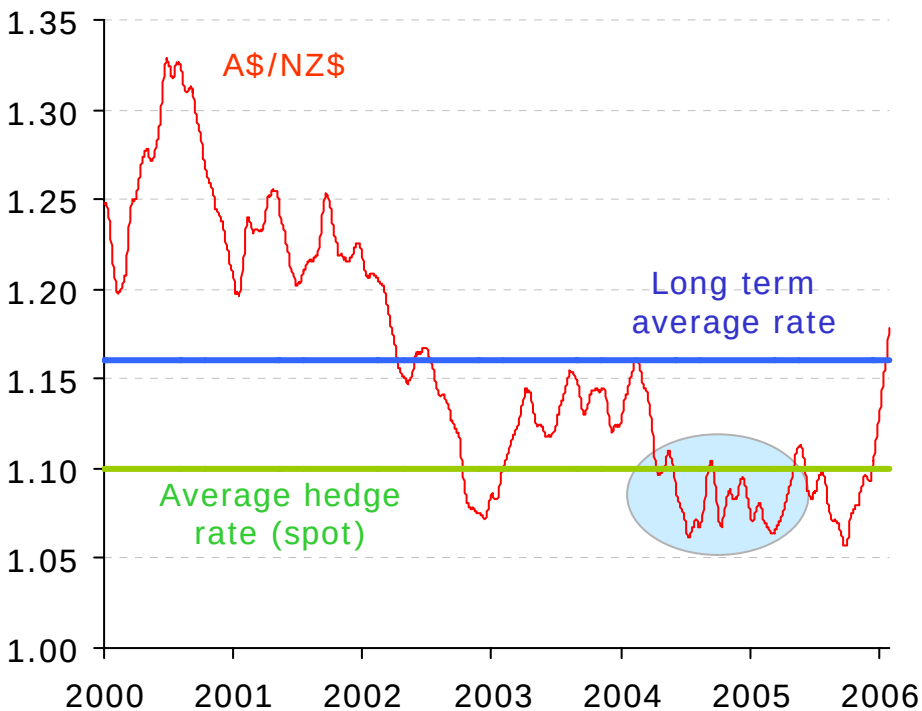
See page 21 for an explanation of how the Oil Shock provision was determined

* Subject to changes in conditions

NZD revenue hedge – a good economic outcome

Why did we hedge?

During 04/05, NZ$ perceived to be significantly overvalued



The right decision! Hedge has created significant value

NZ$ Revenue Hedge – very good economic outcome for ANZ

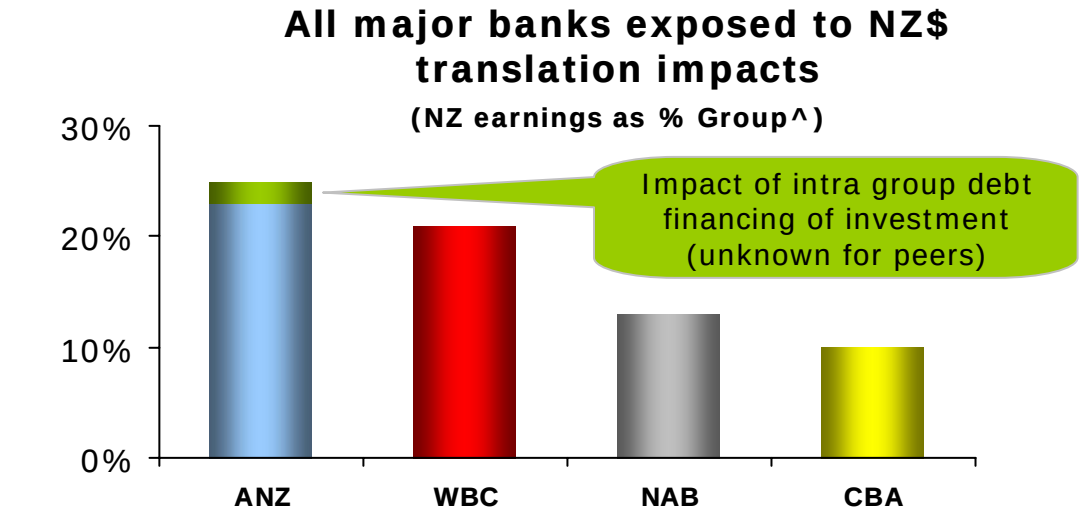
	As at mid Jun-06
Notional Principal (NZ$b pre-tax)	**0.7**
Total Market Value (A$m post-tax)	**199#**
• 2H06 Benefit	41
• Post 2006	158*
Ave. exchange rate of open position (spot)	**~ 1.095**

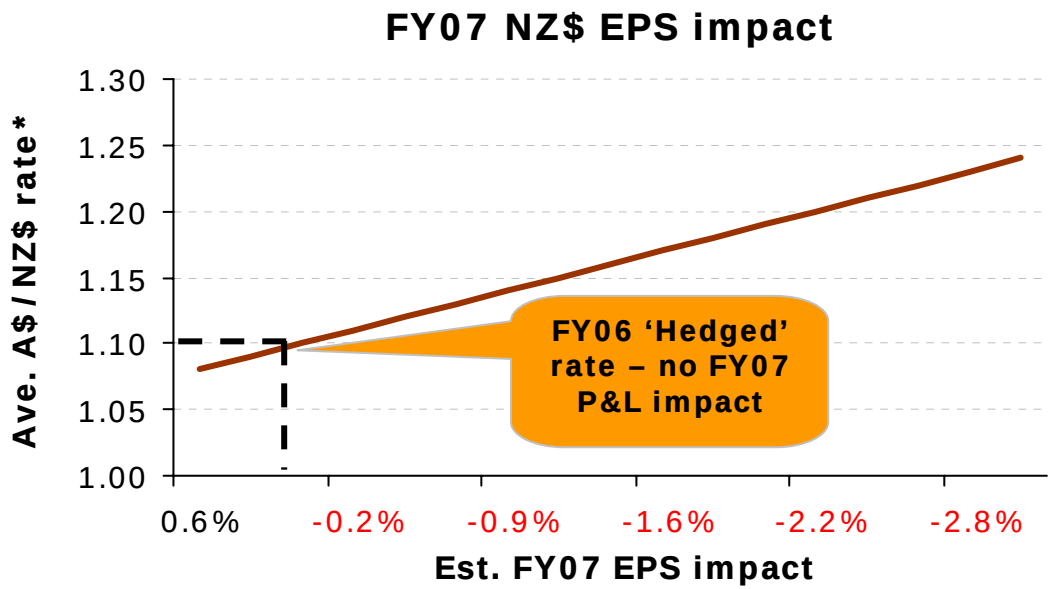
95% of 2H06 NZ earnings hedged at ~1.106

#based on closing rate of 1.19 **of which $135m has been locked in*

However under IFRS, a good economic outcome becomes a "not so good" accounting outcome

- From 1 October 2006, "revenue hedges" are no longer recognised under AIFRS
- Therefore on adoption of this new AIFRS requirement on 1 October 2006, deferred gains and Mark to Market value of FX revenue hedges go directly to Retained Earnings
- We retain the economic benefit of the hedge, but lose the accounting benefit
- Going forward, we will consider hedging where the currency is perceived to be overvalued but as a mix of revenue & capital hedges





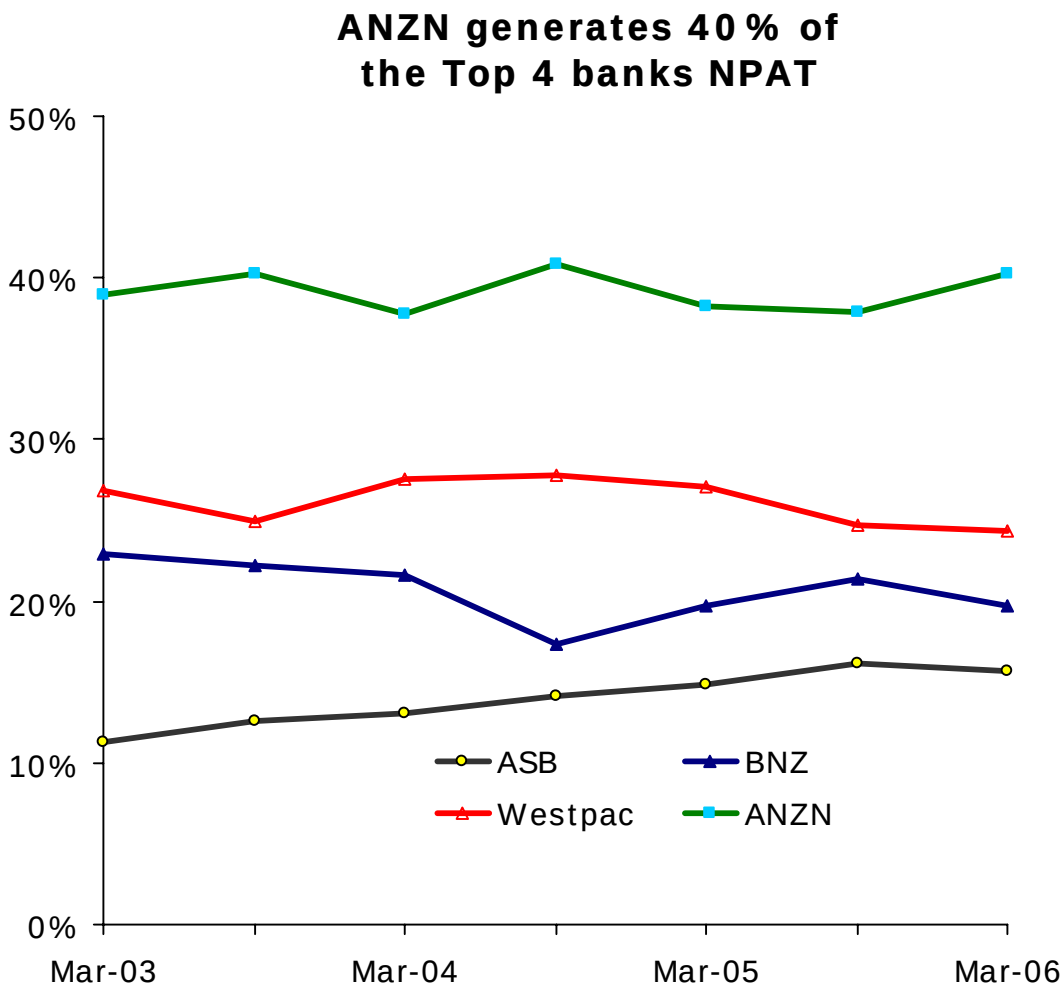
*financial year
^1H06 % Group earnings, NAB FY05 % Group earnings

NZ integration complete - costs impacted by RBNZ requirements, revenue attrition contained

NZ$m	Business Case / Prospectus	Mar-04 (est.)	Mar-06 (est.)	Comments
Integration Costs	265	265	239	• Reduced scope lowered initial estimates • RBNZ requirements increased final costs
Revenue benefits 2007 pa	31	45	50	• Driven by Institutional businesses
Cost Synergies 2007 pa	126	126	70	• Reduced scope & RBNZ requirements lowered initial estimates • NZ$26m incremental benefit in FY07
Revenue attrition 2007 pa	88	42	34	• Retail attrition managed via two brand strategy
Net benefit	**69**	**129**	**86**	

See page 20 for phasing of these numbers pre 2007

Success of integration and two brand strategy increasingly reflected in share of NZ profits

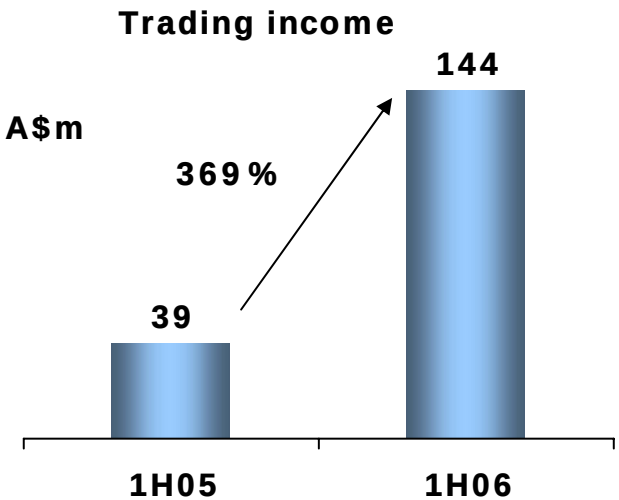


Strategy day for ANZ National will be held in Auckland on 7 September

Source: General Disclosure Statements – Top 4 Banks, half yearly results. Data from Dec '04 is restated for IFRS where known. One-off items are excluded where known – e.g. integration costs for ANZN. BNZ March 2006 data (and restated March 2005 data) sourced from media release.

Putting “trading income” in perspective – accounting disclosures can be misleading

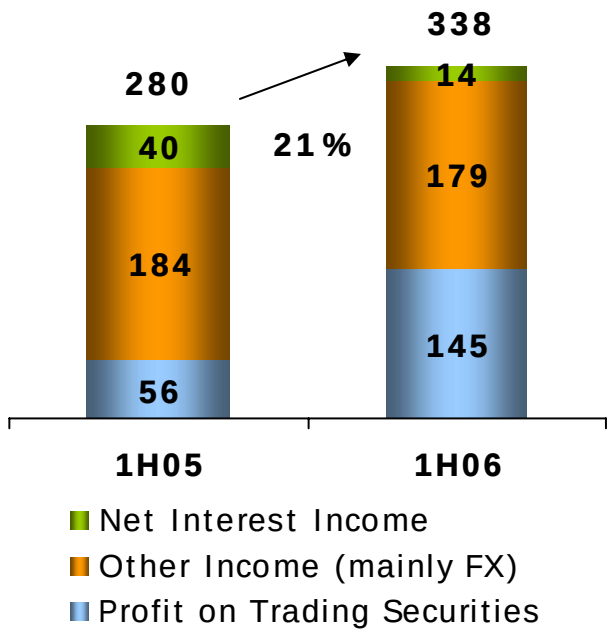
Reported ‘Trading’ Income being confused with ‘Markets’ income



Growth misleading given

- $16m cost from INGA Capital Invest. hedge in 1H05
- 1H06 $28m benefit from Swap and FX contracts offset in FX earnings
- There is also an interplay between ‘trading’ income and ‘interest’ income, as seen on next chart

To understand what is really happening in Markets income, need to look at aggregate picture

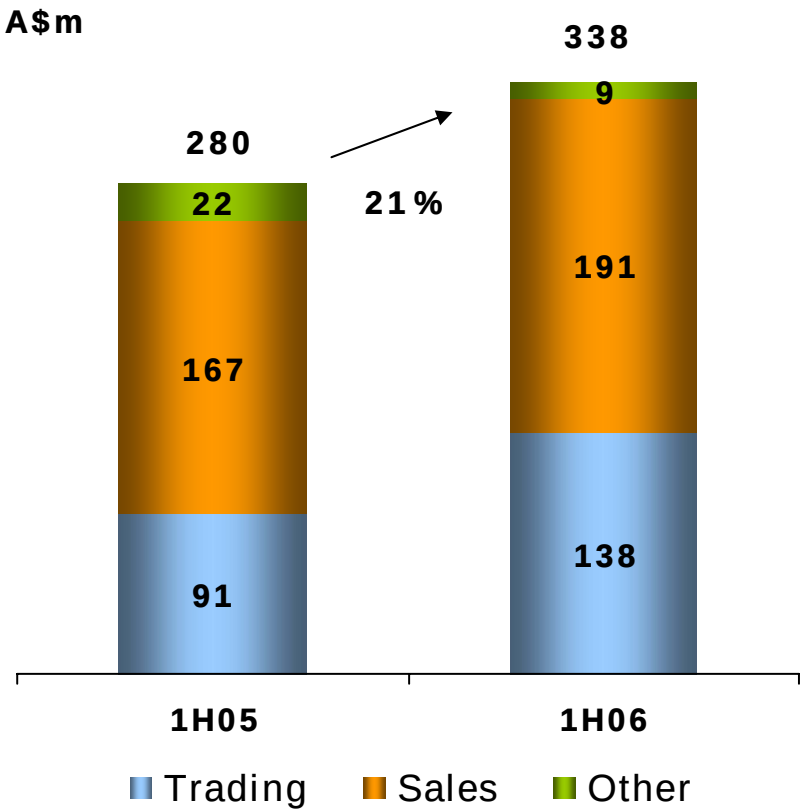


Growth a still healthy 21%, driven by:

- Higher volatility, particularly in NZ
- Increased customer activity (in part driven by increased volatility)
- Greater penetration into customer base

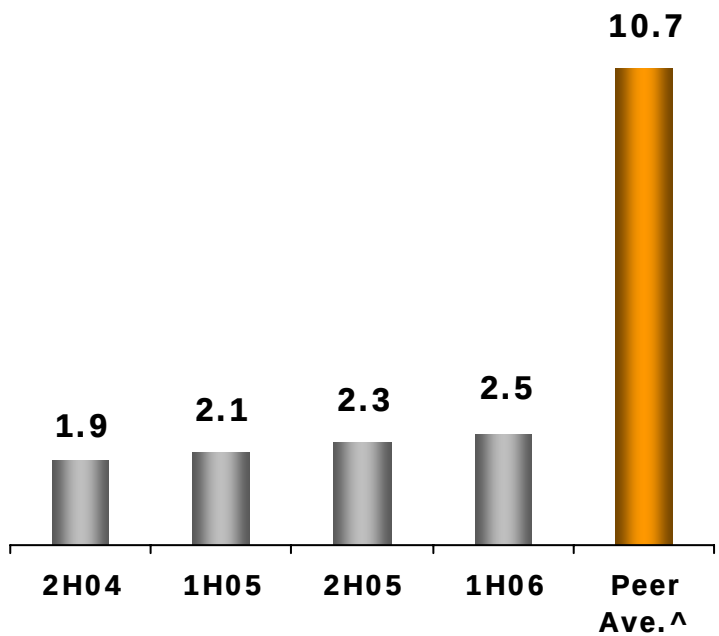
So how are we generating our “Markets” income?

Majority of Markets income generated by Sales desk



Reflected in VaR being significantly below peers

(Ave $m VaR @ 99% confidence level)



^WBC & CBA ave. for 1H06, NAB ave. for 2H05

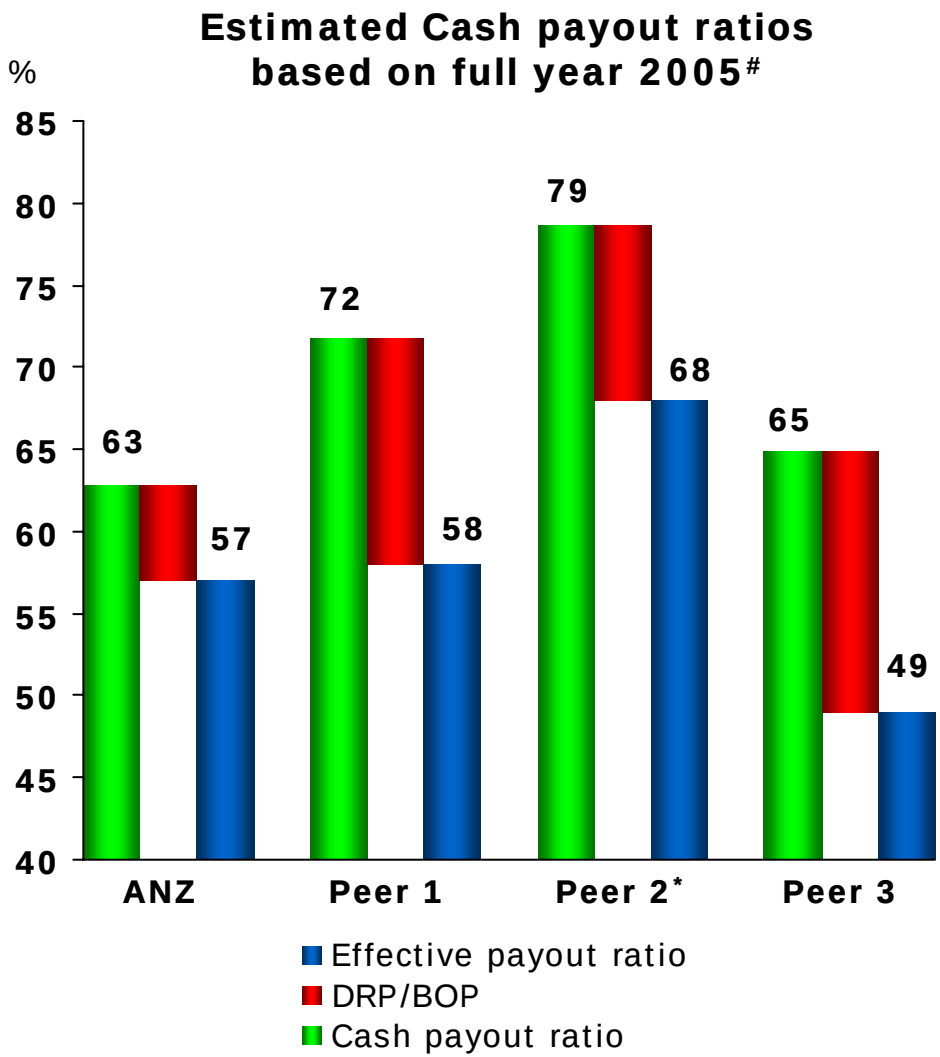
Dividend policy & capital management – consistent themes

Dividends

- Dividends will grow broadly in line with Cash EPS, but seek to look through to 'normal' provisioning
- Capping DRP/BOP @ 50,000 shares limits dilution or need to buyback
- Payout ratio provides scope for modest acquisitions, and support RWA growth reflective of market share gains
- Current payout ratio enables 100% franking for foreseeable future

Capital

- APRA recently finalised prudential standards confirming new hybrid rules phasing in over period to Jan 2010; and tougher capital deductions around capitalised software; deferred tax assets and pensions but transitioned to Jan 2008 when Basel II relief expected.
- In normal course, we operate in upper half of ACE target range of 4.50% to 5.00%.



Full year payout ratios used due to seasonality in payout ratios

* Impacted by lower earnings, without commensurate reduction in dividend

A CFO's view on Asian partnerships – providing ANZ with a valuable growth option

Starting proposition

- **Asia will have higher economic growth than Western economies**
- **Financial services will grow more quickly than overall economy**

Key issues I look for:

- Is the market attractive, and is there some relevance to Australia/NZ?
- Can ANZ add value?
- Does it introduce unacceptable risk into our portfolio?
- Do we sufficiently understand the target?
- Finally, can we invest at an acceptable price?

If not, we should return the capital and let our shareholders invest directly

Diversification is important

Have we undertaken extensive due diligence

Some closing observations

- A pleasing first half, as we started to reap the benefits of our investment program
- Credit conditions remain sound, but are at cyclical lows and losses more likely to increase
- Overall 2006 expected to be a good year for ANZ
- Looking forward, we have a clear growth strategy
  - Emerging proposition in Personal is compelling
  - Institutional being rebalanced to a more sustainable model
  - Our New Zealand business bouncing off low point, helping to offset cyclical NZ slowdown
  - Asia an attractive and sensible growth option

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Hedge Ineffectiveness illustration

Sample transaction (Illustrative)

1. ANZ seeks to hedge variable rate exposure in its mortgage portfolio
2. ANZ uses a Pay Floating/Receive Fixed interest rate swap to hedge interest rate exposure
3. Interest rates fall in Year 3

Cash rate falls, driving lower variable income, fixed rate unchanged

A$m	Description	Yr 1	Yr 2	Yr 3	Yr 4	Cumulative
Mortgage Accrual	Variable rate income from underlying Mortgages	40	40	30	30	140
Derivative Accrual	Net of Fixed rate received and Variable rate paid on swap	10	10	20	20	60
Net Accrual	**Net interest accrual booked to NII***	**50**	**50**	**50**	**50**	**200**
Hedge Ineffectiveness	Ineffectiveness results from mispricing between cash rate & 3 month variable swap rate	1	1	-3	1	**0**

MTM of hedge falls in line with fall in Variable rates

Ineffectiveness represents portion of deriv. MTM relating to future periods, accordingly cumulative impact is 0 over life of deriv.

*NII unchanged from AGAAP accounting

Diluting for hybrids – not reflective of economic reality

US Hybrid as an example

Why are they in the dilution calculation?

- On 15 December 2053, there is mandatory conversion to ordinary shares **if ANZ** hasn't already redeemed them. It is this potential conversion to ordinary shares that results in them being included in the dilution calculation

However conversion to ordinary shares is extremely unlikely

- ANZ can redeem the instrument for cash:
  - On or after 15 December 2013 (US$750m tranche) or 15 January 2010 (US$350m tranche)
  - Earlier if a tax, regulatory, or 'acceleration' event occurs
  - With APRA's approval
- Even if conversion is instigated by the holder of the instrument, ANZ always maintains the option of delivering cash instead of ordinary shares
- Holders are primarily fixed interest investors, who would generally have a strong preference for receiving cash rather than ordinary shares
- Conversion is at a 5% discount – ie it is very costly to allow them to convert

In what circumstances might they convert to ordinary shares?

- Difficult to foresee an environment where raising ordinary capital by allowing conversion to ordinary shares makes more sense than other options available to us

Hybrid Deals

	ANZ StEPS	US Trust Securities	€ Trust Securities
Currency & Amount	A$1 billion	US$1.1 billion • US$350m – Jan 2010 • US$750m – Dec 2013	EUR500 million
Issue Date	24 September 2003	26 November 2003	13 December 2004
Final Maturity Date	14 September 2053 Reset date Sep 2008	15 December 2053	12 December 2053
Interest Rate	Floating – BBSW + 100bpts	Fixed • US$350m @ 4.48% • US$750m @ 5.36%	Floating – Euribor + 66bpts
Innovative / Non Innovative	**Innovative** • Step up of 100bpts at Sept 2013, or issuer call at Sept 2008	**Innovative** • Convertible to ordinary shares at investors option in Jan 10/Dec 13	**Innovative** • Step up 100bpts at Dec 2014
Debt / Equity classification	Debt under IFRS	Debt under IFRS	Equity under A-IFRS as no conversion remains a preference share
Position to 2010	No change anticipated	No change anticipated	No change anticipated

NBNZ Integration is complete and all objectives met

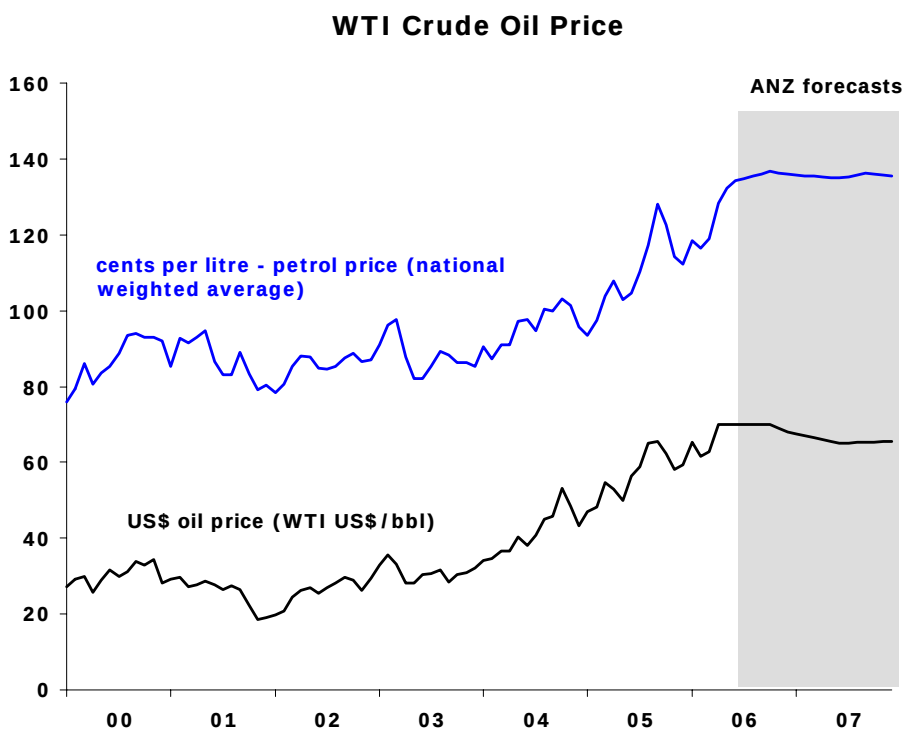
NZ$m	2004	2005	2006 (f)	2007 (f)
Total Integration costs	49	139	51	0
Incremental Integration Opex	*29*	*85*	*42*	*0*
Cost synergies	6	33	44	70
Revenue synergies	1	26	44	50
Attrition	20	33	34	34
Net synergies	-13	26	54	86

Integration Costs:
- 10% costs capitalised,
- 5% covered by restructuring provision, and;
- 20% from existing resources

- The Integration programme was a substantial body of work at a total cost of NZ$239m, which has successfully delivered a major programme for ANZ National Bank:
  - 30 workstreams comprising 150 individual projects have progressed successfully in line with plans;
  - Around 1300 system changes have been implemented;
  - At its peak over 600 staff were contributing to the programme;
  - 126 property relocations were implemented.
- 1H 2006 total integration costs NZ$51m, incremental costs NZ$42m

Why an oil shock provision?

The significant increase in oil prices was an impairment event likely to impact credit losses



Source: Datastream; Economics@ANZ.

As a result of this event, we undertook detailed analysis across our portfolios to determine potential impacts.

Two examples:

Example - Institutional

- Analysis around regressing Oil Price movements against probability of default (PD) movements based upon S&P data from 1981 to 2003 suggested a 35% increase in average PD broadly across the Institutional segment
- Affected industries represent approximately 50% of the portfolio – these would experience twice the PD increase (ie 70%)

Example – Personal unsecured

- Analysis from ANZ Economics suggested that the increase in Oil Price could have the equivalent affect of a 0.50% increase in interest rates
- This effect was translated into an effect on the household Debt Service Ratio (historically there has been a high correlation between movements in the DSR and consumer finance losses).
- A 0.5% increase in rates resulted in a ~7% increase in DSR and therefore resulting in expected higher losses